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The October 2011 Legislative Proposals for CAP Reform: A French Point of View

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Abstract

This paper proposes an assessment of the October 2011 legislative proposals for CAP reform. The assessment is essentially qualitative, illustrated by static simulations of income effects for French professional farms. It uses the French case to highlight the diverging opinions between stakeholders on these proposals and argue why they are a step in the right direction but a too timid step as crucial issues are not adequately addressed. Furthermore several key parameters of the reform remain unknown. We first summarise the main elements of the proposals presented by the European Commission. We then highlight the main points that are subject to debate on the basis of French stakeholder reactions (public authorities, farmers' unions, food companies and non-governmental organisations).We finally propose an assessment of these proposals focusing more specifically on the following points: the redistribution of direct payments between countries and categories of farms; the flat rate model for allocating decoupled payments; the removal of production quotas and the implementation of new tools of market regulation; and the allocation of funds specifically dedicated to innovation and knowledge transfer.

Keywords: CAP - Direct payments - French agriculture

JEL classification: Q18

1. INTRODUCTION

On October 12th 2011, the European Commission (EC) has presented a set of legislative proposals intended for a new reform of the Common Agricultural Policy (CAP), theoretically on January 1st 2014. Besides simplification and efficacy, the stated objectives are to favour a competitive and sustainable European agricultural sector, and to give a boost to rural zones. As innovative as they may be, these proposals are however in continuity with those adopted in the context of the continuous process of CAP reform started in 1992 (the McSharry reform), and continued in 1999 (Agenda 2000), 2003 and 2008 (CAP Health Check). The new proposals, in which the subsidiarity principle features prominently, might lead to a significant reorientation of direct aids between regions and categories of farms within a given Member State (MS), notably in a country like France where the historical reference model is used for allocating the Single Farm Payments (SFP). By contrast, the allocation of CAP funds between the different MS is only marginally modified.

The communication from the EC entitled "The Europe 2020 Strategy" (EC 2010-a) has played a structuring role with regard to the proposed CAP reform of October 12th 2011. While falling within the framework of the Treaty of Lisbon, applied on December 1st 2009, the Europe 2020 strategy considers that three objectives should guide public action within the European Union (EU) over the coming decade: a smart growth based on innovation and knowledge; a sustainable growth based on an efficient use of natural resources; and an inclusive growth aiming at achieving a high rate of employment favouring social and territorial cohesion. By contrast with the past CAP reforms, the influence of multilateral agricultural negotiations at the World Trade Organisation (WTO) was much less decisive.

In June 2011, the EC has presented a first draft of the EU financial framework for the 2014-2020 period (EC 2011-a). This draft includes a small increase in the agricultural budget in nominal terms and thus, very likely, a small cut in real terms; however, as several agricultural expenditures would be "taken out" of the agricultural budget in the strict sense, the expected changes should ultimately be modest, or even nil. In a very difficult economic situation, this budgetary proposal has been considered as a success for the EU Commissioner for Agriculture and for agricultural interests in general. However they will only be binding after a long process which requires adoption by the Council, after agreement by the Parliament (Crombez et al., 2011), and which will theoretically reach fruition during the second semester of 2012.

In addition to uncertainties surrounding the EU financial perspectives and the share of the EU budget which will finally be assigned to the farming sector, it is worth adding those connected with the process of transforming the CAP reform legislative proposals of October 2011 into effective legal decisions. This process is all the more complex since it results from the joint action of the EC, the Council of Ministers and the European Parliament (Lyon 2010; Adinolfi et al. 2010; Dess 2011; de Castro et al. 2011). Given that it is more than likely that the EC legislative proposals will not be accepted as they are by the European Parliament, the process should last several months and involve much toing and froing between the Council and the Parliament (Matthews 2011 ; Roederer-Rynning, 2012). As a result, it is not certain that the new CAP will be applied at the expected date, that is at the beginning of 2014 (Horseman, 2012 ; Council of the European Union, 2012).

2. THE OCTOBER 2011 LEGISLATIVE PROPOSALS FOR CAP REFORM

The October 2011 legislative proposals relative to the future CAP come in the form of four regulations regarding, respectively, direct payments, rural development, the common market organisation and the financing, management and monitoring of the CAP (EC 2011-b-c-d-e). They also include three specific regulation drafts which contain measures aiming at ensuring the transition towards the new rules. The proposals can be summarized as follows.

2.1. An intra-country redistribution of direct payments and a better environmental targeting

The proposals confirm the CAP structuring into two pillars with however the asserted and posted intention to improve the synergies between them. According to the EC, the measures of pillar I are compulsory, annual and apply on the whole EU territory while those of pillar II are voluntary, multiannual and adapted to national and regional specificities in the framework of an EU menu declined in each MS. In practice, this distinction is largely artificial.

As from 2014, substantial modifications would be made to the rules governing the allocation of first-pillar direct payments. Despite a common legislative framework, SFPs are today assigned in very heterogeneous ways from one country to the other. The 12 MS which joined the EU in 2004 or 2007 benefit from a simplified Single Area Payment Scheme (SAPS) based on lump-sum transfers per hectare for all farmers. In the EU-15, the Single Payment Scheme (SPS) varies among countries as many options have been left to national governments (Rutz 2012): they could choose the application date (2005, 2006 or 2007), the degree of decoupling (or, in other words, the payments that could be maintained coupled) as well as the model used for calculating and allocating decoupled aids (on the basis of individual historical references or uniform payments per hectare, with the possibility to opt for hybrid combinations between these two extreme options).

The SFP should be gradually dismantled and the current first-pillar scheme replaced by a new architecture of aid in eight points. In each MS, the funds assigned to the first pillar would be capped for each calendar year over the period 2014-2019. In France, this annual ceiling would be equal to 7.73 billion euros in 2014; it would very slightly decreased until 2017 (7.61 billion euros) and would remain stable at that level in 2018 and 2019.

i) A basic payment. In each MS, the funds assigned to the basic payment will be determined by subtracting the budgetary resources allocated to the other measures of pillar I from the annual national ceiling.

As it is the case for the current SFP, the basic payment will be implemented in the form of payment entitlements per hectare allocated on a national or regional basis in proportion to eligible hectares (which will be defined in 2014). It will be granted to farmers under conditions, that is the respect of basic requirements as regards the environment, the maintenance of farmland in Good Agricultural and Environmental Conditions (GAEC), public, animal and plant health, as well as animal welfare. In a country like France where the SFP is allocated on the basis of individual historical references, the major innovation lies in the fact that by 2019, this basic payment will be uniform for all eligible hectares, in contrast with current SFPs which vary greatly within the same *département* or region, mainly according to agricultural specialisation and, for a given production, to technical systems adopted. To avoid a redistribution of direct aids that should be too detrimental to certain categories of farms in the short term, this standardisation will be spread over the 2014-2019 period using the so-called dynamic hybrid model. This means that in France, the funds dedicated to the basic payment during the first year of application (2014) will be allocated to farmers half according to the model of historical references, half according to the model of lump-sum aids per hectare. To reach full standardisation by 2019, the share of payments granted following the model of lump-sum transfers will gradually increase, from 50% in 2014 to 100% in 2019.

