

EVALUATION OF THE IMPACT OF THE CAP MEASURES TOWARDS THE GENERAL OBJECTIVE “VIABLE FOOD PRODUCTION”

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SCOPE OF THE EVALUATION

Explore the impact of the CAP measures towards the CAP general objective of ensuring a viable food production (VFP) with a focus:

- on farm income
- price stability
- competitiveness of the agricultural sector

The measures under analysis:

- direct payments provided for in Regulation (EU) no. 1307/2013
- market measures provided for in Regulation (EU) no. 1308/2013
- rural development measures provided for in Regulation (EU) no. 1305/2013
- the provisions of the Horizontal Regulation (EU) no. 1306/2013

Geographical scope → EU28

Period of analysis → from 2015, starting date of implementation of the CAP and 2014 for the market measures under the CMO

The information and views set out in this report are those of the author(s) and do not necessarily reflect the official opinion of the Commission.

METHODOLOGY

The methodological approach combines :

- ❑ **Statistical analysis of secondary data** from various sources (DG AGRI, EU Regulations, EUROSTAT, COMEXT, COMTRADE)
- ❑ **Statistical analysis of FADN data** of a constant sample of farms in 2013 and 2015
- ❑ **Econometric models** developed on individual FADN data (2015) to distinguish the net income effects of decoupled direct payments, coupled direct payments, EAFRD annual payments and EAFRD support to farm investments
- ❑ **Prospective analysis** simulating the full implementation of the new direct payments system in 2019: FADN, individual farm data, baseline 2015
- ❑ **Qualitative analysis** of information collected from public authorities and stakeholders in the framework of ten National Case studies: CK, DE, DK, ES, FR, GR, HU, IT, LT, PL.



ELEMENTS INFLUENCING THE RESULTS

- ➔ the evaluation was carried out just two years after the start of the 2014-2020 CAP: 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 with other events having an influence on producers choices and making the net effects of the 2013 reform less evident:
 - decrease of main agricultural commodities world prices (2013-2015)
 - introduction in 2014 of Russian ban
 - end of milk quota system in 2015

▲ MAIN CONCLUSIONS ON ...



Effects on farms income



Effects on competitiveness of the agricultural sector



Effects on price stability



Coherence of the CAP measures



Relevance of the CAP specific objectives



Efficiency of the administrative procedures



EU added value of the CAP measures



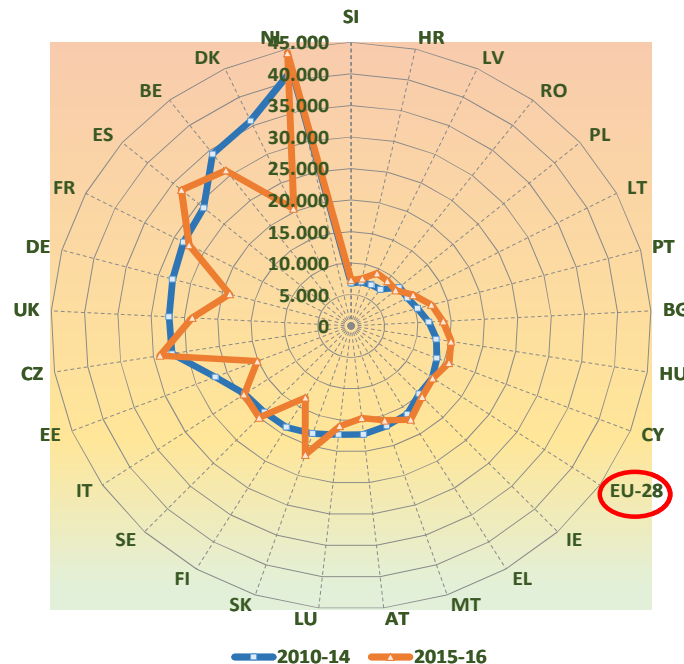
Farms income level and stability

The **statistical analysis at regional level** (Eurostat) revealed that the **policy plays an important role on farms income**



- ❑ at EU level, the share of CAP support on farm income in 2015 is 34,5%
- ❑ direct payments account for around 27%
- ❑ in 2015 most countries show an increase in the contribution of direct payments to farm income. No Member State shows a significant decrease.

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



Compared to the pre-reform period, **income has risen in about half of the Member States and decreased in the remaining countries.**

- ➔ substantial reduction in DK and DE resulting from a relevant decrease of income per unit of land not compensated (DK) or only partly compensated (DE) by an increase of the amount of land by unit of labour.



