



associazione **Alessandro Bartola**
studi e ricerche di economia e politica agraria


agriregionieuropa

An agenda for a sustainable CAP Looking forward 50 years later

Franco Sotte
f.sotte@univpm.it

www.agriregionieuropa.it

www.sotte.it - 2011 1



associazione **Alessandro Bartola**
studi e ricerche di economia e politica agraria

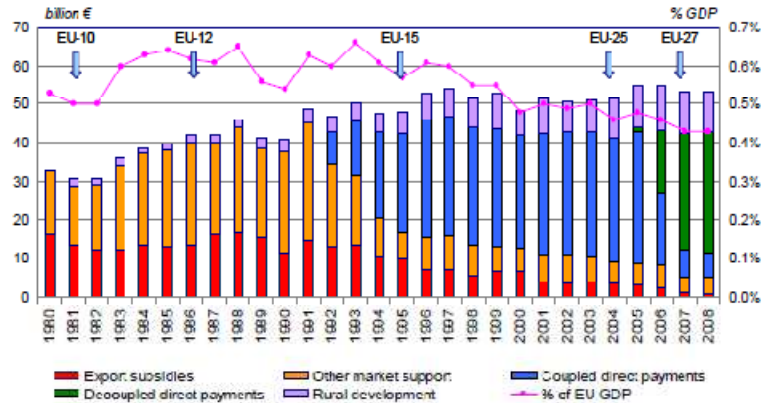
agriregionieuropa

Summary

- ❖ Short CAP reform story
- ❖ What is different this time?
 - In the general framework of the EU
 - In the specific of the CAP
- ❖ Which CAP in the future: a new or an old one?
- ❖ Conclusive remarks

www.sotte.it - 2011 2

The CAP budget evolution



The best known figure on the CAP
 It shows the shift from market support to
 compensatory and direct payments, to SFP
Apparently the CAP has changed a lot...

www.sotte.it - 2011

3

...but the CAP has really changed ?

- ❖ The litmus paper is the distribution of its support and the obligations for the beneficiaries attached to it. These have not significantly changed in the last 20 years
- ❖ A large part of the CAP (at least the 74% of its funds, devoted to the SFP) is still a **backward looking policy**, favoring the **richest regions and farms, land property, old farmers**, with no significant obligations for its beneficiaries
- ❖ This is the reason why all reforms so far have been not conclusive, and the CAP needs again to be substantially reformed

www.sotte.it - 2011

4



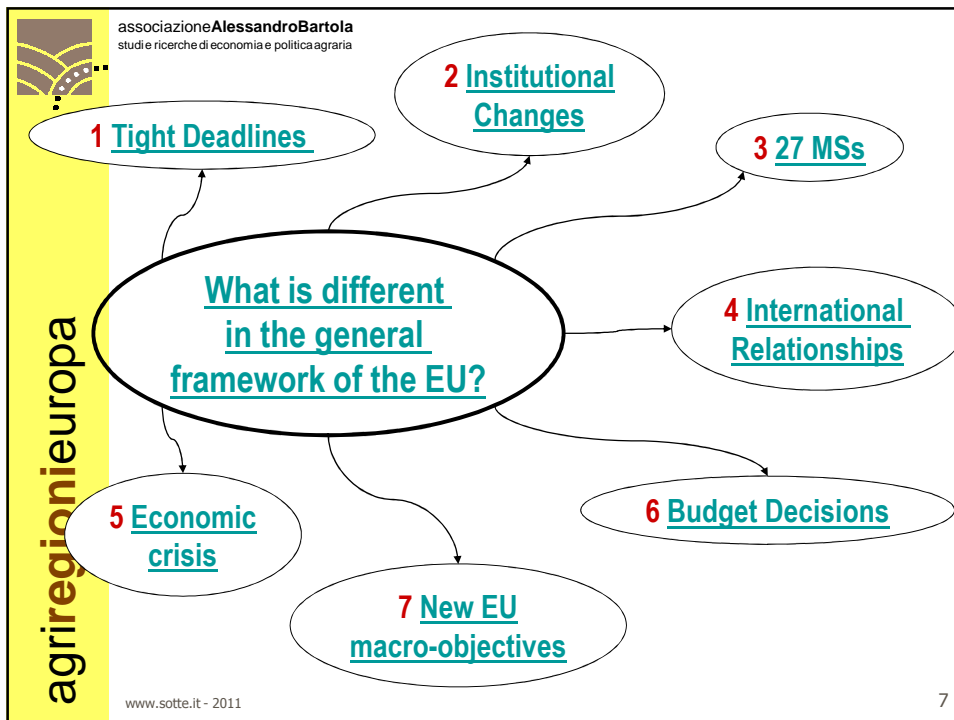
Why this contradiction?

