The CAP after 2013: An assessment of the Commission's proposals for changing Pillar I

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The proposed changes for Pillar I

Budgetary Committments 2007-2013 and 2014-2020

	2007-2013	2014-2020
Total	413.06 Bill. €	386.9 Bill. €
Out of which		
Pillar I Direct payments and market related expenditure	330.085 Bill. €	281.8 Bill. € (-15%)
out of which area based		197.26 bill. € (70% out of 281.8) (- 40%)
Greening		84.54 bill. € (30% out of 281.8 bill. €

First result

- Significant cutting of direct payments
- There will be two forms of direct payments
  - Component A: Basic payments about the same form as in the past, but much lower (70 % of total for Pillar)
  - Component B: Greening 30% of total expenditure for Pillar I
- Income effect differs significantly
  - **Component A declines by about 40 % in nominal terms**
  - Component B leads to a much lower income effect
  - Real income due to direct payments will go down much more due to inflation and EU enlargement

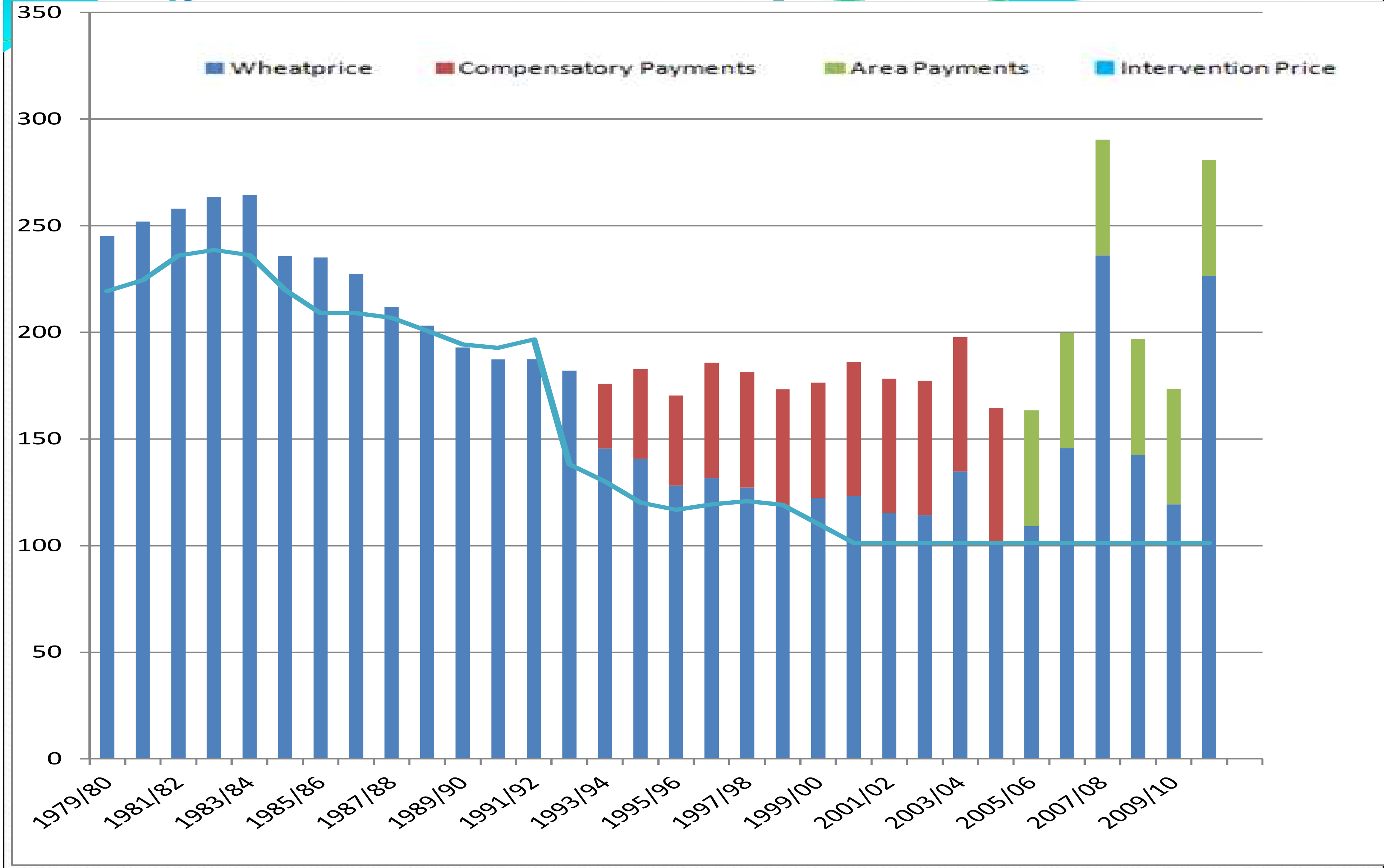
The need to change direct payments from a purely economic perspective

