

CAP Reform and Agro-food complex

Analyses and Conclusions of Scenar 2020-II

Study for EC, DGAgri

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Presentation Overview

- Scenar 1 & Scenar 2: challenges & scenarios
- Economic Analysis
 - Economic prospects
 - Commodity level projections
 - Decomposition analyses
 - Regional level projections
- Policy insights
 - Preparing for change

Challenges for agriculture as identified by Scenar 2020 I & II

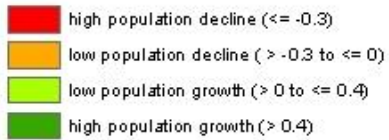
1. Structural change process in agriculture is a long-term driver that continues *with or without* policy changes.
2. EU is facing an increasing diversity of farm structures through enlargement; structural adjustment will be correspondingly important. The livestock sector faces important challenges and restructuring.
3. Alternative policy settings may not produce very different effect on the overall production. However, the regional impact may prove to be more significant.
4. The process of liberalisation has a greater impact on agricultural income than on agricultural production and land use.
 - a) The reduction of border protection and export refunds has a higher impact on production than does a reduction of direct payments.
 - b) The reduction of direct payments has a higher impact on agricultural income than on agricultural production.

Scenar 2020-II Scenario Structure

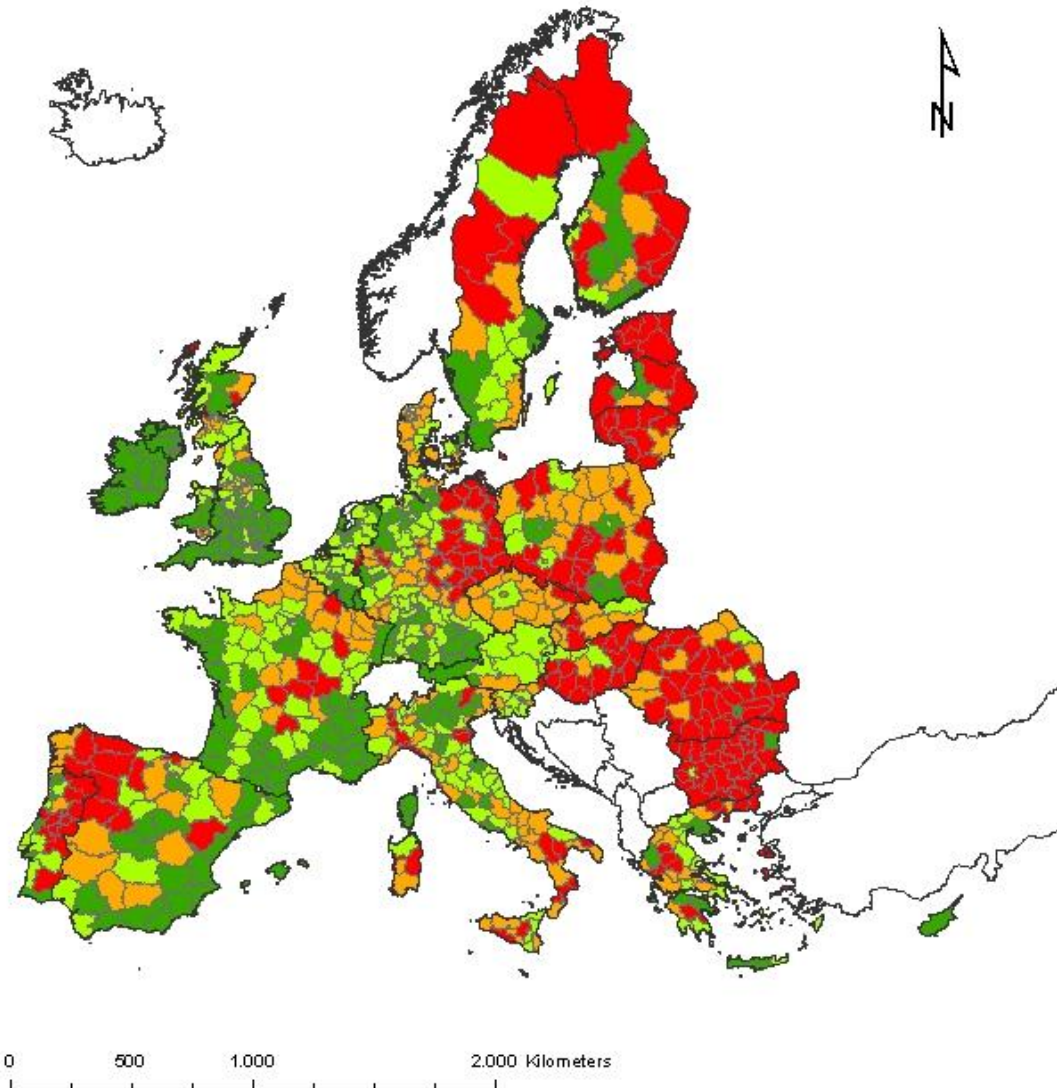
	Reference	Conservative CAP	Liberalisation
Financial Perspective 2014-2020	Reduction of 20% of CAP budget in real term – constant in nominal term	Reduction of 20% of CAP budget in real term – constant in nominal term	Reduction of 75% of CAP Budget in real term – -55% in nominal term
Market policies	Balanced market, i.e. keeping public intervention stocks at 2% of domestic consumption (if stocks are too high support price will be decreased) without compensation	Results of Health Check (HC) reform to be continued after 2013	No intervention
System of intervention	HC Intervention system	HC Intervention system	No intervention
Level of intervention	Adjustment to balance markets	HC level	
Direct Payment	<ul style="list-style-type: none"> - Implementation of SPS as of 2013 - Full decoupling - 30% decrease in DP in nominal term 	<ul style="list-style-type: none"> - Flat rate (regional model) at national level - Coupling as HC - 15% decrease in nominal term 	- Removing of all payments
Rural development	Increase of EAFRD +105%	Increase of EAFRD +45%	Increase of EAFRD +100%
Trade issues	WTO Agreement: stylised representation based on Falconer paper.	Reference scenario	Removing of all import tariffs
Additional trade premises	Stylised representation of bilateral agreements <ul style="list-style-type: none"> - EPA - EuroMed, Mercosur, India 	Reference scenario	Removing of all import tariffs, TRQ, phasing out of export refunds
Biofuel policies	10% target in 2020	10% target in 2020	10% target in 2020 ⁴

