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► **To cite this version:**

Laure Latruffe, Chantal Le Mouël. Review of policies affecting farmland mobility in France. [Research Report] JADE#38191, Organisation for Economic Cooperation and Development. 2006, 22 p. hal-02283460

**HAL Id: hal-02283460**

**<https://hal.science/hal-02283460>**

Submitted on 10 Sep 2019

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JADE#38191

## **Review of policies affecting farmland mobility in France**

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Report for the OECD, Directorate for Food, Agriculture and Fisheries

15 September 2006

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<sup>1</sup> The authors are very grateful to Frédéric Courleux, Pierre Dupraz, Hervé Guyomard and Michel Pech for valuable discussions.

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## **1. Introduction**

Farmland mobility has two broad meanings. The first meaning is the mobility between different uses of land. This encompasses conversion of farmland to/from non-agricultural use, as well as modification of the agricultural production on the land (e.g. change from pasture to arable land). Mobility is reduced between different sectors if there exists restriction regarding the conversion of land into another use. As for mobility between different uses of land within the farming sector, it is reduced if policies favor one production at the expense of the others, even if in some areas the marginal productivity of land would call for another production to be realized. The second definition that can be attributed to farmland mobility is the mobility between different land operators. Also known as the change of hands, this aspect deals with entry and exit of farmers into/from the farming sector, and exchange of land on the agricultural sale or rental markets. Mobility is reduced if legal provisions give incentives to existing farmers to keep the same farming area or to operator landowners to keep their land in their family during succession, even if land would be more productive if used by other farmers.

Policies affecting the mobility of land are different whether one considers the first or second concept. Mobility between different uses will be mainly influenced by the commodity support policies, as well as legal restrictions regarding the conversion to non-agricultural uses or environmental restrictions. By contrast, mobility between operators will be influenced by policies intervening on the exchange markets (e.g. preemptive rights), on asset transmission (e.g. inheritance rules) and on incentives to enter or leave the farming sector (e.g. early retirement measures).

In both cases of mobility, policies might reduce a mobility that would have happened naturally if only market forces were in action. In case of free market, land would go to the most productive use and to the most efficient operator. Public intervention might however influence the mobility in favor of one particular production, or specific farmers. While the objective of government intervention is generally to protect farmers' income, in the end, it might reduce the productivity and competitiveness of the farming sector as a whole.

This paper reviews the national and European laws and provisions, that might possibly influence farmland mobility in France, in both definitions, and draw some potential implications of the recent changes in policies, both national and European. The next section deals with mobility between uses, while section 3 explains the mobility between operators.

## **2. Policies affecting farmland mobility between different uses**

Land can be utilized for various uses, such as agriculture, housing, leisure activities, transport, industries, etc. All these activities are in competition for the land, and their localization should be ruled by the return to land, depending on the type of land and the possible uses. However, demographic pressure in industrialized countries has considerably increased the demand for building land over the last century. This pressure has been playing at the expense of the farming sector, due to a large discrepancy in prices, prompting governments to draft legal provisions restraining the conversion of land from agricultural use and its flow out of the agricultural sector.

Within the farming sector itself, land can be devoted to various utilizations, that is to say can be used for various productions. While the law of demand, combined with the soil quality, should decide which production should be carried out in which area, public support to agriculture implemented after the Second World War has largely biased farmers' decisions, in favor of specific productions.

### ***2.1. Conversion to non-agricultural uses***

#### *Conversion to urbanized land*

As in the majority of countries, land in France is categorized according to its use by development planning provisions, and therefore, land devoted to agriculture is officially notified as agricultural land. Converting agricultural land into another use (housing, industries, recreational areas, etc) is subjected to approval by the State or its local administration. Before 1983 the Ministry of Agriculture was the sole decision-maker for the whole country. After this date the decentralization process gave this power to municipalities. These establish the so-called "Plans Locaux d'Urbanisme" (PLUs, previously known as "Plans d'Occupation des Sols" POS) for a given period (less than 10 years), that is to say they map their area and decide for each plot what will be its main use during the period. The PLUs share the municipality land into several zones according to their use: the urban zones, the zones to be urbanized, the agricultural zones, the natural and forest zones (CES, 2005). A PLU protects agricultural land from conversion into development. It is very difficult for landowners to change the use of their land if such change does not comply to the municipality's map. Building permission is given to projects which are in accordance to the PLU; or, when a municipality has no PLU, projects can be refused if they are threatening agricultural activities or land consolidation. In addition, since 1999 municipalities' land might comprise protected agricultural areas (ZAP, "Zones d'Agriculture Protégée"), due to their specific

interest in terms of regional production (Code Rural, 2000). In this case, a change in use is possible only after the county's ("département") public authority and Agricultural Chamber have given permission.

