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Income and Factor Markets under 2003 CAP reform

Seville, 28th-29th June 2007

**Intended Farmers Responses to Decoupled CAP Payments in Selected EU-15
and New Member States: what are the policy lessons?**

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This briefing emphasises some of the findings of a study of the impact of decoupled payment system on farmers' intentions in five EU Member States carried out within the FP6 IDEMA project (Impact of Decoupling and Modulation on the Enlarged EU).. The analysis draws on primary survey data and farm accounting records. IDEMA project collected a unique dataset of farmers' intentions regarding their planned activities in the post-accession / single payment system era in five EU Member States (England, France, Lithuania, Slovakia and Sweden). For full details about the survey data, their analysis and interpretation of results, see FP6 IDEMA, Deliverable 14, June 2007.

The choice of countries incorporates a mixture of EU-15 and NMS. Primary data were collected on intentions to exit from/stay within agriculture, change the amount of land farmed and production mix. Data were also collected about farmers' objectives, values and opinions concerning policy support. Primary data collection was linked to FADN records to enhance the understanding of the impact of farms' structural characteristics and past performance on future intentions, and reduce the amount of data which had to be collected during interviews. To understand the specific effects of the switch in policy, farmers were asked to state their intentions under three main policy scenarios:

- a) Continuation of policies under Agenda 2000 in EU-15 / pre-accession policies in NMS. This provides the baseline scenario of what farmers would have done under continuation of the previous policy environment.
- b) Intentions under the 2003 CAP reform as implemented in each country: the single farm payment (SFP) in the EU-15 and the single area payment (SAP) plus national top-ups in the NMS.
- c) Intentions under full decoupling in *ex ante* sense – flat regionalised payments in the EU-15 and SAP without coupled top-ups in the NMS.

The strategic decisions to exit from or stay in agriculture, and to increase farm area have been analysed for individual countries. Data on farmers' values and objectives across all five countries have been studied through cluster analysis in order to identify groups of farmers with similarly held beliefs and objectives, and

understand their characteristics. The main policy relevant conclusions are first summarised country by country and then on a cross-country basis.

According to farmers' intentions, the introduction of decoupled payments will have little direct effect on structural change in England. Few farmers plan to modify their exit or growth decisions under SFP arrangements compared to what they would have done if they faced a continuation of the Agenda 2000 policy environment. The more pronounced adjustment concerns production choices (even though the majority of the respondents are not planning to change their output mix, some intend to decrease their cattle production) and to a certain extent diversification to off-farm activities. Therefore, this early empirical research suggests that in England the adjustments to the 2003 CAP reform are likely to be subtle and to concern mainly production activity choices and diversification.

A direct comparison between England and France would be illuminating due to the differences in the implementation of decoupling and different regulations concerning trade of entitlements in the two states. Unfortunately, due to the difficulties with data collection in France, direct comparisons are difficult to draw. The French sample is restricted in its geographical coverage and mountainous regions were not covered. Additionally, the regions surveyed are relatively homogenous and the farmers interviewed in general rely only partially on their on-farm income and are younger than the national average. Nevertheless, the French results are similar to the findings from England in that few farmers intend to alter their plans to exit or grow as a result of the introduction of the SFP. Intentions are little affected by the switch to SFP in France, which may be expected given the conservative manner in which France has chosen to implement the SFP.

In contrast to England and France, in Sweden the implementation of SFP is more likely to stimulate the structural change as some farmers are planning to exit earlier than they would have done under Agenda 2000. Very little land is however likely to be abandoned as the demand for land for farm growth persists after the change in policy.

Summarising the results for the three studied EU-15 Member States, it appears that farmers plan to apply a *minimal adjustment strategy* in response to changes in agricultural policy, at least in France and England. There is no strong evidence that farmers intend to drastically change their strategic decisions to exit agriculture. Few farmers are interested in merely keeping land in good agricultural and environmental condition (GAEC) and not producing.

In the NMS (Lithuania and Slovakia), the implementation of the 2003 CAP reform has a different meaning. The implementation of the SAP in the NMS means a significant increase in the degree of protection afforded to farmers in the form of both higher and more predictable payments. Therefore, it is not surprising that in Lithuania the main impact of the payments is evidenced in a greater willingness to operate larger farms. As the returns to agricultural activities are expected to rise, farmers are less interested in diversification and have no wish to leave land uncultivated under GAEC. This comparable pattern is repeated in Slovakia: the switch from pre-accession policy to the SAPS induces a significant rise in the numbers who wish to stay in agriculture. However, in Lithuania and Slovakia, the characteristics of those seeking to stay or expand do vary. In Slovakia, likelihood of expansion of farm area is related to managerial experience and farm location. In Lithuania expansion plans are linked to lifecycle variables (age and succession status).

In analysing the differences between the EU-15 and NMS, it should be noted, however, that what has been studied in the NMS is not so much the effect of a switch from coupled to decoupled payments but the effect of the introduction of the CAP payments as a result of EU accession. From this point of view, the differences in responses between the EU-15 and NMS are justified as the farmers respond to different policy changes.

The comparative cross-country analysis generates several important insights for policy, stemming from the analysis of farmers' attitudes across the pooled sample of five states. First, most farmers still possess a productionist mindset and do not accept the idea that they could survive or be competitive without policy support. The sampled farmers strongly disagree with statements advocating the removal of policy support and, at the same time, express preferences for the full utilisation of agricultural land for agricultural production and concentration on farming. More than one-third of the respondents strongly disagree with the notion that good farming skills are sufficient to run a profitable business whatever the design of European policies. At the same time, a half of the respondents think that the CAP system of support imposes restrictions on their future farming plans. So, it appears that farmers rely on policy support although a large proportion of them realise that this support might be conditional on some restrictions on their farming activities. The only farmers who endorse policy liberalisation are those who are largely based in sectors that traditionally receive little CAP support (pigs and poultry).

Second, the often advocated strategy of diversification and development of multiple income sources still creates difficulties for a substantial proportion of European farmers. This is due to a mixture of beliefs that farmers should focus on the production of food and fibre, and a lack of appropriate skills and off-farm opportunities. More than 40 percent of the respondents do not think they can easily find a job off-farm or increase the number of hours devoted to off-farm work. This emphasises once again the limitations of rural development policies that are focused solely on the farming community. Farmers are unlikely to create a significant number of new jobs through the pursuit of enterprise diversification, which is an infeasible option for many, and their own future prosperity depends on the availability of work in the non-farm rural economy. Pessimism surrounding the opportunities for diversification is not confined to the relatively poorer NMS. In fact, upland grassland farmers in England are the most pessimistic about their ability to adapt.

Third, although the overwhelming majority advocate protection, farmers are more flexible in terms of the instruments through which policy support might be delivered. One of the positive messages emerging from this research is that the majority of respondents agree with the need for farmers to produce attractive landscapes and positive environmental externalities, and be paid for this. The non-pecuniary benefits of farming also feature prominently. The latter are crucial for understanding why farmers' responses to policy reforms have been rather modest or at least more modest than expected.

Finally, the strongest opposition to policy liberalisation comes from farmers in the NMS. Newcomers to farming in the NMS strongly reject policy liberalisation and endorse notions that farmers should concentrate on agriculture which corroborates with the previously mentioned intentions to stay longer in agriculture or grow more. For them diversification seems to be associated with liberalisation tendencies. These views are likely to have important implications for the decision-making processes

surrounding agricultural policy reform in the EU. The new entrants to the Union are expected to strengthen the political opposition to agricultural policy reform and undermine attempts to extend the reform measures, including the capping and further modulation of the Single Farm Payment.