- ❖ **The strong path dependency**
 - Only changes in the CAP appearance have been able so far to pass the scrutiny of the political debate
 - Until now, all the subsequent CAP reforms (even those supported by good analysis and good proposals) have been systematically diluted to the point that the final regulations have affected much more the surface than the substance
- ❖ **The next will be the fifth time we experience the same story (it is time to learn the lesson and take steps accordingly)**
 1. Mac Sharry reform (1992)
 2. Agenda 2000 (1999)
 3. Mid term review (Fischler Reform) (2003)
 4. Health Check (2009)
 5. **Post-2013 CAP (2012-13?)**



Will this time be different?

- ❖ **Let us look at what is different ...**
 - in the general framework
 - within agriculture and rural development



- associazione **Alessandro Bartola**
studie e ricerche di economia e politica agraria
- The EU agenda**
- 3 March 2010 – Published Strategy Eu-2020
 - 12 April 2010 – Consultation on the future CAP
 - June 2010 - Strategy Eu-2020 approved
 - 19-20 July 2010 - Conference on the future CAP
 - 19 Oct 2010 – COM The EU Budget Review
 - 18 Nov 2010 – COM “The CAP towards 2020”
 - 1 Jul 2011 - New MFF 2014-20 proposals expected
 - Oct 2011 (postponed) New CAP legislative proposals
 - Jul 2012 CAP reform approval
 - 1 January 2014 – New CAP (within new MFF) enter into force
- www.sotte.it - 2011
- 8
-



Institutional Changes



- ❖ The Lisbon Treaty introduced the Co-decision power by the European Parliament
- ❖ A reinforced role of conservative and even eurosceptic forces
 - both in the EU institutions
 - and in MSs Parliaments and Governments



New participants around the table



- ❖ It is for the first time that all 27 MSs discuss the budget
- ❖ Cap budget into the EU budget debate
 - This was not the case in 2007-13 FP debate
 - Fischler reform was decided by 15 MSs
 - CAP budget pillar 1 already decided in 2003



International Relationships



- ❖ Several global challenges ask for a more outwardly oriented EU action
 - Climate change
 - Economic and financial integration
 - Open markets: new competitive scenarios + market volatility
 - Immigration
- ❖ But there are also less international constraints in the current debate on the future EU policies
 - WTO in deadlock (if no results in next weeks/months)
 - Some Countries have adopted neo protectionist policies
 - Others have undertaken regional/bilateral agreements



The economic crisis: more/new resources needed

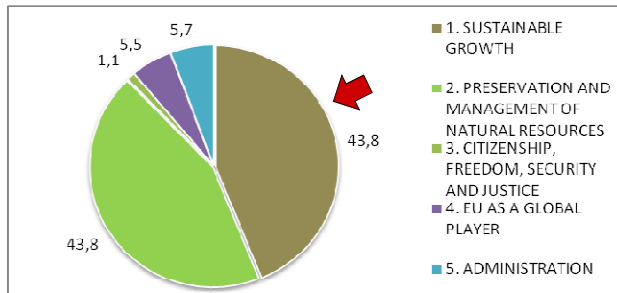


- ❖ for MSs budgets (less funds for the EU)
 - Re-launch the economy and repay the public debt
 - National elections (2011: Fin, Pol, Pg, Dk, It?, 2012: France)
- ❖ for new/reinforced priorities in the EU budget
 - growth, competitiveness, employment
 - Volatility of commodity markets (including food)
 - financial crisis threatening the stability of euro

