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GENEDEC

A quantitative and qualitative assessment of the socio-economic and environmental impacts of decoupling of direct payments on agricultural production, markets and land use in the EU

STREP
Priority 8.1.B.1.1: "Sustainable management of Europe's natural resources"

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An examination of various theoretical concepts behind decoupling and review of hypothetical and actual decoupled support schemes in some OECD countries

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A report summarising stakeholders' reactions to the introduction of decoupled support system for agriculture in France, Germany, Ireland, Italy and the United Kingdom

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I. INTRODUCTION

This report is a synthesis of the responses received from consultations conducted in the autumn of 2004 and the spring of 2005 in five member states of the European Union, namely France, Germany, Ireland, Italy and the United Kingdom. The consultations were carried out by five of the partner organisations taking part in GENEDEC: Institut National de la Recherche Agronomique (INRA); Bundesforschungsanstalt für Landwirtschaft (FAL); The Agriculture and Food Development Authority of Ireland (Teagasc); the Università degli Studi di Parma with the Università degli Studi di Verona and the Centre for Agricultural Strategy, The University of Reading.

The methods employed in conducting the consultations in the five member states are detailed in the reports of the individual countries, which are attached to this report and are not therefore repeated here in detail. In short though, the methods included post, telephone, e-mail and face-to-face discussions. This report does not attempt to be exhaustive of the responses received from the individual consultations. It merely seeks to bring forward and highlight the views and main areas of consensus or dissent of those active or interested in farming and the rural economy across the five participating countries.

A set of nine standard questions to be asked by all five partners of their selected consultees, was agreed by the research partners at a project meeting held on 18/19 October 2004. In addition, partner organisations were afforded the liberty of asking several other questions of their own national consultees relating to issues deemed of especial national interest. The responses received to the nation specific questions can be found in the individual country reports attached as appendices to this synthesis report and are not reported here.

II. RESULTS

The responses received from the consultation process held in each of the five participating countries are summarised here prefaced, for ease of reference, by the precise specific question asked.

Question 1. In relation to the recent reforms of the CAP:

(a) Which aspects do you think are good?

The major benefit and public good arising from the reforms was considered to be the decoupling of subsidy from production with the contingent ability to produce to consumer and market demand rather than to the subsidy. The opportunity to 're-couple' production to some agricultural products was also considered to be helpful (France).

In addition to the principle of decoupling, several individual reports noted that the cross-compliance and modulation measures were thought to be capable of providing positive public goods in terms of increased biodiversity arising from cross-compliance and economic development resulting from rural development programmes via modulation.

(b) Do you identify any problems?

This question produced a great number of differing views. Essentially though, most reports noted that the reforms were both too complex for ease of administration and too widely drawn. The perceived 'wide drafting' of the reforms may permit individual member states to effectively devise their own national agricultural policies, a process referred to as 're-individualisation' in one report (France) or the 'uncommon agricultural policy' in another (UK).

Concern was also raised as to whether the World Trade Organisation (WTO) would actually consider the reforms as falling within the 'green box'. It was further noted that some countries might have taken the opportunity of the reforms to 'gold plate' their implementation leading to unnecessarily complex rules with the particular example given of cross-compliance provisions.

Question 2. Considering the likely impact of the policy reforms on agriculture, do you think:

(a) The reform will have an impact on the level of production?

The consensus was that production would decline throughout the EU in aggregate terms particularly in beef and sheepmeat production.

(b) The reform will have an impact on the intensity of production?

In this instance, the consensus was that intensity of production would likely increase in the most favourable farming areas, especially in the milk sector, but otherwise generally decrease everywhere.

(c) The reform will affect other rural industries (upstream and downstream)?

While there was general agreement that there would be negative impacts on rural industries other than farming, both upstream and downstream, with a widespread belief that input prices would fall, there was some uncertainty about the extent and degree of such affects.

(d) The reform will lead to an adjustment in the use of the factors of production, that is land, labour and capital?

There were two main issues raised by all respondents on this point. These were first, with regard to land, that rental levels were likely to fall post-reform especially where, for example, the Single Payment was being claimed by a farmer or landowner who subsequently lets his land to another to cultivate (the Single Payment as a 'pension' argument) and, second, that fewer people overall would be employed in farming and related industries.

(e) The reform will affect the competitiveness of EU agriculture on the world market?

There was a difference of opinion on this point. All agreed that EU competitiveness would be affected by the reforms in some way but on balance, the considered view was that the reforms would make EU agriculture more competitive on the world market rather than less competitive.

(f) The reform will lead to more specialised or diversified farms?

There was broad consensus of opinion on this issue. It was considered likely that a polarised situation would arise where some farms would become more specialised operating with fewer individual enterprises than presently whereas others would become more diversified indicating that in aggregate there will be fewer mixed farms. This polarised position was considered likely to be driven by the presence or absence of positive environmental factors such as good soil and favourable climate, which would lead to increasing regionalisation of production of some agricultural goods, for example, milk.

Question 3. Do you think that due to the reform of the CAP, some of the agricultural area will fall idle or will be managed according to the minimum requirements to receive payments?

Generally, all respondents taking part in the consultation process considered it possible that some marginal land would be farmed to minimum good agricultural and environmental condition (GAEC). Furthermore, it was felt that such areas, in some EU countries, might make up a significant proportion of all presently cultivated farmland. It was considered however, that little land would be truly 'idled' and/or abandoned.

Question 4. *How do you think the reforms will affect land prices and rental values?*

On this question, each country's response provided a different view as to how they foresaw the movement in land prices and rental values. As noted at *2 (d)* above, the responses received incorporated the view held by some that the Single Payment may be seen as a 'pension' payment by some farmers who retain the payment but then let their land to another to work for them. It is considered that such a practice would depress rental values.

In France, the view was that land prices would remain stable or rise slowly while rents could possibly rise. In Germany, especially on the better land, little prospect of a fall in rents is expected. The prospect in Ireland was that in the longer-term, both land prices and rents would fall whereas in the UK, little change in land prices or rental values is anticipated in the short- to medium-term. In Italy it is considered that investment values will fall generally but may conversely increase slightly in those scenic areas where farmers could diversify into tourism type activities.

Question 5. *In relation to the cross-compliance element of the reforms:*

(a) Do you think it is acceptable to farmers?

Generally, yes, although there was some concern expressed by some respondents that land may be abandoned should farmers and landowners perceive the cross-compliance rules as unreasonable and unworkable.

(b) Do you think the financial burden on farmers is too great?

Generally, no, but the mental burden of form filling and paperwork was considered by some to be burdensome.

(c) Do you think it can be effectively policed and controlled?

Generally all countries considered that cross-compliance can be effectively policed and controlled. Several respondents suggested that an initial acclimatisation period would be helpful and that cross-compliance inspectors should work in conjunction with farmers to ensure compliance is achieved by co-operation rather than coercion. It was generally hoped that inspection of cross-compliance observance would not be onerously prescriptive in the early months of the reformed CAP.

(d) Do you think it will contribute to environmental, food safety and animal welfare standards?

The cross-compliance regime was considered by all participating countries to be an instrument that would improve standards generally, perhaps in some countries more than others. Respondents in Italy described cross-compliance as a 'decisive' factor in improving standards generally.

Question 6. Do you think the transfer of direct payments from agriculture to rural development is a good idea?

This question is concerned with the transfer of payments away from agricultural Pillar 1 direct subsidies to Pillar 2 rural development measures. The consensus view was that this change in direction was a good idea provided the funding actually found its way to rural development programmes and ultimately provided a benefit to predominantly farming areas. This point was strongly made in the French consultations.

In Ireland and the UK, there was less enthusiasm for the transfer of funds in some quarters as it was considered that such transfers diverted too much money away from farming specifically, thereby depriving agriculture of its perceived necessary funding.

Question 7. Do you think the reforms will provide the necessary income stability for farmers?

The consensus of opinion was that the reforms would actually do quite the opposite namely that farm incomes would likely be less stable post-CAP reform as market forces become the more dominant factor and farmers increasingly become reliant on the market to set prices for their produce.

Question 8. Do you think the reforms will affect the speed of structural change? If so, how will they affect the rate of change?

There was general agreement across all participating countries that the pace of structural change would increase, the implication being that rationalisation in the number of farms and in the number of those employed in farming would continue with average farm size increasing.

It was considered that there would be an increasing number of part-time farms and farmers, farming to minimum GAEC requirements rather than land being totally abandoned. However, there was concern expressed in the French consultation that abandonment of agricultural land in some marginal areas might occur.

Question 9. Will the Single Payment Scheme affect the attractiveness of entering farming for young people or new entrants? If so, how?

The German, French and Italian respondents considered that the reforms would do little or nothing to make farming more attractive to new entrants and they anticipate a continuance of the present trend of dwindling numbers of new entrants into farming.

In Ireland and the UK, however, there was more optimism with consultees in both these countries believing that the reforms might encourage new entrants to farming and that fresh opportunities for those of an entrepreneurial disposition would become apparent.

III. SUMMARY REMARKS AND CONCLUSIONS

It was noticeable that the comments received in the consultations from some countries were more pessimistic overall regarding the Fischler Reforms than others, which appeared to be rather more optimistic. However, even in countries that are in the main optimistic, say, the UK, there remain areas of uncertainty.

These uncertain or pessimistic views may derive from those held generally by others active within the farming sector in which the respondent was also active. It is however possible that, at the time of the consultation, insufficient relevant information regarding the implementation of the SPS, had been issued to farmers leading to perhaps ill judged comments being made in the ensuing information vacuum.

There is a general view that production overall and across all sectors will decrease, perhaps extensify, but certainly become less intensive with the possible exception of dairying. It is considered that milk production may possibly intensify within those enterprises remaining active in the sector, following some inevitable re-structuring post-reform and probably becoming increasingly regionalised, focussing on those regions most environmentally suited to milk production.

There was general agreement in all five countries that a polarisation of agriculture would be increasingly in evidence, both from increased specialisation of farming enterprises with peripheral businesses being closed and, as previously mentioned, by the regionalisation of farming types to those regions within the EU having the most favourable soils, aspect and climate for the particular farming enterprise in question. For example, there is a view held by some in France that milk production may increasingly centre on Brittany and wheat production on Beauce.

The three main building blocks of the Fischler Reforms, that is the decoupling of subsidies from production, the transfer of funds from Pillar 1 to Pillar 2 (modulation) and the improvement of plant and animal health and welfare standards by way of the cross-compliance rules, were generally considered in all countries to be positive factors capable of delivering positive public good. It was considered that adoption of these reforms would reduce criticism of the EU and its CAP both from its internal critics, principally its own taxpayers, and externally from bodies such as the WTO.

Internally it is considered that taxpayers will increasingly see the benefits and public good from the adoption of more sustainable agricultural practices and environmentally friendly farming methods. Externally it is believed that the Fischler reforms will likely be seen by others, such as the WTO, as the beginning of the deconstruction of the previous protectionist walls of EU farming, making domestic markets more open to competition from both the developed and developing worlds and, in addition, delivering a massive boost to trade liberalisation throughout the world.

It is interesting to note that, none of the consultees in France, Germany, Ireland, Italy or the UK directly mentioned the possible, perhaps very likely, future strictures of the financial discipline ('degressivity') on the agriculture budget, although it was commented upon by several respondents, for example in Germany and the UK, almost as an aside. The application of the instrument of financial discipline, would restrict the funding available to farmers either directly by way of product specific aid or indirectly through the various national rural development programmes. Additionally, little attention was directed specifically toward the likely next stage of CAP reform.

With the decoupling of subsidy from production, and the likely increasing switch of funding away from farming to rural development measures, the brake of the financial discipline mechanism together with modulation, may well see the past income delivered to farmers and the agricultural sector by way of subsidy, declining to a significantly minor segment of total farm income.

Stakeholders' Consultation in France

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I IMPLEMENTATION OF THE CONSULTATION

How was the consultation undertaken?

As members of our team are neither specialized in sociology, nor used to conducting interviews and as only 2 person-months were dedicated to D1.2, we first decided to send our questionnaire to the stakeholders. Considering the few answers we received, we then decided to put the questionnaire on-line on GENEDEC web site. Advertisement was made on the SAF newsletter (Société des Agriculteurs de France). Finally we resorted to our network. Only one interview was done on request of the stakeholder.

Who was consulted?

We sent our questionnaire to unions, the main producers' associations, Common Market Organizations, technical institutes, agri-environmental associations, a landowner association, ancillary industries (fertiliser/chemical), farmers' social security and Chambers of Agriculture. We used the internet to find relevant contact information for the following stakeholders:

Table 1: Schedule of consultees

Name of organization consulted	Contact name	
Assemblée Permanente des Chambres d'Agriculture	Luc	Guyau
Fédération Nationale des Syndicats d'Exploitants Agricoles	Jean-Michel	Lemetayer
Confédération Paysanne		
Jeunes Agriculteurs	Bernard	Layre
Assemblée Générale des Producteurs de Blé	Henri	de Benoist
Assemblée Générale des Producteurs de Maïs	Christophe	Terrain
Confédération Générale des Planteurs de Betterave	Dominique	Ducroquet
INTERprofession des Fruits Et Légumes frais	Denis	Onfroy
ARVALIS - Institut du végétal	Christophe	Terrain
Institut de l'Elevage	Bernard	Airieau
Institut Technique du Porc	Philippe	Lecouvay
Institut Technique de l'AVIculture	Eugène	Schaeffer
Fédération Nationale des Producteurs de Lait	Henri	Brichart
ONILAIT	Philippe	de Guenin

OFIVAL	Yves	Berger
Association pour la Promotion d'une Agriculture Durable		
Forum de l'Agriculture Raisonnée Respectueuse de l'Environnement	Christiane	Lambert
Fédération Nationale d'Agriculture Biologique	François	Thiéry
Centre National pour l'Aménagement des Structures des Exploitations Agricoles	Gérard	Moreau
Fédération Nationale de la Propriété Agricole		
Agence pour la Défense de l'Environnement et la Maîtrise de l'Energie		
Club DEMETER	Jacques	de Bohan
Bayer Crop Science		
Groupe Glon	Alain	Glon
Coop de France	Philippe	Mangin
Mutualité Sociale Agricole	Jeannette	Gros
UNion des Industries de la FertilisAtion		
Ministère de l'Ecologie et du Développement Durable	Dominique	Bureau
Conseil Général du Génie Rural des Eaux et Fôrets	Jean-Guy	Monnod

Our questionnaire was then advertised in the newsletter of the Société des Agriculteurs de France (SAF). For further information on the SAF network please see the following website: http://www.agriculteursdefrance.com/template_plan.php).

We used our network mainly to get answers from some "Directions départementale de l'Agriculture" (DDA), the administration in charge of the enforcement of the MTR (mid-term review) in the French departments. We had an interview with the Permanent Assembly of Chambers of Agriculture (APCA).

The Questionnaire:

The questionnaire sent by post was drawn up on the basis of the questions proposed by our UK partner The University of Reading during the Reading meeting in June 2004 and as confirmed at the partner's Madrid meeting in October 2004. The questionnaire on-line is marginally different (3 additional questions and 2 small modifications) to the agreed format, as it included the comments made in Madrid, but these small differences did not prevent appropriate analysis of the results being conducted. The mailed questionnaire is included as Appendix 1 and the on-line questionnaire as Appendix 2.

II RESULTS

We received responses from:

- 2 technical institutes

- 6 farming-landowning organizations: 4 farming organisations + 1 farmer + 1 landowner organisation
- 5 governmental agencies: DDA
- 2 environmental pressure groups

Given the small number of responses received and the fact that some were incomplete, a qualitative analysis rather than a statistical analysis was undertaken. We tried to synthesise the answers per type of stakeholder, which was often difficult as divergent opinions are held even within the same category of stakeholder. Occasionally, the questions posed in the French consultation were not precise translations of the questions as agreed in English. This explains why some responses received may not perfectly fit the questions quoted in this report, but we did our best! Finally, there were no responses received from any French consultees to question 2(d).

a) The Standard Questions

Question 1: In relation to the recent reforms of the CAP: (a) Which aspects do you think are good? (b) Do you identify any problems?

Unfortunately it seems that no responses were received through the on-line questionnaire. The following responses are therefore based on mailed answers.

Everybody agrees on the fact that the reform is complex and leads to a lot of paperwork, red tape and administrative concerns.

Technical institute: the advantage in the application of the reform in France is recoupling. However the recoupling rate for bovine fattening-up is insufficient and milk production might be decoupled.

Governmental agencies: the advantage is that there is no abrupt change, but the reform is an administrative and environmental 'overdose' for farmers.

Farming and landowning organisations: one respondent was fearful that conditionality (cross-compliance) may lead to distortion of competition between Member States as measures are defined at a national level, whereas another thinks conditionality is rather neutral in the reform. This reform is a step backward as there will no longer be a levy on agricultural production. There is a fear that land will be abandoned in less agriculturally productive areas and that there will be greater intensification in the more favourable areas, which would lead to disequilibria in rural development. One respondent thinks the historical individual reference for SPEs is totally inequitable and penalizes those who made the most effort on environmental issues. The only quoted advantage to decoupling is that farmers will more easily be able to diversify their activities, as they will no longer risk losing their production-linked subsidies. For one organisation farmers will produce "just-in-time" and there will little food security in future.

Question 2: Considering the likely impact of the policy reforms on agriculture, do you think:

(a) The reform will have an impact on the level of production?

Associations: there will be a decrease in agricultural production because farmers will optimise inputs. The reforms will see the ending of the race for higher yields.

Technical institutes: there will be a decrease in agricultural production and especially in bovine fattening-up. Suckler cows breeding will be maintained due to recoupling. In the long run milk producers will be discouraged.

