

# APPRAISAL OF THE COMMISSION CAP COMMUNICATION

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# Budgetary framework

- Less money for the CAP in the EU budget
- Direct payments prioritised at the expense of rural development
  - To be offset by change in P2 co-financing rates
  - And flexibility to shift funds between Pillars
- Comparison of 2021-2027 CAP budget with 2014-2020 CAP budget **is complicated** and can be done in various ways

# Budgetary framework

- Commission estimate: 5% reduction, no MS to have more than 4% cut in direct payments (nominal terms?)
- My estimate: 2027 compared to 2020 (constant prices)
  - Pillar 1 -11% Pillar 2 - 26%
  - CAP -15%
- Bruegel estimate MFF to MFF (constant prices)
  - Pillar 1 -13% Pillar 2 – 23%
  - CAP -15%
- Will MS be willing to raise **gross contributions** to 1.11%?
- If new MFF not ready by 1 January 2021, the 2020 MFF ceilings continue in place

# Modernising the CAP

- **Direct payments to continue, but to be better targeted**
- The popularity of direct payments is easily understood, but do they provide a **good use** of taxpayer money?
- Commission 'income' indicator shows low productivity in agriculture, not an indicator **of income need**
- Fundamentally, **Treaty** provides that producer incomes should be increased by rational development of production and optimal utilisation of labour
- Direct payments have important **disincentive effects**, particularly in raising land prices and discouraging new entrants

# Targeting payments

- **Capping** of direct payments at €60,000
  - But allowing deduction of labour costs (including imputed value of unpaid labour) likely to make this toothless
- **Redistributive payment** will continue, rules still uncertain
- Back to the future?
  - Recall CAP Health Check
  - Modulated ALL payments above €5,000 by 10% in 2013 (14% above €300,000)
  - Money transferred to meet new CAP challenges
  - Will MS want to use CAP funds to slow down structural change?

