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## The CAP health check in France: a significant redistribution of payments?

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# CAP Health Check in France

A significant redistribution of budgetary payments ?

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OECD - Workshop

11 march 2010 - Paris



# Plan

## Introduction

1- The measures of the CAP Health Check

2- Tools and method of simulations

3- The consequences of the CAP Health Check

## Conclusion

# Introduction : CAP, a continuous process of reform

## ■ A decline in guaranteed prices

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

## ■ Direct subsidies are granted to farmers

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

## ■ Cross-compliance

- The obligation to comply with standards / guidelines

## ■ Transfer of direct aids in favour of the 2<sup>nd</sup> pillar

- By the way of the compulsory modulation

# Part 1 :

## The measures of the CAP Health Check



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

## ■ Less market intervention / regulation

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

## ■ A simplification of how subsidies are granted

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

## ■ A reorientation of aid towards new challenges

- Climate, water management, biofuels and biodiversity

## ■ An important place left to the principle of subsidiarity

# The Single Farm Payment (SFP) in France

## ■ Initial french choices as regards to the SFP

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

## ■ Modalities for transferring payment rights between farmers

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

# French application of the CAP Health Check

## ■ Modulation of direct payment (1<sup>st</sup> pillar of the CAP)

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

## ■ Article 68

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

## ■ Article 63

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



# The french application of the HC : redistribution of funds

## New support in favour of breeders

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

## Tools for risk management

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

## Consolidate the fragile production

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

## Support to sustainable productions

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

## Part 2 :

### The method to simulate the impacts the CAP Health Check



# The method used to simulate the Health check

## ■ Simulations applied to individual data from the french FADN

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

## ■ Subsidies and income variation

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

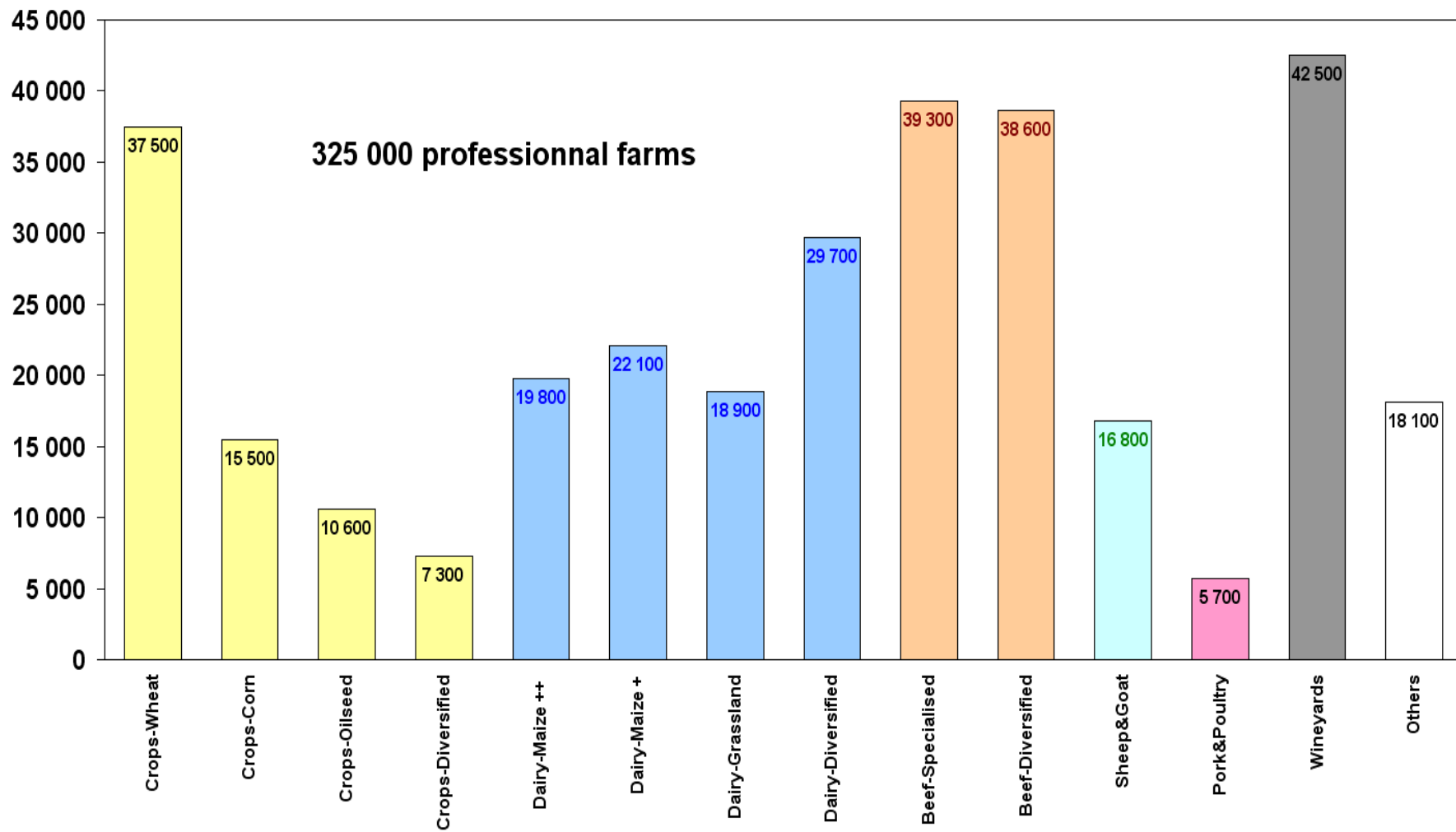
## ■ Some hypothesis were made to allocate the funds

