

Does the proposed CAP 2014-2020 improve “competitiveness” and “sustainability”?

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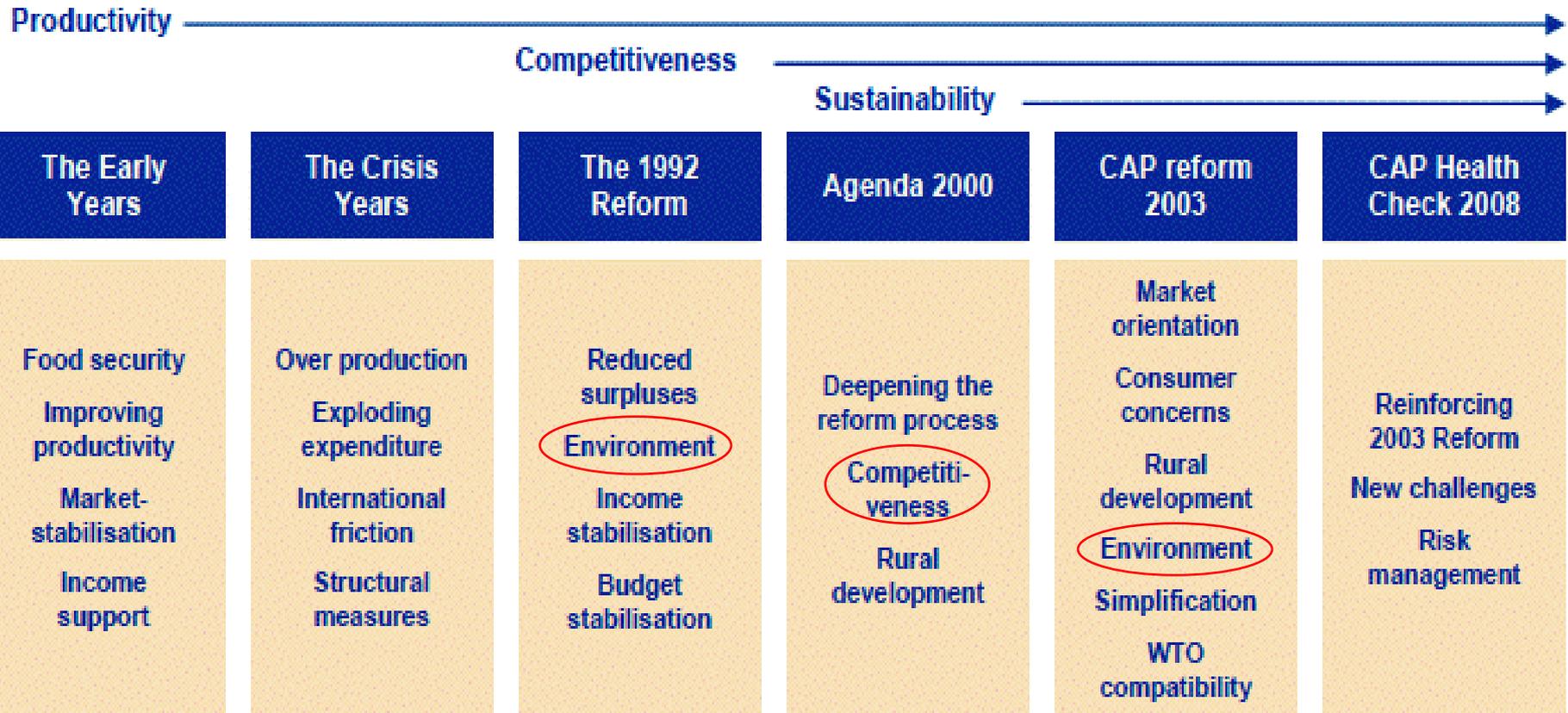


Outline

- CAP as policy in transition
- Switch from price support to direct income support
- Support for farm incomes
- CAP towards 2020
 - Redistribution over MS
 - Reallocation (within MS)
- Regional economic analysis
- Environmental risks
- Preparing for change:
 - competitiveness & sustainability
- Insights on competitiveness and sustainability
- Concluding remarks

