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CAP Health Check in France

A significant redistribution of budgetary payments ?

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OECD - Workshop

11 march 2010 - Paris



Plan

Introduction

1- The measures of the CAP Health Check

2- Tools and method of simulations

3- The consequences of the CAP Health Check

Conclusion

Introduction : CAP, a continuous process of reform

■ A decline in guaranteed prices

- Strengthening internal and external competitiveness of european products
- Anticipating tariff cuts
- Encouraging the reduction of export refunds

■ Direct subsidies are granted to farmers

- To offset the economic shock induced by lower producer prices
- First, aids were allocated to factors of production (land and livestock)
- Then, they were decoupled (inclusion in the WTO « green box »)

■ Cross-compliance

- The obligation to comply with standards / guidelines

■ Transfer of direct aids in favour of the 2nd pillar

- By the way of the compulsory modulation

Part 1 :

The measures of the CAP Health Check



The European decisions (CAP Health Check / 20-11-2008)

■ Less market intervention / regulation

- Limitation of intervention (storage, refunds ...) in agricultural markets
- Abandonment of mandatory set-aside
- Confirmation of the abolition of milk quotas in 2015

■ A simplification of how subsidies are granted

- Strengthening the decoupling of direct payments (except suckler cow and ewe)
- Encouraging greater harmony in the amount of the SFP per hectare
- Adaptation of certain rules of conditionality

■ A reorientation of aid towards new challenges

- Climate, water management, biofuels and biodiversity

■ An important place left to the principle of subsidiarity

The Single Farm Payment (SFP) in France

■ Initial french choices as regards to the SFP

- Historical model (aids received in 2000-2002)
- It is not obliged to produce for receiving the payment, but :
- “Maximum coupling”: 100% suckler cow premium and calves slaughter premium; 50% ewe premiums; 40% bovine slaughter premium; 25% cereal and oilseed premiums
- Article 69 was no used

■ Modalities for transferring payment rights between farmers

- It is possible to sell the rights of payments (in each french department)
- A taxation is applied if the transfer is made without land

French application of the CAP Health Check

■ Modulation of direct payment (1st pillar of the CAP)

- A compulsory scheme for all sectors receiving direct aids
- An increase in the modulation rate, from 5% in 2008 to 10% in 2012
- Funds are allocated to new challenges, LFA and *PHAE*

■ Article 68

- An option for all sectors receiving aid
- The french choice: a levy of 5% (10% are authorized by the regulation)
- Funds are allocated to sustainable production and environment

■ Article 63

- An optional disposal which concerns only coupled direct aids
- 760 million € : 630 for cereal and oilseed premiums + 130 animal premiums
- It has justified the use of partial decoupling (25%) of the suckler cow premium
- Funds are allocated: productive grassland, vegetable and fodder surfaces

The french application of the HC : redistribution of funds

New support in favour of breeders

Aid to productive grassland	700 millions d'€
PHAE (extensive surface)	240 millions d'€*
Fodder surface	30 millions d'€

Tools for risk management

Insurance	100 millions d'€
Sanitary funds	40 millions d'€

Consolidate the fragile production

Sheep and goat	135 millions d'€
Dairy farms in mountains	45 millions d'€
Durum wheat in traditionnal areas	8 millions d'€
Calves	4,6 millions d'€
Field vegetable	30 millions d'€
Less favourable areas	42 millions d'€*

Support to sustainable productions

Proteaginous	40 millions d'€
Organic farming	57 millions d'€
-To maintain organic farm	50 millions d'€
-To encourage conversion	7 millions d'€*
New environmental challenges	32 millions d'€**

Part 2 :

The method to simulate the impacts the CAP Health Check



The method used to simulate the Health check

■ Simulations applied to individual data from the french FADN

- This database is representative of professional farms
- Reference situation : 2007 (but average of 5 years for the income indicator)
- Simulations consider all CAP Health Check measures (ie 2012)

■ Subsidies and income variation

- Without taking into account technical adaptation to the new rules
- Without taking into account productivity gains

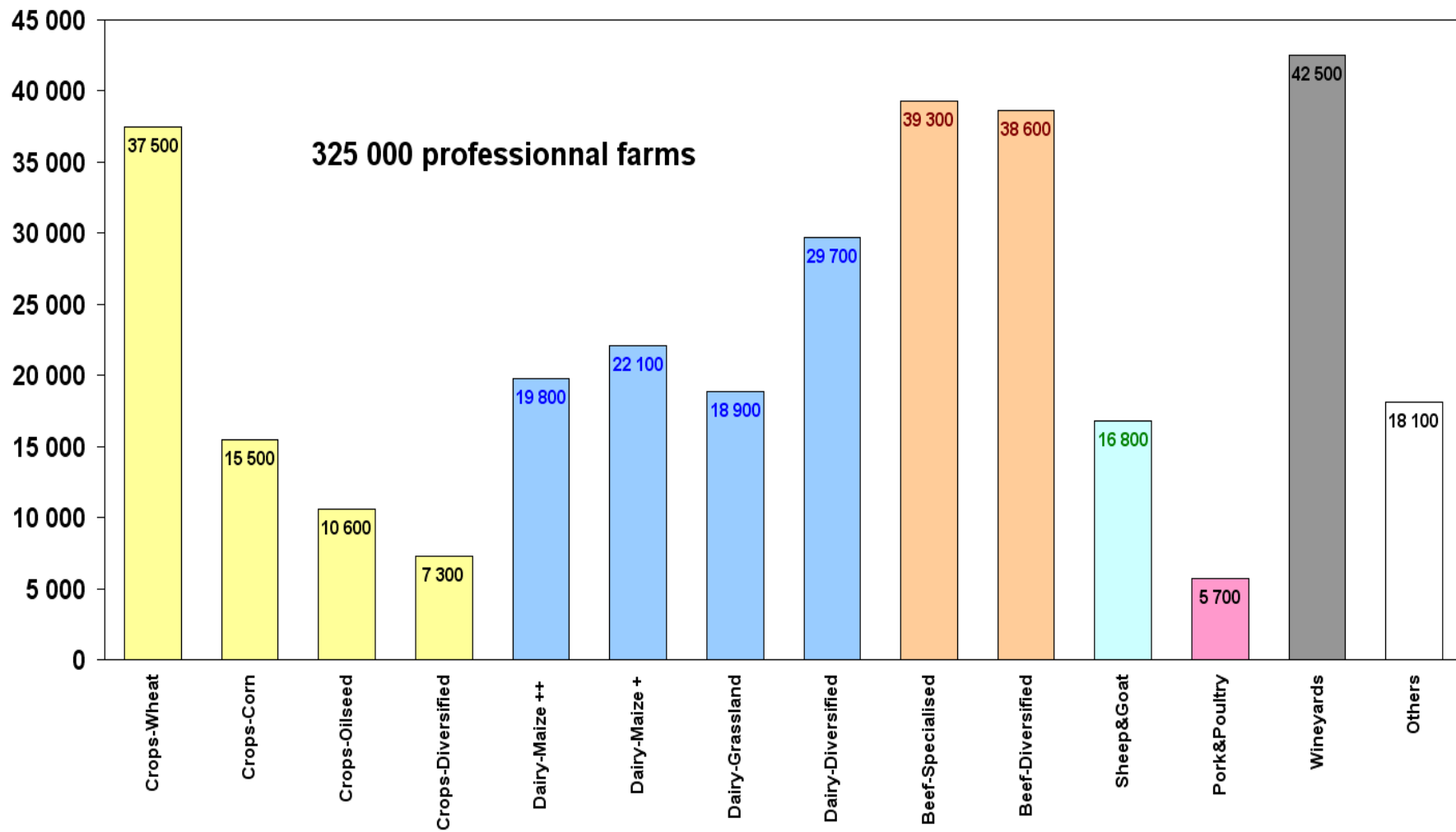
■ Some hypothesis were made to allocate the funds