Demographic developments

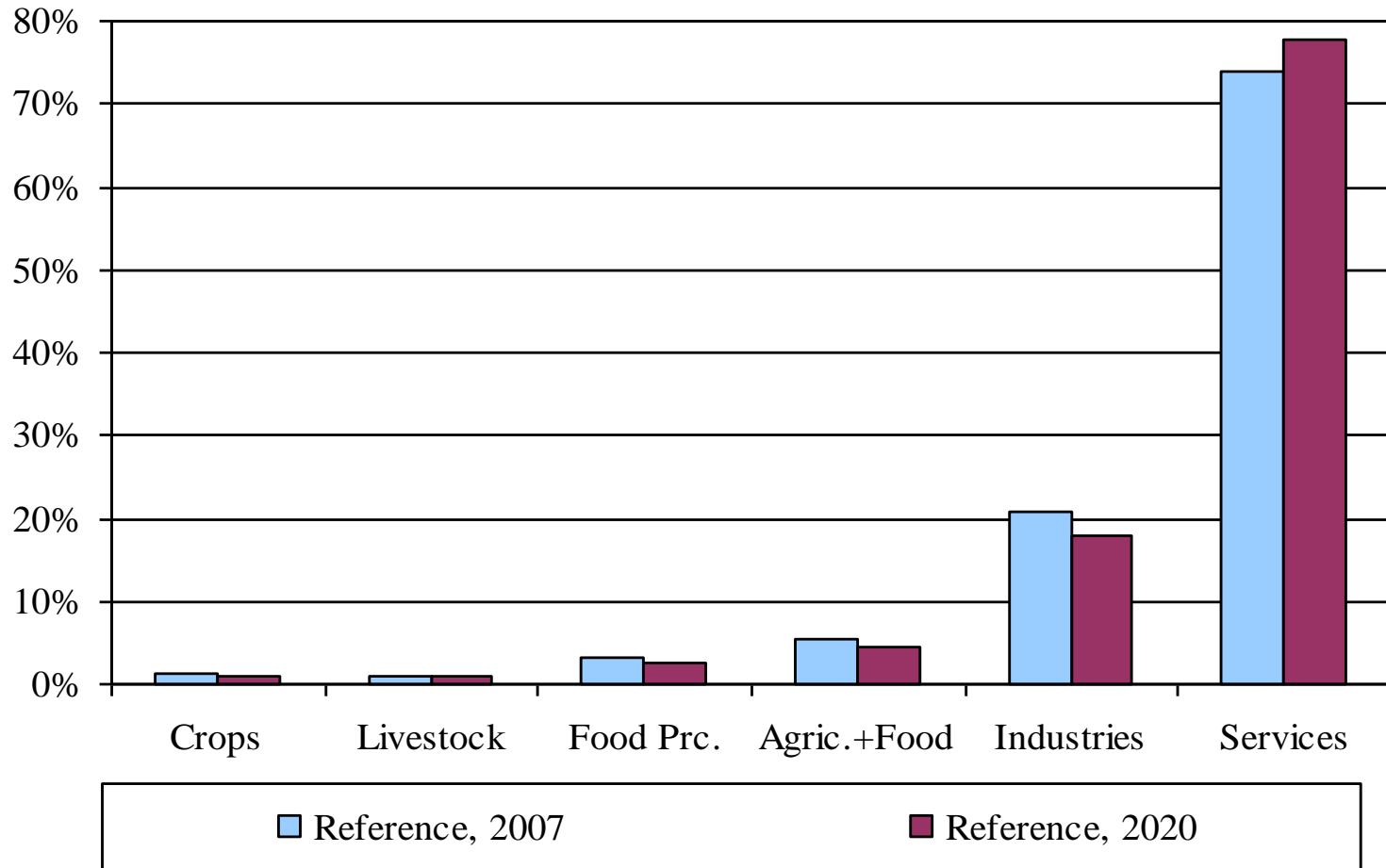
Regional demographic dynamics in 2020



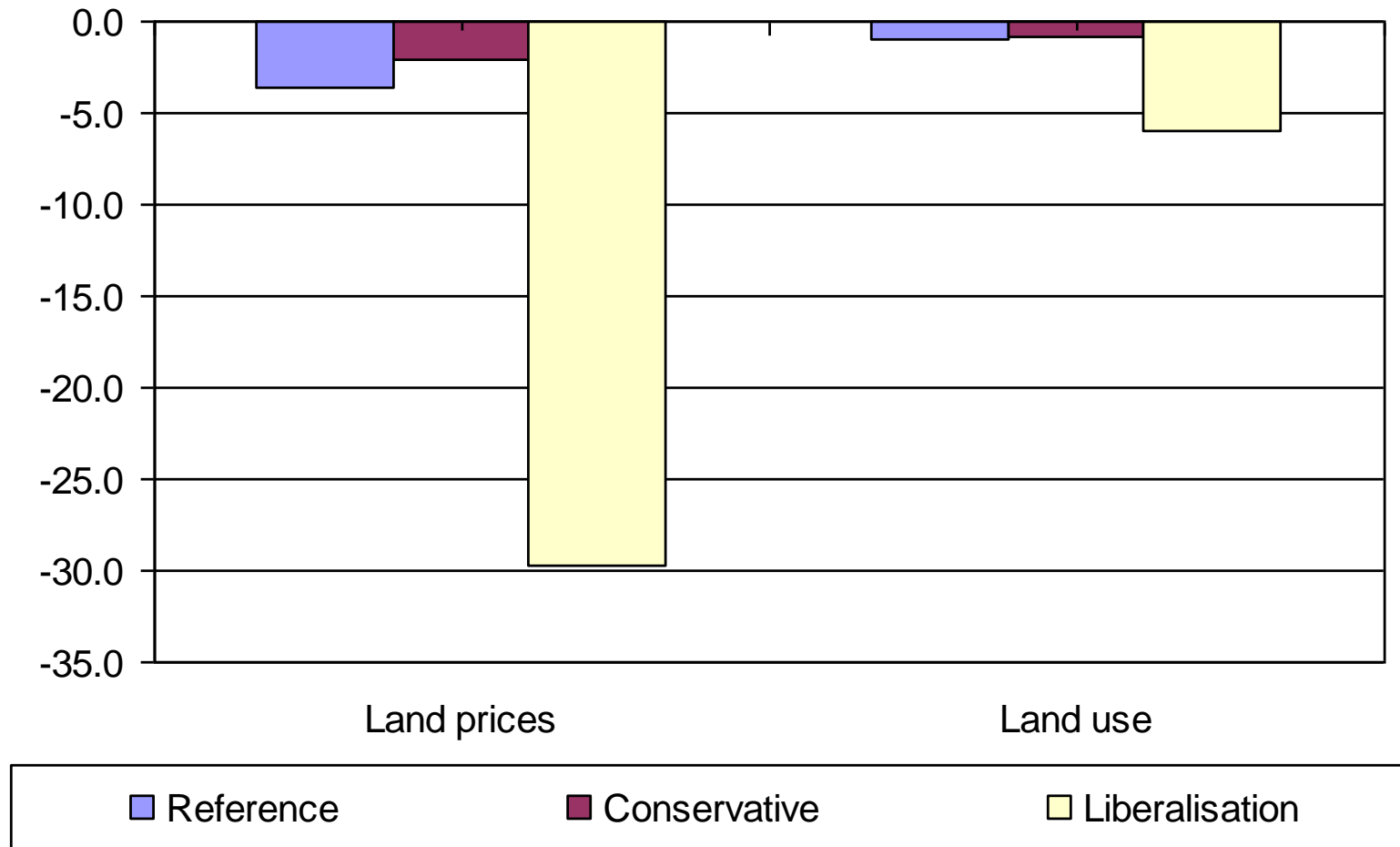
Declining → 422 regions
Increasing → 435 regions



