

RESEARCH IN ECONOMICS AND RURAL SOCIOLOGY

**The impact of the 2003 CAP reform on farmers' intentions: results of a first survey**

*The aim of this paper is to analyse the impact of the CAP reform from June 2003 on farmers' intentions in France, England and Sweden and the impact of CAP implementation on New Member States (NMS), more specifically Lithuania and Slovakia. We analyse the intentions of the respondents surveyed in 2005 on the continuation of their activity, their extension, diversification and workload, as well as their opinions on their jobs and the CAP.*

**Aim of the research and survey description**

Within a project funded by the European Commission, the purpose of which was to assess the impact of decoupling on the European farming sector ("IDEMA" project), a survey was carried out on farmers from several European Union (EU) Member States. The aim was to analyse more specifically the impact of the last CAP reform of June 2003 on farmers' intentions. All in all, 1,152 farmers from five countries (France, England, Sweden, Lithuania and Slovakia) were surveyed during 2005.

In France, the June-2003 reform is implemented according to the historical model: the farmers' Single Farm Payments (SFP) are based on the aids' level they received over the 2000-02 period of reference; moreover, France used partial re-coupling at the maximum rates permitted in the crop as well as in the livestock sectors. In England and Sweden, SFP are partly based on the historical individualized model and partly on the regionalized model. While in England decoupling is full, Sweden kept special male cattle premiums at 75%; this country also applies article 69. As for the two new Member States, Lithuania and Slovakia, it is not a matter of implementing the CAP reform, strictly speaking, but of a first implementation of the European direct payments. Nevertheless, just like the reform in the EU-15 Member States, this represents an important change in the levels and methods of granting aids to support incomes. Before accession on May 1, 2004, as a general rule income support was coupled with production. It was, most importantly, for a lower amount. For example, in Slovakia, in 2003, overall public support to the agricultural sector was only 54 million euros; it reached 169 million euros in 2004. Lithuanian and Slovakian farmers are now given CAP direct payments, the amount of which is the same per hectare all over the country (no reference period), as well as top-ups coupled with certain arable and animal productions.

For every farmer surveyed, accounting data were available thanks to FADN in each country, and for France via CER (Centres of Rural Economics); this allowed the survey

answers to be linked to farm-business characteristics. Table 2 presents a few characteristics of each country's sample before the year of survey, 2005. As a rule, the surveyed farms were bigger than average because of the size bias present in the accounting databases. Although the share of subsidies in overall farm income does not vary noticeably between countries, the average amount of subsidies per hectare of Utilized Agricultural Area (UAA) was higher in the three EU-15 Member States than in either new Member States.

The questionnaire presented to farmers contained several parts in order to collect additional information to the available accounting data (for instance, the presence or not of a farm successor), information on farmers' attitudes towards their occupation and the agricultural policy, and on the respondents' intentions as regards the continuation of their activity, the future change in size of their farm, their productions and so on. These questions about intentions were asked through three scenarios:

- Scenario 1 (reference scenario): continuation of CAP before 2003 (or respective national policies for new Member States);

- Scenario 2 ("real" scenario): application of 2003 CAP according to the details of implementation decided by each Member State;

- Scenario 3 ("full decoupling" scenario): implementation of CAP 2003, supposing a full decoupling of first pillar payments.

The aim of asking the same questions under various scenarios was to distinguish which of the answers' variations that were entirely due to a shift in policy. The following section sums up the survey results, focusing on scenario 2 compared with scenario 1. The last section draws major conclusions from the work in terms of the farmers' attitudes.<sup>1</sup>

<sup>1</sup> The complete survey results are available in Douarin et al. (2007).

## Impact of CAP 2003 reform on farmers' intentions

### Intentions to exit the farming sector

Figure 1 shows that French farmers' exit intentions are very similar in scenarios 1 and 2. In other words, the CAP reform of June 2003 had practically no impact on the decisions of exiting the farming activity. On the other hand, figure 2 relating to Slovakia shows clear differences in Slovakian farmers' intentions according to scenarios 1 and 2. Many more Slovakian farmers want to stop their farming activity more than ten years after the survey and fewer want to stop in the next five years in the real scenario 2 than in the reference scenario 1. English and Swedish farmers have similar intentions to their French counterparts, while Lithuanian farmers have similar behaviour to the Slovakian ones.

