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Impact of the CAP Single Farm / Area Payments on farmers' decisions: Preliminary results of a farm-level survey

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This paper deals with the potential impact of the introduction of the SFP in EU-15 and of the SAP in NMS on farmers' decisions. A survey conducted in Sweden, Lithuania and Slovakia in 2005 investigates farmers' intentions over the next 5 years in two scenarios: introduction of SFP/SAP, and if the previuos policy (Agenda 2000 or pre-accession national policy) remains in place.

Results of the survey reveal that the global effect of the CAP switch on Swedish sector seems to be a reduction in production and in the willingness to remain a farmer. By contrast, in Slovakia and Lithuania individual farmers are willing to stay longer in farming and to increase their UAA. As for farmers' expectation regarding the future of the CAP, the survey results show that in the three countries the most probable policy is continuing decoupled payments. However, the second most probable option is payments recoupled to production activities for Slovakian and Lithuanian farmers, but no payment at all for Swedish farmers.

Key words: CAP, decoupling, survey, farmers' intentions

INTRODUCTION

Following the Mid-Term Review of the Common Agricultural Policy (CAP), a new form of payments, the Single Farm Payments (SFP), provided with no obligation to produce but under cross-compliance requirement, is being introduced in the European Union (EU) Old Member States (OMS) from 2005 onwards. In parallel, the Single Area Payments (SAP) scheme was introduced to the New Member States (NMS) in 2004 upon enlargement (with the exception of Malta and Slovenia where the standard OMS SFP was chosen).

Both SFP and SAP do not relate to current production choices; they are provided as long as land is kept in good agricultural and environmental condition (GAEC). Hence, they are in general decoupled. The introduction of decoupled payments that replace the Agenda 2000 in the OMS, respectively the previous national payment schemes in the NMS, implies a modification in the set of incentives faced by farmers, especially regarding decisions to enter or exit from agriculture, and invest in farming and non-farming activities.

The objective of the research is to contribute to the debate about the impact of decoupling, i.e. the process of moving from payments coupled to production activities to relatively decoupled ones, in the EU farming sector. More specifically, the research focuses on the potential impact of the introduction of the SFP / SAP on farmers' decisions in the EU. Although the introduction of the SAP in the NMS is part of the implementation of the CAP after the accession to the EU, it can still be seen as a decoupling process, as national agricultural policies in the NMS prior to enlargement were relatively coupled to production.

Several studies have analysed the effect of SFP / SAP implementation on EU agriculture, but they have usually adopted a regional or sectoral approach using partial or general equilibrium models (OECD 2004). In contrast, this study investigates the issue at farm level, through a survey of farmers' intentions over the 5 years following the introduction of SFP / SAP.

Only a few survey-based studies of the impact of decoupling can be found in the literature. The Economic Research Service (ERS) of the USDA, who has been conducting surveys on farmers' behaviour in the US on an annual basis, have modified their questionnaire following the implementation of decoupled payments (through the 1996 Farm Bill). Their objective was to be able to assess more precisely farmers' off-farm opportunities and their possibilities to adjust to decoupled policies (USDA 2004). The extensive questionnaire developed by the ERS is however mainly concerned with short-term adaptations, as it records only information about the decision taken within the year of the survey. In the EU, decoupled policies are being implemented from 2005 and the scope to study farmers' adjustment decisions is therefore limited. A survey of farmer's intentions to adjust hence is a more adequate way for investigating the medium-term impact of the switch in policy. The United Kingdom, particularly, has a history of surveys about farmers' intentions. For example, a survey was conducted by the University of Newcastle upon Tyne in 1994–1997 on farmers participating in the Farm Business survey, about their short-term intentions and their long-term confidence in farming business. The main conclusion from the answers collected was that farmers were really reluctant to changes, i.e. they intended to continue their business as before (Harvey 2000). In the context of decoupling, Breen et al. (2005) investigated farmers' intentions in Ireland with a survey realised in 2003. Results from this survey were used to compare farmers' intentions to adjust the implementation of SFP to the results of the Linear Programming model. Findings from the survey, in particular that Irish farmers were reluctant to change, were significantly contrasting with those from the model, and therefore helped to bring nuances into the model's outcomes (Breen et al. 2005).

