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If we could foresee a CAP that is really in tune with the times...

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Italian version

The overall picture

If the current CAP reform proposals were to overcome the hurdles that still separate them from becoming final regulations, this article could be regarded as an intellectual exercise (or, at most, contribution for the not-so-near future). However, at the same time, the overall scenario is so uncertain, so subject to the vicissitudes of economic and financial crises, and so much influenced by the moods of the governments and changing political majorities in the Union, that it would be appropriate to read it out of the box.

Europe is facing a particularly difficult phase of its development. However, there is the unfortunate and substantial risk that the crises that it is going through can lead to implosion. In this case, even before the dissolution of the Union or its downsizing, the CAP could hardly survive as we know it (and how it is now being proposed to reform it). The crises, however, are also an opportunity for Europe to commit itself and to hopefully kick-start the Union once again. Getting out of the current impasse will not be based on the past trends, by turning a blind eye to what has happened so far. There will have to be a complete overhaul of Europe in the next decade until 2020 and beyond, in which, especially in the first few years, it will have to face the shortage of resources not only because of the difficulty (or hostility) of many Member States to reaffirm, as in the past, their commitment to the European Union, and also due to the need to redirect the funds of the EU towards the objectives of solidarity and development more efficiently and effectively.

After the new Multiannual Financial Framework (MFF) proposals for 2014-2020, presented by the European Commission last year in June (European Commission, 2011), the negotiations on the future MFF did not practically make any step forward. As a consequence, also the process of reform of the CAP slowed down substantially. "No money, no vote" said Peter Jahr, German conservative MEP in COMAGRI some months ago. His words were recently echoed by Commissioner Ciolos: "a final deal on the Cap reform is not possible without knowing the long term budget," witnessing the current stalemate condition of the CAP.

The knot of the budget

It could be useful to recall the events of the present MFF for 2007-2013 to imagine what might happen in the coming months. The Commission's initial proposal in 2005 was for an overall European budget that was equivalent to 1.24 % of the Gross National Income (GNI) of the EU

(Commission of the European Communities, 2004). The counter proposal of an authoritative group of the net-paying Member States, led by Germany and Great Britain, reduced the ratio to 1.00 %. The final agreement, reached under the British presidency of Tony Blair in December 2005, was to fix the budget at 1.045 %. Compared to the original Commission´s proposal, the total cut, in constant 2004 currency, was 160.9 billion euro out of a total of 862.4 billion (European Council, 2005). At the time, Pillar 1 of the CAP was immune to cuts, as a result of the specific Chirac-Schröder agreement of 2003 to cope with the mid-term review and the Fischler reform. The cut had a significant impact on Pillar 2 and on all the structural policies, which led to a cut in their funds.

An attempt to isolate the CAP budget once again from the rest of the budget debate has been tried under the French Presidency (by the then minister for agriculture Michel Barnier) in an Informal Meeting of Ministers at Annecy in September 2008. But this time Germany refused. The whole CAP will be part of the debate in the future decisions on the budget. This time the Commission's proposal is for a total budget of 1,025 billion at 2011 prices, representing 1.05 % of the GNI, which already incorporates a cut on the CAP at the European level which equals - 12.6 % (European Commission, 2011). A significant reduction in the budget has been suggested again, this time by Germany, Great Britain and other net-paying countries. Other Member States have joined in as well. If, complying with those requests, the final agreement were to stop at a possible 1.00%, the GNI net (as proposed again by Germany this time), it would take another 55 billion euro off the budget. This is especially likely to penalize the CAP, as a large block of mostly Eastern European State are defending the budget for the cohesion policy: the so-called Friends of Cohesion Policy.

Within the MFF there are no other budget lines that can absorb cuts of this size. However, even if the current budget proposal were to be confirmed, the risks for the CAP budget would not be over. The risk is also within the budget since the economic crisis demands, on the one hand, a more rigorous budgetary discipline and, secondly, imposes new priorities. The CAP, in the political and financial circles of the European Union, has been considered since long more of a constraint than a priority (Padoa Schioppa, 1987 ; A. Sapir et al., 2004; Grethe, 2006; Begg, 2007; Eureval, 2008; Ecorys, 2008).

