

***Research on the EU Direct
payment schemes
2003 CAP reform :
Key findings
and Research Issues***

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Structure of the presentation

Introduction

- Analytical approach

Main results

- Impact of the CAP reform for agricultural markets for EU-15 (non-enlargement scenario)
- Impact of the CAP (reform) and enlargement for agricultural markets and income for EU-25

Conclusion

- Summary of key findings



CAP reform – main elements

Main objectives of CAP reform

- More competitive agricultural sector through reformed market organisations (notably dairy, cereals, rice sectors)
- More sustainable, market-oriented agriculture through introduction of single farm payments combined with cross-compliance and good agricultural and environmental practices
- Reinforced Rural Development policy (broader scope and additional financial support)
- Financial discipline (ceiling on farm budget)



Methodological approach

Models

- Recursive dynamic partial equilibrium models

Main assumptions

- Uruguay Round Agreement on Agriculture maintained constant
- Favourable, though moderate world agricultural market outlook
- Modest EU economic and population growth
- \$/euro Exchange rate stable at 1.1 over the medium-term



Modelling of decoupling

- Decoupling – key element in CAP reform to move towards more market oriented policy and less production & trade distortion
- Effect of policy measures: Static effect, Dynamic effect, Risk-related effect (insurance and wealth effect)
- DG AGRI analyses based on assumption on static effect - decoupled payments are lump sum transfers with no impact on production decisions (vs. FAPRI 30 % of previous DP and OECD 0.06-0.1)
- Cross compliance and good agricultural conditions – producer risk aversion could influence degree of decoupling
- Implementation of decoupling option: 66 % of animal premia and 90 % of arable crop payments decoupled over the medium-term (EU-15) and 90% decoupling EU-25



Enlargement – general situation in the EU-10

- Economic growth stimulated by structural change supported by structural funds, rural development

- Sustaining high growth rates through flexible labour markets, strong FDI and domestic consumption should reduce the income gap with EU-15;

- Agricultural sector abundant of labour, scarce capital, and low productivity
 - 14.4 % labour employment (4.2% EU-15) but similar GDP contribution
 - duality of agriculture (subsistence vs. market-oriented)
 - structural change and competitiveness depends largely on developments outside agriculture



Enlargement - agriculture in the EU-10

Restructuring of agriculture in the EU-10 facilitated by EU funds:

- economic growth will contribute to create alternative income outside agriculture;
- more investment in agriculture due to
 - improving market and income situation (single market, decoupled direct payments)
 - improving rural infrastructure and banking systems
 - specific instruments facilitating restructuring in rural development programmes available