Farms income level and stability

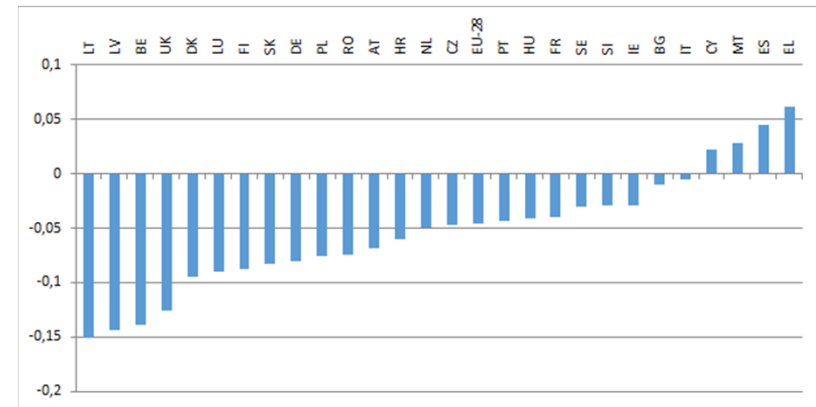
The **evolution of income in 2015** depends only partially on policy changes.

It is rather due to:



- ❑ the evolution of the amount of labour used in agriculture (i.e. structural change)
- ❑ the evolution of agricultural prices, particularly negative from 2010-14 to 2015, especially for milk and cereals.

Market impact: relative changes of agricultural prices between 2010-14 and 2015 in the EU MS (%)



Source: our elaborations based on Eurostat price indices

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**.



Stabilising effect of direct payments → correlated with the relative importance of DP on average farm income; differs in magnitude among EU countries.



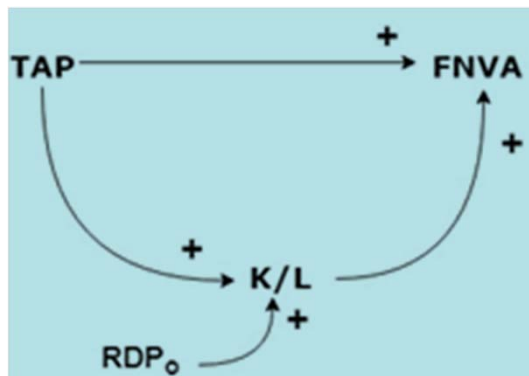
Farms income level and stability

The results of the **econometric modelling** show that...



- ❑ CAP support provided by annual payments has a **net positive impact on farm income.**
- ❑ both coupled and decoupled direct payments contribute to support farm income and the estimated coefficients of decoupled payments are greater than those of coupled payments → **transfer efficiency of policy support.**

Moreover, farm investment support under **rural development policy** has an indirect and positive effect on farm income through increasing the relative amount of capital available within the farm.



TAP	Total Annual Payments
RDP_o	Support granted to farms not as annual payments (i.e. mainly support to farm investments)
K/L	Amount of capital per unit of labour
FNVA	Farm Net Value Added
“+”	Indicates positive correlation