How to get out of the current impasse?

If Commissioner Ciolos is eventually faced with further budget cuts for the CAP, he, with the same pragmatism that has characterized his actions so far, could be forced to reformulate his proposals and propose, as is already rumoured, a Plan B.

On the other hand, recurring criticisms on his proposal by COMAGRI MEPs, lobbies and member States, after the general support he received in the past, are likely to leave him with holding the bag in a Commission that does not support it.

It should also be noted that the current political situation is very complex and changing. This year has seen political majorities change in France, Italy, Spain, Greece, Belgium, the Netherlands, Romania, Slovenia, Slovakia and Romania. In the remaining days of 2012, there will be national elections in Austria and Lithuania, and in 2013, in Italy, Sweden and Bulgaria (as well as Cyprus and Malta) and, in autumn last but not least, in Germany. Finally, in June 2014 the European Parliament will be up for elections and subsequently a new Commission will be nominated in autumn, with the (likely) substitution of Barroso and possibly also of Ciolos in case he makes any wrong moves in the coming months. The results are totally unpredictable at present.

Just 14 months before 1 January 2014, the beginning of the new programming period, the Union is therefore at an impasse, and this is now openly acknowledged by the EU institutions themselves. Moreover, in the current semester, the European Council Presidency is under the weak leadership of Cyprus. Ireland, which will take over at the beginning of 2013, has already planned a possible extraordinary European Council meeting on MFF in February 2013. In addition, there are about 8,000 amendments presented to the Cap reform proposal into the European Parliament. In this context, it is realistic to assume that the complex process of the CAP reform can hardly be

completed within the current year and, hopefully, will be brought to fruition in early 2013, which will be just in time to begin the new seven year programming period.
However, for many reasons (such as, the many contradictions evident in the current proposal, the need to quickly resolve conflicts that may arise during its progress, the need to reformulate the proposal following further cuts or reallocation of funds in the budget, etc.), the debate could come to a temporary agreement, hoping for better times, fixing another mid-term review in 2016. The alternative that for now seems less likely, but which cannot be excluded, is that there will be no agreement and that the current financial framework will be extended by a year or two (with many problems regarding its continuity, especially for Pillar 2), and negotiations will resume with the new Parliament and new Commission. Therefore, in both cases, there could be an opportunity to thoroughly review the CAP in order to direct it towards the strategic objectives of food security and the challenges of the future. The conditions are favourable. These are times in which entrenched positions, that in other times would have been unassailable, can break down. A big risk for the common agricultural policy now exists that in other times could rely on its path dependence.

How come a proposal for a different CAP?

The reasons for a reconsideration of the future CAP arise first of all from the fact that Ciolos' proposals (despite the support obtained by the farming lobbies) are weak for the future EU, especially in the current perspective, both in a reformed and revived European Union, as well as in a European Union in crisis. What are the basic issues on which decisions have been taken so far that make these proposals inadequate to meet the objectives adopted for the future of the EU and of the CAP itself? We will try to throw light on the four most important issues here.

1. Direct payments confirmed as the core of the CAP.

It is a completely wrong decision to keep direct payments at the core of the CAP. Decoupling was fully justified at the time of the Fischler reform as a solution to replace the system of coupled payments without too many worries. But a decoupled measure can only be justified as a transitory solution. Keeping it beyond the short term has no justification in the theory of economic policy. One can simply ask: what is the taxpayer paying for? What is the goal of Direct Payments: income support, investment support, paying for public goods, or even mitigating the effects of market volatility? Or, is the goal perhaps just to preserve the old distribution of funds and the old rents granted by the CAP? Paying for doing nothing has become a common expression for this policy in public opinion.
Decoupled payments, as noted also by the European Court of Auditors (2012), contradict the basic principle of the intervention of the European Union according to which any spending measure should be targeted, tailored and subjected to detailed assessments of efficiency and effectiveness. Regarding direct payments, which also have a very significant weight in the EU budget, there are no assessments of their efficiency and effectiveness, as it is periodically done for all other policies, for the simple reason that an assessment is impossible if the objective is undetermined (Esposti, 2011). Getting rid of direct payments (gradually, but definitely) would free up funds for other urgent needs, for the future of agriculture, the agri-food system and rural development, and would place the CAP in conjunction with other strategic EU policies.

