



# Future CAP: Public Money for Public Goods

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# Developing a new rationale for the CAP



- Increasing calls for public expenditure to be linked to the provision of 'public goods' as a clearer rationale for support for agriculture
- Lack of clear environmental objectives in Pillar One - currently only link to environmental policy is via cross-compliance
- Flow of payments to farming, mainly based on historic logic, poorly targeted on public goods
- Limited budget for Pillar Two
- Markets exist for marketed outputs (hence liberalisation agenda), but pervasive market failure in relation to the provision of public goods and services leading to their underprovision.

# Ongoing environmental challenges



- Halting biodiversity loss
- Reducing water pollution
- Sustainable soil management
- Sustainable use of water resources
- Reducing greenhouse gases emissions
- Improving resilience of environment to climate change
- Adaptation of land to increased flood risk
- Achieving sustainable bioenergy production



# Definition of public goods



- What is meant by public goods and services?
  - Economic term with strong theoretical basis – not always used in a consistent way in policy debate;
  - Often equated with broad range of environmental goods and ecosystems services;
- Broader notion of ‘public benefits’ may be more helpful – essentially the non-commodity outputs of agriculture – social and environmental.



# What does this mean in practice?



- Aim: to improve the sustainability and environmental performance of agriculture. To do this requires incentivising the production of the public benefits associated with agriculture and minimise the negative externalities;
- Generally equated with call for transfer of resources from Pillar I to Pillar II of CAP;
- Lots of rhetoric on desired direction of travel, but little on:
  - what a future CAP might look like
  - specifics of how to get there
  - related practical and political implications
- Significant challenges need addressing if agenda is to move from rhetoric to reality

# Empirical Challenges



- Little precedent for systematic targeting of significant resources at the provision of environmental benefits across Europe. Key issues include how to:
  - Determine the extent, distribution and condition of public goods
  - Clarify the type of management needed to produce the public goods required
  - Establish what should be supported and where – need to identify public demand
  - Quantify the value of the goods and services and the cost of their delivery
- Implications of removing Pillar 1 support

# Operational and Political Challenges



- What sort of delivery mechanisms are appropriate?
  - Simple management, wide coverage vs complex management, highly targeted;
  - Pay for the goods themselves or support the farming systems that underpin them;
- Administrative capacity – implications for organisational capacity in terms of staff and expertise;
- Implies significant redistribution between MS and at farm level with likely impacts on farm incomes and knock-on impacts on farm restructuring, production, employment etc - may be politically prohibitive.
- Who pays? EU plus national co-financing?
- What criteria would be used to allocate the CAP budget between Member States?

# Progress so far



- Increased transfer of resources to Pillar Two through compulsory modulation;
- Introduction of Community Strategic Guidelines for EAFRD
- Commitment to ‘new challenges’ in CAP Health Check proposals
- Long experience with agri-environment in some Member States – lessons for the future
- Introduction of CMEF indicators
- Extension of modelling approaches to Pillar Two



# Timetable for Reform



- CAP Health Check due to be completed late in 2008
- Longer term debate has already started, linked to EU Budget Review, especially concerning the added value of Pillar 1 and Pillar II expenditure
- Fierce debate anticipated in 2011 - 2013 as new regulations and expenditure plans are agreed for the next Financial Perspective
- Post 2020 - ?

# Key Questions



- Determining the extent, distribution and condition of public goods across the EU 27 could be a costly and time-consuming exercise. A pragmatic approach is needed.
  - What tools should be used for this purpose?
  - What information already exists?
  
- How do we determine which public goods should be targeted/supported? Do all need support or just a proportion of them? On what basis should this decision be made?
  
- Should we support those farming systems of which public goods are a joint product, or should payments be made on the basis of environmental output? What are the relative merits of both approaches?
  
- On what basis should future payments be made - on the basis of value of the goods provided, the cost of delivery, compensation for income foregone? What are the pros and cons of these approaches and what tools could be used to identify the relevant costs?