CAP Reform - expectations and outcomes. Assessment of Impact on Agrarian Sectors and rural areas in the Baltic States

BALTIC CONFERENCE ON CAP REFORM PERSPECTIVES
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What about?

- What the “Baltic project” is?
- What the aspects of CAP refrom do we look at?
- How the impact can be assessed?
- Some outcomes of the study
- Future challanges

The Baltic project

- The Baltic project – cooperative network, established in 2003
- The goal of the Baltic project
  - To make economic analysis of the CAP reform proposed by EC in order to provide an adequate assessment of its possible influence and outcomes in the context of Baltic States
- The main outcomes assumed:
  - Quantitative assessment of possible effects on agricultural sectors as a whole and on farms in Baltic States;
  - conclusions, proposals and recommendations for the reaction of Baltic States on the CAP reform

CAP reform as an object for the study

- Semi- final implementgation of Agenda 2000 reform proposals, not approved in Berlin in 1999
- Attempt to find a financial compromise between the European taxpayers and farming society of EU newcomers within the limited financial frame
- Recognition of new understanding of European sociaty, what the real role of agricuture is
  - External debate in the framework of WTO
  - Internal dabate, looking at depopulating “butter islands” in “wine lakes”

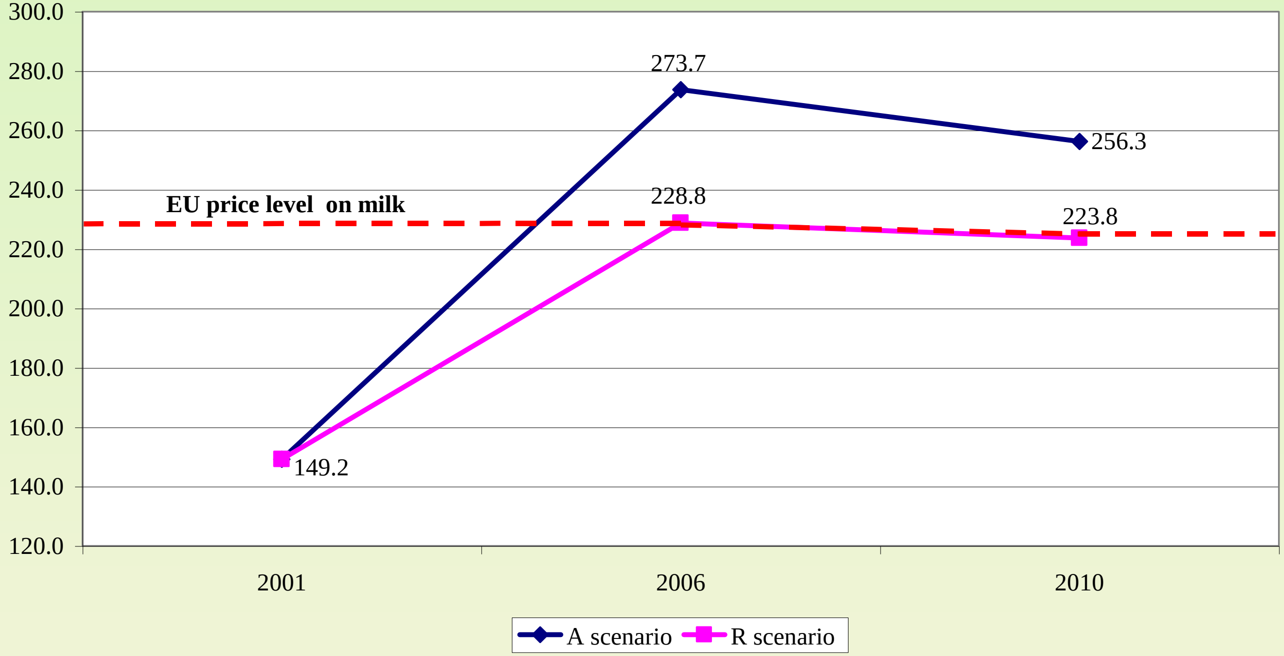
CAP reform proposals to be assesed in the Baltic project

