Analyzing decoupling with the Gtap
The 2003 CAP reform

Piero Conforti

Commodities and Trade Division

Food and Agriculture Organization of the United Nations

ERS-Farm Foundation Workshop on "Modeling US and EU Policy: Focus on Decoupled Payments."

Washington DC, 4-5 October 2004

introduction

- work started before the Fishler reform, in

  Conforti P., De Filippis F., Salvatici L. (2003), *The CAP reform in the Mid-Term-Review: to decouple or not to decouple?*, paper at the IATRC Conference, Capri, June 2003
- one scenario (partial decoupling) is similar to the actual reform
- more work planned, on the basis of member countries' decisions on implementation

the presentation

- database
- changes in the standard Gtap
- 2013 baseline
- modeling the 2003 reform
- results
- final remarks

database aggregation (version 5.4)

regions	**products**	**endowments**
Austria	paddy rice	land
Belgium	cereals	natural resources
Denmark	fruits and vegetables	labor
Finland	oilseeds	capital
France	sugar cane & beet	
Germany	other primary	
Greece	livestock	
Ireland	raw milk	
Italy	vegetable oils	
Portougal	dairy products	
Spain	processed rice	
Sweden	processed sugar	
The Netherlands	other food products	
UK	secondary sectors	
CEECs	services	
Rest of the world		

modifications to the standard Gtap

database

- direct payments for oilseeds

policy representation

- milk quotas
- expenditure for direct payments
- crop-specific direct payments
- decoupling

blue box payments in the baseline

- represented as *ad valorem* input subsidies
- we introduced a budget constraint to account for the base area and herds ceilings:

  an increase (decrease) in land or capital use implies in a decrease (increase) of the subsidy rate (land is fixed)
- payments were deflated

the 2013 baseline:

- assumptions:
  - GDP (IMF),
  - population (UN projections),
  - labor force (Faostat),
  - total factors' productivity (Hertel and Martin, 2000)
- policy shocks:
  - Agenda 2000
  - Eu enlargement

the 2013 baseline: Agenda 2000

measure	shock	sources of calculation
introduction of a slaughtering bovine premium	increase in the output subsidy for livestock	ratio of expenditure to the value of production in AGLINK;
increase in the other (semi-decoupled) premiums for bovines	increase in subsidy to capital for livestock	+44% (increase in the payments)
increase in direct payment for cereals	increase in the subsidy to land for cereals	+ 16%, from 54 to 63 Euro/ton
decrease in direct payment for oilseeds	decrease in the subsidy to land for oilseeds	-33% from 94 to 63 Euro/ton
decrease in the cereals intervention price	decrease in import tax and export subsidy	-13.3% change in market price following -15% in market price (fixed transmssion from Van Tongeren and Van Majil 2000)
increase in milk quotas	increase in raw milk output	2.4%
decrease in the butter and smp intervention prices	decrease in import tax and export subsidy	-14% (as weighted average of butter and smp)

the 2013 baseline: EU enlargement

- *border measures eliminated*
- *border measures with the row homogenized*
- *output subsidies homogenized*
- *direct payments (input subsidies):*

based on the allocation decided at the Brussels Council we extended to the CEECs the *ad valorem* input subsidies (representing direct payments in the EU15)

reform scenarios (June 03)

- changes in the Common Market Organizations (CMOs) only, without decoupling
- changes in the CMOs, with partial (50%) decoupling
- changes in the CMOs, with full decoupling

2003 reform: measures simulated

- (50% and full) decoupling
- milk quotas maintained
- 5% reduction in the intervention price of cereals, 50% for rice and 22% for dairy
- increase in the direct payment to rice growers
- subsidies to dairy producers (in forthcoming experiments)

Changes in rural development, cross compliance, and modulation cannot be represented

modeling decoupling

- based on the budget constraint holding until 2013
- blue box payments reduced (for partial decoupling) or eliminated (for full decoupling)
- new homogeneous payment introduced, (endogenous rate), based on expenditure for blue box payments to arable crops and livestock

modeling other measures

- intervention price: reduction in import taxes and export subsidies
- direct payments to rice: increases in the *ad valorem* input subsidies
- milk quotas: exogenous production
- direct payments to dairy producers: ?