Survey results seem therefore able to capture other aspects of farmers' behaviour in a context of changing policy, where modelling would fail doing it. The objective of the survey presented in this paper was therefore to add to the thin literature about farmers' intentions. Its main contribution is that it was implemented in different EU countries, OMS and NMS. This paper presents some first results of this survey, focusing on a few main issues:

1) How do farmers intend to alter their involvement in farming, i.e. will they abandon agriculture or will stay after the implementation of the SFP / SAP?

2) Will there be a potential change in their land use, i.e. in case farmers want to stay in farming, to what extent will they keep their land in production or change the scale of their farming activity?

3) Will farmers alter their type and level of production?

4) Do farmers intend to diversify more, on- and off-farm?

The rest of the paper is organised as follows. The next section is concerned with the survey. First, the questionnaire is presented alongside with its methodological background, then the modalities of the survey are described. In section 3, some first results are presented. The last section briefly concludes.

METHODOLOGY: THE QUESTIONNAIRE AND THE SURVEY

The issue of the impact of SFP/SAP implementation on the EU farming sector was investigated with a survey of farmers' intentions over the 5 years following the introduction of SFP / SAP. The questionnaire is explained below and modalities of the survey are then described. The survey was implemented in four countries: one OMS, Sweden, and two NMS, Lithuania and Slovakia.

The questionnaire

Questions regarding farmers' intentions

As the objective was to investigate the impact of decoupling, the questionnaire tried to capture changes in decisions due to the introduction of SFP / SAP. For this reason, farmers were asked the same questions in two different scenarios, a basis scenario (Scenario 1) and a decoupling scenario (Scenario 2).

Scenario 2 corresponds to the introduction of the SFP (in OMS) or SAP (in NMS) on the modalities chosen by the country as presented in Table 1. In all countries, the payments are not totally decoupled. Sweden opted for retaining some coupled payments, while in Lithuania and Slovakia the SAP is complemented by national top-

Table 1. **Description of scenario 2: SFP in Sweden and SAP in Lithuania and Slovakia**

		Decoupled part (area payment with no obligation to produce)	Coupled part
SFP	Sweden	**Calculation**: Mixed static historic and regional	**Payments**: Specific drying aid for COP in the north
	Implementation: 2005, except dairy	**Beneficiaries**: All except permanent crops, horticulture, fruit and vegetables	Special beef premium
SAP	Lithuania	**Calculation**: Regional **Beneficiaries**:	**Payments**: Seeds premium Calves slaughter premium
	Implementation: 2009	All	Beef and quality beef premiums Ewes premium
	Slovakia	**Calculation**: Regional **Beneficiaries**:	**Payments**: Suckler cows premium Ewes and goats premium
	Implementation: 2007	All	

Table 2. **Statements rated by farmers regarding their expectations towards the future of the policy**

	Not probable at all					**Very probable**
S1. By 2013 EU payments decoupled from production but conditional on other service provision will be maintained.	1	2	3	4	5	6
S2. By 2013 farmers will receive no EU support payments what so ever.	1	2	3	4	5	6
S3. By 2013 EU payments will be recoupled to agricultural production.	1	2	3	4	5	6

ups. However, the implementation of these policies still represents a move towards more decoupled policies.

Scenario 1 is counterfactual, as it represents a continuation of the agricultural policy in place in each country before SFP / SAP implementation, i.e. the Agenda 2000 in NMS and the national agricultural policy in NMS. Answers by farmers in this reference scenario can then be compared to their answers in Scenario 2, in order to assess whether there is a change in their intentions.

Questions asked under both scenarios related to the farmers' intentions to exit or stay in the farming sector, to the change in the farm land area, to the change in the production mix, and to the change in on- or off-farm diversification activities.

Regarding the intentions to exit or stay in the farming sector, farmers were asked whether they planned to leave farming, that is to say to stop producing or to stop keeping their land in GAEC without producing. The three proposed time horizons were within 5 years, between 5 and 10 years, and after 10 years. Farmers were also asked what they intended to do with their farm and what occupation they would take after leaving farming. As for the questions relating to changes in area, production and diversification, they were asked for the next 5 years.

Questions regarding farmers' expectations

As the survey investigates farmers' intentions for the future, farmers may state a particular adjustment pattern according to their present beliefs and expectations, but may behave differently when they experience the change. For this reason, based on the socio-psychological framework of Theory of Planned Behaviour, developed by Ajzen (Ajzen, and Driver 1992), part of the questionnaire had been designed to understand farmers' beliefs and values with regard to their profession, the role and stake for supports, and their off-farm opportunities.