- Example for organic farming: aid per farm and not per hectare

■ Some collected funds are not redistributed

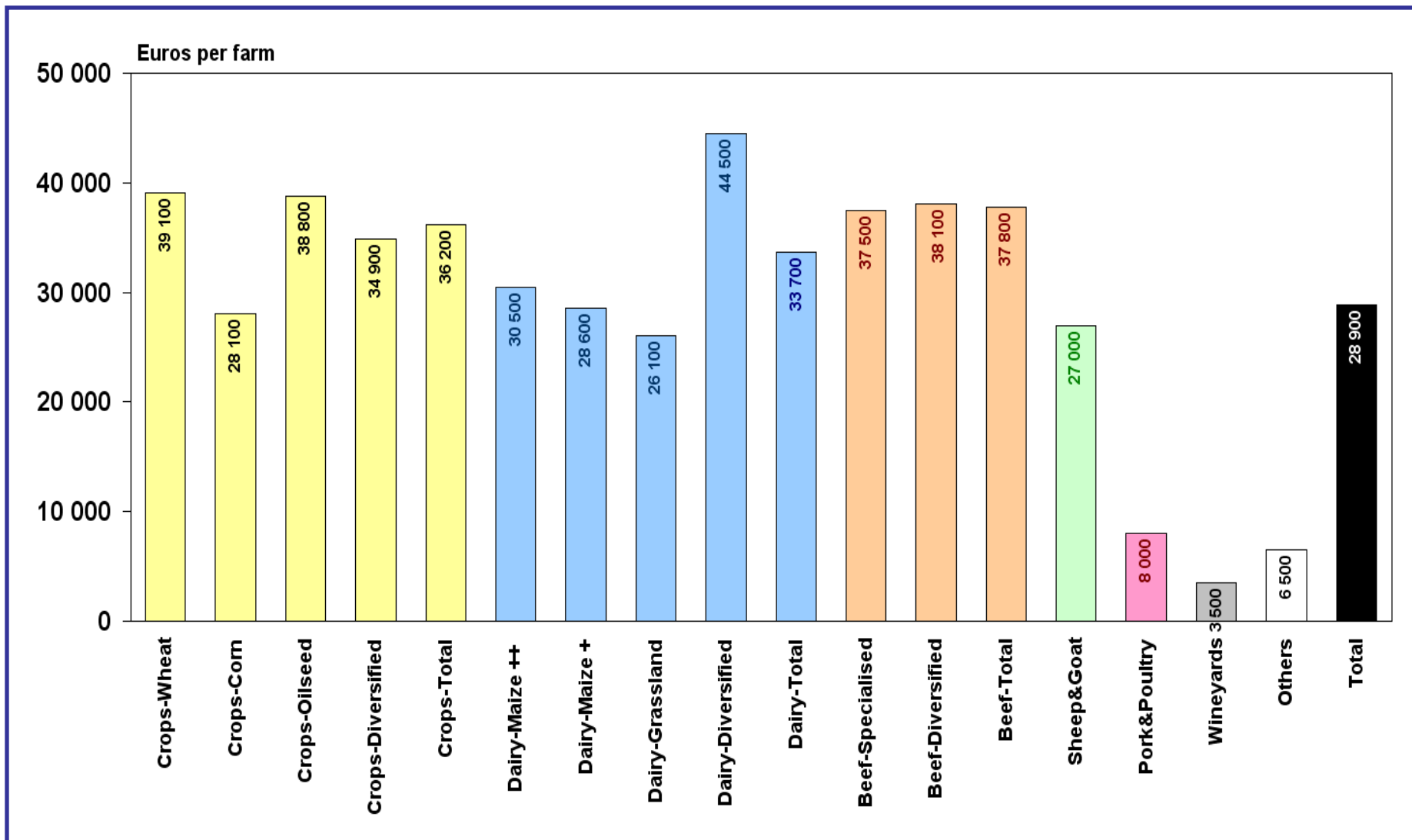
- Insurance : 100 million euros
- Sanitary funds : 40 millions euros
- New challenges : 32 millions euros
- *PHAE* : it is not a new premium