2. The choice of the hectare as concise expression of the right to receive support.

The second mistake is that of choosing acreage as a basis for the calculation of direct payments. In various policy documents, the great diversity of rural areas and forms of agriculture in the Union have been frequently emphasized. Claiming a strong CAP, different strategic objectives that reflect the spatial differentiation and specific socio-economic and structural situations throughout Europe were announced. How can one put together all of this with the choice of linking payments to

hectares? The main reason was a practical one: the hectare does not escape satellite surveying and therefore provides less abuse than any other more reasonable but less easily controllable parameters, such as those of employment or value added. But a flat rate payment per hectare purely and simply increases land rent and, other things being equal, specifically benefits extensive forms of agriculture which proportionally contribute less to employment and generate less value added than the intensive ones.
In this framework, the "unpacking" of direct payments opens a series of questions: what is the basic payment for? Is the green payment really environmentally friendly? What sense does an additional payment have for young farmers if the amount per head is negligible? Does the unpacking impose unnecessary constraints? Does it increase bureaucracy with no real improvement in the quality of the policy?
Under these conditions, the regionalization system itself, though certainly less discriminatory compared to the historical system, lacks a rational basis. Why would it be fair to give everyone an equal amount of payment per hectare? On the other hand, different calculation methods and different hypothetical ways of redistribution between Member States and between regions, will inevitably trigger distortion of competition (so that, where a Member State took the initiative in introducing such a payment, it would definitely act in violation of the European rules on state aid).

3. The second pillar in the background

Another big mistake is to freeze the ratio between the 1st and 2nd Pillar and not to move resources from the 1st to the 2nd. Interrupting the process of redistribution, that had been set in motion slowly but uninterrupted until now, is the result of a conscious underestimation of the importance of rural development policy. It is true that the proposal grants to Member States some flexibility between the pillars, allowing to move up to 10% from Pillar 1 to Pillar 2, but it is easy to predict that this opportunity will hardly be used by Member States due to pressures from the agricultural lobbies in defence of direct payments. The choice of neglecting the rural development policy was announced from the outset of the reform process in October 2010, when rural development was treated only briefly on page 10 of a 12-page document, just before the conclusions (European Commission, 2010).
Even the so-called "new challenges" (climate change, biodiversity, bio-energy and water management), introduced by the Health Check in 2008 and whose relevance had been strongly emphasized to defend the budget for the future CAP, were also pushed to the background. Finally, the choice to place risk management measures (which would be more appropriate under Pillar 1 and which will drain substantial resources to the detriment of other more specific measures) under Pillar 2 confirms our thesis.
It is useful to weigh the two Pillars against them. Compared to Pillar 1, more funds to Pillar 2 means that: (a) funds are increased by co-financing and empowers the national and regional authorities in Member States; (b) Member States and Regions are involved in defining and managing decisions and in adapting the measures to local conditions; (c) the rural development policy is programmed on the basis of a strategic vision and a system approach; (d) the intervention focuses on real entrepreneurs and enterprises instead of wasting public money on a myriad of inactive exploitations, self-consumption farms and real estate speculators (in Italy, in 2009, the beneficiaries were 1,254,366 under the 1st Pillar and more selectively 143,602 under the 2nd Pillar), (e) support is for long-term contracts with long-term investments rather than for just annual payments, (f) resources are focused on clear objectives, in a more selective way, with interventions tailored to actual needs.

