Chapter 11

Distribution of agricultural direct payments: the case of France

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This chapter examines some facts concerning French distribution of agricultural direct payments. France has developed a hybrid historical model in its attempt to renew a strong "market support and direct payment" pillar, mostly with environmental and territorial targeted subsidies. It grants to Pillar 1 a "rural development" dimension and magnifies the related responsibilities attributed to national authorities without observing the co-funding principle, thereby jeopardising the relevance of the Pillar 2. Evidence on the French distribution of direct payments suggests three sound assumptions: 1) reforming the direct payment system cannot be driven by equity considerations alone but also by public policy efficiency, especially when contemplating the diversity of the agricultural sector; 2) distribution of support has to be considered in line with policy objectives, but remains frequently incoherent; and 3) the partial redistribution of support which results from the 2009 Health Check of the Common Agricultural Policy shows that French conservatism is progressively declining.

The mechanisms of the Common Agricultural Policy (CAP) have been significantly altered since the 1992 reform. Direct payments were introduced as sector-based compensatory support for the decrease in guaranteed prices. Supporting farm income was thus the main objective of this instrument. By construction, it was biased towards commodities supported in the past, and thus towards areas with high yields. With the 2003 reform, the flexibility given to the national authorities in decoupling these subsidies has been creating further heterogeneous situations across commodities and production processes, between and within the member states. The French option has frozen the past distribution of support in order to avoid income and wealth effects; to maintain specific types of production; and to avoid sudden land abandonment. When preparing the post-2013 CAP, the distribution of the main financial tool of the CAP has been causing explicit concern but is far from being a new issue.[2] By running against the public legitimacy of this policy, it jeopardises the long-term preservation of these public payments — at least in their current composition.

The release of nominative data on farm subsidy recipients has shed some light on a massive and complex redistributive system. Adopted in November 2005 by the European Commission, the European Transparency Initiative has led to two waves of disclosures. In September 2008, beneficiaries of rural development measures were compulsorily disclosed. In April 2009 followed those of market support and direct payments.

The aim of this paper is to shed some light on the allocation of farm subsidies in France, which is the main European Union (EU) market commodity producer and the main recipient of EU direct payments. First, the institutional framework of direct payment redistribution is pointed out. The implementation and management of decoupling provides a unique occasion to redistribute Pillar 1 support. Given the flexibility inherent in the 2003 CAP reform, the responsibility for such decisions has been left to member state appraisal. As a result, the distribution issue has been increasingly left to member state competence.

In 2007, the first year of partial decoupling achievement in France, 16.5% of subsidy recipients received half of all direct payments. There are several possible dimensions when studying the support allocation issue. The sector-based one is preferred because it corresponds to the historical *raison d'être* of the support. In this context, French arable crop producers have been the main financial recipients of the direct payment mechanism — and by being a core livestock production input, cattle breeders have also benefited indirectly from crop support.

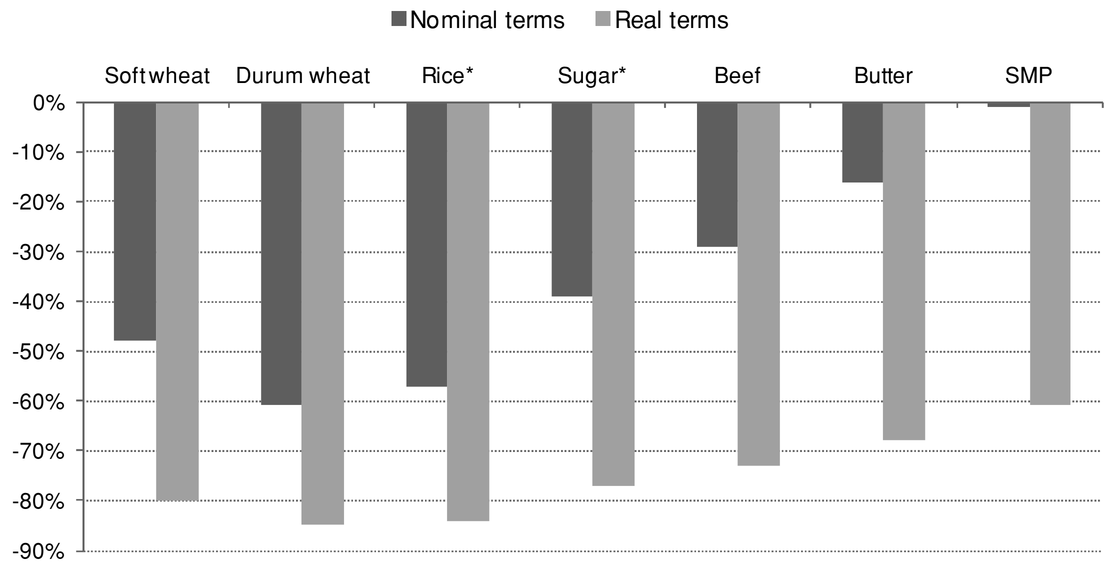
The potentially redistributive elements of the 2009 CAP Health Check are explained in the next section of the paper. The assessment considers the French options regarding new provisions implemented from 2010 on. The assumption of a French hybrid historical decoupling model and the premises of a strategy for the CAP beyond 2013 are then discussed. The paper concludes with some thoughts on the renewed political economy regarding direct payment distribution and rationale.