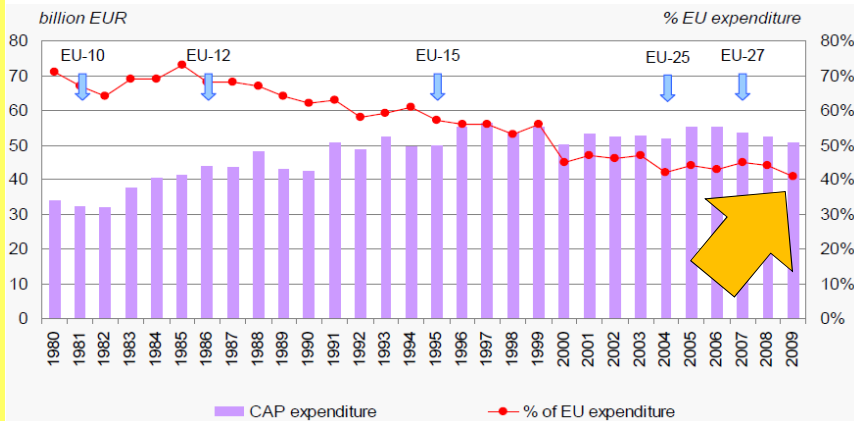


Budgetary decisions at the Center

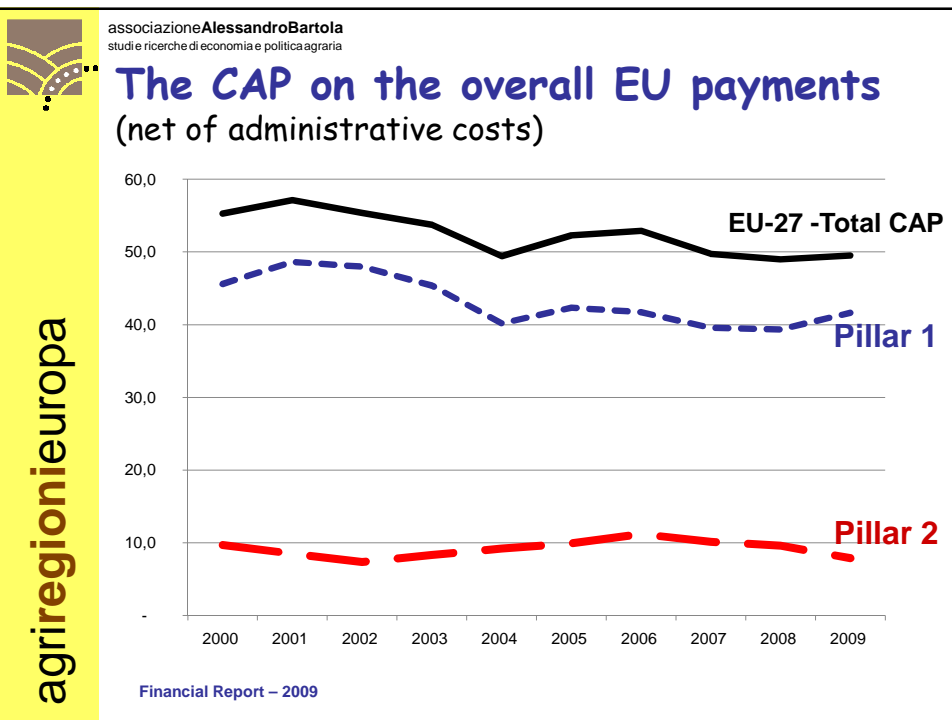
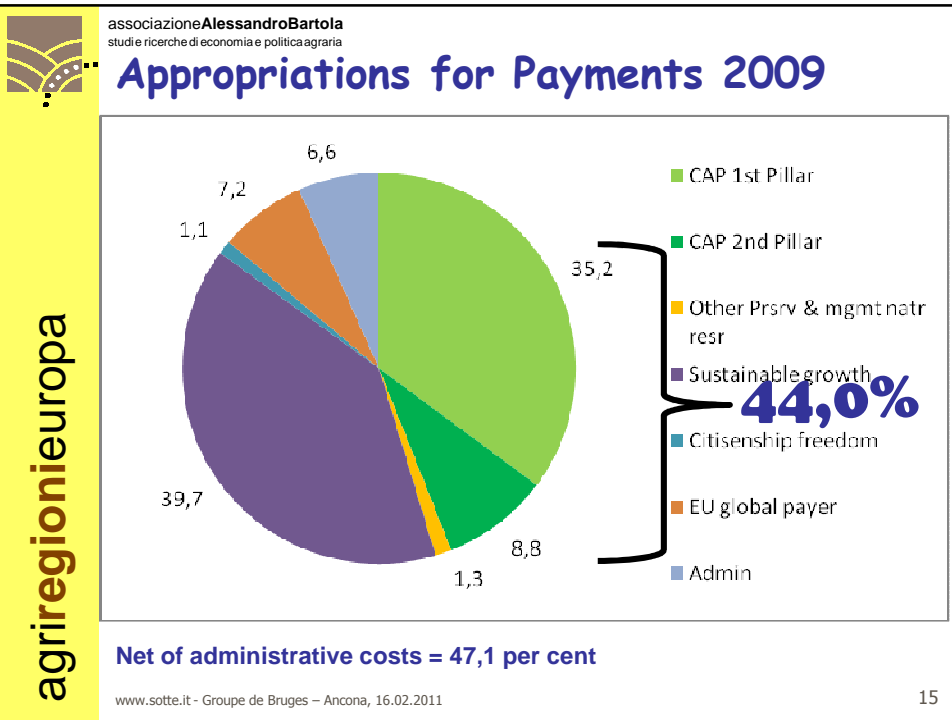
- ❖ a substantial budget reform is likely to come
- ❖ The overall budget will not increase, **more likely decrease**
- ❖ The CAP budget could be considered as one fundamental reserve of funds for other policies

