

RESEARCH IN ECONOMICS AND RURAL SOCIOLOGY

**CAP Health Check, decoupling and livestock in less favoured areas**

*On November 20<sup>th</sup> 2008, as part of the CAP Health Check, the Farm Council adopted several rules modifying implementation of the CAP. In the form of questions and answers, this paper focuses on the implications of the changes related to the increased decoupling of farm income support measures for the French farms located in less favoured areas and specialized in herbivorous productions (dairy cows, beef, sheep and goats). In France, if maintaining the coupling of the suckler cow premium and ewe premium is often seen as quite a positive short-term gain, it is worth thinking about alternative intervention tools which could be preferred in future to encourage livestock activities in less favoured areas on both environmental and territorial accounts. This reflection is all the more necessary since the CAP is highly concerned by the post-2013 E.U. budgetary perspectives and since the legitimacy of public agricultural support is still open to debate.*

**Do the decisions of the CAP Health Check mark a break for French agriculture?**

For two decades, the Common Agricultural Policy (CAP) has been the subject of a continuous reform process, under the dual influence of internal problems and external pressures in the framework of the World Trade Organization (WTO) multilateral negotiations. In the sectors of cereals, beef and sheep, the 1992 and 1999 reforms resulted in a drop in the guaranteed prices compensated by direct payments to farmers. These payments were attributed to the unit of production factor (hectare or head of cattle) with the setting of individual or collective ceilings. Within the framework of the 2003 reform, the Community authorities applied the same logic to the dairy sector, with the attribution of direct payments allotted per ton of milk quota. They chiefly decided to modify the rules granting direct payments in order to implement the so-called principle of the decoupling of farm-income support measures. The objective was to dissociate the amount of subsidies from production decisions (type and scale of products). In this way, the CAP mechanisms

became more compatible with one of the commitments made at the Uruguay Round Agreement on Agriculture (URAA), that which reduces the amounts of internal support having distorting effects on trade. The adoption of decoupling has consequently led (in France, since 2006) to the implementation of the Single Payment Scheme (SPS), some of the applications being left to the discretion of the Member States (Guyomard et al. 2007). The three last reforms of the CAP, then, followed a twofold logic: reduction of support through prices and compensation of income losses through direct aid which is increasingly disconnected from choices and levels of choices of products (decoupling processes): simultaneously, the transfer of a part of this direct aid, the so-called First Pillar, towards the Second Pillar (modulation process) targeted on the adaptation of structures, protection of the environment, quality of products and the contribution of agriculture to the development of rural territories.

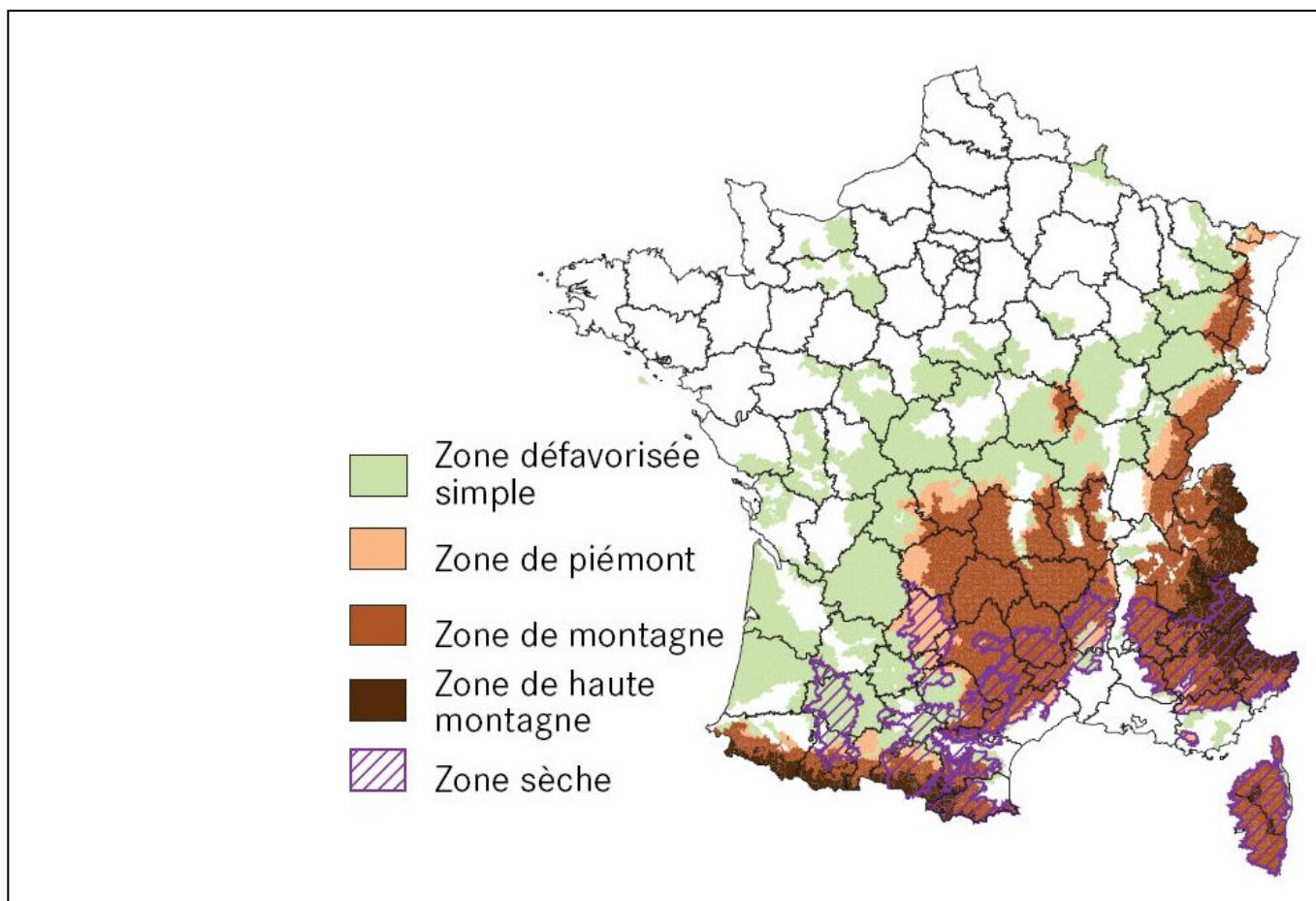
On November 20, 2008, within the framework of the Health Check, the European Farm Council decided on several modifications relating to CAP

