

# Sectoral Impact of Transferring Funds from CAP Pillar I to Pillar II



**Policy Brief - FAPRI-UK Project**

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## Introduction

Under the CAP Reform Agreement reached between the EU Council, Parliament and Commission on 26 June 2013 up to 15 per cent of funds can be transferred from Pillar I to Pillar II. These transfers are after the transfer of the hitherto compulsory modulation monies from Pillar I to Pillar II, which following the establishment of the 2014-2020 budget will be permanently part of Pillar II. This policy brief reports the impact on activity levels at the sector level in the UK of shifting additional levels of funding from Pillar I to Pillar II as specified in the 26 June 2103 CAP Reform Agreement. Specifically, we consider the impact of transfers of direct aid payments<sup>1</sup>, which in 2011 for example accounted for 91 per cent of Pillar I expenditure (Massot, 2013). The analysis is based on the FAPRI-UK partial equilibrium modelling system, which captures the dynamic interrelationships among the variables affecting supply and demand in the main agricultural sectors of England, Wales, Scotland and Northern Ireland.

In order to determine the sectoral impact of transferring funds from Pillar I to Pillar II, the scenarios are compared against a Baseline in which it is assumed that the monies from compulsory modulation are permanently transferred from Pillar I to Pillar II and that no voluntary modulation is applied<sup>2</sup>. Within the scenario analysis various reductions in Pillar I direct aid payments are applied (5%, 10%, 15% and 20%) relative to the Baseline; i.e. the transfers from Pillar I to Pillar II within the scenarios are those that occur after the reductions in Pillar I payments following the permanent transfer of compulsory modulation to Pillar II.

## Scenarios

Four scenarios are considered:

- (i) 5 per cent further reduction in Pillar I direct aid payments relative to the Baseline.
- (ii) 10 per cent further reduction in Pillar I direct aid payments relative to the Baseline.

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<sup>1</sup> Primarily consists of the decoupled Single Farm Payment but also includes coupled payments such as the Scottish Beef Calf Scheme payment.

<sup>2</sup> Under the FAPRI-UK 2012 Baseline (Binfield *et al.*, 2012) both compulsory and voluntary modulation are retained during the entire projection period. The 2012 Baseline was slightly modified for the purposes of this analysis by setting the voluntary modulation component to zero. Voluntary modulation rates in the UK were agreed for the period up to 2013 but not beyond. Differential rates apply within countries within the UK and these were set to zero for this analysis so as not to distort the results of the post-2013 CAP reforms.

- (iii) 15 per cent further reduction in Pillar I direct aid payments relative to the Baseline.
- (iv) 20 per cent further reduction in Pillar I direct aid payments relative to the Baseline.

Scenario (iv) is hypothetical since 15 per cent is the maximum that can be transferred from Pillar I to Pillar II under the June 2013 agreement. At this stage, it is unclear how other EU Member States will respond in terms of the levels or direction of transfer of funds between the two pillars. Within this study the policy changes are applied to the UK only and the levels of modulation within other Member States are kept unchanged relative to the Baseline. In addition, the above scenarios do not consider other elements of the agreement that may reduce the value of direct payments further, e.g. payments for areas with natural constraints, young farmers, coupled payments and small farmer scheme.

Within the modelling system it is assumed that the decoupled Single Farm Payment exerts a partial influence on production. In line with the rest of the FAPRI EU modelling system, it is assumed within the UK models that the decoupled payment has a 30 per cent production stimulating impact compared with the old coupled payments. In order to assess the sensitivity of this assumption the funding transfer scenarios are re-simulated using decoupling coefficients of 0.1 and 0.5 (compared to 0.3 in the main analysis).

## Results

The following discussion focuses on the main analysis in which it is assumed that the decoupled Single Farm Payment has a 30 per cent production stimulating impact compared with the old coupled payments (highlighted in green within Tables 1 to 6). The sensitivity results are also shown in Tables 1 to 6.