- <u>**Enhancing of competitiveness**</u>
  - **Lowering of the impact of market intervention in the CAP – *intervention prices* will decrease for cereals in 2004/05 and for milk products- asymmetry, 3,5% and 7% annually, 5 years**
  - **Degression of DP**
- <u>**Decoupling**</u>
- **Rural development payments**
  - <u>**Modulation of DP**</u>
  - **increase of RDP**
  - **Decoupling of DP from production levels**
  - **and coupling to “good agricultural practises”**

The main indicators describing the impact of policy changes

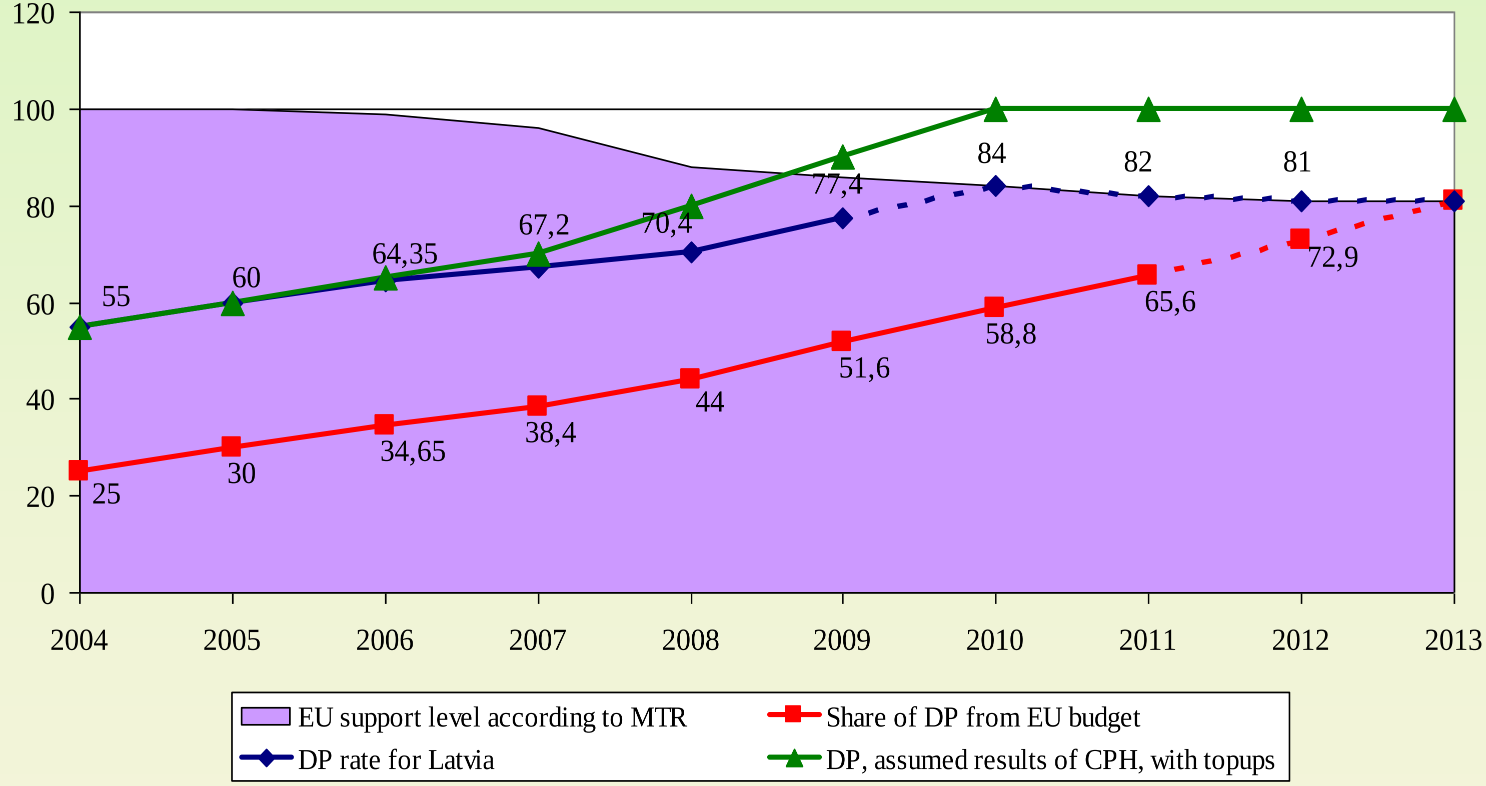
1. **Level and structure of farm income;**
2. **Production structure;**
3. **Structure of land use – eligibility of area for support scheemes;**
4. **Regional structure of production;**
5. **Farm structure**