Direct payment distribution: an institutional approach

In order to alter support based almost exclusively on prices to a more market-oriented and budget-limited agricultural policy, the 1992 reform started to shift the main mechanism from guaranteed prices to direct "compensatory" payments. Its implementation allowed a theoretical targeting of farm support since policy makers were able to determine the amounts (coupled or decoupled to market prices and production;

static or dynamic), the criteria (respecting cross-compliance or providing specific amenities) and timing (bounded or not). In this context, the 1992 reform initiated the progressive targeting of the EU farm support.[3]

Figure 11.1. Cumulative change in European Union price support in nominal and real terms
1991-2008

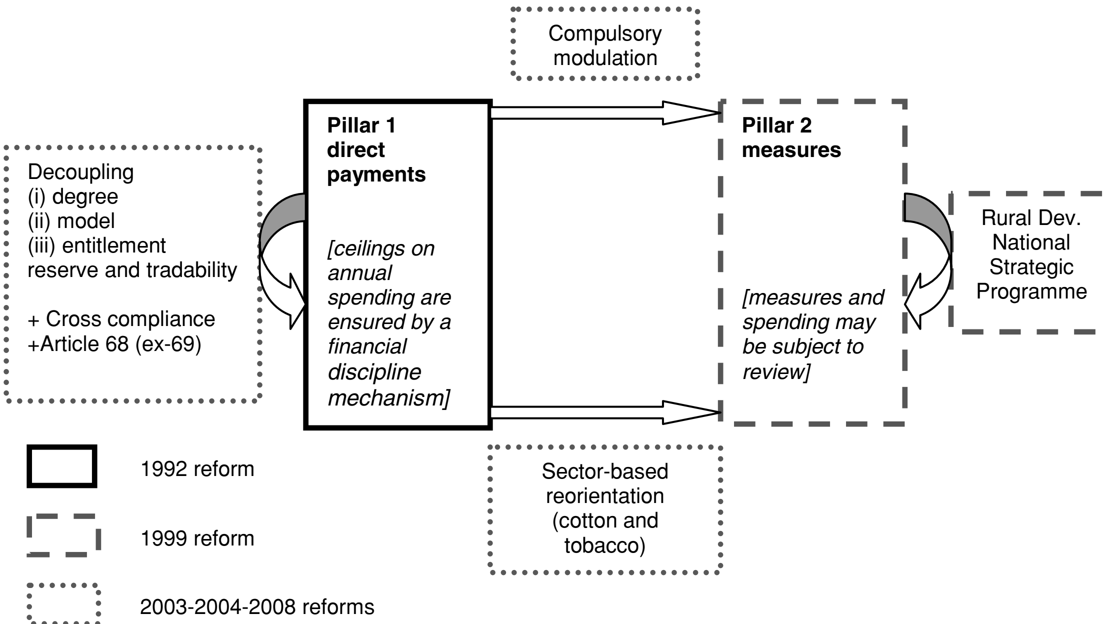


* 1992-2008. SMP skim milk powder

Source: European Commission (2009).

Direct payments to crop areas were computed, by hectare, considering 1) national and regional average yields, and 2) scheduled price support decreases. Livestock direct premiums per head were revalorised and/or created. The aim was to compensate the negative effects on farm incomes and wealth resulting from the decreases in price support illustrated with Figure 11.1. The 2000, 2003 and 2009 reforms accentuated this trend, and decoupled partially direct payments from production levels and prices. Compensatory payments have been made "permanent" as they were not time-bounded and were systematically provided to all newcomers. Figure 11.2 summarises the institutional channels which aim at redistributing the past price policy support. The framework's construction and interpretation are gradually explained below.

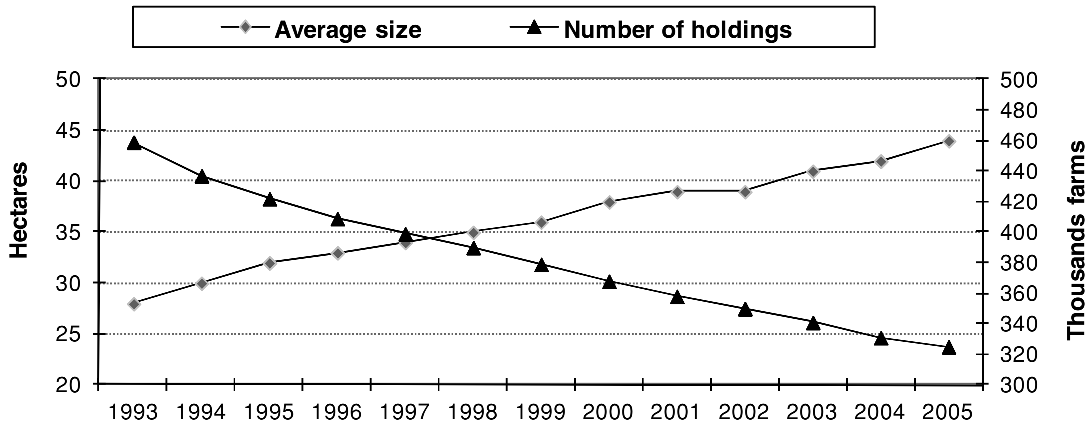
Figure 11.2. Redistributive institutional framework of CAP support reforms



The historical price market policy has benefited the largest and most intensive farm holdings. Indeed, the higher the volume of production, the higher was the support. As a result, distribution of support was discussed by policy makers when negotiating the 1992 MacSharry reform.[4] However, this did not lead to an effective mechanism able to counterbalance the concentration of support on a few farm structures, sectors and geographic areas. The concentration of direct payment recipients was, and still is, not consistent with the distribution of its cost, which is shared out among taxpayers.