Sectoral Structure of the Economy, EU-27, in 2007 and 2020, in per cent

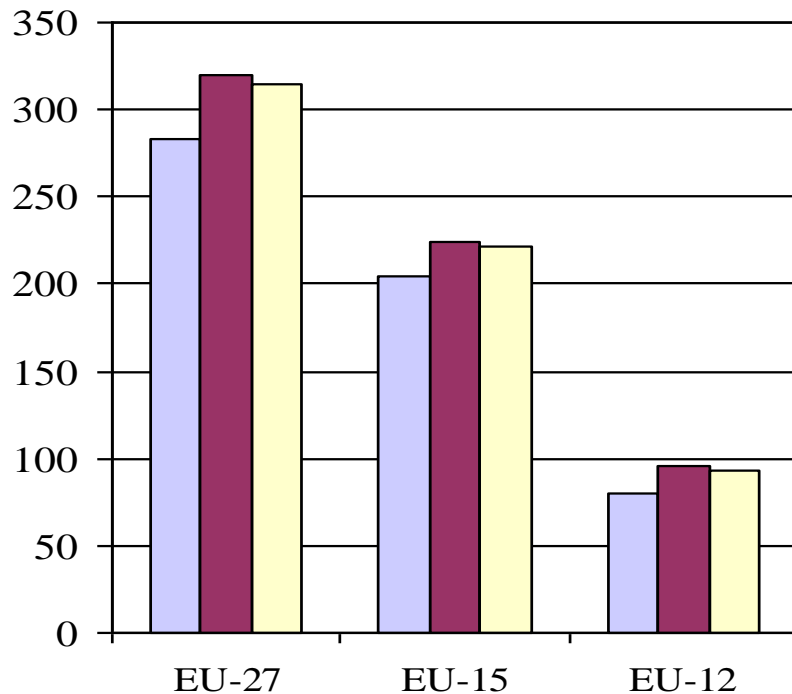


EU-27 agri land price and use change (2007-2020, in %): sector buffer effect

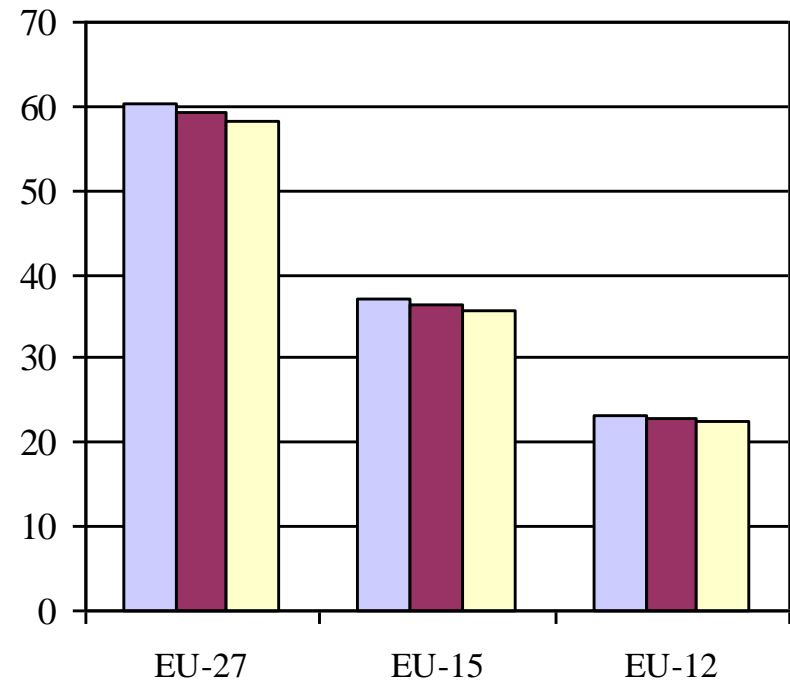


Cereals, 2005 and 2020: productivity increases, area cultivated decreases

Production in million t



Area in million ha



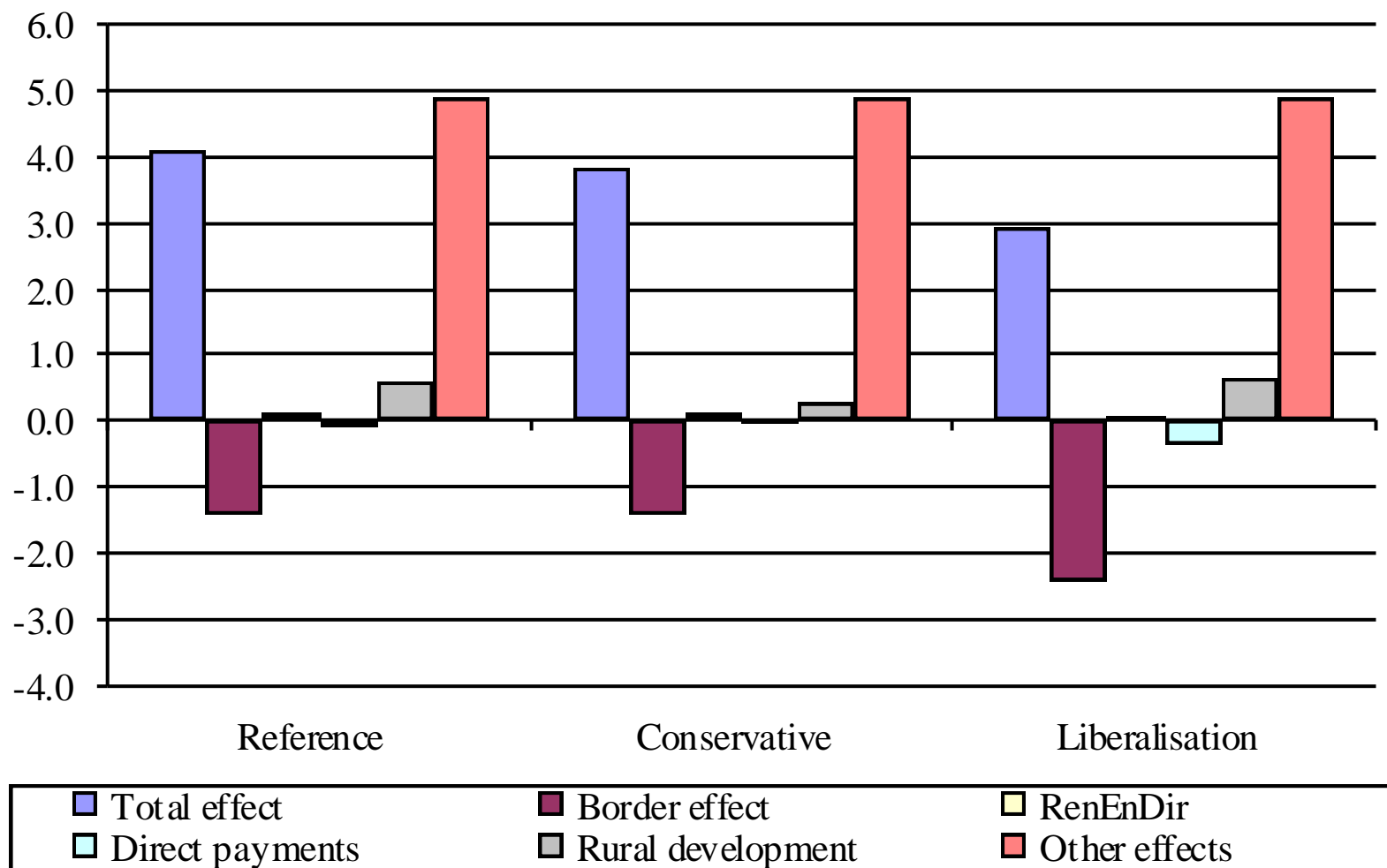
2005 Reference, 2020 Liberalisation, 2020

