

# THE CHALLENGES FOR THE CAP AFTER 2020: DOING MORE WITH LESS

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# Why another CAP revision now?

- Three reasons:
- Dissatisfaction with complexity of the last reform
  - **Simplification** and greening
- New challenges
  - **Modernisation**
- Justify CAP share in post-2020 Multiannual Financial Framework
  - **Budget**

# Prospects for the CAP budget

- **Pressures** on EU budget spending
  - New EU priorities
  - Brexit
  - Commission, Reflections Paper on the Future of EU Finances

# Commission Reflection Paper on EU Finances

## – 5 ‘illustrative scenarios’

No	Scenario	EU budget	CAP share	Agricultural policy priorities
1	Carrying on	Stable	Lower	Better targeting of support on farmers with special needs and risk management, investment in RD (especially agri-environment)
2	Doing less together	Smaller	Lower	Support only for farmers with special needs and risk management tools
3	Some do more	Stable+	Lower	As in Scenario 1
4	Radical redesign	Smaller	Lower	As in Scenario 1
5	Doing much more together	Increased	Higher amount	Not specified

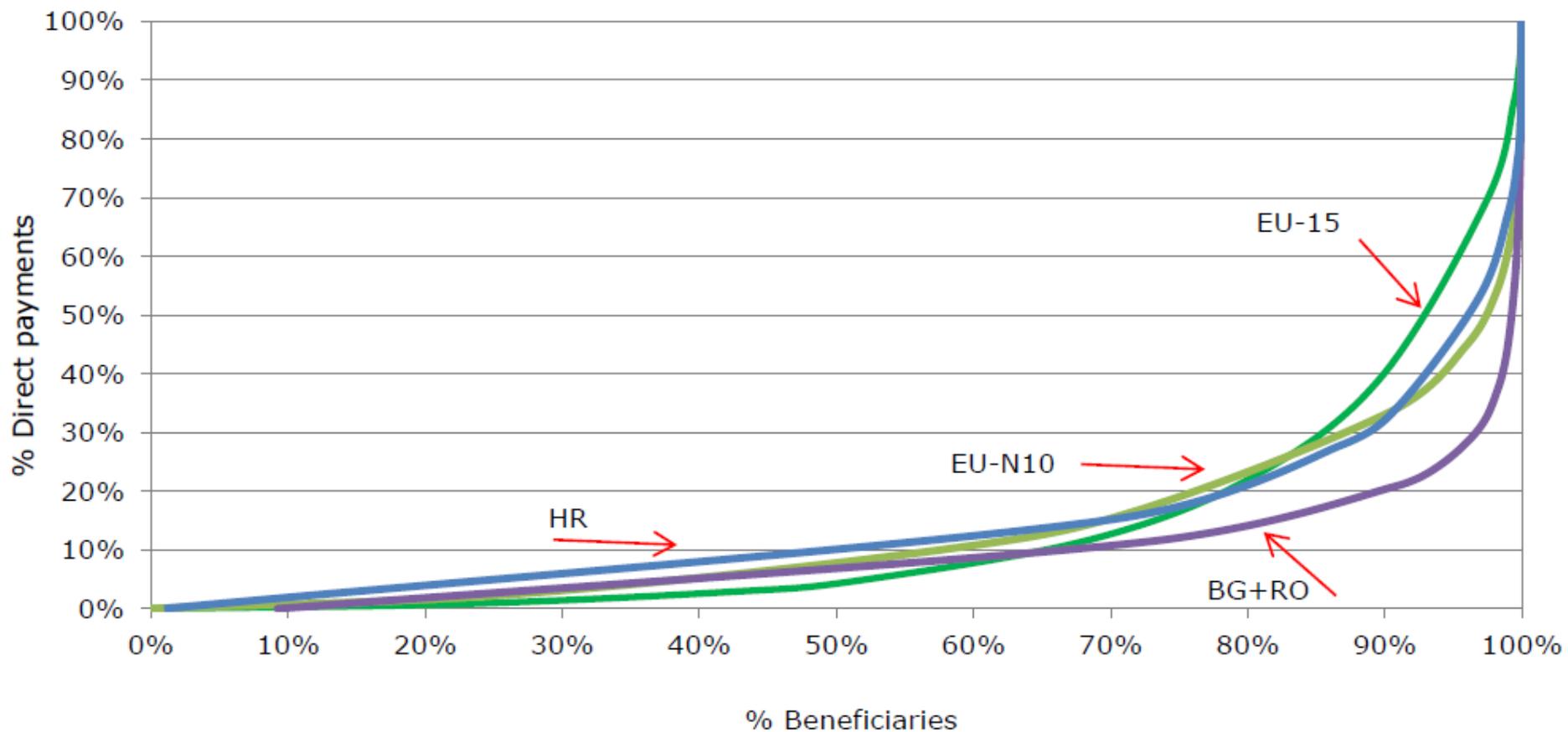
# Prospects for the CAP budget

- Pressures on EU budget spending
  - New EU priorities
  - Brexit
  - Commission, Reflections Paper on the Future of EU Finances
- Assuming a smaller CAP budget, **where should the cuts fall?**
  - Pillar 1 or Pillar 2?
- Member State **distribution**
  - Further movement towards external convergence?
  - Even greater flexibility to shift funds between Pillars, assuming Pillars continue?

# Future of direct payments

- Most direct payments go to relatively few farms with incomes well above the median income
  - There are 337,000 large farms (> 100 ha) out of 7.5 million payment beneficiaries which manage 52% of the EU's utilised agricultural area
  - There is no problem in making payments to large farms per se, if they are providing **non-marketed services** to society – but do not try to justify direct payments as income support!

