



Quantitative Assessment of the possible Next Reform Phase of the Common Agricultural Policy

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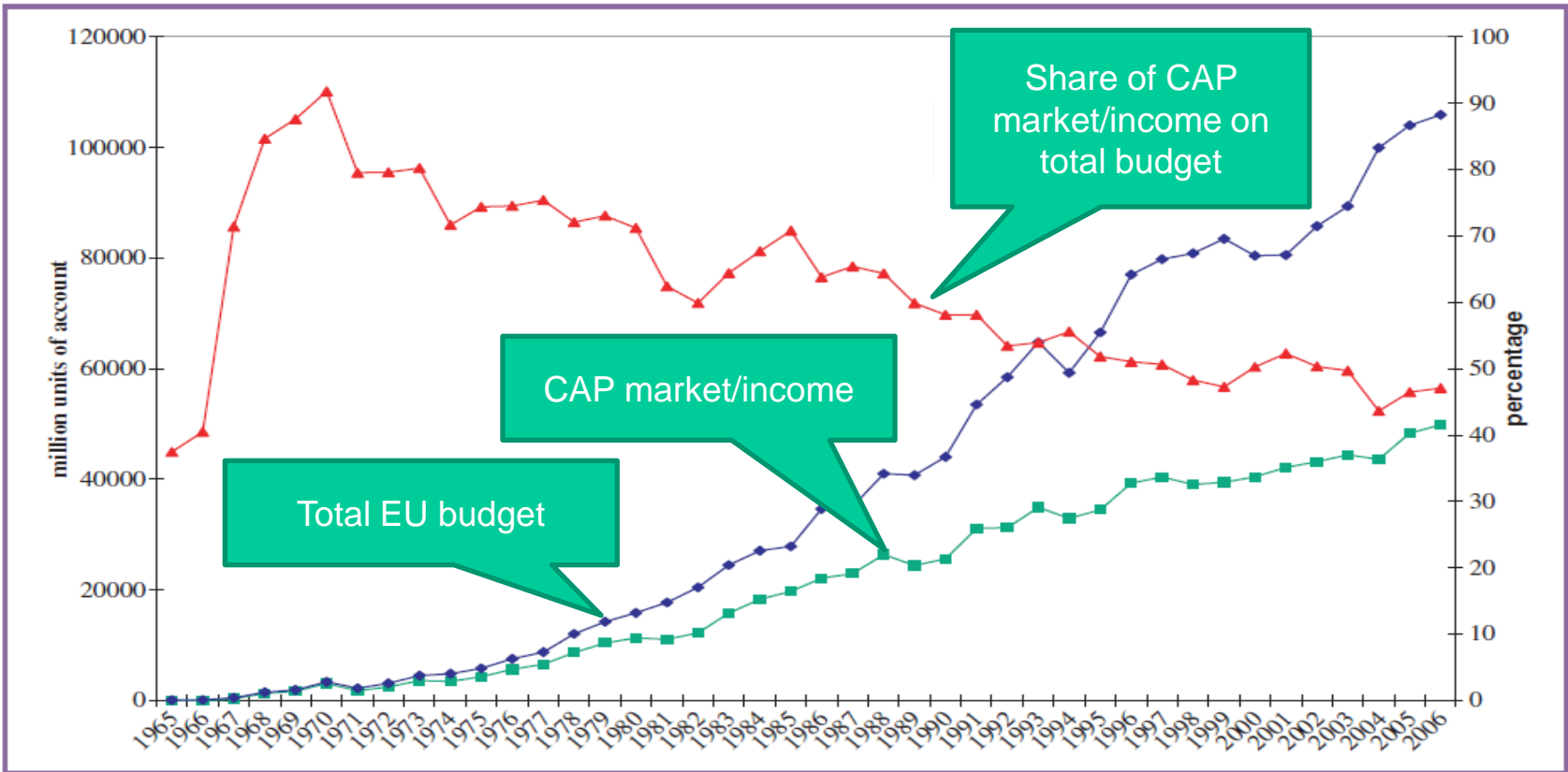
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- ❑ Background
- ❑ The current CAP and how it might develop in the next years
- ❑ An assessment of a more equal distribution of farm support – a likely elements in any future CAP:
 - The CAPRI farm type layer as the quantitative tool
 - Selected results
- ❑ Conclusions