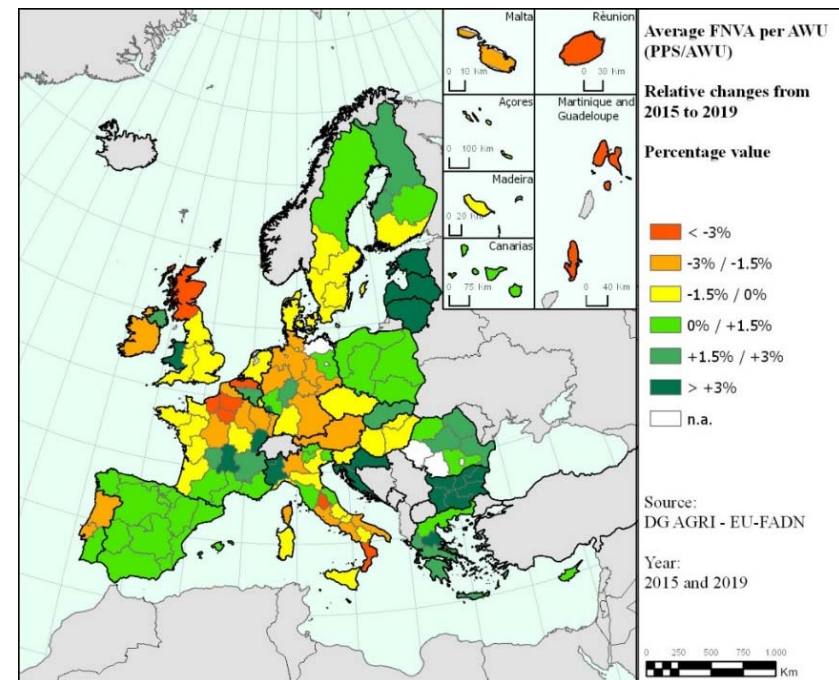


Farms income level and stability

The **prospective analysis** simulating the full implementation of the new direct payments system in 2019 shows that...



- ❑ changes foreseen would be the result of the external convergence mechanism.
- ❑ in the countries applying historical SPS model in the past and opting for the 2014-2020 tunnel model, the internal convergence would result in a shift of resources between sectors, with differentiated but limited income effects at regional level.
- ❑ the full implementation of the reform would result in a further increase of the level of DP in small farms more than in large farms.



FNVA/AWU: percentage variations across EU FADN regions between 2015 and estimated 2019 (%)

Source: our elaborations based on EU-FADN DG AGRI C-3



Effects of the 2013 CAP reform on the distribution of direct income support

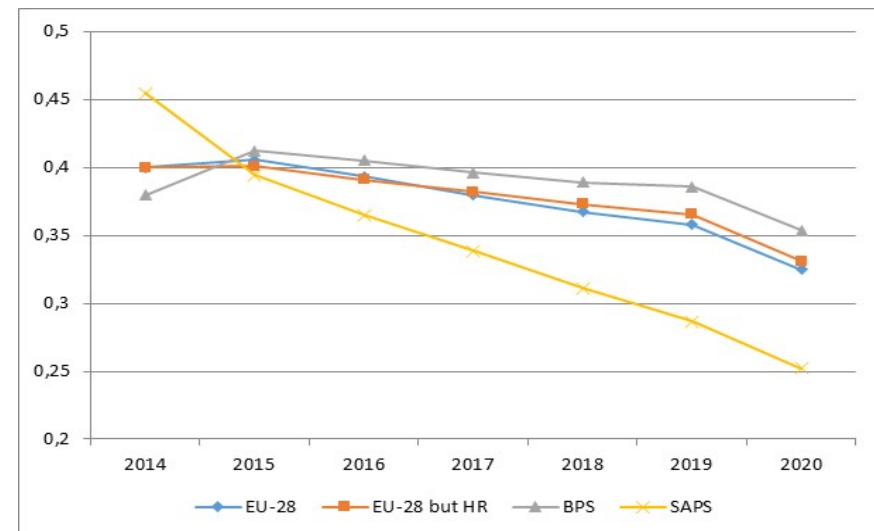
External convergence and disparity of DP between Member States:

- 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.



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.

Coefficients of variation of the unitary level of DP/UAA in the UE-28 from 2014 to 2020 (PPS/ha)



Source: Elaborations based on Eurostat data and EU regulations



Effects of the 2013 CAP reform on the distribution of direct income support

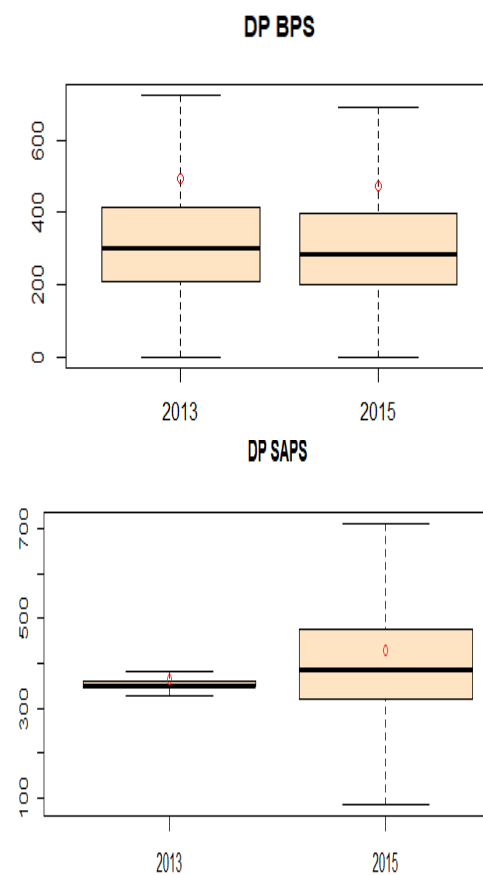
Internal convergence and the disparity of direct support among farmers → different impact on MS that apply BPS and MS that apply SAPS:

