

STEPHAN VON CRAMON-TAUBADEL

# Opening statement: What needs to change in the CAP?\*

Veranstaltungsreihe: Europa, aber fair!

Representation of Lower Saxony to the European Union

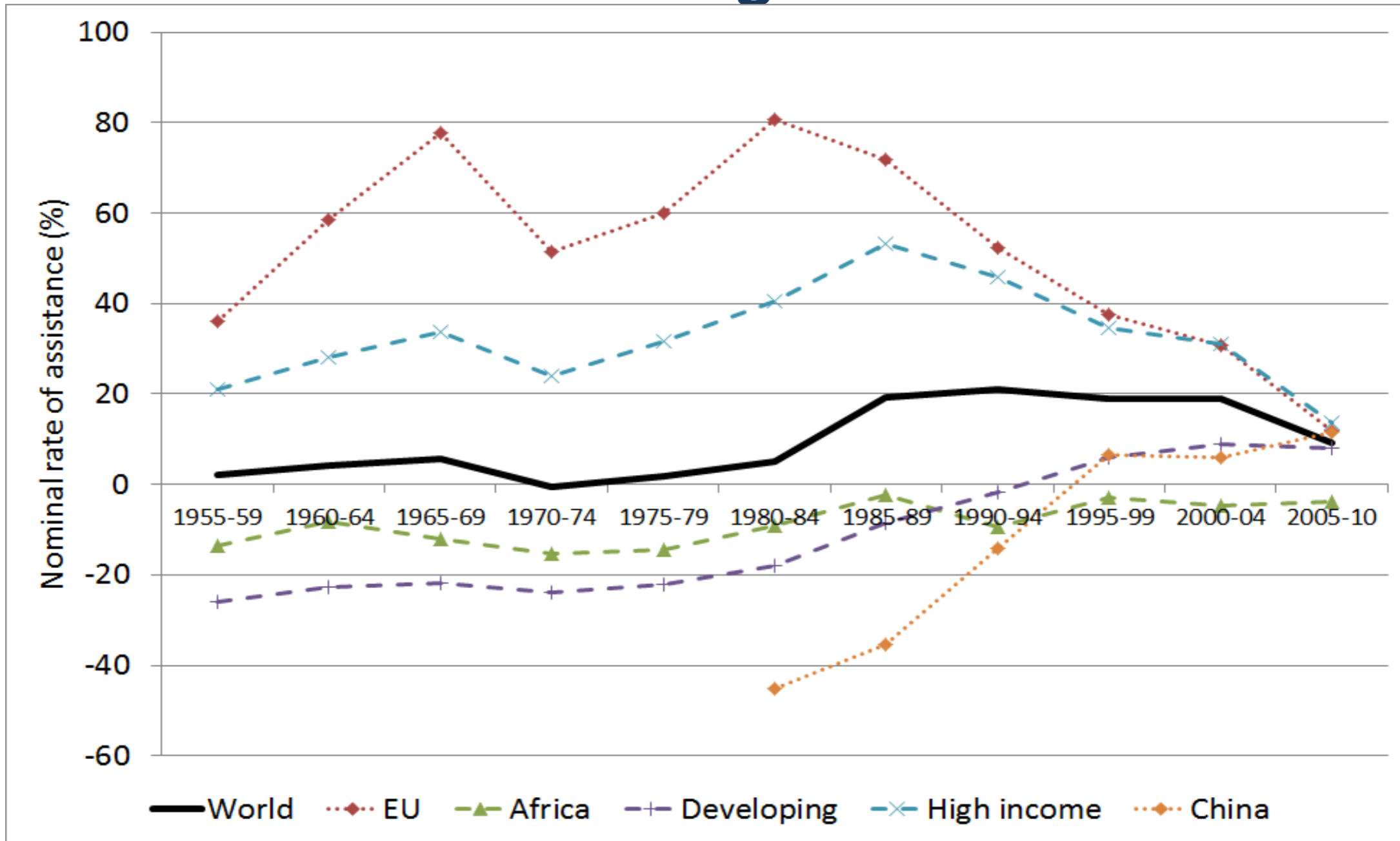
June 6, 2017

\* This presentation draws on a cooperative project with the *Bertelsmann Stiftung*, which will publish a comprehensive policy paper on the CAP and the next MFF in the coming weeks

# The CAP has come a long way

- Credit, where credit is due
- The CAP underwent a series of ambitious reforms from the early 1990s to mid-2000s
- EU has contributed more to the reduction of global agricultural distortions than any other major player on world markets
- As a result, the CAP has become much less harmful to third countries
- CAP reform has contributed to agricultural policy convergence and a more level playing field at the global level

# Rates of assistance to agriculture: 1955-2010



Source: Anderson and Nelgen (2013).

