



**Pre- Congress CAP Seminar,  
Trento, June 4<sup>th</sup>, 2012**

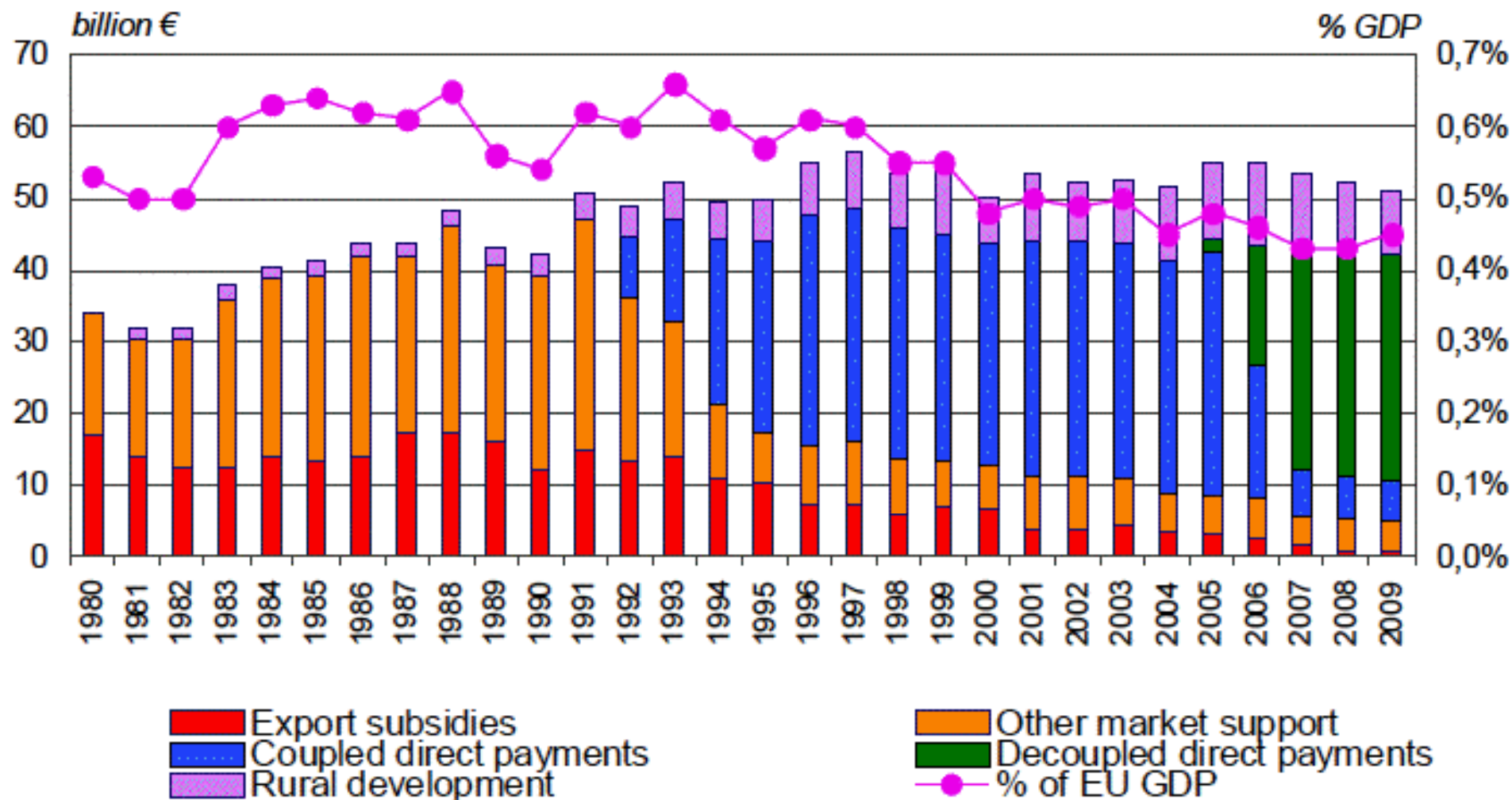
# **The CAP after 2013: The Commission Proposals and the Decision Process.**

**The current CAP reform:  
boosting or retarding agricultural  
competitiveness?**

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# HISTORY

- CAP has become 'more competitive' (WTO rules)



