

Reform and Adjustment in the European Union

2003 CAP reform and enlargement

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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

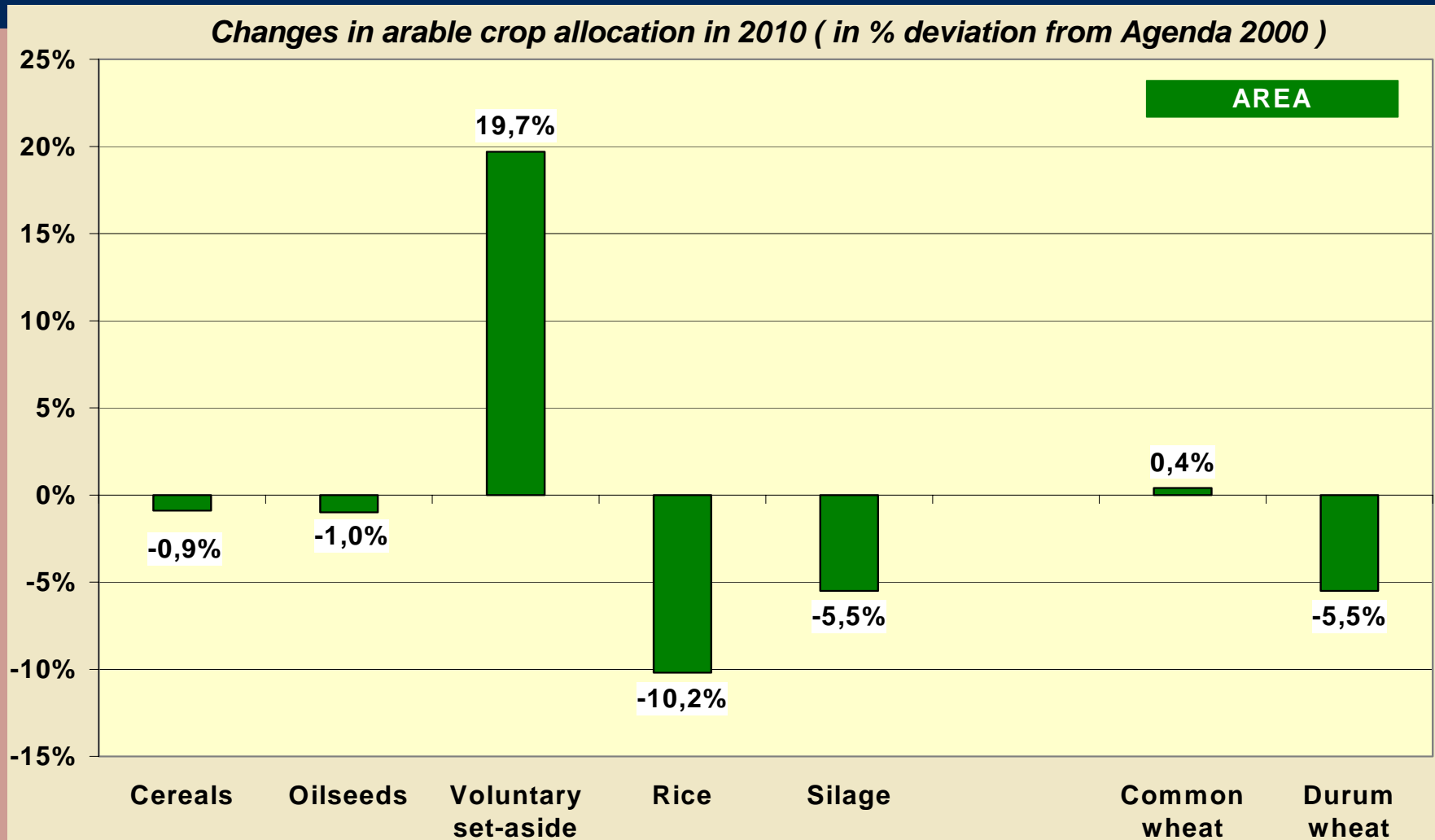


Modelling of decoupling

- 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

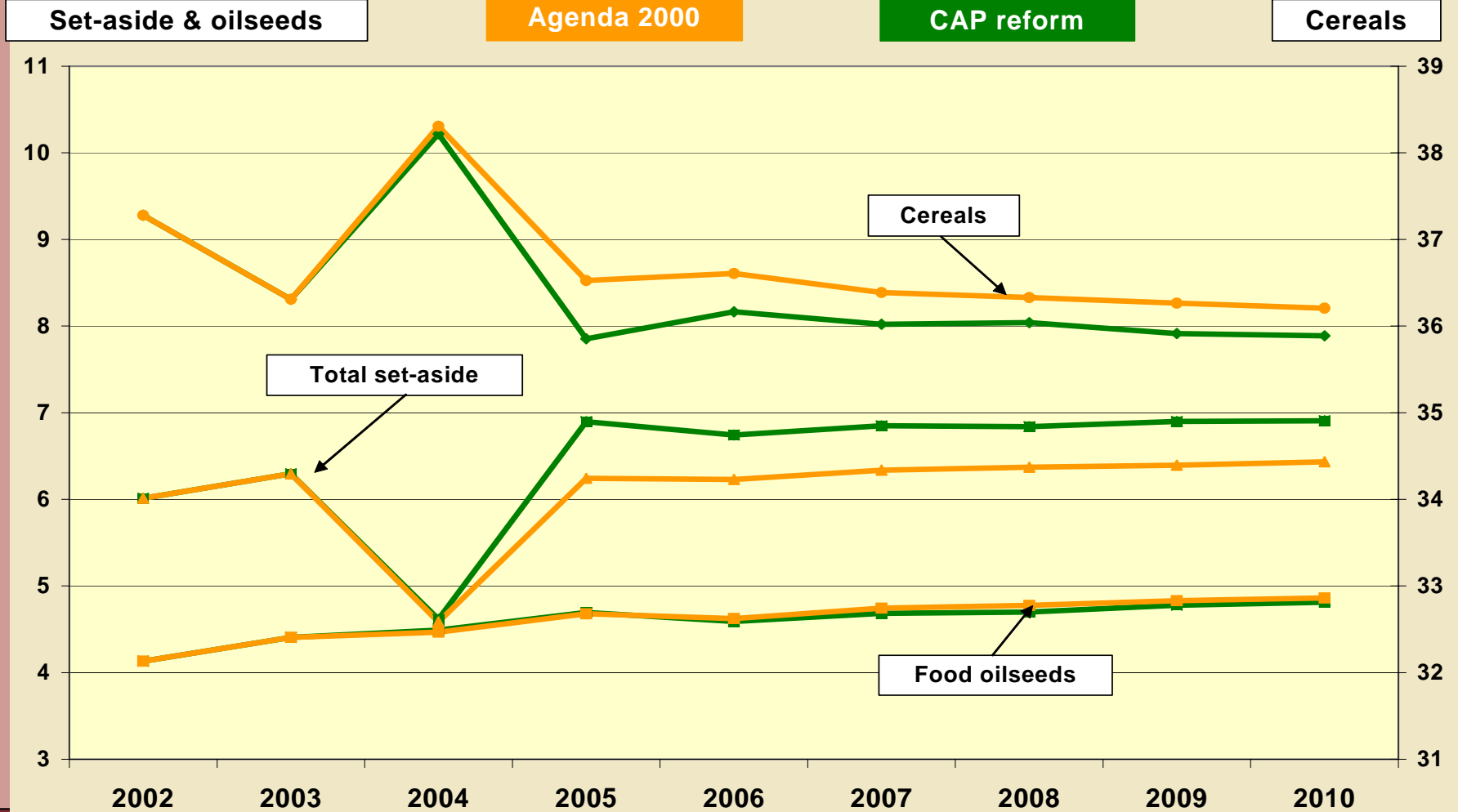


CAP reform : more pronounced increase in land set-aside and slight further decline in EU-15 arable crops area



