STUDY

Requested by the AGRI committee

Research for AGRI Committee - The CAP support beyond 2020

Assessing the future structure of direct payments and the rural development interventions in the light of the EU agricultural and environmental challenges

Policy Department for Structural and Cohesion Policies
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Abstract

This study provides an assessment of the structure and type of interventions as proposed by the European Commission on the CAP beyond 2020 (Title III of the proposal COM(2018) 392). All Direct Payment and Rural development interventions have been examined in the context of the main agricultural and environmental challenges the EU faces. A set of recommendation is made for the improvement of specific instruments and to address policy priorities and level playing field concerns.

This document was requested by the European Parliament's Committee on Agriculture and Rural Development

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LIST OF ABBREVIATIONS

AECS	Agri-Environment and Climate Scheme
AKIS	Agricultural Knowledge and Innovation System
APO	Association of Producer Organisations
BIS	Basic Income Support
CAP	Common Agricultural Policy
CIS	Coupled Income Support
CMO	Common Market Organisation
COP	Conference of Parties
CV	Current Value
DP	Direct Payment
ECA	European Court of Auditors
EAFRD	European Agricultural Fund for Rural Development
EFRD	European Fund for Regional Development
ELS	Entry level scheme (point system)
FADN	Farm Accountancy Data Network
GAEC	Good Agricultural and Environmental Condition
IOI	Instrument-Objective-Impact
MCPI	Multi-Peril Crop Insurance
MS	Member State
NPI	Non-productive investment
PO	Producer Organisation
RDP	Rural Development Plan

SDG	Sustainable Development Goal
SMR	Statutory Management Requirement
SO	Standard Output
TV	Target Value
VCS	Voluntary Coupled Support

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EXECUTIVE SUMMARY

Background

The legislative proposals on the CAP beyond 2020, unveiled on 1st June, fleshes out details of EU's future Common Agricultural Policy. The European Parliament's Committee on Agriculture and Rural Development (AGRI Committee) wishes to organise a workshop on 15 October 2018 on the following subject: 'Towards the CAP of EU 27 beyond 2020: appraisal of main legislative and budgetary issues'. This study is a contribution to that workshop.

Aim

The primary aim of this study is to support the EP legislative works towards a new CAP post 2020. The study provides an assessment of the structure and types of interventions as proposed by the European Commission (Title III of the proposal COM(2018) 392).The analysis consists of a qualitative assessment on the main proposed changes in operational terms. The study tries to detect possible lacks and/or inconsistencies in the light of the CAP-wide objectives and/or societal priorities concerning agriculture. As such it describes the main changes proposed by the European Commission and detects lacks and/or inconsistencies in order to respond effectively to farmers' and wider rural communities concerns and to achieve the EU-wide environmental and climate-related objectives. In addition it provides a set of policy recommendations on how the EP, as co-legislator can improve the types of interventions and allocations proposed for the CAP beyond 2020.

Context and approach

The CAP needs to address existing and upcoming challenges and to account for shifts in the local and global contexts. The EU faces still many challenges with respect to farm income, the environment and climate, and the rural areas, which underscore the need for targeted and tailored policy interventions, taking into account the heterogeneity over and within Member States.

The legislative proposals include changes in specific CAP objectives (increased emphasis on climate), the delivery model (subsidiarity), the architecture and key principles with respect to direct payments. As regards the RDP the changes with respect to the available instruments are limited, but priorities and budget allocation show changes.

As Title III provides a framework of interventions, within which Member States can operate and define their specific interventions, and which requirements they should respect, the assessment provided will approach the interventions at this level. Aspects that are included in the policy assessment are: analysis of the proposed interventions, their relationship to the current CAP (changes, adjustments, new), aspects, conditions and requirements of the measures that may impact their functioning, proposals and recommendations for improvements.

Direct payments

The EU's income support to farmers is suffering from inequalities and from a lack of targeting and need-oriented criteria. The new CAP proposals address this problem only to a limited extent, since the basic mechanism (hectare-based payments) is not changed.

The enhanced conditionality contributes to establishing a baseline with respect to climate, the environment, biodiversity, and health, which goes beyond the current level. The extended greening requirements apply to all holdings receiving direct payments.

Eco-schemes that are obligatory for Member States to provide them and voluntary for farmers to adopt create possibilities to reward farmers for actions improving climate and the environment, which go beyond the baseline as established by the enhanced conditionality. Arguments are provided to further enlarge their potential and coverage.

The obligatory reduction of direct payments (capping) is not likely to be very effective due to the mandatory side condition to deduct the salaries of paid workers and imputed labour costs of unpaid labour. Making the side condition optional rather than mandatory could make the measure more effective. To better recognize the contribution of this measure to redistribute income support an argument is made to exempt direct payments aimed at other objectives from being capped and an alternative formula for payment reduction is proposed.

Coupled income support for sustainability should be used in a targeted (or discriminatory) way rather than in a generic way, whereas otherwise it will distort the level playing field and go against the principle of the EU Single Market.

Level playing field concerns are identified for at least three types of interventions: i) the enhanced conditionality (potential differences in requirements between Member States, combined with differences in basic income support for sustainability); ii) the payments for eco-schemes which can overcompensate the costs of efforts made; iii) coupled income support and some types of support provided under the heading of sectoral interventions. In order to avoid this Member States should be requested to motivate their choices and it is recommended to consider introducing safeguards.

The interventions made available under Title III offers Member States a wide range of opportunities, the number and flexibility of which has been increased relative to those in the current CAP. Given the priority placed at addressing climate objectives the 'guidance' on interventions specifically addressing this objective is too limited.

Rural development

The main change in the Rural Development policy is the new delivery model (from compliance to performance). With respect to its core principles and its coverage there are only limited changes.

The Agri-environment, climate and other management commitments have a wide coverage (comprising measures contributing to all 9 specific objectives of the CAP), with a special focus on environment and climate (obligatory).

Natural or other area-specific constraints and Area specific disadvantages resulting from certain mandatory requirements interventions contribute to fairness to farmers and are crucial policy interventions in an EU with very heterogeneous production and regulatory conditions.

The investment intervention plays a crucial role in helping agriculture to address its many challenges and facilitating the transition to a more sustainable agriculture while ensuring its long term viability. When properly implemented it should primarily address market failure (non-productive investments) and restoring assets after crises. Its importance justifies introducing a minimum spending share requirement.

Investments and Young farmer support need a careful specification in order to ensure a level playing field and compatibility with WTO requirements

Risk management need to be embedded in a broad approach (including awareness raising, farmer advice, accounting for interactions between various policy measures and private sector provisions) in order to contribute to a consistent, tailored and effective policy in which the proposed policy foresees.

Cooperation and knowledge and information sharing interventions, when properly combined with other interventions, play a key role in an effective innovation and farm modernisation strategy. The support and extension of the coverage of farm advisory services is welcome.

Recommendations

The income support urgently needs correction for reason of fairness, efficient use of financial resources, and increasing importance of other priorities than farm income.

To improve the capping instrument an alternative criterion based on a normative calculation of farm labour and a maximum compensation ceiling per unit of labour is recommended.

Coupled income support should be properly balanced with the EU Single Market concept (level playing field, specialization and least cost-provision of food) and for that reason the percentage of farmers receiving coupled income support (evaluated at sector level) should be bound to a maximum.

It is recommended to make eco-schemes more flexible and increase their coverage in order to strengthen a results/performance based approach in green and public services (entry level schemes) and also to make them subject to ring-fencing.

Investment support should be primarily targeted to addressing market failures. Its importance in relation to innovation, sustainability, and long-run farm viability justifies introducing a minimum spending share requirement (e.g. 5%).

Level playing field issues need attention in case of coupled income support, some sectoral intervention measures, eco-schemes, young farmer support and investments interventions. In the case of coupled income support and eco-schemes restrictions on support (rates) are recommended. Level playing field concerns are also a reason to do checks on WTO compatibility.

1. AIM AND APPROACH

Box 1 Key findings: challenges, needs, approach and scope

KEY FINDINGS

- The Common Agricultural Policy (CAP) has continually evolved to better address existing and upcoming challenges and to account for shifts in the local and global contexts.
- The EU faces still many challenges with respect to farm income, the environment and climate, and the rural areas, which underscore the need for targeted and tailored policy interventions, taking into account the heterogeneity over and within Member States.
- The new legislative proposals include changes in specific CAP objectives (increased emphasis on climate), the delivery model (subsidiarity), the architecture and key principles with respect to direct payments.
- As regards the Rural Development Policy (RDP) the changes with respect to the available instruments are limited, but priorities and budget allocation shows changes.
- Whereas a full 'optimal policy' assessment includes considering more issues, this study focuses on the main changes in Direct Payments (DP) and RDP policy measures and deficiencies and potential improvements of these measures.
- The assessment provided in this analysis focuses on Title III of the Legislative proposal for the new CAP (COM(2018) 392) which provides the interventions and common requirements, the obligations under 'conditionality' and the need to have a well-functioning farm advisory service.
- As Title III provides a framework of interventions, within which Member States can operate and define their specific interventions, and which they should respect, the assessment provided will approach the interventions ate this level. Aspects that are included in the policy assessment are: analysis of the proposed interventions, their relationship to the current CAP (changes, adjustments, new), aspects, conditions and requirements of the measures that may impact their functioning, proposals and recommendations for improvements.

1.1. Introduction

On 1 June 2018, the European Commission presented legislative proposals on the common agricultural policy (CAP) beyond 2020 (covering period 2021-2017). They aim to make the CAP more responsive to current and future challenges such as climate change or generational renewal, while continuing to support European farmers for a sustainable and competitive agricultural sector. This essay provides an appraisal of the CAP support beyond 2020, focusing on the proposed structure of the direct payments and rural development measures.

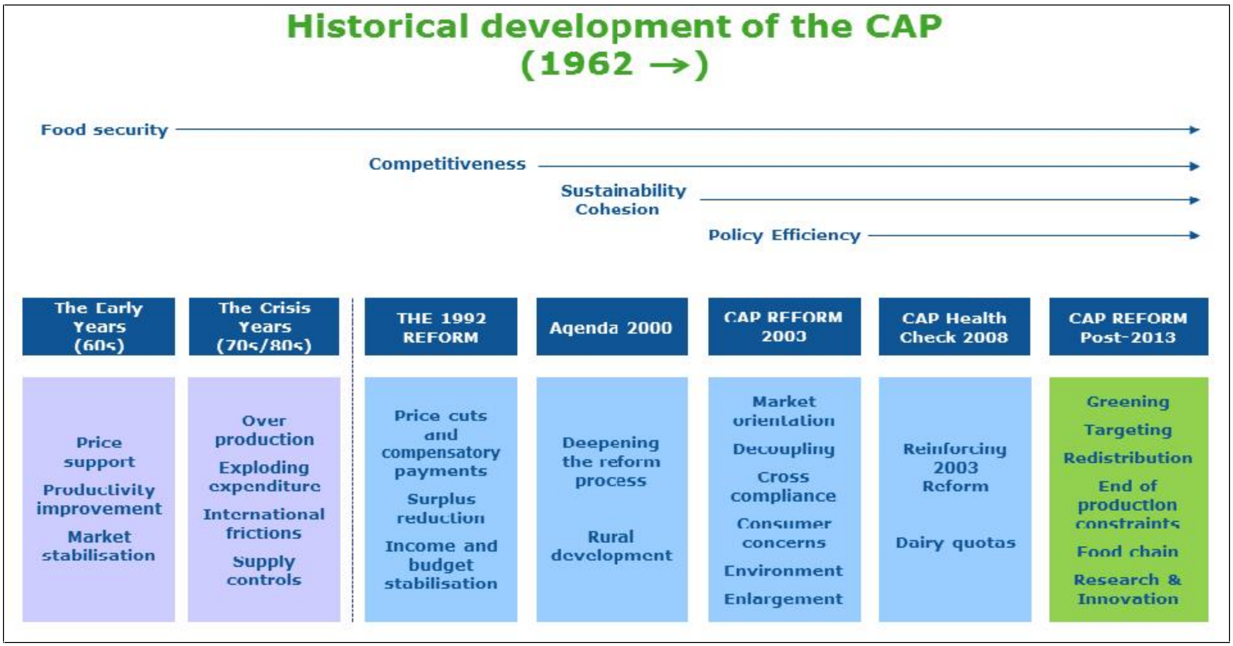
1.2. Positioning of the CAP after 2020 Reform

1.2.1. Historical development

The CAP post-2020 reform is one in a row of reforms. While focusing on the Treaty objectives, the Common Agricultural Policy (CAP) since its birth in the 1960s has continually evolved to better address existing and upcoming challenges and to account for shifts in the local and global contexts. Though **farm income** concerns are still important, the CAP covers a much wider range of aspects. It has also increased its emphasis on the environment, climate and the wider **rural** context in which farming operates. Policy challenges may result from changing contexts, such as the observed increased price volatility and instability in weather conditions as a consequence of climate change. Moreover, there have been changes with respect to the interactions with regard to the wider economy, for example due to biofuels (intensifying agriculture's linkage to energy markets) and innovations in the bio economy. Milestones were the transition from a classical price support system (including associated border measures) to a system of direct support (initiated with the 1992 Reform), the introduction of a second pillar on Rural Development Programs (Agenda 2000), the decoupling of direct payments from production (initiated with the 2003 reform).