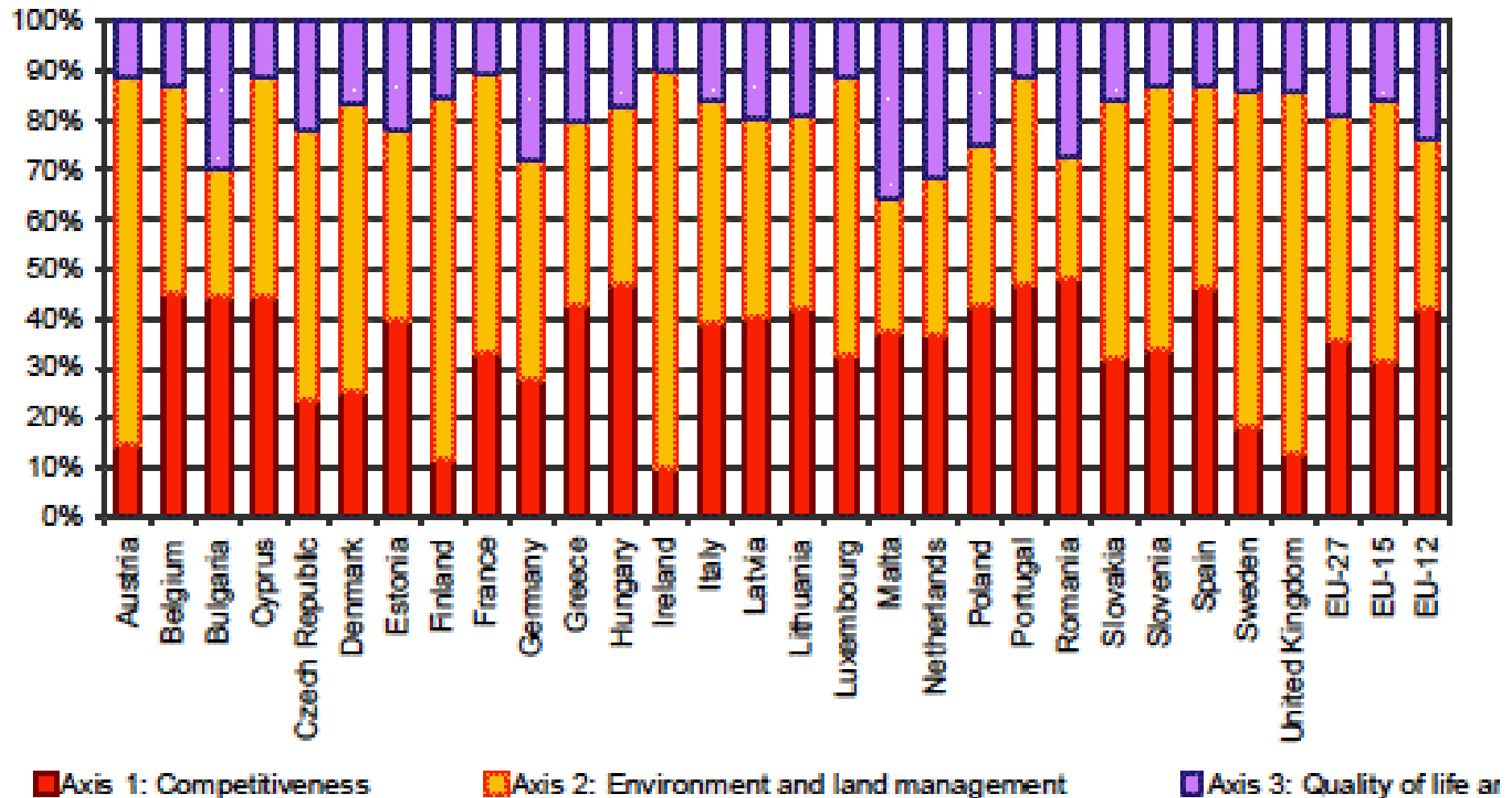
Source: DG Agriculture and Rural Development.

# Competitiveness?

- EC's Own IMPACT ASSESSMENT (2011):
- “enhancing the competitiveness of agricultural holdings (innovation, modernisation, resource efficiency, *addressing production difficulties in areas with natural constraints*)” (p 36)
- So, Reform the CAP towards “increasing the productivity and competitiveness of the agricultural sector by:
- improving the functioning of the advisory system and creating networks .. for *knowledge creation and transfer and favouring innovative* approaches.. for rural development measures;
- encouraging *pro-competitive joint action among farmers and across the food supply chain to foster efficient use of resources, product development and marketing*;
- providing *incentives to use risk management instruments and active prevention strategies*”

# The Impact Assessment ‘Answer’

- Pillar II is the tool for competitiveness (p 14)

