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## Le financement et l'efficacité des dépenses à l'agriculture

Vincent Chatellier

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NOTE

## Policy Department Structural and Cohesion Policies

# THE FINANCING AND EFFECTIVENESS OF AGRICULTURAL EXPENDITURE

PROVISIONAL VERSION

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AGRICULTURE

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2008

EN





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**Directorate General for Internal Policies of the Union**

## **Policy Department B: Structural and Cohesion Policies**

**AGRICULTURE AND RURAL DEVELOPMENT**

# **THE FINANCING AND EFFECTIVENESS OF AGRICULTURAL EXPENDITURE**

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The financing and effectiveness of agricultural expenditure

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## **Executive summary**

This text presents a critical analysis on the financial and effectiveness of public expenditure allocated to European agriculture. It deals with the proposals made by the European Commission under the health check of the Common Agricultural Policy (CAP). To provide some answers to the questions raised by his interlocutors, the author draws on his analysis of agricultural policy, his knowledge of French agriculture and simulations applied to the French Farm Accountancy Data Network (FADN).

The first part deals with the model of farm support. After recalling the good efficiency of previous CAP reforms to control agricultural expenditure, it presents how the decoupling is applied in various EU member states. Then, it discusses the reasons why it is more difficult to apply a full decoupling in the bovine and ovine sectors than for vegetal ones. Finally, it discusses the potential impact of a greater uniformity of the single payment per hectare.

The second part deals with the role, present and future, of the various intervention instruments of the CAP. It shows, first, that public intervention in agriculture is justified because of the agricultural markets volatilities and of the externalities (both positive and negative). It then discusses how the various intervention instruments (guaranteed prices, coupled and decoupled payments, storage, customs duties, quotas, risk management) have evolved and will have to play a role in the future CAP. It stresses the following points: the decrease of institutional prices has offered in certain sectors, the possibility to reduce export refunds and to accept in better conditions the decreasing of customs duties; the protection of the European agricultural market by customs duties remains necessary, especially in the beef sector ; the use of storage (public or private) in agricultural products could mitigate price fluctuations, but it would require a collective effort between WTO members; the abolition of milk quotas, added to the total decoupling in the milk sector, can have some consequences on the territory in a country like France (some specific measures for disadvantaged areas will be probably necessary).

The third part and the conclusion invite to change substantially the terms of the CAP support in a long term (after 2015). They indicate that the main challenge is not first to reduce the level of support to agriculture but to find a new way for more legitimacy. The segmentation between the first and second pillar could be modified, as well as the issue of the modalities of co-financing. The proposal to allow member states to move towards a flatter rate of the single payment scheme, the Article 69 and the modulation are temporarily useful before 2015. They do not, however, sufficient to legitimate decoupled support over the long term. It is therefore important that direct payments become more directly related to environmental and territorial services. It would also be helpful to limit the amount of direct payments by farm, with taking the employment into account.

## Acronyms

<b>AAUR</b>	Agricultural Agreement on Uruguay Round
<b>AMS</b>	Aggregate Measurement of Support
<b>AWU</b>	Agricultural Work Unit
<b>CAP</b>	Common Agricultural Policy
<b>CMO</b>	Common Market Organisation
<b>EAGGF</b>	European Agricultural Guarantee and Guidance Fund
<b>ESU</b>	Economic Size Unit
<b>EU</b>	European Union
<b>FADN</b>	Farm Accountancy Data Network
<b>FFI</b>	Family Farm Income
<b>LFA</b>	Less Favoured Area
<b>NMS</b>	New Member States
<b>SGM</b>	Standard Gross Margin
<b>SPS</b>	Single Payment Scheme
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>WTO</b>	World Trade Organisation

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## Introduction

European agriculture has benefited, during a half-century, of a Common Agricultural Policy (CAP). The CAP was designed to ensure security of supply for consumers, to modernize agriculture, to support farmers' incomes and, more recently, to take better account of certain societal concerns related to the environment, biodiversity and animal welfare. To accomplish these objectives, the CAP is based on three main principles: i) the unity of the markets, which means the implementation of common rules among member states, the adoption of identical institutional prices and the establishment of a uniform customs tariff on the external borders of the European Union (EU); ii) Community preference inducing member states to purchase food products as a priority in a partner country (by the taxation of imports); iii) the financial solidarity which implies that agricultural spending of the CAP should be shared in common.

Even if the CAP is already old, it is still a subject of much debate, often controversial, both internationally and in the various EU member states. In addition to the many questions raised about the role that agriculture plays in society (in terms of jobs, environment, product quality, food independence, technological changes, etc.), the debate on the future of the CAP currently arises in a context marked by:

- The proposals made in November 2007 by the European Commission to the Parliament and to the Council on the health check of the CAP. In the continuity of the three previous CAP reforms (1992, 1999 and 2003), these proposals concern the evolution of decoupling device, the reorientation of the support towards rural development and the end of milk quotas in 2014-2015 (European Commission, 2007).
- The potential revision of the EU budget in 2009. In accordance with the decisions taken under the British presidency, the EU authorities will be able to make an amendment of EU financial perspectives for the period 2009-2013. Given the rising price of agricultural products (mainly cereals and dairy) and due to the important proportion of agricultural expenditure in the EU budget, it is likely that some member states will require a decrease in support of the CAP.
- The multilateral WTO negotiations. Committed in 2001, the negotiations of the Doha round have not yet been completed at the beginning of 2008. In the agricultural sector, they cover three main areas, namely, domestic support, market access and export competition.

In response to a request made by the European Parliament (Workshop of the commissions COBU / COMAGRI), this note summarises a reflection on the future of CAP support instruments<sup>1</sup>. By focusing sometimes on the French case, it is organized around the following sections: the model of farm support, the role of markets regulation instruments, the financing of the CAP and some arguments for the next CAP reform.

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<sup>1</sup> The opinions expressed in this document are the sole responsibility of the author. The author has been asked to express a critical analysis based on his knowledge of the subject and his experience of the French agricultural policy. The note was therefore not prepared according to conventional standards of a scientific article. For more information about my work, see the following website: [www.nantes.inra.fr/content/download/1754/24229/file/CV-VChatellier.pdf](http://www.nantes.inra.fr/content/download/1754/24229/file/CV-VChatellier.pdf).

I want to thank Hervé Guyomard (Research Director at INRA Rennes). Some arguments written in this note are also developed in some joint publications (see bibliography).

## 1. The model of farm support

This first part proposes, first, an analysis of the main trends of the budgetary support granted for European and French agriculture. It shows, then, the strong diversity of national approaches to deal with decoupling. Finally, it discusses the future development of the decoupling system, considering the two following questions: should we adopt a full decoupling for all agricultural products? Should we align the model of the single payment scheme (SPS) between all Member States?

### 1.1. Support for European and French agriculture

According to the OECD estimates (Organisation for Economic Co-operation and Development), the EU supports its agriculture to a higher level than other developed countries (such as Australia, New Zealand or, to a lesser extent, Canada and the United States), and of course that many developing countries. Over the past twenty years, support for farmers in EU has decreased as a percentage of the value of agricultural production (support calculated by adding to the budget, the estimated effects of internal market protection by tariffs). If the market price support has sharply fallen (in favour of direct payments to producers, increasingly disconnected volumes of products), it still represents an essential component of certain goods, including sugar, beef and milk.

