

<https://doi.org/10.17221/397/2019-AGRICECON>

## The planned reform of the Common Agricultural Policy with particular reference to the direct support system

ADRIAN SADŁOWSKI\*

*Department of Economics, Institute of Economics and Finance, Faculty of Social and Economic Sciences, Cardinal Stefan Wyszyński University in Warsaw, Warsaw, Poland*

*\*Corresponding author: a.sadlowski@uksw.edu.pl*

**Citation:** Sadłowski A. (2020): The planned reform of the Common Agricultural Policy with particular reference to the direct support system. *Agric. Econ. – Czech*, 66: 381–390.

**Abstract:** Having evaluated the situation in agriculture and rural areas, and having assessed the significance of new external and internal conditions, the European Commission has decided to reform the Common Agricultural Policy of the European Union. This article presents the essence of the part of the reform plan which affects the direct support system. The author of the article also examines the impact of the reform on the system's capacity to achieve the set goals, and on its efficiency. The research showed that the new legal framework proposed by the Commission would not directly improve the efficiency of the system, but the increased decision-making authority it grants to Member States provides an opportunity to reduce administrative outlays on the functioning of the scheme. Likewise, the effectiveness of a reformed direct support system in achieving the set goals will largely depend on decisions made by Member States, i.e. on the appropriate choice of instruments, and the accuracy of their form, as well as the equitable distribution of the available funds.

**Keywords:** Common Agricultural Policy; direct payments; reform of the Common Agricultural Policy

Given the proportion of direct payments in the agricultural budget of the European Union (EU), they are now a primary tool of intervention in agriculture (and are expected to remain so after 2020). In the financial year 2018, direct payments amounted to EUR 41.5 billion (which accounts for 73% of the whole Common Agricultural Policy (CAP) expenditure) and benefitted 6.4 million farms throughout the EU (European Commission 2019c). It is necessary to equitably devise direct payments to make use of their relatively high potential to influence the economic reality. This will ensure their satisfactory effectiveness with acceptable expenditure levels and minimal side effects. Decisions about framework solutions concerning direct payments are taken at EU level. The European Commission has announced that they will be significantly adjusted as soon as the next financial perspective begins.

Schader et al. (2017) expressed the opinion that Member States and regions should be given

the flexibility to implement a system according to regional needs, and that this would be a major step on the way to a more effective, efficient and acceptable CAP in the mid and long terms. According to Buckwell et al. (2017), the current principal support expenditures, the Pillar I Direct Payments, are inefficient, ineffective and inequitable in relation to the stated objectives, and these must be further reformed.

The main aim of the study is to present the essence of the part of the planned CAP reform which relates to the direct support system, and to examine the influence of the reform on the system's capacity to achieve its objectives, and on its efficiency. The extent of the examination was limited to the solutions proposed at EU level, remembering that both the effectiveness and the efficiency of the direct payment system are strongly affected by individual Member States' decisions on the form of this system and the degree of financing individual instruments, taken within the EU's legal framework.

<https://doi.org/10.17221/397/2019-AGRICECON>

## MATERIAL AND METHODS

The research design was implemented through an analysis of the contents of the European Commission's draft regulation on the direct payments system after 2020<sup>1</sup>. The current regulations were taken as the starting point to explain the essence of the proposed changes. The method of an economic analysis of the law and comparative studies were applied. The comparative analysis relates to the evolution of solutions within a given legal system (not comparisons between the systems). As the studies focus on changes in legal regulations, this is a dynamic analysis. As emphasised by Mattei et al. (2000), an institution, rule or state of the world are never efficient nor inefficient in an abstract or absolute way. It can only be so compared with specific alternatives which might fit better or worse in a given context. Alternative rules, institutions, and state of the world can be provided by history, comparative analyses or by scholarly activity. Therefore, the notion of efficiency used in comparative law and economics has a clearly dynamic meaning, strictly linked to the notion of legal change.

The examination of the planned reform was performed in particular from the functional perspective, using the achievements of public choice theory. Public choice economics focuses on considering the dissonance between the activities of the State's complying with the public interest and the actual activities of the State, i.e. Government failure. Assuming that individuals' actions are primarily motivated by their own interests, public choice economists model the utility functions of specific groups (e.g. the Government and officials in specific relationships with other groups and in certain institutional and legal conditions), and determine the effects of its maximisation (Landreth and Colander 1994). This article utilises this research perspective, as well as conclusions formulated by public choice theoreticians, especially those developed as part of bureaucracy theory, interest groups theory and rent-seeking theory.