In each MS, the geographical level retained for implementing the basic payment scheme is a particularly strategic choice as it directly determines the budgetary redistribution among farms, territories and regions. This is particularly true in France where farm specialisation varies greatly between areas of production. In accordance with the subsidiarity principle, each MS can decide, before August 1st 2013, whether to apply the basic payment scheme at a national or regional level. If it retains the regional option, the MS has to define the typology of regions according to objective and non-discriminatory criteria such as their agronomic and economic characteristics, their regional agricultural potential or their institutional or administrative structure. This means that the MS are only slightly restricted as regards the indicators to be selected to proceed to the definition of the regions.

ii) An additional green payment. On top of the basic payment, a per-hectare additional payment will be allocated to farmers who use agricultural practices considered as beneficial to the climate and the environment. This green payment, which will represent 30% of the annual national ceiling, will be granted to each farmer under the condition that she/he respects the three following criteria (organic farming is automatically eligible):
- For farms with more than three hectares of arable crops, a minimal crop diversification is required: the cropping system will include three crops as a minimum, the largest crop will not exceed 70% of the arable area and the smallest crop will not be lower than 5%.
- Farmers will permanently maintain grass cover on the areas registered as permanent grassland in 2014 (with a "small" margin of manoeuvre limited to 5%).
- As from 2014, farmers will have to ensure that at least 7% of their eligible area (except permanent grassland) is devoted to ecological infrastructures such as land set-aside, terraces, buffer strips, wooded areas, hedges, etc.

iii) A second additional payment for the farms located in areas subject to natural constraints. This second additional payment is optional and could represent up to 5% of the annual national ceiling. It will be paid per hectare only for farms that are located in areas subject to natural constraints (the definition of corresponding areas is currently under revision); it will be implemented, at the MS discretion, at a national or regional scale.

iv) Payments coupled with specific productions. On top of the three payments defined above, a MS who so wishes (decision to be taken before August 1st 2013) could also grant payments linked to specific productions, within the limit of 10% of the annual national ceiling (except in specific circumstances that should be accepted by the EC, notably when coupled payments currently in place exceed this 10% limit). This option should allow a country like France to maintain the suckler cow premium scheme (at least in regions where this production would be considered as strategic). Moreover, conditional upon acceptance by the EC (which inevitably will be very careful on this point given the WTO rules on domestic support), the principle of aid coupling could be extended to other agricultural productions considered as sensitive. In France, the SFP (including funds granted under the so-called Article 68) was 7.17 billion euros in 2010 and coupled payments were equal to 1.04 billion euros (of which 662 million euros just for the suckler cow premium).

v) A specific payment for young farmers. This specific payment, which could represent up to 2% of the annual national ceiling, is limited to people aged under 40 at the time of the application and who are setting up a farm (or did so over the five years preceding the application). It will be allocated for the five years following the set-up. Compared with what these young farmers would have received without the measure, this specific payment corresponds to a 25% increase in the value of basic payments per hectare. However it is limited to a maximal area per farm that varies depending on the country (in France, from 25 hectares at least to 52 hectares at most). To grant payments to producers who start farming, each MS will implement a national reserve by application of a linear levy on the annual ceiling of first-pillar direct payments; the rate of the levy will not exceed 3% and the reserve will be implemented at national or regional scale.

vi) A specific scheme for small farmers. The objective of this specific scheme is clearly to simplify procedures and reduce administrative costs. It is more specifically tailored for the new EU-12 MS. Farmers who should wish benefit from this measure should declare before October 15th 2014. They would receive a lump-sum payment per farm between 500 and 1 000 euros, depending on criteria defined by each MS, instead of all other forms of first-pillar direct payments. The funds allocated to this scheme will not exceed 10% of the annual ceiling.

vii) A capping of first-pillar direct payments. The latter will be reduced by 100% for the bracket exceeding 300,000 euros, 70% for that between 250,000 and 300,000 euros, 40% for that between 200,000 and 250,000 euros and 20% for that between 150,000 and 200,000 euros. In order to take into account the contribution to employment, farms could deduct the effectively paid salaries, including taxes and employers' contributions, from the reference tax basis.

viii) The limitation of the new scheme to active farmers only. The proposals include a definition of who can be considered as an active farmer. In addition, again with the aim of simplifying administrative procedures, a MS will pay no more direct aids to the farms which have an eligible area lower than one hectare and to those for which the annual amount of first-pillar direct aids is lower than 100 euros.

2.2. Market regulation and measures falling within the scope of the single CMO

As expected, the proposals include a requirement to remove quotas in the dairy sector and plantation rights in the wine sector from 2015. While it was neither explicitly mentioned in the CMO sugar reform of 2006, nor in the decisions relative to the CAP Health Check of 2008, the EC proposes to suppress the sugar scheme (sugar quotas and minimum guaranteed prices) when the current regulation (n° 1234/2007) comes to an end, that is on September 30th 2015.

The second major innovation of the legislative proposals is the generalisation to all sectors and/or products of the safeguard clause allowing the EC to take urgent measures in the case of serious market disturbances. Clauses allowing the definition of a crisis situation include excessive volatility in prices, loss in consumer confidence and health problems in the plant and animal sectors. This tool would be given a budget of 3.5 billion euros for the whole period 2014-2020, from funds which would be outside the CAP in the strict sense.

Furthermore European farmers could benefit from the Globalisation Adjustment Fund which allows compensating a sector negatively affected by bilateral and/or multilateral trade agreements. In addition, each MS would have the possibility of using part of first-pillar budgetary funds to (re)couple some aids for sectors and/or products that would negatively impacted by market disturbances. Finally the second pillar includes an enlarged set of risk management instruments in the form of insurance and mutualisation funds (harvest, weather conditions and animal diseases); these tools can currently be used under Article 68 of pillar I. Risk coverage is extended to agricultural income stabilisation: the new scheme would allow farmers to get a specific aid equal to 70% of loss for an income cut of 30%; for each euro paid by the farmer, the rural development fund would pay an additional 0.65 euro.

The programmes intended to favour the consumption of fruit and milk in school will be extended. Various measures aim at improving the functioning of the food chain by taking inspiration from the conclusions of the expert panel put in place in the milk sector: recognition of producers' organisations, of their associations and sector organisations extended to all the sectors/products covered by the single CMO; possibility for each MS to require written contracts between producers and their clients, these written contracts being compulsory in the dairy sector, in order to enhance the farmers' bargaining power. Various measures aim also at encouraging the development of quality productions. These are inspired by several EC communications with regard to the quality of farm products, notably in terms of quality product definition, labelling rules (packaging and presentation) and production methods (Allaire 2011).

2.3. Rural development measures

Besides the measures relative to insurance and mutualisation funds already mentioned, the proposals regarding the second pillar of rural development come within a triple ambition, as it was already the case in the previous planning period 2007-2013: 1) contribute to improving the competitiveness of the agricultural and forestry sectors; 2) foster sustainable management of natural resources; and 3) encourage well-balanced territorial development of rural areas.

