



Reforming the CAP—With area-based payments, who wins and who loses?

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ARTICLE INFO

Article history:

Received 28 September 2011
Received in revised form 18 April 2012
Accepted 27 June 2012

Keywords:

CAP
Agricultural policy
Area-based payment
Redistribution
Policy
Spatial analysis

ABSTRACT

This paper reports on the use of a spatial analysis framework to assess the consequences for business incomes of alternative area-bases for Pillar 1 CAP Single Farm Payments, integrating spatial data from both biophysical and socio-economic domains. The results from the Scotland analysis are likely to have wider significance for policy makers confronting decisions on how best to implement reforms of Pillar 1 CAP payments elsewhere in the EU. Introduction of area-based payment to replace historic entitlement is particularly challenging in regions with a wide range of bio-physical conditions that are spatially heterogeneous and only weakly related to intensity of agricultural use, management or previous support. The analysis shows that, while the basis of payments and payment rates can have substantial effects on the nature of the impact, it is the change to an area-based payment system alone that has the biggest redistributive impact. For Scotland, there are larger numbers of businesses that gain rather than lose, and, because the average losses are much larger than the average gains, a move towards area-based payments is likely to encounter strong opposition and only weak support from the agricultural community. In all the options for area-based payments examined, there is substantial redistribution between agricultural sub-sectors and between geographical regions. Substantial reductions in support affect agricultural sub-sectors that are significant for the wider agri-food sector (cereals, general cropping, dairy and lowland livestock) and regions where agriculture plays a significant role in the economy (particularly south-west Scotland). Yet the greater redistribution quantified by this research is within sub-sectors; that is from businesses with more intensive management to those with more extensive. Such within-sector redistributions will have policy significance and mean that analysis of the consequences of area-based payment options conducted only at sub-sectoral level is likely to be inadequate. It is concluded that the analysis approach used has successfully revealed the potential consequences of area-based CAP support payment options and this has been of direct value by informing ongoing negotiations on reform of the CAP. However, the research also highlights the serious challenges that remain in defining schemes that meet the objectives of policy makers, can be administered cost-effectively and are politically acceptable. The research may thus have implications for other EU member states considering how best to implement area-based Pillar 1 payment schemes.

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Introduction

Arguably the key reform of CAP in recent years has been the 2003 decoupling of direct payments from specific activity and the introduction of the Single Farm Payment (SFP). The intention was to increase market orientation and eliminate activities conducted only with the intention of claiming subsidy. Decoupling has been extensively studied, with a key finding being that the “opportunity” of decoupling has not led to all the expected changes since farming systems that lack adaptive capacity remain locked-in to existing patterns of management and supply chain relationships with SFP subsidising loss making enterprises (Lobley and Butler,

2010). The reduced impact of decoupling, however, may also be a consequence of differences in the way it has been implemented across the EU. While the European Commission (EC) expressed a preference for transition towards area-based payments¹ a significant number of member states and regions continued to pay SFP on a historic (2000–2002) entitlement basis or retained coupled payments for regionally significant activities or commodities. Area-based payments will in the next CAP budget period make up a substantial tranche of the SFP for all member states (European Union, 2009), but since there is scope for national and regional differentiation in how area based payments are implemented there

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¹ Payments received per ha of eligible land. These could be on a flat-rate basis (a single rate of payment for all eligible land) or could be differentiated on an objective basis.

is considerable political and policy interest in the range of options and their potential consequences.

In Scotland's SFP is a key driver of change for rural land use systems because it accounts for approximately 63% of CAP spending in 2009 (Pack, 2010a). Furthermore SFP was between 61% (2007) and 110% (2009 where SFP could not offset losses) of total income from farming (TIFF at 2010 prices²). Scotland's mix of highly productive lowlands and extensively managed uplands (with 85% Less Favoured Area) means it arguably faces stark choices in terms of how best to implement an area based SFP. Other EU member states, however, share similar challenges with wide ranges of bio-physical conditions that are spatially heterogeneous and only loosely correlated with intensity of agricultural use, management or previous support. Austria, Ireland, Italy and Slovenia have each explicitly highlighted similar challenges in transition from historic to an area basis for SFP (AGRAFACTS, 2012). Adoption of area based payments will require policy makers to address fundamental questions about: the desirability of directing support to more or less productive farming systems; the acceptable magnitude of any redistribution; the equity of the new distributions; the trade-offs between consequences and potentially why SFP continues to be paid at all.

