

AGRICULTURE IN FRANCE : A FEEDBACK ON SEVERAL SPENDING REVIEWS

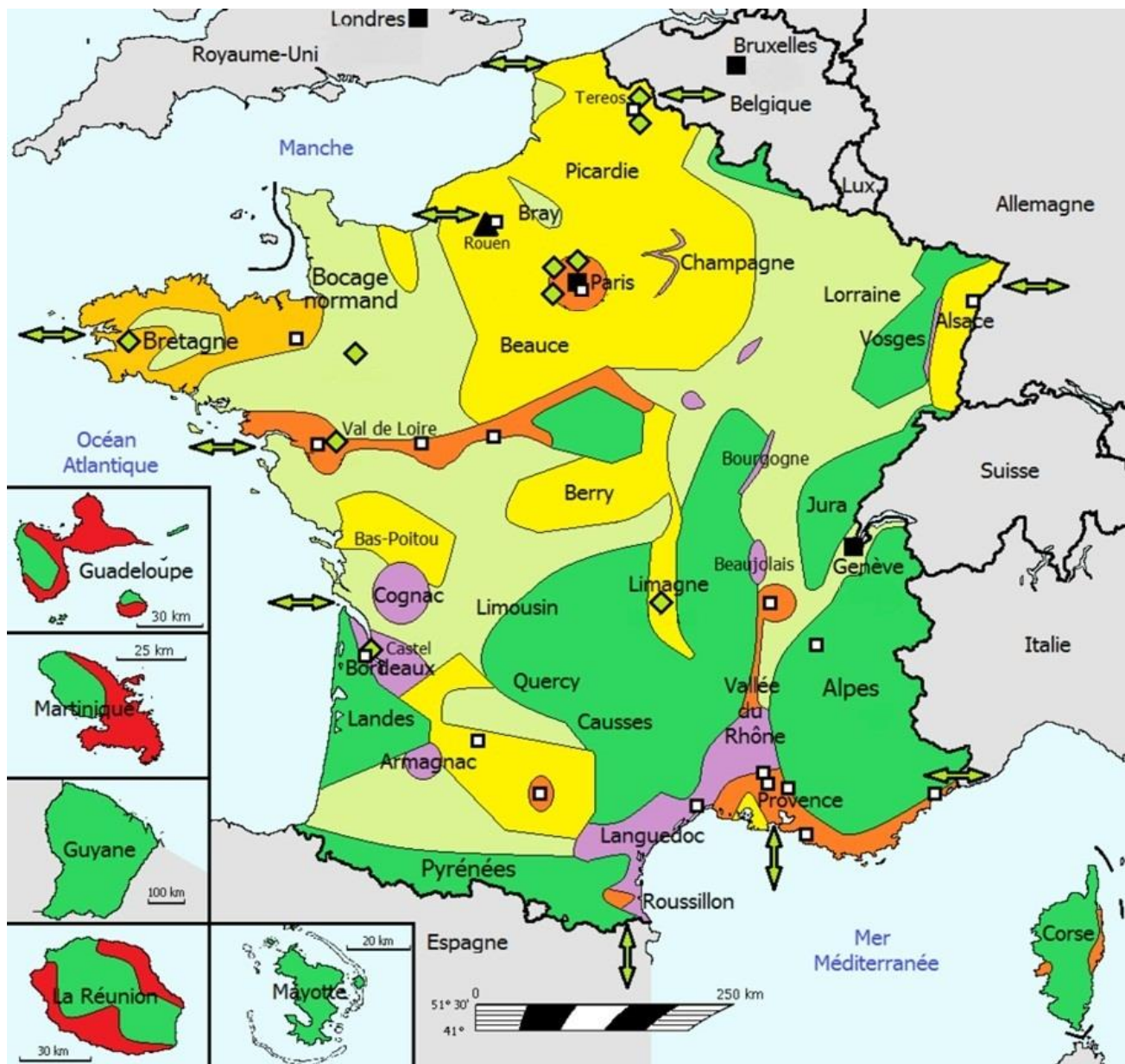
Effectiveness and
efficiency of direct
payments



