

The October 2011 legislative proposals for CAP reform:

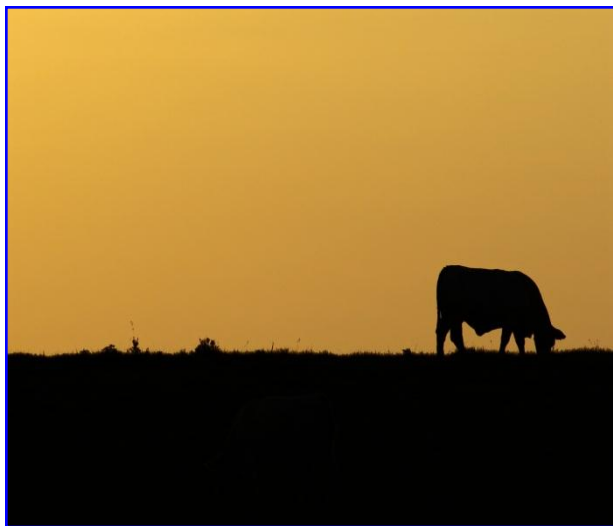
A French view point

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of the Agricultural Economics
Society of Ireland**

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Structure of our presentation

1- Main trends of French agriculture

2- Redistribution of direct payments: main implications for France

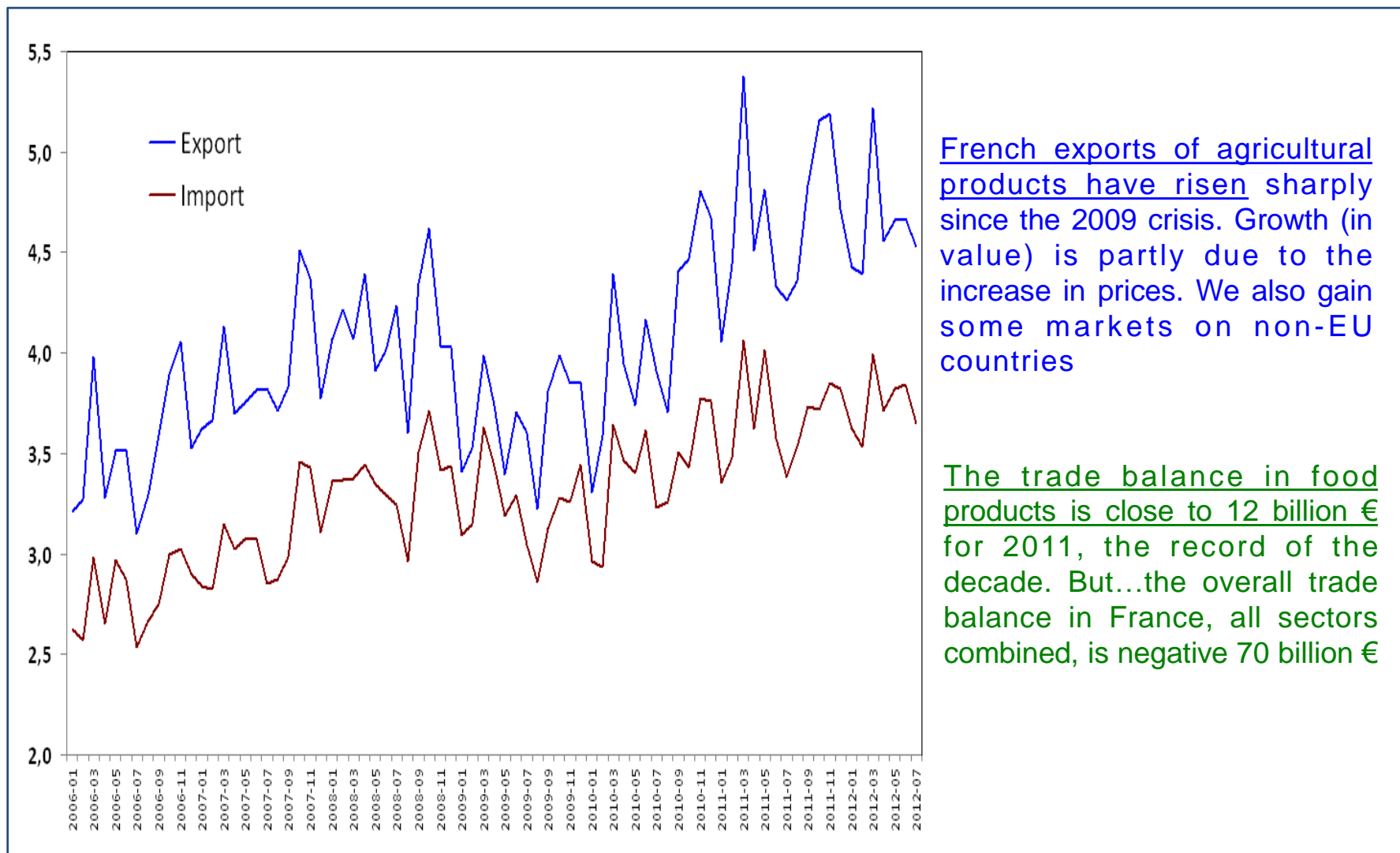
3- Market regulation measures and milk quotas : some comments

Conclusion

1- Main trends of French agriculture



Export and import of agricultural products in France (Billion €)

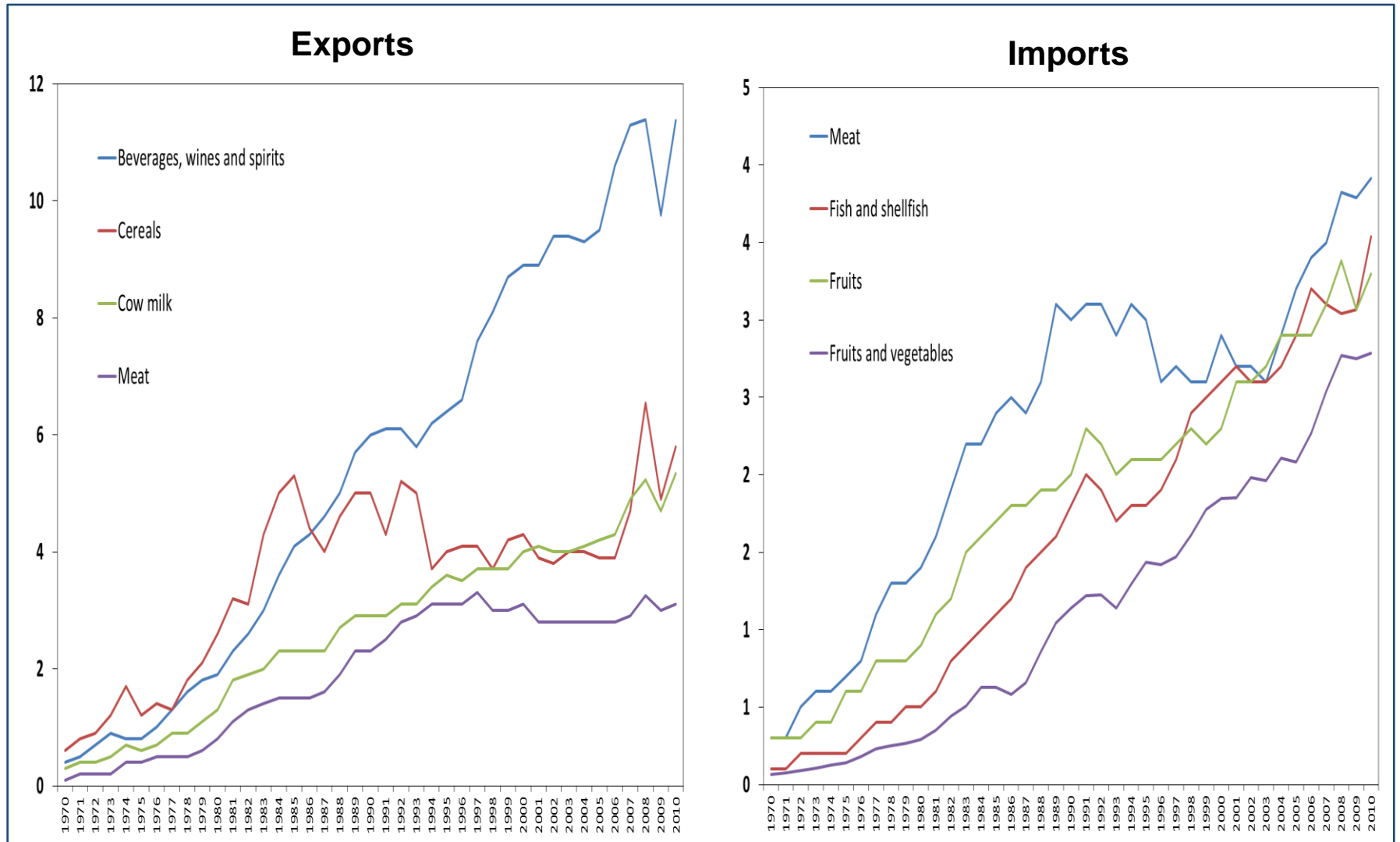


French exports of agricultural products have risen sharply since the 2009 crisis. Growth (in value) is partly due to the increase in prices. We also gain some markets on non-EU countries

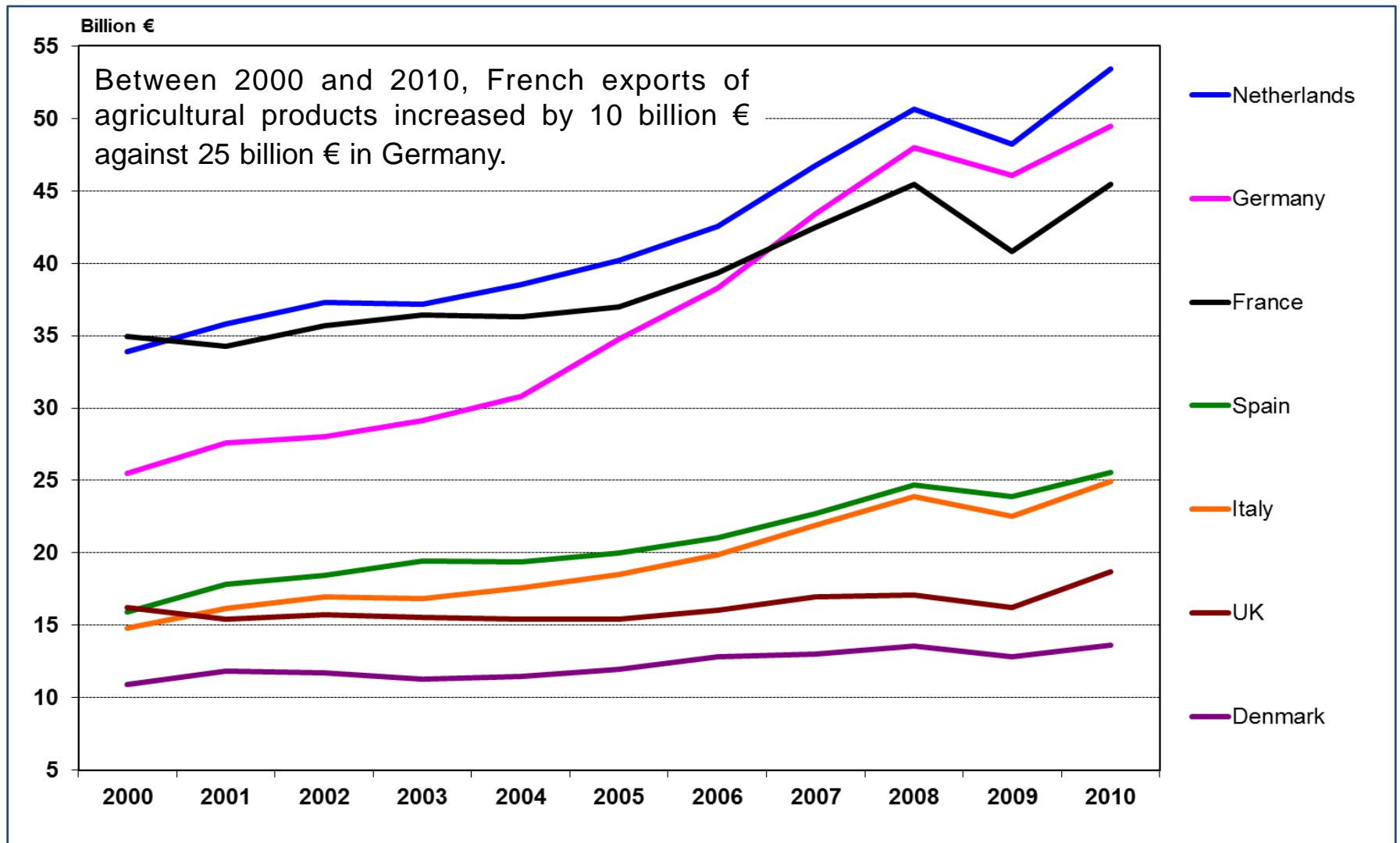
The trade balance in food products is close to 12 billion € for 2011, the record of the decade. But...the overall trade balance in France, all sectors combined, is negative 70 billion €