- **BPS:** the CAP is effective in reducing the disparity of DP among farmers in Member States that applied SPS historical model in the past → reduction is still in progress in Member States that are gradually moving towards a flat rate or to partial convergence in 2019.
- **SAPS:** the CAP resulted in an increase of the disparity of DP among farmers → these MS already had a flat-rate payment before 2015 and but with the new CAP introduced the VCS, which differs according to the sector, which resulted in a differentiation of the level of DP/ha.



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

Distribution of the unitary level of DP/UAA in FADN farms located in SAPS and in BPS Member States in 2013 and 2015 (PPS/ha)

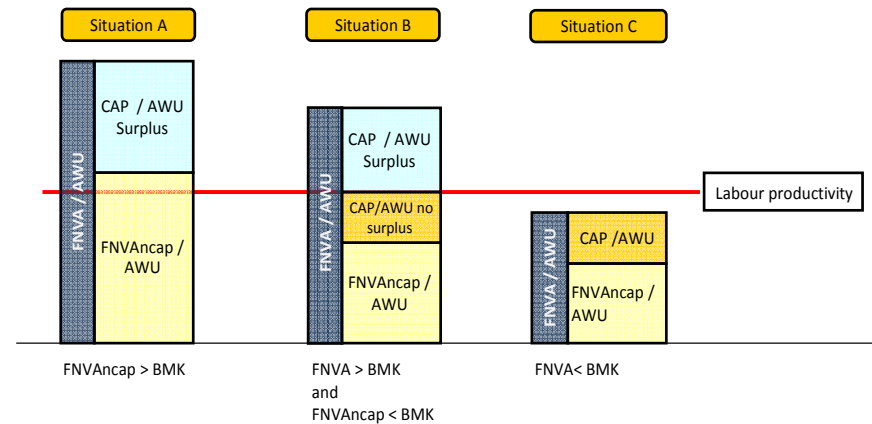


Source: Elaborations based on sample data
EU-FADN-DG AGRI L-3



Effects of direct payments in targeting the appropriate recipients

Analysis based on the comparison of farmers' income with labour productivity, i.e. added value of the economy/AWU, in FADN farms constant sample 2013 and 2015, in presence and in absence of support (FNVAncap).



situation A	$(FNVAncap/AWU) / \text{Labour productivity} > 1$	income of farmers is equal or higher than labour productivity even in absence of direct payments and other annual CAP supports
situation B	$(FNVA/AWU) / \text{Labour productivity} > 1$ and $(FNVAncap/AWU) / \text{Labour productivity} < 1$	income of farmers is equal or higher than labour productivity but only because of direct payments and others annual CAP supports
situation C	$(FNVA/AWU) / \text{Labour productivity} < 1$ and $(FNVAncap/AWU) / \text{Labour productivity} < 1$	income of farmers is lower than the benchmark even with direct payments and other annual CAP supports, i.e. agro-climatic-environmental payments



Efficiency of direct payments in targeting the appropriate recipients

- ❑ Current CAP allowed to slightly increase efficiency in targeting the appropriate recipients → share of farms receiving support that creates income > average national labour productivity (i.e. overcompensated) decreased from 29% in 2013 to 26% in 2015
- ❑ But 74% of the farms in 2015 do not reach the national benchmark → a significant part of expenditure could be saved or redistributed more efficiently
- ❑ The overcompensation is limited to 9% of the number of farms in the case of the small farms and reaches more than 30% in the case of large farms → the surplus is generated mainly in this group.

% Share of farms exceeding the benchmark out of the total number of farms
(total constant sample 2013/2015 and by size class)

		% share of farms > BMK			
		sit A	sit B	(A+B)	sit C
2013	Total farms	16,3	13,1	29,4	70,6
	Large	19,6	15,2	34,8	65,2
	Small	3,5	5,1	8,6	91,4
2015	Total farms	13,5	12,6	26,1	73,9
	Large	15,9	14,6	30,5	69,5
	Small	4,3	4,6	8,8	91,2

Sources: Elaborations based on constant sample data EU-FADN-DG AGRI C-3 ; Eurostat (nama_10_lp_ulc)



Efficiency of the expenditure varies according to market volatility and also according to the different levels of the national labour productivity.