1. AGRICULTURE IN FRANCE



AGRICULTURE IN FRANCE



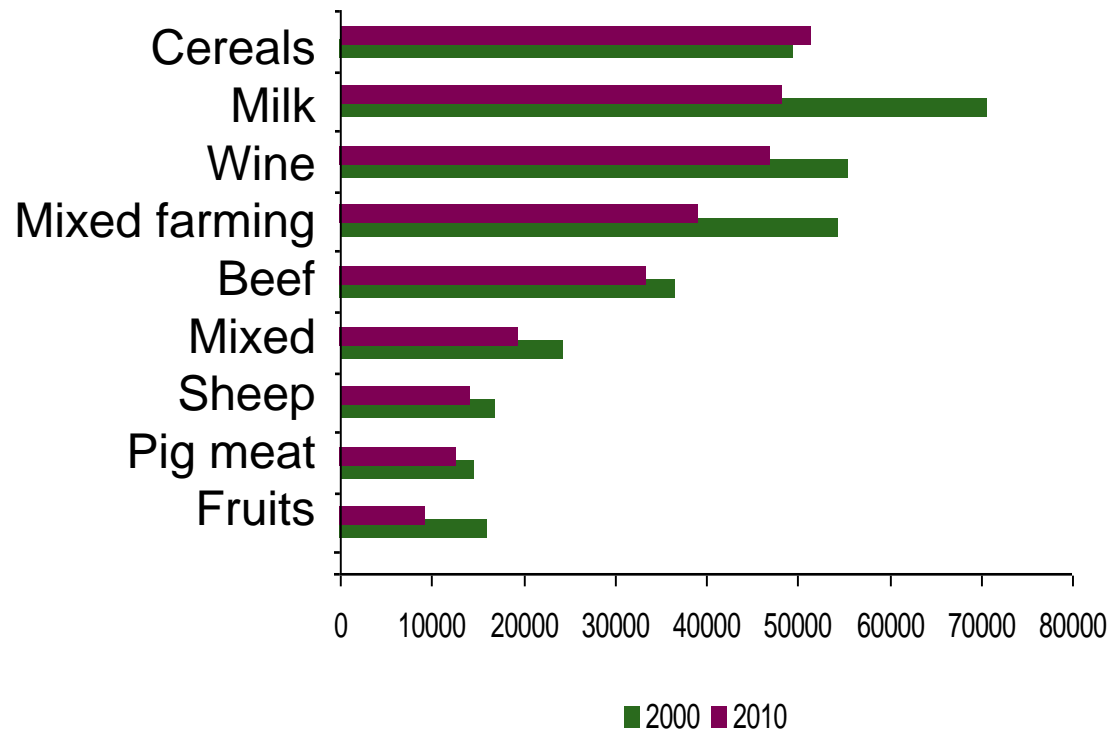
- Cereals
- Wine
- Fruits and vegetables
- Farming
- Tropical products

- Mixed farming
- Forestry

THE AGRICULTURAL SECTOR IN FRANCE : AN ECONOMIC OVERVIEW

- The agricultural and agrifood sector in the French economy : €80 bn (3,6 % of GDP)
- 451 000 farms and about 850 000 FTE
- A reduction of 26% of farms over the last 10 years
- Majority of production in specialized farms

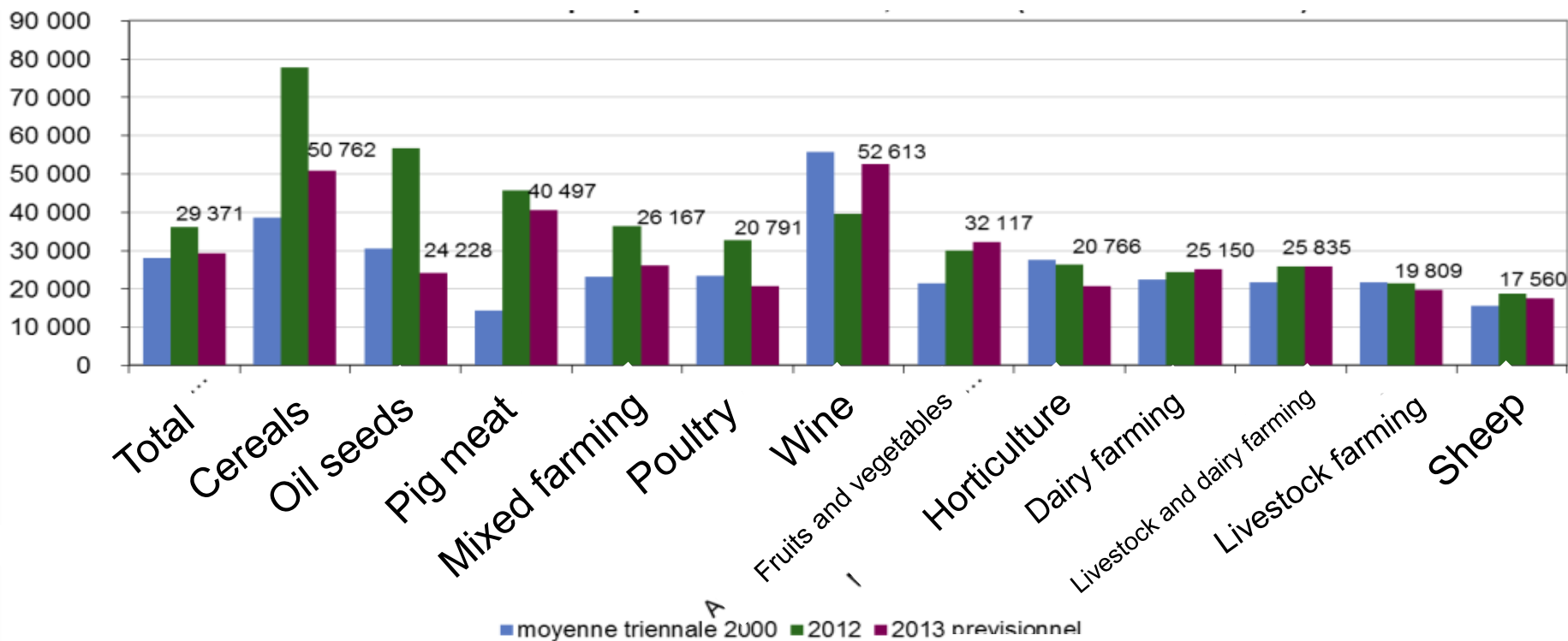
Evolution of the number of farms between 2000 and 2010