French customs

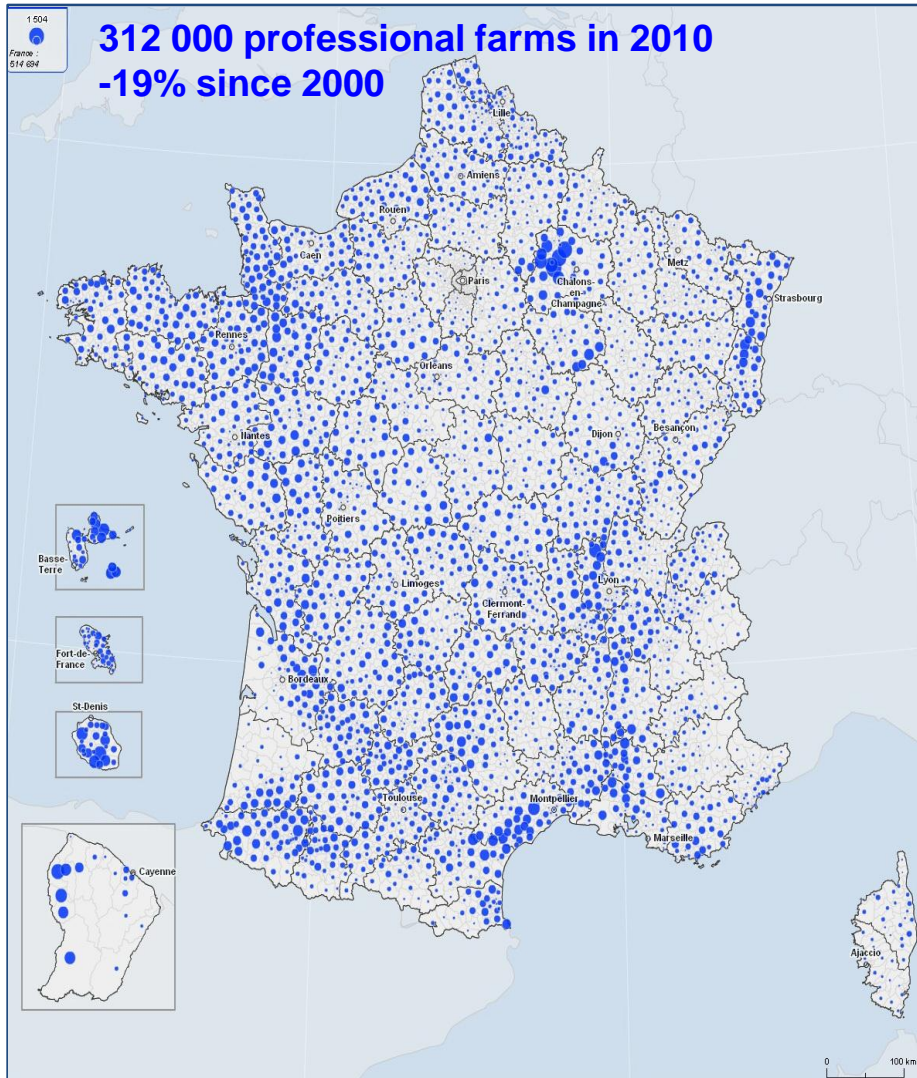
Import and export of agricultural products in France (Billion €)



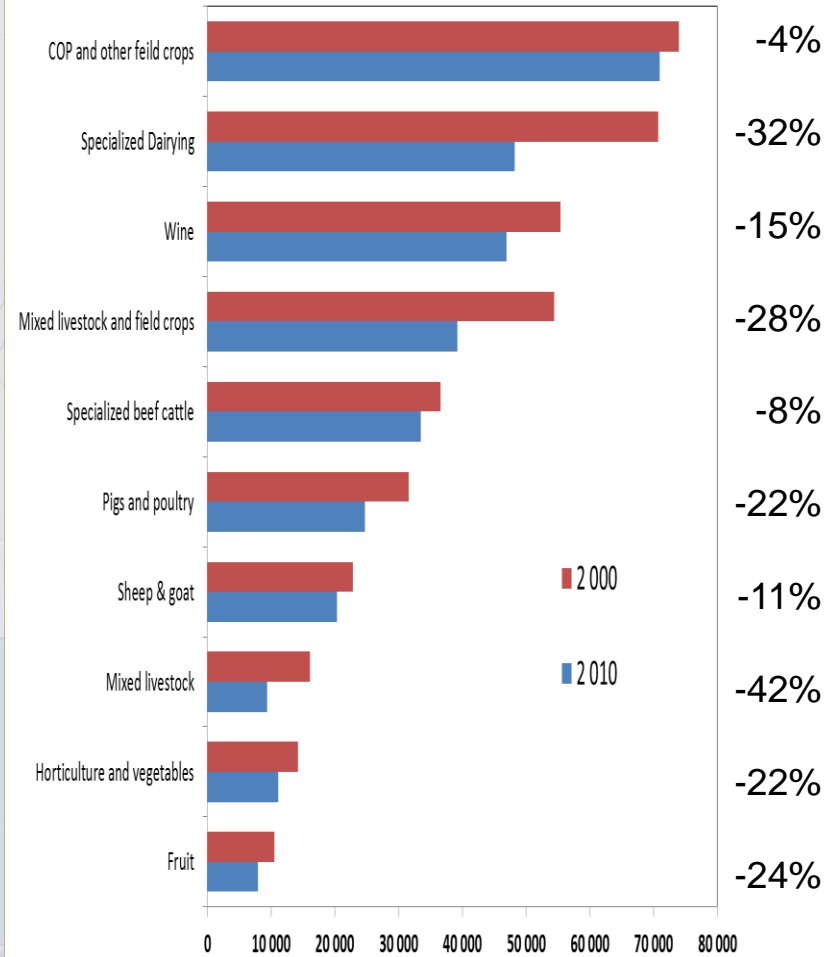
Export of agricultural products in some EU-27 MS (Billion €)



French Farms



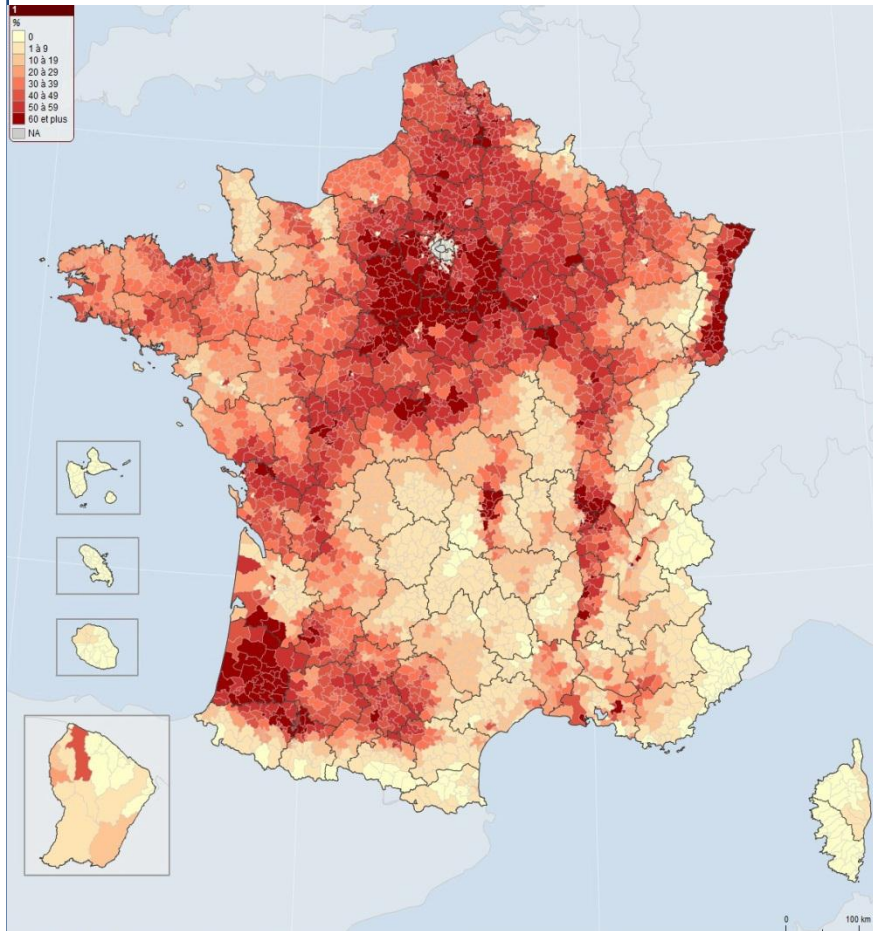
Evolution 2000-2010 according to type



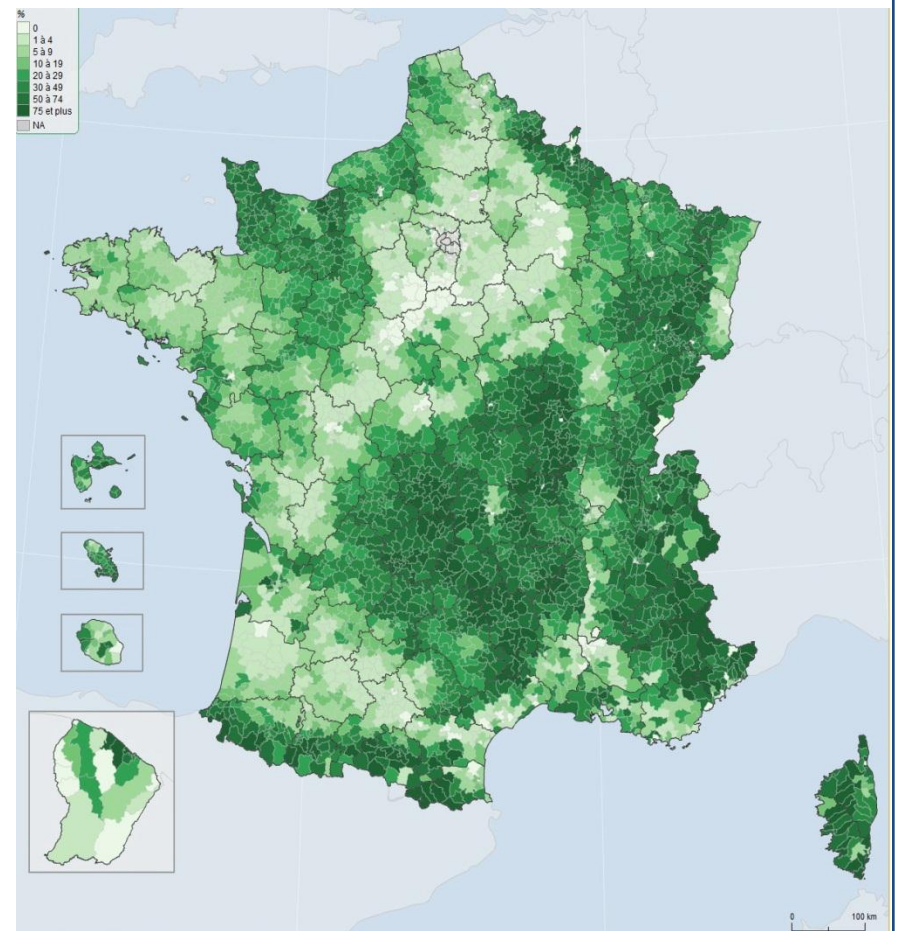
MAAF-2012- IGN Géo Fla 2010 - Agreste - Recensements agricole 2000 - 2010