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

## ■ Some collected funds are not redistributed

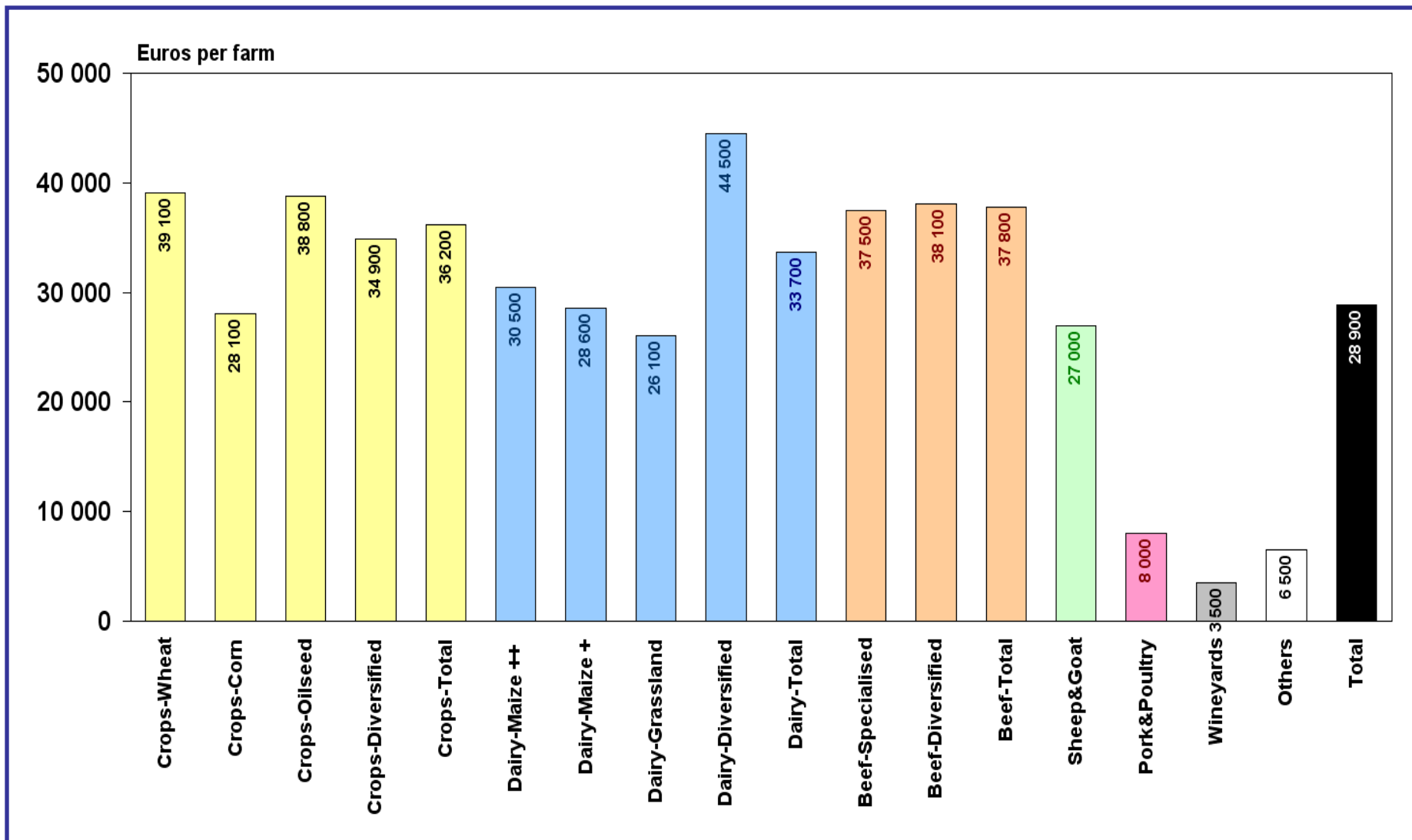
- Insurance : 100 million euros
- Sanitary funds : 40 millions euros
- New challenges : 32 millions euros
- *PHAE* : it is not a new premium