- Whether there is a need or not depends on a value judgment
- The task of economists can be
  - to deliver facts and
  - To deliver the basis for value judgments by relating to general principles in the society

The need for a new justification for direct payments is

- The justification of direct payments was based on income losses for farmers in the EU- 15 due to price cuts
- The original justification is not any more convincing for most the non-farming population
- Prices are higher than in the period before the price cut and will likely go up further

Figure 1: Wheat prices and attributed direct payments



Source: EU Kommission

A new justification for direct payments: Basic income support

- Norm: Policy should be evidenced based and targeted!
- Do we have data on income of farmers?
- Information provided by the Commission
  - Average income from farming can be less than household income
  - Agricultural income per work unit is misleading, part-time on farms enhance household income
  - **Average income is an inadequate indicator for social measures**

Figure 2: Evolution of agricultural income as a share of average income on the economy

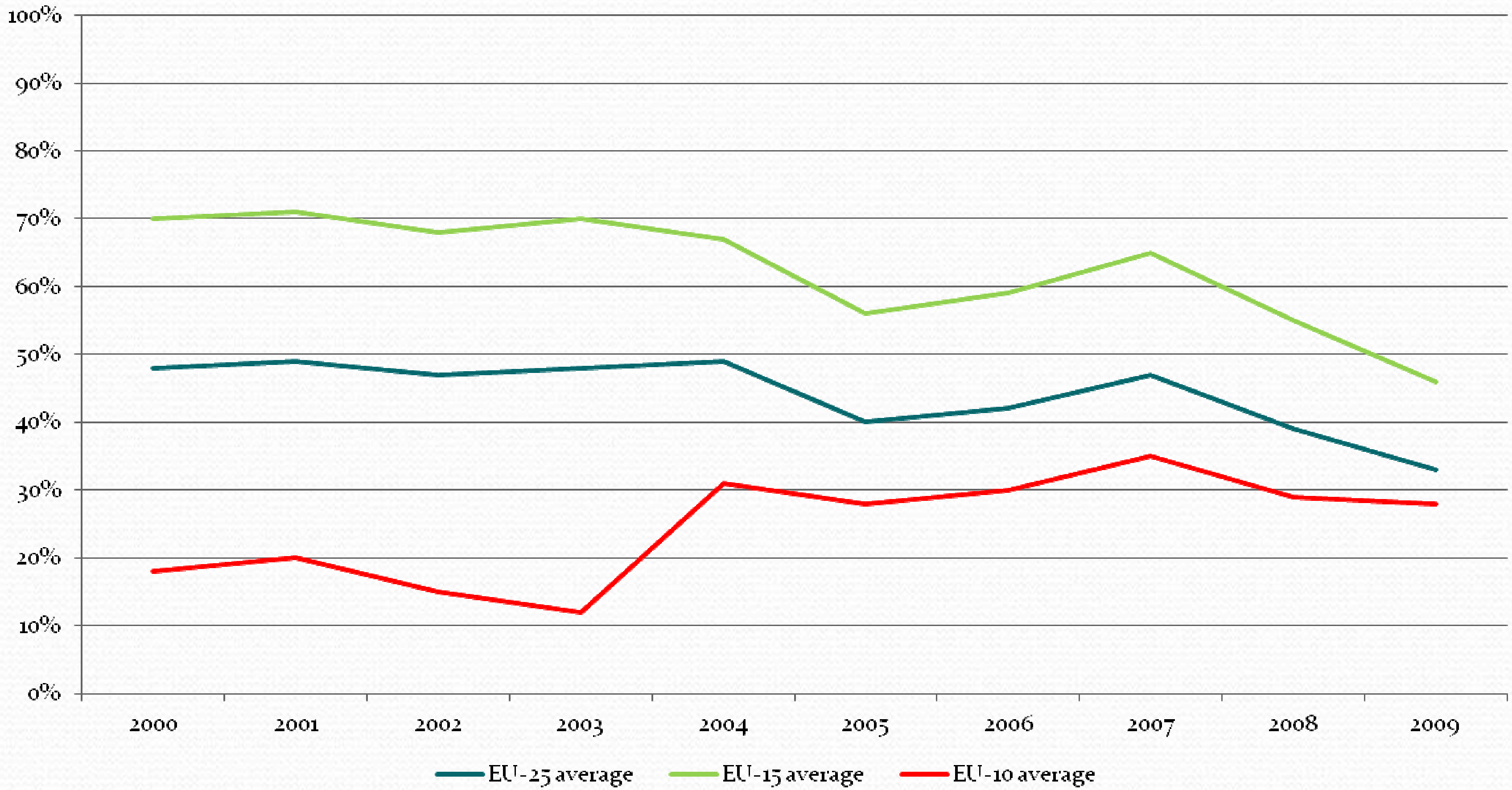
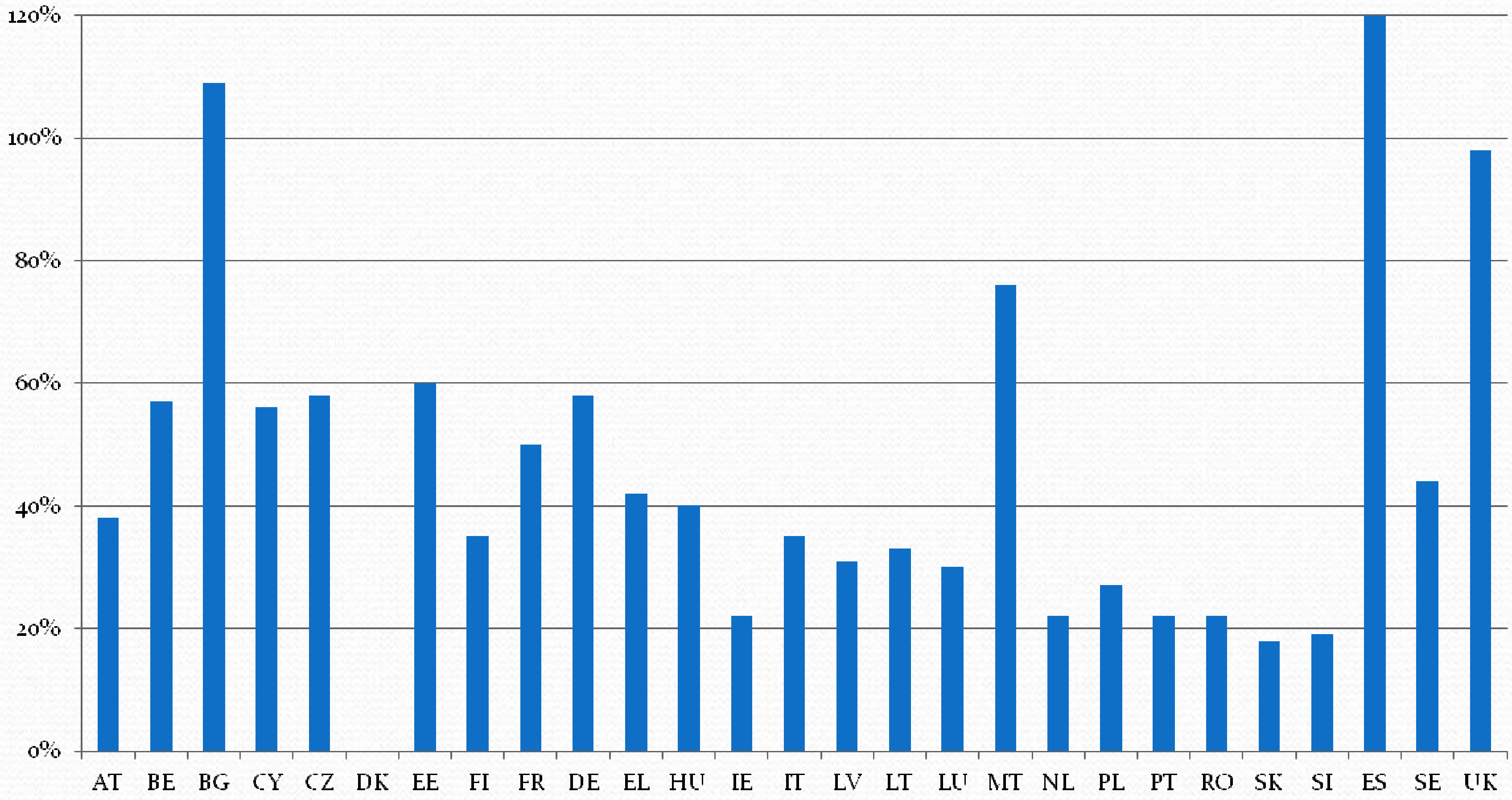


