

Enforcement of the 2003 CAP Reform in 5 countries of the West European Union: consequences on land rent and land market

Jean-Pierre Boinon, Jean-Christophe Kroll, Denis Lépicier, André Leseigneur, Jean-Baptiste Viallon

▶ **To cite this version:**

Jean-Pierre Boinon, Jean-Christophe Kroll, Denis Lépicier, André Leseigneur, Jean-Baptiste Viallon. Enforcement of the 2003 CAP Reform in 5 countries of the West European Union: consequences on land rent and land market. Agricultural Economics (Zemedelská Ekonomika), 2007, 53 (4), pp.173-183. hal-02658453

HAL Id: hal-02658453
https://hal.inrae.fr/hal-02658453

Submitted on 30 May 2020

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

Copyright

Enforcement of the 2003 CAP Reform in 5 countries of the West European Union: Consequences on land rent and land market

Implementácia reforiem Spoločnej poľnohospodárskej politiky 2003 v 5 krajinách západnej časti EÚ: dopady na prenájom pôdy a trh s pôdou

J.P. Boinon, J.C. Kroll, D. Lepicier, A. Leseigneur, J.B. Viallon

ENESAD, Dijon Cedex, France

Abstract: This paper analyses the enforcement of the 2003 CAP reform in 5 countries of the West European Union: France, Germany, Italy, Spain and United Kingdom. The reform gives multiple possibilities of adaptation at a national or regional level. Two standard strategies are foreseen: that of the States which mobilized to the maximum the innovations that the reform allowed, and that of the States which have chosen the option of a minimal application, to limit the effects of reorientation of the productions (maximum sectors remain coupled) or of the redistribution of the payments (historical references). The great diversity of the conditions of agricultural production is one of the main explanations of the differences of enforcement of the reform. We analyse the first impacts of the reform. One can generally expect that the market of entitlements will be a priori limited, because of the links of the entitlements to land. The regionalisation of the calculation of the entitlements is incontestably the mechanism, which introduces the most redistributive effects, compared to the individual historical references. We examine also the consequences of the Single Payment System (SPS) on land rent and land market.

Key words: decoupling, CAP, Single Payment System, land market

Abstrakt: Článok analyzuje implementáciu reforiem Spoločnej poľnohospodárskej politiky 2003 do 5 krajín západnej časti Európskej únie: Francúzska, Nemecka, Talianska, Španielska, a Spojeného kráľovstva. Reforma poskytuje niekoľko možností aplikácie na národnej alebo regionálnek úrovni. Predpokladané sú dve štandardné stratégie: štáty, ktoré zaktivizujú maximum inovácií, ktoré reforma povoľuje a štáty, ktoré si vybrali možnosť minimálnej aplikácie, aby obmedzili efekty pochádzajúce z preorientovanej výroby (maximum odvetví zostane zlúčených) alebo z redistribúcie platieb (historický vývoj). Jedno z hlavných vysvetlení odlišnej implementácie tejto reformy spočíva vo veľmi rozdielnych podmienkach poľnohospodárskej výroby. Príspevok analyzuje prvé dopady reformy. Dalo by sa očakávať, že trh s právami bude a priori limitovaný z dôvodu prepojenia práv k pozemkom. Regionalizácia odhadovaných práv je nesporne mechanizmom, ktorý predstavuje najväčší redistribučný efekt v porovnaní s historickým vývojom. Článok sa zaoberá tiež dopadmi Systému jednotných platieb na prenájom pôdy a trh s pôdou.

Kľúčové slová: decoupling, SPP, jednotný systém platieb, trh s pôdou

Planned for 7 years, the Berlin agreement in 1999 was deeply revised since 2003: that what must have been at the beginning a mid term review was in fact transformed into a new reform, made possible thanks to the budgetary agreement adopted at the European Council of October 2002 which fixed the framework of the financial stability of the CAP until 2013. Following this agreement, "*total annual expenditure for market-related expenditure and direct payments in a Union of 25 cannot, in the period 2007–2013, exceed the amount in real terms of the ceiling of category 1 A for the year 2006 agreed in Berlin for the EU-15"* (Council of the European Union 2002*).* Mainly thus, this agreement freezes the amount of the direct payments and their distribution between the Member States of the EU 15. Moreover, the new reform contains the possibility

of national adaptation of the implementation of the new common regulation.

The reform of 2003 is ambivalent. It falls under the continuity of the movement started in 1992 and continued in 1999 by the Berlin agreements, marked by a cut in support prices, and the introduction of direct payments from now on disconnected from the produced volumes. As for the preceding reforms, it was justified by the Commission and the European Council by the need for better answering the concerns of the European citizens as regards safety and quality of the food production and safeguarding of the environment, by the need for stabilizing the agricultural expenditure and finally by the need for consolidating the European position with the WTO, in the cycle of negotiation in progress (Doha Development Agenda).