The budgetary expenditures granted to agriculture grew at a rapid pace until 1992, date of the first major reform of the CAP (Butault, 2004)<sup>2</sup>. For several years, they are relatively stable in real terms. The cost of the CAP decreased from 0.54% of the gross domestic product in 1990 to 0.44% in 2005. Due to several factors, the control of expenses is better: the instruments to control supply (milk quotas and compulsory set-aside) permit to limit surpluses; direct payments have been granted with ceilings by member state, region or producer; the Agricultural Agreement of the Uruguay Round (URAA) and the fall in agricultural prices in the EU have led to a substantial reduction of aids to exports; the public interventions on markets have become more restrictive.

In 2007, EU expenditure of the CAP have been 55 billion euros, of which 80% belong to the first pillar (support measures of agricultural markets), and 20% belong to the rural development. Around 80% of the first pillar is composed by direct aid allocated to agricultural producers. The arable sector captures 44% of the first pillar expenditures, i.e. a higher proportion than for beef (20%), milk (6%), olive oil (5%), sugar (4%), ovine (4%), fruits and vegetables (4%), wine (2%) and tobacco (2%).

The breakdown of the CAP budget between EU member states is carried out according to the principle of financial solidarity. Countries which specialized in certain productions such as horticulture, gardening, viticulture, pigs or poultry receive fewer budgets than countries specialized in cereals or beef cattle. With 20% of the CAP expenditure, France occupies the first rank in front of Spain (14%), Germany (14%), Italy (12%) and the United Kingdom (8%). The ten New Member States (NMS) receive less than 10% of CAP budget, but this rate will increase by 2013.

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<sup>2</sup> The European budget does not take into account the support of Member States and local authorities, even in the framework of programmes financed by the EU.

In France, the budget for agriculture represents 13.5 billion euros in 2006, of which 80% come from EU funds (Ministry of Agriculture, 2007). Over the past ten years, these expenses have been stable or even slight decreases in real terms. A classification of this budgetary support was carried out according with the three "boxes" (amber, blue and green) defined in the WTO (see table 1 in annex). According to this classification, the "green box" represents 68% of the French budget for 2006, against 24% in 2005 (year just before the decoupling). This development is significant, despite the use of a partial decoupling. The Single Farm Payment (SFP) is 5.6 billion euros (2006), i.e. 41% of total budget expenditures. It is greater than the amount of direct aids which are maintained coupled (3.3 billion euros, of which 1.1 billion euros for arable crops aids and 1.8 billion euros for livestock premiums).

The direct aids granted to farmers represent more than three quarters of the total budget. According to the Farm Accountancy Data Network (FADN), the French professional farms have received, on an average of 5 years (2001-2005), 25100 euros of direct aids per year (in constant euros 2005). This amount represents 13300 euros per Agriculture Work unit (AWU) or 87% of the Family Farm Income (FFI). These amounts vary greatly according to the agricultural specialization and the size of farms (see tables 2 through 5, in annex)<sup>3</sup>. In the vast majority of types, the average amount of direct aid per farm and the amount of the FFI per family AWU increase with the size of the farm (see table 6 in annex). This is mainly due to the fact that CAP expenditures were granted so proportional to the factors of production (land and livestock), without modulation or capping depending on size criteria or jobs.

## 1.2. National strategies on decoupling

The Regulation No. 1782/2003 of the Council leaves some breathing space to the Member States for applying the decoupling: date of the implementation, its intensity (partial versus full), its application model (historical, hybrid, national, regional) and the Article No. 69.

*The date of implementation.* Decoupling was introduced in 2005 in several countries, including Germany, Austria, Belgium, Denmark, Ireland, Italy and the United Kingdom. Other countries, such as Spain, France and the Netherlands have opted for 2006. In the NMS, decoupling has been applied immediately on their arrival in the EU (as a single area payment scheme).

*The intensity of decoupling.* Several countries have adopted a full decoupling, as is the case of Germany (with the exception of some specific crops), Ireland and the United Kingdom. Italy and Greece have also chosen a total decoupling with the exception of the seed sector. Austria, Belgium and the Netherlands have opted for a partial decoupling, mainly for the benefit of animals and seeds productions. Spain, France, and to a lesser extent Portugal, have maximized the coupling (Boinon et al, 2006). In France, the coupling is 100% for suckler cows' premium and for calves slaughter premium; 50% for the ewe premium; 40% for cattle slaughter premium; 25% for payments to arable crops surfaces.

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<sup>3</sup> In tables 2 through 5, the French professional farms are divided, first, according to various types of production. This segmentation was performed on the basis of their structural characteristics. Six classes of size are also determined according to their Standard Gross Margin (SGM). The SGM is expressed in Economic Size Unit (1 ESU = 1200 euros of potential added value).

*The model of decoupling.* The historical model is applied in many member states (or regions), namely Austria, Belgium, Spain, France, Greece, Ireland, the Netherlands, Portugal, Wales and Scotland. In this model, the amount of the SFP is determined on the basis of the direct subsidies granted during the reference period 2000-2002. Therefore, this model does not modify the original allocation of direct support among farmers or between regions. A static hybrid model with a single zone is applied in Denmark, Northern Ireland and Luxembourg. In this case, the amount of the SFP per farm is calculated with a proportion of the historical basis and a common unique single payment amount per hectare. In Sweden, the model is similar, but three regions have been distinguished. A hybrid and dynamic model in each Lander was privileged in Germany. Thus, the amount of the single payment per hectare will be, after several years of transition, the same among all farms in the same Lander. In contrast to the historical model, it alters the distribution of support among categories of farms. In England, the choice is comparable to that of Germany, with the three regions of reference.

*Article 69.* This article of Regulation No. 1782/2003 of the Council authorize Member States to deduct 10% of the national ceilings of the SFP. The funds collected are allocated as additional payments to farmers engaged in production systems which are important for the environment or for the quality of products. The article 69 is applied in the southern European countries (Spain, Greece, Italy and Portugal), Scotland, Finland, Sweden and Slovenia. It allows to redistribute the support among farms. Nevertheless, its impact is not very important because transfers are limited in each production sector (Boinon et al, 2007). To obtain significant redistributive effects, it's necessary to target these funds on a small number of beneficiaries.

