

Extract from:

Louis-Pascal Mahé, "Do the proposals for the CAP after 2013 herald a 'major' reform?", Policy Paper No. 53, Notre Europe, March 2012.

Executive Summary

With the gradual shift from price support and then strong focus on the environment, the 1993 and 2003 Common Agriculture Policy (CAP) reforms are considered as major. Does the proposed CAP after 2013, defined within the seven draft regulations of October 2011, herald a 'major' reform?

The proposal contains some significant changes and creates a link more systematically between instruments and new objectives in sustainable development. It also comprises important innovations such as the recognition of organic farming or the creation of a crisis reserve. The extent of these changes, both in compensation for environmental practices and in capping and risk management remains relatively limited, however. The expected effects will therefore be proportional.

1. Single payments

The lack of legitimacy of single farm payments (SFPs) has become obvious and this needs to be remedied. The **precise adjustment of payments for**

the public services rendered (or “public goods supplied”) by each farm, whether environmental or political-economic, remains **difficult to achieve** for both technical and political reasons. The **reorganisation of payments** paid per hectare, but **adapted** in relation to practices and **differentiated** according to sector and area, has therefore appeared to the Commission as the only way forward in order to reform first pillar payments.

The **major changes** concerning these are:

1. greening,
2. the end of individual historic references, thus allowing homogenisation of payments between regions and farming orientations,
3. capping,
4. positive discrimination towards disadvantaged areas and vulnerable sectors (partial coupling), and towards young and small farmers.

2. Greening

At the onset greening allows rectification of support given to **organic farming**, which had for a long time been penalised.

Environmental bonuses are a **new feature to be welcomed**. They were meant to remain based on simple and observable indicators, which explains the conditions of crop rotation and ecological focus areas placed in reserve as well as the maintenance of grasslands.

Without denying the difficulty of defining such payments in a satisfactory manner, the **shortcomings of the system** proposed concern:

- the low requirements in relation to existing practices (crop rotation and portion of utilised agricultural areas in ecological focus areas),
- the high cost of environmental bonuses due to their application methods (supplements to basic payment on all the utilised agricultural areas, without adjustment to shortfall).

As a rationale behind this suggestion, the argument of forcing the hand of intensive and highly specialised agriculture appears, but it is not necessarily convincing, for the windfall effects will be frequent.

By **defining requirements for ecological focus areas on a spatial rather than an economic grid**, with the possibility of adjusting their rates over small areas with an obligation exchange, this would allow to take soil fertility into account and to obtain minimum requirements of biodiversity hotbeds thanks to a continuous framework over the rural area.

Lastly, the **grassland support mechanism** does not comprise a chapter to encourage the restoration of grasslands, which would be desirable in certain areas where SFPs have given rise to opportunistic conversions. The cautious introduction of the Water framework directive might bear later postponements.

3. Basic payments and capping

The economic justification of basic payments by claiming food supply security remains problematic.

The apparent need for these payments to provide the financial stability of some very large and modernised farms is the result of a static and virtual vision.

Furthermore, **capping has only had a limited impact** because of wage cuts. It is a long way from a true ambition for fairness in the use of public funds, as this use is not well-founded.

As long as basic payments are:

- linked to land, transferable and uncapped,
- with no clear relationship between excess costs or shortfalls linked to the obligations to be respected,

they will simply provide additional earnings and lead to a race for property, as soon as the size of the holding allows the owner to reach a good level of income. It would be better to **foresee a gradual decrease with a transfer to the crisis reserves**.

There is one major positive point to be highlighted in basic payments, however: the break away from historic references opens the **possibility of rebalancing support** between farms, farming orientations and regions.

4. Risk management and market power

The main market measures implement an array of instruments that represent **real progress in mitigating economic risks and in rebalancing competition between farmers and the sector downstream.**

The creation of **crisis reserves outside the Multiannual Financial Framework (MFF)** is an excellent initiative. But the **coordination of stabilisation tools** that come under three types of funds (pillars I, II and funds outside the MFF) **will not be without its problems.**

The extension of powers to all POs in all live products to negotiate contracts and prices should become a reality someday. There will remain, however, a large portion of isolated producers facing dominant purchasers. But giving the means to dispersed sellers, i.e. farmers, to create oligopolies in response to large agri-food and distribution groups is not without its drawbacks.