## RESULTS AND DISCUSSION

**The essence of the reform.** The European Commission has noted that the context of the formulation of the current CAP reform is significantly different from that of 2013 (European Commission 2018b),

when the previous reform was introduced, and of 2015, when it was implemented.

The most important differences are the following:

- i) Much lower prices for agricultural products – the reduction was caused by macroeconomic factors, geopolitical tensions, and other aspects;
- ii) Bilateral trade agreements, which began to clearly prevail over multilateral agreements; the EU has become more open to world markets;
- iii) The EU has made new international commitments, especially on climate change mitigation and sustainable development; it has also made efforts to cope with geopolitical changes such as migration.

According to the author, the reasons for the fall in the prices of agricultural products, which the European Commission listed as one of the main factors contributing to the need to adjust the CAP, were not convincing. The European Commission only indicated general, unspecific driving forces (“macroeconomic factors”, “geopolitical tensions”, “other forces”), which, according to the Commission, are causes of the fall in the prices of these products. It is, furthermore, noteworthy that geopolitical tensions are affecting prices in the opposite direction to that indicated by the Commission.

According to the European Commission, the reform introduced in 2013 was insufficient for the CAP to face the serious challenges at that time related to the economic state of the agricultural sector, environmental protection, actions taken to mitigate climate change, and the need to create strong economic and social structures in the rural areas of the EU. This particularly concerned new opportunities for action in the field of trade, bioeconomy, renewable energy, circular economy and digital economy. Therefore, as stipulated by the European Commission, the CAP must be modernised, simplified, and more closely linked to the policy of the EU in other fields. The new CAP is to accelerate changes in the sector towards fully sustainable agriculture, and to ensure dynamic rural development.

In general, it is assumed that the planned CAP reform will have an adaptive nature. The changes are intended to ensure the adjustment of the CAP to the new conditions. In this context it is noteworthy that reforms of the CAP occur in seven-year cycles, which are determined by the length of the programming periods, and not by the assessment of the significance of changes to the key circumstances of this policy. Although there are some ad-

<sup>1</sup>The EU is continuing to work on the draft. Therefore, the final solutions might differ from those originally proposed by the Commission.

<https://doi.org/10.17221/397/2019-AGRICECON>

vantages to this approach, the dynamics of the changes in the factors which are significant to make the necessary CAP adjustments is not uniform. Therefore, it is unlikely that the assumed frequency of the reforms resulting from the length of the budget planning cycle in the EU will always precisely meet its needs.

The most important planned changes to the direct support system, broken down into three spheres of regulation (access to support, direction of support, and reduced concentration of support), are presented in Tables 1–3. Table 1 shows that both the currently used elements of the system deciding about access to support (i.e. “active farmer” and “minimum requirements for receiving direct payments”) will have their counterparts in the new system. The range of the available support instruments will remain almost the same, although there will be slight changes to the nomenclature and scope of the decisions to be made by Member States about the form of implementation of these instruments at the national level (Table 2). Based on the comparative information compiled in Table 3,

it can be concluded that a stronger reduction in differences between farmers in the amounts of support received will contribute to an increase in the restrictiveness of the payment reduction mechanism.

At the same time, the decision to abandon the setting of an admissible level of financing for redistributive payments, and the adoption of a less strict approach to the maximum rate of these payments, will increase the potential of redistributive payments to eliminate these differences (the adoption of a less strict approach will consist of increasing from 65% to 100% the acceptable ratio of the redistributive payment rate to the level of the average national support under direct payments per hectare). Matthews (2018) expressed the opinion that the European Commission has made a better targeting of direct payments and a fairer distribution of income support important elements in its proposal.