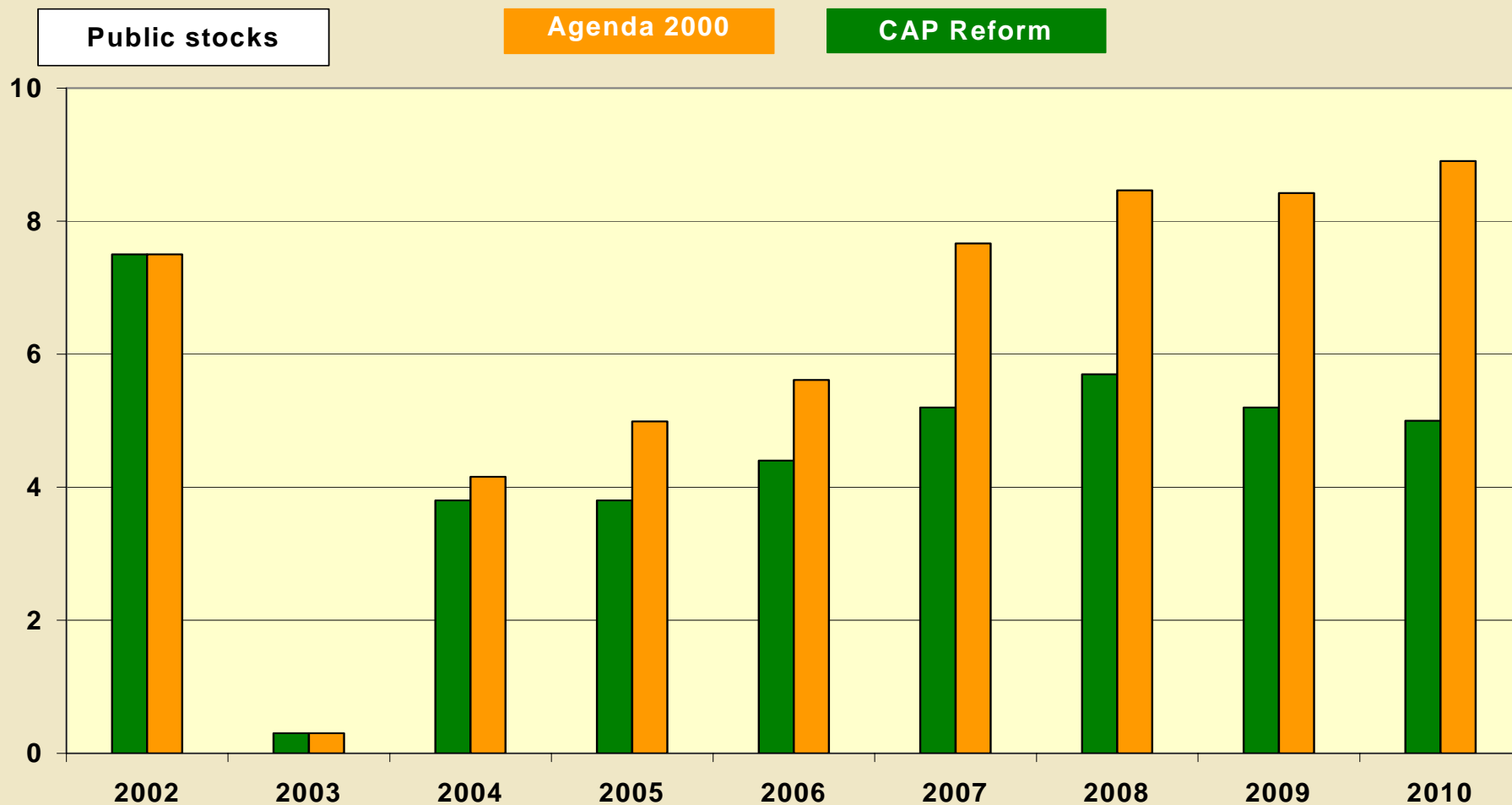
CAP reform : slight decline in EU-15 arable crop area

Arable crop allocation, 2002 - 2010 (mio ha)

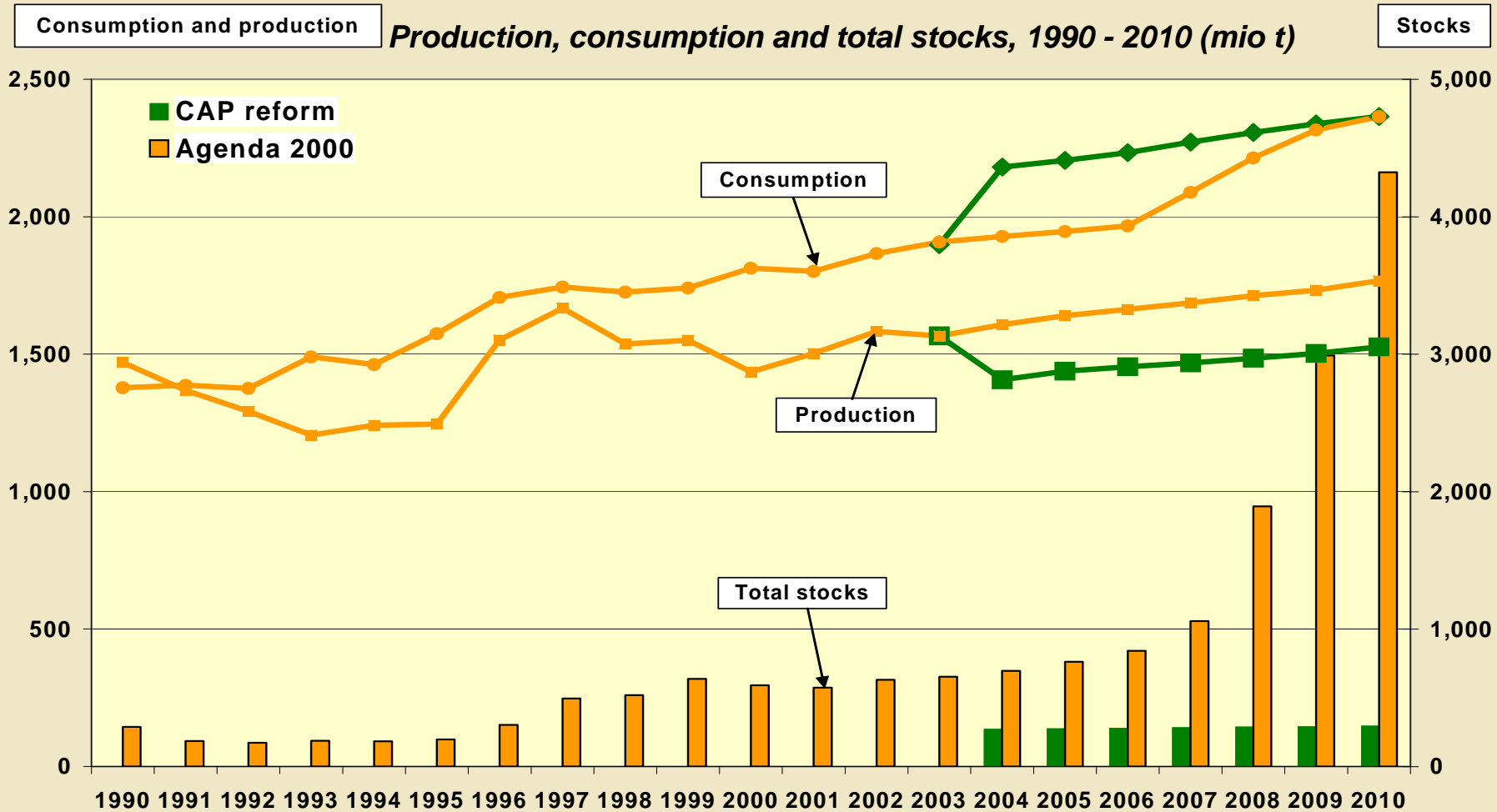


CAP reform : limited build up in EU-15 cereal stocks

Total public stocks, 2002 - 2010 (mio t)

