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RESEARCH IN ECONOMICS AND RURAL SOCIOLOGY

Re-orientating direct support for agriculture

Within the framework of the reflections on the future of the Common Agricultural Policy (CAP), the method used to distribute direct aid to European farms occupies a prime position. This subject is currently arousing very lively debate for three main reasons. i) Member states have to agree on the future budget of the European Union (EU) for 2014-2020, in a delicate economic context. ii) The increased volatility in the prices of agricultural produce tends to weaken the legitimacy of a support system essentially based on decoupled payments, and therefore, independent of actual prices. iii) The community authorities wish to redirect, through new statutory texts (October, 2011), a portion of the direct aid towards better remuneration for the environmental responsibilities placed on farmers. In this paper we will cover the three main subjects which have fed our reflection since 2008: the analysis of the redistributive effects of the measures taken within the framework of the health check-up of the CAP; the assessment of the economic sensitivity of farms to several proposed scenarios for redistribution of direct aid; and the development of debate over the advantages and limitations of decoupled supports in this new context and in the face of the new challenges confronting French and European agriculture.

A health check-up on the CAP: a redistribution in favour of extensive herbivore livestock

European decisions taken in November 2008 within the framework of the so-called reform of the “CAP Health Check” mainly concern the three following sectors: i) from 2012, all direct aid of the first pillar will be decoupled, with the exception of the sucker cow premium (SCP), for the countries which wish to maintain it; ii) Member States having adopted the ‘historic’ model for the application of decoupling (as is the case in France) are encouraged to achieve greater homogenization of the value of the Single Farm Payment (SFP) allocated per hectare, between farms; and iii) through several articles of the new Community regulation, Member States have greater latitude to proceed to a redistribution of the direct supports between farms and/or between regions.

On the basis of that regulation, in February 2009, French Minister for Agriculture (Michel Barnier) decided, to redirect a substantial chunk of direct

aid (approximately 15%, that is to say a total amount of 1.5 billion euros). Specific supports have been granted in favour of herbivorous livestock (mainly through the granting of specific aid to grassland areas), certain fragile areas of farming (sheep, mountain milk, and so on.), sustainable systems of production (organic farming, production of protein-rich plants, and so on.) and risk insurance coverage systems.

On the basis of models constructed from individual data from the French Farm Accountancy Data Network (FADN), an assessment of the redistributive effects of these national decisions was made by distinguishing the orientations of production, size categories and regions. The idea was to assess, as exactly as possible, the impact of these decisions on the evolution of the amount of direct aid for every farm and, hence, underline the potential economic pressure on income which will result. These simulations show that the re-orientation of direct aid favours sheep farms and milk-cow farms,

especially those having a high proportion of grasslands in their crop rotation system. It also favours arable crop-oriented farms and intensive livestock production. If these decisions are moving towards greater standardization of the value of the decoupled direct aid paid per hectare, they do not deeply modify the pre-existing hierarchy of incomes.

The high sensitivity of farms to a re-orientation of direct aid

As the successive reforms of the CAP progressed, European and French farms became highly dependent on direct aid. This is particularly true of business-farms with a sizeable territorial role (field crops, milk cows, beef cows, sheep). According to their geographical location (plain versus mountain) and to the structure of the various subsidies granted to the means of agricultural production, the relative weight of the direct decoupled aids in the overall budget can vary significantly from one business-farm to another. Consequently, business-farms will feel the effects of a possible reorientation of direct aid in different ways, particularly if the reform concerns only direct aid from the first pillar, or particularly if it affects the Single Payment. The sensitivity of business-farms to a future reorientation (or reduction) of direct aid must be assessed in light of three main factors:

- i) The prospects in terms of sale prices of various categories of farm produce. For example, for French business-farms specializing in cereals and oilseeds, the impact of a 20% reduction in the amount of direct aid would be entirely compensated with a concomitant 6% increase in the sale price of vegetables produced (based on the 2008 situation).
- ii) A business-farm's capacity to improve productive efficiency (in particular, the ratio of "intermediate consumptions/agricultural production").
- iii) Future gains in work productivity, the intensity of which will differ from farm to farm. We may indeed see that, in the years to come, productivity increases more in arable farms (as working of the soil is simplified) and dairy estates (abolition of milk quotas) than in the meat cow and sheep sector.

Considering the importance of direct aid to the income of many European farmers, we must construct the future CAP with a high degree of pragmatism (Criteria, thresholds, required time for implementation and so on.). It is advisable to make changes in the current system, but we must make sure that the economic and social consequences are not too heavy for some of the regions, productive systems and/or production chains.

Towards a better targeting of direct aid

Without denying the positive effects of decoupled payments (efficiency of the transfer, predictability of expenditure and so on.), the current system of aid to European agriculture is increasingly subject to criticism. The disparities in the distribution between countries and categories of business-farms that the system generates are hard to justify. The high volatility of agricultural prices observed during the last three years (chiefly for cereals and milk) also contributes to weaken the legitimacy of the current system, which consists of granting direct aid, ignoring the reality of prices. In France, the result of the system used for the payment of the SP (principle of the historic reference) is that major aids are allocated to agricultural productions already receiving good prices (as for cereals in 2010), while at the same time farmers weakened by unfavourable price situations (and/or by an increase in the food price induced by the increase in cereal prices) do not have the chance to consolidate their income.

The excessive rigidity of this method of granting the SP renders the system unfit for purpose. The same can be said of the overall budget of the CAP, the unused funds of which cannot be transferred from one year to the next, according to the state of the agricultural markets. This lack of flexibility deprives the public authorities of the necessary reactivity and justifies a transfer of the public aids towards more comprehensive systems of risk management. Besides the reorientation of aid, the implementation of a system of upper-limits for direct aid (taking into account the family situation and salaried jobs) would be a strong signal given towards those who expect the future CAP to be more socially fair. With a view to favouring its implementation in agriculture, it would be also useful to better specify the conditions in which pensioned farm landowners can (or cannot) benefit from decoupled direct aids.

With this in mind, the recent statutory proposals of the European Commission regarding the post-2013 CAP (October 2011) should mark the turning of a new page in the long process of transforming the CAP. In the light of previous reforms, the impact of the measures agreed will depend primarily on the way Member States seize the opportunities offered by the Community regulations in the name of the subsidiarity

principle. Therefore, the works summarized here must be updated and completed in the months to come.

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