

Medium-term prospects and impact assessment of the CAP reform

EU - 15 & EU - 25

2003 - 2010



Structure of the presentation

Introduction

- Analytical approach

Main results

- Medium-term prospects and impact of the CAP reform for agricultural markets and income for EU-15 (non-enlargement scenario)
- Medium-term prospects and impact of the CAP reform for agricultural markets and income for EU-25


Conclusion

- Summary of key findings




Methodological approach

<i>Type of models</i>	<ul style="list-style-type: none">• DG AGRI impact analysis carried out using a set of recursive dynamic partial equilibrium models (similar models used for market projections) for EU-15 and a comparative static model (ESIM) for EU-25• Model output: balance sheet for main commodities, market prices, farm income
<i>Results</i>	<ul style="list-style-type: none">• Main results presented in absolute terms and in deviation from Agenda 2000

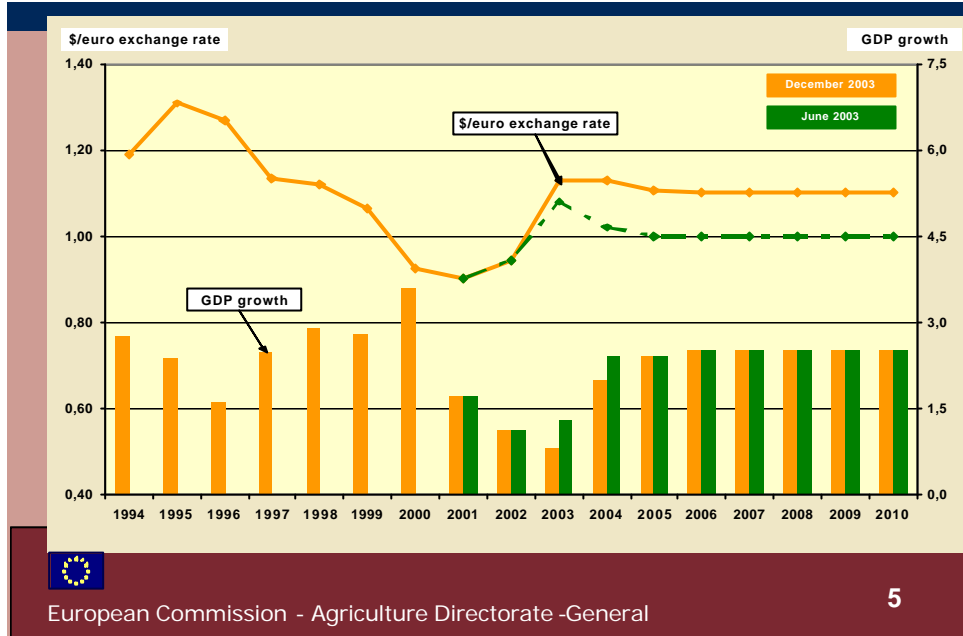
 European Commission - Agriculture Directorate -General 3

Methodological approach

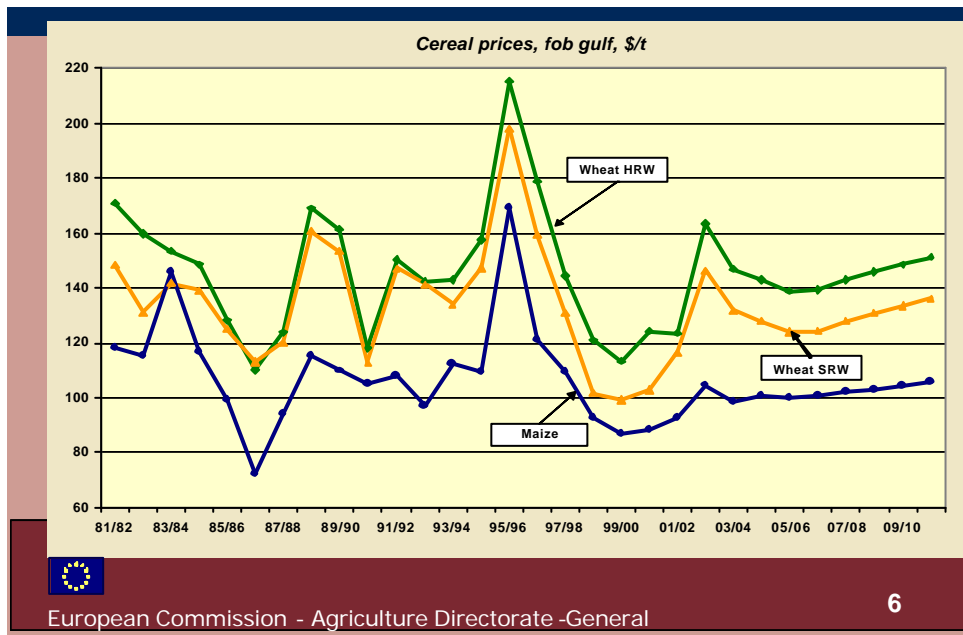
<i>Main assumptions</i>	<ul style="list-style-type: none">• Uruguay Round Agreement on Agriculture maintained constant• Favourable, though moderate world agricultural market outlook• Modest EU economic and population growth• \$/euro Exchange rate stable at 1.1 over the medium-term• Payments assumed to be decoupled for $\frac{2}{3}$ in the animal sector and 90% in the crop sector
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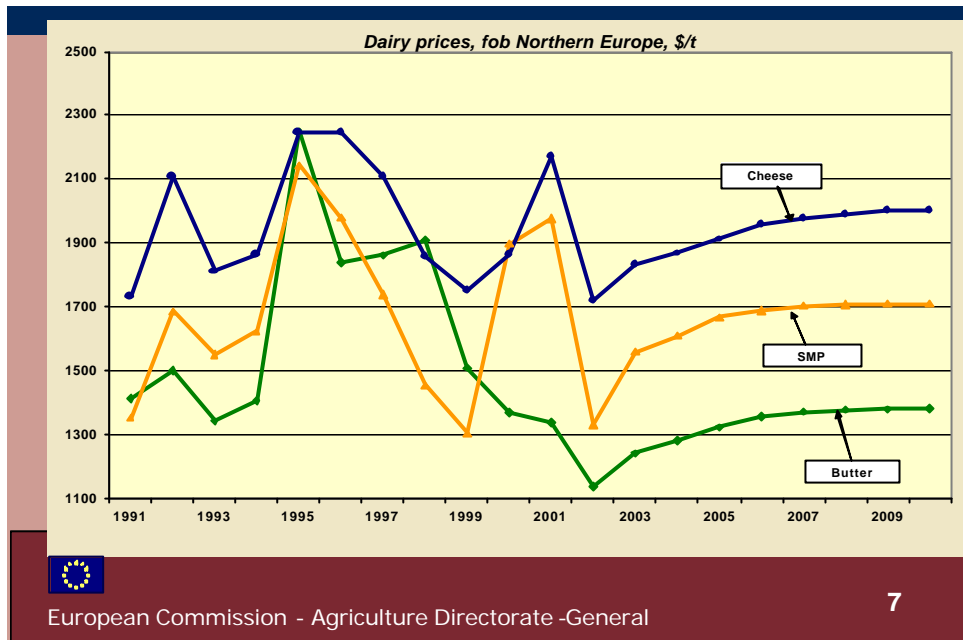
Modest economic growth and a relative strong euro



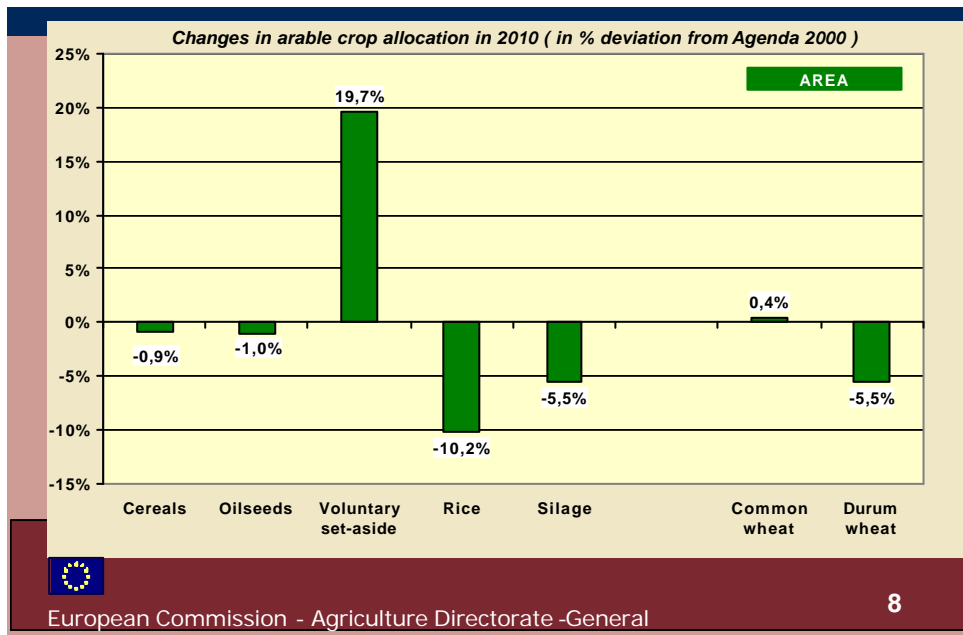
Moderate, though favourable world market prospects 1/2