Number of professional farms in France

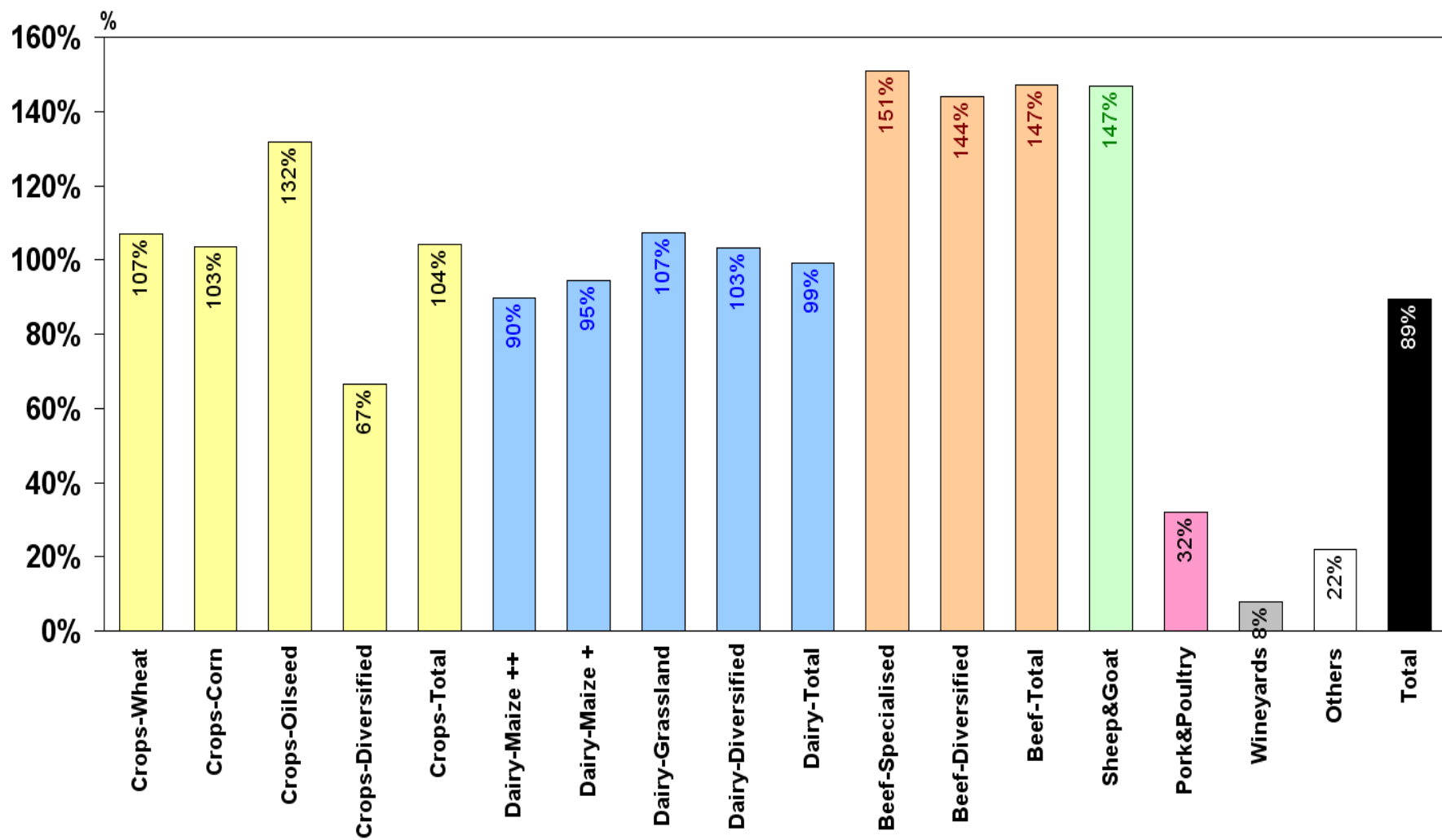


Agreste-RICA 2007 / Traitement INRA SAE2 Nantes

Total subsidies (pillar 1 and 2) per farm (euros)



Subsidies / Farm Income 2003-2007 (%)