The implementation of the decoupling has been very different from one member state to another. In fact, the CAP has become quite complex, despite significant efforts undertaken to simplify it: implementation of a unique Common Market Organisation (CMO), restrictive conditions for the market intervention, and so on. Several factors seem to interfere with national choices on the decoupling:

- i) The sensitivity of governments front to a potential new CAP for the future. In Germany, for example, the political dimension of the choice lies to the personality of the minister (member "green party") in charge of food and agriculture at the time of reform. In France, the government was historically against the decoupling. Similarly, it was felt that this reform should not, in the short term, cause economic shocks for farms. Therefore, the French government has adopted a *status quo* strategy (historical model) in the short term (Piet et al, 2006). But, it was clear for this government that, in a long term, the debate on the justification of agricultural expenses would come back.
- ii) The relationships between the agricultural organizations and the government. In France, the decisions for agricultural policy are often taken in close collaboration between the government and farmers' organisations. In a context where the application of decoupling could lead to an important redistribution of support, the conflicts of interest between regions, productions and farmers are inevitable. One way to conclude in this complex debate has been to choose the historical model.
- iii) The diversity of agricultural production and the proportion of Less Favoured Area (LFA). In France, the partial decoupling has been implemented because some fears were expressed about the potential negative impacts of a full decoupling on the territorial equilibrium. The French authorities feared a transfer of agricultural production (mainly in the cattle and sheep sectors) from Less Favoured Area (LFA) towards the others. In other countries, less diversified, the issue of decoupling (full *versus* partial) seemed less crucial.

Thus, the margins offered by the Regulation No. 1782/2003 allowed each member state to take into account its own productive constraints (at national, regional or local levels). Such a variety of models, however, presents several problems. It may lead to additional costs (costs of administration, management and control) at the level of public authorities. It can also lead to distortions of competition between Member States. Finally, it provides arguments to the advocates of a greater renationalisation of the CAP. This risk is all the greater because the CAP expenses appear insufficiently legitimate in the eyes of taxpayers. Thus, special attention should be paid to the unequal distribution of support to agriculture, especially for SFP.

### **1.3. Should we implement a full decoupling of direct payments?**

In the current round of the WTO negotiations, the adoption of a full decoupling of all direct payments under the first pillar is not a necessity in the short term (WTO, 2004). According to estimates (Guyomard et al, 2007)<sup>4</sup>, the EU would be able to accept, without prejudice, a significant decrease (about 70%) of the ceiling of the Aggregate Measurement of Support (AMS). This flexibility is nevertheless related to the non-questioning of the "green box" definition (OECD, 2001; Mathews, 2006) and of the ranking of the SFP in the "green box". On this point, several countries and non-governmental organizations are reserved (Berthelot, 2005; Swinbank et al, 2006; Oxfam, 2006).

The last CAP reform is a further step in the process of decoupling, initiated in 1992, between the supports and agricultural production. Since 2005, a large proportion of direct aid linked to factors of production (land and livestock) has been deleted. The full decoupling is mandatory in milk and has become the norm in the cereals, oilseeds and protein. Only two countries, namely France and Spain have opted for a coupling of aids to arable crops areas. For livestock premiums, full decoupling is not widespread: many countries have used the partial decoupling and the level of coupling is more important (up to 100% for the suckler cow premium and the calves slaughter premium).

Several arguments were advanced to justify the widespread of the full decoupling: it would give more strength to the EU in the multilateral WTO negotiations; it would simplify the CAP and promote coherence between Member States; it would improve economic efficiency of the transfer for farmers, while minimizing the distorting effects on trade; it would reduce the administration costs of the CAP; it would permit to accelerate, thereafter, the reorientation of direct aids among farmers (including the implementation of an identical SFP per hectare).

In the arable sector, the full decoupling seems to be possible and even desirable in the short term. Not only because the coupling involves only two countries (Spain and France), but because the prices are now high. Given the favourable prospects of the international organisations (Food and Agricultural Organisation, Food and Agricultural Policy Research Institute, OECD), the risk of an abandonment of cereal production in the next years appears to be low. This concerns also the diversified farms and those with moderate yields. The cereal production is now a good way to reduce the cost of production of milk and beef. The environmental risks associated with the transition to full decoupling are potentially limited. The abandonment of the set-aside will have a greater impact on this aspect.

For beef cattle, sheep and goat, the implementation of a full decoupling appears to be more difficult to consider, at least in the short term (i.e. without the implementation a new policy). These problems concern, however, more the premiums for suckler cows and sheep than the slaughter premiums. In France, the misgivings expressed about the decoupling are, on the one hand, on production volumes and, secondly, on the territorial effects.

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<sup>4</sup> Throughout the period of the implementation of the URAA, the amount of AMS was below the authorized ceiling. Therefore, this measure has not been a problem for the CAP budget (Butault and Bureau, 2006).

Proponents of keeping the current system (partial coupling) think, firstly, that a full decoupling lead to a decline in beef production, in a situation where the EU has already become deficient since 2003. On this point, they fear that France becomes deficient in beef between 2015 to 2020; indeed, the increasing of milk yield per cow is accompanied by a sharp drop in the number of cows. With full decoupling, farmers with low fixed costs (depreciations, finance charges) are not always encourage to produce, even if the single payment is conditioned to the maintenance of the land in good agronomic and environmental conditions. These arguments should be considered seriously to the extent that, for some of these farms, the amount of variable costs (feed, fertilizers, etc.) is sometimes greater than the sale value of the animals. Similarly, with a full decoupling, many diversified farms located in cereals regions could abandon bovine production (stronger working requirements). Indeed, the cereals prices are now very interesting. In the LFA, the risk of an abandonment of bovine/ovine productions is lower. Nevertheless, some farms with low fixed costs and with a modest economic efficiency could also stop to produce. However, for most farmers located in LFA, the risk of a stoppage of production remains low. The possibilities for substitution between agricultural productions are limited and the granting of direct aids of the rural development (premiums for LFA, premiums for grassland) is conditional on compliance with the minimum thresholds for animal density.

Another reluctance to the adoption of a full decoupling of animal premiums is due to territorial concerns. With aid coupled with the production, it is easy to maintain the geographical distribution of livestock on an historical basis. The introduction of a full decoupling could lead to a moving of the productions from a region to another but also within each of them. So, gradually, the most competitive areas (in terms of production costs, proximities of processing industries, proximities of consumers) could be promoted. Conversely, others regions could experience a decline in their production. The risk of a more pronounced concentration of production is real. Nevertheless, the LFA could indirectly benefit of the decline of beef production in the cereal regions. The environmental problems, the expected increase of the milk quota (+2% in April 2008) and the rise in cereals prices could also lead to a decline in the herd of suckler cows in some non LFA regions.

This reflection on the interest whether or not to apply a full decoupling of animal premiums must be conducted in accordance with the long term objectives assigned to the agricultural policy and, more importantly, to their ranking (Gohin, 2008; Bureau and Witzke, 2007)). If the goals are territorial and environmental, a coupling of cattle and sheep premiums is justified, at least until 2014-2015. On this date (abolition of milk quotas), a global recasting of the direct aids will be necessary in a more comprehensive manner (see Part 3). If the goals of the CAP are to simplify the devices, to limit administrative costs and to stimulate economic efficiency, the total decoupling presents advantages. In any case, maintaining a coupling of beef premiums should not be a hindrance to the reorientation of the single payment.

