



# EVALUATION ON THE IMPACT OF THE CAP MEASURES TOWARDS THE GENERAL OBJECTIVE “VIALE FOOD PRODUCTION



The aim of this evaluation has been to explore the impact of the CAP towards the general objective of ensuring a viable food production (VFP), with a focus on farm income, price stability and competitiveness of the agricultural sector. The measures under analysis are set out in four main regulations of December 2013, governing the CAP for the period 2014-2020. The geographical scope of the analysis is EU28.

**ELEMENTS INFLUENCING THE RESULTS**

- ➔ The evaluation was carried out just two years after the start of the 2014-2020 CAP. As a result, the availability of data to study the effects of the new policy is limited, one/two years depending on the data source.
- ➔ The launching of the current CAP coincides somehow with other events having an influence on producers choices and making the net effects of the 2013 reform less evident, in particular: the sharp decrease of the main agricultural commodities world prices (2013-2015); the introduction of the Russian ban in 2014; the end of the milk quota system in 2015.

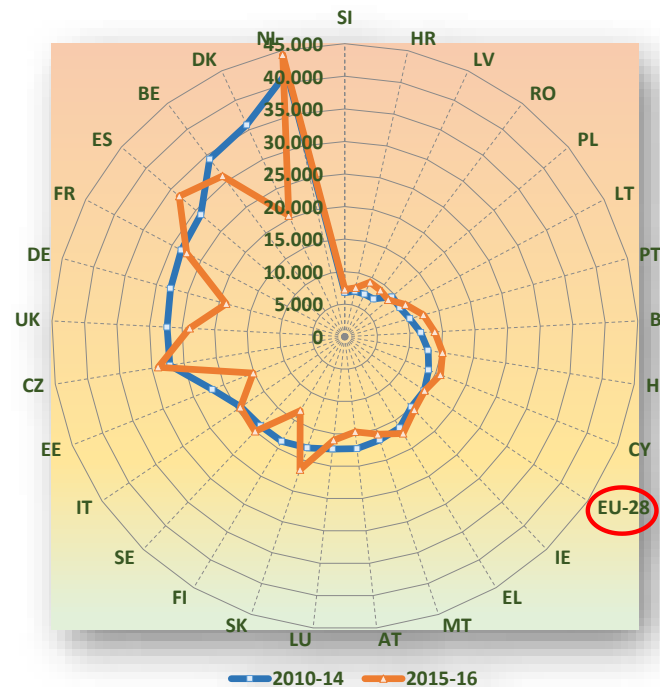
## ▲ FARMS INCOME LEVEL AND STABILITY

The share of CAP support on farm income shows that the policy plays an important role on income level. At EU level, the share is 34.5% in 2015 and direct payments, the CAP core instrument to support farmers income, account for around 27%.

However, the development of farm income in the years of implementation of the 2014-2020 CAP seems to be linked in a very limited way to the changes introduced by the current policy and much more to other factors, namely changes in the use of agricultural labour and market conditions. In particular, the level of agricultural prices in 2015 was considerably lower than in previous years.

The positive contribution of the CAP annual support to farm income level, and in particular of coupled and decoupled direct payments, is confirmed by the results of the econometric analysis. Farm investment support under rural development policy also has an indirect and positive effect on farm income through increasing the relative amount of capital available within the farm.

The analysis also shows that direct payments, relatively stable over time and not correlated with market evolution, allow farmers to better cope with the negative income effects caused by drops in agricultural prices. Indeed, direct payments contribute to the stability of farms income.



Farm income level, average 2010-2014 and 2015-2016 (PPS/AWU)

Source: Eurostat EEA and Labour Statistics

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The prospective analysis simulating the **FULL IMPLEMENTATION OF THE NEW DIRECT PAYMENTS SYSTEM** (the new system started to be applied in 2015 and will be fully implemented only in 2019) shows that most of the expected changes in the level of direct payments and farm income will be the result of the external convergence. In the countries that applied the Single Payment Scheme (SPS) historical model in the past and opted for the partial convergence (tunnel model), the changes foreseen in 2019 resulting from the internal convergence process will result in a shift of resources between sectors, with differentiated but limited income effects at regional level.

Lastly, income evolution between 2013 (previous CAP) and 2015 (current CAP) is increasing more in small farms compared to large farms and the full implementation of the new policy

is expected to further increase the level of direct payments in small farms more than in large farms.