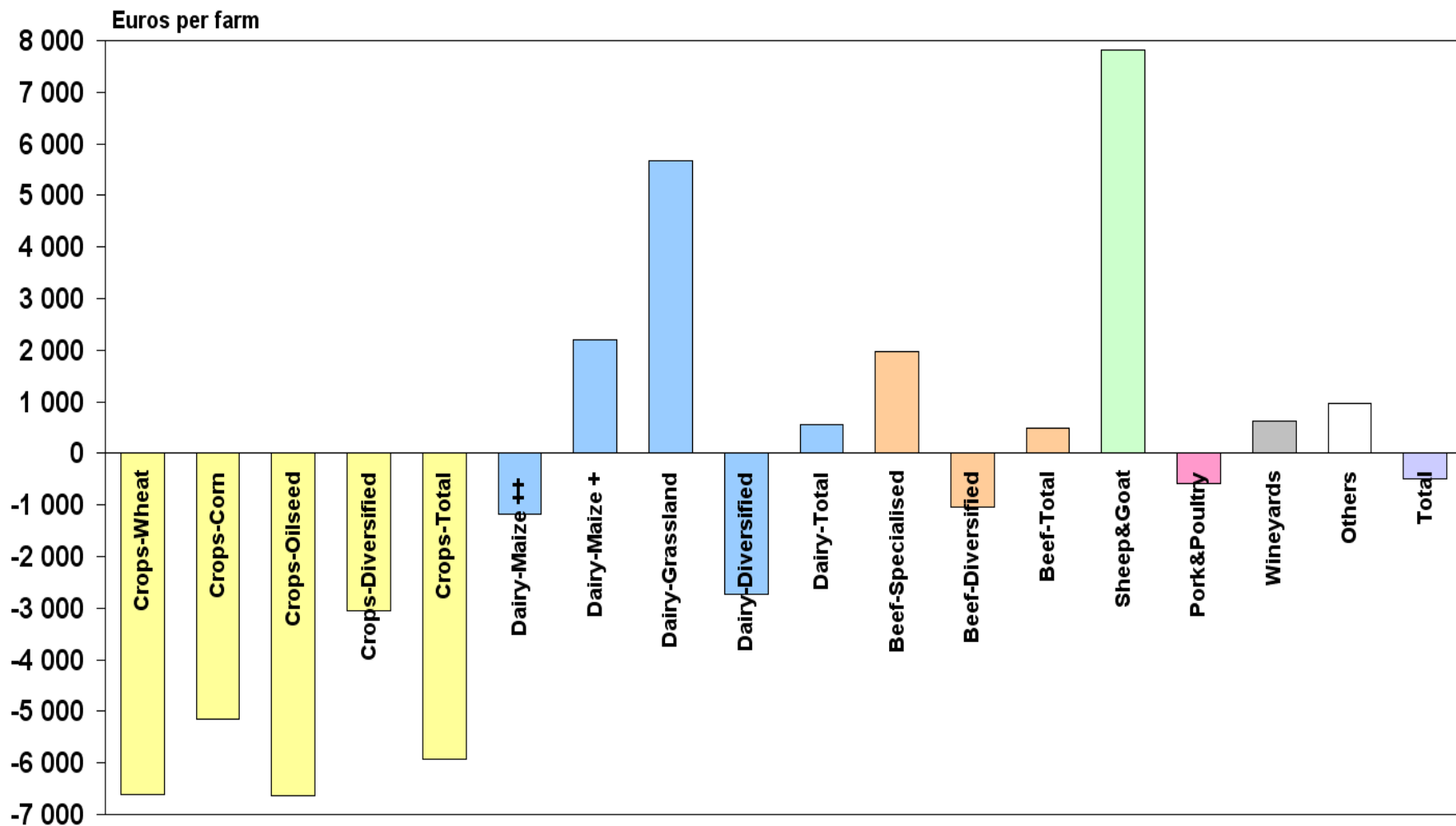


Part 3 :

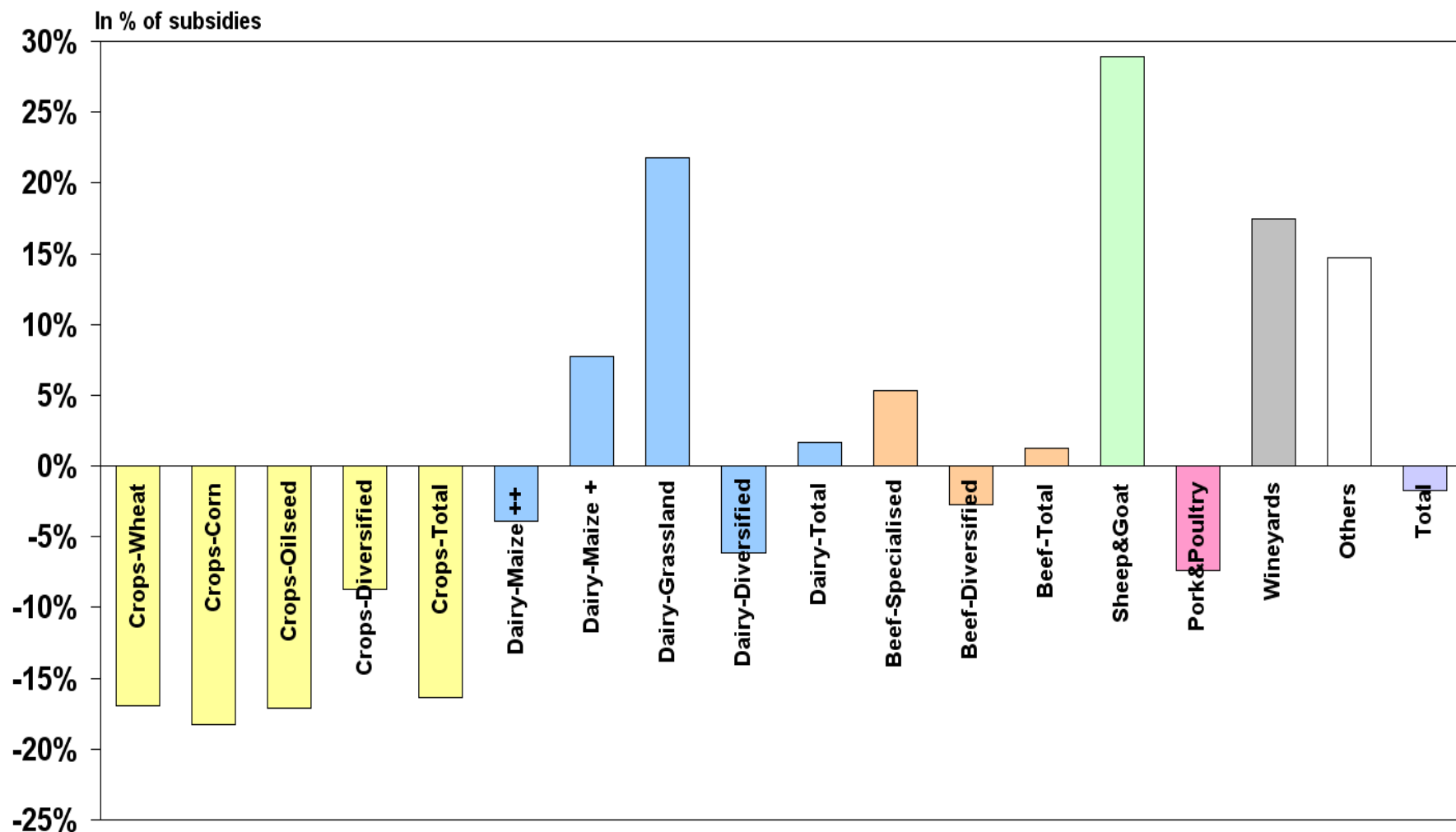
The consequences of the CAP Health Check in France