The latest reform (CAP post 2013) offered a more holistic and integrated approach to policy support (emphasizing linkages between pillars) relative to the previous policy, while it also introduced a new architecture of direct payments, aimed at a better targeted, more equitable and greener CAP. As compared to the CAP post 2013-reform, the new CAP post 2020 proposals imply a rebalancing of the responsibility between the EU and Member States (MS), allowing more freedom with respect to measure implementation and design to MSs (subsidiarity), a shift in focus from compliance to performance, a fairer distribution of direct payments (DPs), a strengthening of the focus on innovation and enhancing ambitions with respect to the environment and climate by again revising the green architecture.

Figure 1 Historical development of the Common Agricultural Policy



Source: European Commission (2015).

1.2.2. Main challenges

Several studies have assessed main challenges with respect to the EU's agriculture and food sector (e.g. Pe'er et al, 2018; ECA, 2018). Using the three main objectives of the current CAP (viable farms, sustainable management of natural resources (environment), territorial balance) as a reference the following main challenges can be identified:

- Farm income support is unequally distributed and poorly targeted. The main instrument used to support farm incomes are direct payments, which consume about 70% of the total CAP expenditure. In 2015 in the EU28 81% of the farmers received 20% of the direct payments (European Commission, 2017a and 2017b). Thus a large group of farmers receives a low amount of payments, whereas a small group receives a high amount of payments. About 75% of the farmers in the EU28 received less than €5000, whereas one quarter received less than €500. About 16 thousand farmers (0.2%) received a payment larger than €150,000. The share of direct payments in farm income varies considerably from about one third for the lower income size classes to more than half of the higher income classes (EU average is about 46 percent; EU Commission, 2018b). The provided income support is thus progressive: farmers with relative high incomes receive relative high payments, which contrasts with basic need for income support-principle. (Terluin and Verhoog, 2018). Shares of direct payments also vary over the type of farms (beef cattle and cereal, oilseed and protein-farms have the highest shares, whereas intensive livestock production (e.g. granivores such as pigs and poultry) and horticulture have relatively low shares) as well as over years (due to price volatility and varying production conditions). The inequality to a large extent reflects the inequality in farm size (measured in number of hectares per farm). Another factor contributing to the inequality are the specific criteria used by MSs to allocate the direct income payments, which still diverge over MS. However, even in the case an EU-wide uniform per hectare payment would be made the inequality would not reduce (then 86% of the farmers would receive 20% of the direct payment envelope; see Terluin and Verhoog, 2018).
- The inequality of farm income support is not only hampering fairness, but is also a factor that negatively impacts on the preservation of a level playing field (the EU single market principle) as certain farms (larger ones) are favoured over others (small farms). To the extent that incomes of farms are supported for which there is no need for such income support, the inequality leads also to an ineffective use and a waste of scarce public resources. Moreover, it then raises land prices and creates a barrier to entry for young farmers.
- EU agriculture is frequently confronted with volatile prices, natural disasters, pests and diseases. The policy reforms leading to an increase in market orientation has not only created opportunities for EU agriculture to benefit from global markets, but also made the sector more vulnerable to international shocks and market disturbances. Every year, at least 20% of farmers lose more than 30% of their income compared with the average of the last three years (EU Commission, 2018b).
- As regards the environment for a long time the CAP has had a classical productivist orientation (Thompson, 2017), which has been successful, but has also lead to high intensities of production in many sectors (e.g. livestock, which is in some regions very dependent on cheap imports of feed), thereby disturbing the agro-ecology and imposing an increasing pressure on the environment. Agriculture is a major source of nitrogen losses, with the current nitrogen loss estimated to be 6.5 - 8 million tonnes per year, which represents about 80% of reactive nitrogen

emissions from all sources to the EU environment (Westhoek et al, 2018). These nitrogen losses take place mainly in the form of ammonia to the air, of nitrate to ground and surface waters and of nitrous oxide, a powerful greenhouse gas. Around 81-87% of the total emissions related to EU agriculture of ammonia, nitrate and of nitrous oxide are related to livestock production (emissions related to feed production being included).

- The nitrogen surplus on EU farmland (averaging 50 kg nitrogen/ha) has a negative impact on water quality. Since 1993, levels of nitrates have decreased in rivers, but not in groundwater. Nitrate concentrations are still high in some areas, leading to pollution in many lakes and rivers, mainly in regions with intensive agriculture (ECA, 2018).
- Ammonia is an important air pollutant, with farming generating almost 95 % of ammonia emissions in Europe. While emissions have decreased by 23% since 1990, they started to increase again in 2012 (ECA).
- About 45% of mineral soils in the EU have low or very low organic carbon content (0-2 %) and 45% have a medium content (2-6 %). Soil trends are difficult to establish due to data gaps, but declining levels of organic carbon content contribute to declining soil fertility, and can create risks of desertification.
- As regards the climate, greenhouse gas emissions from agriculture accounted for 11% of EU emissions in 2015. These emissions decreased by 20% between 1990 and 2013, but started to rise again in 2014. Moreover, net removals from land use, land use change and forestry offset around 7% of all EU greenhouse gas emissions in 2015.
- Whereas there are several measures deployed which are targeted to biodiversity and landscape, they are criticized for their limited effectiveness. According to the ECA (2018) the conservation status of agricultural habitats is favourable in 11 % of cases in the period 2007-2012, compared to less than 5 % in the period 2001-2006. However, since 1990, populations of common farmland birds have decreased by 30%, and of those of grassland butterflies by almost 50%.
- There are challenges in the rural areas. In terms of agriculture, it is argued that there is an investment gap which hinders restructuring, modernisation, diversification, uptake of new technologies, use of big data etc., thereby impacting on environmental sustainability, competitiveness and resilience. These bottlenecks also influences the ability to fully explore the potential of new rural value chains like clean energy, emerging bio-economy and the circular economy both in terms of growth and jobs and environmental sustainability (e.g. reduction of food waste). There are also consequences in terms of generational renewal in agriculture and more widely in terms of youth drain. Only 5.6% of all European farms are run by farmers younger than 35. Access to land, reflecting both land transfers and farm succession constraints, together with access to credit, are often cited as the two main constraints for young farmers and other new entrants (EU Commission 2018b).

1.2.3. Needs and objectives

The EU is strongly committed to action on the COP21 **Paris Agreement** and the United Nations' **Sustainable Development Goals** (SDGs), as many other countries have expressed their commitments in this regard. For climate, this calls upon the farming sector to contribute to economy-wide emission reduction targets. The **embeddedness** of agriculture in the ecosystem has led to a growing awareness about the importance of agriculture in the preservation of (agro) **biodiversity** as well as its sometimes unique linkages with regions and **landscapes** (e.g., domestic-origin protected products). In the EU as well in other regions, agriculture is expected to contribute to a “better life in rural areas” (e.g., Cork 2.0 Declaration 2016), which requires investments in skills, public services, infrastructure and capacity building in order to generate vibrant rural communities.

The proposed CAP has three **general objectives** (Foster a resilient farm sector; Bolster environment and climate; Strengthen fabric in rural areas), which, though phrased differently, are similar to the current CAP’s general objectives. The following 9 specific objectives should guarantee that the future CAP will continue to ensure access to high-quality food and strong support for the unique European farming model:

- to ensure a fair income to farmers
- to increase competitiveness
- to rebalance the power in the food chain
- climate change action
- environmental care
- to preserve landscapes and biodiversity
- to support generational renewal
- vibrant rural areas
- to protect food and health quality

The objectives should also ensure the EU to live up to its commitments with respect to action on the COP21 **Paris Agreement** and the United Nations’ **Sustainable Development Goals** (SDGs) and the necessary contribution agriculture should make in this regard. Even though the objectives have hardly changed as a result of newly adopted commitments the priorities imposed on the objectives might have changed. The priority given to climate action has increased.

1.2.4. CAP: proposed main changes

As indicated by the Commission one of the main changes of the CAP beyond 2020 is the proposed new way of working: Member States will have more flexibility in how to use their funding allocations, allowing them to design tailor-made programmes that respond most effectively to farmers' and wider rural communities' concerns (subsidiarity). Member States have to develop **CAP Strategic Plans** covering the whole period, setting out how each Member State intends to meet 9 EU-wide economic, environmental and social objectives (see previous section for details), using both direct payments and rural development. The Commission will review and approve each plan to ensure consistency and the protection of the single market, and will closely follow each country's performance and progress towards the agreed targets. A key part of the proposed CAP reform is a move to a results-based delivery model. While (rebalanced) income support will remain an essential part of the CAP, the proposal claims a higher ambition on environmental and climate action, and strengthen the possibilities to reward farmers for contributions that go beyond mandatory requirements.

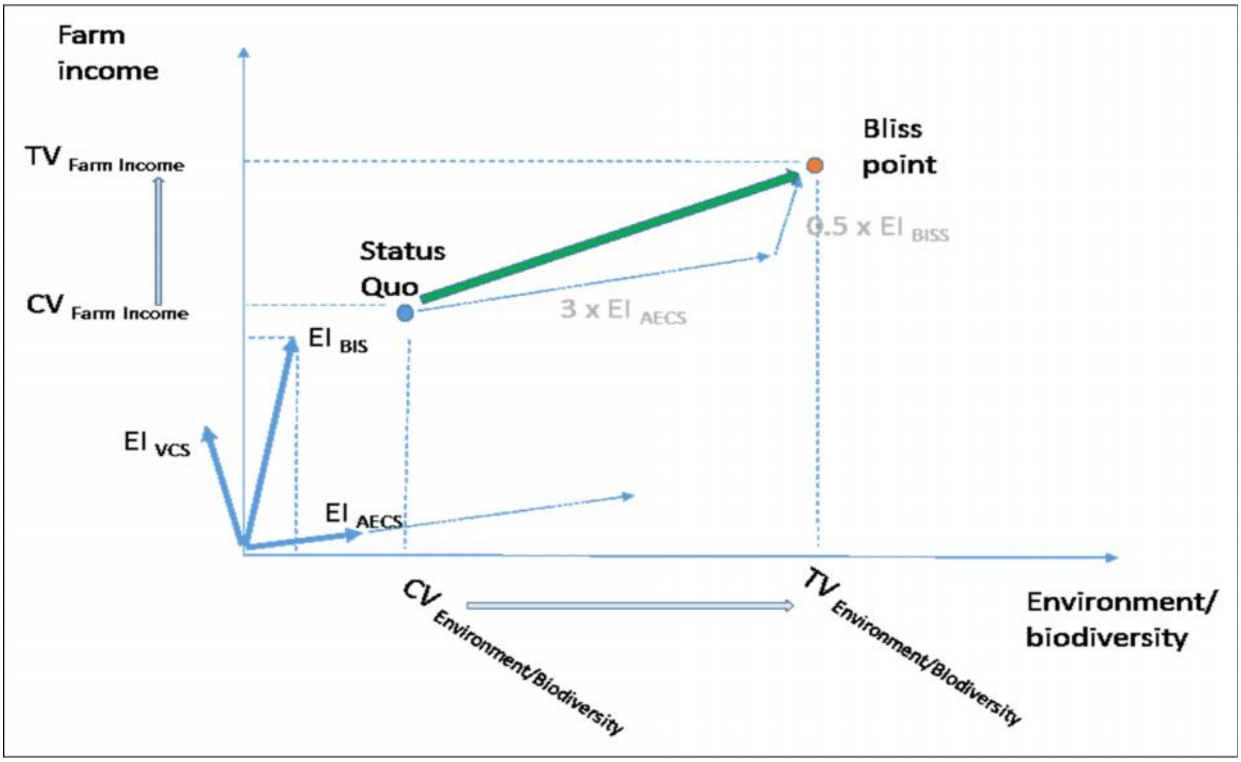
1.3. APPROACH

1.3.1. Policy optimization framework-methodology

Several issues are at stake when evaluating a package of policy measures, which is illustrated by Figure 2. This figure is based on the policy optimization literature, dating from Frisch and Tinbergen. As indicated by the *Y* and *X*-axes, a clear specification of the policy objectives is needed. Moreover, the target values (*TV*) one wants to achieve for each of the objectives need to be indicated (e.g. *TVfarm income*). Together these target values determine the direction into which the policy maker wants to go (e.g. "Bliss"point). The difference of the target value and the current value score on an objective, expresses the **need** for 'improvement' (e.g. a strong need for environmental improvement relative to income improvement) or the **ambition** of the policy maker with respect to **objective-target-choices**.