Figure 3: Agricultural income as a share of average income in the country per Member State (2008-2009)



Lack of coherence

- Social policy is a matter of member states
- **The new measure is in conflict with the principle of subsidiarity**
- **The new measure is in conflict with the principles of national social policies**
  - These policies are generally based on individual household income
  - National policies take wealth into account

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  - These policies are generally based on individual household income
  - National policies take wealth into account
  - National policies are not based on resource endowment
  - National policies are generally not sector-specific
  - Direct payments tied to area favor land owners
  - National policies aim at leveling income distribution and, thus, are in conflict with area payments

Table 1: Distribution of EU states according to the share of rented land in 2007

Share of rented land	State of the EU
15-30%	Ireland (16.5%); Poland (27.5%); Denmark (28.3%)
30-45%	Austria (31%); Slovenia (31.8%); Portugal (31.8%); Spain (33.6%); Finland (34.8%); Italy (38.8%); Netherlands (40.3%); Romania (41.5%); **Great Britain (42.6%);** Greece (43%); Latvia (44.6%)
45-60%	Luxembourg (50.7%); **EU (52.5%)**; Sweden (53.4%); Estonia (59.8%)
60-75%	Lithuania (60.1%); Cyprus (64%); Hungary (67.2%); **Germany (70.5%);** Belgium (74.1%)
75-90%	Malta (81.2%); **France (84.5%);** Czech Republic (87.9%); Bulgaria (89%)
above 90%	Slovakia (96.3%)

Source: STŘELEČEK, F., LOSOSOVÁ, J., ZDENĚK, R.: Farm land rent in the European Union. Acta univ. agric. et silvic. Mendel. Brun., 2011, LIX, No. 4, pp. 310.

Greening component of Pillar I

- Money allocated is not related to the environmental problems on the regional level and to the willingness to pay of the population in the region
- Concentration on land set-aside is not well targeted and therefore costly
- Production of environmental effects is not only and even mainly related to unused land, but needs capital investment
- Environmental effects do not mainly depend on the amount of land set aside
- Policy is not well targeted and, hence, inefficient.

Summary I

- The proposal of the EU Commission mainly aims at defending the budget share for agriculture and rural development
- The proposal is not based on past and expected changes in the economic environment in the EU and worldwide
- The proposal does not reflect the findings by independent researchers and the European Court of Auditors

Pillar I are not well targeted

Summary II

- Direct area payments will decline significantly, by more than about 40 % in nominal terms
- The new justification of direct payments is not convincing
- Basic direct payments are not in line with
  - the principle of subsidiarity
  - Principles of national social policies
- The greening component includes measures which are not well targeted
- A policy which is not well targeted is too costly