EU CAP: Income Support and Eligibility Requirements

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The 2014 CAP Reform

- Much debated reform, under a new institutional setting (EU Parliament now has major role with co-decision)
- Reform adopted at the end of 2013 but with considerable flexibility. Member States will submit to the Commission their version of it by august 2014.
- Overall, little change in support
- In spite of a lot of rethoric on greening, no serious reorientation of the CAP towards public goods
- But a consistent policy trend, a more « à la carte » CAP

Market management: Main changes

- On the market management side: End of dairy quotas confirmed, end of sugar quotas in 2017, liberalization of plantation rights for wine
- After 20 years of reform, therefore almost no market management left. CAP is mostly « decoupled » direct payements (but tariffs and biofuel policy outside the CAP)
- Emergency measures for crises: a specific budget and some fast action instruments

Main changes (2)

- Some «bargaining power strenghtening » for farmers against downstream oligopolies. May lead to exceptions to the general competition policy
- Some risk management tools (insurance, mutual funds) introduced, but with national cofunding (which should limit drastically the scope of the program)
- Some « recoupling » of direct payments possible. Left to Member states. Designed to be WTO compatible, but… Should remain limited (in practice: extensive grazing beef / sheep and traditional protein seeds).

Direct payments : Main changes (3)

- Direct payments now account for 95% of the CAP expenditure, which itself goes down under the 40% of the total EU budget
- Reform: rebalancing of payments across Member states (partial convergence) and across farmers (end of historical individuel references).
- Results in significant transfers of income (detrimental to grain producers and beneficial to extensive grazing livestock producers)
- Convergence across Member states remains partial

Main changes (4)

- A new architecture for direct payments:
- A base / per hectare payment. Different across regions. Roughly 60% of the old « single farm payment ». Example: in France, expected to be 89€/ha (US$47/ acre) in 2019
- Flexibility for those countries (like France) willing to preserve small farms (larger payments on the first 52 hectares, i.e. 103 €/ha US$55/acre in 2019)
- Consolidation of existing payments for young farmers (small budget), and for farmers in less favoured areas

Main changes (5)