The agricultural sector faces dynamic economic forces which foster adjustments. Economic growth has drastically reduced the share of the agricultural sector in both GDP and total employment. Productivity gains have been higher in agriculture than in manufacturing (Martin and Mitra, 2001). These gains have been labour-saving, and have thus contributed towards reducing agricultural employment and increasing holding sizes. Dupraz, Latruffe and Mann (2010) considered the factors which force on-farm labour use, especially the level and type of agricultural support. They demonstrate that, in France, direct payments tend to discourage labour demand, whereas green or investment-targeted measures promote contract and hired labour in France. Ciaian, Dries and D'Artis Kancs (2010) present empirical results on EU agricultural labour adjustments (job destruction and creation). Significant differences between and among member states can be attributed to farm structural disparities. Indeed, regions with small average farm sizes display higher labour adjustments than those with larger average farm sizes.

Figure 11.3. Evolution of French average size and number of holdings for arable crops
1993-2005



Source: Data from ONIC-ONIOL/SCEES-DPEI; author's interpretation.

Figure 11.3 illustrates the evolution of French average size and number of holdings producing arable crops. On the one hand, the number of holdings dropped by roughly 30% between 1993 and 2005. On the other hand, the average size of arable crop holdings increased by half during the same period. This concentration of arable areas is in line with the concentration of support[5], and interacts with the concentration of capital. Because it provides a wealth and insurance effect, subsidies influence farmers' attitudes to risk (Hennessy, 1998). The assumption of decreasing risk aversion tends to increase investments in capital. As a result, the agricultural sector shows a concentration of both land and capital.

The 1992 reform did not limit direct payments for cereal, oilseeds and protein crops via restrictions on set-aside compensation as initially put forward by the Commission. Capping the total amount a farm may receive – though considered in the first proposals – was withdrawn in the final agreement. However, the exemption from compulsory set-aside for small holdings – those producing up to the equivalent of 92 tonnes of cereals-had been agreed. For the main livestock compensatory payments, i.e. the special premium for male bovines and the suckler cow premium, a stocking density rate criteria and a maximum number of heads were approved.

The 1999 reform continued the compensation of guaranteed price decreases with direct payments. However, in contrast to the 1992 reform, compensation was partial in order to counteract criticisms of overcompensation.[6] Indeed, full compensation did not consider income increases from restructuring and entrepreneurial schemes on farm holdings, potential decreases in farm input prices, or off-farm activity development.

Following the 2003 reform, the implementation and management of decoupling schemes provided a unique occasion to redistribute Pillar 1 direct payments. Given the flexibility inherent in the Luxembourg agreement, the responsibility for such a decision lies with the member state. The full historic model possessed the ability to almost freeze the past distribution of support whereas the fully regionalised model redistributed it within a specified territory (region).

Compulsory and voluntary redistributing tools

Beyond the adopted model of decoupled support, EU members have implemented voluntary and/or compulsory tools which aim at redistributing historical direct payments. First, on a voluntary basis, national reserves of Single Farm Payments (SFPs) may be created by means of a linear percentage reduction in the holding reference amounts (up to 3% of the total entitlement value) and the incorporation of non-attributed SFPs or not activated for three years.

The objective of a national reserve is to grant additional decoupled payments to new farms or selected recipients. Awarding additional decoupled payments depends on features such as the absence of entitlements for farmers entering the sector; for farmers who inherited land, leased out land or bought land during the reference period.[7] Recipients can also be farmers who have restructured their production or invested in their holding during or directly after the reference period. The national reserve can be temporary, i.e. a transitory tool to ease the transition from coupled to decoupled direct payment scheme-for instance in Germany or the United Kingdom, which plan to close the reserve once the decoupling process has been completed. These two countries share a liberal view as regards the regulation of SFP markets (Kroll, 2008). The national reserve can also be permanent, i.e. it is conceived as an intervention tool for administratively managing entitlement transfers-as in most of the other member states.

Second, SFP tradability or transfer modalities may have a significant impact on the distribution of direct payments. Member states may decide that SFPs can be fully transferred or used within one specific territory, i.e. one *département* in France, one *Länd* in Germany, one region in the United Kingdom[8] or Italy, the whole country in Portugal or the Netherlands. In case of definitive (i.e. final) SFP transfers – with or without land – a part of the SFP value may be charged (taxed) and transferred to the national reserve. According to whether or not these restraints are activated, it becomes possible to create an administrative SFP market with a potentially redistributive impact. Table 11.1 presents some selected national situations (as planned), and Table 11.2 focuses on the taxation of French entitlement transfers.

Table 11.1. Selected planned modalities of SFP national reserve management

	England	France	Germany	Italy	Netherlands	Portugal	Spain
Initial deduction	4.2%	2.2%	1%	3%[3]	0.25%	2%	3%
Maximum deduction from transfer							
without land	0%	30%[1]	0%	30%[1]	0%	10%	30%[1]
with land	0%	10%[2]	0%	10%[2]	0%	0%	10%[2]

1. During the first three years of implementation: 50%; transfer to young farmers: 0%.
2. Except for transfers of an entire holding: 3% (during the first three years: 5%); transfer to young farmers: 0%.
3. Approximation from global data.