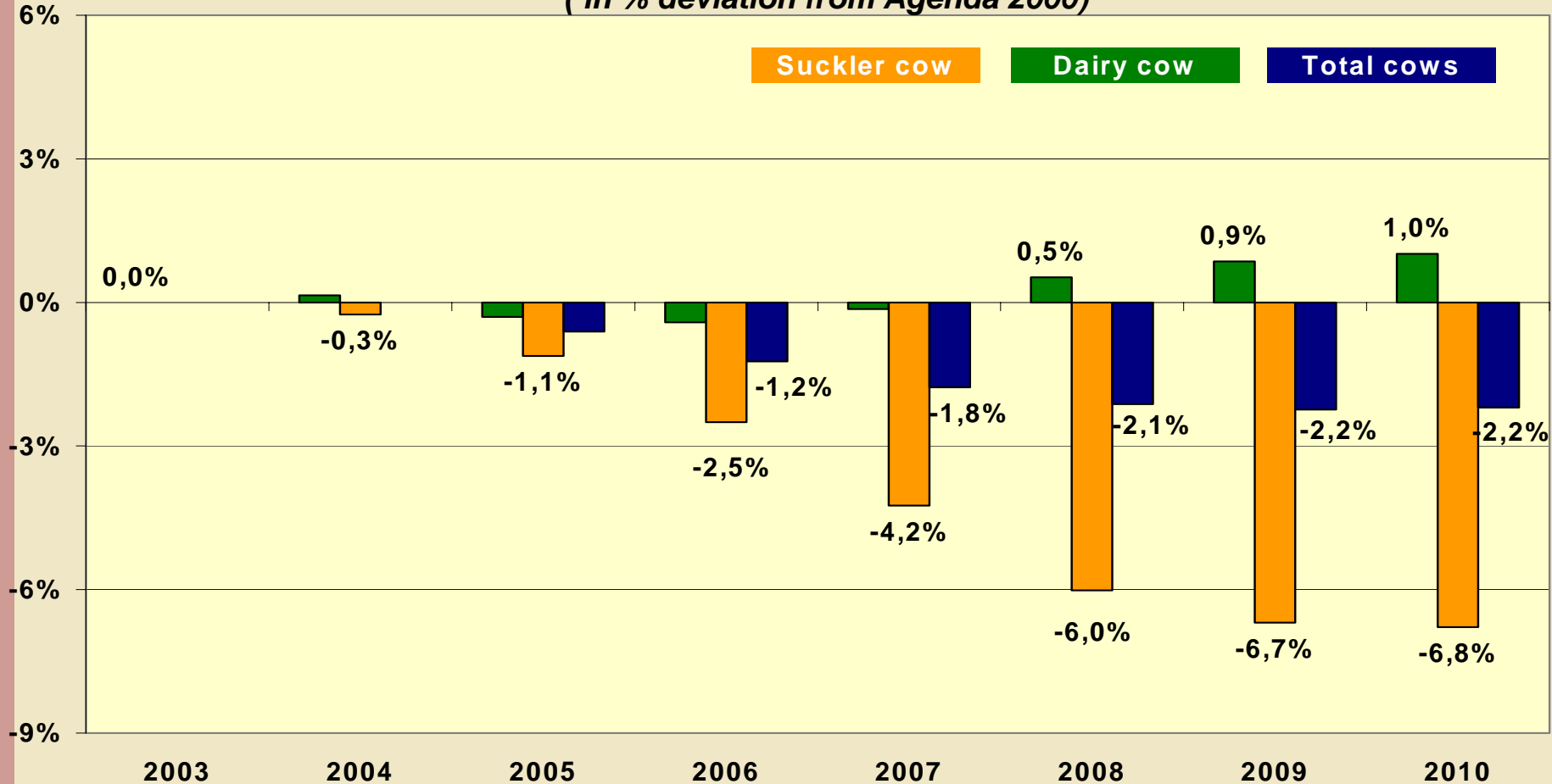


CAP reform : rapid improvement for EU-15 rice market

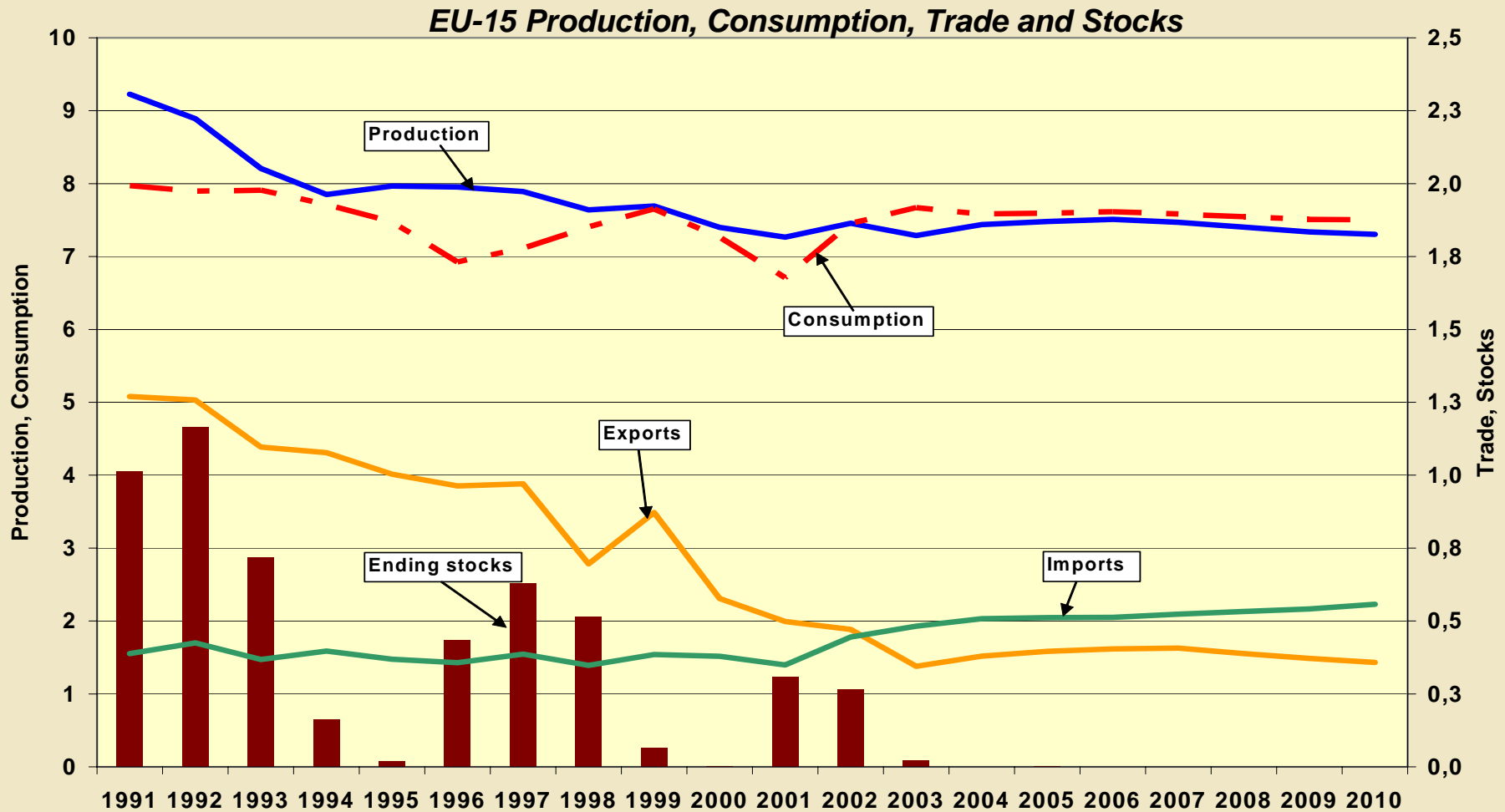


CAP reform leads to reduction in EU-15 beef production potential

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

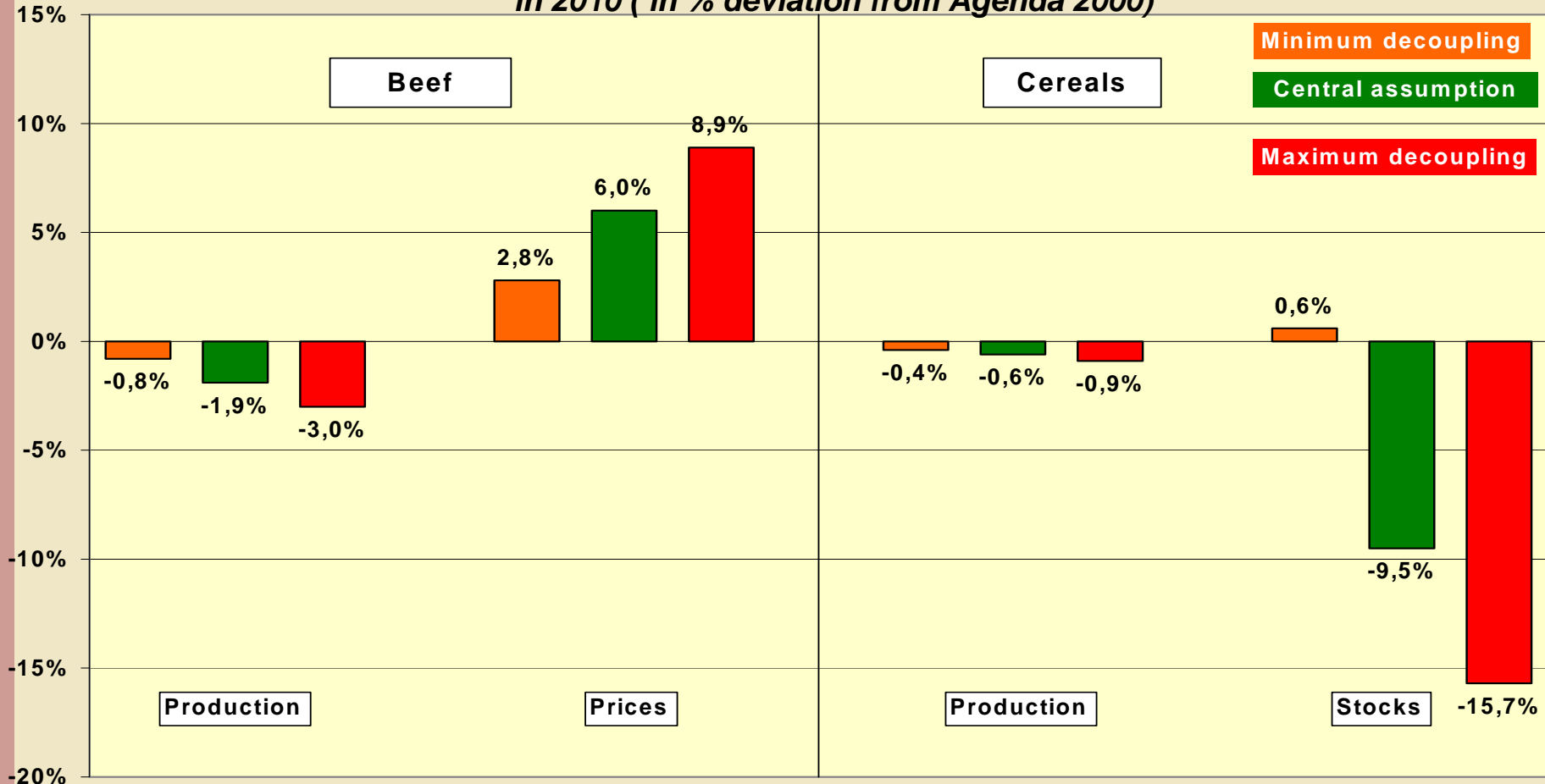