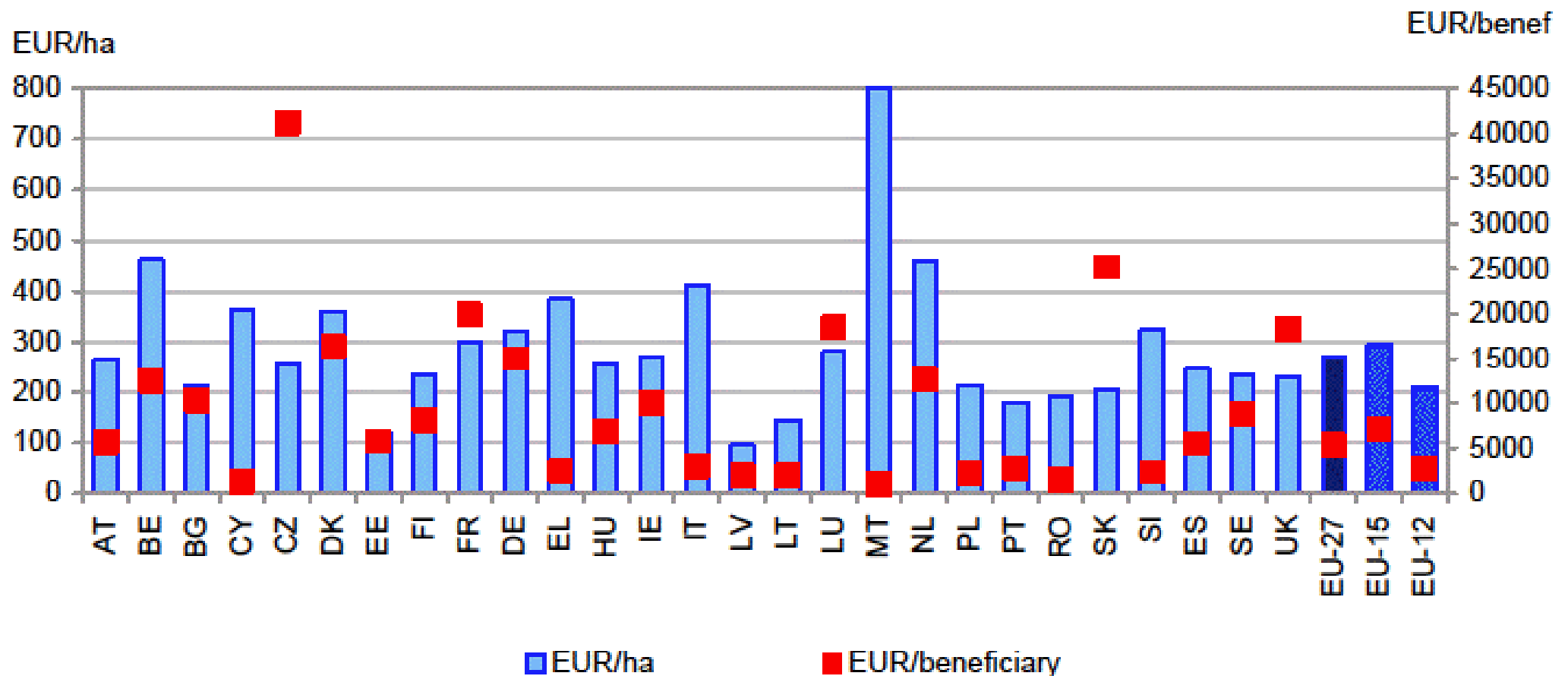


# EC Impact Assessment

- **IMPACT ASSESSMENT** (2011) examines 3 scenarios: “Adjustment”; ‘Integration’; ‘Re-focus’
- Definition of ‘Integration’ does not mention competitiveness at all
- But, ‘Integration’ does NOT shift funds from P.1 to P.2 (p38), but notes (p41) *“there were many who found that greening Pillar I would have a negative effect on farm income and competitiveness.”*
- P2 ‘streamlines’ 40 to 20 measures under 6 Priorities, including **“competitiveness & farm viability”**.
- + a “European Innovation Partnership” & “new "priorities" relevant to competitiveness – e.g. "transfer of knowledge" and "innovation”.” (Including more R&D) (p43/4)
- “The impact on competitiveness and growth -through increased funding for innovative actions and encouragement of increased cooperation and collective action among farmers & with improvements in the functioning of the food supply chain. Better coordination of EU funding also contributes to rural growth. Greening costs will impact on (*reduce*) the short-term competitiveness of farms, (which) will vary considerably between Member States and type of farm.” (p53)
- Conclusion: + in short term, ++ in long term (cf. Refocus +++; Adj. ++/+) p 76
- ***A masterpiece of Policy Based Evidence.*** Competitiveness is improved without any new funds by ‘recruiting’ other EU funds to help!

