

## Overview

At a time when the post-2013 future of the Common Agricultural Policy (CAP) is being discussed, it is important to review the impact of past reforms and to draw lessons. The CAP has regularly been reviewed and adjusted to improve its performance and adequacy to changing circumstances. Successive reforms have reduced market intervention and border protection, and increased the share of direct payments to producers in total support. Payments have been gradually delinked from current production or production factors to the extent that a large share of payments is now granted with no requirement to produce. Decoupling support from current parameters has contributed to making producers more responsive to market signals. Through a mechanism of transfers of funds from the first to the second pillar of the CAP, called “modulation,” reforms have also increased the share of payments targeted to specific objectives, such as improving the environmental performance of agriculture or its competitiveness.

As part of a wider project to evaluate CAP reforms since 1992, the Organisation for Economic Cooperation and Development (OECD) organised a workshop in Paris in March 2010. Researchers were invited to present recent studies on the disaggregated impact of CAP reforms with the objective to review available information at a more disaggregated level than the aggregate European Union (EU) level generally analysed by OECD. These workshop proceedings contain all the papers presented at the workshop and which were subsequently edited by Ken Thomson.

The studies presented cover reforms implemented since 2004, i.e. the reduction in intervention prices, the introduction of single payments to replace all or part of former area and headage payments, modulation as part of the 2003 “Luxembourg” reform, successive reforms of commodity sectors to integrate these into the single payment scheme, and the 2009 Health Check of the CAP, which consolidated the 2003 reform. The studies also include features specific to the sugar and dairy reforms with respect to the quota system and the restructuring of both these industries.

While the studies often take account of national and international market effects, they also go beyond aggregate impacts to consider on farm level or regional/local impacts. They combine a mixture of approaches, including interviews with farmers, micro-level data and regional case studies, as well as various types of modelling framework: from farm household level to regional (AgriPolis) and sectoral models, or both (CAPRI), and market equilibrium models (ESIM). A number of studies were carried out as part of EU Research Directorate-General (DG) projects, or for DG-AGRI or national governments.

The Workshop included seven sessions, which are reflected in the seven parts of the proceedings: agricultural markets and farm performance (Part I); land markets and farm structure (Part II); the dairy sector (Part III); the agro-food industry (Part IV); the distribution of support and income (Part V); the environment (Part VI) and rural development (Part VII). In the concluding session, Frank van Tongeren, Division Head in

the OECD Trade and Agriculture Directorate, outlined the main findings and identified areas where further work would be warranted and where complementary approaches would be useful.

In Part I, Brady *et al.* present the synthesis of the EU IDEMA research project on the impact of decoupling and modulation in a number of regions of the European Union. They examine farmers' adjustment to these policy changes, and impacts on farm structure, farm income, land rental prices, and land use. The analyses combine information from a survey of farmers' attitude and the AgriPoliS, which models farm adjustment in space and time. Using the CAPRI model, Renwick *et al.* assess the impact of allowing partial decoupling on prices, production and farm revenues in the European Union.

Part II focuses on land markets and structural change. Ciaian *et al.* discuss theoretical impacts of support on land values and present empirical evidence on changes in land markets with the introduction of the Single Payment Scheme in EU15 member states and the implementation of the Single Area Payment Scheme in new member states. Arfini and Donati assess the effect of a regionalised single payment system on farmers' behaviour and farm economic performance, using Positive Mathematical Programming (PMP) applied to FADN data in selected regions of the European Union.

The same method is used by Lelyon *et al.* to evaluate the impact of decoupling and market price variations on different types of dairy farms (Part III). In the same part, Jogeneel presents the results of studies on the impact of recent reforms of EU dairy policy on markets for dairy products, and on the size and income of dairy farms in selected EU member states. He then discusses market outlook and challenges for the EU dairy sector.

In Part IV, Gudoshnikov summarises the impact of the EU sugar reform on the sugar processing sector. Nowicki and Van Meijl then present an overview of Scenar2020 scenarios using a suite of models and statistical methods at the global, European Union, national and regional levels to decompose the individual effects of various policy components on agri-food trade, agri-food production and land use. This decomposition analysis helps identify the elements that drive the effects of policy reform.

