

# **Transition Issues in Subsidy Reform in Agriculture: *the EU case***

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## **Outline**

### **1 - Theory and rationale for transitional measures in agricultural change**

- Understanding the nature of transitions - simple markets versus dynamic systems
- Implications of joint production
- The micro-business, macro-impact case

### **2 - Some EU examples**

- Cushions, toolkits or capacity building?
- Initial appraisal - outcomes and administration

### **3 - Conclusions and future prospects**



## Theory and rationale

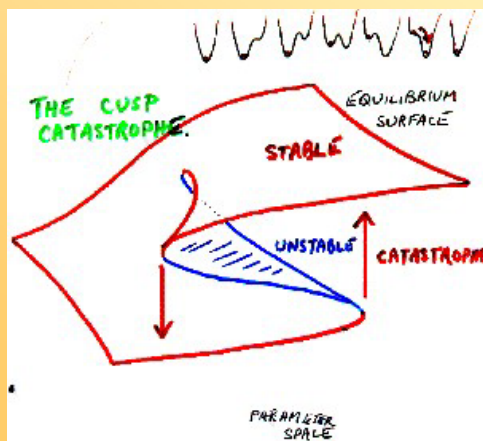
- In neoclassical markets, transitions are smooth and cost-free, adjustments continuous and incremental, production relations fixed
- In real situations, these conditions are often not met:
  - transactions costs
  - imperfect substitutability
  - thresholds trigger change between different system 'types'
  - path-dependency and irreversibility



## Theory and rationale

### - some parallels from system models

- Catastrophe theory (after Rohm, 1960s)



- Modern conceptions of evolutionary theory
  - jumps, not sustained gradual change

- Imply sudden shifts between states, under certain conditions, difficult to reverse



## Joint production in EU agriculture

- Centuries of co-evolution of farm practices and ecosystems
    - current wealth of *natural assets* requires active management, but is system-sensitive
  - Strong cultural and social traditions in many areas
    - valued agri-cultures
- as farming systems shift, these specific relationships will change, and some may disintegrate / collapse



## Assets dependent on management



Environment



Culture



## Micro-business, macro impact

- **Most EU farms are micro-businesses** (1-5 employees)
  - **classic market imperfection issues:**
    - *poor access to information, capital, skills / training,*
    - *lack of market power (can't pass costs on - vulnerable to external shocks)*
  - **BUT social and environmental impacts of farming can be macro-scale**
    - *small mistakes can have big results, irreversible*



## Habitat loss in Great Britain, 1950-80s

*(estimates, largely due to agricultural change) Source: NCC, 1984*

Important Habitat	% loss
Lowland herb-rich grassland	95
Chalk and limestone grass	80
Lowland heath	60
Limestone pavement	45
Ancient woodland	50
Lowland fens and marshes	50
Lowland raised bogs	60
Upland grassland, heath and mires	33

## Managing Transition: policy options

- **Laissez-faire**
  - be prepared for rapid change, some losses
- **Cushion**
  - Slow down the rate of change / smooth processes - *to enable more prior/ongoing adaptation and help to maintain systems linkages*
- **Offer toolkit / capacity building**
  - Actively promote more benign/sustainable patterns of change



## Facilitating positive transition

### Toolkit / capacity building:

- *target competitive ability plus environmental and socio-economic assets*
- *seek ways to conserve beneficial systems linkages (diversification, alternative income sources, community links, branding/adding value)*
- *develop capacity/social capital for innovation, adaptation, empowerment, to promote new, benign systems linkages*



## Flexible toolkits



Business advice



Village renewal

Diversification

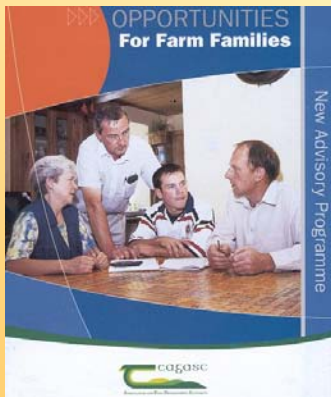


Marketing

Investment



## Capacity building



Family-based advice

Community planning



Farmer-led training



## Initial appraisal of examples

### 1. Cushions: Slowing / smoothing change

- **UK examples**

- LFA aid - transition to a decoupled basis (2yrs)
- pillar 1 CAP decoupled aid - shift from historic to area basis (7yrs)

- ***politically popular / necessary***

- ***administratively highly cumbersome***

- ***balance of pros and cons not clear, for these cases***
- ***positive experience from other sectors?***



## Initial appraisal of examples

### 2. Flexible toolkits / capacity building

#### **Selected CAP Second Pillar measures:**

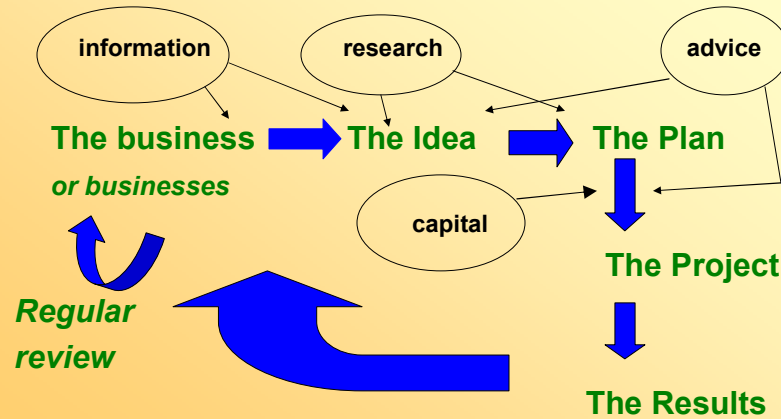
***UK, Denmark, Germany, France, Sweden, Hungary, Italy***

**also LEADER and**

**Structural Fund models**



## Targeting successful / sustainable change



- Where best to intervene and how –
- What is likely to be most cost-effective?
- Whom to target (active adapters / passive absorbers)?
- Consider policy reach

## 2. Flexible toolkits / capacity building (cont)

- Traditionally, aid focused on **later stages in cycle**, mainly modernisation / diversification – *issues of risk aversion, possible low additionality / displacement*
- **Some delivery issues** - *complex and opaque procedures, insufficient advice to help access, suspicion re decision-making process - aid may not reach those who need / can benefit most*



## 2. Flexible toolkits / capacity building

*(cont)*

- **Positive results by devolution: empowerment, ownership, local tailoring** - *French CTEs, German Regionen Aktiv, Irish LEADER and NRDP, Italian PITs*
- **Increased cost-effectiveness in support at the front end of the cycle** - *Targeted training and extension (German BUS, Irish OFFP), Innovation support in Denmark, UK Rural hubs*
- **Demonstrable value in co-ordinated, quality controlled advisory services** - *private / public / NGO networks*
- **Intervention to strengthen demand-side links** - *whole-chain organic support in Germany, research and development via public-private partnerships* 

## Conclusions & future prospects

- **The EU will continue to make use of transitional aid in many forms**
- **Evidence suggests this will be needed as CAP reform progresses, but need**
  - *improved funds*
  - *more active exchange of best practice*
  - *more accessible, locally-tailored delivery processes*
- **EU budget issues remain a problem**
- **Issues of uncertainty re. the long-term: transition to where?** 