It is also important to add that a more active policy to measure the **effectiveness of competition downstream and upstream of agriculture (agri-supply industries)**, and increased vigilance concerning concentrations will also be necessary.

5. New distribution between the pillars

The organisation of pillar I and pillar II funds is an important factor, but it is less affected by the reform.

The **creation of crisis reserves outside the MFF** is certainly the greatest innovation of the proposal. It amounts to the beginning of a third pillar in the CAP.

Better consistency between first and second pillar aid thanks to the reform of SFPs is to be welcomed. Nevertheless, coordination between pillar I environmental payments that are entirely financed by the EU budget, and contractual agri-environmental measures (AEM) co-financed by member states will be put to the test.

Maintenance of pillar I basic payments and therefore their totally Community-based financing does not eliminate calculation by member

states in terms of CAP budgetary ‘returns’. We should in the end move toward a sharing of powers and co-financing between the member states and the EU according to the local or European dimension of public goods affected by the CAP. **In a future stage** the more systematic creation of a third pillar (crisis reserve outside of annuality) can be expected. This would bring together all the financial means to manage market disturbances, means that are currently dispersed in the first two pillars, with a progressive shift of some of the basic payments towards pillar III.

6. Falling short of a major reform yet a positive and politically realistic development

The current proposal **only partially corrects** the negative effects:

- of the CAP on the environment,
- concerning the sector’s total dependence on support, due to the maintained capitalisation of payments in land.

Real targeting to the public services provided by agriculture is not fully completed. The effects of incentives for good practices and the adjustment of aid to the actual costs of supplying public goods **remain in the initiation stage**.

The announced reform is **nevertheless** a **significant** and important one as it redirects the CAP towards European public goods and initiates its freedom from positions of interest inherited from the past.

It will be necessary to re-examine it, either by anticipating the negative effects, or by correcting them afterwards, which, **politically, is more realistic**. This reform remains a positive development, undoubtedly the only window that is politically open in the economic context, which confirms a clear direction and will lead to progress if political representation does not water it down excessively, either at the decision-making or the implementation phase.

PROPOSED AMENDMENTS TO THE DRAFT REFORM

AMENDMENT I: THE DEFINITION OF ECOLOGICAL FOCUS AREAS SHOULD NOT APPLY TO FARMING UNITS BUT RATHER TO A **SPATIAL GRID**.

AMENDMENT II: OBLIGATION EXCHANGES SHOULD BE AUTHORISED BETWEEN FARMERS TO CREATE ECOLOGICAL FOCUS AREAS ON A **WATERSHED GRID**, BY APPLYING THE AVERAGE RATE OF 7% TO THIS SCALE AND BY ALLOWING, AS A RESULT, A VARIABLE RATE WITH A LOWER MINIMUM THRESHOLD FOR SMALLER SPATIAL SCALES.

AMENDMENT III: INCENTIVES SHOULD BE IMPLEMENTED TO CREATE **ECOLOGICAL CORRIDORS** (THROUGH BONUSES OR OTHER BENEFITS) AND THE CONTIGUITY OF ECOLOGICAL FOCUS AREAS OF SEVERAL FARM HOLDINGS.

AMENDMENT IV: IN ORDER TO MAINTAIN THE INCENTIVE TO RESTORE FORMER GRASSLANDS THAT HAVE BEEN CONVERTED TO CULTIVATED LAND, IN ADDITION TO THE RULE OF NON CONVERSION OF GRASSLANDS, A BONUS SHOULD BE ADDED FOR PERMANENT GRASSLAND SURFACES, IN CONJUNCTION WITH BASIC DIRECT PAYMENTS AND ENVIRONMENTAL BONUSES, AT LEAST IN SENSITIVE AREAS WHERE ARBITRATION BETWEEN GRASSLAND AND CROPS IS RELEVANT.

AMENDMENT V: AN ASSESSMENT OF SLOPING LANDS IN VALLEYS SHOULD BE CONDUCTED AND AN INCENTIVE MECHANISM SHOULD BE IMPLEMENTED TO RESTORE THOSE AREAS OF EXTENSIVE LIVESTOCK REARING TO GRASSLANDS.

AMENDMENT VI: PAYMENT CEILINGS SHOULD BE RAISED TO ACCOUNT FOR LABOUR ONLY FOR FARM COOPERATIVES.