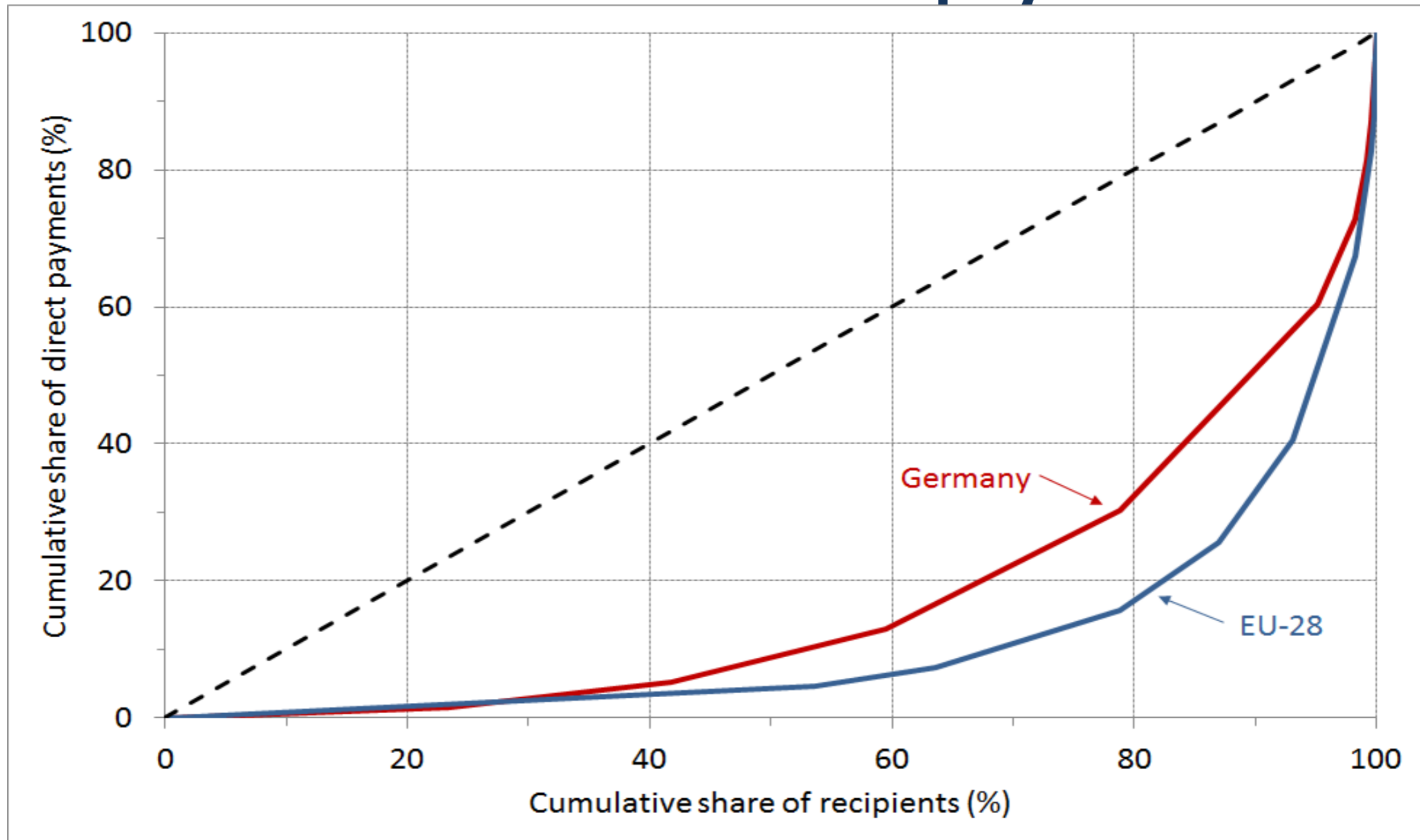
## However, there is still a long way to go

- Direct payments made the reforms of the 1990s and 2000s politically possible
- Compared with price supports and export subsidies, direct payments are indeed benign
- But are they useful?
- After all: roughly €40 billion/year, 71% of CAP budget, 29% of EU budget
- Two main justifications are proposed – income support and greening – but performance on both counts is poor

# Income support (I)

- **There is no mandate for income support payments in the Treaties**
- **Even if there were, CAP direct payments provide poorly targeted, regressive income support**

# The distribution of CAP direct payments: 2015



Source: EU Commission (2016).

