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EUROPEAN UNION'S AGRICULTURE AS PART OF THE SOLUTION TO GLOBAL CHALLENGES¹

ABSTRACT

This paper focuses on proposals for changes in the post-2013 CAP support for agriculture related to the implementation of a uniform model of area payments as a core support instrument and additionally on the implementation of technical and procedural simplifications concerning: a new measure to support small farmers, liquidation of the early retirement scheme and establishment of a restructuring premium instead, agri-environmental payments, establishment of agricultural risk management institutions which would have the role of a safety net.

Key words: CAP and rural development policy reform, simplifications, direct payments, agri-environmental payments, LFA, risk management tools, LFA, special measure to support small farmers.

JEL Classification: Q10.

1. INTRODUCTION

The CAP post 2013 has to be adjusted to the new challenges and changed macro-conditions. The policy must be well tuned to achieve its future goals. In this framework the aim of the article is to propose some new solutions concerning the future course and destiny of the CAP post 2013.

2. STRATEGIC ASSUMPTIONS

The support instruments applied under CAP, in view of rationalization of expenditures from the EU budget, should have a most effective contribution to the activation of multi-functional development of agriculture and rural areas in the EU.

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The need to maintain the community nature of CAP funding results primarily from the value-added generated by CAP and the need for sustainable development, enhancement of territorial coherence and preservation of rural areas as public goods for the whole community of the Union.

The future core tasks to be implemented by CAP should be as follow:

1. Guarantee food security of the EU Member States (food sovereignty included);
2. Guarantee high quality and safety of food;
3. Allow competition of European agriculture and agri-food industry on the world market;
4. Stabilize farmer incomes;
5. Support development of rural communities both in modernisation and socio-cultural aspects;
6. Support preservation of socio-economic viability and territorial cohesion of rural areas;
7. Support preservation of biodiversity in rural areas;
8. Prevent environmental degradation, particularly in the high nature value areas;
9. Strive to preserve rural cultural heritage;

There is a general opinion that the CAP became too complex and hence less transparent and comprehensible. The core reasons for this situation consist in two completely different approaches to the fundamental support instrument in agriculture, namely the direct payments, expanded administrative structures (at Member State and EU levels) and a complex and expensive management and control system.

Both the consumers and the farmers no longer notice any relationship between the CAP complex administration system and its targets. Therefore, seeking **unification and simplification of the applied support instruments should become one of the objectives of the CAP reform**. In particular this should relate to the fundamental and the most generally applied support instrument, *i.e.* the direct payments. Most certainly, in the consecutive programming period, the **continuation of the historic direct payment model shall not be acceptable, though the process of averaging (“flattening”) the payments should be distributed in time**.

It will be impossible to implement the ambitious intentions with regard to preserving diversified landscape, environmental protection or supporting biodiversity and, in parallel, ensure food security (food sovereignty) and high quality and safe food production **without maintaining the Community-based agricultural policy**. However, being aware of the expectations of various groups, they adopted as a set point the maintenance of expenditure from the Community budget at the present level.

The amount of payments in the proposed model shall be the result of the agreed future Community budget for the CAP. We propose that the amount of

funds for the payment scheme described below consist of the current allocation of funds to: **direct payments, Axis 2 of the Rural Development Program and the market measures.**

The solutions proposed in this paper are additionally based on the following assumptions:

- **Area payments should remain the core support instrument in agriculture.** The adopted support principles should be uniform for all the Member States, so as not to disturb the competitiveness on the European Single Market.

- The concept of payment for delivery of social and public goods by European farmers **excludes sustaining the historical payments.**

- **Renationalization of the CAP would mean the loss of the community nature of the CAP** and in the future inability to sustain the single agricultural market and to solve up supranational problems.

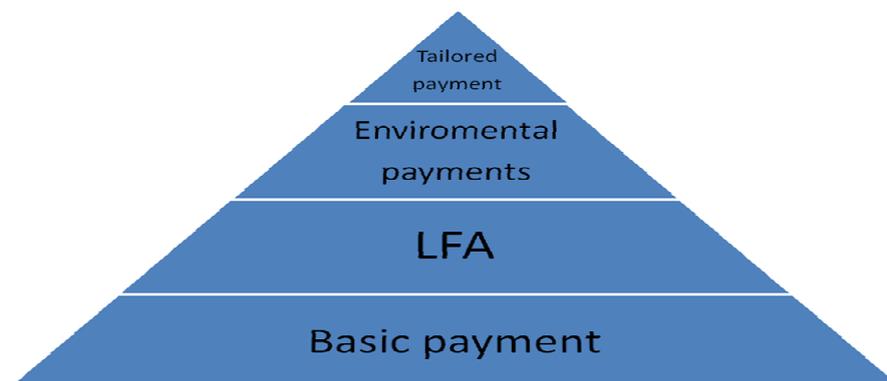
- The CAP should be perceived as a **socio-political agreement concluded by the EU citizens (taxpayers) with farmers** who provide goods and services for the society.