These multiple objectives materialize around the economic logic of the decoupling, which aims at eliminating any help related to the production. Severing the link between subsidies and production will make EU farmers more competitive and market oriented. The implementation of the new mode of decoupled payment is founded on payment entitlements based on any agricultural area of the holding taken up by arable land and permanent pasture, except permanent crops, forests or areas used for non agricultural activities. These entitlements are not thus related any more to the production, but it is the cultivation of a surface which justifies these payments (surface known as "eligible"). The creation of these new entitlements raises the question of their transfer, and the Council Regulation specifies a whole series of provisions concerning the constitution and operation of the National Reserves of entitlements, the regulation of sale or other definitive transfer of the entitlements, with important possibilities of national adaptation. Lastly, the reform subjects the attribution of the direct payments (decoupled or not) to new conditions, being dependent on the respect of 19 directives and regulations as regards environment, identification of the animals, animal and plant health, food safety, animal welfare and in addition to the respect of good agricultural and environmental condition which is defined by each State.

These different innovations constitute as many elements from rupture which can modify in a significant way the behaviour of the agricultural producers and landowners, with important macroeconomic repercussions, and which simulations of the economists can anticipate only in a very dubious way, taking into account the multiple assumptions necessary to the construction of the models. The multiple adaptabilities of the methods of implementation of the reform in each country and region still reinforce uncertainties on the expected effects, and this more especially as the socio-economic characteristics of agricultures vary in an important way from one country to another, and, within each country, from one region to another.

This paper analyzes the enforcement of the 2003 CAP reform in 5 countries of the West European Union: France, Germany, Italy, Spain and United Kingdom (Boinon et al. 2006). We analyse the first impacts of the reform, specially the adjustments on the productions and on the systems of production. We examine also the consequences of the Single Payment System (SPS) on land rent and land market.

A GREAT DIVERSITY OF THE CONDITIONS OF AGRICULTURAL PRODUCTION

The confrontation of agricultures of the EU 15 on agricultural markets unified by a Common Market Organization for each agricultural produce did not erase the great diversity of the economic and socio-structural situations. Also, at the time of the implementation of the reform defined in Luxembourg in 2003, important socio-structural disparities remain.

The structures of agricultural production appear very heterogeneous, with an opposition between the Southern Europe, where the small-scale farms prevail, and Northern Europe where there prevail the middle-sized and large farms. ¾ of the farms in Italy and more than half in Spain have a surface smaller than 5 hectares, whereas the largest farms (more than 50 hectares) represent less than 10% in these two countries. Because of the dominating weight of the small-scale farms in Spain and Italy, these two countries join together alone about half of the farm holdings of the EU 15. With the opposite, France, Germany and the United Kingdom have greater structures of farms, with an average surface of more than 40 ha (more of the double of the average surface of the farms of the EU 15).

There remains, however, essential to underline that even in the Northern Europe countries, where the agricultural reorganization is advanced, there still remains a significant number of small and very small-scale farms (less than 10 ha). They represent even more than one third of farms in Germany and France, and about half of farms in the United Kingdom. Thus, even in the countries of large agriculture structure of the Northern Europe, "professional" agriculture cohabits with another agriculture (part-time or leisure agriculture) which remains numerically important. It is in the United Kingdom that the dualism between the two types of agriculture appears more marked.

The structure of the foreign trade varies appreciably between the five countries, and can lead to different strategies of the implementation of the CAP reform. Among the five studied countries, there appears rather clearly the opposition between the two exporting countries (France and Spain) and the three importing countries (United Kingdom, Germany, Italy). However, one notes that the two first have, at the end of the reform, preserved the maximum possible of coupled payments, whereas the three others chose total decoupling. That is not a simple coincidence, if one considers that the exporting countries are certainly more sensitive than the importing countries, with the risk of dismantling their capacities of production.

The choices of the various countries also depend on the impact which the reforms can have on the orientation of the productions and the incomes of the agricultural branch. One finds here the opposition between Mediterranean agricultures, from which two thirds of the production do not benefit by the CAP direct payments, and the Northern Europe regions of field crops and breeding, much more dependent on the CAP subsidies. The CAP direct payments relate to more half of the production in Germany and in the United Kingdom. France, in the intermediate geographical position, is located logically halfway between Spain and Italy on the one hand, Germany and the United Kingdom on the other hand with 46% of its production opening entitlements to the direct payments. If one compares in the 5 studied countries the weight of the direct payments in the value of production, it is the agricultural production of the United Kingdom which appears most assisted, with direct supports which will represent more than 15% of the value of the production in 2007, against 12% approximately in France and Germany, and respectively 8 and 6% in Spain and Italy. Here the British paradox appears since the first country to be called into question the CAP supports is that whose producers are proportionally most assisted[1]. But the paradox is perhaps only apparent, because the decoupling and the modulation for the rural development programs (second pillar of the CAP) can finally constitute a good means of consolidating and justifying a comfortable national ceiling of supports, starting from arguments more convincing than the need for preserving, for the producers of the United Kingdom, one of the highest rate of support.