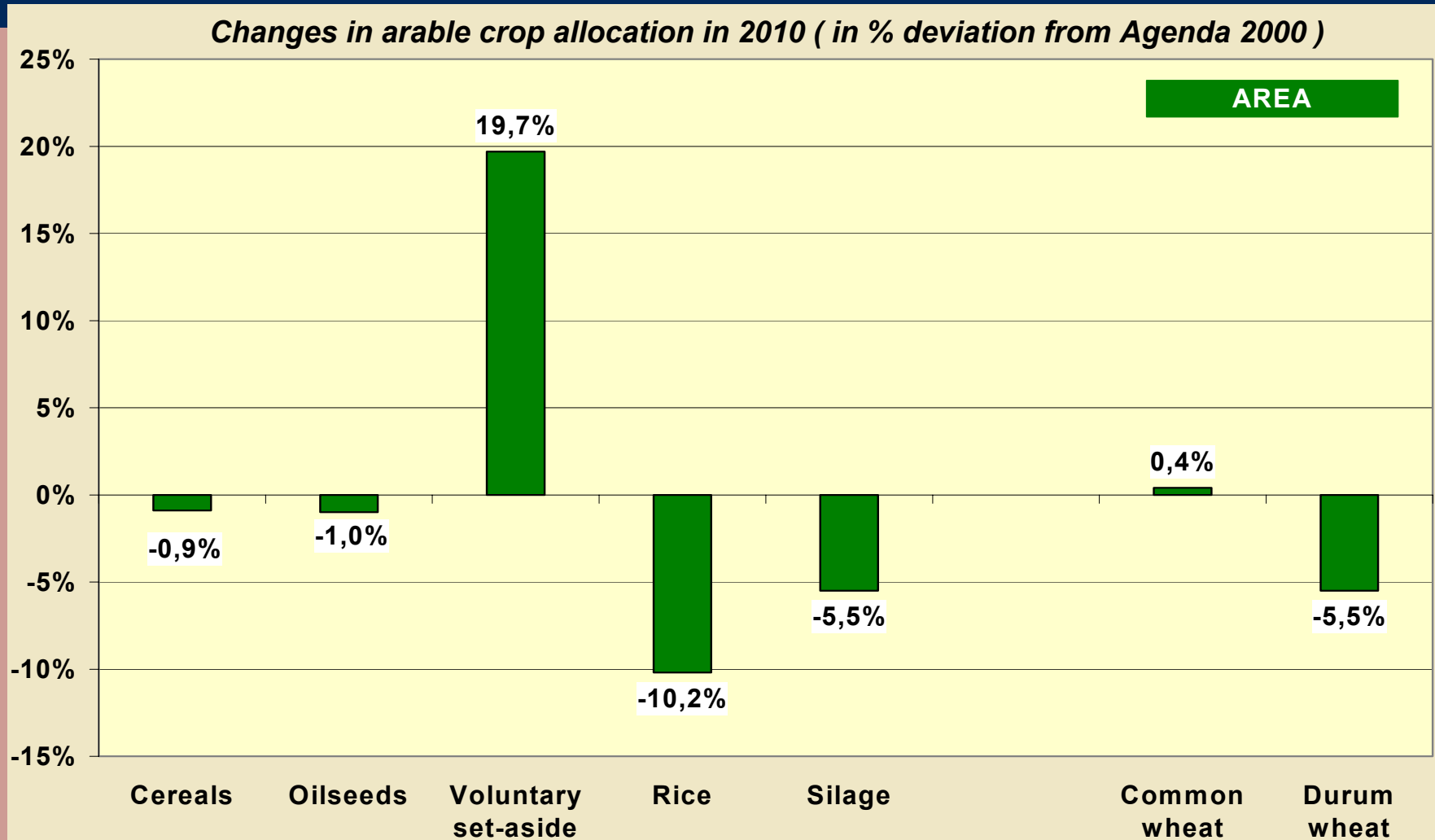


Driving factors of EU-25 agricultural markets

- EU-10: High income growth leads to growing markets for meat, fruits and vegetables as well as fresh milk products and cheese in the EU-10
- EU-15: High consumer income, limited expansion of quantities, strong demand for quality and niche products
- World markets developments will become an increasingly decisive factor for market outlook
- Restructuring of agriculture and the food industries in order to better address demand

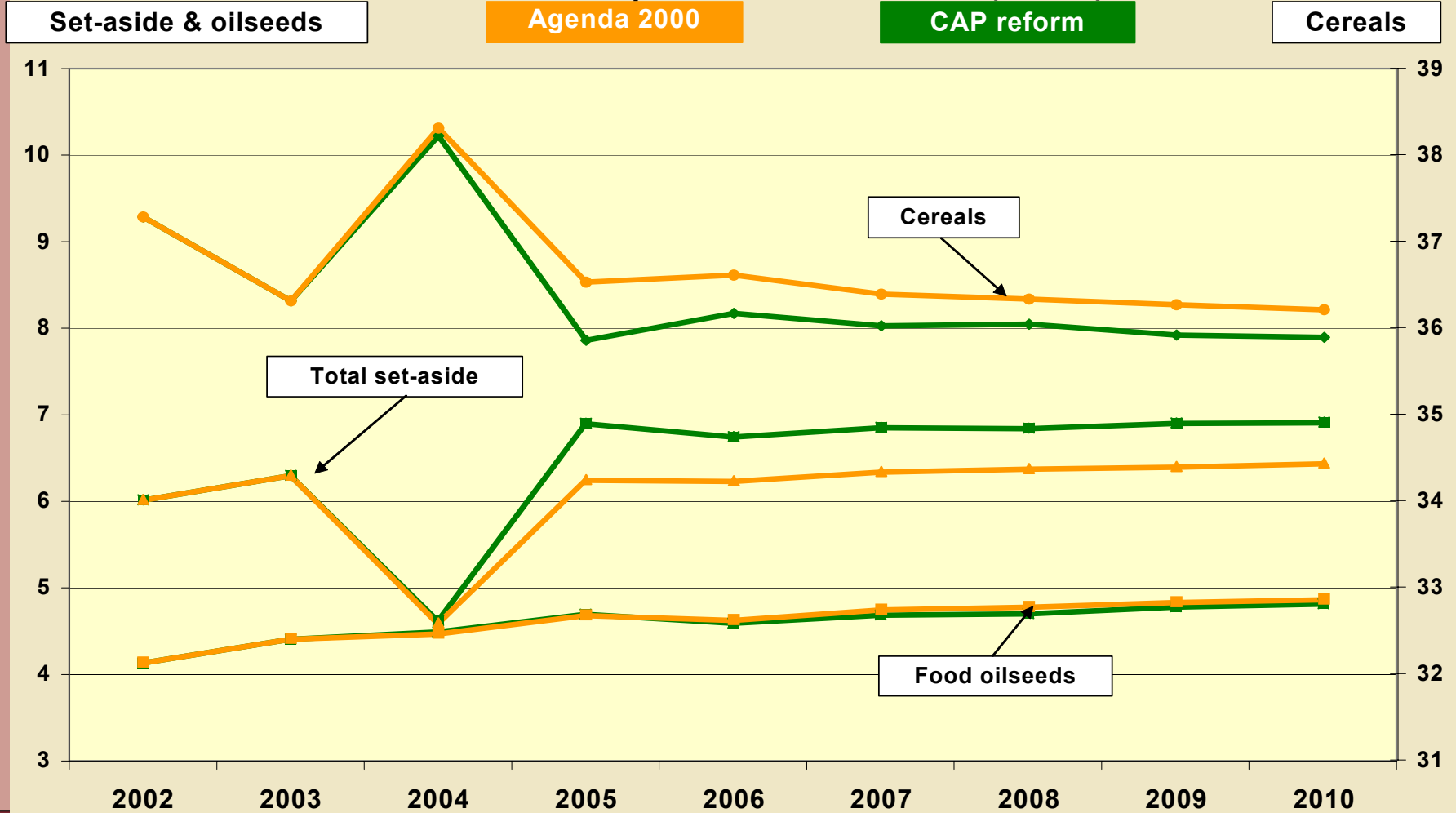


CAP reform : more pronounced increase in land set-aside and slight further decline in EU-15 arable crops area



