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RESEARCH IN ECONOMICS AND RURAL SOCIOLOGY

The legislative proposals of the CAP reform (October 2011): first analysis

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between regions and categories of farms, within a given Member State (MS), notably in a country like France where the historical reference model is used for allocating the Single Farm Payment (SFP). By contrast, the allocation of CAP funds between the different MS is only marginally modified.

Uncertainties surrounding the future budget of the CAP and influence of the European Parliament

The communication from the EC entitled “The Europe 2020 Strategy” (European Commission, 2010), 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, 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 (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). As a result, it is not certain that the new CAP will be applied at the expected date (beginning of 2014).

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 (European Commission, 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.

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: 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 extremes).

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.

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).

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.

First reactions from French stakeholders

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. 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. 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.

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.

First analysis and keys to interpretation

Several measures in the proposals seem to us to go into the right direction (Chatellier and Guyomard, 2007) and are close to the spirit of the works carried out by other colleagues (Bureau and Mahé, 2008; Bureau and Witzke, 2010). However, they may be considered as too timid or still too uncertain in terms of their concrete modalities of implementation (also because of the major role of the subsidiarity principle).

A low redistribution of funds to newcomers

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, we do think that it is not legitimate to provide an identical level of decoupled support per hectare to all European farmers, this because they live in countries which are very heterogeneous in terms of economic development, farm incomes and agricultural production costs.

A new architecture which enhances the legitimacy of support, but only partly

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 EU level (approximately 55% of the current SFP), with huge disparities between countries. It is not certain that the cross-compliance is sufficient, at least in the medium and long term, to justify the amounts granted to farmers in that way. 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.

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 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 ; 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. 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".

The standardization of decoupled aids, the mainspring of redistribution

The new architecture proposed for the allocation of first-pillar direct aid will lead to a redistribution of the support between the categories of farms; this will be the case in France, in particular, where the historical reference model for decoupled payment is still in force, unlike in other countries like Germany or the United Kingdom. The standardization of the amount of direct payments per hectare will be, for most farmers, one of the essential elements of the next reform.

For a given Member State, the first question is whether the principle of standardization of the amount of the basic payment per hectare will apply on the country scale or on the scale of finer geographical areas (to be defined) on the basis of a preliminary redistribution of the funds between regions. Assuming that the application would be envisaged on the country scale (France), the extensive breeding regions (including, for example, Franche-Comté and Auvergne) would be the big winners, according to what was observed further to the decisions taken within the framework of the CAP health check (Chatellier and Guyomard, 2011a). The farms using more intensive models of production (dairy farms with fodder maize and young cattle in the West, on the other hand, farms with grain maize irrigated in Aquitaine, etc.) would be the losers. By applying the standardization principle to a finer geographical scale, the initial geographical distribution of the budgets is preserved (unless a preliminary redistribution of the funds between regions is adopted). For farmers, this second option would cause redistributions to be all the greater the more heterogeneous the area considered (area where the spectrum of the amount of the SP per hectare is wide). In the most homogeneous departments in farming terms, standardization would not cause major redistributions.

The end of dairy quotas and the difficult question of market powers

For the Community decision-makers, the suppression of dairy quotas illustrates well the difficulty of finding a reform path which reconciles two different objectives: on the one hand, the enhancement of sector competitiveness and the gain in market shares at international level, and on the other hand, the preservation of a well-balanced territorial distribution of production for a “harmonious” development of the territory. This development is part of the logic which has prevailed for several years, namely a

disengagement of the public authorities in market regulation. From 2015, the adjustment of the milk supply to demand will no longer be arbitrated by the strict administrative rules fixed by the public authorities, but by food-processing industrialists through a contract system. This move from an essentially administrative regulation to a traded and contractualized regulation might lead to a fall in the milk price paid to the producer if it resulted in poor collective control of global supply (compared with demand). It might also lead to a geographical concentration of production in the most competitive areas (especially in a country like France where quotas were not marketable), an intensification of productive systems and a sharper decrease in the number of dairy farms. Therefore, the suppression of dairy quotas raises questions about the future link between dairy production and the territory, all the more since the costs (milk production costs, collection costs, and routing cost of the dairy products towards the areas of consumption) sometimes vary greatly between regions. To limit and supervise this potential movement of supply concentration, public policies may however use three levers: that of environmental standards (framework directive on water, and so on) which can forbid excessive animal concentration in small agricultural regions considered at risk (water pollution); that of the orientation of public support to the advantage of producers (and/or companies) located in the least-advantaged areas, so as to allow them to remain competitive in spite of the less advantageous production costs and more limited working productivity; and that of protection through public rules and initiatives of differentiation. Consumers can also influence the expected dynamics by demonstrating, through differentiated purchase prices, an attachment to dairy products coming from specific geographical areas.