### Distribution of direct payments between beneficiaries in the EU in financial year 2014

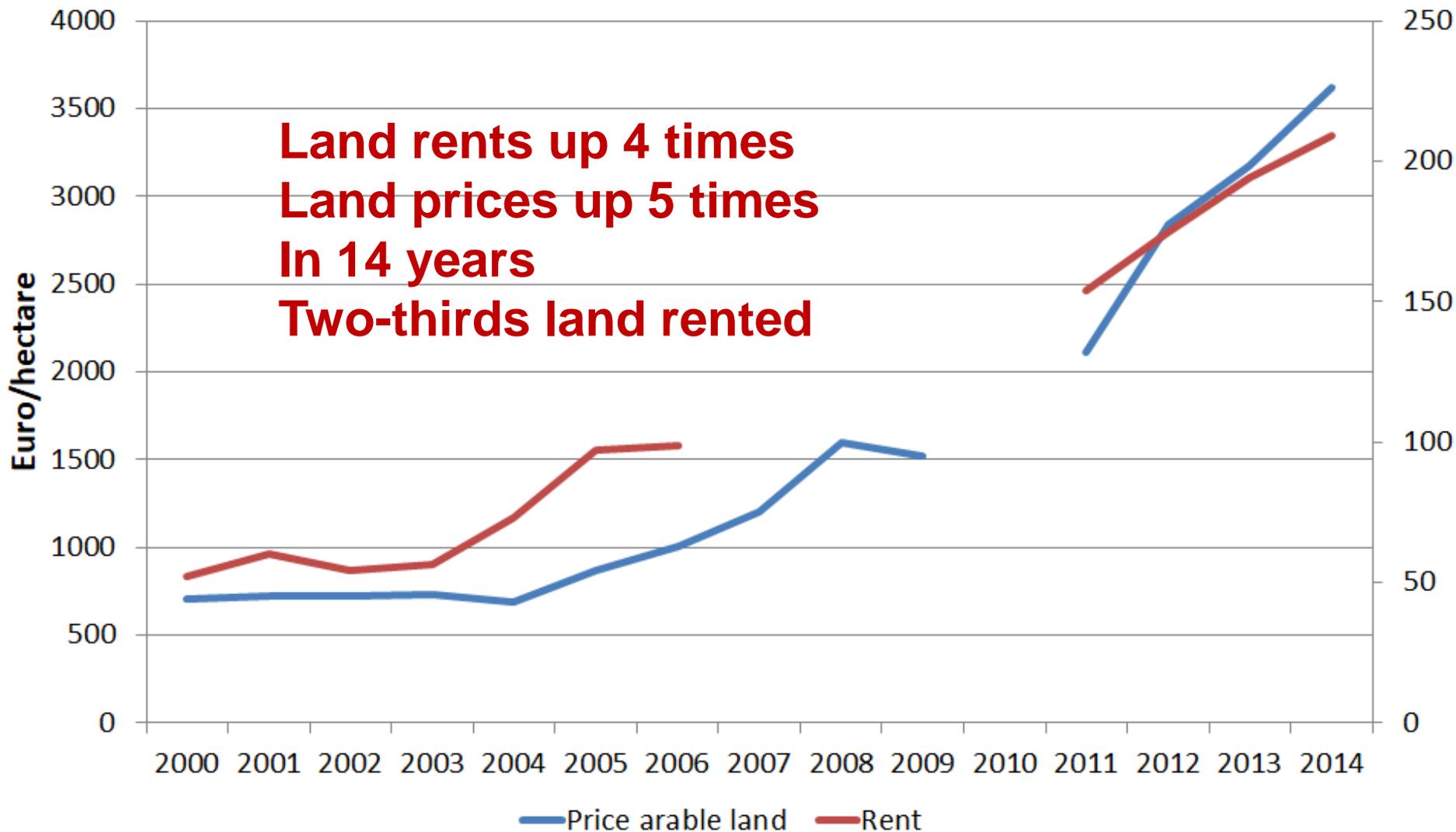


Source: DG AGRI

# Future of direct payments

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- **Not all direct payments go to increase farm incomes**
  - Due to capitalisation and leakages

## Trend in land values in Bulgaria since 2000



# Future of direct payments

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- Not all direct payments go to increase farm incomes
  - Due to capitalisation and leakages
- Small farms often add to low farm income with off-farm income
  - Although statistics are poor, no evidence that average farm household incomes lie below average non-farm household incomes in EU-15
- Many farms depend heavily on direct payments
  - Continued transfers to many of these farms are justified, but are unconditional area-based payments the right instrument?
- Agricultural support in the longer-term influences the structure of agriculture, but not the level of farm income

# Future of direct payments

- Commissioner Hogan sees **continued role for direct payments** to provide basic income support
- These payments currently account for over 70% of CAP expenditure and nearly 30% of the entire EU budget.
- They do not serve well the purpose of income support of the most needy farmers
- They are **inefficient instruments** to address food security, risk management, efficiency of resource use, and the delivery of rural environmental services
- While public support to farmers can be justified, the **current level of dependence on a general income support payment was never envisaged and cannot be sustained**

