

# **LE POLITICHE DI SVILUPPO RURALE IN EUROPA**

*profili attuali e proposte di riforma*

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## **Il futuro del primo pilastro della PAC: nuove opzioni per una riforma**

**Allan Buckwell**

Chief Economist, Country Land and Business Association

Chairman of Policy Group of the European Landowners  
Organisation



# Pillar 1 payments and supports

Two time horizons

- **Until 2012**
  - Commodity support
  - Decoupling
  - Switching the focus of policy
- **Beyond 2012**
  - The shrinking of production payments
  - What remains of the first pillar?

# **The 2003 reform – until 2012**

The budget limit for heading 1a is set

The key decisions now are:

- To complete the move from commodity support (MacSharry process)
- To decouple payments or not
- To switch balance within Pillar 1 and between Pillars

# The future of pre-MacSharry commodity supports

- High prices supported by intervention, supply management, X subsidies & hi tariffs have no future, i.e. milk, sugar, others...?
- This is driven by economics. WTO constraints on subsidised exports and market access. Strong developing country pressure.
- This implies compensation = expensive.
- It implies more exposure to international markets, hence more volatility.

# Decoupling the Direct Payments

## For internal and WTO reasons

- To reduce the production & environment effect of present supports.
- A step towards payment for better land management
- For WTO: to make them less trade distorting, Green Box
- To make them more visible & thus open to future cuts
- Partial decoupling is the worst of all worlds

# But decoupling is risky

## Five problems

- Abandonment of farming, especially high nature value systems
- Cross effect for unsupported crops
- The initial allocation of payment entitlements
- The independent transaction of entitlements and land. So: tie to land; pay to occupier; move only with land
- Cross compliance is a poorly adjusted instrument for delivering environmental services

# Switching the balance within Pillar 1 and between Pillars

## Why?

- To reform the unreformed sectors
- To redistribute amongst farm sizes (= true modulation)
- To redistribute between member states
  - To help fund enlargement.
  - To redress the 'unfair' shares of past policy
- To redefine the purpose of the policy – meaning switch from production based support to Rural Development and Agri-Environment

# Switching the balance within, and between, functions

How?

- **Voluntary mechanism** (A4 1259/99)
  - MS flexibility about rate and method
  - MS keeps all the money
  - But competition effects
  - The need for match funding.
- **Compulsory mechanism** (2003 proposal)
  - Rigid EU-wide decision on rate (and method?)
  - Redistribution of funds (area, labour, GDP)
  - The co-financing issue



# Switching the balance within and between functions:

## Are the Pillars helpful?

- Co-financing of Pillar 2 measures is an obstacle to policy change, so it must change.
- The real distinctions between P1 & P2 are the functions and mode of operation of measures

### Pillar 1

Compensation	v
Annual payments	v
EU-wide	v
Commodity defined	v

### Pillar 2

Investment
Multi annual
Regionally based
Rur Dev & Agri-Env

# Beyond 2012

## – the purpose of Pillar 1?

- Productivity and competitiveness
- Stability
- Food safety, quality and animal welfare
- Rural environment

### But not

- Supporting farm incomes, *per se*
- Maintaining farming activity, *per se*
- Food security

# The shrinking of commodity-based support

- The commodity supports shrink down to commodity-based safety nets.
- Other stabilisation instruments?
  - Crop insurance – via MS schemes
  - Income or revenue insurance?
  - Tariff safeguard measures
  - Assistance to stimulate use of private financial instruments

# Where does this leave direct payments (decoupled or not)?

- They are either transferred into payments for public environmental and cultural services (within Pillar 1 or 2).
- Or, they are gradually reduced, to that justified as compensation for the higher EU food & feed safety, environmental and animal welfare standards
- There may be some residual *de minimus*, regionally defined and confined, special payments for special circumstances.

# Other legitimate objectives for the agricultural component of rural policy?

- Productivity and competitiveness
  - Research and development
  - Training, extension and information
- Food safety, quality and animal welfare
  - Regulatory frameworks, information, traceability, labelling
  - Assistance to stimulate quality, investments, producer groups
  - Assuring the infrastructure for specialist and high value production
- These objectives do not justify on-going annual payments: most instruments are regulatory or Pillar 2 type assistance.

# Concluding remarks

- CAP Reform 2003 give important steps ***towards*** a sustainable policy reducing ‘negatives’
- It does **not** provide the necessary resources for the ‘positives’ – rural development
- Pillar 1 commodity support and production linked payments have to contract after 2012.
- Agri-environment should be done in ‘Pillar 2’, but if not feasible, then we must really green Pillar 1.