Assessment of the impact of partial decoupling on prices, production and farm revenues within the EU

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Introduction

In June 2003 the EU Council of Agricultural Ministers agreed radical measures to remove the link between payments to farmers and the level of production. The intention was to move towards a more market-orientated agricultural sector by removing the distorting effects of payments linked to output. Farmers would still receive support in the form of payments under the Single Payment Scheme, provided they adhered to a set of cross-compliance measures. However, the Single Payment Scheme included a significant degree of national discretion in implementation and allowed Member States to retain elements of the former coupled direct payments. France and Spain, for example, continue to operate coupled direct payments at various levels for a number of sectors.

What we did

This research set out to quantify the distortion to competition that partial decoupling has on the affected sectors by comparing production, prices and farm revenues over time between the two cases (partial and full decoupling). This would show whether, and to what extent, partial decoupling is affecting the single market and the effect it has on those countries and sectors that have embraced full decoupling⁴.

In order to quantify the effects of decoupling a number of assessments were undertaken including: detailed analysis of the potential impacts of decoupling on EU markets (using a simple simulation model); review of implementation strategies across the EU, including the use of Article 69; use of an EU wide modelling framework (CAPRI) to quantify the impacts and; analysis of the impact of Article 69⁵.

How we did it

Using a combination of published information and country level statistics, a review of the implementation of partial decoupling was undertaken. Within each country we assessed the extent to which particular sectors were included in partial decoupling, the importance of the sector to the country’s output and also its share of EU output. This included a characterisation of trends in the key variables (production, prices, revenues etc) across the EU to gain an insight into the situation in which partial decoupling has been implemented. This review formed the basis for our subsequent use of a well established EU wide modelling framework, known as the CAPRI 4 model, to quantify the impacts of partial decoupling on production and revenues.

What we found

Implementation of the Single Payment Scheme

We calculated the degree to which Member States maintained coupled payments after the reform as a ratio against the value of the SPS. If all payments were still coupled this ratio would have a value of one and if all payments were decoupled it would have a value of zero. In terms of EU countries, France had the highest ratio of maintained coupled payments relative to the SPS (0.42). The high share of coupled

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⁴ See the full report: https://statistics.defra.gov.uk/esg/reports/decoupling/Partial%20Decoupling%20Final%20v2.pdf.
⁵ It should be noted that although these regulations were originally covered under Article 69 and are referred to as such in this study, following the CAP Health Check in 2008 they will now dealt with under Article 68.
payments mainly consists of arable area payments and suckler cow premiums. Other countries with relatively high ratios include Spain (0.38), Portugal (0.33) and Belgium (0.24). The high ratios in those countries are mainly influenced by the suckler cow premiums.

In terms of sectors, the high ratio in the tobacco sector (0.56) reflects the option to maintain up to 60% of the payment coupled. The sheepmeat and goatmeat and beef and veal sectors have the same ratio of 0.37, which mirrors the uptake of the coupling options in a number of member states. In the beef sector, seven countries have implemented Article 69 payments of which four countries (Greece, Finland, Scotland and Slovenia) opted for the maximum of 10 per cent. Although the Article 69 payments in the beef sector often have mixed objectives (e.g. in Scotland), there seems to be a slight emphasis on the environmental benefits of cattle systems. The uptake pattern of Article 69 payments in the beef sector seems to suggest that a number of those member states (Greece, Italy, Finland, Scotland and Slovenia) which did not maintain the suckler cow premium, have used the beef national envelope as an alternative approach to support extensive cattle systems.

**Analysis of Trends in Production**

An assessment of the impact of decoupling through a simple analysis of trends in crop areas and livestock numbers across the EU before and after the CAP reforms is difficult because of the staggered nature of implementation across different countries and the complexity of capturing the impact of other key drivers. Nevertheless, the analysis does provide some useful insights into production across the EU and provides clues as to the potential impacts that might become clearer during the period up to 2013.

For beef, there is some indication of a divergence in direction of trends after 2005 between the UK (a country that has fully decoupled) and France and Spain. It seems that France has begun to reverse the pre-decoupling downward trend over the period 2005 to 2007, whereas the UK has continued downward (and at an accelerated rate in some regions). Spain showed exceptionally high growth rates before 2005 and this has continued under coupled support. In contrast, sheep numbers have declined in all the major producing countries whether they have decoupled or not and the rate of decline does not appear markedly different between France and UK for example. This might suggest that the headage payments are less able to counteract the impact of market forces in this sector compared with the beef sector.

**Modelling results**

The model compared the situation under partial and full decoupling for a number of key variables and the findings were:

*Prices* – The CAPRI simulations suggested that the impact on prices of partial decoupling is muted. For example, the most significant impact is in the beef sector where beef prices in Europe are forecast to be five per cent lower than would be the case if full decoupling had been implemented.

*Production* – The CAPRI simulations indicate that livestock numbers are higher in those countries where coupled payments have been maintained than would otherwise be the case. However, the overall impact on EU meat production is relatively small.

*Farm Revenues* – In the EU as a whole and in virtually all EU member states (the exception being Greece) partial decoupling is seen to lower Gross Value Added slightly (including support payments) as countries are predicted to witness an increase in a fully decoupled situation.

*Welfare* – The simulations highlight that there are welfare gains to be had through the more efficient allocation of resources arising when support is fully decoupled throughout Europe.

**What it means**

At present in the UK there are concerns about the declining number of livestock, which in turn raises questions about food security and the impact on the environment in some area. As a consequence, some in the industry are hoping for a return to coupled payments as a means of retaining stock numbers. The findings of the study support the view that full decoupling would be more economically efficient than partial decoupling and that partial decoupling does appear to distort markets within Europe, although to a fairly limited extent. However, it does not resolve the issue as to whether partial decoupling is more or less beneficial from a social or environmental viewpoint.