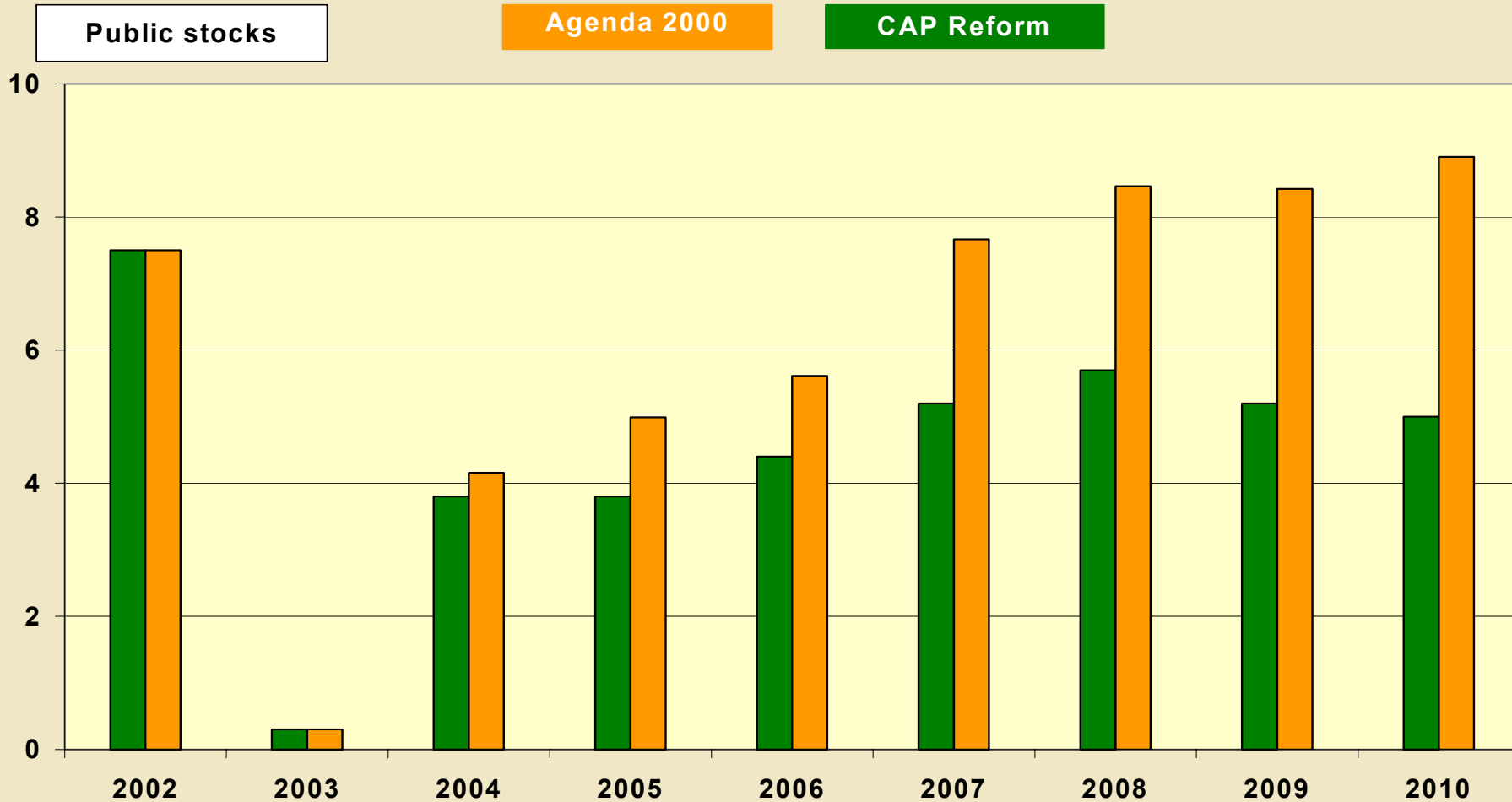
CAP reform : slight decline in EU-15 arable crop area

Arable crop allocation, 2002 - 2010 (mio ha)