# Number of professional farms in France

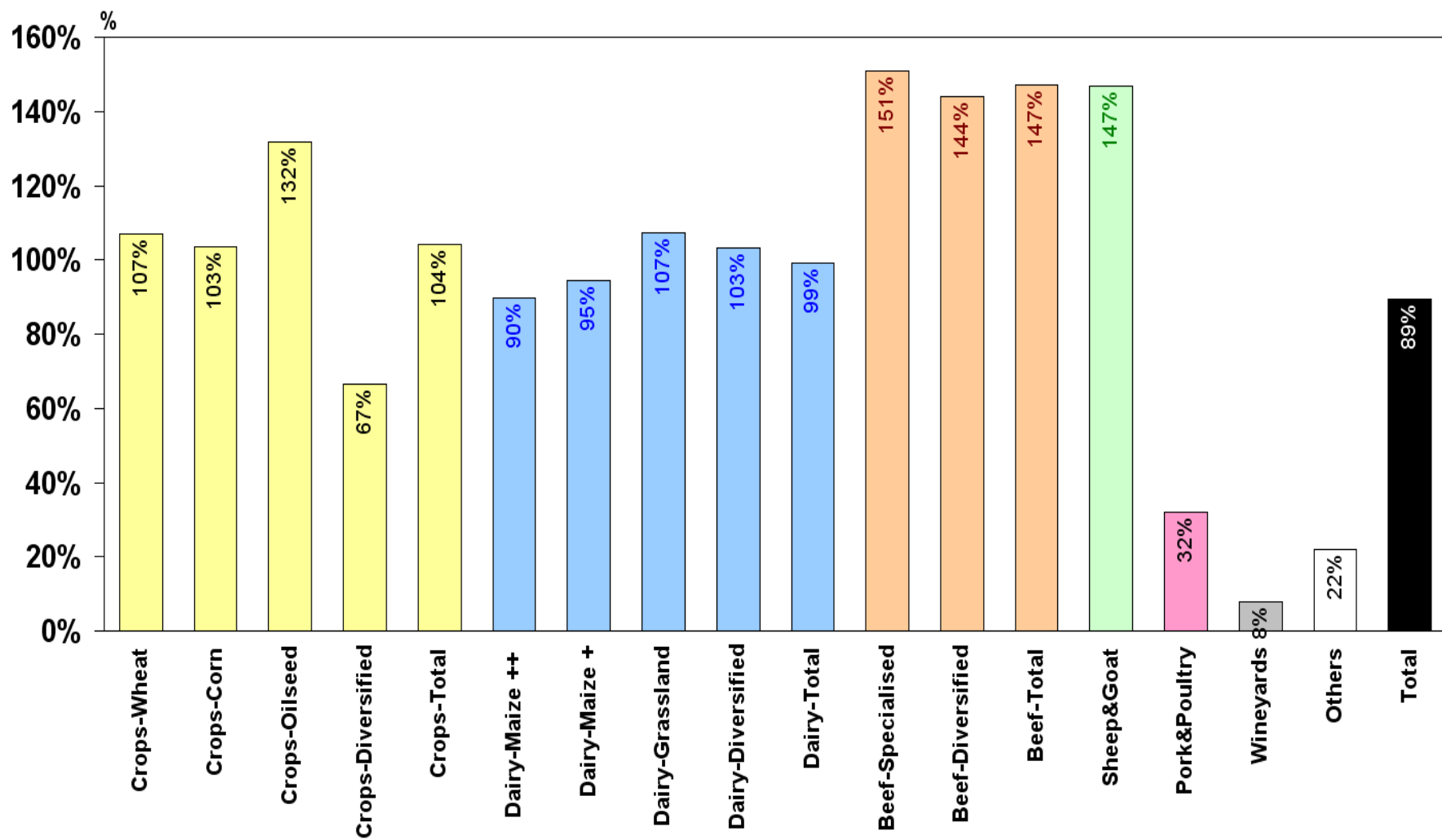


Agreste-RICA 2007 / Traitement INRA SAE2 Nantes

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