Decomposition implementation: a sequence of consecutive scenario runs

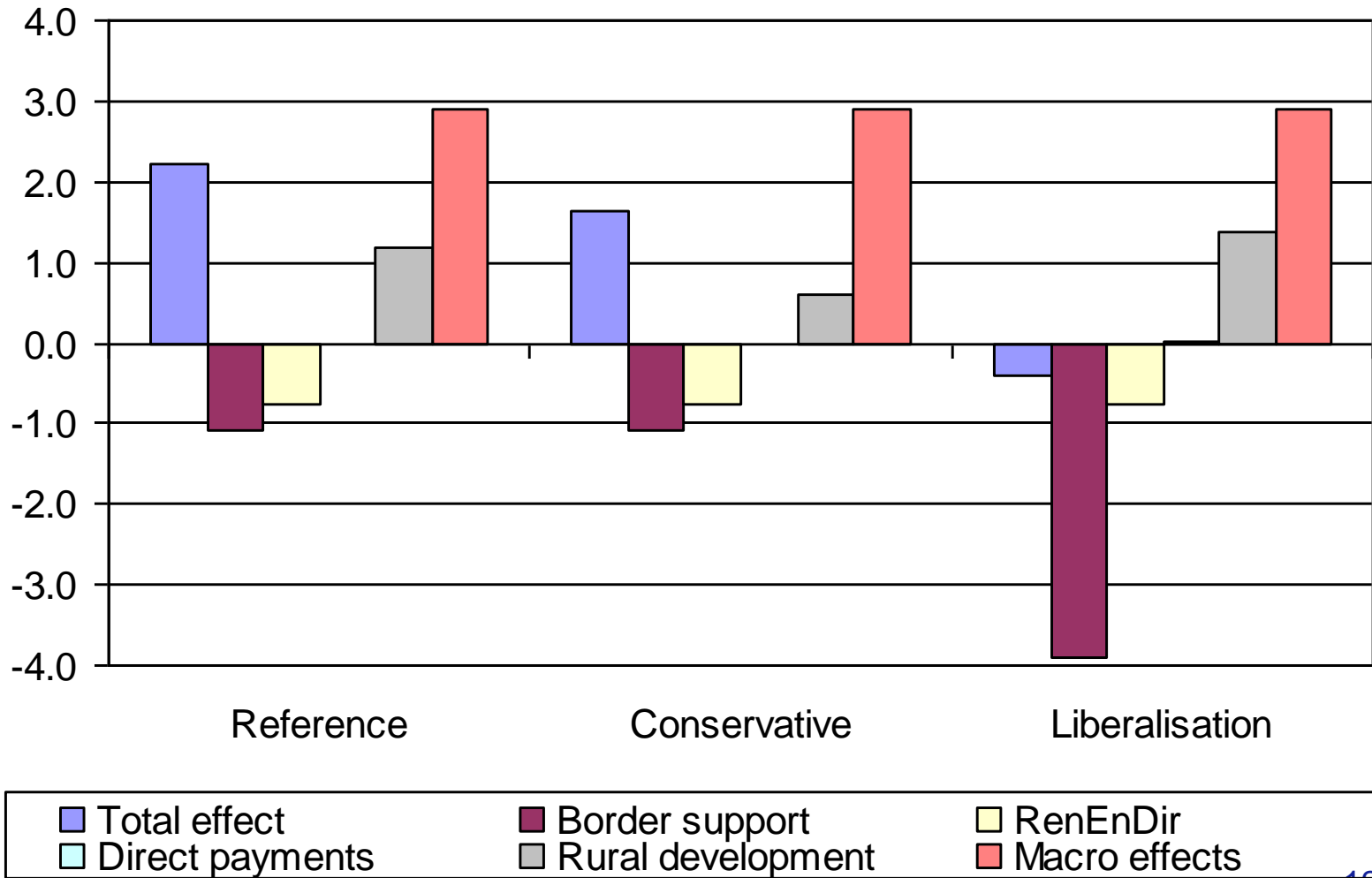
To identify the separate impact of individual CAP, trade and biofuel policies on the scenario outcomes, the total scenario impact has been decomposed into the following effects:

- **Total effect:** Scenario outcome, includes all policy and macro effects of the following sub-items.
- **Border effect:** Isolates the impact of changes in trade policies measures on the import and export side.
- **RenEnDir:** Identifies the impact of the introduction of the mandatory blending requirements of the EU Renewable Energy Directive.
- **Direct payments:** Identifies the cut in direct payments implemented under the Health Check reform and the scenario-specific assumptions up to 2020.
- **Rural development:** Identifies the consequences of the transfer of additional funds to all Pillar 2 measures under different scenarios.
- **Other effects:** Impact of change in population, income factor supply and productivity.

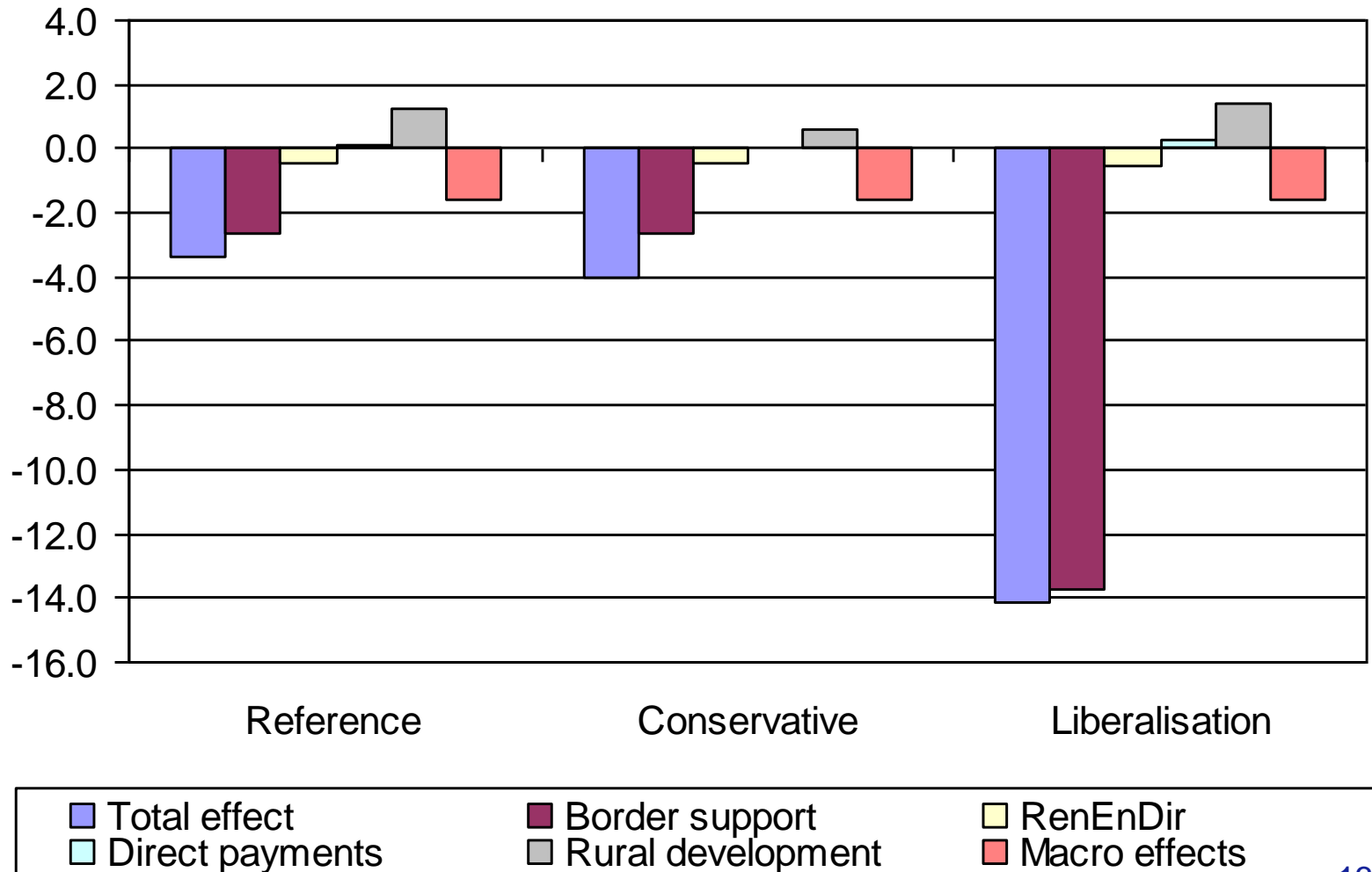
EU-27 growth in agri-food production (2007-2020, in %): trade policy influence