Part V considers the impact of CAP reform on the distribution of support and income between farms. Using FADN data, Kleinhanss compares the distribution of single payment entitlements in France, where payments are based on historical entitlement (historical model), and in Germany, which applies a dynamic, hybrid model in which the share of payments based on historical entitlements gradually decreases as the share of regional flat rate payment entitlements increases. Kleinhanss also compares changes in entitlements in German regions and discusses developments in the distribution of payment entitlements by farm size, farm type and regions between 2000 and 2009, as well as income developments. Finally, he simulates the effect of moving to a regional model in other EU member states. Chatellier and Guyomard also use FADN data to simulate how the implementation of the Heath Check will affect the distribution of support among French farms. They demonstrate how modulation and Article 63 and 68 of the Health Check regulation are used to redistribute payments to areas with natural handicaps. Boulanger adopts a long term perspective of reforms and a more institutional approach to analyse the distribution of support in France in relation to national choices.

The impact of CAP reform on the environment is discussed in Part VI. Brady reports the findings of the IDEMA project on the environmental impact the introduction of single payments has had in selected EU regions via its impact on land use, biodiversity, nitrogen surplus and soil losses. Using the PMP method, Sinabell *et al.* reports *ex ante* estimates of

the environmental consequences of decoupling payments in Austria. The analysis simulates the impact of three options for implementing the single payment scheme — Austrian implementation, full decoupling with requirement to maintain land in Good Agricultural and Environmental Condition (GAEC) and full decoupling without GAEC — on a series of farm management and environmental indicators. He then compares observed outcomes of agri-environmental indicators. The findings show that the CAP reform of 2003 actually brought about environmental improvements which the previous reform (Agenda 2000) promised but did not deliver.

In Part VII, three papers consider the impact of CAP reform on different aspects of rural development. Mattas *et al.* use a multi-modelling cross-country approach (Positive Mathematical Programming applied to FADN data) to identify and measure the impact of decoupling on land use, gross margin and rural employment in five regions which present a diversity of geographic and economic characteristics. Using the LEITAP model, Nowicki *et al.* (2010) investigate the impact of the Health Check, in particular modulation, on land use, production, income and consequences for the environment and disadvantaged regions of higher fund availabilities. Ben Arfa *et al.* analyse the regional dynamic and spatial distribution of agricultural production in France from 1990 to 2006 and draw some conclusions on the role of the CAP in shaping the spatial structure of agricultural production.

The studies focus on the implementation of the single payment scheme, depending on implementation options and the transfer of funds from Pillar 1 to Pillar 2 (modulation). The main findings are as follows.

- Disaggregated impacts are larger than aggregate ones.
- Regions are diverse and the impacts of reforms depend on the structural characteristics of the farms and regional economies.
- The largest impacts on land use are in marginal regions, and not so profitable farms and farm types.
- As the movement towards decoupling has been gradual, the impact of more recent reforms on production is relatively modest in most regions, but the effect on income distribution is significant.
- As applied in the European Union, decoupling slows structural adjustment as it allows inefficient farmers to stay in business, and it increases the extensification of production.
- One crucial factor is the capitalisation of payments into land rent and prices, which reduces the income transfer efficiency of support.

The studies did not cover all aspects of policy reform and some areas for further work were identified. For example, the primary focus is at the farm level and there is still much to discover concerning the impact of CAP reforms on the structure and competitiveness of the agro-food sector, including the extent to which upstream and downstream industries have reacted to the reduction of market price support measures. Land markets are a crucial factor that influences the agricultural sector and it would be useful to maintain systems to monitor the functioning of these markets in order to understand the impact of agricultural policies on them. In order to better evaluate the impact of decoupling, risk and wealth effects of policies should also be taken into account more

systematically. Finally, it would be useful to know more on the effects of the CAP reform on innovation, competitiveness and employment.

Different approaches were used, including survey data, case studies, and various models, often in combination. In some studies, macro, regional and farm level models were used sequentially to simulate alternative reform options. In many cases, disaggregated impacts are captured at the administrative regional level, which is the level at which general data are available. In some areas such as environment or rural development, it would be interesting to have the flexibility to analyse more relevant areas, such as a water catchment area or an employment basin. Most analyses are carried out to evaluate *ex ante* impacts of future reforms. They would be usefully complemented by an empirical *ex post* assessment that examines what has really happened and identifies the contribution of policy reforms to changes at farm, regional and sectoral levels. Taking a longer term approach would also help take stock of the cumulative achievements of successive CAP reforms. This is what the OECD project, to which the workshop contributed, attempts to do.



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