It is projected that there is a slight decline in beef cow numbers relative to the Baseline under the pillar fund transfer scenarios due to lower direct aid payments. Under the 15 per cent further reduction in Pillar I direct aid payments scenario [Scenario (iii), which is the uppermost allowable under the CAP agreement], the decline in beef cow numbers ranges from 1.5 per cent in England to 2.3 per cent in Scotland. Increased transfer of funds has a negligible upward impact on the projected beef price in the UK (Table 1) since the change is only implemented in the UK and market prices are determined principally at the EU-level<sup>3</sup>.

Dairy cow numbers decline under the pillar fund transfer scenarios. However, the impact is limited (ranges from -0.2 to -0.4 per cent under the 15 per cent scenario) as direct

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<sup>3</sup> While applying this policy change to the rest of the EU would increase the price impact, it is anticipated the positive price impact under the fund transfer scenarios would still be modest since the production changes at the EU level would be insufficient to generate considerable price responses. Previous FAPRI analysis on reducing the value of the Single Farm Payment by 25 per cent across the EU resulted in modest price effects (Moss *et al.*, 2007).

payments represent a small component of overall dairy farm income relative to other farm types. Ewe and total sheep numbers respond in a similar manner to beef cow numbers, exhibiting slight declines under the pillar fund transfer scenarios. Again, the price impact is negligible.

Increased transfer of funds from Pillar I to Pillar II has a negligible impact on the pig and poultry sectors since these sectors are not directly supported and the cross price effects in the other sectors are small.

It is projected that the change in crop areas and consequently production within the UK are insignificant. This reflects the observed inelastic relationship between returns and area planted. Projected crop prices remain unchanged compared to the Baseline (Table 2).

## Conclusions

The transfer of funds from Pillar I to Pillar II considered in this scenario analysis has a very modest negative impact on activity levels at the sectoral level. This reflects the limited transfer of funds and the decoupled nature of the Single Farm Payment. While the production impacts are relatively small, it is important to acknowledge that this policy change will reduce farm incomes, the extent of which depends on the ability of individual farms to access and benefit financially from rural development schemes.

**Table 1: Projected Changes in UK Livestock Sector, percentage difference in 2021 compared to the Baseline**

	Decoupling Coefficient 0.1				Decoupling Coefficient 0.3				Decoupling Coefficient 0.5			
	5%	10%	15%	20%	5%	10%	15%	20%	5%	10%	15%	20%
<b>UK Livestock Sector</b>												
<b>Cattle</b>												
Beef cows	-0.3%	-0.6%	-1.0%	-1.2%	-0.6%	-1.2%	-1.9%	-2.5%	-0.8%	-1.7%	-2.5%	-3.4%
Dairy cows	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.4%	-0.2%	-0.3%	-0.5%	-0.7%
Total Cattle	-0.1%	-0.3%	-0.5%	-0.6%	-0.3%	-0.7%	-1.0%	-1.3%	-0.5%	-1.0%	-1.4%	-1.9%
<b>Beef</b>												
Production	-0.1%	-0.3%	-0.5%	-0.6%	-0.3%	-0.6%	-1.0%	-1.3%	-0.5%	-0.9%	-1.4%	-1.9%
Domestic use	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.1%	-0.1%
Cattle price	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.1%	0.2%	0.3%	0.3%
<b>Sheep</b>												
Ewes	-0.1%	-0.2%	-0.4%	-0.5%	-0.3%	-0.6%	-1.0%	-1.3%	-0.5%	-1.0%	-1.4%	-1.9%
Total Sheep	-0.1%	-0.2%	-0.4%	-0.5%	-0.3%	-0.6%	-0.9%	-1.2%	-0.5%	-0.9%	-1.4%	-1.9%
<b>Sheepmeat</b>												
Production	-0.1%	-0.2%	-0.4%	-0.5%	-0.3%	-0.6%	-0.9%	-1.3%	-0.5%	-0.9%	-1.4%	-1.9%
Domestic use	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.1%	-0.1%
Sheepmeat price	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.1%	0.2%	0.3%	0.4%
<b>Pig</b>												
Sows	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total pigs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Pigmeat</b>												
Production	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Domestic use	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pigmeat reference price	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Poultry</b>												
Production	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Domestic use	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Chicken price	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Dairy</b>												
Cow's milk Production	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.4%	-0.2%	-0.3%	-0.5%	-0.7%
Liquid consumption	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Manufacturing use	-0.1%	-0.2%	-0.3%	-0.3%	-0.2%	-0.5%	-0.7%	-0.9%	-0.4%	-0.7%	-1.1%	-1.5%
Producer milk price	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**Table 2: Projected Changes in UK Crops Sector, percentage difference in 2021 compared to the Baseline**