mechanisms. The measures adopted mainly cover four parts.

**An increase in the decoupling rate:** From 2012, the results of the CAP Health Check provide for the compulsory introduction of the full decoupling of all direct aid, with the exception of the suckler cow premium (SCP) and the ewe and she-goat premium (EGP). The 2003 CAP reform authorized the Member States to maintain the coupling of some of the direct aid granted until then to the hectare or the head of cattle (process of partial coupling). In France, direct aid was still coupled in the case of arable cropping (cereal crops, oilseeds and pulses) up to 25%, in the case of animal production up to 100% for the SCP and the calf slaughter premium (CSP), 40% for the adult beef slaughter premium and 50% for the ewe and she-goat premium. The French choice was justified by the political will to maintain stockbreeding activity in the less favoured areas (“mountain” areas - high

mountain, mountain and Piedmont - and other less favoured areas (OLFA) according to the Community directive of April 25, 1975; see map 1). Fears were indeed expressed as to the potential negative impacts of the full decoupling on the territorial balances, with the French authorities fearing a transfer of production (mainly for the bovine and ovine sectors) from the less favoured areas towards the plains. In other countries, less diversified in productive and territorial terms, the question of decoupling intensity was considered as less crucial: in this way, from 2005, Ireland and the United Kingdom decided on the immediate application of full decoupling; Germany, Italy and Greece also retained the full decoupling principle with the exception of the seed sector or of other specific cropping; but Austria, Belgium and the Netherlands also applied partial decoupling, mainly to the benefit of seed and animal productions.

**Map 1. Less favoured areas in France**



Source : French Ministry of Agriculture and Fischery

***A fall and a reorientation of the First Pillar funds:*** The modulation rate of the CAP First Pillar aid will shift from 5% in 2008 to 10% in 2012. The funds deducted will be used through the Second Pillar for the “new challenges”: climate change, renewable energies, biodiversity and water management (according to non-specified mechanisms). They will also be used to finance innovation in the four environmental fields defined above and accompany the exit of the dairy quotas. Moreover, the Member States will have the possibility of referring to article 68 of the new Community rule which allows the countries to deduct 10% of direct aid from the First Pillar to reallocate them to five objectives: 1) environment, quality and marketing of products; 2) compensation of geographical or sectoral handicaps; 3) increase in payments decoupled per hectare in the areas at risk of agricultural abandonment (decline); 4) coverage of part of the insurance premium against risks in the large cropping sector; 5) participation in mutualized funds to combat animal and plant diseases.

Moreover, article 64 allows the Member States to re-use all or part of the funds resulting from increased decoupling in a given sector to finance another sector. The concrete instructions for use of this “tool box” remain to be specified.

***An invitation to better standardization of the amount of the single payment per hectare:*** In France like in lots of countries or regions, the Single Payment (SP) per farm was calculated on the basis of the “historical” model. For each farm, the SP amount corresponds to the direct aid (coupled with production factors) received during the 2000-2002 reference period. To activate the SP (activation constraint), the farmer must own or rent a number of hectares at least equal to the number of Rights for Single Payment (RSP). The farmer is not obliged to produce in order to benefit from the SP, but must observe several directives and rules and keep the lands in good agricultural and environmental conditions (GAEC) (conditionality constraint). By construction, the historical model freezes the distribution of the budgetary supports between farms. In other Member States, the type of decoupling is different. In Denmark, Northern Ireland and Luxembourg, a “static hybrid” model with one sole area was maintained: the amount of the single payment is calculated, for one part

on an historical basis, for the other one on the basis of a standard amount per hectare. The model used in Sweden is of the same type but distinguishes three areas. In Germany, a dynamic hybrid model was chosen at each Land scale: at that level, the SP amount per hectare will be identical for all farms after several years of transition. In England, the orientation is comparable, distinguishing three regions. These freedoms of implementation of the decoupling model, associated with national choices which are differentiated for partial re-coupling or application of the 2<sup>nd</sup> Pillar contribute to making the CAP a less and less common and more and more “a la carte” policy, thereby making it weaker. In this context, the Health Check invites, without any obligation, the Member States having kept the historic model to progressively adopt a more standardized SP mechanism between farm categories. This suggestion aims to answer the criticism that it will be more and more difficult to justify the granting of budgetary support to farms on the sole basis of their past structural situations. But the standardization of the SP amounts per hectare does not break the proportionality between the amount of decoupled aid received by a farm, and its size measured in hectares. More generally, following the agreement of November 20, the question of the legitimization of the SP system remains unresolved.