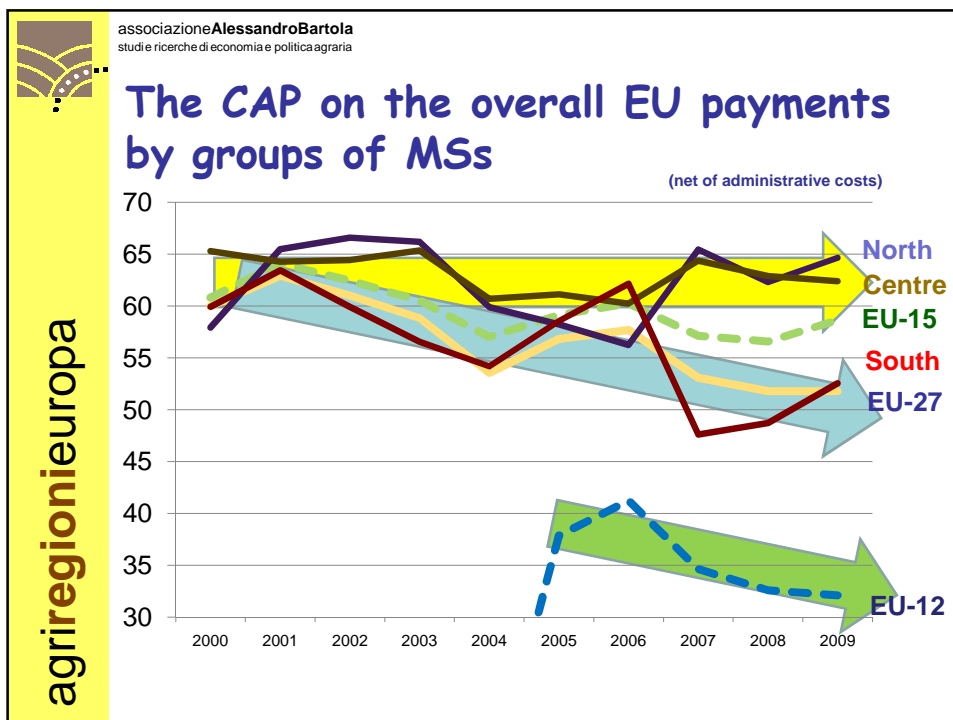


CAP expenditure according to the DG AGRI web site



Source: DG-Agri web site: The common agricultural policy after 2013
Cap CAP post-2013: key graphs and figures,





associazione **Alessandro Bartola**
studie ricerche di economia e politica agraria

Comment

- ❖ The CAP weight on the overall budget is significantly higher than usually considered (especially in North and Centre EU-15)
- ❖ Its distribution between pillars is significantly more unbalanced in favour of direct transfers of pillar 1
- ❖ Pillar 1 (SFP) budget is very easy to be transformed in payments, which is not the case with pillar 2 and all other major EU policies
 - More evident, unfair and unacceptable the contradiction of a P1 whose weight increases on the total payments because of its non selective and non targeted character
 - More crucial a commitment for a CAP targeted and tailored to explicit behaviors supported by a strong effort in governance, implementation and evaluation

agrireregionieuropa

www.sotte.it - Groupe de Bruges - Ancona, 16.02.2011

19



The macro-objective of the EU

❖ Each programming period had a main target

- 1988-92 Single European Market **OK**
- 1993-99 Monetary Union **OK**
- 2000-06 Enlargement **OK**
- 2007-13 the Lisbon-Göteborg strategy **was (at least partially) failed**
- 2014-2020 **What will the EU be for ????**



What will the EU be for ????

❖ On the table 2 key problems

- Role of Europe in a global world
- How to react to the economic crisis

❖ 3 (old) consequent questions

- More/less Europe?
- broader/deeper Europe?
- Europe at 1 or 2 levels or speed?



Who has the responsibility ?

- ❖ the Commission and the European Parliament have an important influence
- ❖ But a crucial role and the **last word** rest with the European Council and, ultimately, **National Governments**
- ❖ Strategy EU-2020 is still vague
 - “**intelligent-sustainable-inclusive growth**” (??)
 - reveals the difficulty of the EU to solve the key problems: role of Europe in a global world, how to react to the economic crisis



