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European Union Agricultural Reforms: Impacts for Iowa

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benefits of the price increase are proportionate to yields. A farmer with 150-bushel yields will benefit by 50 percent more than will a farmer with 100-bushel yields. So, a Kansas corn farmer who produces 150 bushels per acre with irrigation receives the same benefit from the price increase as the Iowa dryland farmer who produces 150 bushels per acre.

The cost of acreage set-asides, however, depends on both yields and per-acre production costs. Cash rents for farmland are a good measure of the relative costs of set-asides. If cash rents in Iowa are $110 per acre compared to $65 per acre in Kansas, then the cost of acreage set-asides are nearly twice as high in Iowa as Kansas. In this example, the benefits from acreage set-asides are equal in Iowa and Kansas, but the costs are disproportionately high in Iowa.

What we have learned from this brief excursion into the impacts of subsidies is that a careful examination is needed before we can conclude that subsidies are beneficial. Clearly, fixed payments are beneficial to farmers, as are price guarantees. But, whereas the budget costs of fixed payments are known in advance, the cost of price guarantees can grow to unexpected levels. If the unexpected expense leads to supply controls, then it is questionable whether there is a positive net benefit to Iowa farmers. And, perhaps surprisingly, the net benefits from crop insurance subsidies are likely to be negative for Iowa’s low-cost producers. That is, Iowa producers would be better off if crop insurance subsidies were eliminated.

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Authors’ note: The results reported in this analysis are dependent on a series of assumptions relating to the functioning of EU markets and to the future world agricultural and macroeconomic situations. Changes in the underlying assumptions could significantly alter the results reported in this article. For further discussion of the Berlin Accord reforms, see CARD Briefing Paper 99-BP 24, “Analysis of the Berlin Accord Reforms to the European Union’s Common Agricultural Policy,” available online at http://www.card.iastate.edu.

The European Union’s (EU) Common Agricultural Policy (CAP) is set to undergo comprehensive reforms, known as Agenda 2000, next year. The twofold objective of these reforms is to ensure the sustainability of European agriculture and to protect the livelihood of European farmers. In May 1999, the European Council officially adopted new financial and political guidelines—dubbed the Berlin Accord—that will increase government support to farmers through direct payments while reducing support prices for cereals, beef, and dairy products.

The Berlin Accord reforms are likely to stimulate increased production in the EU and thereby create substantial changes in European agricultural markets. The overall impact on markets for Iowa crops and livestock, however, is projected to be relatively small. Farm prices for corn, soybeans, and oats are modestly changed and, on average, decline by 1 percent between 2001 and 2008. The expanded cereals production in the EU will lead to slightly lower world wheat prices and lower U.S. exports. Iowa beef and hog prices increase slightly in the first two years of the reform implementations; then, for the remaining period, Iowa livestock prices decline relative to the baseline.

FAPRI (Food and Agricultural Policy Research Institute) at the Center for Rural and Agricultural Development (CARD) conducted an analysis that estimates the impacts of the Berlin Accord for EU agricultural markets. The analysis results were contrasted with a baseline scenario that maintains pre-Accord policies. The FAPRI modeling system incorporates forecasts of macroeconomic variables—such as gross domestic product, inflation rates, and exchange rates—that were obtained from Standard and Poors DRI, Project Link, and WEFA. Weather was assumed to be average during the projection period.

Effects on EU Agriculture

For crops, the CAP support prices for cereals is reduced by 15 percent in two steps, with the first reduction occurring during the 2000/01 marketing year. Cereals producers in the EU will be compensated for this reduction by an increase in direct payments from 54.34 to 63 euros per metric ton (1 euro =$.93). Payments to oilseed producers will be progressively reduced to the level for cereals by the 2002/03 marketing year. Producers of legumes and pulses (protein substitutes) will receive a direct payment of 9.5 euros per metric ton on top of the basic direct payment.

For beef, the support price is reduced by 20 percent over a three-year period. Then, in July 2002, the intervention price will be replaced by a beef basic price of 2224 euros per metric ton, and a private storage aid scheme will be introduced. All...
beef producers will be compensated for the decline in market prices by a phased increase in the special premium for steers, bulls, and suckler cows (beef cows). A slaughter premium is introduced (80 euros per head for adult animals and 50 euros per head for calves). All producer premiums are capped at the regional level to contain expenditures; however, national governments may supplement producer payments up to the national financial expenditure limit established for each country. Finally, there will be a premium to encourage fewer animals per land unit in an effort to improve environmental conditions.

**Impacts on U.S. Markets**
Changes in world market prices are likely to be small. The United States and the EU compete most heavily in the world wheat markets, and, because the EU would produce and export more wheat under the Berlin Accord, the U.S. wheat prices and exports are expected to decline by an average of 2 to 3 percent. U.S. corn and soybean prices are projected to fall by less than 1 percent. The reduction in EU oilseed production increases U.S. soybean and meal exports slightly. Livestock prices and beef exports increase slightly at first and then decline by an average of 1 percent. Pork and poultry prices decline by less than .5 percent.

**Impacts on Iowa**
Iowa beef and hog prices increase slightly in 2001/02. For the remaining period, up to 2008, Iowa livestock prices decline relative to the baseline. On average, both fed steer and barrow and gilt prices are projected to decline by less than 1 percent (see Figure 1). Iowa acres planted to corn, soybeans, and oats (see Figure 2) are modestly changed through the projection period. On average, corn and soybean prices are projected to decline by 1 percent.

Following the trends for prices, net farm income is slightly above the baseline level in 2000, but is projected to be 2 to 3 percent lower during the remaining period (see Figure 3). On a cumulative basis, the implementation of the Berlin Accord reforms in the EU is projected to reduce Iowa's net farm income by approximately $475 million during the 2000 to 2008 period.