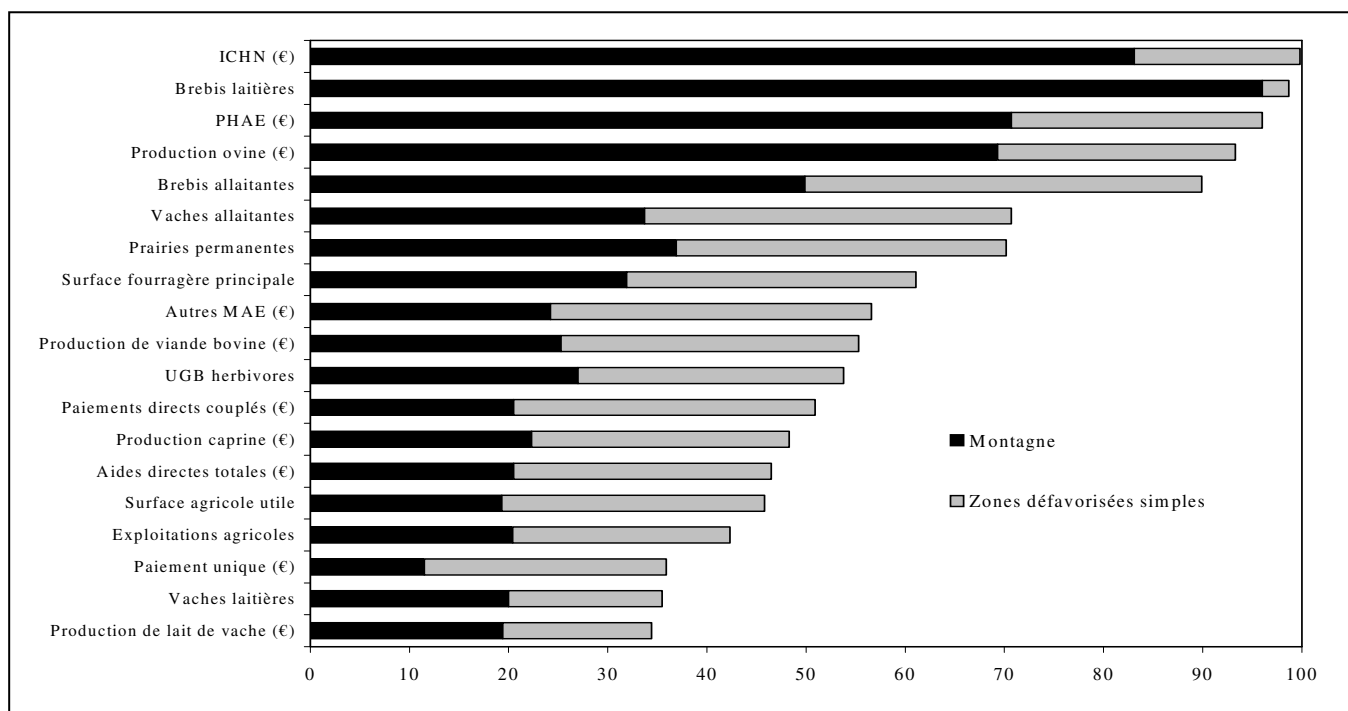
***The abolition of the dairy quota system from 2015:*** In order to achieve this progressively, the European dairy quota will be increased by 1% per year from 2009. This change in Common market organisation will certainly have an impact on the localization and the dynamics of dairy farms such as downstream processing firms. In France, after 25 years of dairy quotas, the questions raised by that decision are all the more important in that the management mode of the quotas is specific (free rights to produce, free allocation of the quantities “released” to “priority” farmers, strong link between the quota and the land, administrative management of the offer at department level, and so on.) and that the less favoured areas contribute, in a fairly substantial way, to the national milk offer.

So the decisions of November 20, 2008 which, after 1992, 1999 and 2003 represent an additional step in the adaptation of the CAP, leave substantial room for manoeuvre to the

Member States in terms of implementation. There is no doubt that the Community “tool box” will be the subject of fierce debate in the coming months. In France more than in any other Member State, this new adjustment of the CAP poses a problem. It is mainly due to the fact that

France is less advanced in the reform process (historic model, partial decoupling, major role of the State in the management of the milk offer, and so on.) and that it covers a range of productive and territorial situations.

**Figure 1: Contribution of the mountainous and ordinary less favoured areas to French agriculture (%)**



Source: RICA France 2006 / Treatment INRA SAE2 Nantes

## 2. Is French herbivorous livestock strategic and specific?

A few figures are enough to show the importance of French herbivorous livestock in the less favoured areas from the productive, environmental, territorial and social viewpoints.

According to the 2007 structure survey, metropolitan France has 507,000 farms, among which a little less than two thirds are “professional”. These farms provide 90% of farming jobs, operate 92% of the Utilised Agricultural Area (UAA) and provide 95% of all agricultural production. Among all the professional farms identified in the RICA (French part of the EU Farm Accountancy Data Network), 58% are concerned by herbivore activities. Among these 200,000 professional farms with herbivorous cattle, a little more than half are located in less favoured areas.

In France, the less favoured areas account for 40% of the 99,100 national dairy farms (24% in the mountainous areas and 14% in OLFA), 68% of the 82,700 beef farms (34% in the mountainous areas and 34% in OLFA) and 81% of the ovine/caprine units (53% in the mountainous areas and 20% in OLFA); they total 71% of the national surface area of permanent meadows, that is to say 38% in the mountainous areas and 33% in OLFA. In the mountain areas, 87% of units are reoriented towards herbivore production, that is to say 40% in beef, 33% in dairy cows and 13% in sheep and/or goats. Out of a little under a fifth of the national farm territory, the mountain areas have the third of the suckler cows, half of the suckler ewes and almost all milk ewes. They receive 11% of the national SP, and 21% of the direct aid that was still coupled at the end of the 2003 CAP reform. They are particularly concerned by the Second Pillar direct support because they get 70% of the Agri-Environmental Grass Premium (AEGP) and

83% of the Compensatory Allowance for Natural Handicaps (CANH). Herbivorous livestock is just as important in the OLFA. With a quarter of the agricultural territory, 25% of the AEGP and

17% of the CANH, these territories account for 37% of the suckler cows and 40% of the suckler ewes (see figure 1).