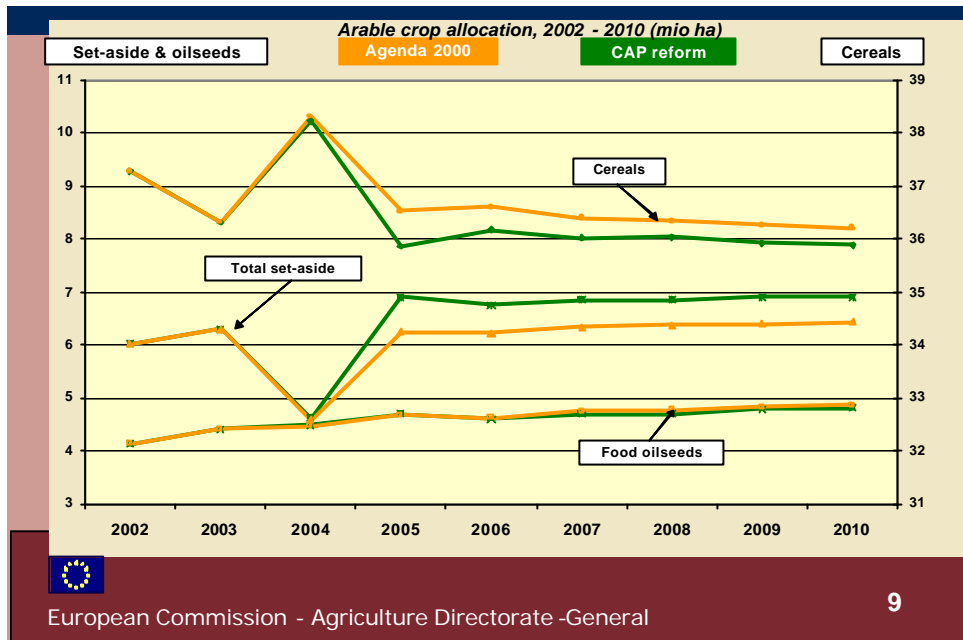
Moderate, though favourable world market prospects 2/2



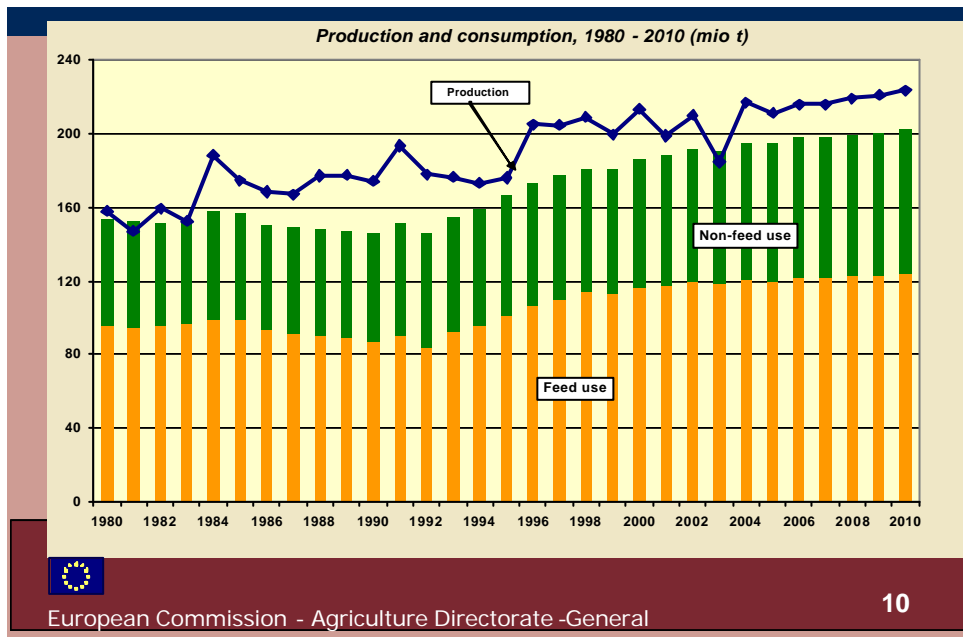
CAP reform : more pronounced increase in land set-aside and slight further decline in EU-15 arable crops area



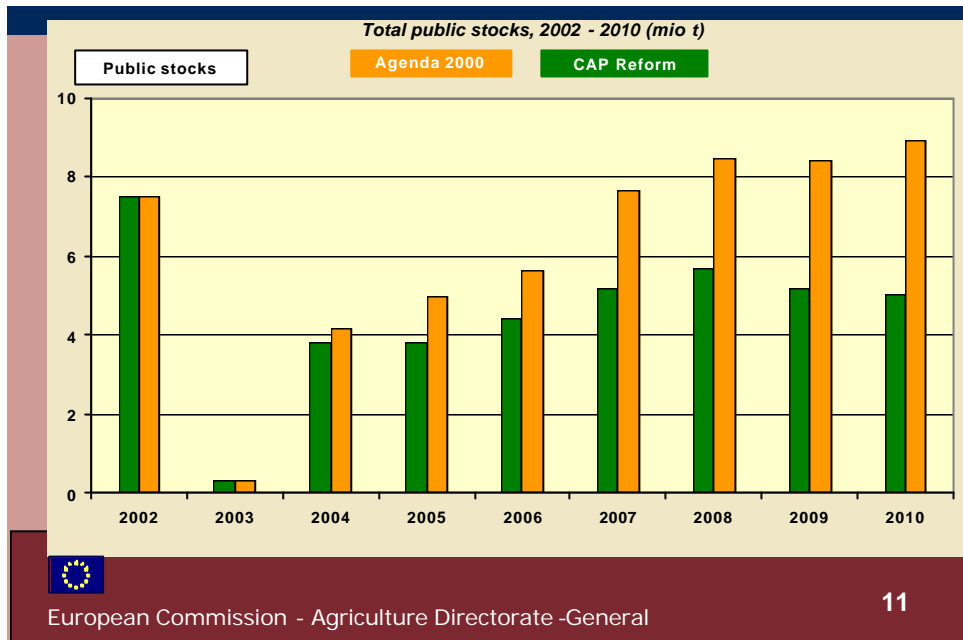
CAP reform : slight decline in EU-15 arable crop area



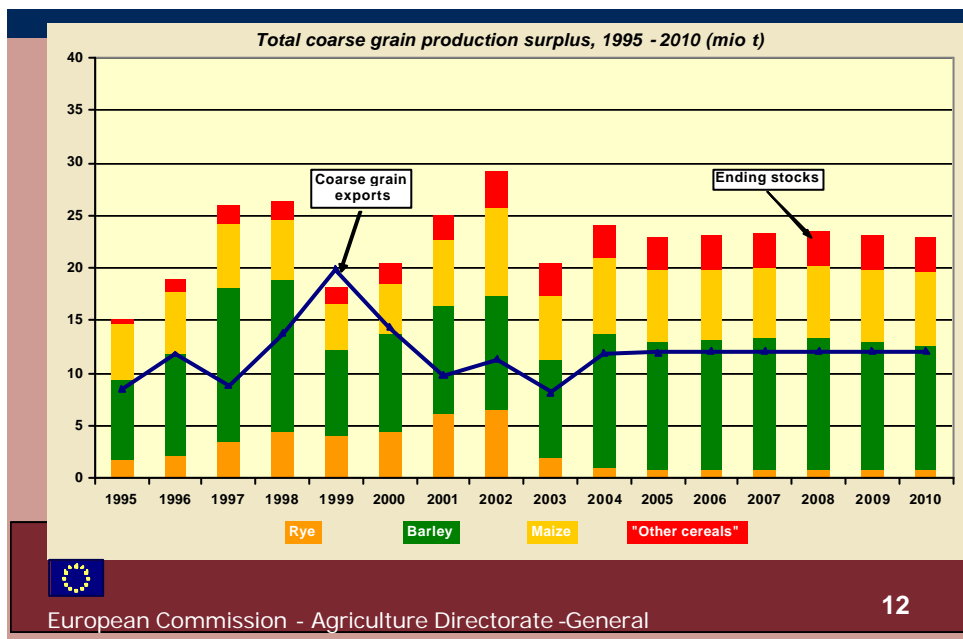
Broadly balanced EU-15 cereal market over the medium-term



