

**INTRODUCING MORE EQUITY IN THE CAP:
A DIFFICULT CHALLENGE**

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A DIFFICULT CHALLENGE**

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INTRODUCTION

A significant objective of the reform of the Common Agricultural Policy (CAP) for the period 2014-2020 is the allocation of the funds in a more equitable way among Member States and farmers. Now that the transitional measures to integrate the new Member States into the CAP are coming to an end, greater convergence in the distribution of payments has been legitimately requested from these countries. Moreover, it is widely acknowledged that the vast majority of the CAP's budget is distributed to a small number of large and wealthy farmers, leaving the remaining funds for the rest of the farm population.

The main question addressed by this paper is how to reach a more equitable distribution of CAP's payments pragmatically, politically and economically? Pragmatically, the CAP is a multi-functional policy, which has to combine different goals, i.e. to be more equitable, green and market-oriented. However, these objectives are not always compatible and require trade-offs. Politically, regarding the CAP's significant share (40%) of the EU budget and the current public debt crisis, Member States are most likely to keep their attention on the *juste retour* calculations rather than the promotion of the European public interest in the EU negotiations. Economically, reaching a more equitable distribution of payments should be achieved without significant disruptive changes that could have serious consequences on the costs and benefits of the agricultural sector in the EU. Considering these elements, it is already clear that reaching a more equitable distribution of CAP's payments represents a difficult challenge.

In order to analyse how to reach a more equitable distribution, the history of the distribution of payments must be first reminded (part 1) and the different aspects of "inequity" in the current distribution must be analysed (part 2). Before analysing the proposals of the Commission to improve the present situation, it is important to realise why the difficulty of understanding what lies behind the abstract notion of equity makes it even more difficult to determine what should be a "fair" allocation of payments. Furthermore, regarding the different perception of a "fair" distribution of funds among Member States, one can wonder who should take care of equity in the distribution of CAP's funds: the EU or the Member States? (part 3) Finally, the different measures in the Commission's proposals to introduce more equity among Member States and farmers in the CAP post-2013 will be presented and assessed (part 4).

1. THE EVOLUTION IN THE DISTRIBUTION OF THE CAP'S PAYMENTS

The allocation of the CAP budget among Member States, farmers, the different regions and types of production is clearly not equitable. Although what lies behind the notion of equity in the CAP will be analysed in section 3, it is important to note that the meaning of equitable distribution must not be understood as equal distribution. Considering the very different economic and natural conditions of agricultural producers across the EU, the CAP has never aimed to reach an equal distribution of payments. The reasons of inequity in the CAP's payments must therefore be explained by the political economy and the historical developments of the policy.

The amount of money dedicated to the CAP in the EU budget decreased from about 70% in the 1980s to some 40% today. Although this decrease is not negligible, the policy remains the largest envelope of EU funds. As such, the allocation of the CAP's funds is a major source of tensions during the budget negotiations, each Member State being concerned with the calculation of its *juste retour*. This context undermines the promotion of the European public interest and leads to situations of unfairness.

Originally, the CAP was based on production support. By the 1980s, this led to increasingly important market interventions in order to buy the huge surpluses and to subsidize the exports to the international market. The EU's protectionist agricultural policy and its important budget became very difficult to justify. Since the beginning of the 90's, the CAP has therefore progressively moved from a market support to a direct income support to producers.

The first important reform in 1992 created direct income payments coupled to production in compensation for price reductions for some key products. The second reform, approved in 1999, introduced a double pillar structure to finance CAP expenditures. The first pillar continued to focus on direct income payments and market measures, while the second pillar was devoted to rural development to support sustainable agriculture and dynamic rural areas across the EU. Contrary to pillar 1, which is solely funded by the EU budget, pillar 2 is based on a multi-annual programming approach where MS establish and co-finance national and regional programmes according to their needs. In 2003, the last and most important reform – the 'Fischler' reform – particularly focused on the first pillar via the establishment of the Single Payment Scheme (SPS). This scheme replaces most existing direct income payments by decoupling them. This means that support is made independent from any obligation to produce. Direct

income payments are subordinated to the respect of community rules, notably those regarding the environment ('cross-compliance'). A financial mechanism called 'modulation' was also made compulsory in 2003. Under this mechanism, the direct payments exceeding € 5.000 per year are decreased by a fixed percentage. The funds made available from the first pillar in this way are then transferred to finance part of the rural development measures of the second pillar.

