

EU POLICIES, CAP AND DIRECT PAYMENTS A SOLUTION OR NOT FOR FOR AGRICULTURE AND CLIMATE CHANGE

Tirpe Gheorghe

*University of Oradea – Faculty of Environmental Protection , Gen Magheru, nr. 26
gheorghetirpe@yahoo.com*

Abstract

Successive reforms of the CAP have been successful in reducing the market distortions caused by the CAP, from the price and market intervention system to the decoupled single farm payments. The question we are facing now is whether the SFP system, either in its current form or in a modified form is likely to address the key policy challenges in the future. One of the most daunting challenges ahead appear to be reducing/mitigating climate change.

Key words:environment security,climate change, direct payments.

Introduction

We are at a historic moment in time, both in terms of the policy timing and in terms of the challenges that face us. This forces us to raise some fundamental questions regarding all EU policies, including the CAP, and, the subject of this paper, the direct payments in particular.

The past reforms have already introduced some new objectives. In line with the requirements of EU citizens, the following factors have taken on greater importance, according to the European Commission (2007): improving the quality of Europe's food and guaranteeing food safety (standards); looking after the well-being of rural society; support the multifunctional role of farmers as suppliers of public goods to society and ensuring that the environment is protected; providing better animal health and welfare conditions; doing all this at minimal cost to the EU budget. This additional list of new factors/objectives is reflected in pillar II priorities and the so-called cross-compliance regulations, i.e. the conditions farms have to satisfy in order to receive the payments.

Regarding the future CAP payments, several task forces and reports have developed an even larger set of adjusted objectives for the CAP. For example, Bureau and Mahe present a list of 13 policy objectives for their future CAP model . In contrast, the IEEP report (Baldock et al 2008) presents two main new objectives: (1) to maintain the EU's capacity to produce food and maintain a renewable resource base in the longer term, and (2) to provide environmental benefits (including biodiversity, valued

landscapes, ...). These objectives appear relatively closely related to two objectives proposed by Allan Buckwell for the UK's Country and Land Owners Association (CLA) and the RISE Foundation, which are summarized as the "food security objective" and the "environmental security objective" - although the derived implications vary somewhat.

Needless to say, the extension of the list of objectives make the entire exercise of identifying precise objectives and developing targeted instruments not easier - which is recognized by some of the authors of the reports - who then also list the need for simplicity and low transaction costs as additional factors to take into consideration.

In the rest of this paper I will address the objectives which are most often presented and which seem to be the ones with the most important budgetary and policy implications, in particular regarding the direct payments- environmental benefits - and I will discuss those specifically related to objectives for direct payments (and not to pillar II initiatives).

Environmental Objectives for CAP Payments ?

All the reports point at major environmental challenges and objectives in the future of the CAP (including securing valuable landscapes, biodiversity, etc). The authors argue that several of these should be targeted with specific payments or contracts. I refer to some of the other presentations who focus on these issues (eg. that by Louis-Pascal Mahe). Here I limit myself to what I consider two major challenges: climate change and policy implementation problems with targeted direct payments for agri-environmental objectives.

Climate change

The first issue is the relationship between EU agriculture and what is arguably by far the most important environmental challenge: climate change - and what this implies for direct payments.

It is now beyond doubt that climate change (CC) presents a major challenge for our society, including for EU agriculture. There is a bi-causal relationship. CC will affect EU agriculture, and EU agriculture affects CC.

Studies suggest that the impact of climate change on EU agriculture is likely to be mixed. Climate change is likely to affect food production in different regions quite differently and that parts of the EU may be negatively affected and parts positively. The total impact of climate change on global agricultural production as well as on EU agricultural production may be

positive, but important reallocations appear likely, as well as the need to produce in changed climatic conditions, e.g. more droughts etc.

The impact of EU agriculture on CC is substantial. The average contribution of EU agriculture to greenhousegas (GHG) emissions in the EU is 9%, but in countries such as France it is 14%. Agriculture may contribute to carbon sequestration, but the net effect depends on its opportunity costs, i.e. the substitution for other activities which may have a stronger or lesser effect on carbon sequestration.

There are no obvious arguments for the use of direct payments to reduce the impact of EU agriculture on climate change.

First, at the least, payments which stimulate production which contributes to GHG emissions, or, without stimulating output, which prevent or discourage the use of land for activities with more carbon sequestration do not contribute to reducing climate change damage - to the contrary.

Second, if direct payments are to contribute to the goal of mitigating/reducing climate change they need to be strongly targeted to very specific types of agricultural practices which do satisfy key criteria.

Third, similar to the case of food security, to reduce the impact on climate change and to handle the increased demand for agricultural commodities from the growing global demand for food, feed, and bio-energy there is a need for substantive innovation in farming practices and in technology to reduce energy-dependency in agricultural production, to adjust to CC, etc. Also for this objective, there appears far more need for investments in R&D than for payments to farms.

Targeting and implementation problems

Hence, if direct payments are at all to be used, they require very careful targeting. However, a major problem is the implementation and enforcement problems with targeted and conditional payments to address specific environmental objectives - and in particular the importance of "government failure" in the discussion on "market failures". Notice that this argument is not only very important for climate change but also for other environmental objectives such as biodiversity etc.

In this perspective, "environmental security" sounds rather like a new version of the concept of "multifunctionality". In both cases, a general concept is used to argue for the continuation of direct payments, while the contributions of agriculture to environmental security under the form of environmental services and rural public goods are highly region- and case-specific, and may be both negative as positive.

