

Assessing direct payments: lessons and criteria

Tassos Haniotis

*Retired Director, DG AGRI Strategy and Policy Analysis**

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** Views expressed are strictly personal reflections on past experience, and do not constitute recommendations.*

What were direct payments initially aiming to achieve?

- **Provide an income safety net in a less trade-distorting CAP reform path**
- **Link this support to environmental and food safety conditionality**
- **Address different time (2003, 2004, 2005) and type (N, S, E) of M-S reform challenges**

What are direct payments nowadays aiming to achieve?

- **Continue the provision of income safety net, but at a lower level and with redistribution**
- **Increase the link to and ambition of environmental and social conditionality**
- **Integrate other policy priorities which carry some implicit and complex trade-offs**

The false dilemma of choosing private vs public good DP support

Direct payments aim to address real private market failures

- *At the level of input costs, often driven by exogenous shocks and subject to non-competitive distortions*
- *At the level of the food chain, especially with bottlenecks in price transmission and market transparency*
- *At the farm level, especially where farm cooperation and the transfer of knowledge are weak*

Direct payments aim to address real public policy failures

- *At the level of land management practices with conditionality, which affect soil, air, water and biodiversity*
- *At the level of transfer of knowledge by linking conditionality requirements to the provision of advice*
- *At the level of incentives by increasingly linking them to innovative practices and measurable outcomes*

Direct payments are often asked to solve problems beyond their reach

- *MS are responsible for land market legislation, complicating the search for socially “fair” redistributive solutions*
- *The absence of an EU Soil Directive impedes the CAP’s leverage which is greater exactly on soil practices*
- *The main income determinant, price, is mainly demand driven and depends on factors exogenous to agriculture*

Some criteria to consider in assessing DPs

Is there a link to the opportunity cost of land and/or labour?

- *An important, yet often ignored or misjudged impact of DPs is on farm assets through land prices*
- *The relationship of DP levels to wage rates also impacts incentives or disincentives for edistribution*
- *There are significant **trade-offs** that need to be recognized – **but also** major **synergies** that remain unreported*

How to account for economic vs environmental actual tensions and potential synergies?

- *Productivity growth is crucial for income by reducing marginal costs...*
- *...but which indicators measure best long-run productivity trends...*
- *...and how to account for environmental costs linked to conditionality?*

Is some income volatility desirable in the current context?

- *Without some price volatility producer response to market trends is not possible...*
- *...but too much volatility, especially when exogenously driven, hampers necessary adjustments...*
- *...rendering the link to and analysis of the asymmetric impact of insurance schemes desirable*