Governmental agencies: the majority think production levels will decrease, but only slightly in the most favoured regions. Meat and milk production will fall, there will be no marked rise in cereals and oilseeds should remain stable and even increase if the bio-fuels policy is confirmed. The French competitive advantage for sugar beet will increase. Provision of environmental services should increase and the public image of farmers should improve.

Farming and landowning organisations: the majority have no particular opinion, or consider that most farmers will go on producing and that technical skill will make the difference. To landowners, the production level will depend on the withdrawal rate of land towards environmental use (grass). The other organisations polled considered that bull-calf production and fattening activity would fall, milk production would be abandoned either for lack of collection in intermediate areas, or due to the high costs of compliance with environmental standards by 2006 in general. Animal production is expected to collapse in the middle term. Cereals and oilseed production will move from intermediate areas to more competitive regions. However, due to a constant increase of yields, they think the production level will remain stable at least in the short term.

(b) The reform will have an impact on the intensity of production?

Associations: one thinks the reform will lead to a decrease in intensity and the other has the opposite opinion. The latter thinks that if land is capable of sustaining more intensified production and if market prices were low, then intensity of production would rise substantially.

Technical institutes: the intensity of production may rise in areas where production is already intensive.

Governmental agencies: the majority think that there will probably be tendency to extensification of production albeit only perhaps marginally, especially concerning animal feeding. One reason provided was the present general economic situation, rather than the reform itself. One respondent thinks cereals, oilseeds and milk production will become more intensive.

Farming and landowning organisations: we have only one answer, which is that production will be transferred towards the most competitive regions, for instance Brittany for milk or Beauce for wheat.

(c) The reform will affect other rural industries (upstream and downstream)?

Associations: one respondent thinks a restructuring of upstream/downstream industries is necessary, as there will be fewer farmers, who will be more demanding, closer to and more related to the market needs (quality) and more respectful of environmental issues. The other wishes the fertiliser market could collapse.

Technical institutes: they expect a merging of these industries.

Governmental agencies: the level of inputs to farming will likely decrease. Industries will have to be more innovative and produce higher quality products. At the beginning the fall in prices will be of benefit to ancillary industries and farmers will be more dependent on downstream industries. But in the mid-term the farming population will be organised differently, or will be less numerous and will go back to mass production, or will be better able to match the needs of processors and consumers.

Farming and landowning organisations: ancillary industries will continue making profits unless and until farmer networks for each type of production have organized themselves sufficiently to achieve a reduction in the scale and extent of upstream and downstream industry. If production concentrates on some competitive regions and on an ever reducing number of farmers, those farmers will have less and less power in negotiations. Moreover diversifications will weaken the balance of power between farmers and mass marketing. New relationships will have to be established directly with consumers.

(d) The reform will lead to an adjustment in the use of the factors of production, that is land, labour and capital?

No responses received.

(e) The reform will affect the competitiveness of the EU agriculture on world markets?

Associations: they have divergent points of view: one thinks competitiveness will increase as aggregate production better equates to world market prices while the other considers the aim of our agriculture is not to be competitive on world markets and that we should let all countries have their own agricultural sector.

Technical institutes: they have divergent points of view: competitiveness will either remain stable or increase.

Governmental agencies: some consider that increased competitiveness will ensue for two reasons. Firstly, the least efficient farmers will withdraw from agriculture as a result of the reforms and restructuring. Secondly, competitiveness will increase if production remains stable in quantity and quality, downstream industries remain competitive and if Member States are able to properly organize the transfer of agricultural commodities. Other agencies believe EU competitiveness on world markets will remain stable for cereals but decrease for basic feedlot productions.

Farming and landowning organisations: the forecasted drop in European prices will indeed reinforce the competitiveness of the EU agricultural sector, eliminating at one and the same time, the less competitive EU farmers. But some professional organisations note that there is little use in becoming more competitive at an international level as it contributes to the ruin of agriculture in third world countries. They do not believe that world prices will increase after the CAP reform. One organisation thinks the reform will not change the competitiveness of the sector, as intervention prices will remain stable. Frontiers should be protected while the world price for maize remains below the EU price. Only one respondent considers GAEC (good agricultural and environmental condition) as disadvantageous for EU competitiveness on world markets.

(f) The reform will lead to more specialised or diversified farms?

Associations: If diversification provides higher incomes without requiring too much investment, then it is likely to increase. However not all farmers are able to diversify their activities.

Technical institutes: diversification of agricultural activities will remain stable or decrease.

Governmental agencies: there are various opinions. For some, diversification is not clearly encouraged by the reform but could be a less risky option. Service activity for the up-keep of land in good agricultural condition will develop, especially among older farmers.

Farming and landowning organisations: the majority have no opinion or consider that there will be no impact. However one respondent believes that Fischler reforms have 're-individualized' the CAP, and as a consequence agricultural activities will become more diversified, for instance, to fit the food market, which is more and more diversified. The share of non-food crops will grow, for example bio-fuels or agro-chemistry.

Question 3: Do you think that due to the reform of the CAP, some of the agricultural area will fall idle or will be managed according to the minimum requirements to receive payments?

Associations: they think that the number of farmers will decrease and that in some areas many parcels of land will either be abandoned or become less well managed.

Technical institutes: as agricultural activity becomes restructured, pieces of land may be abandoned and set-aside increases.

Governmental agencies: it is considered that minimal upkeep will be applied to land with low potential productive capacity and that land abandonment would continue in the mountains. Land abandonment will also appear in regions with higher potential productive capacity due to competition with urbanization and the imbalance between settlement and retirement.

Farming and landowning organisations: farmers close to retirement may benefit from the minimum requirements (GAEC) opting to receive payments while conducting little or no farming. They are unlikely to retire but will manage their land according to the minimal upkeep principle. Farmers in intermediate/less favoured areas will behave in a similar manner except perhaps those that breed suckler cows (recoupled production). The trend toward rural depopulation will continue or even increase.

Question 4: How do you think the reforms will affect land prices and rental values?
Associations: land prices are likely to remain stable in the mid-term but they are uncertain about rental prices.

Technical institutes: land and rental prices will definitely rise.

Governmental agencies: some are undecided; some think both values and prices will increase; some others think that values for high potential land will increase whereas values for low potential land will fall. One respondent believes that land prices will decrease along with output prices but rental values will remain stable.

Farming and landowning organisations: one respondent is unsure whether the price of SPEs will be passed on land prices while another expects rental prices to increase due to a shortage of available land. Another organisation thinks that the impact of SPEs on prices will be limited by the ability of (young) farmers to repay loans. Young farmers have to buy both land and SPEs and therefore the whole budget to settle will increase, but it is difficult to make a distinction between land values and SPEs. If the entrant farmer has to buy SPEs to the lessor and land to the landowner, he will probably negotiate the price of land. To this organisation there will not be much demand for farmland, except in regions such as Brittany where the environmental pressure is high. The other possible uses for land will also impact on its price. They wonder if there will be a market for SPEs without land. The individual farmer thinks that land prices will go on rising and that tenant farming is more profitable. However owners sell land rather than renting it to young farmers.

Question 5: In relation to the cross-compliance elements of the reform:

(a) Do you think it is acceptable to farmers?
Associations: they totally agree with cross-compliance.

Technical institutes: they totally agree with cross-compliance.

Governmental agencies: they totally agree with cross-compliance. However one respondent considers that animal welfare measures are rather a showcase than a policy to be adopted by both farmers and society.

Farming and landowning organisations: They agree with the need to conform to (existing) standards and society expectations, though some think that some parts of the reform are overly complicated and go too far.

(b) Do you think the financial burden on farmers is too great?

Associations: cross-compliance measures will have no impact on farmers incomes and they have no illusion that the means to bypass the rules will be found by those who wish to behave in that manner.

Technical institutes: cross-compliance measures will be a slight financial burden for farmers.

Governmental agencies: the majority thinks that cross-compliance will not really be a burden given the expected penalties. But bringing farming buildings into compliance with environmental standards may represent too high a cost for some small farms.

Farming and landowning organisations: the impact is difficult to assess but incomes might decrease, especially for small farms (or older farmers) particularly those who have building's, which do not comply with environmental standards.

(c) Do you think it can be effectively policed and controlled?

Associations: The comprehensive nature of the cross-compliance rules and how they will be applied in practice are considered to be significant obstacles. Monitoring costs are too high compared to output prices, which will likely fall post-CAP reform. The implementation of monitoring is too complex, too expensive and without guaranteed results.

Technical institutes: The delay in complying with standards seems enormous. To bring farming buildings to up to the expected standard will be difficult. The process of monitoring itself may raise problems.

Governmental agencies: Monitoring cross-compliance measures will likely be the main problem for governmental agencies. Firstly EU regulations are complex, the definition of criteria is a problem and it is difficult to convey the technical expertise required for the monitoring. Secondly monitoring is conducted by different agencies, depending on the field checked and the checking process is not presently coordinated efficiently. Finally, the expected penalties are not incentive enough to encourage behaviour change or are out of proportion with regard to the nature of the transgression. The EU lacks a common environmental policy.

Farming-landowning organisations: The problems facing farmers who are to apply the various reform measures and cross-compliance, should not be underestimated. The multiplicity of checking is unlikely to be well received by farmers.

(d) Do you think it will contribute to environmental, food safety and animal welfare standards?

Associations: They think the impact will be positive though limited.

Technical institute: One institute thinks these aspects will be improved whereas the other believes there will be no impact.

Governmental agencies: They all agree on the fact that at least farmers will become aware of these issues and farms will reach the minimum level of compliance to these standards. Some think we should go further.

Farming-landowning organisations: According to the majority the impact on water quality is likely to be very good. But apart from that they consider that impacts will be very limited for various reasons. One is that regulations already exist and there is nothing new, except the enforcement regime. Another reason put forward is that farmers are already aware of these issues. One respondent thinks the same results could have been achieved through training and information. Another supposes it will reduce abuses but will not fundamentally change farmers' attitude to the environment.

Question 6: Do you think the transfer of direct payments from agriculture to rural development is a good idea?

Associations: They approve of the transfer provided capital from modulation is effectively dedicated to rural development. One respondent thinks we do not need farmers (producers) anymore, but rather a sector creating jobs to manage the maintain the environment. We need diversity rather than productivity.

Technical institutes: they approve of the transfer.

Governmental agencies: they all agree on the transfer but for different reasons. One is that subsidies are more targeted at environmental actions. Another is that it reconnects agricultural production to market prices while remunerating the other functions of agriculture. One agency agrees on the transfer provided rural development includes a large share of agricultural development and serves territorial equilibrium objectives at a regional as well as at a European level. A part of modulation capital should go back to the Member States and even to the "département", for each productive area performs a service to society.

Farming-landowning organisations: (No response received)

Question 7: Do you think the reform will provide the necessary income stability for farmers?

Associations: One thinks incomes will fall if costs are not under control; the other believes that family farm incomes will fall whereas factory farm incomes will increase.

Technical institute: Incomes might stagnate but are expected to fall for animal production.

Governmental agencies: answers vary from stabilisation in the mid-term to reduction with increasing volatility.

Farming-landowning organisations: Incomes will decrease because of modulation deductions, cost of cross-compliance and deductions to fund the national reserve.

Question 8: Do you think the reforms will affect the speed of structural change? If so how will they affect the rate of change?

Associations: the number of jobs in rural areas will decrease The number of farmers retiring will increase significantly while non-agricultural activities may increase even if not all farmers can hold a gîte.

Technical institute: Rural employment will decline, retirement will increase, but they are uncertain about the development of non-agricultural activities.

Governmental agencies: Half the respondents think rural employment will decrease, whereas one considers employment is no longer directly linked to agricultural activity. Plural-activity (diversification) is expected to increase. With regard to farmer retirement, half the respondents think it will be postponed because of SPEs, whereas the other half expects a rise due to a loss of motivation. Non-agricultural activities will be developed to attract additional household income. Farmers may invest in processing industries.

Farming-landowning organisations: Partial recoupling may maintain upstream and downstream employment. Points of view diverge on retirement: in the short term SPEs may persuade older farmers not to retire, as they provide a higher income than pensions. They all expect a development of plural-activity.

Question 9: Will the SPS affect the attractiveness of entering farming for young people or new entrants?

Associations: the current downward trend will persist and will even accelerate at first for fear of the reform.

Technical institute: the reform will act as a brake on young farmers' settlement.

Governmental agencies: answers range from falling to increasing in settlements. For one respondent settlement will increase the first three years of the reform and then the downward trend will return. For another the reform will decrease the attractiveness of entering farming.

Farming-landowning organisations: the attractiveness of entering farming will go on decreasing, as it will be more and more expensive and difficult to buy land while prices will keep falling.

b) The National questions

Question 1: Among the different aspects of the reform, which are the more important to you?

Associations: cross-compliance and SPEs.

Technical institutes: decoupling, cross-compliance and regionalisation.

Governmental agencies: decoupling, SPEs and cross-compliance.

Farming-landowning organisations: decoupling, SPEs and cross-compliance.

Question 2: Do you think the SPS will achieve its objectives (WTO requirements, EU budget control)?

Associations: (No response received)

Technical institutes: yes for the budget but no for WTO requirements.

Governmental agencies: budget objectives will be achieved but they are uncertain about WTO requirements

Farming-landowning organisations: budget objectives are likely to be achieved in the short run, but a query remains on the forthcoming reform of the sugar regime. There is uncertainty about decoupled payments being accepted by the international community as valid ‘green box’ payments as some non-EU countries, notably Brazil, have already raised criticisms concerning them.

Question 3: Are you satisfied with partial decoupling? Would you have preferred total decoupling?

Associations: partial decoupling does not make farmers completely responsible for their production choice. Total decoupling would have been better.

Technical institutes: partial decoupling limits the likely ‘damage’ accruing to agriculture compared to a regime of total decoupling. It is considered to be “the least worst” option.

Governmental agencies: partial decoupling may be more “reassuring” for farmers. By recoupling we keep a levy on production, which is of importance in town and country planning matters and will also assist in slowing the present, declining, trend of rural depopulation. However this double regime is considered too onerous in terms of management for public services, whereas the reform was supposed to lead to paperwork simplifications. With the exception of one respondent, they would have all preferred total decoupling.

Farming-landowning organisations: they are all opposed to the reform and especially to total decoupling. Thus partial decoupling is seen as a stop-gap solution seeking to avoid the possible abandonment of farmland more likely with full decoupling, but which is considered a rather overly complicated and involved solution. Some are fearful for EU food security, as there will no longer be a levy on production.

Question 4: What do you think of regionalisation? What reference level would you have preferred to calculate SPEs?

We do not have online answers, which were not recorded for this question.

Associations: (No response received)

Technical institutes: one institute thinks regionalisation would have been the best solution and that SPEs should have been defined at a European level. The other thinks that SPEs should have been calculated at a regional level or for a given category of producers.
Administration: (No response received)

Farming-landowning organisations: opinions vary. Some respondents think regionalisation would have been more equitable while others are opposed to any mutualisation. It depends on the type of production and on the income level.

Question 5: Do you expect a withdrawal of the French government and the European institutions, for instance for the budget?

Associations: yes in the end.

Technical institutes: it is likely to happen.

Governmental agencies: the majority expects a withdrawal in the long term.

Farming-landowning organisations: it is likely to happen in the long term.

Question 6: To you, what will be the impact of the reform on agricultural output prices?

Associations: one respondent thinks prices will remain at the same level, though more volatile and fluctuating while the other thinks output prices will fall.

Technical institutes: one institute believes that output prices will slightly increase, the other that they will fall.

Governmental agencies: some expect a short-term temporary increase in prices, whereas the others expect a fall for “basic” output and perhaps a small rise for quality/organic/labelled products.

Farming-landowning organisations: the decrease in prices of agricultural products is seen as part of the reform. However the EC expected that the decrease in production would bring about an increase in domestic prices. According to organisations this would have been true if European frontiers were protected, which is not the case. As a consequence the decrease in production will be compensated for by an increase in imports and domestic prices will therefore fall.

Question 7: Do you think good agricultural and environmental conditions' indicators are appropriate?

Association: yes.

Technical institutes: On the whole they are appropriate but it would be better if they could vary depending on the region.

Governmental agencies: On the whole they are not satisfied with the indicators chosen, either because they are not stringent enough, or because there is too much cross-checking with the conditionality of aids, or because indicators have unequal impacts.

Farming-landowning organisations: they are not satisfied with the indicators for different reasons: some because the measure taken meet issues which are not major in France, some because they are not sufficient.

III CONCLUSIONS

First of all one must bear in mind that results of this consultation are not representative of the opinion of all French stakeholders, as we did not conduct a survey according to the rule book. The response rate was rather low and varies according to the categories polled. People answered quite honestly, resulting in the often divergent points of view expressed within the same category. This may be due to the anonymity of the questionnaire and its treatment, or maybe the questionnaire was seen as an opportunity to voice their opinion and criticisms to the European and national policymakers.

The polled stakeholders generally agree to disagree or criticize the way the reform is applied in France, but not for the same reasons. For instance they are not really satisfied with partial decoupling, either because it is insufficient and total decoupling would have been better, or because they consider it as a stopgap solution but were opposed to the reform anyway. Within professional organisation, crop producers and farmers with a high level of EU subsidies are satisfied with the individual historical reference, whereas animal producers, small farms and farmers in less favoured areas would have preferred a mutualised or regionalised reference. Concerning GAEC and cross-compliance measures, pressure groups and farmers aware of environmental issues think it is not sufficient and it does not acknowledge what has already been done; the other stakeholders think it is too much, too little or not appropriate.

They all agree on the fact that partial decoupling and cross-compliance confers too much paperwork and that monitoring will be difficult and onerous to implement, while it was believed that the reforms were intended to simplify administration.