# Future of coupled payments

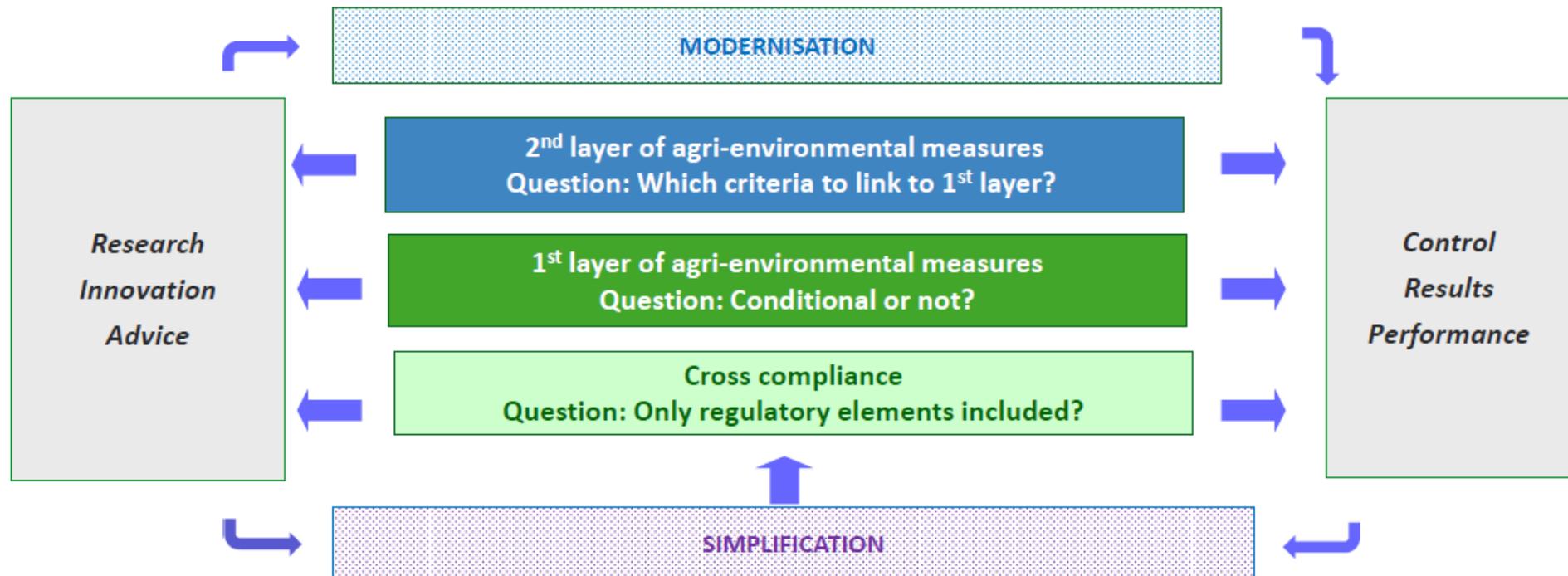
- CAP 2013 reform **loosened constraints** on Member States providing coupled payments
  - More sectors eligible
  - Ceiling on share of coupled support raised (8%, 13% or 15%)
  - Sectors must be experiencing economic difficulties
  - May only be granted to maintain current levels of production
- Coupled payments have **no EU value added** and set farmers in one Member State against farmers in all others
  - During 2014-16 milk crisis every second dairy cow in EU received coupled support
- Coupled payments are **wasteful and inefficient** and do nothing to improve long-term competitiveness
- Coupled payments undermine case for lower trade-distorting supports under **WTO rules**

# Future of land management

- **P2 payments** target significant environmental improvements over period 2014-2020 for a budget of €6 billion per annum (49% of P2 budget)
- **P1 greening payment** costs €12 billion per annum with very limited environmental outcomes to date
- Using P1 direct payments to achieve environmental outcomes inevitably constrained by requirement that they be 'simple, generalisable and annual'
  - Environmental interventions should be place-based, targeted and developed in consultation with local land-owners and farmers
- Great scope to deliver **much greater environmental outcomes for the same or less money** if payments system were redesigned