The proposed reform includes components conducive to both the greater diversification of the direct support systems between Member States and the stronger harmonisation of the applied solutions. The former

Table 1. Access to support – the essence of the planned changes to the EU legal framework for specific direct support system elements

The element (current system 2015–2020)	The equivalent (new system)	The essence of the planned changes
Active farmer	genuine farmer	The level of detail in the regulations concerning these issues at the EU level will be significantly reduced. In consequence, the Member States which have not waived the requirement for “vocational activity” as a condition for granting direct payments (the “Omnibus” regulation, which entered into force in 2018, affords this possibility) will be allowed to introduce, e.g. solutions corresponding to the current ones, duly specifying the EU definition of the “genuine farmer” at the national level. In addition, following the example of the solution operational before the entry into force of the “Omnibus”, the principle of the obligatory application by Member States of the requirement of being a “genuine farmer” was introduced.
Minimum requirements for receiving direct payments	minimum requirements for receiving decoupled direct payments	The principle will be introduced of the minimum requirements’ applying only to decoupled payments rather than to direct payments in general. As all decoupled payments will be area payments, only the surface threshold will be used, the level of which will be determined by the Member State. The restrictions on setting the threshold were lifted; currently the limits are set individually by each country. So far each Member State has chosen the type of threshold (the area threshold or the quota threshold, provided that the countries applying animal payments which chose the area threshold were obliged to set the quota threshold for the farmers who received animal payments but did not meet the area threshold) and its amount (within the set limits).

Source: The author, based on Regulation of the European Parliament and of the Council 1307/2013 (European Commission 2013), and on the proposal for a Regulation of the European Parliament and Council COM(2018) 392 (European Commission 2018b)

Table 2. The direction of support – the essence of the planned changes to the EU legal framework for specific direct support system elements

The element (current system 2015–2020)	The equivalent (new system)	The essence of the planned changes
Single area payment	basic income support for sustainability	<p>It will be possible to differentiate the rates of support in individual regions, taking into account differences in the socioeconomic or agrotechnical conditions, although the differentiation of the rates was also possible earlier.</p> <ul style="list-style-type: none"> <li>i) It was available only to the countries which had committed themselves to implement the system based on the entitlements as at (the latest) January 1, 2018*;</li> <li>ii) It could have an inter-entity, and not an inter-regional, nature;</li> <li>iii) The basis for differentiation could be individual data on the average amount per hectare paid to individual farms in the reference period;</li> <li>iv) The maximum allowable level of the financing of the historical component was specified (20% of the pool of funds allocated to the single area payment).</li> </ul>
Payment to young farmers	complementary income support for young farmers	<p>Member States will no longer have to use this instrument. Apart from this, the variants in the implementation of this payment which are available to Member States will be not set at the EU level. However, the support must be in the form of an area payment (until now it was possible to choose the implementation option in which the support was in the form of a quasi lump-sum payment). As it will be possible for Member States to add details to the EU definition of a young farmer (which is more general than before), they will have more freedom to establish the conditions of access to aid.</p>
Payment for agricultural practices beneficial for the climate and the environment	schemes for the climate and the environment	<p>Very specific regulations at the EU level will be abandoned, and Member States will be granted full freedom to design climate- and environment-friendly agricultural practices, as well as the form of the instruments of support. However, as in the current regulations, the aid must be in the form of an area payment.</p>
Payment for areas with natural constraints	none	<p>This type of payment will be discontinued (so far it has been optional for Member States).</p>
Voluntary coupled support	coupled income support	<p>The list of agricultural production sectors which could receive coupled support will be extended to ‘other non-food crops, excluding trees, used for the production of products that have the potential to substitute fossil materials’.</p>
Small farmers scheme	round sum payment for small farmers	<p>The regulations will be rescinded concerning the automatic inclusion of small beneficiaries into the system, as well as the establishing at the EU level of the availability to Member States’ variants to the implementation of this support. However, the principle will be introduced that the support must be in the form of a lump-sum payment (previously it was possible to choose the implementation option of support with a non-lump sum payment).</p>

\*All Member States using the simplified system notified the continuation of this solution until the end of 2020 (European Commission 2017); thus, none of them may differentiate the rate of the single area payment

Source: The author, based on Regulation of the European Parliament and of the Council 1307/2013 (European Commission 2013), and on the proposal for a Regulation of the European Parliament and Council COM(2018) 392 (European Commission 2018b)

<https://doi.org/10.17221/397/2019-AGRICON>

Table 3. Reduced concentration of support – the essence of the planned changes to the EU legal framework for specific direct support system elements