Cereals and permanent grassland in France

Cereals in % of the UAA

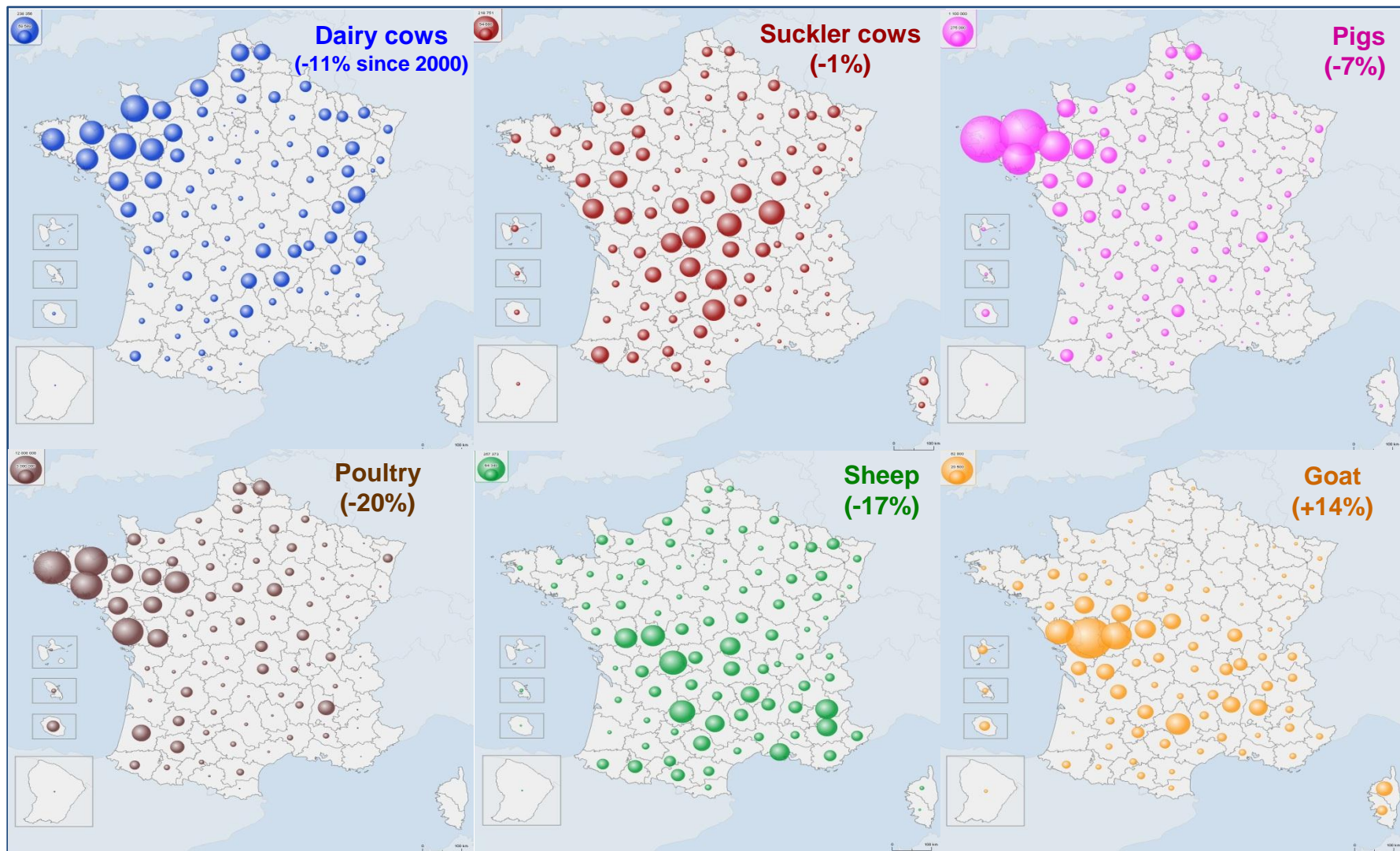


Permanent grassland in % of the UAA



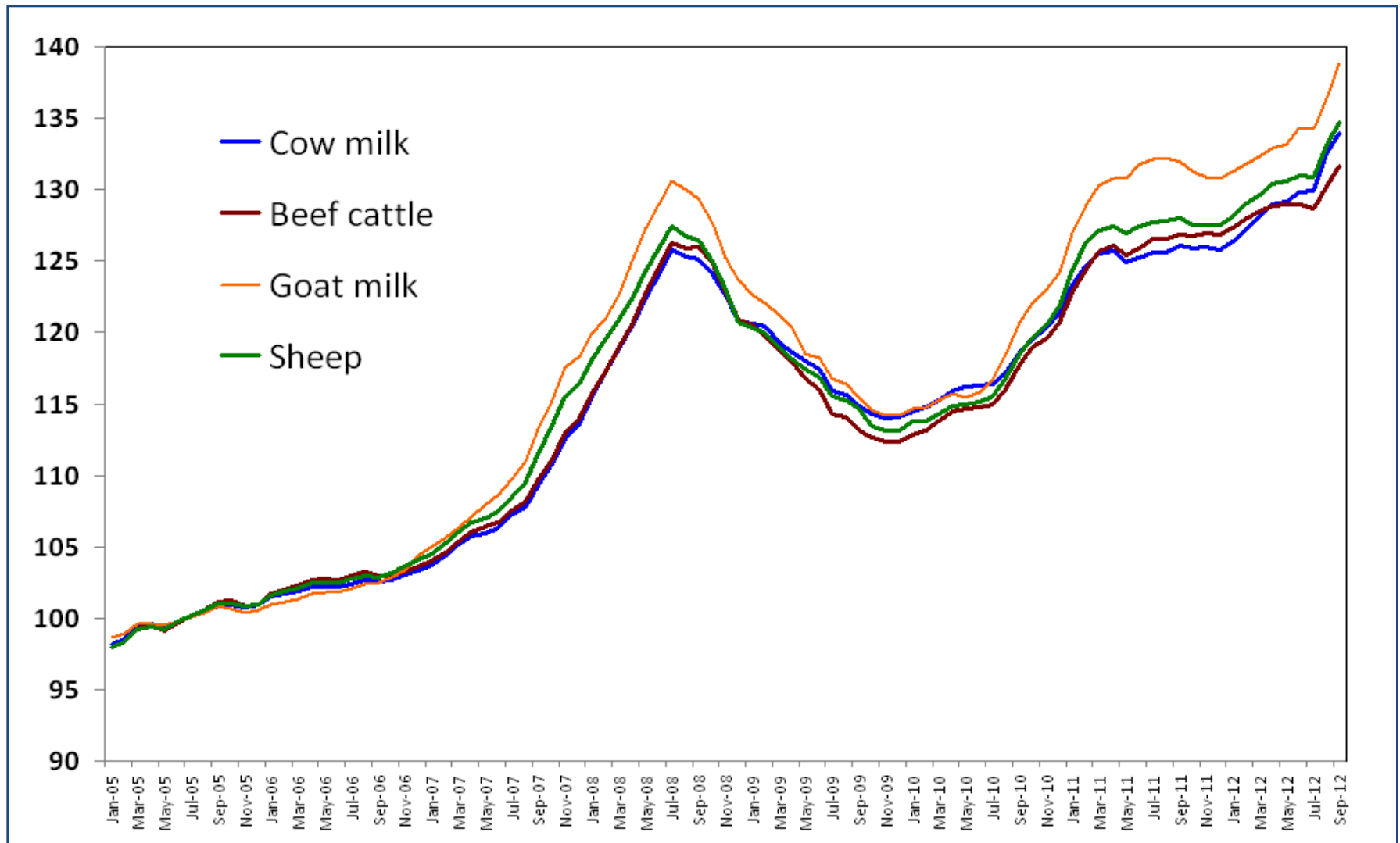
MAAF-2012- IGN Géofla 2010 - Agreste - Recensements agricole 2010

The animal productions (heads) in France in 2010



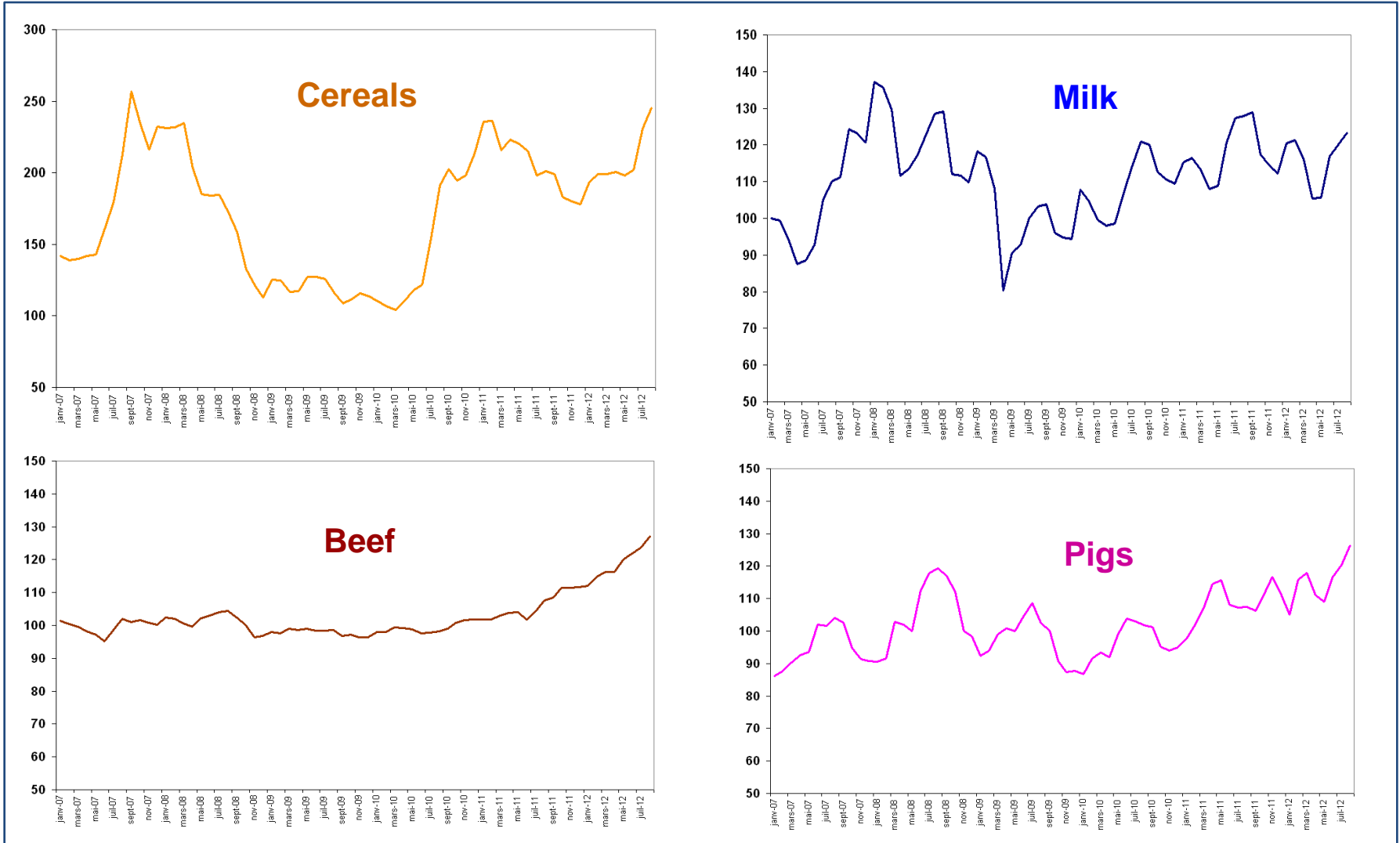
MAAF-2012- IGN Géo Fla 2010 - Agreste - Recensements agricole 2010

Production costs in French agricultural sectors (base 100 = 2005)



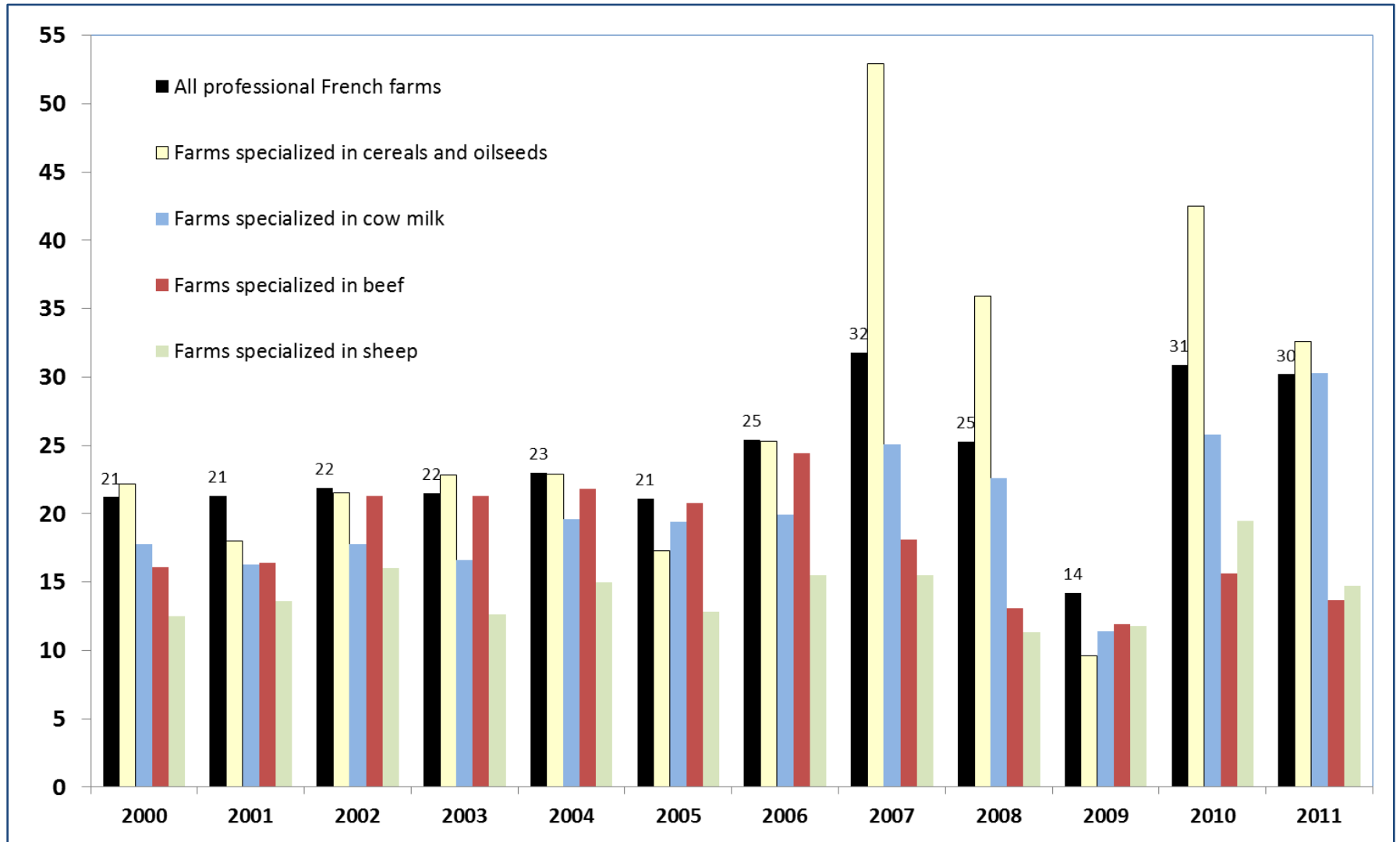
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Agricultural prices at farm level in France (base 100 = 2005)



Agreste

Farm income per Family Agricultural Work Unit in France (current €)



French Ministry of Agriculture

2- Redistribution of direct payments: main implications



Towards a new reform of the CAP

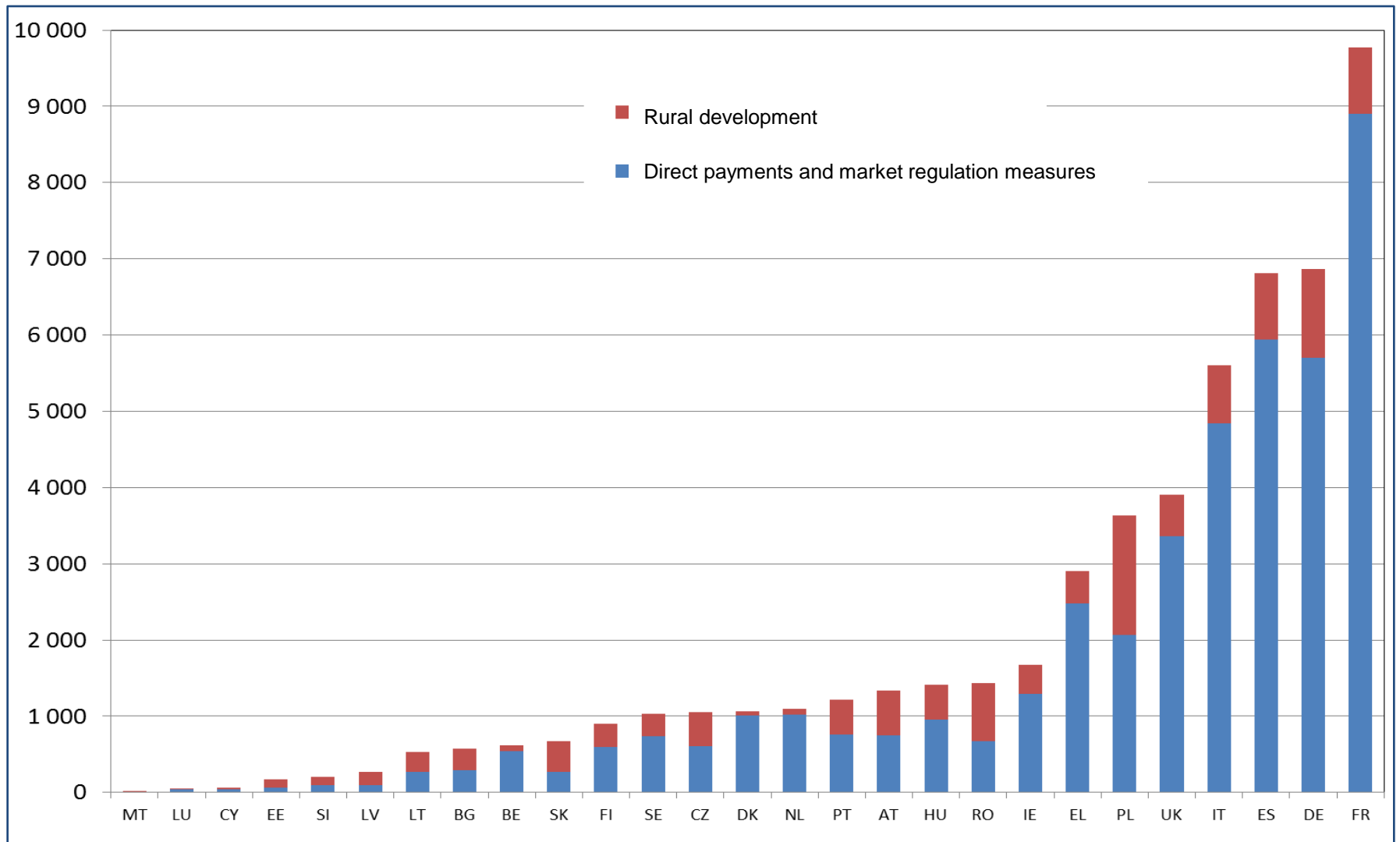
→ EC proposals, 12th October 2011

- The EC has presented to the Council and the European Parliament a set of legislative proposals intended for a reform of the CAP
- Besides simplification and efficacy, the stated objectives are to favour a competitive and sustainable European agricultural sector, and to give a boost to rural areas
- As innovative as they may be, these proposals are however in continuity with those adopted in the past : 1992 ; 2000 ; 2003 ; 2008