Source : Agreste

THE AGRICULTURAL SECTOR IN FRANCE : AN ECONOMIC OVERVIEW

Annual income before tax / worker in €



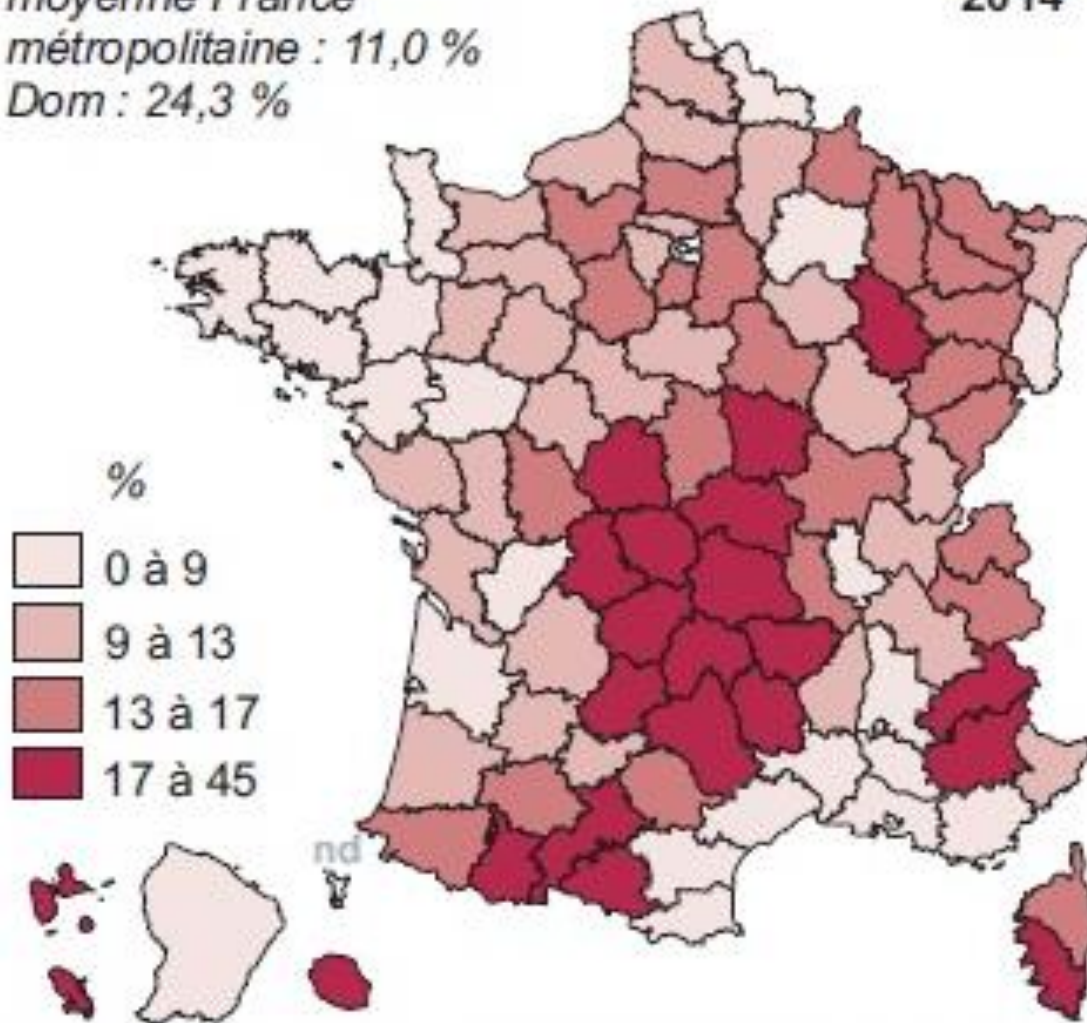
Source : Agreste

THE AGRICULTURAL SECTOR IN FRANCE : AN ECONOMIC OVERVIEW

Part of subsidies in agricultural income

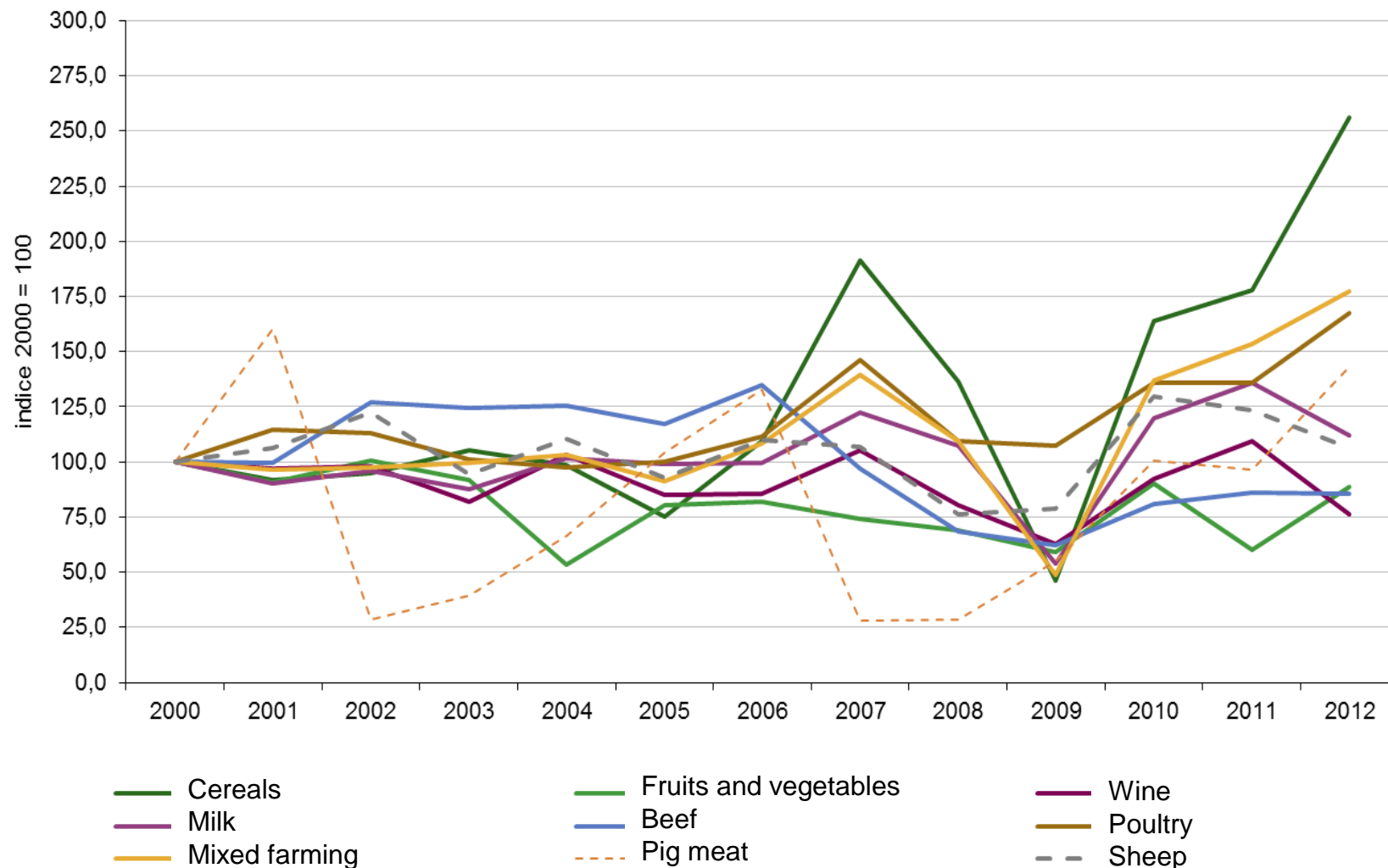
*moyenne France
métropolitaine : 11,0 %
Dom : 24,3 %*

2014



THE AGRICULTURAL SECTOR IN FRANCE : AN ECONOMIC OVERVIEW

Evolution of annual income before tax



Source : Agreste

2. SPENDING REVIEWS ON DIRECT PAYMENTS IN FRANCE





SPENDING REVIEWS ON DIRECT PAYMENTS : THE DRIVERS

A lack of efficiency

- Costs due to **numerous affiliated organisations**
- Costs due to **financial penalties** imposed by the European Union
- Costs due to adaptation to reforms of the CAP, causing serious payment delays