EU-15 beef demand to exceed production over the medium-term

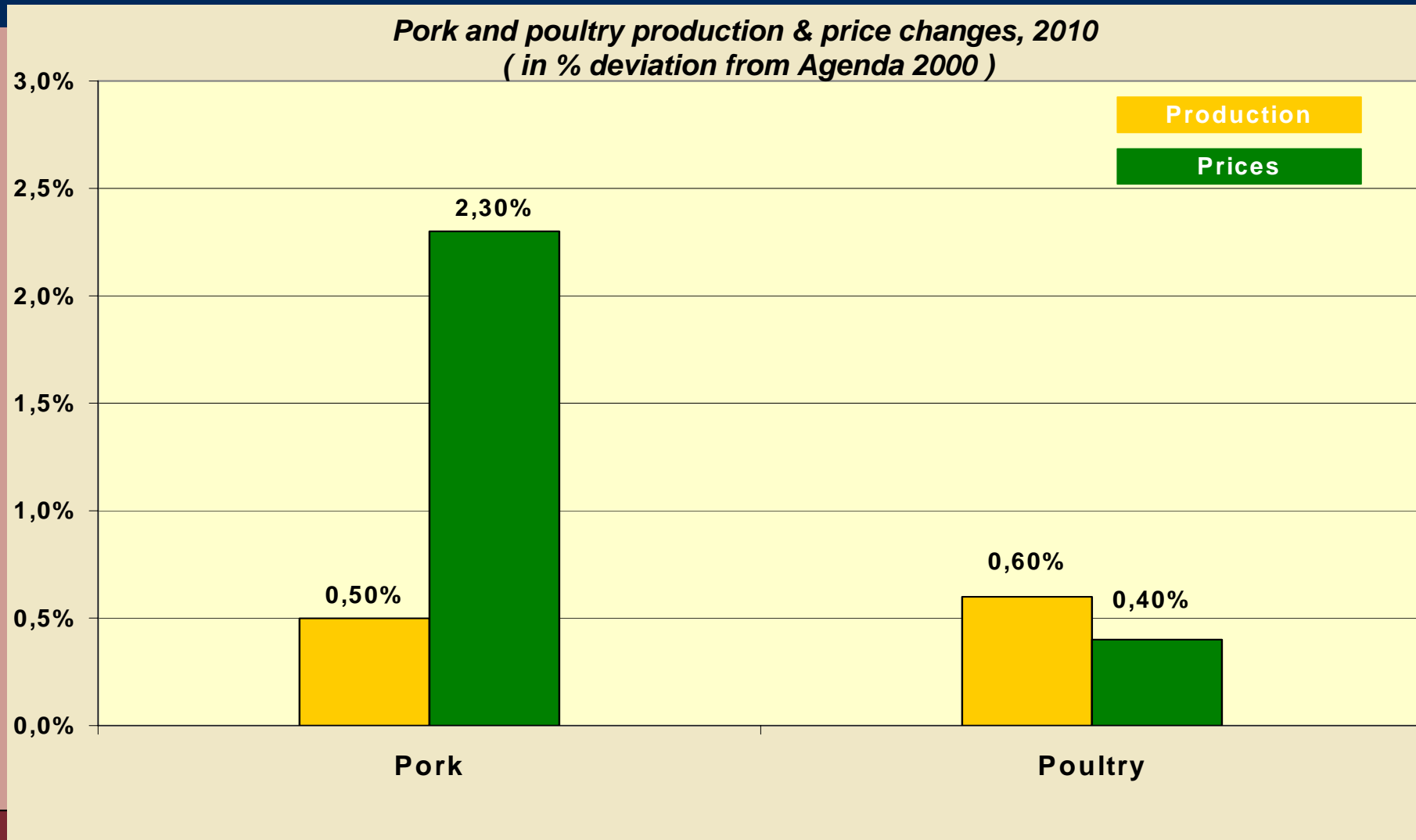


Impact of CAP reform dependent from the degree of decoupling

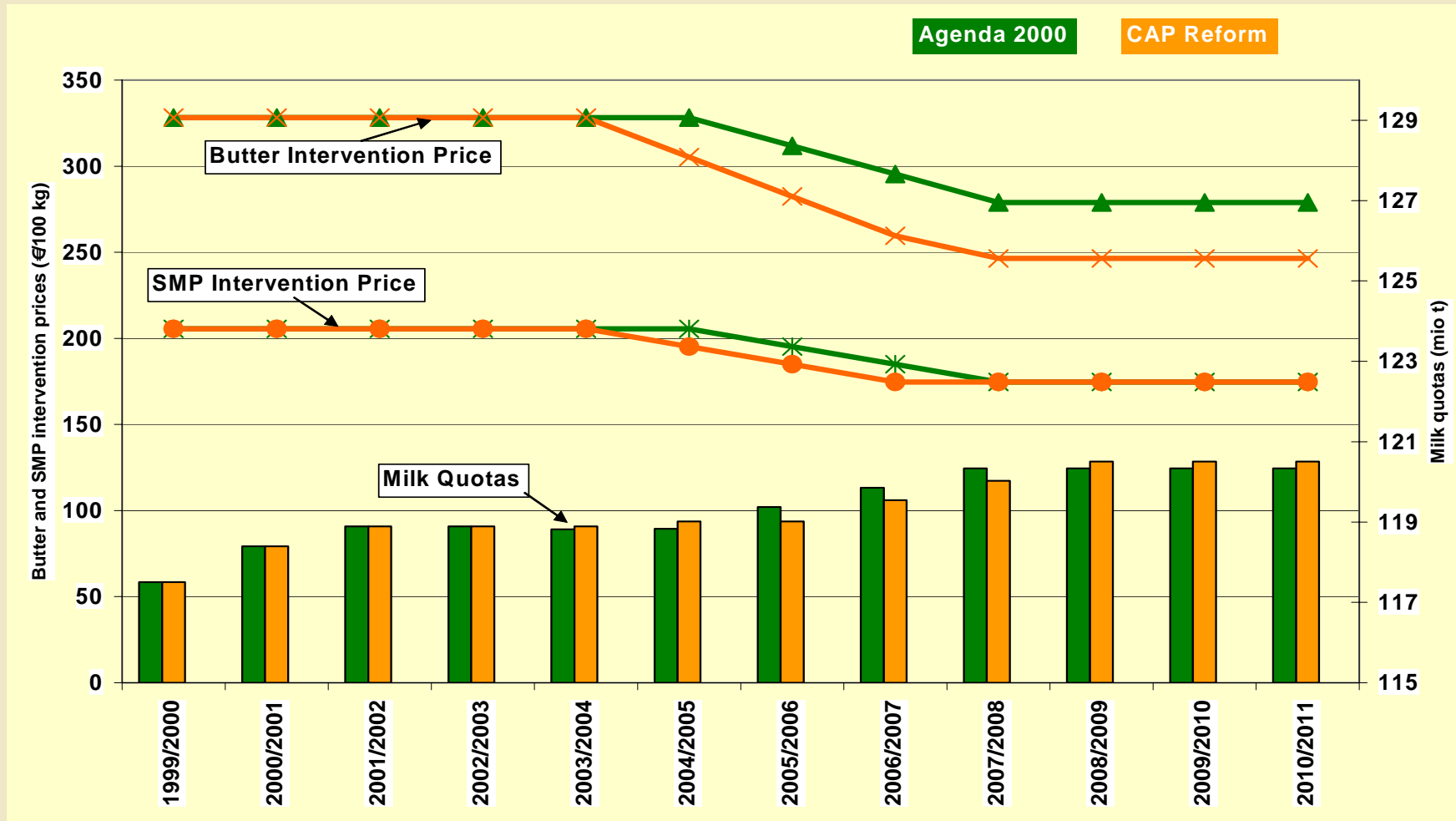
Changes in production and prices/stocks for beef and cereals, in 2010 (in % deviation from Agenda 2000)