EU-27 growth in livestock production (2007-2020, in %): loss of border support

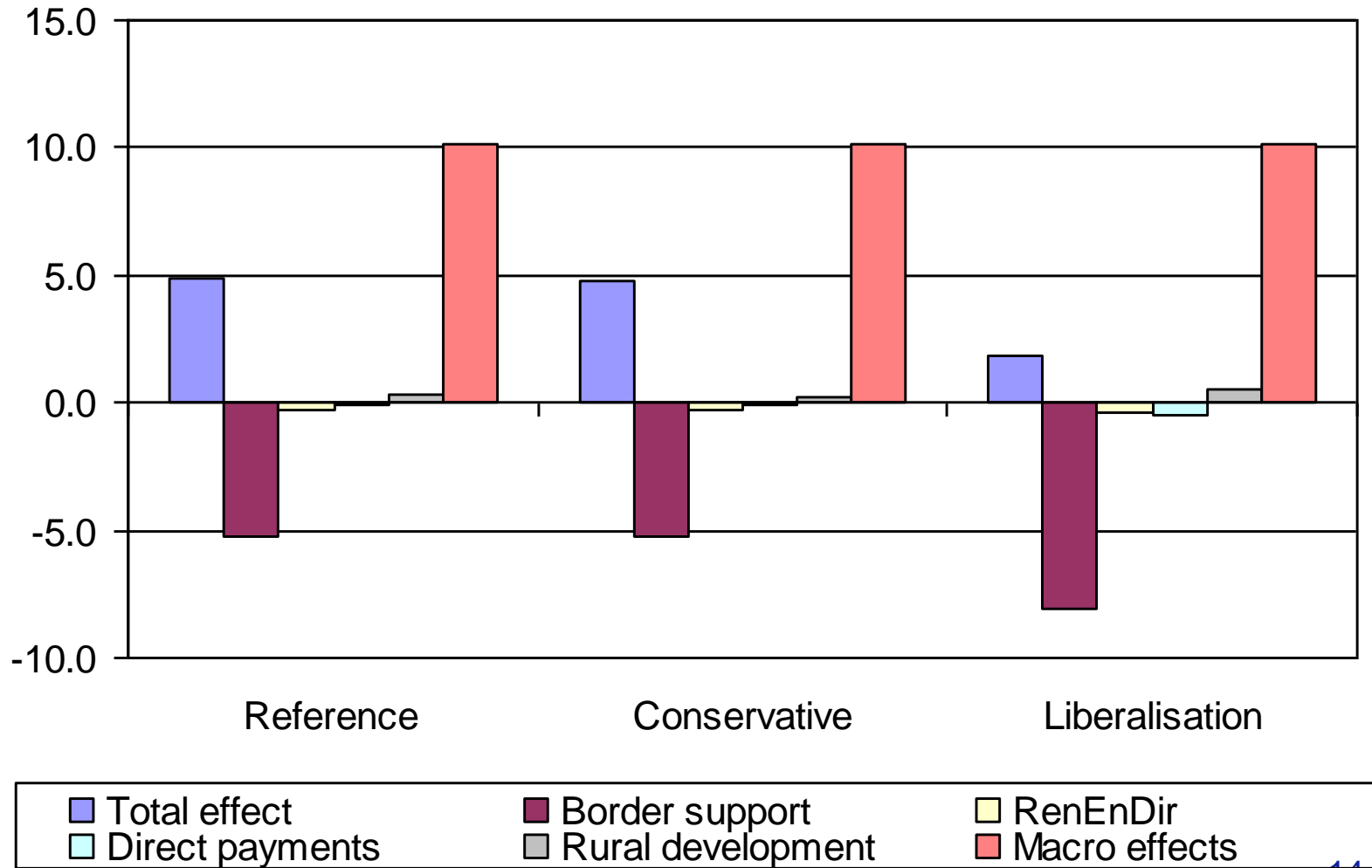


EU-27 growth in beef production (2007-2020, in %): loss of border support



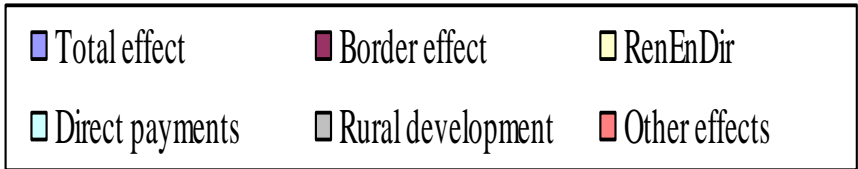
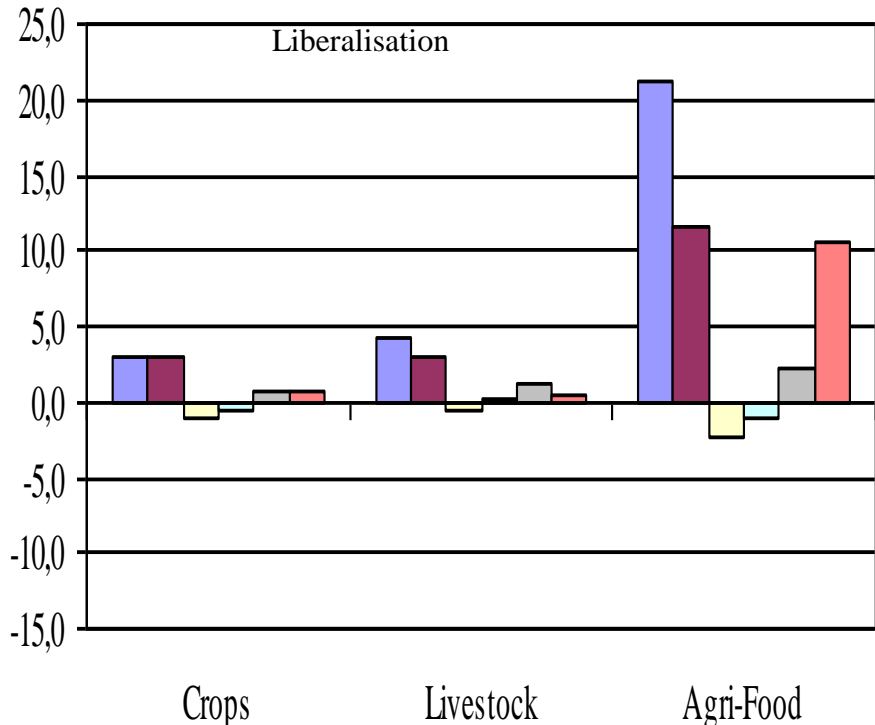