Lastly, the supports are concentrated in the largest farms, since in the European Union, 80% of the subsidies were allocated to 20% of the farmers. However, within the European Union, the situation appears contrasted. The distribution of the direct payments in 2002 reflects the structure of the farms. The share of recipients receiving less than € 5 000 is the highest in Spain and Italy, where the number of small-scale farms is most important. These small recipients represent 91% of the total in Italy, and 71% of the total in Spain. But they received in 2002 only 37% of the direct payments in Italy, and 22% in Spain. These data make it possible to understand the sake of simplification of the management of the Single Payment System (SPS) for a state like Italy.

On the opposite side, it is in France that the share of small recipients (less than € 5 000) is weakest (38%). In France and in the United Kingdom, only 4% of the total of the direct payments are allocated to the smallest farmers. In France as in the United Kingdom, there is a restricted group of recipients who receive high direct payments. The acquired situations of these largest farmers can explain in these countries the political reserve for changing too brutally the modes of enforcement of the regulation.

The reform of 2003, with the installation of decoupling, is accompanied by a weakening of the mechanisms of the common market organization, which had up to now made it possible to organize competition between the European countries. Faced with the risks of an increased competition intra and extra the Community, the different countries of the EU felt the need for an adaptation of the reform to the socio-economic conditions of their agriculture. Beyond the divergences of interests, the consensus was thus carried out to authorize a strong national subsidiarity in the choice of the methods of enforcement of the new CAP, which illustrates the synthesis of the observations which follows.

THE IMPLEMENTATION OF SPS IN THE VARIOUS COUNTRIES

Regionalisation versus maintenance of coupled payments

The general rule provided in the chapter 1 of Title III (single payment scheme) of the Council Regulation No. 1782/2003 is that the access to the single payment scheme is allotted to the farmers on a historical basis. It is in the chapter 5 of Title III the title of which is "regional and optional implementation", that the possible national adaptations are specified.

[1] We made calculation for the whole of the countries of the EU 15. Only Ireland, with a rate of direct support of 21.4%, exceeds the United Kingdom, Sweden arriving just after, with a rate of support of 15.2%.

Section 1 draft of the possibility of the regional implementation of the reform, while section 2 defines the conditions of a partial implementation, namely either the possibility to retain a share or the totality of direct payments coupled to the production in a sector (articles 66 to 68), or the possibility of retaining up to 10% of the component of the national ceilings to grant them to additional payments in order to support specific types of farming, which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products (article 69). In the text of the regulation, the term "region" indicates, according to the cases, the Member State or the regions within the Member State.

The Member States massively used the possibilities of adaptation authorized by the Council Regulation 1782/2003, which results in the extreme diversity of the choices, as well with regard to decoupling as with regard to the methods of calculation of the entitlements (historical references or regionalisation). The choice of the degree of decoupling selected and the mode of calculation of the entitlements makes it possible to identify five main configurations in the methods of enforcement of the reform. These methods can be represented on two axes, on the one hand according to the degree of decoupling, and on the other hand according to the degree of regionalisation in the calculation of the entitlements (historical references, regionalized references, mixed, static or dynamics references) (Figure1).

This overview of the various methods of implementation of the reform shows certain constants. The implementation of regionalisation is generally combined with a total or important decoupling of the payments. Conversely, the maintenance of important coupled payments goes hand in hand with the historical choice of references. Two standard strategies are thus foreseen: that of states like England or Germany, which mobilized to the maximum the innovations that the new payment system allowed, and that of states like France, Spain or Portugal, which seems on the contrary to have chosen the option of a minimal application, to limit the effects of reorientation of the productions (maximum sectors remain coupled) or of redistribution of the payments (historical references). We have already underlined that these choices could be partly explained by the specific socio-economic and socio-structural conditions. But the great diversity of the choices is also explained by the socio-policy context prevailing in the Member States at the time of the reform.

The first mode provided for by the regulation, called "regionalisation" (section 1), consists of a total decoupling with the abandonment of the historical references to the profit of a standard amount per hectare in each region. The calculation of the amount can be differentiated according to the use of surfaces in the region: Germany choose to differentiate, at the time of the implementation of the reform in 2005, the entitlements on the arable lands and the meadows, with the will to reach a uniform amount in 2013, whatever the nature of surfaces.

The German combined model introduces a progressive system of convergence (between 2009 and 2013) of the whole entitlements towards a regional single payment in 2013. It consists in defining the amount of the entitlements while combining, during one limited period (2005–2008), regionalised payments calculated for each region (Land) by the category of land, and a payment for each farm calculated on the individual historical reference. The system evolves