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

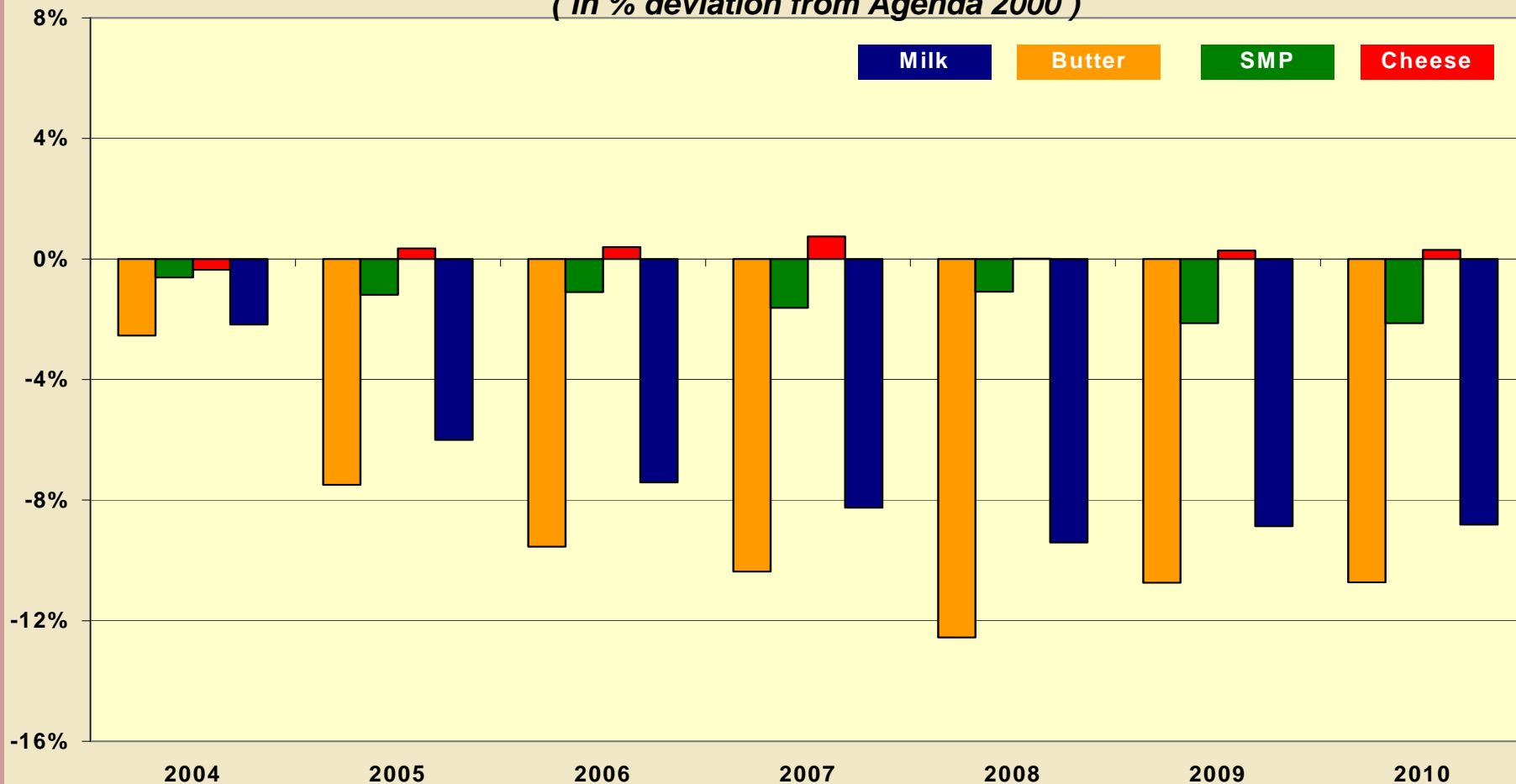


CAP reform: Summary of policy changes in the EU-15 dairy sector



CAP reform: lower prices for EU-15 dairy markets

Price changes for milk and dairy products, 2010
(in % deviation from Agenda 2000)