These three ambitions which defined three axes in the 2007-2013 rural development plan are now organised in six priorities: (P1) support the transfer of knowledge and innovation; (P2) improve the competitiveness of all types of agriculture and favour the viability of farms; (P3) promote the organisation of the food chain and risk management; (P4) restore, preserve and enhance ecosystems; (P5) promote the efficient use of resources and support the transition towards an low carbon economy; and (P6) promote social integration, reduction in poverty and the economic development of rural areas.

Promoting these six priorities means placing greater emphasis on some objectives which were previously rather "lost" in a wide range of measures. The co-financing rate by the EU which is 50% in most cases will thus be higher for projects focused on innovation and knowledge transfer, the development of producers' organisations, young farmers and the LEADER initiatives. And at least a quarter of the budget of the second pillar will be assigned to measures targeted on climate change, in terms of both adaptation of agriculture to climate change effects and contribution of the agricultural sector to the reduction in global greenhouse gas emissions, as well as to the sustainable management of agricultural land, including by favouring the development of organic farming.

To encourage the adaptation of agricultural systems to climatic and environmental issues, the proposals include a doubling of the funds assigned to research and research-development (4.5 billion euros over the seven-year period 2014-20). These funds will be granted within the framework of the European Partnership for Innovation (PEI) on agricultural productivity and sustainability. This EIP will provide a working interface between agriculture, bio-economy, science, advisors, and other stakeholders at EU, national and regional level. It aims to facilitate exchange among innovation actors, share good practice and inform about opportunities.

The proposals introduce the possibility of a certain flexibility between the two pillars, up to 5% of direct payments: from pillar I to pillar II, to allow MS to strengthen their rural development policy; from pillar II to pillar I, for the MS in which the level of first-pillar direct payments remains lower than 90% of the EU average.

3. First reactions from French stakeholders: business as usual!

In France like in other EU countries, reactions to the release of the legislative proposals for the CAP after 2013 came very quickly. They were numerous, from an extended set of stakeholders. They were conventional in the sense that the official stance adopted by a given actor could easily be anticipated (Bureau 2010 ; Gravey 2012). As required by the CAP reform "game", reactions have usually been rather negative. For every actor, it is in effect natural not to get too enthusiastic over the positive aspects and instead to focus criticism on the points that are considered insufficient or to be improved in order to influence the decision process and try to have the cursors move in favour of own interests and acquired advantages.

Accordingly the French Minister of Agriculture stated that the EC proposals were only a working basis in the perspective of negotiations which should begin between the EC, the MS and the European Parliament. On the one hand, the French public authorities consider that the future CAP budget must be set at a level which is compatible with the declared ambitions. On the other hand, they also claim that the redistribution of agricultural aids between EU countries must be sustainable and fair, which means that the inter-country re-allocation can be marginal only. While confirming France support for the principle of the greening, the Minister imposes limits by underlining that it must correspond to the economic reality of the farms and include simplification. Regarding the convergence of first-pillar direct aids within each MS, the Minister agrees that this is a legitimate ambition in the long term which however requires giving countries the necessary flexibility as to the calendar and the modalities of application. He finally indicates that France will use the possibility of focusing aids on some least-favoured sectors and regions.

The main farmers' union (FNSEA for *Fédération Nationale des Syndicats d'Exploitants Agricoles*), close to right-wing parties, denounces the relinquishment of the capacities for market management and of crisis situation answers through the decoupling of payments considered as sacred, an excessive greening of the first pillar (mainly through the obligation to assign 7% of land to ecological infrastructures) and a too sudden standardisation of first-pillar direct aids. The criticisms from the Permanent Assembly of Agricultural Chambers (APCA for *Assemblée Permanente des Chambres d'Agriculture*) go in the same direction which is not surprising given the current composition of this institution (numerous elected representatives are also members of the FNSEA). However the APCA recognises that the new crisis management tool constitutes progress. The criticisms from the Young Farmers' union (JA for *Jeunes Agriculteurs*) are less severe than those of their elders, mainly because of the provisions specifically focused on the younger generation. In the face of the Rural Coordination (CR for *Coordination Rurale*) denouncing a total abandon of EU agriculture with a CAP focused only on the budget and environmental issues, the Farmers' Confederation (CP for *Confédération Paysanne*), close to left-wing and extreme left-wing parties, considers that the greening of the

CAP is only a facade that will induce no change for 95% of the French farms (Roullaud 2012). This farmer's union also considers that the standardisation is too slow and the redistribution of support too weak. In the same perspective, the environmental organisations argue that the greening is very insufficient and that the new CAP does not go far enough in environment and ecology (Groupe PAC, 2012).

The agricultural cooperatives (through the voice of their main association, Coop de France) and the French association of food-processing industries (ANIA for *Association Nationale des Industries Alimentaires*) declare that the CAP must first contribute to protecting and enhancing the competitiveness of the agriculture and food sectors in an international environment which is more and more open. The specialised union of sugar-beet producers (CGB for *Confédération Générale des Planteurs de Betteraves*) denounces the cancellation of the sugar regime and expresses its strong determination to thwart this measure considered as unacceptable. The ORAMA union which includes three sub-associations of the FNSEA specialised in, respectively, wheat (AGPB), corn (AGPM) and oleaginous and proteagenous (FOP), claims that it will be particularly watchful about the evolution of support and its consequences, and refuses the obligation to reserve 7% of farmland for biodiversity. While the FNSEA specialised association of milk producers (FNPL) wonders about the means to regulate the milk sector without quotas, that of bovine meat producers (FNB) dreads a possible withdrawal of the Suckler Cow Premium (SCP). As for fruit and vegetable producers who, up to now, benefited from the CAP, the opinions expressed are more favourable.

All these reactions give an irresistible impression of "*déjà vu*" with, as expected, stakeholders agreeing on long-term issues but not on short-term orientations and tools as soon as they can be contrary to their objectives and/or acquired advantages. On this point, France is not an exception.

4. A QUALITATIVE ASSESSMENT ILLUSTRATED BY STATIC SIMULATIONS OF POSSIBLE REDISTRIBUTION EFFECTS FOR FRENCH PROFESSIONAL FARMS

In a general way, we think that the October 2011 legislative proposals for the CAP are an additional step, after those of 1992, 1999, 2003 and 2008 (Loyat, 2012), in the right direction. They are not very far from the spirit of normative recommendations put forward by other French agricultural economists (Bureau and Mahé 2008; Bureau and Witzke 2010; Mahé 2012). However we consider that the step is too timid which means that this new reform of the CAP should be quickly followed by a more ambitious plan for the EU agricultural and food sector as well as for rural territories. Many key parameters of the proposals remain unknown and/or are subject to huge uncertainty and debate (EU budget, share of the agricultural budget, greening measures, aids which would be maintained coupled, etc.): this means that any quantitative assessment of the EC proposals remains very hypothetical and at most illustrative. One can be afraid that the political game leads to weaken the content of the reform on many points, notably the redistribution of support and the environment. Furthermore some key challenges are not sufficiently addressed in terms of funds dedicated and tools proposed, in particular the competiveness of EU agriculture, risk management and the provision of environmental public goods (mainly the reduction of agricultural greenhouse gas emissions and the protection of biodiversity).