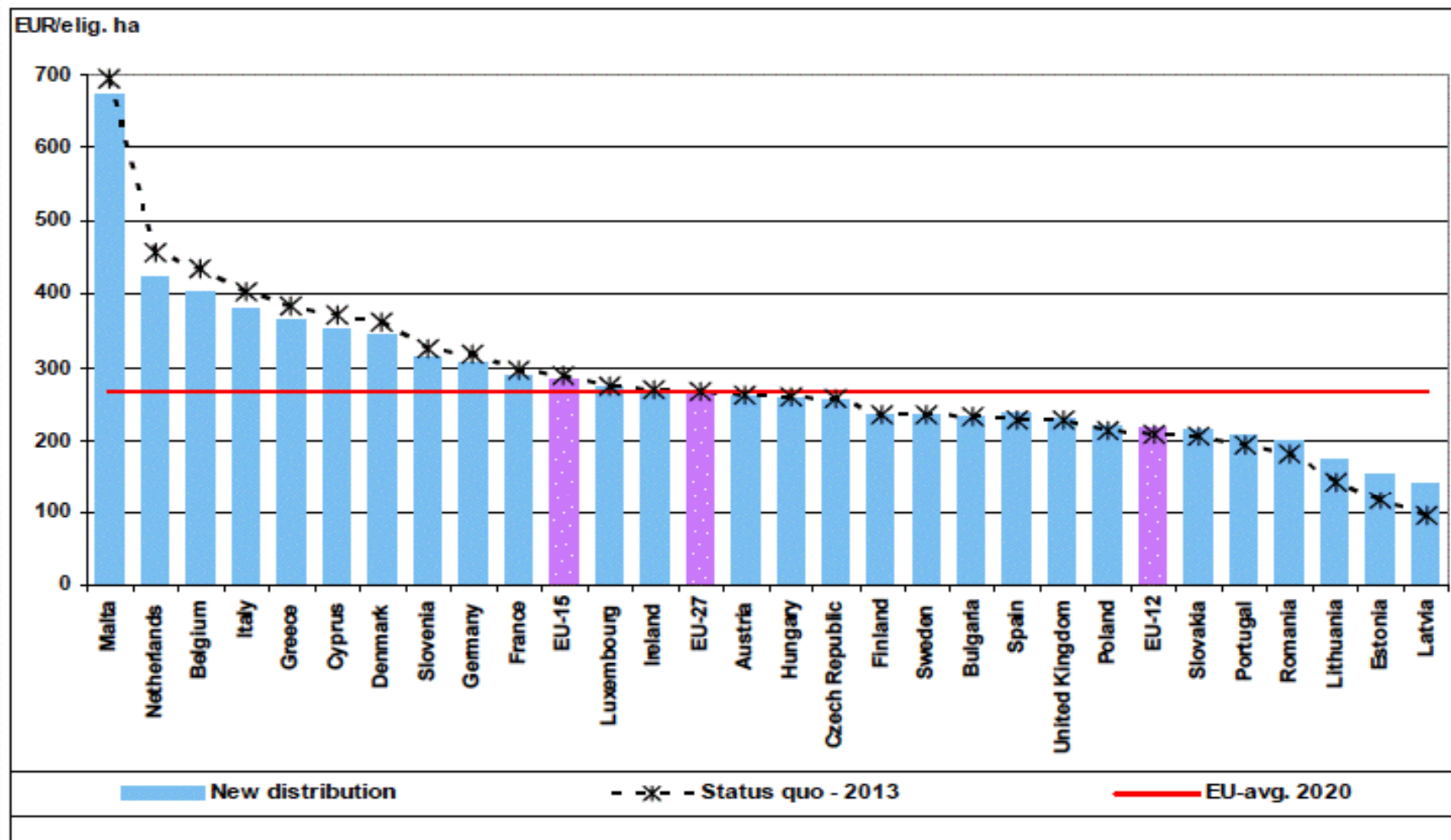
# INTER MS COMPETITION?

- Present of DP clearly 'uncompetitive' – not a 'level playing field'



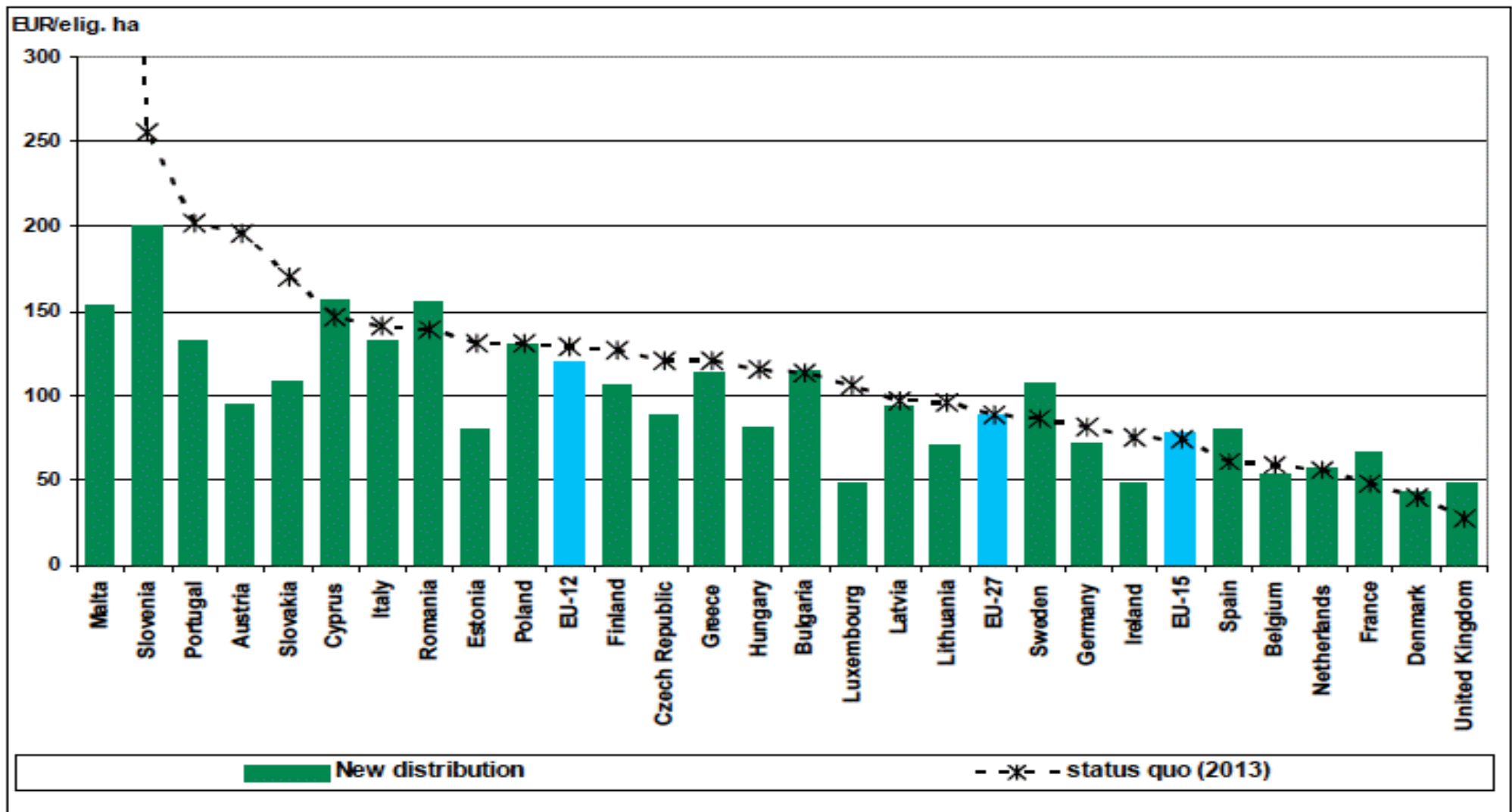
# INTER MS COMPETITION?