## ▲ EXTERNAL CONVERGENCE AND THE DISPARITY OF DIRECT SUPPORT BETWEEN MEMBER STATES

The current CAP is effective in shifting direct income support towards farms in Member States with lower levels of support per hectare compared to the EU average, reducing the disparity among Member States: the disparities of the average level of direct payment support per hectare among EU countries will decline by almost 20% from 2014 to 2020 at EU28 level.

## ▲ INTERNAL CONVERGENCE AND THE DISPARITY OF DIRECT SUPPORT AMONG FARMERS

The current CAP is effective in reducing the disparity of the basic payment (BPS) among farmers in the Member States that used to apply the SPS historical model under the previous CAP. The reduction of the disparity of the value of the direct payment entitlements is still in progress in Member States that are gradually moving towards a flat rate or to partial convergence in 2019.

The current CAP has resulted in an increase of the disparity of direct payments among farmers in the Member States applying the Single area payment Scheme (SAPS). These countries already had a flat-rate payment before 2015 and with the new CAP many of them introduced the voluntary coupled support (VCS), which differs according to the sector. This resulted in a differentiation of the level of support per hectare.

At the end, although starting from different positions, the level of disparity observed in 2015 in the group of BPS Member States and in the group of SAPS Member States is about the same.

## ▲ EFFICIENCY OF DIRECT PAYMENTS IN TARGETING THE APPROPRIATE RECIPIENTS



The new CAP allowed to slightly increase efficiency: the share of farms receiving support creating an income per unit of labour higher than the average national labour productivity (i.e. overcompensated) decreased from 29% in 2013 to 26% in 2015. But there is still a large share of farms that does not reach the benchmark (74% in 2015). Thus a significant part of the expenditure could be saved or redistributed more efficiently allowing farms under the reference benchmark to reach/getting closer to it. The overcompensation is limited to 9% of the number of farms in the case of small farms and reaches more than 30% in the case of large farms. Hence, it is mainly in this latter group that the surplus is generated. Efficiency varies according to market volatility and also according to the different levels of the national labour productivity.

## ▲ THE EFFECTS OF NEW TARGETING ELEMENTS OF DIRECT PAYMENTS ON FARM INCOME

**REDISTRIBUTIVE PAYMENT** favoured income of small farms that show an increase of direct income support relative to larger farms.

**ACTIVE FARMER CLAUSE** had no notable effects: in the EU, in 2015, only 10.000 claimants were excluded from direct income support.

**YOUNG FARMER PAYMENT** has, so far, played a limited role in favouring the turn-over of farms management, however the current CAP has indeed target direct support towards young farmers: farms managed by young holders have increased, between 2013 and 2015, the relative amount of direct payments compared to the other farms.

## METHODOLOGICAL APPROACH OF THE EVALUATION

The methodology combines empirical analysis, via quantitative methods and modelling, with qualitative analysis based on information and points of views from stakeholders and agents operating in the farm sector and in the supply chains gathered in ten **Case studies** Member States.

**Econometric models** at farm level were used to distinguish the net income effects of decoupled direct payments, coupled direct payments, EAFRD annual payments and EAFRD support to farm investments.

A **prospective analysis** simulating the full implementation of the new direct payments system in 2019 integrates the analysis.

## THE ROLE OF CAP MEASURES ON JOB MAINTENANCE AND/OR CREATION IN THE FARM SECTOR AND IN THE PROCESSING INDUSTRY

In a situation of labour downward trend in the **FARM SECTOR**, there is a process of substitution of non-salaried labour with salaried labour that accelerated in the period after the 2013 CAP reform, to a greater extent in Member States implementing the subtraction of wages costs from the reduction of the payments. In general, **DIRECT PAYMENTS** play a differentiated role on total farms labour according to the sector and the related ongoing trends (increase or decrease) in the use of labour: direct support encourages labour increase in wine, other permanent crops and milk sectors but produces a decline of labour in mixed specialist farms. In other sectors the relationship between direct payments and farm total labour is less obvious.

**COUPLED SUPPORT** slowdown the decrease of labour in other grazing livestock, granivores, mixed specialist farms and on the contrary slowdown the rate of increase in fieldcrops and other permanent crops sectors. In the case of milk, coupled payments seem to accentuate labour decrease. In horticulture and wine farms the effects are not clear-cut.

VCS does not seem to have had a noticeable effect on the **PROCESSING INDUSTRIES** structural changes and labour force. Contrary to expectations, in beef meat, sheep and goat meat, dairy and sugar industries, the group of Member States applying VCS records unfavourable variations compared to the group of Member States without VCS. Situations are very uneven at Member State level, more or less independently from VCS implementation, according to background conditions generated by other more powerful drivers.