The implementation of the SPS is characterised by a great flexibility for Member States. Three models are made available, plus a simplified and optional model established for the new Member States. In the first 'historic model', payment entitlements are based on the individual payments received during the three-year reference period (2000, 2001 and 2002) and the number of hectares farmed during that period. In the second 'regional model', payment entitlements are calculated on the basis of the sum of payments received by all farmers in a region during the reference period divided by the number of eligible hectare in that region. The third approach leaves a range of 'hybrid models' of calculation to Member States, combining the historic and the regional models. These hybrid models may be static or dynamic. In a dynamic system, there is an evolution from a historic towards a regional model. The historic model is currently the most common approach in the EU-15 but also the most questionable. More than being based on old historical references, this approach has led to important disparities in the distribution of funds between Member States, farmers, regions and types of production. With regard to the new Member States (EU-12), they could choose to apply a simplified scheme called the single area payment system (SAPS) until the end of 2013 or directly the SPS. Under the SAPS, payment levels are established following a similar manner as for the regional model. Currently, 10 out of the 12 NMS apply this latter system.

In 2008, a CAP 'Health Check' led to, *inter alia*, further decoupling of direct payments and reinforced modulation. More flexibility in the implementation of the CAP was also granted to Member States. They have the option to take up 10% of their direct payments national envelope to be used for environmental measures or improving the quality and marketing of products in vulnerable sectors, as well as for risk management measures.¹

In a nutshell, along the different reforms, the Common Agricultural Policy has become increasingly less common as the support systems have become increasingly different between and within Member States. This situation has increasingly developed arguments for more equity in the CAP.

1. Article 68 of the Regulation EC 73/2009.

2. THE LACK OF EQUITY IN THE CURRENT DISTRIBUTION OF PAYMENTS

2.1. The lack of equity among Member States

◆ The disparities in direct payments

The allocation of direct payments, which represents nearly 70% of the CAP budget, is far from being equitable. The direct support received in old Member States remains largely linked to the average production and support during a historic period. Therefore, Member States that used to receive the most important support coupled to production are still the biggest beneficiaries of the CAP. Figure 1 shows that France, Germany, Spain and Italy are the Member States that benefited the most of Pillar 1 payments in 2008 and will continue to do so in 2013.

Big differences in the allocation of pillar 1 payments can be observed between the new and old Member States (see Figures 1 and 2, p. 10-11). Two main reasons can explain this situation. Firstly, following the EU enlargement in 2004 and 2007, transitional measures were necessary in order to integrate 12 new Member States into the CAP. These measures were required in order to take into account the significant difference in the price situation between Eastern and Western Europe and to avoid major budgetary shocks for the EU-15. The key issue was to extend direct payments to the new Member States. It was therefore decided that they would be phased-in over a period of 10 years, starting at a level of 25% of the EU-15 level in year 1 (i.e. 2007 for Romania and Bulgaria and 2004 for the other New Member States). Secondly, contrary to the EU-15, the implementation of direct payments in the EU-12 are not linked to actual historic support levels, as the new Member States were not yet part of the EU during the reference period. Therefore, the EU-12 support levels had to be estimated based on historic production.² Both reasons explain the relatively low level of direct support received by the EU-12, resulting in unequal conditions in terms of competition.

Figure 1 (p. 10) shows the disparities in the distribution of pillar 1 payments between Member States, especially between the EU-15 and the EU-12. In 2008, out of the € 37.569 million allocated from the CAP budget to Pillar 1 direct payments, the EU-15 received around 91%, while the EU-12 got only the

2. EUROPEAN COMMISSION (2011b).

remaining 9%. In the preview of the 2013 payments' distribution, which coincides with the CAP's reform period, one can observe that direct payments commitment entitlements will have increased in every country but in Greece and that the disparities between the EU-15 and the EU-12 will have slightly decreased. Out of the € 45.062 million distributed to Pillar 1, the EU-15 will still receive 81,5%, while the EU-12 will obtain 18,5%. However, about 22% of the exploited agricultural area and around 51% of agricultural workers are in the EU-12.³ The share of direct payments in the EU-12's GDP is therefore higher than in the EU-15's.

Figure 2 (p. 11) shows clearly that important differences in the distribution of payments per hectare exist between Member States. While these disparities are notable between the EU-15 countries, they are considerable between the EU-15 and the EU-12. For instance, the preview of direct support received per hectare in 2013 ranges from € 544 in Greece to only € 83 in Latvia.

In order to try to provide a level playing field for the farmers during the transition period, the EU-12 are allowed to top-up direct payments in two ways: either by distributing a maximum complement of 30% from the national budget, or by transferring up to 20% of rural development funds to direct payments ('negative modulation'). Indeed, the following section's point will show that the disparity between the EU-12 and the EU-15 is partially balanced by the allocation of rural development payments under pillar 2.