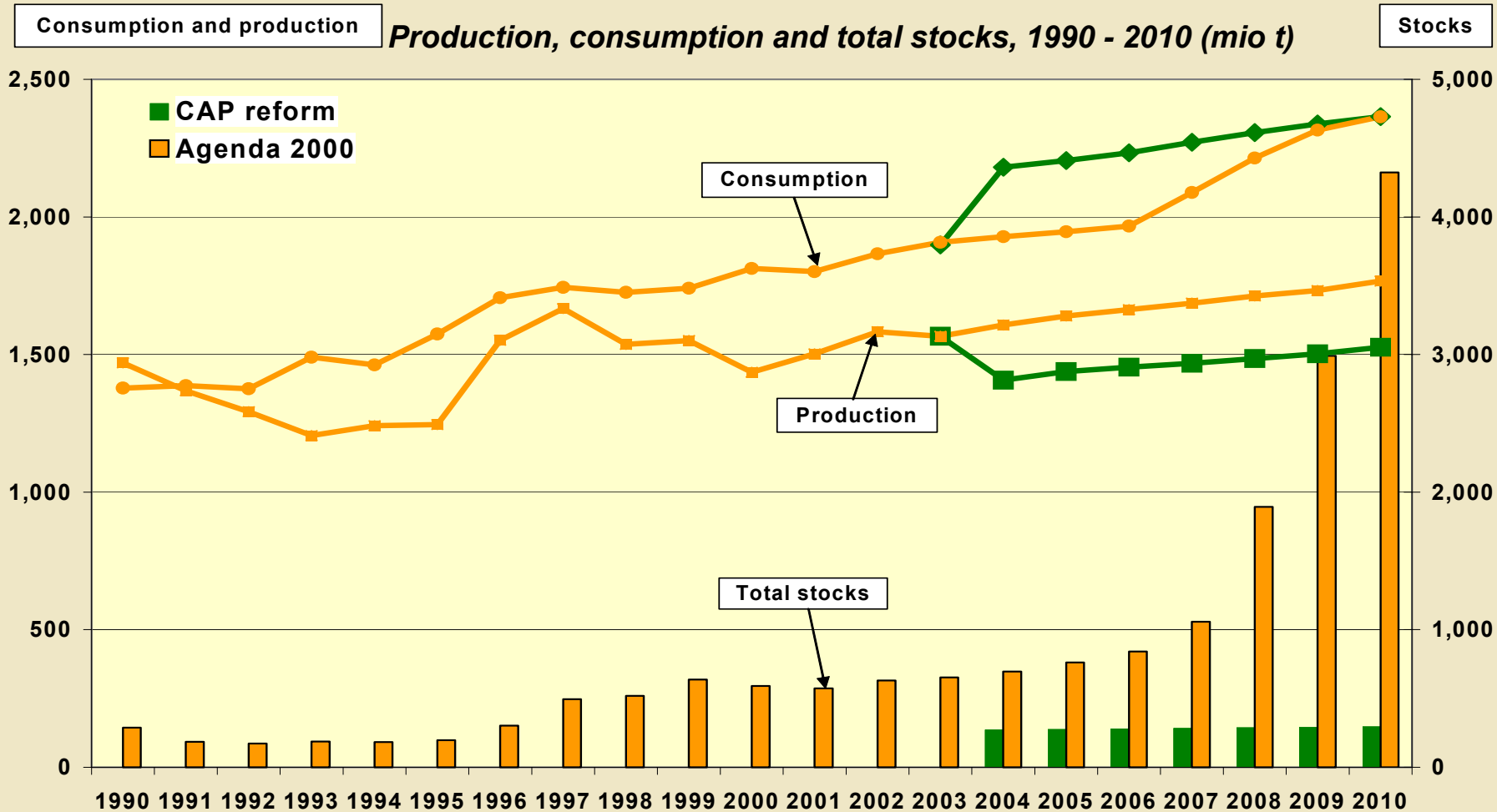


CAP reform : limited build up in EU-15 cereal stocks

Total public stocks, 2002 - 2010 (mio t)