4.1. The redistribution of funds in favour of new MS is only timid, but is it justified to grant equal decoupled payments per hectare in very heterogeneous countries?

Despite the political pressure exercised by the various Eastern MS (and the fact that the Commissioner for Agriculture is Rumanian), the redistribution of funds between "old" and "new" EU countries should be only modest: around 740 million euros when the proposals will be fully implemented (Matthews 2011). Beyond the political realism of the EC[1], we do think that it is not legitimate to provide an identical level of decoupled support per hectare to all European farmers (Erjavec et al 2011), this because they live in countries which are very heterogeneous in terms of economic development, farm incomes and agricultural production costs (Mahé 2012). Beyond the treatment of "old" *versus* "new" MS, this question of identity of decoupled payments per hectare raises also at the level of each country within the envelope of the national ceiling as many payments of the first pillar can be implemented at the national or regional level, the definition of the region being left at the discretion of the MS under the condition that it defines the regions "in accordance with objective and non-discriminatory criteria such as their agronomic and economic characteristics and their regional agricultural potential, or their institutional or administrative structure" (EC 2011-b, Article 20).

4.2. The new architecture of the first pillar enhances the legitimacy of support, but still insufficiently in a medium-term perspective

At the end of the period of application of the reform, the basic payment per eligible hectare should be equal to approximately 150 euros in average at the EU level (approximately 55% of the current SFP), with huge disparities between countries. It is not certain that the cross-compliance obligation is sufficient, at least in the medium and long term, to justify the

[1] The redistribution issue is highly political. On the one hand, the EC must sell the CAP reform to powerful "old" MS which are net contributors to the EU total budget and would very likely loose from a reorientation, even timid, of the CAP (France, Germany, the Netherlands and the United Kingdom). On the other hand, it must also sell the reform to the "new" MS of Eastern Europe which consider that the treatment should be the same for all EU countries. The margin of manoeuvre of the Commissioner for Agriculture is low all the more as he must also sell the CAP reform to other Commissioners in a context where their budgetary appetites are great but the economic situation of the EU particularly difficult.

amounts granted to farmers in that way[2]. This is all the more true since it is not obvious that the simplification of cross-compliance, which leads to propose a cut in both the number of Statutory Management Requirements (from 18 to 13) and the number of standards relative to GAEC (from 15 to 8), does not have the effect of reducing the effectiveness of conditionality. Furthermore, in the new regime like in the SPS/SAPS, a larger farm will continue to receive greater amounts of decoupled payments than a smaller unit as the proportionality between the size of an operation (measured in hectares) and the total amount of decoupled payments (sum of basic payments and green payments over all eligible hectares) is not really broken; one can reasonably expect that the effects of capping will be only modest[3].

By contrast, the other levels of the first-pillar architecture appear better justified. Even if, according to her/his position on the chequerboard of objectives and interests, such or such actor can dispute such or such criteria, the latter have the great merit of existing: the green payments of the second level are justified because of increased environmental requirements; the territorial payments of the third level address more difficult production conditions in least-favoured areas; and the coupled payments of the four stage can be justified because some productions could be too negatively disrupted by a full decoupling of the first pillar.

One can however legitimately wonder about the effectiveness of the greening scheme. For the sake of simplicity, the latter would be implemented in the form of three measures defined at the EU level, more or less pre-existent in at least some national regulations. Not only such a scheme does ignore local particularities, but its efficacy from an environmental and economic point of view is at least questionable compared to alternative solutions which would be more tailored to local characteristics and more flexible: definition of the three measures according to the local environmental context; transferable quotas of permanent grassland or ecological infrastructures at the scale of (small) territories so as to minimise implementation costs which very likely vary depending on the farm/region. In a more general way, the question raised by the greening as it is proposed by the EC is that it is based on production systems or production factors rather than on environmental results. There is here a large avenue for research in order to closely link agricultural practices and systems to the state of the environment so that it would be possible to base and assess the measures on the basis of results instead of production factors and/or techniques.

The possibility offered to each MS to maintain coupled part of the first-pillar direct payments is useful. It can contribute to encouraging the preservation of certain types of agriculture and/or certain agricultural productions, including the production of suckler cows, in

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[2] Other economists are much more radical, for example Koester (2012) who concludes that there is no justification of changing current direct income payments to basic direct income payments and furthermore, the justification presented by the EC is based on inadequate information. See also Tangerman (2010).

[3] In France, approximately 2.5% of the first-pillar aids are perceived by farms with more than 200,000 euros of payments. In addition, the capping could lead to artificial splits among the most concerned farms.

least-advantaged areas and limit land abandonment in corresponding territories (Chatellier and Guyomard 2008). In the same way, the capping of first-pillar direct aids, the simplified scheme for small farmers, the allocation of aids to the active farmers only and the bonus granted to young farmers are welcome innovations that are however very likely perfectible. For example, it is unfortunate that the capping thresholds are not differentiated according to the MS. In a more general way, as for the greening, it would be advisable to analyse the effectiveness of these four measures with use, over time, according to the targeted objectives, namely better equity in the distribution of first-pillar support and simplification of administrative procedures of granting aids. At the very least, one would recommend allowing the annual revision of definitions, thresholds and criteria in function of results achieved as long as it is not possible to closely link *ex ante* the latter to the measures.

The implementation of a more ambitious policy aiming at favouring the set-up of young farmers is justified all the more since the farmers' population is old (only 14% of EU-27 farmers are under the age of 40 and 6% under 35) and the public expenditure assigned to this objective has decreased over recent years. The first question raised by this specific scheme is that it may induce an increase in the sale price of production factors through the capitalisation of support in the sale price of fixed assets, including farmland. In that case, rather than favouring young farmers by reducing fixed costs when they start farming, part of the support would be captured by their elders. This is true for the specific scheme in favour of young farmers as well as, and perhaps more importantly, for the basic and green payments that would continue to be granted on a per hectare basis: in order to minimise their potential capitalisation in official land prices, it is important that the number of payment entitlements be (substantially) lower than the number of eligible hectares (Courleux et al. 2008); however this condition does not solve the question of an official or unofficial capitalisation in other assets at the moment of the purchase / sale of the farm (Kilian et al, 2012). In addition, despite the voluntarism on display, it is not certain that the young farmers' scheme has a substantial leverage effect on the dynamic of taking up farming which depends on numerous factors: the economic perspectives proposed for the various agricultural sectors and products; the methods used to ensure the transition of capital from one generation to the next; the image of agriculture in the society; the social conditions of the job (working time) and the legitimate request to enjoy similar living conditions in urban and rural areas, notably as regards access to public and private services (education, transport, internet, etc.). More specifically, the European Court of Auditors (ECA) acknowledges that the specific scheme in favour of young farmers "may indeed encourage [them] to start up innovative and dynamic farming business", but also notes that the proposal to require new entrants to base claim to aid on entitlements received in 2011 "is likely to create new barriers to entry for new farmers" (European Court of Auditors 2012).