In addition, farmers were asked to state how probable they viewed some possible options for change in the EU CAP. Farmers' credibility of the policy might indeed influence their choice. The three statements that farmers had to rank are presented in Table 2.

Information regarding farms' and farmers' characteristics

Although FADN returns were available for all farms surveyed, it was necessary to collect additional information that is usually missing in FADN databases. The objective was to get enough information that would be useful to create a typology of farmers who have a particular intention. In particular, information about farmers' age and education, their household composition, and the presence of a successor was asked for.

Also, information about their other sources of income (including national payment related to production, i.e. payment for organic farmers or conservation) and their past off-farm investments was collected through the questionnaire. The latter information is of crucial importance when investigating decoupling, as the availability of additional income not related to production might encourage farmers to invest more off-farm. Such information is however usually missing in FADN and therefore constrains all modelling activities (USDA 2004; USDA 2003).

The survey

The survey was conducted from spring to fall 2005. Farmers were interviewed face to face in Lithuania and Slovakia. In Sweden, questionnaires were sent by mail and additional interviews were conducted over the phone (partial questionnaire only). Table 3 below shows the number of farms surveyed in each country.

In each country, the sample was selected so that it would be possible to match answers from the survey with FADN returns for a few years prior to the policy change to allow an in-depth analysis of the situation and dynamic of the farm before the switch in policy. However, not all farm specialisations were surveyed. Producers not concerned by the change in policy, such as producers specialised in horticulture or permanent crops, were excluded. The specialisation was defined according to the EU types of farming (TF) nomenclature.

RESULTS: FARMERS' INTENTIONS AND EXPECTATIONS

This section focuses only on some main results concerning the farmers' answers. These results relate to their intentions of staying in or exiting from the farming

Table 3. **Number of farmers surveyed**

Lithuania*	Slovakia*	Sweden
227	154	344 (mail) + 40 (phone)

* *Individual farms only.*

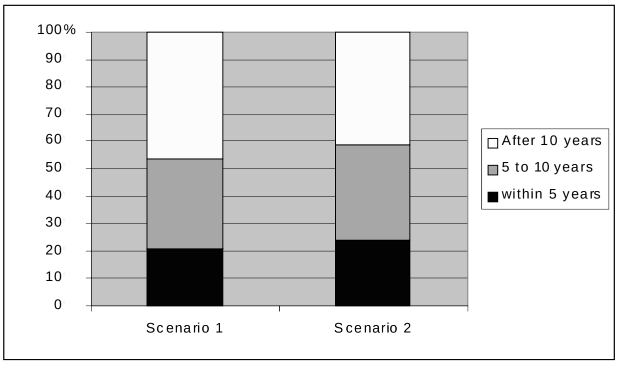
sector, of changing their land area, and of changing the type and scale of their production and activities. Finally, farmers' expectations towards the policy future in the next 13 years are presented, based on their answers to the statements explained previously. Those results are from survey answers only (without FADN data).

Intention to stay in or exit from farming

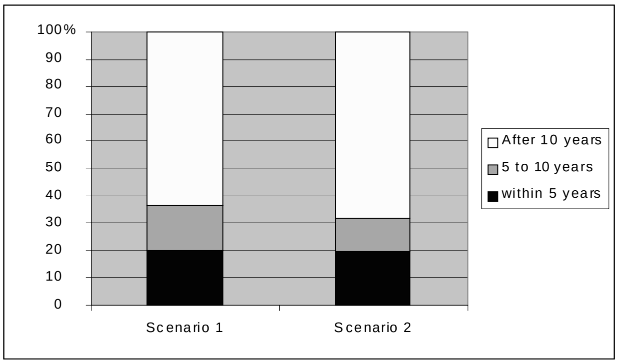
Under both scenarios farmers were asked when they wished to exit from agriculture. Three options in terms of the horizon of exit were proposed: within the next 5 years, in 6 to 10 years, at some point beyond 10 years. Figure 1 presents the percentage of answers for each horizon in both scenarios for the three countries.

Figure 1 shows that under the SFP farmers in Sweden intend to leave farming earlier than they planned if the Agenda 2000 had remained in place. In contrast, the consequence of the introduction of SAP in Slovakia and Lithuania is that individual farmers in these countries are willing to stay longer in farming.