# Subsidies / Farm Income 2003-2007 (%)

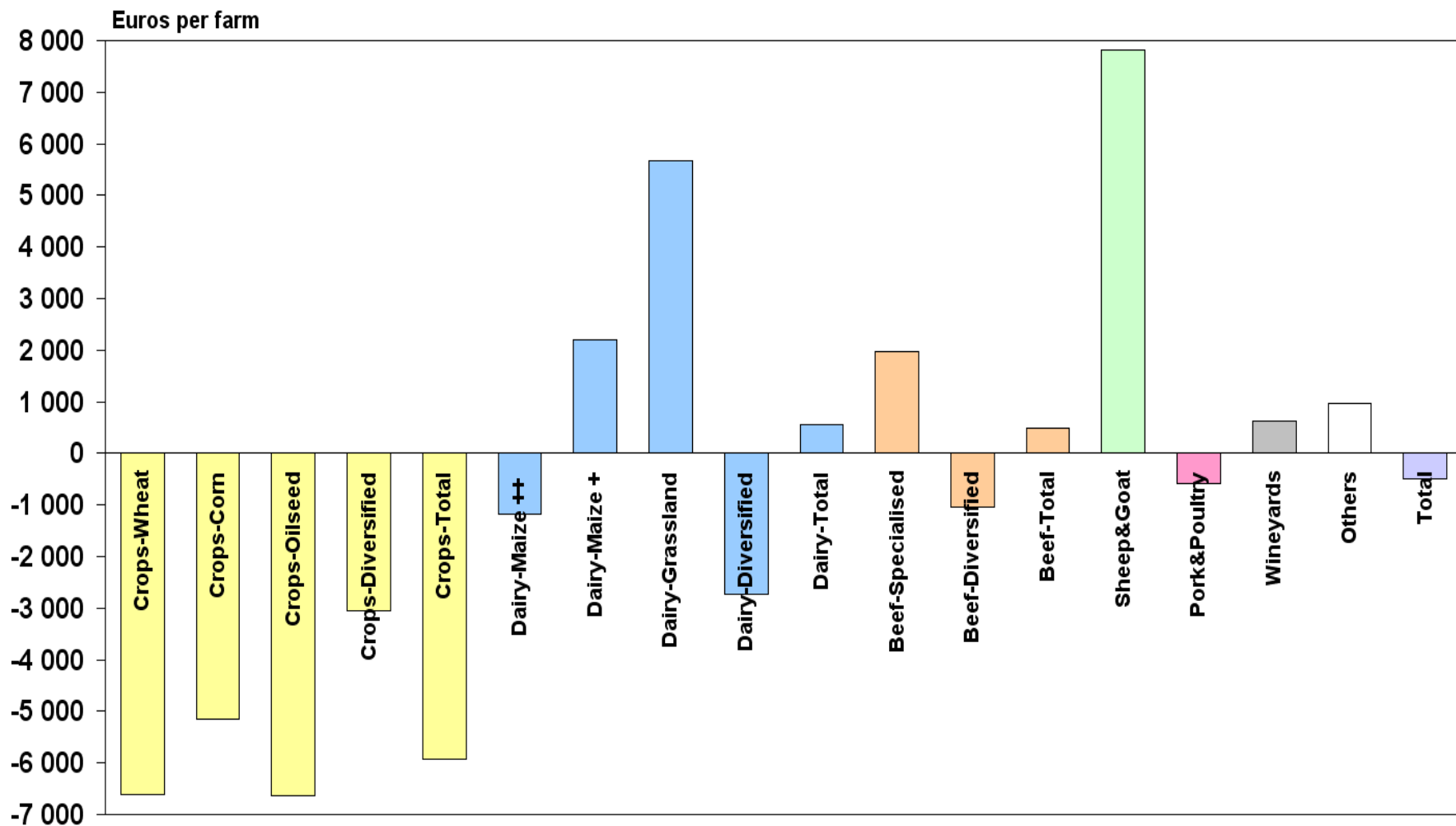


## Part 3 :

### The consequences of the CAP Health Check in France

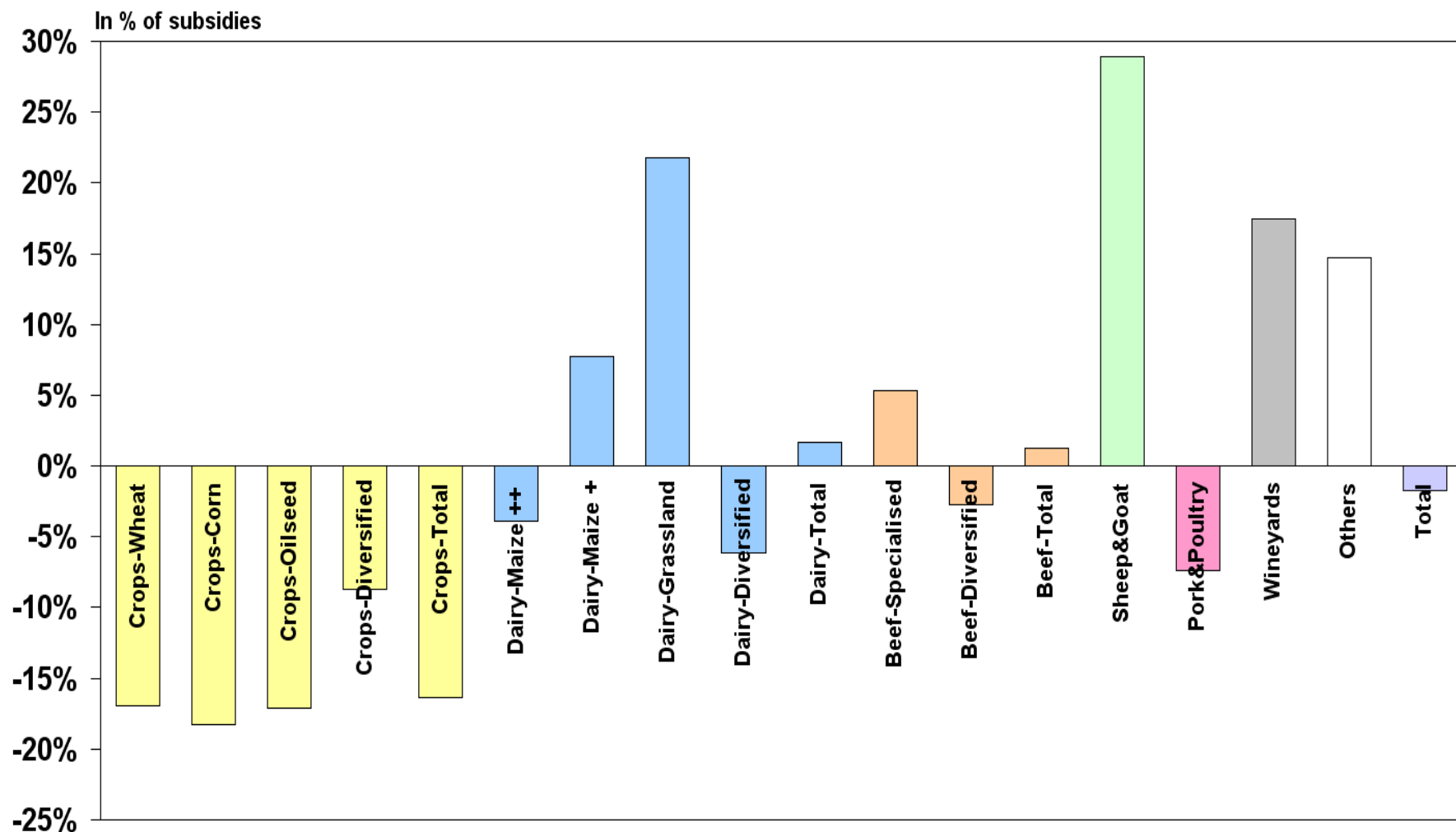


# Impact of the CAP HC by types of production (euros per