◆ The disparities in rural development payments

The rural development payments are co-financed with Member States under Pillar 2. Representing about 20% of the CAP budget, pillar 2 payments are more evenly distributed than Pillar 1 payments, especially between the EU-12 and the EU-15. In 2008, out of the € 14.639 million spent in rural development measures, the EU-12 got € 5.714 million (about 39%) (see Figure 2). It is important to underline that in some Member States such as Austria, Latvia, Finland, Luxembourg, Poland, Estonia and Austria, Pillar 2 payments account for a greater share of farm incomes than Pillar 1 direct payments. By contrast, Pillar 2 represents only a small share of farm income in the Netherlands, Spain, Cyprus, Greece and Denmark.⁴

On the basis of strategic objectives set at EU level, Member States implement very different rural development policies, reflecting their economic, natural and

3. BUREAU, Jean-Christophe and WITZKE Heinz-Peter (2010).

4. *Ibidem*.

structural conditions. Belgium, for instance, has decided to spend 50% of its second pillar payments for the 2007-2013 programming period to enhance farm competitiveness and 38% to preserve the rural environment. In contrast, Ireland allocates 10% to improve farm competitiveness and devotes 80% to protect the rural environment.⁵

In order to reduce the unbalance in the payments' distribution of the first and second pillars, compulsory modulation⁶ was introduced in 2003. This mechanism reduces direct payments exceeding € 5.000 by a certain percentage, after which the resources made available in this way are transferred to finance the second pillar. The new EU-12 Member States have been exempted from modulation until the transition to the full level of direct support is achieved (i.e. in 2013 for the new EU-10 and in 2016 for Romania and Bulgaria). In the 2008 agreement, it was decided to increase the size of the cut in direct payments exceeding € 5.000 from 5% to 10% in 2012. In addition, beneficiaries receiving direct payments exceeding € 300.000 per year have an additional cut of 4% in their support since 2009.

The amount generated via modulation and transferred to rural development measures reaches more than a billion euro a year. The redistribution of funds made available by modulation between the EU-15 does not follow a one-for-one basis but the redistributive effect among Member States is very weak. If Member States do not receive a minimum return amount of 80% of their modulated money, they are allocated additional funds to reach this level. It is noteworthy that the threshold of € 5.000 under which direct payments remain untouched makes the cut in direct payments above this amount different among Member States. The countries with a structure mostly characterised by small farms and by a production less oriented towards products whose support is granted via direct payments are small contributors and net beneficiaries.⁷

2.2. The lack of equity among farmers

The distribution of support is also largely unequal among farmers. The most outspoken criticism of the current allocation of payments is the concentration of income support benefits into the hands of big farms that do not suffer from low incomes. For instance, the public opinion is often shocked to learn that, as

5. EUROPEAN COMMISSION (2011a).

6. Some particular Member States (currently, Portugal and the UK) have also the option to apply voluntary modulation but the maximum rate of combined compulsory and voluntary modulation is limited to 20% of direct payments.

7. HENKE, Roberto and SARDONE, Roberta (2008).

**Figure 1: Distribution of EU financed CAP payments among Member States
(Million Euro)**

Member States	2008 Pillar 1 payments	2008 Pillar 2 payments	2013 Pillar 1 payments	2013 Pillar 2 payments
Austria	709	595	752	533
Belgium	560	64	615	78
Denmark	972	129	1049	106
Finland	544	319	571	289
France	8081	959	8521	1279
Germany	5496	1187	5853	1387
Greece	2405	463	2217	672
Ireland	1276	355	1341	352
Italy	3813	1617	4370	1441
Luxembourg	35	14	37	13
Netherlands	794	73	898	103
Portugal	570	588	606	611
Spain	4921	1549	5139	1284
Sweden	718	277	771	267
United Kingdom	3422	736	3988	749
Bulgaria ^a	166	581	580	396
Cyprus	19	25	53	21
Czech Republic	380	393	909	424
Estonia	41	96	101	113
Hungary	543	538	1319	585
Latvia	62	301	146	151
Lithuania	158	249	380	254
Malta	2	24	5	11
Poland	1248	1933	3045	1851
Romania ^a	422	1147	1264	1356
Slovakia	156	287	388	320
Slovenia	56	140	144	113
EU-15	34316	8925	36728	9164
EU-12	3253	5714	8334	5595
EU-27	37569	14639	45062	14759

a. Note that Bulgaria and Romania will only have their full payments phased in 2016.