#### **1.4. Should we align the model of single payment between member states?**

In the medium term, it will be necessary to change the way that the European direct aids are granted to agriculture. The historical model will become increasingly difficult to justify. On the one hand, taxpayers will have some increasingly difficulties to accept that the direct aids to farmers are independent from the market price, their projects or intensity of their non-market services. On the other hand, the solidarity among farmers could decrease on this issue. Farmers which have a high SFP will be strongly against all forms of redistribution. The historical model provides them a financial security. They can keep the subsidies even if they abandon productions that gave rise to these amounts. Farmers which have a low SFP will feel gradually disadvantaged. This is even more true that they run the risk to be challenged on their own productions by farmers in the first group.

An evolution of the CAP seems to be necessary to avoid the risk of the funds decline after 2013. In France, at least, the application of a unique SFP amount per hectare between all farms is not easy to consider in a short period. Similarly, the move towards a flat single payment per hectare (on a scale regional or national) is more readily applicable in the member states where the full decoupling is applied. Also, in those where the decoupling is only partial (as in France), it seems appropriate to take into account in the calculations, coupled residual aids. The other way is, of course, to adopt a full decoupling (while having things considered the points raised above).

Thanks to the FADN data, a simulation was conducted to analyse the impact on the French farmers' incomes (Chatellier, 2007) of the implementation of a regionalization of the SFP (scenario S1: same amount of single payment per hectare for all farmers located in the same region). The second scenario considers a national level (S2: same amount of single payment per hectare for all French farmers). As shown in table 7 (see annex), the impact on income is highly positive for extensive systems and negative for intensive systems. Regionalization does not alter the distribution of support among regions, but between farmers in the same region. This is, off course, an important limit if the goal is to redistribute direct aids between regions. The scenario S2 permits some deep redistribution from the regions specialized in cereals towards regions specialized in cattle and ovine productions (Chatellier, 2006).

An identical amount of SFP per hectare between farmers in the same region or country would have as principal merit to bring some clarity into the logic of allocating supports. However, it will not be sufficient to justify the method of allocating direct aids in the long term. By this way, the amount of the SFP per farm is directly proportional to the total surface of the farm. So, the amount of the single farm payment is not linked to the importance of employment, the income, the dynamics of the farm projects or the quality of non-market services rendered. All these reasons lead to believe that the CAP is going to have to evolve in a more innovative. Failing which, the taxpayers risk to refuse this system at a long run. To prepare the next few decades, the CAP needs an important renovation of its support instruments. The difficulty is to realize this evolution with taking the multilateral negotiations of the WTO into account (see Part 3).

## **2. The role of market regulation instruments in the CAP**

After recalling the reasons for state intervention in agriculture, the second part discusses the future forms of public intervention. Particular attention must be paid to stock of agricultural products, to custom duties and to risk management instruments.

### **2.1. The justifications for a public intervention in agriculture**

Many economists have shown that a state intervention in agriculture is justified because it is not an economic sector like any other. Indeed, according to the micro-economic theory, the market does not necessarily lead to an optimal situation for the community in the presence of imperfect information or externalities. Several characteristics can be reminded: foodstuffs are indispensable to life and therefore strategic in terms of national sovereignty (concept of self-sufficiency in food); agricultural production is not secure in volume, as it may vary sometimes in high proportions due to climatic or sanitary phenomena, the length of production cycles is sometimes important, so the supply is relatively rigid in the short term, economies of scale are rare in this sector; variations of the producer price can be important because the demand for food is relatively inelastic; the agricultural production provides some services which are appreciated by the citizens (occupation of the territory, opening landscapes, and so on.), but unpaid by the market; the agriculture can also lead to negative externalities (pollution of water, and so on.).

Given these characteristics, it is up to state to correct certain shortcomings of the agricultural market. It must provide a regulatory and institutional framework that allows the market economy to operate in the most efficient possible manner. It must make sure to recognize the non-market functions of the agriculture. So, the future CAP should pursue both types of targets. On the one hand, goals in favour of environment, natural resources, biodiversity and landscape. As the provision of such public goods is not guaranteed at the same level of what society wants, incentives need to be permanent. Some measures are also necessary to reduce the negative externalities. On the other hand, the economic objectives. The agricultural sector can not, off course, ignore the market signals (prices). Nevertheless, governments must limit risks related to agricultural markets instability and must ensure consumers safety.

## **2.2. What kinds of intervention instruments for tomorrow?**

The CAP is organized around several economic instruments. Somewhat challenged in the multilateral negotiations of the WTO, these instruments have changed over the successive reforms of the CAP. What roles these instruments can they still occupied tomorrow?

*The guaranteed prices.* In the framework of the URAA, the decline in European institutional prices was necessary to face with the lowering of tariffs and with the reduced export refunds. Without the institutional prices decrease, the risk of an important increasing of the public intervention (storage of agricultural product) was high. The decline in guaranteed prices concerns gradually all productive sectors (including milk and sugar) and the requirements for public intervention on agricultural market have become more stringent. In line with WTO requirements, the European choice was to allocate decoupled direct payments to farmers instead of a policy with high institutional prices. It seems unlikely that the EU change its strategies on this topic in future years.

*The direct payments.* In a long run, it will be necessary to change the way how direct payments (coupled direct payments and the SFP) are allocated to European farms. This change is necessary even if some argue that direct aids play a very important role in the farms income. As shown in Table 5, direct aids (first and second pillar of the CAP) accounted for 87% of the income of the French professional farms (average for 5 years: 2001 to 2005). A simulation was conducted to assess the impact on the income of an 35% decrease of direct aid from the first pillar (see Scenario 4 in table 7 in the annex). The impact of this scenario on the French farms income is important (-29%), especially for farms specialized in arable crops (-53%) or in beef (-43%). Of course, this sensitivity to a possible shortfall of direct aids must be discussed according to the market prices evolution. For example, a 10% increase in cereals prices (relative to 2005) is equivalent in absolute value, to the impact of this scenario. One could notice that the increasing of cereals prices has been much higher than 10% over the period 2007-2008. At the same time, and although the SFP is considered as decoupled in the WTO, the single payment may have an influence on the agricultural production through different channels (Goodwin and Mishra, 2002), such as the investment decisions; the risk aversion; the farm households supply and demand for work; the anticipation of a possible review of references.

*The storage of the agricultural product.* The scarcity of world stocks (public and private) was one of the explanatory factors of the important increase in prices in 2007 (for milk and cereals). If the uncontrolled accumulation of stocks may be unreasonably expensive, the opposite situation of insufficient stock is not optimal. The storage devices and destocking seem to be justified in agriculture. To be efficient, this instrument must be applied at international level; every member states of the WTO should participate and should accept to store a part of their agricultural production. Indeed, the regulator role of the world market can not be played by a single economic zone. This analysis considers that it can be less expensive

to conserve minimal stock of agricultural products rather than suffer from the negative effects of prices oscillations. It seems that farmers, industrials, consumers and taxpayers could find a common interest to adopt this strategy. The regularity of prices has also many advantages. At the international level, developing countries could also be beneficiaries of this form of public intervention. In this sense, the agricultural policy is a food policy.

*The export refunds.* This instrument was heavily used in EU where prices were substantially higher than the international price. With declining institutional prices and the decline in exports in certain agricultural products (beef), European aids to exports have been divided by three in fifteen years. In accordance with the commitments made in the current negotiations of the Doha round, they will be discontinued in the next few years.