farm)

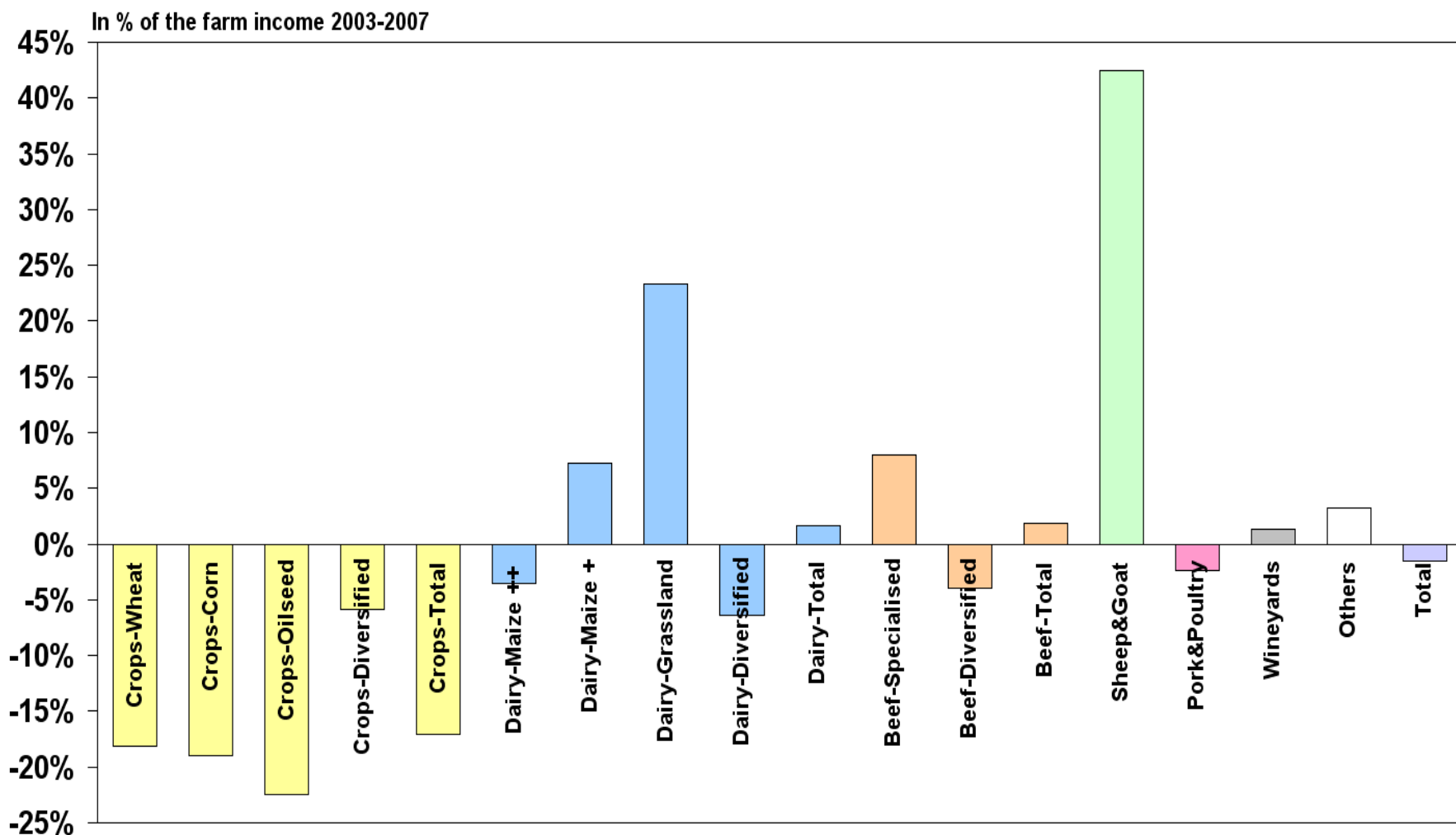




# Impact of the CAP HC by types of production (% of subsidies)



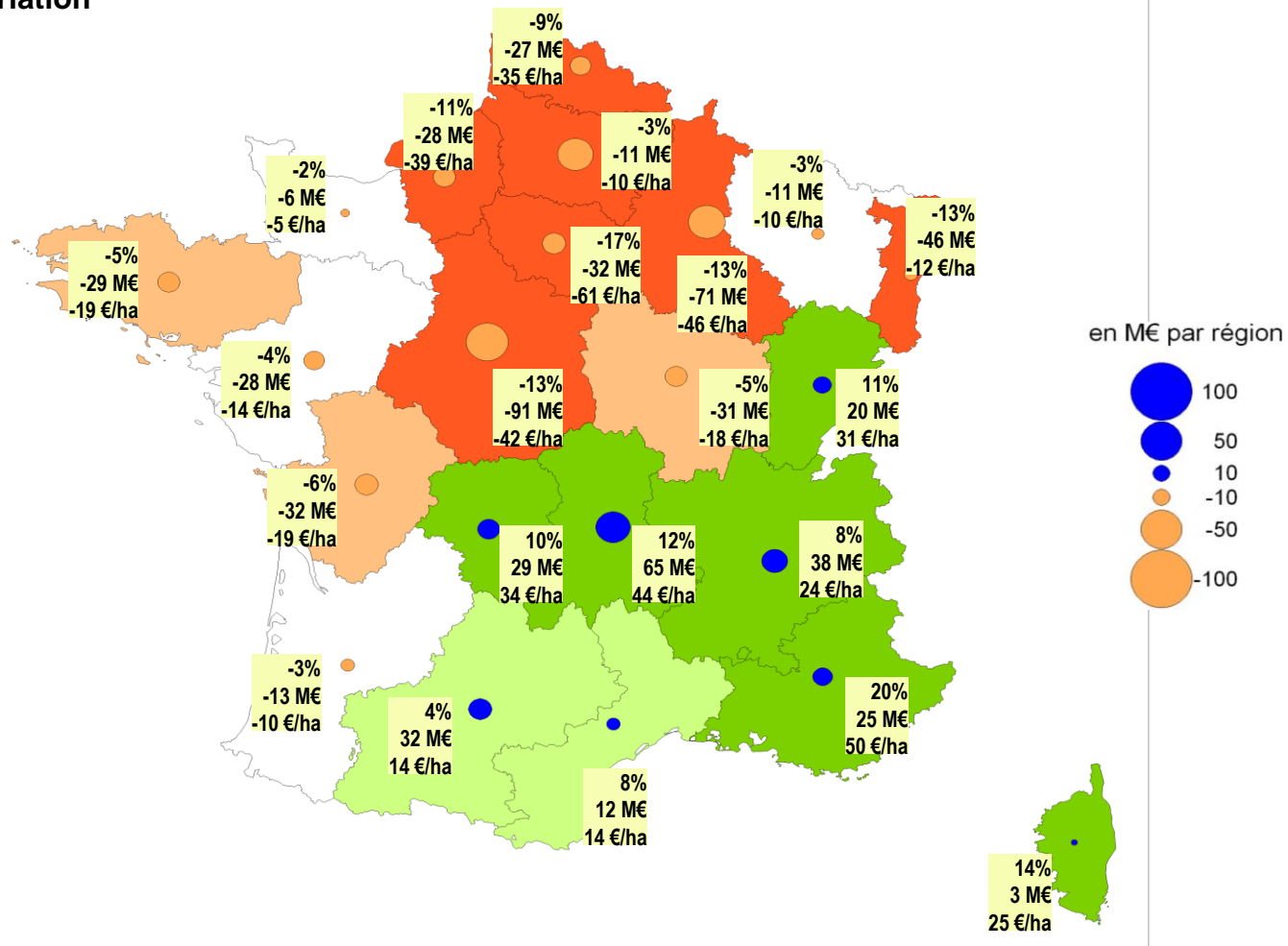
# Impact of the CAP HC by types of production (% of income)