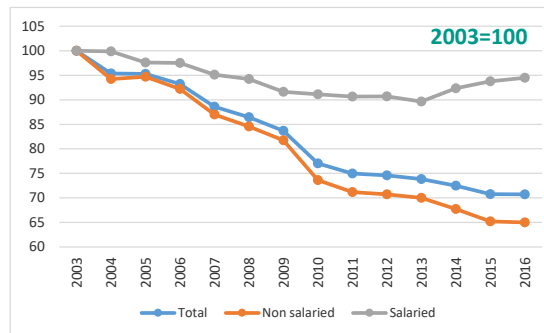
During the seven-year programming period, Member States/Regions programmed under **RURAL DEVELOPMENT PROGRAMMES** to create at EU level around 124.000 new jobs in rural areas and 304.000 new jobs in the farm sector through the creation of new farms. However, the implementation level of the measures at the end of 2016 was still rather limited.

## COMPETITIVE POSITION OF THE EUROPEAN FARM SECTOR

The competitive position of the EU farm sector in the internal market has gradually weakened over the long run: the share of imports on internal consumption has progressively increased, showing that EU consumption is satisfied to a higher extent by imports.

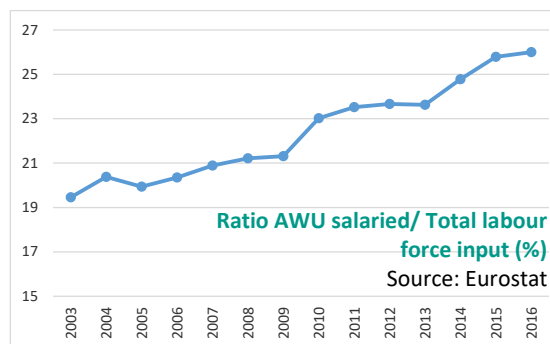
In the international market, EU exports in value increased over the period of analysis. However, world trade increased at a higher rate. Accordingly, there has been a weakening of the Union competitive position of the products under analysis in terms of market share due to emergence/stronger increase in exports in value of other competitors. This evolution continued in the two years of the current CAP and EU's market shares further decreased. Nevertheless, the evolution of EU competitive position is similar to that of its main international competitor (USA) and, in 2016, the EU maintained its second position after the USA in the world exports of the set of analysed products.

It should be noted that EU exports are characterised by a robust orientation towards high value added products and the share of high value added products on EU exports is stable over time with a small increase after the current CAP implementation. In addition, EU high value added products and low value added products follow completely different export strategies: the EU strategy for high value added products focuses on obtaining a higher price/quality position (compared to international competition); in the case of low value added products, in some cases EU exporters use international markets to sell lower quality products that encounter difficulties to be placed in the Union market.



Total AWU, non-salaried and salaried in EU 27

Source: Eurostat



Ratio AWU salaried/ Total labour force input (%)

Source: Eurostat

**!** Farms belonging to the various sectors are generally active in more than one production activity (i.e. are not single-crop). Thus, coupled support can have positive or negative effects on farms labour depending on whether the supported sector is more or less labour intensive compared to the other production activities of the farm.



## ▲ EFFECTS OF THE VOLUNTARY COUPLED SUPPORT ON THE COMPETITIVENESS OF SUPPORTED SECTORS

The VCS has influenced farmers' decisions and agricultural production in a generally limited way. This is because in many countries and sectors, and in particular cereals, dairy, beef, sheep and goat meat, coupled support was already granted under Regulation (EC) No 1782/2003 and Regulation (EC) No 73/2009. However:

- ☞ VCS seems to have played a role on surfaces and production of oilseeds, protein crops and sugar beet sectors, even if in this latter case it seems to have only allowed to slowdown the decrease.
- ☞ In the animal sector, the positive effect seems limited to breeding (livestock) and to the production of live bovine animals for slaughtering.
- ☞ In the case of cow milk, the observed variations of livestock and production are mainly due to the abolition of the quota system.

The observed effects of the VCS on farmers' decisions and agricultural production have not generated distortions of competition and did not significantly change the level playing field between Member States. A certain influence of VCS on prices, volumes and relative competitiveness would have been observed only in the beef meat sector and, in part, in the sugar beet and protein crops sectors.



## ▲ EFFECTS OF THE VOLUNTARY COUPLED SUPPORT ON THE COMPETITIVENESS OF THE PROCESSING INDUSTRY

The evolution of the production shares revealed no major changes in the competitive structure of the country-systems of the analysed sectors\* between the two periods (two years before and two years after the implementation of VCS). In general, the changes observed in the production shares of the group of Member States applying VCS and in the group of Member States not applying it in each specific sector are quite limited. In some cases, the group of Member States implementing VCS increased their production share (seed crushing industry, beef, tomato industry) and in others cases the production shares decreased (sugar industry, rice, sheep meat, dairy industry).