The role of the new targeting elements on farm income

New targeting elements of direct payments are aimed at targeting the support to specific portions of the farm population.

Redistributive payment

- ❑ Favoured income of small farms that show an increase of direct income support compared to larger farms
- ❑ This tool targeted direct income support towards small farms.

Active farmer clause

- ❑ Had no noteworthy effects: in 2015 at EU level 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 CAP has target direct support towards young farmers: farms managed by young holders increased between 2013 and 2015 the relative amount of direct payments compared to other farms.



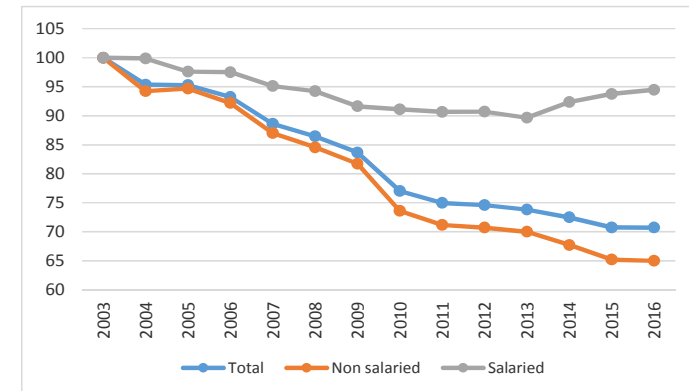
The role of CAP measures on job maintenance and/or creation in the farm sector

Analysis at regional level (Eurostat data)

- ❑ at EU level, total labour force and non-salaried labour force show a negative trend over the entire period
- ❑ at EU level, salaried labour force increases after 2013 → more in MS applying subtraction of wages costs from the reduction of payments.

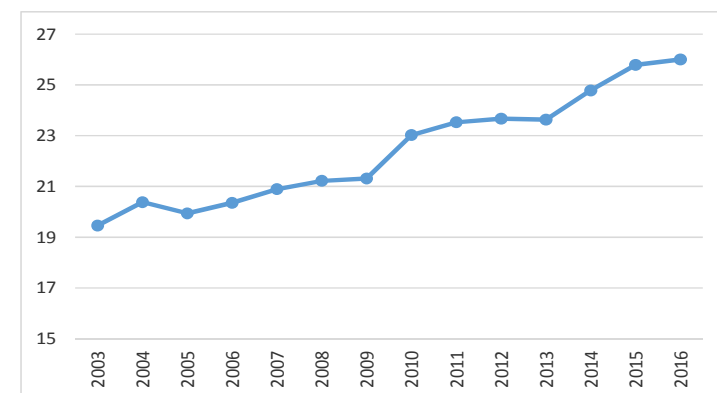


Process of substitution of non-salaried labour with salaried labour accelerated in the period after the 2013 CAP reform to a greater extent in Member States adopting the subtraction of wages costs from the reduction of the payments.



Total AWU, non-salaried and salaried in EU 27

Source: Eurostat



Ratio AWU salaried/ Total labour force input (%)

Source: Eurostat



The role of CAP measures on job maintenance and/or creation in the farm sector

Analysis at farm level (2013-2015 FADN constant sample of farms)

SALARIED LABOUR increases in sectors more labour intensive

CONTRACT WORK is partially replaced by salaried work in large farms



- ❑ Salaried labour is increasing in horticulture, wine and other permanent crops sectors, both in small and in large farms
- ❑ Contract work is decreasing in horticulture, wine, other permanent crops sectors in large farms.

DIRECT PAYMENTS play a differentiated role on total farms labour according to sector



- ❑ encourage labour increase in wine, other permanent crops and milk sectors
- ❑ produces a decline of labour in mixed specialist farms
- ❑ in other sectors the relationship between direct payments and farm total labour is less obvious: fieldcrops, horticulture, other grazing livestock, granivores.



The role of CAP measures on job maintenance and/or creation in the farm sector

Analysis at farm level (2013-2015 FADN constant sample of farms)

- !** *coupled DP 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.*

COUPLED SUPPORT



does not seem to have had a noticeable effect on **PROCESSING INDUSTRIES** structural changes and labour force.