The element (current system 2015–2020)	The equivalent (new system)	The essence of the planned changes
Reduction of payments	reduction of payments	<p>These are the most important features which will distinguish the proposed payment reduction mechanism from the one currently used.</p> <ul style="list-style-type: none"> <li>i) It is mandatory (currently, for countries which have allocated more than 5% of their national ceiling for redistributive payments, this is a voluntary mechanism);</li> <li>ii) It has a broader scope and impact strength;                             <ul style="list-style-type: none"> <li>a) All direct payments are included in the reduction basis (not only single area payments as currently);</li> <li>b) The reduction starts with a lower amount, i.e. from EUR 60 000 (and not, as currently, from EUR 150 000);</li> <li>c) The minimum reduction coefficients for individual payment tranches are higher (the lowest of these is 25%, whereas currently one minimum coefficient of 5% applies);</li> </ul> </li> <li>iii) The principle of deducting employment costs from the reduction basis will be mandatory (under the current system, the introduction of this principle is voluntary for Member States);</li> <li>iv) Member States will have greater freedom to allocate funds “obtained” as a result of reductions – they will be permitted to be used for complementary redistributive income support for sustainability, followed by other decoupled direct payments*, or transferred in whole or in part to Pillar II of the CAP (currently these funds must be added to the budget of Pillar II of the CAP).</li> </ul>
Redistributive payment	complementary redistributive income support for sustainability	<p>The instrument became obligatory for Member States (formerly it was facultative). The upper limit on the area in a farm for which payment may be granted is to be abolished (currently it is 30 ha, or the average farm area in a given country – the higher of these two values is taken into account).</p>

\*Financing direct payments from funds obtained as a result of reductions is not recommended, because it would cause insurmountable technical difficulties resembling a vicious circle. Before calculating the amount of payment due to a given farmer, it is not possible to calculate the basis for the reduction, and it will be impossible to establish the due amount until it is known what proportion of funds obtained as a result of the reduction would be allocated to the given farmer. In turn, introducing a simplification consisting of allocating the amount obtained as a result of the reduction already made, after making the appropriate deductions, would be contrary to EU regulations, as it would be a systemic solution permitting, e.g. payments exceeding EUR 100 000 (Sadłowski 2019)

Source: The author, based on Regulation of the European Parliament and of the Council 1307/2013 (European Commission 2013), and on the proposal for a Regulation of the European Parliament and Council COM(2018) 392 (European Commission 2018b)

<https://doi.org/10.17221/397/2019-AGRICECON>

include in particular granting greater entitlements to Member States in terms of establishing conditions for access to aid and devising redistributive payments, as well as payments under climate and environmental systems (which will replace payments for agricultural practices beneficial to the climate and the environment), and greater freedom granted to countries on the allocation of funds “obtained” as a result of applying the payment reduction mechanism. In turn, the second includes, above all, limiting the available implementation options for some instruments (payments to young farmers only in the form of area payments, lump sum as the only form of support under the scheme for small agricultural producers), ceasing payments for areas with natural constraints<sup>2</sup>, the absolute obligation to apply the payment reduction mechanism, abandoning the optionality of the principle of deducting employment costs from the reduction basis, and the inability to apply transitional national aid.

Payments for agricultural practices beneficial to the climate and the environment applicable so far are to be replaced by systems for the climate and environment, so-called eco-programmes. Currently payments to farmers observing agricultural practices beneficial to the climate and the environment support pro-environmental activities consisting of crop diversification, maintaining permanent grasslands, and establishing ecological focus areas. The selection of certain solutions for these practices at varying levels of detail was left to the discretion of Member States, with the EU legal framework precisely specifying the range of Member States’ capacities in this respect. However, the proposal put forward by the European Commission regarding the direct support system after 2020 does not contain as detailed regulations at the EU level, leaving substantial freedom to Member States to devise agricultural practices beneficial for the climate and the environment. In fact, this gives Member States the opportunity to maintain their *status quo* in this regard, which, however, would require transferring a number of regulations on pro-ecological payments currently included in EU regulations to national legal acts, and to provide grounds for adopting given solutions in the strategic plan.