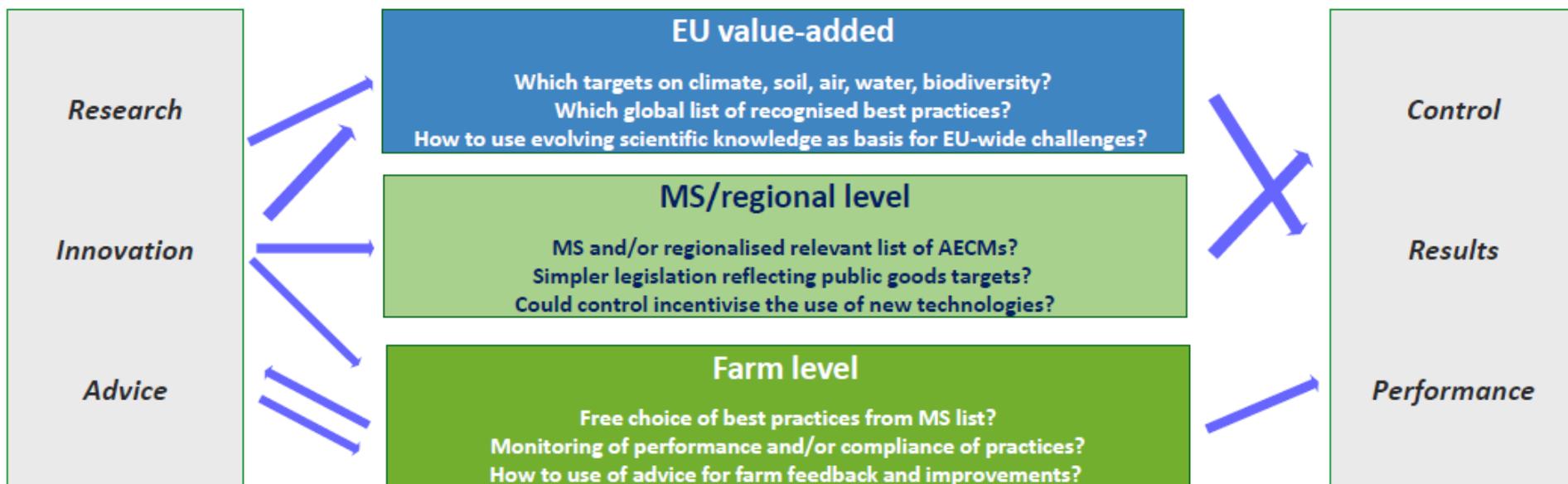
# Land management options

Greening raised questions on the link of its layers...



# Land management options

...that need an answer with a better distinction of tasks



# Future of risk management

- Direct payments are a more **stable component** of farm income than market income
  - But this is true of all forms of direct payments, including P2 payments, and not uniquely a characteristic of P1 payments
- Decoupled direct payments are **not well targeted** to address farm income volatility