The results within the sectors are also quite uneven: in both groups of Member States, applying/not applying the VCS, some countries improved while others worsened their production shares.

The case of Germany is quite enlightening because Germany did not implement the VCS in any agricultural sector (can be considered as a counterfactual) and country-systems of all its processing sectors show a loss of production shares and thus a decrease in terms of production competitiveness (seed crushing industry, dairy industry, sugar industry; slaughtering industry, both beef and sheep meat).

The VCS (and above all the low level of the aid) did not produce an alteration of the industrial competitive balance but it could have permitted the maintenance of the activity of processing industries that without VCS would have had difficulties to continue their activity.

## ▲ EFFECTS OF EAFRD MEASURES SUPPORTING KNOWLEDGE, ADVISORY SERVICES AND COOPERATION ON THE COMPETITIVENESS OF THE AGRICULTURAL SECTOR

Member States and Regions planned to invest during the 2014-2020 programming period around 668 million euro for knowledge transfer, advice and cooperation dedicated to enhancing the viability and competitiveness of all types of agriculture (priority 2). After two years only 6.5 million euro, or 1% of the programmed amount, was spent. Implementation as measured with output indicators is in line with this low level of expenditure.

**!** *The decision of some Member States of distributing the VCS resources to a high number of sectors limited its effectiveness/efficiency respect to its aim. According to the stakeholders analysis, in these cases, VCS failed its aim of supporting sectors undergoing certain difficulties and resulted in an extra and generalized income aid for the beneficiary farms. On Member States where the VCS resources have been concentrated in sectors considered strategic, VCS was actually aimed at achieving its aim and had effects on production and relative competitiveness.*



*\* slaughtering industry, sugar industry, processed tomatoes industry, dairy industry, seed crushing industry and rice industry.*

## ▲ EFFECTS OF MARKET MEASURES ON THE STABILISATION OF DOMESTIC MARKET PRICES

Market measures helped to limit domestic prices volatility of most agricultural products. For most agricultural products concerned by market measures, volatility of domestic prices is lower than that of international prices → The existence of the EU market measures seems to play a deterrent role to the adoption of speculative activities.

In the 2014-2017 period, characterized by the world prices in USD decrease, by the decrease of the exchange rate EUR/USD by 20% and the introduction of the Russian ban, exceptional tools and measures implemented to face the fall of agricultural prices have been more or less effective in favouring the price recovery in all analysed sectors (butter, cheese, pigmeat and fruits & vegetables), with the exception of the skimmed milk powder.

The milk production reduction scheme contributed to the recovery of the dairy products market (commodities and cheeses). The net effect of its implementation at EU28 level amounted to a reduction of milk production of 1.36%.

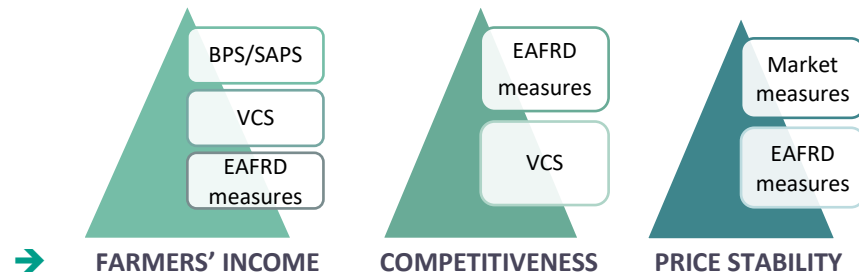
## ▲ EFFECTS OF MARKET MEASURES ON FARMERS PRODUCTION DECISIONS

Market measures did not generate structural surplus related to an opportunistic behaviour of farmers. However the awareness of the existence of a safety net may have induced milk producers to adopt production behaviours not attentive to market signals. Moreover, in a few cases, the economic conditions offered by market measures compared to market prices resulted attractive and may have induced short term opportunistic behaviours. Also in the case of some categories of fruits and vegetables/countries, the economic conditions offered by withdrawal prices were highly attractive generating also short term opportunistic behaviours.

## ▲ RELEVANCE OF THE CAP SPECIFIC OBJECTIVES RELATED TO VIABLE FOOD PRODUCTION RESPECT TO THE ACTUAL NEEDS

All three specific objectives into which the general objective of viable food production is broken down, “farmers’ income”, “competitiveness” and “price stability” were relevant respect to the actual needs at the time of the design of the CAP (2013) and they continued to be relevant during the period of its implementation.