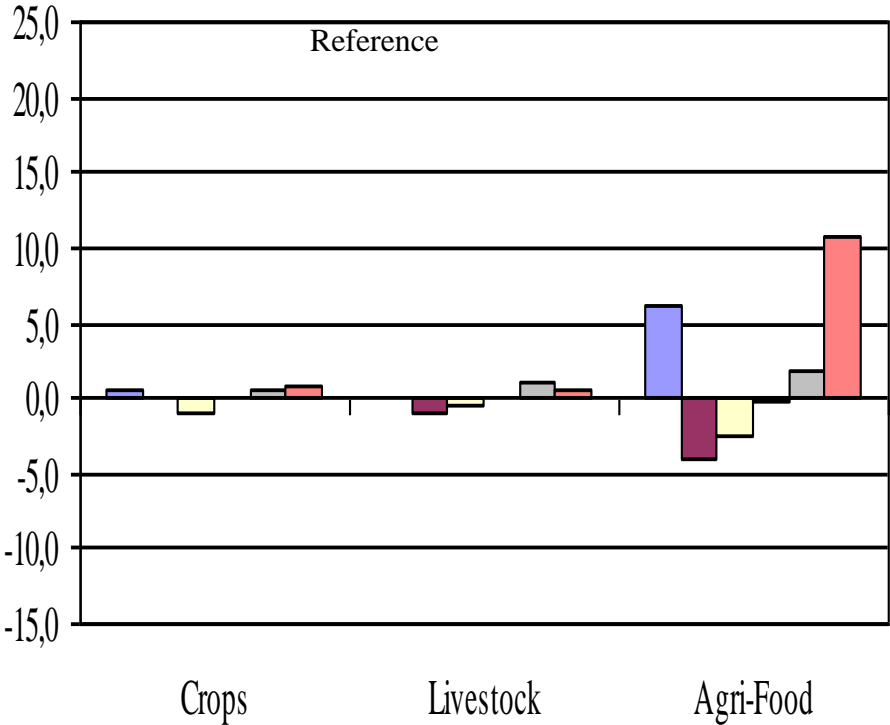


EU-27 growth in dairy production (2007-2020, in %): loss of border support combined with positive macro effects



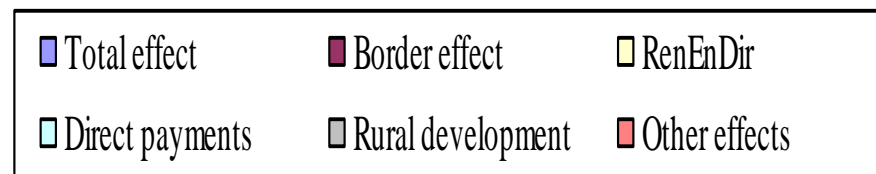
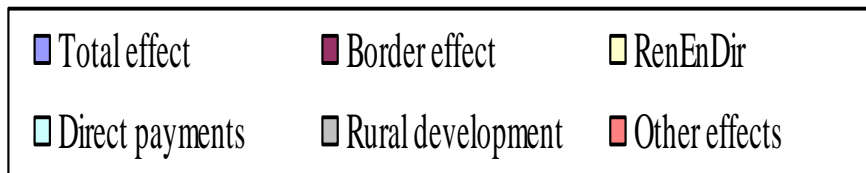
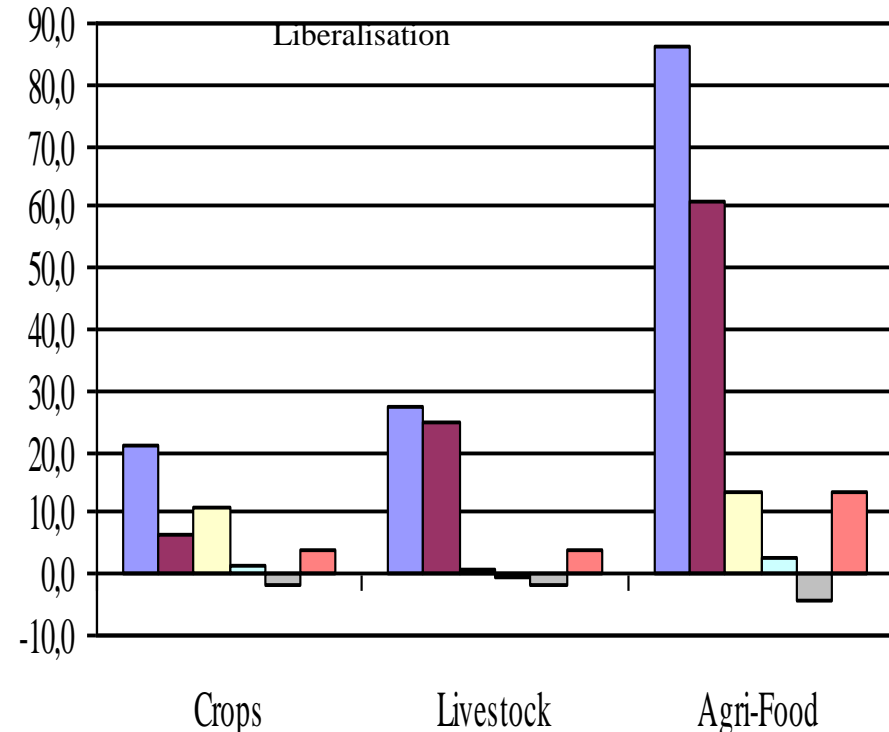
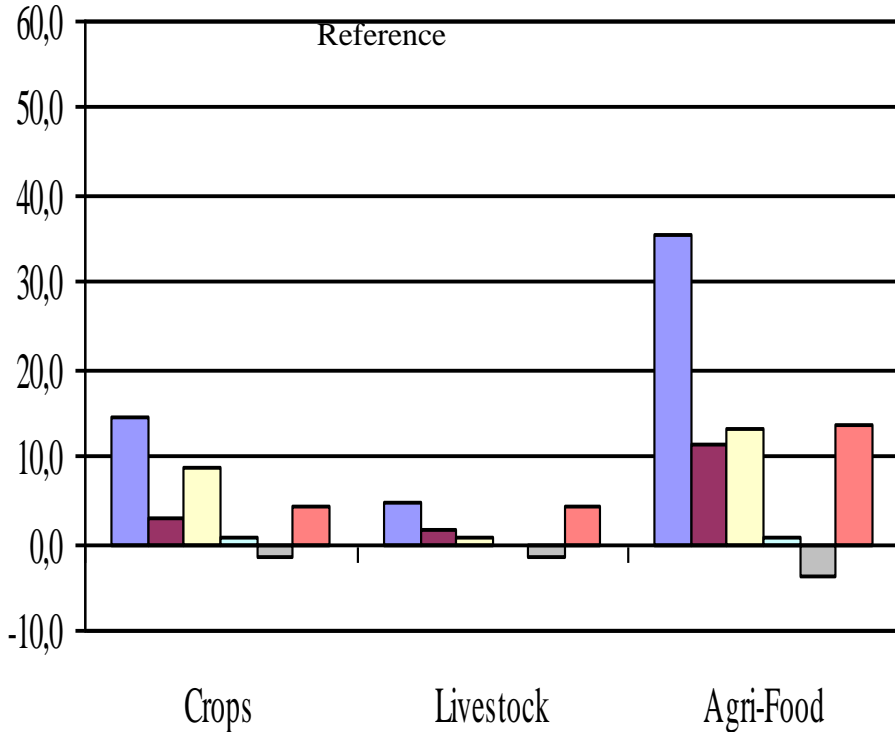