A lack of effectiveness - volatility of revenue

- Direct payments are the **main instrument to support** the agricultural sector in France
- Among the objectives of the CAP (art. 39 TFUE) : « to **increase agricultural productivity** » ;
« to ensure a **fair standard of living** to the agricultural community »
- Direct payments are the primary safety net but other tools needed to deal with volatility



THE EFFICIENCY OF DIRECT PAYMENTS TO THE AGRICULTURAL SECTOR

CONTEXT OF THE FIRST REVIEW : An agency for each sector

- **Operating costs**
- **Lack of coherence**
- Costs due to **penalties** imposed by the European Union

KEY OBJECTIVES

- Rationalize the affiliated organizations, to improve productivity and coherence
- Reinforce controls and feedbacks in order to reduce financial penalties

CHALLENGES

- **Locations** of the affiliated organizations
- **Status** of the administrative agents
- **Timing** of the CAP reforms



ORGANISATIONAL STREAMLINING

Process and implementation

FIRST REVIEW

- **2003** : Two reports asked by the French Parliament and done by inspectorates on the 13 affiliated organizations of the ministry
- **2004** : steering committee to propose merger' scenarios
- **2006** : merger of half of the affiliated organizations

ASSESSMENT OF THIS FIRST STEP : Mixed results

- **2007** : reports on the reform pointed out that :
 - support departments had not entirely merged
 - costs due to the implementation of the reform (incentives for agents...)
 - no real effect on financial penalties imposed by the EU
- Decision to create **one single payment agency + to merge all the other affiliated organizations** in one single agency



ORGANISATIONAL STREAMLINING

Process and implementation

SECOND STEP

- **2009** : creation of one single payment agency and of one agency coordinating the different agricultural sectors

ASSESSMENT

- significant **reduction of operating costs**
- no social conflict
- a **clear border between the responsibilities** of the two agencies



EFFICIENCY : A SECOND REVIEW DEALING WITH FINANCIAL PENALTIES AND DELAYED PAYMENTS

Context and key objectives

CONTEXT

- Still high **financial penalties** imposed by the European Union : € 2,3 bn payed between 2007 and 2016
- **Delayed payments** because of the software updates necessary to pay the new CAP, based on a **new way to estimate cultivated areas**

KEY OBJECTIVE OF THE REVIEW

find ways to **reduce costs** due to the implementation of direct payments

EFFICIENCY : A SECOND REVIEW DEALING WITH FINANCIAL PENALTIES AND DELAYED PAYMENTS

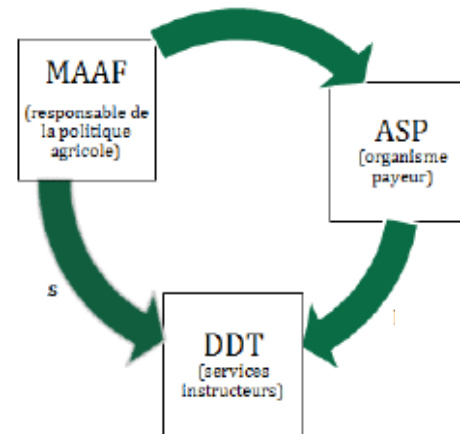
Process and findings

PROCESS

- Review led by two Inspectorates in relationship with the budget department of the ministry of finance
- Interviews with all the actors involved

MAIN FINDINGS

- **Governance problems :**
 - a circular governance for the 1st pillar
 - a complex governance for the 2nd pillar, with the Regions being managing authorities
- Lack of involvement of the regional level inside the paying agency