The game is still **completely open**

- ❖ A game of position is underway
- ❖ the future moves of each actor are hidden and uncertain
- ❖ The **EU budget is/will be the central battlefield**
 - the Budget Review and the positions expressed by MSs reveal a substantial dissatisfaction with the present EU Budget
 - low efficiency and effectiveness (as frequently noted by the COA)


 associazione **Alessandro Bartola**
 studi e ricerche di economia e politica agraria


agriregionieuropa



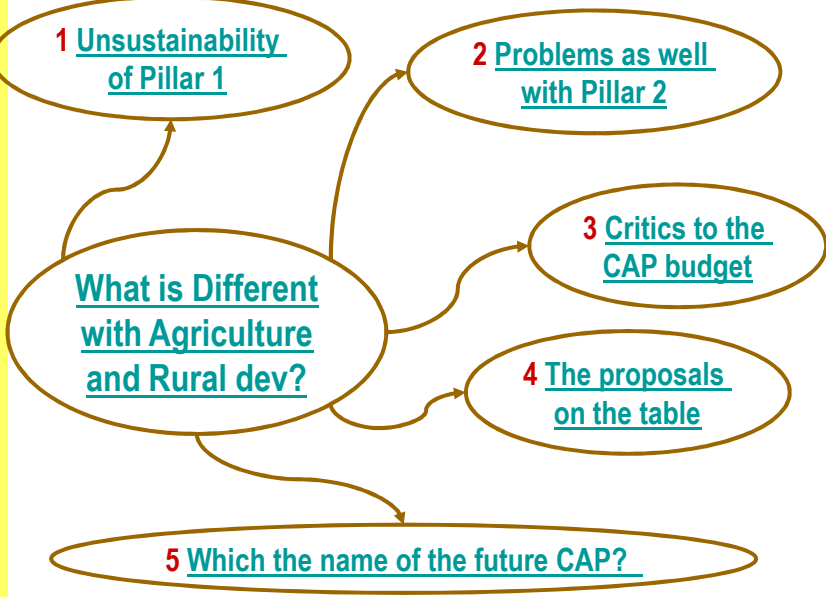
Is still the CAP a priority in the EU?

Probably no more
 Not as in the past

www.sotte.it - 2011 24


 associazione **Alessandro Bartola**
 studi e ricerche di economia e politica agraria

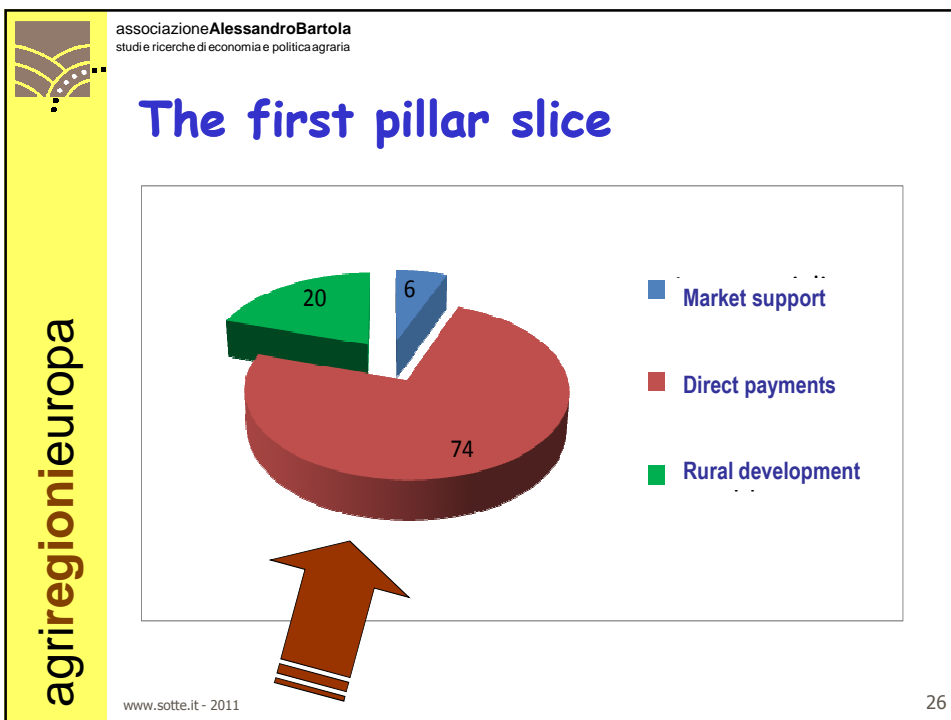
agriregionieuropa



```

    graph TD
      A("What is Different with Agriculture and Rural dev?") --> B("1 Unsustainability of Pillar 1")
      A --> C("2 Problems as well with Pillar 2")
      A --> D("3 Critics to the CAP budget")
      A --> E("4 The proposals on the table")
      A --> F("5 Which the name of the future CAP?")
  
