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Common agricultural policy reform and its effects on sheep and goat market and rare breeds conservation☆

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Abstract

In June 2003, the EU approved a very important reform of the CAP that will strongly affect the entire European agriculture.

This paper analyses the major issues related to the effects of the evolution of the Common Agricultural Policy on the sheep and goat sectors, and especially the possible direct and indirect effects of the last reform in terms of accelerating or decelerating the loss of biodiversity due to the extinction of breeds.

In fact, the single farm payment, fully or partly decoupled from any production, will include from 50% to 100% of the present amount of aid paid to sheep and goat breeders, according to decisions to be taken by each Member State. These decisions could deeply affect breeders' economic interests in continuing to breed sheep and goats or not.

On the other hand, new regulations will also allow Member States to introduce supplementary premium in case of transhumance, and/or for preserving rare breeds, and/or for promoting high-quality food products which could be obtained from these breeds. These policy tools, together with the increased amount of money available for rural development could balance, at least theoretically, negative effects due to the application of decoupled aid. On the other hand, previous experiences show that these tools have not been used with efficacy in order to preserve endangered breeds. Therefore, new attention and new procedure are suggested in order to overcome these limitation and to improve in situ preservation of rare breeds.

Keywords: Conservation; Biodiversity loss; Common Agricultural Policy; Sheep breeds; Goat breeds

1. The Common Agricultural Policy for the sector up to the 2003 reform

A common regime for sheep meat was not among the original CAP Common Market Organizations (CMOs), in part because sheep and goat meat were of minor importance in the six original Member States. The value of sheep and goat meat accounted for only 1% of

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all agricultural output in these countries, and for only 2% of meat consumption.

The EC Commission first drafted a CMO for these products in mid-1975, after the accession to the Community in 1973 of the UK, the largest producer, importer and exporter of sheep meat in the EU, and Ireland, where sheep meat is an important product.

This proposal and subsequent ones, however, were withdrawn due to disagreement among Member States; only at the end of May 1980, an agreement was finally reached on the main features of the regime. Apart from the accession of Greece in 1981, Spain and Portugal in 1986 and Austria, Finland e Sweden in 1995 influencing the application of measures in the sheep meat sector, the major changes in the CMO have been the one introduced by the GATT agreement reached in 1994 and effective from 1 July 1995; it abolished import levies and voluntary restraint agreements and replaced them with import tariff quotas.

Following the implementation of the GATT agreement, live sheep and sheep meat are imported into the European Union under an annual tariff quota. Most country-specific annual tariff quotas are subject to a zero customs duty. New Zealand alone has a tariff quota for "fresh, chilled, frozen sheep meat and goat meat" equal to 226,700 tonnes in terms of carcass weight equivalent, for the year 2005; it represents more than 80% of the total tariff quota of the EU as a whole. Argentina, Australia, Uruguay and Chile are the other most important countries with respect to this issue: their tariff quotas for the same year are, respectively equal to 23,000, 18,650, 5800 and 5417 tonnes.

Moreover, tariffs ranging from € 80.5/100 kg (for live sheep and goat) to a maximum of € 311.8/100 kg (boneless meat) are charged on imports outside quotas.

It is clear that even with this change, the tariff quota still assure to EU producers a good degree of protection from cheaper imports form other non-EU countries.

The categories covered by the sheep meat regime are all those related to live animals and meet products of all kinds. Wool, instead, is classed as an industrial product under the terms of the Treaty of Rome, and therefore is not covered by the regime.

The objective of the policy as derived from Article 39 of the Treaty of Rome are in particular:

- to establish a common organization of the market;
- to stabilize the market; and
- to ensure a fair standard of living for sheep and goat farmers.

The main tools put in place to achieve these objectives were: (1) an annual premium for sheep and goat meat producers; (2) a private storage aid; (3) aid programmes to promote rural development; (4) import quotas, and (5) export refunds.

Prior to 2002, the setting of an annual basic price was central to the operation of support systems in the sheep meat regime. The difference between the basic price and the actual average EU market price for every marketing year formed the basis for the calculation of the annual ewe premium. This premium was variable and its aim was to support prices, and through them, the income of sheep and goat breeders. It is obvious that such a price support was also a strong stimulus to production with distorting effects on the international trade also for these products.

