The aim of this paper is to develop the conceptual scenarios for farmers’ income support policy further development designing the measures with less market distorting effects. The results of the CAP implementation and challenges faced by the European agriculture have raised a set of issues, questions and deficiencies of the current direct support scheme known already as a radical shift towards more market oriented one. Market and climate dynamics require more targeted income support policy efforts from the EU. The recent reform of the CAP seems to be intermediate stage in the process of the policy development. The two sets of scenarios, responding to these concerns, are identified: on the current legal acts and based on new conceptual principles (shifting from current legal acts). While the first set is accounting for two scenarios introducing national and European level of regionalization of decoupled payments, the second set of scenarios provide concepts of the policy scenarios based on environment costs, market risks and complex farm risks (market and weather risks). All these scenarios are compared and analyzed in terms of their broad response to the recent challenges faced by the European agriculture.

Key words: direct payments, income support policy, the EU.

Background

The EU Common Agricultural Policy (the CAP) reform can be still nominated as being a recent one. The decoupled payments, introduced as a core element of the reform are in the line with international level obligations raised by the WTO, account for a biggest impact on reducing trade distorting forms of support in the EU (Agricultural..., 2008a) and, as the EU is the biggest exporter of food products in the world (International..., 2008), in the global market of food and agricultural products. The recent reform started in 2005 in the old member states experienced its “health check” in 2007–2008 (Commision..., 2007) EC followed by its modification toward more decoupling and flatter rates among the EU regions. The modifications seemed to be minor and economic impact of them on farmers income supposed to be rather limited, however societal impact was significant. As it is concluded in the Commissions of European Communities impact analysis report (Commision..., 2008a), the societal concerns of unequal distribution between farmers could be coped with the policy adjustments towards a more flat rate for payments in the EU. Moreover, it was noticed that full decoupling of remaining sectors would have a positive impact on farm income because of higher transfer efficiency of direct support. The appropriate decisions, providing incentives for policy makers to develop national Single Payments Scheme (SPS) towards full decoupling and greater regionalization, were made by the Commissions of European Communities (European..., 2009). Even if the made modifications introduced only
minor changes into the CAP, the other issues going beyond the CAP Health Check were raised and analysed.

Once of the most sensitive issue in the CAP for new member states is the differences in level of direct support between member states and, especially, between old member states (OMS) and the new ones (NMS). The phasing-in proposed for NMS starting from 25% of the EU direct payments level and reaching 100% of it in 2013 (EC, 2009) wasn’t an option to be satisfied. However, that wasn’t and isn’t the main factor differentiating the payment rate in OMS and NMS. If the first mentioned factor determined by the NMS’ economies rather limited potential to satisfy the supply in short term, increased due to the income increase from direct payments, other factors were historical structural factors (European..., 2009). These structural factors influencing the payment rate and their level were and still are: land fertility, structure of agricultural sector and its intensity. The development of economies’ potential to satisfy the increased supply have been reflected through the phasing-in, while other factors have frozen the developing countries’ agriculture structural indicators, i.e. its state in reference period 2000-2002. These preconditions determine the amount of direct support envelope of a particular country, as the envelope is a sum of the base area multiplied by the reference yield and the payment rate and reference amounts (rights) multiplied by the payment rate (European..., 2009).

The economic development of NMS, their structural changes and results of SPS implementation are raising issues on sustainability of the applied income support policy in the EU. The reference base area and reference amounts (rights) as factors can be questionable as land reform wasn’t finished in certain NMS and herds of animals as well as their breeds were just starting recovering at the time of accession into the EU. The reference yield set for a particular country was based also on data representing low land fertility due to technological and financial deficiency. Moreover, the current climate change tendencies reveal the winning and losing regions in terms of increasing or decreasing fertility. While the southwest countries of the EU are the region where crop yields are predicted to decrease, the north, central and east countries of the EU – to increase (AEA..., 2007).

From another perspective the sustainability of the current policy is questionable on its incentives provided by the decoupling and differentiated in the decoupling applied in regional versus historic model. As the reason of differences in payments rates among one country’s (region’s) farms become grasped (especially socially) due to dissolving memory on farms’ past production (structural) indicators (in case of historic SPS), from one side, and differences of a reference situation in OMS and NMS, form another side, the regional implementation of SPS, providing elements to develop the direct payment level toward a flatter rate, reveals its advantages.

