



Decoupling Support in Agriculture

Impacts of Redesigning European Agricultural Support

By

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Background

CAP under pressure due to:

- Upcoming WTO negotiations
- Eastern Enlargement of EU

=> Necessary to consider decoupled reform of CAP



This paper

- What impact does CAP domestic support have on production?
- Can we decouple this support?
- How will a CAP reform with decoupled compensation affect production and efficiency as well as CAP budget and income distribution across EU members?



Model and database

- Area and headage payments, set-aside and base area, budgetary ceilings for area and headage payments
- Milk and sugar quotas
- CAP budget represented at member state level
- Inclusion of all domestic support in PSE-tables and updating to 1998 PSE-numbers
- Reclassification of certain support instruments (hectare premiums to silage crops and male animal premiums)



Scenario design

Baseline 1997-2013

Scenario 1

Eliminating EU domestic support



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Scenario 2a

Decoupling EU domestic support:

Conversion to homogenous area
payment for given budget



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Scenario 2b

**Removing
decoupled
support**



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Scenario 2b

**Removing
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Scenario 3

**CAP reform proposal with
decoupled compensation:**

- 100% Domestic support
- 100% Export subsidies
- 30% Tariff cut
- + Homogenous area payment to
neutralise effect on land prices



Baseline: Agricultural support

Protection and domestic support, EU-15, selected commodities, %

	Import tariff equivalent		Export subsidies		Domestic support	
	1997	2013	1997	2013	1997	2013
Wheat	61.4	61.4	9.1	0.0	65.7	68.6
Other grains	38.6	38.6	34.2	14.1	60.3	66.2
Vegetables, fruit, nuts	14.5	14.5	0.8	0.8	3.6	3.3
Oilseeds	0.0	0.0	0	0.0	52.6	28.7
Other crops	3.1	3.1	0.4	0.4	7.8	6.8
Bovine animals	36.6	36.6	0	0.0	54.2	85.6
Other animal products	6.7	6.7	0	0.0	4.2	4.3
Raw milk	0.0	0.0	0	0.0	5.2	15.5
Bovine meat products	88.9	88.9	27.1	1.7	0	0
Other meat products	30.9	30.9	4.2	4.2	0	0
Dairy products	87.7	87.7	24.2	5.6	0	0



Results: EU Production

Scenario 1 (*elimination*): Change in production, selected EU members and commodities, %

	DEU	SPA	FRA	NLD	UK	EU15
Wheat	-13	-5	-2.2	-30.9	-9	-6.9
Other grains	-10.3	-3.3	-0.7	-70.3	-12.3	-5.6
Vegetables, fruit, nuts	18.5	-5.1	-4.6	-5.3	5.5	2.2
Oilseeds	-2	-18.7	7.2	-76.3	-2.2	-8.9
Other crops	33.4	-12.9	4.2	9.7	14.2	3.1
Bovine animals	-12.4	-13.6	-7.7	21.1	-12.7	-10.7
Other animal products	0	-1.8	1.6	1.2	-9.3	0.0
Raw milk	-1.2	0	0	0	0	-0.5
Bovine meat products	-14.1	-13.6	-8.5	24.6	-10.8	-10.9
Other meat products	-0.1	-1.8	2.1	0.7	-20.7	-1.6
Dairy products	-0.9	2.5	1.7	-0.8	0.6	0.1



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Bovine animals	-12.4	-13.6	-7.7	21.1	-12.7	-10.7
Other animal products	0	-1.8	1.6	1.2	-9.3	0.0
Raw milk	-1.2	0	0	0	0	-0.5
Bovine meat products	-14.1	-13.6	-8.5	24.6	-10.8	-10.9
Other meat products	-0.1	-1.8	2.1	0.7	-20.7	-1.6
Dairy products	-0.9	2.5	1.7	-0.8	0.6	0.1



Results: EU Production

**Scenario 1 (*elimination*), 2a (*decoupling*), and 2b (*removal*):
Supply response, EU-15, selected commodities, index**

	2013	Scenario 1	Scenario 2a
Wheat	100,0	93,1	93,1
Other grains	100,0	94,4	94,5
Vegetables, fruit, nuts	100,0	102,2	102,2
Oilseeds	100,0	91,1	91,0
Other crops	100,0	103,1	103,0
Bovine animals	100,0	89,3	89,4
Other animal products	100,0	100,0	100,1
Raw milk	100,0	99,5	99,5
Bovine meat products	100,0	89,1	89,2
Other meat products	100,0	98,4	98,5
Dairy products	100,0	100,1	100,2



Results: EU Production

**Scenario 1 (*elimination*), 2a (*decoupling*), and 2b (*removal*):
Supply response, EU-15, selected commodities, index**