A. In Sweden



B. In Lithuania



C. In Slovakia

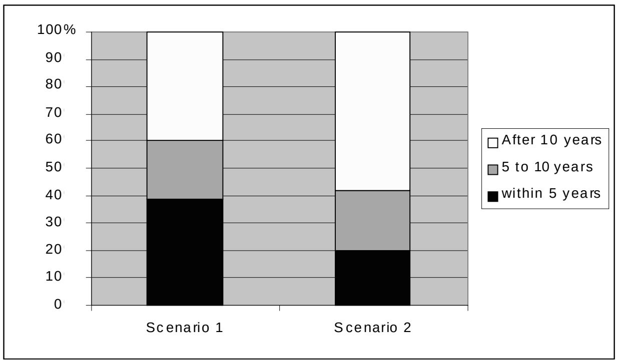


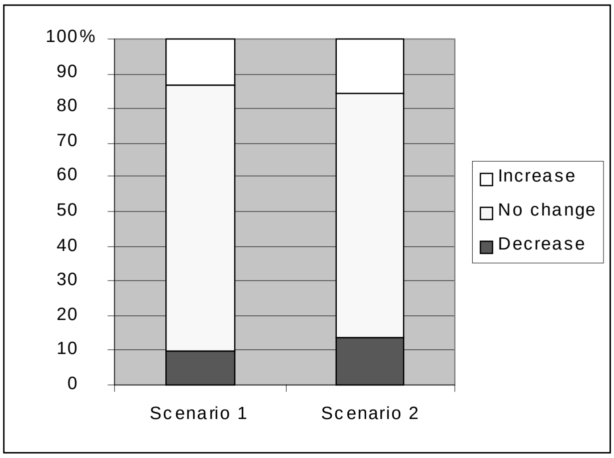
Fig. 1. Planned horizon of exit from farming: share of respondents

Intention to change the utilised area

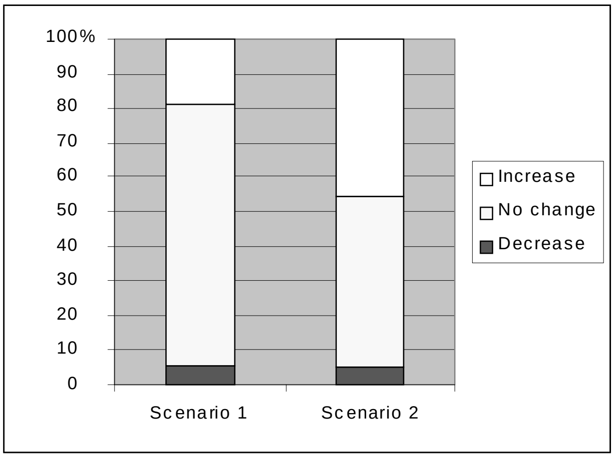
Figure 2 presents the percentage of respondents according to their intention of increasing, decreasing or not changing their utilised area in the next five years.

In the coming 5 years, the plans of Swedish farmers with respect to the size of their farm seem to be pretty stable whatever the policy in place. Under de-

A. In Sweden



B. In Lithuania



C. In Slovakia

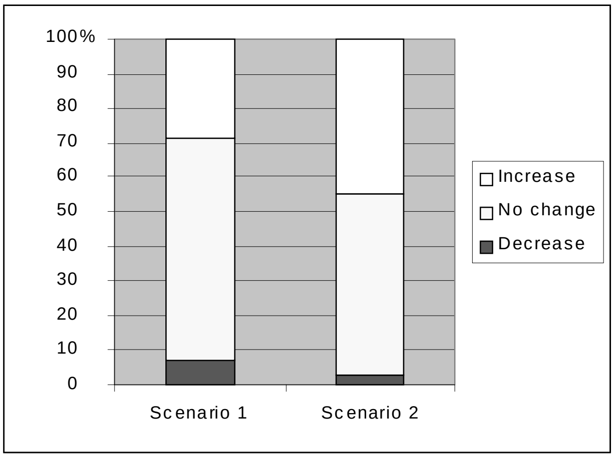


Fig. 2. Planned change in UAA: share of respondents

coupled payments (SFP) the share of farmers willing to increase their UAA is greater by 5 percent than the share under Agenda 2000. This suggests that the policy change will have a limited impact on farm size in Sweden. In the two NMS, however, things are significantly different. Between scenarios 1 and 2, the share of farmers willing to increase their UAA in the next 5 years doubles in Lithuania and increases by 50 percent in Slovakia. The share of farmers willing to decrease or not to change their UAA drops from scenario 1 to scenario 2 in both countries.