Source: European Council and European Commission

Figure 2: Distribution of EU financed CAP payments among Member States per hectare of Utilised Agricultural Area (Million Euro)

Member States	2008 Pillar 1 pay- ments	2008 Pillar 2 pay- ments	2013 Pillar 1 pay- ments	2013 Pillar 2 pay- ments
Austria	222	186	236	167
Belgium	408	47	447	57
Denmark	365	48	394	40
Finland	237	139	249	126
France	294	35	310	47
Germany	325	70	346	82
Greece	590	114	544	165
Ireland	308	86	324	85
Italy	299	127	343	113
Luxembourg	264	104	283	101
Netherlands	415	38	469	54
Portugal	164	169	174	176
Spain	198	62	206	52
Sweden	230	89	247	86
United Kingdom	212	46	247	46
Bulgaria ^a	55	191	190	130
Cyprus	133	170	366	144
Czech Republic	108	112	258	121
Estonia	45	105	112	125
Hungary	128	127	312	138
Latvia	35	169	83	85
Lithuania	60	94	143	96
Malta	155	2320	494	1032
Poland	81	125	197	120
Romania ^a	31	83	92	99
Slovakia	81	72	200	165
Slovenia	115	586	295	231

a. Note that Bulgaria and Romania will only have their full payments phased in 2016.

Source: European Commission, Eurostat

a big landowner, the Queen of England is one of the largest beneficiaries of the CAP in the UK.

In 2007, the 25% largest farms received 74% of total support (from both pillar 1 and 2) in the EU-27. During the same year, the annual income of the 25% largest farms in the EU-15 was of about € 73.000, representing around three times the average level of income of all beneficiaries.⁸ Figure 3 (p. 14) shows that the variations in direct payments per beneficiary change significantly among and within Member States. Besides the disparities in direct support received per hectare (see Figure 2), the reason of these variations is the farms' size. As the distribution of direct payments to farmers is based on the number of hectare farmed, a large share of this support goes to countries with large farms. The distribution of payments per farmer within Member States is also particularly variable, especially in France, the UK, Denmark, Sweden and Finland. In France in 2006, for instance, the average support received by the top 20% of farms that receive the largest payments is € 42,700, while the average support received by the bottom 20% is € 3,000.⁹

The choice between the several models made available to Member States for the implementation of the SPS has widely influenced the distribution of support among farmers. In the historic model, which has been largely retained by Member States, direct payments are based on the amounts that were provided to reduce the effects of cuts in market prices in the past. This approach has led to important disparities, arising from the difference of aid to specific agricultural sectors during the reference period. In contrast, the regional model favours a more equal distribution of aid given that it applies a reference amount for all the farmers – regardless of their agricultural sectors – in a region.

In order to reduce the income support to the largest farms, the introduction and the subsequent increase in the rate of modulation has been favoured instead of capping payments (initially proposed by the Commission). However, modulation regards only a small number of recipients. Moreover, the first objective of modulation is to shift resources from the first to the second pillar, not to contribute to addressing the current allocation of direct payments.¹⁰

Current levels of direct support have an impact on the structures and cost factors of farms. The benefits of direct support tend to be capitalised into asset values, in particular land, influencing both the sales and lease prices of land. The capitalisation of direct payments in asset values is different among Member States and among the several models for the implementation of direct payments. While the historic model for decoupled payments is considered the least damageable approach in terms of impact on farms' asset value, the regional

8. OECD (2011a).

9. BUREAU, Jean-Christophe and WITZKE Heinz-Peter (2010).

10. EUROPEAN COURT OF AUDITORS (2011).

approach tends to aggravate the ‘capitalisation’ of support in both the sales and lease prices of land.¹¹ Modifying the distribution of support would therefore have a significant impact on the economic and financial basis of farms. Hence, a transitional period would be necessary to avoid major disruptive changes in farms’ operation and viability.¹²