EFFICIENCY : A SECOND REVIEW DEALING WITH FINANCIAL PENALTIES AND DELAYED PAYMENTS

Conclusions

CONCLUSIONS OF THE REVIEW

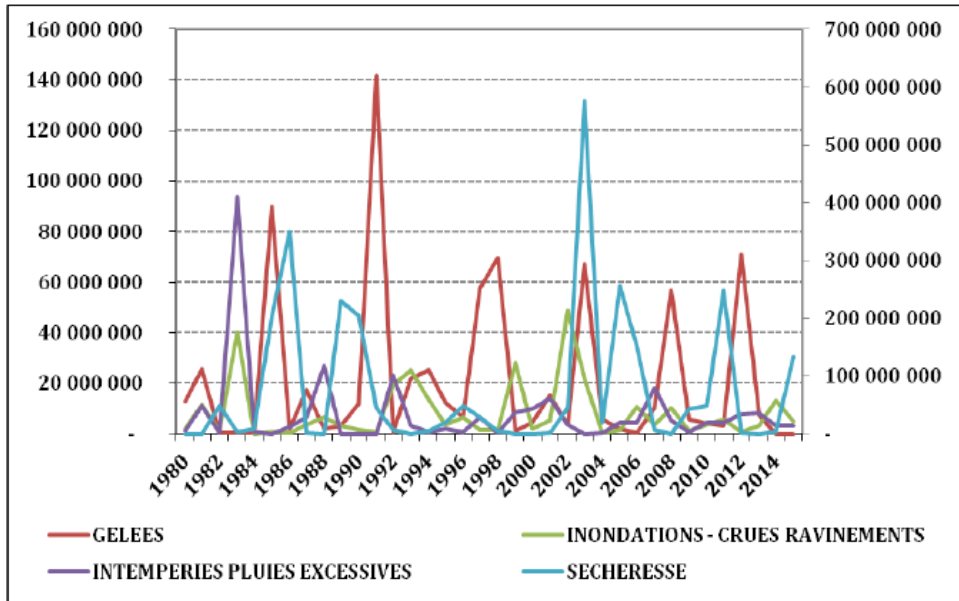
- Responsibilities must be clearly defined
- Need for a steering committee (paying agency, ministry of agriculture, ministry of finance)
- Governance should be reformed, for the 1st and 2nd pillars
- CAP should be simplified
- Idea of a « one-stop shop » for farmers regarding their relationship with administration services

IMPLEMENTATION

From 2017 till the implementation of the new CAP.

EFFECTIVENESS OF DIRECT PAYMENTS : THE IMPORTANCE OF RISK MANAGEMENT

Ad hoc disaster aids between 1980 and 2014

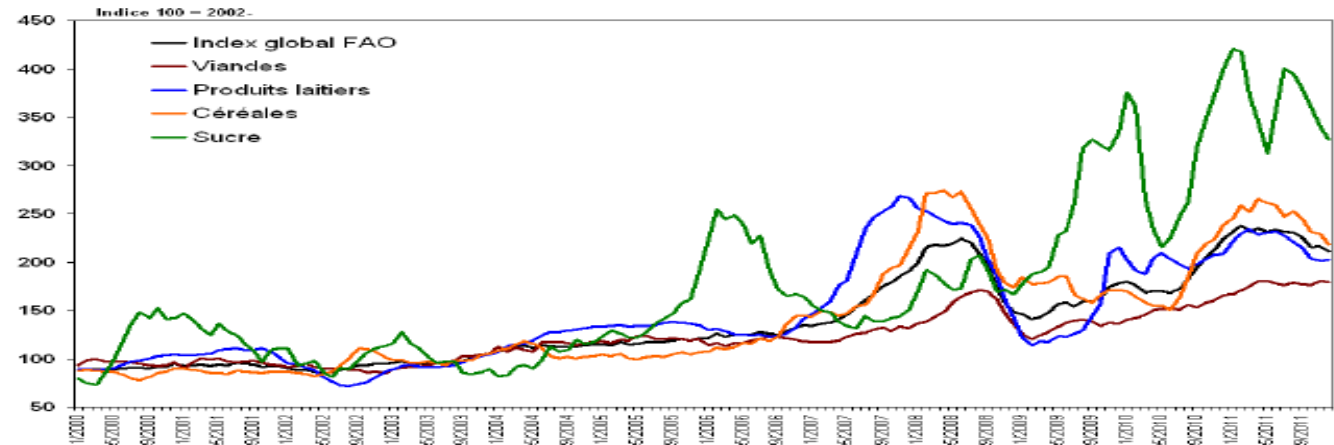


A high volatility of revenue in the agricultural sector

- Although high level of direct payments to farmers, recurrent national public support still needed because of climate events or price volatility that severely affect the agricultural sector

Source: CCR. *Note de lecture*: Seules les quatre calamités les plus significatives sont retenues. L'échelle de gauche correspond aux gelées. L'échelle de droite correspond aux trois autres calamités.

FAO Price index



Source: FAO.

- Income volatility make hesitant to make investments that could raise productivity and profitability

EFFECTIVENESS OF DIRECT PAYMENTS : THE IMPORTANCE OF RISK MANAGEMENT

State aid expenditure on crisis and risk management measures (2007-2013).