The options to introduce flatter rates in the EU regions under regional SPS were addressed by the Commission of European Communities (2008b), however they were not at full extent integrated into the EU Health Check regulations. The analysis focuses on two main scenarios based on the established direct support financial envelopes’ ceilings (European..., 2009). The impact of the fully decoupled
regional flat rate in the EU regions (first scenario) and the impact of the fully decoupled flat rate in the whole EU (second scenario) on direct payments per farm and income were assessed. The results revealed that there is no significant impact on direct payments per farm and income in EU level in the case of any of two scenarios. However, there are certain sectors and countries that could be named as winners or losers. The differences in direct payments per hectare among EU farmers would decrease under both scenarios. However, the redistribution of payments under the second scenario would result in significant income decrease in Belgium, Denmark, Germany, Greece, France, Italy, Cyprus and Netherlands and increase in the other member states. Another study (Report…, 2008) assent to these findings via confirmation that, in case of full flat rate in the EU level, the biggest agricultural countries of the EU would be losers while the majority of NMS would benefit.

However, even decoupling as a tool to transfer income support for farmers is discussed. The decoupled payments remain coupled through their impact on the behaviour of risk facing farmers’ behaviour, credit constrains easing, land values (capitalization of prices, rents), labour allocation decisions and even future decisions (Bhaskar, 2007). The capitalization of decoupled payments as area payments is addressed to by many investigations (Ciaian, 2008; Halmai, 2006) confirming the negative impact of area based payments. However, keeping a certain flat direct support level can be justified by high standards (cross-compliance) that imply additional costs (Kroll, 2008).

As the result of SPS implementation and of mentioned investigations reveal rather limited impact of flatter direct support rates on the direct payments per farm and income in the EU countries, they can be the basis for further income support policy developments in the EU. Moreover, the social aspect of the differences in direct payments rates among farms and countries as well as doubts over coupling of decoupled payments in the EU put forward the need to revaluate and/or reconceptualise the income support policy elements (Kroll, 2008; Swinbank, 2005; Katranidis, 2008). With the raised issues above in mind, the research question can be formulated as follows: what would be the guidelines (principles) for scenario development seeking for the less market distorting income support policy in the EU?

Methodology

As the paper focuses on conceptual income support policy scenarios development, it could be treated as being the first steps while bringing insights and mapping the field for broader research. The background information provided above reveals the limitation of current income support policy constructs and these limitations already have warned about the need to reconceptualise the income policy scenarios in the light with challenges for agriculture. The conceptualization, while searching for new measures to cope with current policy limitations, is used to draw policy scenarios.
Results

The current results of SPS implementation in the EU and the raising concerns on non-decoupled pattern of current decoupled payments, the guidelines for scenario development for income support policy in the future can be developed. The EU budget review and a new financial perspective (starting from 2014) can be an occasion for conceptual changes in the income support policy in the EU that already revealed its deficiencies.

The main reasons to apply the income support measure is the maintenance of farmers’ income that is a subject to market and weather risks (management risks or farmers managerial competencies risks impact the income, however they are not a public policy object). In that line, two sets of scenarios can be analysed: those based on current income support policy concepts and those – based on new ideas and market challenges (Table).

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>The current basis</th>
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<td>Fitting the WTO Green Box</td>
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*the scale represents”+++” while it is very well managed (taken into account) and “---” it is very bad managed (taken into account), and “+-” – rather difficult to assess (the impact expected is ambiguous).

If the current concept of income support policy in the EU would be maintained, two eligible and the most believable policy scenarios could be applied after 2014 as from the start of the new financial programming period (table): one, having as its concept the flattering of direct payment rate in regions of the EU, and another, introducing the EU flat rate (one rate per hectare in all EU countries). These scenarios remain well routed in the history of reference yields in the EU (see Figure 1).
In case of the first scenario direct support transfer efficiency would be higher than the current policy’s results due to the simplification through fully decoupled payments. However, that policy scenario would preserve the difference in direct support level among EU countries (due to different reference yields and other structural factors) while dealing rather well with direct payments distribution in the region. The environmental concern would remain being taken into account at the same efficiency as the current policy does. However, the policy under that scenario would be supposed to increase the capitalization of direct payments into land value, price and rent while benefitting landowners and not its managers. Under the scenario the climate risks would be taken into account only marginally as the result of the CAP Health Check (foreseen option to use a limited share of direct support for crop insurance). The further critics toward the policy would prevail as its fitting the Green Box requirements would be questionable.