Price cuts. Milk as an issue

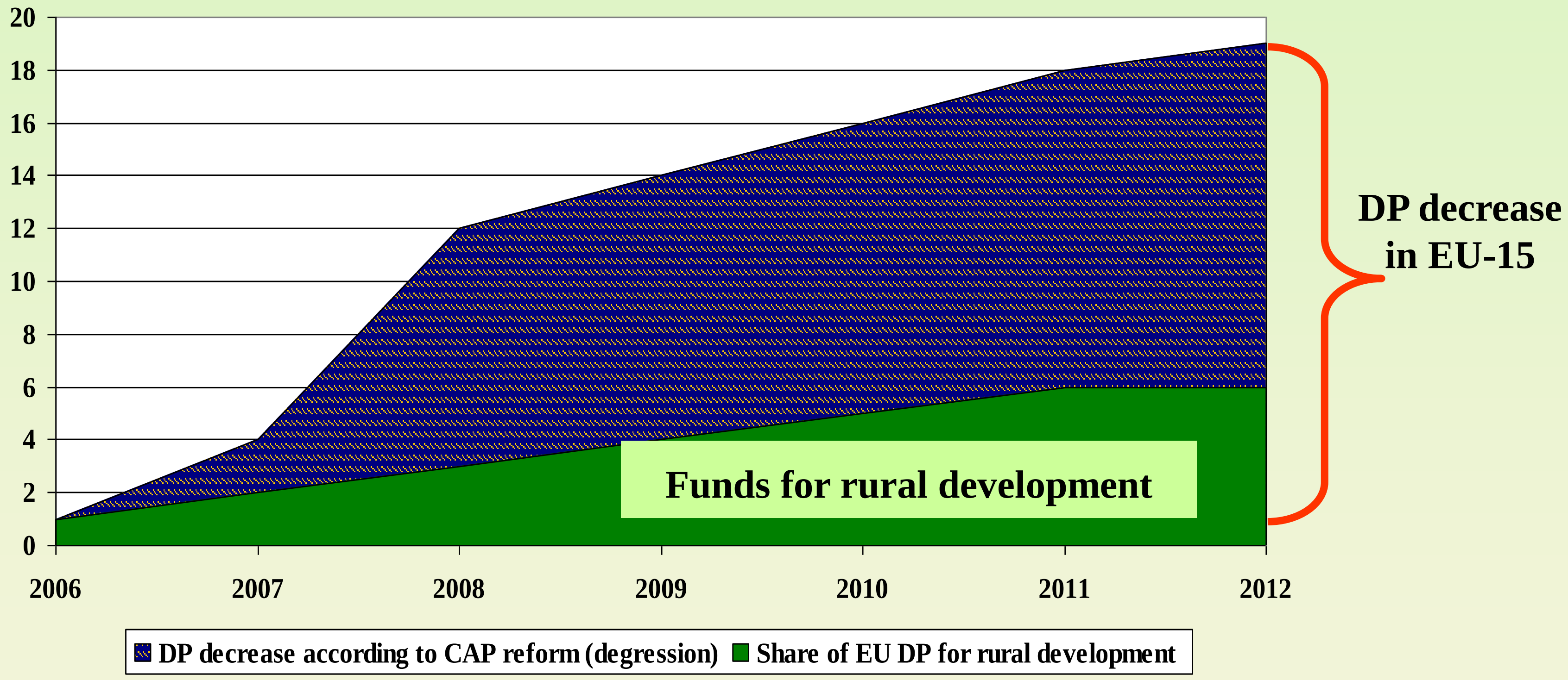


- Sector's income will be affected seriously – EUR 30,6 mio in 2006
- Growth of the sector will not be impacted much

Degression: changes in direct state support according to the results of negotiations for CC and CAP reform, % to 2004-06 levels



Degression and modulation: decrease in EU direct support and transferring funds to the rural development, %