Table 1 - Differences between the first and second pillar

Characteristic	1st Pillar	2nd Pillar
Co financing	No	Yes
Type of intervention	Annual payments	Multi-annual contracts
Programmatic	No	Yes, with multi-level governance
Management	European level	Mostly regions
Beneficiary	Farm exploitation	Farm enterprise
System approach	No (indivudal farms)	Possible and plausible at territorial level and supply c
Adaptability	'One size fits all" for the whole EU	Adapted to territorial specificitiesi
Selectivity	Non selective (eligible hectare)	Selective
Contractualised	No (only eco-conditionality)	Yes
Clear objectives	No (income, public goods, other?)	Yes (objective à measure)
Targeted	No (all hectares)	Yes (selection)
Tailored	No (flat rate per ha)	Yes

4. Lost opportunity to define the active farmer

A fourth error is related to the definition of "active farmer". The intention to restrict access to agricultural policies exclusively to active farmers had generated great expectations. Various researches (especially in Southern and Eastern Europe) had shown that agriculture includes a myriad of "non-enterprise" farms (whose management has very limited relevance or is only for self-consumption) next to a much smaller number of entrepreneurial farms (Sotte, 2006). Obviously, both the groups need a policy, but not the same policy as has unfortunately been the case until now. The first group mostly needs services, such as information, aggregation, support, connection with local markets, etc. and not so much money transfers, which moreover involve enormous bureaucracy for very limited amounts of single payments. The second group needs training, generational renewal, research and innovation transfer, support to improve competitiveness, risk management, aid for diversification and modernisation, credit facilities, etc. The choice to define in practice as active farmer all beneficiaries of less than EUR 5,000 of direct payments, makes the measure irrelevant (in Italy in 2010, 87.4 % of the beneficiaries were below the threshold of 5,000 euro, and among these, almost two-thirds received less than 100 euro a month).

Some ideas for a different CAP

The basic references for a different solution to the common agricultural policy from the current proposal are not hard to find. They are actually very clearly indicated in the first official text of the Commission on the future of the CAP, dated 18 November 2010 (European Commission, 2010). This paper states that:"The CAP is confronted with a set of challenges (...) that invite the EU to make a strategic choice for the long-term future of its agriculture and rural areas. To be effective in addressing these challenges, the CAP needs to operate within the context of sound economic policies and sustainable public finances contributing to the achievement of the objectives of the Union."
Further on, in the document for recalling the general EU 2020 Strategy of March 2010 (European Commission, 2010a), the same text states that the new CAP must comply with the following objectives: (a) Smart growth " by increasing resource efficiency and improving competitiveness through technological knowledge and innovation", (b) Sustainable growth " by maintaining the food, feed and renewable production base [and] providing environmental public goods ", (c) Inclusive growth " by unlocking economic potential in rural areas ".
With references to "strategy", "long term", "competitiveness", "innovation", "public goods" and "integrated development", the quoted document evidently suggests a CAP that will be significantly different from the current one. It will be a CAP that is also very different from the proposals that were subsequently presented by the Commission and then translated into draft regulations. It will be a CAP which is clearly inspired by the so-called Refocus Scenario , the third of the three scenarios that were part of the Impact Assessment, the one oriented towards the progressive

abolition of direct payments and a strengthened Rural Development Policy.
However, it is clear that the rest of the document and Ciolos' proposals are clearly inspired by the Integration Scenario : finalizing and reviving direct payments.
How to transform the current proposal into a different CAP? What would be the content of a Plan B that is not simply a whitewash of the current Plan A? Some possible corrections and additions to the current proposals for reform of the CAP are suggested, which we feel are necessary to make it more consistent with the stated objectives and which are more integrated with the other EU policies. This (hypothetical) exercise is based on the assumption that the two pillars should be brought back to their respective "historical" functions: Pillar 1 for market regulation, food security and management of relationships in the supply chains; Pillar 2 for rural development policy for its various objectives, such as competitiveness, public goods, diversification and inclusion of rural areas. Let us begin with Pillar 2.