CAP as a policy in transition

Historical development of the CAP



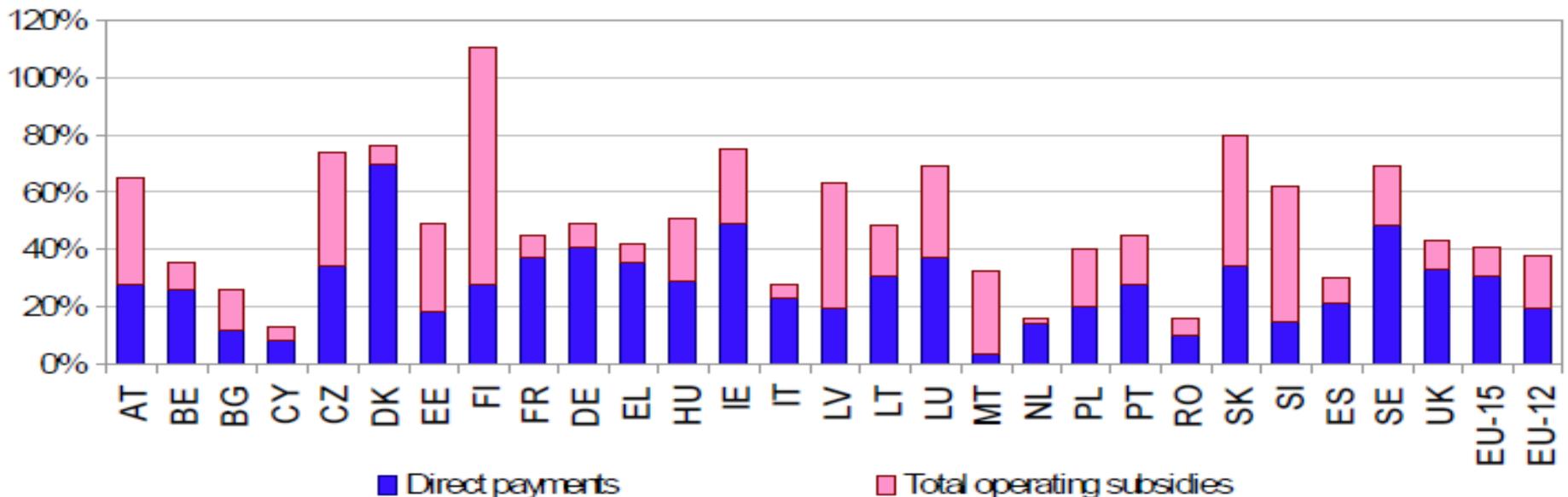
Switch from price support to direct income support

Impacts on 'efficiency' through existing CAP

- Reducing price distortions & improved market orientation
- Transfer efficiency improved
- Contributes to stability of income
- Used to indirectly stimulate sustainability (leverage through cross compliance)
- Post McSharry CAP inherits properties from 'old model' => strong support to large and intensive farms

Support for farm incomes

- Is there a need? Yes there is, partly, and since many years.
- How well-targeted are current DPs?
 - Not very targeted with regard to income support (not strongly needs oriented).
 - Indirect impact: stimulates farms to exploit scale economies.
- Degree of income support is high. (Figure: *Level of direct payments and total operating subsidies as a percentage of agricultural factor income (avg. 2007-2009)*; source: DG AGRI, SEC(2011) 1153 final/2, 20.10.2011.)



The CAP towards 2020: EU-15 distribution

Member State	Average annual expenditure in 2014-2020 (M€)	% change relative to 2013	Absolute change of amount over 2014-2020 (M€)
Belgium	533.29	-6.3	-250
Denmark	918.86	-4.7	-318.1
Germany	5195.57	-3.3	-1236.4
Ireland	1237.19	-1.5	-128.2
Greece	2195.99	-6.3	-1039.6
Spain	5015.56	-0.8	-277.5
France	7651.81	-2.6	-1409.0
Italy	3893.44	-5.7	-1644.0
Luxembourg	34.16	-1.6	-3.8
Netherlands	775.20	-6.7	-387.8
Austria	706.09	-1.3	-67.3
Finland	534.76	-0.8	-31.1
Sweden	712.89	-0.6	-32.3
United Kingdom	3560.91	-2.4	-623.6