→ A new reform under some influences

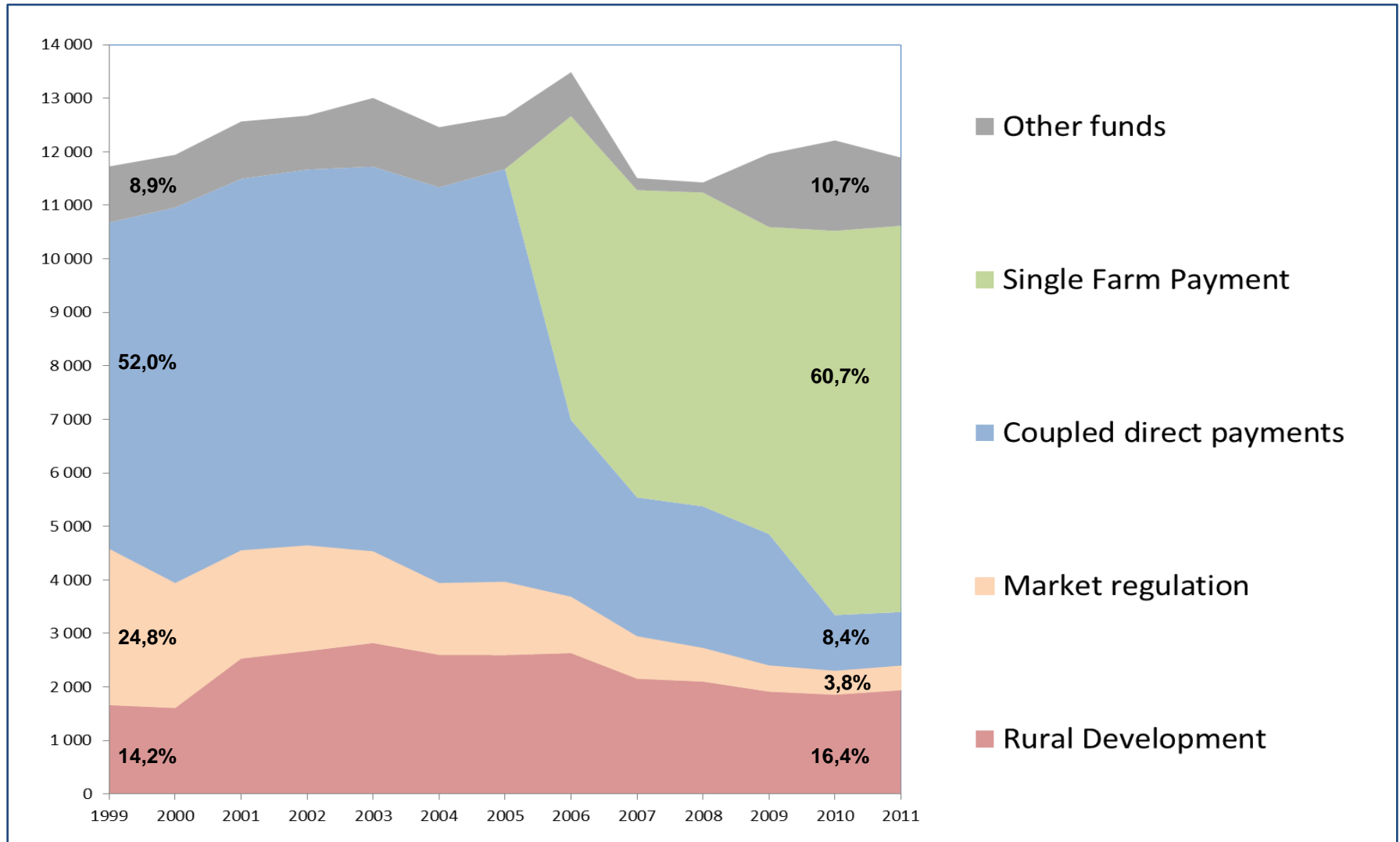
- The communication from the EC entitled "The Europe 2020 Strategy" has played a structuring role (a smart growth ; sustainable growth ; inclusive growth)
- By contrast with the past CAP reforms, the influence of World Trade Organisation (WTO) negotiations was much less decisive
- The Financial Framework for EU 2014-2020 : a first draft of EC (june 2011)

France : 19% of the EU-27 CAP budget



European Commission

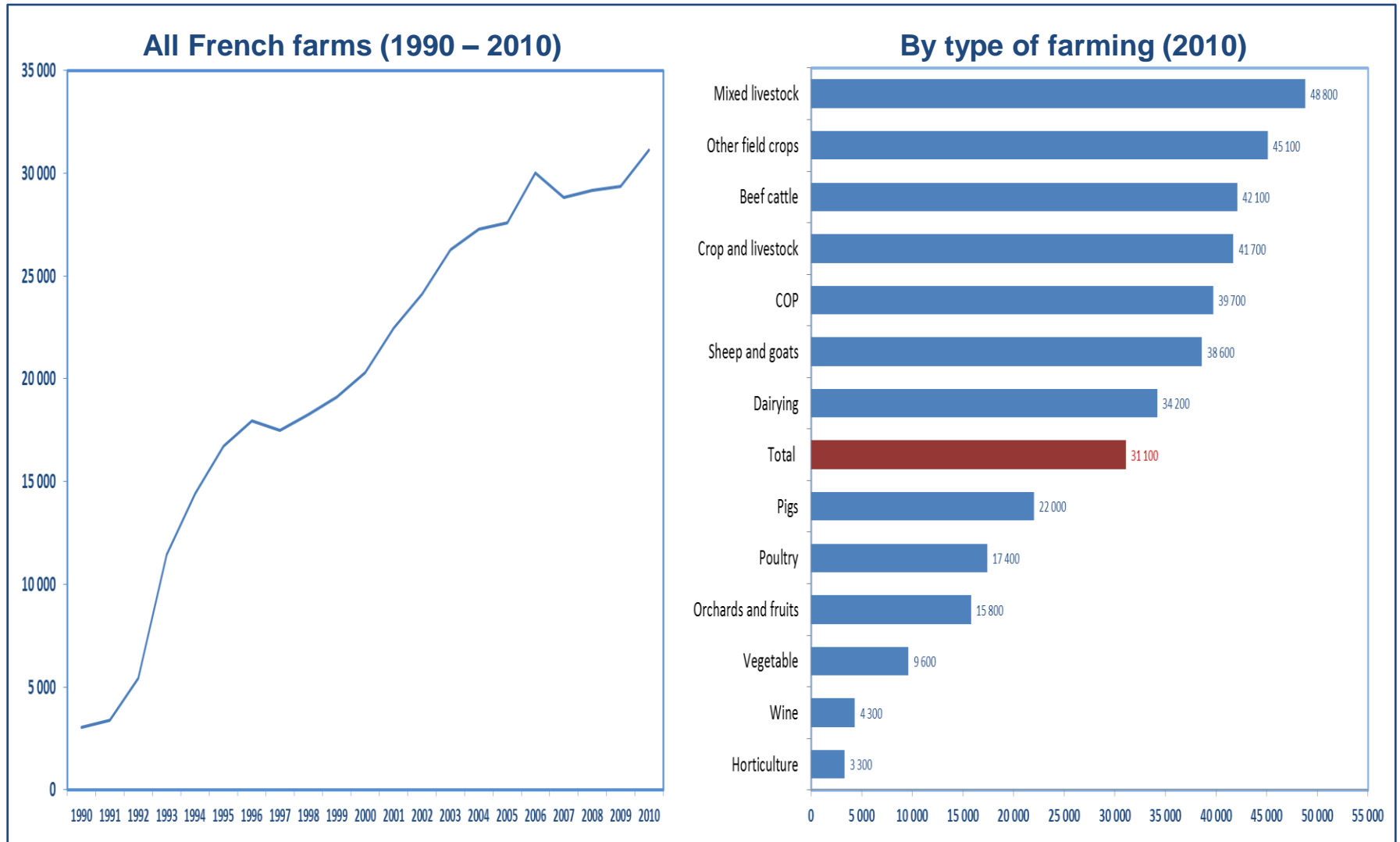
Funds granted to French agriculture 1999-2011 (million €)



Funds from EU budget and national budget

French Ministry of Agriculture - 2012

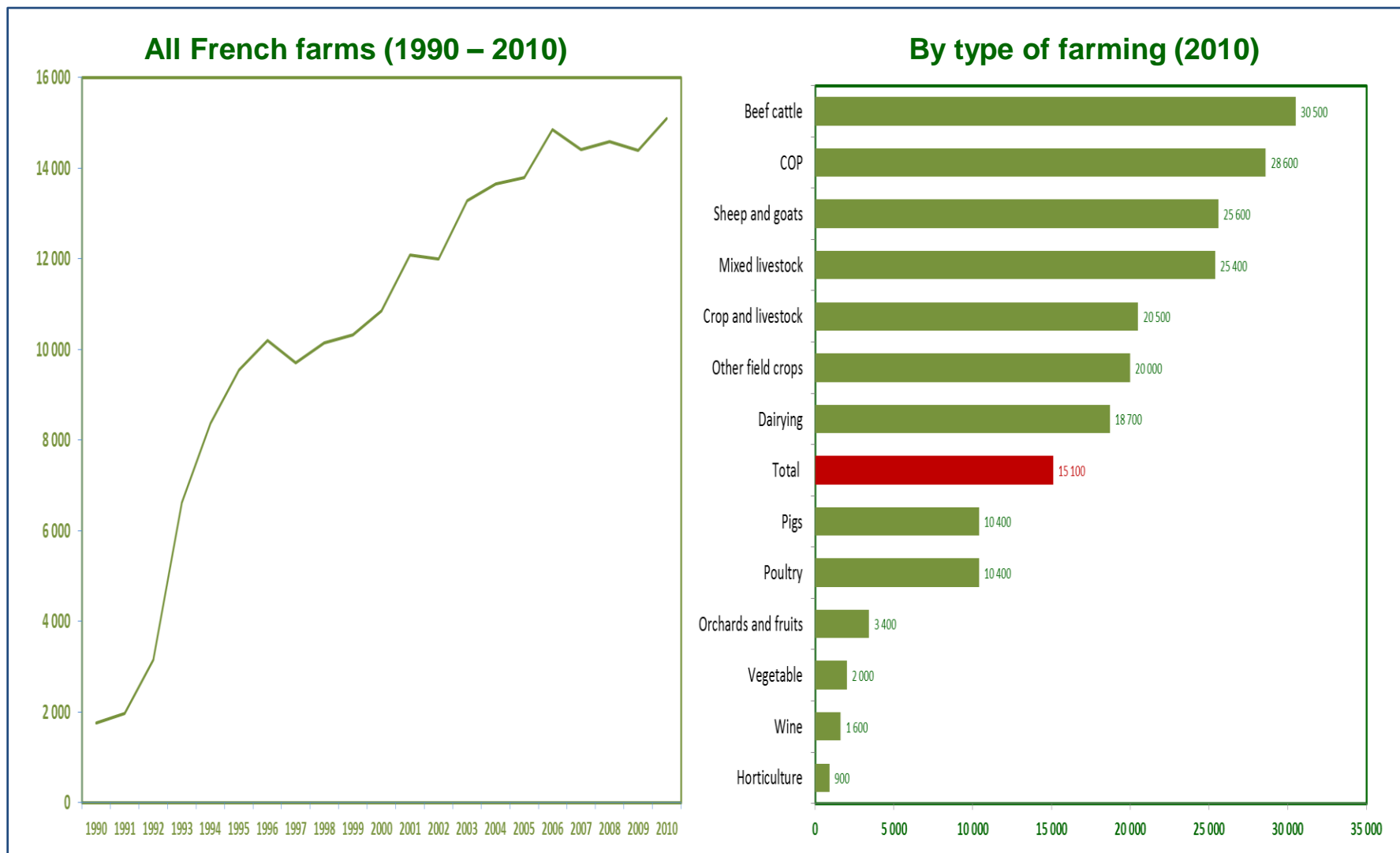
Total direct subsidies per farm (Pillar I and II, in €)