Assuming that the systems for the climate and the environment designed by Member States will completely

achieve the declared objective of preventing climate change, and that this will be the only element in the direct support system meeting this objective complying with the assumptions of the so-called European Green Deal, financing “green payments” applied as part of CAP Pillar I at the previous level (30% of the national ceiling) will necessitate a much higher (than thirty percent) financing level of CAP Pillar II instruments considered to fulfil this objective. In the communication from the European Commission “The European Green Deal” (COM(2019) 640 final; European Commission 2019a) there is a provision that in the years 2021–2027, 40% of the CAP budget is there to support measures counteracting climate change.

In general, the solutions involving the structure of the use of funds allocated to direct payments which are proposed by the European Commission give much more freedom to Member States than before. The most important limitation will be the rule that no more than 12% of the national ceiling may be allocated to coupled income support, assuming that at least 2% of the ceiling is allocated to supporting the cultivation of protein crops. In addition, the proposed EU regulations set the minimum amounts which individual Member States were required to allocate in the subsequent years – under Pillar I or II of the CAP – to finance instruments “attracting young farmers and facilitating business development in rural areas”. However, this is an insignificant limitation, because these amounts represent only 2% of the initial national ceilings of Pillar I. In addition, the financing of complementary redistributive income support for sustainability purposes is limited by the rule that the rate of support planned for a particular year must not exceed the national average amount of direct payments per hectare.

**Brexit’s impact.** The effects of Brexit are considered primarily from the perspective of its impact on the value of the EU budget, and taking into consideration the balance of United Kingdom’s contribution to the EU budget. As the proceeds from the respective sources (e.g. Value Added Tax, the membership fee) are not automatically allocated to specific expenditures, it is fair to assume that the United Kingdom co-financed the EU’s agricultural budget (or its part designated for direct payments) to the same extent as the EU’s overall budget.

<sup>2</sup>The optionality of payment for areas with natural constraints revealed that Member States showed very low interest in this instrument. This payment is used only in two countries: Denmark, which has been allocating 0.3% of its national ceiling annually since 2015, and Slovenia, which has been allocating 1.6% of its national ceiling annually since 2017 (European Commission 2018a).

<https://doi.org/10.17221/397/2019-AGRICECON>

The United Kingdom's share in financing the EU's overall budget (the revenue side of the budget) was around 12%<sup>3</sup>. The UK's contribution to funds designated for direct payments to farmers (the expenditures side of the EU's budget) was approximately 8.5%<sup>4</sup>. Therefore, from the perspective of the beneficiaries of the direct support scheme from countries other than the United Kingdom, Brexit is unfavourable, unless the amount is compensated, which would require higher contributions by Member States to the EU budget.

Starting from 2021, the United Kingdom will not participate as a Member State in the subsequent multiannual financial frameworks, or in the EU budget. Extending the transition period would require the United Kingdom to make a financial contribution to the EU budget (at a level set by the joint committee established for the purposes of managing the withdrawal agreement). United Kingdom's participation in EU programmes would be possible only on a third-country basis (European Commission 2020).

In addition to the financial consequences, Brexit will have an impact on the shape of the CAP. According to Roederer-Rynning and Matthews (2019), there is no reason for Brexit to impact on the CAP reform or the rate of change in this area, although the United Kingdom's being absent from the EU forum might lead to weaker support for the more innovative aspects of the European Commission's proposal relating to CAP reform. As noted by Matthews (2016), whether the United Kingdom's absence from the Council of Ministers during the debate on the future agricultural, trade, and regulatory policies, will be perceived as positive or negative, depends on the political preferences in these spheres. Severe market disruption which might follow from a disorderly Brexit in a "no deal" scenario would also strengthen the hand of those itching to pull the CAP back to a more interventionist policy of market management. On the other hand, the radical ideas to base farm support on the "public payments for public goods" principle, particularly in England and Wales, might have a "pull" effect in the longer run on the future direction of EU agricultural policy if it is seen as a successful reform (Roederer-Rynning and Matthews 2019).