The CAP towards 2020: EU-12 distribution

Member State	Average annual expenditure in 2014-2020 (M€)	% change relative to 2013	Absolute change of amount over 2014-2020 (M€)
Bulgaria	770.61	32.9	1333.7
Czech	903.59	0.1	4.1
Estonia	127.31	25.8	182.8
Cyprus	50.87	-4.9	-18.4
Latvia	202.51	38.3	392.8
Lithuania	440.50	15.9	424.9
Hungary	1286.69	-2.0	-184.9
Malta	5.01	-8.8	-3.4
Poland	3097.83	1.8	381.0
Portugal	600.20	5.9	235.2
Romania	1818.41	43.8	3877.6
Slovenia	139.10	-3.6	-36.4
Slovakia	395.14	2.5	66.8

Re-allocation and targeting of DPs (1)

Payment	Share of budget	Comment
Basic premium	41 - 60	National / regional flat rate / eligible ha
Green payments	30	Crop diversification, ecological focus areas, permanent pasture
Young farmers/entrants	< 2	
Small farmers	< 10	Obligatory for MS
Natural handicaps	2	Voluntary for MS
Coupled support	< 5 or < 10	Voluntary for MS
Second pillar	PM	Maximum of 5% more for Pillar 2 in EU-15 ("modulation")

Targeting improves with regard to both income support and greening: small / young farmers; areas with natural handicaps for production.

Re-allocation and targeting of DPs (2)

- A basic income payment is maintained for all farmers.
 - Payments are not related to their needs or current living standards.
 - The magnitude of the basic payment and its significance is not yet clear.
- The share of payments going to support of environmental public goods will increase.
 - Payments are not clearly linked to incurred costs.
 - Greening involves more than land management, but no farm payments are foreseen for other types of environmental action which are not land-based.
- The obligatory greening activities are not very ambitious and lack performance standards.

Re-allocation and targeting of DPs (3)

- Despite the introduction of specific priority to move to a low carbon economy, no new measure specifically addressing this priority has been specified.
- EC is not going to propose legislation to renew sugar policy legislation after 2015: this reflects continued emphasis on market orientation with safeguards.
- MS might think it worthwhile to use this change to pursue a more ambitious reform agenda, based on a long-term vision for a **competitive** and **sustainable** agriculture.

Economic analysis at regional level: does the new CAP improve competitiveness?

Regional level projections: regional outcomes provide better accounting for general trends.

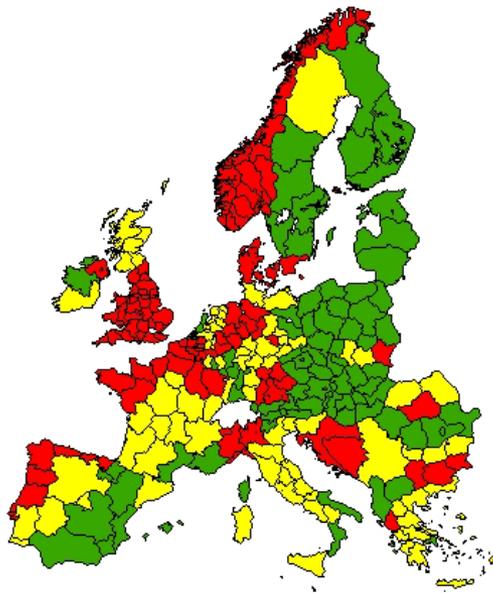
- The new CAP does not necessarily change the trends identified in the scenario study Scenar 2020:
 - **Regional shifts in agricultural practice** have a corresponding effect in regional income.
 - **The number of farms decrease** in function of income and reflects a restructuring process to larger units.
 - **Decrease in employment** is more severe for farming than for other sectors altogether (total employment).