major drawbacks

- direct payments in *ad valorem* terms
- land is fixed, homogenous, and only employed in agriculture
- no substitutability between value added and intermediates
- rents are not taken into account
- fixed transmission between intervention, market, and border prices

results: the baseline

- wide supply increases in the Ceecs, and reductions in Eu 15
- increased “trade” between the Ceecs and the Eu 15
- decrease in the return to land in Eu 15, increase in the Ceecs
- “budget” (almost) alright

results: supply

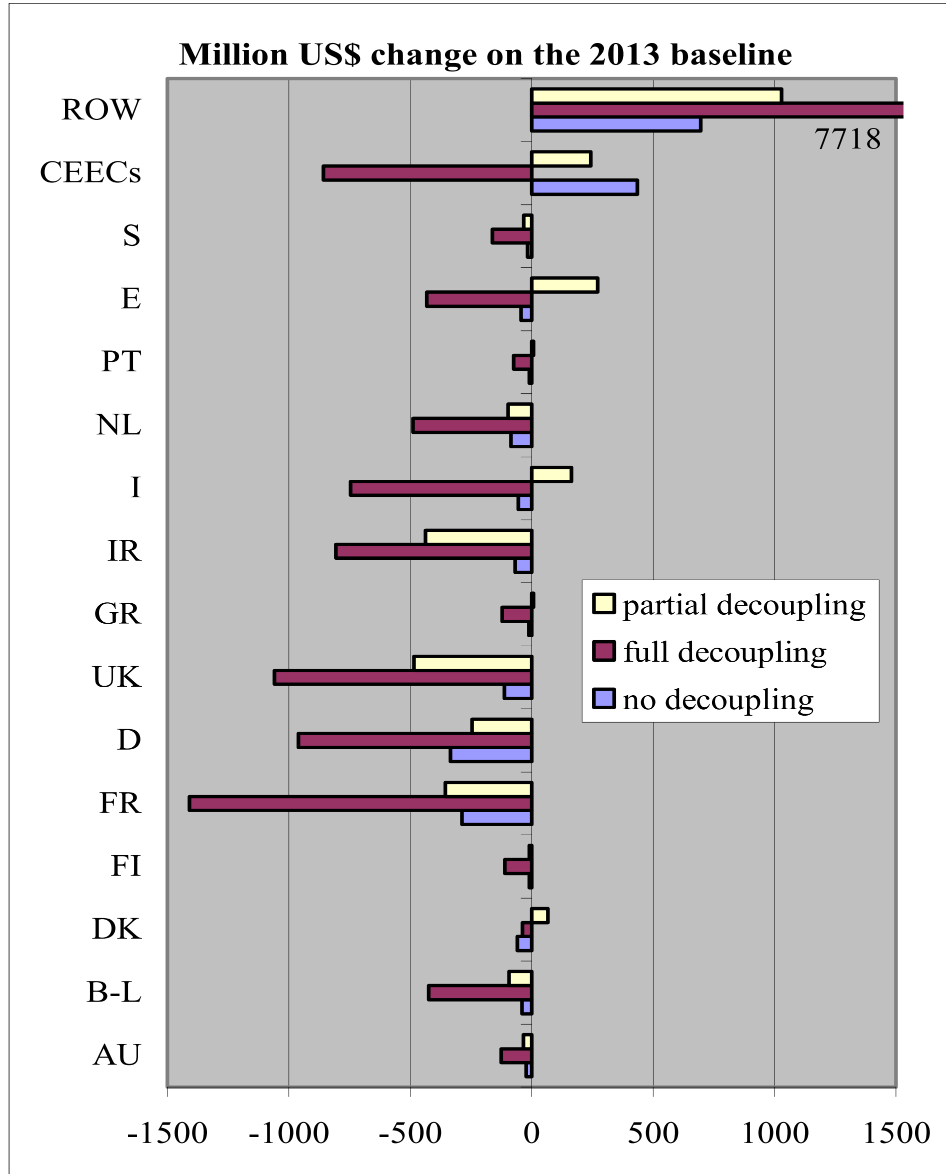
Without decoupling: minor changes in dairy products and in rice supply

With 50% decoupling: smaller and more mixed reactions. For livestock and cereals: decrease in France, while increase in NL, DK.