Decomposition of the change in exports between 2007 and 2020 in agri-food trade EU-27 (billion USD)

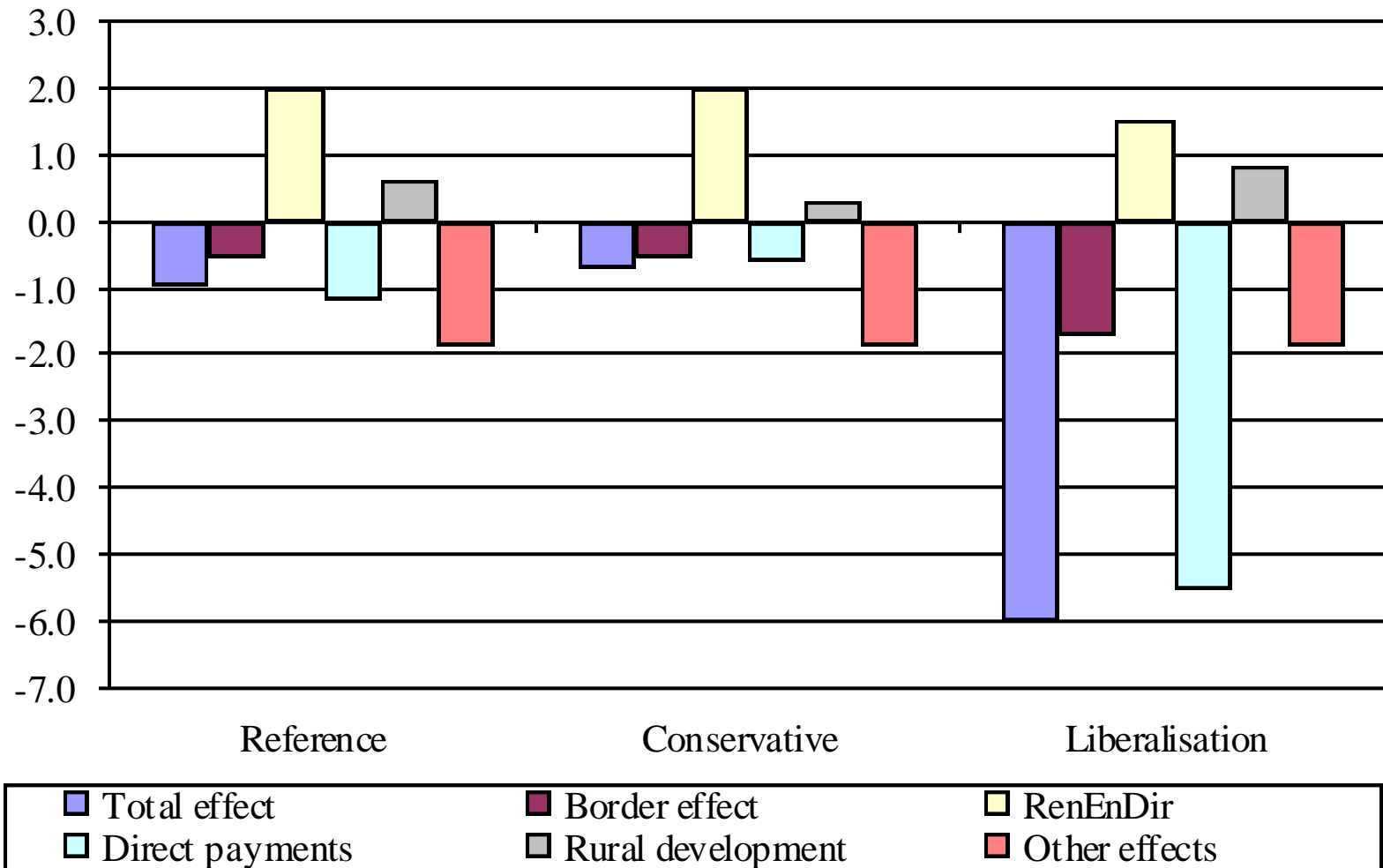




Decomposition of the change in imports between 2007 and 2020 in agri-food trade EU-27 (billion USD)