**An assessment of the reform.** As early as the preparation of the CAP reform we could observe factors impairing the objectivity of this process, and posed a risk of rewarding unproductive activities. These are pressures exerted by rent-seeking interest groups, and the activities of officials who want to satisfy their own ambitions. The mechanisms of these actions are explained in the interest groups theory (Olson 1971), the rent-seeking theory (Tullock 1967; Krueger 1974) and the bureaucracy theory (Niskanen 1975), which are still being developed within various strands of public choice theory. In the interest groups theory they are perceived as a product of the impact exerted by interest groups. Authorities' succumbing to pressure leads to an increased range and scale of State interventions. According to the bureaucracy theory, the activities of officials are directed at fulfilling their own aspirations, combined with incomplete knowledge of the authorities, lead to an unproductive expansion of the public sector, and a certain alienation of government administration agencies. Government failure is accompanied by waste (from the perspective of the common interest) of resources and energy of various social groups resulting from rent-seeking, among other factors. Rent-seeking consists of engaging in all sorts of activities by various social groups in order to lead to decisions by public authorities favourable to them, i.e. ensuring budget transfers for these groups. Such activities can negatively affect both the effectiveness (i.e. the degree of goal achievement) and the efficiency (i.e. the relation between effects and outlays) of the direct support system.

The decision-making process in the EU is time-consuming and costly. When it comes to agricultural policy, with the importance of the problems discussed in various EU forums, and the possible pro-efficiency or improvement potential of the variants taken into consideration, are often disproportionate to the costs incurred. Simultaneously, various interest groups try to influence this process, and seek solutions beneficial to them. The activities of interest groups are also noticeable at the national level, because they are aware of the fact that the scope of Member States' decision-making in relation to the direct support system is relatively wide, and thus the decisions taken at the national levels largely determine access to aid, the targeting

<sup>3</sup>The author's calculations based on the compilation of the overall budget funding by type of own resources and by Member State included in the final adoption of the budget (EU, Euratom, 2019/333; European Commission 2019b).

<sup>4</sup>The contribution was calculated as a percentage of the national ceiling referred to in Article 6 of Regulation 1307/2013 of the European Parliament and of the Council in relation to the national ceilings of all Member States (data referring to financial year 2019, before shifts between pillars were made).

of support, and the secondary adjustment of the division of funds (to which redistributive instruments lead).

After the reform implementation, farmers take actions to adapt their farms (e.g. crop structure, livestock population) to maximise the benefits of participation in the direct support system. If these activities do not bring environmental gains (the reduction of negative external effects accompanying the agricultural activity, the preservation of biodiversity, or the protection of ecosystems) or social benefits, they are unproductive from the general public's point of view (because they do not increase the overall welfare), so they mean a waste of resources and energy.

The European Commission has announced its intention to put greater emphasis on the achievement of objectives, and to change the distribution of responsibilities between the EU and the Member States (increase in subsidiarity) in order to improve the effectiveness of the CAP. This "new delivery model" is based on strategic planning and common indicators for achieving the objectives.

According to Schader et al. (2017), at the EU level a very easy-to-handle system with a limited set of key performance sustainability indicators, which are effective and easy to administrate, should be implemented. However, the proposed form of the output and result indicators, the values of which are to be the basis for assessing the CAP's effectiveness, does not affirm the progressive nature of the reform. First, all output indicators, and some result indicators, are absolute values rather than relational measures, so, in fact, they are not indicators (e.g. the number of beneficiaries receiving support, the number of hectares covered by a given payment, the population of animals for which payments are granted). In consequence, they are inadequate for measuring the effectiveness of individual instruments in achieving the CAP's objectives.

It would be invalid to make international comparisons of the value of these indicators and use them to infer the CAP's effectiveness in individual countries. If the general conditions of access to aid and granting specific payments lead to a discrepancy between the number of farmers active in a particular sector and the number of beneficiaries receiving support for this sector, the relaxation of these conditions will cause the values of these indicators to increase, which does not mean that the CAP is more effective. Likewise, the easier it is to meet the obligations which go beyond the mandatory requirements, the greater is the value of the output indicator, e.g. "the number of ha (agricultural) covered by environment/climate commit-

ments going beyond mandatory requirements". Therefore, if a Member State relaxed these commitments, it would cause the output indicator to increase, but it would not necessarily result in achieving the CAP's environmental objectives. Second, even those indicators proposed by the European Commission which have the correct composition of structure indicators are inadequate measures of the CAP's effectiveness. Their value will largely depend on the restrictiveness of the conditions for granting a particular payment. The easier it is to meet the requirements to be granted a particular payment, the more common this type of support is, and the higher the value of the indicator. The establishment of easy-to-meet conditions will not, however, be conducive to increasing the degree of achievement of the CAP's objectives. Regardless of this fact, it is noteworthy that these indicators do not have a precise denominator, which might lead to their different use by individual countries. For example, the indicator "share of agricultural land under commitments to improve climate adaptation" does not specify whether it is the share of that land in the total farmland, or, e.g. the share of that land in the farmland covered by basic income support for sustainability (it would be difficult for the paying agency to apply the first variant).