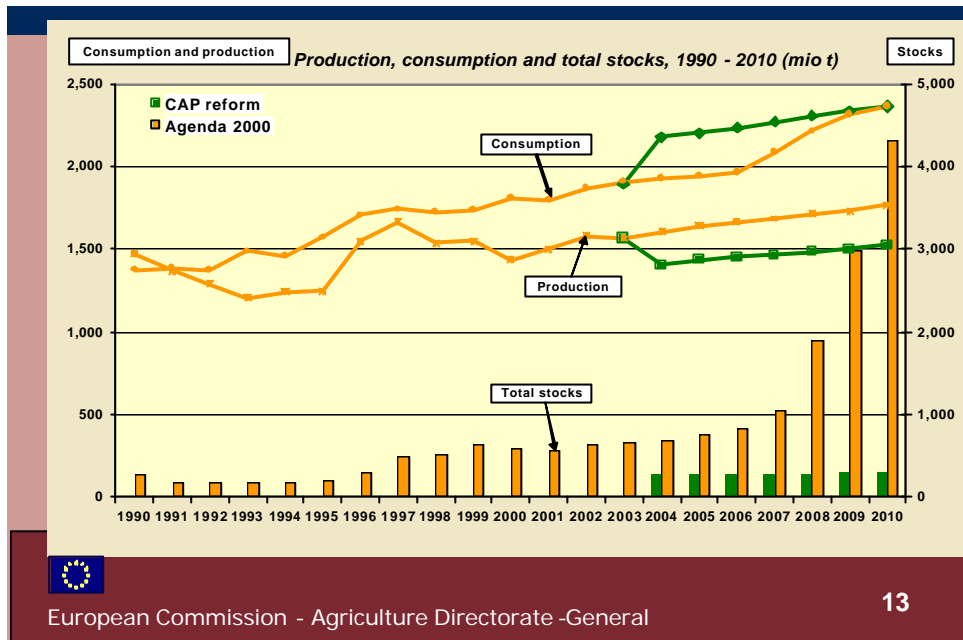
CAP reform : limited build up in cereal stocks



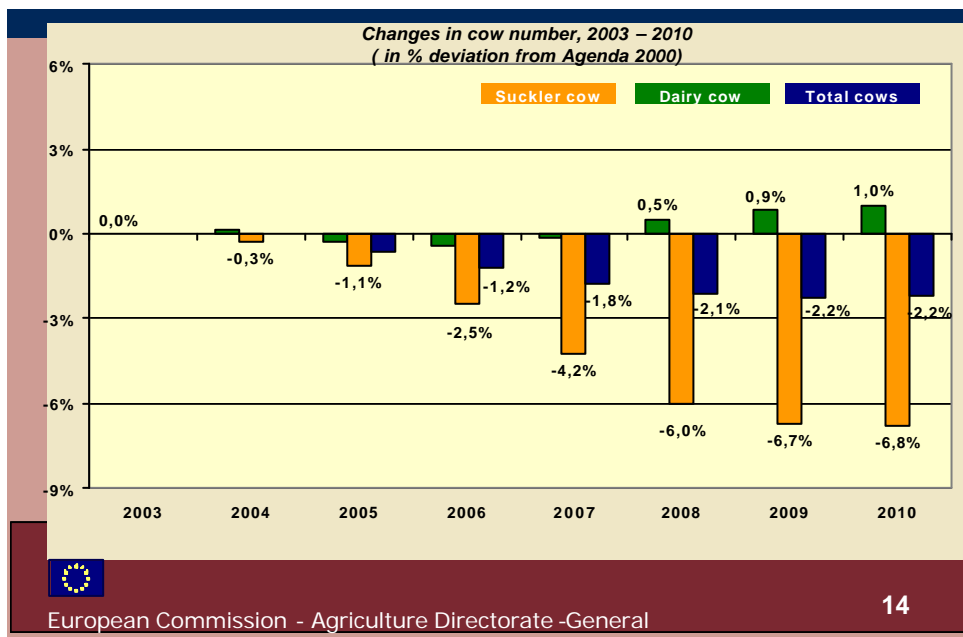
Coarse grains surplus to remain stable over the medium-term



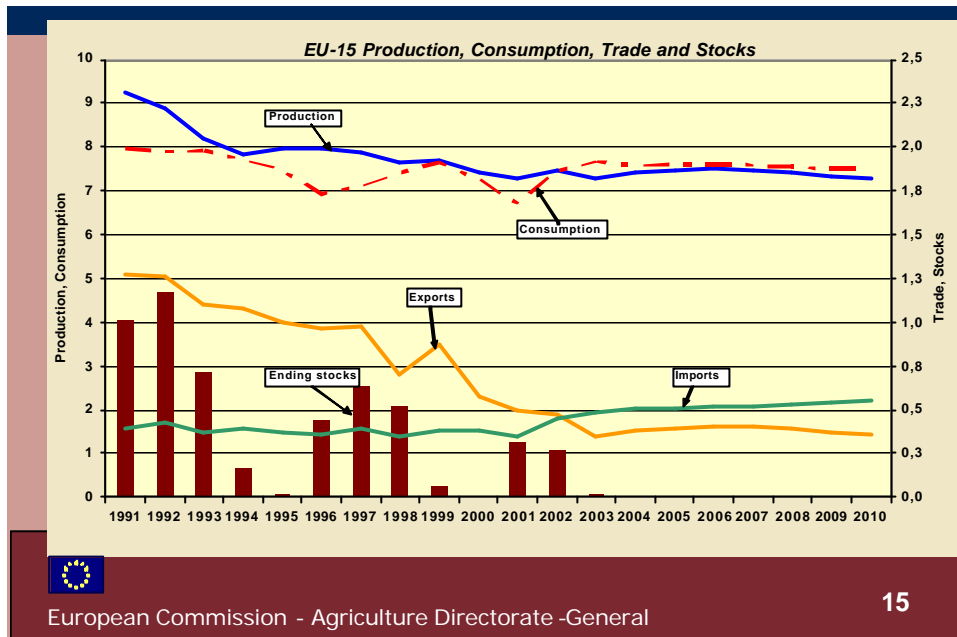
CAP reform : rapid improvement for EU-15 rice market



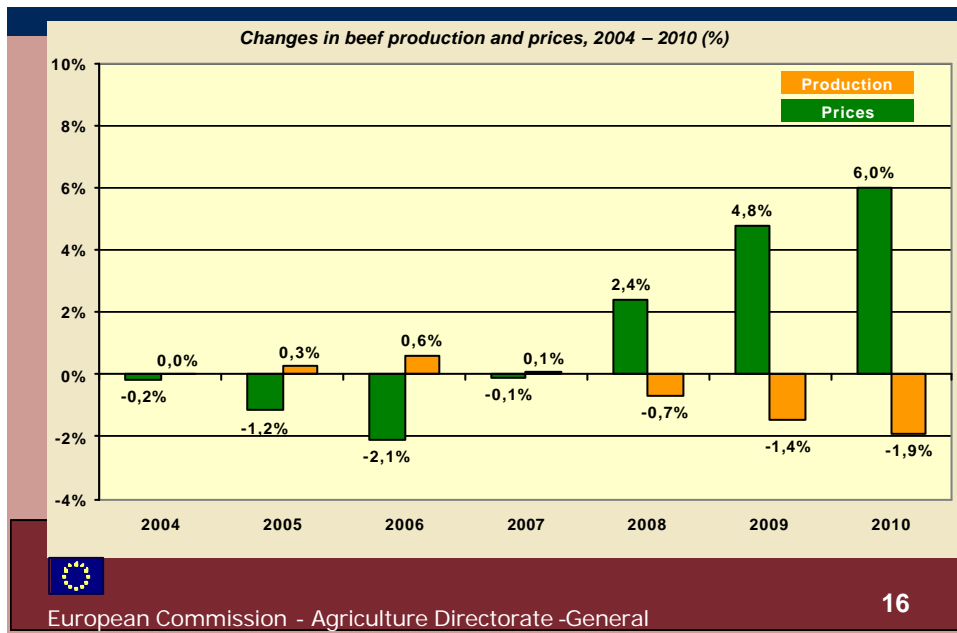
CAP reform leads to reduction in EU-15 beef production potential