### Intentions to expand

The same contrast exists between new and old Member States for extension intentions. This is illustrated for France and Slovakia in figures 3 and 4, respectively. In old Member States, we do not notice any change in intentions, while in new Member States there are more farmers who want to extend their farm in scenario 2 of CAP implementation than in reference scenario 1. One reason for the results of Lithuania and Slovakia might be that, before accession to the EU, producers from both countries were restricted by the lack of funds (unprofitable farms, difficulties in getting loans). The respondents wish to take advantage of the relaxing of these financial constraints in order to increase their farm size, thanks to the CAP direct payments.

### Intentions to modify volumes produced, to change and diversify productions

Regarding the potential changes in productions between both scenarios, the results reveal another clear difference between old and new Member States. In France, England and Sweden, the respondents are thinking of lowering volumes produced, both for cereals and oleoproteagenous (COP) and for beef. Conversely, Lithuanian and Slovakian farmers say that they would like to increase volumes. This contrast is confirmed with the expectations: in the EU-15 Member States, we expect a decrease in productions that were previously supported via payments that were coupled with production (or at least coupled with the choice of production). In new Member States, the relaxing of financial constraints explains the intentions of increasing volumes.

The surveyed farmers do not wish to voluntarily set aside land (that is to say no longer produce and just maintain land in good agricultural and environmental conditions (GAEC)). Nevertheless, 5 Swedish farmers out of 344 declare that they wish to take 51ha out of production, on average.

Last, the French, English and Lithuanians have no intentions to change their diversification scale, either upwards or downwards, into non-farming activities. In Sweden and Slovakia, a larger proportion of farmers declare they wish to start or increase their non-farming activities in real scenario 2 in relation to reference scenario 1.

### Intentions to exchange SFP

Half the French sample has less SFP than eligible land: on average, 14ha are "bare". Conversely, 3 French respondents

have a surplus of SFP with a shortfall of eligible land of 21ha on average. Regarding the SFP exchange market, only two respondents say that they want to take part.<sup>2</sup>

### Opinions on changes in workload

At the time of the survey, 70% French farmers considered that their personal workload was acceptable. 27% thought that it was too high. While 21% of respondents estimated that the necessary workload on the farm, and particularly the time spent by them themselves, would have increased in reference scenario 1 (unchanged CAP), 34% thought the same about scenario 2, the reformed CAP.

### Farmers' attitudes towards their activity

#### Main goals

The surveyed farmers were asked to rank their goals according to their order of importance when making decisions for their farm or for work outside the farm. For English and French respondents, the first goal is to provide for the needs of their household, closely followed by maximization of profit. The Swedish rank household needs in second position, after the main objective of limiting their indebtedness as much as possible. As for Lithuanian and Slovakian farmers, they think the second most important objective is to invest in their farm. The first-ranked objectives differ: profit maximizing in Lithuania, providing for household needs in Slovakia.

#### Opinions on the farmers' occupation

Respondents were proposed several statements regarding the view they have of their activity. They had to give a score to every statement from 1 (if they completely agreed) to 5 (if they did not agree at all). Figure 5 shows the average scores for three of the statements for each country. In all five countries, farmers think arable land should be fully utilised to produce (although to a lesser degree in England) and also refute the idea of set-aside land. With the exception of Lithuania, respondents do not agree with the idea of working outside the farm in order to provide for household needs and to finance farm activities. Last, the farmers, in particular the Lithuanians, consider that their income must be supported by public authorities.

#### Opinions on the future of the CAP

In the questionnaire, farmers were asked to give their opinion on the future of the CAP. A ranking from 1 (the least probable) to 6 (the most probable) had to be attributed to three possibilities: (i) payments will be re-coupled; (ii) payments will continue to be decoupled; (iii) payments will completely disappear. Figure 6 shows that in each country, option (ii) is considered the most probable, suggesting that the route followed in the CAP reform process since 1992 will not change; in other words, they do not believe in a return to coupled payments. Regarding the differences between countries, new Member States are more inclined than old Member States to believe in re-coupled payments (it would be more accurate to write "to hope for"). As for the withdrawal of all payments, the Lithuanians and Slovaks regard it as very unlikely. It seems more likely to the Swedish compared with the French or English.

<sup>2</sup> The questions about the SFP market, as well as the following ones concerning workload, were not asked to farmers from other countries.