**Table 1. Structural characteristics and the economic results of the French herbivore farms**

	Bovine-Milk				Bovine-meat				Ovine-Caprine			
	M*	OLF A**	Plain	Total	M*	OLF A**	Plain	Total	M*	OLF A**	Plain	Total
<b>Number of farms</b>	23,400	13,900	61,800	99,100	27,700	27,700	27,400	82,700	9,400	4,900	3,400	17,700
<b>Global AWU</b>	1.68	1.97	1.90	1.86	1.37	1.49	1.54	1.47	1.48	1.46	1.74	1.52
<b>UAA (ha)</b>	72	119	86	87	84	104	90	93	82	86	68	80
<b>- among MFA%</b>	84%	61%	59%	64%	76%	71%	47%	65%	59%	56%	32%	54%
<b>Dairy quotas (kg)</b>	191,100	276,000	272,100	253,500	0	0	0	0	0	0	0	0
<b>Dairy quotas (kg per AWU)</b>	113,800	140,100	143,200	136,300	0	0	0	0	0	0	0	0
<b>Herbivore livestock unit</b>	66	97	86	83	78	94	71	81	68	71	41	63
<b>Herbivore livestock unit/ ha MFA</b>	1.09	1.33	1.70	1.47	1.21	1.27	1.69	1.34	1.39	1.46	1.87	1.46
<b>Production+Direct Aids (€)</b>	120,800	194,700	190,400	174,600	99,500	129,600	159,000	129,300	91,900	100,000	126,700	100,800
<b>Production+Aids / AWU (€)</b>	71,900	98,800	100,200	93,900	72,600	87,000	103,300	87,900	62,100	68,500	72,800	66,300
<b>GOS (€)</b>	50,100	73,300	73,200	67,700	44,900	54,900	59,000	52,900	39,400	34,800	44,100	39,100
<b>GOS / Production+Aids (%)</b>	41%	38%	38%	39%	45%	42%	37%	41%	43%	35%	35%	39%
<b>FFI (€)</b>	24,000	35,700	36,700	33,600	24,400	30,000	32,200	28,900	18,000	16,200	24,000	18,600
<b>FFI / Family AWU(€)</b>	15,200	20,500	21,400	19,900	19,100	22,700	23,700	21,900	13,000	11,800	18,100	13,600

(\*) M=mountain; (\*\*) OLFA=ordinary less favoured areas

AWU: agricultural work unit; UAA:used agricultural area ;

MFA:main fodder area; GOS:gross operating surplus; FFI: Family Farm Income

Source : RICA (French FADN) France 2006 / Treatment INRA SAE2 Nantes

The structural characteristics and economic results of the professional units of herbivorous livestock according to production type (dairy cows, beef and sheep) and localisation (mountain areas, OLFA and plains) are presented from the French RICA data, for 2006, (see tables 1 and 2). The analysis first shows that, whatever their localisation, the ovine and/or caprine farms have far lower incomes than their colleagues

specialised in dairy cows or cattle do. In relation to the family agricultural work unit (AWU), the difference is only slightly lower. The economic results of the dairy units are comparable in OLFA and plains: in OLFA, the greater size compensates for the lower stocking density; by contrast, the economic results of the mountain dairy units are far lower than that of their counterparts, the result of a smaller dimension

and stocking density which are not compensated for by a greater amount of direct aid per hectare. The observation is identical for cattle farms: economic results which are comparable in OLFA and the plains, much higher than in the mountains where a greater amount of direct aid per hectare is not sufficient to compensate for smaller size and stocking density; if the cattle farms of the OLFA manage to show incomes close to those of the units on the plains, it is due to the fact that their size and the levels of direct aid per hectare compensate for the difference in stocking density. By contrast, the OLFA ovine/caprine farms appear to be closer to their colleagues located in the mountains (similar size, stocking density and incomes) than to their counterparts on the plains, which, though far smaller, have a significantly higher stocking density and much higher incomes.

### **3. How would shifting to full decoupling modify the structure of direct support in the LFA?**

On national average, the amount of direct aid per farm (decoupled, coupled or 2<sup>nd</sup> Pillar) comes to 33,600 euros for the dairy cow type, 39,800 for the beef type and 27,700 euros for the sheep and/or goat type. This amount is higher in the farms located in the OLFA compared with the plains and even higher in the mountains where the size of the structures is usually smaller (with the exception of the ovine/caprine units); it has tended to rise over the years because of the farms' restructuring which is expressed by their drop in number, their growth in size and the simultaneous increase in direct support. For all the categories of herbivore farms, the weight of direct aid in the formation of Family Farm Income (FFI) is very high, from a minimum of 92% (ovine/caprine units of the plains) to a maximum of 180% (ovine/caprine units of the OLFA). This implies that it is difficult, not to say impossible, to consider a drastic and immediate reduction of the budgetary support allocated to the herbivorous livestock farms, whatever their orientation and their location, without condemning them.

The breakdown of the "direct aid" item shows the specific importance of the SP compared with other categories of direct aid (see table 2). For the three types of production, the SP of the mountain farms is far lower than that of their

counterparts in the other two areas. Conversely, they profit from significantly higher 2<sup>nd</sup> Pillar direct aid than the OLFA units and especially those of the plains. The analysis also shows the major weight of the still-coupled direct aid in cattle farms compared with sheep/goat units and above all dairy ones: at national level, the coupled direct aid represents 53% of the FFI in cattle against 28% in sheep/goat production and 16% in milk production.