Competitiveness and sustainability: insights from Scenar 2020

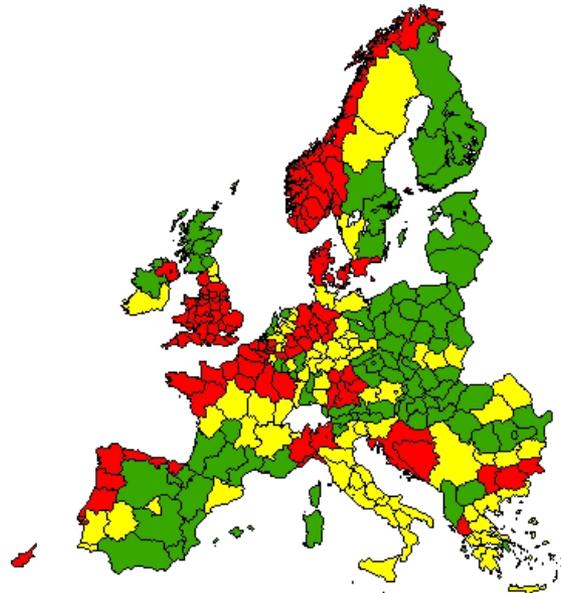
1. Alternative policy scenarios seem to have little impact on the overall production levels (although more on income and farm structure) ... except for livestock and mixed arable / livestock.
2. An increasing number of rural areas will become increasingly dependent on other sectors and will be driven by factors outside of agriculture.
3. The justification for the new CAP has to be in terms of (a) precise objectives for competitiveness and (b) guaranteed environmental outcomes.

