EFFECTS OF DIRECT PAYMENTS ON AGRICULTURAL DEVELOPMENT IN BULGARIA

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• The goal of the paper is to analyze some of direct payments effects on agricultural output, value added, production costs, agricultural industry patterns and to make comparative scenarios.

• 2 scenarios model – status quo and a scenario without direct payments
• Macro economic indicators – GAO, GAV, IC
• Changes in agricultural industry pattern
• Identification – wining and losing sectors
Methodology

• Modeling on sector level and aggregating on agricultural level

  \[ PO = f(\text{Trend}; \frac{RR}{IC}) \]

  Area, number, yield

  Real revenues (market flows and subsidies)

• Intermediate consumption – subsidy determination to production costs (dispersion method)

• Agricultural identity = Sum (production output) - IC
Assumptions

• Scenario without direct payments but other things equal (EU membership, EU has direct payments, II Pillar exists, etc).

• Major industries in crop and livestock are modeled separately along with major cost groups.

• Historical observation 1998 – 2016 year.

• Reference Average 2000 – 2006 year.

• Elasticity – endogenous, the best fit to less residuals

• Adjustments in no direct payment scenario are transplanted from status quo scenario.
# Distribution of Direct Payments

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Total I Pillar envelop (billion euro)</td>
<td>€2,5</td>
<td>€5,3</td>
</tr>
<tr>
<td>SAPS / BP</td>
<td>97%</td>
<td>45%</td>
</tr>
<tr>
<td>Top-ups support / National transitional support (Billion €)</td>
<td>€0,6</td>
<td>€0,3</td>
</tr>
<tr>
<td>Greening</td>
<td>No</td>
<td>30%</td>
</tr>
<tr>
<td>VCS</td>
<td>3%</td>
<td>15% (13% + 2%)</td>
</tr>
<tr>
<td>YFS</td>
<td>No</td>
<td>0.5%</td>
</tr>
<tr>
<td>SFS</td>
<td>No</td>
<td>Yes (€500/ha)</td>
</tr>
<tr>
<td>Redistributive Payment</td>
<td>No</td>
<td>7,9% (€76/ha)</td>
</tr>
</tbody>
</table>

Source: Payment Agency
Gross Agricultural Output - Status Quo and None DP, 000 BGN

Source: CAPA, NSI data
Production Costs - Status Quo and None DP, 000 BGN

Source: CAPA, NSI data
Gross Value Added - Status Quo and None DP, 000 BGN

Source: CAPA, NSI data
Crop Output - Status Quo and None DP, 000 BGN

Source: CAPA, NSI data
Livestock Output - Status Quo and None DP, 000 BGN

Source: CAPA, NSI data
Specific conclusions

1. The Non Direct payments and Status quo scenarios have similar evolution but different magnitude on the agricultural macro indicators;

2. In No DP scenario – the GAO and GAV would have had higher levels at the first years but afterwards, they would have dropped;

3. The crop sectors show a higher outcomes from the DP implementation compared to livestock. SAPS gives advantages to land based farms;

4. In livestock farming – pig and poultry sectors are posed to rising input prices but no support;
General conclusions

1. Direct payments are income stability instrument but demonstrates little effect on creating added value;
2. There is an adaptive behavior of producers to support policy rather than the market signals. It creates risks for future sustainability;
3. The introduction of bigger coupled support after 2014 backs up intensive sectors and it fits better from added value point of view;
4. Decoupled support is not efficient enough apart from income contribution and must be re-considered in CAP Post 2020.
THANK YOU FOR YOUR ATTENTION!

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