EU MS	Value (€ million)				Total
	Natural disasters	Adverse weather events	Animal and plant diseases	Insurance premiums	
Belgium	-	22.4	163.2	-	185.6
Bulgaria	10.5	19.3	2.0	1.1	32.9
Czech Republic	18.2	0.4	131.7	78.7	229
Denmark	-	-	61.0	-	61
Germany	233.3	16.2	557.9	0.9	808.3
Estonia	0	-	4.9	0.0	4.9
Ireland	100.3	4.0	206.9	-	311.2
Greece	152.9	991.1	-	-	1144
Spain	29.5	225.0	283.9	2123.0	2661.4
France	610.9	934.3	396.7	66.4	2008.3
Croatia ^[1]	-	-	-	-	-
Italy	60.5	414.8	232.6	941.0	1648.9
Cyprus	42.6	68.2	15.5	28.7	155
Latvia	-	0.6	2.4	3.6	6.6
Lithuania	2.7	43.9	2.2	40.4	89.2
Luxembourg	-	10.3	3.3	8.6	22.2
Hungary	30.1	91.1	112.2	-	233.4
Malta ^[2]	-	-	-	0.0	-
Netherlands	0.2	14.8	195.4	0.5	210.9
Austria	10.7	2.5	28.8	250.2	292.2
Poland	148.5	189.4	395.4	203.3	936.6
Portugal	0.1	117.7	-	0.0	117.8
Romania	609.8	0.7	30.5	16.2	657.2
Slovenia	11.9	12.8	62.7	46.6	134
Slovakia	5.6	3.9	8.7	9.3	27.5
Finland	0.3	16.3	10.5	-	27.1
Sweden	185.1	-	112.5	-	297.6
United Kingdom	2.7	1.0	1241.6	-	1245.3
Total (EU-28)	2266.4	3200.7	4262.5	3818.5	13548.1


Note: The symbol "-" means non-available data. [1] [2] Data for Croatia and Malta not found.

Source: Own elaboration from European Commission data, DG Competition (last update 01.12.2015).




EFFECTIVENESS OF DIRECT PAYMENTS : A SPENDING REVIEW ON RISK MANAGEMENT

Public policy - key objectives :

- 
- Risk management to help increase the resilience and economic viability of the farming sector
 - Rationalize the existing risk management tools
 - Improve the effectiveness of public spending

Public spending - key objectives :

- 
- Reduce government's intervention to catastrophic risks
 - Improve the efficiency of risk management in France : reduce costs linked to emergency plans

EFFECTIVENESS OF DIRECT PAYMENTS : A SPENDING REVIEW ON RISK MANAGEMENT

The process



12
months

- Several workshops organized with a range of stakeholders : ministry of finance, ministry of agriculture, trade union members, insurers...
- Each stakeholder invited to submit a written contribution
- A secretariat led by the ministry of agriculture

- Meanwhile, independent review led by the General inspectorate of Finance and the General inspectorate of Agriculture

- **Conclusions of both works handed back in the 1st semester of 2017**

EFFECTIVENESS OF DIRECT PAYMENTS : A SPENDING REVIEW ON RISK MANAGEMENT

	Normal risk	Marketable risk	Catastrophic risk
On farm	<ul style="list-style-type: none"> Financial management Standards (hygiene, quality) Diversification (including off-farm) 		
Market tools		<ul style="list-style-type: none"> Forward contracting Cooperatives Non-subsidised insurances 	
Ex-ante policies		<ul style="list-style-type: none"> Non-subsidised mutual funds 	
		<ul style="list-style-type: none"> CAP subsidised Income Stabilisation Tool (not risk specific) CAP subsidised insurances and mutual funds for production risks CAP Market measures 	
		CAP Basic Payment Scheme	
Ex-post policies			<ul style="list-style-type: none"> Ad hoc disaster aid

State of play : Many instruments but overlaps, lack of coherence and no specific instrument for economic risks

- Mutual Funds (FMSE & FNGRA) co-funded by farmers and the state
 - Crop-insurance subsidized by the CAP (65% of primes)
 - Special treatment on taxation to farmers on disposable income
 - Many *ad hoc* interventions
- No specific instrument for market risks

International comparison

- US : 2014 Farm bill
- Germany : less disaster aid in case the farmer did not subscribe to a crop insurance contract

Source: DG Agriculture and Rural Development based on the OECD classification of risks