On rural development, retirement, settlement and diversification of activities, opinions vary and few respondents are certain on these matters. On the one hand, SPEs could persuade older farmers not to retire, as SPEs may constitute a better pension for them. On the other hand, the loss of motivation and the costs of implementing cross-compliance to environmental standards could accelerate retirement. Farmland abandonment is feared in intermediate areas.

This set of questions showed once more that farmers do not necessarily react in an economically rational way and that human and cultural factors have their importance in decision-making process. This is why the socio-economic assessment of the impact of the reform which will be addressed in WP4 and WP6, using behavioural models, will be important in the context of this project.

APPENDIX 1

Questionnaire sur la réforme de 2004 et le découplage

Merci de nous renvoyer ce questionnaire à l'adresse suivante :
Projet GENEDEC
UMR Economie Publique / INRA
BP01
78 850 Thiverval-Grignon

Vous êtes:

☐ questionnaire anonyme
☐ agriculteur, type de production :

☐ recherche
☐ politique
☐ association
☐ administration
☐ centre de gestion
☐ institut technique
☐ organisation professionnelle
☐ autre :

Si vous souhaitez vous identifier ou donner des précisions :
Comment évaluez-vous votre niveau d'information :

- Sur la réforme en général :
  ☐ très bon ☐ suffisant ☐ plutôt insuffisant ☐ très insuffisant
- Sur les modalités d'application du découplage :
  ☐ très bon ☐ suffisant ☐ plutôt insuffisant ☐ très insuffisant

Aspects généraux de la réforme

1. Parmi les différents volets de la réforme (decouplage, droit à paiement unique, éco-conditionalité, régionalisation), lesquels vous paraissent les plus importants ?
2. D'après vous, le droit à paiement unique va-t-il atteindre son objectif (contrôle budgétaire, exigences de l'OMC)?
3. Le découplage partiel vous paraît-il ?
   ☐ très satisfaisant ☐ satisfaisant ☐ peu satisfaisant ☐ pas satisfaisant
   Pourquoi ?
4. Un découplage total aurait-il été préférable selon vous ?
   ☐ oui ☐ non
   Pourquoi ?
5. D'après vous, quels sont les principaux avantages de la réforme telle qu'appliquée en France ? Quelles sont vos principales craintes vis-à-vis de cette réforme ?
6. Que pensez-vous de la régionalisation ?
7. Quant aux modalités d'application de la réforme, vous auriez préféré que les droits à paiement à l'hectare soient définis au niveau (classez de 1 à 5 par préférence décroissante) :
   ☐ européen ☐ régional ☐ de la filière
   ☐ national ☐ des régions agricoles ☐ de l'exploitation

8. Vous attendez-vous à un désengagement de l'Etat et des institutions européennes, par exemple en matière de budget ?
9. Vous attendez-vous à un désengagement de l'Etat et des institutions européennes, par exemple en matière de budget ?

Impacts sur les productions et les marchés

10. D'après vous, quel sera l'impact de la réforme sur
    a. Le niveau de production agricole ?
    b. La compétitivité internationale du secteur ?
    c. Les prix agricoles ?
    d. Les revenus des agriculteurs ?
    e. La diversification des activités agricoles ?

Activité agricole et développement rural

11. D'après vous quel sera l'impact de la réforme sur:
    a. Le maintien de l'activité agricole ?
    b. Le maintien de l'emploi rural en général ?
    c. Les départs en retraites ?
    d. Les installations de jeunes agriculteurs ?
    e. Le développement d'activités extra-agricoles ?

Eco-conditionalité et aspects environnemenatux

12. Acceptez-vous le principe de l'éco-condionnalité des aides ?
13. Quels en seront à votre avis les implications sur le revenu agricole ?
14. Voyez-vous des obstacles à la mise en œuvre de l'éco-conditionnalité ? Si oui, lesquels ?
15. Les indicateurs des BCAE (bonne conditions agricoles et environnementales) vous semblent-ils adaptés ?
16. D'après vous, quel sera l'impact de l'éco-conditionnalité sur l'environnement ?

Marché foncier

17. A votre avis, quel sera l'impact de la réforme sur:
    a. Le prix de la terre ?
    b. Les loyers ?

Vous êtes agriculteur….

18. Suite à la réforme, pensez-vous arrêter ou réduire vos activités ?
19. Pensez-vous développer des activités extra-agricoles ?

20. A votre avis, quel sera l'impact de cette réforme sur vos revenus et le niveau de votre production ?

APPENDIX 2

The on-line questionnaire is to be found at the following address:

http://www.grignon.inra.fr/economie-publique/genedec/question/Questionnaire.htm

Are included below the introductory text and the additional and modified questions. Modified parts are in italics.

Questionnaire sur la réforme de la PAC et le découplage

Cette enquête fait partie d'un projet de recherche financé par la Commission Européenne. Pour plus de détails nous vous invitons à consulter le site internet du projet

Cette consultation est réalisée simultanément en France, en Allemagne, en Irlande, en Italie et au Royaume Uni respectivement par des chercheurs de l'INRA, de l'Institut Fédéral de Recherche Agronomique de Braunschweig (FAL), les Universités de Parme et de Verone, l'Autorité de Développement Agricole et Alimentaire d'Irlande (TEAGASC) et l'Université de Reading.

Notre objectif est de mieux appréhender les implications du découplage des aides consécutif aux accords de Luxembourg, d'évaluer les impacts quantitatifs et qualitatifs sur l'offre et les prix des marchés, sur le revenu des exploitations, sur le changement structurel dans le secteur agricole, sur l'occupation des terres, sur l'environnement,...

Aspects généraux de la réforme

Q8 : Pensez-vous que le transfert des paiements directs de l'agriculture vers le développement rural (modulation) soit une bonne idée ?

Impacts sur les productions et les marchés

Q10 : D'après vous, quel sera l'impact de la réforme sur :

2. L'intensification de la production agricole ?

7. Les secteurs en amont et en aval de l'agriculture ?

Eco-conditionnalité et aspects environnementaux

Q14 : Voyez-vous des obstacles à la mise en œuvre *et au contrôle* de l'éco-conditionnalité ?

Q16 : D'après vous quel sera l'impact de l'éco-conditionnalité sur l'environnement, le bien-être animal *et la sécurité alimentaire* ?

APPENDIX 3

This is a copy of the introductory text to the questionnaire sent to stakeholders.

Enquête sur le découplage des aides agricoles

Septembre 2004

Toile de fond : Qu'est-ce que le découplage ?

Avec la réforme de 1992, les prix de soutien aux céréales (et à la viande bovine) ont été réduits, en échange de quoi les agriculteurs reçurent des paiements compensatoires. Pour percevoir ce paiement, les agriculteurs devaient cultiver les surfaces et conserver leur troupeau (entre autres critères d'éligibilité), mais les paiements n'étaient plus dépendants des rendements obtenus. Les exploitants faisaient la demande de ces aides à la surface ou à la tête de bétail lors d'une déclaration. La réforme de 2003 alla plus loin et, bien que les détails varient d'un Etat Membre à un autre, l'idée était de relever les exploitants de l'obligation de cultiver une culture quelconque ou de maintenir un troupeau pour avoir droit au paiement. Ce relâchement progressif du lien entre la production de certains types de cultures et d'animaux d'une part, et de l'aide reçue d'autre part, est connue sous le nom de découplage. Accompagnant ces changements, les textes soumettent le versement de l'aide au respect de contraintes environnementales et de contraintes sur le bien-être animal.

De nombreuses personnes souhaitent savoir ce que ces changements vont impliquer en termes de revenu pour les agriculteurs, de nombre d'actifs agricoles (exploitant, famille et main d'œuvre salariée), d'impact sur les communes et la vie rurales, d'utilisation des terres et ses conséquences sur la faune, la flore et le paysage, en terme de viabilité des industries en amont et en aval de l'agriculture, mais aussi sur la qualité, le prix et la durabilité des approvisionnements alimentaires. C'est sur ce genre de questions que nous aimerions avoir votre point de vue.

La réforme de 2004

L'idée à l'origine de la réforme Fischler était que les agriculteurs n'auraient plus à cultiver certaines cultures pour demander les aides à l'hectare, ni à conserver leur troupeau, mais qu'ils continueraient à recevoir une aide du même montant que les aides PAC perçues sur une période de référence (2000-2002). Ainsi ils seraient libérés de nombre d'obligations relatives aux choix de production : ils n'auraient plus à cultiver des cultures sur des terres difficiles pour pouvoir prétendre aux anciennes aides, ni à conserver leur cheptel. Ceci pourrait réduire les coûts et augmenter le revenu net des exploitations. L'obligation de jachère est maintenue et les surfaces non exploitées doivent être maintenues dans de bonnes conditions agricoles et environnementales. Diverses conditions en relation avec l'environnement, le bien être animal etc. doivent être respectées d'autre part.

Des réticences ont été exprimées si les fermiers, étant libres d'exploiter ou non, choisissaient de ne rien produire. Ceci pourrait avoir des conséquences négatives sur l'environnement et sur la viabilité des communautés rurales et des entreprises (abattoirs etc.). En France, par exemple, 25% des aides aux cultures arables restent liées à la production et 100% des primes à la vache allaitante sont restées couplées. En Allemagne et en Angleterre (mais pas dans le reste du Royaume Uni), on a ressenti la nécessité d'un système plus égalitaire, et par conséquent, après la période de transition, un paiement forfaitaire à l'hectare sera versé pour toutes les terres agricoles, sur une base régionale. D'autres pays verseront des aides totalement découplées, d'après les références historiques.

Etape finale : d'autres formes de découplage ?

Le nouveau système de paiement unique est une forme de soutien au *revenu* des agriculteurs, indépendant de la production, qui reflète le rôle multifonctionnel de l'agriculture (d'où l'assujettissement des paiements à l'éco-conditionnalité). Les paiements restent donc *couplés* à l'agriculture et en particulier aux terres agricoles. Cependant il se peut qu'un découplage plus poussé des aides soit accepté lors d'une prochaine réforme de la PAC, suite à des pressions au sein de l'OMC. Avec un système dit de *bond scheme*[1], les droits à prime resteraient basés sur les paiements historiques mais les paiements futurs seraient indépendants de toute activité agricole. Les agriculteurs seraient libres de quitter l'agriculture et de se déplacer vers les zones urbaines, et même de vendre leurs droits à paiements futurs (les « bond »). Certains économistes pensent que la valeur future des paiements ne serait pas répercutée sur la valeur des terres mais sur la valeur des droits.

Que pensez-vous de ces différentes formes de découplage et des impacts qu'elles auraient sur nos exploitations, notre paysage et notre alimentation ?

[1] Ces droits ("bond") sont comparables à des actifs financiers. Voir Alan Swinbank & Stefan Tangermann, « The Future of Direct Payments under the CAP : A Proposal », *EuroChoices,* Premier Issue, Printemps 2001

APPENDIX 4

This is a copy of the text of the letter sent to stakeholders.

Objet : consultation sur le découplage des aides PAC

Monsieur le Directeur,

Nous vous écrivons en votre qualité de partie prenante dans le processus d'évolution du secteur et de la politique, pour obtenir votre point de vue sur le découplage des aides PAC dans le cadre des réformes en cours. Nous espérons que vous pourrez nous consacrer quelques minutes pour répondre au questionnaire joint à ce courrier. Nous ne sommes pas sans savoir que vous êtes très sollicité et que vous préfèrerez peut être nous orienter vers des communiqués officiels. Sachez néanmoins que toute aide que vous pourrez nous offrir sera très appréciée.

Cette enquête fait partie d'un projet de recherche financé par la Commission Européenne (plus exactement par la DG Recherche et non la DG Agri). Pour plus de détails nous vous invitons à consulter le site internet du projet :

http://www.grignon.inra.fr/economie-publique/genedec/eng/home.htm.

Cette consultation est réalisée simultanément en France, en Allemagne, en Irlande, en Italie et au Royaume Uni respectivement par des chercheurs de l'INRA, de l'Institut Fédéral de Recherche Agronomique de Braunschweig (FAL), les Universités de Parme et de Verone, l'Autorité de Développement Agricole et Alimentaire d'Irlande (TEAGASC) et l'Université de Reading.

Notre objectif est de mieux appréhender les implications du découplage des aides consécutif aux accords de Luxembourg, d'évaluer les impacts quantitatifs et qualitatifs sur l'offre et les prix des marchés, sur le revenu des exploitations, sur le changement structurel dans le secteur agricole, sur l'occupation des terres, sur l'environnement etc.

Une grande partie de notre travail consistera à modéliser les effets attendus du découplage, mais dans un premier temps nous recherchons le point de vue de celles et ceux qui sont en prise directe avec l'agriculture européenne, afin d'étendre notre recherche et nos modèles.

En l'attente de votre réponse, nous vous prions d'agréer, Monsieur le Directeur, nos sincères salutations.

Stakeholders' Consultation in Germany

Bernd Kuepker
Institute of Farm Economics, Federal Agricultural Research Centre (FAL)

I. INTRODUCTION

In the context of Working Package 1 of GENEDEC, stakeholders in Germany were asked about their views on the CAP reform adopted in 2003. In this report results of these consultations are summarised.

The target group for the consultations were agricultural experts. These included representatives from farmers' unions, environmental and governmental agencies, banks, research institutes and rural industries. In total 19 experts were asked to take part in the interviews. This report contains the views of the 14 experts from whom replies were received.

The consultations were mostly conducted in the form of interviews, but in cases when it was impossible to make an appointment for an interview, written answers were accepted. The questionnaire consisted of two parts. The questions in the first part were those that were also asked in France, Italy, the UK and Ireland. These questions dealt with the standard model of decoupling, i.e., the Single Farm Payment (SFP). The second part focused on the national implementation of the reform in Germany.

To be able to interpret the results it has to be kept in mind that the questionnaire contained open questions. A quantitative analysis was not possible. The listed arguments were sometimes mentioned only once and therefore do not necessarily represent the opinion of the majority of the experts. Due to the fact that respondents were assured anonymity, comments reported here are not ascribed to those making them. However, the attached Annex contains brief details of those organisations and institutions taking part in the consultation process.

II. THE STANDARD MODEL

For better clarity the answers for each question are not always summarised individually; sometimes it seemed more suitable to group them to cover certain aspects of the reform. First, the stakeholders' views are summarised on specific elements of the reform like decoupling, cross-compliance and modulation. Second, the answers to questions regarding the impacts of the reform on, e.g., production, income, factor use and structural change, are summarised.

2.1 Opinions about key elements of the reform

2.1.1 Decoupling

The majority of the experts appreciated the decoupling of direct payments from production. However the reasons for this differed. The following aspects were mentioned:

A number of the experts expected the reform to contribute to an increase of market orientation in the agricultural sector. They hoped that this would finally lead to an undistorted market equilibrium accompanied by sustainable market prices, which allow farmers to produce without the need for subsidies. In this context they appreciated the increased freedom of production accomplished by the reform.

Additionally it was argued that one advantage of the reform would be the increasing competition, which ensures the survival of the most competitive farms. Furthermore the belief was articulated that the reduction of the state interventions reduces the risk caused by sudden policy changes. Finally the expectation was expressed that decoupling would reduce the incentives for intensive production. The reform would have positive environmental effects resulting from a reduction of production intensity.

The second group of experts supported decoupling for strategic reasons. It was argued that decoupling was necessary to prepare for the ongoing WTO negotiations. Some argued that decoupling of direct payments from production was the only way to retain the chance to further support the agricultural sector.

Although decoupling itself was generally appreciated, some points of criticism were mentioned:

- **Too many options for implementation at national level**: Very often it was criticised that the reform left the member states too many options for implementation. This led to the adoption of a variety of different models all over Europe instead of the aspired "Common Agricultural Policy." This is a general argument that does not hold for decoupling alone. However it was the different ways that decoupling could be implemented that worried the stakeholders most. Some feared that the different starting dates for the decoupling schemes and the parallel existence of both full decoupling and partial decoupling could lead to market distortions. They were of the opinion that producers in member states with partial coupling will have a competitive advantage. It was mentioned that this argument could not be refuted by referring to the existence of an upper limit for the coupled payments, which would lead to a reduction of the premium payment per head if production exceeded a certain level, because the coupled payments ensure that it will at least be easier for producers to maintain their current production level. In this context it was expected that the trade flow of calves from member states with full decoupling to member states with partial decoupling would increase.

- **Payments not green-box compatible:** Some respondents were apprehensive that the EU would fail to achieve one of the major goals of the reform, namely the compatibility of direct payments with the green box. The way decoupling has been implemented in the reform was not thought to be sufficient to ensure green-box compatibility because the payments would still be linked to the production factor of land.

- **Loss of influence on production**: Other stakeholders highlighted a principal disadvantage of decoupling. They argued that due to decoupling a tool was lost to influence production activities, which have positive external effects.

- **Payments lack of legitimacy**: It was mentioned that payments derived on a historical basis would be difficult to legitimise. First, it was considered to be difficult to legitimise payments as regards the taxpayer because the payments would no longer be related to present services and second, farmers themselves are likely to be unhappy because the purpose of their work could be seen as questionable if they are considered to be reliant on direct income support.

2.1.2 Cross-compliance

The majority of experts were of the opinion that cross-compliance would be acceptable to farmers and that the associated risks for farmers are not too high. However some argued that this evaluation would depend on the actual implementation of cross-compliance in individual member states and the elaboration of the sanctions. In the case of Germany, it was concluded that as the requirements of Annex 3 of Regulation 1782/2003 are already applicable law and the terms of Annex 4 had been implemented very moderately including a moderate regime of sanctions, that cross-compliance should be acceptable to most farmers.

The stakeholders', who expressed an opinion, agreed that cross-compliance could be effectively controlled. It was expected that during the design process of the controls, only standards, which could be considered pragmatic and workable, would be chosen. However the opinion prevailed that the control of cross-compliance would result in a significant increase of administration costs.