The accounting effects of two changes in decoupling are analysed, in relation to the recent compromise of the CAP Health check (see table 3). Compared with the present situation (partial decoupling) assumption H1 only maintains the SCP and the EP (ewe premium) while assumption 2 supposes full decoupling of all the First Pillar direct aid. These two developments are implemented on the basis of the historic model and with a constant budget: so they do not modify the individual incomes but only their structure. By assumption, the weight of the SP in direct aid as a whole increases more extensively under assumption H2 compared with H1. The structure of the budgetary support in the mountain units will only be slightly affected in assumption H1, which maintains the prime importance of coupled aid and 2<sup>nd</sup> Pillar payments in the formation of the incomes of these entities. In assumption H2, the structure of the budgetary support of the cattle farms, and to a lesser extent of the ovine and caprine ones, would be profoundly modified: the SP, which currently represents 42% of the income of mountain cattle units, would be equal to this income under assumption H2; this ratio would increase from 38 to 65% for the ovine/caprine units and from 46 to 57% for the dairy farms. The OLFA herbivorous livestock units obey the same rule, from an initial situation where the SP weight is initially higher.

### **4. How has production developed in the less favoured areas since the application of partial decoupling?**

The introduction of partial decoupling did not result in an abandonment of ruminant production in less favoured areas, for several reasons (Chatellier and Delattre 2006): 1) the possibilities of substitution between agricultural productions are often limited, particularly in the mountains; 2) the 2<sup>nd</sup> Pillar supports, very

important in these areas (see table 2), are, for some of them at least, connected to the stocking-density criteria expressed in livestock units per hectare; and 3) the SP amount per farm remains rather low compared to the fixed costs

considered as incompressible in the short term (particularly capital loans repayment), which limits the potential interest of the farmers in no longer producing agricultural goods while continuing to benefit from the SP.

**Table 2. The amount of direct aid in French herbivore farms**

	Bovine-Milk				Bovine-Meat				Ovine-Caprine			
	M*	OLF A**	Plain	Total	M*	OLF A**	Plain	Total	M*	OLF A**	Plain	Total
<b>Direct aid (€)</b>	27,100	40,500	34,500	33,600	38,500	43,800	37,200	39,800	29,000	29,100	22,200	27,700
<b>- First Pillar</b>	13,600	35,500	31,900	28,100	24,400	33,600	33,900	30,700	11,700	20,600	18,800	15,500
<b>- Single payment</b>	11,000	28,800	25,700	22,700	10,300	16,300	19,300	15,300	6,900	13,900	14,200	10,200
<b>- Coupled aid</b>	2,600	6,700	6,200	5,400	14,100	17,300	14,600	15,400	4,800	6,700	4,600	5,300
<b>- Second Pillar</b>	13,500	5,000	2,600	5,500	14,100	10,200	3,300	9,100	17,300	8,500	3,400	12,200
<b>- CANH</b>	7,400	700	0	1,800	6,200	2,400	0	2,900	8,700	2,200	0	5,200
<b>- AEGP</b>	2,300	700	100	700	2,500	1,300	100	300	1,900	800	200	300
<b>- other AEM</b>	1,000	1,800	1,000	1,100	1,300	2,100	1,200	1,600	1,800	2,000	1,000	1,700
<b>- other aid</b>	2,800	1,800	1,500	1,900	4,100	4,400	2,000	3,300	4,900	3,500	2,200	4,000
<b>Direct aid / AWU (€)</b>	16,200	20,600	18,200	18,100	28,100	29,400	24,100	27,100	19,600	19,900	12,700	18,200
<b>Direct aid / ha of UAA (€)</b>	379	340	401	385	457	423	412	430	353	339	325	344
<b>Direct aid / FFI (%)</b>	113%	113%	94%	100%	158%	146%	115%	138%	161%	180%	92%	149%

(\*) M=mountain; (\*\*) OLFA=ordinary less favoured areas

CANH: compensatory allowance for natural handicap;

AEGP: agro-environmental grass premium; AEM: agro-environmental measures;

Source : RICA (French FADN) France2006 / Treatment INRA SAE2 Nantes

In the meat beef sector, keeping the SCP coupled was a response to the will to maintain beef production in the less favoured areas within a regional productive specialisation mainly based on “calf rearing” activities: units of this type, dominant in the mountain areas, produce male beef mainly for Italy and to a lesser extent for Spain. The 2003 reform being only really implemented in 2006, it is difficult today to measure its precise and quantitative impacts per area. The task is all the more complex in that

recent statistics are incomplete and other major factors have quite certainly influenced the developments of 2007 and 2008: 1) the ovine catarrhal fever (OCF) which disrupted the beef meat trade; 2) the retention of dairy cows in order to increase milk production in a context of rising prices (end of 2007 and beginning of 2008); 3) the increase in arable cropping rates (2007 and first semester of 2008), then their drop at the end of spring 2008. Moreover, an analysis of the partial coupling effects on the suckler cow



livestock should be placed in a longer term dynamic. After a high increase for almost 15 years after the implementation of the dairy quotas in 1984 which, in a manner of speaking, freed fodder areas, the French suckler cow livestock now fluctuates around 4.2 million heads: it dropped from 2001 to 2004 when it reached a bottom level of 4.04 million heads,

after the introduction of stricter criteria for granting additional aid to extensive livestock. It increased in 2005 and 2006 in a context marked by the decoupling of the supplementary extensification aid of the SCP and the rise in beef meat prices, particularly in 2006; according to the latest available statistics (June 2008), it is today equal to 4.20 million heads.