*Customs duties.* The EU is the largest importer of food goods in the world. With a trade balance near zero, the EU is less protectionist than some competitors sometimes presage. The tariffs of the EU on food products are on average 18% (Bureau, 2007), but actually applied tariffs are lower because of preferential agreements. However, they may reach more than 80% for certain products (sugar, beef, butter, etc.). Given the increase in international prices for agricultural products and the simultaneous decreasing of the European institutional prices (recently in dairy and sugar), EU is now in better conditions to face with the question of tariffs cuts. In certain markets where the global supply barely keep up with demand (such as milk), a lowering of tariffs does not always lead to a decrease of the EU production, at least in the short term. For example, imports of dairy products have not increased since 1995, despite the lowering of tariffs; they represent 3% of domestic consumption. In other sectors such as beef and sheep, the lowering of tariffs could be harmful. In productions where EU is deficient, as in beef, the opening of import quotas with the Mercosur countries should be studied. Thirteen years after the signing of the URAA, and prior to explore a new tariff cut on food products, it could be interesting to consider the concrete effects of previous cuts, particularly for developing countries. This international debate should not be confined to an approach in terms of overall welfare at the level of major economic areas. It must also take into account the effects within each country between population groups.

*Quotas and supply control measures.* With the development of biofuels and with the growth demand for cereals, the abandonment of set-aside is a necessity. From an environmental point of view, the set-aside had some benefits that should be considered otherwise in the next CAP.

In the milk sector, the European Commission wishes to remove the quota in 2014-2015. This decision is not a requirement in the short term from the WTO. Some member states of this organization, including New Zealand and Australia, have taken advantage from this self-regulation of the European market for increasing their exports on the world market. The milk quotas have allowed to better control EU budgetary expenditures. In some countries, they blocked the geographical concentration of the milk production on a historical basis (this induce a positive impact on environment). With guaranteed prices set at a high level, they have provided a stability for the milk producer's income. However, milk quotas are criticized in the name of economic efficiency and equity. Not easily transferable from one producer to another, they prevent the optimal allocation of resources in favour of the more competitive farms. They constitute a barrier to entry because only producers with a quota can produce milk. Moreover, a value linked to the production right is capitalized in the price of quota. Finally, milk quotas do not allow member states to increase their milk production even for those with a deficient production. Given the position of individual member states, it is highly probable that this deletion of milk quotas will be effective in 2015. The gradual increase of milk volumes and the development of contractual arrangements between producers and industries will be the ways to achieve this.

The abolition of milk quotas and the implementation of decoupled payments in the dairy sector would be two important evolutions. They can deeply influence the future impact of milk production on territorial and environmental aspects. With these two options, a territorial concentration of production is imaginable in a medium or long-term (especially given the expected growth of volumes). However, three factors can interfere on this potential process of concentration of dairy farms: environmental standards that prohibit an excessive production in some areas; the contractual relations between producers and industries (the producers are generally located near industries); the proximity between producers and consumers (the transport of fresh dairy products is naturally expensive). As mentioned previously, maintaining a coupling for premiums granted to grazing systems (suckler cows premium and sheep premium) seems desirable at least until 2015. From that date, it will become difficult to justify, based on an argument favouring territorial balance, that the full decoupling is applied only for dairy sector, but not for the others herbivore productions (suckler cows and sheep). This difference will surely invite to a more comprehensive overhaul of the CAP for after 2015. After the establishment of a full decoupling in all productions, it will be necessary to link the direct aids to territorial and environmental criteria (see Part 3).

*Tools for risk management.* The SFP is already a good tool for stabilizing the farmers' income. The fact that the amount of the SFP does not vary depending on the market price meets one of the requirements of the green box of the AAUR<sup>5</sup>. Thus, under this rule, it is not possible to decrease direct aids when market prices are high (like, for examples, in cereals in 2007 or in milk in 2008). Conversely, it is not possible to increase direct aids when prices are low. On the assumption that prices would remain high in the next years for certain agricultural products (see international prospects of OECD, FAO and FAPRI), such a system could lead to a rapid increase of the income in some categories of farms. Notice that it is not sure that these amounts will be reinvested in agriculture. If this WTO rule is considered theoretically founded by some protagonists of the negotiations, it is uncertain that the taxpayers will accept this situation on a long run. It can also be a source of tensions between farmers.

Some others risk management tools exist. It concerns, for example, of the payments for relief from natural disasters<sup>6</sup> (made either directly or by way of government financial participation in crop insurance schemes). In agricultural sector, insurance mechanisms are not very numerous because the risks are quite singular. Indeed, they can involve, in the same time, a large number of farms (the risk taken by these organisms is important). The European authorities might also encourage the development of mutual funds. These funds permit to manage the market risk between many farmers. According to predetermined rules, the capital of these funds may be used by members when an exceptionally unfavourable situation occurs. The development of these instruments is difficult for two main reasons: it implies a real solidarity among farmers; it requires finding an optimal mix between the private and public intervention.

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<sup>5</sup> According to Article 6 of Annex 2 of the URAA, the amount of decoupled payments to producers will not be dependent not on the basis of price, domestic or international, applying for a production staged during a years after the base period.

<sup>6</sup> According to Article 8 of Schedule 2 of the URAA, the right to receive such payments means that the public authorities formally recognize the existence of a natural disaster or a similar calamity, it is subject to loss production exceeds 30 percent of the average of the previous three years (or a three-year average based on the previous five years, excluding the value for the highest and the lowest value). Payments shall compensate any more of the total cost of replacing what has been lost and shall not require or specification as to the type or quantity of future production.

### **3. The financing of the CAP**

The third part presents a reflection on the future of the CAP for the period after 2015. It provides answers to the following questions: i) is it possible to envisage a reduction of the CAP budget? Should we maintain the current segmentation between the two pillars? The modulation of aid and the Article 69 can be useful tools for advancing in the direction of future CAP?

#### **3.1. Is it possible to reduce the EAGGF?**

The CAP expenditures are well controlled in proportion to the EU Gross Domestic Product. Moreover, they are better accepted in the WTO since the introduction of the decoupling. In other words, the most important challenge is not to reduce the budget but to find a new way to distribute funds. Three factors will interfere on the willingness or otherwise of community authorities to change the CAP budget: changes in the price of agricultural products; changes in the price of inputs and production factors, productivity gains and efficiency in agriculture.

European and French farms are, on an average, strongly dependant of direct aids. This is especially true for farms specialized in cattle, sheep, goats and cereals. In viticulture, horticulture, poultry and pigs (see tables 3 to 6, annex), the dependence on direct aid is less important. For farms of the first group, only a significant and sustainable increase in agricultural prices could make them economically possible a significant drop in support in the short term. Indeed, many of these farms are faced with a significant increase in input prices (feedstuffs, fertilizer, pesticides, etc.). Some important investments have been engaged consecutively to the new environmental standards and the improving of technical performance is slower than in the past.