- Proposed 'reform' very little better:



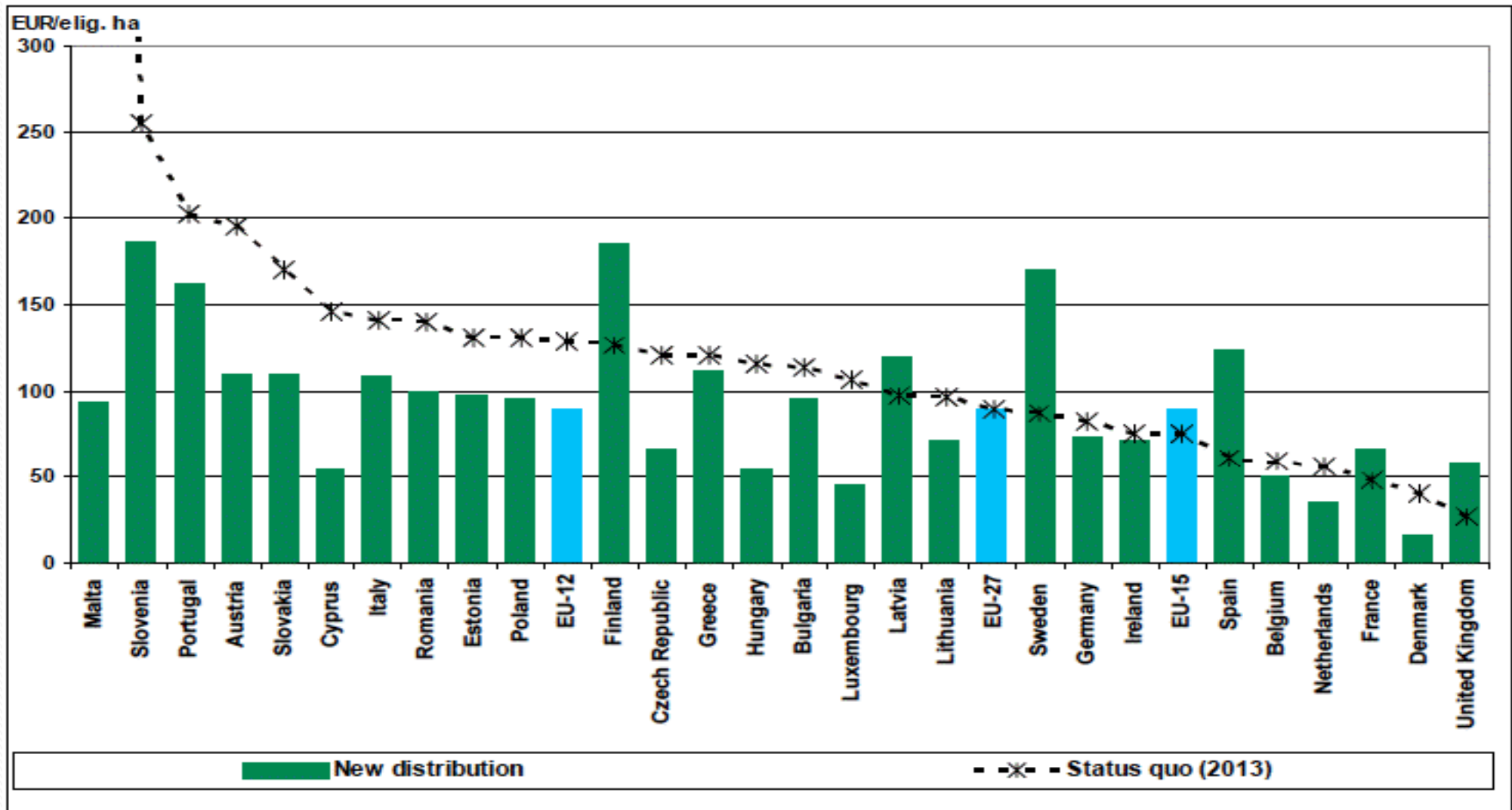
# INTER MS COMPETITION?