The merits of cross-compliance were considered strong in two particular areas:

- **Enhancement of standards**: The majority of stakeholders were of the opinion that cross-compliance would contribute positively to improvements in environmental, food safety and animal welfare standards.

- **Basis for payments legitimacy**: Several experts saw cross-compliance as a way to legitimise direct payments. This aspect was given great importance in light of the increasing pressure on agricultural subsidies caused by budget constraints of the public authorities.

Despite the general acceptance, several aspects of cross-compliance were criticised:

- **The reason for adoption**: It was mentioned that the cause for the adoption of cross-compliance was not the enhancement of environmental, food safety and animal welfare standards but the vindication of direct payments as regards international criticism from bodies such as the WTO. It was argued that this strategy would ultimately fail because cross-compliance is not required by the WTO and does nothing to "green" direct payments. It would have been better to introduce a "Bond Scheme" plus an additional instrument, which ensures the compliance of the standards instead.

- **Two instruments for one goal:** It was criticised in that the requirements for cross-compliance listed in Annex 3 are already legal requirements. This causes a situation in which one societal goal is pursued using two different instruments: regulatory measures and income incentives. One instrument should be sufficient.

- **No additional requirements:** It was mentioned that neither Annex 3 nor Annex 4 would of themselves lead to an enhancement of production standards. While Annex 3 would not contain any additional requirements at all, Annex 4 would contain new ideas for improvement but was too widely drawn leaving member states too many options for implementation. It was argued that cross-compliance could not improve the legitimisation of direct payments if it does not include requirements, which go further than existing law.

- **Future adjustment of standards**: It was mentioned that in the future, the cross-compliance element could be used to increase production standards more easily. It was warned that member states should not do this on a purely national basis because this would result in market distortions.

- **Increased influence of environmental policy**: Respondents expressed apprehension that in the future, environmental policy could exert increasing influence on agricultural policy as a result of cross-compliance.

- **Unfair treatment of farmers**: It was considered that farmers are sometimes treated differently than the rest of the population. For example, under normal circumstances, an individual would be deemed innocent until proven guilty. Farmers, however, are obliged to prove their innocence. Cross-compliance was deemed to be an example of this latent mistrust because farmers are believed by some to comply with the regulations only if this can be proven by inspection and controls.

2.1.3 Modulation

In the view of most stakeholders the shift of funds from Pillar I to Pillar II is a good idea. In this context several arguments for the extension of Pillar II were mentioned:

- **Better efficiency of Pillar II**: Several experts were of the opinion that the efficiency of governmental support is increased. The measures of Pillar II enable societal goals to be addressed with more adequate tools. For example specific beneficial services could be demanded in return for the payments.

- **Better legitimacy of Pillar II**: It was argued that Pillar II measures could be seen to be more legitimate because they are more efficient. Consequently society will be more willing to support them further.

- **Visualisation of agriculture's multifunctional role**: It was brought forward that Pillar II measures, which incorporate agricultural activity, are an adequate tool to visualise society, with the multifunctional role of agriculture enhancing the reputation of the agricultural sector as a whole.

- **Bottom up approach**: Finally it was emphasised that the principle of Pillar II, to use a bottom up approach for rural development, is the best path to sustainable development.

However several aspects of modulation were criticised as well:

- **The method of funds reallocation**: It was argued that the practice of first allocating payments to the farmers just to partially subtract them afterwards undermines the acceptance of Pillar II among the farmers. It would have been better if the part of the budget planned for modulation had been subtracted in advance.

- **Limited number of good ideas**: It was considered that the number of good ideas for reasonable Pillar II measures is limited and that in practice a lot of resources within Pillar II have been wasted already.

- **Co-financing**: It was argued that the transition of funds from a 100% EU-financed instrument to co-financed instruments might instigate difficulties because several regions were likely to experience problems in accessing additional resources within Pillar II due to the lack of own resources. It was suggested that 100% EU-financed Pillar II measures be introduced.

- **Loss of liquidity**: It was pointed out that liquidity of farms might be reduced due to the fact that Pillar II does not only include agricultural measures. It was suggested to use the money from modulation for agricultural measures within Pillar II only.

- **Treatment of Pillar II in advance of future WTO negotiations**: It was argued that the extension of Pillar II does not necessarily mean that these payments are green-box compatible. For the purpose of green-box compatibility, it is unimportant whether measures belong to Pillar I or Pillar II, but only whether the payments are fully decoupled from production or not. The EU might have difficulty in proving that all measures of Pillar II are fully decoupled.

- **Small share of modulation**: It was considered that the shift in emphasis from Pillar I to Pillar II payments was not radical enough and therefore much higher percentage deductions for modulation were deemed appropriate.

2.2 Impact assessment of the reform

2.2.1 Impact on production

According to the majority of the experts, the impact on the level of production will differ between products. Most experts predicted the strongest decrease of production would be in the beef sector. The number of bulls, steers and suckler cows would decrease significantly. Some argued that steer and suckler cow husbandry might disappear in Germany completely, but would be extended in other member states. However the opinion that a reduction of production would be temporary only because of increasing productivity was also voiced. According to most experts, the magnitude of the reduction of production will depend on the development of market prices.

In the case of the dairy sector the opinions deviated. Some predicted that milk production will be less than quota in the short term and that it will take some time for the remaining farms to compensate for the loss of production capacity caused by structural change. Others thought that the entire milk quota would be used from the beginning. However several experts predicted that a decentralised milk production will not be maintained but a regional concentration of production would take place. One stakeholder assumed an inverse supply function and predicted that the reduction of production due to the abandonment of production in disadvantaged areas would be compensated by an increase of milk production in the remaining production sites caused by the price reduction of milk.

For the pork sector some experts predicted an increase of production caused by the shift of former beef producers to pork production. Others doubted this.

The majority of experts predicted that no significant impact on cereal production would take place. Only the production of rye would decrease due to the abolition of rye intervention. A further influence on production could arise if a high amount of agricultural area with low soil quality is managed at the minimum requirements only. It was mentioned that in some areas fodder maize, previously used for bull fattening, would be used for biogas production instead. National incentives for biogas production (by means of a price guarantee for electricity and special non food payments) are not part of the CAP reform, but might explain why fodder maize production would not be reduced in aggregate volume as the decrease in beef production might suggest.

The opinions about the impact on the intensity of production deviated. Some argued that the reform does not affect the intensity of production at all. Others predicted a general trend to lower the degree of intensity.

Several experts differentiated between areas with favourable conditions for production and disadvantaged areas. In areas with favourable conditions, a tendency for intensification was predicted whereas in less favoured areas, a tendency toward lower intensity of production could be anticipated.

One stakeholder differentiated between production activities that are competitive on the world market and activities, which are not. In the first case the intensity would remain the same and in the latter it would decrease.

Some experts expected a general trend for a higher degree of specialisation, because farmers are considered more likely to concentrate their production activities on their core competencies to increase competitiveness. However most experts predicted that both specialisation and diversification would take place simultaneously. Next to the above-mentioned trend, a trend for further diversification would emerge. Farmers would develop other sources of income such as direct marketing and tourism. Other experts emphasised that these tendencies exist anyway and are not influenced by the reform.

2.2.2 Impact on the use of production factors

Land

The vast majority of experts were of the opinion that very little land would fall idle. However, most of them expected that a significant part would be managed with minimum input sufficient to meet the necessary criteria to receive payments.

The stakeholders in respect to rental values answered the question concerning the reform's impact on land prices and rental values only, because the rental market in Germany is by far more important than the sales market and the prices for land values are heavily influenced by non-agricultural factors.

Generally, most experts expected a fall in land rents in those member states, which introduce the standard model. Some gave a more differentiated answer and mentioned that the impact will differ depending on the quality of land and the demand for land by intensive livestock farmers or vegetable production in the region. It was predicted that for land with good soil quality and in regions with intensive livestock or vegetable production that the reform would have a minor price effect. One expert was of the opinion that rental prices would generally rise.

Capital

Only a few stakeholders commented on the impact on capital. Most experts saw no major impact on capital use on a sector level but some predicted a general decline of investments, especially in the area of milk production. One argued that farms, which stay in business would increase the capital input, but capital use on the sector level would be the same. Another expert argued that while capital input would stay constant, remaining farms would increase the share of borrowed capital. Only one expert predicted a general decrease of capital input.

Labour

All experts who commented on the impact of the reform on labour input were of the opinion that the reform will lead to a reduction of numbers employed in the work force. This was partially explained by increasing productivity gains and structural change. Additionally the effect of the reform on the beef and milk sector was seen as a reason for the decline.

One stakeholder argued that in regions with intensive production activity, labour would be substituted by capital, and in regions with low intensity of production or no production at all, both capital and labour input would be reduced.

2.2.3 Impact on the competitiveness of European farming

The stakeholders answered this question based on two different perspectives.

One group considered the costs of production as the main indicator for competitiveness. Another group judged according to their expectation of the marketability of products on the world market and therefore took the receipt of payments into account.

The first group expected an enhancement of competitiveness through the acceleration of structural change and the increase of market orientation. The answers of the latter group deviated.

One group took the strategic aspect of the reform into account and concluded that WTO negotiations would have led to a significant reduction of support in absence of the reform. Therefore they concluded that the reforms increase competitiveness. The others tended to see a reduction of competitiveness on the world market. In this context stakeholders seemed to take further developments of the CAP like the reduction of export subsidies into account.

However none of the experts presumed that the reform would lead to a situation in which the competitiveness of the European agricultural sector is not only increased, but also becomes competitive on the world market.

2.2.4 Impact on income stability

The question whether the reform provides the necessary income stability was answered reluctantly. Some stakeholders had difficulty in determining what "necessary income stability" meant. Others mentioned that the reform reduces governmental interference on the markets and causes market prices to fluctuate more. This would automatically lead to less income stability.

Several concluded that income stability is accomplished as long as the level of direct payments is stable but they had some doubts that this would actually be the case. Additionally it was argued that the development of market prices is crucial for their assessment; if market prices would be very low the goal is not accomplished. Another expert argued that structural change would lead to a situation where the income stability for the remaining farmers is acceptable because the support is divided among a smaller number of farmers.

2.2.5 Impact on structural change

The majority of experts were of the opinion that the speed of structural change would be increased by the reform. Arguments supporting this statement were:

- **Clarification of future policy development**: It was assumed that the reform would clarify the direction of further development of agricultural policy in Europe. Many farmers on small farms recognise that the EU would not ensure their existence over the long term. Therefore many farmers will decide to quit.

- **Check of economic viability**: It was argued the reform would prompt farmers to check whether their production activities are sound with respect to their economic viability. Many farmers will recognise that they are not and will consequently leave the sector.

- **Differentiation in production**: One stakeholder was of the opinion that direct payments will provide a basis for social security but he argued that the reform would cause a further differentiation in the area of production, which will drive structural change.

However it was emphasised that the actual speed of structural change would heavily depend on the development of markets and market prices. Furthermore it was argued that the development of external factors, which are beyond the scope of the reform, like alternative job opportunities, would be of major importance.

But not all experts were of the opinion that the speed of structural change would increase. One assumed that uncertainty among farmers would lead to a short-term reduction of structural change but he predicted that in the long run the speed of structural change would remain the same.

2.2.6 Impact on rural industries

All stakeholders agreed that the reform would have an impact on other rural industries. Impacts in the following areas were mentioned:

- **Milk processing sector:** It was argued that the reduction of intervention prices, structural change and the reallocation of milk production, increases the need for consolidation in the milk-processing sector. In some regions, a further reduction of milk processing capabilities would occur.

- **Slaughterhouses:** It was mentioned that the reduction of beef production would result in a reduction of the number of slaughterhouses.

- **Equipment producers:** According to several experts, the reform will lead to a general reduction of investments. This will cause a reduction of sales in the upstream industries. The market for assets for milk production is especially expected to shrink.

- **Chemical industry:** It was predicted that a general trend for less intensive production will lead to a reduction of the markets for mineral fertiliser and crop protection products.

- **Trade**: Furthermore it was assumed that the reform would lead to a redirection of commodity flows, which make adjustments in the trade sector necessary.

Finally, an aspect was mentioned which was deemed to have a negative impact on downstream industries, but additionally a positive impact on agricultural producers. It was argued that in the past downstream industries benefited from direct payments by taking them into account during price negotiations. In the future the reduced transparency of the payment system would make it more difficult to do so.

2.2.7 Impact on the attractiveness of farming for new entrants

Most experts were of the opinion that the number of young people who want to become farmers will decline should the rate of structural change in agriculture not slow down. However several additional aspects were mentioned:

- **Increased freedom of farming**: It was expected that the reform would increase the degree of market orientation and decrease the dependency on governmental interventions. It was argued that this increase of freedom in business would improve the attractiveness of farming and could finally lead to a situation where the share of farms finding a successor is increased.

- **Allocation of entitlements:** It was emphasised that new entrants whose parents are farmers and those new entrants who have no agricultural background, will be affected differently. The attractiveness for the latter group would decrease because they will not receive entitlements and therefore would have to persist in the market without direct payments.

- **External factors**: Furthermore it was argued that external factors like societal trends and the reputation of farming in the rest of society have a greater influence on the attractiveness of farming than the factors influenced by the reform. Correspondingly the reform would not be of major importance in this respect.

III. THE GERMAN IMPLEMENTATION

In Germany several additional questions were asked to obtain information about experts views on the national means of implementation, the differing impacts between the German model and the standard model, and about aspects, which are of interest in Germany only. The results are summarised in the following.

3.1 Opinions about options for implementation

The majority of experts preferred the regional model to the standard model. The following aspects favouring the regional model were mentioned:

- **Legitimacy of payments**: The most often mentioned argument was the aspect of legitimacy. The opinion prevailed that historically based payments would be too difficult to legitimise in the long run. Area based payments would be more suitable in this regard.

- **Support for grassland**: Grassland was considered to be of special ecological value. The regional model was appreciated because it was expected to offer a better perspective for farms with high proportion of grassland and to ensure the continuity of grassland use.

- **Enforcement of production standards**: It was emphasised that society asks for the compliance of environmental, food safety and animal welfare standards in return for direct support. It was argued that the regional model better enables society to enforce these requirements.

- **Effect on land price**: Furthermore it was mentioned that the standard model would have led to a devaluation of land. The impact on farms asset value was deemed to be too severe and too abrupt to be acceptable. Policies having an impact on farmer's wealth should be predictable and not left to chance.

Even though the regional model was appreciated, there were various opinions voiced about the way the transition period was designed. Some argued that the "Kombimodel" method was good because redistribution effects are softened. Others were more concerned about the complexity of the system and would prefer a simpler transition, a static hybrid or an outright regional model.

Only a few experts preferred the standard model. Arguments favouring the standard model were:

- **More adequate instrument for income support:** It was argued that the standard model would have been better because in the regional model the surplus of entitlements would cause land rents to increase. As farmers do not always own the land they farm, others than the target group would benefit from the payments as well. Therefore the regional model was deemed an inadequate instrument for income support.

- **Problems in the context of WTO negotiations:** It was argued that there is a strong link between payments and the production factor land in the regional model. This was deemed problematic in the context of the WTO negotiations.

All but two experts rejected the idea of partial decoupling. It was argued that partial decoupling would first slow down the necessary adjustments and would secondly increase the administration cost because two systems are used at once. The aspects favouring the partial decoupling are listed in the following:

- **Market distortions**: France and Italy intend to implement partial decoupling. It was argued that Germany could avoid market distortions by implementing partial decoupling as well.

- **Meaningful use of grassland**: It was argued that it would be better to retain partial coupling for suckler cows and sheep because coupled payments were necessary to ensure a meaningful use of grassland.

- **Support for special activities**: Furthermore it was stated that it would have been better to keep a higher share of payments for protein crops partially coupled because of their ecological value and the problems in the context of genetic engineering and deforestation as seen for example in northern Brazil.

3.2 Impacts of the German implementation

Impact on the number of hardship cases

Only a few experts found themselves able to estimate the number of hardship cases. However the opinion prevailed that their number would be quite significant. It was predicted that the national reserve might not be sufficient to satisfy all claims.

Opinions about the relative number of hardship cases in the “Kombimodel” and the standard model varied. On the one hand it was expressed that the number of hardship cases in the “Kombimodel” would be lower because they can occur in the area of former headage premiums only. On the other hand the number could be higher for the “Kombimodel” because the economic situation of farmers will change much more than in the case of the standard model.

Impact on administration costs

The majority of experts were of the opinion that administration costs would rise significantly in the transition period of the “Kombimodel”. Several believed that after the transition period, the costs would be reduced. However administration costs were expected to rise due to cross-compliance.

Impact on the transparency of the payment system

The majority of stakeholders thought that in the final stage of transition, the “Kombimodel” would be more transparent than the standard model if implemented.

Impact on transmission effects

Opinions differed regarding the question of whether tenants or landlords would benefit in the “Kombimodel”. One group argued that landlords would benefit from the reform, at least in the long run. The rent for grassland would rise in the medium term. It was suggested that the government should buy out excess entitlements to make sure that entitlements would not become worthless. The other group argued that tenants would benefit because the price for the tenant-owned entitlement would be rather high.

3.3 Conflict potential for tenancy agreements

The experts were of the opinion that in the starting phase of the “Kombimodel” both tenants and landlords will be confused. Some emphasised that the expectations about the value of entitlements and the future treatment of entitlements will deviate by a high degree and that some juridical question are yet unresolved. There is therefore significant potential for conflict and disagreement between landowners and tenant farmers.

However disagreement prevailed on the question whether tenants would accept contract changes ensuring that the entitlements remain with the landlord when the tenancy ends. Some argued that such clauses are already being attached to existing contracts. Others emphasised that tenants have no reason to subscribe to such agreements. Furthermore it was argued that changes of existing contracts are not necessary at all.