	2013	Scenario 1	Scenario 2a	Scenario 2a + 2b
Wheat	100,0	93,1	93,1	93,1
Other grains	100,0	94,4	94,5	94,4
Vegetables, fruit, nuts	100,0	102,2	102,2	102,2
Oilseeds	100,0	91,1	91,0	91,1
Other crops	100,0	103,1	103,0	103,1
Bovine animals	100,0	89,3	89,4	89,3
Other animal products	100,0	100,0	100,1	100,0
Raw milk	100,0	99,5	99,5	99,5
Bovine meat products	100,0	89,1	89,2	89,1
Other meat products	100,0	98,4	98,5	98,4
Dairy products	100,0	100,1	100,2	100,1



Results: EU Production

Scenario 1 (*elimination*) and 3 (*reform proposal*):
Change in production, EU-15, selected commodities, %

	Scenario1	Scenario3
Wheat	-6,9	-11,1
Other grains	-5,6	-11,4
Vegetables, fruit, nuts	2,2	0,1
Oilseeds	-8,9	-8,3
Other crops	3,1	1,5
Bovine animals	-10,7	-15,0
Other animal products	0,0	-1,8
Raw milk	-0,5	11,4
Bovine meat products	-10,9	-17,2
Other meat products	-1,6	-3,7
Dairy products	0,1	7,1



Results: EU Production

Scenario 1 (*elimination*) and 3 (*reform proposal*):
Change in production, EU-15, selected commodities, %

	Scenario1	Scenario3
Wheat	-6,9	-11,1
Other grains	-5,6	-11,4
Vegetables, fruit, nuts	2,2	0,1
Oilseeds	-8,9	-8,3
Other crops	3,1	1,5
Bovine animals	-10,7	-15,0
Other animal products	0,0	-1,8
Raw milk	-0,5	11,4
Bovine meat products	-10,9	-17,2
Other meat products	-1,6	-3,7
Dairy products	0,1	7,1



Results: EU Production

Scenario 3 (*reform proposal*): Change in production, selected EU members and commodities, %

	DEU	SPA	FRA	NLD	UK	EU15
Wheat	-18.0	-8.6	-6.1	-37.7	-11.3	-11.1
Other grains	-15.5	-7.4	-8.9	-74.6	-16.2	-11.4
Vegetables, fruit, nuts	18.1	-7.1	-5.9	-16.1	5.5	0.1
Oilseeds	1.1	-18.5	9.8	-76.9	-2.0	-8.3
Other crops	37.9	-15.1	4.1	-6.3	16.1	1.5
Bovine animals	-20.8	-15.7	-9.5	-5.8	-15.8	-15.0
Other animal products	-2.0	-2.1	1.4	-6.1	-11.5	-1.8
Raw milk	-20.4	-0.9	2.7	168.7	-3.9	11.4
Bovine meat products	-22.4	-15.8	-10.9	-6.5	-21.7	-17.2
Other meat products	-2.2	-2.1	1.7	-9.0	-21.5	-3.7
Dairy products	-24.7	1.6	2.9	180.6	-5.0	7.1



Results: EU Macro Results

Change in real GDP, selected EU members, %

	Real GDP, % change	
	Scenario 1	Scenario 3
EU15	0.1	0.2
Germany	0.1	0.1
Spain	0.2	0.2
France	0.1	0.1
Netherlands	0.1	0.3
United Kingdom	0.3	0.3



Results: EU Macro Results

Change in EV, selected EU members, Mill 1997 EURO

	Total EV	Scenario 1 of which		Total EV	Scenario 3 of which	
		CAP Transfers	Allocative Efficiency		CAP Transfers	Allocative Efficiency
EU15	10679	-17	10526	14627	-9	15169
Germany	4968	3197	1244	5177	2835	1882
Spain	-1752	-2471	1111	-490	-1661	1416
France	-525	-1832	975	1591	-378	1696
Netherlands	1075	503	342	170	-596	1338
United Kingdom	5655	2092	3400	4627	590	3981



Results: EU Macro Results

Change in land prices, selected EU members, %

	Land price, % change		
	Scenario 1	Scenario 2a	Scenario 3
EU15	-78.4	75,1	0.0
Germany	-82.6	38,6	0.0
Spain	-74.1	110,1	0.0
France	-78.4	56,1	0.0
Netherlands	-41.1	62,0	0.0
United Kingdom	-77.8	142,9	0.0



Results: EU Macro Results

Implications for CAP budget, Mill EURO (current prices)

	1997	2013	Scenario 1	Scenario 2a	Scenario 2b	Scenario 3
Total CAP budget	43173	52882	4112	52814	4112	25495
Homogenous land subsidy	0	0	0	48712	0	25495
Area premium	15467	15990	0	0	0	0
Animal premium	5289	13039	0	0	0	0
Other subsidies	17584	19632	0	0	0	0
Export restitutions	4833	4221	4113	4102	4113	0
-Levies on imports	-1102	-858	-1053	-1051	-1053	-1012
Net Cost	42071	52024	3059	51763	3059	24482
% of GDP	0.598	0.453	0.027	0.451	0.027	0.213



Conclusions

- CAP domestic support is coupled...
- ... but possible to decouple it
- A decoupled CAP reform will bring efficiency gains but effect on EU members differs (redistribution of income)
- Scenario 3 as reform proposal – no change in land prices and lower budgetary costs