

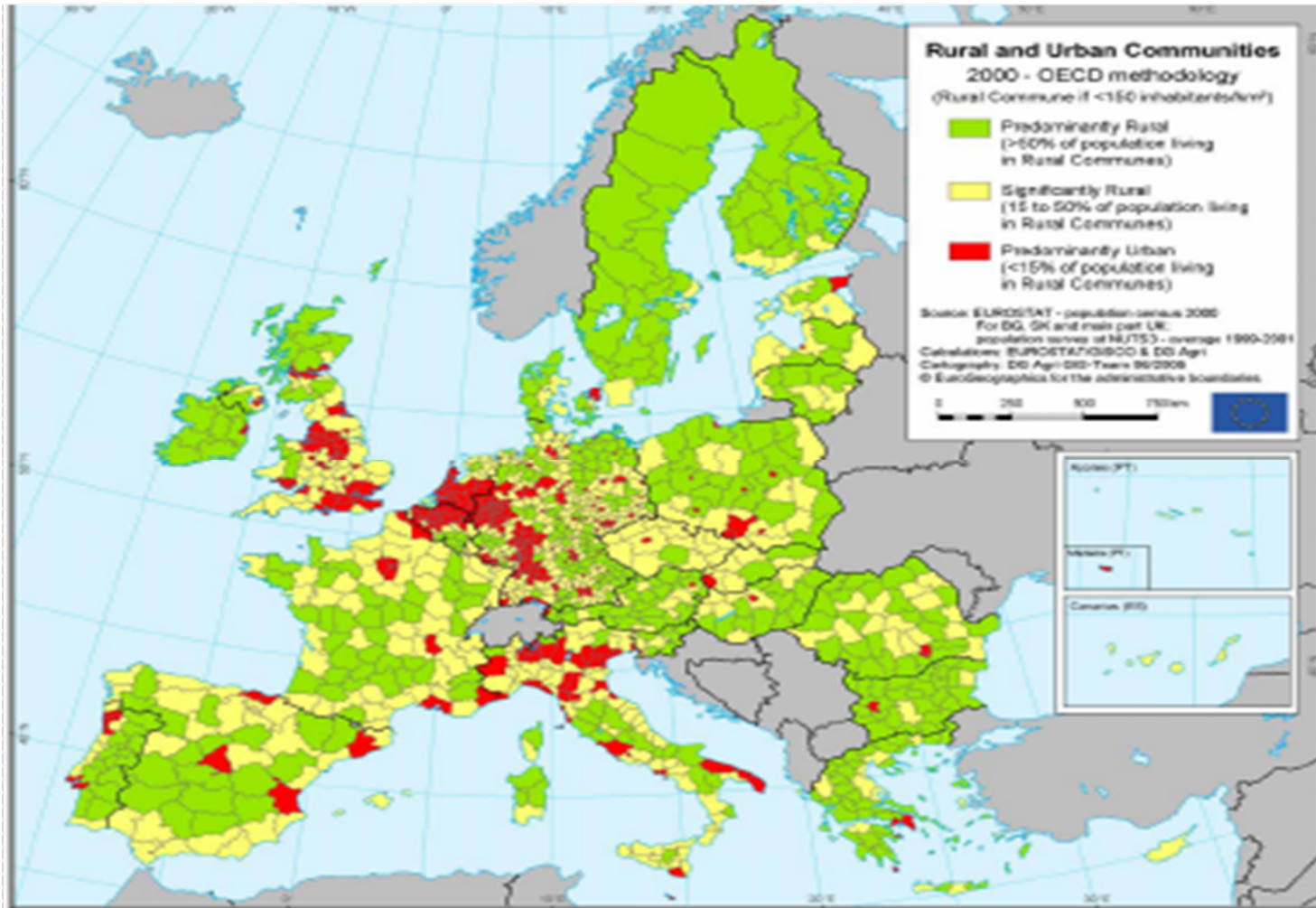
The Impact of CAP on Rural Regions

Guy Garrod

Centre for Rural Economy



EU Rural Areas



Common Agricultural Policy

- **Pillar 1:** supports food production
- **Pillar 2:** supports rural development across four axes

Major policy trends are to move funding away from direct payments under Pillar 1 into Pillar 2 (e.g. through modulation) and to decouple payments from production.