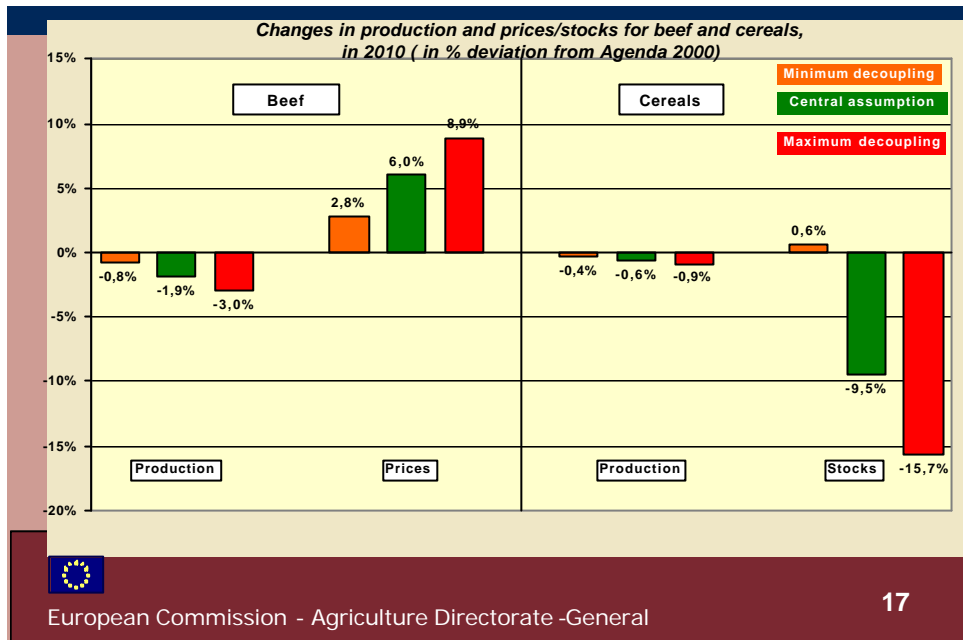
EU-15 beef demand to exceed production over the medium-term



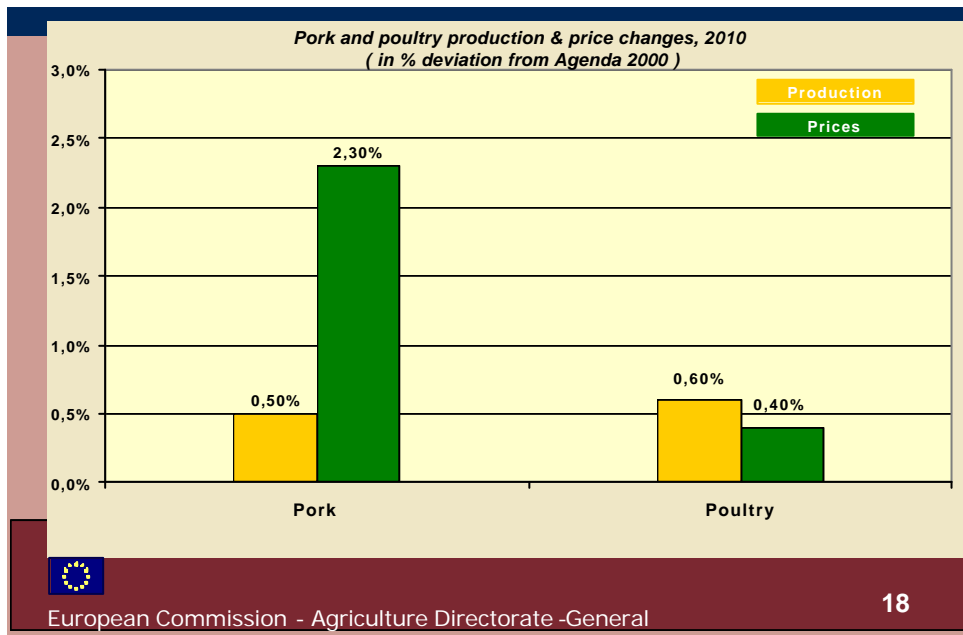
CAP reform allows for a strong improvement in EU-15 beef market balance and price rise



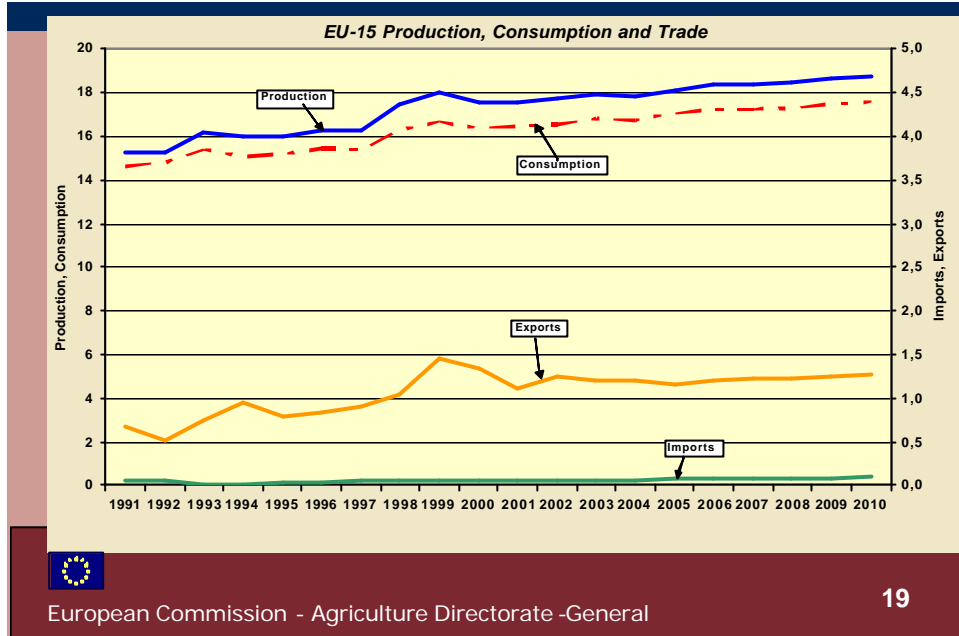
Impact of CAP reform dependent from the degree of decoupling



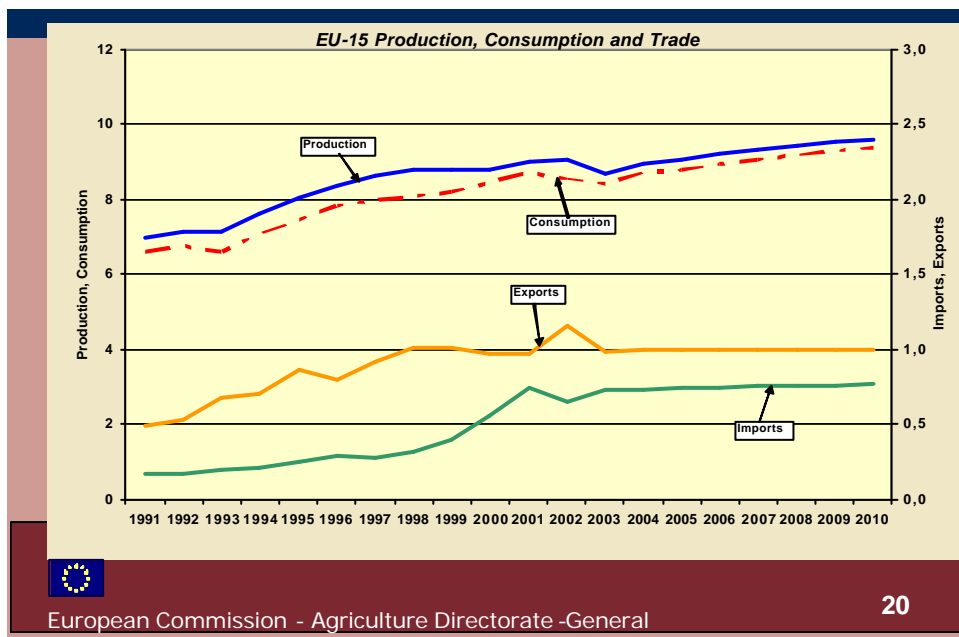
CAP reform : favourable impact on EU-15 pork and poultry sectors



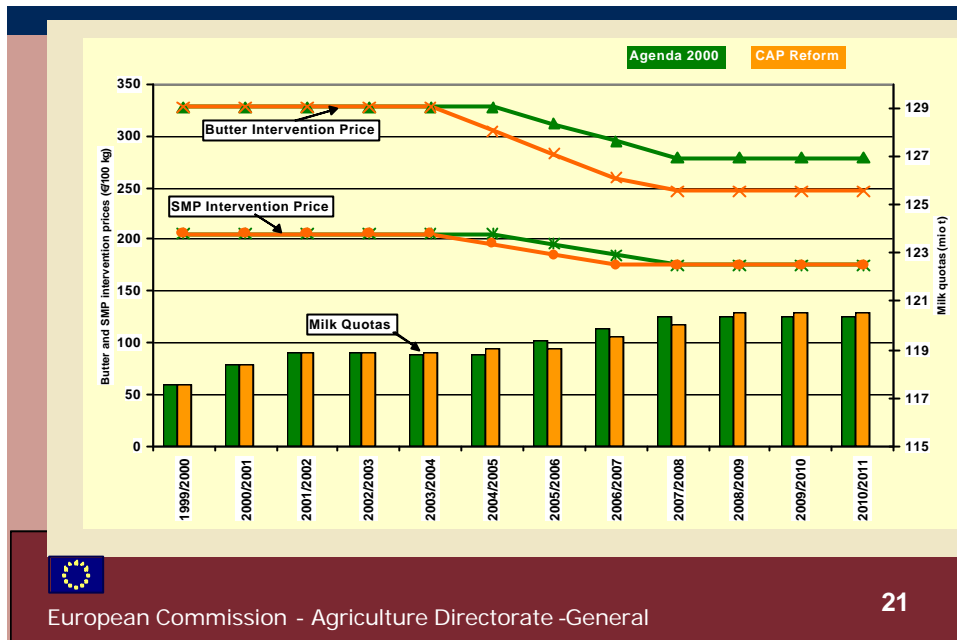
EU-15 pig meat sector to continue to expand over the medium-term