	Decoupling Coefficient 0.1				Decoupling Coefficient 0.3				Decoupling Coefficient 0.5			
	5%	10%	15%	20%	5%	10%	15%	20%	5%	10%	15%	20%
<b>UK Crops Sector</b>												
<b>Area</b>												
Wheat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%	-0.2%
Barley	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	-0.2%	-0.3%	-0.4%
Rapeseed	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.1%	-0.1%
<b>Prices</b>												
Wheat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Barley	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rapeseed	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Oat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Wheat</b>												
Production	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%	-0.1%
Domestic use	0.0%	0.0%	0.0%	-0.1%	0.0%	-0.1%	-0.1%	-0.2%	-0.1%	-0.1%	-0.2%	-0.2%
<b>Barley</b>												
Production	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	-0.2%	-0.3%	-0.4%
Domestic use	0.0%	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%	-0.2%	-0.1%	-0.2%	-0.2%	-0.3%
<b>Rapeseed</b>												
Production	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.1%	-0.1%
Domestic use	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

**Table 3: Projected Changes in Activity Levels in England, percentage difference in 2021 compared to the Baseline**

	Decoupling Coefficient 0.1				Decoupling Coefficient 0.3				Decoupling Coefficient 0.5			
	5%	10%	15%	20%	5%	10%	15%	20%	5%	10%	15%	20%
<b>England Livestock Sector</b>												
Beef cows	-0.2%	-0.4%	-0.7%	-0.8%	-0.5%	-1.0%	-1.5%	-2.0%	-0.7%	-1.4%	-2.2%	-2.9%
Dairy cows	0.0%	-0.1%	-0.1%	-0.2%	-0.1%	-0.2%	-0.3%	-0.4%	-0.2%	-0.4%	-0.5%	-0.7%
Total Cattle	-0.1%	-0.2%	-0.3%	-0.4%	-0.3%	-0.5%	-0.8%	-1.0%	-0.4%	-0.8%	-1.2%	-1.6%
Ewes	-0.1%	-0.2%	-0.4%	-0.4%	-0.3%	-0.6%	-0.9%	-1.2%	-0.4%	-0.9%	-1.3%	-1.8%
Total Sheep	-0.1%	-0.2%	-0.3%	-0.4%	-0.3%	-0.6%	-0.8%	-1.1%	-0.4%	-0.9%	-1.3%	-1.7%
Sows	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total pigs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Poultry production	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Milk production	0.0%	-0.1%	-0.1%	-0.2%	-0.1%	-0.2%	-0.3%	-0.4%	-0.2%	-0.4%	-0.5%	-0.7%
<b>England Crops Sector</b>												
<b>Area</b>												
Wheat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%	-0.2%
Barley	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%	-0.2%
Rapeseed	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%

**Table 4: Projected Changes in Activity Levels in Wales, percentage difference in 2021 compared to the Baseline**

	Decoupling Coefficient 0.1				Decoupling Coefficient 0.3				Decoupling Coefficient 0.5			
	5%	10%	15%	20%	5%	10%	15%	20%	5%	10%	15%	20%
<b>Wales Livestock Sector</b>												
Beef cows	-0.3%	-0.5%	-0.9%	-1.0%	-0.6%	-1.2%	-1.9%	-2.5%	-0.9%	-1.7%	-2.6%	-3.5%
Dairy cows	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.1%	-0.2%	-0.4%	-0.5%
Total Cattle	-0.1%	-0.2%	-0.4%	-0.5%	-0.3%	-0.6%	-0.9%	-1.3%	-0.5%	-0.9%	-1.4%	-1.8%
Ewes	-0.1%	-0.3%	-0.4%	-0.5%	-0.3%	-0.7%	-1.0%	-1.4%	-0.5%	-1.0%	-1.5%	-2.0%
Total Sheep	-0.1%	-0.2%	-0.4%	-0.5%	-0.3%	-0.6%	-1.0%	-1.3%	-0.5%	-0.9%	-1.4%	-1.9%
Sows	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total pigs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Poultry production	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Milk production	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.1%	-0.2%	-0.3%	-0.5%
<b>Wales Crops Sector</b>												
<b>Area</b>												
Wheat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%	-0.1%
Barley	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%	-0.1%