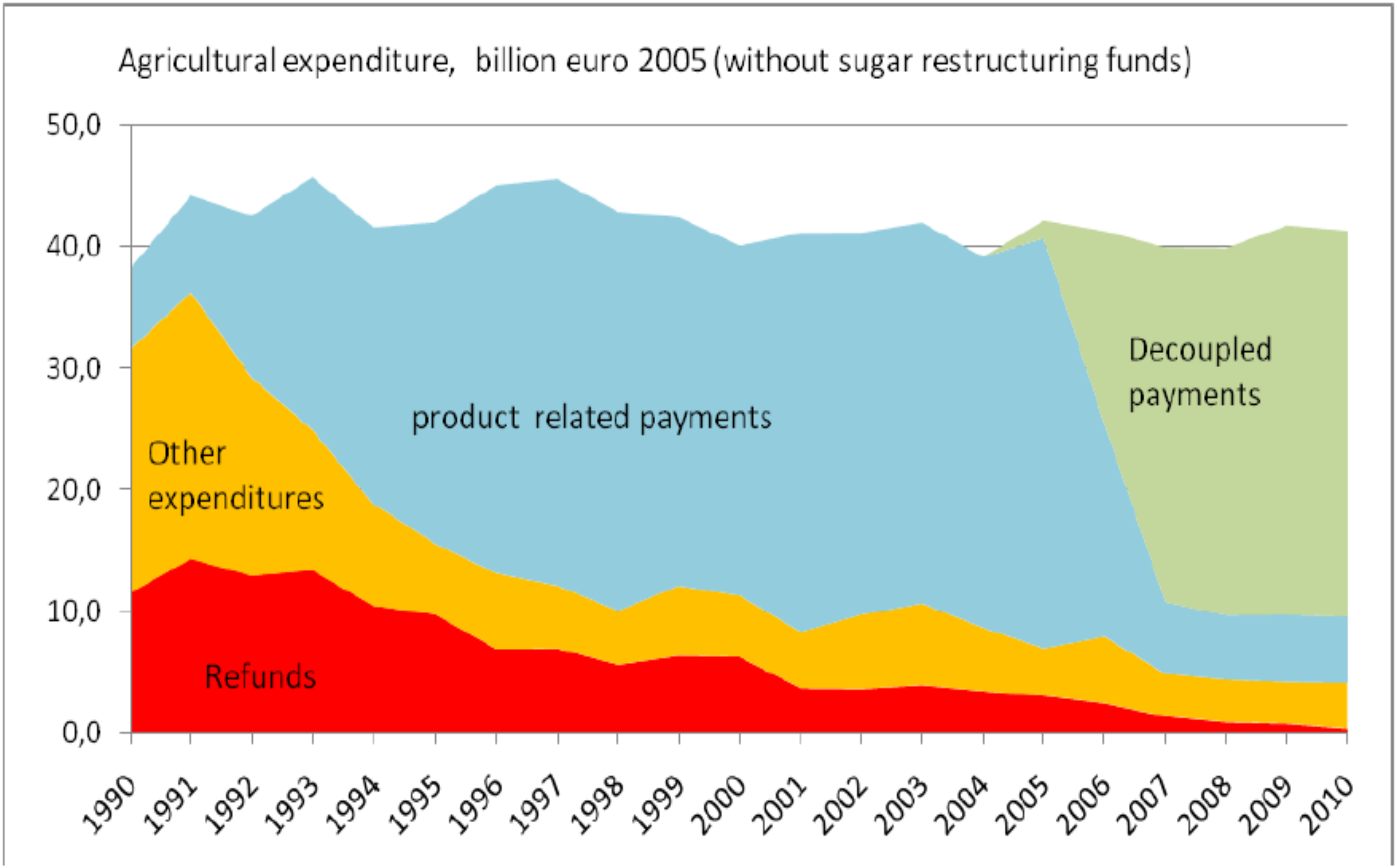
- The main change in the new architecture is tht 30% of the previous « SFP » will be directed towards a « Green payment » (e.g. €86/ha in France in 2019).
- This has been the most controversial element in the negotiation. Subject to environmental conditions, including an « Ecological Focus Area ». Farmers organizations hated it.
- The adopted version has been watered down. Many exemptions, equivalences, etc. Most farmers will be able to claim this payment

Main changes (6)