The Agenda 2000 reforms did not make any substantial changes to the sheep meat regime. Later, however, an agreement on a new sheep meat regime was reached at the end of the year 2001 and its application started on January 1, 2002.

With Regulation 2529/2001, a new flat rate ewe premium, has been introduced and it has taken the place of the old "variable" ewe premium.

Therefore, from the 2002 marketing year, an annual premium is paid to sheep meat producers; this is a headage payment for eligible ewes. The annual premium is also paid to goat meat producers in Greece, Corsica and certain parts of Italy and to Herdwick sheep producers in the Lake District of the UK. This premium is equal to 80% of that paid on ewes.

From the 2002 marketing year, the flat rate annual premium is equal to € 21 per ewe. However, for producers marketing sheep's milk or products based on sheep's milk the premium per ewe is € 16.8. The premium per she-goat is also € 16.8. The same rates are applied throughout the EU.

A limit is set on the number of eligible ewes and she-goats for which premium can be claimed in each Member State each year: these are the so-called ewe premium quotas and are set at individual producer level, being equal to the number of premium rights which were held at the end of 2001. These quotas are transfer-able and may also be leased. A supplementary premium of € 7 per head is paid to producers in areas where sheep and goat production constitutes a traditional activity or contributes significantly to the rural economy. In any event the supplementary premium is only granted to a producer whose holding has at least 50% of its area used for agriculture in less-favored areas (LFAs). The payment of ewe premium is not subject to any stocking density criteria, but the number of ewes upon which premium is claimed is relevant when determining stock-density levels for beef special premium and suckler cow premium claims.

Moreover, since 1992, EU Regulation 2078 for the first time allowed Member States to set up a wide range of aid and programmes to promote low-impact farming practices that ensure the protection of the environment and the maintenance of the countryside.

Later, under the Agenda 2000 reforms, Regulation 1257/99 set out a complete framework aimed at supporting rural development and, among all policy tools included there is also a provision for support in less favored areas and areas with environmental restrictions. Sheep are typically a mainstay of agricultural production in such areas. Provisions include the payment of compensatory allowances in these areas.

Historically, compensatory allowances have been made as headage payments on, amongst other things, breeding ewes. The maximum permissible amount per hectare was set at € 200. Among other aids, a specific possibility do exist in side this regulation, for paying specific subsidies to breeders of breeds at risk of extinction.

2. The 2003 CAP reform

On June 2003, an agreement has been reached at the EU level about a very important CAP reform also affecting the sheep and goat meat regime. The main change has been the introduction of a single farm payment (SFP) which will include a number of previous premium that the single farm was obtaining from CAP. This change will affect the sectors of arable crops, beef, and also sheep (and goat). Later also, other production have been affected by similar changes: cotton, olive oil, tobacco.

But the main point is that this new SFP will be at least partly, if not totally, decoupled form production, i.e. farmers and breeders will receive the payment according to historical production (the average of the years 2000–2002) without (in case of total decoupling) the necessity to produce anymore or to have the given number of ewes or she-goats. The main objective of this very strong reform is to free production and economic activity on one side, by non supporting directly production activity: in this way market forces are free to act also in the agricultural and animal production sectors, while the EU continue to support farmers' and breeders' income.

Of course it is reasonable to forecast, in the time of very few (perhaps 2–3) years, a strong decrease, among other products, in sheep and goat flocks and productions. Without any coupled aid, breeders will probably abandon or reduce drastically their production, since market prices alone, it seems clear, are not high enough to give them a reasonable income.

On the other hand, the 2003 CAP reform has also increased the budget for rural development measure by about 30% at the EU level. Moreover, besides traditional measures including the one for endangered breeds, new policy tools have been introduced, for example for supporting information, promotion and advertising activities for quality food products. With respect to support to be granted to breeders of rare breeds, there is also the explicit possibility, for every states or region implementing these measures, of defining an aid even higher than the € 200 per head if it has been properly motivated. This seems to be a strong tool for limiting the possible (and probable) negative effects of this reform in terms of loss of biodiversity also with respect to sheep and goat breeds.