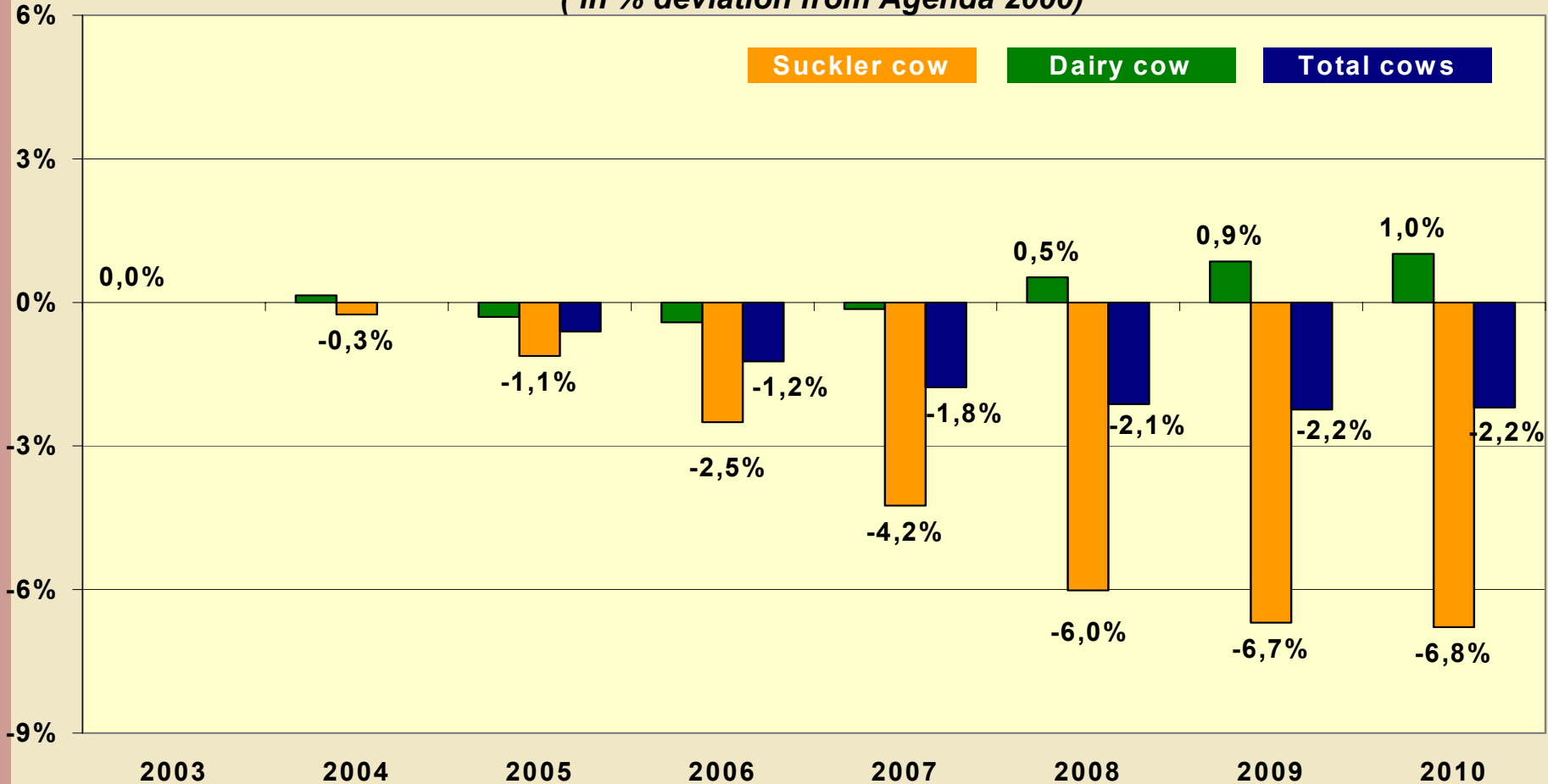


CAP reform : rapid improvement for EU-15 rice market

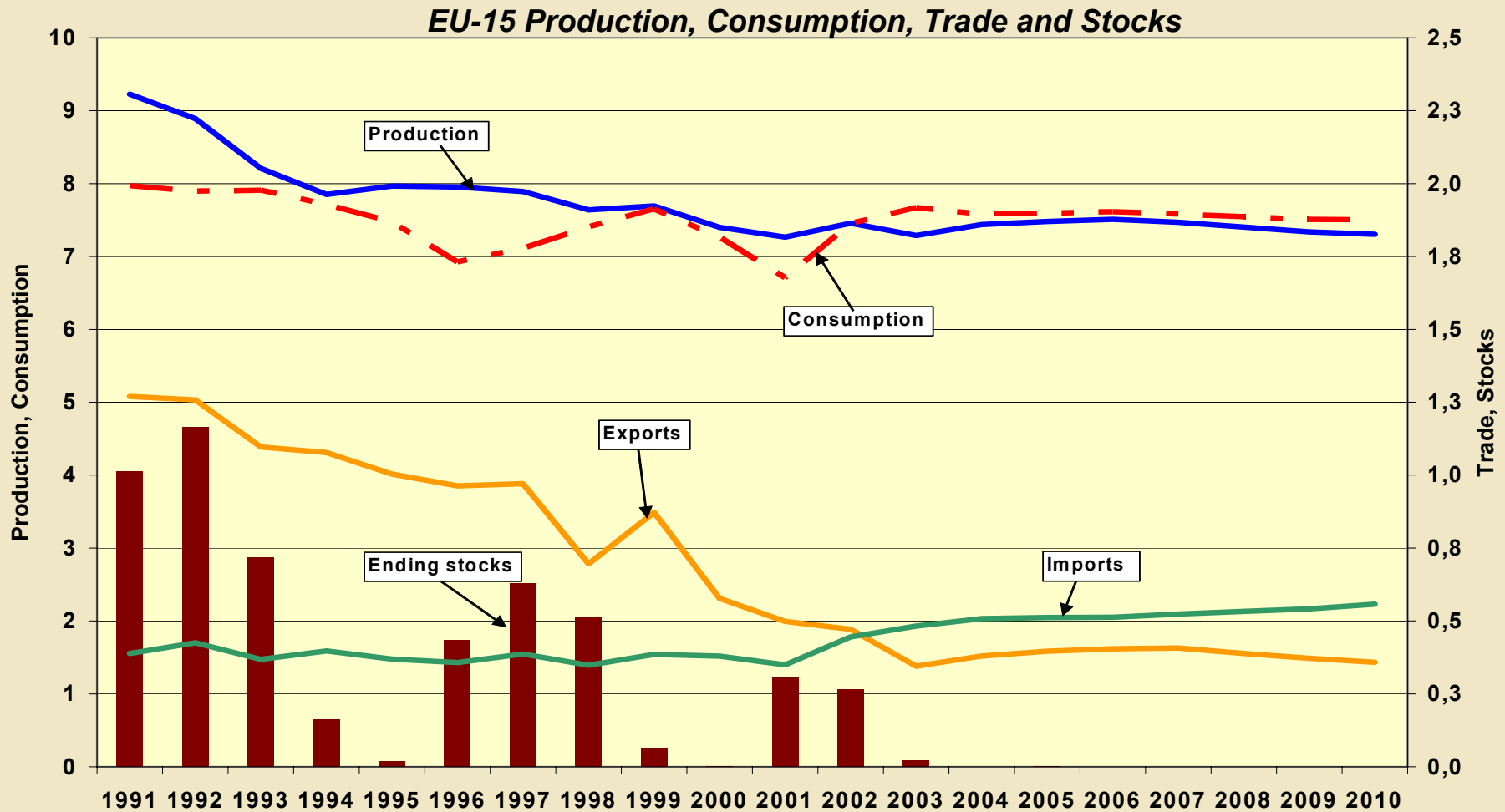


CAP reform leads to reduction in EU-15 beef production potential

Changes in cow number, 2003 – 2010
(in % deviation from Agenda 2000)