Source: Adapted from Kroll (2008) and Anciaux (2005); author's interpretation.

Table 11.2. SFP's entitlement taxation in France from 2010 onwards

	Transfer with land			Transfer without land	
	UAA < *départemental* threshold	UAA > *départemental* threshold		Any transfer	Transfer of the entire holding
	Transfer of a fraction of the holding	Transfer of a fraction	Transfer of the entire holding		
Transfer of entitlement to any farmer	3%	10%	3%	30%	3%
Transfer of entitlement to a relative	0%	10%	0%	30%	0%
Transfer of entitlement to a new farmer	0%	10%	0%	30%	0%
Transfer of entitlement to a young farmer	0%	0%	0%	0%	0%

Utilised Agricultural Area (UAA) aggregates all arable areas including fallow, temporary and permanent grassland or land under permanent crops.

The *départemental* (or sub-*départemental*) threshold refers to two plot units as defined by Article L.312-5 of the French Rural Act.

A "relative" represents a family relationship up to the second generation, i.e. the purchaser should be the wife/husband, sister/brother, mother/father, or grandmother/grandfather of the transferor.

A "new farmer" has started a new agricultural business within five years.

A "young farmer" is new to the agricultural sector, i.e. she/he was not running an agricultural business for the last five years.

Source: Data from French Ministry of Food, Agriculture and Fisheries; author's interpretation.

Third, the 2003 reform introduced a stylised "cross-compliance" regime where payments are linked to farmers achieving certain environmental, animal welfare and quality standards. Cross-compliance makes full payment conditional upon some standards established at national levels. This may potentially exclude some historical direct payment recipients.

Fourth, Article 69[9] allowed the member states to adopt sector-based reorientation by using up to 10% of national sector-based ceilings to grant the corresponding sectors additional payments for "*specific types of farming which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products*".[10]

Two redistributive tools have been made compulsory in order to fund Pillar 2 measures. The first is a compulsory modulation introduced by the 2003 reform which reduces all direct payments from Pillar 1 via a 5% uniform flat rate from 2007. A EUR 5 000 franchise (exemption from charging for every holding but creating a kind of low-threshold effect) exempts farmers receiving less than EUR 5 000 a year from the modulation.

Second, compulsory sector-based financial transfers were agreed in April 2004 for the tobacco and cotton regimes. They aim to reorient a share of the sector-based direct payments (taking into account, as for decoupled payments, a 2000-02 reference period) towards rural development programmes implemented in the respective production areas.

Finally, the financial discipline mechanism — if activated — may potentially affect the distribution of direct payments. The 2003 CAP reform introduced this new tool in order to prevent any overspending on direct payments with reference to annual budgetary ceilings for the 2007-13 period. In order to avoid any future overspending, the European Commission is able to propose reductions in EU15 direct payments.[11] The modalities of such cuts may consider differentiated rates of reduction.

The 2009 CAP Health Check[12] adjusted the 2003 reform redistributive mechanisms. It decoupled further direct payments, and allowed member states implementing a historic model to move towards a more regional one, especially in view of the progressive integration of further sectors into the decoupling scheme. Cross-compliance standards have been amended. The Health Check led to increments in the compulsory modulation rate to reach 10% in 2012 and to further 4% cuts for payments above EUR 300 000. It also introduced a EUR 100 and a 1 hectare minimum requirement. Article 68 replaced Article 69, and provided more flexibility in its implementation. It increased the scope of potential funded measures and split the historically supported sector constraint as regards new funded expenditures. Finally, member states had to review their rural development plans in order to consider "crucial new challenges for European agriculture"[13]: climate change, renewable energy, water management, biodiversity and dairy restructuring measures.

Apart from compulsory modulation and cotton and tobacco sector-based reorientation, the implementation of measures which affect the distribution of CAP support depends on the decisions of member states. Within a common framework, they have the competency to partially retain or alter the distribution of CAP payments; see Figure 11.2, which schematises the institutional channels aiming at redistributing the support based on past price policy.

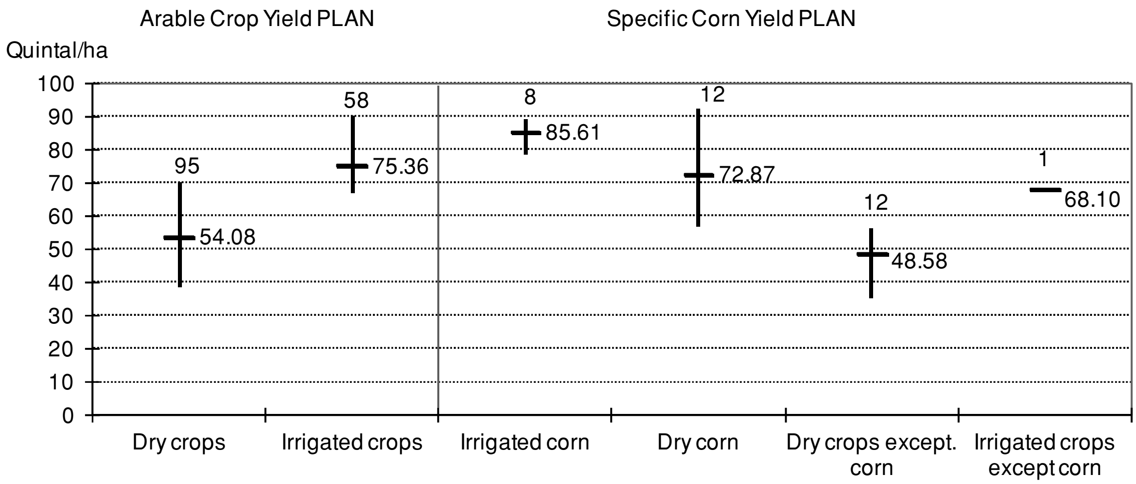
The per-hectare payments which followed the 1992 reform were computed on the basis of 1986-1991 yields. Hence, the *département* scale has been privileged. In a few cases, a *sub-département* scale has been settled on, in order to reflect yield differences more finely. These references could also distinguish irrigated land or irrigated corn in order to provide them with higher compensatory payments. Thus, the "crop plan" (*plan céréales*) distinguished: 1) 38 *départements* or *sub-départements* with a single reference yield for all arable crops — there is no specific support as regards corn or irrigation processes, 2) 57 *départements* or *sub-départements* with differentiated reference yields for dry or irrigated arable crops, and 3) 12 *départements* or *sub-départements* with differentiated reference yields for irrigated corn, dry and/or irrigated other arable crops. This fragmentation of administrative areas illustrates the strong political power of farm lobbies — which have thus been better able to capture past rents. The dispersion in crop yield references used in coupled direct payment computation is presented in Figure 11.4.