In addition a set of policy interventions or measures need to be available (e.g. Basic Income Support (BIS), Voluntary Coupled Support (VCS) and Agri-Environment and Climate schemes (AECS)). According to the famous Tinbergen-rule the number of (independent) policy instruments should be at least as large as the number of policy objectives. Policy instruments contribute to the achievement of policy objectives. Though policy instruments may be **targeted** at a specific objective (e.g. the BIS direct payment at improving farm income), a policy measure usually affects multiple objectives simultaneously (e.g. the estimated impact policy instrument vectors in Figure 2). The estimated impacts are usually based on **agronomic-economic model representations** of agriculture or other information (cf. results from ex-ante and relevant ex-post **impact assessments**). A full modelling exercise is beyond the scope of this study. Instead the IOI (instrument-objective-impact) methodology, as this has been used in the CAP Mapping project, will be made use of to assess potential impacts and usefulness of measures (see Chartier et al, 2017).

Figure 2 Policy optimization framework and CAP reform



Source: this study.

Note: The horizontal and vertical axis represent two policy objectives (environment/biodiversity on X-axis and Farm income on Y-axis). Three policy interventions are distinguished (basic income support BIS, voluntary coupled support VCS, and agri-environmental and climate scheme AECS), which are represented as vectors at the origin, where the direction of each vector characterizes its contribution to the two objectives. The length of each vector depends on it effectiveness per unit of budget. Measures can be combined to move from the current situation (Status Quo) to the desired situation (Bliss Point), where the desired situation is the situation corresponding to achieving the target values TV as these are defined for each objective. In the example 3 times AECS and 0.5 times BIS will lead to full realization of both policy objectives (and will have a cost of 3.5 "budget units").

Within the Frisch-Tinbergen policy optimization framework, a mix of policy instruments is selected (e.g. 3 times the "per unit" AECS measure plus 0.5 times the "per unit "BIS measure) such that the distance between the current situation (Status Quo) and the desired situation (Bliss point) is bridged. The impact or success of policy measures application is co-determined by the **package of policy measures** where it is a part of. A key-result from this literature is that a key determinant of the optimal policy mix is the **cost-effectiveness** scores of the instruments on all policy targets (Schader et al, 2014). Whether it will be feasible to "close the gap" depends on several factors including the **gap** that has to be bridged (reflecting how ambitious the policy maker is), the availability of an adequate set of policy instruments, and the amount of **budget** available. The budget may be restrictive and not allow to fully close the gap. If so the policy maker has to accept an incomplete realization of its objectives, and to make further choices and **prioritize** which objectives will be achieved to which extend (**objective trade-offs**).

Policy evaluations are sometimes confusing because several aspects are mixed up. For example, a policy might be evaluated as deficient because policy objectives are only achieved to a limited extent. To be able to draw such a conclusion this requires clearly specified policy **objective targets** in the first place, which is not always the case (Don, 2004). Lacking goal-achievement might be due to **inefficiencies** or the application of **non-effective instruments**, but can also be a result of well-performing measures within a **restrictive budget**. Moreover, some policy objectives (or group of objectives) might be more easy to achieve than others. This could be because some policy objectives may be conflicting whereas others may be achievable more in parallel (synergy). Even when inconsistencies between policy objectives will be reduced to its minimum (e.g. no **incoherence**), still **trade-offs** between objectives will remain, without there being a reason to blame anyone for this.

1.3.2. Scope and focus

The analysis pursued in this essay will focus on assessing the **various DP and RDP measures** (Title III of COM(20180 392). It is important to emphasize the **framework-character** of the proposed measures, which aim to set conditions at a general level, thereby providing a framework within which Member States can further develop and design specific measure implementations. As this is the case the focus of this analysis will also assess these proposed measures at that level. Attention will be given to:

- the **proposed interventions** or measures and relevant **side conditions** (e.g. safeguards);
- where relevant proposed measures will be linked to similar measures under the **current CAP** and experience with these measures in the current policy setting;
- where new measures are proposed attention will be paid to their potential contribution to achieve the defined policy goals, implementation issues, and farmer uptake (in case measures are non-obligatory);
- the **potential effectiveness** of the proposed policy measures and issues that could potentially affect their effectiveness (e.g. bottlenecks, implementation modes);

- whether proposed measures can be improved or made more effective by changing certain aspects or properties. Herewith we will try to benefit from lessons that could be learned from past experiences with a measure or measures that are quite similar to the one that has been proposed;
- the possibilities to **effectively combine measures** (e.g. new green architecture);
- whether a sufficient number of instruments is **available** to potentially achieve the targeted policy objectives and where (which domain) instruments may be lacking.

Note that the assessment provided will have some important limitations in its scope. Whereas the assessment focuses on the different measures, how these measures will be deployed and combined will have to be further described and motivated in the **CAP Strategic Plans** Member States have to develop. In addition, in these plans it will be made clear what new measures Member States will propose (e.g. eco schemes, climate measures) for specific fields including their design and implementation. Without this information and these plans, it will be impossible to make any assessment of the measure implementation under the new CAP. However, requirements such as obligatory implementation or minimum budget spending and transfer of budget between the two pillars of the CAP will be part of the analysis. As such this study should generate insights and results with respect to a specific set of policy measures (Title III) a necessary but not sufficient condition for achieving an 'optimal policy' contribution from the proposed reformed CAP.

1.3.3. Information sources used

The current study does not allow any detailed impact assessment and is of a mainly qualitative nature. It relies on several sources of information, including the impact assessments made by the EU Commission, past CAP policy measure impact evaluation and special topic studies, scientific literature, policy documents from MSs, the EP, and stakeholders, other relevant grey literature, and own background analysis.

1.4. Set-up of the work

The study is organized as follows: chapter 2 discusses the direct payments measures, chapter 3 focuses on the rural development measures, while chapter 4 will close with proposals for discussion, phrased as recommendations with respect to the direct payment and rural development measures, that according to the author deserve further consideration and reflection by the AGI Committee of the European Parliament in her reflection on the proposed Direct Payment and Rural Development Policy instruments and potential ways for improvement.

2. DIRECT PAYMENTS

Box 2: Key findings on Direct payments

KEY FINDINGS

- The EU's income support to farmers is suffering from inequalities in distribution of support, a lack of targeting and a lack of use of need-oriented criteria. The new CAP is likely to only address this problem to a limited extent, since the basic mechanism (hectare-based payments) is not changed.
- The enhanced conditionality contributes to establishing a baseline with respect to climate, the environment, biodiversity, and health, which goes beyond the current level. The extended greening requirements apply to all holdings receiving direct payments.
- Eco-schemes that are obligatory for Member States and voluntary for farmers create possibilities to reward farmers for actions improving climate and the environment, which go beyond the baseline as established by the enhanced conditionality. Arguments are provided to further enlarge their potential and coverage.
- The obligatory reduction of direct payments (capping) is not likely to be very effective due to mandatory side condition to deduct the salaries of paid workers and imputed labour costs of unpaid labour. Making the side condition optional rather than mandatory could make the measure more effective. To better recognize the contribution of this measure to redistribute income support an argument is made to exempt direct payments aimed at other objectives from being capped and an alternative formula for payment reduction is proposed.
- Coupled income support for sustainability should be used in a targeted (or discriminatory) way rather than in a generic way, whereas otherwise it will distort the level playing field and go against the principle of the EU Single Market.
- Level playing field concerns were identified for at least three types of interventions: i) the enhanced conditionality (potential differences in requirements over Member States, combined with differences in basic income support for sustainability); ii) the payments for eco-schemes which can overcompensate the costs of efforts made; and iii) coupled income support. Also the sectoral interventions include aspects ate the discretion of Member States that can potentially distort the level playing field. In order to avoid this Member States should be requested to motivate their choices and safeguards should be considered.
- The interventions made available under Title III offers Member States a wide range of opportunities, the number and flexibility of which has been increased relative to the those in the current CAP. Given the priority placed at addressing climate objectives the 'guidance' on interventions specifically addressing this objective is too limited.

2.1. Introduction

In the proposed CAP beyond 2020 direct payments will remain the core part of the interventions (measured in terms of budget spending) of the CAP in all Member States. In terms of the type of interventions offered under the direct payments heading (first pillar of the CAP) probably the most notable change as compared to the current CAP is the new eco-schemes provision, which is part of the revised green architecture. The more general change comprises the new delivery model of the CAP, implying that the EU sets the basic policy parameters (general and specific objectives of the CAP, broad types of intervention, basic EU requirements), while Member States will be in charge of tailoring CAP interventions to maximise their contribution to EU objectives and will have more flexibility in designing the compliance and control framework applicable to beneficiaries. Member States have to account for their choices, including planned target values for indicators allowing the monitoring and evaluation of achievement of objectives, in their national CAP Strategic Plans.

As the main share of the EU's total expenditure on the CAP (about 70%) is spent on direct payments, this instrument is of primary importance when assessing the CAP. During the recent reforms efforts have been made to better target these payments to specific policy objectives, such as greening (Green Payment), generational renewal (Young Farmers Payment), support to specific sectors (Voluntary Coupled Support payments), farm income distribution (Redistributive Payment), small farmers (Small Farmer Payment) and support to areas facing natural handicaps (Areas facing Natural Constraints payment scheme). Besides there is the Basic Payment scheme, the most generic instrument aimed at supporting farm income, which has an estimated share of 53% in the total Direct Payments financial envelope. In the proposals for the new CAP basic income support for sustainability, complementary redistributive income support, complementary income support for young farmers and (voluntary) coupled income support will remain, though it includes a number of adjustments compared to the current CAP (e.g. stronger redistribution). Due to subsidiarity the role of Member States in policy design, tailoring and implementation has been strengthened as Member States specify definitions (including eligibility conditions), interventions (e.g. eco-schemes), are contributing to setting support levels depending on needs, and the flexibility in financial management has increased.

2.2. Basic income support

The new basic income support should be paid as a unitary amount per hectare (flat rate), but Member States can differentiate the payment amounts by groups of territories, based on socio economic and/or agronomic conditions (Articles 18(1) and 18(2)). Member States can also choose to implement basic income support based on entitlements (Article 19). Member States are obliged to achieve (internal) convergence and should establish maximum value for payment entitlement by 2026 at least and ensure that by 2026 at latest all payment entitlements would be 75% of the average unit amount of basic income support (Article 20(4) and (5)).

2.3. New green architecture

The legislative proposals on the new CAP contain a new architecture for greening, which covers both pillars and consist of three components (Articles 11 and 12): i) the enhanced conditionality; ii) the eco-scheme (Article 28); and iii) the agri-environment, climate scheme and other management commitments (Pillar II measure, Article 65) (see Figure 1 for a comparative overview).