3. UNIFORM MODEL OF DECOUPLED AREA PAYMENTS SCHEME

We propose adoption of a **uniform model of decoupled area payments, based on basic flat rate payment.** The basic rate would be increased by additional payments specified in a closed catalogue under the Community regulations, comprising the following:

1. Basic Payment.
2. Less Favoured Area (LFA) Payment.
3. Agri- environmental Payments.
4. Tailored Payments.

The diagram presented below illustrates the accessibility of the scheme.



Basic payment – payment granted to hectare of farm land fit for farming, with concern taken of areas with characteristic elements of landscape, maintained in good agricultural conditions and in line with the cross-compliance requirements. The maximum reference areas eligible for basic payments shall be determined in the land parcel identification system (LPIS).

In view of the current significant differentiation of payment rates across the Member States, immediate introduction of uniform basic payment would be associated (in certain cases) with a noticeable change in their amount. For this reason it seems necessary to introduce gradual compensation of basic payment rates, distributed over the period of one financial perspective. The European Commission (EC) should present a schedule for reaching the uniform basic rate, so as to achieve a uniform value of the basic payment in all Member States within 7 years.

Less favoured area (LFA) payment – is granted to farmland areas located in the mountains or in areas with considerable natural obstructions and such, where farm land management should be continued to sustain or improve the environment. An aid grant shall depend on meeting the cross-compliance requirements.

Environmental payments – within the framework of these payments the EC shall define aid schemes alongside with the maximum rate per hectare (environmental premia) for each scheme. The European Commission will define levels of requirements in respect of environmental protection, landscape protection, soil and water protection for each aid scheme, common across the EU.

The environmental payment framework comprising three kinds of payments:

Nature premium – payment per hectare of farmland area located within the “Nature 2000” areas, high nature value (HNV) areas or other, where protection is required and justified by environmental requirements.

Environmental premium – payment per hectare of farmland area, cultivated with the use of organic farming, integrated or sustainable methods.

Forest-environmental premium – payment disbursed to farmers who will voluntarily undertake to meet environmental requirements in forest areas or to woodland area within the Nature 2000 areas.

Tailored payment – additional payment amounting to a maximum of 10% of the basic rate, which may be granted by the Member State to farmers who grow and/or breed some specific species, essential in terms of the national policy, and who are simultaneously providers of valuable public goods.

Simplification of the direct payment scheme will allow reducing the administrative burden on the European Commission and the Member States, better understanding of the scheme by beneficiaries and shall enhance the justification of the need for CAP operation.

The proposed model assumes application of several types of additional payments, each of them being a premium disbursed to European farmers for execution of tasks faced by agriculture **and for delivery of public goods**.

4. SIMPLIFICATION BY INTRODUCTION OF AN AREA PAYMENT APPLICATION RELATING TO THE WHOLE BUDGET PERIOD

We propose introduction of essential changes in the process of submission of area payment applications, data verification and on-the-spot control systems. At the same time these simplifications shall not deteriorate the quality and efficiency of EU fund management. The adopted assumptions ensure a sufficient level of control which allows efficient verification of the eligibility of expenditures and protection of the EU financial interest.

Unification of payment granting principles, reduction of the number of aid schemes and their decoupling will allow a change in the approach to this aid granting process. Simplification of criteria of access will provide an additional true benefit in form of greater acceptance of the system by farmers, since the present complicated terms and administrative burdens as well as the lack of a common uniform understanding of the aid principles have an adverse impact on the perception of the payment schemes by the beneficiaries.

We propose that the payment application should relate to the whole budget period – it should be submitted for 7 years with possible modification: obligatory in the case of change in farmland use and voluntary in the case of increasing the farm area. Payment amounts for 7 years shall be established based on the submitted application; they will be modified in the case of change in eligible area.

Introduction of a 7-year application (and hence the right to obtain aid payments for a 7-year period) **will allow treatment of the right to payment as a reliable guaranty of the farmer's income**. Moreover, we assume the possibility of payments cumulation where the beneficiary undertakes investment projects related to the farm (such financial solutions would be associated with launching an advance payment scheme financed from the Member State budget on account of future payments financed from EU funds).

Apart from simplification and taking off some burden from the administration and farmers, the introduction of the 7-year payment application will bring measurable financial benefits to the Member States.

The potential effects of simplification are the following:

- Stability of reference areas in the LPIS system. Data updating in the LPIS system would be done only in the case of permanent transformation of farmland into different land use, e.g. based on the results of on-the-spot control
- Reduction of the level of on-the-spot inspections in respect to area eligibility (to 1% of inspections per year);
- Limitation of expenditures on IACS modifications; introduction of an application submitted once in 7 years would allow limitation of expenditures on annual printing, forwarding and administrative processing of applications.