  - Direct payments often smaller on farms facing greatest income variability
  - Direct payments are fixed regardless whether farm incomes are high or low
  - Recent experience shows that farmers look for exceptional market measures and do not consider direct payments a crisis response

# Future of risk management

## Risk management under the CAP

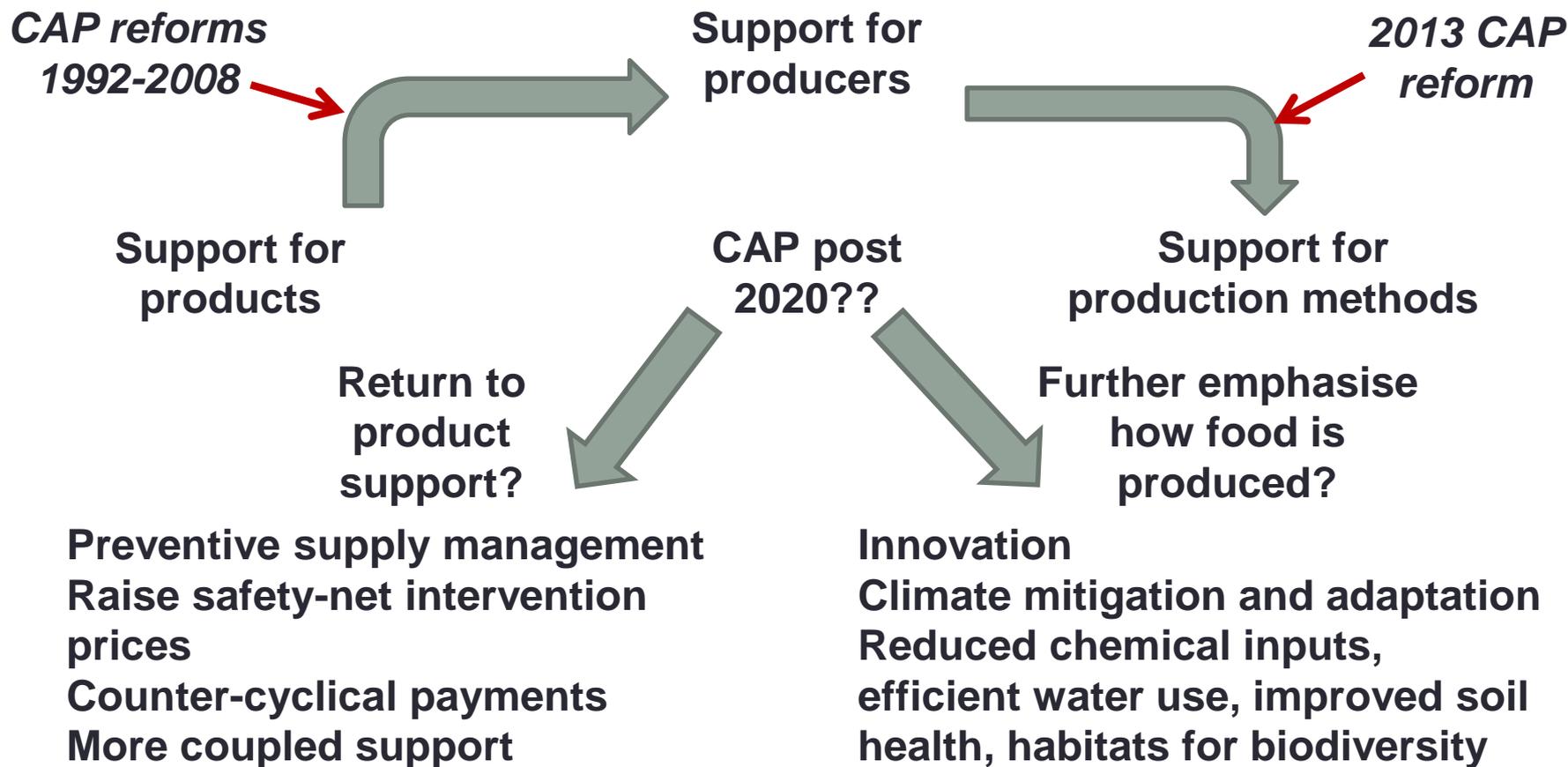
	Insurance	Mutual funds
Production risk (weather, disease, environmental incident)	Crop and animal insurance	Compensation for losses
Revenue/income risk (severe drop in income)	COMAGRI proposal	Income stabilisation tool