```

www.sotte.it - 2011 25



- associazione **Alessandro Bartola**
studie e ricerche di economia e politica agraria
- Which the real nature of the SFP**
- ❖ Is it an income support?
 - Not calculated in relation with income
 - ❖ Is it a payment for public goods?
 - Only indirectly targeted to compliance
 - nor tailored on its additional costs
 - ❖ Is it a transitory adjustment assistance payment?
 - Justified but only in the short term
 - ❖ Is it a rent? (a payment for doing nothing)
 - is hardly justifiable
 - translates to land values
- www.sotte.it - 2011
- 27



Conclusions on Pillar I



- ❖ SFP (in its present form) should rapidly phase out or radically change
- ❖ Its persistence
 - drains resources for better finalised policies
 - isolates agriculture in the debate on the future of the EU
- ❖ Its only advantage
 - being easy money, with no constraints, no cofinancement, in continuity with the past, it has a strong support by a large part of the agricultural lobbies and several MSs



What about Pillar II?

- ❖ Basically more acceptable
 - Environmental (Goteborg: Sustainability)
 - Oriented towards small and medium enterprises
 - Integrates sectoral and territorial objectives
- ❖ But delays and inefficiencies in its implementation
 - administrative delays
 - Poor linkages between axes I and II (sectoral policy) and axes III and IV (territorial policy)
 - Priority given to more traditional and easier measures (innovative and qualifying measures are delayed)
 - Gap between objectives and results (concentration, selectivity)



Conclusion on Pillar II?

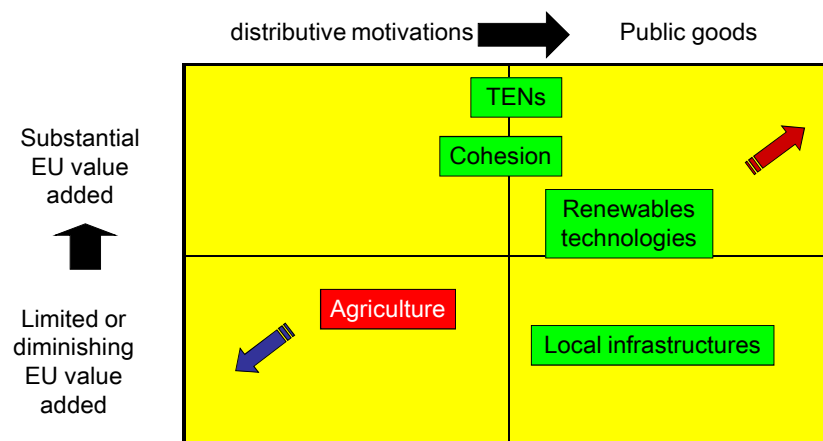


- ❖ Pillar 2 is more coherent with EU strategy
- ❖ It would be very important to further invest on it, improving the efficiency and effectiveness in its administration, maintaining the link between sectoral and territorial objectives
- ❖ Unfortunately it has not the same support of pillar I
 - The Copa-Cogeca refusal to whatever modulation in the HC
 - The opposition (especially of new MSs) to co-financement
 - Even with a lot of supporters at regional and local level (Leader)



Budget reform - key policies

From the Budget Review Consultation Conference



Source: Iain Begg, Improving the Rationale and the Political Decision Process. The 2008/9 EU Budget Review, European Institute, LSE. Lisbon 5 November 2007 (Budget Review Consultation)

associazione **Alessandro Bartola**
studi e ricerche di economia e politica agraria

Commission's study on EU Spending (Nov '08)

Policies	Commitments 2007 as % of total	Changes to the Budget	
		Gradual	Economically efficient
Macroeconomic	0,4	0	0
Social Affairs and Employment	0,7	0	0
Cohesion Policy	31,7	-	--
Competitiveness and Single Market Policies	0,6	0	0
Research and Development	3,5	+	++
Education and Culture	1,0	0	0
Environment	6,6	+	++
Agriculture and Rural Development	40,8	-	----
Fisheries and Maritime Issues	0,7	+	++
Network Industries (Energy, Transport, ICT)	2,6	+	++
Health and Consumers Policy	0,4	0	0
Freedom Security and Justice	0,7	0	0
Defence	n.a.	?	+
Foreign Aid and Neighborhood Policies	5,5	+	++

A Study on EU Spending - Final Report Commissioned by the European Commission, Directorate General for Budget
www.sotte.it - Groupe de Bruges - Ancona, 16.02.2011

36

associazione **Alessandro Bartola**
studi e ricerche di economia e politica agraria

