The CAP’s influence on changing farm structures

- Has the CAP amplified or mitigated the concentration of farms overall?
- Effects of decoupled support

Alfons Balmann
Major trends

Boehlje (1999)

- New dimensions of structural change in agriculture
  - Supply or value chains
  - Biological manufacturing

- Industrialization of agriculture
  - “In essence, agricultural production is becoming more a science and less an art.” (Boehlje/Gray 2009)
  - Increasing capital and knowledge intensity

- Globalization and verticalization
  - Increasing relevance of private standards and contracting
Major trends

Further issues:

• New markets
  – bio-energy, fibers, …
  – fast developing countries

• New competitors

• New technologies: bio-technology, …

• Policy changes: WTO, tightening budgets

➢ Can EU agriculture cope with opportunities and threads?
➢ Did decoupling prepare the agricultural sector?
AgriPoliS: an agent-based model of structural change

- Maximise profit / household income
- AgriPoliS

Interactions and actions between plots and farms
Simulation experiments for

- a small-scale livestock region in South-west Germany (Hohenlohe)
  ➢ Similar results for other regions!

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Scenario description and conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGENDA</td>
<td>- Continuation of Agenda 2000</td>
</tr>
</tbody>
</table>
| REFORM       | - Hybrid model according to Mid-term Review  
   - Essentially land-based SFP  
   - Assumption low: market value of entitlements |
| HC           | - Health Check regulations          |
| BOND         | - Bond Scheme based on Single Farm Payments  
   - Farms receive payments even if they quit farming |
Hohenlohe – average farm size in ha
Hohenlohe – average rental price

(€/ha)

period


AGENDA
REFORM
HC
BOND
Hohenlohe – farm-household income

(€/farm)

period

AGENDA
REFORM
HC
BOND
Household income per family work unit for leaving and surviving farms in Hohenlohe in 2013 for different policy scenarios (in €/FAWU)
AgriPoliS

Hohenlohe - profits

2013 HC, €
-20000 0 20000 40000 60000
2013 REFORM, €
-20000 0 20000 40000 60000

- Field crop
- Pig/Poultry
- Grazing Livestock
- Mixed
Who gets the benefits?

“Natural experiment”

EU Enlargement Effects on Czech Agriculture

Source: Sahrbacher, Jelinek, Kellermann, Medonos (2009)
## Szenarios CAP after 2013

<table>
<thead>
<tr>
<th>Name</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>HC</td>
<td>Regional premium after 2013</td>
</tr>
<tr>
<td></td>
<td>No modulation after 2013</td>
</tr>
<tr>
<td>244</td>
<td>Per ha direct payment of EU average</td>
</tr>
<tr>
<td>163</td>
<td>Per ha direct payment $\frac{2}{3}$ of EU average</td>
</tr>
<tr>
<td>Capping100</td>
<td>Maximum direct payment of 100 000 € per farm</td>
</tr>
<tr>
<td>Labour 20</td>
<td>Maximum direct payment of 20 000 € per AWU</td>
</tr>
</tbody>
</table>

**Model**
- AgriPoliS

**Regions**
- Hohenlohe, Altmark (Eastern Germany)
Direct payment per ha

Profit per farm

Hohenlohe

Altmark

Vysocina

HC 244 163
Average and individual farm size in ha

Hohenlohe

Altmark

Hohenlohe 2020

Altmark 2020

Vysocina

€/ha
Some remarks on "fairness"

“20 % of the farms receive 80 % of subsidies!”
Some remarks on "fairness"

“20 % of the farms receive 80 % of subsidies!”

- Pareto-principle
  - 20 % richest own 80 % of the wealth almost everywhere and everytime
  - some kind of “natural law”

http://www.gametheory.net/dictionary/People/VilfredoPareto.html
Some remarks on "fairness"

“20 % of the farms receive 80 % of subsidies!”

“Pareto-principle”

The “Trivial Many”

80% of time expended

20% of results

The “Vital Few”

20% of time

80% of results

http://www.gametheory.net/dictionary/People/VilfredoPareto.html
Some remarks on "fairness"

“20 % of farms receive 80 % of subsidies!”

or should one argue:

“20 % of the farms provide 80 % of value!”

Who/what wants policy to address?

- The farmers?
- The farming sector?
Conclusions

 Decoupling and Health Check
  – Only small structural effects!
  – A certain but small step forward towards competitiveness

 Huge challenges for the agri-business remain!
  – Agriculture is a difficult business
  – Enormous capital needs => venture capital
  – Vertical integration:
    farms and processors part of global networks
  – Agriculture moving towards the knowledge-based bio-economy
  – Changing societal perception of agriculture