Intention to change the production type and intensity
Table 4 presents the shares of farmers willing to "start or increase", "decrease or quit" or "not change" some specific production activities. A global conclusion from the table is that farmers in NMS are more willing to increase their production activities under SAP (scenario 2) than they are under the continuing pre-accession policy scenario (scenario 1), while the introduction of SFP (scenario 2) in Sweden has the reverse impact on farmers if compared to Agenda 2000 (scenario 1).

Figures 3, 4 and 5 give a clearer idea of the impact of decoupling on farmers' intentions regarding some specific productions. They show the intention of farmers towards the production of COP (Cereals, Oilseed and Protein crops), beef cattle production, and forage / pasture production, respectively. Farmers in both Lithuania and Slovakia are willing to increase their production of COP under SAP (scenario 2) compared to the pre-accession scenario (scenario 1), whereas Swedish farmers want to reduce their production under SFP (scenario 2) compared to Agenda 2000 (scenario 1). Regarding beef cattle production, there is no opposition between old and new Member States: Slovakian producers want to increase this production, while the variation in decision between the two scenarios is quite limited for Lithuania and Sweden. As for forage and pasture, it seems that farmers in all three countries are willing to increase their area under these productions, which might lead to a relative extensification of the beef sector, at least in Sweden and Lithuania.

Intention to change the diversification activities
As is shown in Table 5, the proportion of farmers intending to increase the scale of their diversification activities augments slightly in Sweden and more sharply in Slovakia between scenario 1 and scenario 2. Under a decoupled policy farmers have more freedom not to reinvest the payments they receive in farming, as they have no obligation to produce. This may give them greater incentives to invest in diversification activities. In Lithuania, however, this trend towards more diversification under decoupled payments is not observed.

Expectations towards the policy future
The survey results show a contrast between OMS and NMS in terms of expectations on the future of the

Table 4. Planned alteration of output mix; share of respondents (%)

		Sweden		Lithuania		Slovakia	
		S1	S2	S1	S2	S1	S2
COP	Start or increase	10	9	25	40	38	61
	No change	73	58	70	59	52	37
	Decrease or quit	17	33	5	1	10	2
Roots	Start or increase	3	3	7	10	11	13
	No change	87	84	90	86	71	59
	Decrease or quit	10	13	3	4	18	28
Forage, pasture	Start or increase	17	28	11	20	30	44
	No change	73	60	84	76	53	46
	Decrease or quit	10	13	5	4	17	10
Milk	Start or increase	11	11	16	19	26	22
	No change	76	69	79	78	56	59
	Decrease or quit	13	20	5	3	18	19
Cattle	Start or increase	16	17	8	15	39	55
	No change	71	63	90	83	51	36
	Decrease or quit	13	20	2	2	10	10
Sheep	Start or increase	8	10	1	2	27	30
	No change	81	80	98	97	52	46
	Decrease or quit	11	10	1	1	21	24
Pig	Start or increase	7	7	3	2	18	28
	No change	82	79	96	96	68	61
	Decrease or quit	11	14	1	2	14	11

Note: S1 and S2 stand respectively for "under scenario 1" and "under scenario 2".

Table 5. **Percentage of respondents willing to start or increase diversification activities under the two scenarios**