## Income support (II)

- Using FADN data, Matthews (2016) estimates that 750,000 farms in the highest 10% farm income category receive 55% of all direct payments, or roughly 15% of the entire EU budget

## Income support (III)

- No comprehensive data available on the income situation of EU farm households that could be used to target direct payments
- *“The Commission has not clearly established the statistical data needed to effectively assess the performance of CAP measures in support of farmers’ incomes. No representative data are available on the disposable income of farm households, which would facilitate assessing the achievement of the treaty objective of ensuring a fair standard of living for farmers.”* European Court of Auditors (2016)
- Where such data are available, they show that farm-related and off-farm income is substantial
- If direct payments are providing income support to needy farm households in the EU, it is by accident and not by design



# Greening

- **Consensus among experts is that greening is unlikely to produce substantial increases in the provision of environmental services by farmers**
- **Certainly no evidence that greening will produce more environmental benefits per Euro of spending than other possible measures**
- **Not surprising, as greening was not designed with the primary aim of maximising environmental benefits...**
- **... but rather to shore up the justification for direct payments**
- **Do policy makers truly believe that each farmer in the EU produces environmental benefits in proportion to the volume of direct payments that he/she receives?**

## In summary

- **Direct payments played an important role in enabling the CAP reforms of the 1990s and 2000s**
- **They are comparatively harmless**
- **But they are wasteful and inefficient**
- **As the EU faces an existential crisis, it is not enough that €40 billion of spending be harmless – it must be useful!**

# The European opportunity costs of CAP spending

- ... are immense
- Each Euro wasted on direct payments is a Euro that cannot be spent to address priorities in migration policy, securing European borders, European transportation and energy infrastructure, European education and research, etc.
- Urgent need to focus not on defending the CAP budget but rather on freeing up budget resources for new priorities

# What needs to change in the CAP (I)

- Phase out direct payments through to the end of the next MFF in 2027
- Social policy is a national and not an EU responsibility – fighting poverty in the farming community should be left to national social policy systems with their established procedures for means-testing and delivery
- In accordance with Article 39 of the TFEU, goals (a) and (b), the CAP should focus on fostering agricultural productivity, also as a means of improving standards of living in agriculture
- Emphasis on education, research, technology transfer, early retirement and consolidation to encourage the establishment of sustainable farm units
- Possible compromise: co-financed direct payments?

## What needs to change in the CAP (II)

- **Measuring a farm's productivity means comparing the inputs that it uses with a comprehensive measure of its outputs, including environmental goods and cultural amenities**
- **The CAP productivity goal therefore provides a mandate for targeted and efficient measures designed to increase the provision of such non-market goods**
- **However, EU policy should be limited to non-market goods of European dimension in areas such as climate change, transnational watersheds and other cross-border measures**
- **Environmental bads – polluter pays!**

# Overcoming resistance

- Resistance to change will come from member states' fixation on '*juste retour*'
- The Brexit provides an opportunity to break this mould as it will inevitably disturb the current balance of net contributions
- An opportunity for Germany to display leadership
- Reject the 'logic of communicating Pillars' whereby any money saved in Pillar I must automatically be shifted to Pillar II, and *vice versa*
- There is no compelling reason why CAP reform should be restricted to zero-sum reallocations between Pillars
- Allocate scarce EU budget resources across policy areas to maximise European value added, not preserve budget envelopes

# Thank you!

## Literature

Anderson, K. and Nelgen, S. (2013): Updated National and Global Estimates of Distortions to Agricultural Incentives, 1955 to 2011. Spreadsheet at [www.worldbank.org/agdistortions](http://www.worldbank.org/agdistortions). World Bank, Washington DC.

EU Commission (2016): Annex 1: Indicative figures on the distribution of aid, by size-class of aid, received in the context of direct aid paid to the producers according to Council Regulation (EC) No. 73/2009 (Financial Year 2015). Brussels.

Matthews, A. (2016): Focus on the distribution of direct payments. Blog post on <http://capreform.eu/focus-on-the-distribution-of-direct-payments/>, August 26, 2016.

# The Goals of the CAP, Article 39 TFEU

The objectives of the common agricultural policy shall be:

- a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- b) **thus** to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- c) to stabilise markets; i.e. via productivity increases, not income support!
- d) to assure the availability of supplies;
- e) to ensure that supplies reach consumers at reasonable prices.



# ‘Consultation’ is not the answer!

- Exercise in framing – answers depend on how questions are posed
- For example, one might have asked the following question:

*In Germany in 2015, fewer than 5% of the farms that received direct payments received almost 40% of these payments. On average, these 15,346 farms each received a payment of roughly €132,500. No effort was made to measure the farmers’ incomes or wealth and thus determine whether they actually require income support. In your opinion, such payments are:*

*Unjustified*       *Justified*       *Do not know*

- The 322,912 responses received correspond to 0.064% of the EU population; 47% of all responses from Germany, many of these ‘automated’
- Interesting exercise, but no reliable indicator of society’s concerns or priorities