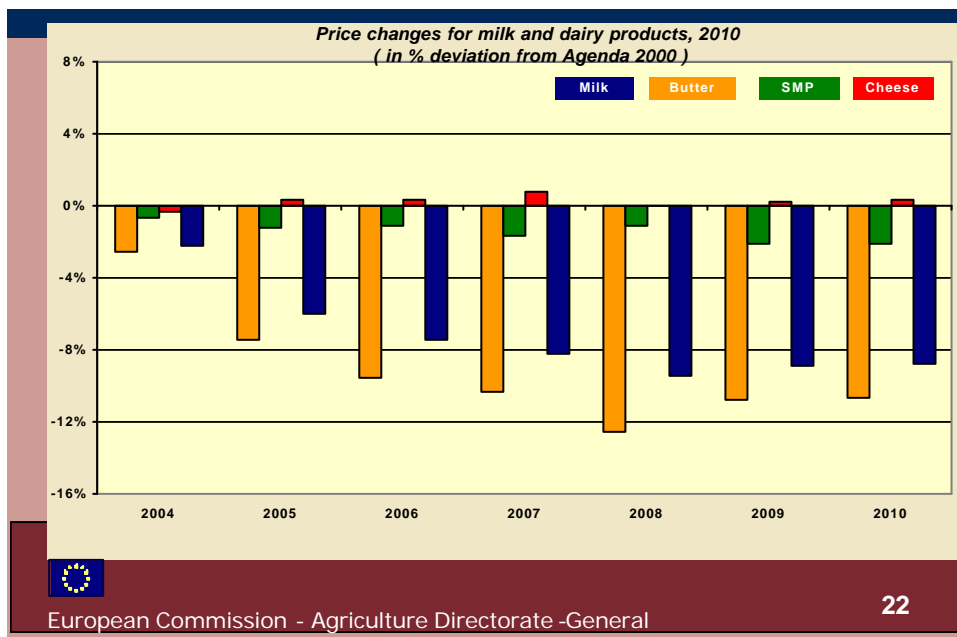
EU-15 poultry production to recover after avian flu in the Netherlands



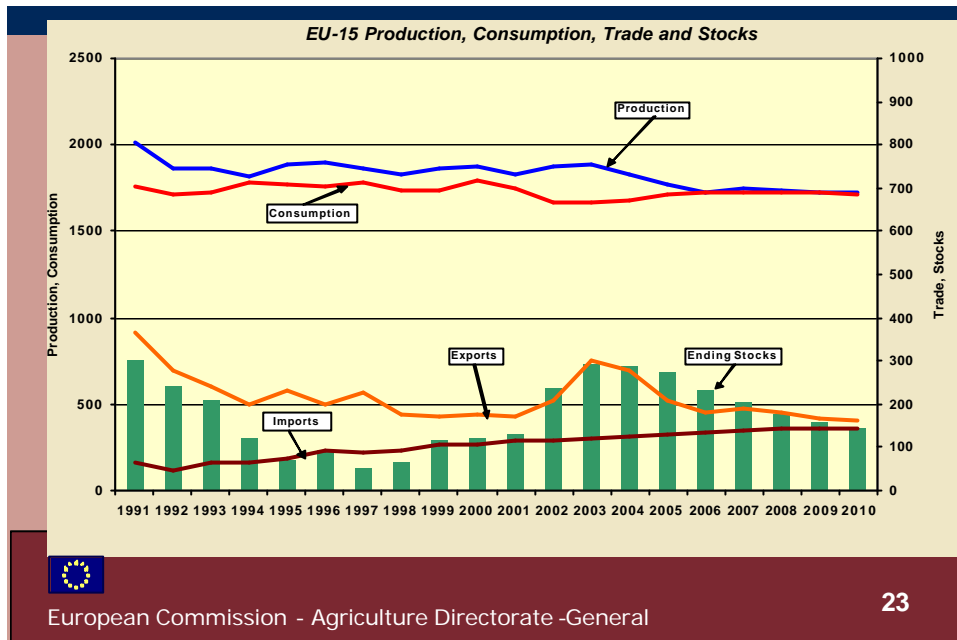
CAP reform: Summary of policy changes in the EU-15 dairy sector



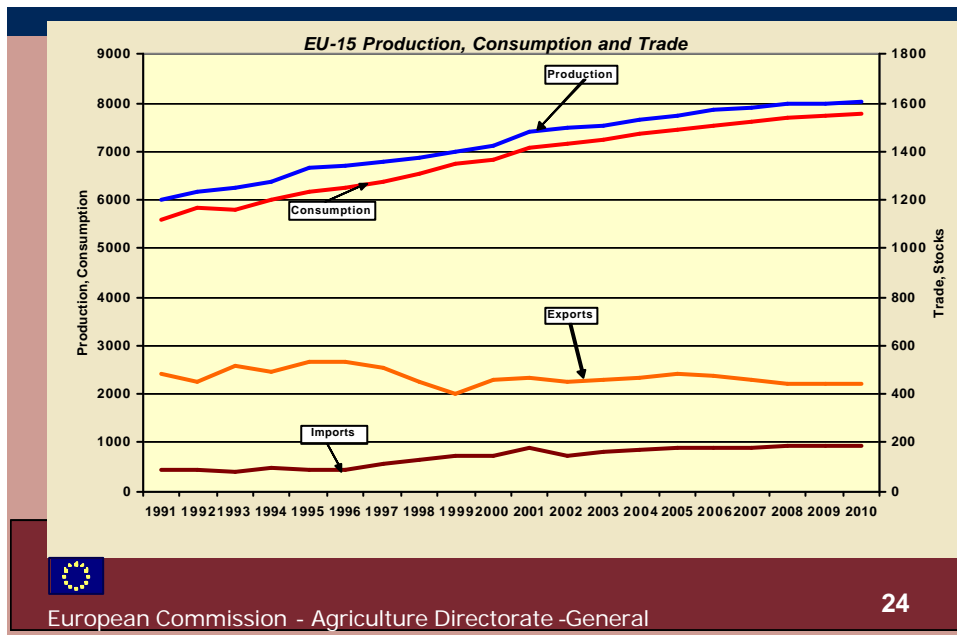
CAP reform: lower prices for EU-15 dairy markets



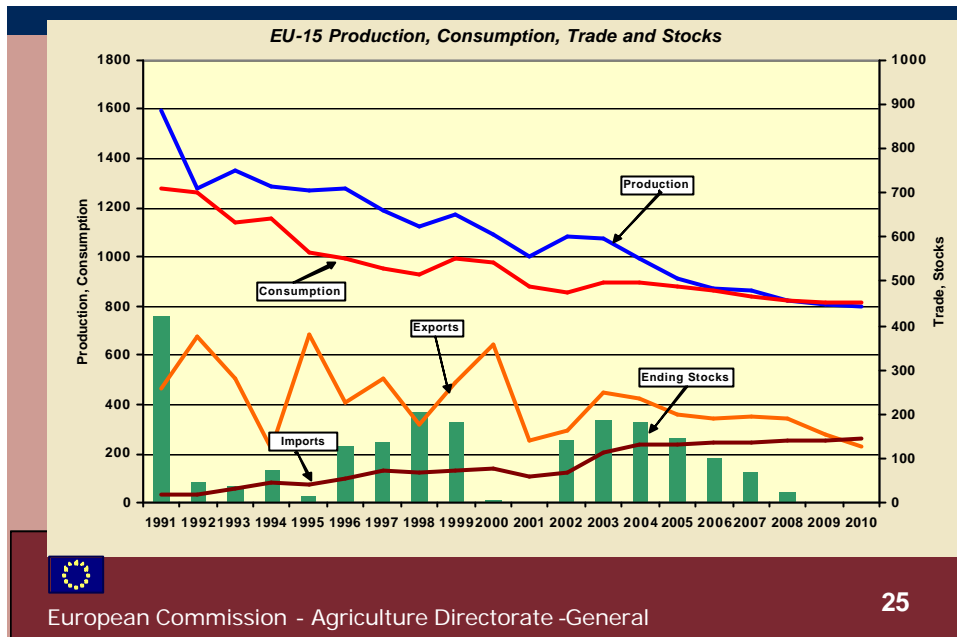
EU-15 butter balance to improve over the medium-term