- New “**programming period**” for the EU starts in 2014:
 - Will define new EU budget ceilings, including specific ones for the Common Agricultural Policy (CAP)
- CAP targets after the east expansion a **highly diverse farming sector**
 - In total ~13.7 Mio farms with ~12 Mio working units, ~13ha/farm or working unit
 - Tremendous heterogeneity; many small, even subsistence farm in Eastern Member States
 - Average share of first sector in employment below 2% in industrialized regions, ~20% in Bulgaria and Romania

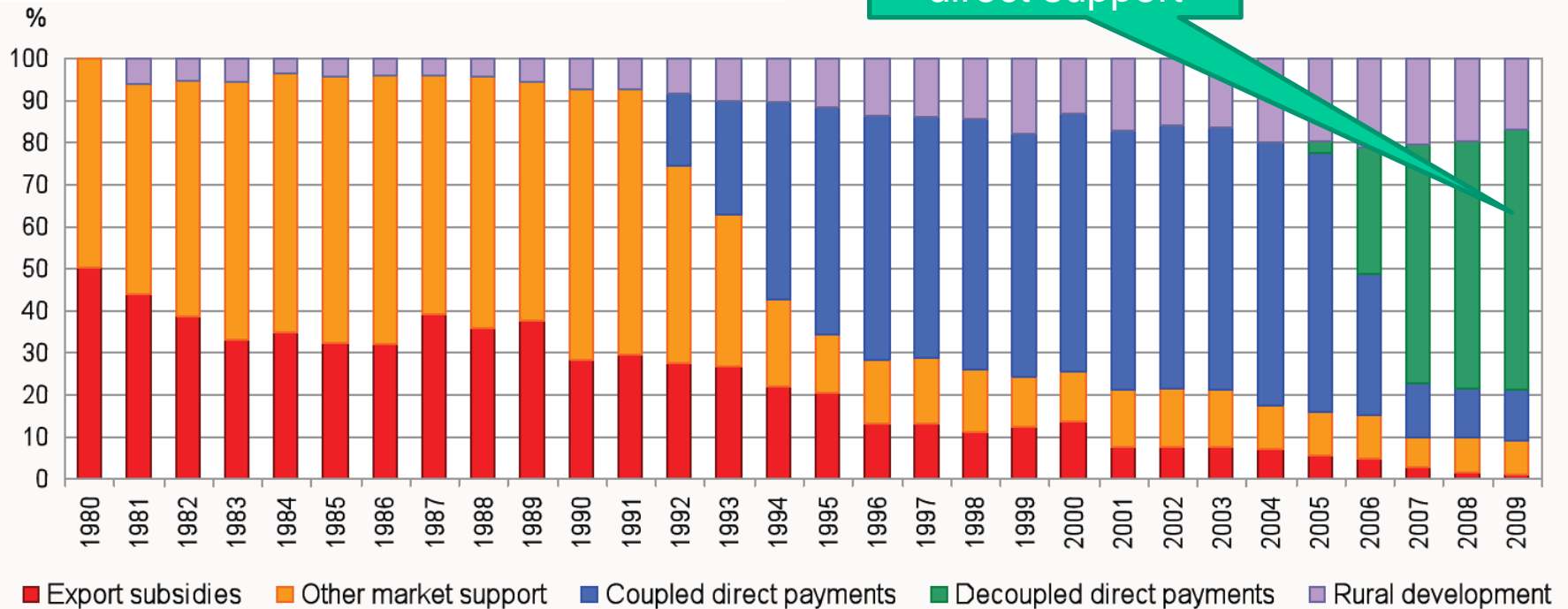
Development of EU budget outlays 1965-2006 (total, CAP Guarantee) [current € resp. percentage points]



Source: European Commission, *Financial Report 2006*; own calculations. Note: Guarantee expenditures traditionally focused on income support measures. Since the 1999 reform, some rural development measures also fall under this heading.