Such provisions aimed at reducing the mobility of agricultural land outside the sector. However, despite these provisions, the protection of agricultural land is far from certain: ZAP are relatively rare and PLUs can be, and are often modified, which threatens the existence of agricultural land. Small municipalities in particular are interested in industrial development in order to get more financial resources, and in housing development as well, as inhabitants are also voters of the local representatives. Such pressure on the agricultural land is particularly felt in tourist regions or around urban poles. Moreover, not only municipalities might show laxness when giving building permissions, but they themselves have urban pre-emptive rights ("Droits de Pré-emption Urbains"). This means that they can confiscate any land in their area, against compensation, in order to build roads, railways, recreational activities etc. Agricultural land is more and more concerned by this right.

It is estimated that each year in France 80,000 ha are converted from agriculture into another use, 30,000 ha used for urbanization and 50,000 ha used for recreation (CES, 2005). The total utilized agricultural area in France has decreased from 34.4 million ha in 1950 to 29.8 million ha in 2005, that is to say a reduction of almost 5 million ha in 50 years, almost 10 per cent of the territory (Agreste, 2006). Although this seems to be relatively important quantitatively, the policy provisions described above very much restrain the mobility of agricultural land to urban usage, which would be much greater if the move was free, as the large discrepancy between prices of agricultural land and building land suggests.<sup>2</sup>

#### *Conversion to forest or idle land*

The second type of conversion affecting agricultural land is its transformation into wooded or idle (non-maintained) land.

Forestation of agricultural land is undertaken by owners who cannot find any or unsatisfactory successor for their land, and consider the return of wooded land (for them or their offspring) as higher than the receipts from sale or renting. No legal restrictions or constraints are applied to such conversion. Since 1992 farmers can benefit from aids co-financed by the EU and the State. Such provision was introduced in the frame of the 1992

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<sup>2</sup> For example, on French rural land sale markets in 2005, the market price of one hectare of building land was in average 39 times higher than the market price of one hectare of arable and pasture land: i.e., 185,000 euro/ha as compared to 4,750 euro/ha respectively (Terres d'Europe-Scafr, 2005).

CAP reform, and was part of the efforts to reduce the agricultural production in the EU. The aids can be up to 22,000 euros per person, depending on the type of forestation and tree specie (Sondag, 1998). However, owners can benefit from those measures only if the new woodland adjoins an existing forest. In France mainly pasture land, rather than arable land, is affected by the supported conversion (80% of converted agricultural land between 1992 and 1997) (Sondag, 1998).

Owners are more and more interested into conversion into wood, as such type of land is not subject to the property tax, on the opposite of agricultural land. However, the conversion from agricultural land to wooden land is still marginal, as reported by a study from the French Ministry of Environment over the past decade (Naizot, 2005). According to the study, only 0.04% of agricultural land has been converted into forest between 1990 and 2000, while the opposite conversion (forest into agricultural land) accounts for 0.4% of the woodland. But, overall, forest area has been slowly but steadily increasing in France (Naizot, 2005). The share of the territory covered by forest has for example increased from 26.6 per cent to 28.3 per cent between 1980 and 2005 (Agreste, 2006).

Since 1976, in a view of controlling wine production, wine producers are given compensation for pulling out their vineyard and leaving it idle (but maintained), as part of the EU wine Common Market Organization (CMO) measures. Aids are up to 12,300 euros/ha, depending on the past observed liter yield (European Commission, 2006). Since 1996 Member States have the possibility to exclude part of or all their territory from this scheme, and since this date, the vineyard abandonment measures are used almost only in France (European Commission, 2006). Between 1988 and 2004 about 107,500 ha of vineyard have become unused in France (i.e, 11% of the whole French vineyard area).

The above mentioned measures can in theory increase the mobility of land from agricultural use to other (natural) uses, but in reality the effect is very limited.

## ***2.2. Environmental restrictions***

Environmental restrictions are part of the European network Natura 2000. The network aims at conserving biodiversity and comprises two directives, one regarding the preservation of natural habitats, and one regarding the preservation of wild fauna and flora. These were transposed in the French law in 2001. Today, the delimitation of protected sites is almost completed in France, and accounts for 12% of the whole French territory (MEDD, 2006).

Once the delimitation is completed, Member States must introduce measures that will effectively allow the preservation of habitats, fauna and flora in these areas. In France this will most probably involve the creation of nature reserves. In such areas, it would therefore imply less freedom for farmers to choose the production on their land, and thus reduce the mobility of land between usages.