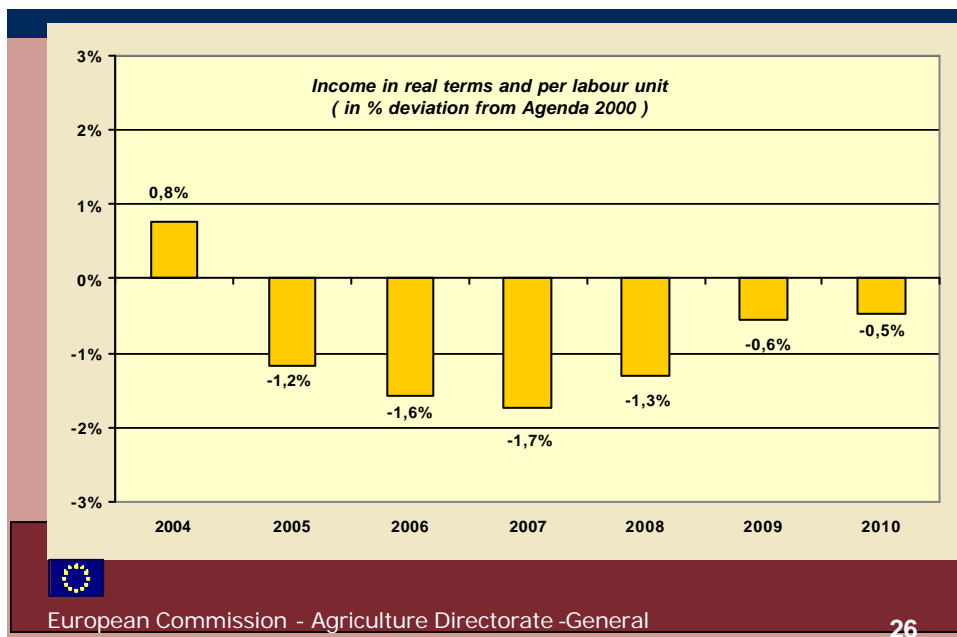
EU-15 cheese market keeps its steady growth over the medium term



EU-15 SMP market to shrink over the medium term



CAP reform found to have a modest impact on EU-15 income



Prospects for EU-25: Situation of agriculture in the EU-10

Restructuring of agriculture in the EU-10 facilitated by EU funds:

- economic growth will contribute to create alternative income outside agriculture;
- more investment in agriculture due to
 - improving market and income situation (single market, decoupled direct payments)
 - improving rural infrastructure and banking systems
 - specific instruments facilitating restructuring in rural development programmes available.

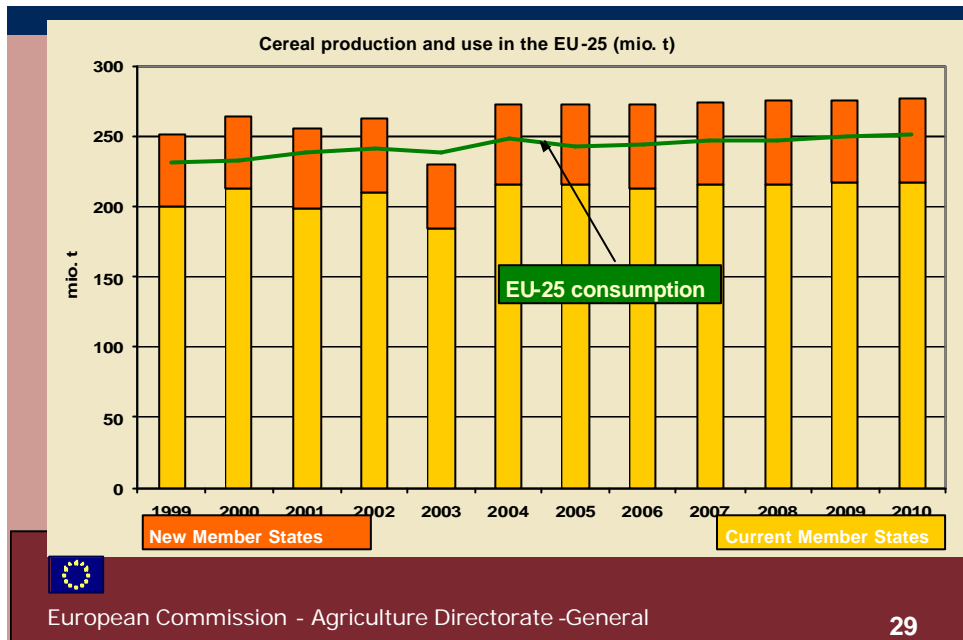


Driving factors of agricultural markets EU-25

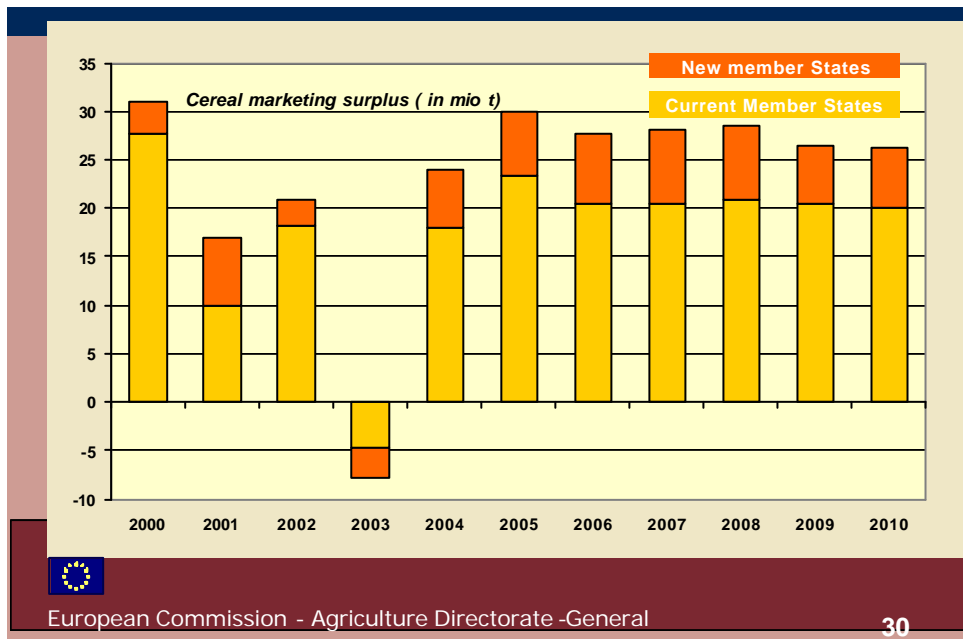
- EU-10: High income growth leads to growing markets for meat, fruits and vegetables as well as fresh milk products and cheese in the EU-10.
- EU-15: High consumer income, limited expansion of quantities, strong demand for quality and niche products.
- World markets developments will become an increasingly decisive factor for market outlook.
- Restructuring of agriculture and the food industries in order to address better the demand.



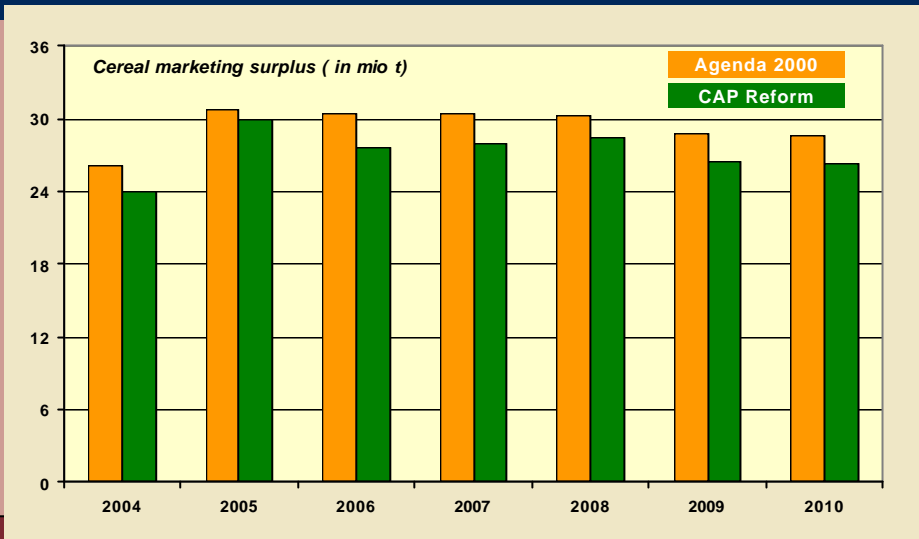
Accession leads to a modest increase in cereal production in the new Member States