The proposed CAP reform adversely affects the efficiency of the direct support system, because it generates implementation costs. These are inevitable, not only for the entire EU, but also for Member States, even if a particular Member State seeks solutions which are as close to the current ones as possible.

Member States can minimise the implementation costs if they rationally select instruments and devise individual elements in the direct support system. Furthermore, they should explore the possibilities of introducing in moderation changes to the method of implementing these elements. It is essential to remember that the high complexity of the direct support system significantly burdens applicants with formal, controlling, and administrative obligations. For the paying agency it means a multitude of procedures and a large number of documents attached to applications for payments, thereby generating considerable administrative outlays. Likewise, the high variability of the direct support system makes farmers strongly dependent on advisory agricultural institutions. Similarly, paying agencies have to bear significant costs, especially if new support instruments are introduced, because they have to train their staff, and adapt the IT system and payment application form.



<https://doi.org/10.17221/397/2019-AGRICECON>

The extension of Member States' decision-making authority concerning the form of the direct support system, and the directions for allocating funds, can help solve endemic problems by means of instruments designed to take into account local conditions. On the other hand, however, this creates the possibility of a significant diversification of direct support systems between Member States. The diversification of payment systems results in unequal competition conditions on the common market. This might be regarded as a specific side effect of granting Member States considerable freedom to formulate the instruments and structure for using funds.

## CONCLUSION

Having evaluated the situation of agriculture and rural areas, and having assessed the significance of the new internal and external conditions, the European Commission has found it necessary to reform the CAP again. The planned reform has an adaptive nature; in particular, it provides for the adaptation of the CAP objectives to the new circumstances. As far as Pillar I of the CAP is concerned, the EU Member States will have greater authority to make decisions concerning the form of the direct support system for farmers, and the directions for allocating funds.

The cyclical reforms of the CAP, the transitional periods during which some elements of these reforms are gradually being introduced, and *ad-hoc* reviews of this policy by the EU and individual Member States, as well as the resulting corrections of legal frameworks and revisions to implementation decisions, make farmers' energy and their resources to some extent absorbed by non-productive activities, which only change the distribution of generated income. These activities include organisation into rent-seeking pressure groups, as well as artificial adaptive adjustments of farms to maximise the amount of support received with the lowest possible outlays. It is also necessary to incur outlays to keep up to date with these ever-changing non-market-related (i.e. created by the State) conditions for running agricultural activities. The instability of the solutions applied under the direct support system can adversely affect investments in agriculture, as it makes it difficult for potential beneficiaries to find their way around this field, which is important in terms of their income situation.

The new legal framework proposed by the European Commission will not directly improve the system's efficiency. However, the administrative outlays on the sys-

tem's operation (public outlays made by paying agencies and private outlay made by applicants for support) might be reduced, due to the appropriate use by Member States of a wider range of decision-making responsibilities. Nevertheless, the national priorities of individual Member States, and the influence of various interest groups, can dominate the simplification issues. In consequence, advisory agricultural institutions will still have good conditions for expansion, due to further complications, and the permanent variability of the system.

The European Commission has proposed measures for achieving the CAP's objectives. The values of these measures depend particularly on the degree of fragmentation of the entities and the structure of agricultural production, the size of the agricultural sector, and farms' ability to absorb funds under the given conditions of support provision. These measures will not guarantee the reliable assessment of the effectiveness of individual instruments in the achievement of the CAP's objectives.

The effectiveness of the reformed direct support system in achieving its objectives will largely depend on Member States' decisions on the selection of the appropriate instruments, their form, and the level of their financing.