It was mentioned that the conflicts could be solved by the accomplishment of a win-win situation; for example, the duration of the tenancy contract could be extended in exchange for the addition of the above-mentioned clause.

3.4 Impacts on different farm types

The experts agreed that the "Kombimodel" would likely lead to a redistribution of direct payments. According to the experts all farms, which cannot compensate for their losses of headage and milk premia with additional area payments will be negatively affected by the reform. Examples for farm types negatively affected are:

- **Intensive milk and beef producers:** Generally intensive milk and beef producers were considered likely to be negatively affected because they receive a high amount of milk and headage payments, while specialised beef producers often possess little grassland. However two additional aspects were mentioned that might have an impact on the magnitude of the losses:
  - The ability to stop production**:** It was argued that bull fattening farms might even benefit from the reform if they are able to stop bull fattening easily because they would receive a significant amount of payments during the transition period and would additionally be able to produce an alternative product, e.g., pork.
  - Premium strategy**:** One farm type was described which suffers outstanding losses. In some areas bull fatteners chose to produce beef with high intensity and little land. They received some direct payments in the form of the special premium for male bovines but the slaughter premium formed the bulk of payments. However in the "Kombimodel" the slaughter premium is not included in the transitional farm payment but is used to finance the area payments for grassland instead. But these intensive beef producers do not necessarily possess any grassland and will therefore not be compensated for their losses.

- **Small farms:** It was assumed that small farms would be negatively affected because they often produce livestock at a highly intensive level. It should be remembered that there is no livestock density restriction for 'small beef producers'.

- **Cereal producers**: Several experts were of the opinion that cash crop producers who solely produced cereals and oil seeds will be negatively affected by the reform because the level of future area payments will often be lower than the former payments for cereals and rape. However there is an additional effect of major importance. The “Kombimodel” does not only cause a redistribution of premiums between farm types but also between the “Länder,” (German federal states). The premium ceiling for each “Land” is derived both from the historical premium payments and from the amount of eligible area of the “Land”. (The premium sum each region receives, and which correspondingly sets the payment level per hectare, is derived using the following formula: (share of reg_UAA*0.35 + share of reg_DP*0.65)* national DP).

- **Sheep production:** It was mentioned that sheepherders who possess no or very little land would suffer negative income effects because after the transition period they will not receive direct payments.

However not all farms were expected to be negatively affected; some were deemed to benefit in the regional model. The examples mentioned by the experts were:

- **Extensive grassland farms**: It was argued that farms with a large share of extensive grassland would benefit because their losses of headage and milk premium would be overcompensated by the gain of area payments for grassland.

- **Farms with horse husbandry or vegetable producers.**

- **Sugar producers**: Several experts were of the opinion that sugar producers will be the major beneficiaries of the regional model because the sugar market regulations remained unchanged so far and they will receive additional area payments. However it was expected that the sugar market would also be reformed.

3.5 Differences of impact between eastern and western Germany

Most experts agreed that the reform would affect the eastern and western parts of Germany differently. These differences were explained by structural and natural differences. Several examples for impact differences were identified:

- **Use of land**: It was expected that in eastern Germany a larger part of the area would be managed according to the minimal standards. Several reason were given for this development:
  - Low soil quality: In some parts the soil quality is very low. It was argued that in these regions production might become unprofitable.
  - Need for risk reduction: Additionally it was argued that eastern German farms have a higher need for risk reduction because they would be much

more vulnerable to income fluctuations due to their stock of hired workers who, in contrast to the labour resources on family farms, have to be paid wages irrespective of their income situation. By managing the farm according to the minimal standards, a stable income could be assured.

  - Part-time farmers: It was assumed that farmers in western Germany would be more reluctant to stop production; e.g., part-time farmers would continue to produce irrespective of the economic viability of their farm.

- **Dairy sector**: Several experts assumed a decline of the dairy sector in eastern Germany.

- **Speed of adjustment**: Most stakeholders were of the opinion that the adjustments caused by the reform would be much faster in eastern Germany than in western Germany.

- **Impact on land rents**: It was expected that the reform would cause land rents in eastern Germany to decline by a higher degree than in the western part. This trend was explained with the tendency of rental prices in the east to be more oriented towards ground rent of land. Additionally in eastern Germany, rent-raising factors like livestock-density restrictions and external demand for land are not important. The decrease of the rental value for land was expected to lead to an augmentation of the competitiveness of eastern German farms.

- **Impact of structural change on rural areas**: Finally is was argued that structural change has a much more severe impact on the rural areas in the eastern part because in contrast to western Germany, people would move to urban areas.

3.6 Opinions about the sugar market reform

Most experts were of the opinion that the sugar market should be reformed and incorporated into the "Kombimodel". The sugar market regime was considered outdated and the sugar producers were viewed as partially compensated because in the future they will receive decoupled area payments as well. However most experts insisted that the sugar farmers need additional compensation, which should be reduced stepwise.

A few experts disagreed and preferred a different solution. One argued that sugar is not essential for survival and thus does not need to be as cheap as possible. He suggested that the

EU should negotiate on import quotas with the AKP and LDC bloc countries and seek to reduce the sugar quota within the EU to maintain a high price level. Small farmers should be exempted from the quota reduction.

Another expert called for a qualitative import tariff on sugar. While organic sugar should be excluded from import tariffs, for the entire amount of conventional sugar, the tariff level should be retained.

3.7 Visions for further development of the CAP

The majority of experts were of the opinion that the CAP reform and its implementation in Germany are on the right track. However plenty of suggestions for further development and some criticism were articulated. To be better able to summarise them they were grouped into the topics market regime, income support and multifunctionality.

3.7.1 Market regime

It was mentioned that the EU should return to a "Common Agricultural Policy" to prevent market distortions. In this context it was expected and restated that the regional model would or should be implemented in the whole EU. It was argued that this is quite probable because all new member states implemented the regional model. One expert asked for the tradability of entitlements in the whole EU.

Additionally it was mentioned that further liberalisation should be undertaken in small steps and farmers and rural industries should be given time to adapt to the changes. Most experts argued that tariff levels should be reduced but no one called for their abolishment. Furthermore it was argued that liberalisation is possible only if the standards for production are the same in all competing regions or if the differences are compensated in some way.

Some of the expert respondents proposed that intervention prices should be further reduced and the income effects compensated in return. In the context of the milk market it was argued that the milk quota should be abolished. Additionally it was proposed to cancel compulsory set aside and de-facto quota regulations concerning entitlements for fruit, vegetable and table potato production. Another expert considered that export subsidies should be abolished with the earliest possible effect.

3.7.2 Income support

Several experts were of the opinion that direct payments or direct income support would not be sustainable in the long run and therefore direct payments would be an interim solution. A few asked for a stepwise reduction or the abolition of direct payments after a transitional period. Additionally it was argued that policy makers to date have been reluctant to acknowledge that direct payments are an instrument of income support. A debate on this policy area was considered desirable.

3.7.3 Multifunctionality

Most experts called for a stepwise reduction of Pillar I in favour of Pillar II because of more legitimacy and the positive external effects of Pillar II measures. One considered that the modulation rate should be increased to 20%. However it was felt that emphasis should be placed on the development of new and more efficient Pillar II measures to make sure that society recognises the use of these measures and is willing to support them further.

Additionally it was demanded that Pillar I payments should be paid only if further services are provided in return. Examples of these were:

- the provision of jobs
- the abandonment of industrialised farming
- the abandonment of large distance animal transportation
- reductions in nitrogen emissions
- organic farming

One expert argued that without this ecological framework, agricultural subsidies should be abolished.

IV. SUMMARY

The consultations revealed that the stakeholders were generally of the opinion that the CAP reform was both necessary and reasonable. However two main distinct motives for the acceptance were observed.

The first motive was to protect the possibility of providing economic support to the agricultural sector in the future. Decoupling was deemed necessary to prepare for the WTO negotiation and to ensure green-box compatibility. Cross-compliance and the extension of Pillar II were seen as necessary to legitimise agricultural support from the perspective of the taxpayer.

The second motive was to enhance the transfer efficiency of EU funds. Decoupling was accepted because it was deemed to increase market orientation and the competitiveness of European farming. Cross-compliance was appreciated because it was deemed to contribute to environmental, food safety and animal welfare standards, and the extension of Pillar II was viewed as a way to enhance the efficiency by addressing societal goals with more appropriate tools.

Although most experts agreed with the general direction and the goals of the reform, the way it had been implemented was often criticised. First, it was emphasised that the national implementation of the reform differed greatly. Second, the way Pillar II was extended via modulation and the lack of good ideas for efficient Pillar II measures were criticised. Additionally, the implementation of cross compliance was criticised from two opposing perspectives. On the one hand, the introduction of more restrictive production standards was considered desirable, and on the other an enhancement of standards on a national level was feared because this was deemed to cause market distortions and a loss of competitiveness.

The majority of the experts appreciated the way Germany intends to implement the reforms. The opinion prevailed that the regional model would most likely be introduced in the rest of the EU in the future, because of the increased legitimacy of payments and the fact that all new member states introduced the regional model from the outset.

Furthermore the experts called for a further liberalisation of the market, further extension of Pillar II and a reduction of direct payments. However this should be done cautiously in a series of small steps. Finally the majority of stakeholders were of the opinion that the sugar market should be reformed and compensation be implemented through the “Kombimodel”.

While most experts had clear views about the principal components of the reform such as decoupling, cross-compliance and modulation, more uncertainty prevailed regarding the impacts of the reform.

The reforms’ biggest impact on the level of production was expected in the beef sector. Most experts agreed that milk production would remain stable or would increase due to the quota extension. Cereal production with the exception of rye would remain stable. However it was emphasised that the level of production for each commodity would depend on the development of market prices.

Disagreement prevailed on the questions of whether or how the reform would affect both the intensity of production and the degree of specialisation of production.

Concerning the production factor land, it was expected that little land would fall idle but a significant share would be managed according to the minimal requirements to receive payments. Furthermore the majority of experts were of the opinion that land prices in the standard model would tend to decline.

Most experts were of the opinion that the reform would increase the speed of structural change. It was expected that the number of farms and the number of people employed in agriculture would decrease. In this context it was agreed that the absolute number of young people and/or other new entrants who want to start farming, would also decrease. Additionally structural change was thought to be one of the driving forces for the enhancement of cost competitiveness of European agriculture. The accelerated rate of structural change was thought to have an impact on rural industries as well. Additionally the reduction of beef production and the concentration of milk production were deemed to impact the milk and beef-processing sector.

Opinions regarding the possible impact of the method of implementation of the reforms in Germany in comparison to the standard model differed. Regarding administration costs, many believed that in the final stage of the "Kombimodel", the costs would be lower but in the starting phase they would be higher. The "Kombimodel" was also considered in its final stages to be more transparent than the standard model. However it was predicted that landlords would be in a stronger position than their tenants with regard to land rents, causing a higher level of land rent and more severe transmission effects compared to the standard model. Concerning the relative number of hardship cases, no clear trend of stakeholder opinion was discernible.

Annex

List of Stakeholders

Organisation		Family Name
Farmers union		
DBV	Deutscher Bauernverband e.V.	Hemmerling
DBV	Deutscher Bauernverband e.V.	Schmidt
ABL	Arbeitsgemeinschaft bäuerliche Landwirtschaft e.V.	Hofstetter
BDL	Bund der Deutschen Landjugend e.V.	Jennewein
Government agencies		
BMVEL	Bundesministerium für Verbraucherschutz, Ernährung und Landwirtschaft	Wolfgarten
MUNLV	Ministerium für Umwelt und Naturschutz, Landwirtschaft und Verbraucherschutz des Landes Nordrhein-Westfalen	Schulze-Pals
SMUL	Sächsisches Staatsministerium für Umwelt und Landwirtschaft	Wallrabe
Professional organisations		
BMV	Bundesmarktverband Vieh und Fleisch e.V.	Bröcker
Input suppliers		
DRV	Deutscher Raiffeisen Verband e.V.	Petersen
Downstream industries		
Nordmilch eG		Hein
Banks		
NORD LB	Norddeutsche Landesbank	Fuhrmann
Environmental agencies		
SRU	Der Rat von Sachverständigen für Umweltfragen	Leinweber
BUND	Bund für Umwelt und Naturschutz Deutschland e.V.	Benning
Research		
HU	Humbold Universität	Kirschke

Questionnaire

Standard Questions:

1. In relation to the recent reforms of the CAP;
    a. Which aspects do you think are good?
    b. Do you identify any problems?

2. Considering the likely impact of the policy reforms on agriculture do you think;
    a. The reform will have an impact on the level of production?
    b. The reform will have an impact on the intensity of production?
    c. The reform will affect other rural industries (upstream and downstream)?
    d. The reform will lead to an adjustment in the use of the factors of production, that is land, labour and capital?
    e. The reform will affect the competitiveness of EU agriculture on world markets?
    f. The reform will lead to more specialised or diversified farms?

3. Do you think that due to the reform of the CAP, some of the agricultural area will fall idle or will be managed according to the minimum requirements to receive payments?

4. How do you think the reforms will affect land prices and rental values?

5. In relation to the cross-compliance element of the reforms:
    a. Do you think it is acceptable to farmers?
    b. Do you think the financial burden on farmers is too great?
    c. Do you think it can be effectively policed and controlled?
    d. Do you think it will contribute to environmental, food safety and animal welfare standards?

6. Do you think the transfer of direct payments from agriculture to rural development is a good idea?

7. Do you think the reforms will provide the necessary income stability for farmers?

8. Do you think the reforms will affect the speed of structural change? If so, how will they affect the rate of change?

9. Will the SPS affect the attractiveness of entering farming for young people or new entrants? If so, how?

National Questions:

1. In the final stage the German Kombimodel will be a fully regional model. Do you think it was reasonable to choose a regional model or had you preferred a model based on historic premium levels?

2. France and Italy adopted partial decoupling schemes. Do you think it would have been better to introduce such a scheme in Germany?

3. What do you think about the problem of hardship cases. Do you think there will be a significant number?

4. Do you think the national implementation will lower administration costs?

5. Do you think the national implementation will increase the transparency of the premia system?

6. The reform identifies active farmers as the owners of payment entitlements but it will be necessary to provide sufficient eligible land in order to activate the payments. Considering this, what do you think: Will tenants or landlords be the main beneficiaries of the reform?

7. Active farmers will receive entitlements based on their agricultural area they use in 2005. Are there in your opinion problems regarding the transfer of land and the adjustment of future and current tenancy agreements?

8. It is possible that the reforms affect the income distribution of different farms types (varying for example in production direction, size, location or production intensity)? Which farm types do you think will benefit and which will lose?

9. Do you think the impact of reform will differ between the eastern and the western part of Germany? If it does how will it differ?

10. Do you think the sugar market should be incorporated in the current scheme of national implementation when this market is reformed?

11. Is the agricultural policy heading in the right direction? Do you have ideas and recommendations for further development of the CAP?

Stakeholders' Consultation in Ireland

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I. INTRODUCTION

The following organisations were consulted:

Farm Organisations:
Irish Farmers Association, (IFA)
Irish Creamery Milk Suppliers Association, (ICMSA)
Irish Cattle and Sheep Association, (ICSA)

Food Processors
Irish Dairy Board, (IDB)
Irish Business and Employers Confederation, (IBEC)

Policy Makers
Department of Agriculture and Food, (DAF)

Land Agents
Irish Auctioneers and Valuers Institute, (IAVI)

Banks
Allied Irish Banks (AIB)
Bank of Ireland (BoI)

Some recent research on this topic was also consulted. This was a survey of farmers' intentions and views on the decoupling of direct payments from production (Connolly et al. in Proceedings of Conference on 'Situation and Outlook in Farming 2004/05, Teagasc, Rural Economy Research Centre. Teagasc. Dublin 2004).

II. RESULTS

a) The Standard Questions

Question 1. In relation to the recent reforms of the CAP:

(a) Which aspects do you think are good?

In response to part (a), all the respondents replied that the decoupling of direct payments from production was good. All said that 'entitlements' would provide clarity and certainty for a part of producers' incomes. The decoupling of payments would allow producers to respond to signals from the market place in the way that best suited them.

(b) Do you identify any problems?

In response to part (b), all the respondents identified problems. The problems identified by different types of respondent are indicated below.

<u>Farm organisations</u>

- Dairy farmers would not be fully compensated for losses they incurred due to reductions in the milk price and reductions in calf prices. This would particularly apply on specialist dairy farms where all or many of the calves destined for beef production had sold on to other farmers for subsequent rearing. As these other farmers had received the beef direct payments, the entitlements would accrue to them. The decline in calf prices from dairy farms would not be compensated in this case.
- It is possible that some new entrants to farming will not receive entitlements.
- There may be difficulties with 'cross-compliance' in a few cases.
- There may be a reduction in output in parts of the EU due to decoupling.
- Adjustment from coupled production to a fully decoupled system in Ireland could be a problem for some producers. There is no example of how to manage the transition from coupled payments to decoupled ones. Changes coming from any future WTO Agreement could add to this.

<u>Food Processors</u>

For dairying, a possible problem for processors would be the reduction in milk prices associated with, but not due to, the introduction of the decoupling measures. This would bring about a decline in milk production. The direct effect on dairy farmers of decoupling would be limited, as specialist dairy farmers did not receive large amounts of direct payments. Secondary effects would be felt through the reduced calf price and the reduced milk price, which will follow from the price reductions already agreed as part of 'Agenda 2000' and the further reductions contained in the 'Luxembourg Agreement'. The reduced milk price may also fluctuate more than it did previously and this may hinder the steady reduction in aid.

For beef and sheep, the implementation of decoupling would reduce supplies for processing, which will reduce throughput at meat factories.

Policy Makers

A problem associated with decoupling could be an inflationary effect, as farmers spend the money from entitlements.