With the 1992 reform, the final per-hectare subsidy by *département* (or *sub-département*) was based on two thirds of the *départemental* (or *sub-départemental*) theoretical yield and one third of the national theoretical yield. In October 1997, the share of local and national theoretical yields has been balanced, each contributing equally to the per-hectare subsidy computation. This change resulted from the establishment of a new socialist government in June 1997 led by Prime Minister Lionel Jospin. Equity and territorial cohesion motivations led to this adjustment in the formula for direct payment computation.

The same government negotiated the 1999 reform. Agenda 2000 initiated a convergence of national rate of support for arable crops. Guaranteed prices for cereals were reduced by 15% between 1999 and 2001, and compensated by increases in the direct payment rate. At the same time, the national rates of support for arable crops have converged in line with the decoupling process. In 2002 and 2004 respectively, the rates of support for oleaginous and protein crops were decreased and converged with that for cereals (a specific per-hectare subsidy coupled to protein crop production was created in 2004 to compensate the decrease in compensatory payment rate).

Figure 11.4. Crop yield reference plan used in coupled direct payment computation by French departements/sub-departements

Quintal per hectare with average and number of French départements/sub-départements for each class



This crop yield reference plan has been fixed since 2002 in order to decouple direct payments partially. The final amount of subsidy per hectare results from the association of the *départemental/sub-départemental* yield reference and the national rate of support.

Source: Data from French Ministry of Food, Agriculture and Fisheries; author's interpretation.

In addition, following the Agenda 2000 reform, France started to implement voluntary modulation through individual rates of direct payment cuts. For their computation, French authorities privileged small and family farms by considering three criteria for the addition of a flat and progressive rate: 1) the labour force used on the holding, 2) the Standard Gross Margin (SGM) evolution of the holding, and 3) the total amount of direct payment received (uniformity of treatment). The rationale of this formula rested on politics rather than economics. The modulation mechanism was aimed at financing a targeted contract for farmers (*Contrat Territorial d'Exploitation* or *CTE*) supporting rural development and environmental amenities within their farm activities.

However, French voluntary modulation was stopped in 2002 due to complex computation criteria (fostering farmers' criticisms), the election of a new conservative government close to the farming lobby, and the lack of concluded CTEs. It was the last attempt by French authorities — prior to the 2009 CAP Health Check — to challenge the distribution of farm subsidies. The outcomes of the Health Check, negotiated by a French conservative government, illustrate that future CAP reforms may be independent of the political nature of the French government.

The hybrid status of the French historical decoupling scheme

Examining the French options as regards the new provisions provided by the CAP Health Check tends to indicate the premises of a strategy for the CAP beyond 2013. The Health Check agreement deepened the 2003 reform, and new redistributive tools permit further flexibility in national and regional implementation.

France had to make up for the lost opportunities of the 2003 reform implementation, for three main reasons. First, the legitimacy of a historical decoupling model was — and still is — declining rapidly. Taxpayers are increasingly reluctant to pay subsidies to large farmers based on increasingly out-of-date production levels and yields. Farmers themselves are sceptical about a public support model which discriminates between farm holdings and territories on the basis of past production processes and commodities. Despite the possible grant of SFPs to newcomers, the amounts (values) of SFPs are thoroughly incoherent with their needs and duties — or with their entrepreneurship prospects. Citizens wonder at the rationale of a massive sector-based redistribution mechanism, especially in a period of economic crisis.

Second, any partial decoupling of support deserves a renewed justification. Third, and consequential to the two previous points, French authorities had to demonstrate their ability to anticipate the expected 2013 CAP reform. Hence, relaxing its conservative stance and adopting adjustments in the distribution of direct payments were indispensable.

French decisions as regards the CAP Health Check resulted from a decentralised debate which involved all stakeholders from French administration, farming and agribusiness sector, environmental, consumer and landowner organisations. The ministerial document for the French debate gave an apparent idea of the key offensive positions of France in the confirmation of the Pillar 1 of the CAP.