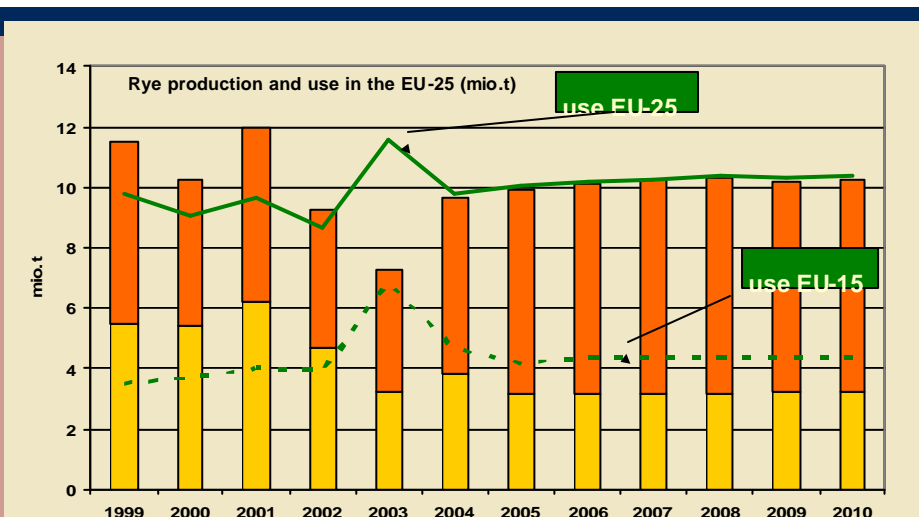
EU-25 cereal marketing surplus to stabilise at some 26 mio t over the medium term



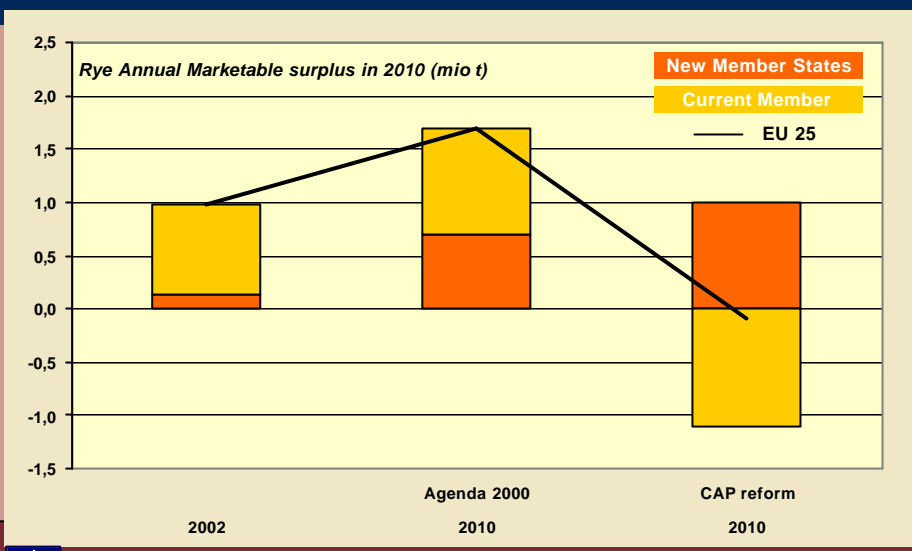
CAP reform to reduce cereal marketing surplus by 2 - 3 mio t



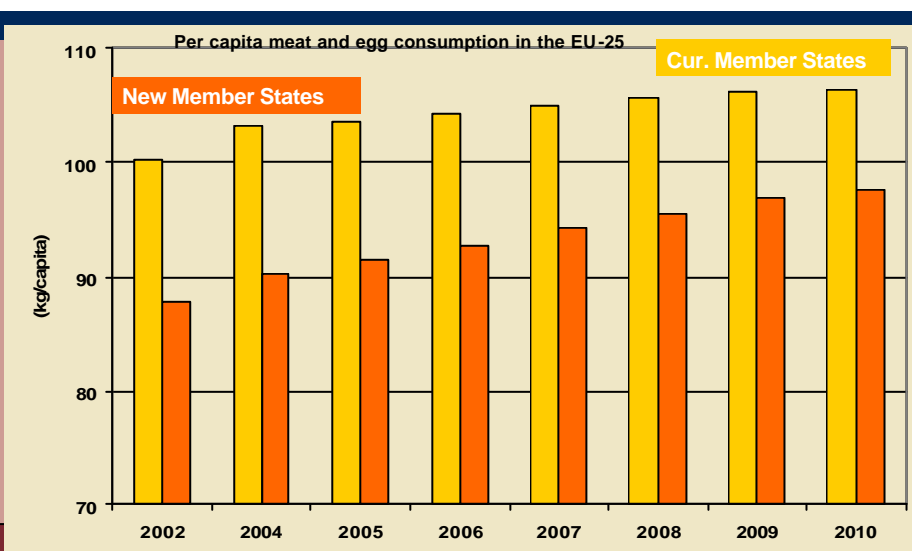
The new Member States find additional markets for rye in the current Member States



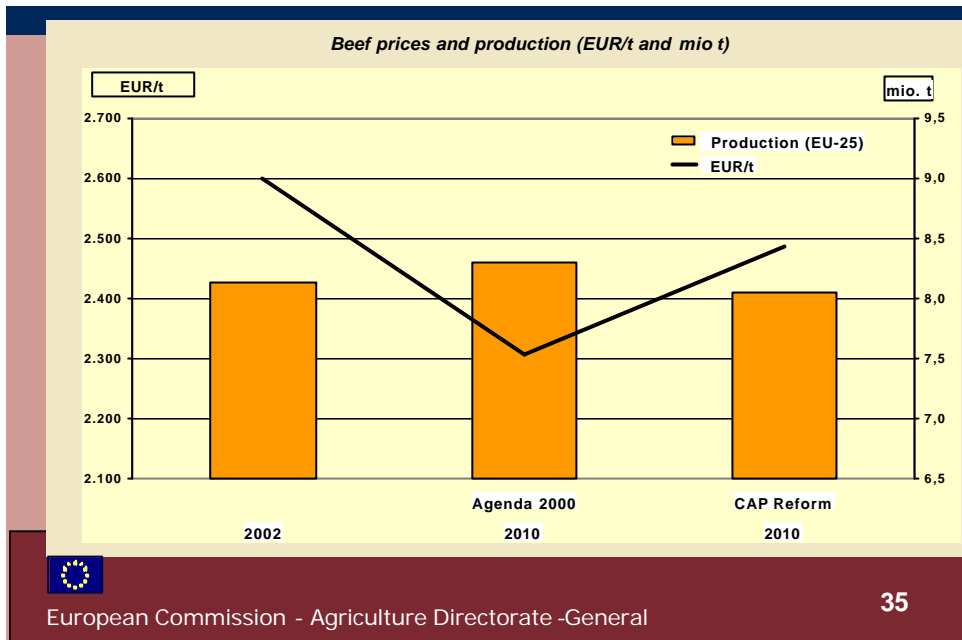
CAP reform : solving rye specific structural imbalance for EU - 25



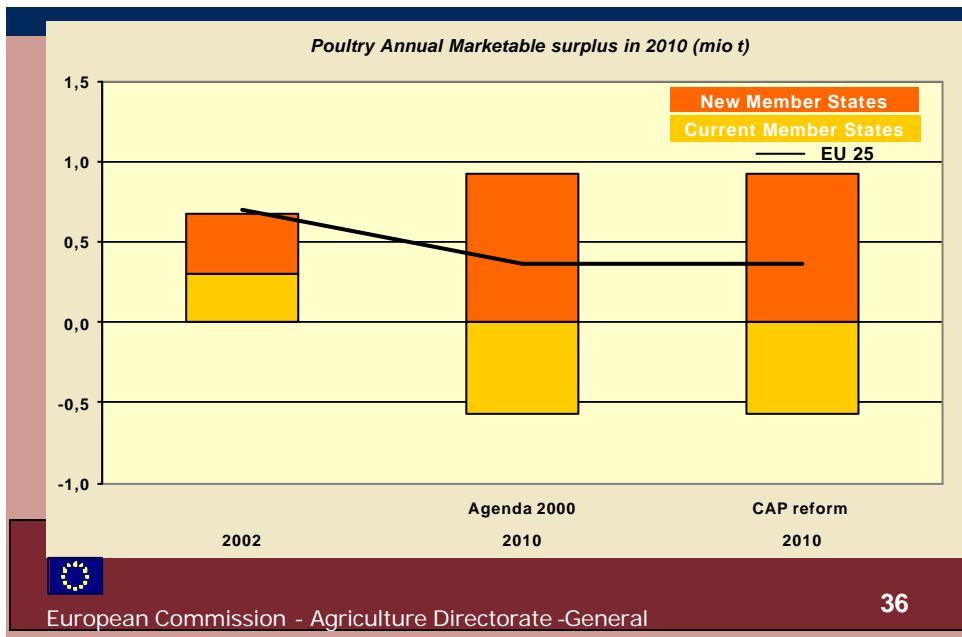
EU-25 meat markets gain dynamics with accession