The enhanced conditionality replaces the current cross-compliance arrangement in Pillar 1 of the CAP. According to article 12 of 392 *"Member States shall ensure that all agricultural areas including land which is no longer used for production purposes, is maintained in good agricultural and environmental condition". To achieve this Member States "shall define, at national or regional level, minimum standards for beneficiaries for good agricultural and environmental condition of land in line with the main objective of the standards as referred to in Annex III of the proposed legislation, taking into account the specific characteristics of the areas concerned, including soil and climatic condition, existing farming systems, land use, crop rotation, farming practices, and farm structures"*. Farmers have to comply with 16 Statutory Management Requirements, that relate to existing legislation with respect to climate and environment, public, animal and plant health and animal welfare. In addition they have follow 10 standards for Good Agricultural and Environmental Condition of the land. Obligatory measures include the preservation of C-rich soils, the establishment of a system for providing the Farm Sustainability Tool for Nutrients aimed at improving water quality and reducing nitrogen emissions, crop rotation and the set-aside of a certain percentage of the land for non-productive elements, aimed at enhancing biodiversity.

Table 1: Comparison Pillar I Eco-schemes and Pillar II payments for environment, climate and other management commitments

Schemes for the climate and the environment - Eco-schemes (Art 28)	Environment, climate and other management commitments (Art 65)
• Funded by Pillar I (annual, not co-funded)	• Funded by Pillar II (multi-annual, co-funded)
• Payments to genuine farmers	• Payments to farmers and other beneficiaries
• Payment per ha eligible to direct payment	• Payment per ha (not necessarily eligible to direct payments)/animal
• Annual (or possibly multiannual) and non-contractual commitments	• Multiannual (5 to 7 years or more) and contractual commitments
• Calculation of the premia: • Compensation for cost incurred/income foregone, or Incentive payment: top-up of basic income support (amount to be fixed and justified by MS)	• Calculation of the premia: Compensation for cost incurred/income foregone
• Baseline = conditionality + national legislation + area management • Payments may support collective and result-based approaches • Possibility for MS to combine both: o Eco-scheme set as "Entry-level scheme" condition for Pillar II payment for management commitment o Or possibility to set a two-tier scheme: e.g. use Pillar II management commitments to support cost of conversion into organic farming and the Eco-scheme to maintain in organic	

Source: EU Commission (adjusted by author).

The enhanced conditionality establishes a baseline with respect to climate (GAECs 1 - 3), water quality and soils (GAEC 4 – 8), and biodiversity (GAEC 9 – 10). The latter ones are largely equivalent with the current greening measures (GAEC9 with the non-productive area condition covering the current Ecological Focus Areas; GAEC10 including the prohibition to plough permanent pasture in Natura 2000 areas. Member States have to decide about the minimum share of non-productive areas, as well about the type of non-productive elements. Member States are not allowed to include any conditionalities for issues not covered by Annex III of the legislation.

Member States are obliged to offer eco-schemes to farmers: *"Member States shall provide support for voluntary schemes for the climate and the environment ('eco-schemes') under the conditions set out in this Article and as further specified in their CAP Strategic Plans* » (article 28). The eco-scheme measure aims at supporting agricultural practices that are beneficial for climate and the environment. Farmers can decide on a voluntary basis whether or not to participate in provided eco-schemes.

Member States have to decide on the list of agricultural practices beneficial for the climate and the environment, where measures should meet the CAP specific objectives "*contribute to climate change mitigation and adaptation, as well as sustainable energy*", "*foster sustainable development and efficient management of natural resources such as water, soil and air*" and "*contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes*" (see Article 6(1) d, e, f).

Member States may only provide payments covering commitments which go beyond the relevant SMR and GAEC requirements established under the enhanced conditionality condition; go beyond the minimum requirements for the use of fertilisers and plant protection products, animal welfare, as well as other mandatory requirements established by national and Union law; and go beyond the conditions established for the maintenance of the agricultural area. Moreover the commitments under the eco-scheme regime should be different from those of the agri-environmental schemes (AECS).

The payments made for eco-scheme measures should take the form of an annual payment per eligible hectare and it shall be granted as either payments additional 'top up' to the basic income support, or as payments compensating beneficiaries for all or part of the additional costs incurred and income foregone as a result of the commitments as set pursuant to Article 65. This allows Member States to create a profit margin for farmers when participating in eco-schemes, and could by that potentially induce a more wide spread adoption than in the case of agri-environmental and climate action schemes under Pillar II of the CAP (see Article 65). As such eco schemes can be a vehicle to, relative to AECS, get a larger share of the farmers involved in pursuing lighter measures that are beneficent for the climate and environment.

The proposed new green architecture of the CAP implies a redefinition of the baseline, as this is comprised by the enhanced conditionality (Matthews, 2018a). Grosso modo the proposed new baseline includes the current baseline plus the current greening requirements. Member States have discretionary power to tailor the baseline to local conditions and preferences. On the one hand this may tailor the baseline level better to local circumstances, but it may also lead to a divergence of baseline levels, as Member States may make different decisions (e.g. with respect to the share of non-productive areas).

As eco-scheme measures have to be complementary or additional to the baseline both are related. The eco-scheme measures should also be different from those provided under the agri-environmental and climate action schemes of the second pillar of the CAP. As they are part of the first pillar of the CAP no co-financing by MS is needed. The eco-schemes allow Member States to address MS-specific problems and develop innovative schemes supporting climate and environment objectives, which go beyond mere flat rate payments (see Table 3) and allow for smart combinations of eco-schemes with AECSs.

As it has been emphasized by the Commission, the new CAP foresees an improved delivery model, including the strengthening of performance-based measures. Some Member States have experience with such systems (e.g. Entry Level Scheme of the UK) or are considering its potential (see the Public Goods Bonus scheme as this has been developed and proposed by the Deutscher Verband für Landschaftspflege (DVL, 2017); also The Netherlands is considering a point-system type of approach). Such schemes would well-fit in the philosophy of the new CAP (e.g. from compliance to performance or action to results; public funding for public goods-principle) and have attractive properties (addressing the entrepreneurial rather than administrative qualities of farmers; rewarding farmers' current efforts as well as offering farmers incentives to extent their environmental services to new areas of their farms; allowing farmers to offer an efficient mix of actions, or to 'specialize' in the provision of specific public goods; offering flexibility to include a wide range of environmental services, including nutrient balancing and abstaining from artificial fertilizer use; tailoring to regional conditions affecting agriculture, biodiversity and landscape). Creating an allowance in the new CAP to a performance or point system approach type of eco-scheme implementation would strengthen its performance based approach. The legislation is allowing for entry-level schemes, "which may be a condition for taking up more ambitious rural development commitments" (recital 31) but there are still some 'open ends' with regard to the desirable flexibilities this would require.

2.4. Reduction of direct payments: compulsory capping

As in previous reforms, also in this reform of the CAP the European Commission proposes instruments to redistribute payments (which were then usually watered down in the subsequent debate and decision-making process). Relative to the current CAP, the legislative proposals for the new CAP aim for a stronger redistribution of income support to smaller farms, therewith addressing a clear need to improve targeting in farm income support (see Section 1.2). Member States will be obliged to cap direct payments by a) at least 25% for tranche between €60K and €75K; b) at least 50% for trance between €75K and €90K ; c) by at least 75% for the tranche between €90K and €100K ; d) full capping for any payments larger than €100K. The capping does not apply to the EU gross direct payments, but to the net payments after salaries and other direct and indirect labour costs (both for family members and non-family workers) are subtracted.

Whereas in the current CAP, capping was optional (when a Member States are operating a redistributive payment scheme they are exempted from capping), and should at least be 5% on all direct Basic Payments of €150k and beyond, while the Green Payment (30% of the direct payment envelope) was exempted from capping and also salary cost for farm workers could be deducted. The proposal for the new CAP seems therewith more ambitious than the past one, as the Green Payment exemption no longer applies, whereas also the capping starts to impact net payments from a level of €60K and at substantial deduction rates relative to the current scheme (starting from €150K, with a 'minimum tax' of 5%, rather than 25%. However, own background calculations based on FADN data showed that the impact of the new proposed capping is likely to be minimal due to the mandatory side condition enforcing a generous labour cost deduction (see also Matthews, 2018b). Moreover, as the main aim of this measure is to contribute to the redistribution of income support, an argument could be made to more focus this measure on direct payments which can be labelled as being aimed at supporting farm incomes and excluding direct payments that are targeted to non-income support-objectives, such as the eco-schemes.

2.5. Redistributive income support

As has been argued before (see Section 1.2) the current income support is unbalanced and favouring large farmers relative to small farmers. The redistributive income scheme allows to correct for this imbalance. Whereas redistributive income support has been optional under the current CAP, for the new CAP this measure is proposed to be compulsory. Member States should establish an amount per hectare or different amounts for different ranges of hectares, as well as the maximum number of hectares per farmer on which the redistributive payment is paid. The per hectare amount may, however, not exceed the national average direct payment per hectare. Member States have a large freedom how to implement the redistributive payment scheme and can for example decide to apply a graduation in the amounts for different tranches of hectares.

The mirror side of the large freedom for Member States is that it leaves it quite open to what extent the redistributive payment measure will contribute to rebalancing the currently unequally distributed and poorly targeted income support. Past efforts to redistribute payments "have had limited effect" (ECA, 2018).

2.6. Coupled income support and crop specific payments for cotton

The proposed coupled income support (CIS) measure is similar to the one under the current CAP (a maximum of 10% of Pillar I envelope may be allocated to VCS, plus an additional 2% for protein crops) and aimed at having a special provision to support income of sectors "*in order to improve competitiveness, sustainability, and/or quality in certain sectors and productions that are particularly important for social, economic or environmental reasons and undergo certain difficulties*" (recital 32). An additional option now is to create coupled aid schemes for non-food biofuel or biomass crops. A criticism on the implementation of this measure is that it may be applied by Member States in a too generic way, which was not intended by the legislation as this was referring to the allowance of coupled support for "particular situations". This refers to sectors that "undergo certain difficulties" (cf. Article 52(3)) and to the extent necessary to "create an incentive to maintain current levels of production in the sectors or regions concerned" (cf. Article 52(5)).

It can be argued, however, that the option to permit MS to establish voluntary coupled support goes against the philosophy of greater market orientation in agriculture. Coupled income support can distort the level playing field between farmers and the processing sectors (supply chains), especially when support is granted unevenly across the EU (Smit et al, 2017). Under the new CAP its implementation will have to be motivated in the strategic plan of the Member States, which would allow the EU Commission to again check for the proper implementation of this measure, where now also the recent experience with this measure could be taken into account.

Member States having cotton production (Bulgaria, Greece, Spain and Portugal) shall grant a crop-specific payment for cotton, where the payment eligible farmers receive is dependent on reference areas and reference yields, where the proposed payment per hectare can go up to €1218/ha (Spain). In case the eligible area in a given year and Member State would exceed the base area (reference) then a proportional reduction of the (yield) payments should be made, such that the budget is not overrun. The proposed cotton specific payments is similar to that of the current CAP (Regulation (EU) 1307/2013, Articles 57-60), be it that the payments have been reduced by 4%. Farmers that are a member of an approved interbranche organisation get a 2 euro top-up to their crop specific payment, just as currently is the case. The cotton scheme, just like some other sectoral interventions, can be seen as special cases of the granting of coupled support, and for that reason one should consider to 'merge' these measures with the coupled incomes support (CIS) measure, and make them subject to similar criteria.

2.7. Young farmers support

Whereas under the current CAP, Member States are obliged to offer top-up aids to new young farmers, under the new CAP this is optional. When a Member State decides to apply a Young Farmer payment, up to 2% of the national Pillar I envelopes must be used to finance these payments. The (per hectare) payment is targeted at young farmers who have newly set up for the first time (where eligibility is not further defined). Under the current CAP Member States are allowed to make, for a maximum of 5 years, payments to farmers being under the age of 40. In the proposal, the measure has thus been targeted solely at new entrants.

In addition to first pillar support, Member States can support young farmers via the second pillar of the CAP, which includes an increased "installation allowance" of up to €100 thousand (see next Chapter for more details on young farmer support and generational renewal).