- ❑ slowdown the decrease of labour in other grazing livestock, granivores, mixed specialist farms
- ❑ slowdown the rate of increase in the fieldcrops and other permanent crops sector
- ❑ in the case of milk coupled direct payments seem to accentuate labour decrease
- ❑ in the horticulture and wine farms the effects are not clear-cut.



The role of CAP measures on job maintenance and/or creation in the farm sector

Analysis based on data presented by Member States/Regions in the Annual Implementation Report (AIR) of June 2017 referring to the implementation up to 31/12/2016

Under the new Rural Development policy a number of actions were designed to support social inclusion and economic development in rural areas, to support young farmers and stimulate a generational renewal strategy and to support new entrants to farming (including from outside the family).

Member States/Regions programmed their **RURAL DEVELOPMENT PROGRAMMES 2014-2020** to create at EU level ...



- ❑ around 124.000 new jobs in rural areas (of which 80.000 in diversification actions and creation and development of small enterprises and 44.000 new jobs through LEADER groups)
- ❑ about 304.000 new jobs in the farm sector through the creation of new farms (of which around 177.000 new farms held by young farmers and 127.000 new small farms).

However, the implementation level of the measures at the end of 2016 was really limited.

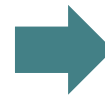


Competitive position of the European farm sector

Competitiveness is the ability of a system to offer goods and services on a specific market under such conditions that buyers prefer them to the goods and services offered by competitors → is a relative concept and its assessment is possible through the comparison with similar entities.

The analysis studies the competitive position of the European farm sector on the:

- ❑ **INTERNAL MARKET:** through the degree of import penetration (imports/apparent consumption) of a set of agri-food products.
- ❑ **INTERNATIONAL MARKET:** through the analysis of EU data on exports (in Euro, 2003-2016), export trends related to world trade and market shares in world exports compared to USA data (i.e. agro-food sector similar to the EU agri-food sector) → the analysis focuses on a **SUBSET OF THE EU AGRI-FOOD PRODUCTS** distinguishing low value added products and high value added products.



Low V.A. products	High V.A. products
01 Live animals	406 Cheese
02 Meat	1509 Olive oil
401 Milk and cream	1601 Sausages and similar products
40210 Milk powder < 1.5% fat, SMP	1602 Other processed meat
405 Butter and butteroil	19 Cereals products
06 Flowers	20 Vegetables and fruits products
07 Vegetables	21 Miscellaneous preparations
08 Fruits	2203 Beer
10 Cereals	2204 Wine
12 Oil seeds	2205 Vermouth
1507 Soya-bean oil	2209 Vinegar
1508 Ground-nut oil	
1510 Olive oil, blends	
1512 Sunflower-seed oil	
1514 Colza oil	
1701 Sugar	
2304 Soya oil-cake	
2305 Ground-nut oil-cake	
2306 Other oil-cake	
2401 Tobacco (raw)	
5201 Cotton (raw)	
5301 Flax (raw)	
5302 Hemp	



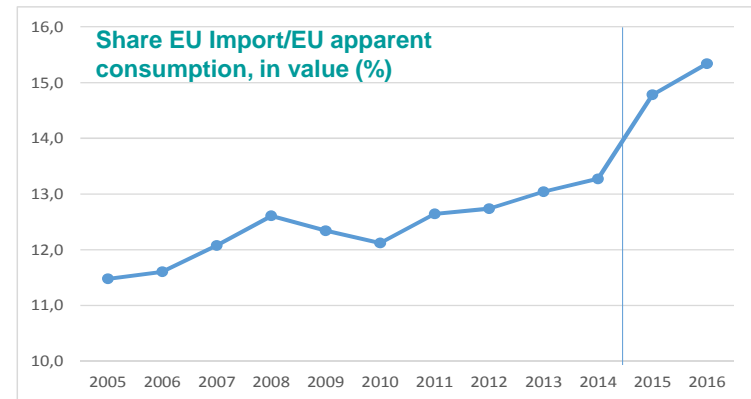
Effects on competitiveness of the agricultural sector

Competitive position on **INTERNAL MARKET**:

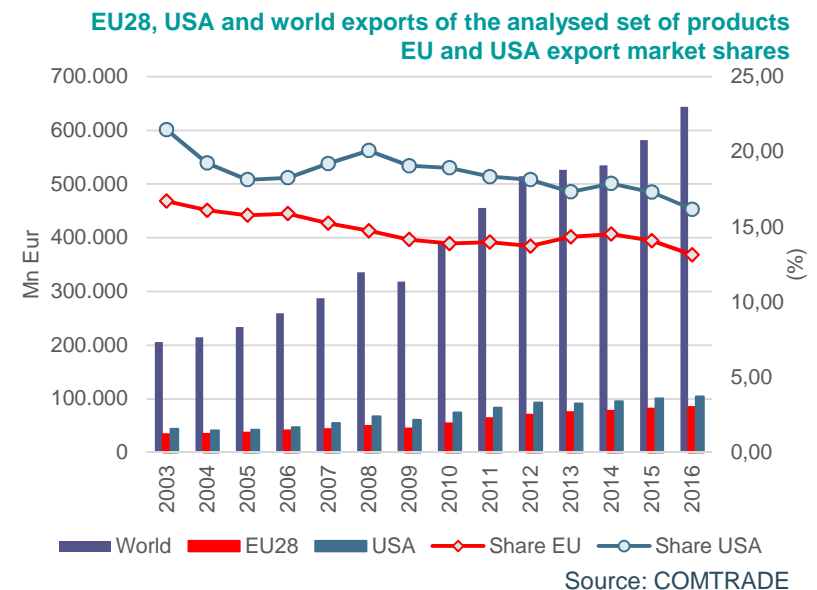
- ❑ gradually weakened over the long run
- ❑ share imports/internal consumption has progressively increased → EU consumption is satisfied to a higher extent by imports.

Competitive position on **INTERNATIONAL MARKET**:

- ❑ EU exports in value increased over the period of analysis, but world trade increased at a higher rate → decrease of EU export market share due to emergence/stronger increase of exports in value of other competitors
- ❑ this evolution continued over the two years of the current CAP
- ❑ evolution of EU competitive position is similar to its main international competitor (USA)
- ❑ in 2016, EU maintained its second position after the USA in the world exports of the set of products considered in the analysis (13,16%).



Sources: EUROSTAT - COMEXT



Source: COMTRADE



Effects of the VCS on the competitiveness of supported sectors and of processing industry

EFFECTS ON THE COMPETITIVENESS OF SUPPORTED SECTORS

Overall VCS had limited effects on farmers' decisions and agricultural production. However, it played a role :

- ❑ on surfaces and production of oilseeds, protein crops, sugar beet sectors,
- ❑ in breeding (livestock) and production of live bovine animals for slaughtering.

Cow milk variations are linked to quota abolition.

VCS did not generate distortions of competition and **did not change the level playing field** between MS. Only exception: influence on beef meat sector and, in part, sugar beet and protein crops.

EFFECTS ON THE COMPETITIVENESS OF THE PROCESSING INDUSTRY

No major changes in the competitive structure of the country-systems of analysed sectors (slaughtering industry, sugar industry, processed tomatoes industry, dairy industry, seed crushing industry and rice industry). However, VCS could have permitted the maintenance of the activity of processing industries that without VCS would have had difficulties to continue their activity.

In Germany that did not implement VCS in any sector, country-systems of all its processing sectors show a loss of production share → decrease of production competitiveness.



Effects of CAP measures on the competitiveness of the agricultural sector

EU AGRICULTURAL PRODUCTS TECHNICAL QUALITY

The implementation of the CAP did not stimulate a noticeable and/or demonstrable effect on the quality of beef meat, cow milk and sugar beets sectors.

Technical quality is not directly related to direct payments but to:

- ❑ long term improvement processes already in place before the implementation of the 2003 reform in the case of the beef and sheep and goat meat sector or
- ❑ a slow process of genetic improvement of the herds in the case of cow milk
- ❑ the effects of the 2006 CMO reform in the case of sugar.

EAFRD MEASURES SUPPORTING KNOWLEDGE, ADVISORY SERVICES AND COOPERATION

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.



Effects of market measures on the stabilisation of domestic market prices

MARKET MEASURES helped to limit domestic prices volatility of most agricultural products

→ volatility of domestic prices of most agricultural products concerned by market measures is lower than that of international prices

The **MILK PRODUCTION REDUCTION SCHEME** contributed to the recovery of the dairy products market (commodities and cheeses).



The existence of the EU market measures play a deterrent role to the adoption of speculative activities.

In the 2014-2017 period, **exceptional tools and measures** implemented 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 net effect at EU28 level = reduction of milk production of 1,36%, significantly more important in some Member States (Ireland, Bulgaria, Portugal, Lithuania)



Effects of market measures on farmers production decisions

MARKET MEASURES did not generate structural surplus related to 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.