Multifunctionality has been used (and abused) over the past decade as an argument to continue farm support. In an excellent review of the arguments, David Harvey (2003, 2009) comes to the conclusion that farming can produce both positive and negative externalities - or as he puts it, it can be either complementary or competing with the production of public goods such as Conservation, Amenity, Recreation, and Environment (CARE) goods. He concludes that, despite the apparent attraction, production related payments to farmers are just as likely to worsen as to improve multifunctional benefits.

Designing policies in such a situation requires a huge amount of information and administrative capacity. Proposals to target direct payments better to specific EU objectives, such as paying for public good provision in rural areas, environmental services, etc, need to do a better job at addressing questions regarding (a) the possibility of not just market failure, but also government failure, (b) enforcement and information problems, (d) why only positive incentives are needed, (e) why agriculture should be receive such support and not other sectors of society, and (f) the need to do this at the EU-level ?

In fact, Harvey (2009) argues for the related case of supporting multifunctionality that quasi-markets are more likely to do a better job at correcting market failures and deficiencies than government organized targeted payments would. Moreover, the experience so far with Pillar II payments at the least should caution to be extremely careful of extending this model on a multi-billion euro scale, without a much better insight on how to enforce the system and measure the effects.

Conclusions

Climate change is likely to have a significant impact on EU agriculture. Although it may actually have some positive effect on output, it is likely to imply major relocations and the need to adjust production systems. Vice versa, EU agriculture continues to contribute importantly to GHG emissions.

From a policy perspective all this has important implications.

It means that real agricultural market prices are likely to increase in the future. As a result, there are less arguments for governments to support farm incomes. This in itself has major implications for the use of direct payments since their history and level have been determined by the perceived need and political demand for farm income support.

Direct payments can play some role in reducing income variation and household risk in the future, but they would have to be reformed fundamentally in order to become a real safety net. Moreover, their effectiveness in terms of risk reduction and providing insurance has to be compared with private sector instruments, and their effectiveness in terms of social safety net has to be compared with that of an economy-wide social policysystem, which provides a safety net across sectors. In both cases, policy and private sector instruments focused not on agriculture but on the entire economy are likely to be more efficient.

In this perspective, the EU should consider instead of spending the budget on direct payments to reallocate a substantial part of the CAP budget to stimulate the development and implementation of a series of new and improved ("green") technologies to stimulate the EU rural/food/bio-economy.

References

1. Baldock, D., Cooper, T., Hart, K. and M. Farmer (2008), "Preparing for a New Era in EU Agricultural Policy," Institute for European Environmental Policy, London.
2. Bureau, JC and L. Mahe (2008), "*CAP Reform Beyond 2013: An Idea for a Longer View*," Notre Europe, Paris.
3. European Commission (2000), "*White Paper on Food Safety*" Brussels, COM (1999) 719 final
4. European Commission (2007), "*The Common Agricultural Policy Explained*," European Commission, Directorate-General for Agriculture and Rural Development.
5. Harvey, D. R. (2003), "Agri-environmental relationships and multi-functionality," *The World Economy*, 26 (5), pp. 705 – 725
6. Harvey, D. R. (2004), "Policy Dependency and Reform," *Agricultural Economics*, 31, pp. 265 - 275
7. Harvey, D.R. (2009), "*Agriculture and Multifunctionality*," paper presented at the "European Agriculture 2020: Challenges and Policies" conference, SciencesPo, Paris, January.
8. Nelson, G. (2009), "Climate Change and Agriculture: A Review and Policy Implications", paper presented at the "European Agriculture 2020: Challenges and Policies" conference, SciencesPo, Paris, January.
9. OECD (1994), "*Assessing the Relative Transfer Efficiency of Agricultural Support Policies*," Organization for Economic Co-Operation and Development, Paris.
10. OECD (2002), "*The Incidence and Income Transfer Efficiency of farm Support Measures*," Organization for Economic Co-Operation and Development, Paris.
11. OJEC (Official Journal of the European Communities). (2002), L31/1. Regulation (EC) No 178/2002.
12. Olper, A. (2008), "Constraints and Causes of the 2003 EU Agricultural Policy Reforms," In Swinnen, JFM.(ed.) *The perfect storm: The political economy of the Fischler reforms of the common agricultural policy*, CEPS publications, Brussels.
13. Rozelle, S. (2008), "Biofuels and Global Food Markets" presentation at the Gates Foundation/IFPRI workshop, July, Orlando FL.
14. Swinnen, J. and P. Ciaian (2008), "Growth, Competitiveness and Convergence in Romanian Agriculture", Paper presented at the World Bank Conference on "Growth, Competitiveness and Real Income Convergence", Bucharest, April 21-22, 2008
15. Swinnen, J. and L. Vranken (eds.) (2008), "*Land & EU Accession: Review of the Transitional Restrictions by New Member States on the Acquisition of Agricultural Real Estate*" CEPS Publications, Brussels.
16. Swinnen, J. (2009), "The Growth of Agricultural Protection in Europe in the 19th and 20th Century". In Kym Anderson (ed.), *The Political Economy of Global Agricultural Distortions*, World Bank Publications, Washington D.C, forthcoming
17. World Bank (2005), "*Food Safety and Agricultural Health Standards: Challenges and Opportunities for Developing Country Exports*" Poverty Reduction and Economic Management Trade Unit and Agricultural and Rural Development Department, Report No 31207, The World Bank, Washington D.C.