Land Agents

One problem that may occur in the land market is that the effect of entitlements on the land market is not known. The question of who benefits from the entitlements is also important. At present it is not always apparent to whom these will be paid. This could be very important when drawing up leases and conacre agreements, (rental agreements for a period of less than one year).

Banks

Possible problems for the dairy sector arising from reduced milk prices and less than full compensation as well as possible difficulties with 'cross-compliance'.

Question 2. *Considering the likely impact of the reforms on agriculture, do you think:*

(a) The reform will have an impact on the level of production?

All the respondents agreed that the reforms of the CAP would have a negative effect on the level of production of agricultural commodities in Ireland. The reductions would apply to beef and sheep because of the decoupling of direct payments to these enterprises. Milk production may decline because of declining prices. Some respondents said it was not certain whether the full milk quota would be produced under the likely fall of the milk price.

(b) The intensity of production?

In relation to the intensity of production in Ireland after the CAP reforms were implemented, there was agreement among respondents that there would be a division into two types of farm. One group of farms would intensify production, as they would no longer be rewarded for 'extensification' of production in the beef sector or by a lack of milk quota in the dairy sector. The other group would probably produce on a less intensive basis as the opportunity cost of labour would fall under decoupling and so these farmers would be inclined to take off-farm employment and only farm at a level needed to ensure the payment of their entitlements.

(c) The reform will affect other rural industries (upstream and downstream)?

There was general agreement that the decline in the level of production of beef and milk would affect both upstream, (input) and downstream (processing) industries. Some respondents indicated that the reduced level of output might increase the attractiveness of forward contracts for processors, particularly for grain. For beef, the reduced output throughout the EU would make the EU a net importer of beef before 2010 and consequently in Ireland, the focus for beef producers would be on consumers within the EU. This would affect their product mix and marketing efforts. Before the CAP reform, production for export outside the EU with the aid of subsidies had been a large part of the beef business.

(d) The reform will lead to an adjustment in the use of factors of production, that is, land, labour and capital?

The opinion of all the respondents was that labour would be more intensively used on some farms but less so on others. Similar views were expressed with regard to capital. This was because some farms would 'intensify' and some would become less intensive.

(e) The reform will affect the competitiveness of EU agriculture on the world market?

All respondents agreed that the reform would, or should, lead to greater competitiveness of EU produce on world markets.

(f) The reform will lead to more specialised or more diversified farms?

All respondents were of the opinion that some farms would become more specialised, as this would be the method by which they would increase their revenue, following the removal of coupled supports. They would be able to concentrate on the production of products that yielded them the most profit.

Question 3. Do you think that due to the reform of the CAP, some of the agricultural area will fall idle or will be managed according to the minimum requirements to receive payments?

None of the respondents thought that land would fall totally idle. All the respondents thought that some land would be farmed to the minimum extent necessary to receive entitlements.

Question 4: *How do you think the reforms will affect land prices and rental values?*

Land prices

In relation to the price of land to purchase, all respondents said that this would be difficult to predict and none of them felt able to give a definitive opinion. Some said that there were still too many unknowns, such as the proportion of the entitlements that would be 'clawed back' by the government to put into the National Reserve.

Rental values

In relation to rental values, respondents said that it was clear that the introduction of the ability to consolidate or 'stack' entitlements onto fifty per cent of the land that was farmed had had the effect of reducing land rental prices greatly. This is important for Ireland in view of the prevalence of 'conacre', which is land rental for less than one year.

Some respondents said that ultimately land prices and rental values would eventually decline as farm product prices, particularly milk would decline and the value of entitlements would be eroded by general price inflation.

Question 5: *In relation to the cross-compliance element of the reforms:*

(a) Do you think it is acceptable to farmers?

The farmer organisations thought that the cross-compliance element was, in principle, broadly acceptable to farmers but one organisation said there were "extreme concerns" about the possible severity of the regulations and the possibility of farmers having to pay very dearly for any mistakes. The organisation suggested that there should be some level of tolerance for "normal" mistakes.

Other respondents said they thought that the cross-compliance element would be acceptable to farmers but the level of acceptability would depend on the severity of enforcement. Several noted that the present requirements for compliance for the Rural Environment Protection Scheme, (REPS), had proved acceptable to farmers.

(b) Do you think the financial burden on farmers is too great?

The universal response to this was that the financial burden on farmers of cross-compliance would not be "too great", but several respondents pointed out that the full details of cross-compliance were not yet known and so the cost could not be known accurately.

` *(c) Do you think it can be effectively policed and controlled?*

All respondents said that they thought the new arrangements could be effectively policed and controlled. A bureaucracy already exists for administering the EU payment system and this would just have to shift its focus.

(d) Do you think it will contribute to environmental, food safety and animal welfare standards?

All respondents said that cross-compliance requirements would have positive effects on these three standards. Most respondents thought the effects would be minimal on food safety and animal welfare standards as there would be hardly any change in these from existing requirements. There may be some environmental effects, although these would be smaller than those arising from REPS and the Nitrates Directive.

Question 6: Do you think the transfer of direct payments from agriculture to rural development is a good idea?

The farm organisations thought that this was not a good idea, as it may mean a loss of payments to the sector. One organisation said that rural development was a much broader issue than agriculture and should be handled by separate policies and budgets.

Respondents from institutions other than farm organisations thought that the transfer of direct payments from agriculture to rural development was, in general, a good idea.

Question 7: Do you think the reforms will provide the necessary income stability for farmers?

Most respondents said that they thought that the reforms would increase income stability for farmers but some thought the opposite or were unsure. Those who thought the opposite indicated that although the entitlements would be fixed, the amount would be eroded by inflation and product prices would become more volatile as they were linked directly to 'world' prices.

Question 8: Do you think the reforms will affect the speed of structural change? If so, how will they affect the rate of change?

All respondents agreed that the reform would increase the speed of structural change. There was not general agreement on the extent to which the speed would increase. Some respondent's thought that the rate would only change slightly, others thought that it would be "dramatic" and others said they did not know.

Question 9: Will the Single Payment Scheme affect the attractiveness of entering farming for young people or new entrants? If so, how?

The respondents had mixed views on this topic. Some thought that the SPS would have little or no effect on the attractiveness of entering farming for young people or new entrants. Others thought it would make entering farming more attractive, (a) in general, because the income would be more predictable and (b) in the dairy sector because the introduction of the SPS would probably lead to a greater availability of milk quota. This would increase the attractiveness of dairy farming for those who wished to enter the sector and build up their business.

b) The National Questions

Question 10: Do you think that the reforms will discourage farmers from retiring early and if so, why?

Several of the respondents asked about the precise meaning of "retiring" in this question. If the question meant "winding down", then all the respondents agreed that this would become easier for farmers under the SPS.

If the question meant "would the SPS have an effect on the take-up of the Early Retirement Scheme from Farming, (originally introduced as an 'Accompanying Measure' to the MacSharry reforms), then all the respondents who replied to this question thought that the SPS would slow down the take-up of the Early Retirement Scheme. This was because the SPS made 'semi-retirement', or 'scaling down' easier.

Question 11: Do you think the CAP reforms will achieve their objectives and, if so, why?

Assuming that the objectives were (i) improved international competitiveness, (ii) maintenance of farm incomes and (iii) improved environmental conditions, food safety and animal welfare, then all respondents agreed that the CAP reforms would meet these objectives to at least some degree. In particular, all respondents thought that the CAP reforms would better help the EU to agree to more trade liberalisation in the WTO Doha Round. Another respondent made the point that "the greying of the farming population would allow the objectives to be realised." There was also agreement among respondents that it would be difficult to determine the extent to which the objectives of the reforms were reached.

Question 13: Please use this space for any other comments on the CAP reforms you would like to make pertinent to the consultation now being undertaken

Several respondents made comments. Each comment was different. They are listed below.

- "The CAP reforms could be described as a 'valiant attempt' to put consistency, logic and simplicity into the CAP".
- "A key thing is when will people stop producing milk at a given price".
- "The size of the 'claw back' on entitlement sales will be very important in the market for entitlements and the market for land."
- "We may not see the reforms being continued as far as 2013, due to the requirements of the new member states."
- "It will be interesting to see the final outcome of the Doha Development Round. This could affect the future of the CAP reforms.

III. SUMMARY

At the time of the survey, (Autumn 2004) most Irish farmers were still not clear how they would react to the new Single Farm Payment policy. The majority of farmers said they would adopt a "wait and see" policy.

When farmers clarified their intentions, they indicated that the results of their actions would be reductions of six per cent in the number of sheep and twelve per cent in the area of cereals. Suckler cow numbers would, according to the intentions survey, remain virtually unchanged with reductions on dairy and cattle farms being offset by increases on tillage and sheep farms.

Farmers with milk quotas were asked whether they intended to sell milk quota after de-coupling and eight per cent said that they would do so.

IV. CONCLUSIONS

From this consultation it appears that the introduction of the SFP in Ireland is broadly acceptable. The problems, if any, will come about with the introduction of detailed regulations in particular the rules about cross-compliance and the extent of 'claw-back' of entitlements when these are offered for sale.

Respondents expected some changes in the structure of farming, in particular a decline in the number of farmers producing beef and changes in the dairy sector because of increased availability of milk quota.

There was general agreement that both upstream and downstream industries would be reduced because of the reduction in agricultural output that the new policy would bring about.

Stakeholders' Consultation in Italy

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I. INTRODUCTION

The consultations were conducted in conjunction with important stakeholders in the Italian agro-food system and were conducted by using the methodology of focus groups. The focus group is an important exploratory instrument for putting forward the position and views of the various stakeholder respondents and in recording those different points of view.

Compared to other more rigid instruments of needs analysis, for example, tests, questionnaires, evaluation grids, etc., the focus group methodology provides the opportunity, by way of previously selected question prompts, of investigating some of the more significant issues and questions of the study in hand.

The group convenes, facilitating an active exchange of ideas about the various aspects of the survey and thereby permits the meeting convenors to verify the accuracy and coherence of the answers by requesting immediate feedback and clarification.

We examined the following area:

- **Contextual information**, the general characteristics of the participants and description of roles;
- **Policy judgment**, in particular the coherence of the reform compared with the market, the social context and the promotion of the agricultural sector;
- **Impact evaluation,** of the reform compared with the outside, the inside of the organisations and the system;
- **Future scenarios**, such as the development of farm businesses, the growth of sustainable agriculture and other possible CAP developments.

The opinions and the evaluations that emerged from the participants during the focus group encounters are the central theme of this report. In addition to a detailed description of those opinions, a short description of the research objectives is included together with a description of the participants and a summary of the most important considerations, which emerged from the study. It is important also to stress that the focus group discussions were stimulated by the list of pre-prepared questions formulated by the various members of the WP1 research group.

The objective of the study was to investigate the perceptions and the convictions of stakeholders concerning the repercussions that the Common Agricultural Policy reforms and the introduction of decoupling would likely have in Italy. The participants' responses to the proposed items of discussion were meant to provide an insight into the positions of the main component organisations in the Italian agro-food system regarding the consequences of the new CAP on Italian agriculture and agro-food chains.

We identified two broad categories of the most representative bodies involved in the reform:

- 'Public': Ministry of Agriculture and Forestry; Regions (Emilia-Romagna, Lombardia, Veneto, Lazio, Toscana, Campania, Puglia, Sicilia); Paying bodies (Agea)

- 'Associations': CIA, Coldiretti, Confagricoltura, Assocarni, Assolatte, Italmopa, Confcooperative, Anca Lega, Agro-food Workers Union.

Group	**Participant**	**Body**
ASSOCIATIONS	ASSOLATTE	Milk producers' representatives
	ITALMOPA	Millers/grinders' representatives
	ASSOCARNI	Meat producers and processors representatives
	COLDIRETTI	Farmers' Union
	CIA	Farmers' Union
	ANCALEGA COOP	Farming and processing cooperatives representatives
	FEDAGRI	Farming and processing cooperatives representatives
	CONFAGRICOLTURA	Farmers' Union
PUBLIC BODIES	Regional Administration	Veneto Lombardy Emilia Romagna Toscana Marche Lazio Campania Puglia Sicilia
	Ministry of Agriculture	Ministry of Agriculture
	AGEA	Agricultural Grant Entitlement Agency

We interviewed some of the non-participating public bodies directly, or we consulted the documentation relative to their position on the new CAP. This documentation was made public during the debate between the State and the regions on the application of the reform in Italy.

II. RESULTS

The focus group's responses to the questions are divided between the responses given by the food-chain organisations (S) and the responses given by the public bodies (P).

Question 1. In relation to the recent reforms of the CAP:

(a) Which aspects do you think are good?

S. For most of the interlocutors the reform is thought to be coherent with the markets, representing a necessary and unavoidable choice when considering the pressures coming from the outside world. The reform is also seen as a solution to budget issues.

The reform attempts to provide a solution to a problem, although not always a complete and positive solution to the improvement in quality and wholesomeness of agricultural products. From the responses received, we consider that the requirements most requested by the public are a) wholesome, good-quality agricultural products, and b) recreational and amenities opportunities.

As far as quality is concerned one of the essential elements of the reform is the cross-compliance commitment, which as such is considered to be a response to the needs of society.

P. The reform provides a necessary solution to various problems such as the need to stabilize the community budget, the entry of new member states and the pressures exerted on the EU by the WTO. One of the more positive aspects of the reform concerns the introduction of the principle of aids decoupling which brings holdings closer to the market for agricultural products, directing their productive choices towards those products, which are more beneficial for farmers. Moreover, the introduction of good agricultural practices and especially the introduction of "eco-conditionality" regulations lend favour to the principle of sustainable agriculture.

(b) Do you identify any problems?

S. For one section of the representatives of the agro-food production and processing chain there is no real coherence in the reform measures and its objectives. In some cases the reform could lead to damage for the chains especially where the grain market is concerned, as the support measures adopted are not sufficient to guarantee a satisfactory remuneration for the agricultural producers.

As for rural areas needs, from the responses received we perceive a strongly held view that the present reform will not resolve the problems of farm development. The farmers interviewed were critical of the way in which the interventions of the second pillar of CAP reform have been interpreted. It emerged from the discussion that the development of rural areas should mean not just agricultural support but a competitive responsibility for national economic development. In this sense, emphasis is again put on the fact that the development of rural areas must be tackled at the broader level of the economy. Some people, in particular the exponents of the agricultural team, maintain that the new CAP affords greater importance to the second pillar with the likely consequence that it will progressively become the main instrument of CAP policy.

P. The representatives of the regions identify a problem in the scarce decentralisation of the responsibility of resource management under the application of Article 69. In defining the application of Article 69, the management of resource distribution at a national level was agreed, assigning to regions responsibilities in the evaluations of the implementation results.

Question 2. Concerning the likely impact of policy reforms on agriculture, do you think:

(a) The reform will have an impact on the level of production?

S. According to what emerged from the discussion, the reform should have an effect on agricultural production in directing it towards market demand, and freeing it from decisions dictated by aid. However, it emerged that the single payment system tends to bring more benefits to land considered eligible for aid. Another element that should not be forgotten is that unproductive farmland may now acquire the right to aid should the good agricultural practice measures (cross-compliance) be followed.

P. The decoupling of aids represents a significant change compared with past systems of support. The farmers will now have to consider the market and take decisions on the basis of market demand and not on the basis of the aid associated with the product. There will certainly be a change in production plans, which will depend also on market trends.

(b) The reform will have an impact on the intensity of production

S. The acceptability of uncultivated land in the allocation of aid rights could favour the abandonment of agricultural production especially in marginal areas, reducing CAP crop production. The single payment could also draw agricultural activity towards less intensive exploitation of the land, so leading to a cost reduction and the conservation of the single payment. However, the security of receiving constant support which is no longer dependent on productive decisions could favour a specialisation in those agricultural products which are eligible for aid and for which the farm has an economic advantage.

P. This will depend on the ability of farmers to react to the market dynamic. The new CAP reform could lead to a specialisation of farm activity. In certain areas, however, aid decoupling could favour the abandonment of farming.

(c) The reform will affect other rural industries (upstream and downstream)?

S. According to the participants, the reform should not mean any alteration in supply to the food industries, as the market will find a solution to a likely initial shortage of agricultural commodities. This is true especially for the production of hard grain, which, according to the participants is particularly penalized by the reform and a reduction in production in the short term is forecast. Therefore the food industry will have to modify its conditions of purchase to maintain its supply levels unaltered, or going to the European and international markets.

P. At a supply level the reform could result in a negative impact (e.g., the pasta industry). In this regard, the participants stressed the importance of strong chain policy, one that is able to support the agricultural products that are important for the Italian agro-food system.

(d) The reform will lead to an adjustment in the use of factors of production, that is land, labour and capital?

S. Concerning conformity of the actual farm structure, the considered opinion is that such a change would take place as holdings will be increasingly subject to market pressures and will have to respond in the most suitable and efficient way possible. Moreover, all participants are of the opinion that the system of aid decoupling could lead to a fall in employment. Some participants stressed that the CAP reform would contribute, together with other structural factors in the agricultural sector, to a reduction of people employed in agriculture.

P. There may be a modification in the use of factors of production as the result a general improvement in efficiency. However, in marginal rural areas, there could be a tendency to reduce the use of factors of production. In these areas the risk is due to a reduction of people employed in the sector with possible consequences for environmental protection.

(e) The reform will affect the competitiveness of EU agriculture on world markets?

S. No participants could give a definite answer to this question. However, most of the people present believed that the new CAP would surely have an effect on the European agro-food system's competitiveness, but this effect must be seen in the light of the differences in the various European agricultural models and especially in relation to the influence the new member states will have in internal and international markets.

P. As for the coherence of the reform with regard to the evolution that has taken place in national and international agricultural markets, the consensus view was that the reform is coherent with regard to specific sector interests. Most of the people present believe that the new policy has been motivated by the need to give a clear answer to outside pressures (WTO) and the eastward spread of Europe.