2.8. Small Farmers

Just like in the current CAP, under the new CAP it is proposed that Member States may apply a simplified direct payment (a "round sum") to small farmers (Article 25 and Recital 28), rather than applying the standard direct payment apparatus. Member States have to design these schemes as part of their CAP Strategic Plan. This small farmer-provision is more flexible than the current system.

2.9. Sectoral interventions

In the new CAP the sectoral interventions (fruit & vegetables, wine, olive oil and table oil, apiculture, hops and other sectors) are now integrated in the CAP plan regulation. Whereas in the current CAP the objectives, implementation and delegated powers where scattered throughout the sectorial aid schemes and were felt to lack structure, under the new CAP the sectorial interventions are extended to other sectors as well as given a clear structure referring to the 9 specific objectives at the start of the proposal. This implies that all sectoral interventions shall now be linked to CAP specific objectives. The extension includes the design of sectorial interventions for the sectors cereals, flax and hemp, bananas, live trees (etc.), beef and veal, poultry meat and silkworms. The extension made for other sections partly reflect market volatility, and are designed along the same principles as the sector fruit and vegetables. The role of producer cooperation within Producer Organisations (POs) and Associations of POs (APOs) in the supply chain and their resilience to economic and environmental challenges will be further strengthened.

The new structure is introduced to simplify the legislation and better integrate these measures in the broader context of the CAP (aims, measures). Starting from a general provision, specific objectives for every sector are introduced in every following section that should provide the different sector with tailor-made interventions. These sector specific objectives all refer to article 152 from the current CAP (Regulation (EU) 1308/2013) and are now better aligned with the sector intervention types, operational programmes, operational funds and financial assistance.

The sections are also extended with more specific objectives that relate to nowadays public debate. For example the fruit and vegetables sector added objectives on the increase of consumption of related products (article 42 h) and crisis prevention and risk management (i) as well as mentioning climate change mitigation (e) and pest resilience (c) in already existing objectives. The wine sector added objectives on the improvement of the competitiveness in third countries (article 51 h), increase the resilience against market fluctuations (i) and to prevent market crises (c)as well as mentioning consumer awareness (g), pest resilience (d) and environmental impact (a).The olive oil and table olives sector added an objective on crisis prevention and management (article 56 f) as well as mentioning environmental impact and climate action (c). The hops and apiculture sectors hardly changed except for the counting of beehives in the apiculture sector probably to decrease fraud.

As they are both targeted at supporting specific sectors, an argument could be made it merge the coupled income support instrument and the sectoral interventions into one intervention, including the financial ceilings imposed to both measures.

2.10. Discussion and conclusions

2.10.1. Introduction

As compared to the current CAP, the new CAP is more ambitious with respect to addressing the inequality in distribution and poor targeting of support. However, the fundamental structure of the direct payments system (payments granted on a per hectare basis) is not going to change, and as a result the payments are likely to be also in the future unequally distributed. No needs based approach is followed nor are clear target values for income support defined (a fair income).

As compared to the current CAP, greening is less preoccupied with financial inputs (e.g. a past Green Payment in the past with a 30% share in the Pillar 1 National Envelope) but it has a greater emphasis towards efforts (enhanced conditionality, now including past greening requirements) and results (eco-schemes). This is a good thing although the aimed "greater overall contribution" is not well-defined and is a vague yardstick by which to measure a Member States' commitment (Matthews, 2018a).

2.10.2. Balancing income support

Member States differ in their demands to equalise the direct payments amounts by farmers, which relates to differences in interests and different ideas about how to account for heterogeneity in terms of labour costs, agronomic conditions and land prices in the determination of the height of direct payments and accepting differences in payment level over Member States. Budget limitations may hinder the increased convergence over Member States.

With respect to correcting imbalances in farmer support, a more ambitious capping of payments has been proposed than applies to the current CAP. However, the deduction of salary costs (including indirect costs) weakens the effective capping rate. Both capping and redistributive payments are now obligatory schemes, although Member States have a strong role designing the implementation mode, and there are no safeguards enforcing them to redistribute a minimum amount of their envelope. Taking into account the empirical evidence (see Section 1.2), the critical evaluations of the inequality (see ECA, 2016), the lack of a needs-oriented approach (Koester and Ley, 2016), and the scarcity of resources in the context of new challenges with respect to sustainability and climate change, a more substantial reform would have been welcomed.

Whereas the obligatory capping (reduction of payments) and redistribution of support may contribute to a more equal and fair distribution of direct payments and contribute to employment, there are several studies (e.g. Raggi et al, 2013; Olper et al, 2014; Koester and Loy, 2016) indicating that CAP payments play a positive role in retaining farmers in the sector, but that they at the same time slow down structural change, and by that may hamper the long run viability of farms. Farm support redistribution should take into account for this trade-off and find a proper balance between equity and efficiency.

The proposed capping is likely to be not effective due to the generous labour costs deduction. One option to make the capping measure more effective could be to weaken this side condition and no longer make the deduction of labour costs mandatory but propose it rather as an option Member States could use. As Member States have diverse opinions on redistribution such a change would allow Member States with more or less ambitions redistributive objectives to make a more effective use of this measure.

A more fundamental objection to the current proposal is that it accept the current practice (existing employment structure at farms) without applying any normative productivity criterion. A more promising criterion to be used is to base the maximum amount of support on a formula taking into account a normal labour productivity. This could be done by specifying a Member State specific normative standard output (SO) per worker (say €*y*). The calculated number of full time workers per farm (*l* fte) could then be calculated by dividing the calculated total standard output of a farm (€*x*) by this indicator (*l*= €*x* / €*y*). The maximum amount of direct payments threshold or plafond (€P) could then be defined as maximum compensation per farm worker (€*z*) times the calculated number of workers ($P = z\,.\,l$). The maximum amount of payments per calculated worker could be based on national criteria with respect to social assistance or unemployment benefit rates, eventually corrected with a specific factor accounting for the agriculture-non-agriculture wage differential which is found to be appropriate. The advantage of such a criterion would be that EU income support is linked to income support criteria as they are used in the wider economy (fairness) and that it contributes to a better recognition of direct payments as income support. Any payments beyond this threshold or plafond could then be capped or made subject to a reduction rate (e.g. with a minimum reduction rate of 50%). Another advantage is that supporting farm incomes in this way does not "remunerate" labour hoarding in agriculture, but rather provides an (indirect) incentive to productivity increase. Moreover, it reduces the probability that loss-making farms receive continued support, which counteracts longer-term farm viability objectives.

2.10.3. Green architecture and eco-schemes

The new green architecture ensures a well-defined baseline, which goes beyond of what may be required outside the EU (public support for farmers outside the EU is also different). The proposed EU baseline now includes the greening requirements (and have these extended to all farms), that are currently supported by a Green Payment, comprising 30% of the Pillar I national envelopes. This prevents backsliding as compared to the current situation, whereas it frees up resources (the Green Payment comprised 30% of the Pillar I national envelopes), that can now (but not have to) be allocated to other greening a sustainability efforts (e.g. eco-schemes). Having included a financial safeguard (e.g. 15% of the national envelope, which is only halve of the current greening rate) would do better justice to the high priority attached by the public, farmers, Non-Governmental Organisations (NGOs) (see Public Consultation) and the Commission.

As regards the eco-schemes a lot is still open, which complicates assessing them. Their introduction is appreciated as they are a potentially more effective instrument than the past greening provisions. It is, however, at this moment, unclear to what extent their potential will be realized, as this is in the hands of the Member States, and thus depending on their ambition and creativity to develop eco-scheme measures. Through their nature eco-scheme measures have the potential to reach a large number of famers relative to those involved in the second pillar AECS measures. An argument could be made that Member States should use this possibility because even the impact of 'light' measures, when broadly adopted may potentially create as much or more impact than 'heavy' measures, which are only adopted by a relatively low number of farmers.

The allowed compensations for eco-schemes (paid as per hectare top-up payments) do not necessarily establish a clear link with the cost of the efforts made by farmers. The payments can be a fixed amount per hectare, or a payment based on a (full or partly) compensation income forgone or additional costs. Only when the compensation exceeds the costs farmers have to make, eco-schemes are likely to get a wide adoption. The proposed legislation does not exclude that eco-schemes may be used as a vehicle for granting hidden income support. As the proposed legislation is still rather open, they could create an open door to greenwashing, which, after the lessons and experiences with greening under the current CAP, should not be a route that the EU should follow.

As there are no strict compensation principles (such as coverage of costs or income foregone) in the eco-schemes, the proposed legislation on the one hand suggests that these principles could be followed while on the other hand it indicates that also more loosely defined payment determination rules could be followed. This could lead to the already noted overcompensation and an associated ineffective use of scarce public resources. Moreover, to the extent overcompensation takes place, it could introduce a distortion to the level playing field. As such it would be good to have introduced a means test that limits the height of the payment relative to a reasonable estimate of the costs associated with fulfilling the eco-scheme requirements (e.g. to a maximum of 150%).

The eco-schemes can be positioned in between the enhanced conditionality (baseline) and the AECM schemes. For reasons of transparency it might therefore be useful to link eco-scheme measures to the current GAECs as these are part of the enhanced conditionality. This would make it clear to what extent the eco-schemes provide extensions to the GAECs, in that they contribute to more strict norms with respect to the current GAEC domains.

The eco-scheme mechanism as it is proposed now can only fund per hectare-payments, where they may be constructed in such a way, that a set of measures under the eco-scheme arrangement is composing an entry-level scheme. A fear is that such a scheme may incentivise entry-level schemes with limited environmental additionality, and thus running the risk of offering weak performance, although they have the potential contribute to ensure a continued delivery of green services. However, entry level schemes, and their associated performance-orientation deserve sufficient room for development as a way to implement the eco-scheme legislation.

As greening and sustainability efforts can be, but not necessarily have to be, hectare related, it is a missed opportunity that the eco-schemes as they are currently proposed, do not have the flexibility to do finance activity-based (farm specific payment rather than hectare payment) and performance-based systems (such as 'green point' systems). This is a pity, as the philosophy underlying the CAP reform adheres to "the principle" of performance and results-based delivery mechanisms. In this context in is important experiment with performance based systems and to create an option for Member States to propose performance based systems (e.g. related to the active use of the nutrient management scheme/tool).

As regards the objective to pursue sustainable development there is a usual reference to natural resources such as water, soil and air (cf. the listed GAECs under conditionality). From an ecosystems or agro-ecology perspective an argument could be made to add functional agro-biodiversity to this list of resources. Functional agro-biodiversity (e.g. buffer strips planted with flowers) could favour pollination by bees or insects and could also contribute to natural pest and disease control and contribute to a reduced use of plant protection products. As such functional agro biodiversity needs to receive a better recognition (for example by explicitly accounting for it in the used indicators). One could argue (see impact indicator I29) there is a reference to species and habitats of Community interest, but the honeybee and many other insects are not part of that. Soil-biodiversity is another element of functional agro-biodiversity, but is already sufficiently aid attention to at several places in the proposed legislation.

2.10.4. Level playing field-issues and WTO domestic support

A basic principle underlying the Single Market is to preserve a level playing field by avoiding unfair support, while it also adheres to the principle of specialization in production, and thereby ensure efficiency gains (good and services provision at lowest costs). Level playing field concerns have been identified for at least three types of interventions:

i. by the enhanced conditionality, there can be differences in requirements over Member States while this can be combined with differences in basic income support for sustainability (which is justified as income support for sustainability, which logically would include a financial contribution for adhering to the conditionality);

ii. the payments for eco-schemes may lead to overcompensation in the case the top-up hectare payment-option is chosen to determine the compensation. Including a profit margin in eco-scheme measures to enhance the uptake of eco-schemes can be justified as eco-schemes are used to procure public goods by mimicking a 'virtual market' situation (in market contexts it is quite normal that a certain amount of the suppliers make a profit). However, the use of safeguards could contribute to limit overcompensation to such a degree that the level playing field is distorted (also being an argument against greenwashing of income support).

iii. the coupled income support for sustainability has the potential to disturb fair competition between agricultural sectors, within and over Member States. The conditions for granting coupled income support have been extended as compared to the current CAP. However, already under the current CAP questions have been raised on the level playing field aspect of voluntary coupled income support. The key point of criticism with respect to their current application is that they may have been applied in a too generic way, rather than as a type of support targeted at sectors that are in decline and face specific difficulties (Jongeneel et al, 2018). This than invades on the principle of the EU Single Market and the associated principle of specialization (implying efficient/least cost production of goods and services at EU level). A safeguard to be considered could be to limit the coupled income support to a maximum share of the total activity at Member State level (e.g. at maximum 30% of the farmers in a specific sector may be supported using coupled income support).