In the dairy sector, as in others, the European Commission intends to enhance “the bargaining power” of producers in the face of more concentrated downstream power. While this initiative can be considered as a positive evolution, we may also wonder about the justification of limiting this enhancement the bargaining power just to the downstream; upstream farms being as much concentrated if not more. But would it not be better to wonder about the logic which underlies this enhancement with the following analysis: the objective is to enhance the bargaining power of numerous and fragmented farmers, by joining them together and by the contractualization of a fairer sharing of added

value between producers, processors and distributors. Implicitly, this argument implies that the current sharing system is not fair because (as a rule, downstream bargaining power would be too strong). According to this logic, not only would it be advisable, at first, to qualify the fact that downstream bargaining power would be too high, is there not ultimately a risk that the enhancement of farmers' bargaining power may lead to an increase in prices for the consumer, in order to weigh more in the face of the downstream? In other words, there potentially would be a gain for the producers but not by means of a fairer sharing of added value, *ceteris paribus*, but by an increase in the price of final consumption. Is it not advisable first to tackle the potentially excessive concentration of the downstream farms and question the fact that their bargaining power might be too strong because that of the farmers' is too weak?

An insufficient budget dedicated to crisis and risk management

Both "systems" of management of production variability, prices and income, in practice amount to distinguishing the exceptional situations (or crises handled by the eponymous reserve) from situations of more ordinary variability (handling within the framework of pillar II in the form of an extension of insurance and mutual funds). This distinction is good because the mechanisms deprived of ex-post risk management, even subsidized by the public authorities, are insufficient to face the exceptional situations which require State intervention. The plan called "crisis reserve" is designed to ally reactivity and flexibility, indispensable to its effectiveness which, however, can only be appreciated in time in this case. The same goes for its amount: 3.5 billion euros, for the seven years from 2014 to 2020. As for the extension of the insurance and mutual funds contract, we are first surprised that they are registered in pillar II, for at least two reasons: on the one hand, for a motive of legibility of the CAP and of comprehension of the objectives followed via both pillars, and on the other hand, a reason of effectiveness and equity which makes co-financing lead certain Member States to give up the implementation of these large systems of insurance and mutual funds for lack of sufficient national resources. Moreover, 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 of the

European Commission in the management of variability and risks, and their consequences, are a step in the right direction, the return to the former CAP of guaranteed prices being excluded. A step which must be followed by other steps, bigger ones, in a context where variability should grow in the future under the impact of global changes and that the CAP must focus more on an objective of stability in the strict sense.

A first effort in favour of research and support of innovative systems

The support for finalized and applied research, in particular with a view to defining productive, competitive, environmentally-friendly and resilient systems of production in the face of global changes, be they biophysical (climate change) or economic (price volatility), is a very positive point in the reform proposed. We must make sure that the dedicated funds will be in line with the stakes and challenges. We must also make sure of the effectiveness of the systems implemented and that they will not favour the short term excessively (i.e. transfer) to the detriment of the long term (i.e. finalized (applied) research). In the same way, if the term "doubling the credits assigned to research" is very much used in the media to praise the virtues of the new CAP, it is advisable to counterbalance it in several ways: i) the amount of the funds which will be assigned to it in the end is not yet decided and will depend on the outcome of the current budgetary negotiations; ii) this amount remains modest in proportion to the global sums envisaged for the financing of the future CAP in 2014-2020 (387 billion euros, including 281.8 billion euros for the first pillar); iii) the comparison with the previous programming (2007-2013) may be technically possible requires the spectrum covered by the measures to be close; iv) the key to the sharing of funds between the activities of research and those of research and development (even of animation and transfer) is still not clear.

Conclusion

With these legislative proposals for the CAP reform of October 12th, 2011, the Commission played first and it may be considered rational for the other stakeholders to play "opposite" cards so as to fix the limits of the intervals in which the long game will take place, a game which will enable the proposals to go to legislative decisions. But above all, is there any other possible way than that taken by the European Commission which,

within the framework of a budget under tension (Chatellier and Guyomard, 2011-b), must try to reconcile ambitions and objectives, irreconcilable a priori, or at least barely compatible: the competitiveness of European agriculture and environmental protection; the same competitiveness and the protection of small farmers in a more than difficult economic environment which makes the opportunities of non-farming jobs more than scarce; the convergence of direct aid because of the reduction in disparities without putting into danger a too large number of farms which can only survive today with the aid; the convergence of the aid because of the reduction in the inequalities between countries and regions while taking into account local identity, in particular in terms of geographical handicaps; the request of the 12 EU new Member States for an increase in the aid granted to them because of an equal treatment for all the European countries, without irritating the former Member States of the EU-15, who have their eye riveted on their budgetary return, and so on.

No one can be expected to do the impossible. Therefore, it seems to us that the path taken by the European Commission is the “right one”. In other words, the preamble of the reform is divided: European agriculture must be sustainable in all three economic, social and environmental respects; the CAP also has to serve this legitimate and necessary ambition. By pragmatism and political realism, that is to say acceptability by the various protagonists and first of all the governments of the 27 Member States, we can estimate that an orientation is too timid or, on the contrary, too sudden. But above all, the 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.

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For further information

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