In February 2009, the French authorities presented four objectives that the reorientation of direct payments would have to fulfil from 2010 onwards: 1) setting up new support for grass-based livestock and fodder; 2) strengthening the rural economy and employment in the territories; 3) setting up a risk management scheme; and 4) promoting sustainable development. These four objectives would mobilise a total of roughly EUR 1.6 billion, of which 80% (EUR 1.280 billion) would result from shifted spending within the Pillar 1 of the CAP — by means of Articles 63 and 68[14] — 20% (EUR 321 million) would be transferred from Pillar 1 to Pillar 2 by means of an increased rate of compulsory modulation.[15]

The matrix in Table 11.3 presents these redistributive objectives linked to the respective financial provisions. Accordingly, 18.8% of French direct payments – supported by the EU budget —would be targeted in 2010 in view of the four new objectives.

Table 11.3. French redistributive options following the CAP Health Check, from 2010 onwards

	Pillar 1		Pillar 2[1]	Total amount
Tool Objective	Use of Article 63 New (or re-valued) SFPs for:	Use of Article 68 New subsidies for:	Use of Article 7 Further funding (by means of the increased rate of modulation) for:	
(i) Setting up new support for grass-based livestock and fodder	► Productive grassland *EUR 707 million* ► fodder *EUR 30 million*		► Agri-environmental grass premiums *EUR 240 million* *EU: EUR 176 million* *FR: EUR 64 million*	*EUR* 977 million *EU: EUR 913 million* *FR: EUR 64 million*
(ii) Strengthening the rural economy and employment in the territories:	► Potatoes and field vegetables *EUR 30 million*	► Sheep and goats *EUR 135 million* ► Milk in mountain areas *EUR 45 million* ► Durum wheat in traditional areas *EUR 8 million* ► Suckling calves *EUR 4.6 million*	► Compensatory allowances for natural handicaps *EUR 42 million* *EU: EUR 23 million* *FR: EUR 19 million*	*EUR* 264.6 million *EU: EUR 245.6 million* *FR: EUR 19 million*
(iii) Setting up a risk management scheme		► Risk management tools *EUR 100 million*		100 million *EU: 100 million*
(iv) Promoting sustainable development		► Protein crops *EUR 40 million* ► Maintenance of organic farming[3] *EUR 50 million*	► Organic farming conversion *EUR 7 million* *EU: EUR 4 million* *FR: EUR 3 million* ► New challenges *EUR 32 million* *EU: EUR 18 million* *FR: EUR 14 million*	129 million *EU: EUR 112 million* *FR: EUR 17 million*
Total amount	*EUR* 767 million	*EUR* 382.6 million[2]	*EUR* 321 million *EU: EUR 221 million* *FR: EUR 100 million*	*EUR* 1 470.6 million *EU: EUR 1 370.6 million* *FR: EUR 100 million*

1. The EU budget funds the Pillar 1 direct payments, whereas both European (EU) and national (FR) budgets fund the Pillar 2 measures.

2. Article 68 allows new spending without any individual new charging. New supports result from unspent direct payments (EUR 130 million). They cover the establishment of a risk mutual fund (EUR 40 million, from 2011, objective iii) and support for crop rotations (EUR 90 million, only in 2010, objective iv).

3. From 2011, subsidies for organic farming conversion from Pillar 2 should be funded from Pillar 1 (objective iv).

Source: Data from French Ministry of Food, Agriculture and Fisheries.

The arable sector is the main contributor to the reorientation process, as presented in Table 11.4.

Table 11.4. Redistributed support from further French decoupling by commodity[1]

2010

	Initial amount of support	*Share of total*	Charging rate	Charged amount	*Share of total*	Remaining amount	*Share of total*
	EUR million	%	%	EUR million	%	EUR million	%
Arable crops	1 154	*72.0*	55.5	640	*83.4*	514	*61.4*
Suckler cows[1]	183	*11.4*	50.8	93	*12.2*	90	*10.8*
Slaughters	181	*11.3*	12.7	23	*3.0*	158	*18.9*
Ewes and she-goats	86	*5.3*	12.7	11	*1.4*	75	*8.9*
Total	1 604	*100.0*	47.8	767	*100.0*	837	*100.0*

1. Use of Article 63.

2. Suckler cow premiums remain partially decoupled (25%).

Source: Data from French Ministry of Food, Agriculture and Fisheries; author's calculations.

The arable sector is the main contributor to the reorientation process. On the one hand, 55.5% of the amount resulting from the full decoupling of arable crop direct payments will be redistributed in view of the new objectives. On the other hand, Article 68 spending will require the charging of basic SFPs and suckler cow premiums at a linear rate of 4.5%, in addition to unspent direct payments. Since most of the SFPs result from past arable crop direct payments, the arable sector should be the main budgetary contributor of Article 68's targeted support. However, one should stress that the charged arable farm holdings will benefit from further expenditures resulting from the activation of new measures from both articles (e.g. risk management subsidies, or modernization support).

A new coupling rationale

Roughly nine tenths of direct payments may be decoupled by the time of an eventual 2013 reform. The French authorities had originally decided on a territorial and environmental re-coupling scheme. The use of Articles 63 and 68 shows a shift in the budget towards grass-based livestock producers characterised by extensive, less-favoured areas and/or environmentally friendly farm holdings. Most of the new support is coupled either to environmental/extensive practices or to specific territories. For sheep and goat support, this coupling is indirect since its distribution tends to follow a path similar to that of agri-environmental support, as demonstrated below.