Dominance of decoupled direct support

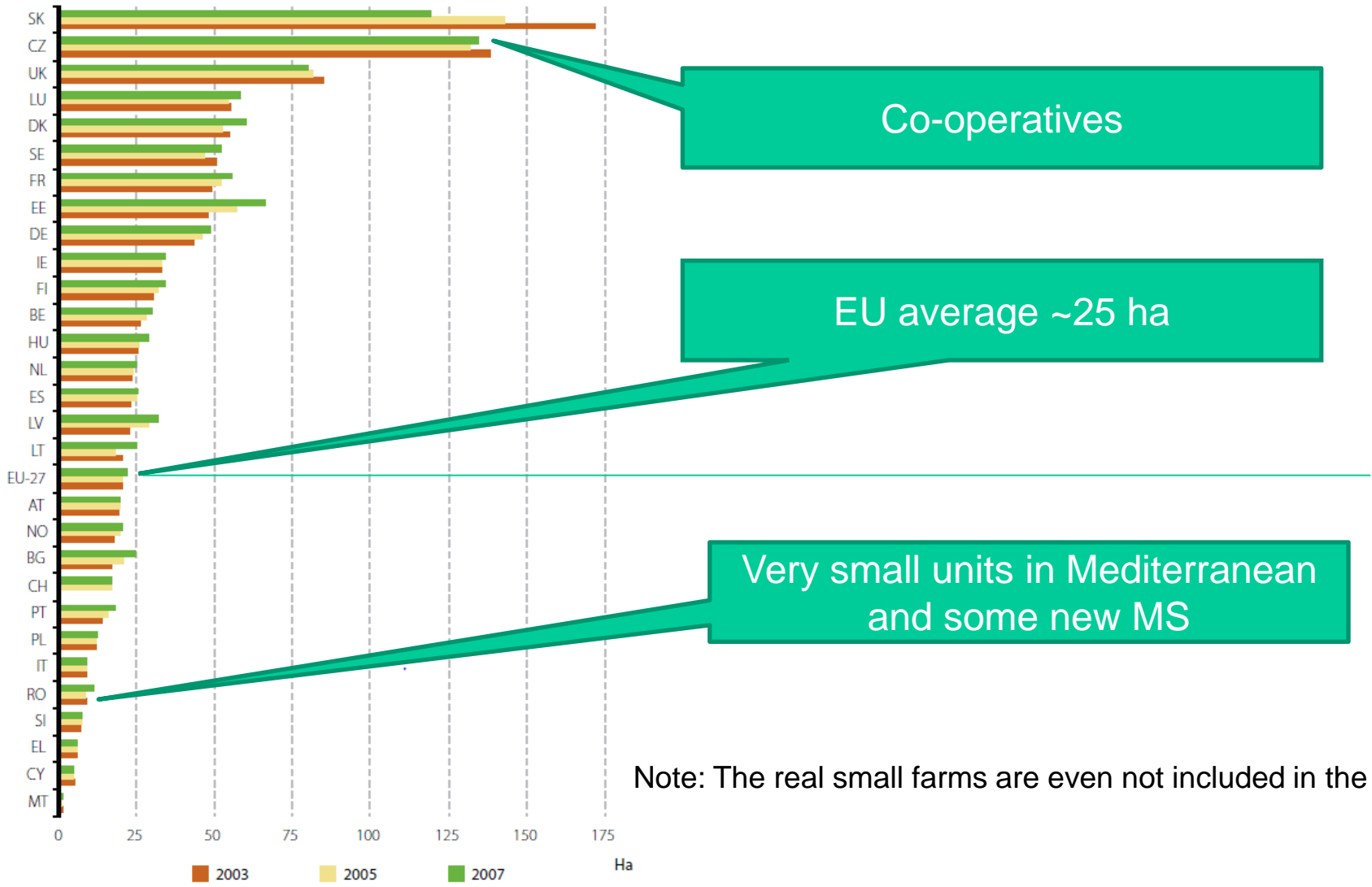
Structure of CAP budget 1980-2009



Source: DG Agriculture and Rural Development.