4.3. The standardisation of decoupled direct aids will be the main vehicle of redistribution within each MS

The new architecture proposed for allocating first-pillar direct aids could lead to significant budgetary redistribution among farms and regions in a country like France where the historical reference model of the SPS is still in force. This would not be the case in countries like Germany or the United Kingdom which already use the model of uniform aids per hectare. To illustrate the redistribution issue in France, we present the results of static simulations using data of the Farm Accountancy Data Network (FADN) for 2010. The impact is measured in euros per farm, in % of total agricultural output (excluding direct subsidies), in % of farm income and in % of total direct subsidies (pillars I and II). Given the huge uncertainties on the way France could implement the EC proposals, four scenarios are considered. In each scenario, all agricultural land becomes eligible for basic and green payments, including land which is not eligible under the current SPS.

The first scenario (SFN) corresponds to full standardisation at the national level. The standardisation of the amount of first-pillar direct aids is thus applied at the country scale on the basis of all first-pillar payments (SFP and coupled direct aids). Each professional farm receives a same amount of 301 euros of decoupled direct aids per hectare (Table 1).

Table 1: Direct aids to professional French farms in 2010 according to farm specialisation

Farm specialisation	Number of farms	UAA per farm (ha)	Pillar I and II subsidies (€ and %)				Pillar I subsidies (€)		Single Farm Payment (SFP, €)	
			/ farm	/ AWU	/ ha of UAA	/ farm income	/ farm	/ ha of UAA	/ farm	/ ha of UAA
COP	51 420	123	39 700	28 600	323	78%	36 800	299	35 500	289
Other field crops	19 490	121	45 100	20 000	373	54%	41 600	344	40 100	332
Crop and livestock	39 230	112	41 700	20 500	372	85%	36 100	322	32 100	286
Dairying	48 170	86	34 200	18 700	398	79%	26 100	304	25 700	299
Beef cattle	33 450	101	42 100	30 500	415	207%	32 300	319	20 900	206
Mixed livestock	9 370	120	48 800	25 400	407	118%	38 100	318	33 300	278
Sheep and goats	14 140	86	38 600	25 600	452	139%	25 300	296	17 100	200
Other herbivorous	6 170	60	22 600	9 300	379	383%	15 900	267	11 100	186
Pigs	6 030	60	22 000	10 400	365	42%	17 100	284	16 300	271
Poultry	12 560	47	17 400	10 400	372	42%	14 800	317	13 400	287
Orchards and fruits	7 950	32	15 800	3 400	499	55%	4 500	142	4 000	126
Horticulture	6 720	6	3 300	900	564	10%	500	86	500	86
Vegetable	4 440	15	9 600	2 000	663	15%	2 400	166	2 200	152
Wine	46 940	22	4 300	1 600	191	8%	2 000	90	1 900	85
Total	312 180	84	31 100	15 100	371	69%	25 200	301	22 300	266

SSP - FADN France 2010 / INRA SAE2 Nantes.
European and national funds. AWU: Agricultural Work Unit; UAA: Agricultural Utilised Area; COP: Cereals, Oleaginous and Proteagenous.

The second scenario (SPN) corresponds to partial standardisation at the national level. Current coupled aids, in particular the suckler cow premium, are maintained and are not subject to redistribution. The standardisation is thus applied at the country scale on the basis of the SFP only. Each professional farm receives then an identical amount of 266 euros of decoupled direct aids per hectare (Table 1).

The third scenario (SFR) is the regional counterpart of SFN. It corresponds to full standardisation applied at the level of French administrative regions. It is implemented by dividing the national ceiling of first-pillar direct payments by the number of eligible regional hectares. Decoupled direct aids per hectare are identical in each region, for example 352 euros in Alsace, but differ among regions, for example 363 euros in Picardie but only 149 euros in Languedoc-Roussillon (Table 2).

Table 2: Direct aids to professional French farms in 2010 according to regions

French regions (all types of farm)	Number of farms	UAA per farm (ha)	Pillar I and II direct subsidies (€ and %)				Pillar I subsidies (€)		Single Farm Payment (SFP, €)	
			/ farm	/ AWU	/ ha of UAA	/ farm income	/ farm	/ ha of UAA	/ farm	/ ha of UAA
Alsace	6 750	43	17 400	8 000	408	40%	15 000	352	14 800	347
Aquitaine	24 500	48	19 900	8 400	415	81%	14 900	310	12 300	256
Auvergne	14 450	93	40 400	26 800	436	130%	26 900	290	21 100	228
B-Normandie	12 900	95	34 300	16 200	362	105%	29 300	309	26 900	284
Bourgogne	15 090	115	38 700	18 700	337	89%	32 600	284	26 800	233
Bretagne	25 910	61	25 000	12 000	411	47%	21 100	346	20 300	333
Centre	18 440	127	40 400	21 300	317	64%	36 600	287	34 200	268
Ch. Ardenne	19 220	88	31 000	14 200	353	32%	28 200	321	27 400	312
Corse	1 540			13 700						
Franche-Comté	6 270	111	37 300	21 800	336	75%	25 200	227	23 800	214
Haute-Normandie	6 980	112	40 000	21 700	358	84%	37 700	337	35 200	315
Ile-de-France	4 300	130	46 600	22 800	359	61%	42 700	329	41 100	317
L.-Roussillon	16 390	44	13 900	6 200	314	64%	6 600	149	5 300	120
Limousin	7 930	93	38 400	23 600	411	181%	28 800	308	18 900	202
Lorraine	7 890	157	52 800	27 200	337	91%	45 900	293	41 800	266
Midi-Pyrénées	26 330	78	31 500	18 000	402	111%	23 900	305	19 100	244
Nord-P-Calais	10 530	80	31 800	16 600	398	54%	28 900	362	27 500	344
Pays-de-la-Loire	25 310	82	31 500	14 000	382	77%	27 500	334	23 600	286
Picardie	10 860	131	50 600	27 200	385	65%	47 600	363	45 300	345
Poitou-Charentes	17 580	97	34 300	18 100	353	63%	28 900	297	25 200	259
PACA	11 730	37	15 100	5 100	407	50%	8 100	218	6 400	173
Rhône-Alpes	21 290	63	24 200	11 100	384	69%	14 800	235	13 400	213
France	312 180	84	31 100	15 100	371	69%	25 200	301	22 300	266

SSP - FADN France 2010 / INRA SAE2 Nantes.

European and national funds. Empty cells are not statistically significant. AWU: Agricultural Work Unit; UAA: Agricultural Utilised Area; COP: Cereals, Oleaginous and Proteagenous.

Finally the fourth scenario (SPR) is the regional counterpart of SPN. All farms in Picardie now receive an identical amount of 345 euros of decoupled direct aids per hectare and all farms in Languedoc-Roussillon an identical amount of 120 euros (Table 2).

Simulation results are presented in Tables 3, 4, 5 and 6. They can be summarised as follows.