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.



- ❑ Intervention price appears attractive for the Baltic countries and, taking into account transaction costs, also in Belgium, Germany, Poland
- ❑ Economic conditions offered by withdrawal prices were highly attractive for apples in Poland and Germany generating also short term opportunistic behaviours.



Coherence of the CAP measures

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.



- ❑ **redistributive payment:** conflicting sub-objectives, productivity *versus* maintaining of farms and job.
- ❑ **greening measures:** have environment and climate goals and represent a constraint for farming practices (not confirmed by the recent Evaluation study of the greening payment)
- ❑ **milk sector:** coupled support and milk reduction scheme, show low coherence → amendments of Reg. (EU) 2017/2393 seem to have overcome this conflict.

Viable food production CAP measures 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 analysed EU policies producing synergistic effects.



Relevance of the CAP specific objectives

RELEVANCE OF THE SPECIFIC OBJECTIVE “FARMERS’ INCOME” RESPECT THE NEEDS

Analysis show an increase at EU level of the number of holdings with negative income between 2013 (5,8%) and 2015 (6,6%) → **in 2013 income support was an actual need and it continued to be in 2015.**

RELEVANCE OF THE SPECIFIC OBJECTIVE “COMPETITIVENESS” RESPECT THE NEEDS

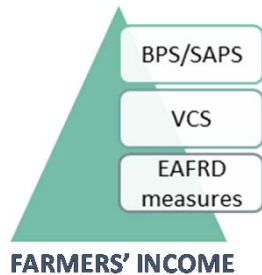
- ❑ **external competitiveness:** objective was relevant before the reform and became critical in the period of its implementation due to unfavourable conditions on the international market: Russian ban, drop of main agricultural commodities world prices.
- ❑ **internal competitiveness:** relevance depends on the situations of the different sectors and context conditions of MS: actual needs are differentiated within sectors/MS within the same sector.

RELEVANCE OF THE SPECIFIC OBJECTIVE “PRICE STABILITY” RESPECT THE NEEDS

- ❑ **was relevant before the 2013 CAP reform and it continued to be during the first two years of CAP implementation** → variability of agricultural goods prices always far superior compared to non-agricultural goods prices index before and after CAP reform.
- ❑ even if pertinent, is to some extent contrary to the choices of a greater opening of the EU market.

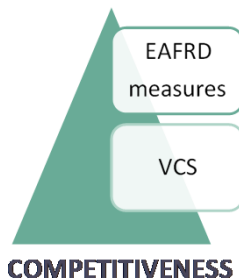
WHAT DO YOU
NEED?

Relevance of the CAP measures related to the specific objectives



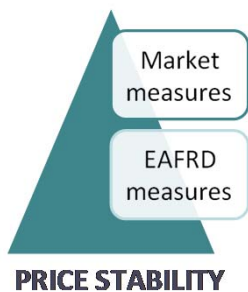
Compulsory measures, in particular BPS/SAPS, are considered the most relevant measures towards the specific objective farmers income.

In some MS the basic payment (BPS/SAPS) generates unexpected effects → a rise in land rents. Part of the support would be captured by land owners and not totally received by the tenant farmers.



Some EAFRD measures are judged by stakeholders as the most relevant towards the competitiveness objective, together with the VCS both as a result of their direct function (investments, measures encouraging innovation) and indirect function (measure for young farmers, knowledge and training, advice measures).

According to stakeholders the relevance of the competitiveness specific objective derives from the ability of Member States to integrate the different relevant measures of the I and II pillars.



Safety net and crisis management tools are considered relevant but not sufficient to limit price volatility.

II pillar measures that stimulate agro-industrial relations are also considered relevant: those that favor agro-industrial relations (contract negotiations, supply chain agreements between agricultural and downstream operators, etc.) especially if implemented by agricultural associations appropriately enhanced through specific CAP measures.



Efficiency of the administrative procedures

The efficiency of the administrative costs and management related to the current CAP implementation is based on the results of the stakeholders analysis → in terms of balance between administrative costs and benefits of the policy / measures.

- ❑ **Efficiency of the current CAP :** for most interviewees the benefits achieved are higher than the costs. Most frequently cited critical issues link together the increase of measures (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.
- ❑ **Efficiency of the implementation procedures:** 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.



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.

The analysis show also 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 to avoid 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.