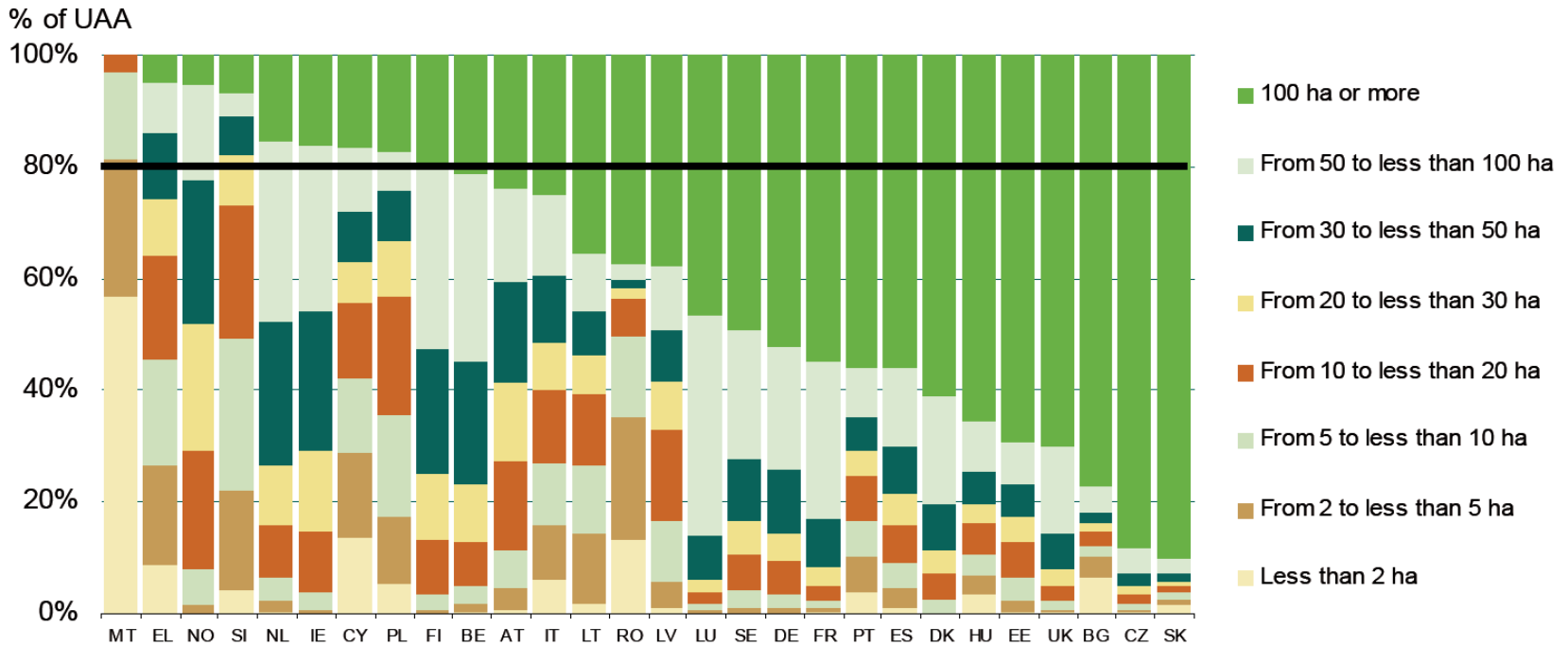


EU farming structure: average size in ha



Note: The real small farms are even not included in the graph

Source: EUROSTAT



Source: Eurostat (online data code: [ef_ov_kvaa](#))

Note: The real small farms are even not included in the graph

□ Pillar I: Market policies:

- Remember: EU always used **guaranteed market prices** – not a deficiency payment system such as CCPs or loan rates
- These prices have **not longer a serious impact on budget outlays**, export subsidies almost gone

⇒ **Income support is almost entirely based on decoupled flat rate hectare payments- so called Single Farm Premium (SFP):**
~47 Bio € per year = ~3400 €/farm = ~273€/ha

□ Pillar II: “Rural development”

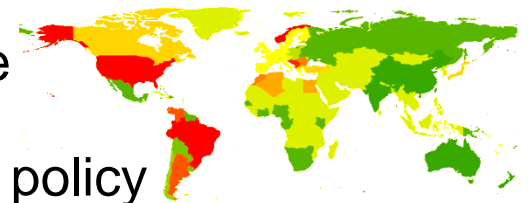
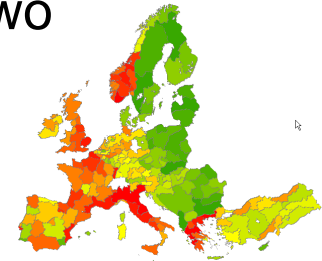
- **~15% of total budget**, divers **mix of measures**, largest ones:
 - additional flat rate support in “marginal” areas
 - agri-environmental schemes