- What would an “objective” distribution be?

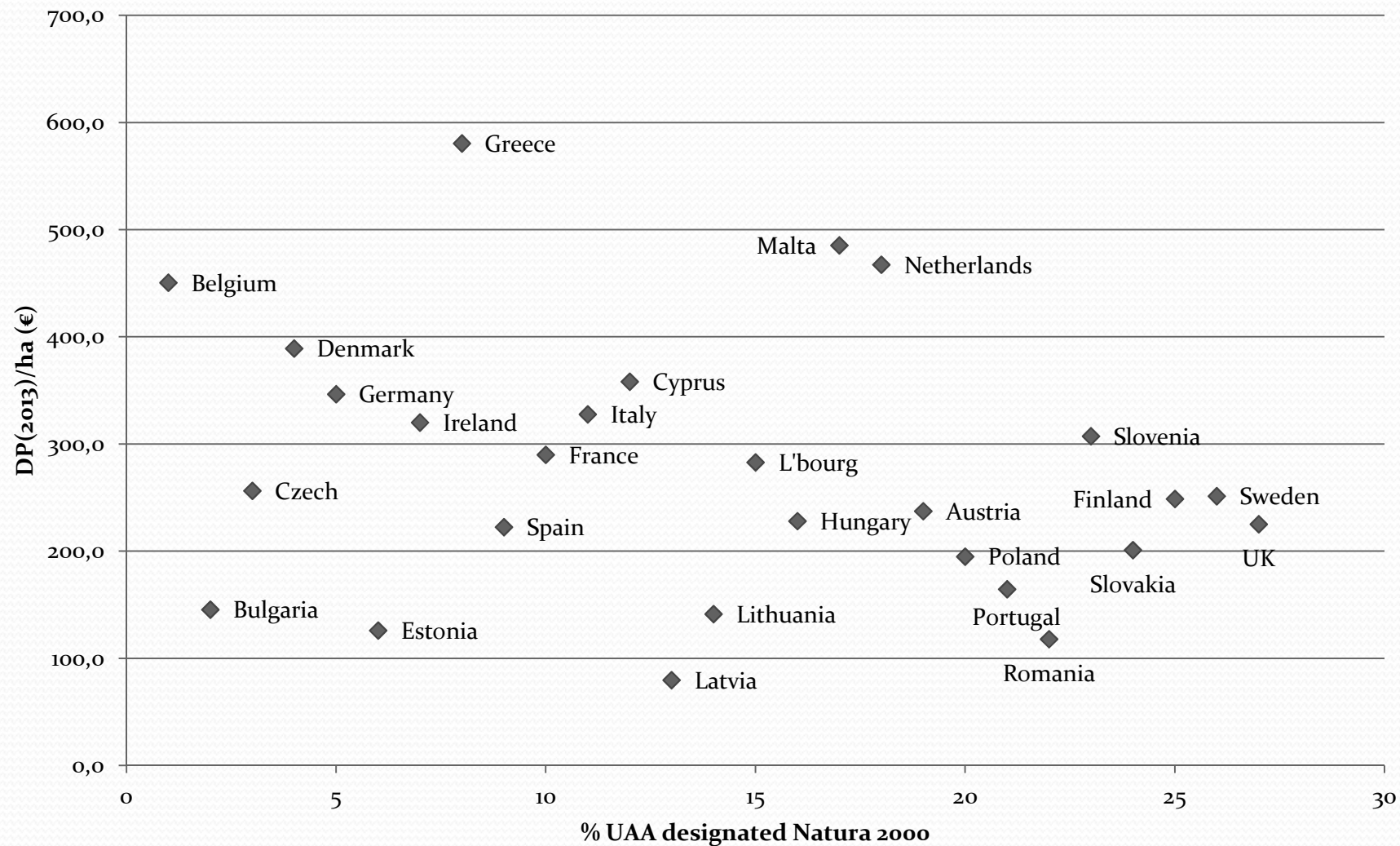


# INTER MS COMPETITION?

- What would a “Green” distribution be (Re-focus)?



# Green?



DP/ha v. Natura 2000 % UAA? Correlation: -0.075; [with land of 'high nature value', -0.14] – rewards, or incentives?