### ***2.3. Common Agricultural Policy***

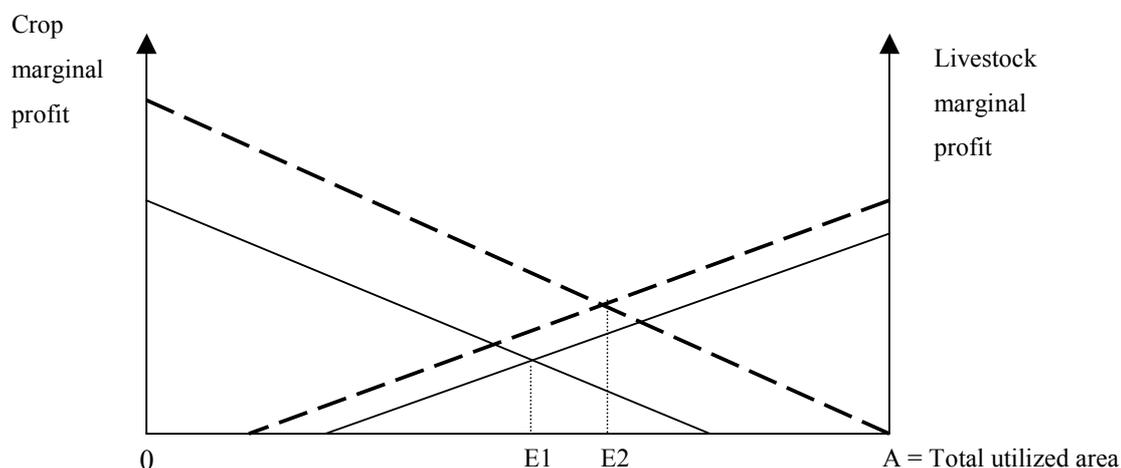
Since its launch, the Common Agricultural Policy (CAP) has been playing an important role on the use of land within agriculture. Support to various commodities gave incentives to farmers to produce more of specific crop or livestock than what would have been observed without support, while compulsory set-aside aimed at reducing production. In opposite, specific agri-environmental and rural development measures had for objective to keep production where it would otherwise likely disappear.

#### *Crop vs. livestock production*

Initially, price support was aimed at increasing the production in order to feed a ruined after-war Europe, while providing farmers with a guaranteed revenue. Price support was however larger for crops than for livestock, resulting in a move towards more land utilized for crop, as illustrated on Graph 1. In practice, pastures were transformed into arable land.

On Graph 1 the equilibrium between crop and livestock in terms of area utilization is E1 if there are no subsidies; that is to say, the marginal profit without support determines solely the competitive equilibrium. Crop are produced over the area E1 and livestock productions use the area A-E1. When support is applied however, the marginal profit curves shift upward, the resulting curves being the hatched curves. Both before and after the 1992 CAP reform, the per hectare equivalent support devoted to crop (given through price support, then through direct aids) was higher than the one devoted to livestock. Hence, in Graph 1, the upward shift for crop marginal profit is more important. The equilibrium is now determined by E2, that is to say crop utilize more area ( $E2 > E1$ ) than if support was not given.

Graph 1: Land utilization by crop and livestock production: Equilibrium without and with support



As the 1992 reform replaced market price support by direct payments (based on area or headage numbers) that were calculated exactly to compensate the price cuts, it was not expected to affect the trend towards crop area utilization. As for the Agenda 2000 reform, which did not significantly change the relative levels of support devoted to crop and livestock. At this stage, the trend towards crop cultivation, instead of pasture or fodder area, was only limited by the existence of the COP (cereals, oilseeds and protein crop) base eligible area at the national level. Each year a total COP area eligible to direct payments was fixed at the national level, and in case the observed COP area exceeded the base area, proportionally reduced direct payments were delivered to all farmers in the country.<sup>3</sup> France registered six base area overshoots between 1993 and 1999 but due to some provisions of the penalty system and some granted exemptions, no sanction has never been truly applied (OECD, 2002).

The CAP so far has therefore prevented land to be shifted freely from one type of production to the other, by freezing it into crop cultivation. This trend could in theory be balanced by another accompanying measure of the 1992 PAC reform, aimed at reducing crop production in the EU and at lessening the water pollution by fertilizers. This agri-environmental measure is the possibility of aids for farmers to transform arable land into pasture. Such conversion should be kept during a minimum of five years, and must be followed by the

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<sup>3</sup> From 1993 to 1996 an extraordinary set-aside requirement (proportional to the overshoot and not eligible for payment) was additionally applied.

implementation of a low stocking density (1.4 livestock unit/ha maximum) on the pastures (European Commission, 1998). However, in France, this effect is relatively minor, and mostly visible in some Western areas (Sarthe, Touraine, Sologne) and in Northern France (Ardennes) in the past decade (Naizot, 2005).

Estimations over the past 50 years indicate that while arable land constituted 55.6% of the total utilized area in France in 1950, this share had increased up to 61.3% in 2000 (Agreste, 2006). The effect however varies regionally. Over the 90es for example it has been the most important in Eastern France (Lorraine), as well as around Paris (Beauce) and in central France (Massif Central) (Naizot, 2005).

