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CAP 2013: European agricultural policy reform and Irish agriculture

Key external stakeholders:

Department of Agriculture, Food and the Marine (DAFM), Irish agricultural policy makers, farm organisations

Practical implications for stakeholders:

The objective of this research project was to undertake analysis that would support the Irish Government's approach to the EU CAP reform process and inform Irish policy decisions regarding the implementation of the CAP reform agreement in Ireland.

- The research contributed to the analysis by Government of CAP reform proposals presented by the European Commission
- The research analysed the impact of alternative CAP policy proposals on the distribution of direct income support amongst Irish farmers
- The research evaluated the potential impact of different reform agreement implementation options on Irish agricultural production and incomes.
- The research analysed the impact of the reforms on the equality of the income distribution amongst Irish and UK farmers

Main results:

The CAP reform agreement of June 2013 led to the possibility of a large change in the distribution of direct income support amongst Irish farmers. This research found that CAP reform implementation options that redistributed more of the CAP Pillar I budget towards farmers with below average payment entitlement per hectare would leave a greater number of farmers better off (i.e. with higher payments) but that the losses from those farmers with higher levels of initial support would be considerable.

Farmers with high levels of decoupled direct income support are (in general) those with higher levels of output per hectare and the negative impact of redistributing decoupled direct income support away from such farmers to farmers with lower levels of output per hectare could have negative implications for the volume of aggregate Irish agricultural output.

Coupling direct payments to suckler cows and/or ewes was found to be of benefit to cattle rearing and sheep farms. However, the magnitude of the coupled payments that could be made would not transform unprofitable enterprises into profitable enterprises. The introduction of a redistributive payment scheme was found to advantage farms of average to less than average size, however it would also significantly reduce incomes on larger farms particularly tillage farms.

Opportunity / Benefit:

The results of this research were used by Government during the and after the CAP reform process and presented to stakeholders in advance of decision as to how the reformed CAP was implemented in Ireland.

Collaborating Institutions:

DAFM

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1. Project background:

Given the importance of the CAP in determining Irish agricultural incomes changes in the rules governing the operation of the CAP can have profound effects on the economic fortunes of Irish agriculture and on the incomes earned by Irish farmers. The project's objectives were the analysis of CAP reform proposals as they emerged from the CAP reform process and the provision of economic research and analytical support to the Irish Government during the CAP reform process and in the framing of how the agreed reform would be implemented in Ireland.

2. Questions addressed by the project:

The project used data provided by the Department of Agriculture, Food and the Marine (DAFM) as well as data from the Teagasc national farm survey (NFS) to analyse the implications of different CAP reform proposals.

- How would the CAP reform affect the level of direct income support received by Irish farmers?
- Would different CAP reform options affect different farm types and sizes of farm differently?
- How would CAP reform affect the distribution of agricultural income support in Ireland?
- What would the implications of alternative policy proposals and CAP implementation choices be Ireland for agricultural production and incomes in Ireland?
- How would the reform options chosen the inequality of agriculture income in Ireland?

3. The experimental studies:

The administration of Pillar I of the CAP involves the collection of large amounts of data concerning the agricultural activities of farmers who are in receipt of direct income support. These data on area farmed, crops grown and direct subsidies received under Pillar I of the CAP form the DAFM Single Payment System database. Anonymized data from the DAFM SPS database were combined with data from the DAFM Animal identification and Movement System (AIMS) database to create a composite anonymized database that was used to analyse the implication of CAP reform proposals and implementation options for the distribution of direct income support amongst Irish farmers.

The database developed also allowed each farm in receipt of Pillar I direct income support to be classified using the EU farm typology. The application of the EU farm typology allowed the distributional implications of CAP reform choices to be assessed by the nature of the agricultural activity occurring on farms and economic size of the farm.

Results from this modeling exercise also allowed for the estimation of the increase or decrease in decoupled direct income that farms with differing initial levels of decoupled Pillar I income support payments would receive under different CAP reform scenarios. This information was used with the Teagasc NFS database to analyse the potential impact of CAP reform implementation options on the level of Irish agricultural production and the level of Irish farm income under different CAP reform implementation scenarios.

The impact of different CAP reform implementation options on agricultural income inequality in Ireland the UK were also analysed using data from the EU FADN.

4. Main results:

The CAP reform agreement of June 2013, and specifically the agreement on the Direct Payments Regulation, presented EU Member States with choices as to how to implement the new direct payments regulation. Within the regulation there are three mandatory payment schemes - Basic Payment Scheme (BPS), Greening Payment Scheme (GPS) and the Young Farmers' Scheme (YFS) that Member States must implement and four optional payment schemes - Voluntary Coupled Support Scheme (VCSS), Redistributive Payment Scheme (RPS), Areas of Natural Constraint Scheme (ANCS), and Small Farmers' Scheme (SFS) that Member States can choose whether or not to implement. Within each of the mandatory and optional schemes there are further choices in terms of how these schemes are implemented by Member States. For

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example, under the optional VCSS, Member States have a choice over how much of the national direct payment ceiling should be allocated to this scheme (up to a maximum of 8%) and what agricultural activities the payment is to be coupled to.

A key aspect of reform at the EU level was the movement away from the historical model of determining direct payment entitlements towards a flatter payment model. Member States were accorded considerable flexibility in terms of the degree to which they had to equalize the level of payment per hectare over the period 2015-2020. The options for redistributing support via the Basic and Greening payment schemes ranged from a flat are payment model where payments per hectare would be equalized in a member state or region to the so-called internal convergence model where only limited redistribution would occur and where the level of historical receipts under the CAP that prevailed between 2005 and 2014 would continue to in large measure to define the distribution of direct income support payments.