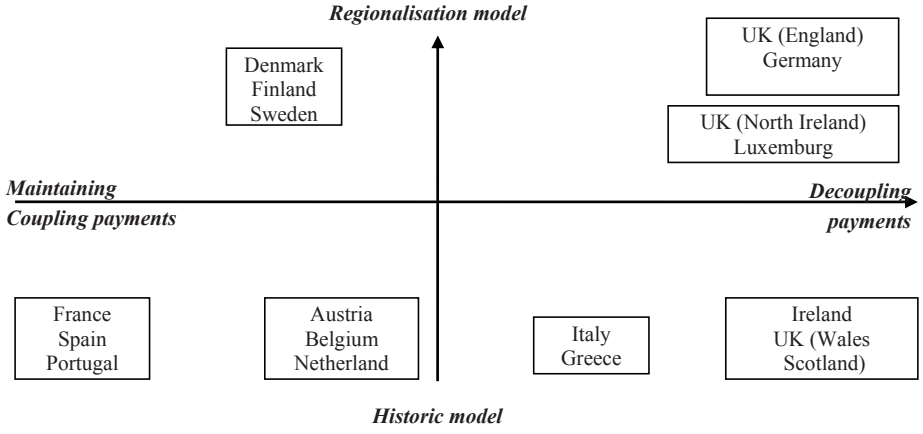


Figure 1. Choice of implementation of the CAP reform

then between 2009 and 2013 towards a single payment for each hectare, calculated inside a Land, uniform on the arable land and the meadows.

In addition, regionalisation results in distributing the federal ceiling of direct payments between Länder, which introduces a first level of redistribution of the direct payments between Land. This redistribution makes it possible in the long term (2013) to reduce the differences between the amounts of the entitlements between Länder. In the financial volume, Bavaria is the largest loser in these transfers, whereas the Schleswig-Holstein is the largest loser on the amount of the payment per hectare. Länder of the Saar, the Rhineland Palatinat, Bade-Wurtemberg and Brandebourg profit from these transfers.

The United Kingdom returned the choice open to the chapter 5 of the regulation towards its 4 regions. Scotland, Wales and Ireland chose total decoupling[2] with entitlements calculated on historic references, while England chose the total decoupling with an original application of article 59 (section 1). Indeed, inside England, three ring-fenced payment areas according to their agronomic potential, corresponding to differentiated types of agriculture, were defined:
– the moorland of the severely disadvantaged areas (0.8 million ha) where the extensive bovine and ovine cattle farm are localiseds,
– the other severely disadvantaged areas (0.8 million ha) in which there are localised the systems of cattle breeding and mixed-farming,
– the other areas (7.7 million ha) where the farms of field crops and the most intensive cattle farms concentrate.

These zones are not superimposed in general on the geographical or administrative existing areas and their definition required a heavy specific work. The historical references will disappear gradually, and will be gradually replaced by uniform amounts per hectare and zone (the dynamic hybrid model moving to the flat rate payment). The transition is envisaged over ten years (CAAV 2005).

The second mode of national adaptation provided by the regulation (section 2) consists in the remaining partially or totally coupled payments, according to productions, with an optional national envelope (article 69). Italy chose to enforce the general rule (total decoupling, with historical references, without regional ceilings) while applying a redistribution within certain sectors of production. Spain chose the possibilities of maintaining coupled payments offered in section 2, and the redistribution permitted by article 69. France chose the possibilities of maintaining coupled payments offered in section 2, but without using the possibilities of article 69.

According to the selected choices, regionalisation can thus mean:
– uniform payment per hectare help for all the farmers of the region,
– payment per hectare, according to the agronomic potential, by "natural" region (with a specific zoning),
– specific payment for certain productions remained coupled partially or totally,
– historical references, more or less taking into account the regional situations and the productions,
– specific payment for the productions related to specific objectives (article 69).

Finally only the United Kingdom regionalised the decision, with the usual meaning given by regionalisation, defined like a process of transfer of initiatives and resources to the profit of the regions. It is necessary to precise that the United Kingdom includes only four "regions" (within the meaning of the CAP) which are in fact the "nations" constitutive of the Kingdom. In Italy and Spain, where the Autonomous Communities are claiming a large autonomy of decision, the methods of applications of the new CAP remained harmonized on the national level. That made it possible to circumvent the delicate question of the share-out between regions of the national ceiling of the sum of the reference amounts. Germany remains a particular case insofar as the reform makes it possible to standardize the payments for all the hectares, according to an objective of "land equity" which seems to have prevailed on regionalisation in its usually meaning. On the opposite side, England with a zoning, where the poorest lands obtain the weakest payments, much more strongly takes into account the differences in potentialities of land. It is of course also a means of not calling into question the acquired situations, with the difference of Germany where the productions using the meadows will be consolidated at the term 2013, when the reform will take all its effects, which raises the question of the "redistributive effects" of regionalization.

Two logics of use of the National Reserve

All the Member States constituted a National Reserve concerning a common objective in the short run, to

[2] Scotland used the possibility open by article 69 and decided that it will implement a national envelope for the beef sector only.

provide entitlements to farmers not having historical entitlements (for example those which settled between the reference period and the implementation of the reform) or to those which for a particular reason had insufficient historical entitlements taking into consideration the normal situation. The longer-term prospects for the use of the National Reserve lead to different procedure according to countries (Table 1).

Two logics of the use of the National Reserve appear, one conceiving reserve like a tool allowing to ensure transition towards the new system (Germany and England, i.e. these same which chose regionalisation), and the other like a permanent tool of intervention on the transfers of entitlements.