**Table 5: Projected Changes in Activity Levels in Scotland, percentage difference in 2021 compared to the Baseline**

	Decoupling Coefficient 0.1				Decoupling Coefficient 0.3				Decoupling Coefficient 0.5			
	5%	10%	15%	20%	5%	10%	15%	20%	5%	10%	15%	20%
<b>Scotland Livestock Sector</b>												
Beef cows	-0.5%	-1.0%	-1.6%	-2.0%	-0.8%	-1.5%	-2.3%	-3.1%	-1.0%	-1.9%	-2.9%	-3.9%
Dairy cows	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	-0.3%	-0.4%	-0.6%	-0.2%	-0.5%	-0.7%	-0.9%
Total Cattle	-0.3%	-0.7%	-1.2%	-1.4%	-0.6%	-1.1%	-1.7%	-2.3%	-0.7%	-1.5%	-2.2%	-3.0%
Ewes	-0.1%	-0.3%	-0.5%	-0.6%	-0.4%	-0.7%	-1.1%	-1.5%	-0.5%	-1.1%	-1.6%	-2.2%
Total Sheep	-0.1%	-0.3%	-0.5%	-0.6%	-0.4%	-0.7%	-1.1%	-1.5%	-0.5%	-1.1%	-1.6%	-2.2%
Sows	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total pigs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Poultry production	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Milk production	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	-0.3%	-0.4%	-0.6%	-0.2%	-0.5%	-0.7%	-0.9%
<b>Scotland Crops Sector</b>												
<b>Area</b>												
Wheat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%	-0.1%
Barley	-0.1%	-0.1%	-0.2%	-0.2%	-0.1%	-0.3%	-0.4%	-0.5%	-0.2%	-0.4%	-0.6%	-0.8%
Rapeseed	0.0%	0.0%	0.0%	-0.1%	0.0%	-0.1%	-0.1%	-0.2%	-0.1%	-0.2%	-0.2%	-0.3%
Oats	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%

**Table 6: Projected Changes in Activity Levels in Northern Ireland, percentage difference in 2021 compared to the Baseline**

	Decoupling Coefficient 0.1				Decoupling Coefficient 0.3				Decoupling Coefficient 0.5			
	5%	10%	15%	20%	5%	10%	15%	20%	5%	10%	15%	20%
<b>Northern Ireland Livestock Sector</b>												
Beef cows	-0.3%	-0.5%	-0.9%	-1.1%	-0.6%	-1.3%	-1.9%	-2.6%	-0.9%	-1.8%	-2.7%	-3.6%
Dairy cows	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.1%	-0.2%	-0.3%	-0.5%
Total Cattle	-0.1%	-0.3%	-0.4%	-0.5%	-0.3%	-0.7%	-1.0%	-1.4%	-0.5%	-1.0%	-1.5%	-2.0%
Ewes	-0.1%	-0.2%	-0.4%	-0.5%	-0.3%	-0.6%	-0.9%	-1.2%	-0.5%	-0.9%	-1.4%	-1.9%
Total Sheep	-0.1%	-0.2%	-0.4%	-0.5%	-0.3%	-0.6%	-0.9%	-1.2%	-0.5%	-0.9%	-1.4%	-1.8%
Sows	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total pigs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Poultry production	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Milk production	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.1%	-0.2%	-0.3%	-0.5%
<b>Northern Ireland Crops Sector</b>												
<b>Area</b>												
Wheat	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.1%	-0.2%	-0.3%	-0.4%
Barley	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.3%	-0.1%	-0.2%	-0.3%	-0.4%
Rapeseed	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%



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