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

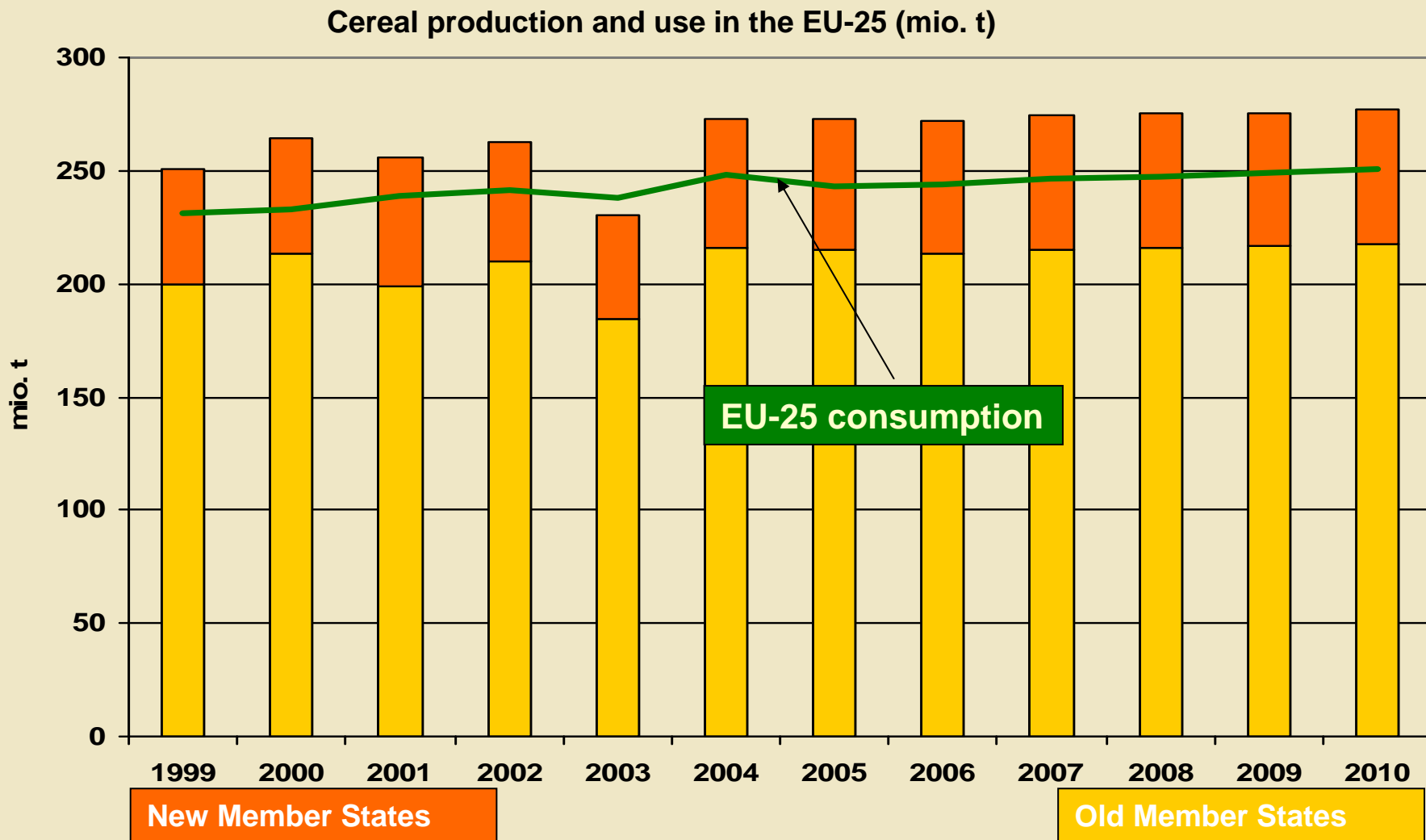


Driving factors of EU-25 agricultural markets

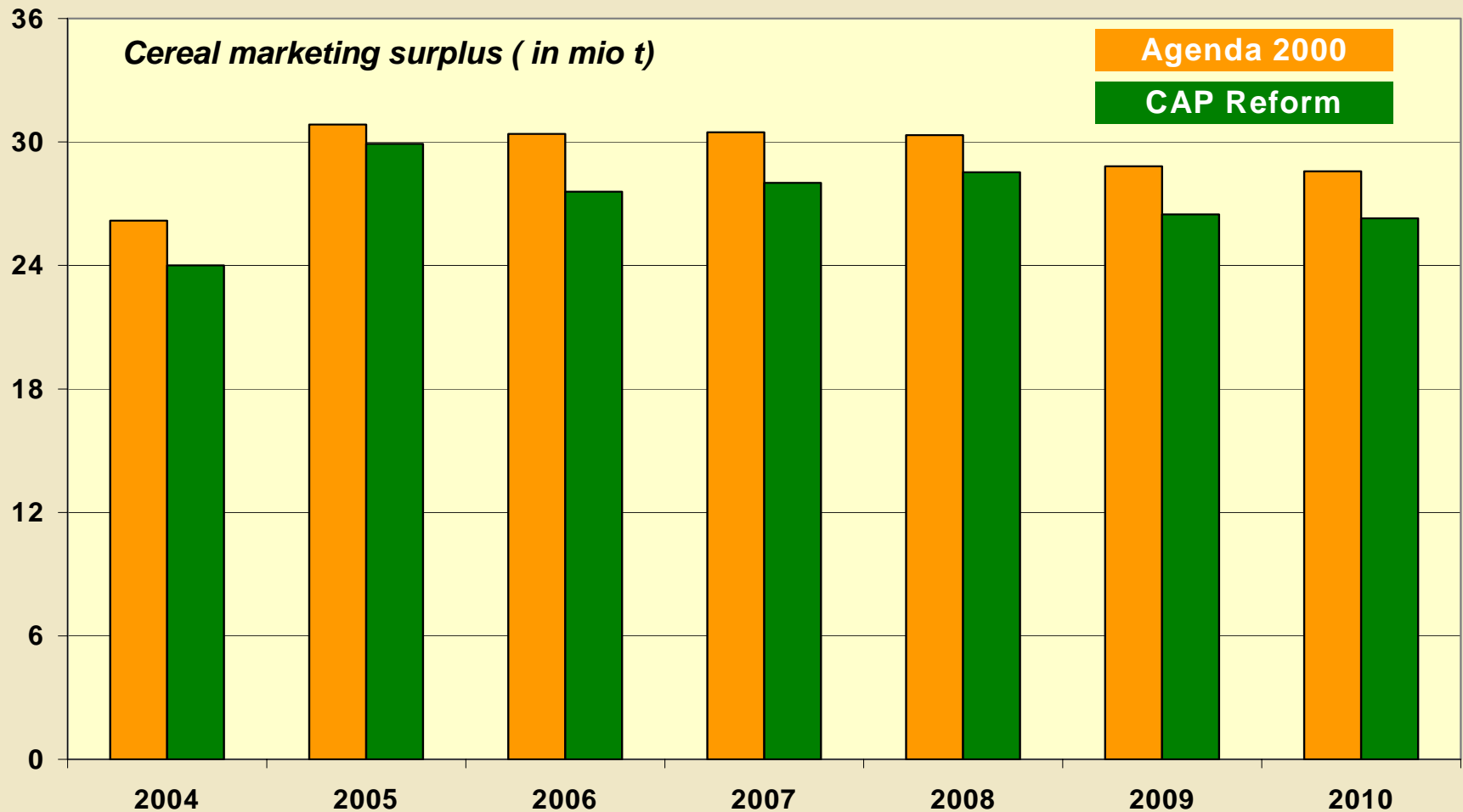
- EU-10: High income growth leads to growing markets for meat, fruits and vegetables as well as fresh milk products and cheese in the EU-10
- EU-15: High consumer income, limited expansion of quantities, strong demand for quality and niche products
- World markets developments will become an increasingly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



Enlargement leads to a modest increase in cereal production in the new Member States