# Back to Basics – the ‘Canute’ problem part 1

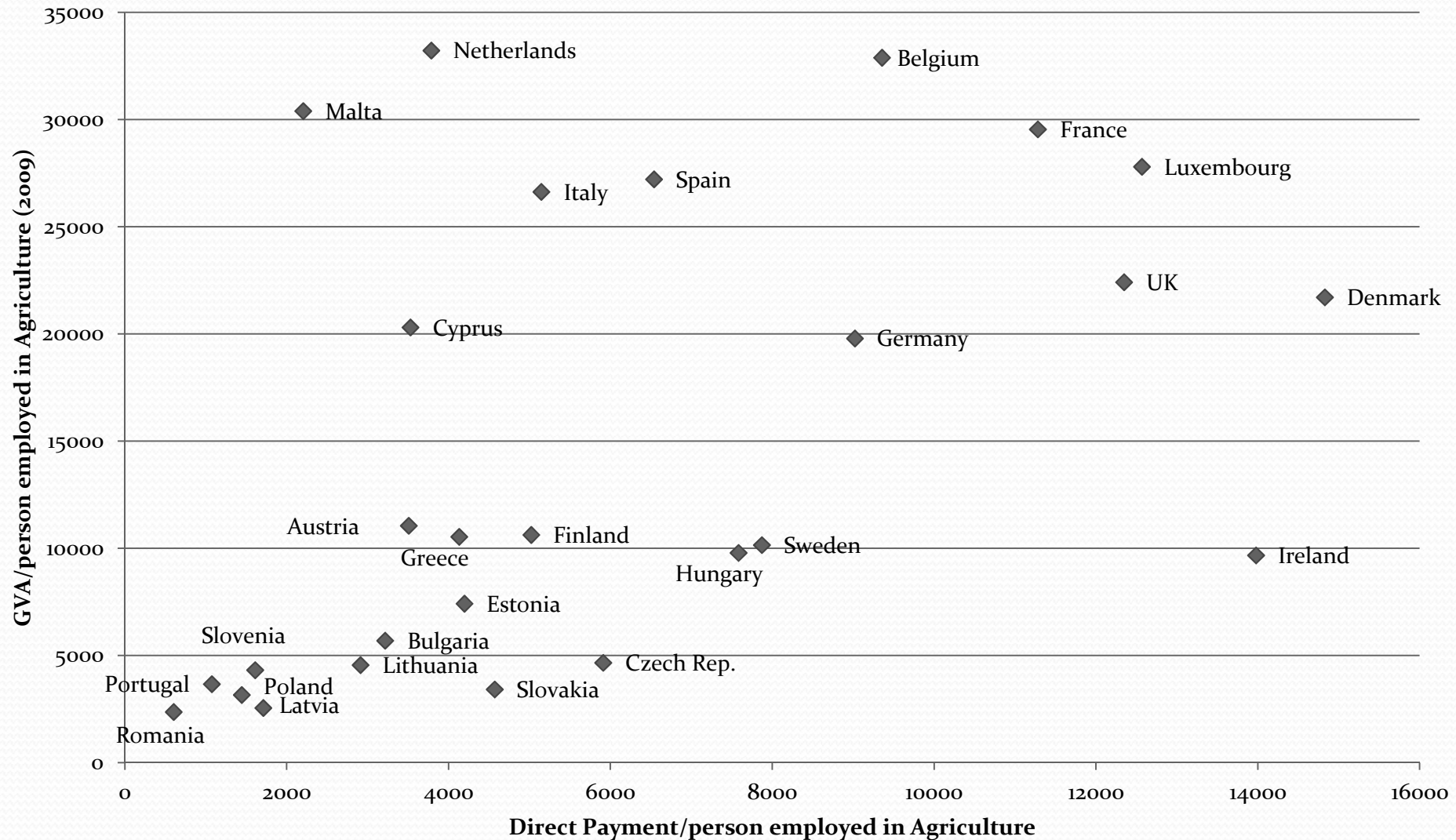
- **ECONOMICS:** Farming is textbook ‘competitive’,
- [except that it isn’t - differentiated products, transaction costs, concentrated suppliers and buyers, ‘peasant’ household firms, highly heterogeneous factors, imperfect knowledge, externalities etc.]
- BUT Competition = zero pure profits, and accumulation of rents in factor (land) prices, and increased costs & economic growth = declining farm sector
- Maintaining Competitiveness requires adjustment, adaptation and innovation to the ‘tides’ of (free) markets.
- => *decouple, and eliminate support -> target assistance for public goods & market failures; support R&D & Extension; enforce competition rules.*

