

INCOME STABILITY AND INCENTIVES TO PRODUCE UNDER CAP REFORM IMPLEMENTATION IN LITHUANIA

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This study examines the impact of possible scenarios of the implementation of European Union's Common Agricultural Policy (CAP) reform in Lithuania on farmers' income from direct support. The study focuses on income level generated by direct support under different scenarios and searches for policy providing incentives to increase beef production in the country.

Keywords: Common Agricultural Policy reform, decoupling, Lithuania.

Introduction

On 1 May 2004 Lithuania became a member state of the European Union. The new farmers' income support scheme has been introduced. According to that scheme, called as simplified one (SSC), direct payments are paid under the Single Area Payment Scheme (SAPS) and the Complementary National Direct Payments scheme (CNDP). The first scheme is financed by the EU, while CNDPs are financed by the national budget (co-financed by the funds of Rural Development Plan till 2007). SAPS provide flat-rate payments for all utilized agricultural area meeting good agricultural and environmental conditions. At the same time, CNDPs are coupled with certain production: arable crop, suckle cows, slaughtered adult animals, bulls, ewes, and milk.

The first years' experience of the policy implementation brought some alarming signs. While maximum guaranteed quantities (quotas) for animal production as agreed under the Act of Accession have not been reached yet, animal production, especially beef production, is slowing down without significant recovery needed after the restoration of country's independence. The profitability of animal breeding for meat is much more modest than that of crop growing (according to FADN data, profitability of beef production accounted for 5-6%, while that of arable crops 29% in 2003). SSC implementation revealed that farmers prefer exporting calves rather than keeping them till slaughtering. In that situation, slaughterhouses start lacking animals for slaughtering. In reality, the strategic priority of the sector – beef production – is deserted.

However, the policy newly implemented in the country will suffer a new change in 2009. According to Council Regulation (EC) No. 1782/2003 of 29 September 2003, the actual scheme – simplified scheme can be applied in the country till the end of 2008 (including two years' delay due to the country's fall behind schedule in terms of control system implementation). After that it must be replaced by the Single Payment Scheme (SPS).

The first task for the new policy scenario comes in to mind from the actual policy implementation experience. It can be formulated as follows: to provide incentives for production of beef. According to Council Regulation (EC) No. 1782/2003, there are two ways to support the cattle breeding sector. The first op-

tion is to support meat cattle breeding through suckler cow premium, while promoting to abandon the breeding of calves of non-meat breeds through the calves premium and compensating for high cattle breeding expenses through the slaughtered adult cattle premium. The second one is to support meat cattle breeding through the bull premium, while promoting to abandon breeding of calves of non-meat breeds through the calves premium. To sum up, we can say that the new policy scenario in Lithuania must provide incentives to maintain and to increase beef production. Decoupled policy does not make incentives to increase production. Logically, headage payments encourage many farmers to keep more livestock than would otherwise be the case (BirdLife International, 2004). And vice versa, the conversion of area and headage payments into the SPS lowers incentives to produce beef (OECD, 2004).

With theoretical and legal background in mind the research question emerges: What decoupling scheme would provide incentives to increase beef production in Lithuania?

Method and results

For the purpose of the research there are three main CAP reform scenarios developed. The first one is a scenario representing full decoupling for all payments (SPS I). The other two scenarios represent partial decoupling cases. These two scenarios (SPS IIAA and SPS IIBA) have the common options: the partially coupled arable crops premium, coupled seeds premium, coupled calves premium, and partially coupled ewes' premium. However, they have differences. The first one (SPS IIAA) is a partial decoupling scenario with partially decoupled suckler cow and slaughtered adult cattle premiums while the second one (SPS IIBA) is a partial decoupling scenario with the partially decoupled bull premium. Developed scenarios were examined using a structural model of Lithuanian farms. That model was developed using data from the Farm Accountancy Data Network (FADN). The model comprised twelve farms representing the structure (structural indicators) of the sector in Lithuania.

The analysis showed that full decoupling is a scenario ensuring growth of IDP only for crops growing farming. In that case, mixed and animal breeding farming becomes disadvantaged and the transition from SSC to SPS I reduce their IDP from 5 to 40 per cent. The most disadvantaged in that case are specialized cattle breeding and cattle breeding with suckler cows farms.

The juxtaposition of SSC and SPS IIA scenarios in 2009 revealed that full decoupling of the arable crops premium would alleviate more negative impact of the transition. Even if once again specialized farming remains disadvantaged in terms of income stability from DP, the redistribution of IDP growth would be more in favor for this type of farming.

Impact of transition to SPS IIBB would be the more delicate for animal breeding farming compared to other two SPS IIB scenarios. In all cases farming without cow and vegetable growing would suffer the gentle dynamics of income or that dynamics for them would be positive.

Conclusions

The research question shall be reminded: *What decoupling scheme would provide incentives to increase beef production in Lithuania?*

A preliminary conclusion of the study is that when shifting from SAPS to SPS, the transition should be implemented through SPS IIBB scenario, i.e. the scheme comprising fully decoupled arable crops and seeds premiums and partially decoupled premiums for bulls, ewes and calves. That scheme seems to be the most acceptable taking into account the economic reality and income level stability. However, even that scheme will provide too little incentives to produce beef.

However, the results of the analysis have some very important limitations. First of all, structural changes which can occur till the year 2009 in Lithuania have not been considered. Second, production and input prices, modulation impact and cross-compliance requirements implementation have not been considered either. Finally, as it is mentioned by Andersson (2004), direct support policy here is analyzed separately from other policy measures while policies should not be judged separately, but as part of a policy package.

References

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PAJAMŲ STABILUMAS IR PASKATOS GAMINTI LIETUVOJE ĮGYVENDINANT BENDRAJĄ ŽEMĖS ŪKIO POLITIKOS REFORMĄ

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Straipsnyje tiriama Europos Sąjungos Bendrosios žemės ūkio politikos reformos galima įtaka šalies žemdirbių pajamoms iš tiesioginių išmokų. Teigiama, kad Lietuvai pereinant nuo supaprastintos tiesioginių išmokų schemos prie bendrosios išmokos schemos geriau būtų rinktis tiesioginių išmokų scenarijų, numatantį pilnai atsietas nuo gamybos tiesiogines išmokas už lauko pasėlius bei dalinai susietas su gamyba išmokas už bulius, avis ir veršelius.

Raktiniai žodžiai: bendrosios žemės ūkio politikos reforma, paramos atsiejimas nuo gamybos.