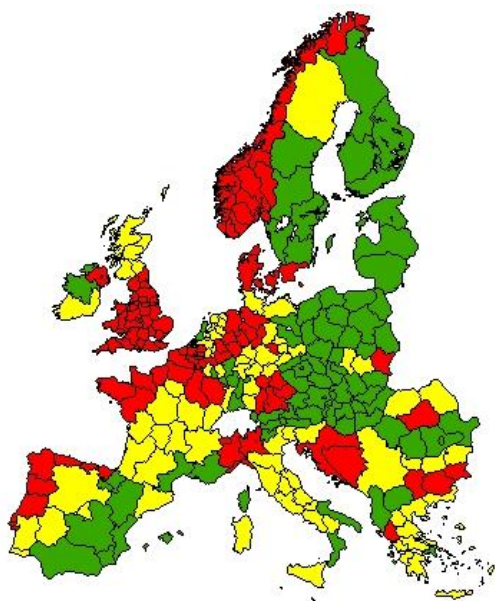


EU-27 agricultural land-use change (2007-2020, in %): multiple influences

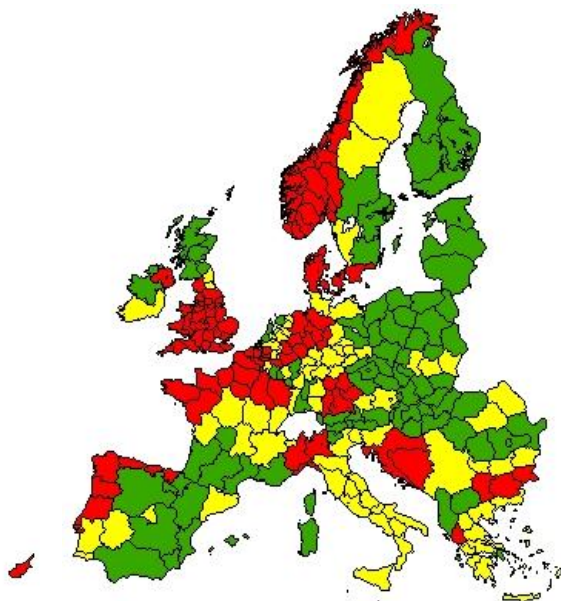


Farm income change by scenario, 2007-2020, in %

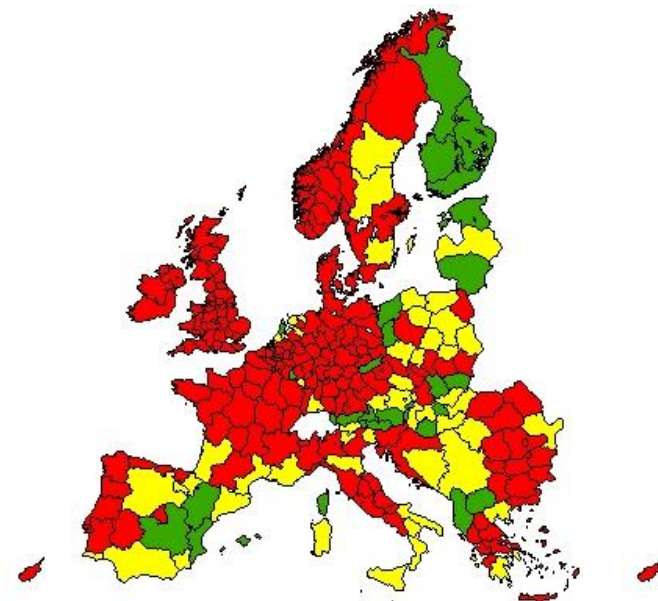
Reference





Conservative CAP




Liberalisation



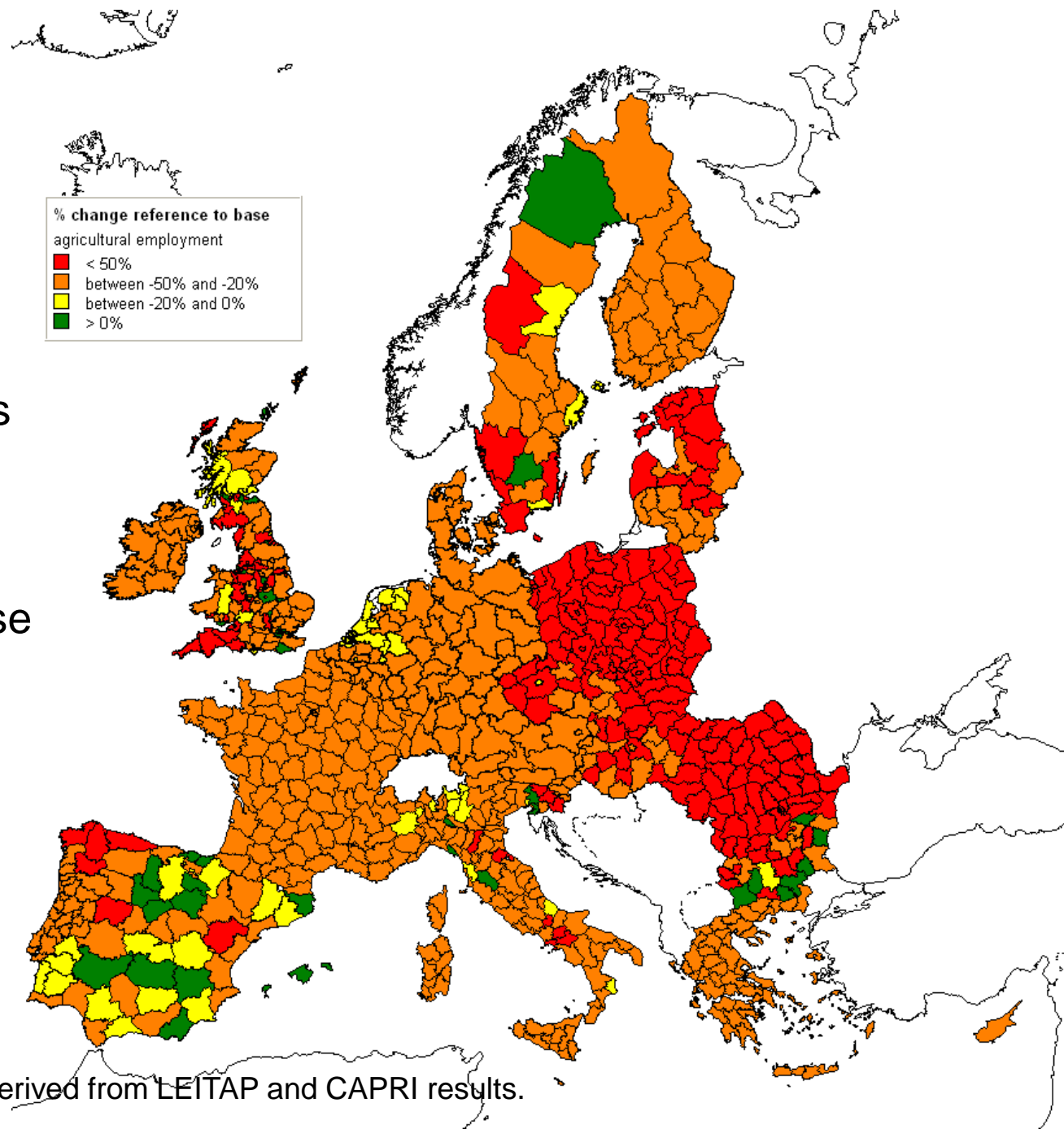

< -19%


-19 < 0%


> 0%

Number of farms per sub-sector in 2003 and 2020 in different scenarios average in the EU-27 (in mio farms)

	2003	2020	compared to 2003	compared to Reference	
Farm type		Reference	Reference	Conser- vative	Liberali- sation
Arable crops	2.3	1.4	-39%	-0.9%	-18.8%
Vegetables and permanent crops	2.8	2.5	-10%	-0.2%	-3.9%
Cattle activities	1.8	1.1	-38%	-0.3%	-38.6%
Other animals	0.4	0.6	61%	-4.1%	-5.3%
Mixed livestock farms	0.7	0.1	-87%	0.1%	-23.4%
Mixed crop farms	0.8	0.2	-71%	-0.5%	-7.4%
Other livestock and crop farms	2.3	1.4	-39%	-2.3%	-18.7%
Total	11.1	7.3	-34%	-1.2%	-15.2%



Percentage changes
in **agricultural
employment** in the
Reference scenario
compared to the base
situation (2003)

Policy insights from Scenar 2020 I & II

1. Alternative policy scenarios seem to have little impact on the overall production levels of agro-food complex (although more on income and farm structure) ... except for livestock and mixed arable / livestock
2. “Liberalisation” would:
 - a) affect production levels mainly through increased market access, rather than through the absence of income support
 - b) show a significant impact on income and agricultural assets, including land (though this may help facilitating the structural adjustment process)
3. However, at the regional level, the (negative) impact may be more significant:
 - a) A process of liberalisation would lead to intensification in the most competitive regions and an extensification of production in others
 - b) Adjustment processes in agriculture might be accompanied by an adverse or supportive economic and social situation
4. An increasing number of rural areas will become increasingly dependent on other sectors and will be driven by factors outside of agriculture

Preparing for change (1)

- CAP policies have more an effect on agricultural income and number of farms than on agricultural production.
- Land prices and to a lesser extent agricultural wages play a key role in absorbing the negative impact of CAP and trade policy changes and keeping production levels up.
- Abolishing income support has a very negative impact on overall farm income and the number of farms in the EU-27.

Thank you for your attention!

- SCENAR2020 II can be downloaded:
- [http://ec.europa.eu/agriculture/analysis/
external/scenar2020ii/index_en.htm](http://ec.europa.eu/agriculture/analysis/external/scenar2020ii/index_en.htm)