(f) The reform will lead to more specialised or diversified farms?

S. All the participants agree that there cannot be just one answer. In marginal areas (mountains, disadvantaged areas, etc) the new CAP will provide incentives for farm diversification but with the risk of the abandonment of farming activity. In other situations where farm businesses are managed professionally and in line with the market, a more productive, specialised agriculture will likely develop, aided and assisted by the income stability of the single payment system.

P. Professional holdings will obtain further stimulus from the new policy to improve productive efficiency, but this development would require the support and involvement of all involved in the food chain. In this regard, public body representatives stressed the importance of Pillar 2 policies.

Question 3. Do you think that due to the CAP reform, some agricultural area will fall idle or will be managed according to the minimum requirements to receive payments?

S. Opinion was divided. Some respondents considered that the reform would have no significant effects on land utilization even if, in the more difficult agricultural areas, farmers might be induced to leave part of the land idle. Others consider that the effect could be significant if appropriate national legislation is not adopted concerning good agricultural practices and cross-compliance regulations.

P. Some participants stressed that some Italian university studies have highlighted the risk of non- cultivation especially in the smaller farm businesses of the northern Italian plain. All the participants agree that the way in which the rules of good agricultural practice and cross-compliance are applied would be fundamental.

Question 4. How do you think the reforms will affect land prices and rental values?

S. From the answers it emerged that the reform should encourage the reduction of the fund market even if, paradoxically, it might increase in marginal areas because of mechanisms linked to the type of production and the geographical features of the area.

P. The single payment at farm level would inevitable effect the value of the land and the level of rents. The extent of the impact would depend on how the entitlement market is structured. From our information we understand that the national institutions will monitor the payment entitlement market and will attempt to monitor the likely consequences on the land market.

Question 5. In relation to the cross-compliance element of the reforms:

(a) Do you think it is acceptable to farmers?

S. Some participants thought that the principle of conditionality would encourage the development of good environmental practices, while others said that because of decoupling there was a risk that land might be abandoned and left to grow wild. If cross-compliance was not well managed this could induce farmers to exclude a consistent part of agricultural land from their production plan. Moreover, if the bands of conditionality were excessively wide no significant improvement in the rural environment would occur. It would depend on how conditionality was applied at a national level and who was assigned responsibility for control and evaluation.

P. In fact, given that the reform encourages a re-orientation of the production market the farmer will be free to decide and will move more towards the agricultural products that reflect the organisational features of the farm. The stability of the payments associated with the improvement of the productive set would mean a significant improvement in the performance of the farm. The other side of the coin is represented by marginal farm businesses that might see the single payment as a kind of exit route or 'pay-off' encouraging them to leave farming. In either case, total decoupling seems to be the farmers' favoured measure, given the positive opinion expressed by most of the farm representatives.

(b) Do you think the financial burden on farmers is too great?

S. The financial commitment required of farmers to carry through the objectives of cross compliance is due to the limits set by the national norms of application.

P. In the opinion of the public bodies, the financial contribution will not be significant as it will be in compliance with the norms of good farming practice and eco-conditionality.

(a) Do you think it can be effectively policed and controlled?

S. Everything depends on how responsibility for farm controls will be distributed. The need to develop an appropriate evaluation system to measure and monitor the commitment of farmers in meeting targets defined by the norms of eco-conditionality is considered important.

In this context, the role of farm consultants who carry out support measures at the farm to ascertain that the farm's conduct is in line with the requirements of community legislation, to receive the single payment, is particularly important.

P. Cross-compliance literature has already been published but the question of responsibility has not yet been established. The regions will have to monitor compliance with conditionality legislation, while other legislation will be the Ministry's responsibility.

(d) Do you think it will contribute to environmental, food safety and animal welfare standards?

S. From what the representatives of the agro-food sector associations said, the regulations concerning cross-compliance will certainly contribute to improving environmental standards, food safety and animal welfare. In this context, the application of Article 69 could become a valid instrument to strengthen an environmentally aware agricultural sector. However, in Italy Article 69 was not applied in such a way as to effectively contribute to the improvement of the environment but redistributed a percentage of the national ceiling indiscriminately to the farmers with no particular limits on access to funds.

P. The general opinion of the public bodies is that the new CAP will be decisive in introducing the concepts of sustainability and environmental protection. In this sense, the new CAP will become a way to lead the entire support structure towards a model of European agriculture inspired by the concept of agricultural multifunctionality.

Question 6. Do you think the transfer of direct payment from agriculture to rural development is a good idea?

S. The participants stressed the importance of providing more significant resources for the second pillar, destined to become the only agricultural support system. In fact, the new CAP creates synergies between market policies and rural development policies. In this sense, a concrete reform of rural development policy is also required because if the new CAP tries to introduce new elements to the second pillar, it would still refer to regulation 1257/99 of Agenda 2000.

P. Not only is it a good idea, it is also essential to be able to justify agricultural intervention. The strong internal and international pressures combined with the expectations of the community for services and farm products; push resources destined for the agricultural sector increasingly towards rural area development objectives.

Question 7. Do you think reforms will provide the necessary income stability for farmers?

S. According to all participants income stabilisation for farmers will be possible only on condition that the prices of agricultural products can be maintained on a more stable basis than before the reforms. However, the single payment allows aid stabilisation, and the direct confrontation with the market will help reduce the negative impact with a likely reduction in prices of agricultural products.

P. The public bodies maintain that there will be no great variation in the economic performance of farm businesses even if much depends on the price trend.

Question 8. Do you think the reforms will affect the speed of structural change? If so, how will they affect the rate of change?

S. Concerning the conformity of holdings to the structure, the opinion was that such a change would take place because farm businesses will increasingly be subject to the pressures of the market and will have to respond in the most suitable and efficient way possible. Some people think that there will be a tendency for the more efficient, probably larger businesses to grow even larger while less efficient, probably smaller businesses will close. A closer collaboration between the farm and the market will favour the process of farm aggregation, through organisation of supply.

P. It is difficult to predict its effect on the structural change of holdings following the application of the new CAP. The Regions' and the Ministries' opinion is for a change definitely brought about by farmers' decisions brought closer to the market for agricultural products, which can facilitate production plans' processes of adaptation to the market. The processes of structural modification will, in any case, be evaluated in the medium-long term.

Question 9. Will the Single Payment Scheme affect the attractiveness of entering farming for young people or new entrants? If so, how?

S. The participants were not clear what would be the consequences of the entrance of young farmers or new farmers to the agricultural sector. In this aspect the CAP can play a more marginal role as the attractiveness of the sector is due to the income from productivity, given by the market. However, some participants stress the importance of the funding of the single payment, which for many holdings can be an important incentive to continuing their operations. The new entrants and young farmers would be more inclined to enter the sector if there were the prospect of a reward in terms of an allocation of entitlements to the single payment even if they had not matured the rights.

P. The new CAP reform offers security for the farmer who can demonstrate that he benefited from payments in the three-year period, while the young farmers and the new entrants will have to be satisfied with the national reserves set aside for those who are unable to take advantage of this aid because of not being the original proprietor.

It is generally believed that the new CAP will make little difference to individuals considering entry to the sector. From our information, a big incentive to entry into the sector could be the new period of rural development planning in which the instruments that are most appropriate for supporting new farm business investments will be identified.

IV. CONCLUSIONS

In general, from our information we can identify some points of view that are shared by most people and others where opinions differed.

This may be due to the attitude of the people who represent different associations and naturally reflect the typical concerns of their different operations (production or processing), as well as to a general 'wait and see' attitude for when the reform really gets underway in 2005.

The points on which there was the greater consensus:

- The coherence of the reform with the evolution of the markets.
- The difficulty in finding suitable solutions for the needs of rural areas.
- The promotion of agricultural development and its image (making appropriate use of the mass media).
- Another point in common concerned the effects of a reduction of numbers employed in agriculture not necessarily as a consequence of the reform itself.
- The scarce impact of the reform in questions of quality.
- The inevitable necessity of transforming one's own association in a way that it becomes increasingly adapted for consultation rather than simply for assistance.
- The development of professional farm businesses.
- The certainty that the reformed CAP may not be further reformed in any substantial way in the next few years.

The most divergent or, at least the most articulated discussions were concerned with:

- The coherence of the reform compared with the needs of society generally, needs that are satisfied in some cases and not in others.
- The concentration of supply, which will have no impact whatsoever on some and will have quite significant effects on others unless definite and precise regulations for the food chains are not defined.
- Environmental sustainability, which could be improved but also worsened because of the risk of a progressive abandonment of the land.

The replies of the representatives of the regional institutions and the Ministry were given on the basis of possible future evaluation of the evidence obtained during the first year following implementation of the reforms.

Stakeholders' Consultation in the UK

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I. INTRODUCTION

The consultation was conducted in the main by letter with an enclosed questionnaire and briefing paper. The consultation was posted on 11 November 2004. Several consultees responded by e-mail and the responses of three other consultees were collected by recorded telephone interview. A number of consultees did not complete the *pro forma* questionnaire provided for reply preferring to respond either by letter or by submission of previously published documents already in the public domain. Two sets of responses were compiled by personal contact in the offices of the Centre for Agricultural Strategy.

The written invitations to selected consultees (see Appendix 1 for respondents) to take part in the consultation were preceded in a number of instances by telephone or e-mail contact with the organisation to ascertain two facts. First, would the organisation choose to respond if invited to do so and, second, the name and position within the organisation of the most appropriate person to whom the invitation should be sent. The purpose of this was two-fold: that of saving resources in preparing a mailing piece that would, in most likelihood, not be responded to; and, second, to ensure as far as possible, that a prompt and relevant response be elicited from the most informed member of the consultee organisation. Where this pre-consultation contact was not undertaken, other investigation was conducted to ascertain the name of the most relevant person to whom the invitation should be sent or we already knew the name of the appropriate person.

In aggregate, 35 consultees were selected and 22 responses received, a 62% positive response rate. Those that responded are shown in Appendix 1. The first completed response was received on 17 November with the last response being conducted by personal interview on 22 December 2004. The identified and selected consultees are grouped into four categories representing farming and landowner organisations (13 consultations sent, eight responses received); Government Departments and Agencies (seven sent, four received); ancillary organisations (eight sent, six received); and pressure groups (seven sent, four received).

It should be noted, however, that several responses included in this report were taken from previously published documents sent to us by the consultee, or have been extrapolated by us from published papers freely available either on the organisations' website or from other published media, such as journals or broadcast radio programmes. It is to be hoped, that such processing by CAS has not resulted in published comments being taken out of context from that in which they were originally meant or intended.

II. RESULTS

The consultees were requested to respond to the standard nine questions that had been finally agreed at the project partners meeting held in Madrid on 18/19 October 2004. In addition, an additional four questions were posed that had been devised specifically for the UK consultation. It was agreed at the above Madrid meeting that all partners could ask questions of their national consultees that related specifically to the method by which the CAP reforms are to be implemented in their own country. A copy of the questionnaire used in the UK consultation is at Appendix 2.

a) The Standard Questions

Question 1. *In relation to the recent reforms of the CAP:*

(a) Which aspects do you think are good?

Although there were numerous different responses to this question, eleven of the respondents mentioned 'decoupling' as a major benefit of the reforms with 'cross-compliance' being mentioned eight times. If we acknowledge that modulation is the mechanism whereby funding is transferred from direct support (Pillar 1) to rural development support (Pillar 2) measures, then this aspect was mentioned by five respondents. The farmers 'freedom to produce' was noted by four respondents. All categories noted these three factors as 'good' aspects of the CAP reforms.

(b) Do you identify any problems?

This question elicited almost as many different responses as did the previous question. The most common responses were: that the reforms were too flexible in their implementation by individual member states; that there may be difficulties with the public perception that farmers were continuing to receive public funds but are no longer required to produce food; and that the reforms do not in themselves provide any guarantee of sustainable land management practices being adopted by all farmers.

In so far as the application of the reforms would not be consistently implemented across all member states, some consultees were of the opinion that the Common Agricultural Policy might fairly be termed in future the ‘Uncommon Agricultural Policy’ or the reforms seen as a means of ‘re-nationalisation’ of agriculture by member states. The issue of ‘justification’ of public funding (‘tax pounds/euros’) being continued to be made available to agriculture was voiced by several respondents stating that there was a need for the ensuing public good of an enhanced countryside in terms of increased biodiversity and managed appearance as a result of cross-compliance measures and increased Pillar 2 spending through modulation, to be explained to the public/tax-payer.

Question 2. Considering the likely impact of the policy reforms on agriculture, do you think:

(a) The reform will have an impact on the level of production?

Respondents had three main areas of concern as regards the impact on production as a result of implementation of the reforms. First, the most popular view of respondents was that the likely impact on the level of production was that volumes would decrease. This view could perhaps be understood purely on the basis of future production being driven by the price that farmers can reasonably expect to receive for their products without the safety net of intervention support.

Second, the uncertainty of how produce prices may move in the market place for at least in the short-term (2005), is a cause for concern. Farming organisations tended to a conservative, cautious view holding that producers will delay making scaling-up or –down decisions as long as possible until they are able to detect in which direction market prices seem to be moving. However the general mood appears to be that many producers will scale back their level of production especially those farming on the most marginal lands whether in the upland SDA or the least favourable lowland. Conservationists foresee future problems in this area as regards the favourable maintenance of sites such as those holding Site of Special Scientific Interest (SSSI) or similar statutory designation.

Third, some respondents voiced their concern over what might be termed as the perceived increased volatility of agricultural systems and processes followed by farmers in the future. To this concern could be added that of an agriculture now freed from producing to the stimulus of a subsidy might now in some sectors and where soil or climate were especially favourable, become more intensive as a result of responding to market signals. This could perhaps be interpreted as an industry that is more fully commercial in some sectors than presently, now driven by market prices and ‘market opportunity’. This is seen by some as offering good opportunity for profit making and by others as likely to have detrimental side effects for the environment.

(b) The reform will have an impact on the intensity of production?

This question can be answered in a fairly straightforward manner there being a considerable degree of unanimity across all four categories of respondent. Put simply, it is considered that farming across all sectors will, in general, become less intensive, perhaps more extensive and more focussed on market signals and consumer demand. However, one sector specifically, that of dairy farming, may become more intensive, that is some producers will become more capitalised and larger-scale operations where some producers may become more extensive. The strong implication therefore is that there is still expected to be a fair number of present dairy farmers to leave the industry thereby freeing quota and market opportunity for other operations to grow larger and more intensive, capable of making profit on perhaps ever thinner margins.

(c) The reform will affect other rural industries (upstream and downstream)?

There was also a great degree of unanimity of responses to this question with by far the most common comment being that there would be, in the main, a negative impact on rural industries ancillary to agriculture both up-stream and down. There was, however, some comment that the reforms may lead to greater integration both vertically and horizontally at all levels in the supply chain and also that there may well be opportunities for those of an entrepreneurial disposition agile enough to see and seize openings in the reformed market place.

(*d) The reform will lead to an adjustment in the use of the factors of production, that is land, labour and capital?*

The greatest number of similar response to this question was that the numbers of people employed in farming would continue to follow the long-standing trend of declining in absolute numbers. However, comment was made that the need for the post-reform workforce would be of an increasingly well-educated and 'aware' worker able to attend to all farm tasks with equal skill and diligence. Other respondents were able to conclude that changes in the factors of production were inevitable but were unsure of the likely changes and effects.

(e) The reform will affect the competitiveness of EU agriculture on the world market?

This question engendered much mixed reaction from our respondents, four of whom considered that the reforms would have no affect whatsoever either positively or negatively, on EU competitiveness in world markets post-reform.

Three respondents did not express an opinion on this issue. The remaining respondents were almost equally split between those who considered that the reforms would have a positive beneficial affect on EU agricultural competitiveness and those who thought that the reforms would have a negative affect on competitiveness.

The apparent lack of consensus on this issue, at least from amongst those respondents expressing an opinion in this present consultation, suggests that there is a general lack of certainty amongst opinion makers and opinion formers as to what affects, if any, the reforms are likely to have on EU competitiveness on world markets.

(f) The reform will lead to more specialised or diversified farms?

There is almost complete agreement amongst respondents on the issue of whether the reforms will lead to more specialised or more diversified farms post reform implementation, the answer being a more polarised farming industry. This result would appear to say unequivocally that those farmers who have identified a market niche which either economic or geographical factors, or both, favour will intensify and specialise whereas other farmers will extensify, scale-back operations and remain mixed units if that is what they were previously or diversify out from traditional farm enterprises developing alternative income streams such as horse grazing, farm bed-and-breakfast, visitor attractions etc.

Question 3. Do you think that due to the reform of the CAP, some of the agricultural area will fall idle or will be managed according to the minimum requirements to receive payments?

The responses to this question largely fell into the camp of some marginal land falling idle and some minimally managed in order to retain the SFP through the 'good agricultural and environmental condition' cross-compliance requirement but, it may be, that both schools of thought are of but one mind. There was, however, some comment on land being managed in a positively environmental manner and this concept can be seen as dovetailing with an extensified/visitor attraction type holding. It should also be borne in mind that there is little expectation amongst any of the respondents of the best and most productive agricultural land falling idle or being managed minimally.

Question 4. How do you think the reforms will affect land prices and rental values?

Most respondents expressed no view on possible changes in land and rental values with few foreseeing either an increase or decrease generally, but rather anticipating little movement in values. There was general agreement however, that particularly on more marginal land, there would be a continuance of the recent trend of non-farmer purchasers. This was seen as not an entirely negative 'anti-farming' stance as it was considered that such non-farmer purchasers were likely to let some of their land to farming neighbours thus facilitating expansion of existing farming operations and/or providing entry opportunities for those wanting entry to the industry. Further comments on land values are included in section III below, 'Summary of Stakeholder Published Views'.