Farm income change by scenario, 2007-2020, in %

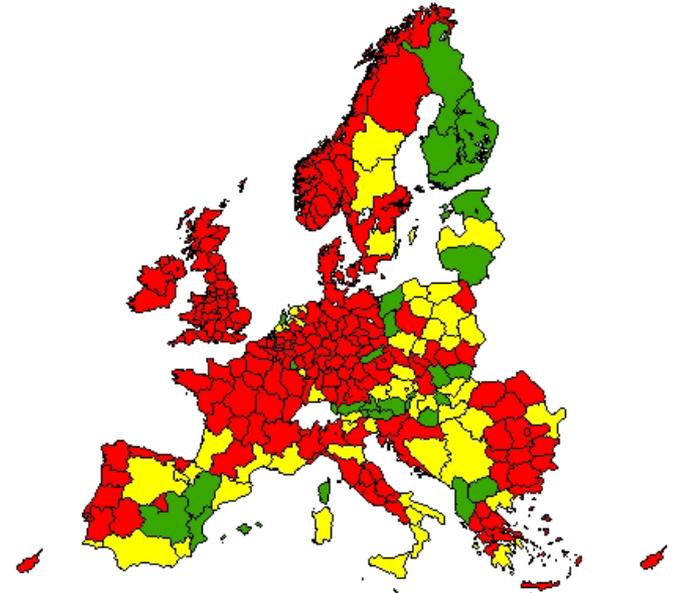
Reference



Conservative CAP



Liberalisation




<math>< -19\%</math>


<math>-19 < 0\%</math>

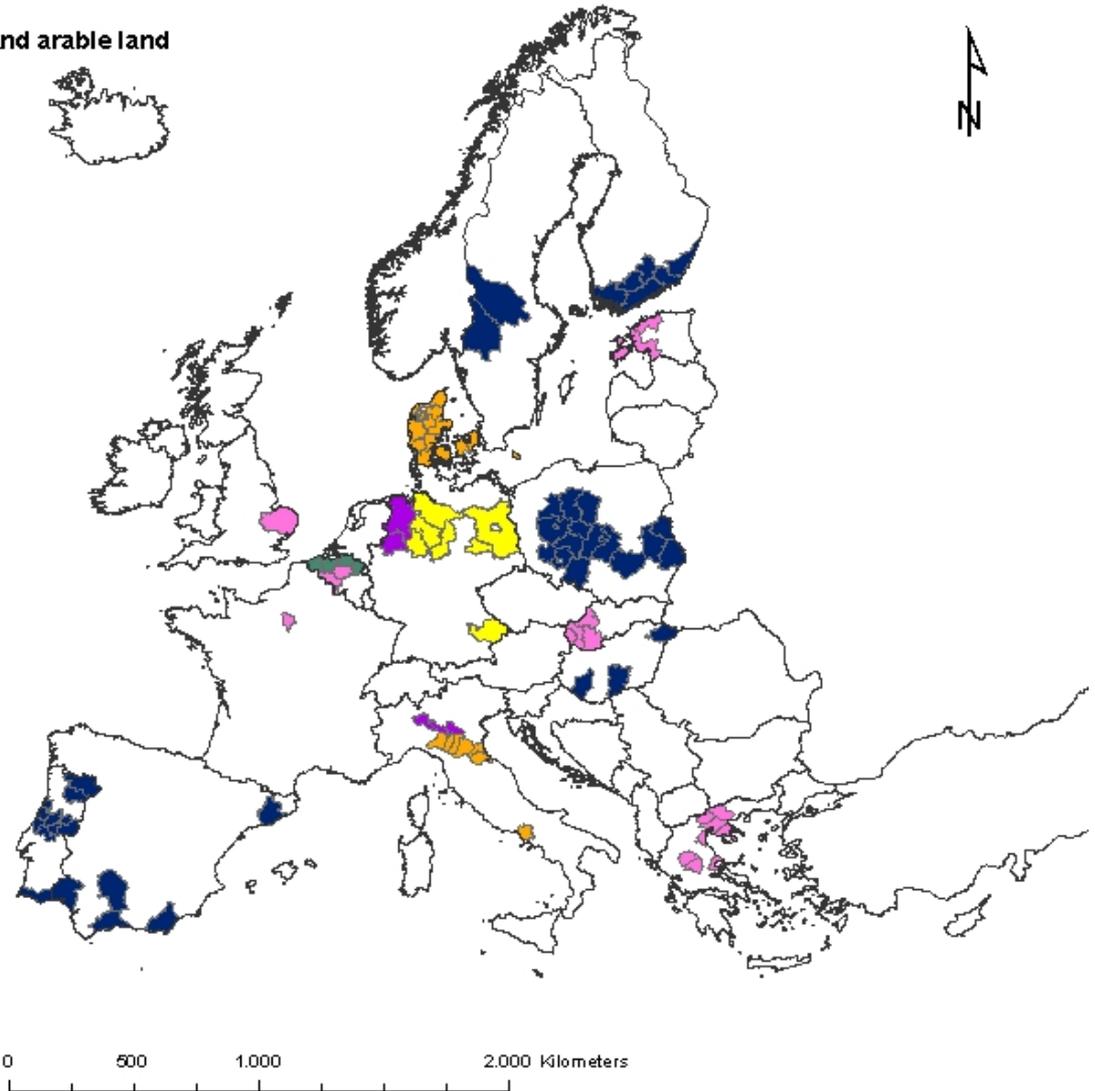

$> 0\%$

Environmental risks in agriculture: soils sensitive to erosion and arable land use