Need for **holistic approach** to risk management (OECD)

How to make risk management tools **more attractive**?

Should risk management be **delivered** at EU or national level?

# Which direction for CAP after 2020?



# Parallel processes

- **Omnibus Regulation** on financial simplification (Sept 2016)
- Initiative to **improve the food supply chain** (July 2017)
  - Public consultation opened
  - Outcome on whether to present legislative or non-legislative proposals Spring 2018

# Political and scheduling constraints

- Can co-legislators agree within 12 months of Commission publishing legislative proposals?
- Will European Parliament agree to draft its opinion before it knows the outcome of MFF negotiations?
- How will elections in key Member States in 2017-18 affect AGRIFISH Council perspectives?
- If no agreement by March 2019, given need for lead-in time for paying agencies to adjust systems, **will there be a 'CAP-light' reform** with slight tweaks with major reform postponed to early 2020s?

## Further reading

- Matthews, A., Salvatici, L. and Scoppola, M., [Trade Impacts of Agricultural Support in the EU](#), IATRC Commissioned Paper 19, St Paul, Minnesota, International Agricultural Trade Research Consortium, 2016
- Buckwell, A., Matthews, A., Baldock, D. and Mathijs, E., 2017, [CAP - Thinking Out of the Box: Further modernisation of the CAP – why, what and how?](#) RISE Foundation, Brussels
- Matthews, A., [The future of direct payments](#), Brussels, European Parliament Directorate-General for Internal Policies, Policy Department B: Structural and Cohesion Policies, 2016
- Matthews, A. The Potential Implications of a Brexit for Future EU Agri-food Policies, *Eurochoices*, 15(2), 2016, pp. 17-22
- capreform.eu website

**THANK YOU FOR LISTENING**

## Importance of direct payments by farm system, EU-27, 2011-2013

	Field crops	Horticulture	Wine	Other permanent crops	Milk	Other grazing live-stock	Grains - vorees	Mixed	Total
<b>Farm income depending on direct aids</b>	55%	7%	9%	29%	41%	70%	22%	61%	44%
<b>Farm income depending on other subsidies</b>	13%	3%	5%	7%	17%	31%	8%	21%	15%
<b>Farm income depending on market factors</b>	32%	90%	87%	64%	42%	-1%	69%	18%	41%

Source: Own calculations based on DG AGRI, FADN public database