In the first case, the transitional character of the National Reserve is explained by the liberal vision of Germany and England concerning the operation of the market of the entitlements. The regulation is not necessary after the initial attribution of the entitlements to the farmers. In these countries, no siphon is envisaged on the transfers and they wonder today about the methods of the closure reserve, by proposing in the case of Germany the distribution of the balance on the whole of the entitlements. In Germany, the low level of the initial linear percentage reduction is explained, on the one hand, by the restriction of the criteria defining the particular and exceptional cases and on the other hand, by the choice, in the framework of the regionalisation, to calculate the amount of entitlements on the basis of data 2005. So, a great part of the problems related to the anteriority of the reference period 2000–2002 are removed. In the English system, the taking into account of the historic references 2000–2002 caused many requests to the National Reserve, which justified an initial linear percentage reduction of 4.2%.

The procedure of the National Reserve in Italy, Spain and France is close. For these countries, in addition to the management of the particular cases for the attribution of the initial entitlements, the reserve implicitly has a function of regulation of the market of the entitlements. This objective justifies the permanent siphon on the transfers. On the other hand, none of these States explicitly defined the criteria of attribution of the entitlements beyond the phase of the initial attribution. This situation questions as for the arbitrations that this regulation will require in the transfers of entitlements which will take place either through a market of entitlements, or free via the Reserve.

Prospect of a market of the entitlements

Article 46 of Council regulation 1782/2003 lays down the establishment of a possible market of the entitlements, but frames in a very precise way the methods of their transfer:

– *"Payment entitlements may only be transferred to another farmer established within the same Member State except in case of transfer by actual or anticipated inheritance (....)*
– *A Member State may decide that payment entitlements may only be transferred or used within one and the same region (...)*
– *Payment entitlements may be transferred by sale or any other definitive transfer with or without land. In contrast, lease or similar types of transactions shall be allowed only if the payment entitlements transferred are accompanied by the transfer of an equivalent number of eligible hectares (...)*
– *In case of sale of payment entitlements, with or without land, Member States may decide that part of the payment entitlements sold revert to the national reserve or that their unit value is reduced in favour of the national reserve".*

Table 1. Operation of the National Reserve

	France	Germany	England	Italy	Spain
Linear percentage reduction	3%	1%	4.2%	3%(1)	3%
Siphon on transfers					
sale entitlements without land	50%(2)	0%	0%	50%(2)	50%(2)
sale entitlements with land	10%(3)	0%	0%	10%(3)	10%(3)
Prospects	maintenance	closure	closure	maintenance	maintenance

(1) Estimation starting from the global data including the reserve, article 69, additional withdrawal for increase in surfaces, etc.

(2) During the first 3 years, then 30%

(3) Except: transfer of whole farm: 5%; transfer to the profit of an installation or for heritage: 0%

In all the studied countries, the transfer of the entitlements by sale is very weak, even non-existent, at least at the moment of our investigation, in May 2006. The market of entitlements can be established only on definitive titles. One of the principal reasons of the absence of market is due to the fact that the establishment of the definitive titles started in the best case only at the end of the year 2005 and that in May 2006, it was not finished yet. In France, as the reform is applied since 2006, the final rights will be known as well as possible only at the end of the year 2006. The exchanges of entitlements will take place thus primarily within the framework of the transmissions of the farms, which leaves the idea that they will not be the subject of important speculations.

In the countries having applied regionalisation, the potential of market of the entitlements is weak, because all the surfaces have entitlements and in the long term, there will be a homogenisation of the amount of the entitlements per hectare. Moreover, England and Germany decided to delimit the market of the entitlements inside the same region, which limits the possibilities of transfer. In addition, the regional agricultural areas decrease each year, so that one heads for a situation of surplus of entitlements compared to the eligible surfaces.

In England, the entitlements started to be established definitively only at the time of the first payments, in March 2006. Taking into account the time of instruction for the transfers of entitlements, the market was practically non-existent for the entitlements concerning the year 2006. A market seems to start as from June 2006 for entitlements which could be activated only in 2007. The market is organised by the intermediary of brokers' agencies. Some brokers (in particular those who have a great experience in the broking of dairy quotas) offer entitlements to the sale. The asking price, when it is indicated, seems weak. Certain brokers advise as the exchange value of the entitlement approximately 2 times the amount of the premium 2005 which this entitlement makes it possible to obtain. But this is an indication, because in the value of the entitlement, it is necessary to take into account its composition between the historical share that has to decrease and the regional share which has to increase.

In the countries not having chosen regionalisation, the risks of speculative transfers are more important but one notes a will to limit as much as possible the width by the important siphon on the transfers without land. In Italy, the transfers of titles were up to now very rare. The market of the entitlements remains framed and regionalised, which limits the risks of the geographical transfer, in particular from the poor regions of the south and from the mountains towards the areas of plain. In addition, in certain areas there are more titles available than the eligible surfaces, whose access constitutes a limiting factor. All these elements lead to consideration that the market of the entitlements will be never very important in Italy. In fact, the facial value of the titles in field crop is about € 300, for a land price of about € 30 000, that is to say a ratio of 1à 100 what relativizes the question of the entitlements compared to that of the land one.