Funds from EU budget and national budget

SSP - French FADN 1990-2010

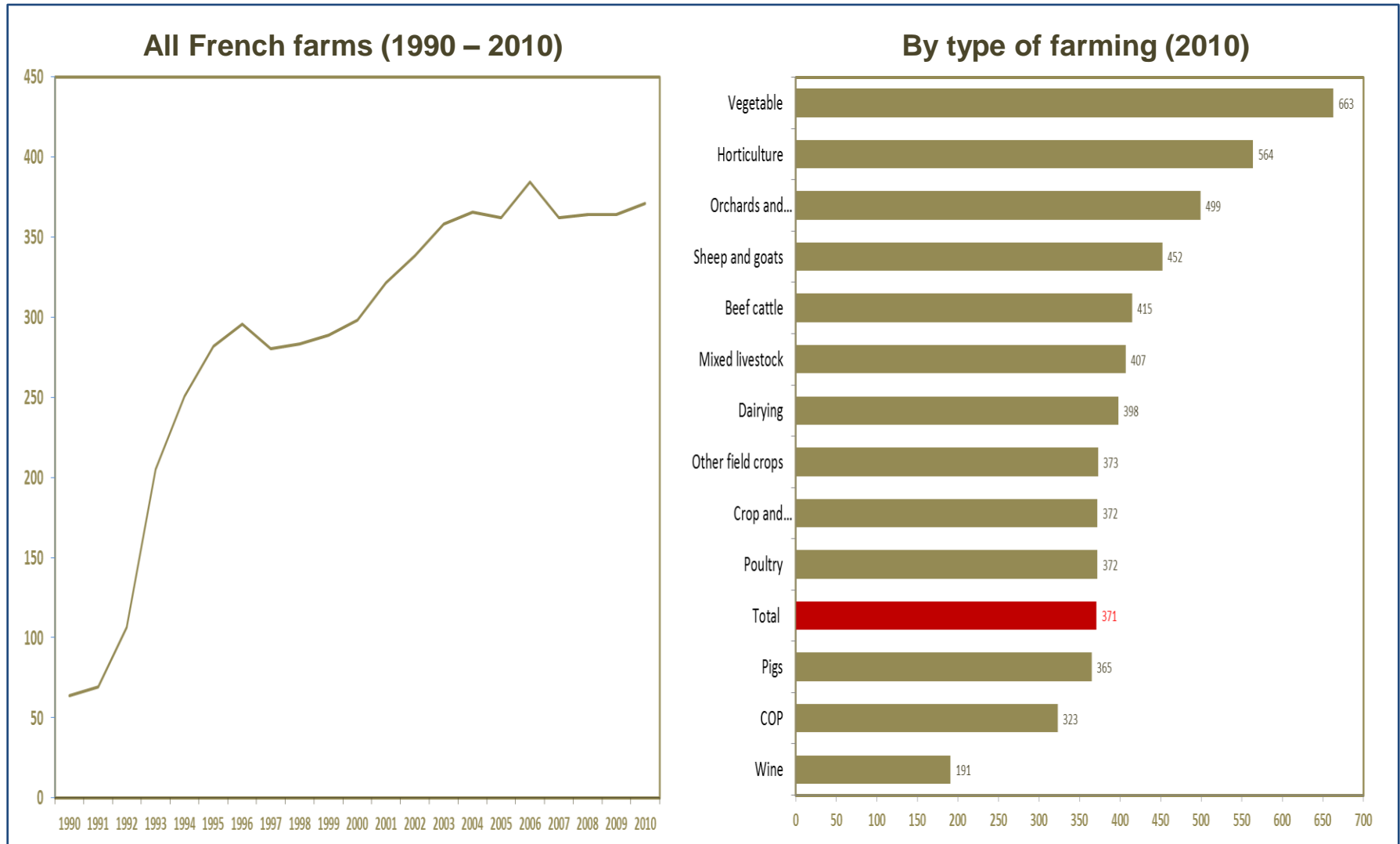
Total direct subsidies per Agricultural Work unit (Pillar I and II, in €)



Funds from EU budget and national budget

SSP - French FADN 1990-2010

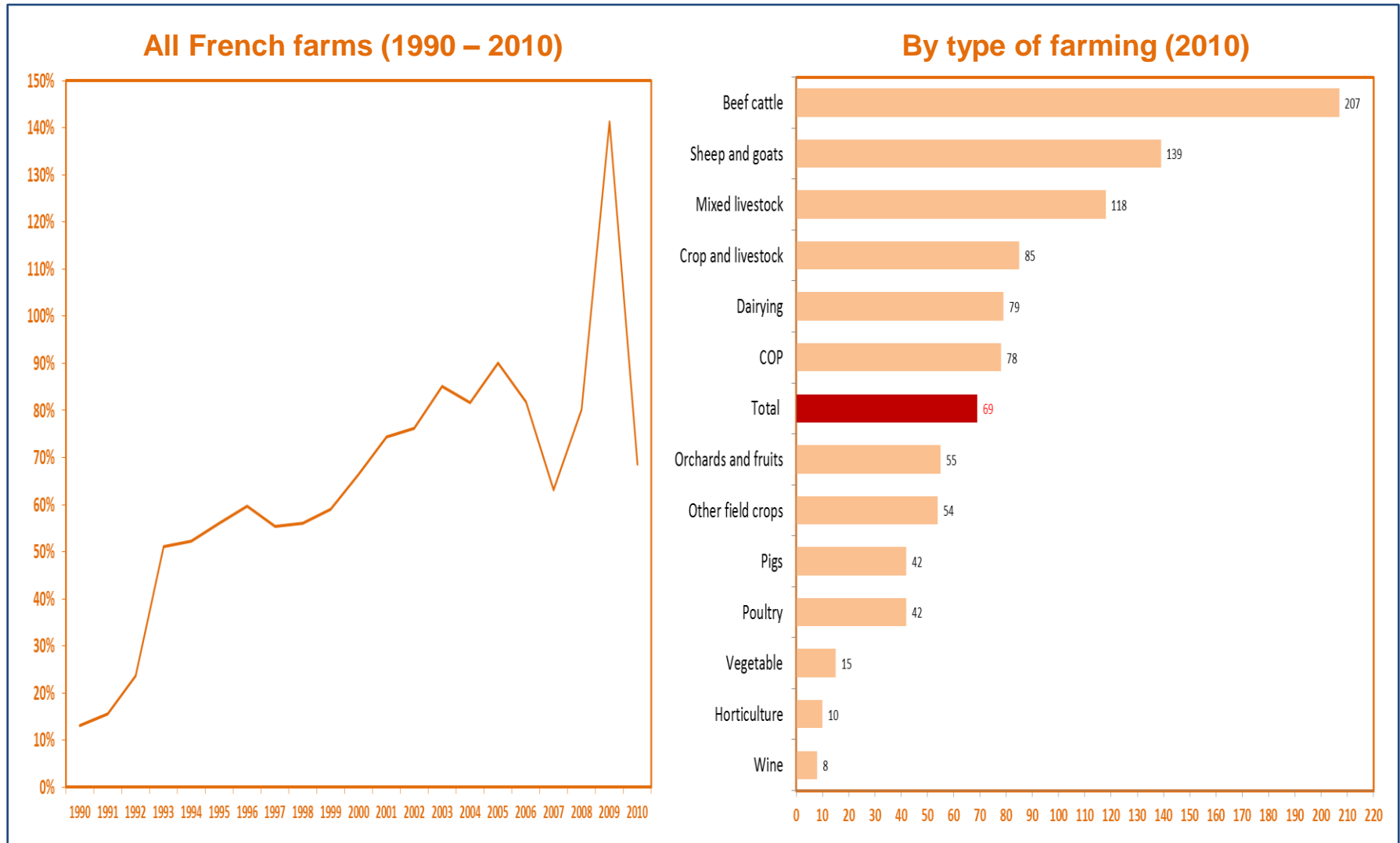
Total direct subsidies per hectare of UAA (Pillar I and II, in €)



Funds from EU budget and national budget

SSP - French FADN 1990-2010

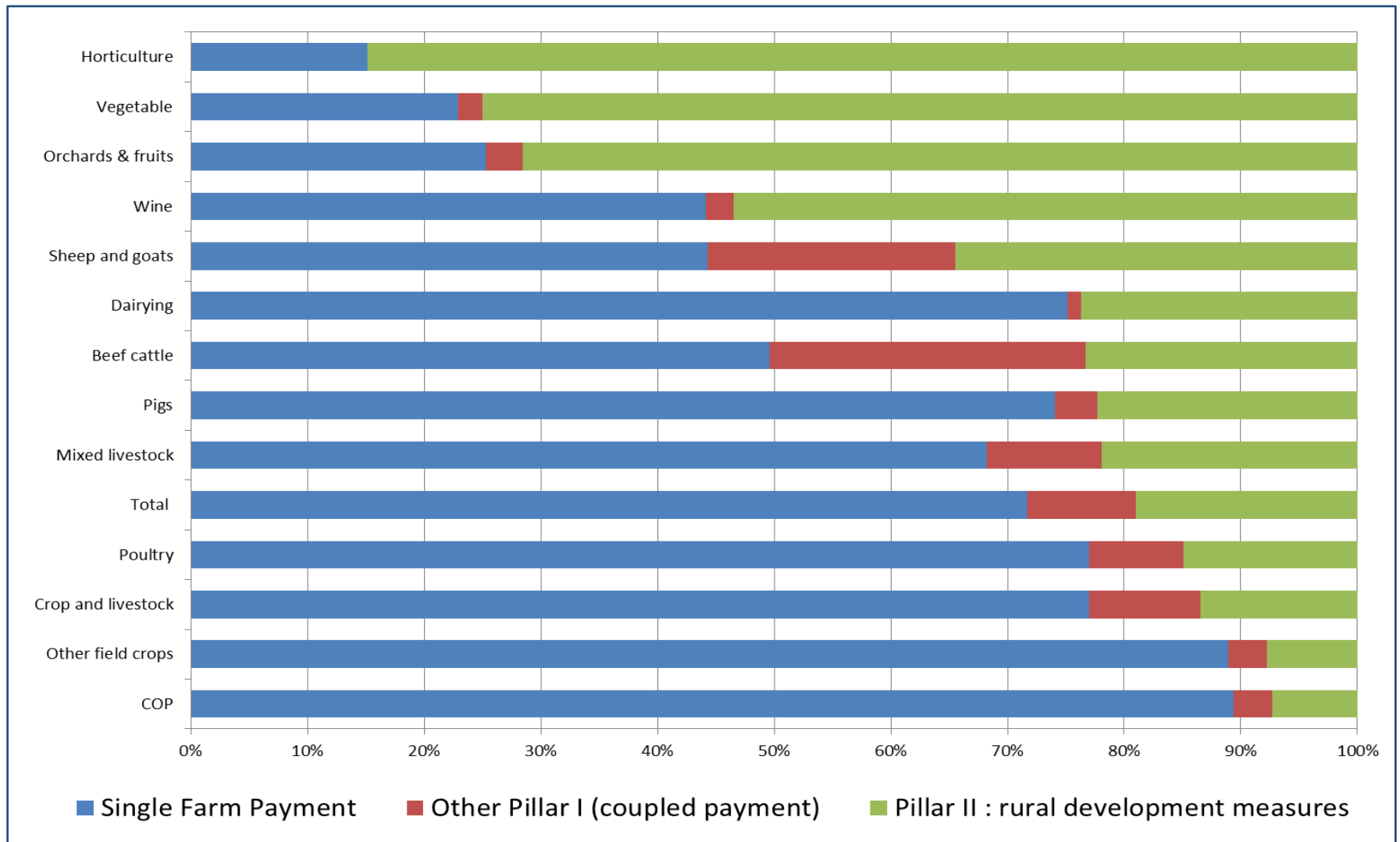
Total direct subsidies in % of the Family farm income



Funds from EU budget and national budget

SSP - French FADN 1990-2010

Different types of direct aids in French farms (%)



Funds from EU budget and national budget

French FADN 2010

An intense debate in France on the decoupled payments

→ Advantages of decoupled direct aid

- They are compatible with the WTO commitments
- They offer a good budget predictability
- They are effective to transfer funds directly to farmers
- They allow farmers to take into account market signals

→ Weaknesses of decoupled payments

- They are granted independently of prices received by farmers
- They are capitalized in land prices (increasing cost)
- They do not encourage farmers to change their practices (historical model)
- They are given to farmers without lot of environmental requirements
- They can lead to an abandonment of production in some areas

Redistribution of direct payments – Pillar I

Annual national ceiling for Pillar I (France = 7,73 billion € in 2014)

1- Green payment (30% of the national ceiling, mandatory)

A payment is granted per hectare to farmers who use agricultural practices considered as beneficial to the climate and the environment (all organic farms are automatically eligible).

Three conditions has to be respected :

- For farms with more than three hectares of arable crops, a minimal crop diversification is required: the cropping system will include three crops as a minimum (max : 70% ; less : 5%)
- Farmers will permanently maintain grass cover (base on the situation 2014)
- As from 2014, farmers will have to ensure that at least 7% of their eligible area (except permanent grassland) is devoted to ecological infrastructures (land set-aside, hedges, etc.)

2- Farms located in areas subject to natural constraints (5%, optional)

This payment will be paid per hectare only for farms that are located in areas subject to natural constraints (the definition of corresponding areas is currently under revision);

it will be implemented at the MS discretion, at a national or regional scale.

Redistribution of direct payments – Pillar I

3- Payments coupled with specific productions (10%, optional)

A MS could also grant payments linked to specific productions, within the limit of 10% of the annual national ceiling (except in specific circumstances that should be accepted by the EC, notably when coupled payments currently in place exceed this 10% limit).

This option should allow a country like France to maintain the suckler cow premium scheme (at least in regions where this production would be considered as strategic).

4- A specific scheme for young farmers (2%, mandatory)

This payment is limited to people aged under 40.

It will be allocated for the five years following the set-up.

It corresponds to a 25% increase in the value of basic payments per hectare.

It is limited to a maximal area per farm that varies depending on the country (from 25 to 52 ha in France)

Each MS will implement a national reserve by application of a linear levy on the annual ceiling of first-pillar direct payments; the rate of the levy will not exceed 3% and the reserve will be implemented at national or regional scale.

Redistribution of direct payments – Pillar I

5- A specific scheme for small farmers

- The objective is clearly to simplify procedures and reduce administrative costs.
- It is more specifically tailored for the new EU-12 MS.
- Farmers who should wish benefit from this measure should declare before October 15th 2014.
- They would receive a lump-sum payment per farm between 500 and 1 000 euros

6- A capping of first-pillar direct payments

The Pillar will be reduced by : 100% for the bracket exceeding 300,000 euros ; 70% for that between 250,000 and 300,000 euros ; 40% between 200,000 and 250,000 euros and 20% for that between 150,000 and 200,000 euros.