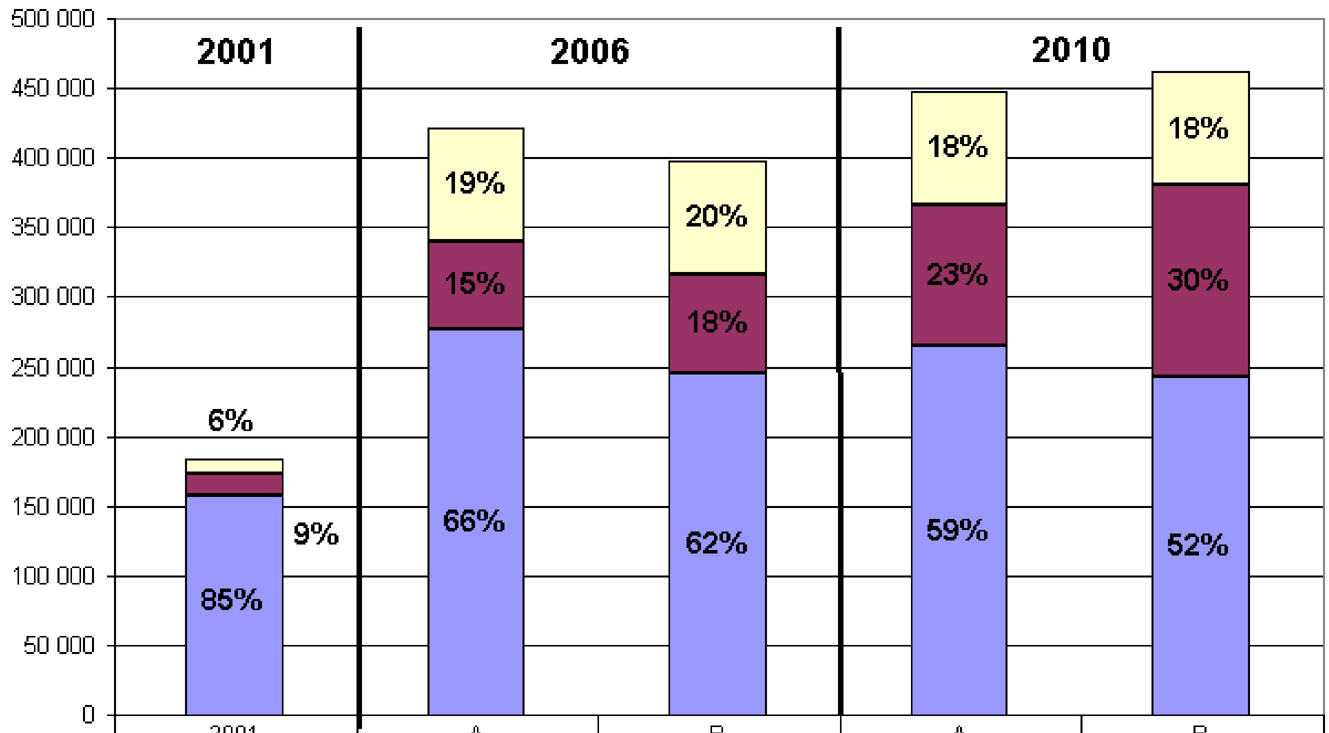


- **Modulation impact on Latvia - EUR 2,5 mio in 2013**

Scenarios analysed

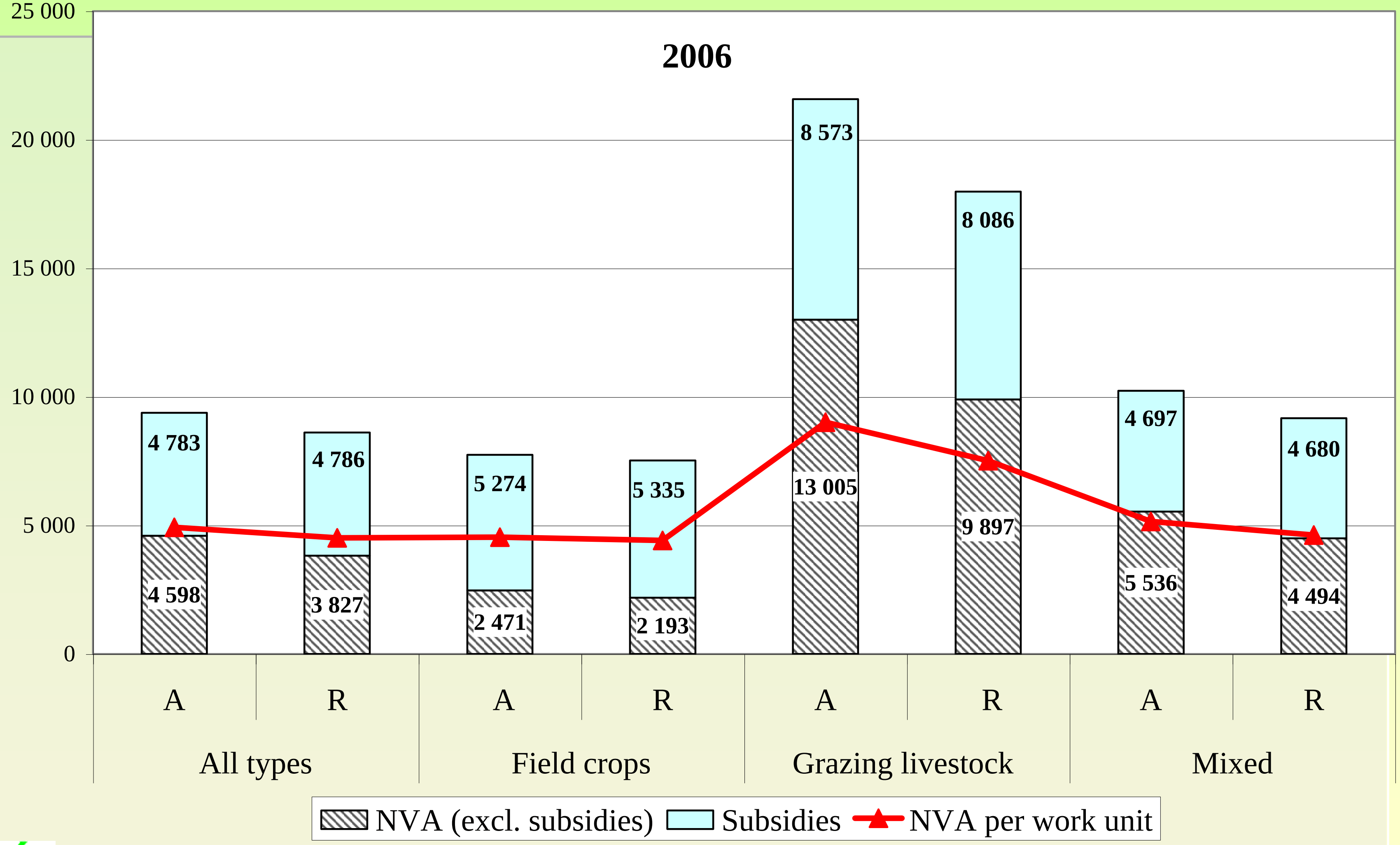
- **Scenario A ("Agenda 2000").**
  - after year 2006 the negotiation results accepted in Copenhagen will be applied in all new Member States (including Estonia, Latvia and Lithuania) on the basis of unchanged CAP rules from "Agenda 2000" programme.
  - Direct payment rates will increase gradually as phasing-in rates from 65% of EU support level in 2006 to 100% - in 2010 (see Table 4.2).
- **Scenario R (the outlines of CAP reform).**
  - in year 2004, according to the statements of the Council Regulation (EC) No 1782/2003 the CAP reform will be carried out in the EU, which will have the impact also on the new Member States (including Estonia, Latvia and Lithuania).
  - implies more substantial drop of institutional prices for agricultural products (mostly for dairy products) and higher compensatory payments for milk and protein crops.

Changes in structure of Factor income in Latvia for years 2006 and 2010 according to the different scenarios, EUR thsd