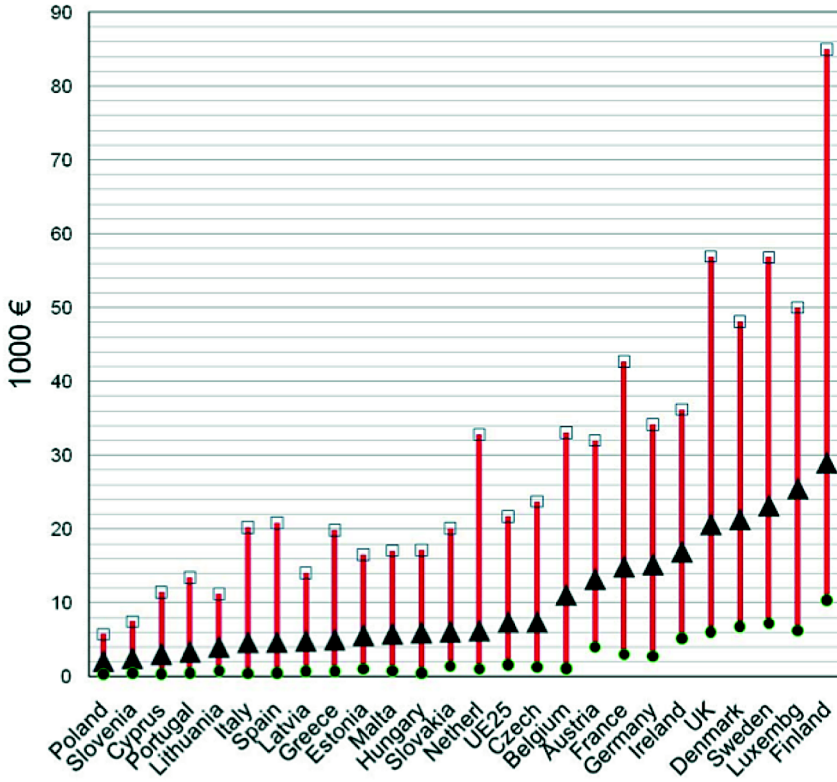
The present distribution of decoupled payments was necessary in return for reforms. Another approach than the historic model would have led to major disruptive changes in farms’ asset values. However, since then, 12 new Member States have joined the EU and a convergence between internal and external market prices has taken place, making the EU quite competitive in most of the agricultural sectors. There is therefore no more compelling justification for the differences in support levels.

Furthermore, direct support is considered inefficient in targeting its both objectives, i.e. to deliver income support for farmers and provide a reward for environmentally friendly farming practices delivering public goods. The income support element of direct support does not make sense, as it is the big and wealthy farms that benefit the most from the CAP. Direct payments are not established on an analysis of the individual needs of farmers and thus fail in targeting low-income farmers. As for the argument of the provision of public goods, nothing more than the subordination of payments to some cross-compliance requirements and standards exists in the current system.

11. EUROPEAN COMMISSION (2011b).

12. *Ibidem*.

Figure 3: Variation in direct payments per worker (Annual Worker Unit) by Member State



Source: FADN 2006, EU-25



3. WHAT LIES BEHIND THE NOTION OF EQUITY IN THE CAP?

As the CAP should go towards a more equitable policy, one can wonder what lies behind the notion of equity. Behind the abstract notion of equity lies the notion of fairness and behind fairness, the notion of justice. For centuries, philosophers tried to define the notion of justice but they could not agree on much more than justice is treating people equally when the circumstances are identical. Agricultural producers face very heterogeneous ‘circumstances’ across the EU due to the very different economic and natural conditions. Therefore, in the case of the CAP, an equal distribution of payments does not mean the same as an equitable distribution.¹³

It is important to underline that the CAP is a multi-functional policy. Introducing more equity in the distribution of support must thus be considered in relation with other key policy objectives, i.e. contributing to the preservation of rural areas, and the protection of the environment, while also supporting market oriented agricultural production. These objectives are not always compatible and require trade-offs. Depending on the weight given by each Member State to each objective, the perception of what constitutes an “equitable” distribution of payments varies widely. As rightly stated by Jean-Christophe Bureau and Heinz-Peter Witzke¹⁴, “finding a EU-wide common point of view on (...) how “equity” should be introduced in a [multi-functional and] sector-based policy would be difficult. There is no consensus regarding what “fair” transfers should be within the EU and whether or not the CAP should have any distribution objective within the sector itself. In some countries, the fact that large farmers reap most of the benefits is not an issue, while it is seen as shocking in others. The fact that less public support is given to smaller, barely viable, farms in less fertile areas than to efficient farms is not seen as particularly illogical in some member states. Indeed, the very issue of “compensating for natural handicaps” even appears bizarre to some member states, while others believe that maintaining farmers all over the EU territory is a fundamental cohesion objective”.

Nevertheless, the concentration of the majority of payments in some Member States and large farms is mostly the result of history and cannot be legitimately justified anymore. If the future CAP has to become more equitable, it should therefore take greater account of the wealth and diversity of agriculture in the EU through a fairer distribution of funds at all levels. However, a central issue is who should take care of this equitable distribution; the EU or the Member

13. D’OULTREMONT, Clémentine (2011).

14. BUREAU, Jean-Christophe and WITZKE Heinz-Peter (2010).

States? The challenge is to strike the right balance between the need of common European rules based on objective criteria for a more equitable distribution of payments between Member States and farmers, and the need of flexibilities for Member States in the allocation of their national envelope. Leaving a high degree of subsidiarity to Member States is important to tailor measures that better address the increasingly different structures and situations within EU agriculture. Since 2003, the various reforms have followed this tendency by granting more and more possibilities for Member States to reallocate the payments in accordance with their agricultural conditions and their own perception of 'fair' distribution.