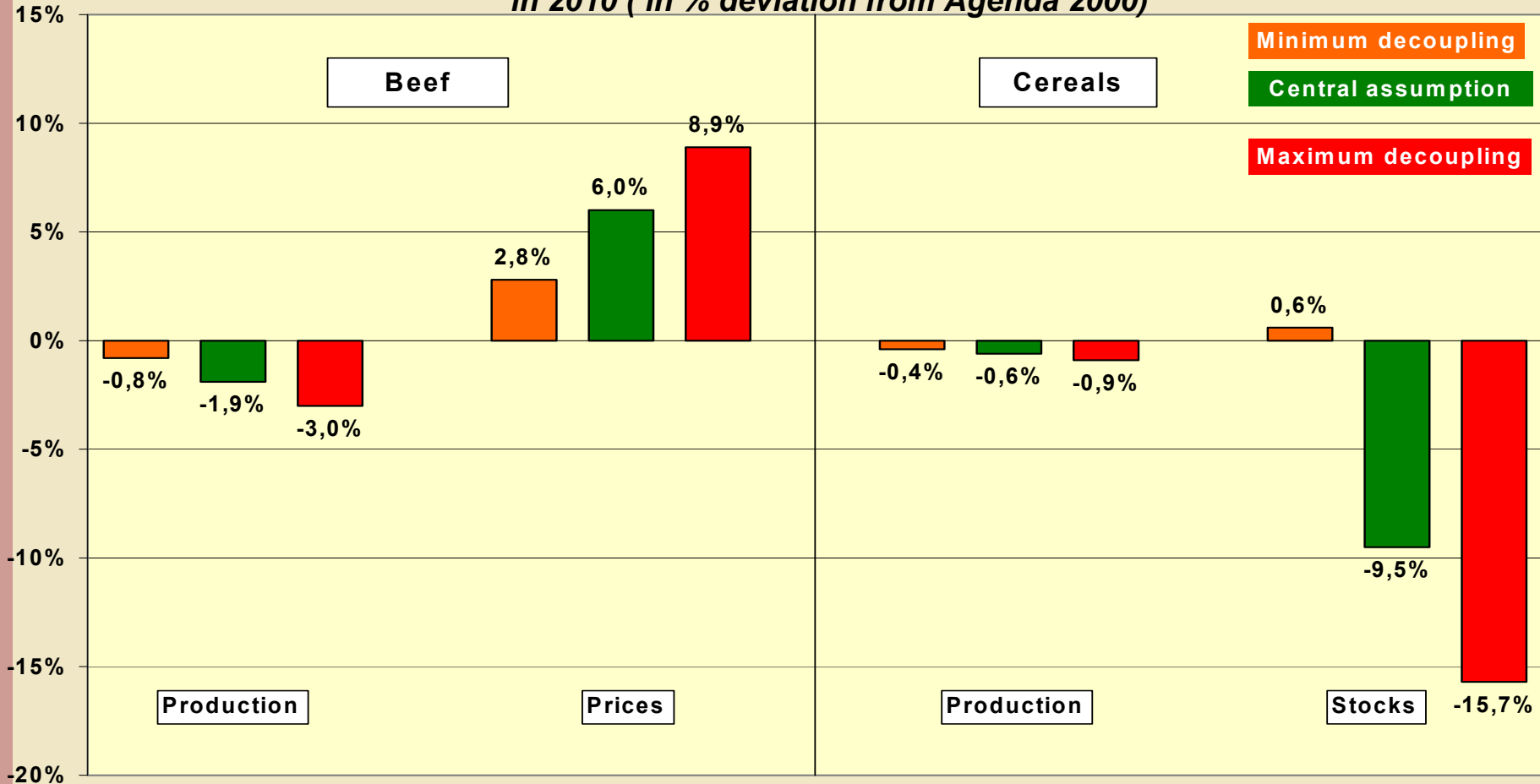


EU-15 beef demand to exceed production over the medium-term

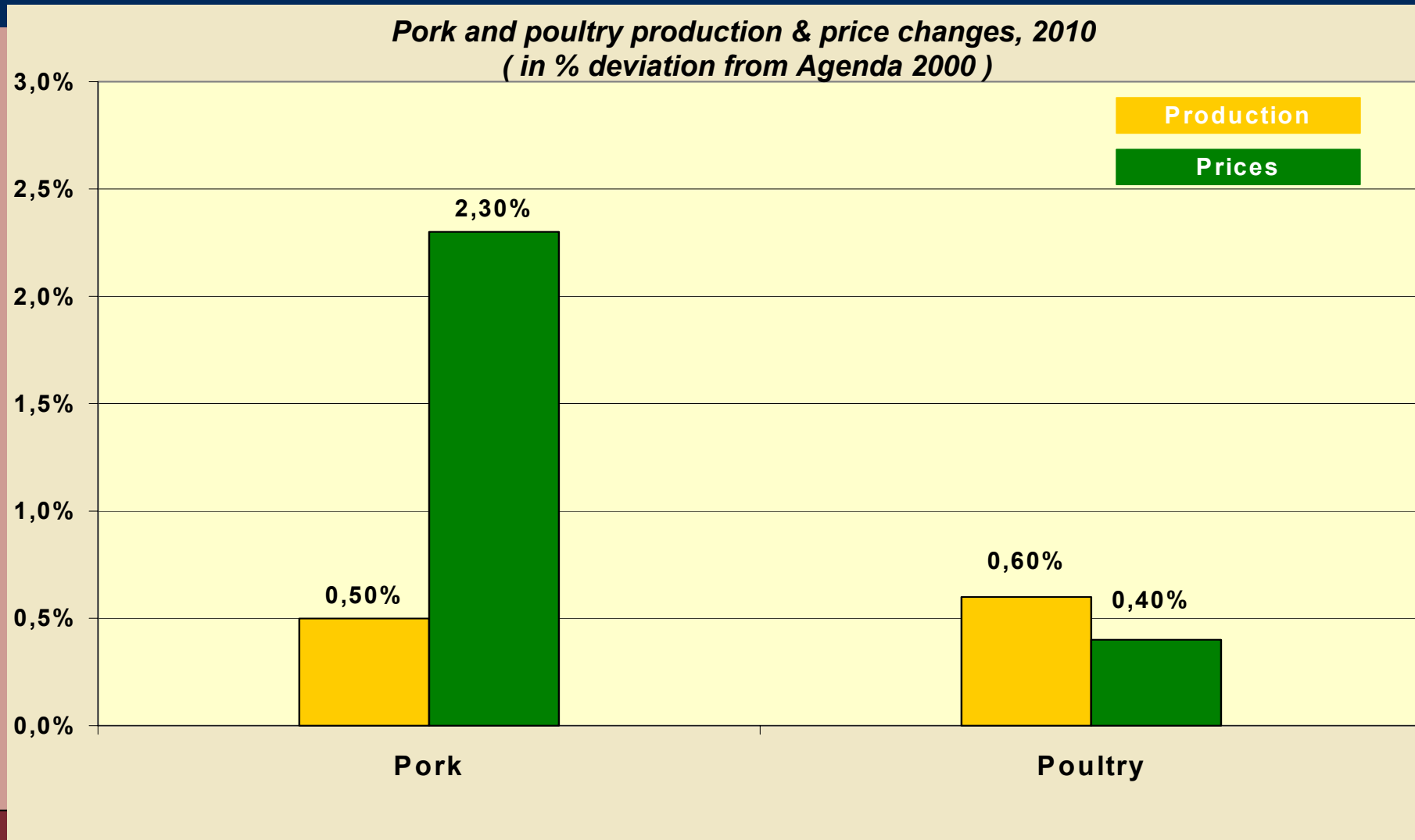


Impact of CAP reform dependent from the degree of decoupling

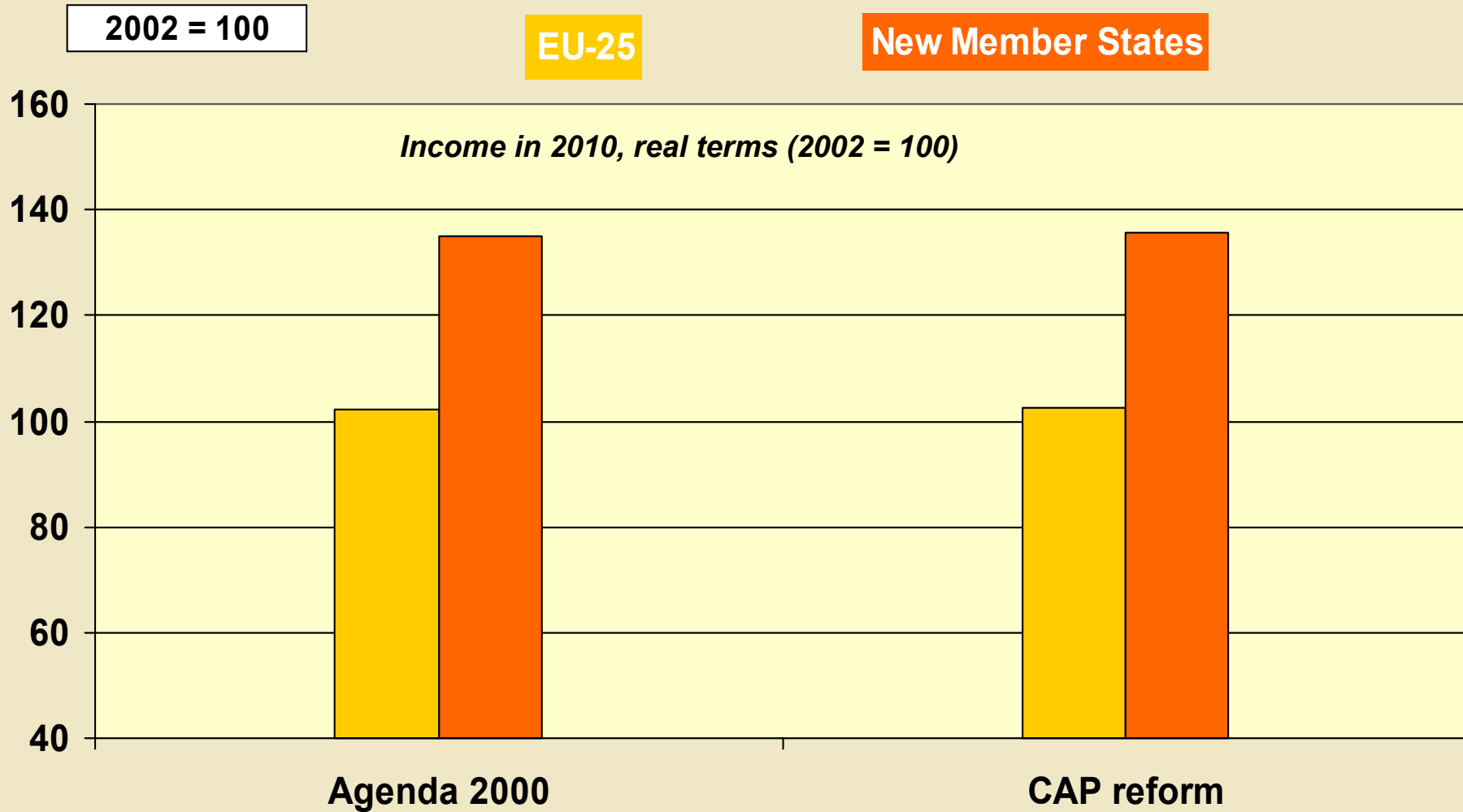
Changes in production and prices/stocks for beef and cereals, in 2010 (in % deviation from Agenda 2000)



CAP reform : favourable impact on EU-15 pork and poultry sectors



CAP reform would secure income gains for new Member States



CAP reform

- Improvement in the balance of agricultural markets through the reduction in EU production without jeopardising production potential
 - Notably for sectors influenced before by high support and more coupled instruments (beef, sheep)
 - the balance of agricultural markets in an enlarged EU would improve significantly
 - significant improvement in the structural balance of the rice and rye sectors
- Agricultural income little affected



Enlargement

- Competitiveness (cost, quality) will increasingly allocate production