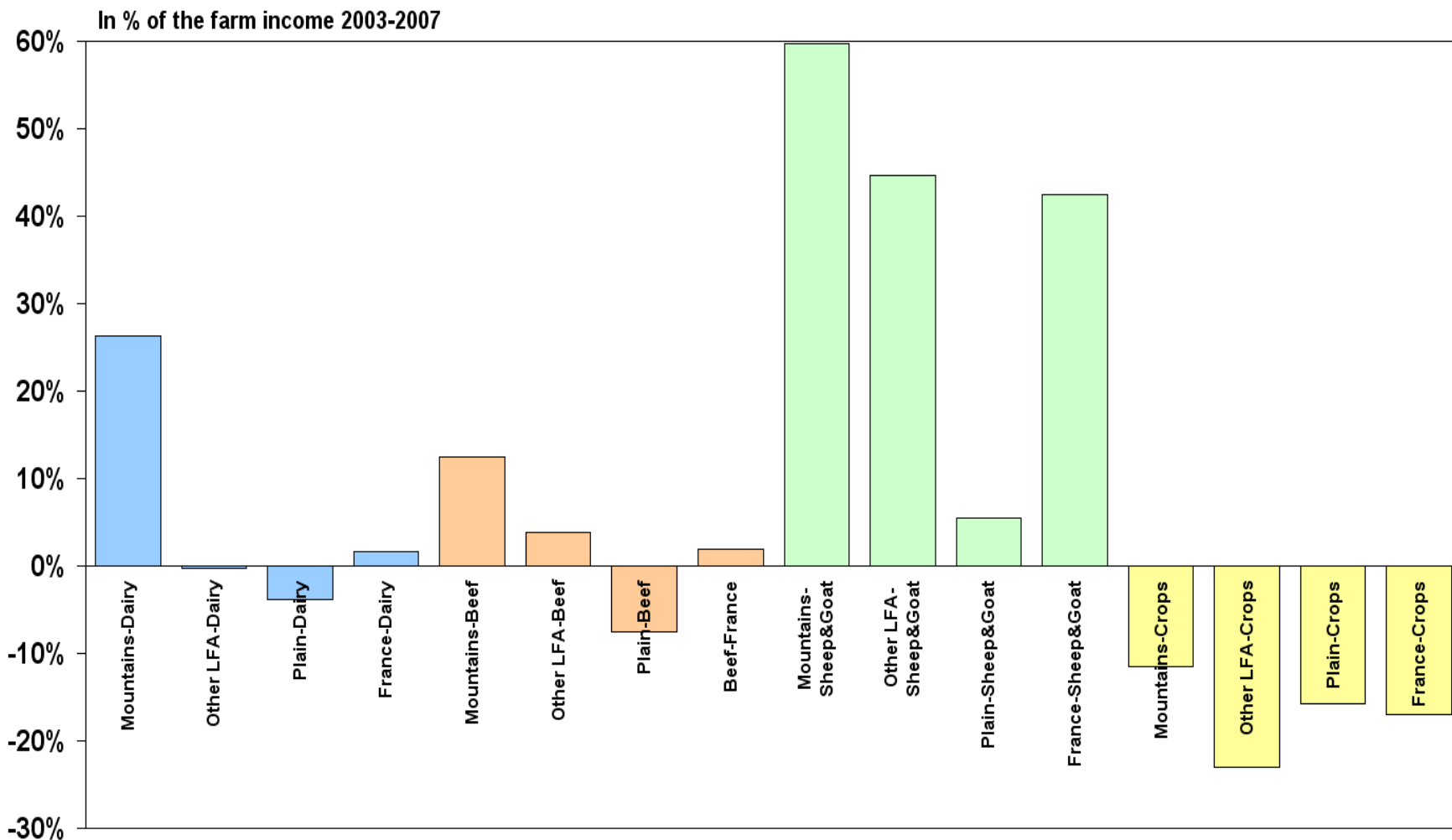
# Impact of the CAP Health Check by region (subsidies)