When the standardisation is full and applied at the national level (SFN), the great winners are the farms specialised in productions corresponding to non-eligible hectares under the SPS (Table 3). This is the case for the farms specialised in wine (the amount of decoupled direct aids they receive would increase by 4,700 €) and for those specialised in orchards (the amount of decoupled direct aids they receive would increase by 5,000 €). Beef cattle farms would be penalised (-1,800 €) although their 2010 income is low relative to the other types of farms: this explains by the fact that the amount of pillar I direct aids per hectare they receive today is higher than the national average (319 € versus 301 €) and the suckler cow premium is decoupled. The impact of this scenario is negligible on average for both COP (+200 €) and dairy (-300 €) farms. However these national figures mask huge disparities from one region to another, mainly in function of production intensification levels. For example, this scenario would favour extensive dairy farms in Franche-Comté (+10,800 € of decoupled direct payments) and Auvergne (+5,000 €) but it would penalise more intensive dairy holdings in regions like Picardie (-9,600 €) or Bretagne (-4,800 €). In a general way, applying the full standardisation at the national level would be particularly beneficial for Franche-Comté, the two Mediterranean regions (Languedoc-Roussillon and PACA) and Rhône-Alpes.

Table 3: Impact of full (SFN) versus partial (SPN) national standardisation on French farms: analysis for the different specialisations

Farm specialisation	SFN				SPN			
	€ per farm	% of total output	% of the income	% of total subsidies	€ per farm	% of total output	% of the income	% of total subsidies
COP	200	0%	0%	1%	-2 800	-2%	-5%	-7%
Other field crops	-5 300	-2%	-6%	-12%	-7 950	-3%	-10%	-18%
Crop and livestock	-2 400	-1%	-5%	-6%	-2 270	-1%	-5%	-5%
Dairying	-300	0%	-1%	-1%	-2 840	-2%	-7%	-8%
Beef cattle	-1 800	-3%	-9%	-4%	6 080	9%	30%	14%
Mixed livestock	-2 000	-1%	-5%	-4%	-1 370	-1%	-3%	-3%
Sheep and goats	400	1%	1%	1%	5 650	8%	20%	15%
Other herbivorous	2 000	1%	34%	9%	4 760	4%	81%	21%
Pigs	1 000	0%	2%	5%	-280	0%	-1%	-1%
Poultry	-800	0%	-2%	-5%	-970	0%	-2%	-6%
Orchards and fruits	5 000	3%	17%	32%	4 440	2%	15%	28%
Horticulture	1 200	1%	4%	36%	1 040	0%	3%	32%
Vegetable	2 000	1%	3%	21%	1 660	1%	3%	17%
Wine	4 700	2%	9%	109%	4 030	2%	8%	94%
Total	0	0%	0%	0%	0	0%	0%	0%

SSP - FADN France 2010 / INRA SAE2 Nantes.
SFN: redistribution at the national scale on the basis of all pillar I subsidies. SPN: redistribution at the national scale on the basis of the SFP.

Applying the national standardisation for the SFP only (SPN) *versus* all direct subsidies of pillar I (SFN) would mainly impact the beef cattle farms: their 2010 income would decrease by 9% in SFN; it would increase by 30% in SPN. In the partial standardisation scenario, the beef cattle holdings retain the benefit of the suckler cow premium which remains coupled and simultaneously benefit from the national redistribution of the SFP because the latter is lower than the national average (respectively, 206 € and 266 €). COP and dairy farms are more disadvantaged in the partial *versus* full standardisation scenario, in both cases with huge disparities among regions; wine and horticulture holdings are less advantaged (Table 3). In a region like Limousin, highly specialised in beef cattle production, maintaining coupled the suckler cow premium would allow farmers of this region to win about 6,000 € (+28% of agricultural regional income) to compare with a loss of about 700 € for a full standardisation at the national level (-3% of agricultural regional income). In a more general way, the partial standardisation applied at the country level would allow to reinforce the redistribution of funds induced by the French application of the 2008 CAP Health Check (Chatellier and Guyomard 2011): the beef cattle farms in extensive breeding regions like Auvergne and Franche-Comté would gain and the more intensive holdings (dairy farms with fodder maize and young beef animals in the western part of the country , COP farms with grain maize and irrigation in the South-West, etc.) would be penalised (Table 4).

Table 4: Impact of full (SFN) versus partial (SPN) national standardisation on French farms: analysis for the administrative regions

French regions (all types of farm)	SFN				SPN			
	€ per farm	% of total output	% of income	% of total subsidies	€ per farm	% of total output	% of income	% of total subsidies
Alsace	-2 200	-1,4%	-5%	-13%	-3 460	-2,2%	-8%	-20%
Aquitaine	-500	-0,3%	-2%	-3%	470	0,3%	2%	2%
Auvergne	900	1,0%	3%	2%	3 540	3,8%	11%	9%
Basse-Normandie	-800	-0,4%	-2%	-2%	-1 700	-0,9%	-5%	-5%
Bourgogne	1 900	1,2%	4%	5%	3 750	2,3%	9%	10%
Bretagne	-2 800	-1,1%	-5%	-11%	-4 090	-1,7%	-8%	-16%
Centre	1 700	0,9%	3%	4%	-270	-0,1%	0%	-1%
Ch.-Ardenne	-1 800	-0,7%	-2%	-6%	-4 010	-1,5%	-4%	-13%
Franche-Comté	8 200	5,3%	17%	22%	5 760	3,8%	11%	15%
Haute-Normandie	-4 100	-2,0%	-9%	-10%	-5 450	-2,7%	-11%	-14%
Ile-de-France	-3 700	-1,6%	-5%	-8%	-6 560	-2,8%	-8%	-14%
L.-Roussillon	6 700	6,0%	31%	48%	6 490	5,8%	29%	47%
Limousin	-700	-0,9%	-3%	-2%	5 980	7,7%	28%	16%
Lorraine	1 300	0,7%	2%	2%	-50	0,0%	0%	0%
Midi-Pyrénées	-300	-0,3%	-1%	-1%	1 760	1,7%	6%	6%
Nord-P-de-Calais	-4 900	-2,3%	-8%	-15%	-6 240	-2,9%	-10%	-20%
Pays-de-la-Loire	-2 700	-1,3%	-7%	-9%	-1 670	-0,8%	-4%	-5%
Picardie	-8 100	-3,3%	-10%	-16%	-10 360	-4,2%	-13%	-20%
Poitou-Charentes	300	0,2%	1%	1%	670	0,4%	1%	2%
PACA	3 100	2,1%	10%	21%	3 470	2,4%	11%	23%
Rhône-Alpes	4 100	3,2%	12%	17%	3 360	2,6%	9%	14%
France	0	0,0%	0%	0%	0	0,0%	0,0%	0%

SSP - FADN France 2010 / INRA SAE2 Nantes.

SFN: redistribution at the national scale on the basis of all pillar I subsidies. SPN: redistribution at the national scale on the basis of the SFP.

