The CAP support beyond 2020: assessing the future structure of

Direct payments and
Rural Development interventions

in the light of the EU agricultural and environmental challenges

R. A. JONGENEEL
Wageningen Economic Research
Structure of the Presentation

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1. Introduction

- Challenges in farm income, environment/climate, rural areas

- Need for targeted and tailored policy interventions, taking into account the MS heterogeneity

- Legislative proposals
  - Direct payments: changes in specific CAP objectives (climate), delivery model (subsidiarity), architecture and key principles
  - RDP: changes in priorities and budget allocation
2. Aim and approach (1/2)

- Focus on Title III for the new CAP (COM(2018) 392)

- Assessment of the proposed interventions:
  - 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.

- Necessary ingredients in the policy optimization framework
2. Aim and approach (2/2)

- Positioning assessments if a policy optimization framework

Frisch-Tinbergen policy optimization framework:

- Have sufficient, effective policy measures,
- that are well-combined
- to achieve target values on specific policy objectives
3. Direct payments (1/2)

- Farm income support is suffering from inequalities in distribution, lack of targeting and lack of need-oriented criteria
- New CAP is addresses this problem to a limited extent
- Enhanced conditionality contributes to a baseline, which goes beyond the current level
- Eco-schemes (ES) create possibilities to reward farmers for actions improving climate and environment
- Room to further enlarge potential and coverage of ES
3. Direct payments (2/2)

- Obligatory reduction of direct payments (capping) is not likely to be very effective due to mandatory side condition to deduct the salaries of (un)paid workers

- Coupled income support for sustainability should be used in a targeted (or discriminatory) way

- Level playing field concerns:
  - enhanced conditionality
  - payments for eco-schemes
  - coupled income support/sectoral interventions

- Limited ‘guidance’ on climate measures
4. Rural development (1/2)

- RDP policy: from compliance to performance
- Agri-environment, climate and other management commitments have a wide coverage 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 and addressing MS/regional heterogeneity
- Investment intervention addresses many challenges and facilitates transition to a more sustainable agriculture while ensuring its long term viability.
4. Rural Development (2/2)

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

- Risk management needs to be part of broad approach (coherence, MS/regional heterogeneity)

- Cooperation and Knowledge and information sharing interventions may play key role in an effective innovation and farm modernisation strategy

- Support and extension of Farm Advisory Services is to be welcomed
5. Recommendations (1/7)

Income support

- Alternative criterion for capping, based on:
  - a normative calculation of farm labour, and
  - a maximum compensation ceiling per unit of labour

- Make the condition regarding the deduction of salaries and imputed income for unpaid (farm family) workers optional

- Exempt payments aimed at other objectives (e.g. environment and climate) from capping
5. Recommendations (2/7)

Income support

- Coupled income support instrument should be used in a restrictive way to preserve a level playing field (e.g. maximum share of 30% of production at sector and MS level)

- Young farmer payments should have as a side condition that supported farmers adopt or satisfy sustainability
5. Recommendations (3/7)

Eco-schemes

- Plan “to bolster environmental care” justifies a minimum direct payment: 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)
  - should allow for action-based targeted payments financed on basis of other outputs than hectares
  - its scope should be widened to include animal welfare and societal concerns
5. Recommendations (4/7)

Rural Development

- For Investment support guidance on selection criteria is needed and transparency in selection of projects.

- Investment support should primarily address market failure (relate especially to NPI and restoration of farmer assets after calamities).

- Importance of investments (innovation, sustainability, long-run farm viability) justifies introducing a minimum spending share requirement (e.g. 5%).
5. Recommendations (5/7)

Rural Development

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

- Risk management needs to be embedded in a broad approach (including awareness raising, farmer advice, accounting for interactions between various policy measures and private sector provisions).

- Member States should have the option to make specific types of risk insurance obligatory (e.g. include risk management in ‘conditionality’).
5. Recommendations (6/7)

Level playing field

- 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
  - the maximum payment for eco-scheme services in relation to the estimated average net cost of delivering these services
- Investments and Young farmer support need a careful specification in order to ensure a level playing field and compatibility with WTO requirements
5. Recommendations (7/7)

Financial and Other issues

- 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
- 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
6. Concluding remarks

- CAP offers a rich menu of instruments and large flexibility to MSs with respect to policy measure implementation options

- Issue of Indicators (topic of previous assessment) is crucial (e.g. eco-schemes)

- MSs might be induced to propose only modest 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