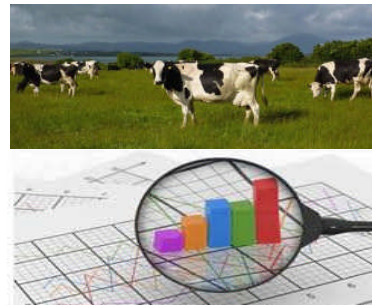


Project number: 6104
Funding source: Teagasc

Date: June, 2015
Project dates: Jan 2011-Dec2014

FAPRI-Ireland farm level policy model



Key external stakeholders:

Policy-makers, primary producers, agri-food businesses and local government

Practical implications for stakeholders:

This project assessed the implications of the latest round of CAP reform. The historical Single Farm Payment model was in operation in Ireland up to 2014. This meant an individual farmer's payment depended on the production levels observed in the 2002 to 2004 period. The most recent reform of the CAP proposed to move to a convergence model. The results of the analysis indicated that;

- Complete convergence to a common flat rate payment per hectare across Ireland would lead to a substantial redistribution of funds from larger, historically more intensive farms to smaller, more extensive farms
- The analysis showed that a greater number of farmers would see an income increase if the maximum level of convergence was selected.
- Such reallocation could impact negatively on production as the farmers that lose out under this process account for the bulk of production and in many cases are using the Single Farm Payment to subsidise this production.

Main results:

- The research indicated that convergence to a common flat rate payment per hectare across Ireland would lead to a substantial redistribution of funds from larger, historically more intensive farms to smaller, more extensive farms
- The analysis using Teagasc National Farm Survey data showed that a greater number of farmers would see an income increase if the maximum level of convergence was selected.

Opportunity / Benefit:

In relation to the baseline and scenario assessments carried out in this project, it is important that policy makers have the best information available to them in any negotiation process so that they may secure the policy option that maximizes the prevailing social and political objectives. This project clearly quantifies the implications of various policy options on key economic and social indicators for the agri-food sectors.

Collaborating Institutions:

UCD

Teagasc project team: Dr. Fiona Thorne
Dr. Thia Hennessy

External collaborators: Dr James Breen, University College Dublin

1. Project background:

This project, in conjunction with other RMIS projects in the FAPRI-Ireland Partnership, examined the effects of market and policy developments on the Irish agri-food and farming sector. The objective of the FAPRI-Ireland Partnership is to provide timely, evidence-based policy advice to policy-makers. The objective of the FAPRI-Ireland farm-level model is to show the farm-level effects of a policy reform, in terms of the implications for farm numbers, farm incomes, the intensity and diversification of farm plans, sustainability and the general viability of farm households. The project plays a major role in contributing to policy decisions in the national interest and involves interaction at a senior level with government departments, state agencies and farm and food.

2. Questions addressed by the project:

- What is the net effect of changes to Pillar I CAP support payments to income level on Irish farms.

3. The experimental studies:

Using Teagasc, National Farm Survey data and output from the AMIS data from DAFM the net effect of five CAP reform policy scenarios were examined:

The details of the five CAP reform policy implementation scenarios analysed are as follows:

- MIN: assumes the minimum level of redistribution with no Voluntary Coupled Support Scheme (VCSS) and no Redistributive Payment Scheme (RPS)
- MID: half of the allowable VCSS fund is used and paid on both suckler cows and ewes
- MAX: all of the allowable VCSS fund is used and paid on both suckler cows and ewes
- MAX Cows: all of the allowable VCSS fund is used but paid only on suckler cows
- REDIST: assumes no VCSS payments but the full allowable RPS fund is used and an additional payment is made on the first 32 hectares.