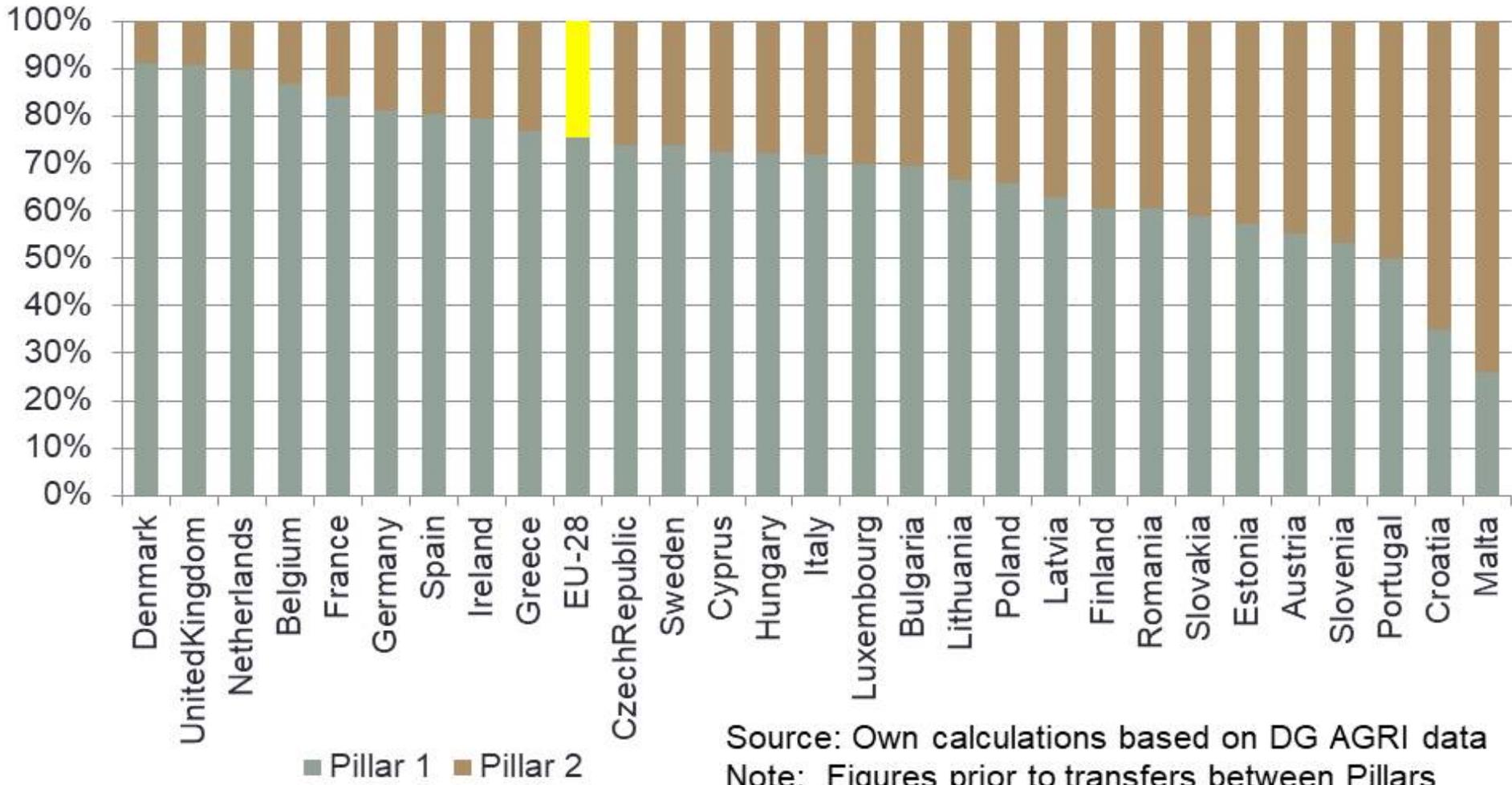
# Modernising the CAP

- **Higher ambition for environment and climate goals but.....**
- 30% of Pillar 1 spending linked to **greening** will disappear
- (replaced by **voluntary** eco-scheme)
- Promises '**enhanced conditionality**' at least equal to cross-compliance and greening combined, but no details
- 30% **minimum spending** in Pillar 2 on agri-environment-climate measures ??

# Simplifying the CAP

- **Shift from compliance to performance-based approach called the New Delivery Model**
- Potentially a very **welcome** approach...
- ... but very **challenging** to implement
- MS must spell out quantitative targets and intervention logic for nine objectives based on needs analysis
  - Sufficient **administrative capacity**, esp. at regional levels?
  - Adequate **data availability** to set targets?
- As money is pre-allocated to MS, how to guard against MS choosing a **low level of ambition** and 'easy' instruments?
  - Commission more concerned to avoid '**gold-plating**'
  - What about MS with high share of P1 in CAP budget?

# Relative importance of direct payments and rural development funding by Member State, 2015-2020



Source: Own calculations based on DG AGRI data  
Note: Figures prior to transfers between Pillars

# Simplifying the CAP

- Commission will **approve** CAP Strategic Plans
  - Pro forma? What leverage will Commission have to raise ambition?
- **Monitoring** achievement of targets?
  - What sanctions for non-compliance?
- Will different MS choices be a **threat to the single market**?
  - Different levels of direct payments per hectare?
  - Different interpretations of 'enhanced conditionality'
  - Different levels of audits and controls at farm level?
  - Different levels of ambition in setting Plan targets?

# Conclusions

- Parliamentary schedule requires agreement on MFF and legislative proposals by early 2019
  - Is this feasible?
- Limited involvement of **outside expertise** in developing the new CAP delivery model
- Highly desirable to **pilot** the new approach
- Likely delays in implementing the new CAP may well be a **blessing** in disguise!

# Thank you

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