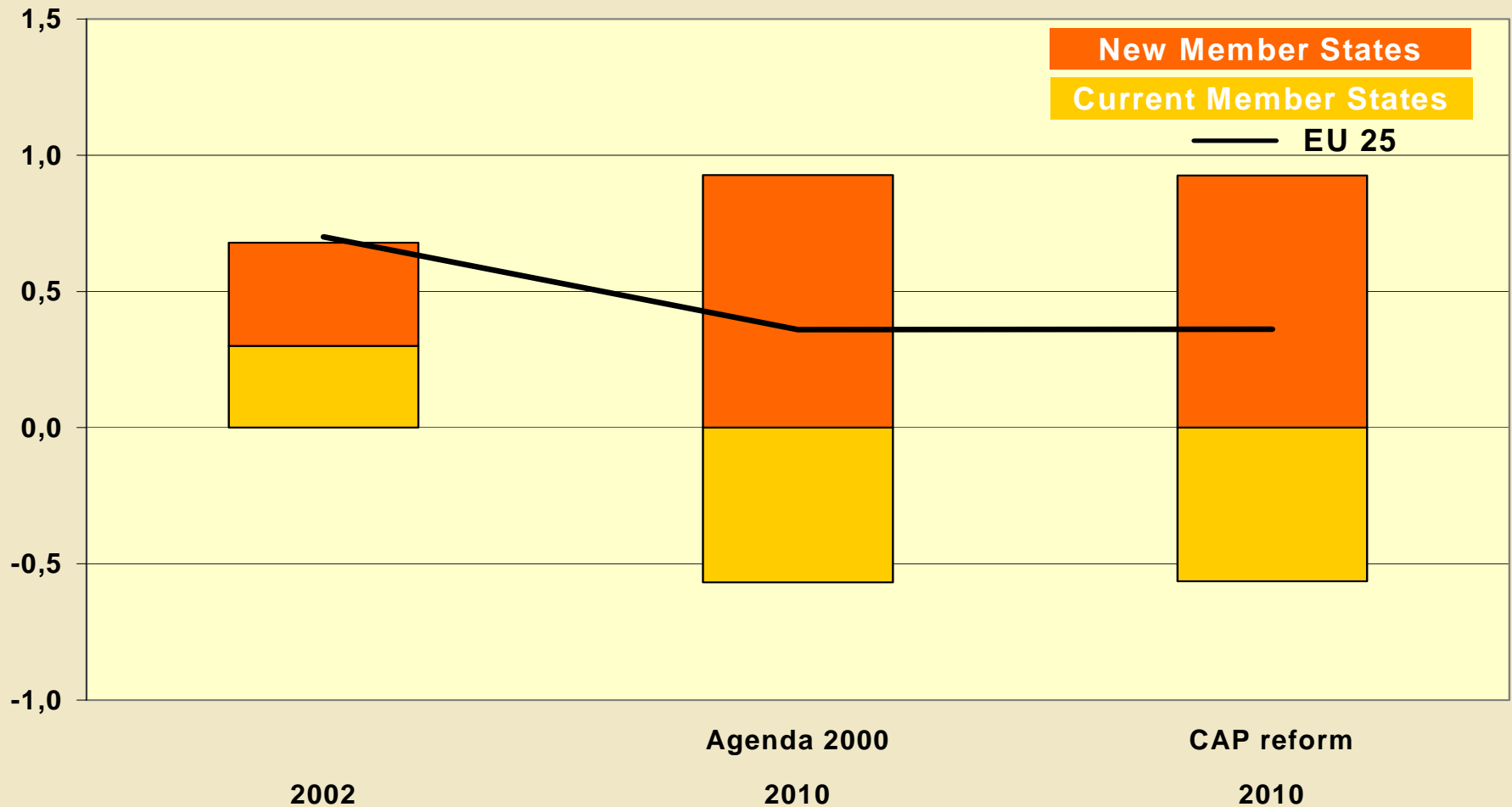


CAP reform to reduce cereal marketing surplus by 2 - 3 mio t



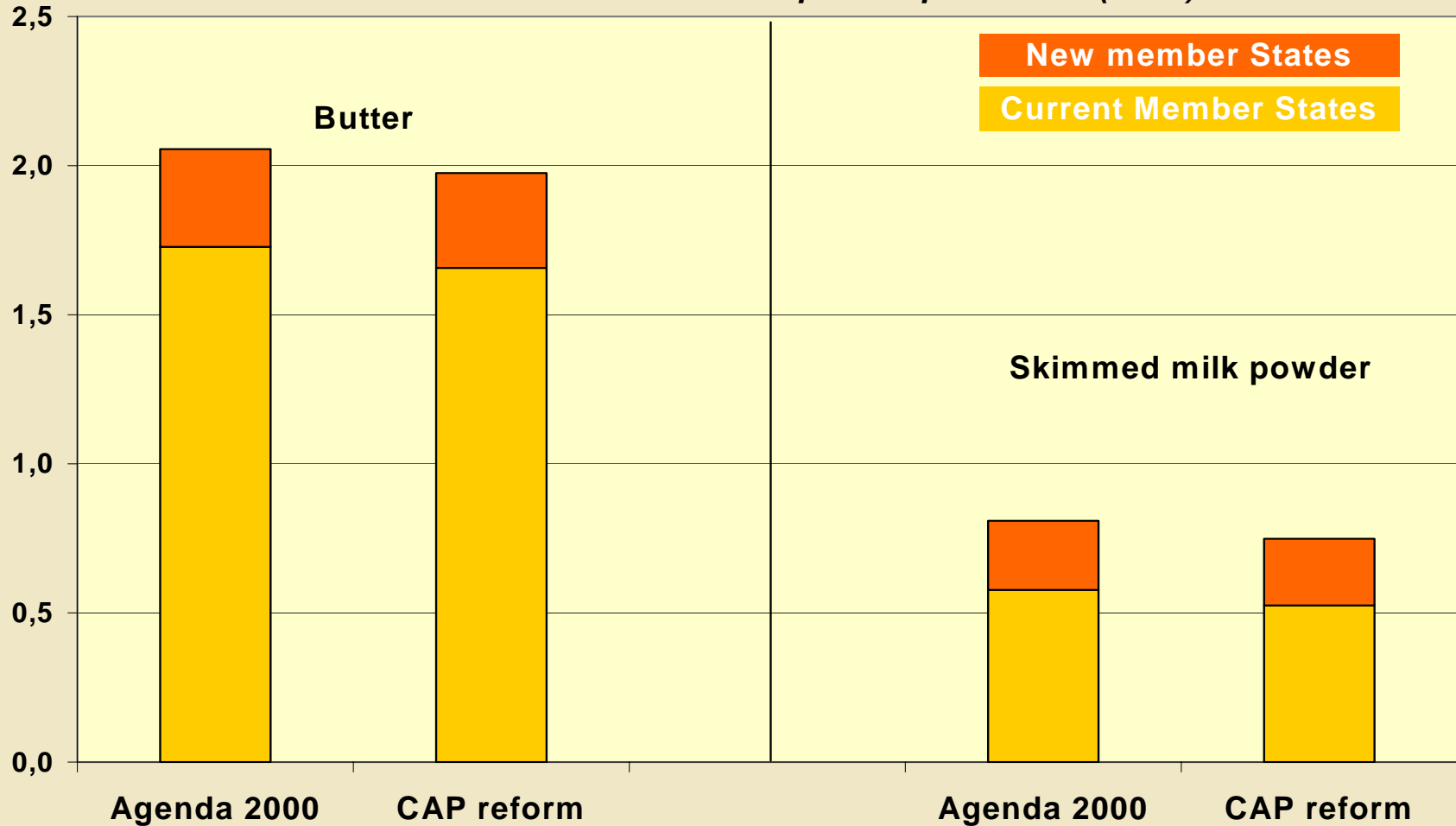
CAP reform and enlargement: leading to new trade flows in the poultry sector

Poultry Annual Marketable surplus in 2010 (mio t)

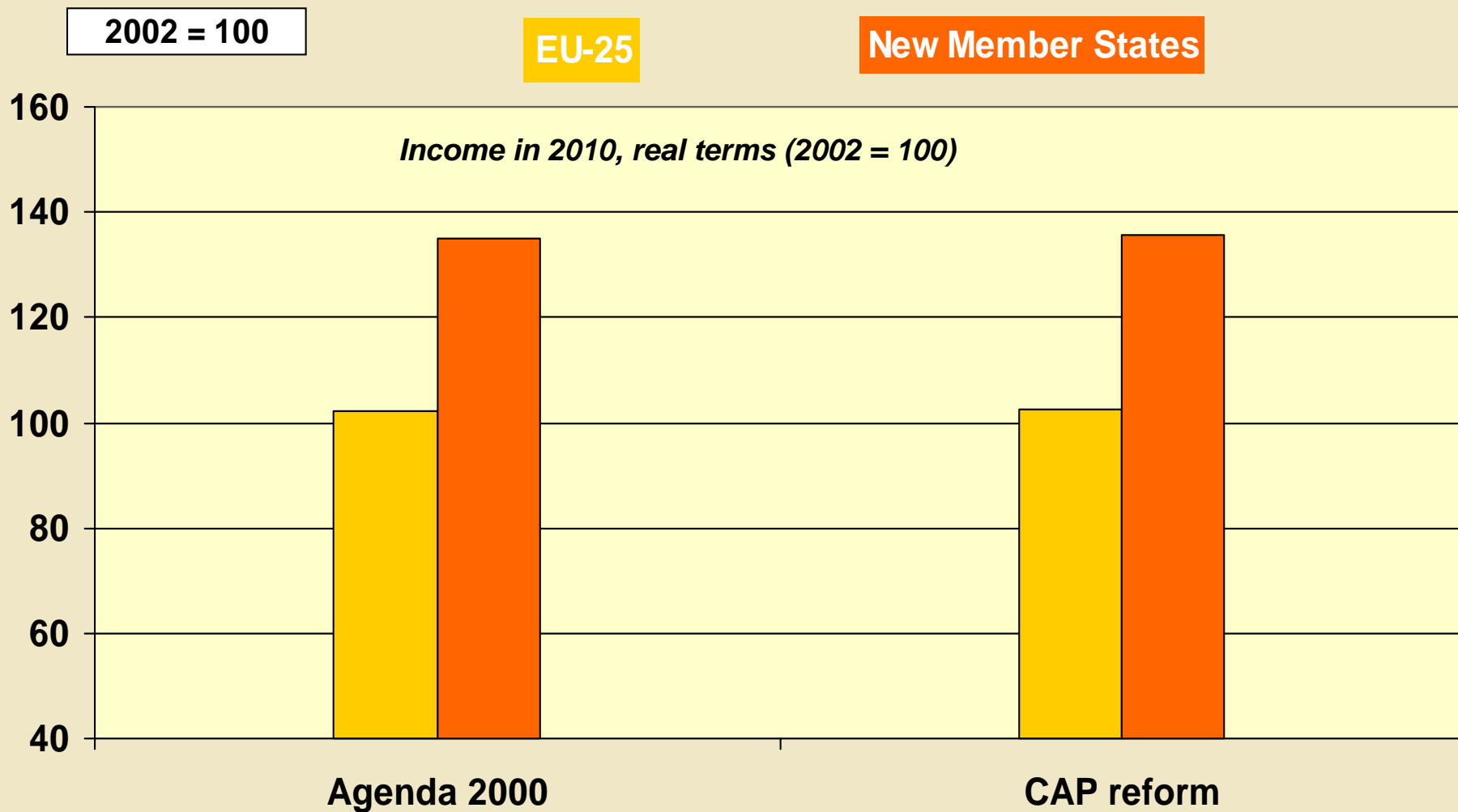


CAP reform - reducing risk of imbalance for EU-25 butter and skimmed milk powder markets

Butter and skimmed milk powder production (mio t)



CAP reform would secure income gains for new Member States



Positive effects of the CAP Reform on agriculture in the new MS

- Decoupling of direct payments for crops:
 - will generate less inflow of additional area such as potatoes.
 - The single farm payment will cause little differences as compared to the simplified area payment scheme.
- Decoupling of beef payments reduce incentives to increase beef herd in presence of weak consumption.
- The milk reform will increase the market orientation of milk processing.
 - Production and hygiene standards will still be an issue



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