Against this background this paper reports on the development and use with policy makers of a geographical information system (GIS) based spatial-analysis framework to assess the consequences for farm-business incomes of moving from a historic to an area basis for SFP. A key issue for policy makers will be the definition of the eligible area over which any area based payment will be made. The research sought to identify and explore the effect of adding new recipients (a key issue where historical entitlements have excluded some businesses from support) and additional eligible area (where existing claimants have had only part of their area activating SFP entitlements). The use of land use criteria and activity measures (stocking rates) to restrict eligibility were also investigated. Another decision for policy makers will be faced with is, whether, and on which basis to differentiate payment rates used. The research compared the use of land quality, as represented by the Macaulay Land Capability for Agriculture (LCA) mapping (Bibby et al., 1991) and natural handicap, as represented by the Less Favoured Area (LFA) administrative zones (Scottish Government Rural Payments and Inspections Directorate, 2010). The research also compared alternative rates of payment including highest rates for the higher quality land, highest rates for the lower quality land or a flat rate for all land. The objective of the analysis was to highlight the challenges member state governments will face in defining area based payment regimes which are: demonstrably objective and therefore compatible with World Trade Organisation (WTO) rules; can be implemented within resource constraints and are politically acceptable, neither over rewarding activities nor undermining the viability of regionally significant sectors within agriculture.

Policy background

Reform of the CAP has been undertaken periodically since the 1960s (with the Mansholt Plan). Reforms, since the 1990s, have seen a progressive move away from direct market interventions and production specific subsidies. Pressure for reform has come from WTO, European governments concerned with the overall cost of the CAP and from the process of EU enlargement. Responding to these pressures the 2010 European Commission statement on the CAP emphasises the aspirations that the CAP should underpin the distinctive multi-functionality of EU land use and landscapes

(European Commission, 2010). These aspirations have been and continue to be contested in terms of clarity of objectives (Gómez-Limón and Atance, 2004), their reality for policy, for example Potter and Burney (2002) on CAP multi-functionality and WTO, and in practice, with land managers still seeing the CAP as primarily about supporting production (Gorton et al., 2008). Within UK there are significant differences between the UK government (DEFRA, 2011), parliament (EFRAC, 2011) and the devolved governments and assemblies (Devolved Administrations, 2011).

A range of SFP schemes have been implemented (Sorrentino et al., 2011). Within the EU15 area based payments have been included in hybrid schemes combining historic and regional flat (area) rates with fixed proportions (static) or changing proportions (dynamic). The Single Area Payment Scheme (SAPS a flat rate at member state level, and typically with lower rates of payment) is restricted to the EU12 new accession countries. Hybrid systems have typically been adopted in countries or regions with less diverse agricultural sectors associated with a more homogeneous biophysical environment or a smaller size (Denmark, Finland, Sweden, Luxembourg and UK-Northern Ireland). In the smaller number of cases where larger countries with more diverse geographies and sectors, have adopted flat rate payments (Germany and UK-England) then this may reflect political imperatives. In Germany there was the need to balance the interests of the former east and former western Lander with their very different histories of CAP entitlements and farm size profiles (Hagedorn, 1997). While in UK-England there was strong antipathy for the CAP in general, and direct payments in particular, from the UK Treasury (HM Treasury, 2005). For the UK-England the consequences predicted by modelling were resources leaving the sector, rapid restructuring and land abandonment (reviewed by Tranter et al., 2007). Subsequent analysis has revealed less dramatic change, despite initial implementation issues (Lobley and Butler, 2010). The authors conclude that reforms in UK-England have enhanced and perhaps accelerated existing trends towards larger and more diversified businesses but that market signals have perhaps had more profound effect on behaviour than CAP reforms. Other research (Gaskell et al., 2010) specific to upland England (and thus relevant to the majority of Scotland's area) highlights continuing pressures on profitability and dependence on SFP or other off-farm income despite reform and that managed withdrawal from the industry over 2010–2015 remains likely (21% of survey respondents).

In Scotland the historic basis for SFP has been challenged; both on the continuing appropriateness of the distribution of payments by sector and on value for money. With decoupled SFP on a historic basis the most significant adaptation has been the *de facto* abandonment of areas of marginal hill land (Scottish Agricultural College, 2008), but with continuing SFP claims.³ While such areas may be marginal in terms of primary agricultural production (referred to as provisioning services within an ecosystem framework) they can be an important material source within regional supply chains (for example suckler cows supplying stock for finishing), so their abandonment may have economically undesirable consequences such as undermining processing or agri-food employment. Retaining SFP entitlement for *de facto* abandoned land may be justified where areas provide supporting, regulating and cultural services (Woods, 2010). SFP, however, needs to demonstrate *additionality* and this is difficult to verify beyond provisioning services, for example in deciding if habitats are being maintained in the main by domestic or wild herbivores. Inspection and audit in these cases is burdensome for agencies, seen as disproportionate by land managers, and sanctions are limited and in some cases unenforceable.

² <http://www.scotland.gov.uk/Publications/2011/01/27082045/2>.

³ Indeed with tradable entitlement, significant payments per ha can be activated on land on which agricultural management has never been applied.

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