Pillar 2: Objectives

Axis	Objective
1	Increase competitiveness of agriculture and forestry sectors (Minimum 10%)
2	Support for land management (mainly through agri-environment schemes) (Minimum 25%)
3	Enhance quality of life in rural areas and promote economic diversification (Minimum 10%)
LEADER	Bottom-up approach which supports the 3 main objectives (Minimum 5%)

Spending on CAP

- CAP spending between 2007 and 2013 is around €60bn per year or between 40% and 45% of total EU budget.
- Around 27% of this is spent on Pillar 2.
- The vast majority of the Pillar 2 budget (probably >75%) will be spent on Axes 1 and 2.

Predicting Impacts of CAP

- Agricultural policy changes can have a wide range of impacts on the economy, society & environment.
- This has led to the development of a variety of complex models to forecast impacts of policy scenarios.
- Even with these it is often hard to find estimates of predicted impacts at an appropriate spatial scale.

Impact of CAP on Rural Regions

- The following slides provide simple examples of some of the more predictable impacts of changes to CAP payments.
- Changes can effect the level of payments or the distribution and targeting (geographic or instrumental) of payments.
- We end with some bigger questions...

Direct Impacts of CAP

- Financial support to farmers.
- Price support for some commodities.
- Tariffs and quotas for imports.
- Production quotas.
- Support for land management.
- Increased training and advice.
- Improved infrastructure.

Reducing Pillar 1 Payments

- Farm revenue falls so some farmers may attempt to adapt or cease trading.
- Marginal farms are most vulnerable to closure.
- Farms with the appropriate capacity may diversify into other agricultural or non-agricultural activities.
- Farmers may seek to join agri-environment schemes.
- Additional members of the farm household may seek employment off farm.

Consequence of reducing the agricultural labour force

- Unemployment of some ex-farm workers if there is no alternative employment in other sectors.
- In the long run, fewer jobs may lead to outmigration.
- Implications for age structure, viability of service provision by private sector, and cost of public sector provision, community sustainability.

Consequences of transfer of land holdings

- Farmland transferred to new occupier.
- Farms could get larger (more efficient?)
- Could lead to more intensive management.
- Which would increase labour productivity...
- But could reduce agricultural distinctiveness through:
 - Loss of field boundaries;
 - Reduced species-richness;
 - Decline in area of traditional crops.

Who Will Feel the Biggest Impacts of a Reduction in Farm Incomes?

- Holdings where farm incomes are highly dependent on direct payments?
- Holdings with difficulties in adapting?
- Territories highly dependent on agriculture in the labour market?
- Territories with a recent history of depopulation?

Differential Impacts of Pillar 2

- Variation between member states in distribution of funds across the four axes.
- Current spending supports national or regional priorities - extra spending can consolidate this or enable expansion into new areas.
- There may be regional differences in either the budgets for different various axes or in their priorities and targets.

Territorial Variation in Pillar 2 Impacts

- Take-up rate critical.
- Objectives may be regionally targetted to maximise environmental benefits.
- Opportunities and incentives to diversify income will vary across space.
- Variation in human capital across regions and farm types.
- Attitudes to non-financial barriers (e.g. information, bureaucracy) will vary.

Impacts of Extra Spending on Axis 1

- Modernisation of some agricultural holdings.
- Improved Infrastructure to support development and adaptation; adding value to primary products.
- Improved training and advice.
- Support for young farmers to establish themselves in the sector.

Impacts of Extra Support to Axis 2

- Increased entry to agri-environment schemes and enhanced conservation.
- Support for Less Favoured Areas.
- Can enhance and maintain traditional agricultural landscapes.
- Less intensive management and lower level of some variable inputs (e.g. chemicals).
- No change in farm income, unless able to sell as a premium product.

Impacts of Extra Support to Axis 2

(continued)

- Increase area under environmentally-friendly management.
- May enhance regional distinctiveness and add to tourism potential.
- May provide capital grants, usually paid out to advisers, contractors and suppliers.

Impacts of Increasing Spending on Axis 3

- Supports diversification into non-agricultural activities.
- Funding for the development of small businesses.
- Supports tourism development.
- Funding to renew villages.

Impacts of Increased Spending on LEADER

- Supporting endogenous local development activities supported by Local Action Groups.
- Depends on co-financing from member state.

Policy Developments

- Recent CAP Health Check increased modulation to bring an additional €1.2bn per year to Pillar 2.
- Budget Review will make further recommendations for CAP post-2013.

Future policy impacts

- How would reduced funds for CAP Pillar 1 and/or Pillar 2 impact on territories?
- Is CAP the best way to promote rural development? Would part of the CAP budget be better shifted to other regional funding?
- Does CAP help or hinder territorial cohesion?