#### *Production vs. non-production*

As part of the 1992 CAP reform, compulsory set-aside was introduced as a crop supply management instrument. Until the 2003 reform, farmers were required to put 15% (this percentage has varied from 5% to 10% over the years) of their UAA into set-aside. In France this resulted in an increase of the share of arable land set into set-aside from 1.3% en 1990 to 7.1% in 2005 (Agreste, 2006).

While set-aside requirements constitute measures supposed to prevent the use of land for production, the opposite incentive is given by specific measures in the rural development Pillar of the CAP. Such measures include the various measures targeted to Less Favored Areas (LFA). In France farmers in mountainous LFA can benefit from financial assistance, called the “Indemnité Compensatoire de Handicaps Naturels” (ICHN). This scheme was introduced as early as 1973 in France, and was included as part of the EU regulation of 1999 and thus is co-financed for 50% by the EU. Beneficiaries are those who are aged 65 or less and for which 80% of the farm is located in such area (MAF, 2006). The maximum eligible area is 50 ha per farm. Farmers must in return continue farming for the next five years. This scheme, which benefits to more than 110,000 farmers in France, plays a significant role in keeping the UAA stable in isolated areas, as it represents on average one third of the revenue (outside this aid) of the concerned farmers (MAF, 2003).

#### ***2.4. Potential effect of the recent changes in the CAP***

The main development in policies that might influence farmland mobility regards the recent 2003 CAP reform, which introduces further decoupling between support and production. Since 2005 direct payments are given to farmers in the form of rights, called “Droits à Paiement Unique” (DPU) in France, whose value and number are determined by the total support received by farmers in 2000-2002 and by their utilized area in the same period. Such payments per ha are therefore not linked to current production. Farmers are free to choose

any type or production on their land, as well as no production at all, providing that they keep their land in good agricultural and environmental conditions.

Such decoupled payments should therefore stop the trend towards land utilization for crop production. Production decisions should now be solely based on marginal land productivity and market prices. Existing studies aimed at measuring market and welfare effects of the 2003 CAP reform all conclude that arable crop production should decrease in the EU15 mainly through a reduction in land devoted to this activity. At reverse, fodder and pasture area would increase (see, e.g., Gohin, 2005). However, France has opted for the partial recoupling option, with 25% of cereals and oilseeds payments remaining coupled, suckler cow payments being 100% coupled, beef and veal slaughter payments being respectively 40% and 100% coupled and beef payments fully decoupled. This suggests that the trend towards land utilization for crop should not be discontinued quickly in France, that is to say that mobility between production uses is likely to increase only slowly.

As for set-aside land, the rate of compulsory set-aside has been fixed to 10%, similar to past years. However, voluntary set-aside (the so-called land under good agricultural and environmental conditions) is now possible, with aids per ha of land in this modality being similar to any other land (DPU). Preliminary study in Europe however shows that farmers do not intend to use this possibility (FP6 project IDEMA).

### **3. Policies affecting farmland mobility between different operators**

#### ***3.1. Policies affecting the transfer of land between farmers***

##### *Inheritance rules*

The inheritance laws in France stipulate a mandatory transfer to rightful heirs. This means that, in opposite to the full testamentary freedom where the owner can draft a testimony, heirs are designated by law as well as the share of the property and other assets they are entitled to. Hence, the landowner is not free to choose her/his heirs, nor their respective share of the inheritance. Concretely, equal shares of the bequest are given to children, and only since recently the widow spouse is considered in the sharing out.

Commonly, none or only one (the successor) of the heirs are interested in utilizing the land that they inherited. Therefore, they would in general intend to sell or rent the land to farmers, implying a change in hands and thus enhancing the land mobility.

However, there are in practice several provisions that make this inheritance legal system less strict, in order to favor the farm successor over the other heirs. The first possibility is that the share of the property can be based on its value rather than the area; in this system, the heir succeeding on the farm can be attributed the whole bequest, and in return gives a compensation to his/her co-heirs for their shares. In this case the successor is helped by a public subsidy for paying the co-heirs' shares, and can also receive a financial compensation for the time he/she has spent on the farm working with the parents, young farmers are usually highly indebted. A second possibility is that all heirs keep their ownership shares but create an association ("Groupement Foncier Agricole", GFA) in order to rent out their land under long term contracts to the heir succeeding on the farm. The creation of a GFA is rewarded by partial inheritance tax exemption (up to 75% of the asset value if this value is lower than 76,000 euros, 50% for a value beyond).

While such elements are aimed at preventing land fragmentation and farm dismantling, in parallel they lessen the possibility for the land to be re-attributed to more productive operators, and therefore likely contributes to reduce the mobility.

