Agricultural and Food Economics

Impact of CAP Post-2013 Reforms on Agriculture in the UK

FAPRI-UK Project Report

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Myles Patton, Siyi Feng and John Davis

(Agri-Food & Biosciences Institute & Queen's University Belfast)

Julian Binfield

(FAPRI, University of Missouri)

Executive Summary

This study examines the impact on UK agriculture of the main proposed changes to the regulations governing direct payments under the EU Commission's October 2011 legislative proposals. The analysis is based on the FAPRI-UK partial equilibrium modelling system, which captures the dynamic interrelationships among the variables affecting supply and demand in the main agricultural sectors of England, Wales, Scotland and Northern Ireland. The UK models are run in conjunction with the FAPRI-Missouri EU modelling system to capture the impact of changes across the EU. Five scenarios are analysed:

(i) Redistribution of direct payments between Member States;
(ii) Move towards a uniform flat rate payment per hectare within Member States;
(iii) Greening measures;
(iv) Provision of coupled payments; and
(v) Combined impact of above four reforms, plus removal of sugar quotas.

Following the redistribution of direct payments between Member States [Scenario (i)], the UK benefits from a 1 per cent increase in its national envelope for direct payments, based on the proposed formula within the October 2011 legislative proposals. This is insufficient to stimulate a production response and the overall impact on the UK is marginal.

The move to a uniform flat rate payment per hectare within Member States has a modest impact on aggregate livestock numbers in the UK [Scenario (ii)]. Following the CAP reforms in 2005, a tiered flat rate payment is incorporated within the Baseline in England and this is not changed in the scenario analysis. Within Wales, Scotland and Northern Ireland, the main impact of the introduction of a flat rate system is a redistribution of payments from the lowland producers to those in the hills. However, the main beneficiaries within the hills are the more extensive producers, who are located on lower quality land where the production response is limited. Consequently, the impact of the flat rate payment on aggregate livestock numbers is small.

The ecological focus areas and crop diversification greening measures have a negative impact on crop areas and production in the UK [Scenario (iii)]. There is considerable uncertainty, however, regarding the potential impact of crop diversification and a range of scenarios are presented based on different behavioural responses. In general, the impact is most marked in Wales and Northern Ireland since a large proportion of the arable land within these regions is farmed by livestock producers who grow relatively small areas for feed purposes. Barley is affected to a greater extent than the other crops since it is the main crop grown for home feed purposes on livestock holdings.

The provision of a coupled beef cow payment in Wales and Northern Ireland has a positive impact on cattle numbers [Scenario (iv)]. However, this impact depends on the coupling options implemented elsewhere within the EU. If the introduction of this payment has a significant impact on cow numbers and hence beef production in other EU countries then there will be a negative price impact, which dampens the production impact in the UK.

Upon combining the above reforms [Scenario (v)], it is projected that crop production declines, primarily in response to the greening measures. Again, the extent of this impact depends on the behavioural response to crop diversification. The higher crop prices due to the greening measures exert a downward impact on livestock numbers in the UK, but this is largely offset by compensating increases in meat prices, apart from beef. Within this analysis it is assumed that the re-coupled payment is used to solely support the beef sector, which stimulates EU beef production and leads to a lower price.

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1. Introduction

The EU Commission published legislative proposals in October 2011 that will govern the direction of Common Agricultural Policy (CAP) in the post-2013 period. The stated overall aim of these proposals is to make EU agriculture more competitive and sustainable. The proposals cover direct payments to farmers, market management mechanisms and rural development policies. This report examines the impact of the proposed changes to the regulations governing direct payments on agriculture in the EU, with particular focus on the UK. The analysis is based on the FAPRI-UK partial equilibrium modelling system, which models the key agricultural sectors in the UK. The UK models are run in conjunction with an EU modelling system to capture the impact of changes across the EU. The scenarios and underlying assumptions are based on the October 2011 proposals. The final reform package is likely to be different to the initial proposal and this report does not attempt to anticipate or analyse these potential changes.

The proposed changes to direct payments include the introduction of a new 'Basic Payment Scheme', which will replace the Single Payments Scheme in the EU-15 and the Single Area Payments Scheme in the EU-12. The new basic payment is designed to achieve greater convergence between Member States (external convergence) and between farmers within Member States (internal convergence). The proposals deliver greater convergence between Member States by adjusting the national envelopes for direct payments so that those that receive less (more) than the EU average payment per hectare will receive more (less). Internal convergence refers to the move towards a uniform payment per hectare within Member States or regions by the start of 2019. In addition to the basic payment, the proposals include a "green" per hectare payment for complying with measures regarded as beneficial to the climate and the environment, namely maintenance of permanent pasture, crop diversification and the introduction of ecological focus areas. The proposals also contain a coupled option in which Member States can provide a limited payment linked to a specific product.

The proposed policy changes to direct payments noted above are analysed under different scenarios within this report. With regard to the proposed changes to the market mechanisms, the European Commission also calls for the ending of the sugar quota regime. This is incorporated within an overall combined scenario. Note, the legislative proposals on direct payments also include additional payments to areas with natural constraint, topped up payments for young farmers, fixed payments for small farmers and the capping of payments above certain limits. These policy changes are not incorporated within the analysis as they are either not compatible with a sectoral modelling framework or insufficient data exists to make appropriate assumptions.

Table D4: Projected Changes in Market Receipts, Costs and Direct Payments in the UK under Scenario (v) compared to the Baseline in 2021

	10% Production Simulating Impact	30% Production Simulating Impact	50% Production Simulating Impact
Market receipts			
Wheat	0.1%	0.1%	0.1%
Barley	-1.9%	-2.1%	-2.3%
Oats	-0.8%	-0.8%	-0.8%
Rapeseed	-5.1%	-5.2%	-5.3%
Sugar	-21.4%	-21.5%	-21.6%
Total Crops	-3.0%	-3.0%	-3.1%
	0.0%	0.0%	0.0%
Cattle	-3.2%	-2.1%	-1.3%
Pig	1.6%	1.8%	1.9%
Sheep	1.8%	1.8%	1.5%
Poultry	3.1%	3.4%	3.5%
Total Livestock	0.1%	0.6%	1.0%
Milk	0.0%	-0.2%	-0.3%
Total Market Receipts	-0.4%	-0.2%	-0.1%
Costs			
Feedstuffs	5.0%	4.9%	4.7%
Seeds & loses	3.3%	3.3%	3.2%
Payments			
Direct Payments	1.1%	1.1%	1.1%
Market Receipts + Payments - Costs	-1.6%	-1.4%	-1.2%