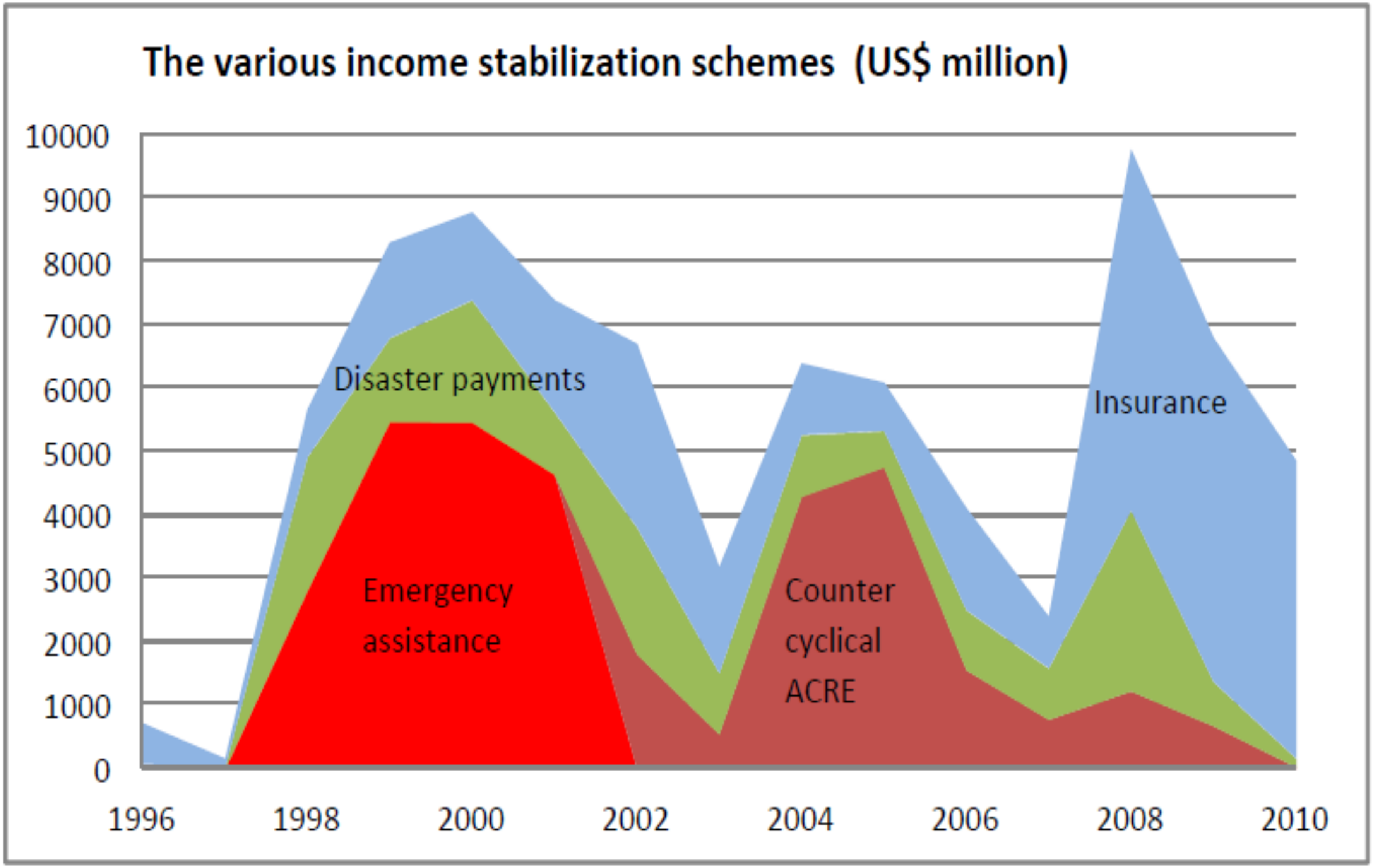
- Simplified (lump sum) procedure for small farmers
- Restriction of payments to « real » farmers (not golf, absentee landowner, etc.)
- Some budget channeled towards research (actually mostly extension)
- But mostly: a considerable flexibility left to Member states to allocate payments, set their level, set conditions, transfer between « pillars » of the budget

Main issues in comparison with US Farm Bill

- Extensive work by Butault et al for the EP in 2012: Higher level of support in the EU than in the US. But much less market dependent ("decoupled") and distorting.
- CAP reform hardly changes that: some recoupling of payments. But get rid of big market intervention (sugar, dairy, wine)
- Little impact on WTO commitments, even if sectoral MGS should be looked at (beef, protein seeds)
- Some insurance programs: is the worm in the EU apple too ?



Sources: Authors' calculation using FEOGA then EAGF data (payments).



Source: Authors' calculation using USDA-ERS data

Impact for TTIP

- Main impact is on sugar and related commodities (isoglucose and ethanol)
- Transfers of income/wealth: in brief from crop producers to livestock: will it erode competitiveness in grains ? (All income of beef/sheep producers comes from subsidies)
- Otherwise, little impact, except that on both sides farmers claim that the other one gets more public support
- The future of biofuel policy is perhaps more important for the TIPP than the CAP reform

Conclusion

- Not many changes on market management: Consistent orientation of the reforms since 1992, with some limited changes to please most interventionist countries.
- But the Commission resisted demand for major recoupling, countercyclical payments, shallow loss payments and large scale insurance programs…

Conclusion (2)

- Little reduction in the EU budget for direct payments. Remains a considerable budget
- Some degree of greening: largely watered down by Council and EP, but the framework is there and those countries willing to can really green their policy
- Large degree of flexibility left to Member states. The CAP is no longer really « common »
- Already: very different paths taken (e.g. Wales vs Slovakia)