In order to take into account the contribution to employment, farms could deduct the effectively paid salaries, including taxes and employers' contributions, from the reference tax basis.

7- A limitation of the new scheme to active farmers only

The proposals include a definition of who can be considered as an active farmer.

A MS will pay no more direct aids to the farms which have an eligible area lower than one hectare and to those for which the annual amount of first-pillar direct aids is lower than 100 €

Redistribution of direct payments – Pillar I

A basic payment (Pillar I national ceiling, after deduction of – all previous measures I to 7)

In each MS, the funds assigned to **the basic payment will be determined by subtracting** the budgetary resources allocated to the previous measures from the annual national ceiling

Farmers have to respect of basic requirements as regards the environment, Good Agricultural and Environmental Conditions (GAEC), animal and plant health as well as animal welfare.

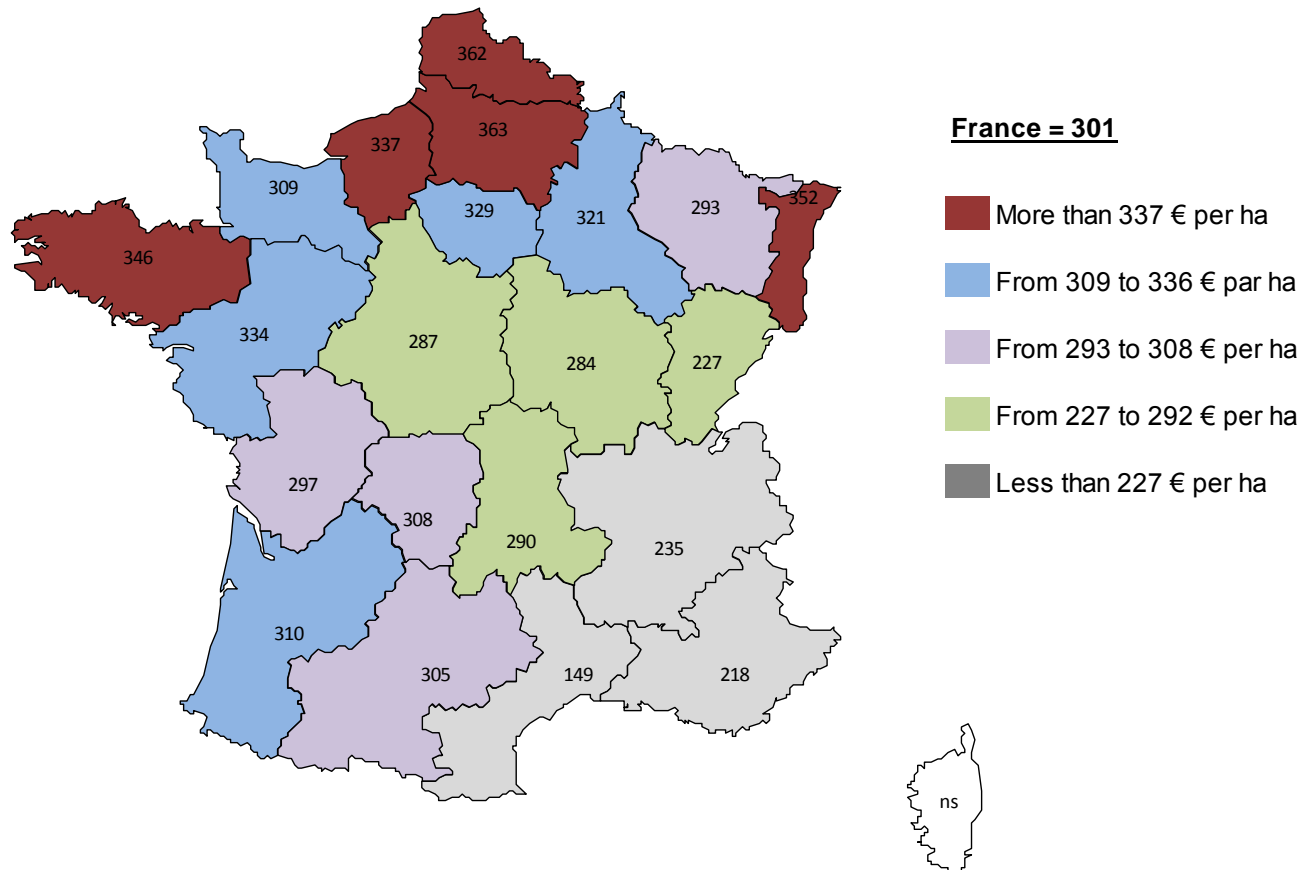
By 2019, this basic payment will be uniform for all eligible hectares, in contrast with current SFPs which vary greatly within the same *département* or region. This standardisation will be spread over the 2014-2019 period using a dynamic hybrid model.

In each MS, **the geographical level (national or regional)** retained for implementing the payment scheme is a strategic choice as it determines the budgetary redistribution among farms, and regions.

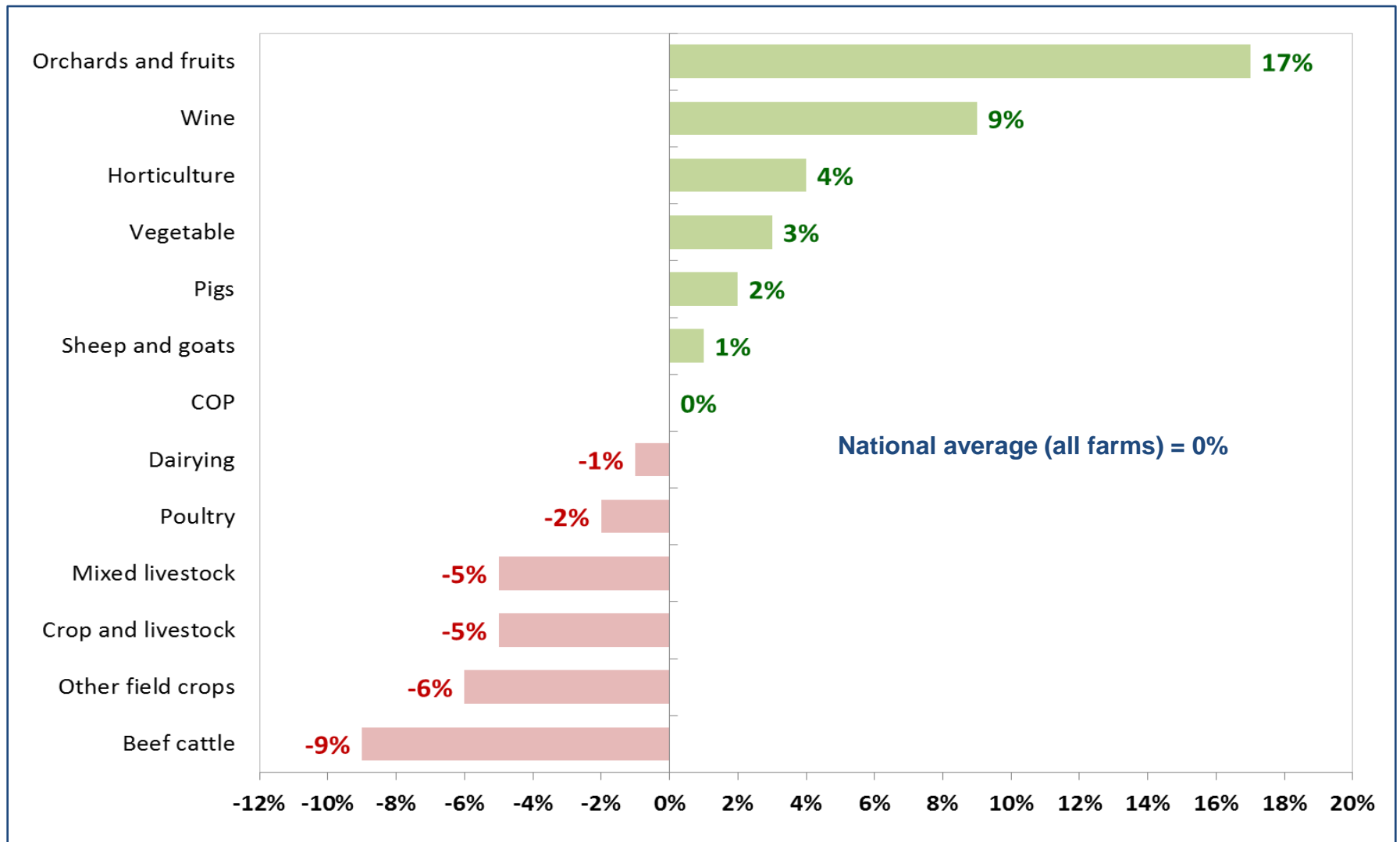
The MS has to define the **typology of regions according to objective and non-discriminatory criteria** such as their agronomic and economic characteristics, their regional agricultural potential or their institutional or administrative structure.

Scenario 1 (SFN) : A full standardisation at the national level

- The standardisation is applied at the country scale (France)
- It concerns all first-pillar direct aids (single farm payment and coupled direct aids).
- Each professional farm receives a same amount of 301 euros of decoupled direct aids per hectare.



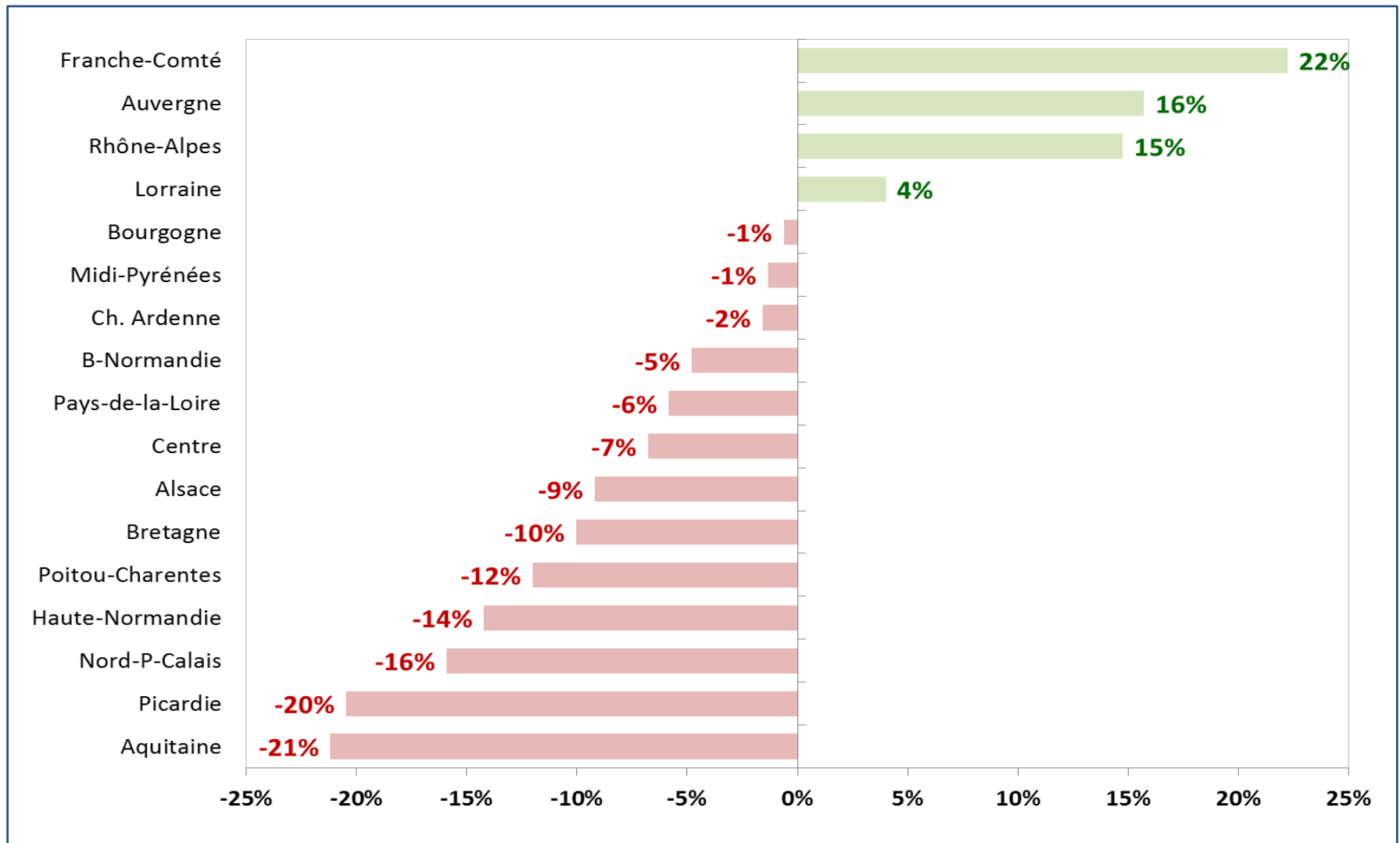
Impact of SFN scenario by types of farming (in % of the income)