Replacement of Early Retirement with Restructuring Premium, which Allows Active Transformation of the Agrarian Structure.

Replacement of the early retirement with the so-called restructuring premium may be one of the possible solutions in this respect. This would be an aid scheme addressed to small holding owners (under 10 ha). It would be implemented in two alternative ways. **Both assume the farmer's permanent withdrawal from farming activities** and placing his/her land on the agricultural land market for sale. Eligible agricultural producers could use this instrument at any time and also change the alternative (switch between alternatives).

Passive alternative (variant): the farmer is not obliged to discharge any additional obligations apart from the obligation of maintaining agricultural land in good agricultural conditions. In such case he would receive 70% of the basic rate (effective in the given Member State in each year) during the first 3 years and 35% during the consecutive 4 years. After 7 years the farmer shall be excluded from claiming payments.

Active alternative (variant): during 7 years the farmer sells the land to another farmer. In return for permanent withdrawal from the support system he shall receive payment amounting to 200% of the basic rate for a period of maximum 7 years (depending on the moment of selling the land); the amount due may be paid in a single payment (**advance payment from the Member State budget**).

In both alternatives the farmer shall not be eligible to any other payment than the basic payment.

5. ESTABLISHMENT OF AGRICULTURAL RISK MANAGEMENT INSTITUTIONS (INSURANCE AND REINSURANCE SCHEME). SAFETY NET

We propose additional establishment of an adequate mechanisms of agricultural policy to create conditions to ensure the safety of farm product and food supply in time. Agricultural policy instruments that provide the safety net are necessary to allow the farmers and processors to survive in the difficult time of crisis on agricultural markets. However, these instruments cannot disturb the free trade (*WTO green box*), or relieve the farm producers from responsibility for the production decisions made. **The EU must financially support the agricultural risk management mechanisms, encouraging the Member States to establish insurance and reinsurance schemes.**

The Agricultural Reinsurance Fund (ARF) would be an underwriter for the national warranty and guaranty funds which shall grant guaranties and warranties as security of credits and loans contracted by agri-food businesses for modernization and restructuring purposes.

Additionally the ARF will be able to hold the function of a community reinsurance institution for farm crop insurance taken out both for commercial activities and within the frameworks of public schemes and the joint investment funds.

6. INTRODUCTION OF THE SPECIAL SMALL FARMERS PAYMENT INSTRUMENT

Coexistence of diversified agricultural structures is a superior value of the *European Model of Agriculture*. They result from historically justified, different development paths of economies, hence also of agriculture, in individual Member States.

Small area farms play a relatively insignificant role in terms of production and economy, *i.e.* the scale of food produced, and thus the source of agricultural income. Their role in social and environmental terms is much more significant, though often underrated. They are the very producers of delicatessen, high quality food, they are the mainstay for sustaining rural area viability, they engage in activities designed to cultivate the rural cultural heritage, local traditions and folk customs. Their small areas naturally foster diversification and mosaic pattern of crops, leading to diversification of the landscape, as well as the flora and fauna in rural areas. **Their role as a sort of buffer absorbing surplus labour at times of economic crisis is also worth mentioning.**

All the specified functions, exclusive of delicatessen food production, provide public goods delivered to the whole society without remuneration. These farms have a particularly essential role in certain South European countries. At the same time this contribution is not and cannot be fully remunerated both through the existing support system and by the modified payment schemes, as it is out-of-proportion in respect to achievable payments. It should also be noted that the small farm contribution in the process of public goods supply is relatively greater than that of the average and large size farms.

Taking the above into consideration **our opinion is that it is necessary to establish an additional instrument addressed to small farms**, with small economic potential, which execute the above-specified tasks and which are ready to respect the effective requirements in respect to cross-compliance and relating to individual types of support.

The new instrument should have a constant nature and should be lined to the basic rate. This additional annual payment per hectare should not exceed 25% of the basic rate. Benefits from this instrument should be hedged with the commitment to run the holding for a period of at least 7 years (budget period).

7. CONCLUSIONS

This paper focuses primarily on proposals for changes in support to agriculture related to the implementation of **a uniform model of area payments as a core support instrument**. The implementation of this task will take place through technical and procedural simplifications:

1. Adoption of a uniform model of decoupled area payments;
2. Introduction of one area payment application for the whole budget period;
3. Introduction of a special payment instrument to support small farms which participate in delivery of public goods in a particular way;
4. Liquidation of the early retirement scheme and establishment of a restructuring premium instead, to allow the farmers to choose a different, non-agricultural type of activities in return for permanent withdrawal from the support scheme under the form of area payments.
5. Establishment of agricultural risk management institutions (insurance and reinsurance scheme) which would have the role of a safety net.

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