- ❑ **Implementation** of flat rate payments differs by Member States:
 - (Almost all) New Member States: uniform rate per ha
 - “Historical model” with rates per ha differentiated according to subsidies from historic period, e.g. France
 - “Regional model”: uniform rates per ha for administrative regions, e.g. Germany
- ❑ Strong **equity discussion** due to **huge differences between rates per ha**, especially between more intensively managed regions in West (The Netherlands, Belgium, Denmark) and new, eastern Member States
- ❑ General criticism regarding the SFP:
 - payments serve **solely re-distribution**
 - do **not deliver public goods** or reduce negative externalities
 - sometimes conclusion to drastically reduce CAP budget

- Three fundamental options discussed:
 1. **Status-quo+**: same instruments, but some adjustments in regional distribution of support
 2. **Intermediate**: link farm income support stronger to delivery of public goods resp. reduction of negative externalities
 3. **Drastic**: move out of income support and most market measures, focus on measures related to environmental and climate change issues, probably combined with a large cut in overall CAP budget

- Three new elements compared to previous rounds:
 - “**Co-decision**” i.e. both the council (heads of state) and the European parliament (elected representatives) have to agree on final legislative proposal
 - **Consultation** of the **public**, e.g. via internet
 - New **Commissioner** (agricultural / resource economist by education, from Romania) is more **pro-active**
- Formal impact assessment required, including quantitative analysis

- **C**ommon **A**gricultural **P**olicy **R**egionalised **I**mpact links two different economic models for agriculture:
 - 280 **regional models**:
 - EU27, Norway, Western Balkans & Turkey
 - explicit constraints for crop and animal nutrient requirements, land balances, sales quotas ...
 - **Global trade model with trade flows**:
 - about **40 commodities** including dairy, oils, cakes and by-product from first gen bio-fuels
 - 27 trade blocks, some broken down to single countries (in total **59 regions**)
 - border protection measures globally, market policy instruments of the Common Agricultural Policy (CAP)



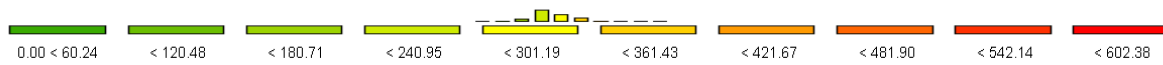
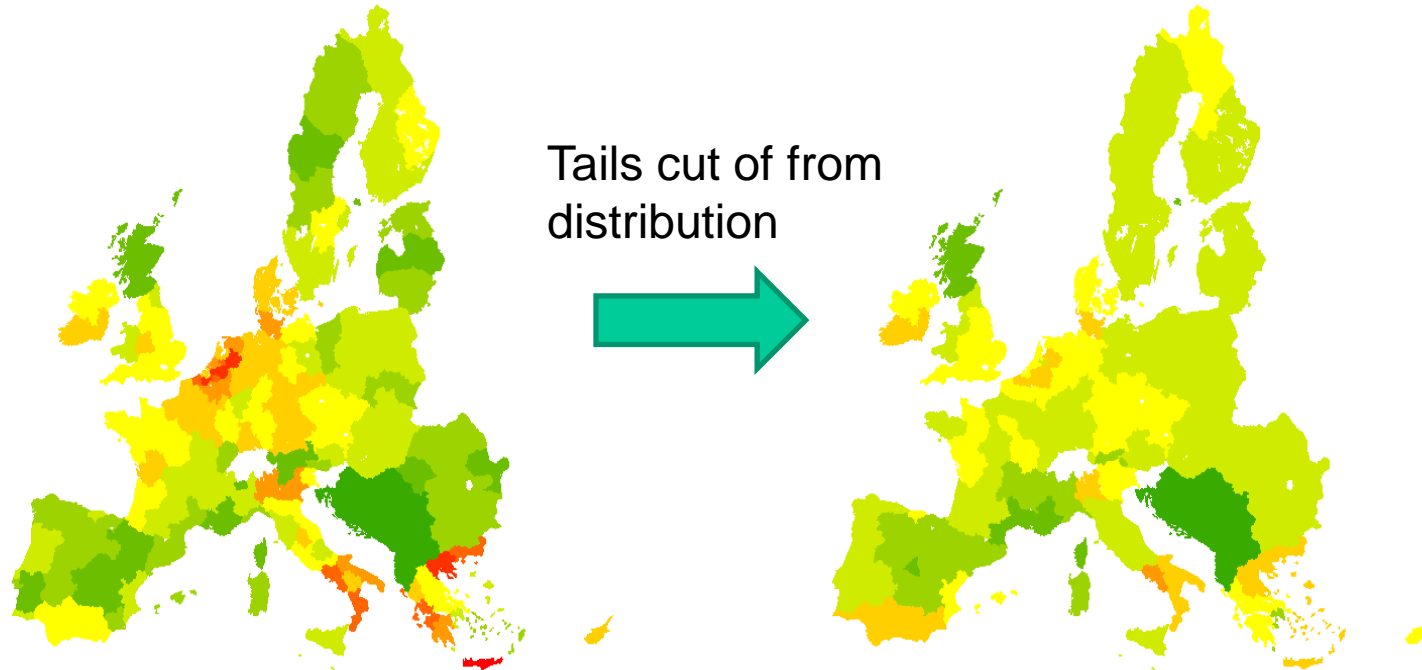
- ❑ Consistent **dis-aggregation of data base and model into up to 10 farm types** (differentiated by specialization and economic farm size) **per region**, to analyze
 - policy instruments (such as historical entitlements) which differ between farm types
 - Impacts by farm type
- ❑ In total currently about **1900 farm models**, farm types due to data constraints only for EU25 (Bulgaria, Romania, Western Balkans, Turkey, Norway with regional models)
- ❑ Template approach: equation structure identical to regional models
- ❑ Build on request of EU commission