The second important element regarding inheritance rules and their potential effects in terms of land mobility is the inheritance tax system. High taxes on inheritance are likely to force heirs to sell their inherited estate in order to be able to pay for the tax. In France there is a tax free allowance when the value of the bequest does not exceed 76,000 euros in case of a transmission between spouses, and 46,000 euros in case of a transmission between parents and children (lower for other relatives). The threshold is relatively low compared to other European countries (e.g. 256,000 euros in Germany, cf. Latruffe and Le Mouël, 2006). As for the tax itself, it is progressive, with a rate ranging from 5% to 40% of the value of the inherited property/assets. Such high inheritance taxes are likely to encourage heirs to sell the legacy, and thus are likely to enhance the move of land outside the family.

#### *Rules regarding the purchase and sale of land*

Regarding the transfer of land outside a succession, that is to say the purchase and sale of land, the first element likely to influence such transfer is also the taxation scheme. In France the transfer of land or property is subject to a total tax of 4.89 percent. This includes the tax for right to transfer of 3.60 percent, a county ("département") tax of 0.09 percent, and a municipality tax of 1.20 percent. While this rate is slightly above of the majority of tax rates in Europe (see Latruffe and Le Mouël, 2006), it is still much less than it was recently (16.20%, CES, 2005). This shows the will of the government to give incentives for land transfer, and thus should favor land mobility between operators.

The second element worth investigating is the possibility for farmers to benefit from financial aid during land purchase. However, although the French government extends preferential loans and grants, co-financed for 50 percent by the EU, for 6 credit lines, none of them is for land purchase. They deal with upgrading the farm buildings, purchasing livestock or plant equipment, or for starting farmers' machinery cooperatives ("Cooperatives d'Utilisation de Matériel Agricole", CUMA) (MAF, 2006). The absence of financial assistance in the purchase of land might decrease the demand for farmland, and hence reduce the mobility.

The last key element deals with the existence of pre-emptive rights. On the justification that, if regulation was left to the market, agricultural land would disappear very quickly, the French authorities created, in 1960 as part of the "Loi d'Orientation Agricole" (LOA, the broad national agricultural structural policy), private bodies aimed at regulating the transfer of farmland. These bodies, called SAFERs ("Sociétés d'Aménagement Foncier et d'Etablissement Rural", one per "département") have public service missions (functioning under the non-profit private law), and are controlled by the State. Their boards of Directors are generally composed of representatives of the agricultural professional organizations and of regional and local administrations.

In order to fulfill their missions, SAFERs benefit from three main tools. The first tool is the obligation of information: each sale has to be notified to the SAFER of the "département", by the notaries legalizing the transactions. This means that when the SAFER receives the information, market forces have first played, so that a first agreement has been reached between the seller and one buyer at a given price. The SAFER has then 2 months to accept or to refuse the notified transaction. When market forces lead to a transaction that fits with the missions of the SAFER and cannot be suspected of speculation purpose, then the latter accepts the transaction. At reverse, when market forces result in a transaction that goes against the missions of the SAFER or is suspected of speculation purposes (e.g., a sale implying the dismantling of a farm, a sale allowing a settled farmer to enlarge his/her farm to the detriment of a young farmer that would have been able to settle thank to the land on sale, or an agreed price that is judged by the SAFER as non representative of market prices), then the SAFER can and usually does refuse the transaction. The second tool appears at this stage: this is negotiation power. This means that the SAFER undertakes a process of discussion with the seller and the buyer to try to reach a mutual agreement upon a new transaction (usually a new buyer who better fits SAFERs' missions, or another price that is judged as more in line with observed market prices). Finally, the third tool, the most powerful one, is used only if a mutual agreement cannot be reached between the seller, the buyer and the SAFER: the pre-emptive right. This pre-emptive right allows the SAFER to acquire the land on sale and then to try to find an arrangement that better fits the SAFERs' missions, e.g., to sell back the land to another buyer or at another price or to rent out the land. However, despite this powerful tool for influencing

agricultural land transactions, most of the problems are resolved with amicable agreement. According to SAFERs, they impose a price revision only rarely, e.g. 0.4% of the transactions in 2001 (SAFER, 2002).

Originally, the missions of SAFERs were mainly to support the settlement of farmers, especially young farmers, to support land and farm consolidation and to favor transparency and functioning of rural land markets. Missions of SAFERs have been progressively extended to rural development support and environmental protection. The 1999 LOA has given the right to the SAFERs to use their pre-emptive right to fulfill objectives of environmental protection. Nevertheless, despite the SAFERs' efforts to regulate the market, according to them 80% of the total rural land market (in value) are purchased by non-farmers, which create an upward pressure on the prices. In 2002, the SAFERs were estimating that they should be present on one third of the transactions (instead of 23% at the date) in order to reduce the price pressure on young farmers (SAFER, 2002).