3. Prospects for sheep and goat markets in the EU

The outbreak of food and mouth disease (FMD) in the UK and in some other European countries has severely disrupted the sheep sector in 2001 with large losses and obstacles to trade. It is estimated that around 3.5 million sheep have been killed and destroyed in the framework of FMD containment and another 1.5 million animals have been destroyed within the Livestock Welfare Disposal Scheme in the UK. Sheep and goat meat production dropped by 9.6% in 2001 compared to 2000 (over 25% in the UK), to around 1.015 mil-

Table 1
Sheep/goat projections in the EU, 2002–2011 (‘000 tonnes)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Production	1056	1054	1047	1039	1044	1046	1046	1044	1039	1031
Imports	253	256	266	284	287	289	292	295	296	300
Exports	3	4	4	4	4	4	4	4	4	4
Consumption	1306	1306	1309	1319	1328	1331	1334	1335	1332	1328

Source: European Commission, 2004a and 2004b.

lions of tonnes. This drop is also due to the movement restrictions that have been decided to stop the spread of the disease and that have created enormous difficulties in the throughput for UK, the largest EU producer and exporter.

The absence of the substantial supply of UK sheep meat has translated into record high prices, especially in those Member States that traditionally rely on British sheep meat. This is true in particular for France who is the main intra-EU importer of sheep meat, where prices rose to more than 6 Euro/kg for the first time ever. Third countries were not able (or did not have the import quota) to increase their exports to the EU to counterbalance this deficit and, as a result, consumption of sheep/goat meat has dropped by 7.8% in the year 2001 (by more than 20% in France).

The number of sheep and goat, however, has decreased again in the following years 2002 and 2003, the last data available. The estimated number of sheep in the EU-15 has decreased from 88.161 million of the year 2001 to 86.277 million of the 2003 (−2.14%); the number of goats has also decreased (−2.4%) from 11.921 million of head to 11.636 million in the same years, according to Eurostat.

Flocks in the UK, Spain and France, the three largest EU producers all declined in the year 2003 with respect to the previous year, even if the decrease has been of different intensity, being, respectively, equal to −1.3%, −3.2% and −1.8%.

UK is the first producer in the EU, with a flock equal to 28.5% of the total EU one, in 2003. Spain is the second producer with a share on EU sheep production equal to 26.7% in 2003, lower than the one on previous years (it was 27.6% in 2001). The following countries are France (10.4% of the EU flock) and Italy (9.2%). All together these four countries represent about 75% of the total EU sheep at the end of 2003, even if this share seems decreasing in the last few years. Among new Member States, only Hungary present a fairly big flock: at the end of 2003 the number of sheep was increasing and almost reached 1.3 million of heads.

The EU-15 population of goats has also decreased in the last few years, according to the same data source, and this trend do apply also to the two major producers, Greece and Spain, where the number of heads has decreased by −1.9% and −3.1%, respectively, from 2002 to 2003. Greece alone represents more than 46% of the EU flock for goats, and Spain more than 25%. Together with France (10.6%) and Italy (8.3%) they represent more than 90% of EU goats. Among new Member States, only Cyprus present a good number of goats (still more than 400 thousands in 2003), but the number of heads seems decreasing in the last few years (2001–2003).

According to the last data available, lamb and sheep slaughterings in the EU-15 in 2004 have been decreasing with respect to the previous year by about 1.2%, due to a decline of production in Spain and the UK, the two most important countries for this production (Agra Europe Weekly, 2004).

According to the last evaluation available from the European Commission (European Commission, 2003, 2004a, 2004b), sheep and goat production is forecasted to decrease up to a minimum in the year 2005, and to increase slightly again after that year and up to a maximum in the year 2008; later a new small decrease should follow (Table 1).

On the other hand, imports are forecasted to increase continuously every year up to the year 2011, the last one considered in the analysis, in order to satisfy an increasing consumption, at least up to the year 2009. Exports should remain very low and stable around four thousands of tonnes.