## Subsidies variation

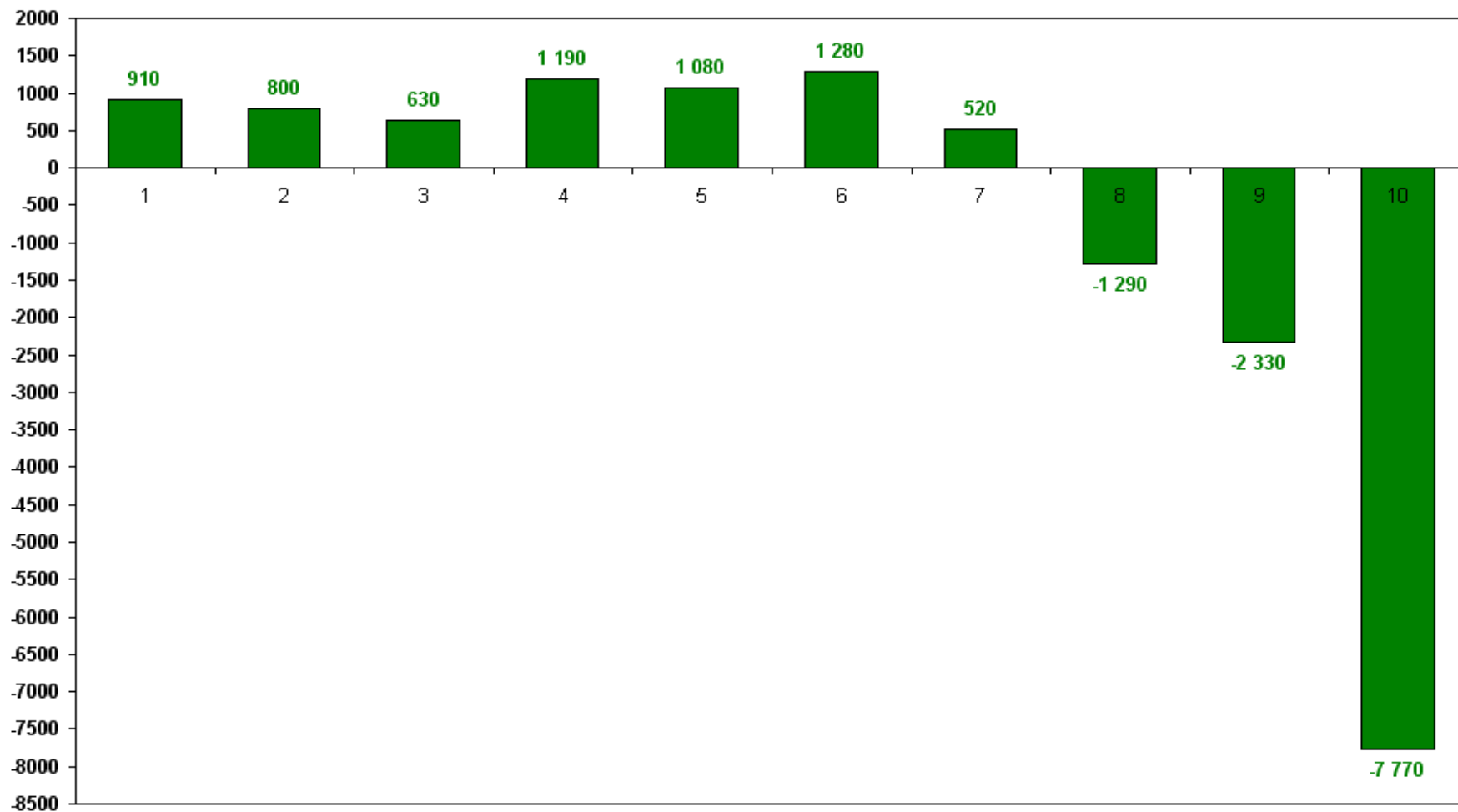
- >+8%
- +4/+8%
- -4/+4%
- -4/-8%
- >-8%