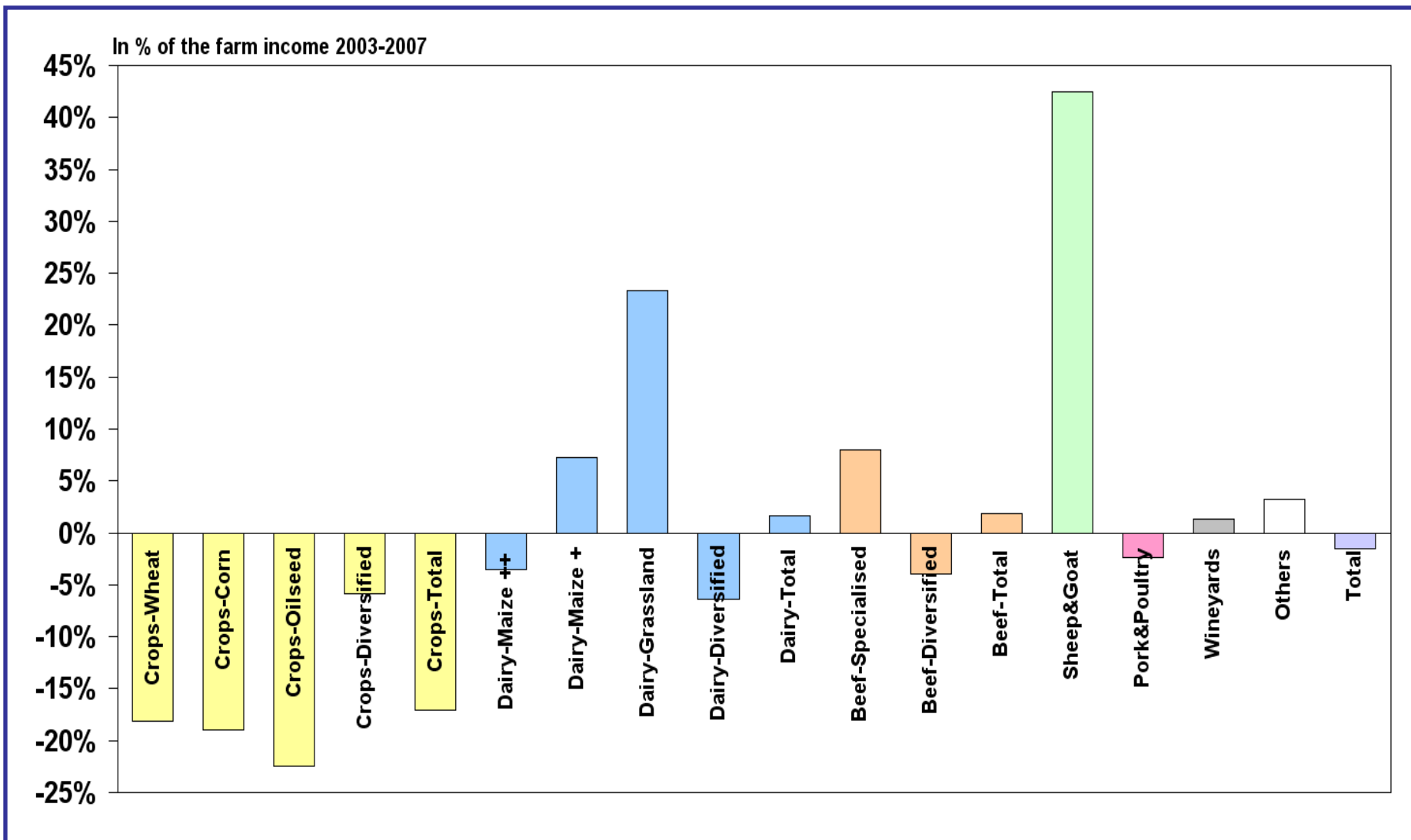
Impact of the CAP HC by types of production (euros per farm)



Impact of the CAP HC by types of production (% of subsidies)



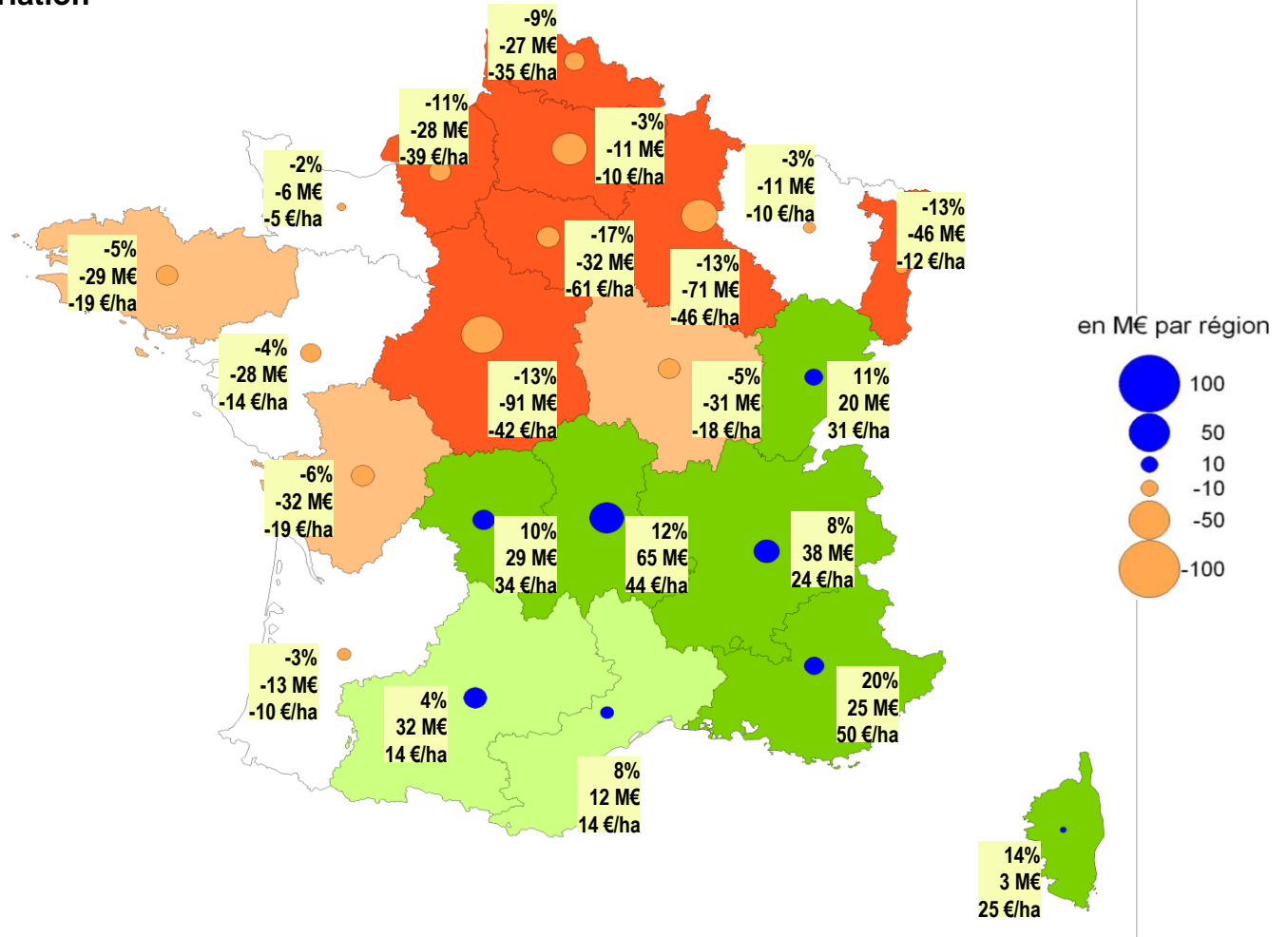
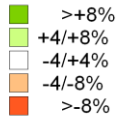
Impact of the CAP HC by types of production (% of income)