A new Pillar 2

A first simple proposal would be to move the greening measures, together with those supporting young farmers and areas with natural handicaps, from Pillar 1 to Pillar 2 (an overall shift of 37 % of funds from Pillar 1 to Pillar 2). The decision of integrating these measures into Pillar 1 brings to unnecessary duplications, alters the nature of the two pillars, and leads to a cul de sac of too rigid proposals, too difficult to manage and of dubious effectiveness in terms of their results. The significant increase in funding of Pillar 2 that would result from this transfer would bring about a balance between the budgets for the two Pillars. Two pillars with equal force for agricultural policy and rural development were Fischler's target since the Nineties. It should not be technically difficult to make this transfer of funds and measures from Pillar 1 to Pillar 2, which moreover would relaunch the CAP as an essential tool for facing the "new challenges" set out with the Health Check but substantially forgotten in the new proposals.
If one assumes that the genuine intention to "unpack" the old Single Farm Payment by identifying three additional components were to actually support a more sustainable agriculture, the transfer under the umbrella of the 2nd Pillar could be accepted as a natural adaptation to local conditions and an inclusion of those measures in a multi-annual policy framework.

A new Pillar 1

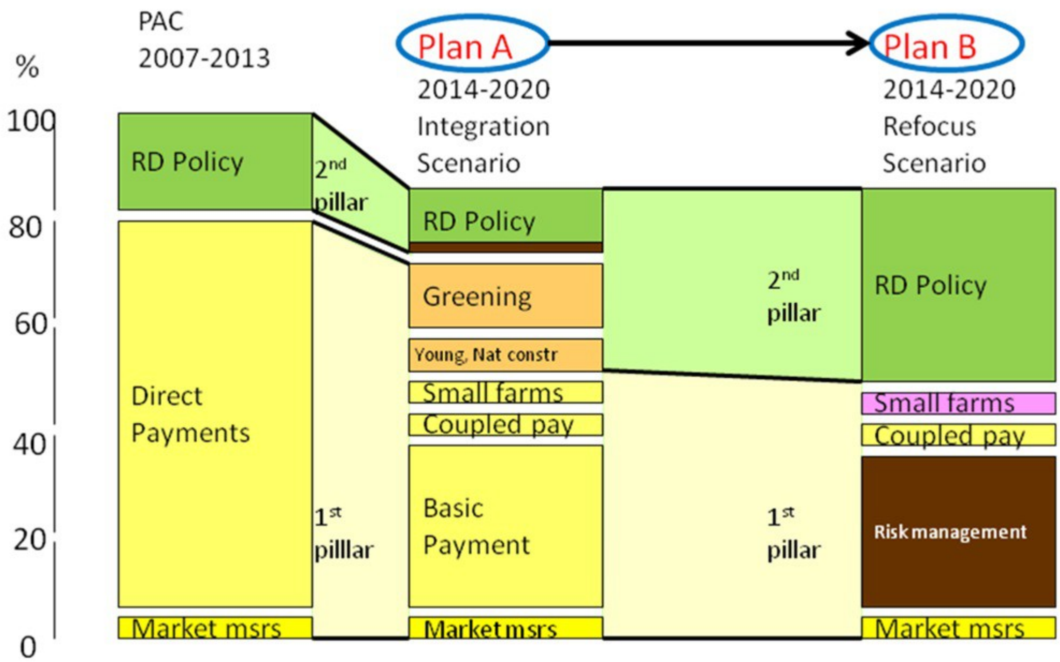
As regards Pillar 1, its function is to ensure food security in terms of guaranteeing the supply and protection of farmers and consumers against the ever-increasing volatility of prices. So why do the funds have to be used up for the preservation of the basic single farm payment? Of all the "packages" of the new proposal, the basic payment which raises most funds, is also the most difficult one to justify. Besides its uncapacity to operate in a counter-cyclical way will generate unnecessary rents both when prices soar and fall. It does not help enough the producers of products most affected by falling prices as it is equal for all farmers and is paid also when prices are high. The most reasonable proposal would be to use the money to provide the EU with a specific instrument of counter-cyclical action. A policy aimed at stabilizing the markets ex-ante was proposed at the time of the Buckwell Report (Buckwell et al., 1997). Such a policy should be activated for the main crops only in circumstances where, given an equilibrium price that results from normal open market conditions (calculated on the basis of trend series from the recent past), two price limits, i.e., maximum and minimum price are derived. Market intervention in terms of storage or de-stocking (for the benefit of both producers and consumers) would come into operation only in case the price went beyond the minimum and maximum limits. No intervention would be necessary in case the price were to move between the minimum and maximum limits. To do this, Europe might set up a multi-annual reserve fund from which to draw funds that will vary from year to year in correspondence with the need for market regulation and with the price limits provided by the multi-annual financial framework. Various calculations, under various assumptions, have shown that