	Scenario 1	Scenario 2
Sweden	12	16
Lithuania	9	8
Slovakia	18	26

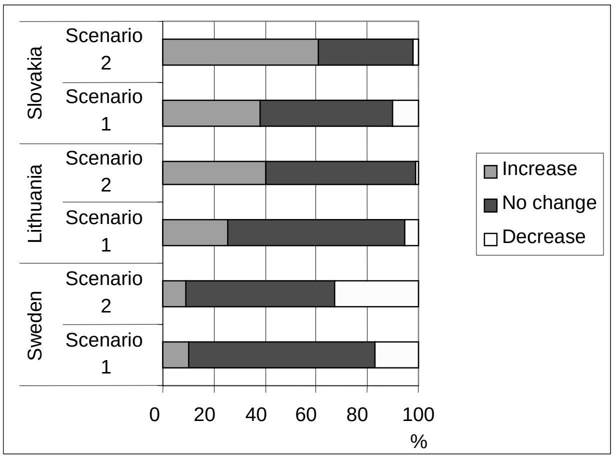


Fig. 3. Planned variation in COP production: share of respondents

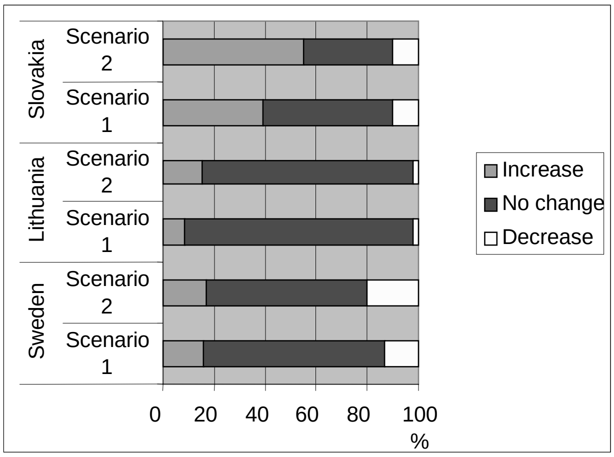


Fig. 4. Variation in beef cattle production: share of respondents

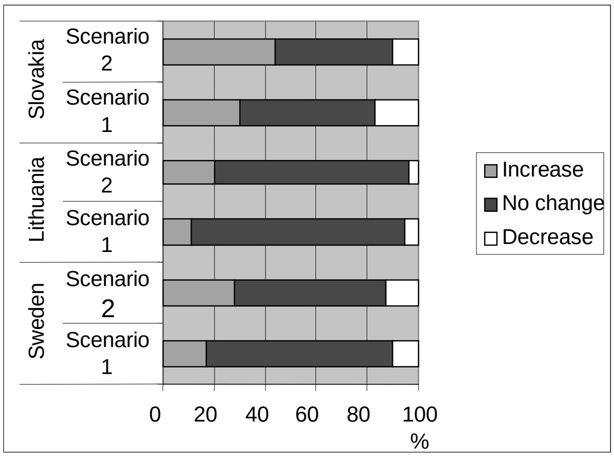


Fig. 5. Variation in forage and pasture: share of respondents

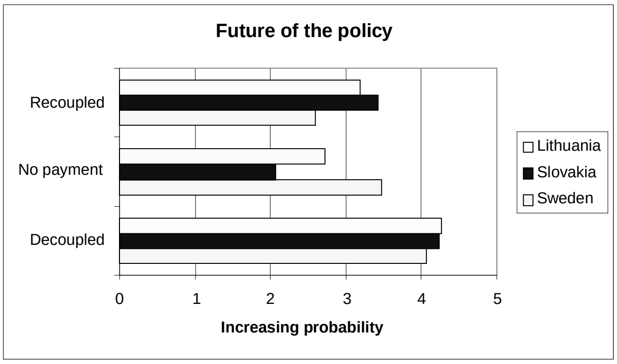


Fig. 6. Expectations toward the future of the policy: average ranking

CAP. Figure 6 shows the average ranking of farmers for each statement. Farmers in the three countries consider that the most probable policy is continuing decoupled payments. However, the second most probable option is payments recoupled to production activities for Slovakian and Lithuanian farmers, but no payment at all for Swedish farmers. This illustrates an important divergence in the perceptions of the CAP and its future between OMS and NMS.

CONCLUSIONS

1. This paper presents the first results from a survey implemented in one OMS, Sweden, and two NMS, Lithuania and Slovakia, in 2005. Farmers were questioned about their intentions regarding their farming and non-farming activities in the next years, in the context of the decoupled policy recently introduced by the MTR (SFP in OMS and SAP in NMS), but also if the previous policy (Agenda 2000 in OMS and pre-accession national policy in NMS) had remained in place. This comparison of these two scenarios allowed capturing the change in intentions due to decoupling.

2. The impact of the introduction of the MTR in Sweden, Lithuania and Slovakia is likely to be very different as the initial conditions of farmers in those countries were significantly different. Results of the survey reveal that the global effect of the policy switch on the Swedish sector seems to be a reduction in production and in the willingness to remain a farmer. In Slovakia and Lithuania, however, the policy change might have the opposite effect.