SFN : Full standardization at the national level

French FADN 2010 - Calculations INRA Nantes

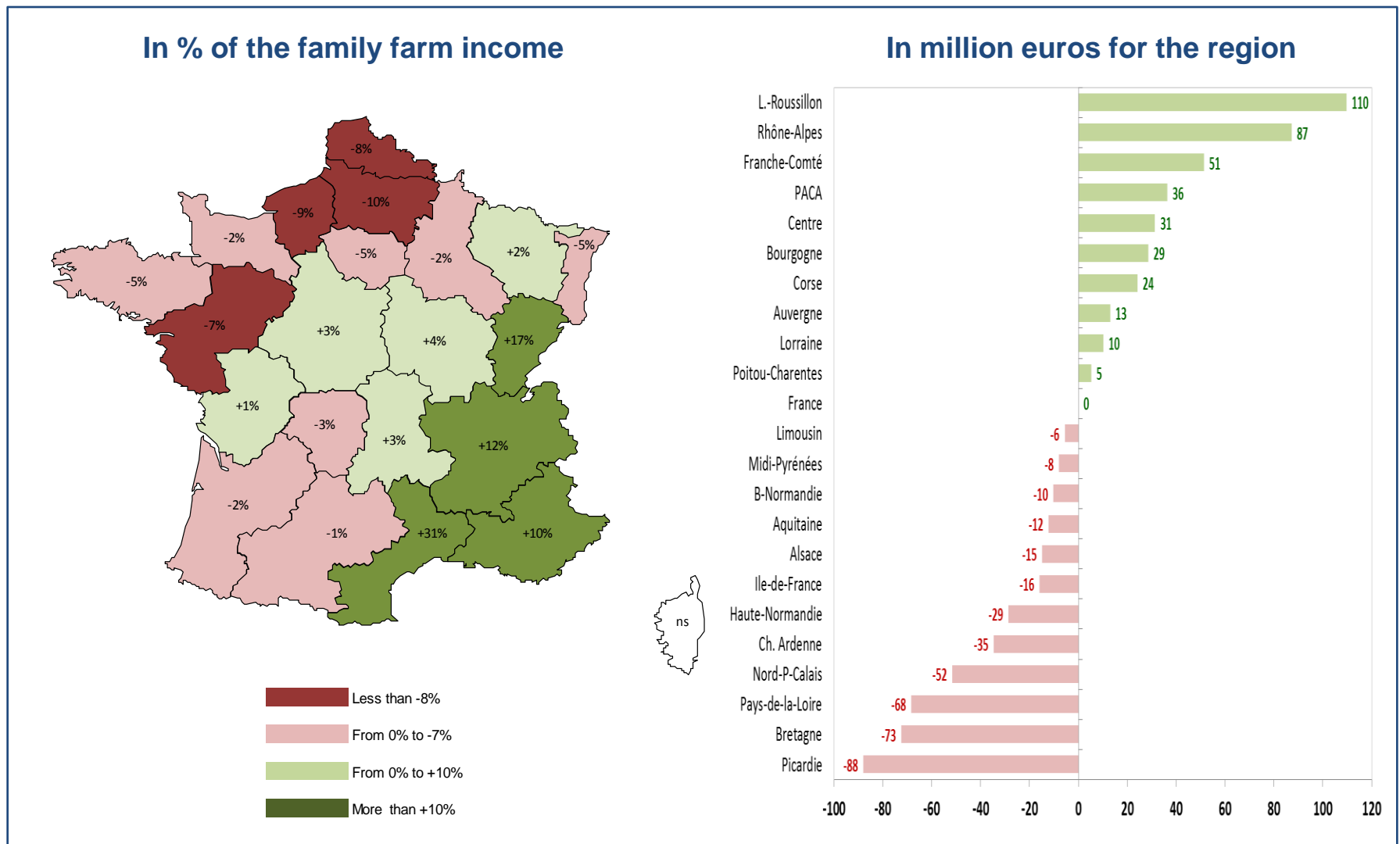
Impact of SFN scenario on dairy farms (in % of the income)



SFN : Full standardization at the national level

French FADN 2010 - Calculations INRA Nantes

Regional impact of the SFN scenario

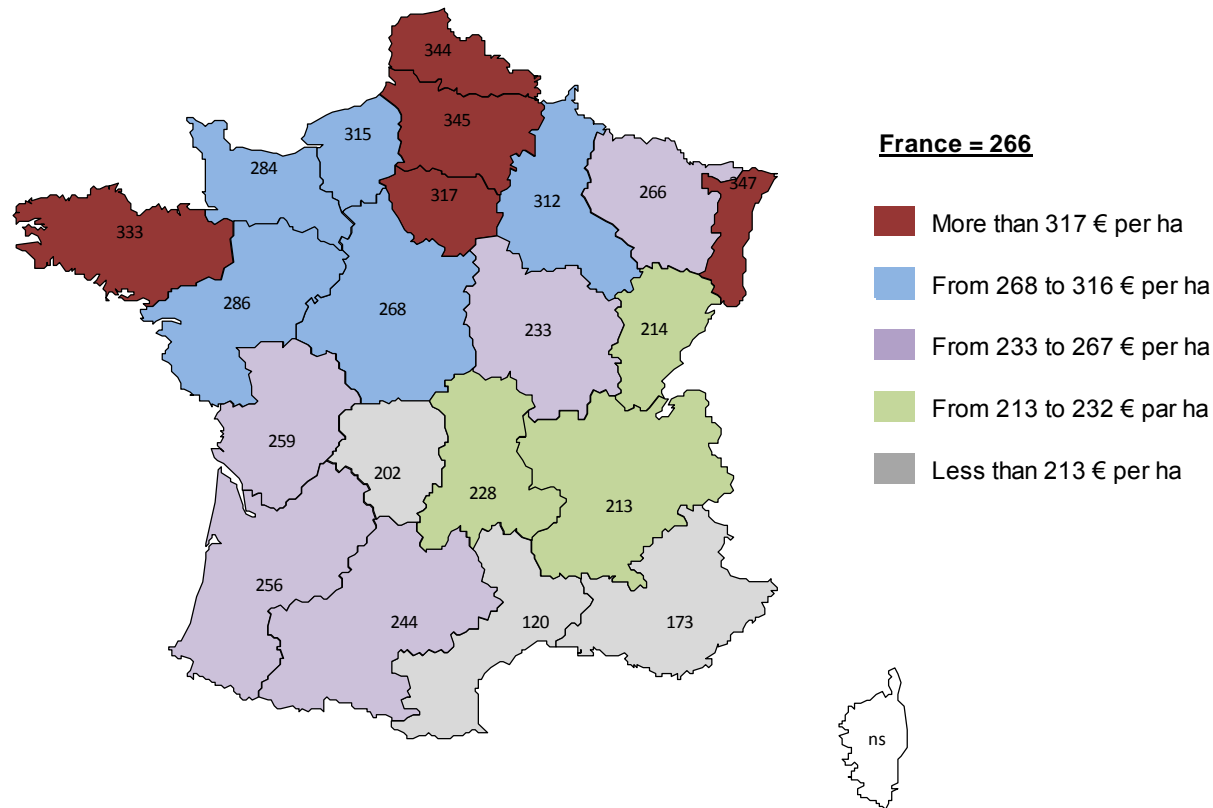


SFN : Full standardization at the national level

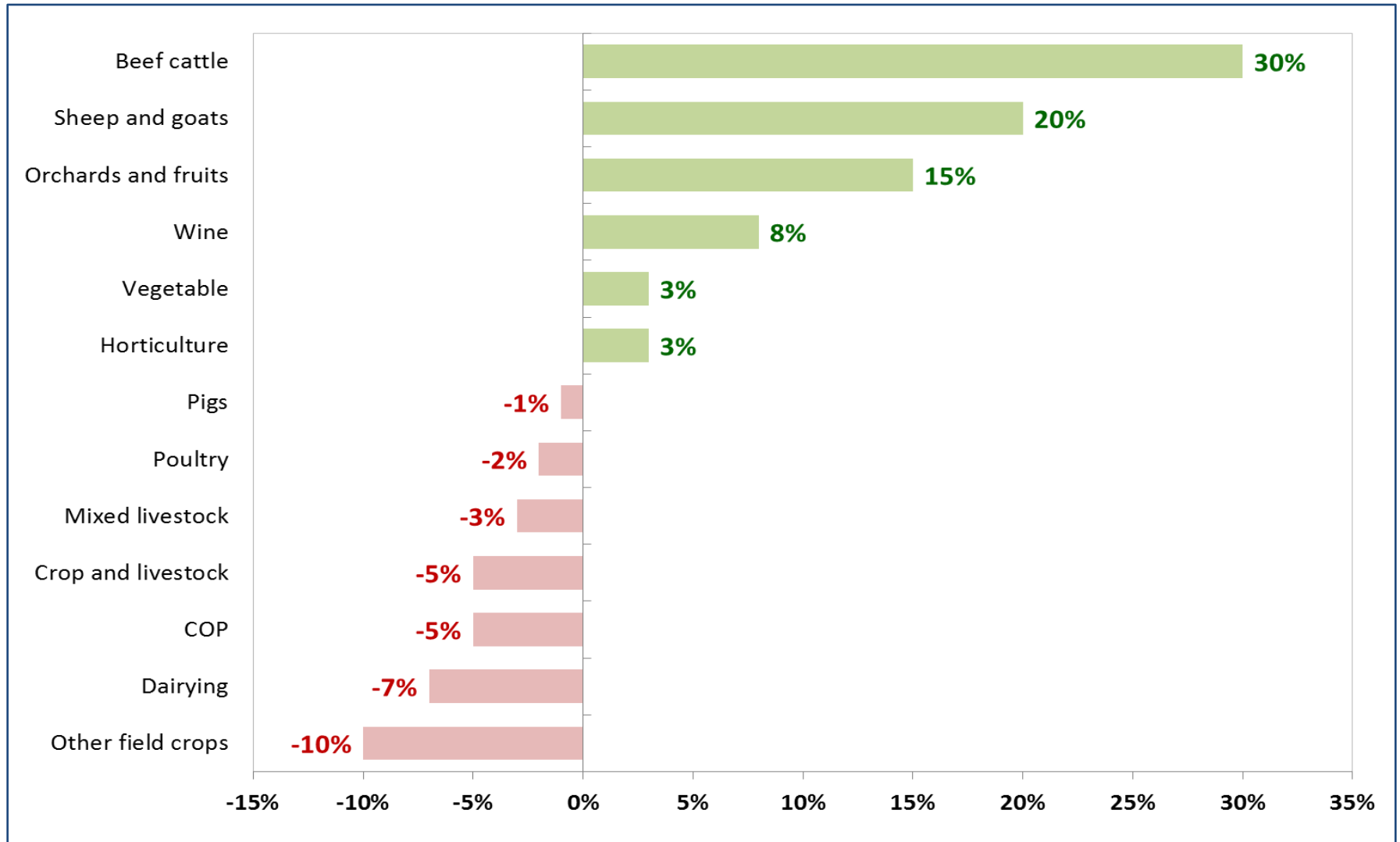
French FADN 2010 - Calculations INRA Nantes

Scenario 2 (SPN) : A partial standardisation at the national level

- The standardisation is applied at the country scale (France)
- It concerns only the single farm payments The current coupled aids are maintained.
- Each professional farm receives a same amount of 266 euros of decoupled direct aids per hectare.

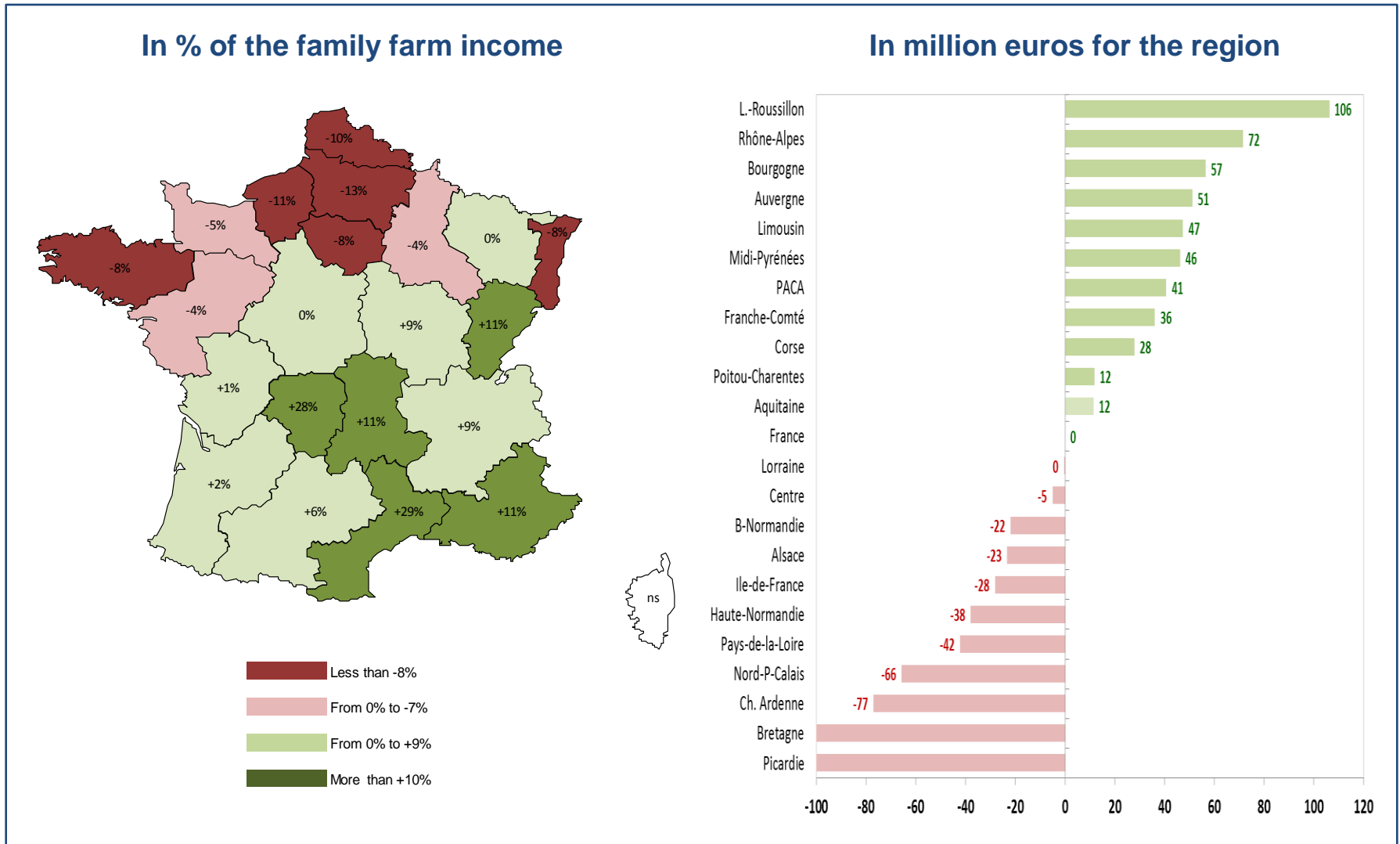


Impact of SPN scenario by types of farming (in % of the income)