# Back to Basics – the ‘Canute’

## problem part 2

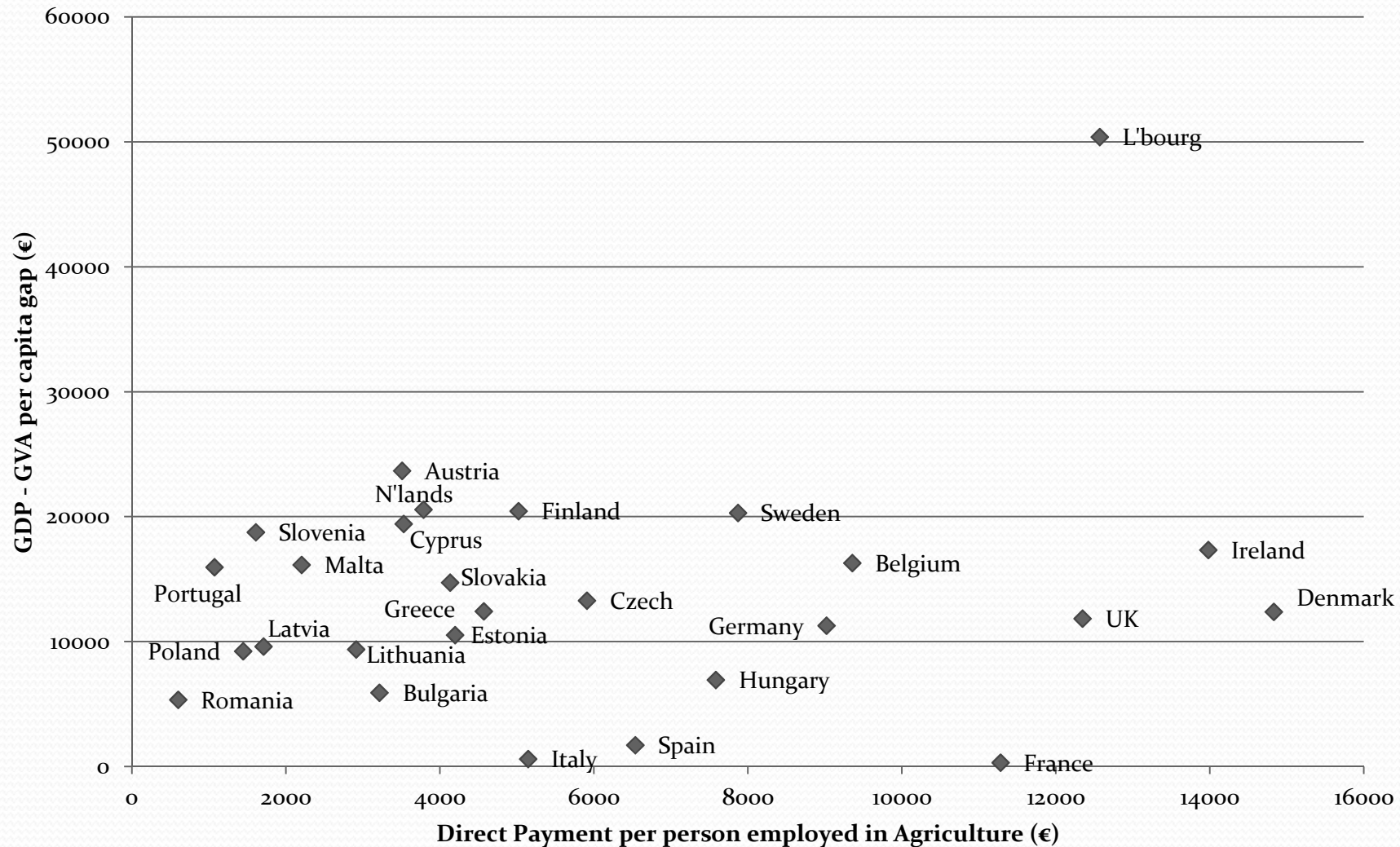
- **POLITICS:** - dominated by *status quo* – resist or ameliorate change, protect vested interests, support the disadvantaged, respond to votes:
  - to help the uncompetitive survive and persist (be more competitive) – especially the numerous small, the disadvantaged – against unjust markets, oligopolistic suppliers and buyers & ‘less favoured’ environments;
  - Forces more powerful the greater the number of small (uncompetitive) farms; the faster non-farm economic growth; the bigger the farm sector; the greater the dependency (in supply chains & bureaucracies, as well as among farms)
  - = *retain & justify historic support, limited to ‘deserving’ and justified ‘public/merit’ goods & services arguments (which fail)*

# Better Targeted (1)?



DP with GVA? Correlation: +0.5, in the 'wrong' direction! Reduced to +0.08 if DPs deducted from GVA

# Better Targeted (2)?



DP with Ag income Gap? Correlation: +0.2, but clearly dominated by an outlier (Lu)

# CONCLUSIONS

- *RESULT – Political failure dominates, recruits “market failure” as justification for continued support – which fails to deliver.*
- CAP ‘reform’ very limited (as now) until there is a ‘perfect storm’ (as 1994, 2003) – see ‘history’ above
- CAP inherently retards economic competitiveness, while trying (in vain) to retain political/public competitiveness -> greater complexity
- When and what will drive further reform?
  - Euro disaster?
  - Continual ‘drip’ of economic reason to erode political rationality?
  - Continual failure of ‘support’ to deliver? -> recognition by farm lobbies that they are incapable of retaining ‘their’ support?
  - Will it go with a bang, or with a whimper?