From this observation, it should, however, not be inferred that it is impossible to change the method of distribution of public aids to agriculture. With the single decoupled payments, agricultural expenditures are now automatic. This mechanism has the advantage of ensuring predictability of the multi-annual expenditure. It has the disadvantage that the EU will not be able to achieve savings, even if the agricultural prices are exceptionally high.

#### **3.2. What developments for the co-financing and the two pillars of the CAP?**

The current segmentation of the CAP in two pillars is the fruit of a long history. For the next CAP (i.e. after 2015), it will surely be useful to change the contents of these two pillars (if it is worth to keep them). Indeed, to give greater legitimacy to decoupled support, it will be necessary that these payments become more related with environmental services and social issues (see conclusion). If this development is applied, then why should we keep premiums per hectare in the second pillar (premiums for LFA and premiums for grassland)? A fusion of different payments per hectare would provide greater clarity.

Without making any definitive answer here, we must also reflect to the co-financing principle of agricultural policy. Does the co-financing impede the development of the CAP? The current measures of the second pillar could be, tomorrow, fully funded on EU funds (because they correspond to public goods). Conversely, the current measures of the first pillar could be tomorrow, partially funded on national funds (because they concern the farm incomes)?

### **3.3. The modulation and capping of direct aids, the article 69**

Broadly speaking, these instruments can gradually adjust the allocation of direct aids between categories of farmers. They can also foster a better legitimacy of the public support. These tools can be very useful to adapt the CAP before 2015. However, they should not focus all the attention. The stakes are larger (see conclusion).

The proposal from the European Commission concerning the rate of modulation (5% to 13% between 2007 and 2013) goes in the right direction. Indeed, the modulation can permit to transfer part of the first pillar aids to the second pillar. However, it should be stressed that in the device used, the rate of modulation is linear and independent of the size of farms or employment. This was not the case in the optional modulation adopted during the Agenda 2000 (Chatellier and Kleinhanss, 2002). The funds raised through modulation should be more sharply focused on risk management.

The proposal to reduce the amount of direct aid in farms which receive more than 100000 euros has a political significance. On an economic level, it has relatively little impact, however, with the exception of some regions such as eastern Germany or the South of England.

The article 69 should be used more widely. It would be useful to make its application more flexible, i.e. by allowing fund transfers between productive sectors. In France, the funds could, for example, allow to accompany economically mountain dairy farms (in the context of a forthcoming abolition of milk quotas).

## **Conclusion: towards a new CAP?**

The single payment is a tool to support agricultural incomes. Its justification will become fragile over time for two main reasons: i) the amount of single payment was calculated on the basis of price reductions applied in the past (but the market prices are now more favourable for some productions); ii) even if the amount of single payment per hectare becomes the same between farmers, the total amount of aid paid for a farm remains proportional to its surface. Additionally, the current criteria of conditionality are insufficient to guarantee the granting of such aid amounts per hectare.

In this reflection, the first step is to define the sustainable objectives of the new agricultural policy. Three goals should be privileged (Guyomard et al, 2007): i) occupation of territory and land use; ii) the protection of the environment and natural resources; iii) the protection against market instability. In addition, the CAP will continue to ensure, through regulatory measures, the safety of people, animals and products. To meet these goals, it is necessary to imagine a new CAP, which could be based on the articulation of the three following levels:

*Level 1: an aid per hectare for all farmers.* That aid would be allocated to all farmers owning farm land, including those who historically have not been beneficiaries of the SFP. The amount of this aid (about a hundred euros per hectare) would be invariable depending on the areas, types of farms, and even their size. That aid would be conditional upon compliance with minimum environmental standards defined within each member state, or better within each region. The link of this aid to surfaces would be justified because it would be paid in return for the provision of minimum services in terms of land use, land management and environmental protection.

*Level 2: an other aid per hectare for the rendered environmental services.* These payments would be paid in return for the provision of public services, which go beyond the minimum levels (level 1). A long-term contract would be defined at farm level as a whole (or for all holdings involved in a same geographical area). The contracts would be concluded between farmers and government, with the identification of indicators on which they can rely to assess the achievement of objectives. The total amount of aid by farm could be capped, however, depending jobs present. It is not simple to implement this system. It poses problems relating to the definition of indicators and evaluation of the rendered environmental services

*Level 3: implementing new tools to mitigate the risks associated with fluctuating market prices.*

To avoid the risk of economic shocks too brutal for farms, a relatively long transition period would be necessary. Given the models adopted for the implementation of decoupling, some countries are more advanced than others in this direction. After decoupling, a new agricultural policy has to be imagined. While seeking to mitigate the volatility of agricultural markets, the agricultural supports should be more targeting on environmental and social criteria.

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## Annexes

Table 1. Budgetary expenditure on French agriculture (millions of euros)

	2005		2006	
	Millions €	%	Millions €	%
<b>1- Orange Box (Subsidies linked to market regulation)</b>	<b>1 364</b>	<b>10.8%</b>	<b>1 043</b>	<b>7.7%</b>
1-1- Export refunds	548	4.3%	331	2.4%
1-2- Aid for domestic marketing	342	2.7%	253	1.9%
1-3- Other taxes and duties	286	2.3%	263	1.9%
1-4- Intervention spending	187	1.5%	195	1.4%
Blue Box				
<b>2- Blue Box (direct aid linked to products)</b>	<b>8 224</b>	<b>64.9%</b>	<b>3 311</b>	<b>24.4%</b>
2-1- Compensation payments for fields and leaving fallow	4 943	39.0%	1 138	8.4%
2-2- Animal premiums	2 870	22.6%	1 802	13.3%
2-3- Other direct payments for products	411	3.2%	371	2.7%
Green box				
<b>3- Green Box (Subsidies linked to market regulation)</b>	<b>3 081</b>	<b>24.0%</b>	<b>9 192</b>	<b>67.9%</b>
3-1 Single farm payment (from 2006 only)	0	0.0%	5 644	41.7%
3-2 Rural development grants	2 229	17.6%	2 340	17.3%
- Agro-environmental measures	552	4.4%	576	4.3%
- Disadvantaged area compensation payments	527	4.2%	516	3.8%
- Installation, modernisation and pollution control	459	3.6%	464	3.4%
- Landscaping and protection of rural green space	365	2.9%	408	3.0%
- Aid for equestrian activities	186	1.5%	150	1.1%
- Agricultural set-aside	89	7%	80	0.6%
- Processing and marketing of products	49	4%	144	1.1%
3-3- Other aid for agriculture and rural areas	852	6.7%	1208	8.9%
- Plant and animal health	374	3.0%	402	3.0%
- Organisation and modernisation of sectors	136	1.1%	185	1.4%
- Management of hazards and reductions in charges	99	8%	363	2.7%
- Food aid	90	7%	87	0.6%
- Product promotion and quality control	80	0.6%	77	0.6%
- Cessation of dairy activity and grubbing up of vines	73	0.6%	94	7%
<b>Public funding for agriculture and rural areas</b>	<b>12 672</b>	<b>100.0%</b>	<b>13 549</b>	<b>100.0%</b>

Source : Ministry of Agriculture and Fisheries, 2007 / Classification by the author