These forecasts, however, do not seem to consider properly the effects of the CAP reform approved in the year 2003; the reform will start to show its effects, according to decision taken by every single Member States, from the year 2005, but with greater intensity after the year 2006 when many breeders will understand clearly how the new regime will work. On the other hand, in many countries breeders, as well as farmers, will obtain the formal certification of their single farm payment only around the mid 2005 and at that time they will not have the possibility to make major changes in their flocks and in their production, at least for the year 2005. Later, however, an important decrease in the number of animals and in the annual production can be easily forecasted. It seems that official values are not considering yet the possible strong effect of decoupling on sheep and goat production.

4. Economic evaluation of the sheep meat regime

The introduction of production quotas, as at the beginning of the sheep meat regime, leads to an a priori conclusion that economic inefficiencies in resource allocation will occur. In relation to this regime, however, a number of issues will influence such a conclusion. First of all, the quotas refer only to supported production, and if the market conditions are good, producers can expand their unsubsidized production. The fact that production, in general, has not expanded since the introduction of quotas suggests that without support, sheep production is not easily sustainable. Equally, when support is removed, production will decline rapidly as producers withdraw from sheep production and possibly, from agriculture altogether.

By allowing the transfer of quotas by sale or lease, however, the economic efficiency of the sheep meat regime is improved: the most efficient producers can increase their activity and less efficient ones can leave their activity with an incentive (the value of the quota sold or rented).

Finally, the sheep meat regime also had a socio-economic objective, namely the retention of sheep meat production so as to ensure the maintenance of this production in areas where there is no other alternative. This policy objective could be seen as implying the acceptance of reduced economic efficiency in resource allocation; however, one must remember that in order to have economic efficiency in presence of positive (as well as negative) externalities (such as landscape production and conservation, biodiversity conservation, etc.), market forces alone are not enough to reach the desirable resource allocation.

The CMO before the 2003 reform, perhaps without an explicit design and consensus, played a significant role in sustaining both direct and indirect employment in some of the most disadvantaged areas. Assuming that it is considered desirable to retain the population in these areas from a socio-economic point of view, the sheep meat regime provided positive value to the rural economy. The regime also generally provides benefits of an environmental nature through the preservation of employment that maintains the landscape and the heritage in many environmentally sensitive areas, even if cases of environmental damage caused by sheep and goat do occur. Nevertheless, by supporting businesses and employment who manage the aesthetic landscape and through whom current and future environmental enhancement polices can be channeled, the sheep meat regime provided good opportunities.

We can also argue that the previous sheep meat regime has generally met its objectives of stabilizing the market and supporting producer incomes. The major weakness in the previous CMO was that it encouraged producers simply to keep sheep (and goats) rather than produce products (dairy, meat, wool, etc.) that the market was requiring.

Moreover, any support coupled to a headage basis has the potential to be considered production enhancing, and therefore, it may be unacceptable from a WTO perspective; moreover, from an environmental point of view, it does not remove the dangers of producers increasing stocking intensity.

For these reasons the 2003 reform with the possibility of a minimum of 50% of decoupling and the possibility of total decoupling, will remove these critics.

However, much attention should be placed on the importance of the sheep meat regime payments to the LFA in terms of sustaining socio-economic activities and gaining environmental benefits. The reform of the sheep meat regime should increasingly and clearly recognize these socio-economic and environmental criteria and move away from the simple traditional criteria of maintaining producer income. The new policy, moreover, also allow each Member States to pay a reduced SFP to all producers leaving a reserve of funds which could be considered as a "national envelope". This "national envelope" can then be used to make enhanced payments to any producer who met location or environmental management criteria.

Unfortunately, it does not seem that any Member States will start to do so.

Moreover, according to preliminary information available at the time of writing the paper, it seems that many countries are opting for complete (100%) decoupling of sheep (and goat) premium. The UK has decided for complete decoupling and the effects on the sector could be very strong and fairly quick. On the other hand, Spain, Greece and France have decided to decouple the sheep aid only at the 50%, as well as in Portugal, Denmark and perhaps Finland (the decision has not been formalized yet).

Italy and Ireland, on the other side, have decided for complete decoupling and also in this case the negative effect on the number of heads are expected to be strong.