A key aspect of the reform implementation, when only the impact of Pillar I payments are considered in isolation from Pillar II and other nationally financed agricultural policies, is that with a the fixed budgetary ceiling, a reform option that targets support to a particular agricultural activity or farm type will, by construction, reduce the amount of money available for distribution to all non-targeted farms that are eligible for direct income support payments.

Given the large range of possible reform implementation scenarios possible under the June 2013 agreement analysis ultimately focused on the analysis of a set of five policy scenarios that were all variants of the internal convergence model that the Irish Government negotiated for within the context of the CAP reform agreement of June 2013. The Table below provides detail on these scenarios.

Table 1: CAP Reform Scenarios analysed

Policy Scenario	Policy Scenario Assumptions
MIN	Assumes the minimum level of redistribution with no Voluntary Coupled Support Scheme (VCSS) and no Redistributive Payment Scheme (RPS)
MID	Assumes half of the allowable VCSS fund is used and paid on both suckler cows and ewes
MAX	Assumes all of the allowable VCSS fund is used and paid on both suckler cows and ewes
MAX Cows	Assumes that all of the allowable VCSS fund is used but paid only on suckler cows
REDIST	Assumes no VCSS payments but the full allowable Redistributive Payment Scheme (RPS) fund is used and an additional payment is made on the first 32 hectares.

In general, greater numbers of farmers gain in terms of direct payment receipts under the MID and MAX scenarios relative to the MIN scenario. However, for most farms the income changes (gains and losses) are small, i.e. less than 10 percent, of those experiencing more substantial income changes, the effect tends to be negative rather than positive. Similarly with farm output, approximately 25 percent of aggregate farm output is generated by farms that would lose 10 percent of their income or more under the MIN scenario, with the proportion increasing to 30 percent of output under the MAX scenario. This suggests that those farms that gain from the coupling of direct payments to production tend to account for a smaller proportion of output than those that lose.

The results show that, as expected, Cattle Rearing and Sheep farms benefit from coupling and would experience higher incomes under MAX relative to MID or MIN. Average Cattle Rearing farm income increases by €750 going from MIN to MAX, but the average income decreases by €1,000 on Tillage farms, by €750 on Dairy farms and by €200 on Cattle Other farms. However, an income gain of €750 represents a larger proportion of income on Cattle Rearing farms than on Dairy farms. While coupled payments increase the profitability of suckler cow production, the effect is found to be marginal. For all farmers the net benefit of the coupled payment is less than the gross amount of the VCSS coupled payment. On Cattle Rearing farms that are currently loss making the receipt of the coupled payment is often insufficient to make them profitable.

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Over 50 percent of farms would experience an increase in their income under the REDIST scenario relative to their current position and up to one-third of farmers would see their income increase by more than 10 percent. However, those farms that gain the most tend to account for a relatively small proportion of output. The one-third of farms that would experience a more than 10 percent increase in their income account for 11 percent of national output, while those losing 10 percent of their income or more account for almost 40 percent of total farm output.

5. Opportunity/Benefit:

The research conducted in this project directly contributed to the formation of Irish public policy. The database developed based on administrative data from the DAFM SPS and AIMS databases for the first time allowed for the evaluation of the impact of different CAP reform options on the distribution of direct income support across the full population Irish farms.

The analysis conducted using Teagasc NFS data allowed for the evaluation of economic impact of 5 CAP reform implementation options – these results highlighted that losses in direct payment receipts and income for the majority of farms would be a consequence of a decision to implement a voluntary coupled payment scheme.

6. Dissemination:

The analysis conducted was presented to a series of confidential internal DAFM seminars over the period 2011 to 2013. Early results of the project were presented at the 4th CSO Business Statistics Seminar held in Dublin Castle in November 2011. The findings of this project formed the core of the Teagasc contribution to the AESI/Teagasc Seminar in March 2014 entitled “CAP 2014: Impetus, Impact and Implementation”.

Papers based on work presented in this project were also presented at meetings of the Agricultural Economics Society of Ireland and internal Rural Economy Development Programme (REDP) seminars.

The economic analysis undertaken in this project formed the core of the Teagasc submission to the Department of Agriculture, Food and the Marine (DAFM) call for submissions on the implementation of the Pillar I of the CAP reform agreement of June 2013.

Main publications:

Teagasc (2013) “Teagasc submission made in response to the Department of Agriculture, Food and the Marine CAP Public Consultation Process” Teagasc Submission to DAFM on implementation of the CAP. October 2013. http://www.teagasc.ie/publications/2013/2985/DAFM_Submission_20131029.pdf

Hanrahan K and S McPhillips “Using administrative data to model CAP reform options” Paper presented to the 4th CSO business statistics seminar, Chester Beatty Library, Dublin Castle. November 2012.

O’Neill S., Hynes S., O’Donoghue, C. and Hanrahan K. (2013) “The redistributive impact of EU farm payment reforms in the UK and Ireland” Paper presented to the AESI Annual Conference, Teagasc Ashtown November 2013.

Hanrahan K. (2014) CAP 2014: Impetus, Impact and Implementation – An Overview http://www.aesi.ie/aesi2014/khanrahan.pdf

Hanrahan, K (2014) CAP 2014: Analysis using Administrative Data http://www.aesi.ie/aesi2014/khanrahan.pdf

Hanrahan, K., Hennessy, T and Thorne F. (2014) CAP Reform Outcome: Teagasc National Farm Survey Analysis. http://www.aesi.ie/aesi2014/fthorne.pdf

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