The second scenario would provide the greater efficiency than the first one due to a unique payment and unique requirements for eligibility (indispensable in that case). The social effect of that policy would be very positive as it would abolish the NMS’ “discrimination” as developing countries. The distribution of direct support would be more effective as the concentration would decrease. However, the economies of scale would remain as a factor still concentrating the value of direct support due to farm size differences in the EU countries (see Figure 2). It is clear that this scenario wouldn’t be preferable by the biggest agricultural countries in the EU applying historical SPS model (see Figure 3). The attention paid to environmental issues would remain rather the same as under the first scenario. The increased payments per hectare (in comparison with current and regional flat rate scenario) in the majority of NMS would increase capitalization of direct payments.
in those countries while can decrease the capitalization in the countries losing from that policy scenario. The changing climate concerns as well as Green Box issues wouldn’t be better managed than in the first scenario.

Fig. 2. The average farm size in the EU countries in 2005 (Agricultural..., 2008b)

Fig. 3. Direct support schemes applied in the EU countries (Overview..., 2008)

The new basis for income support policy scenario is developing on the ground of deficiencies of the current scheme and shifting from its routes in refer-
ence structural indicators. The need to focus on environmental issues and cope more with risks than just support the income (indifferently the objective risks faced by a farmer) is one of the Key elements while developing the future income support policy. Here three main scenarios are discussed: the environment protection costs, income insurance (market risks) and complex income insurance (market and weather) based scenarios.

The first scenario based on new concept would be that of the direct payment rates (lower than under current legal basis) set as a coverage of certain costs arisen due to the implementation of environmental requirements (cross-compliance). In that case requirements would be the same for all member countries (avoiding the current liberalization level while setting requirements for good agricultural conditions, i.e. these requirements would be set at the EU level, not at the national level). The evaluation of direct support distribution would become questionable, as an indicator in that scenario would be rather not applicable. The support would shift from income support measure to environmental cost (“input” under higher standards) compensatory payments (no more market deficiencies compensatory payments). The direct payment would remain linked to the area managed and that would drive the capitalization of those payments into land value. The climate concerns wouldn’t be addressed correctly. They would be managed partially if the money saved from the decrease in direct payments level would be used to implement more focused weather risks mitigation system (not fragmental). The capitalization of payments into the land value would provide arguments to question the measures fitting the WTO’s Green Box.

The second scenario is inspired by the latest world’s economy dynamics. The complex insurance of farm income (and/or property) system would be the answer of the greatest potential to the growing EU budget constrains, WTO negotiations. The model would be based on compensating the insurance payments on the basis of individual farm market (depending on farm production structure and other indicators) risks. The model would eliminate the dominating over-evaluation of management risks on farm. However, it seems that scenario would be very positive in terms of low to zero capitalization of direct support, but, at the same time, it would ignore the climate risks. The number of the EU Green Box policy measures would be increased.

The last scenario taken into account, together with market risks, weather risks would be the radical shift to the new era of EU income support policy, but would be revealed as the most market oriented and responding to the current market and weather dynamics scenario. However, it should be noticed that the single income insurance system implementation in the EU would be a difficult task as the structural differences still prevail.

Conclusions

The very short answer to the research question raised above “what would be the guidelines (principles) for scenario development seeking for the less market distorting income support policy in the EU?” difficult to formulate. However, it
can be recognized that in the light of market power dynamics, environmental imperatives, climate changes, EU budget review and today’s world economy, it seems new agricultural policy ideas/philosophies are needed. The development of the current income support policy, even with its wider regionalization in the EU, wouldn’t provide a sustainable policy scheme in terms of direct support distribution efficiency, capitalization of direct support and climate imperatives (the last ones being talked more via other policies, for example, bio fuels production support policy). More market oriented and weather risks integrating complex support schemes, reflecting actual individual risks for income volatility, seem to be the Key policy development areas. However, only those would be sustainable that would maintain/preserve competencies to produce agricultural products in the EU and provide guarantees for sustainable and auto-sufficient supply of agricultural products in the long run.

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ES PAJAMŲ PALAIKYMO POLITIKOS VYSTYMO GAIRĖS

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Raktiniai žodžiai: ES, pajamų palaikymo politika, tiesioginės išmokos.