4. THE COMMISSION'S PROPOSALS TO INTRODUCE MORE EQUITY IN THE CAP POST-2013

In October 2011, the European Commission presented its legislative proposals to reform the CAP in the post-2013 period. While these proposals are being discussed amongst Member States and in the European Parliament, they already give a preliminary insight of how more equity could be introduced in the CAP post-2013.

The proposals to reform the CAP have been made in the framework of the EU budget proposed by the Commission for the next Multiannual Financial Framework (MFF) covering the period 2014-2020. Before deciding on a new allocation of the CAP's payments, an important element of the negotiations is therefore to know what will be the share of the CAP in the next MFF. The proposal of the Commission for the next MFF foresees that the overall EU budget should slightly increase in real terms, while the share of the CAP in the EU budget should fall from 39% in 2013 to 33% in 2020.

To integrate more equity in the CAP, the objective of the Commission is “to better target support to certain actions, areas and beneficiaries, as well as to pave the way for convergence of the level of support within and across Member States.¹⁵” The following section analyses what the Commission proposes in order to meet this objective.

4.1. More equity among Member States?

◆ In direct payments

In order to reach more convergence in the distribution of the budget for direct payments among Member States, the Commission examined different solutions in its impact assessment.¹⁶ Among them, the Commission considered the introduction of an EU flat rate, the use of objective criteria and a more pragmatic approach that has been finally retained.

An EU wide flat rate has been a highly-defended option in the public debate. Giving the same amount of direct payment per hectare to all farmers in the EU

15. EUROPEAN COMMISSION (2011c).

16. EUROPEAN COMMISSION (2011d).

is often perceived as a fair solution. However, an “equal” distribution must not be confused with an “equitable” distribution. As rightly explained by the Commission, this allocation would not only lead to disruptive changes in the farm cost structure but it would remain largely uneven, both within and between Member States. The farm size would entirely determine the amount of direct payment received by the farmer. Yet, farmers face very different economic and environmental situations across the EU. A same amount of direct payment per hectare would not have the same impact on income and on the provision of environmental public goods.

The Commission has thus envisaged another option that takes into account the different economic and environmental situations across the EU, ensuring a more equitable and efficient distribution of direct support. Objective criteria have been defined to determine the allocation of the direct payment budget among Member States. These objective criteria include; GDP per capita, the amount of Agricultural Work Units (AWU) or gross value added in agriculture/AWU (for economic criteria) or areas in less favoured area, Nature 2000 zones and areas under permanent pasture (for environmental criteria). A selection had to be made among these criteria. However, the Commission realised that any of the combination would lead to an important redistribution of the direct payments budget across Member States.¹⁷ This would undermine the balance in overall EU budget allocation between Member States, making this option politically very difficult to accept.

Therefore, the Commission has retained a more pragmatic approach in its proposals. The convergence process will take longer, especially for eastern countries. All countries currently receiving direct payments below 90% of the EU-27 average direct payments (about € 279/hectare) will, over the period 2014-2020, close one-third of the gap between their current level and 90% of the EU-27 average (see figure 4, p. 19). For balancing the level of payments across the EU-27, the contribution of Member States whose national envelope will be reduced should be between 1 and 7%. Consequently, the decrease in direct payments for the biggest ‘loser’ States (i.e. Italy, Deutschland and France) would not be very significant. Member States that would benefit from the redistribution, especially new Member States, have already called for a more ambitious reallocation than the one proposed by the Commission. However, the ‘loser’ States consider that the proposal goes far enough.

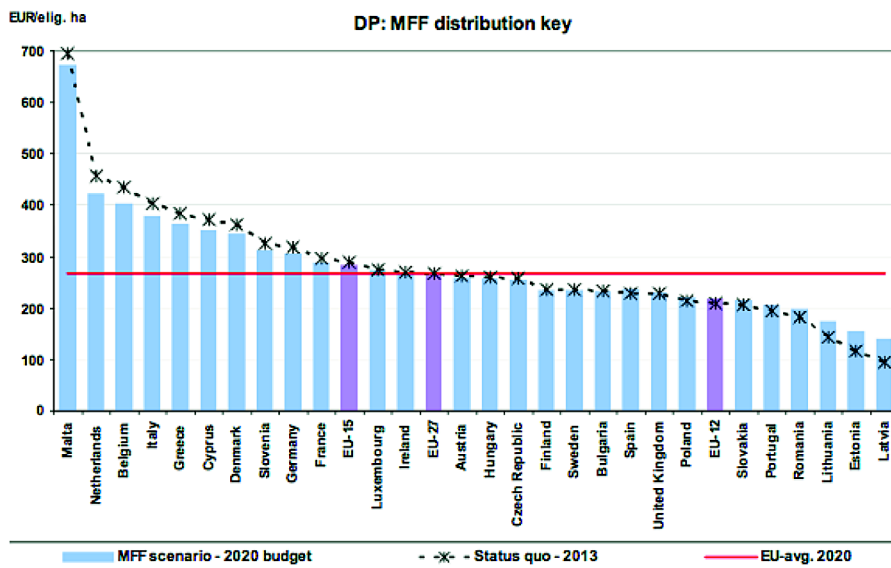
In a nutshell, the approach followed by the Commission for more convergence among Member States is, as its name indicates, very pragmatic. The EU execu-

