

# **Decoupling and the Way Forward for the CAP**

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When the report on “The Changing Role of the Common Agricultural Policy – The Future of Farming in Europe” was commissioned by LUFPIG in the late 1980s, “decoupling” of support from production, a central concept in that report, was generally considered a somewhat theoretical proposition – possibly interesting as an academic thought, but not necessarily a realistic option for the CAP. A few years later, the 1992 reform of the CAP, designed under Commissioner MacSharry, made a first and significant step in that direction, by substituting area and livestock payments for a large part of what earlier had been price support for cereals, oilseeds, beef and sheep. Effectively this meant that support was decoupled from one central ingredient into production of these commodities, i.e. yields. The next round of CAP reform, as part of Agenda 2000, extended this approach.

The Fischler reform of 2003 made another significant step forward in the direction of decoupling, in two dimensions: it firmly established the principle of decoupling as a cornerstone of CAP reform; and it went beyond decoupling support from yields, by making payments independent from the commodities actually produced in any current year. At least that was the original proposal tabled by Commissioner Fischler. The final decision taken by the Council of Ministers provided Member Countries with the option of keeping certain shares of support coupled to the area used for given crops or the livestock numbers actually kept on the farm. Nevertheless, a significant part of total support under the CAP will in future no longer depend on what farmers actually produce (as long as they do not produce certain products).

Payments will, though, be made on the basis of the area used by the individual farm. They are, therefore, still coupled to land, and will be strongly reflected in land prices. The bond scheme proposed in the LUFPIG report on the “Future of Farming in Europe” (sometimes referred to as “Tangermann bonds”) was designed to avoid this effect, and to facilitate structural adjustment in EU agriculture, by allowing land prices to drop to market-determined values and providing farmers with the option of selling their payment entitlements and thereby turning expected future payments into a capital sum that could be used to restructure the farm or set up a new activity outside agriculture. A small step in this direction was made in the Fischler reform by creating the possibility that farmers can sell payment entitlements, though only to other farmers who then have to couple these entitlements again to land. To maintain the link between payments and land was probably considered necessary in order to be able to implement cross-compliance, requiring farmers to keep their land in good agricultural condition. In the absence of such compliance requirements, the political basis for making payments may have appeared to be too weak.

With these rounds of CAP reform, significant progress has been made in the direction of decoupling. Are there any other steps that could be taken in the future? Certainly, the concept could be extended to those products where decoupling has not yet taken place to the same degree as for the “grandes cultures”. This would further enhance market orientation of the CAP. In addition, Member Countries that currently feel they should not go beyond the minimum degree of decoupling required could reconsider their position in the future and join those Member Countries that will not retain coupled payments. Indeed, farmers in the more hesitant Member Countries may well in the future request their governments to go in this direction, when they begin to consider that their colleagues in other EU countries are better off as they receive payments with no strings attached.

The next step might then be to reconsider the policy objectives pursued by payments. Essentially the direct payments made under the CAP have historically originated from the price support that was provided in the past. When it became obvious that such price support had resulted in problems on agricultural markets and in international trade, and undermined the competitiveness of EU agriculture, it was logical to turn away from this form of support. Rather than exposing farmers to brutal adjustment problems by eliminating price support overnight, it made sense to provide them with breathing space, through direct payments, so that they could engage in positive adjustment actions to the new market conditions. However, at some point in time these adjustments will have been made. One can then turn from payments that have their roots in the past to a design that is entirely oriented to the future.

This future will not be one where agricultural policy no longer has any role to play. Markets will not be able to ensure that agriculture provides all the services that society expects from it, simply because some of these services cannot be sold through markets. Safeguarding biodiversity and desirable features of the countryside, while avoiding environmental stress, are examples of services that are likely to require continued government involvement. Equally, government action is required when it comes to dealing with specific problems of poverty in rural areas.

However, objectives of this sort cannot be pursued effectively and efficiently through broad-based payments that have originated from past price support. Cross-compliance is at best a weak substitute for dealing with some of these issues. Government support that is hoped will do a good job in pursuing such objectives, needs to be targeted directly and specifically to them. For instance, in regions where more hedges are considered to be required to provide a habitat for endangered species, payments per meter of hedge planted are far superior to general payments per hectare of all agricultural land. Of course, such targeting requires both a well specified set of objectives and a rather differentiated set of specific payments for specific services. An agricultural policy that moves in this direction is certainly more complex than a policy that is based on past price support, but it is also more promising and more rewarding.

In short, decoupling is a big step forward in overcoming the problems of past forms of agricultural support, but in the longer-run scheme of policy development, targeting of support to specific objectives is the next step to follow. In the jargon of the CAP, the modulation approach points in this direction, where payments are shifted from a general per-hectare base to specific measures of a regionally differentiated nature. If based on well defined and spatially specified objectives, and broadened towards a comprehensive set of measures for the whole rural area, the move from decoupling to targeting provides a promising way forward for the CAP.