It should be noted that also the sectoral interventions (including cotton) include aspects at the discretion of Member States that can potentially distort the level playing field. In order to avoid this Member States should be requested to motivate their choices and make sure that level playing field conditions are satisfied.

As indicated in Article 10, Member States have to ensure that the interventions (as listed in Annex II of the Regulation) respect the provisions paragraph 1 of Annex 2 to the WTO Agreement on Agriculture. WTO compatibility can be an issue for interventions such as coupled income payments (Arts. 29 to 33), crop-specific payment for cotton (Arts. 34 to 38), some expenditures linked to sectorial programmes (Arts. 39 to 63), and with respect to the second pillar of the CAP (see also next chapter) investments (article 68), Installation of young farmers and rural business start-up (Article 69), and/or risk management tools (Art. 70). It needs to be ensured that WTO Amber Box requirements related to the CAP post 2020 are properly taken into account. This aspect needs further clarification.

2.10.5. The availability of policy measures

The number of policy instruments under the direct payments heading has increased, with the eco-schemes being a prime example, while Member States are given the freedom to propose and design specific measures (subsidiarity) which allow them to tailor measures to local needs and circumstances. As such Member States have a lot of possibilities to develop measures addressing challenges (WBAE, 2018). Partly they will need these possibilities to address climate objectives, as the measures that are currently proposed in that regard are still limited and vague. This is surprising as the proposals emphasize the importance of addressing climate objectives. The Commission has notably chosen for a further "mainstreaming" of climate action within different EU instruments (eco-schemes, sectoral interventions, AECMs and others) (ECA, 2016). This is ensured by adding climate action references in many interventions and by the requirement that 40% of the direct payments contribute to climate measures as a result of the enhanced conditionality. However, this claim seems premature as the 'conditionalities' are not yet specified in detail by the Member States. Moreover, experience with the mainstreaming-approach from the past has shown that it has been difficult to achieve a 20% objective, which at least raises some concerns as to whether additional targeting and guidance by the Commission will be needed to achieve the climate objectives (ECA, 2016).

2.10.6. Summary overview of identified strengths and weaknesses

Below (see Table 4) the results from the direct payment measures assessment are "summarized", whereas the recommendations follow in Chapter 5.

Table 2. Summary table on Direct payments measures

Measure	Strengths, Positive aspects	Weaknesses, Negative aspects
Enhanced conditionality	Establishes a clearly defined baseline of obligatory minimum conditions with respect to agricultural production practices, consolidating the past greening measures.	Member States have to define certain criteria, which can lead to divergence between Member States and negatively affect the level playing field. The 30% of direct payment devotion on spending on greening has disappeared with the changed greening architecture.
Eco-schemes	Member States are obliged to offer farmers possibilities to move beyond flat rate payments and to reward farmers for efforts made for climate and the environment which go beyond the obligatory requirements as specified by the enhanced conditionality	As now proposed, eco-schemes miss the flexibility to reward action-based targeted payments financed on basis of other outputs than hectares, and they seem to exclude animal welfare and societal concerns
Compulsory capping	Capping is made compulsory, which is well justified given the already for years criticized very unequal distribution of CAP support	In its currently proposed form (with a generous (imputed) labour cost deduction) capping is not likely to be very effective as only a very limited number of farms.
Redistributive income support	Redistributive payments are made compulsory	Member States have a lot of freedom, which creates the risk that only very limited redistribution will take place to farms receiving a relatively low amount of support

Coupled income support	Coupled income support can contribute to maintain selected, (for social, economic or environmental reasons) important agricultural activities in designated regions, where the sector otherwise would have continued to decline	From the application of voluntary coupled support under the current CAP, there are some signals that the instrument is applied in a generic rather than targeted to 'problem areas'. The proposed criteria are too general to have sufficient discriminatory power.
Young farmers support	Young farmers support can be arranged via the first pillar as well as via start-up support in the second pillar	The instrument has been made optional while in the current CAP it is obligatory for a Member State to support young farmers via the first pillar of the CAP
Small farmers	A simplified allowance for small farmers reduces administrative burden (both public and private transaction costs)	Supporting small farmers may contribute to a slowdown of structural change and thereby have a negative impact on farm viability from a longer term perspective
Sectoral interventions	Sectoral intervention measures are now integrated in the CAP strategic plans and linked to CAP specific objectives Member States have to make, which contributes to an integrated policy approach	There are aspects left at the discretion of Member States that could distort level playing field conditions

3. RURAL DEVELOPMENT POLICY

Box 3: Key findings on Rural Development Policy

KEY FINDINGS

- The main change in the Rural Development policy is the new delivery model (from compliance to performance). With respect to its core principles and its coverage it has hardly changed.
- The Agri-environment, climate and other management commitments have a wide coverage (comprising measures contributing to all 9 specific objectives of the CAP), with a special focus on environment and climate (obligatory).
- Natural or other area-specific constraints and Area specific disadvantages resulting from certain mandatory requirements interventions contribute to fairness to farmers and are crucial policy interventions in an EU with very heterogeneous production and regulatory conditions.
- The investment intervention plays a crucial role in helping agriculture to address its many challenges and facilitating the transition to a more sustainable agriculture while ensuring its long term viability. When properly implemented it should primarily address market failure (non-productive investments) and restoring assets after crises. Its importance justifies introducing a minimum spending share requirement.
- Investments and Young farmer support need a careful specification in order to ensure a level playing field and compatibility with WTO requirements
- Risk management need to be embedded in a broad approach (including awareness raising, farmer advice, accounting for interactions between various policy measures and private sector provisions) in order to contribute to a consistent, tailored and effective policy in which the proposed policy foresees.
- Cooperation and Knowledge and information sharing interventions, when properly combined with other interventions, play a key role in an effective innovation and farm modernisation strategy. The support and extension of the coverage of farm advisory services is to be welcomed.

3.1. Introduction

The main change for rural development as compared to the current program is the shift from compliance to performance, which implies skipping the prescriptive measures which set eligibility conditions for beneficiaries. This lead to a reduction from 69 measures and submeasures to just 7 broad types of intervention. In their national CAP Strategic Plans, Member States have to make a need assessment, and based on that develop schemes and interventions that fit their challenges, opportunities and local conditions. This should contribute to a much more targeted, flexible and innovation friendly second pillar of the CAP. In addition to this the 118 rural development programmes will be adjusted to one single CAP plan per MS. However, the key elements of the current rural development policy (decentralized approach; national and/or regional multiannual programming; EAFRD funding co-financed by Member States) have remained unchanged.

The Rural Development part, or second pillar of the CAP, comprises 8 policy measures: (i) environmental, climate and other management commitments; (ii) natural or other area-specific constraints; (iii) area-specific disadvantages resulting from certain mandatory requirements; (iv) investments; (v) installation of young farmers and rural business start-up; (vi) risk management tools; (vii) cooperation; and the cross-cutting measure (viii) knowledge exchange and information. After addressing some financial aspects of the rural development pillar, these eight different interventions will be discussed, assessed and commented on.

3.2. RDP financing and contributions from Member States and private sector

The proposed CAP allocation accounts for a cut of the total CAP budget of around 5% compared to the 2020 baseline allocation (i.e. not taking into account amounts transferred between direct payments and rural development). For the period 2014-2020 the share of the Rural Development pillar in total CAP budget was 26.7%, which according to the proposal will decrease to 24.5% for the period 2021-2017 (not taking into account any voluntary transfers between pillars). Without "corrective" actions taken by Member States the absolute (nominal) spending would decline by about 13% relative to the budget spent under the current CAP.

For EAFRD, an increase in compulsory national co-financing is generally foreseen, with the aim to ensure that public support to rural areas will be largely maintained at current levels. Member States can shift up to 15% between direct payments and rural development. In addition, Member States can transfer an additional 15% from direct payments to rural development for interventions addressing climate and environmental objectives or an additional 2% in case of EAFRD if this is used to support to young farmers. For a number of specific purposes ring-fencing is foreseen. Examples are the proposed minimum spending for LEADER (5%), rural development spending addressing environmental and climate objectives (30%), and young farmers (2%). In addition a maximum 4% of total EAFRD is specified for technical assistance at the initiative of Member States (holds for both pillars and implies an increase by 1 percentage point in comparison to the current level of 3%).

Interventions provided under the Rural Development Pillar of the CAP are subject to co-financing by Member States. The normal EAFRD contribution rates applying to RDP interventions are (70% for less developed regions and 43% in other regions. Co-financing rates differ with respect to different type of interventions, which is in line with the recommendation from the ECA (2018), which states that co-financing rates should reflect EU added value (e.g. for efforts to reduce greenhouse gas emissions, which can be argued to have a high EU added value, then relatively low co-financing rates would apply). There is no co-financing requirement for funds that are transferred from the first pillar to the Rural Development pillar.

The demand for grants by farmers (especially in the fields of long maturity investments and short terms loans for working capital) may be substantially higher than the funding available in calls. Where this is the case financial instruments (FI) may offer solutions to attract additional private capital and the resources returned by the final recipients can be reused to support more projects with the same budget. Thus FIs can address larger investments needs or difficulties with access to finance in an environment of limited public resources. They could also bring additional flexibility and be modelled along the business investment cycle of farmers, both for risk management purposes and in cases of crisis. Farmers may face situations where the viability of his holding in the short or medium term is put at risk, due to a significant reduction of market prices or a yield reduction following an adverse climate event. In these scenarios, FIs can facilitate access to working capital, thereby allowing the affected farmer to overcome a temporary shortage of liquidity.

3.3. Agri-environment, climate and other management commitments

Support for management commitments comprises a wide range of activities (which is more extensive that the activities covered by eco-schemes; see also previous chapter). It may, for example, include organic farming premia for the maintenance of and the conversion to organic land; payments for other types of interventions supporting environmentally friendly production systems such as agro-ecology, conservation agriculture and integrated production; forest environmental and climate services and forest conservation; premia for forests and establishment of agroforestry systems; animal welfare; conservation, sustainable use and development of genetic resources. The coverage of this instrument has been extended in that Member States may grant compensatory payments for area-specific disadvantages imposed by any mandatory requirements resulting from the current environmental framework that go beyond the conditionality requirements (see previous chapter). Member States may develop other schemes under this type of interventions on the basis of their needs. Summarizing, this intervention can support measures that target any one of the nine specific objectives set out in Article 6. Only agri-environmental measures are mandatory, the others are optional.

The payments made for the measures under this intervention type should cover additional costs and income foregone only resulting from commitments going beyond the baseline of mandatory standards and requirements established in Union and national law, as well as conditionality, as laid down in the CAP Strategic Plan. Commitments related to this type of interventions may be undertaken for a pre-established annual or pluri-annual period and might go beyond seven years where duly justified

The support for management intervention represents the third main layer of the new green architecture (see discussion in previous chapter) of which the well-known "agri-environment-climate commitments" (AECS; Article 65) from an important intervention type. Member States will have to offer AEC payments in their CAP plans, but uptake will be voluntary for farmers, similar to the current CAP.

As has been noted before, the co-financing rate for Member States has been lowered, which may provide an incentive to Member States to more actively use this instrument in the future. This is a welcome change, as following from previous evaluations AECS have been identified as one of the most effective instruments to achieve environmental, biodiversity and landscape objectives (e.g. Pe'er, 2018). Moreover, continuing the farmer group option after its 'pilot'-adoption during the last CAP reform is welcomed. Though at this moment not many Member States are making use of the farmer group-option, there is a growing literature that emphasises the importance of following a landscape approach in AECS for further increasing the performance and effectiveness of these type of interventions (Westerink et al, 2017). Moreover, farmer group approaches can facilitate effective learning processes and by that contribute to 'dynamic efficiency or performance gains' or timely corrective actions, which fits well the proposed results-based approach.