Meta-study on spending evaluation

	Competitiveness				Cohesion			Natural resources			Citizenship			Global partnership			
	Research	Innovation, SMEs	Transport & Energy	Learning & Jobs	Cohesion for growth	Cohesion fund	Cohesion for employment	Agriculture	Rural development	Fishery	Environment	Justice, freedom, security	Health, consumers protection	Media, culture, youth	Cooperation	Humanitarian assistance	Enlargement
Relevance	=	=	+	+	+	+	+	-	+	-	+	+	+	=	=	+	+
Coherence	=	=	+	-	+		+	-	+	-	+	+	-		=	=	=
EU added value	+	=	+	+	+	+	+				+	+	+		-	+	=
Effectiveness	+	+	-	+	+	+	+	=	+		+	+	+		=	+	=
Sustainability				+		-	=	-							-	=	-
Efficiency	=		=		=	=	=	-						=	-		=
Unintended impacts						+		-									

Eureval, Ramboll management, Meta-study on lessons from existing evaluations as an input to the Review of EU spending, Final Report January 2008
Evaluation for the European Commission, Contract A/C-16-930

www.sotte.it - Groupe de Bruges - Ancona, 16.02.2011

37

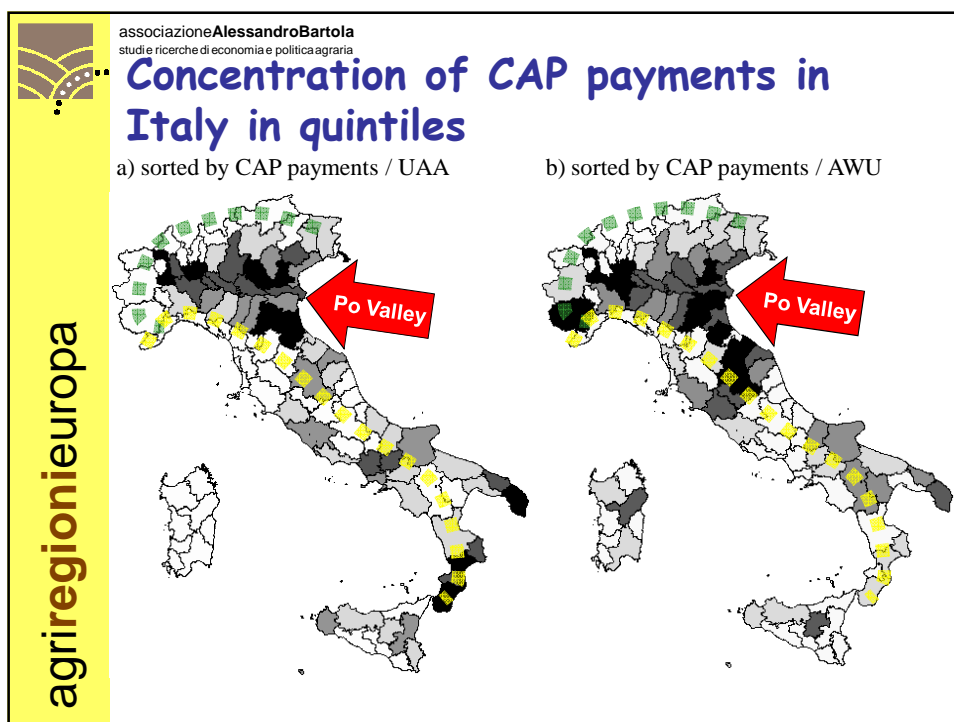
associazione **Alessandro Bartola**
studie ricerche di economia e politica agraria

CAP payments in Italy

Payments per beneficiary €	CAP expenditure		CAP beneficiaries		Average payment
	Absolute value in M€	%	Absolute value in 000	%	Euro per beneficiary
Less than 1.000	301.8	5.5	765.1	58.3	394
>1 000. <=5 000	791.4	14.5	352.2	26.8	2247
>5 000. <=10 000	622.9	11.4	91.9	7.0	6780
>10 000. <=25 000	971.7	17.8	67.2	5.1	14456
>25 000. <=50 000	674.1	12.3	21.2	1.6	31861
>50 000. <=100 000	573.6	10.8	9.2	0.7	62350
More than 100 000	1538.5	28.1	4.9	0.4	314101
Total	5473.9	100.0	1311.6	100.0	4173

20,0% (for >1 000. <=5 000)
85,1% (for >1 000. <=5 000)
50,8% (for >50 000. <=100 000)
2,7% (for >50 000. <=100 000)

agrireregionieuropa





Comment

- ❖ **There are good reasons for a substantial change**
 - probably, for the better off farms, a lot of CAP payments just represent an additional rent
 - while for the plethora of small farms, which in Italy have generally a subsidiary role in the family interests and income, it has a very minimal incidence (compared to an enormous administrative cost)
 - The strong concentration of the CAP expenditure in terms both of recipients and localization significantly reduces any alleged link between the present CAP expenditure and the provision of public goods through agriculture