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

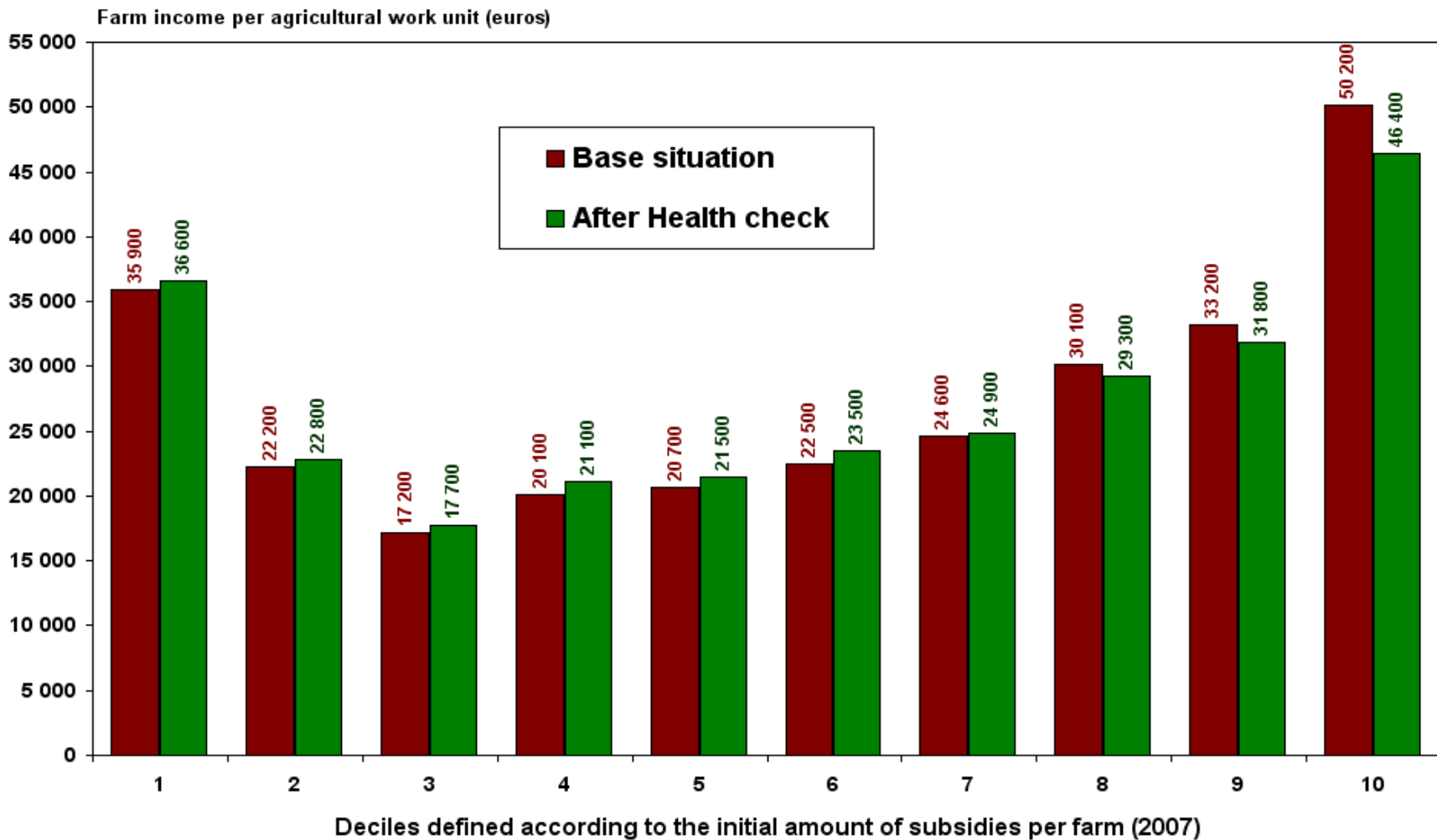


# Impact according to decile of direct subsidies per farm (€)

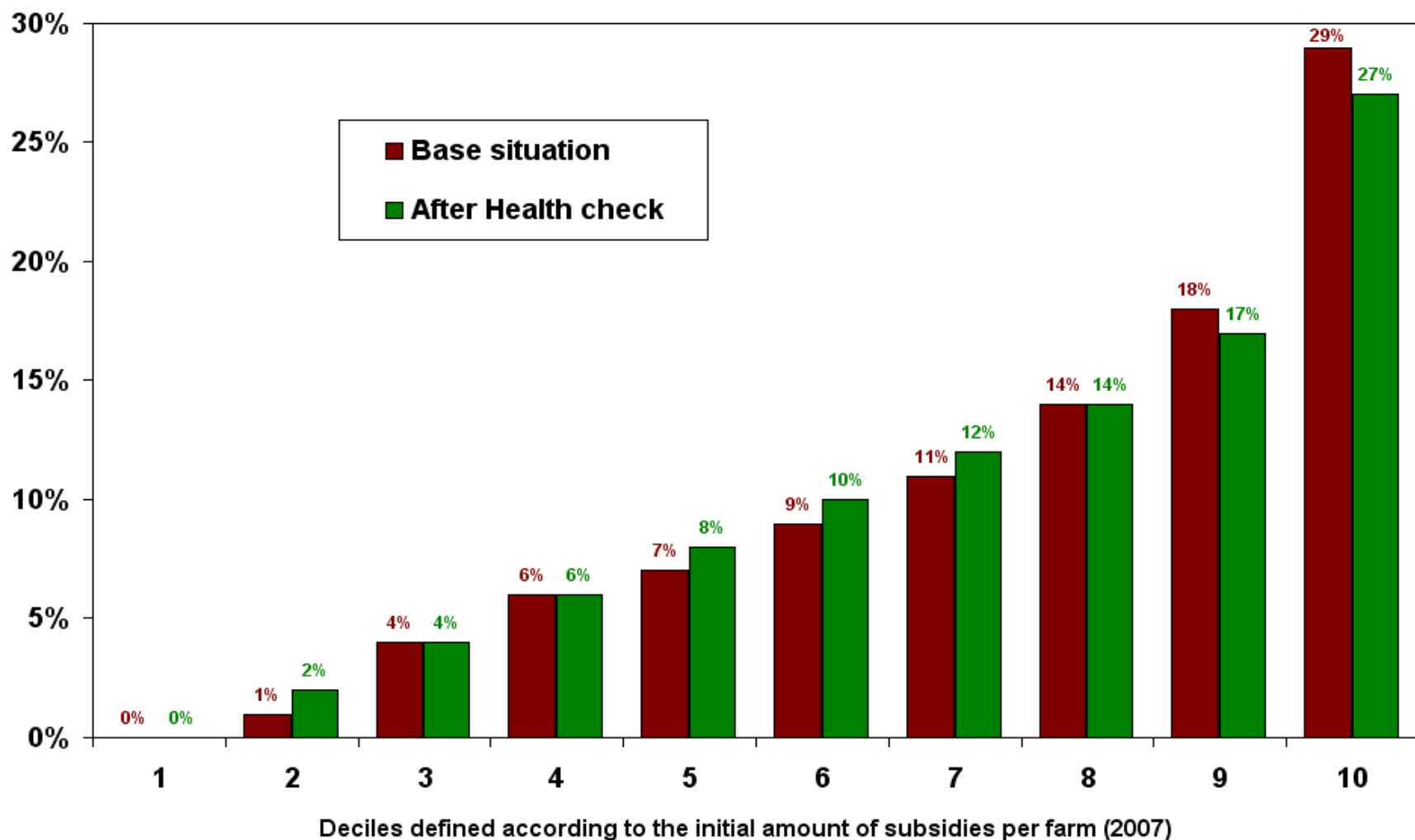


Deciles defined according to the initial amount of subsidies per farm (2007)

# Impact on the farm income per agricultural work unit



# Impact on the concentration of subsidies



## Some discussions on the french HC reform

### ■ French decisions aim of achieving multiple objectives

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

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

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

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

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



# Conclusion



# Conclusion

## ● ■ Is the legitimacy of direct aids strengthened ?

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

## ■ CAP 2013 : many questions are raised

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