Hierarchy of relevance of the CAP measures related to the three specific objectives according to the stakeholders analysis



## ▲ EFFICIENCY OF THE ADMINISTRATIVE PROCEDURES

It is generally agreed that the benefits of the current CAP are higher than its costs.

The most frequently cited critical issue link together the increase of the number of measures of the current CAP (compared to the previous CAP) with the limited number of beneficiaries of certain measures, for which management and control (checks on the spot) require a disproportionate use of resources, the high number of measures and sectors object of the VCS decided by some Member States and the introduction of the greening payment. Furthermore, there is a prevalent agreement on the overall efficiency of the implementation procedures, although some procedures could be improved, namely those related to the implementation of the greening and to the identification and management of active farmers.

**!** *In case of skimmed milk powder, the size of the intervention (public intervention and private storage) was insufficient, implementation was not sufficiently rapid and the implementation of the tools, rather than solving the problem, moved it over time (i.e. difficulty to sell the stored products).*



**!** *In some Member States the basic payment (BPS/SAPS) generates unexpected effects, in particular a rise in land rents. This means that part of the support would be captured by land owners (often persons not related to the agricultural world) and not totally received by the tenant farmers.*

## ▲ COHERENCE OF THE CAP MEASURES ADDRESSING VIABLE FOOD PRODUCTION

**INTERNAL COHERENCE** of viable food production policy is based on the acceptance that because of the multitude of objectives and national needs some measures may be coherent with some objectives and sub-objectives and inconsistent with others. This is the case of redistributive payment, where conflicting policy sub-objectives, productivity versus maintaining of farms and job, weak CAP internal coherence. Another potential internal conflict could be the greening measures that have environment and climate goals and represent a constraint for farming practices. This is not confirmed by the recent Evaluation study of the greening payment, financed by the European Commission. In the milk sector, coupled support and market measures, namely the milk reduction scheme, show low coherence, but the amendments introduced by the Regulation (EU) 2017/2393 (cd. Omnibus Agriculture Provisions Regulation) seem to have overcome this conflict. CAP measures targeting the general objective viable food production were found to be generally coherent **WITH THE OTHER GENERAL OBJECTIVES OF THE CAP** (“Sustainable management of natural resources and climate action” and “Balanced territorial development”) and also with certain objectives of other EU policies producing synergistic effects. For example certain viable food production measures work in parallel for reaching the targets of the EU 2020 climate & energy package: i.e. cross-compliance and greening payment.

## ▲ EU ADDED VALUE OF THE CAP MEASURES

The CAP creates EU added value contributing to the political objectives of the Treaty and of Europe 2020 and supporting the generation of a range of public goods, in particular ensuring a fair standard of living for farmers and securing food supply at reasonable prices. There is also a positive EU added value in terms of forming and developing a single market for agricultural and food products within the EU. In particular, the analysis show the EU added value of EU action addressing market regulations, especially of mechanisms dealing with market uncertain.

## RECOMMENDATIONS FOR FUTURE POLICY DESIGN

### Efficiency of direct payments

- ☞ Identify assignment criteria and instruments able to redistribute more efficiently part of the direct payments expenditure.

### Effectiveness of coupled direct payments

- ☞ Identify procedures for Member States to avoid ineffective use of VCS in relation to the objectives set by the legislation and the use for objectives other than those for which it was established.
- ☞ Ensure that the implementation of a high intensity of coupled support in a single sector does not cause the onset of artificial competitive advantages.
- ☞ Formulate a more pertinent and verifiable definition of the concept of "sectors or regions undergoing certain difficulties" justifying the implementation of the VCS.

### Effectiveness of decoupled direct payments

- ☞ Give attention to the generation of unexpected effects by the BPS, i.e. rise in land rents, and possibly investigate appropriate countermeasures.

### Price stability tools

- ☞ Assess possible options for further promoting and/or strengthening, in synergy with the already existing tools, other instruments to cope with excessive price fluctuations. Therefore, it is recommended that the Commission encourages Member States to effectively exploit the opportunities offered by the regulation (EU) 2017/2393 (Omnibus regulation).

### Administrative and management efficiency

- ☞ More flexibility to the greening payment to adapt the timeframe for farmers' eligibility and more subsidiarity in designing greening measures according to national needs.
- ☞ Monitor the amendments introduced with the Omnibus Regulation concerning the active farmer clause.

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KF-03-20-674 EN-C

Doi : 10.2762/144130