In Spain, there does not exist, at the present time, an organised market of entitlements. Few elements enable us to appreciate what could be this market: there is an important surplus of the eligible surface not having entitlements, which can generate a demand, but these eligible surfaces are generally in very poor areas, where the yields of the land are weak, which limits the possibilities of a higher bid on the price of the entitlements. It is thus too early to appreciate the consequences of the Spanish land situation on the price transfer of the entitlements.

According to these various observations, one can generally expect that the market will be a priori limited, because of the links of the entitlements to land. In the countries having applied regionalisation, the homogenisation of the payments per hectare, and the generalisation of the payments to the whole surfaces lead to a low potential of the market of the entitlements.

FIRST IMPACTS OF THE REFORM AND PROSPECTS

Complex effects difficult to anticipate

The effects of the reform are difficult to delimit, because they result from different logics, which can act in synergy, or opposition:

– an administrative redistributive logic, which relates to a modification of the distribution of the payments between farmers, in particular by regionalization in the Member States which enforce it,
– an economic logic of adjustment and reorientation of the systems of production in response to the signals of the market, which depends on more diversified parameters, of an internal – nature to the EU, but also of an external nature (international trade negotiations in particular),
– a patrimonial logic of land accumulation and investment, resulting from the preceding logics but which contributes in the medium term to modify nature of it, by modifying the distribution from the payments between the various categories of farms.

The first effects are rather easy to simulate. On the other hand, the economic and patrimonial effects are much more difficult to foresee, because they depend on many parameters external to the CAP (the opening to the imports for example, in negotiation inside the WTO), and their simulation rests on many assumptions. In spite of these difficulties, a certain number of simulations of the impacts of the reform on agriculture were led in the various Member States (Frascarelli 2005; Garcia Alvarez Coque 2006; Kleinhanss et al. 2004; DEFRA 2004) and by the Directorate-General for Agriculture of the European Commission (European Commission 2006), to give indications on certain probable evolutions.

Redistributive effects of the reform

The modification of the rules of attribution potentially involves a modification of the distribution of the payments between farmers. The redistributive effect (or transfer) thus represents the volume (or the share when this volume is reported to the total amount of the payments) of the payments having changed recipient between the situation before the reform and the situation under application of the reform. This strictly arithmetic definition of the redistributive effect (modification of the distribution of the payments) excluded here any value judgment on nature, fair or unfair, of this redistribution.

The regionalisation of the calculation of the entitlements is incontestably the mechanism, which introduces the most redistributive effects, compared to the individual historical references. The equalization of the amount per hectare of the entitlements of the farmers belonging to the same zone leads to transfers resulting from two main mechanisms:

– *a structural effect:* in a sector the given regionalisation generates redistributive effects from the most intensive farms (high yield or high livestock unit per hectare) to the profit of the most extensive farms,
– *a sector effect:* the differentiation of the initial levels of support according to the productions and systems of production generates in the case of regionalisation, transfers between farms according to various orientations of production. It is the case in Germany, with a transfer to the profit of the extensive systems of breeding. It is, in a way even more significant, the case of the fruit and vegetables sector, which did not profit from any support before the reform, and obtain a new payment per hectare with regionalisation[3].

The redistributive effects generated by the reform in the countries having preserved the historical references are weak and all the more weak, the payments remain coupled. The choices of the enforcement of the reform in France and Spain had explicitly this aim: to limit to the maximum the impact of the reform on the amount of the payments perceived by each farmer. In the countries having applied regionalisation, the effects on the redistribution of the payments were a major element taken into account to define the concrete methods of application of article 59. The management of a transitional stage was the second important concern, both in Germany and in England, in order to give time to the farmers to adapt their system of production to the new rules of distribution of the payments.

Behind the methods selected to enforce regionalisation, England and Germany propose each one a different conceiving for regionalisation, which are characterized by the control of the redistributive effects. In Germany, the objective is to reduce to the maximum the variations of premium allotted per hectare in different Länder, and inside the same Land, to harmonize the amount of the premiums paid for each hectare. In England, the choice of a zoning, specifically worked out for the enforcement of the reform, makes it possible to maintain the assets of the former distribution of the payments. It has as a consequence which the zones of plain get payments more than 8 times superior for the most disadvantaged zones.

In fact, it is noted that the mode of application of regionalisation conditions the importance of the redistributive effects. According to the results of a study, carried out for the Department for Environment, Rood and Rural Affairs (DEFRA) of the United Kingdom, 13% of the total of decoupled payments would be transferred from losers to winners. Losers are the farmers from the dairy, granivores, cereal and mixed sectors. Winners are the extensive breeding of the disadvantaged zones (DEFRA 2004). The choices of Germany come explicitly within the scope of a redistributive policy with the profit of a less intensive agriculture. The estimations produced by Kleinhanss et al. 2005, quantify with more than 20% the share of the payments transferred (except sugar) at the end of the reform. Comparatively with the English situation, this egalitarian logic can be interpreted like a voluntarist policy in favour of the disadvantaged zones.