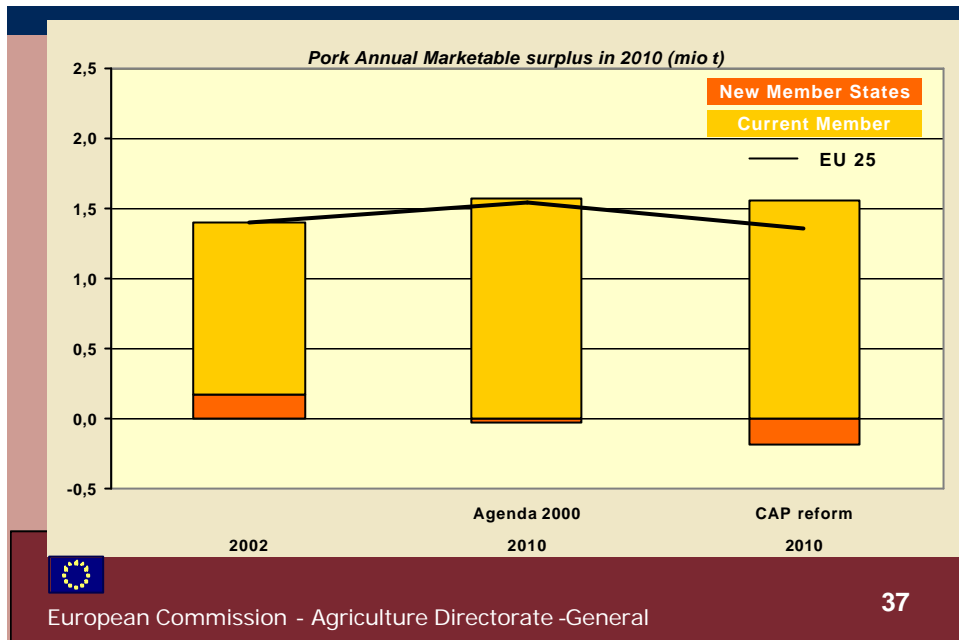
CAP reform : improving the beef market balance for EU-25



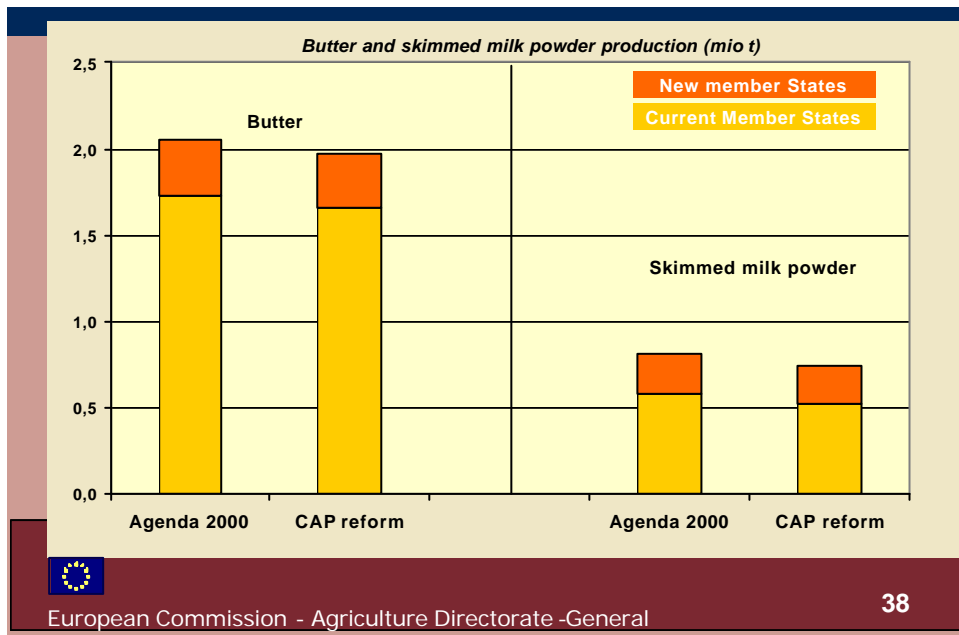
CAP reform and enlargement: leading to new trade flows in the poultry sector



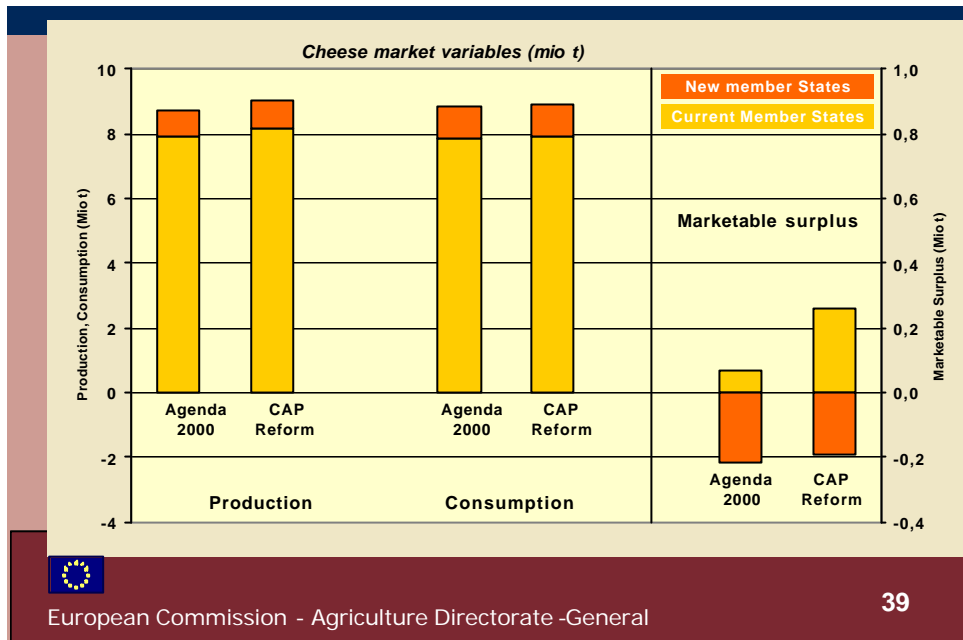
... as well as in the pork sector but in the opposite direction



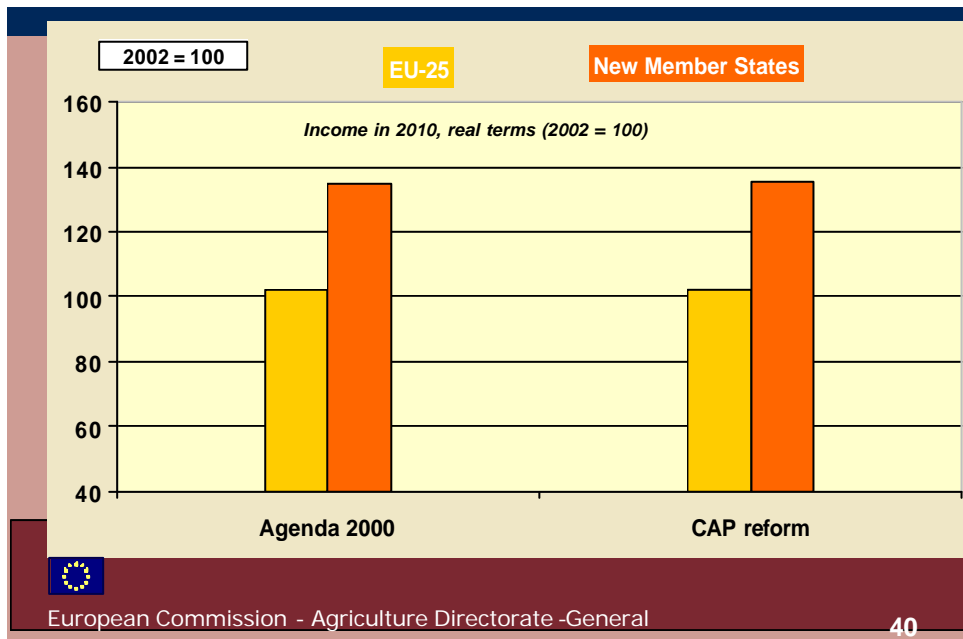
CAP reform - reducing risk of imbalance for EU-25 butter and skimmed milk powder markets ...



CAP reform.. while favouring the development of the EU-25 cheese sector



CAP reform would secure income gains for new Member States



Positive effects of the CAP Reform on agriculture in the new Member States

- Decoupling of direct payments for crops:
 - will generate less inflow of additional area such as potatoes.
 - The single farm payment will cause little differences as compared to the simplified area payment scheme.
- Decoupling of beef payments reduce incentives to increase beef herd in presence of weak consumption.
- The milk reform will increase the market orientation of milk processing.
 - Production and hygiene standards will still be an issue



Conclusions – CAP reform

**Greater flexibility
& market
orientation**

**Solving
specific sector
problems
Guaranteeing
income stability**

- Improvement in the balance of agricultural markets through the reduction in EU production without jeopardising EU production potential
 - in particular for sectors previously influenced by high level of support and coupled instruments (beef, sheep)
 - the balance of agricultural markets in an enlarged EU would improve significantly
- Significant improvement in the structural balance of the rice and rye sectors
- Agricultural income little affected as the fall in production volume is globally compensated for by price rises and increased payments