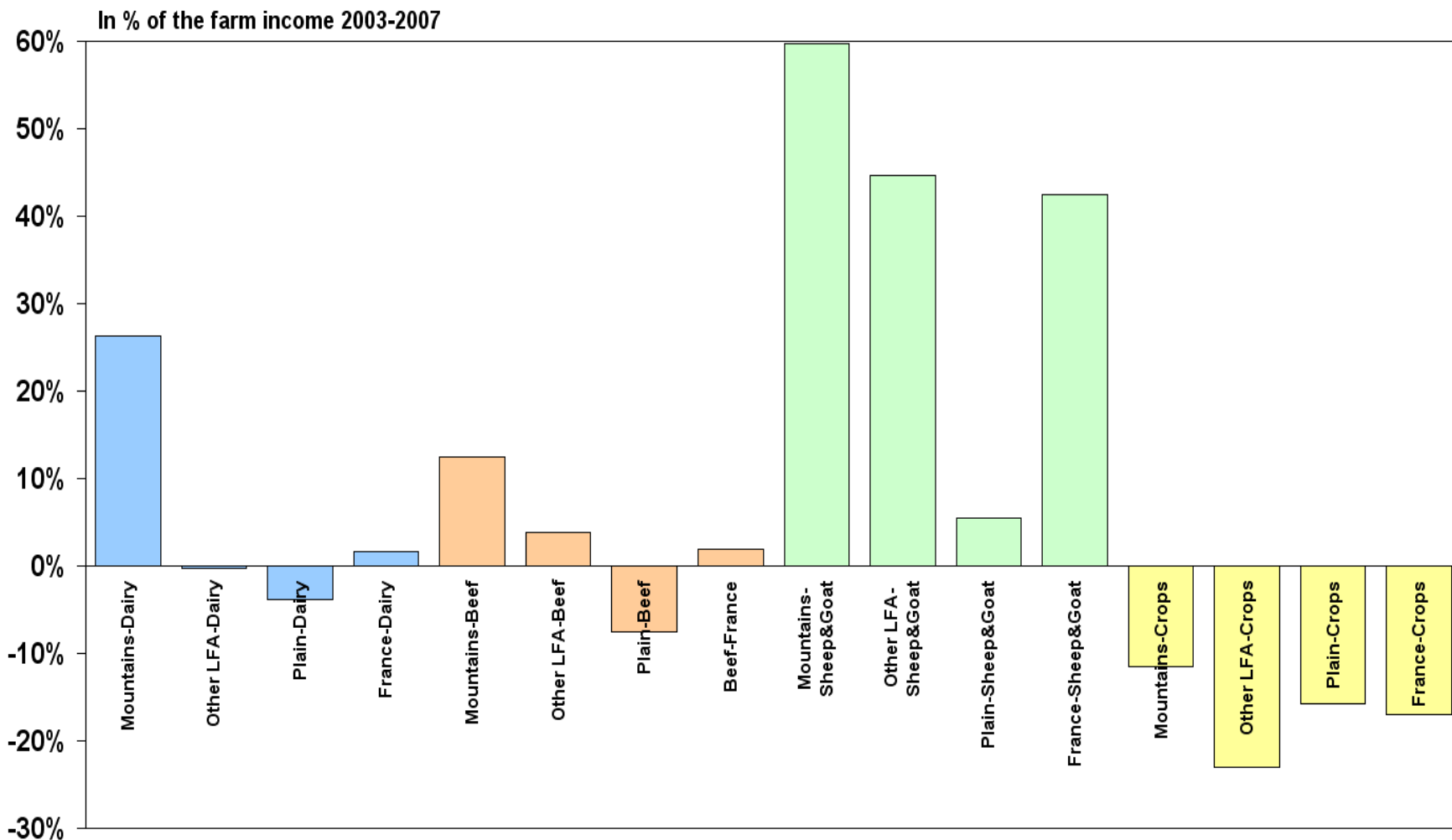
Agreste-RICA 2007 / Traitement INRA SAE2 Nantes

Impact of the CAP Health Check by region (subsidies)