4. Main results:

An economic analysis of a number of scenarios relating to the Basic Payment Scheme, Voluntary Coupled Support Scheme and Redistributive Scheme. Five scenarios are analysed, each with the same basic convergence model (the so-called internal convergence model) but with differing levels of the Pillar I direct payments budget allocated to coupled support and redistributive payments. The details of the five CAP reform policy implementation scenarios analysed are as follows:

- MIN: assumes the minimum level of redistribution with no Voluntary Coupled Support Scheme (VCSS) and no Redistributive Payment Scheme (RPS)
- MID: half of the allowable VCSS fund is used and paid on both suckler cows and ewes
- MAX: all of the allowable VCSS fund is used and paid on both suckler cows and ewes
- MAX Cows: all of the allowable VCSS fund is used but paid only on suckler cows
- REDIST: assumes no VCSS payments but the full allowable RPS fund is used and an additional payment is made on the first 32 hectares.

In general, greater numbers of farmers gain under the MID and MAX scenarios relative to the MIN scenario. However, for most farms the income changes (gains and losses) are small, i.e. less than 10 percent, of those experiencing more substantial income changes, the effect tends to be negative rather than positive. Similarly with farm output, approximately 25 percent of aggregate farm output is generated by farms that would lose 10 percent of their income or more under the MIN scenario, with the proportion increasing to 30 percent of output under the MAX scenario. This suggests that those farms that gain from the coupling of direct payments to production tend to account for a smaller proportion of output than those that lose.

The results show that, as expected, Cattle Rearing and Sheep farms benefit from coupling and would experience higher incomes under MAX relative to MID or MIN. Average Cattle Rearing farm income increases by €750 going from MIN to MAX, but the average income decreases by €1,000 on Tillage farms, by €750 on Dairy farms and by €200 on Cattle Other farms. However, an income gain of €750 represents a larger proportion of income on Cattle Rearing farms than on Dairy farms. While coupled payments increase the profitability of suckler cow production, the effect is found to be marginal. For all farmers the net benefit of the coupled payment is less than the gross amount of the VCSS coupled payment. On Cattle Rearing farms that are currently loss making the receipt of the coupled payment is often insufficient to make them profitable.

Over 50 percent of farms would experience an increase in their income under the REDIST scenario relative to their current position and up to one-third of farmers would see their income increase by more than 10 percent. However, those farms that gain the most tend to account for a relatively small proportion of output. The one-third of farms that would experience a more than 10 percent increase in their income account for 11 percent of national output, while those losing 10 percent of their income or more account for almost 40 percent of total farm output. The negative impact of the REDIST scenario on farm output is even more pronounced in certain sectors. Less than 1 percent of Tillage farms would experience an income increase of 10 percent or more under the REDIST scenario, while 38 percent of Tillage farms would see their income falling by 10 percent or more. Furthermore, 61 percent of crop output is generated on farms losing 10 percent of their income or more.

An additional analysis was carried out using the above methods to examine the net effect of greening on specialist tillage farms, using the NFS. This analysis showed that an additional 10% of tillage farmers appeared in the considerable loss category when the cost of 'greening' was incorporated into the analysis. A further look at this data showed that many specialist tillage farms were just at the margin anyway of 'considerable loss' before greening costs were incorporated. The net effect of greening costs summed to an additional €20 per hectare for the average tillage farmers, versus €95 previously estimated when no greening costs were incorporated.

5. Opportunity/Benefit:

It is important that policy makers have the best information available to them in any negotiation process so that they may secure the policy option that maximizes the prevailing social and political objectives. This project clearly quantifies the implications of various policy options on key economic and social indicators for the agri-food sectors.

6. Dissemination:

Main publications:

O'Donoghue, C., Breen, B., Carroll, C, Clavin, D., Connolly, K., Donnellan, T., Fealy, R., Finn, J.A., Hanrahan, K., Hennessy, T., Hyde, T., Gibson, M., Heanue, K, Henchion, M., Keena, C., Kelly, T., Macken-Walsh, A., Maher, P.A., McDonnell, J., McHugh, F (2012). Teagasc Submission on the Rural Development Programme for Ireland 2014-2020; Public Consultation December 2012.

Popular publications:

Thorne, F. and Hennessy, T., (2014) CAP Reform Outcome, Teagasc National Farm Survey Analysis, Teagasc & AESI Seminar: CAP 2014: Impetus, Impact and Implementation March 7th 2014

7. Compiled by: Thia Hennessy and Fiona Thorne