17. MATTHEWS, Alan (2011a).

tive was well aware that any policy option with significant redistributive effects among Member States would not pass the qualified majority vote in the Council. However, the lack of ambition of this proposal will certainly not address the path dependency of Member States on the CAP. On the one hand, by taking not enough among Member States receiving more than the EU average direct payments, the path dependency of these countries will remain. On the other hand, by giving just enough to Member States who are unhappy with their financial allocation, new paths dependency will be created, leading to an even broader political impulse behind the CAP.

The Commission tries to make up for the lack of ambition of its redistribution proposal by stating that the debate on the next MFF for the period 2021-2027 should “focus on the objective of complete convergence through the equal distribution of direct support across the European Union”¹⁸. This statement must be supported provided that it is understood as the continuation of the convergence process among Member States, not as the adoption of a flat rate implying an equal payment per hectare everywhere in the EU-27.

Figure 4: Redistribution between Member States – Pragmatic approach



Source: European Commission

18. Recital 21 of EUROPEAN COMMISSION (2011c).

◆ In rural development payments

The Commission's proposal for the new Rural Development regulation does not specify how rural development payments could be distributed among Member States. This issue has been left to a future Commission implementing act to be adopted under the examination procedure. This act will have to be based on objective criteria linked to the three objectives of the Commission's proposal (competitiveness of agriculture and forestry, sustainable management of natural resources and balanced territorial development of rural areas), as well as on past performance.

On the basis of the different objective criteria given by the Commission's impact assessment for rural development¹⁹, the simulations made by Alan Matthews show that a judicious selection of the criteria could reproduce the current allocation.²⁰ According to him, the « so-called 'objective criteria' are far from objective and in fact are highly political. »

The legislative proposals have also introduced the option for Member States to channel up to 10% of their national envelope under pillar 1 to their rural development funds under pillar 2. Besides capping direct support (see below), this is the only reminder of modulation in the Commission's proposals. On the other hand, Member States that receive less than 90% of the EU average for direct payments (i.e. mainly new Member States) would be allowed to transfer up to 5% of their rural development funds to direct payments under Pillar 1.

4.2. More equity among farmers?

The Commission has proposed to abolish the current direct payment schemes (i.e. the SPS and the SAPS) and to introduce a new 'Basic Payment Scheme' that should be applied across the EU-27 as from 2014. Based on the current regional model, this single scheme will allow moving from historic based payments towards uniform payments per hectare inside each region by 2019. The abandonment of the 'historic' model was one of the key requests of eastern countries. Member States applying historical references will have to calculate 40% of their basic payment on a uniform basis in 2014 to attain a fully uniform payment by 2019. This Basic Payment Scheme will reduce the differences of support among farmers, types of production, Member States and regions. However, the allocation of direct payments will still be based on hectares, favouring big landowners.

19. EUROPEAN COMMISSION (2011e).

20. For an in-depth analysis, see: MATTHEWS, Alan (2011b).

The Basic Payment Scheme will be complemented by a series of additional payments funded under the direct payments national envelope. These include a mandatory green payment of 30% of the national envelope to farmers following agricultural practices favourable to the climate and the environment; a special small farmers' scheme that could represent up to 10% of the national envelope; a mandatory additional payment to new young farmers (under the age of 40) that could reach up to 2% of the national envelope and, a voluntary additional payment that could represent up to 5% of the national envelope for farmers in disadvantaged areas.

Analysing the greening measures under the mandatory green payment is not the subject of this paper but introducing such a payment as a reward of the provision of public goods can be considered as a more equitable way of distributing money as it legitimates the granting of support. However, some countries consider that Member States with small national envelopes will not be able to adequately compensate their farmers for the requirements imposed under the green payment. For instance, a Latvian farmer who receives an average direct payment of about € 95 per year will not receive the same amount of money as a Dutch farmer who receives an average direct payment of about € 458 per year²¹, under the same requirements to get the green payment.