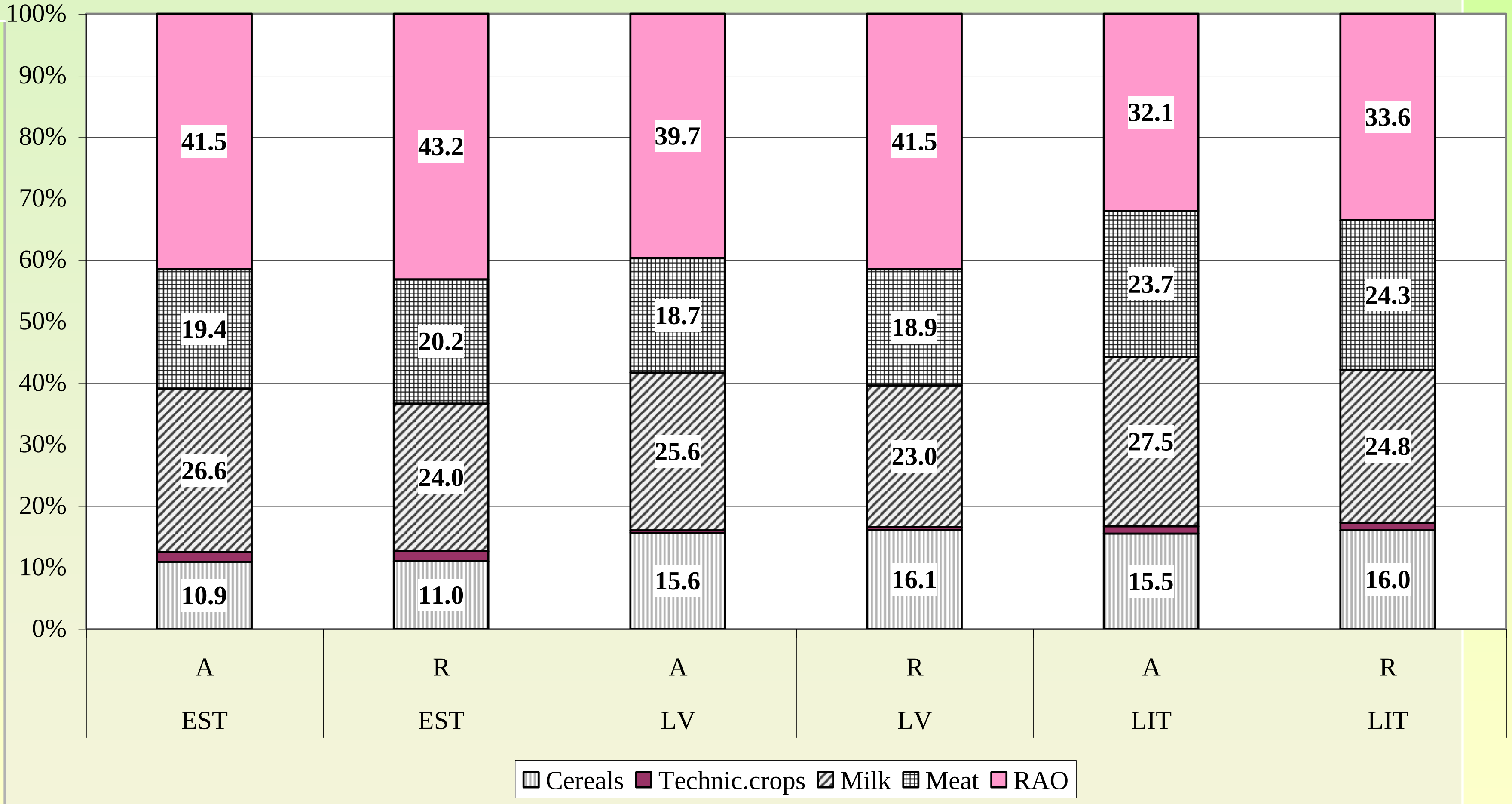


	2001	A	R	A	R
Other production related subsidies (including LFA payments)	10 964	81 669	81 669	81 669	81 669
Direct payments (including additional payments)	15 875	63 385	70 193	101 117	137 459
Net value added at factor cost without subsidies	157 408	276 677	246 058	265 001	242 692

Structure of NVA in different types of Latvian farms for 2006, EUR (LSIAE)



Structural changes in Baltic agriculture due to the CAP reform (LASIM)



Deviations of welfare level in R scenario compared with A scenario, EUR mio

Indicator	*Estonia*		*Latvia*		*Lithuania*	
	2006	***2010***	***2006***	***2010***	***2006***	***2010***
Producer surplus	-22,7	-16,5	-25,3	-20,0	-59,6	-43,9
Consumer surplus	19,3	14,0	29,9	21,8	42,0	30,6
Budget expenditures	0,4	-1,1	-5,2	1,3	6,7	1,6
Total welfare	-3,0	-3,6	-0,6	3,0	-10,9	-11,8

Source: LSIAE calculations