**Table 3. The amount of direct aids and of MFA according to three assumptions of decoupling**

	Bovine-Milk				Bovine-Meat				Ovine-Caprine			
	M*	OLF A**	Plain	Total	M*	OLF A**	Plain	Total	M*	OLF A**	Plain	Total
<b>Number of MFA</b>	67	114	82	83	77	98	85	87	74	80	63	74
<b>Partial Coupling (present situation)</b>												
<b>MFA per farm (€)</b>	11,000	28,800	25,700	22,700	10,300	16,300	19,300	15,300	6,900	13,900	14,200	10,200
<b>MFA in % direct aid</b>	41%	71%	74%	67%	27%	37%	52%	38%	24%	48%	64%	37%
<b>MFA in % of income</b>	46%	81%	70%	68%	42%	54%	60%	53%	38%	86%	59%	55%
<b>MFA per hectare</b>	166	252	314	274	135	166	227	177	93	174	225	139
<b>Coupling limited to SCP and EP (H1)</b>												
<b>MFA per farm</b>	12,500	34,600	31,200	27,300	12,900	20,900	25,600	19,800	7,600	16,700	17,500	12,000
<b>MFA in % of direct aid</b>	46%	85%	90%	81%	33%	48%	69%	50%	26%	57%	79%	43%
<b>MFA in % of income</b>	52%	97%	85%	81%	53%	70%	80%	69%	42%	103%	73%	65%
<b>MFA per hectare</b>	188	302	382	330	168	213	302	229	102	208	278	163
<b>Full decoupling (H2)</b>												
<b>MFA per farm</b>	13,600	35,500	31,900	28,100	24,400	33,700	33,900	30,700	11,700	20,700	18,700	15,500
<b>MFA in % direct aid</b>	50%	88%	92%	84%	63%	77%	91%	77%	40%	71%	85%	56%
<b>MFA in % of income</b>	57%	99%	87%	84%	100%	112%	105%	106%	65%	128%	78%	83%
<b>MFA per hectare</b>	205	311	390	340	319	343	399	354	157	257	298	210

(\*) M=mountain; (\*\*) OLFA=ordinary less favoured areas  
MFA: main fodder area; SCP: suckler cow premium; EP: ewe premium;

Source : RICA (French FADN) France 2006 / Treatment INRA SAE2 Nantes

In the ovine sector, the coupling of the EP did not help curb the long-term downward trend of the number of suckler ewes (from 5.6 million heads in 1995 to 4.2 million heads in 2007). In 2007 alone, this livestock fell by 3.8%, or the

equivalent of 170,000 heads. By contrast, the dairy ewe livestock (1.28 million heads) has been steady over the last ten years. Overall, the number of suckler and dairy ewes dropped by 10% over five years (2002 to 2007), the fall



being higher in Poitou-Charentes (-15%) and in Auvergne (-16%) than in Midi-Pyrénées (-6%).

In the dairy sector, the drop in cattle livestock (3.65 million heads in June 2008) is linked to the growth in milk output. The implementation of direct aid for tons of dairy quotas (Direct milk aid), quickly decoupled and integrated into the SP amount, had a very limited impact, or even none, on the development of milk production, including in the less favoured areas, because the dairy quotas are managed at the department level where the possibilities of substitution between productions are limited.

### **5. What lessons can be drawn from foreign experiments on the impact of full decoupling of animal premiums?**

Before examining the present developments in the other countries, let us note that the French decision to fully decouple the beef special premium (BSP) from 2006 has not led, at least so far, to any drop in the national production of young calves. While the global beef offer slightly reduced, that of the young calves slightly increased. Several factors, external to the logic of budgetary support, explain this positive trend: 1) from 2006, the OCF encouraged stockbreeders to fatten their young animals in a context of closing foreign markets; 2) the crisis in the veal sector following the milk powder price rise led some stockbreeders to fatten their male calves for a longer time; 3) producers' associations and slaughtering firms tried to improve the stockbreeders' loyalty through contracting in order to secure their supply.

**The suckler cow livestock.** Ireland, a country where beef production is 8 times higher than domestic consumption, opted as early as 2005 for decoupling of all the First Pillar direct aid on the basis of the historical model. The suckler cow livestock (1.17 million heads in June 2008) has decreased slightly over the last three years, around 1% per year, while it was steady between 1998 and 2005. In Germany, livestock has been stable since 2005 in a context marked, besides the decoupling of animal premiums since that time, by favourable prices for beef meat (particularly in 2006) and the establishment of grass premiums in the Eastern Länder. In the United Kingdom where the decoupling of First Pillar aid is also full and has been implemented

since 2005, the suckler cow livestock (1.66 million heads in June 2008) dropped at a rhythm of at least 2% per year.

**The ovine livestock.** The fall of the European reproducer stock of ewes and ewe lambs is part of a long term trend that the introduction of the decoupling did not modify. However, the drop in this livestock was particularly high in the Member States who adopted the EGP full decoupling, such as Ireland (-8% per year since 2004) or the United Kingdom (-1.3 million heads between 2005 and 2007).

**The milk cow livestock:** Under-achievement of the dairy quota these last two years in a lot of European countries, including France, is due to numerous interlinked factors: the rigidity of dairy quotas, the abandonment of production in favour of cereals, the health scares in the United Kingdom, and so on. The influence of the DMA decoupling was low, particularly in the less favoured areas where the possibilities of substitution between farm productions are limited. More generally, and in all the countries, the strategies of milk stock breeders will in future be more sensitive to the evolution of the quotas system and to the conditions required for contracting with the dairy firms than to the increase in the decoupling rate.