Many Eastern countries also consider that there is no reason to support young farmers. In countries with a small number of young farmers and a large national envelope, these young farmers will receive much higher payments than in countries with a large number of young farmers and a small national envelope.

The Commission also intends to cap direct income support for the very large farms that benefit from economies of scale. Direct payments will be progressively capped starting from € 150,000 – with a maximum threshold for payments of € 300,000 per year. However, a part of the salary and social security costs can be deducted from the total amount, making capping only applicable to a very little number of large farms while creating administrative complexity. Despite the apparent argument of equity, capping will therefore have more a symbolic than actual meaning and create more problems than benefits.

A restriction of payments to 'active' farmers has also been proposed. It should not permit "sofa farmers" (such as landowners of golf fields or airports) having no or only marginal agricultural activity to benefit from direct support. This provision was mainly made in response to Court of Auditors' reports underlying the lack of precision in the definition of the beneficiaries of direct pay-

21. EUROPEAN COMMISSION (2011d).

ments.²² However, the definition of an ‘active’ farmer retained by the Commission is rather broad. EU aid would still be given to farmers whose the annual amount of direct payments represents more than 5% of the annual income from non-agricultural activities. Accordingly, the Queen of England or someone who derives only 6% of its total annual income from farming will still be considered as ‘active’ farmers. This questionable formula is mainly due to the fact that the Commission had to find a definition that respects WTO rules and does not link support to production. Considering that this restriction will also entail additional bureaucracy for all applicants of direct support, it is important to ensure that it remains proportionate to the problem.

All these additional payments and new measures should better target certain farmers and encourage environmentally friendly practices, making – in a limited way – direct payments ‘fairer’ and more legitimate. However, many Member States would like to see more flexibility in the application of these Pillar 1 measures. Moreover, the proposals of capping support and focusing aid only on active farmers have already faced opposition from several Member States. Before the adoption of all these measures, trade-offs will therefore have to be made with other hardly compatible CAP’s objectives, namely competitiveness and administrative simplicity.

22. EUROPEAN COURT OF AUDITORS (2011).

CONCLUSION

After the analysis of the Commission's proposals, it is already clear that the CAP post-2013 will not fundamentally change the allocation of payments among and within Member States.

The convergence process to reduce income differences between the old and new Member States proposed by the Commission lacks of ambition and will take time (one-third of the gap only will be closed by 2019). Moreover, one of the main criticisms, i.e. the issue of internal disparities among farmers, has barely been addressed. Although the new 'Basic Payment Scheme' and the phasing out of the historic model are positive elements, the allocation of direct support will still be based on hectares, favouring big farms. Capping payments per hectare is therefore crucial but the proposal of the Commission is not likely to be adopted. The four other Commission's proposals for greater targeting of payments – the special scheme for small farmers, the additional support for new young farmers, the aid for farmers in disadvantaged areas and the support focused on active farmers – are actually very modest.

For many reasons, it has been observed that the distribution of CAP support among Member States and farmers goes clearly beyond the simple argument of equity. Firstly, the CAP is a multi-functional policy that has to cope with several competitive or complementary objectives. Moreover, the allocation of the CAP's budget among countries depends also on the respect of a certain balance with the budget allocation of other EU policies. Then, the CAP's history makes it politically very difficult to redirect money that people got used to receive. Finally, a significant change in the distribution of the CAP's budget could have a strong impact on the farm cost structure, leading to important economical consequences.

Furthermore, the notion of equity is very abstract. As such, finding a common EU ground on how to introduce more equity in the CAP is very difficult. According to its agricultural conditions, its policy priorities and its cultural perception of "fair" distribution, each Member State has its own view on how equity should be introduced in the CAP. Therefore, the issue of an equitable distribution of payments must be addressed by common European rules based on objective criteria, while granting Member States with flexibilities in the allocation of their national envelope. Leaving subsidiarity to Member States is essential to tailor measures that better address the increasingly different structures and situations within EU agriculture. Many Member States have already called for more flexibility with Pillar 1 measures proposed by the Commission.

In light of what has been said, it must be acknowledged that reforming the CAP in order to reach a more equitable distribution of payments is challenging. Furthermore, the small decrease in real terms envisaged for the future CAP budget and the current situation of economic crisis predict a heated debate to come. The approach followed by the Commission in its proposals is therefore very pragmatic. The EU Executive is well aware that the Council and the European Parliament would never adopt any proposal with significant distributive changes among Member States and farmers.

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