Therefore, SAFERs are key players on agricultural land markets in France. However, although their active role could explain the relatively low level of sale prices on the agricultural land market in France (see Latruffe and Le Mouël, 2006), their actions do not influence the level of land mobility between hands, at least in the long-run (in the short-run, the negotiations might slow down the transfer process). The result of their intervention is simply a change of affectation of ownership compared to what was originally planned by the seller, but the sale that they supervise still implies a change of hands. What can be suggested however is that SAFERs might not choose the most efficient allocation of land in their selection of the beneficiary of their pre-emptive rights.

#### *Land rental contract characteristics*

Legal arrangements on the rental market, in particular the contract duration and the possibility to transfer the contracts, might play a role on land mobility between operators. In France the terms of the rental contracts are defined by law through the "Statut du fermage". The original law of 1945 has been modified several times (1960-1962, 1975, 1984) but with a constant priority: to limit the landlord's power and protect the farmer tenant.

The first important element is the contract duration. Once the contract is signed, the landlord accepts to transfer his/her property right (i.e., the right of using his/her property) to the tenant over the agreed length of the contract. Hence, the longer the rental contract the higher the induced constraint for the landlord, but the higher the security and stability for the tenant. Contracts in France cannot be short-term. There are three types of contracts. The "Baux ruraux" are contracted for 9 years, the "Baux de long terme" are for 18 years, and the

“Baux de carrière”, i.e. over the tenant’s career, are concluded for 25 years. Landowners are even given incentives to conclude long-term contracts, as they can receive by the government a per ha aid whose total per landowner cannot exceed 8,000 euros (CNASEA, 2006), and the tax on their revenues from rental contracts longer than 9 years is reduced by 15%. During the duration of the contract, landlords do not have the right to terminate the contract and rent out to another tenant. This is a first obstacle to land mobility. Landowners have the possibility to terminate the contract anytime only in order to sell the land. However, in this case, the current tenant benefits from a pre-emptive right to purchase the land (with the possibility to have the price reduced via the SAFER intervention). This is another impediment to land mobility. In other words, during the duration of the contract, the land cannot change hands.

The second important element is that contracts are automatically renewed at the end of the term. At the end of the tenure, the landlords have the possibility to withdraw their land only if they (or their heirs) farm the land themselves over the next 15 years at least (and satisfy the settlement rules, see below). Before 1984, the situation was reverse, namely that, in order to have the contract renewed, it was the farmers who had to prove their commitment to farm the land during the next 15 years (Coulomb, 1985). However, landlords’ settlement is very rare. Thus land is not likely to change hands at the end of the contract.

Finally, the last aspect regards the contract transfer. Contracts are inheritable, after a retirement or a decease, and only when exiting farmers have no successor are landlords free to designate the succeeding tenant. Thus, there is little opportunity for land to change hands outside family.

### ***3.2. Policies affecting the entry or exit of farmers in/from the farming sector***

#### *Pre-retirement measures*

Launched in 1992 and modified in 1995, the early retirement scheme in France is, as in other European Union (EU) countries, financed for 50% by the EU. The scheme enables farmers to retire from 55 onwards, while still receiving some income until their normal retirement age. For this they must have been head of the farm during 10 years at least. The other condition is that they must transmit or sell the totality of their farm (with the exception of a possible 0.5 ha plot for subsistence), in priority in the frame of a settlement. Farmers eligible to the scheme can, on the other hand, keep a non-agricultural source of income, providing that it does not exceed a specific level (based on the minimum average income in the “département”) (CNASEA, 2006).

Past evaluations of the scheme have found that the scheme has effectively given incentives to farmers to retire earlier than they would have done in the absence of the scheme (Daucé et al., 1999). For example in 1995 it was estimated that 1.3 million ha of land had been freed, to the benefit of 60,000 existing or entering farmers. However, at this period the evaluation had also pointed out that the scheme had not benefited so much to young farmers settlement, but rather to enlargement of existing farmers. For this reason, the scheme was modified in 1995 by, among others, an increase of the financial aid given to early retiring farmers if they transmitted their land to new young farmers. The modification of the scheme was a success in this view, since 50% of the land given up by early retired farmers went to settling farmers over the period 1995-1997, against 25% during 1992-1994. The evaluation of the scheme additionally pointed out that 15% of the young settlements realized on land of early retired farmers, would not have been realized without this opportunity. Nevertheless, the measures benefited mainly to successors in the family rather than outside the family.

Whether the land transfer is to existing farmers, family successors or external successors, the early retirement scheme seems to give incentives to transfer land earlier, and therefore to favor land mobility.