- ❑ **Budget neutral re-distribution** between Member States such as to cut off tails from pillar I/ha
- ❑ Additionally, the **historical model is replaced by a regional flat rate** in all Member States:
 - Leads to **premium re-distribution between farms** in regions where the **historical model** was used so far
 - Impact especially on such farm types with high historical subsidies per ha
 - High per ha rates – reflecting past subsidization – e.g. in beef producing farms with high stocking densities, farms producing tobacco

Farm income support (Single Farm Payment) in €/ha

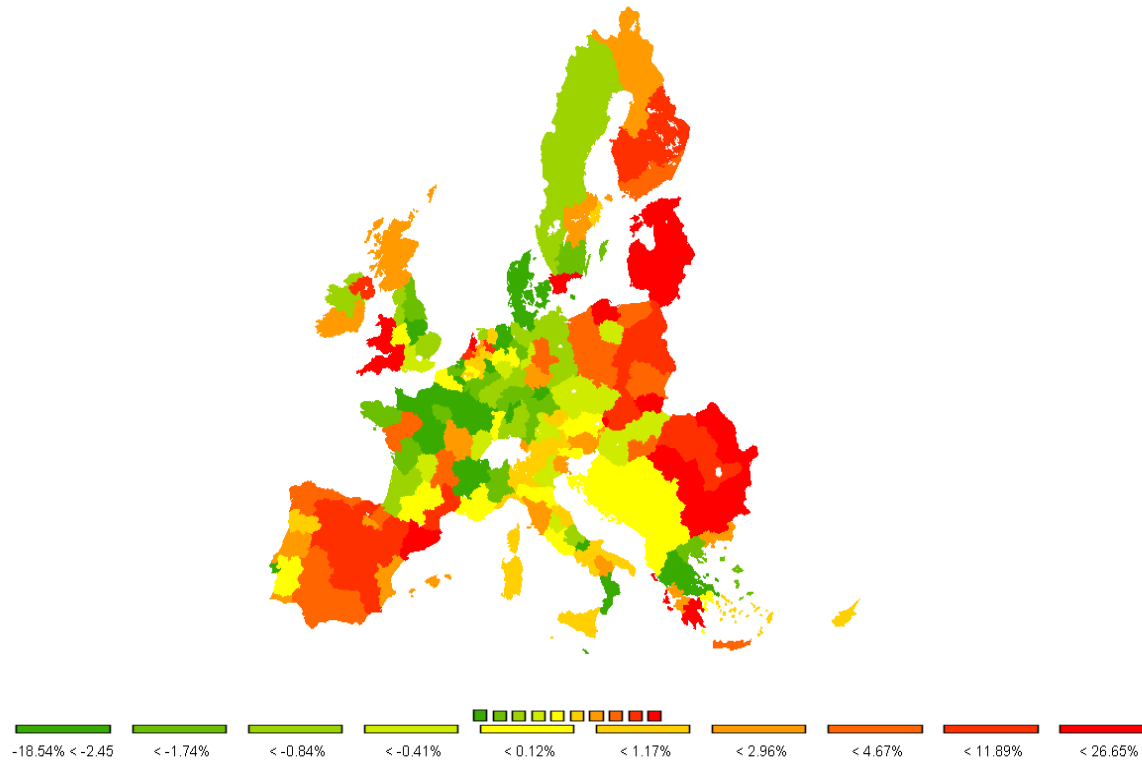
2020 baseline

2020 reform option 1