In general it is reasonable to support the idea that overall effect of CAP reform on the EU flocks will be much stronger than presently forecasted. On the other hand, prices could also increase due to this forecasted reduction in domestic (EU) supply, but not enough to promote a new increase in production. Perhaps only new Member States will be able and interested in increasing their national supply in order to fill the gaps in the most important EU markets, especially France and Italy.

5. Rare breed conservation in the new scenario

Among the most important effects of CAP in general, and of last CAP reform in particular, there is the one on rare breed conservation.

Recent analysis (Signorello and Pappalardo, 2003; Signorello et al., 2004; Tisdell, 2003) have shown that in the last decade the conservation of rare breeds of domesticated species has been very difficult and many of them have disappeared or are going to disappear (European Commission, 2000).

Moreover, policy measure included in the rural development "pillar" of the CAP have not been able to address properly the issue of rare breed conservation: in many cases even the list of endangered breeds defined by regional or national authorities in order to delimitate cases where a specific economic compensation was available to breeders, have been largely incomplete. This is another example of poorly designed policies that have contributed to the loss of biodiversity (Mendelsohn, 2003).

In many other cases, the amount of the economic aid has not been able (i.e. large enough) to make breeders to switch from the few very common and widespread breeds to the rare breeds. It is clear that economic incentive have not been able, in many cases, to overcome all the difficulties due to a change of the breed.

But, most important, it does not seem that this issue is properly evaluated by policy makers, also at the regional and national level.

The new CAP, starting its implementation on January 1, 2005, could have both positive and negative effects on this issue.

The expected decrease of the number of sheep and goats in the EU, and especially in EU countries where the complete decoupling will be in place with the implementation of 2003 CAP reform (e.g., UK, Italy, Ireland, Germany), will affect even more deeply rare breeds.

Of course market and policy signals will be, in the new scenario, even more decisive for breeders' decision. On the one hand, no more aid will be paid "coupled" with production (or the number of ewe), and therefore the only revenue perceived by breeders for their breeding activity will be the one coming directly from the market (the price). It is clear that in most cases these breeds are "rare" exactly because of their lower profitability from a private (and short run) point of view. The effect of these changes could be dramatic on rare breeds.

On the other hand, the decoupling of aid from production could leave producers more sensible to other available economic incentives. Therefore, if regions and Member States will include the complete list of rare breeds in their new Rural Development Plans for the implementation period 2007–2013, breeders could be, this time, much more sensitive than in the past. It is of crucial importance, however, that policy makers give to this issue the correct importance and do not under evaluate the role of these policy tools.

But another point require more attention, also by scientists: we need to have really up-to-date list of rare and endangered breeds of domestic animals, for all EU countries (FAO, 1998). According to recent evaluations (Signorello et al., 2004), it could be economically feasible to support breeding of all rare breeds: the required amount of money is, at least theoretically, coherent with the dimension of funds available for rural development.

The next step, however, would be to rank rare breeds in order to take into account their value in terms of "biodiversity"; with this information it would be possible to select breeds and to concentrate more effectively scarce economic resources on the most important breeds (Simianer et al., 2003).

Another important opportunities is offered by the new EU regulation on Rural Development (Reg. 1783/1999); regions and/or Member States, when elaborating the new Rural Development Plan, can decide to modify end therefore to increase, the amount of aid to be made available to breeders for breeding rare breeds. They only have to demonstrate that the new amount is needed in order to make breeder to effectively accept to breed these animal, taking into account their loss of revenues, higher breeding costs, etc.

In conclusion, we can say that the new CAP is going to have strong effects on the EU sheep and goat sector as a whole, but also, if not especially, on rural development in many marginal areas of the EU where these breeding activities now take place, and on rare breed conservation. In these generally poor rural areas, conservation of animal genetic resources could make, instead, a positive contribution to improving the livelihoods of local breeders (Anderson, 2003; Rege and Gibson, 2003).

Decoupling income support policies from production activities is beneficial for markets but could generate even greater overall negative effects from an economic point of view if positive externalities joint to some agricultural and breeding activities are not considered and properly supported. Inefficiencies may arise from a general economic point of view, and the environmental as well as occupational dimensions could be the one more negatively affected.

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