3. Theoretically, the introduction of more decoupled payments is supposed to reduce incentives to invest in farming activities and might accelerate the structural change. However, if in the period before the introduction of the payments farmers were facing financial stress or credit constraints, payments might, by providing them with necessary liquidity or collateral, stimulate investments, which would not have materialised otherwise. Such effects have been observed, for example, in Mexico after the implementation of area payments (Sadoulet et al. 2001). Results from the survey presented in this paper indicate that similar developments might

take place in the NMS, in contrast to the OMS. It is also possible that the prospect of receiving relatively stable and high payments from the EU constitutes *per se* an insurance policy for farmers in the NMS and gives them incentives to produce more.

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BŽŪP TIESIOGINIŲ IŠMOKŲ ŪKIAMS SCHEMOS / VIENKARTINIŲ IŠMOKŲ SCHEMOS POVEIKIS ŪKININKŲ SPRENDIMAMS: IŠANKSTINIAI TYRIMO REZULTATAI

Santrauka

Nagrinėjamas tiesioginių išmokų ūkiams schemos (TIŪS) įvedimo ES-15 šalyse ir vienkartinių išmokų už plotus schemos (VIPS) įvedimo naujosiose ES valstybėse galimas poveikis ūkininkų sprendimams. 2005 m. Švedijoje, Lietuvoje ir Slovakijoje atlikto tyrimo metu buvo nagrinėjami ūkininkų ketinimai ateinančiam 5 metų laikotarpiui pagal du scenarijus: įdiegus TIŪS/VIPS ir jei būtų paliktos ankstesnės nuostatos (Agenda-2000 arba nacionalinė politika iki jų įstojimo į ES).

Nustatyta, kad Švedijoje, įgyvendinus naująją BŽŪP schemą, globalinis poveikis sumažintų gamybą ir pasiryžimą ūkininkauti. Slovakijoje ir Lietuvoje, priešingai, kai kurie ūkininkai pasiryžę ūkininkauti ir toliau bei padidinti naudojamų žemės ūkio naudmenų plotą. Be to, kaip rodo tyrimo rezultatai, kad visose trijose šalyse labiausiai tikėtina, jog bus tęsiamos atsietos išmokos. Tačiau kitas labai galimas variantas yra tai, kad su žemės ūkio gamyba susietos išmokos Slovakijoje ir Lietuvoje išliks, tuo tarpu Švedijos ūkininkams išmokos bus panaikintos.

Raktažodžiai: BŽŪP, išmokų atsiejimas, mokslinis tyrimas, ūkininkų ketinimai

Елодие Доуарин, Лауре Латруффе

ВЛИЯНИЕ СХЕМЫ ПРЯМЫХ ВЫПЛАТ ХОЗЯЙСТВАМ И СХЕМЫ ЕДИНОВРЕМЕННЫХ ВЫПЛАТ В ОБЩЕЙ СЕЛЬХОЗПОЛИТИКЕ ЕС НА РЕШЕНИЯ КРЕСТЬЯН: ПРЕДВАРИТЕЛЬНЫЕ ИТОГИ ИССЛЕДОВАНИЯ

Резюме

Рассматриваются схема прямых выплат хозяйствам и схема единовременных выплат за площади, реализуемые соответственно в странах ЕС-15 и в новых странах ЕС, изучается их возможное влияние на решения крестьян. В 2005 г. в рамках данного исследования анализировались намерения крестьян Швеции, Литвы и Словакии на ближайшее пятилетие по двум сценариям: при реализации обеих схем и в случае сохранения предыдущего положения (Агенда-2000 или национальная политика указанных государств до их вступления в ЕС).

Установлено, что в Швеции реализация новой схемы обусловит сокращение производства и приведет к нежеланию крестьян продолжать деятельность. В Словакии и Литве, напротив, отдельные фермеры намерены далее развивать свои хозяйства путем увеличения сельскохозяйственных площадей. При этом, как показали исследования, крестьяне во всех трех государствах свои ожидания связывают с дальнейшим осуществлением выплат. Однако наиболее возможным является тот вариант, что связанные с сельскохозяйственным производством выплаты в Словакии и Литве будут продолжены, в то время как выплаты шведским крестьянам будут прекращены.

Ключевые слова: общая сельскохозяйственная политика ЕС, отчуждение выплат, научное исследование, намерения крестьян