## Conclusion

This survey relating to farmers' intentions in three old Member States and two new ones shows two opposing strategies.

- Farmers from old Member States intend to minimize their adjustments on the farm. They do not think they will change either the date of their exit from the farming sector or the size of their business. Nevertheless, their answer to a switch in policy is not nil since they are thinking about modifying their productive combination by adjusting downwards the volumes produced. If farmers follow their intentions, promoters of the reform will be able to consider it as a success in the sense that it will have succeeded in giving incentives to farmers to follow better market signals such as prices.
- In new Member States, because of the release from financial constraints thanks to higher subsidies than in

the previous system, farmers wish to greatly expand their business. Moreover, additional payments, funded on national budgets and coupled with certain productions, will result in farmers' responses that go against the objective of the CAP reform implemented in the old Member States (for instance, an increase in crop and beef meat productions). Knowing that farmers from these countries are the most reticent to set aside land without producing and to no longer receive subsidies, it is a new challenge that the EU will have to face at the next CAP revision.

However, the survey was carried out just after the reform, while all the parameters relating to its implementation were not yet known. The results presented here must therefore be considered with caution.

**Laure Latruffe, UMR SMART , INRA Rennes, France**  
[Laure.latruffe@rennes.inra.fr](mailto:Laure.latruffe@rennes.inra.fr)

### For further information

**Douarin, E. ; Bailey, A.; Davidova, S.; Gorton, M. ; Latruffe, L. ; (2007).** *Structural, Location and Human Capital Determinants of Farmers' Response to Decoupled Payments*. Deliverable 14, IDEMA (Impact of Decoupling and Modulation on Agriculture in the Enlarged European Union). <http://www.sli.lu.se/IDEMA/idemahome.asp>

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**Table 1: Description of the survey**

Country	Date of survey	Type of survey	Number of respondents
France	November 2005	Face-to-face	281
England	June 2005	Face-to-face	153
Sweden	March 2005	Postal	344
Lithuania *	April 2005	Face-to-face	220
Slovakia *	February 2005	Face-to-face	154

\* Individual farms only.

**Table 2: Description of the surveyed samples (data previous to 2004)**

Country	UAA (ha)	Share of subsidies in overall income (%)	Amount of subsidies per ha of UAA (euros)
France	99	25	380
England	136	14	228
Sweden	92	14	303
Lithuania	88	12	33
Slovakia	171	17	172

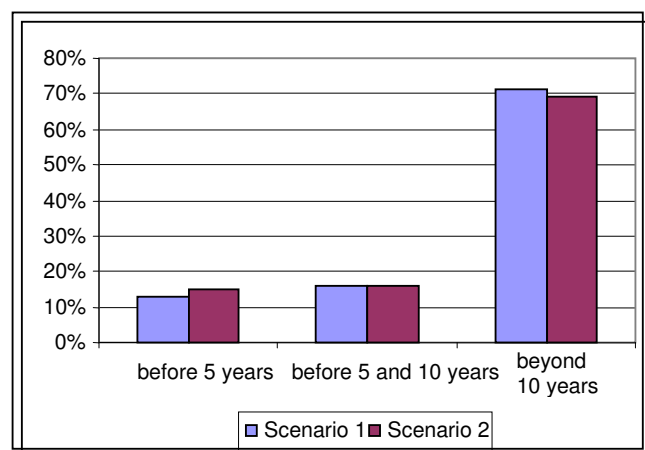
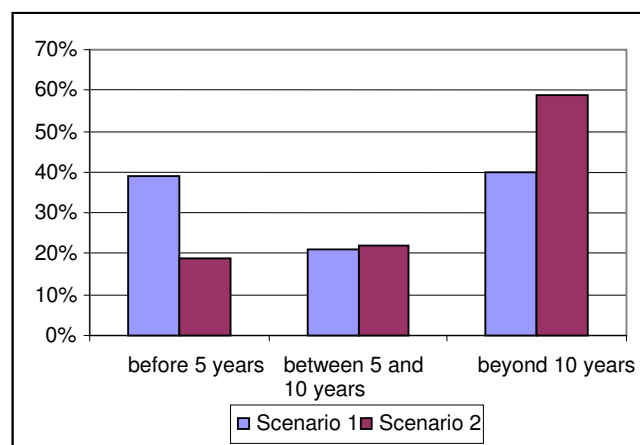
**Figure 1: French farmers' intentions to exit the farming sector (proportion of respondents declaring they want to exit before 5 years, between 5 and 10 years, beyond 10 years)****Figure 2: Slovak farmers' intentions to exit the farming sector (proportion of respondents declaring they want to exit before 5 years, between 5 and 10 years, beyond 10 years)**