In both SFR and SPR, the standardisation is implemented at the regional level without redistribution of funds between the regions. The full regional standardisation (SFR) would have a negative impact of beef cattle holdings in all the administrative regions, except in Limousin where they would gain (+400 €) essentially at the expense of farms specialised in sheep and goats which would lose around 5,500 € (Table 5). In regions where COP farms are numerous (Ile de France, Centre and Picardie), the redistribution is small because the current dispersion of first-pillar direct aids is narrow. In the region Pays de la Loire, COP farms would gain (+14% of their 2010 income), mainly at the expense of intensive beef cattle farms (-16% of their 2010 income); the average impact on specialised dairy farms would be null. The situation is inverted in the region Rhône-Alpes where COP farms would be penalised (-5,800 €), because the region includes a large number of extensive dairy farms (+400 €). In Franche-Comté and Auvergne, dairy farms remain favoured but less relative to both SFN and SPN.

Table 5: Impact on French farms of a full flat-rate model applied at the level of administrative regions (SFR, no coupling): analysis for some types of farms

Farm types	COP		Crop and livestock		Dairying		Beef cattle		Sheep and goats	
Regions	€ per farm	% income	€ per farm	% income	€ per farm	% income	€ per farm	% income	€ per farm	% income
Alsace	100	0%	-3 500	-7%	200	0%				
Aquitaine	-900	-3%	-1 900	-8%	-3 000	-18%	-6 000	-50%	-4 700	-24%
Auvergne	-1 000	-2%	100	0%	4 300	14%	-3 000	-13%	-6 100	-23%
Basse-Normandie			-1 000	-2%	-1 000	-3%	-1 900	-20%		
Bourgogne	2 000	3%	-1 500	-4%	-2 400	-5%	-3 100	-14%		
Bretagne			-900	-1%	-1 400	-3%				
Centre	900	1%	-2 700	-5%	-5 100	-10%	-900	-3%		
Ch.-Ardenne	700	1%	8 100	9%	1 700	3%				
Franche-Comté			-10 100	-15%	3 400	7%				
Hte-Normandie	2 100	5%	-1 000	-2%	-2 400	-6%				
Ile-de-France	1 400	2%								
L.-Roussillon							-7 700	-32%	-800	-3%
Limousin							400	2%	-5 500	-24%
Lorraine	3 000	5%	-2 400	-4%	1 300	2%				
Midi-Pyrénées	-700	-2%	-2 500	-8%	-200	-1%	-2 600	-15%	3 900	14%
Nord-P-Calais	300	1%	-2 400	-3%	-3 600	-7%				
Pays-de-la-Loire	5 300	14%	-1 100	-2%	0	0%	-3 200	-16%		
Picardie	1 900	4%	-4 100	-5%	-3 500	-7%				
P-Charentes	3 100	7%	-1 800	-3%	-4 700	-13%	-4 900	-19%	-10 700	-26%
PACA									-11 500	-38%
Rhône-Alpes	-5 800	-18%	-2 200	-5%	400	1%	-2 200	-10%		

SSP - FADN France 2010 / INRA SAE2 Nantes.
Empty cells are not statistically significant.

SPR which maintains coupled the suckler cow premium would allow beef cattle farms to win in all the administrative regions, except Corse. In practice, both SPR and SPN show the crucial importance of maintaining coupled the suckler cow premium for beef cattle holdings. In SPR, these production units would gain to the detriment of specialised COP and dairy farms which would lose or gain less (with regard to SFR). Dairy farms located in regions of mixed farming like Bourgogne or Poitou-Charentes would be heavily penalised (cut in 2010 income of 20% in Poitou-Charentes and 17% in Bourgogne) because the SFP they receive today is larger than that of COP farms (Table 6).

Table 6: Impact on French farms of a partial flat-rate model applied at the level of administrative regions (SPR, coupled aids are maintained): analysis for some types of farms

Farm types	COP		Crop and livestock		Dairying		Beef cattle		Sheep and goats	
Regions	€ per farm	% income	€ per farm	% income	€ per farm	% income	€ per farm	% income	€ per farm	% income
Alsace	-200	-1%	-2 900	-6%	100	0%				
Aquitaine	-4 400	-14%	-1 400	-6%	-6 100	-36%	1 400	12%	100	1%
Auvergne	-6 700	-17%	-1 100	-3%	300	1%	1 800	8%	-4 800	-18%
Basse-Normandie			-300	-1%	-3 100	-8%	7 000	73%		
Bourgogne	-5 100	-8%	-2 300	-6%	-8 100	-17%	3 800	17%		
Bretagne			-400	-1%	-1 900	-4%				
Centre	-800	-1%	300	1%	-6 700	-13%	10 900	42%		
Ch.-Ardenne	600	1%	8 300	10%	1 600	3%				
Corse							-1 800	-7%	-800	-3%
Franche-Comté			-9 300	-14%	2 400	5%				
Haute-Normandie	1 200	3%	300	1%	-4 300	-11%				
Ile-de-France	1 100	2%								
L.-Roussillon							-2 000	-8%	2 600	9%
Limousin							800	4%	-3 100	-14%
Lorraine	2 200	3%	-2 000	-3%	-1 500	-3%				
Midi-Pyrénées	-5 300	-15%	-1 600	-5%	-3 900	-13%	3 100	18%	6 200	23%
Nord-P-Calais	100	0%	-1 900	-3%	-4 200	-8%				
Pays-de-la-Loire	1 700	4%	-2 600	-5%	-3 900	-8%	3 900	19%		
Picardie	1 600	3%	-4 000	-5%	-4 400	-9%				
P-Charentes	-700	-2%	-1 700	-3%	-7 200	-20%	3 800	14%	-1 300	-3%
PACA									-4 200	-14%
Rhône-Alpes	-7 200	-22%	-2 600	-6%	-1 300	-3%	4 800	23%		

SSP - FADN France 2010 / INRA SAE2 Nantes.
Empty cells are not statistically significant.

In summary, these four simulations show that the redistribution of funds between French farms could be very substantial and very different depending on the way the standardisation is implemented: national *versus* regional scale, full *versus* partial standardisation, regional envelopes defined by simple division on the basis of eligible hectares or on the basis of various "objective" criteria such as income, output and/or labour, etc. This means that the proposals give each MS an important margin of manoeuvre for reorienting first-pillar direct aids. This also illustrates a point already mentioned, namely the insufficient justification and targeting of the first pillar, more specifically of the basic payment.

4.4. The end of dairy quotas and the difficult question of farmers' bargaining power

The removal of dairy quotas illustrates well the difficulty of finding a reform path which reconciles two distinct objectives: on the one hand, the enhancement of sector competitiveness and the gain in international market shares (EC 2010-b), and, on the other hand, the well-balanced spatial repartition of production for a harmonious development of all EU rural territories. The proposals are not surprising in the sense that they are part of the logic which has prevailed in past reforms, namely the disengagement of the public authorities in market regulation. From 2015, the adjustment of milk supply to demand will no longer be arbitrated by administrative rules established by the public authorities but by the milk-processing industry though a system of contracts. This move from an essentially administrative regulation to a market and contractualised regulation might lead to a fall in the milk price paid to dairy producers if it resulted in too weak collective control of global supply compared with demand. It might also lead to geographical concentration of production in the most competitive areas, especially in a country like France where dairy quotas are not transferable on a quota market, an intensification of productive systems (Lelyon et al. 2011) and a sharper decrease in the number of dairy farms. As a result, the suppression of dairy quotas raises questions about the future link between dairy production and the territories, all the more since the costs vary greatly between regions (production, collection, transformation and distribution costs). To limit this potential movement of supply concentration, the public authorities could use three levers: that of environmental standards (for example, the Water Framework Directive which includes the Nitrates Directives) which can prevent excessive animal concentration in some agricultural areas at risk; that of a public support orientation to the benefit of milk producers and/or dairy companies located in least-advantaged areas so as to allow them to compensate higher production costs and weaker labour productivity; and that of protection, through public rules, of initiatives in terms of system, product and/or market differentiation. EU consumers can also influence the expected dynamics by demonstrating, through distinct purchase prices, a particular attachment to dairy products obtained from environmentally friendly production systems and/or coming from specific geographical areas.