the adoption of such a policy in the past would have enabled to ensure the same income to farmers with substantial savings in public expenditure (Schaffer et al., 2012; Momagri, 2012). It is obvious that the effectiveness of such a policy would be much larger (and its cost even lower) if it were governed by a joint action by both EU and the U.S., which could then extend to other countries as part of a re-launch of the WTO negotiations. The proposed establishment of the Market-Driven Inventory System (MDIS), which has similar features as discussed here, has been advanced by the National Farmers Union, the second biggest American agricultural trade union to be included in the next Farm Bill and which should be approved within the next year. Moreover, with this Farm Bill,, the U.S. has announced its intention to abandon decoupled payments altogether.
This kind of price regulation policy would obviously be less expensive than an ex-post risk management policy as proposed for the CAP and which, even worse, has been placed inappropriately in Pillar 2. The two policies of price stabilization and risk management should instead be appropriately integrated into Pillar 1 and placed under the control and management of independent authorities.

In a nutshell

The first column in Figure 1 shows an outline of the current CAP. The single (historical) farm payment is 74% of the total spending, and the other 6% of Pillar 1 spending is for market intervention measures. Rural development policy is at about 20%. The current CAP reform proposal is represented by the second column (Plan A). Pillar 1 spending falls slightly by less than 13%. The overall structure is not particularly different from the present one, apart from the "unpacking" of direct payments with a basic payment which may lie in a range between 43% and 70% of the total payments. As regards Pillar 2, the reduced funds could be further eroded by the additional expense for risk management measures (in brown in the figure).The third column represents the proposal suggested in this paper. This hypothetical Plan B does not require major changes to the overall CAP system compared to the current proposal by Commissioner Ciolos, even though the overall picture of the CAP which emerges is completely different. It is not only more coherent with the stated objectives of the CAP but it is also more integrated into the Europe 2020 strategy. For this reason, Plan B is more efficient and effective and more easily acceptable by European institutions, in particular by the European Council and the European Parliament, because it would allow, without any problems for the agricultural sector as a whole, for possible further savings.

Figure 1 The tree CAP compared



Concluding remarks

On 13 July 2012, the European Commission (DG Agri) organised a second conference on the future of the CAP in Brussels. The event was titled, The CAP Towards 2020 - taking stock with civil society , and was organised to assess the impact of the proposals on three themes that are currently on the table: food security, mitigation and adaptation to climate change and balanced territorial development. On the eve of the event, Ciolos announced solemnly, "the Commission is not Preparing a Plan B as Plan A is a credible one." However, it is hard to imagine that in this situation of great uncertainty and rising criticisms with his proposal, alternative proposals are not being investigated for both short and long terms in Commissioner's office. Perhaps, we are once again underestimating the ability of the CAP for self-preservation. This has happened several times in the past, but it would be even worse if a Plan B was imposed by external forces, and Ciolos's DG AGRI and the entire European agriculture were to find themselves unprepared for it.

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