AGRICULTURE IN FRANCE: A FEEDBACK ON SEVERAL SPENDING REVIEWS

Effectiveness and efficiency of direct payments
1. AGRICULTURE IN FRANCE
AGRICULTURE IN FRANCE

- Cereals
- Wine
- Fruits and vegetables
- Farming
- Tropical products
- Mixed farming
- Forestry
THE AGRICULTURAL SECTOR IN FRANCE: AN ECONOMIC OVERVIEW

- The agricultural and agrifood sector in the French economy: €80 bn (3.6% of GDP)
- 451,000 farms and about 850,000 FTE
- A reduction of 26% of farms over the last 10 years
- Majority of production in specialized farms

![Evolution of the number of farms between 2000 and 2010](image)

Source: Agreste
Annual income before tax / worker in €
THE AGRICULTURAL SECTOR IN FRANCE: AN ECONOMIC OVERVIEW

Part of subsidies in agricultural income

Source: Agreste
THE AGRICULTURAL SECTOR IN FRANCE: AN ECONOMIC OVERVIEW

Evolution of annual income before tax

Source: Agreste
2. SPENDING REVIEWS ON DIRECT PAYMENTS IN FRANCE
A lack of efficiency

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

A lack of effectiveness - volatility of revenue

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

CONTEXT OF THE FIRST REVIEW: An agency for each sector

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

KEY OBJECTIVES

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

CHALLENGES

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

Process and implementation

FIRST REVIEW

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

ASSESSMENT OF THIS FIRST STEP: Mixed results

- **2007**: reports on the reform pointed out that:
  - support departments had not entirely merged
  - costs due to the implementation of the reform (incentives for agents…)
  - no real effect on financial penalties imposed by the EU

- Decision to create **one single payment agency** + to merge all the other affiliated organizations in one single agency
ORGANISATIONAL STREAMLINING

Process and implementation

SECOND STEP

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

ASSESSMENT

- significant reduction of operating costs
- no social conflict
- a clear border between the responsibilities of the two agencies
EFFICIENCY: A SECOND REVIEW DEALING WITH FINANCIAL PENALTIES AND DELAYED PAYMENTS

Context and key objectives

CONTEXT

- Still high **financial penalties** imposed by the European Union: €2,3 bn payed between 2007 and 2016

- **Delayed payments** because of the software updates necessary to pay the new CAP, based on a new way to estimate cultivated areas

KEY OBJECTIVE OF THE REVIEW

find ways to **reduce costs** due to the implementation of direct payments
EFFICIENCY: A SECOND REVIEW DEALING WITH FINANCIAL PENALTIES AND DELAYED PAYMENTS

Process and findings

**PROCESS**

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

**MAIN FINDINGS**

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

**CONCLUSIONS OF THE REVIEW**

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

**IMPLEMENTATION**

From 2017 till the implementation of the new CAP.
EFFECTIVENESS OF DIRECT PAYMENTS: THE IMPORTANCE OF RISK MANAGEMENT

A high volatility of revenue in the agricultural sector

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

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

<table>
<thead>
<tr>
<th>EU MS</th>
<th>Natural disasters</th>
<th>Adverse weather events</th>
<th>Animal and plant diseases</th>
<th>Insurance premiums</th>
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**Note:** The symbol "-" means non-available data. [1] [2] Data for Croatia and Malta not found.

**Source:** Own elaboration from European Commission data, DG Competition (last update 01.12.2015).
Public policy - key objectives:

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

Public spending - key objectives:

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

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

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

- Conclusions of both works handed back in the 1st semester of 2017
EFFECTIVENESS OF DIRECT PAYMENTS : A SPENDING REVIEW ON RISK MANAGEMENT

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<th>Normal risk</th>
<th>Marketable risk</th>
<th>Catastrophic risk</th>
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<td>Non-subsidised insurances</td>
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<td>Non-subsidised mutual funds</td>
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State of play: Many instruments but overlaps, lack of coherence and no specific instrument for economic risks

- Mutual Funds (FMSE & FNGRA) co-funded by farmers and the state
- Crop-insurance subsidized by the CAP (65% of primes)
- Special treatment on taxation to farmers on disposable income
- Many *ad hoc* interventions

- No specific instrument for market risks

International comparison

- US: 2014 Farm bill
- Germany: less disaster aid in case the farmer did not subscribe to a crop insurance contract
**EFFECTIVENESS OF DIRECT PAYMENTS : MAIN FINDINGS OF THE SPENDING REVIEW ON RISK MANAGEMENT**

- **Risks must be structured in different layers**, according to their nature. Clarity on the layer borders is essential to define a well functioning public-private partnerships
  - Risks that can be handled with mutual funds or insurance products should not lead to *ad hoc* public intervention

- Encourage a **wider use of mutual funds**

- **Facilitate the formation of a voluntary individual precautionary savings scheme.** The idea would be to facilitate rapid deployment of these savings in the event of difficulty

- **Overhaul the functioning of the European crisis reserve for addressing large-scale crisis**
  - Must be dissociated from the annual functioning of direct support
  - Must be built up over several years and equipped with sufficient resources to deal with crisis possibly involving the whole EU territory
  - Terms of use clarified, known in advance and objectified on the basis of relevant indicators provided by sectoral market observatories
  - Unused credits should not be recycled to other programs
RELATIONSHIPS BETWEEN LARGE RETAILERS AND PRODUCERS’ ORGANISATIONS IN FRANCE
LARGE RETAILERS AND PRODUCERS’ ORGANIZATIONS IN FRANCE

Producers’ organization

- Hundreds of organizations
- Can not sell without an agreement with a retailer
- Have to face production costs

Retailers

- 5 main players which have their own buying organisations
- Can delist products
- Have to face price competition with the other players
LARGE RETAILERS AND PRODUCERS’ ORGANIZATIONS IN FRANCE

2008 : Law on the Modernization of the Economy

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

2015-2016

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

2017 : French National Food Conference

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