3.4. Natural or other area-specific constraints

Areas with natural constraints are areas that have a reduced production capacity as a result of a natural phenomenon (steep slope, a particular soil, the prevalence of heat stress during the growing season, etc). As a result they are more prone to land abandonment which would counteract to the EU's baseline commitment of keeping land in good agricultural and environmental condition. The areas eligible for this intervention have already been defined before (2018) and they will not change in the future period (2021-2027). Member States can decide to compensate the farmers working these areas. The maximum EAFRD contribution rate for this type of intervention is 65%. The minimum contribution rate is 20%. This measure includes the compensatory support of farmers in less-favoured areas.

3.5. Area specific disadvantages resulting from certain mandatory requirements

Areas with specific disadvantages resulting from certain mandatory requirements are the areas have specific land use requirements following the implementation of the habitat and water framework directives. As a result farmers may no longer be able to manage the land as before. Member States are allowed to compensate for the additional costs or the income foregone resulting from these obligations. The maximum EAFRD contribution rate for this type of intervention is 80%. The minimum contribution rate is 20%.

3.6. Investments

Member States can support investments, both productive and non-productive ones (NPIs), both on farms as well as off-farm. This includes investments in large infrastructures (broadband), which can be solely supported by the regional (ERDF) policy. Instead of the 13 investment fields covered by the investment support arrangement under the current CAP, the newly proposed intervention covers 7 fields: investments in basic / local services in rural areas, land purchase for environmental conservation, agricultural and forestry infrastructures linked to the environmental and climate-related issues, land purchased by young farmers through the use of financial instruments, restoring investments following natural disasters and catastrophic events, and investments in irrigation respecting river basin management plans. However, there are a number of ineligible expenses (purchase of production rights, payment entitlements land – except in certain circumstances, purchase of plants, etc.). Support for investments in irrigation is not possible if the investments are not consistent with the achievement of good status of water bodies. The normal EAFRD contribution rates apply (70% for less developed regions and 43% in other regions). Non-productive investments, basic services and forest-related investments can benefit from a maximum contribution rate of 80%.

3.7. Installation of young farmers and rural business start-up

In order to better support generational renewal in farming young farmers are also supported by a special intervention in the Rural Development Pillar. Member States will have to present in their CAP strategic plans a sound strategy to address this challenge in their territory and explain the interplay with national instruments with a view of improving the consistency between Union and national actions: notably access to land, access to finance / credit and access to knowledge and advice. It should also describe how national instruments, e.g. taxation, inheritance law, regulation of land markets or territorial planning, interplay with EU-supported interventions for young farmers. As access to land and land transfer has been identified as a major barrier to young farmers' setting-up, the Commission has proposed to allow Member States to financially support forms of cooperation among farmers that could encompass farm partnerships between generations of farmers; farm succession or transition planning services; brokerage for land acquisition; innovative national or regional organisations engaged in promoting and facilitating matching services between young and old farmers, etc.

On top of this, young farmers will continue to benefit from investment support and knowledge transfer/training interventions, which are key to ensure long-term sustainability of our farms. As compared to similar measures in the current CAP an increase of the maximum amount of aid for the installation of young farmers and rural business start-ups, up to EUR 100.000 is proposed. In addition Member States will be allowed to establish Financial Instruments supporting working capital: an instrument that can be of primary importance for young farmers, who face more difficulties given the high investments and low returns of a start-up phase. The Commission will also further engage with the European Investment Bank, especially via the fi-compass platform, to learn from experiences and best practices on specific schemes for young farmers.

As compared to the support for young farmers under the current CAP, the eligibility criteria have been simplified (Article 69(2)). EU basic requirements are defined with respect to training, maximum age, conditions as head of a holding and the availability of a business plan.

3.8. Risk management

As compared to the current CAP the risk management measures have been simplified (see article 70). Member States shall grant support for risk management tools and the promotion of such instruments among farmers. The support consist of financial contributions to premiums of insurance schemes and mutual funds. Member States should define the eligibility conditions for support, including types and coverage of risk insurances and mutuals, the methodology of loss calculation and trigger factors for compensation, and rules for constitution and management of the mutuals. Member States need to ensure that support is only granted for covering losses of at least 20 percent of the average annual production or income (revenue?) of the farmer in the preceding three year period, or a three year average based on the preceding 5 year period, excluding the highest and the lowest entry. A clause is added that Member States should avoid overcompensation as a result of the combination of supported schemes with other public or private risk management schemes.

As compared to the current CAP no explicit reference is made anymore to income stabilization schemes, which were present before, but had no take up. More generally, the uptake of risk management tools has been below expectations, although overall there is an increasing trend in farmer participation. For example, multi-peril crop insurance (MPCI) is available in the majority of the Member States (in a few Member States only standard hail coverage is available), but to date, no Member State has achieved a high participation rate for pure private-based MPCI (i.e. without subsidy). EU financial support to contributions is likely to be essential for a broader take up.

3.9. Cooperation

The cooperation intervention ((Article 71 and recitals 6 and 45) covers all aspect of cooperation as these in the current CAP are defined under cooperation, quality schemes for agricultural products and foodstuffs, setting-up of producer groups and organisations and Leader (cf. Regulation (EU) No 1305/2013, articles 16, 27, 35 and 42-44). As such, the new cooperation scheme would include: the setting up of producer groups and producer organisations; the setting up of quality schemes; EIP local development projects; LEADER action; forest management plans (compulsory for the support to forestry sector); collective environmental and climate actions; 'smart villages'; the promotion of short supply chain and local markets; etc.

Interventions under the cooperation-heading do not have many specific rules. Any form of cooperation between at least two entities can be supported, conditional on its positive contribution to CAP specific objectives (only after approval of the CAP Strategic Plan). For this intervention the normal EAFRD contribution rates apply (70% for less developed regions and 43% in other regions).

3.10. Knowledge exchange and information

Member States have to include in their CAP Strategic Plans a system for providing advisory services (Article 13). These services concern the entire scope of the CAP Strategic Plans (the regulation refers to certain specific elements within this scope). In their CAP Strategic Plans, Member States have to explain how these farm advisory services are integrated in a wider agricultural knowledge and innovation systems (AKIS) which also includes a link to research policy.

Finally, the European Innovation Partnership is maintained to ensure the exchange of knowledge also across border. It is expected that farm advisors will play an important role in this.

3.11. Discussion and conclusions

3.11.1. Environmental, climate and area-specific support

The coverage of the Environmental, climate and other management commitments-intervention is large and measures can be supported which contribute to all the nine specific objectives-areas of the CAP. 30% of the RDP ceiling must be spend on AECMs (while ANC and other area-specific constraints are excluded from this 30%-requirement). The EAFRD contribution to AECM expenditure has been increased to 80%. This could encourage MSs, particularly in the east and the south of the EU to give greater priority to AECMs in their strategic planning (Matthews, 2018c).

The proposed area-specific disadvantages intervention is measure is similar to the measures in the current CAP (cf. Regulation (EU) No 1305/2013, articles 31 and 32).

3.11.2. Investments and young farmer support

Investments are crucial for the modernisation of agriculture as well as for improving its sustainability. Relative to direct payments (which has a direct impact, but may create support- dependency) investment support is especially contributing to the longer-run viability of farms. It also play a crucial role in improving sustainability, especially by its support for non-productive investments. This support addresses a clear market failure. According to some estimates in the current CAP only a low percentage is spend on investment support (Détang-Dessendre et al, 2018). Given the priority given to innovation and sustainability objectives it would have been logical to define a required minimum share of the budget to be spend on this instrument.

A concern is whether the text supplied in Article 68 is not oversimplified and could be improved by including an indicative reference to the type of investments that may be supported. Investment support needs careful attention with respect to level playing field and WTO compatibility issues. From a recent assessment by the ECA (2015) it turned out that although Member States did not always ensure the complementary role of NPIs in synergies with other support schemes, they targeted NPI funds to the types of investments with the potential to effectively address their agri‑environmental needs. However, questions were raised about the cost-effectiveness because the audit showed that Member States reimbursed investment costs which were unreasonably high or insufficiently justified. Selection of NPI projects eligible for EU funding is not only crucial but also difficult. In addition appropriate verification of the reality of the costs claimed needs attention and could otherwise lead to overcompensation.

The instrument has a limited EU added value and for that reason the co-financing rate could be relatively high (see also comments made in the previous chapter). Moreover the intervention can easily raise level playing field and WTO compatibility concerns.

The situation with respect to young farmers is very heterogeneous in the EU and requires tailoring at Member State level, with the support aimed at addressing local needs and their intensity, while also the farm size distribution should be taken into account.

3.11.3. Risk management tools

CAP toolkit measures may have higher loss thresholds than pure private-based or state aid crop insurance schemes. Crop insurance covering notifiable phytosanitary risks is underdeveloped in the EU. To date there is only very limited practical implementation of novel insurance instruments to cover revenue, margin or agricultural income risks (Ecorys, 2018). For insurance, growth in adoption rates is typically found in Member States were multi-peril crop insurance (MPCI) either became newly available, or existing MPCI became eligible for subsidies, or both. Participation in existing mutual funds covering direct sanitary losses is relatively stable, due to its often mandatory character. Alternative private sector instruments such as contractual price agreements, and more specifically forward contracts, have become more common in development of risk management instruments in the EU agricultural sector.

An effective coverage of agricultural risks requires a generic portfolio of instruments for ex-ante risk management due to the heterogeneous nature of Member States' risk profiles. There is no unique risk management model that meets the needs and situations of all farmers across EU Member States. A portfolio of instruments for ex-ante risk management to protect against normal (shallow) and exceptional (deep) income losses, could include on-farm protection against shallow losses (sometimes denoted as risk layer 1), using precautionary savings and/or income tax smoothening opportunities to complement traditional non-financial on-farm risk management strategies (e.g. agronomic practices such as diversification).

The deployment of risk management measures need to be considered in a broad context, taking into account public and private risk-reduction measures, self-insurance and biosecurity strategies of farmers. Establishing a clear balance and division of risks that are to be insured between the public and private sector is important for a well-functioning system. As insurances are subject to moral hazard and adverse selection and can suffer from relative high (or even prohibitive) transaction costs in case of low participation, in specific cases it could be considered to make it obligatory for farmers to be insured in order to be eligible for certain crisis measures (e.g. covering consequential costs of disease outbreaks).

Aside of the availability of instruments and financial support, raising farmer awareness and knowledge about risks and risk management is important. The CAP strategic plan and the risk platform aims to achieve an embedded risk management toolkit, taking into account other relevant measures, while it also ensures knowledge dissemination and sharing information about best practices.

3.11.4. Cooperation

The cooperation measure allows to support any kind of collaboration between primary producers, but also of participants along the supply chain. In some cases the cooperation measure may interact with other measures (e.g. the farmer group approach in the AECM-measure) that by their nature include farmer or stakeholder collaboration and also already provide some funding for the cost of collaboration (e.g. the maximum of 30% transaction costs in the current AECM scheme). Overlap and double funding of the same collaboration efforts by different measures should be avoided as it would introduce policy inefficiencies.

According to some anecdotal evidence a significant number of producer organisation, maybe even the majority, is not yet registered, even though at a practical level they are examples of well-functioning collaboration. This ‘unnoticed’ but notably successful collaboration needs attention (e.g. simplification of the administrative requirements for registration and participation in collaboration grants.

In order to in a cost-efficient way support collaboration more insight into the (transaction) costs (and benefits) of collaboration is needed. The costs of collaboration are likely to be non-linear with respect to the size of the collaborating groups. The same may hold for the benefits.

Cooperation, together with investments can play a crucial role in stimulating innovation diffusion and collaborative learning. There are many areas where innovation could promote enhancement, such as genetics helping to breed plants and animal races that are more resistant to biotic and a-biotic stresses, digitalisation and big data usage to support precision farming, energy and bio-based transitions to improve resource efficiency, marketing and practices related to eco-system services, agro-ecology integrated farming practices, food system redesign based on circular economy principles, social innovations, etc. (Détang-Dessendre et al, 2018; Wezel and Soldat, 2009).