[3] The enforcement of the reform led to putting a ceiling to surfaces opening entitlements to these new payments, to limit the perverse effects induced of these new transfers, and therefore to introduce new quotas.

Effect of the reform on land market and land price

The enforcement of the CAP reforms of 1992 and 1999 had for consequence to closely link the payments to the land, that it was a factor of increasing the demand for land, and consequently increasing the land price. It is generally assumed that the level of the income of the farmers has an impact on land values because a share of the farm income is capitalised into the price of land (OCDE 2002). The last CAP reform does not remove the link to the land to get direct payment, since a farmer must have eligible hectares for the use of payment entitlements. This CAP reform has not for consequence to increase the global income support to farmers. By the mechanisms of the initial linear reduction to the benefit of the National Reserve, and of the reduction by modulation for measures under Rural Development Programming, the cut in the direct payment for a farmer whose situation remains unchanged lies between 5% and 8%. The impacts of the reform on farm income are uncertain. The economic simulations done in France and in the United Kingdom gave contradictory results. In France, it is generally considered that the average income per farm will decrease following the enforcement of the reform. For the Chamber of Agriculture, the cut of the average farm income would lie between 10% to 15%, according to the sectors (Chambre d'agriculture 2004). According to the simulations done by the INRA researchers, the average farm income would be stabilised (or with a low increase), but the average income per hectare would decrease (Sourie et al. 2003; Veysset et al. 2005). In the United Kingdom, the simulations asked by the Ministry of Agriculture from different Universities gave results that the DERFA synthesizes as "an increase in UK farm incomes, which represents about 3% to 5% of 2003 total income from farming" (DERFA 2004). We cannot assume that the reform will lead to a large increase of the average farm income: consequently, it is not for this reason that it could lead to an increase of land price.

In the countries enforcing regionalisation, like England and Germany, the redistributive effects of the reform could have an impact on the distribution of farm income and consequently on the distribution of land rent. In the regions where the direct payments per hectare will decrease, it is probable that the demand for purchasing land will decrease and probably consequently the land value. The opposite phenomenon could be observed in the regions where the direct payments will increase.

In the countries as England, which chose the regionalisation of the single payment scheme, the attribution of entitlements was made to all the farmers exploiting eligible hectares the day of the installation of the system of payment, on May 15, 2005. There is thus equality between the numbers of distributed entitlements and numbers of eligible hectares. "The scope for trading entitlement separately from land is very limited because nearly all agricultural land will be covered by entitlement. Effectively therefore, land and entitlement will be traded together." (DERFA 2004). However, the foreseeable fall of the agricultural surfaces for other uses, can involve a situation where a part of the entitlements would not find eligible surfaces to be used. It could follow a competition for the access to cultivable agricultural lands, and thus a rise of the price of these lands. It is what one observes in Italy where the number of entitlements is higher than the numbers of eligible hectares. In France, the number of entitlements is slightly lower (approximately 2%) than the number of eligible hectares, which can be at the origin of a market of the entitlements independent of the land market. But the strong tax on the transfers of entitlements without land is an obstacle for the existence of such a market. It is probable that land and entitlement will be traded together: it is likely to have a slack demand for the land without entitlements, whose price could decrease.

Otherwise, the cut of the direct payments will involve the research of the decrease of the production costs and thus the search for additional profits of productivity, which can pass by an individual strategy of enlarging the surfaces of the farm, and an increased competition on the land market.

The decoupling of the payments can encourage the old farmers to remain formally in activity for keeping the benefit of the payments. In this case, there would be a reduction of the supply on land market, which would cause an increased land pressure and an upward trend of the prices. This retention of the offer by the former farmers (one can think firstly of those which do not have children to succeed to them) can only reinforce the difficulties of installation of the young farmers (Bazin, Levesque 2005).

CONCLUSION

If the prospects concerning the effect of this reform still remain very uncertain, the expiry date 2013 seems a decisive stage, which should lead to new in-depth reform (Kroll 2004). Without that being always fully clarified, it seems that the orientations drawn by the Commission, namely the evolution towards a total decoupling, with uniform payments per hectare, with

a reinforcement of the transfers towards the second pillar appear inescapable. It is besides the rule which was applied for the countries which integrated the European Union in May 2004. In this direction, the German and English choices appear as those which best anticipate the evolutions to come.

The need for the politicians and agricultural professional persons in charge as well as possible to justify the agricultural payments in the opinion of the citizens and tax-payers, with the clear conscience that it is not any more the productive activity which can bring this justification, reinforces an evolution in this direction. Facing the risks of cut in the agricultural budget of the EU, the historical entitlements appear much more difficult to defend than a uniform "regionalised" payment per hectare; in the same way, the payments of the second pillar appear easier to argue than those of the first pillar.