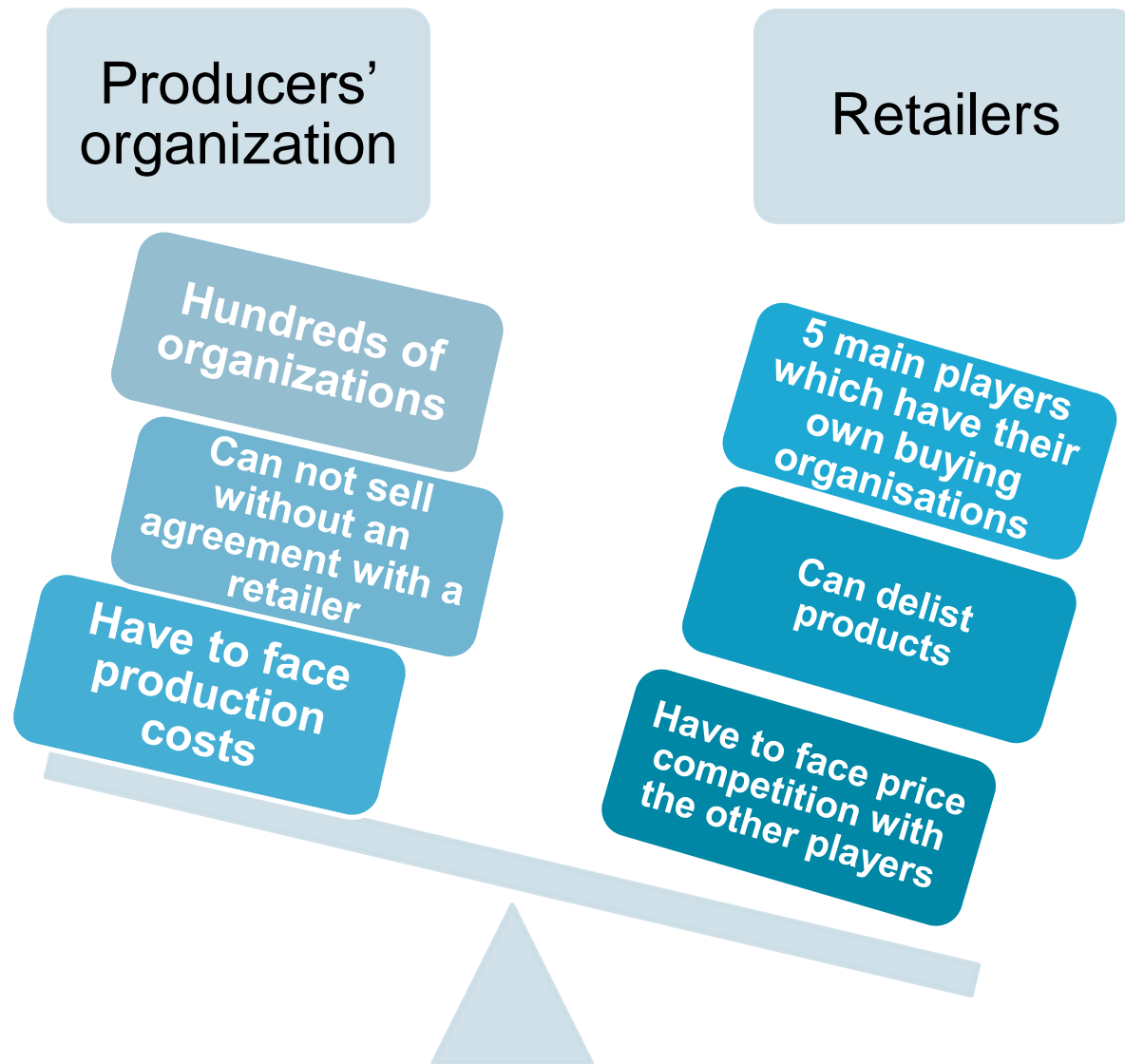
EFFECTIVENESS OF DIRECT PAYMENTS : MAIN FINDINGS OF THE SPENDING REVIEW ON RISK MANAGEMENT

- **Risks must be structured in different layers**, according to their nature. Clarity on the layer borders is essential to define a well functioning public-private partnerships
 - Risks that can be handled with mutual funds or insurance products should not lead to *ad hoc* public intervention
- Encourage a **wider use of mutual funds**
- **Facilitate the formation of a voluntary individual precautionary savings scheme.** The idea would be to facilitate rapid deployment of these savings in the event of difficulty
- **Overhaul the functioning of the European crisis reserve for addressing large-scale crisis**
 - Must be dissociated from the annual functioning of direct support
 - Must be built up over several years and equipped with sufficient resources to deal with crisis possibly involving the whole EU territory
 - Terms of use clarified, known in advance and objectified on the basis of relevant indicators provided by sectoral market observatories
 - Unused credits should not be recycled to other programs

**RELATIONSHIPS
BETWEEN LARGE
RETAILERS AND
PRODUCERS'
ORGANISATIONS
IN FRANCE**



LARGE RETAILERS AND PRODUCERS' ORGANIZATIONS IN FRANCE



LARGE RETAILERS AND PRODUCERS' ORGANIZATIONS IN FRANCE

2008 : Law on
the
Modernization
of the Economy

- Ministry of finance sued several of the largest retailers for unfair trade practices – long procedure

2015-2016

- Limits for fines : from € 2 m to 5% of the turnover
- Possibility to make contracts for several years

2017 : French
National Food
Conference

- Thematic workshops with all stakeholders
- In view of a national roadmap
- To date, idea to limit the ability to sell below costs