IPC Alert

International Food & Agricultural Trade Policy Council

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The Future of Direct Payments

The first in a series of IPC Policy Focuses on US and EU farm policies is a timely examination of the future of direct payments. "The combination of tight budgets and high commodity prices lies at the heart of lively debates on both sides of the Atlantic over the future of direct payments," notes IPC Chair Carlo Trojan, "but the outcome of th**ose two debates may differ significantly."**

The brief chronicles the adoption of direct payments in the US and EU as a means of phasing out agricultural market intervention in the form of maintaining high commodity prices, buying up and disposing of surpluses, which had become a drain on government budgets and contributed to trade frictions. Although the US was the first to use direct payments as income support to farmers that was not linked to production or price, direct payments in the EU now account for the largest share of its Common Agricultural Policy budget. US direct payments total around $5 billion per year, whereas the EU spent some Euro 36 billion on direct payments in 2008.

"IPC welcomed the introduction of direct payments as a move away from market intervention, but with the understanding that they were intended to be *temporary*," the paper states, pointing out that **from a taxpayer's perspective, ongoing government payments to a small portion of the population have become controversial, in particular during a time of record income levels for agricultural producers**. The authors emphasize that the linkage of direct payments in the EU to "cross-compliance" (the requirement to meet certain environmental standards) have made direct payments less controversial than in the US, but point out that "it is not clear whether this justification can last: there are voices who are arguing for a more effective targeting and tracking of compliance, to ensure that the public goods are actually being delivered at a reasonable cost."

Key Recommendations for the US:

- The rationale for direct payments is weak, and they should be eliminated on policy grounds.
- If direct payments were eliminated, those funds should *not* be channeled into instruments that are directly linked to current production and/or prices.
- Money saved from eliminating direct payments should go towards increased R&D funding for productivity enhancement, to allow US farmers to compete effectively in world markets.

Key Recommendations for the EU:

- The case for continued direct payments in the EU needs to be made in a way that is convincing to the public, by strengthening the link with the provision of public goods.
- If this is not possible, they should be phased out.

This policy brief draws from the September 2011 IPC Discussion Paper "Farm Policy in the US and the EU: The Status of Reform and the Choices Ahead," by David Blandford, Tim Josling, and Jean-Christophe Bureau, now available on IPC's website at http://www.agritrade.org/Publications/FarmPolicyintheUSandEU.html

Three further policy briefs will be released—Biofuels Policies in the U.S. and EU, What Next for Farm Policy in the U.S. and EU?, and Research and Development and the Future of Agriculture.

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About IPC

The International Food & Agricultural Trade Policy Council promotes the role of trade in creating a more open, equitable, productive and sustainable global food & agricultural system. IPC makes pragmatic trade policy recommendations to help solve the major challenges facing the global food & agricultural system in the 21st century—the need to promote global food security, to sustainably increase productivity, and to contribute to economic growth and development.

IPC convenes influential policymakers, agribusiness executives, farm and civil society leaders, and academics from around the world in order to clarify complex issues, foster broad stakeholder participation in policy deliberations, and build consensus around pragmatic policy recommendations. More information about the organization and its membership can be found on our website: www.agritrade.org.