High shares of soils sensitive to erosion and arable land

- Cluster 1
- Cluster 3
- Cluster 4
- Cluster 5
- Cluster 6
- Cluster 7

Σ 96 out of 659 regions



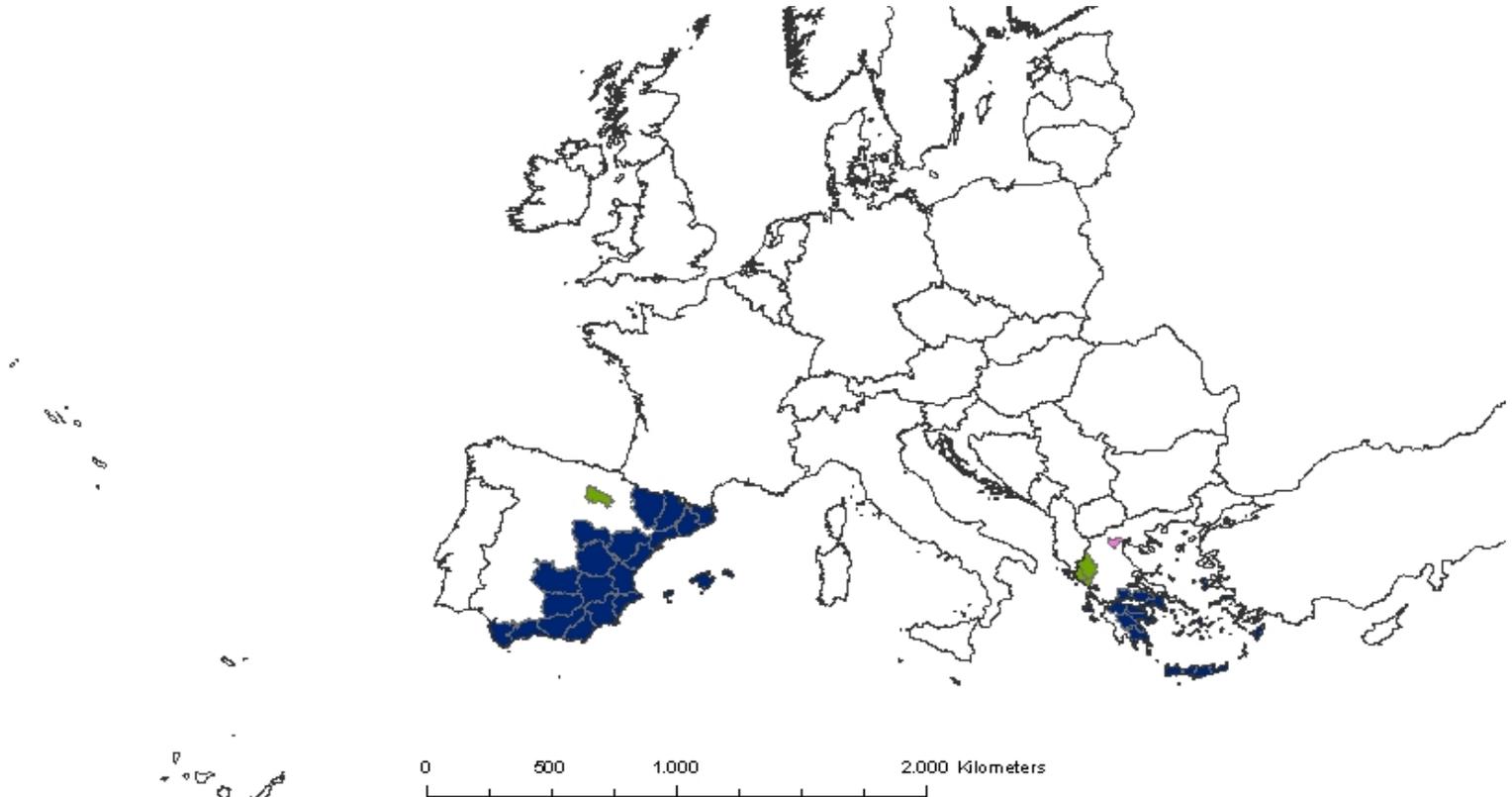
Environmental risks in agriculture: restricted water availability