With full decoupling: larger reductions in oilseeds cereals and livestock.

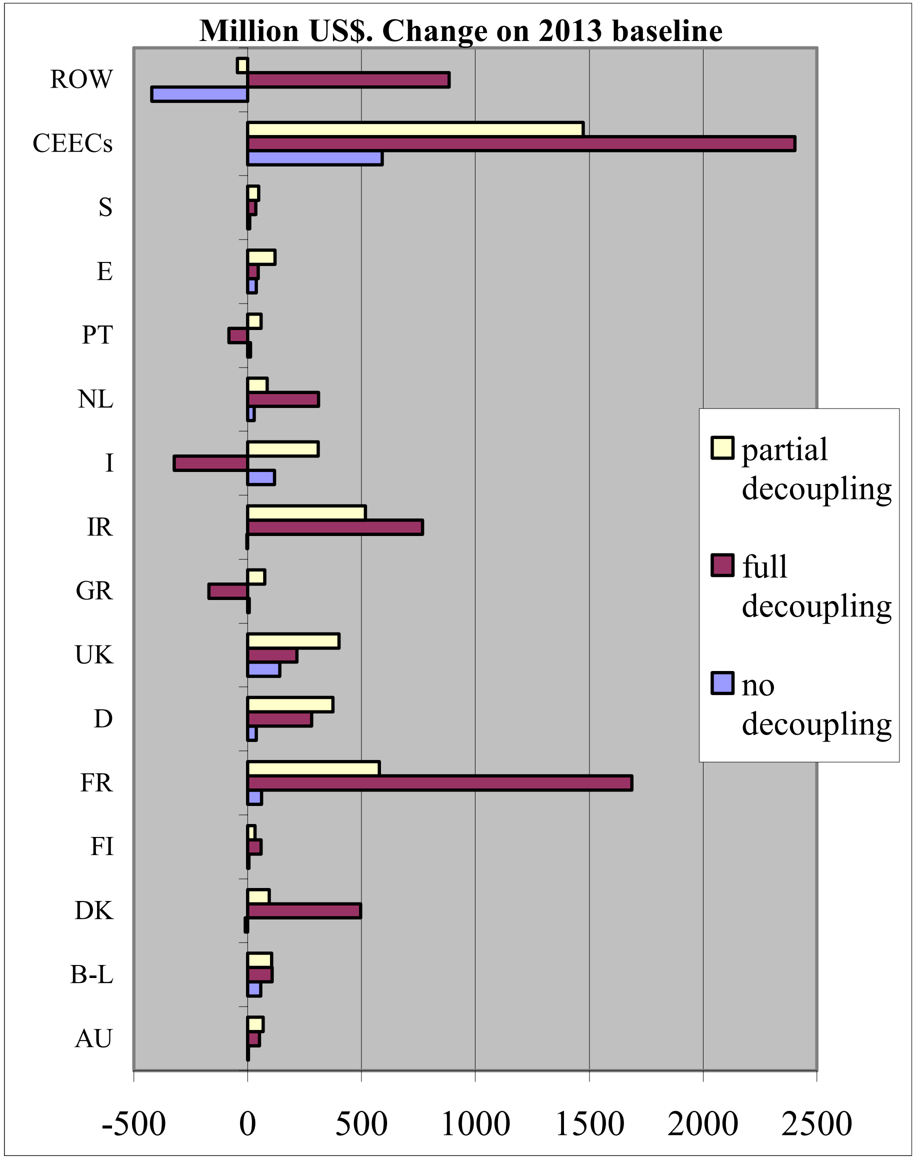
results: trade

- Reductions in the trade surplus of the Eu, especially for:
  - France, UK, Germany and Ireland,
  - livestock and oilseeds
- Increases in the Ceecs, the Row and Denmark
- Size of the changes increases with the degree of decoupling