Table 2. Professional farms in France (2005)

	Standard Gross Margin (SGM in ESU - Economic Size Unit)						All
	30 ESU <	30 - 40	40 - 60	60 - 80	80 - 100	>100 ESU	
Dairy	9 800	14 100	19 900	17 500	15 900	22 100	99 200
- Specialized - Fodder Maize > 30% FA	900	2 800	5 600	5 000	4 600	3 700	22 600
- Specialized - Maize 10 to 30%	2 700	4 200	6 900	5 300	3 500	2 600	25 300
- Specialized - Maize < 10% FA	4 700	5 600	4 000	2 300	1 400	700	18 600
- Diversified	1 500	1 500	3 300	4 900	6 500	15 100	32 800
Beef	26 100	20 500	14 000	9 200	7 000	8 200	84 900
* Specialized	17 300	10 900	6 800	3 400	1 000	700	40 100
* Diversified	8 800	9 600	7 200	5 800	6 000	7 500	44 800
Sheep & Goat	5 100	5 300	3 500	1 300	1 300	1 000	17 600
Pork & Poultry	1 700	400	600	700	600	2 000	6 100
Arable crops	10 500	8 500	9 000	11 500	9 700	20 800	69 900
- Wheat (orientation)	5 200	3 500	4 200	6 100	5 000	12 100	36 100
- Corn	3 300	2 600	2 700	3 000	1 700	3 000	16 200
- Oilseeds & protein crops	800	1 600	1 200	1 800	1 900	2 600	9 900
- Other	1 200	700	800	700	1 000	3 200	7 600
Specialist vineyards	4 500	7 100	5 000	6 100	5 300	16 400	44 400
Other (horticulture, permanent crops)	4 100	3 600	2 700	2 300	2 000	5 600	20 400
All	61 800	59 500	54 600	48 600	41 800	76 100	342 500

Source: FADN France 2005 / Processed by INRA SAE2 Nantes

**Table 3. Direct aids per farm**  
(French professional farms, euros 2005, five-year 2001 to 2005 average)

	Standard Gross Margin (SGM in ESU - Economic Size Unit)						All
	30 ESU <	30 - 40	40 - 60	60 - 80	80 - 100	>100 ESU	
Dairy	10 900	12 900	16 400	23 400	29 800	49 800	24 200
- Specialized - Fodder Maize > 30% FA	7 600	9 600	13 500	22 500	28 400	42 500	20 700
- Specialized - Maize 10 to 30%	7 500	11 300	15 500	22 800	29 600	45 200	19 400
- Specialized - Maize < 10% FA	13 500	15 800	20 900	29 200	40 100	49 000	19 700
- Diversified	11 700	15 400	18 100	22 700	28 900	52 700	34 000
Beef	20 000	29 100	36 300	47 500	52 600	71 900	34 300
* Specialized	23 400	35 800	44 300	62 900	80 500	108 400	35 200
* Diversified	14 100	22 800	30 200	40 900	47 100	68 800	33 600
Sheep & Goat	15 900	23 400	26 600	35 000	49 300	69 100	26 100
Pork & Poultry	500	2 800	3 600	6 800	9 800	16 800	7 800
Arable crops	9 100	17 300	23 500	32 000	40 200	64 000	35 100
- Wheat (orientation)	9 000	16 800	24 300	34 900	42 800	67 400	40 000
- Corn	9 600	17 600	24 000	29 800	37 500	58 100	27 600
- Oilseeds & protein crops	11 600	21 500	25 500	38 100	48 500	80 200	39 600
- Other	5 600	6 300	12 100	11 800	19 000	47 600	26 300
Specialist vineyards	2 200	3 300	2 600	3 400	3 800	4 900	3 600
Other (horticulture, permanent crops)	2 000	2 300	3 900	4 600	6 800	18 100	7 100
All	13 300	17 600	20 700	26 900	32 000	43 600	25 100

"ns": not significant from a statistical point of view.

Source: FADN France 2005 / Processed by INRA SAE2 Nantes

**Table 4. Direct aids per Agricultural Work Unit**  
(French professional farms, euros 2005, five-year 2001 to 2005 average)

	Standard Gross Margin (SGM in ESU - Economic Size Unit)						All
	30 ESU <	30 - 40	40 - 60	60 - 80	80 - 100	>100 ESU	
Dairy	8 900	9 900	11 200	13 300	14 300	17 900	13 600
- Specialized - Fodder Maize > 30% FA	6 900	7 600	9 600	12 600	13 800	14 800	11 900
- Specialized - Maize 10 to 30%	6 100	9 000	10 800	12 700	14 000	16 700	11 800
- Specialized - Maize < 10% FA	11 000	11 900	12 600	14 400	15 700	16 600	12 800
- Diversified	9 300	10 300	12 700	14 300	14 700	19 100	16 400
Beef	17 000	23 600	25 600	27 900	27 600	27 500	23 600
* Specialized	20 300	29 300	30 500	33 200	34 800	39 400	26 600
* Diversified	11 600	18 300	21 700	25 200	25 800	26 500	21 500
Sheep & Goat	11 500	17 600	16 800	19 200	25 000	24 900	16 700
Pork & Poultry	300	2 000	2 500	4 600	5 800	6 900	4 300
Arable crops	6 800	13 700	17 100	20 400	26 000	26 400	20 700
- Wheat (orientation)	7 100	13 600	19 700	27 100	29 900	30 500	25 100
- Corn	7 700	13 300	15 100	15 700	19 500	19 500	15 500
- Oilseeds & protein crops	8 800	20 900	22 200	30 500	34 100	35 800	27 600
- Other	2 900	3 500	6 500	4 200	11 400	17 300	11 400
Specialist vineyards	1 900	2 500	1 700	1 700	1 500	1 100	1 400
Other (horticulture, permanent crops)	1 100	1 000	1 500	1 400	1 500	2 300	1 800
All	10 500	13 100	13 700	15 000	15 400	13 000	13 300

"ns": not significant from a statistical point of view. Source: FADN France 2005 / Processed by INRA SAE2 Nantes

**Table 5. Direct aids / Family farm income**  
(French professional farms, in %, five-year 2001 to 2005 average)

	Standard Gross Margin (SGM in ESU - Economic Size Unit)						All
	30 ESU <	30 - 40	40 - 60	60 - 80	80 - 100	>100 ESU	
Dairy	76%	69%	74%	85%	79%	89%	82%
- Specialized - Fodder Maize > 30% FA	ns	55%	60%	83%	70%	75%	71%
- Specialized - Maize 10 to 30%	62%	59%	68%	77%	78%	84%	73%
- Specialized - Maize < 10% FA	80%	76%	88%	89%	82%	82%	83%
- Diversified	ns	98%	99%	91%	86%	94%	93%
Beef	139%	145%	161%	160%	153%	136%	148%
* Specialized	139%	145%	158%	157%	152%	156%	148%
* Diversified	139%	146%	164%	163%	154%	133%	147%
Sheep & Goat	126%	129%	136%	166%	189%	144%	140%
Pork & Poultry	3%	ns	24%	29%	25%	40%	29%
Arable crops	108%	126%	128%	134%	138%	124%	127%
- Wheat (orientation)	105%	123%	140%	155%	146%	133%	137%
- Corn	129%	134%	125%	121%	125%	128%	126%
- Oilseeds & protein crops	ns	218%	148%	168%	186%	183%	183%
- Other	ns	ns %	54%	36%	61%	72%	62%
Specialist vineyards	17%	27%	11%	11%	10%	6%	8%
Other (horticulture, permanent crops)	9%	10%	15%	15%	21%	43%	24%
All	97%	99%	95%	99%	92%	74%	87%

"ns": not significant from a statistical point of view.