Figure 3: French farmers' intentions to increase their farm size (proportion of respondents)

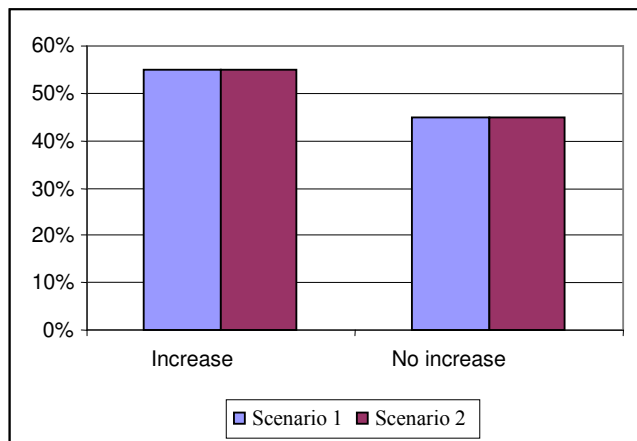


Figure 4: Slovakian farmers' intentions to increase their farm size (proportion of respondents)

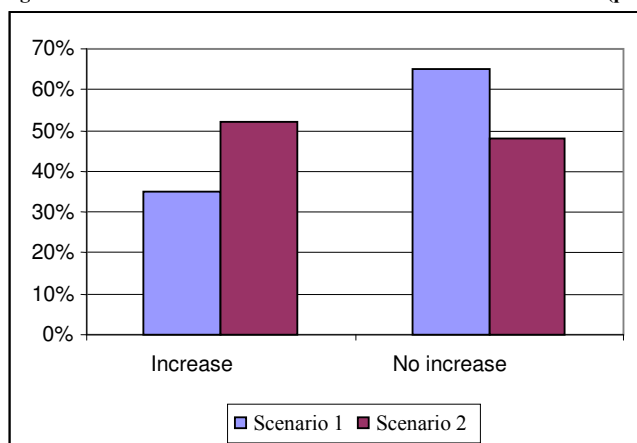
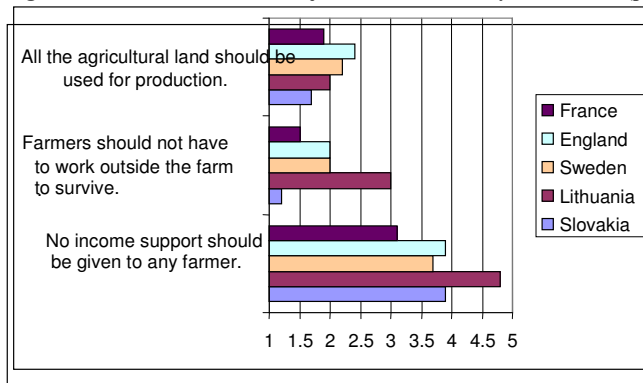
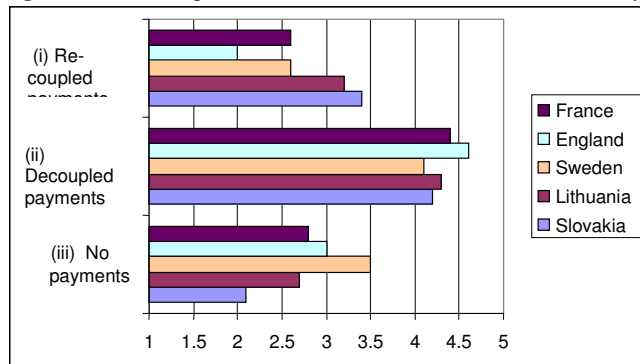


Figure 5: Farmers' view on their jobs in the five surveyed countries (proportion of respondents)



Scores ranking from "I agree" (1) to "I do not agree at all" (6).

Figure 6: Farmers' opinion on the future of the CAP in the five surveyed countries (average score per country)



A higher score indicates a greater probability of occurrence.