To sum up, analysis of other countries' experiences suggests that full decoupling of animal aid has had a negative impact on herbivorous cattle, especially on ovine herds. We must nevertheless be very cautious, particularly as we lack time for observation and statistics at the right (infra-regional) level.

### **6. In France, what would be the main regional effects of the implementation of full decoupling?**

The use of models defined at French regional scale helps assess the local impacts of full decoupling (Butault et al. 2005). The analysis is completed by monitoring of farm networks over a long period (Veysset et al. 2005).

In the suckler livestock area of the Grand Massif Central, the "producer"- type systems are dominant, the animal density per hectare low and the possibilities of substitution between productions reduced. For a constant level of

support, the risk of a reduction in the suckler cow livestock is low. In this area, the risk linked to full decoupling would instead be that of a transfer of suckler production from inefficient units, owned by elderly producers, towards the extension of more efficient farms in the hands of younger producers. In such a scheme the agricultural use of lands would be preserved since the farmer must mobilize a number of hectares equal to the number of SFP he has; furthermore, these areas would be maintained in the GAEC. In a longer term dynamic perspective, such a development might not be negative because, from a collective point of view, it would go hand in hand with an improvement in the average efficacy of the production units. However, there would be a fall in the number of farmers and farms in the territories where, even today, a large share of the active population is involved in farming activities. Moreover, the risk of abandonment of production, instead of a transfer between farms, is real in the case of full decoupling if the transfer occurs in a context of highly depressed beef prices, for example under the effect of an opening of the European borders within an “ambitious” WTO multilateral agreement or a “generous” bilateral agreement with the Mercosur countries (Gohin 2008; Guyomard and Le Mouél, 2008).

In the OLFA where cattle-breeding mixed farms are numerous, beef producers often have large surface areas. The risk of full decoupling of the cattle premiums would be that of a diversion from cattle breeding activity to cropping (reduction in workload), or even (but this seems more restrictive) to dairy activity in a context of a scheduled exit of the dairy quota system.

In the western intensive areas, cattle breeders mainly come under systems of calf “producers - fatteners/finishers of suckler cows” or “fattener/finisher of dairy calves”. The risk of full decoupling of cattle premiums resulting in a reduction in beef production is real, particularly in a context of high prices for arable cropping, of abandonment of dairy quotas and of steady milk prices. This hazard would chiefly affect beginners at the time when they select their productive specialization. Once this choice is made, it is more difficult to envisage productive re-orientation, chiefly because of the fixed costs of the loans contracted to finance the buildings.

Nevertheless, several factors would limit the reduction of stocking activity for cereals: the possible expansion of the cereal areas is modest; the cereal yields are lower than those of the competing areas; the high stocking density allows stock breeders to belong to networks offering advice, services and marketing; there are a lot of industrial facilities for cattle slaughtering and processing and volumes are requested to guarantee the profitability of these investments (though current restructuring and concentrations in this sector could result in a drop in prices if stock breeders do not react and improve their organization to balance the negotiating powers). The fall in the livestock of suckler cows and young calves in favour of dairy activity will first take place in the farms which today simultaneously have dairy and fattening units. In the case of suckler cow farms, the shift to dairy production is much more difficult since the possibility to produce milk will be determined by a contract with a dairy firm and because the difficulty of the work in dairy units is an additional, and powerful, obstacle to such a change.

In the areas specialized in cereal and oleaginous cropping, the impact of full decoupling of animal aid on French production of beef meat would be quantitatively limited in the sense that these areas contribute only slightly to the national offer. In the present context of full decoupling of the BSP, the maintenance and/or the extension of the fattening of young calves partly depends on the possibility of profiting, at an economically favourable price, from the by-products of the transformation of vegetable biomass into agro-fuels. Full decoupling of the SCP would have a negative impact on the size of the suckler livestock, with the farmer deciding on productive choices on the basis of a margin of the reduced suckling activity (because it does not include the SCP) compared with that of arable cropping. The shift of the present animal premiums to Second Pillar measures would not allow this downward development in the suckling livestock to be stopped because the bovine units in these areas would not profit much from such a re-orientation of the budgetary support.

## 7. How to take account of the less favoured areas in the CAP differently

In France, the herbivore units located in the less favoured areas (mountains and OLFA) play a major role, not only at the environmental (importance of the grass) and territorial levels, but also in terms of contribution to the national offer of sheep, beef meat and, to a lesser extent, milk. In this context, different from that of the other EU countries where stocking farms are much more located in the plains, it is legitimate that the French public authorities should be particularly careful about decoupling, all the more so since the agricultural policy tools decided at the national level, in particular the management modes of the rights with premium and dairy quotas, come for a large part under an objective of “balanced” distribution of production and of farms over the territory.

At present in the less favoured areas, the stock breeder’s income is made up of market revenue, decoupled aid (SP), coupled animal premiums and very often CANH, AEGP, and to a lesser extent, other budgetary support from the Second Pillar. Taking into account the diversity of the source of revenue, it is difficult to isolate the specific impact of such or such aid on the offer behaviour of farmers, even with use of modelling which can only be implemented within scenarios the results of which have to be interpreted in the light of the underlying assumptions. Therefore, the full decoupling effect of animal aid on the regional suckler cow livestock will be different according to the future of the dairy quotas (abandonment or maintenance), the cereal price level or the possible increase in the support granted to grass areas, and so on.