Source: FADN France 2005 / Processed by INRA SAE2 Nantes

**Table 6. Family farm income (FFI) per family worker (AWU)**  
(French professional farms, euros 2005, five-year 2001 to 2005 average)

	Standard Gross Margin (SGM in ESU - Economic Size Unit)						All
	30 ESU <	30 - 40	40 - 60	60 - 80	80 - 100	>100 ESU	
Dairy	11 900	14 500	15 500	16 900	19 800	23 900	18 100
- Specialized - Fodder Maize > 30% FA	ns	13 800	16 300	16 300	21 100	21 900	17 800
- Specialized - Maize 10 to 30%	9 700	15 300	16 200	17 600	19 900	21 900	17 000
- Specialized - Maize < 10% FA	13 900	15 900	15 100	17 300	20 000	22 200	15 900
- Diversified	ns	10 900	13 300	16 600	19 000	24 900	20 200
Beef	12 600	16 600	16 900	19 700	21 000	27 900	17 500
* Specialized	14 800	20 600	20 800	24 600	25 500	29 400	18 800
* Diversified	8 700	12 800	13 900	17 300	19 800	27 700	16 500
Sheep & Goat	9 700	14 500	13 300	12 900	16 400	23 400	13 100
Pork & Poultry	11 600	ns	12 800	16 400	25 800	27 100	19 100
Arable crops	7 300	11 700	15 800	19 700	23 800	34 200	21 600
- Wheat (orientation)	7 300	11 500	16 000	19 800	24 600	34 600	23 300
- Corn	6 500	11 000	15 200	19 000	23 900	27 300	16 900
- Oilseeds & protein crops	ns	9 700	15 600	19 800	20 500	28 900	17 800
- Other	ns	ns	16 400	22 100	24 700	43 900	30 500
Specialist vineyards	12 000	10 900	20 500	23 800	29 500	53 000	33 000
Other (horticulture, permanent crops)	18 300	16 200	17 600	20 400	21 000	24 700	20 000
All	11 700	14 400	16 400	18 600	21 800	32 400	20 200

"ns": not significant from a statistical point of view.

Source: FADN France 2005 / Processed by INRA SAE2 Nantes

**Table 7. Estimation of the Single Farm Payment (SFP) in 2008**  
(French professional farms, assumption H1: partial decoupling; assumption H2: total decoupling)

	/ Farm (euros)		/ Direct aids (%)		/ Hectare (euros)	
	H1	H2	H1	H2	H1	H2
Dairy	23 000	27 800	69%	83%	270	327
- Specialized – Fodder maize > 30% FA	23 800	28 300	79%	93%	349	415
- Specialized – Fodder maize 10 to 30%	18 700	22 400	69%	83%	248	297
- Specialized – Fodder maize < 10% FA	10 900	13 600	39%	49%	141	177
- Diversified	32 500	39 500	74%	91%	301	365
Beef	14 900	28 600	40%	76%	167	321
* Specialized	11 500	26 900	30%	70%	132	309
* Diversified	17 900	30 100	49%	83%	197	331
Sheep & Goat	9 900	15 300	35%	53%	125	194
Pork & Poultry	4 700	6 100	60%	77%	229	295
Arable crops	26 200	33 300	73%	93%	290	368
- Wheat (orientation)	29 500	37 300	74%	94%	290	367
- Corn	19 800	25 500	71%	91%	308	398
- Oilseeds & protein crops	29 500	38 100	72%	93%	262	338
- Other	20 600	24 700	72%	87%	315	378
Specialist vineyards	1 300	1 700	33%	42%	235	301
Other (horticulture, permanent crops)	1 200	1 500	15%	19%	194	251
All	16 500	23 100	57%	80%	234	327

Source: FADN France 2005 / Processed by INRA SAE2 Nantes

**Table 8. Impact on the Family Farm Income of 4 scenarios for the future of the CAP**  
(French professional farms, assumption H2: total decoupling)

	Scenario 1		Scenario 2		Scenario 3		Scenario 4	
	Euros	% of FFI						
Dairy	500	2%	0	0%	-600	-2%	-9 700	-31%
- Specialized – Fodder maize > 30% FA	-3 600	-11%	-6 000	-19%	-4 200	-13%	-9 900	-31%
- Specialized – Fodder maize 10 to 30%	2 200	8%	2 300	8%	-400	-1%	-7 800	-27%
- Specialized – Fodder maize < 10% FA	6 700	28%	11 600	49%	10 700	44%	-4 800	-20%
- Diversified	-1 400	-4%	-4 100	-11%	-4 800	-13%	-13 800	-37%
Beef	-600	-3%	600	3%	2 400	10%	-10 000	-43%
* Specialized	-1 100	-5%	1 600	6%	5 900	24%	-9 400	-38%
* Diversified	-100	-1%	-300	-1%	-700	-3%	-10 500	-48%
Sheep & Goat	7 300	44%	10 600	65%	8 800	54%	-5 400	-33%
Pork & Poultry	1 200	3%	700	2%	-600	-2%	-2 100	-6%
Arable crops	-2 100	-9%	-3 700	-16%	-5 200	-23%	-11 700	-51%
- Wheat (orientation)	-2 200	-9%	-4 100	-17%	-6 100	-26%	-13 100	-55%
- Corn	-3 900	-19%	-4 600	-22%	-3 700	-18%	-8 900	-43%
- Oilseeds & protein crops	-1 100	-6%	-1 200	-6%	-5 600	-29%	-13 300	-68%
- Other	1 000	3%	-3 300	-11%	-3 900	-13%	-8 700	-29%
Specialist vineyards	100	0%	100	0%	800	2%	-600	-1%
Other (horticulture, permanent crops)	300	1%	500	2%	2 000	9%	-500	-2%
All	0	0%	0	0%	0	0%	-8 100	-29%

Source: FADN France 2005 / Processed by INRA SAE2 Nantes

**Scenario 1.** Total decoupling + Regionalisation of the SFP (Art. 58-59 of Regulation 1782/2003). The amount of the SFP per hectare is equal between farms located in the same administrative region.

**Scenario 2.** Total decoupling + Nationalisation of the SFP (Art. 58-59 of Regulation 1782/2003). The amount of the SFP per hectare is equal between all French farms.

**Scenario 3.** Modulation (20%) of the direct payments from the first pillar of the CAP. The funds collected around the existing rural development measures.

**Scenario 4.** The direct payments from the first pillar of the CAP decrease by 35%.