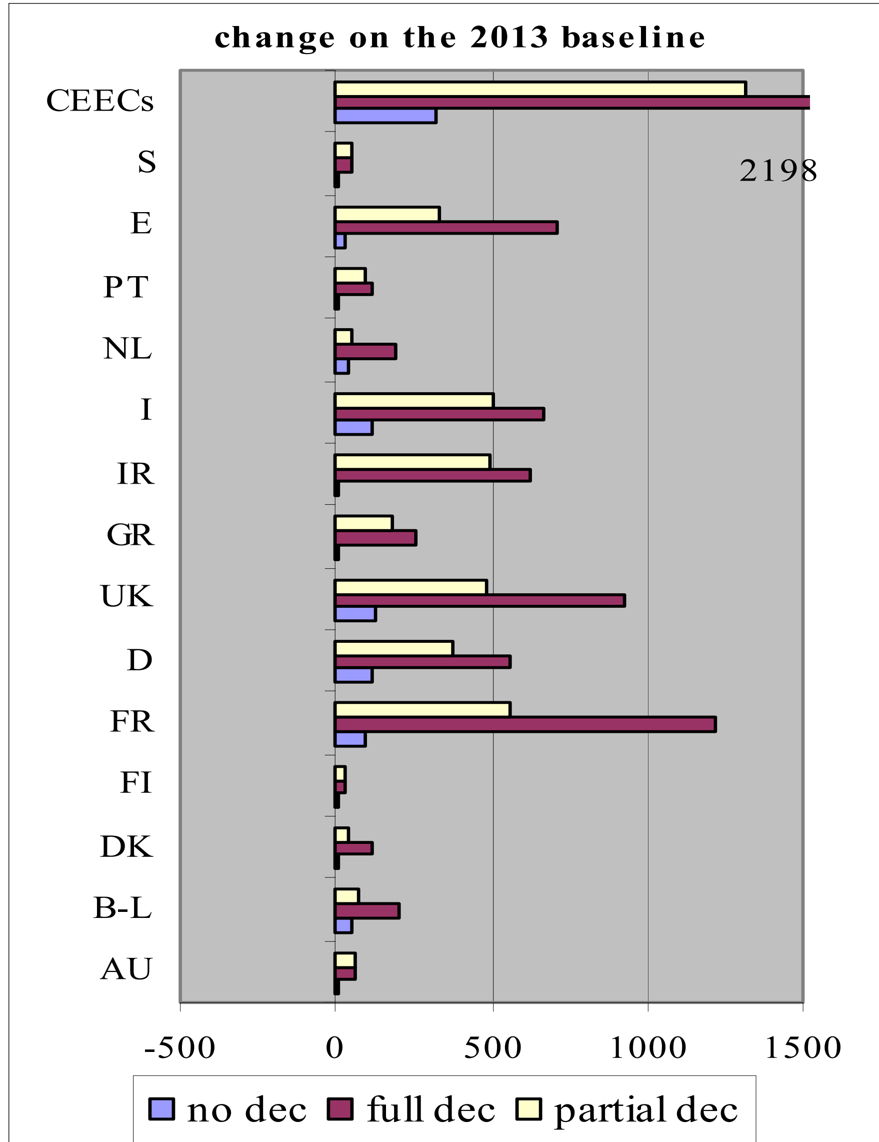
results: total welfare

- gains increasing with the degree of decoupling
- Italy, Greece and Portugal lose under full decoupling
- highest gains in France, Ireland and the Ceecs



results: welfare components

- All countries gain from better resource allocation
- The terms of trade welfare component is negative for most of the EU 15 and for the EU 25 as a whole



from these results:

- decoupling can imply some structural adjustment
- potential welfare gains are the highest under full decoupling

but

- the representation of the land market may be affecting supply response
- total welfare is probably not the most relevant variable in decision making

from these results:

The partial decoupling scenario appears as a viable compromise among Eu members, since

- it is more conservative
- it implies lower, but possibly more equitably distributed benefits

a final comment,

where is the Cap heading with the Fishler reform?

- toward a fully decoupled system?
- toward a more targeted support system, promoting specific behaviors?

*If the second option is to be pursued, maybe **coupled** subsidies are necessary*