In the dairy sector, as in others, the EC intends to enhance the bargaining power of agricultural producers in the face of a more concentrated downstream sector. This intention seems *a priori* appealing. One can however wonder about the rationale of limiting this power enhancement just to the downstream: the upstream sector is as much concentrated, if not more. In addition, the rationale which underlies this enhancement is at least questionable. The objective is clearly to increase the bargaining power of numerous and spatially scattered dairy farmers by favouring their grouping and the establishment of contracts in order to achieve a fairer sharing of added value between producers, processors and distributors. Implicitly this means that the current sharing is unfair because the bargaining power of processors and distributors would be too strong. This rationale raises two questions: first the necessity to qualify the fact that the downstream bargaining power would be too high; second the risk that the enhancement of farmers' bargaining power might ultimately lead to an increase in prices for the final consumer. The second risk means that there could be a gain for dairy producers but not by means of a fairer sharing of added value, *ceteris paribus*, but by an increase in the price of dairy products for the final consumer. Would it not be more efficient to tackle the potentially excessive concentration of downstream processors and distributors and question the fact that their bargaining power might be too strong because that of farmers would be too weak?

4.5. Will the budget dedicated to crisis and risk management sufficient?

The two "systems" of management of production, price and income variability amount to distinguishing exceptional situations (handled by the crisis reserve) from situations of more ordinary variability (handled within the framework of pillar II in the form of an extension of insurance and mutual funds). This distinction is welcome as the private mechanisms of *ex post* risk management, even subsidised by the public authorities, are very likely insufficient to face crisis situations which require State intervention. The crisis reserve is designed to achieve reactivity and flexibility: these two conditions are required to ensure a minimal efficiency of the device which however could only be appreciated in the use. The same goes for its amount, 3.5 billion euros for the seven-year period 2014 to 2020. As for the extension of insurance and mutual funds, one will wonder that they are included in the second pillar, for at least two reasons: first for motives of legibility of the CAP and of comprehension of the objectives followed through pillars I and II; second for motives of efficiency and equity as the co-financing obligation could lead some "poor" EU countries to give up the implementation of large systems of insurance and mutual funds for lack of national resources. Furthermore it is necessary to be careful that the smallest farmers are not excluded from the benefit of these plans because they lack sufficient financial capacity to get involved. To sum up, the proposals for the management of crisis and more ordinary variability, and their consequences, are a step in the right direction, the return to the former CAP of guaranteed prices being totally excluded (Tangerman 2011; Gohin 2012). But this first step must be followed by others, bigger ones, in a context where variability should grow in the future under the impact of global changes (notably because of climate change): more than farm income support in the strictest sense, the CAP must pursue an objective of stability.

4.6. A welcome effort in favour of research and innovation

Increasing support for finalised and applied research, as well as research and development, in particular with the view to defining productive, competitive, environmentally friendly and resilient production systems in the face of global changes, be they biophysical (climate change) and/or economic (price volatility), is a very positive point (Chatellier 2011-a-b). We must make sure that the dedicated funds (4.5 billion euros for the period 2014-2020) will be in line with the stakes and challenges. We must also make sure of the effectiveness of the systems implemented, specifically that they will not favour the short term excessively (i.e., the transfer of existing knowledge) to the detriment of the long term (i.e., the financing of analytic and holistic research that the development of sustainable agricultural and food production requires). In the same way, if the expression "doubling the credits assigned to research" is very much appealing and used in the media to praise the virtues of the new CAP, it is advisable to counterbalance it in at least four ways: i) the amount is yet hypothetical and will ultimately depend on the outcome of the current budgetary discussions; ii) this amount remains modest in proportion to the total budget envisaged for the CAP over the seven years 2014-2020 (387 billion euros), in particular in proportion to the first pillar (282 billion euros); iii) the comparison with the previous programming period (2007-2013) is relevant only if the spectrum covered by the measures is very close; and finally iv) the sharing of funds between basic research, applied research, development, innovation and transfer is unclear.

5. CONCLUSION

With the October 2011 legislative proposals for CAP reform, the EC played first. It may then be considered rational for the other stakeholders to play "opposite" cards so as to set the limits of the intervals in which the difficult game of negotiations will take place, a game which will enable, at least theoretically, these proposals to become legal decisions. But above all, does it exist any other possible way than that taken by the EC which, within the framework of a budget under tension, must try to reconcile ambitions and objectives, irreconcilable *a priori*, or at least barely compatible: the competitiveness of European agriculture and the protection of the environment; the same competitiveness and the protection of small farmers in a more than difficult economic context which makes the opportunities of non-farming jobs more than scarce; the convergence of direct aids for equity motives without putting into danger a too large number of farms which cannot survive without these aids; the convergence of aids because of the reduction in the inequalities between countries and regions while taking into account local particularities, notably geographical handicaps; the request of the UE-12 MS for an increase in the aids granted to them because of an equal treatment for all the European countries without irritating the former MS of the EU-15 which have their eyes riveted on their budgetary return, etc.

No one can be expected to do the impossible. As a result, we think that the path taken by the EC is the right one. The preamble of the reform is shared: the European agriculture must be sustainable from an economic, social and environmental point of view, and the CAP has to serve this legitimate and necessary ambition. By political realism, more specifically acceptability by the various protagonists and first of all the governments of the 27 EU countries, such or such actor could estimate that such or such orientation is too timid or, on the contrary, too sudden. But above all, the immediate and direct consequence of this political pragmatism which has led to a successive-step policy since 1992 is that, very likely, it is not the ultimate reform of the CAP; that of 2014 will doubtless be very quickly followed by other reforms.

As a result, a logic recommendation is to focus attention on the drawbacks of the EC proposals that can "easily" be amended so that their effectiveness would be enhanced. In addition, it is crucial that the modified proposals could be built on in further reforms: changes should not lead the EC to maintain the status-quo - unfortunately a likely evolution as shown by the current discussions between the EC, the European Parliament and the different national governments (on this point, see the most recent issues of Agra Europe) - or to follow an impasse in a long-term dynamic perspective. The ECA (2012) considers that these proposals are much more oriented towards compliance than effectiveness, remaining fundamentally focused on spending and controlling expenditure. This is at least partly true. Although simplicity is of course a legitimate objective, we do believe that a modernised CAP targeted on market failures as well as environmental and territorial public goods will entail rather significant transaction costs as the policy should in most cases operate on a spatial basis rather than at the scale of the farm.

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