## REFERENCES

- Buckwell A., Matthews A., Baldock D., Mathijs E. (2017): CAP – Thinking Out of the Box: Further modernisation of the CAP – Why, What and How? Brussels, RISE Foundation.
- European Commission (2013): Regulation (EU) No 1307/2013 of the European Parliament and of the Council of 17 December 2013 Establishing Rules for Direct Payments to Farmers under Support Schemes within the Framework of the Common Agricultural Policy and Repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009 (OJ L 347, 20.12.2013: 608, and its subsequent amendments).
- European Commission (2017): Direct Payments. Single Area Payment Scheme and Transitional National Aid.
- European Commission (2018a): Direct payments 2015–2020 – Decisions taken by Member States.
- European Commission (2018b): Proposal for a regulation of the European Parliament and of the Council Establishing Rules on Support for Strategic Plans to Be Drawn up by Member States under the Common Agricultural Policy (CAP Strategic Plans) and Financed by the European Agricultural Guarantee Fund (EAGF) and by the

- European Agricultural Fund for Rural Development (EAFRD) and Repealing Regulation (EU) No 1305/2013 of the European Parliament and of the Council and Regulation (EU) No 1307/2013 of the European Parliament and of the Council (COM(2018) 392 final).
- European Commission (2019a): Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: The European Green Deal. COM(2019) 640 final.
- European Commission (2019b): Definitive Adoption (EU, Euratom) 2019/333 of the European Union's General Budget for the Financial Year 2019 (OJ L 67, 7.3.2019: 1).
- European Commission (2019c): Direct Payments to Agricultural Producers – Graphs and Figures. Financial Year 2018. Available at [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/direct-aid-report-2018\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/direct-aid-report-2018_en.pdf) (accessed Apr 4, 2020).
- European Commission (2020): The European Union and the United Kingdom – Forging a New Partnership. Brexit in Brief. Transition Period. Available at [https://ec.europa.eu/info/european-union-and-united-kingdom-forging-new-partnership/brexit-brief/transition-period\\_en](https://ec.europa.eu/info/european-union-and-united-kingdom-forging-new-partnership/brexit-brief/transition-period_en) (accessed Apr 14, 2020).
- Krueger A.O. (1974): The political economy of the rent-seeking society. *The American Economic Review*, 64: 291–303.
- Landreth H., Colander D.C. (1994): *History of Economic Thought*. 3<sup>rd</sup> Ed. Boston, Massachusetts, United States of America, Houghton Mifflin Company.
- Mattei U.A., Antonioli L., Rossato A. (2000): Comparative law and economics. In: Bouckaert B., de Geest G. (eds): *Encyclopedia of Law and Economics*, 1: The History and Methodology of Law and Economics. Cheltenham, Edward Elgar Publishing: 505–538.
- Matthews A. (2016): The potential implications of a Brexit for future EU agri-food policies. *EuroChoices*, 15: 17–23. Available at <https://doi.org/10.1111/1746-692X.12128> (accessed Apr 15, 2020).
- Matthews A. (2018): *The EU's Common Agricultural Policy Post 2020: Directions of Change and Potential Trade and Market Effects*. Geneva, International Centre for Trade and Sustainable Development.
- Niskanen W.A. (1975): Bureaucrats and politicians. *The Journal of Law and Economics*, 18: 617–643.
- Olson M. (1971): *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge-Massachusetts-London, Harvard University Press.
- Roederer-Rynning Ch., Matthews A. (2019): What Common Agricultural Policy after Brexit? *Politics and Governance*, 7: 40–50. Available at <http://dx.doi.org/10.17645/pag.v7i3.2117> (accessed Apr 15, 2020).
- Sadłowski A. (2019): The planned reform of the Common Agricultural Policy and its effect on the Direct Support Scheme in Poland. *Problems of Agricultural Economics*, 360: 107–126. Available at <https://doi.org/10.30858/zer/112133> (accessed Apr 7, 2020).
- Schader Ch., Grovermann Ch., Frick R., Grenz J., Stolze M. (2017): Towards a new public goods payment model for remunerating farmers under the CAP Post-2020. Potential of sustainability assessment tools for improving the effectiveness, efficiency, and acceptance of the CAP. Frick, Research Institute of Organic Agriculture.
- Tullock G. (1967): The welfare costs of tariffs, monopolies, and theft. *Western Economic Journal*, 5: 224–232.

Received: December 3, 2019

Accepted: May 29, 2020