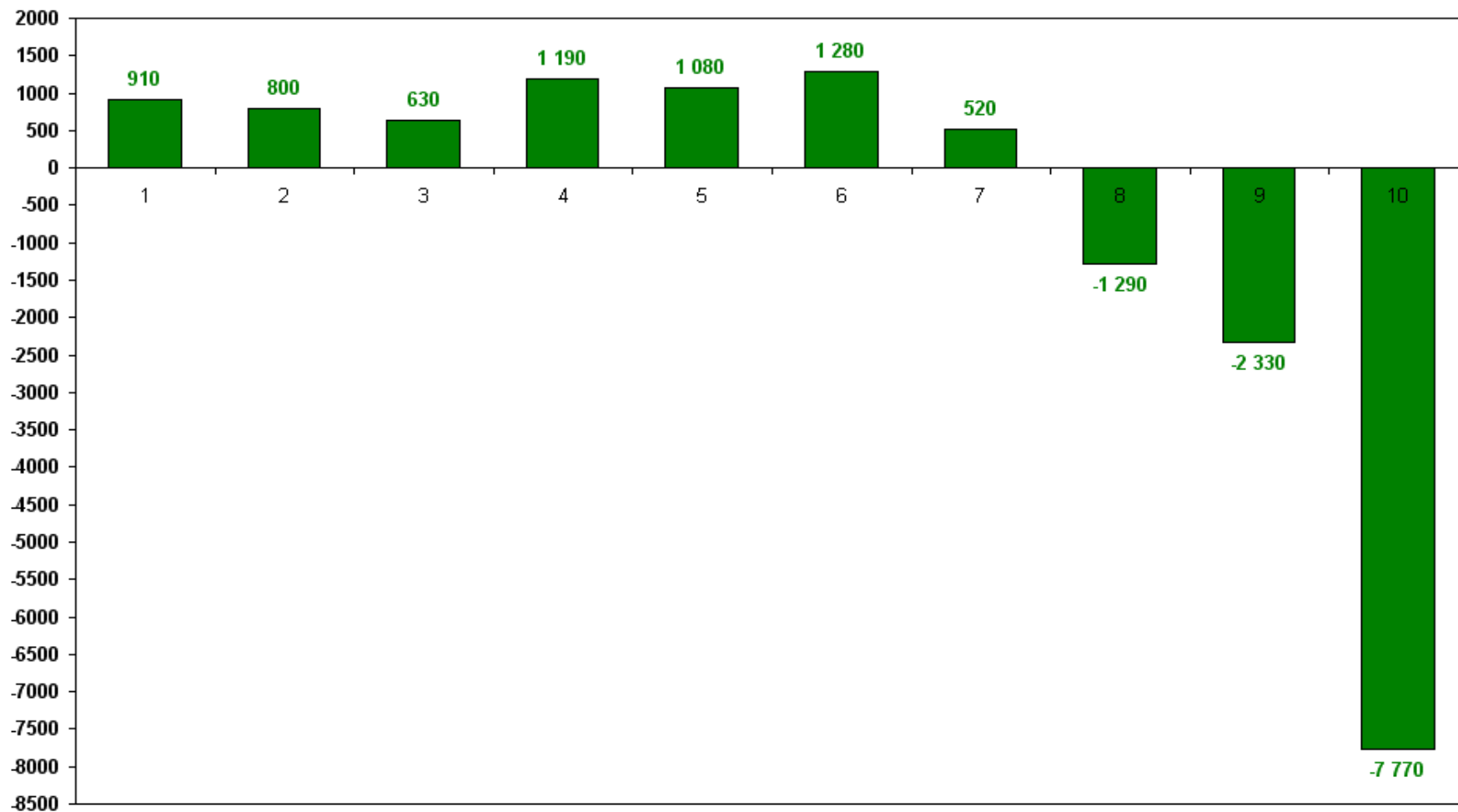
Subsidies variation



Impact of the HC by type of production and areas (% income)

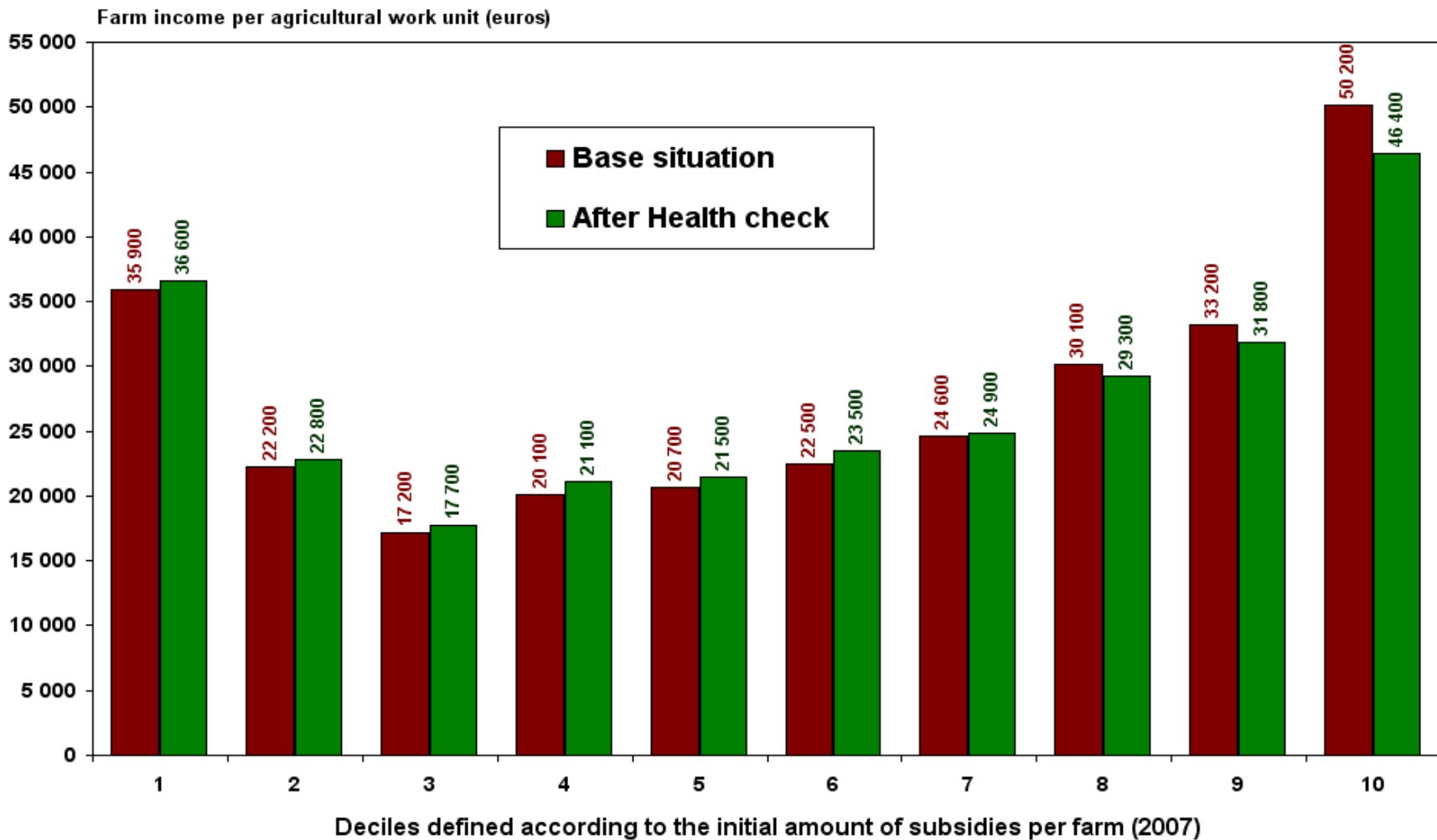


Impact according to decile of direct subsidies per farm (€)