Beyond a tactical argument to justify the payments, the calling into question of the productive function, like justification of the agricultural activity, with the profit of the environmental or territorial amenities related to this activity is accompanied in fact by the calling into question of a fundamental principle of the CAP, that of the community preference[4], adopted in the context of the cold war, with divided Germany, and where the French agricultural potentialities were to make it possible to ensure the security of the food supply of the 6 countries founders of the European Union. Why Italy, Germany, the United Kingdom, in deficit for agricultural and food produce, would support French production, if Brazil, Argentina or the News Zealand can supply them at lower cost?

However, the only territorial and environmental functions of agriculture alone do not justify direct payments of about € 330 per hectare as in France or in Germany. Since the payments are decoupled from any productive activity, and are justified by the supply of specific amenities, the question of the rebalancing of the entitlements between the countries and the regions arises immediately: it is indeed difficult to assert that the environmental or landscape amenities produced by the farmers of the Parisian Basin deserve better remuneration than those produced by the farmers of Tuscany, the Peloponnese or Andalusia... The maintenance of direct payments is essential for the maintenance of the agricultural activity and the productive potential, without what, in an unstable and conflict world, food crises are foreseeable.

Compared to all these questions, that the reforms in progress are not possible to apprehend, there remains a probable solution, the re-nationalization, even that of the regionalisation of the policies of support for the activity of production, which the regulation of 2003 and the practices observed implicitly show. The CAP would evolve then to a Common Policy of the Environment and Regional planning (second pillar), while the economic policies for the management of the markets and risks would be responsibility for the States or regions.

REFERENCES

Bazin G., Levesque R. (2005): La nouvelle PAC et le coût du foncier agricole. Etudes foncières, (113): 17–21.

Boinon J.P, Kroll J.C, Lépicier D., Leseigneur A, Viallon J.B. (2006): La mise en śuvre des DPU et de l'article 69 dans les Etats membre de l'Union Européenne Ministère de l'Agriculture. ENESAD, Dijon, *71* (2): 71–111.

CAAV (The Central Association of Agricultural Valuers) (2005). Mid Term Review a Valuer's Second Interim Guide. Colrford CAAV, No. 180, dec, 176 p.

Chambre d'Agriculture (2004). PAC, une réforme en profondeur. No. 930, pp. 9–64, mars.

Council of the European Union (2002). Brussels European Council 24 and 25 October 2002. Presidency Conclusions, 22 p.

DEFRA (2004), CAP single payment scheme: basis for allocation of entitlement. Impacts of the scheme to be adopted in England. Available on http://www.defra.gov.ik/farm/capreform/backgroundpdf/webnoterev16.pdf

European Union (2003). Council Regulation (EC) No 1782/2003 of 29 September 2003. 111 p.

European Commission (2005). Prospects for agricultural markets and income in the EU-25 2005–2012. 115 p.

Frascarelli A. (2005): Valutazioneed effetti delle scelteatzionali delle riforma Fischler della Pac. XLII convegno annuale Sidea, Pisa 22–24 settembre 2005, 29 p.

Garcia Alvarez Coque J.M. (2006): La reforma de la Politica Agraria Comun, EUMEDIA-MAPYA.

Kleinhanss W., Hüttel S., Offermann F. (2004): Auswirkungen des MTR-Beschlüsse und ihrer

[4] This means that EU agricultural products are given preference and a price advantage over imported products; also, the protection of the internal market from products imported from third countries at low prices and from considerable fluctuations in the world market.

nationalen Umsetzung. Studie im Auftrag des Bundesministeriums für Verbraucherschutz, Ernährung und Landwirtschaft, 38 p.

Kroll J.C. (2004): La réforme de juin 2003ou la fin d'une Politique Agricole Commune européenne. Revue OCL, *11* (3), mai-juin. John Libbey Eurotext.

Ministerio de Agricultura, Pesca y Alimentacion (2004). El Modelo de desarrollo y aplicacion de la reforma de la Pac en Espana. 30 p.

OCDE (2002). The incidence and income transfer efficiency of farm support measures. 36 p.

Sourie J.C., Millet G., Guinde L., Wepierre A.S. (2003): La révision à mi-parcours de la PAC (juin 2003) et les exploitations céréalières des régions intermediaries. INRA Sciences Sociales La réforme de la politique agricole commune de juin 2003, Paris, 10 décembre.

Veysset P., Bebin D., Lherm M. (2005): Adaptation to Agenda 2000 (CAP reform) and optimisation of the farming system of French suckler cattle farms in the Charolais area: a model-based study. Agricultural Systems, (83): 179–202.

Arrived on 11th January 2007

Contact address:

Jean-Pierre Boinon, Jean-Christophe Kroll, Denis Lepicier, André Leseigneur, Jean-Baptiste Viallon, ENESAD, 26 Bd du Docteur Petitjean, BP 87999 F21079 Dijon Cedex, France
tel.: +333 807 72 547, e-mail: jp.boinon@enesad.fr