 - Old MS competitive in pork, high-value dairy products, certain fruit & vegetables, food industries
 - New MS competitive in poultry, (feed) cereals, certain fruit & vegetables
 - Dynamic concept (market orientation, production standards, investment)

Adjustment

- Rural development (EU-25) and structural funds (EU-10) help facilitate adjustments to policy changes



More information available at ...

- http://europa.eu.int/comm/agriculture/publi/index_en.htm



Research issues 1/6

*presented
analyses*

- Treatment of decoupled direct payments based on assumptions
 - DG AGRI lump sum, no effect of decoupled part
 - OECD 6% effect
 - FAPRI 30% effect on production
- Analyses largely with traditional PE models



Research issues 2/6

Future issues

- Understanding the dynamics on factor markets (Land, Labour, Capital)
 - Land markets should be included in PE models
 - Institutional settings (rules very different across EU)
 - Active farmers depend on renting land (high rents throughout EU)



Research issues 3/6

Future issues

- Other dynamic effects on EU agriculture
 - Increasing risks on markets vs. better income transfer efficiency of decoupled direct payments;
 - Rural development measures in the new Member States
 - Future policy development:
 - What happens if direct payments are nominally decreased through financial discipline measures?
 - Future CAP developments regarding direct payments?
 - Does the amount of direct payments matter and if, how much?



Research issues 4/6

*EC funded
research
projects*

- IDEMA
 - The impact of Decoupling and Modulation in the Enlarged Union: A sectoral and farm level assessment

<http://www.sli.lu.se/eng/idema/>

Farm surveys, dynamic farm based regional modelling, sector analyses including factor markets



Research issues 5/6

*EC funded
research
projects*

- GENEDEC

- Farm level analyses

<http://www.grignon.inra.fr/economie-publique/genedec/eng/>



Research issues 6/6

*Future
EC funded
research
projects*

- Analyses of institutional settings for factors markets across the EU