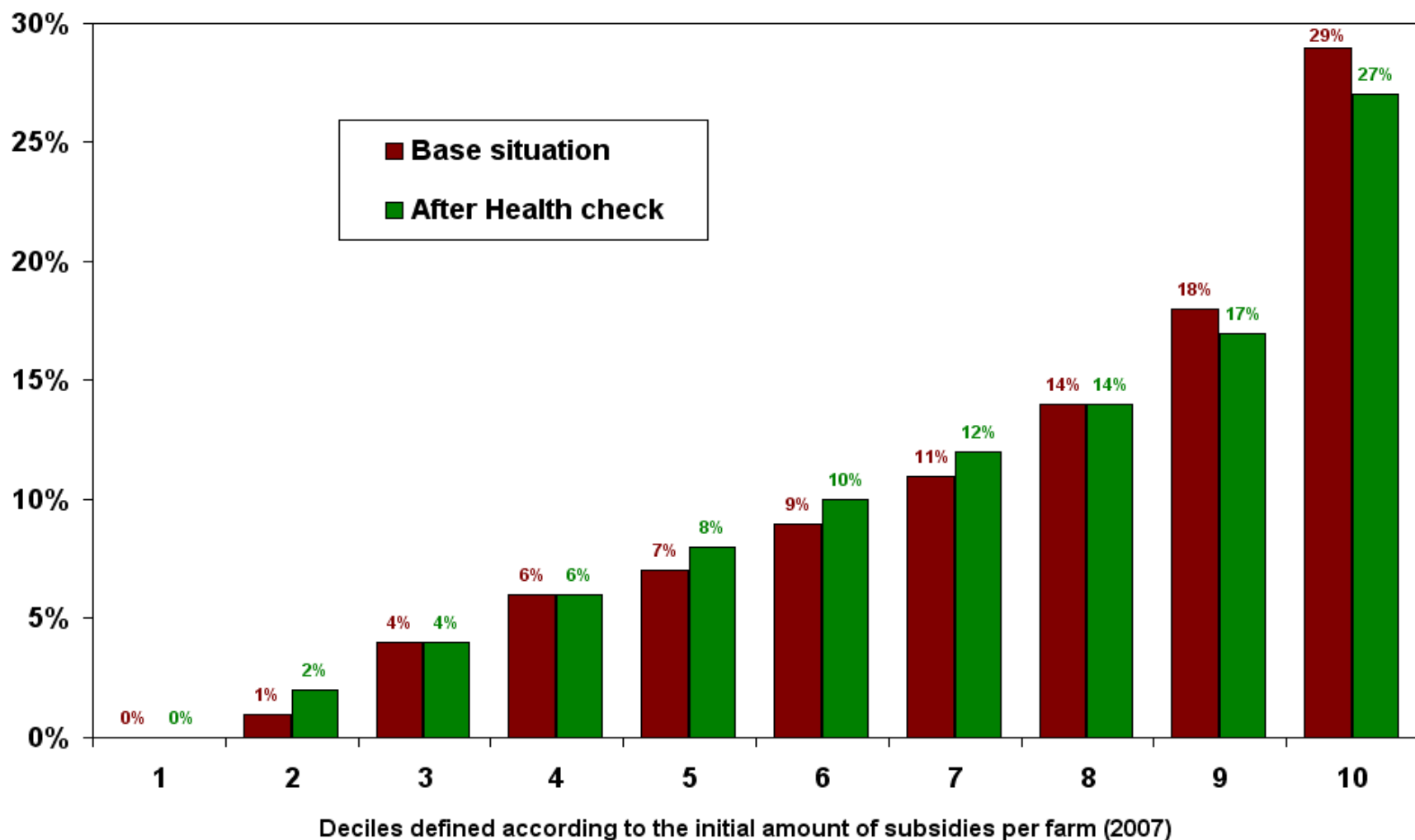


Deciles defined according to the initial amount of subsidies per farm (2007)

Impact on the farm income per agricultural work unit



Impact on the concentration of subsidies



Some discussions on the french HC reform

■ French decisions aim of achieving multiple objectives

- A redistribution of support between farmers (about 1.3 billion euros)
- A better income for sheep producers and extensive dairy farms
- A gain for grassland systems (and protectors of natural resources)
- Towards greater uniformity in the amount of direct aid per hectare

■ This reform gives more support to the existing “sustainable systems”...but the intensive ones are not encourage to change

- A support to productive grassland (on the basis of existing surfaces)
- A support to organic farming (but mainly for the existing ones)

■ France is not far away from total decoupling, but still the historical model

- Premium for suckler cow: sensibility of areas with cattle+crops
- The new premium for sheep sector should be more connected to productivity

Conclusion



Conclusion

● ■ Is the legitimacy of direct aids strengthened ?

- Direct payments are allocated without taking prices into account
- A shift is necessary (CAP 2013)
 - * Transfer of direct payments to risk management tools (crop insurance ...)
 - * Increase the link between budgetary support and the provision of public goods
- Different levels of support : basic aid per ha + Environment + Natural handicap + safety nets + Insurance

■ CAP 2013 : many questions are raised

- What will be agricultural prices in the future? (aids are independent of prices)
- Will the productivity gains be identical from one system to another?
- Despite increased support, will targeted systems be competitive on the market?
- Do we have to maintain pillar 1 and 2 like they are ?
- Toward a re-nationalization of the CAP?