#### *Provisions to support young farmers' settlement*

Since 1973 young farmers can receive settlement aids, now co-financed by the government and the EU. The first one is a capital subsidy, the "Dotation Jeune Agriculteur" (DJA). To be eligible, a person needs to be aged between 18 and 40, to have at least a lower secondary agricultural education, to have realized a 6-month internship on a farm, to have followed a 40-hour training, and to settle on a farm which is at least half of the minimum settlement area ("Surface Minimum d'Installation", SMI, 25 ha) and which provides work for at least 1 Family Annual Working Unit (2,300 hours per year) (Code Rural, 2000). The capital subsidy to settlement is 17,950 euros in LFA and 8,000 euros elsewhere (MAF, 2006).

Besides, regional governments can top up the DJA as long as the total aid does not exceed 35,900 euros in LFA or 25,000 euros elsewhere. Regions can also help young farmers covering the surveyor fees during a land purchase (up to 12% of the fees) or the costs of implementing improved production systems (up to 1,000 euros per year during three years) (CNASEA, 2006).

Young farmers can additionally benefit from subsidized loans, where the interest rate is 3.5% in LFA and 2% elsewhere, with a maximum investment sum of 110,000 euros in LFA and 95,000 euros elsewhere. Although such loans are not exactly for the farm asset purchase, they are for modernization of the existing assets on the farm they just acquired (MAF, 2006).

Young farmers settlement is also favored by giving incentives to exiting farmers to transmit their farm to a young. In the case of young settlement on their farm, exiting farmers can receive an aid of up to 1,500 euros to contribute to the transaction costs, a lump-sum of 3,000 euros, an additional sum of 4,500 euros if they rent out the residential building on the farm, plus 4,500 euros if the capital is sold progressively (as it reduces the young farmer's indebtedness) (CNASEA, 2006). This last provision is important, as young farmers, despite receiving public help to settlement, are extremely indebted.

While young farmers settlement measure might increase land mobility by easing the transfer from exiting farmers, it does not seem to be crucial. Studies have indeed estimated that in 2000 35% of young farmers having settled did it without the DJA aid, despite conforming to all eligible criteria (Boinon and Dussol, 2005).

#### *Incentives to entry or remain in the sector*

Despite pre-retirement and settlement measure, farmland mobility might be prevented if farmers have incentives to remain in the sector. Such incentives might be a beneficial tax income system, or a favorable pension scheme giving incentives to keep land in order to benefit from it (as in Poland for example).

The first incentive, in the form of preferable income tax for farmers, seems to exist in France. The income tax rate is lower for farmers than for other business. This might give incentives to new entrants in the sector, especially because the rules are flexible and can allow substantial profit to be realized, in the following way. Farmers have obviously the possibility to carry out direct sales (i.e. on the farm); while they might retail their own products, they might as well sell products that they purchase outside their farm. By doing so, they should be considered as sale business, and thus be applied a different tax regime. However, they have the possibility to keep the farmer regime, as long as less than 50% of the whole sale is from products that are not produced on their farm. However, such behavior is in general limited to wine regions.

As for the pension, whose fund is managed by the "Mutualité Sociale Agricole" (MSA), its level is usually less than an employee's pension.

### ***3.3. Potential effect of the recent changes in the policies***

It is worth mentioning one recent change in the regulation of the rental contracts, included in the new LOA in place since 1 January 2006. The law introduces a new type of rental contract, called "Bail cessible", that is to say transferable contract. The main idea behind this contract is that exiting farmers who do not have a successor in their family can now choose to transfer the contract to who they want. In the other types of

contracts, it was the landlord who had this freedom (the only freedom to the landowner actually). Tenants and landlords must both agree for their contract to be transformed into a “Bail cessible”. As it reduces even more the maneuver sphere of the landlord, the latter has the possibility to ask for a price increase when the contract is transformed. This freedom is however limited, since in France rental prices are regulated. Each “département” sets a minimum and a maximum prices outside which rentals are not possible. In the case of the transformation of a contract into a “Bail cessible”, landlords can only increase the maximum possible, by 50% at most.

Such contracts have been implemented following the recent 2003 CAP reform. In the frame of this reform, the DPU (payment rights) can be transferred from an exiting farmer to his/her successor, whether the latter is from the family or not. However, for exiting farmers with a successor outside the family and renting their land, they were not able to link the rights to the rental contract, that is to say, to the land. In the case of non-family successor, the choice of the beneficiary of the contract was at the discretion of the landlords, who might not opt for the successor chosen by the exiting tenant. The new “Bail cessible” is thus supposed to link the payments to the land, in case of tenancy agreements.

As such transferable contracts can be only for 18 years (and not 9 years), their creation will not enhance land mobility. The only provision that might increase the mobility is that such contracts do not entail compulsory renewal.

#### **4. Conclusion**

The aim of this paper was to review the national and European laws and provisions, that might possibly influence farmland mobility in France and draw some potential implications of the recent changes in policies, both national and European.