French FADN 2010 - Calculations INRA Nantes

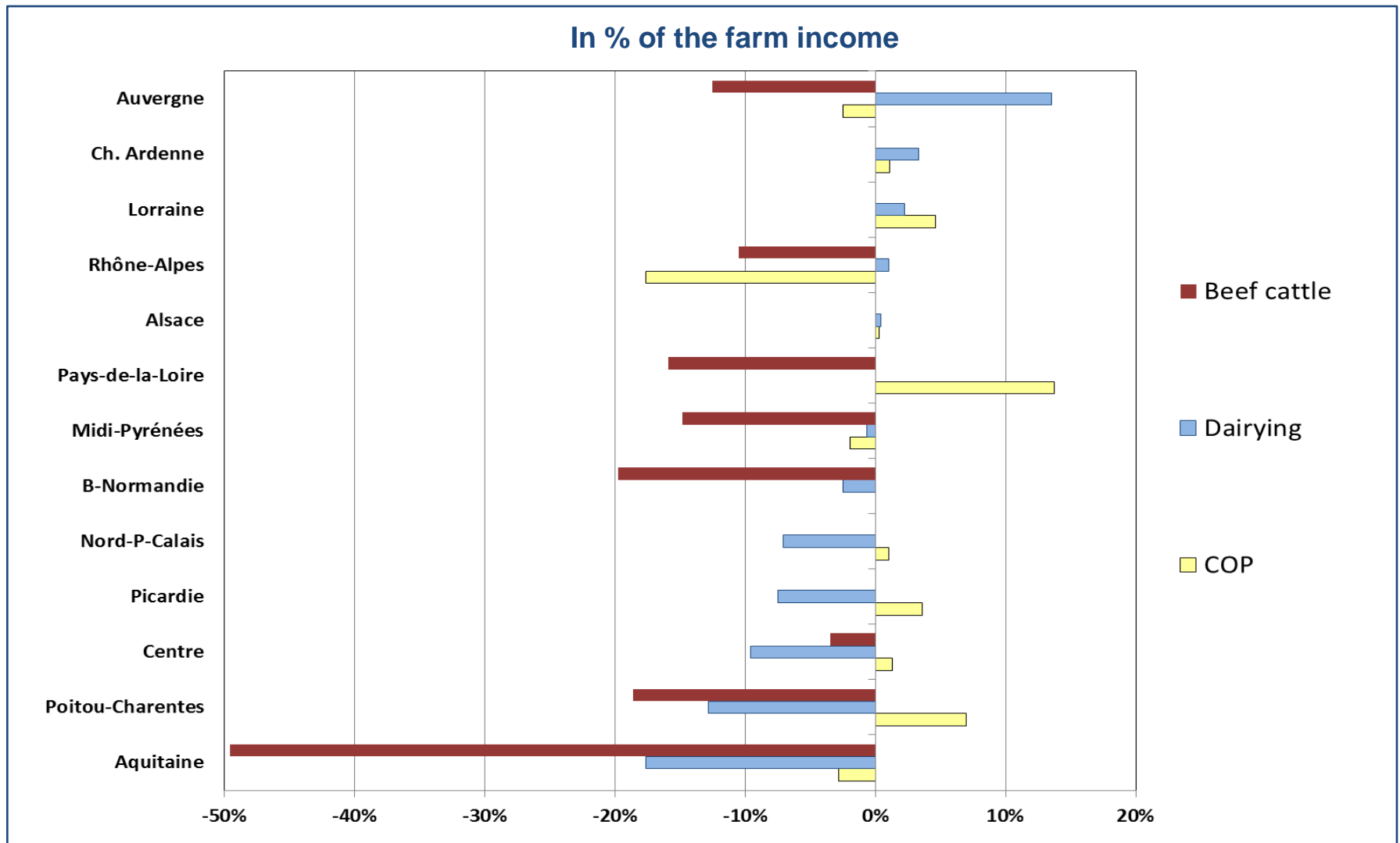
Regional impact of the SPN scenario



SFN : Full standardization at the national level

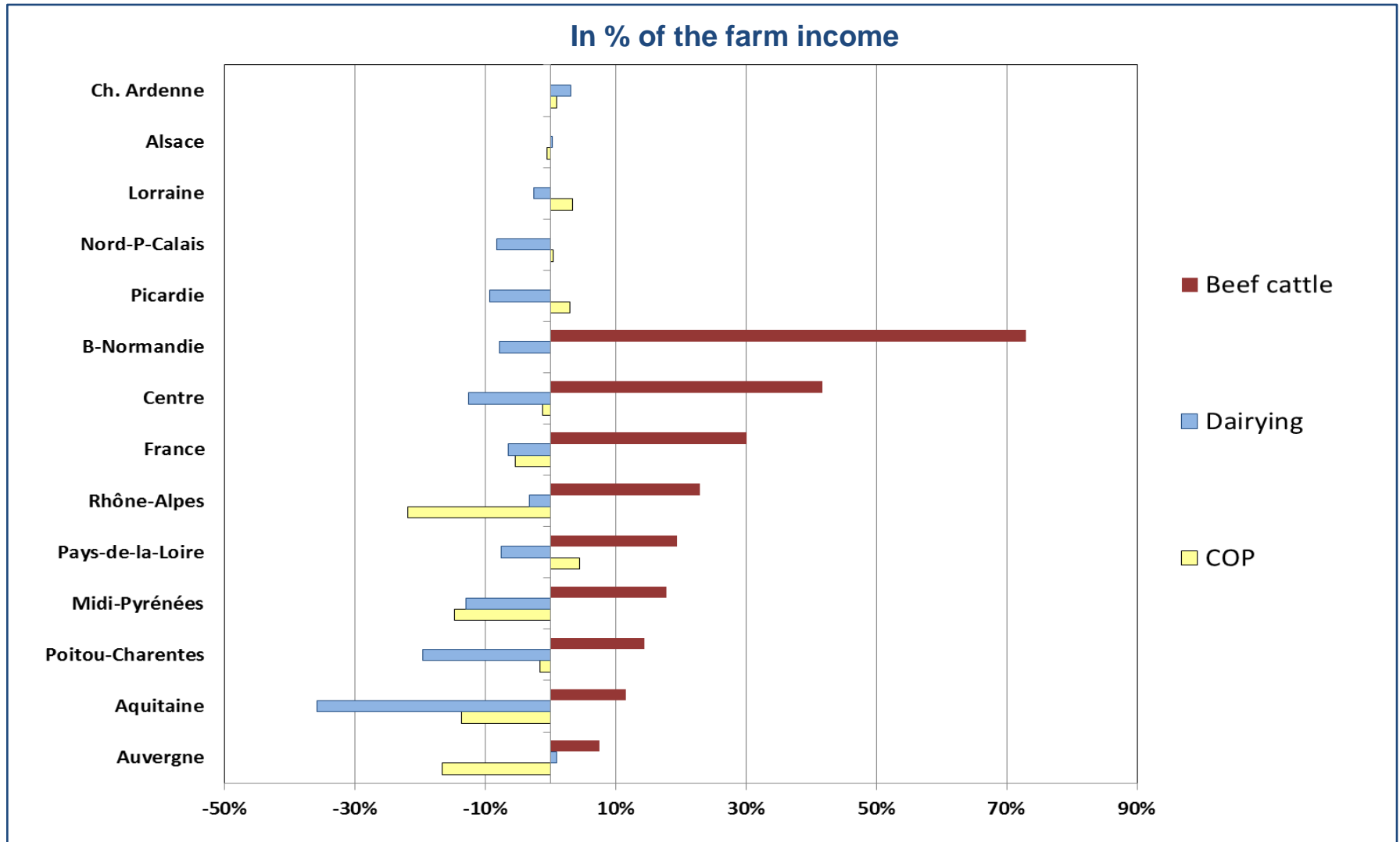
French FADN 2010 - Calculations INRA Nantes

Impact of the scenario SFR (full standardization at regional level)



French FADN 2010 - Calculations INRA Nantes

Impact of the scenario SPR (Partial standardization at regional level)



French FADN 2010 - Calculations INRA Nantes

Synthesis of the results of the four tested scenarios

→ SFN (Full standardization at national level)

- The great winners are the farms specialised in productions which did not receive direct payments before (fruits, wine...) ; also extensive dairying farms
- An important budget transfer from northern French regions to the southern ones

→ SPN (partial standardization at national level)

- The great winners are the farms specialised in beef cattle and sheep

→ SFR (full standardization at regional level)

- No redistribution of funds among regions
- A low impact in regions where agriculture is not diversified (areas specialized in cereals)
- An important negative impact in some diversified regions (example : beef cattle in Aquitaine)

→ SPR (partial standardization at regional level)

- No redistribution of funds among regions
- A very good scenario for beef cattle ; a bad one for dairying (especially intensive)

3- Some comments on market regulation measures



Market regulation

→ The maintenance of safety nets, to a low level, is useful...

- To cope with temporary market crisis
- Their utilization should be rare (positive trends in international prices)
- Production are more or less concerned by this tool (ex : wheat : 101,3 €/t)

→ The crisis reserve: we need more flexibility to use EU funds

- 3.5 billion euros for the seven-year period 2014 to 2020
- It is designed to achieve reactivity and flexibility. These two conditions are required to ensure a minimal efficiency of the device

→ Risk management tools (insurance, mutual funds)

- An optional system for MS and farmers
- Do we need a third pillar for the CAP (why are they included in the second pillar) ?

→ The end of quotas : sugar quota ; plantation rights ; milk quotas

The end of dairy quotas : from public regulation to contrats

→ Milk quotas have/had some advantages

- A good efficiency for supply control (price stability ; low budgetary cost)
- A contribution to the geographical distribution of supply (for some countries)

→ Milk quotas have/had some limits

- A non optimal allocation of resources
- An artificial increase in costs (quota market)
- A too rigid system face to the opportunities of international expansion

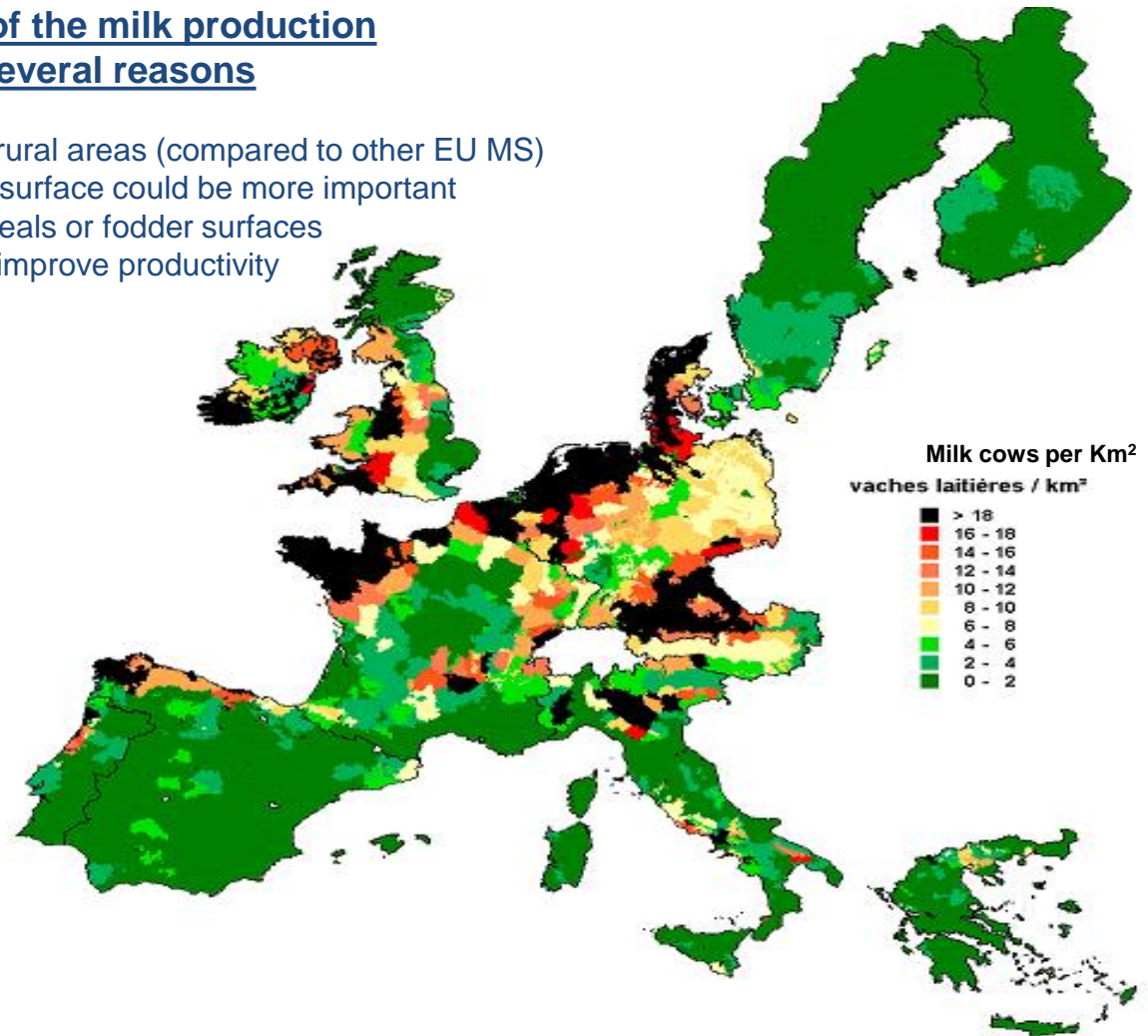
→ Risks and opportunities

- A growing global market (especially in Asia)
- New contracts between producers and industrials (towards a common strategy)
- Prices evolutions: balance between supply and demand at the European level
- For disadvantages areas: targeting support + “quality package”
- Keys words for the future : production costs ; innovation ; exports

Density in the EU dairy sector: milk cows per Km²

The potential development of the milk production is important in France for several reasons

- A low population density in some rural areas (compared to other EU MS)
- The intensification level of fodder surface could be more important
- Farmers can choose between cereals or fodder surfaces
- New technologies (milking cows) improve productivity



Institut de l'Élevage from European Commission

Conclusion



Conclusion

→ No one can be expected to do the impossible !

- We are agree with the objectives: the European agriculture must be sustainable
- We think that the path taken by EC is the right one (more legitimacy of DP).
- In our difficult economic context, we need a pragmatic way...not too much dreams !
- It is not the ultimate reform...sure, we will have others in the future

→ Many challenges for France

- We are not used to change (see administrative milk quota system, historical model...)
- ...But, now, it is time to be less conservative with CAP and to prepare the future
- The greening of CAP will not be a so big problem for French farmers
- Before deciding the new direction for direct payment, we need simulations
- Once again with the CAP: "The devil is the details"!

Thank you for your attention