Limited available soil water capacity and high shares of permanent crops



1

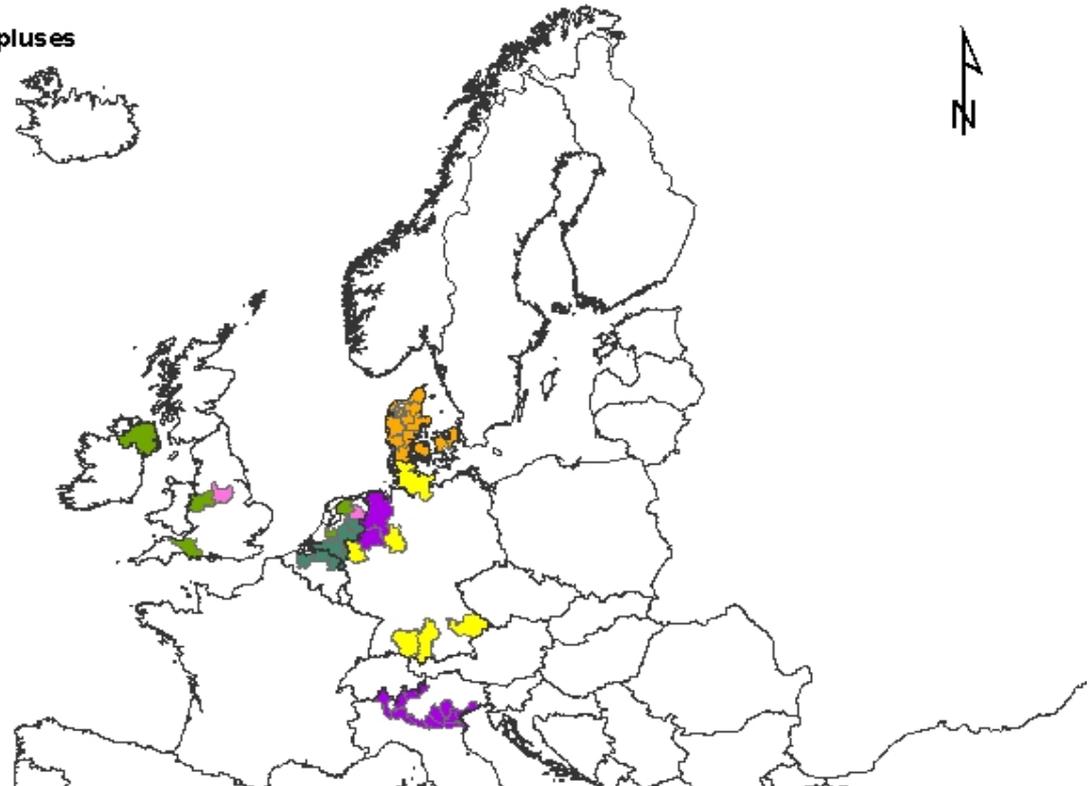
Country	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Cluster 6	Cluster 7	Σ
Spain		1					20	21 (out of 50)
Greece		3				1	20	24 (out of 51)
Σ	0	4	0	0	0	1	40	45



Environmental risks in agriculture:

leaching of farming-generated N-surplus on permeable soils

High shares of sandy soils and high N surpluses



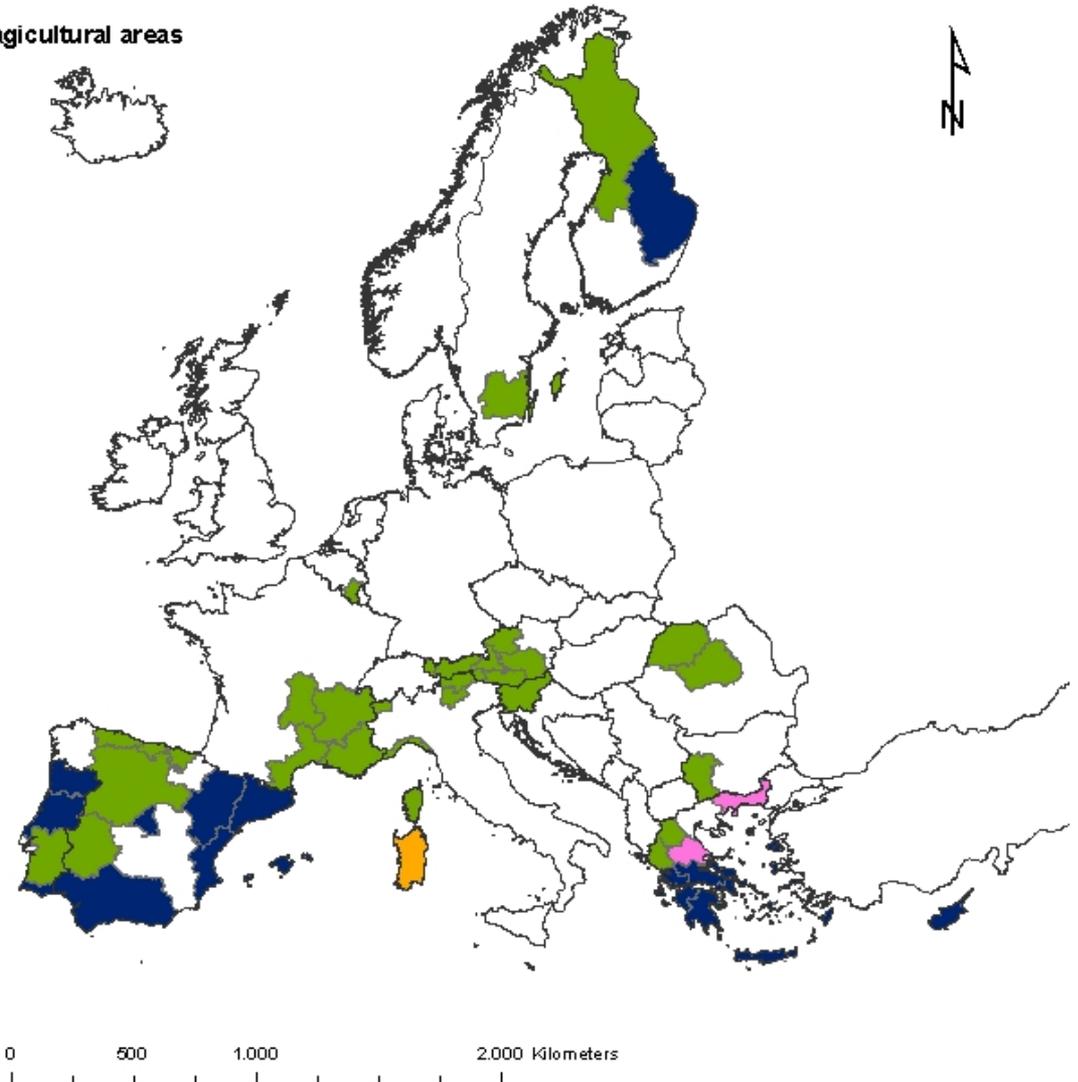
Country	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Cluster 6	Cluster 7	total
HARM2	59	174	28	33	12	78	275	659
Germany			4	6				10 (out of 36)
Denmark	10							10 (out of 12)
Italy			11					11 (out of 95)
NL		2			4	1		7 (out of 12)
UK		3				1		4 (out of 26)
total	10	5	15	6	7	2	0	45

Environmental risks in agriculture: regions with risk of biodiversity loss

High shares of HNV and intensively used agricultural areas

- Cluster 1
- Cluster 2
- Cluster 6
- Cluster 7

HNV Farmland regions
Σ 52 out of 257



Preparing for change (competitiveness)

- CAP and trade policies have more an effect on agricultural income and number of farms than on agricultural production and land use.
- Land prices and to a lesser extent agricultural wages play a key role in absorbing the negative impact of CAP and trade policy changes and keeping production levels up.
- Abolishing income support has a very negative impact on overall farm income and the number of farms in the EU-27.

Preparing for change (sustainability)

- The transformation of the agricultural sector is long-term and geographically identifiable:
 - Specialisation (open-field arable, horticultural, livestock rearing/dairy)
 - Livestock based with mixed-cropping for fodder, with fallow lands tending towards retirement
- Agricultural and environmental policies can enhance the environmental contributions of these two farming systems.
- In general, specific environmental problems can benefit from farm-practice guidelines and incentives / measures for targeted areas.

Concluding remarks

- The proposed reform generates an improvement in further targeting of CAP expenditure to policy objectives
- Income support is still not targeted to needs or current standards of living
- The link between desired actions (greening) and financial compensation is still very weak or not there
- The increase in flexibility in the 2nd Pillar is welcome and should be used to encourage innovation and green growth
- Further reflection on reform addressing competitiveness and sustainability:
 - Per ha payments not related to real income needs.
 - Water scarcity and climate change impacts require stronger orientation of agriculture at a regional level.