Three big challenges

Economic challenge	Environmental challenge	Territorial challenge
<ul style="list-style-type: none"> • Food security • Price variability • Economic crisis 	<ul style="list-style-type: none"> • GHG emission • Soil depletion • Water/air quality • Habitats and biodiversity 	<ul style="list-style-type: none"> • Vitality of rural areas • Diversity of EU agriculture
Viable food production	Sustainable management of natural resources and climate action	Balanced territorial development



Three big challenges

Economic challenge	Environmental challenge	Territorial challenge
<ul style="list-style-type: none"> • To contribute to farm income and limit its variability • To improve sector competitiveness and share in food chain value-added • To compensate areas with natural constraints 	<ul style="list-style-type: none"> • To contribute to farm income and limit its variability • To improve sector competitiveness and share in food chain value-added • To compensate areas with natural constraints • To guarantee the provision of public goods • To foster green growth through innovation • To pursue climate change mitigation and adaptation 	<ul style="list-style-type: none"> • To support rural vitality and employment • To promote diversification • To allow social and structural diversity in rural areas



Two key words

- ❖ **Competitiveness**
 - Capacity to cope with the market
 - Producing excludable and rival goods
- ❖ **Public goods**
 - Payments for non market goods
 - Producing non-excludable and non-rival goods

Two pillars

- Pillar 1 - annual horizontal payments
- Pillar 2 - multi-annual structural and selective measures to adapt to territorial diversity



The proposal for the CAP pillar 1

- ❖ **Direct payments: separation into**
 - basic income payment
 - additional payment for 'green' farm practices
 - Supplementary payment for LFA (Pillar 1 or 2?)
- ❖ **Market measures**
 - Safety net for market management
 - Improving the functioning of the food supply chain



The proposal for the CAP pillar 2

- A marginal weight to 2° pillar: only 50 lines page 11-12 before "Broad policy options" and "Conclusions"
- ❖ **Rural development objectives**
 - confirmed 2007-13 structure and objectives
 - More outcome based approach
 - Better linking measures, creating packages
 - More integration rural vs. regional policy
- ❖ **Some debated issues**
 - "risk management toolkit"
 - voluntary, non distortive, not interfering with existing activities in this area



Other general assumptions

- ❖ a minimum payment to small farmers
- ❖ a ceiling on payments to large farmers
 - 6 MSs are against: De, It, Ro, Sk, Uk, Cz
- ❖ redistribution within and between regions and countries
- ❖ Payments only to 'active farmers'



What about the CAP Budget?

- ❖ No mention in the proposal on the level of funding even if some cuts may be expected
 - This reflects a lack of common view in the Commission
- ❖ Given the structure of the proposal
 - No hints of a cheaper budget
 - Nor the proposal seems to be in line with reductions



associazione **Alessandro Bartola**
studi e ricerche di economia e politica agraria


agrireregionieuropa

Next steps

- ❖ Inter-institutional debate on the Communication
- ❖ Preparation of Impact Assessment
- ❖ Preparation of Legal Proposals
- ❖ Legal proposals will be presented in Autumn 2011

www.sotte.it - 2011

52



associazione **Alessandro Bartola**
studi e ricerche di economia e politica agraria

agrireregionieuropa

The CAP is once again at the crossroad between conservation and change

www.sotte.it - 2011

54



A pessimistic solution for the CAP

- ❖ **Given the pre-conditions**
 - Less funds, strong path dependency, more lobbying support for the I than II pillar, opposition to co-financement, weak international constraints
- ❖ **purely conservative post 2013 solution**
 - Significant maintenance of SFP (greened, slightly and slowly flattened and regionalized, but in such a way to minimize its redistribution and soften the obligations linked to it)
 - Rural development policy again sacrificed
- ❖ **“things will have to change, just to stay as they are”**
“The Leopard” Tomasi di Lampedusa
- ❖ **Implications of such outcome**
 - additional cuts to the agricultural budget
 - need of further CAP reforms in the future (a new mid term review in 2015-16?)



A more desirable post-13 CAP

- ❖ **Integrated with the other development policies**
- ❖ **Projected to the (medium-long term) future**
- ❖ **Addressed to the general interests of society (market failures: competitiveness, innovation, public goods)**
- ❖ **3 key words**
 - **Targeted**
 - a measure for each specific objective
 - **Tailored**
 - cost effective to repay the lower incomes and the higher costs
 - **Contractualized**
 - no more : "help", "support", "premium", "subsidy", "assistance", "contribution";
 - but only "payments" and "incentives"



A more desirable post-13 CAP

- ❖ If one refers to the history of the CAP, this solution has **less chances of success**,
- ❖ even though, with it, it could be possible
 - to **defend better the budget** and
 - to use it **more efficiently and effectively**
- ❖ not only benefiting society, but also the future of agriculture



Thank you

www.agrireregionieuropa.it

f.sotte@univpm.it