The French authorities decided to partially decouple suckler cow premiums (25%), and anticipated the full decoupling of slaughter premiums in 2010. They also decided to fully decouple the she-goat premium and to set up a new coupled and higher-valued premium with the use of Article 68. These decisions illustrate the environmental and territorial focus which the French authorities wish to grant to Pillar 1 subsidies. We use Pearson and Spearman correlation coefficients in order to provide evidence for this assertion,[16] measuring the strength of distribution path considering Pillar 2 environmental and territorial support on the one hand, and Pillar 1 disaggregated subsidies on the other hand.

Table 11.5 presents unequivocal results. The distribution of direct payments coupled to suckler cows on the one hand, and to ewes and/or she-goats on the other hand follow distribution paths similar to those of environmental and territorial measures.

Table 11.5. Pillar consistency issue: the French case
2007

Pillar 1 Pillar 2	SFP	Arable crop payment	Suckler cow premium	Slaughter premium	Ewe and/or she-goat premium	All direct payments
Environmental and territorial measures	-0.279***	-0.416***	0.498***	Non sig.	0.726***	-0.184*
	-0.334***	-0.435***	0.446***	Non sig.	0.656***	-0.252**
	--	--	++		+++	-

This table presents 1) Spearman and 2) Pearson coefficients of correlation at the 10% (*), 5% (**) and 1% (***) levels of statistical significance. These coefficients measure the strength of association between two variables – but not the causality. They equate to (-1) in presence of perfect negative correlation, (0) in absence of any correlation, (1) in presence of perfect positive correlation.

We use data at the French *département* level (92) which reflects the administrative level of French direct payment implementation. Data on all French (metropolitan) farm holdings are used (506,926 recipients) and not only professional holdings (335,233 recipients) in order to consider the broad spectrum of agricultural and rural actors. Pillar 2 environmental and territorial support covers compensatory allowances for natural handicaps, agri-environmental grass premiums, sustainable agriculture and territorial management contracts, and other agri-environmental measures. For each *département*, we divide the amount of subsidy by the number of Annual Work Units (AWU) in order to take into account the income support dimension of the CAP.

Source: Data from French Ministry of Food, Agriculture and Fisheries; author's calculations.

The partial redistribution of support which results from the Health Check shows that French conservatism is progressively declining. This observation can be commented as follows.

First, a re-legitimised CAP is a way to preserve direct payments – and related EU budgetary flows. Thus, France has developed a hybrid model when attempting to renew the CAP with a strong Pillar 1 mostly through new targeted subsidies and not through common historical SFPs. Within the French historical decoupling model, the use of Articles 63 and 68 enhances a kind of uniformity in SFPs per hectare. However, one should bear in mind that less than 20% of French direct payments will be targeted in line with CAP Health Check objectives. Thus, this does not remove the need for a sound reform of the French direct payments scheme after 2013.

Second, the French authorities grant to the Pillar 1 a rural development dimension, magnifying the related responsibilities attributed to national authorities without observing the co-funding principle. This jeopardises the relevancy of CAP dichotomisation, which tends to exist only for historical and budgetary reasons. It thus confirms the sensitivities which surround the CAP and budget reforms.

Conclusions

The distribution of farm support has to be considered in view of policy objectives. Equity is an important factor in ensuring that public support goes to holdings which need or deserve it. This is not a goal in itself, but is closely linked to the objective of the public policy implemented. On the one hand, equity matters if the objective is to support farm incomes. Since decoupled payments are labelled within the EU regulations as income support, equity is relevant as regards the distribution of SFPs. On the other hand, equity matters less if the objective is to pay for positive externalities, public goods or non-market commodities generated by farm activities — since the more externalities are provided, the more public support may be legitimised. Finding a European consensus on the objectives of a renewed CAP appears crucial here.[17]

Breaking the linkage between the amount of support received and the market-commodity dimension which could result from present (and past) farming activity is however a prerequisite. This rupture remains the core challenge in direct payment improvement since the 1992 reform (Mahé and Roe, 1996). From 2010 on, less than 20% of French direct payments — entirely supported by the EU budget — are targeted in the light of recent policy objectives. The CAP remains a sector-based redistributive policy which tends to slow down structural adjustments and suffers from weak low-income targeting (OECD, 2003). As a result, in spite of marginal adjustments resulting from the CAP Health Check, equity continues to be a burning topic which is deferred to national discretionary decisions.

One should acknowledge the new political economy of the rationale for and distribution of direct payments (Josling and Tangermann, 2009). The 1992 and 2003 market-oriented reforms resulted from persistent external pressures. Hence, after almost two decades of policy improvement, the EU benefits to an impressive degree as regards expected internal support concessions to be made within the Doha Round,[18] if one believes that EU SFPs respect green-box criteria. Hence, reform of the direct payment system for the post-2013 period is mostly pushed by internal considerations — in line with the 1997 Buckwell Report.[19] One should take into account that the motivation of direct payments has to shift from income to amenity support. A sector-based income policy does not appear relevant at the European Union level, and nor does a policy which remunerates local amenities. These raise subsidiarity, and budgetary, issues which exacerbate national authority trade-offs, and involve a widening number of stakeholders from environmental, pro-development, consumer or taxpayer groups. This leads to the formation of broad civil-society alliances or unexpected coalitions[20] on CAP reforms, whereas farmers' unions appear divided with internal tensions and a declining number of adherents.[21] Public support provided on the scale of a heterogeneous EU is not sustainable without clear acceptance by society. This new political environment is strengthened by the increasing political power bestowed on the European Parliament, i.e. co-decision-making on CAP issues from 2010 onwards. When setting up the post-2013 CAP, equity will still be a major political matter, especially if one considers that the rationale (and related distribution) of EU direct farm payments has to shift from income to amenity support.