In the face of the potential consequences of full decoupling of animal premiums, farms in less favoured areas are in heterogeneous situations. Generally, full decoupling seems to be questioned more in the case of suckler cow and ewe breeders than milk producers. It would very likely lead to a drop in suckler cow and ewe livestock and of the meat production from these herds. The reduction of the offer would probably be greater in percentage in the OLFA compared with the mountains, where alternatives to breeding activity are fewer. A redistribution of the SP favourable to stock breeders, through modulation, articles 68 or 64 or an increased

standardization would check the decline of the red meat offer in the OLFA. A situation of high cereal and oilseed prices would have the same impact in mountain areas: the change to large cropping in plain areas and in OLFA would increase as the cereal and oilseed prices rise, due to a double mechanism: increased incentives to shift to large cropping on the one hand, and an increase in the cost of the animal feed on the other hand; mountain stock breeders also use cereals for animal feed, but to a lesser extent because of the importance of the grass in food intakes; furthermore, they would at least benefit from the firmness of red meat prices induced by the reduction of the national offer. Naturally, the analysis is only valid “all things being equal”, particularly for an unchanged protectionism at the community border: in the case of the reverse assumption of a high reduction in custom duties, of a significant rise in red meat imports and a reduction in their domestic prices, the decline of bovine and ovine meat would be clearly higher in every area, including in the mountains where the hazard of production abandonment and farm exits would then be real. The milk units are numerous in several mountainous massifs (Northern Alps, Auvergne and Jura). Most often, the weight of the coupled aid in their incomes is low, at all events far lower in relation to specialized meat beef farms. Their future mainly depends on the evolution of the milk price and on the future conditions of demand and supply in a context of the exit from the dairy quota system; it also depends on the potential gains as regards work productivity and the payment or not of additional specific support (for instance within the framework of the CAP Health Check on account of the additional modulation or of articles 68 and 64). As regards the “milk price” determinant, note that it will probably be difficult to accentuate the differential of the milk price in the mountains compared with the other areas since the strategies of differentiation through quality cheese chains are already widely used.

**The compromise of November 20 2008 does not change things for the long term.** The CAP arouses strong reservations at present, if not strong criticism, in terms of both objectives and the instruments used. In this way, the invitation by the Health Check to exchange the historical model of granting SP for a system of more standardized decoupled aid per hectare does not

settle the question of the objectives assigned to that tool; moreover such a change does not break the positive correlation between the size of a farm (measured in hectares) and the global amount of decoupled aid it gets. Restoring legitimacy to the CAP would require things to be done in order, first defining the objectives then determining the tools and the necessary means to satisfy them at a lower cost. The present distribution of the First Pillar aid, of the budgetary support in a more general way, is not satisfactory in many respects. That said, a more egalitarian distribution of payments should not be an objective in itself.

In France, more than in any other Member State, the full decoupling of the ovine and bovine premiums raises questions and even worries. Beyond the expressed fears, it is important to keep in mind that alternate mechanisms for attribution of public support - other than coupled aid per cattle head - may be imagined to prepare the post-2013 CAP. Support could go hand in hand with the supply of territorial and environmental public goods, while satisfying an objective of maintaining production in the less favoured areas. With unchanged market prices, it is possible to reproduce “the equivalent effect of coupled animal premiums” in terms of agricultural use of the area and volumes of animal produce, by shifting them, not in with the SP lot, but with aid of the CANH or AEGP type, since the granting of these, paid per hectare of fodder area, is conditioned by animal stocking criteria, thus by the effective presence of animals. Such an orientation would have the advantage of not blocking the farmer in a given productive choice by inciting him to take into account the market signals that prices are (particularly beef meat, sheep meat and milk). It would also allow better targeting of budgetary support to compensation of the natural handicaps and the supply of environmental and territorial amenities, a development that would be likely to re-legitimize the CAP in the French public opinion, but also in that of the other European Member States as in their governments, where the issue of the difficult/less favoured areas and extensive stock breeding do not have the same acuity.

## **Conclusion: What CAP after 2013?**

The distinction between the two pillars was useful in that it included the environment and the territory in the CAP. But should we not be questioning this utility, which forces countries to reason according to an excessively accounting logic: What am I going to lose in terms of budgetary return through re-orientation? Am I able to assure the national co-financing of a more ambitious Second Pillar? Furthermore there is a certain rationality that public goods such as the reduction in greenhouse gas emissions or the biodiversity preservation should fall under total community funding.

Concretely, in the post-2013 perspective, a progressive but scheduled shift towards a CAP favouring the following three levels of intervention should be examined (Guyomard et al., 2007):

### **At level 1, basic aid per hectare:**

This aid would be allotted to all the farmers mobilizing agricultural lands, including those who were not historically beneficiaries. Its amount should not exceed 100 Euros per hectare; it would be invariable according to areas, types of farms and even to their size. Its granting would be subject to the respect of the minimal environmental requirements defined at regional, if possible infraregional, level within a set of Community measures to choose from. Its link to surface areas would be justified because that aid would be paid in return for supplying minima services as regards the agricultural occupation of the area and environmental protection.

### **At level 2, additional and variable aid for environmental services provided beyond the minima levels of level 1:**

The system would be compulsory in the environmental areas to protect, voluntary in the ordinary environmental areas. In both cases, the mechanism would be contractual but long term (around ten years). It would concern environmental services (reduction of greenhouse gas emission, biodiversity preservation, protection of water resources, and so on.) on the one hand, and on the other hand services linked to spatial development in the less favoured areas (compensation for the additional costs due to

natural handicaps or for infrastructure deficits, open landscape production, and so on.). The contracts would be signed between farmers and public authorities, with the identification of indicators on which the latter will be able to rely in assessing the fulfilment of objectives.

**At level 3, the implementation of new public and private tools to mitigate the risks linked to the fluctuations of the market prices of farm produce.**

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