As land mobility is a complex concept, as many factors might influence land mobility in many different ways, we attempted to disentangle the issue by considering two distinct definitions of land mobility: mobility between different uses and mobility between different operators. This allowed us to separate laws and provisions according to which type of mobility they are likely to affect the most.

Adopting this framework, we first pointed out the main policies that are likely to affect farmland mobility between different uses in France. Very simply, one may distinguish those policies that protect agricultural land

from competition of alternative non-agricultural uses from those policies that among possible agricultural uses contribute to favour one use over the others.

Within the first set of policies, our review emphasises the role of development planning provisions which, in France as in the majority of countries, impede landowners to convert freely agricultural land into another use. Such provisions clearly contribute to restrain the mobility of agricultural land to non-agricultural uses (especially urban usage). Does it mean however that the agricultural land supply is fixed in France? Observed statistics show that agricultural land area is slowly but continuously decreasing in France over the last decades. As in many European countries, pressure on agricultural land is becoming stronger in France, especially in tourist regions and urban poles. As development planning provisions are under the authority of municipalities, the latter have some room of manoeuvre to decide for the conversion of agricultural land into development use. As a result, one cannot conclude that development planning provisions make the French agricultural land supply to be fixed but they likely contribute to reduce the mobility of agricultural land to urban usage.

Within the second set of policies, our review points out the predominant role of the CAP. It is commonly recognised that support coupled to the production of specific commodities creates incentives to farmers to produce more of these commodities. This production increase may be obtained through an increase in yields on an unchanged cultivated area (intensive margin effect) and/or through an increase in the cultivated area itself (extensive margin effects). This is this extensive margin effect which is concerned here: coupled support clearly affects the pattern of land use within agriculture by favouring land utilization to supported commodities against unsupported or less (in relative terms) supported commodities. Until the 1992 CAP reform, it is well recognised, at least in France, that the prevailing market price support system resulted in a move towards larger land area devoted to crop to the detriment of fodder or pasture utilization. The CAP direct payments implemented in 1992 have been progressively decoupled from production, the last 2003 reform introducing a single payment which is now independent from the chosen type of production, including no production at all. Such policy change clearly contributes to give back market forces the predominant role in shaping the pattern of land use within agriculture. In the specific case of France however, the retained partial recoupling option is very likely to slow down this movement.

At this stage, one may underline that regarding the CAP effects, it is very difficult to conclude whether this policy contributes to increase or reduce farmland mobility between different agricultural uses. What we are allowed to say is that the CAP has contributed to shape the land use pattern within agriculture and that successive reforms have contributed to restrain the role of the CAP as regards agricultural land use pattern. However, shaping land use pattern can mean either increasing or reducing the mobility of land from one use to

another. This clearly reveals the complexity of the land mobility concept, which probably calls for further definition and exploration.

In a second step, we reviewed the main policies that are likely to affect farmland mobility between different operators. Very simply, most of these policies are aimed at preventing farm dismantling and land fragmentation while supporting the settlement of young farmers. Among these policies, one may underline the role of the SAFERs and of the land rental contract arrangements in France. Regarding SAFERs, our review suggest that they are important players on French farmland markets. Nevertheless it is very difficult to conclude about their effective role regarding the mobility of land between operators. They potentially have some power to favour one buyer against the others but finally and at least in the long run, in theory they do not affect the change of hands. At the very most one may suspect that SAFERs might not choose the most efficient farmers to benefit from their intervention.

Economic theory usually presents land rental markets as a way to facilitate the change of hands towards the most efficient farmers. In France, the terms of the farmland rental contracts are defined by law through the “Statut du Fermage”. As one main objective of the “Statut du Fermage” was to protect farmer tenants against landlords, French farmland rental contracts are characterised by rather long duration, automatic renewal at the end of the term, inheritability and administratively fixed rental prices. Such characteristics clearly restrain the mobility of farmland between operators on the French rental market.

Finally, if our review suggests that some policies that are in force in France probably have either a positive or a negative effect on farmland mobility, it does not allow to conclude about the extent of these effects. In the some vein, we are not able to conclude whether due to these policies, farmland mobility is greater or lower in France relative to other countries. These are main drawbacks of this paper. Clearly, there are no existing studies dealing with both these aspects and this calls for further work in this field.

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**Appendix:** List of acronyms

CUMA	Cooperative d'Utilisation de Matériel Agricole
DJA	Dotation Jeune Agriculteur
GFA	Groupement Foncier Agricole
ICHN	Indemnité Compensatoire de Handicaps Naturels
LFA	Less Favored Area
LOA	Loi d'Orientation Agricole
MAE	Mesures Agro-Environnementales
MSA	Mutualité Sociale Agricole
PLU	Plan Local d'Urbanisme
POS	Plan d'Occupation des Sols
SAFER	Sociétés d'Aménagement Foncier et d'Etablissement Rural
ZAP	Zone d'Agriculture Protégée