Notes

1. Research and Teaching Fellow, GEM Sciences Po, Paris, France, and Goethe University, Frankfurt am Main, Germany.
2. On the farm income and support distribution issue, see Allanson and Hubbard (1999), Butault and Lerouvillois (1999), Butault, Chantreuil and Dupraz (2002), and Chatellier, Colson and Daniel (2004).
3. On the effective targeting issue of agricultural policies, see OECD (2007).
4. "*Income support, which depends almost exclusively on price guarantees, is largely proportionate to the volume of production and therefore concentrates the greater part of support on the largest and the most intensive farms. So, for example, 6% of cereals farms account for 50% of surface area in cereals and for 60% of production; 15% of dairy farms produce 50% of milk in the Community; 10% of beef farms have 50% of beef cattle. The* effect *of this is that 80% of the support provided by FEOGA is devoted to 20% of farms which account also for the greater part of the land used in agriculture. The existing system does not take adequate account of the incomes of the vast majority of small and medium size family farms.*" Communication of the Commission to the Council, COM(91)100 *The Development and Future of the CAP*, Reflections Paper, Brussels, 1 February 1991.
5. In parallel, support creates an incentive for inefficient farmers to stay in the agricultural sector – and to continue or not to produce with decoupled subsidies. This trend may reduce the concentration of holdings. Also, the capitalisation of support into the agricultural land prices slows down structural adjustments. Increasing flexibility in labour, land and capital market may reduce the magnitude of such barriers.
6. According to Garzon (2006), the increases in per-hectare payments accompanying wheat price reductions and in headage payments accompanying beef price reductions were reduced from 100% of the difference between the old and new prices to 50% and 80% respectively. The milk price decrease was compensated at 65%, with a direct payment coupled to the size of quota.
7. The reference period for computing entitlement values refers to the three-year period 2000-2001-2002.
8. The United Kingdom defined 6 regions: England (moorland), England (handicapped areas), England (others), Northern Ireland, Scotland, and Wales.
9. The 2009 CAP Health Check updated Article 69, which became Article 68 along with new modalities.
10. Article 69, Council Regulation No. 1782/2003 of 29.09.2003.
11. New member states are excluded from financial discipline and modulation mechanisms during the phasing in period for direct payments, which ends in 2013 (2016 for Bulgaria and Romania).
12. The CAP Health Check refers to the political agreement adopted on 20 November 2008 and three related regulations: Council Regulation (EC) No. 72/2009 of 19 January 2009 on modifications to the Common Agricultural Policy, Council Regulation (EC) No. 73/2009 of 19 January 2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, and Council Regulation (EC)

No. 74/2009 of 19 January 2009 amending Regulation (EC) No. 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

13. Council Regulation (EC) No. 74/2009 of 19 January 2009 amending Regulation (EC) No. 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

14. This amount considers EUR 130 million of new support which will result from unspent direct payments. As a matter of fact, Article 68 allows new spending without any further individual charging. In France, this will cover the establishment of a risk mutual fund (EUR 40 million, from 2011, objective iii) and support for crop rotations (EUR 90 million, only in 2010, objective iv).

15. Since rural development measures are co-funded by member states, the increased amount devoted to the Pillar 2 of the CAP will induce an increase in national spending. Hence, the EU and French budgets will contribute to the extra EUR 321 million with EUR 221 and 100 million respectively.

16. The same methodology has been employed by Trouvé and Berriet-Solliec (2008), who analyzed the distribution of support from the CAP's Pillar 2 in view of the European objective of cohesion. Based on data from 56 European regions, they find that Pillar 2 fails to achieve both inter and intraregional cohesion. They conclude that the increasing influence given to regions in implementing the CAP reinforces this inconsistency. By contrast, the originality of the present analysis consists of 1) using data at the French *département* level, which reflects the administrative level of French direct payment implementation and 2) considering decoupling support in France and the latest CAP adjustments. Shucksmith, Thomson and Roberts (2005) evaluate the territorial impact of the CAP and rural development policy (ESPON project). They suggest that Pillar 1 expenditures go to EU15 richer regions because of their large farms, location and farm type. These are inconsistent with economic cohesion objectives whereas Pillar 2 of the CAP is more consistent with cohesion objectives within Member States, though not between them.

17. On the long-term challenges that face European agriculture along with the need for new public and private policies, see Boulanger and Messerlin (2010).

18. On European aggregate measurement of support reduction, see Jean, Josling and Laborde (2008). For a global overview of WTO disciplines of agricultural support, see Orden, Blandford and Josling (2011).

19. This Report (European Commission, 1997) made clear that the CAP has to continue to move away from sector-based policy which distorts agricultural commodity markets towards a territorially defined and integrated policy which remunerates public goods and amenities resulting from agricultural activities.

20. For instance, an unexpected joint position paper on the future of the CAP from the European Landowners' Organisation and Birdlife International was released in January 2010; and a proposal paper gathering together 15 French environmental and development NGOs (Groupe PAC 2013) was published in February 2010.

21. For instance, during the CAP Health Check negotiations, the FNSEA (the largest French farmers' union) was split between financial losers and winners, i.e. crop and livestock producers.

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