3.11.5. Knowledge exchange and information

The knowledge exchange and information intervention reflects to a cross-cutting objective on "modernising the sector by fostering and sharing of knowledge, innovation and digitalisation in agriculture and rural areas, and encouraging their uptake”. In their CAP Strategic Plan Member States will have to include a section on how to stimulate knowledge exchange and innovation (advisory services, training, research, CAP networks, pilot projects, EIP-AGRI operational groups etc.) and how to fund them. Member States can deploy series of interventions related to modernization: investment, cooperation, knowledge exchange –including training.

Farm advice is conceived as part of the overall knowledge and innovation system (AKIS) and covering all requirements and conditions of the Plan, including conditionality. As compared to the current CAP, new elements added to the farm advisory services are all rural development measures, information on financial instruments, Clean Air Directive, National Emission Ceiling Directive, Animal Health Law, Plant Health Law, practices against anti-microbial resistance; risk management, innovation support (in link with EIP) and development of digital technologies. Insight from behavioural economics strongly support the importance of sharing practices (collaborative learning), social norms and nudging alongside the tradition incentive-mechanisms, as being important for effective policy implementation.

Modern technology (in particular digital information collected automatically for instance by satellites) will also help the implementation and monitoring of performance. This will reduce the burden for individual farmers, although it may leave other aspects untouched (e.g digital factoring as a way to simplify farmer accountability).

3.11.6. Summary overview of identified strengths and weaknesses

Below (see Table 5) the results from the rural development interventions assessment are “summarized”, whereas the recommendations follow in Chapter 5.

Table 3. Summary table on Rural Development Interventions

Measure	Strengths /Positive aspects	Weaknesses/Negative aspects
Financial	Safeguard that 30% of EAFRD funding needs to be devoted to AECMs (excluding expenditure on ANC areas); Member States can transfer up to30% of their Pillar I envelope to pillar II to finance AECMs	Member States may transfer up to 15% of the EAFRF envelope to Pillar I, which then would erode the significance of the 30% devotion to AECMs requirement and could weaken the priority given to environment and climate objectives (c.f. Article 92)
Environment, climate and other commitments	The intervention covers all 9 specific CAP policy objectives and has been extended to more area specific disadvantages AECMs are likely to become more attractive for implementation at MS level, as the co-financing rate has been reduced	Eco-schemes and AECMs may not overlap and need carefully be adjusted to each other. AECMs allow for a farmer group approach, but the output and result indicators do not yet match sufficiently with group approaches
Natural or other area-specific constraints	Intervention contributes to avoid land abandonment	
Area-specific disadvantages resulting from certain mandatory requirements	Measure allows farmers to be compensated for the additional cost of specific (policy-related) mandatory requirements	
Investments	Productive & non-productive investments, either on- or off-farm are important to improve efficiency in resource use (competitiveness) and green services provision	Support for productive investments may conflicts with WTO requirements Non-productive and productive investments may be sometimes difficult to distinguish/select, which may lead inefficiency in investment support No minimum budget ceiling share specified
Installation of young farmers and rural business start-up	Together with the Young farmer support intervention (first pillar of CAP) this measure allows for fine tuning support (hectare and non-hectare related criteria)	Supporting specific producers (young farmer) in a way that will have a positive impact on production is not compatible with WTO requirements
Risk management tools	Risk management tools have not changed (except for no reference to	Member States don't have the option to oblige farmers to manage/insure risks,

	income stabilization tool anymore), but are embedded in a wider approach, combining various measures and supported by farm advisory and information sharing	though this could be a valuable option for specific cases and settings
Cooperation	Cooperation, together with investments can play a crucial role in stimulating innovation diffusion and collaborative learning.	Cost-effective support requires better insight into costs of cooperation and should avoid 'doubling'
Knowledge exchange and information.	Is important for innovation. Farm advisory services are important in making other interventions and policy implementation more effective	

4. RECOMMENDATIONS

Box 4: Key findings with respect to recommendation

KEY FINDINGS

- In this chapter 18 recommendations are made that deserved to be discussed and evaluated by the European Parliament in her deliberations on how to judge and improve the proposed DP and RDP policy interventions
- The redistribution of income support urgently needs correction for reason of fairness, efficient use of financial resources, and increasing importance of other priorities than farm income.
- To improve the capping instrument an alternative criterion based on a normative calculation of farm labour and a maximum compensation ceiling per unit of labour is recommended.
- Coupled income support should be properly balanced with the EU Single Market concept (level playing field, regional specialization and least cost-provision of food) and for that reason the percentage of farmers receiving coupled income support (evaluated at sector level) should be bound to a maximum.
- It is recommended to make eco-schemes more flexible and increase their coverage in order to strengthen a results/performance based approach in green and public services (entry level schemes) and also to make them subject to ring-fencing.
- Investment support should be primarily targeted to addressing market failures and its importance in relation to innovation, sustainability, and long-run farm viability justifies introducing a minimum spending share requirement (e.g. 5%).
- Level playing field issues need attention in case of coupled income support, some sectoral intervention measures, eco-schemes, young farmer support and investments interventions. In the case of coupled income support and eco-schemes restrictions on support (rates) are recommended. Level playing field concerns are also a reason to do checks on WTO compatibility.

As requested and based on the assessment presented in this study, a number of recommendations are made in this chapter that, according to the opinion of the author, are worthwhile to be discussed and reflected on by the AGRI Committee.

4.1. Recommendations with respect to Direct Payments

- As regards the Direct Payments the CAP reforms showed an improved targeting at several aspects (greening, support for declining sectors, young farmers), but the targeting with respect to farm income support has been lagging behind. This leads to leakage and inefficiencies in the use of the CAP's increasingly scarce resources (e.g. budget reduction). A more strict capping and redistribution are recommended to improve the income support targeting.

- In order to better target income support to those who need it, while at the same time preserving efficiency and investments contributing to longer run farm viability (productivity) the current capping criterion should be replaced by an alternative criterion based on a normative calculation of farm labour and a maximum compensation ceiling per unit of labour which is linked to income support criteria as they are used elsewhere in the economy.
- In order to preserve a level playing field and stimulate specialization in production (which is an essential aspect of having the EU single market), the voluntary coupled support instrument should be used in a more restrictive way (e.g. never apply to more than one third of a Member States' specific production at sector level) than it has been currently applied.
- Young farmer payments which are an investment in the agriculture of the future should have as a side condition that supported farmers adopt or satisfy sustainability standards.
- The role of pollinators and natural control of pests and diseases is now neglected in the proposal for the new CAP. Functional agro-biodiversity (e.g. honey bee and other 'useful' insects) should be added to the list of resources that are subject to sustainable resource use measures. Explicit recognition of this type of functional agri-biodiversity could be achieved by adding an impact indicator "Improving functional agro-biodiversity: promoting pollinators and natural pest management", and a result indicator "Improving functional agro-biodiversity: share of agricultural land covered by management commitments to promote functional agro-biodiversity".
- Eco-schemes are introduced as a new intervention to pursue environmental and climate objectives (greening), but are still open in terms of their content and impact. The Commission's plan "to bolster environmental care" justifies a minimum direct payment requirement, which might be lower than the 30% requirement in the case of the past greening arrangement to enforce a minimum ambition (e.g. a 15% – 20% minimum share of total direct payment).
- Eco-schemes require additional flexibility in order to make them better suitable as performance based delivery mechanisms (e.g. entry level schemes, point systems). The eco-schemes should allow for action-based targeted payments financed on basis of other outputs than hectares. Also its scope should be widened to include animal welfare and societal concerns. When doing so, eco-schemes could be better used as a vehicle for fairly rewarding farmers (fair price) for public goods (e.g. participation in an certified animal welfare scheme which set a higher standard than the baseline, but which it is difficult to get costs fully paid from the market in the form of a product price premium).
- As eco-schemes can provide different instruments it is recommended to let Member States propose associated output and result indicators (or linkages to existing result indicators). Moreover, farmer-beneficiaries of eco-schemes should be obliged to provide data on their eco-scheme activities and by that ensure an adequate monitoring of eco-schemes.
- As regards the capping of support it is recommended to make the condition regarding the deduction of salaries and imputed income for unpaid (farm family) workers optional in order to improve the potential effectiveness of this intervention. As capping has been interpreted as an intervention to reduce the inequality in income support. As such it is recommended to exempt those direct payments aimed at other objectives (e.g. environment and climate) than income support. Finally it is recommended to use normative farm employment and per

worker support criteria as a basis for establishing a ceiling beyond of which direct payments on income support should be capped.

- Coupled income support should be carefully managed to avoid disturbance of the level playing field and erosion of the EU's Single Market (specialisation, efficiency) concept. It is for that reason recommend to calculate the result indicator (R8: the share of farmers benefitting from coupled income support) associated with coupled income support not at a general level, but rather at sectoral level. Further on, it is recommended as a safeguard to maximize coupled income support to a share of 30% of the farmers operating in a sector at Member State level.
- In order to preserve a level playing field ceilings should be imposed on the share of farmers in a sector that at maximum can be supported by coupled income support and to the maximum payment for eco-scheme services in relation to the estimated average net cost of delivering these services.
- As Member States have to ensure that the interventions (as listed in Annex II of the Regulation) respect the provisions paragraph 1 of Annex 2 to the WTO Agreement on Agriculture, it needs to be ensured that WTO Amber Box requirements related to the CAP post 2020 are properly taken into account. This aspect is currently not clear and needs further clarification.

4.2. Recommendations of Rural Development Policy-measures

- Given the importance to strengthen sustainability (e.g. Article 92 which states that MSs should show an increase in environmental ambition) and the importance to promote long-run farm viability and accounting for the crucial role of RDP-measures in this regard, disproportionate cuts in the Pillar 2 envelopes of MSs should be avoided. MSs having a lower than EU-average Pillar 2 expenditure should be further restricted in the flexibility to shift money from Pillar 2 to Pillar 1.
- To improve the proposed investment support intervention and taking care for preserving a level playing field, the Commission should provide guidance to Member States on selection criteria, having due regard to their transparency and check that Member States apply appropriate procedures for the selection of projects.
- Investment support should address market failure (relate especially to NPI and restoring farmer assets after calamities.
- The importance of investment in relation to innovation and sustainability, and their contribution to long-run farm viability justifies introducing a minimum spending share requirement (e.g. 5%).
- Investments and Young farmer support need a careful specification in order to ensure a level playing field and compatibility with WTO requirements.
- Risk management need to be embedded in a broad approach (including awareness raising, farmer advice, accounting for interactions between various policy measures and private sector provisions) in order to contribute to a consistent, tailored and effective policy. Member States should have the option to make specific types of risk insurance obligatory (include risk management in 'conditionality').

4.3. Concluding remarks

As a general conclusion it could be stated that the CAP offers a rich menu of instruments and large flexibility to Member States with respect to policy measure implementation options. Recalling the Frisch-Tinbergen policy optimization framework (see Chapter 2), Member States have a lot of options to optimize on the mix op policies to achieve CAP specific objectives, while taking into account Member State specific conditions. As such the CAP and its effectiveness in pursuing policy objectives is now largely at the hands of the Member States.

In conjunction with the 'from compliance to performance'-based philosophy, Member States have to define target values for output and results-indicators, which then play a key role in the annual 'performance clearance' and the reimbursement by the EU Commission of payments made by Member States that is dependent on this. In order to avoid risks with not achieving indicator levels, this is likely to induce Member States to propose modest and prudent ambitions in terms target indicator values and/or to choose those instruments for which such target values are, in relative terms, easy to predict and achieve.

As the indicators are part of Title II of COM(2018 392; Article 7), in the previous assessment reference to indicators has been made only incidentally (e.g. for the eco-schemes and functional agro-biodiversity) but this issue is of key importance (see also the separate contribution on The CAP Strategic Plans beyond 2020 by Erjavic (2018)).

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This study provides an assessment of the structure and type of interventions as proposed by the European Commission on the CAP beyond 2020 (Title III of the proposal COM(2018) 392). All Direct Payment and Rural development interventions have been examined in the context of the main agricultural and environmental challenges the EU faces. A set of recommendation is made for the improvement of specific instruments and to address policy priorities and level playing field concerns.

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