Question 5. In relation to the cross-compliance element of the reforms:

(a) Do you think it is acceptable to farmers?

All respondents except two agree, or at least concede, that the cross-compliance element of the reforms are or should be, broadly acceptable to all farmers of whatever type, size or regional base.

(b) Do you think the financial burden on farmers is too great?

The majority of respondents agreed that the financial burden of implementing cross-compliance ought not to be great for the vast majority of farmers although the comment was made several times that some farmers will struggle. One respondent noted that although the financial burden should not prove onerous, the mental burden of the form-filling and general paper shuffling, at least under the SFP as to be implemented in England, was itself at the very least time consuming and that time was in itself a precious commodity.

(c) Do you think it can be effectively policed and controlled?

The majority of respondents believed that the cross-compliance regime could be effectively policed and managed although there was a sizeable minority who thought that it could not. There was a general belief that the policing should, at least in the early years of the post-reform systems, be policed in a 'helpful' and constructive manner, a 'how to do it' rather than a 'how not to do it' style although one respondent was more forthright and considered that the regime would need to be seen by farmers to be important and to be followed. It was considered that the prosecution of wilfully negligent farmers, not just reducing their SFP receipt, could best evidence this. Another respondent was of the opinion that the 'unofficial' policing by interested members of the public might ensure that some farmers, who might otherwise be relaxed about implementation of the cross-compliance rules, toe the line.

(d) Do you think it will contribute to environmental, food safety and animal welfare standards?

There was general unanimity that the cross-compliance regime would assist in ensuring environmental, food safety and animal welfare standards would be met although at least one consultee was of the belief that compliance was only obeying statutory regulation and therefore there should be no question of farmers not complying.

Question 6. Do you think the transfer of direct payments from agriculture to rural development is a good idea?

The pressure groups were unanimous in their view that direct support (Pillar 1) funding should be transferred progressively to rural development measures (Pillar 2). The farmers perhaps were of more mixed views, perhaps understandably. There was a feeling among a number of respondents that the transfer of funding to Pillar 2 by way of modulation should be greater than the presently published rates of EU, and particularly national, modulation indicate. Several respondents voiced concerns that the financial discipline could mean reduced funding receipts for rural development programmes, which could only be maintained under present budgetary constraints by 'pinching' the farmers, direct support and SFP receipt further.

Question 7. Do you think the reforms will provide the necessary income stability for farmers?

There was general agreement across three categories that stability of farm incomes would not be assisted by the CAP reforms, the category of consultees that was of the opinion that incomes would be stable being the Government Departments and Agencies.

Question 8. Do you think the reforms will affect the speed of structural change? If so, how will they affect the rate of change?

Most respondents were of the view that the reforms would increase the speed of structural change in the farming industry with only one respondent believing to the contrary. That was a small minority who were uncertain whether the speed of structural change would increase, decrease or the *status quo* be retained.

Question 9. Will the Single Payment Scheme affect the attractiveness of entering farming for young people or new entrants? If so, how?

There was almost complete agreement amongst respondents on this question. Most respondents expressed optimism believing either that the reforms would increase the attractiveness of agriculture as an occupation to new entrants or that the reforms may likely do so. Only one respondent was of the view that the reforms offered little or no new incentive to those potential new entrants who might otherwise consider entering farming.

Among the reasons given for the optimism shown in responses are listed as follows.

- The freedom to produce to market needs, responding to consumers demand and to receive subsidy (SFP) with little restriction on what is produced.
- Contract farming and shared farming may become more commonplace permitting those with little capital entry to the industry.
- The 'Fresh Start' initiative from DEFRA will hopefully assist new entrants to the industry.
- In a perceived highly regulated industry, the opportunity to make profits freed from subsidy chasing will hopefully encourage new entrants with commercial acumen.
- It is to be hoped that a National Reserve may yet be instigated assisting new entrants into the industry by reducing some of the presently required capital stake.
- Market and commodity prices may be too volatile to encourage all but the most determined of new entrants.
- Some farmers may see the SFP as a 'pension' and retire making their land available for others to rent cheaply.
- The new Entry Level and Organic Entry Level Schemes may encourage new entrants.
- Land that has not been registered for entitlements or least agriculturally productive and abandoned land may provide an access point for alternative land users.

b) **The National Questions**

Question 10. Do you think that the reforms will discourage farmers from retiring early and if so, why?

Respondents were asked to comment on whether they considered the reforms would positively discourage farmers from early retirement and if so for what reason. Quite understandably, almost a third of respondents had no view on this matter. The farmers were of divided opinion almost half and half with some holding the view that the reforms did little to encourage them to retire early while others could see no material change in their circumstances and therefore cause to review their plans for retirement as a result of the reforms.

The ancillary organisations were of ambivalent view on this topic. Several respondents made the comment that farmers may semi-retire either extensifying operations over all their land, or keeping only 'home fields' scaling back operations and renting out fields to contractors or neighbours. For those that own their land, there may be a view that the sale of all land with or without entitlements and excepting only that land immediately around the farmhouse coupled with retaining the farmhouse, may be an option some farmers choose to follow.

Question 11. Should tenant farmers be treated any differently under the SPS from owner-occupiers?

This question asked whether tenant farmers should be treated any differently to owner-occupiers, the answer being a resounding no from all categories. The comment was several times made that the person actually actively farming the land should be the person who receives the SFP irrespective of whether this person is a tenant or not. We have seen comments in the farming press and elsewhere that suggests that some land-owners who do not have their land in hand have sought to arrange that the SFP comes to them and not to their tenant which actions, if true, suggest that there are some divergent opinions on this matter despite the result indicated by this consultation.

Question 12. Do you think that the CAP reforms will achieve their objectives and, if so, why?

Most respondents believed that the objectives of the reforms were achievable. In some instances, part of those objectives had already been achieved in the view of some, for example the decoupling of subsidies from production had lead to the abandonment of 'subsidy chasing'.

There was confusion in the mind of some respondents as to what the objectives actually were or are, the original objectives being lost somewhere along the way from the initiation of the mid-term review to the Luxembourg agreement of 26 June 2003. Those that consider the objectives will not be achieved are of that view either because they think the reforms had gone too far or, conversely, that they did not go far enough.

The following is a brief list of some of the comments received:

- 'The payments are to enable ongoing support for agriculture without conflicting with international trade obligations…. we believe the reforms have or will achieve this objective'.
- 'The reforms are to tie the CAP more closely to environmental and rural development objectives. We believe the reforms are beginning to achieve these objectives'.
- 'If the objective is merely to prevent farming for the subsidy, the objective has been achieved'.

- ‘There is concern…[in] less favoured areas, that weak market prices could lead to a very severe decline in livestock numbers’.
- [We] ‘are unaware of there being an agreed set of objectives for the CAP reform across all member states’.
- ‘Removing subsidies from food production may satisfy the WTO but this initiative will not solve the world’s trading problems or assist farmers in developing countries’.
- ‘The worry is that CAP [reform] will satisfy public opinion and the WTO but may cause the break up of many rural communities, the decline of farming as we know it, reduce the UK’s ability to be self-sufficient and threaten food security…’.
- ‘Some [of the objectives may be achieved]; depends on farmers’ attitudes and the prices they can obtain for their produce’.
- ‘Production will be driven by market supply and demand, which is good’
- ‘If farmers continue to produce, using SFP to subsidise unprofitable production, then the chances of success [of achievement of objectives of reform] will be much lower’
- ‘Important objective was to enable EU to secure WTO agreement in Doha round’.
- ‘Real price of reforms was securing the principle of decoupling. Was successful on this score’.
- ‘The preamble to the Common rule Regulation includes many objectives but does not set them out clearly or in any order of priority. In particular, it is unclear from the EC text what the decoupled payment is for’.
- ‘These reforms progress towards the right objectives but have not achieved them. Decoupling is a necessary first step [but] the next reforms will need to distribute money to support those delivering public goods’.
- ‘Limited benefits in terms of getting better value for money from Pillar 1 across Europe’.
- ‘Decoupling has achieved one objective already, (greater market effects and an end to subsidy chasing) but the wider questions of landscape and wildlife protection, the wise diversification of farm businesses and the continued farming of the land without significant degradation of natural resources may or may not be achieved’.
- ‘…what were the objectives now anyway? We have lost sight of them a bit along the way’.
- ‘They will only achieve a small amount, as there was inadequate shift from Pillar 1 to Pillar 2’.
- ‘We believe that the reforms have provided an important step towards achievement of Target 6 [of the Global Strategy for Plant Conservation], but an increased rate of modulation may be required for the proper delivery of this target’.

- ‘Decoupling is effectively achieved [but payments still] difficult to defend to public’.

Question 13. Please use this space for any other comments on the CAP reforms you would like to make pertinent to the consultation now being undertaken.

Respondents were invited to make any other pertinent comments they wished to make that were not covered by Questions 1 – 12. The following comments are taken from those replies:

- Farmers, especially smaller farmers, are very concerned about their future incomes particularly where those incomes are already low.
- Perhaps the principle of set-aside needs to be reviewed.
- A review of both the beef and dairy sectors is desirable.
- We believe that the WTO has still not recognised how regulated agriculture already is within the EU relative to other parts of the world with whom EU farmers are to compete.
- There is a need to make clear what the Single Farm Payment is as it is not any longer a production subsidy and is not clearly a payment for management or enhancement of environmental benefits or public good.
- An opportunity has been missed to use the National Envelope process, which could have been used to support Pillar 2 rural development spending in a creative manner.
- There will come a time in the not too distant future when those countries or devolved administrations that have presently opted for historic based payment schemes will need to reconsider their position. Why link payments to what farmers did 10 years or more ago for example?
- Implementation has been ill thought out and information has not been forthcoming promptly enough to farmers and landowners.
- Minimum environmental standards and conditions only have been sought; an opportunity missed to preserve biodiversity and protect and enhance wild places.
- We must take care not to let markets ‘boom and bust’ or all environmental gains such as they are may be lost.

III. SUMMARY OF STAKEHOLDER PUBLISHED VIEWS ON THE EFFECTS ON LAND PRICES AND RENTS

Question 4 of the consultation asked respondents to comment on how they considered the CAP reforms might affect land prices and rental values. There follows a brief summary of views extracted from several sources on this issue.

The general consensus of property professional opinion is that the supply of land has been at best ‘static in the past year’ (RICS, 2004a) either for sale or let, following the publication of the draft legislation of the CAP reforms in January 2003 (CAAV, 2004) as vendors and purchasers, landlords and tenants have chosen to wait to see how the market shapes pending implementation of the reforms. Catherine Paice writing in *Farmland Market* (Autumn 2004) commented that ‘This year few farmers have wanted to sell before their [SFP] entitlements were established’. Paice goes on to note in the same edition of *Farmland Market* that ‘For the past five years, the RICS [Rural Land Market] survey has recorded a consistent reduction in the supply of land’ (RICS, 2004). This reduction in supply clearly predates the mid-term review and as such the present reforms cannot be held to be the sole reason for the lack of activity in the agricultural land market in the UK.

An additional difficulty in England at least, but probably throughout the UK to some degree, is what is seen by some commentators as the unreasonable delay in communication of the new reformed CAP ‘rules’ to farmers and landowners by DEFRA and/or the devolved administrations in Northern Ireland, Scotland and Wales, which has contributed to the ‘wait and see’ tactics of, particularly, vendors and landlords in making marketing decisions as regards their holdings.

Demand for land however, particularly from residential non-farmer purchasers and from the amenity sector, remains strong. Indeed demand for land to buy or rent is stronger than supply, which has lead to a consequent albeit slow, upward pressure on values. Wherever possible, it is reported that landlords have delayed rent reviews with existing tenants in the hope and expectation of securing higher rents.

The RICS issued a Press Release on 3 December 2004 that commented that a ‘new market in rented rural land will emerge over the next 12 months… once [SFP] entitlements have been awarded [to farmers] after May 2005’ (2004b). There has also been some confusion, and clarification from the relevant tax authorities needs to be sought over the possible Capital Gains Tax implications for vendors selling land together with SFP entitlements and this has not contributed positively to the supply of land to the market (*Farmers Weekly,* 2004).

IV. SUMMARY

The consultation exercise may be summarised as follows, question by question:

Question 1(a). The 'good aspects' are:

- Decoupling;
- Cross-compliance;
- Modulation.

Question 1(b). The main problems identified were:

- Inconsistent application of reforms across member states;
- Public misunderstanding of what the subsidy is for;
- Reforms provide no guarantee of sustainable land management

Question 2(a). The main findings were:

- Production will fall;
- Significant changes in the farming systems and cropping patterns employed:
- Volatility in future land use patterns.

Question 2(b). There is unanimity of belief that:

- Farming generally will be less intensive;
- But dairy may in some units become more intensive;
- Producers will generally become more market driven.

Question 2(c). Respondents considered that the reforms:

- Will have significant negative impact on rural industries both up-steam and down-stream especially in sectors such as livestock feedstuffs, farm chemicals and fertilisers.

Question 2(d). It was considered that:

- Numbers employed would continue to decline;
- Those jobs remaining would more widely skilled;
- That less land will be required;
- Changes in usage of factors of production are inevitable and direction of change unpredictable.

Question 2(e). Respondents are largely uncertain whether reforms will make the EU more or less competitive in world markets.

Question 2(f). Respondents were agreed that:

- Farm units will be more polarised; some more specialised, some more diversified.

Question 3. Respondents believe:

- Some marginally productive land will be 'idled';
- Some land will be managed on a minimal basis.

Question 4. Respondents generally believe:

- Non-farmer purchasers will continue to fuel demand;
- Values may increase further then stabilise.

Question 5(a). Most respondents agreed that:

- Cross-compliance is acceptable to all farmers.

Question 5(b). Most respondents agreed:

- Financial burden of cross-compliance not financial burden on farmer.

Question 5(c). Respondents were divided between:

- Cross-compliance can be effectively policed;
- Cross-compliance cannot be effectively policed

Question 5(d). Respondents in the main:

- Believe cross-compliance will improve standards.

Question 6. On transfer of funding to Pillar 2, generally:

- Non-farmers think good idea;
- Farmers are less certain transfer is a good idea.

Question 7. On income stability:

- Most respondents thought reforms insufficient.

Question 8. On pace of structural change:

- Almost all agreed that the pace of change would increase.

Question 9. Most respondents thought:

- Reforms would increase attractiveness of farming for new entrants, or;
- May possibly increase attractiveness.

Question 10. Respondents were of several views:

- Some thought early retirement discouraged by reforms;
- Some thought early retirement not discouraged;
- Others thought no change to *status quo*.

Question 11. On should tenant farmers be treated differently from owner-occupiers?

- Most said no;
- Rest expressed no opinion.

Question 12. On will CAP reforms achieve objectives?

- Most said objectives achievable;
- Some said some objectives already achieved;
- Some queried what the finally agreed objectives were anyway!

Question 13. See extensive comments in above Results section.

V. REFERENCES

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APPENDIX 1

Stakeholders responding to the UK consultation

1. Farming and Landowner organisations

Campaign for the Protection of Rural England (CPRE)

Country Land and Business Association (CLA)

Family Farmers' Association

Farmers' Union of Wales

LEAF (Linking Environment and Farming)

National Farmers' Union

Tenant Farmers' Association

The National Trust

2. Government Departments and Agencies

Countryside Agency

English Nature

Scottish Natural Heritage

Welsh Assembly Government

3. Ancillary organisations

Central Association of Agricultural Valuers

Hong Kong and Shanghai Banking Corporation (HSBC)

Institute of Agricultural Secretaries

Lloyds TSB Bank plc

Royal Bank of Scotland

Royal Institution of Chartered Surveyors

4. Pressure groups

Plantlife International

Royal Society for the Protection of Birds (RSPB)

Sustain

The Wildlife Trusts

APPENDIX 2

Consultation Questions on the *Decoupling* of Farm Support

Centre for Agricultural Strategy, The University of Reading

1. In relation to the recent reforms of the CAP:
   (a) Which aspects do you think are good?

   (b) Do you identify any problems?

2. Considering the likely impact of the policy reforms on agriculture, do you think:
   (a) The reform will have an impact on the level of production?

   (b) The reform will have an impact on the intensity of production?

   (c) The reform will affect other rural industries (upstream and downstream)?

(d) The reform will lead to an adjustment in the use of the factors of production, that is land, labour and capital?

(e) The reform will affect the competitiveness of EU agriculture on world markets?

(f) The reform will lead to more specialised or diversified farms?

3. Do you think that due to the reform of the CAP, some of the agricultural area will fall idle or will be managed according to the minimum requirements to receive payments?

4. How do you think the reforms will affect land prices and rental values?

5. In relation to the cross-compliance element of the reforms:

(a) Do you think it is acceptable to farmers?

(b) Do you think the financial burden on farmers is too great?

(c) Do you think it can be effectively policed and controlled?

(d) Do you think it will contribute to environmental, food safety and animal welfare standards?

6. Do you think the transfer of direct payments from agriculture to rural development is a good idea?

7. Do you think the reforms will provide the necessary income stability for farmers?

8. Do you think the reforms will affect the speed of structural change? If so, how will they affect the rate of change?

9. Will the SPS affect the attractiveness of entering farming for young people or new entrants? If so, how?

10. Do you think that the reforms will discourage farmers from retiring early and if so, why?

11. Should tenant farmers be treated any differently under the SPS from owner-occupiers?

12. Do you think that the Cap reforms will achieve their objectives and, if so, why?

13. Please use this space for any other comments on the CAP reforms you would like to make pertinent to the consultation now being undertaken.

Thank you for your replies, which we will treat in strict confidence. Please send your reply back to the Centre for Agricultural Strategy in the reply-paid envelope provided.