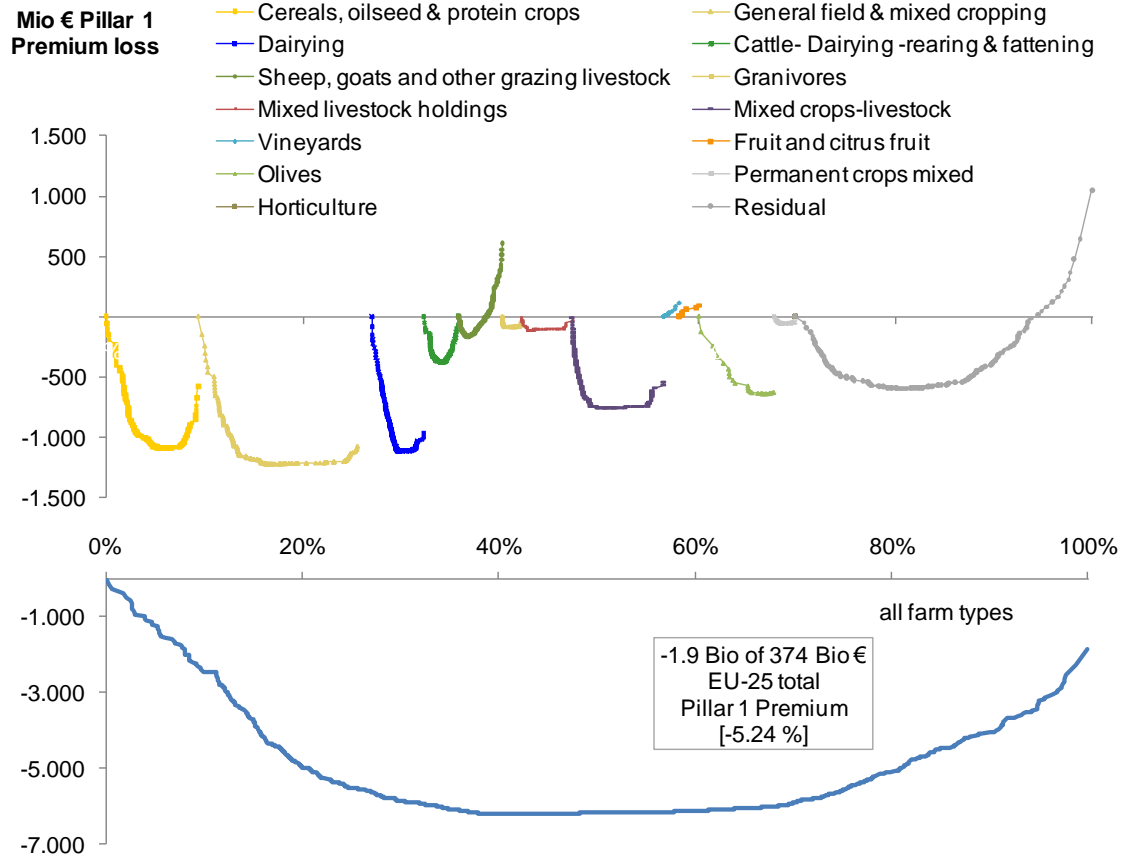


- **Trade and price effects** of a pure distribution of decoupled payments **negligible** ... as to expected:
 - Model does not cover risk and wealth effects
 - Increase in premiums does not expand land use as entitlements are necessary

Change in Gross Value Added plus CAP subsidies in €/ha



Main results: redistribution between farm types



- ❑ CAP of today is mostly an instrument of farm income support, not longer trade distortive
- ❑ Amount and distribution of support is questioned from different angles
- ❑ Impact assessment of domestic policies can be a demanding process
...simplicity and transparency are often not the major aims of policy reforms