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French government provides 1.7 billion Euros to French farmers

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Report Highlights:
After several weeks of farmers' unrest French President Nicolas Sarkozy recently announced that the French farm sector will benefit, in the coming weeks and months of over € 1.75 billion of financial support. Several French banks will notably provide one billion Euros in low interest bank loans to ease farmers’ cash problems. Farmers will also get tax exemptions. This announced flow of money seems to have calmed down the farmers though several demonstrations have occurred since Nicolas Sarkozy’s speech. It appears that the economic situation is now taking a toll on all the French farms sectors.

After several weeks of unrest (see GAIN 9028) and large demonstrations (see GAIN9029)from dairy farmers, French President Nicolas Sarkozy announced that the French farm sector will benefit, in the coming weeks and months from over € 1.75 billion of financial support.

President Sarkozy announced the new measures in a speech on October 20. The support package is threefold:

- One billion Euros in low interest bank loans to ease farmers' cash problems. The difference between the actual loan rate and the bank rate would be paid by the government.
- 170 million Euro in social taxes exemption for seasonal workers
- 650 million Euro in direct state support.

In early November, several French banks announced their participation in the program of loans with interest rate subsidy: Crédit Agricole group, BNP Paribas, Crédit Mutuel-CIC group and Banques populaires group. Farmers in need of cash flow can borrow up to 30,000 Euros (or a maximum of 3 times this sum if several associates are farming) to these banks for up to 5 years with an interest rate of 1.5 percent (or 1 percent for young farmers) instead of the commercial rate of 3 percent. The difference between the commercial rate and the subsidized rate is paid by the State to the banks. Another similar program targets farmers that are late on their loan repayment and allow them to shift their 2010 annuities to 2011. Altogether, a farmer can borrow up to 60,000 Euros, and if the farm has more than three associates, the farm can borrow a maximum of 180,000 Euros. It is expected that up to 30,000 farmers may benefit from these loan programs. Under specific conditions such as drop of 20 percent in sales in 2009, young farmers or farmers who recently invested can have the State pay for up to 50 percent of their loan payments to banks in 2010. The total cost for the French government of these programs is difficult to assess, as it will extend over a 5 year period and would depend on the number of farmers' requests, but experts estimate it should not exceed 260 million Euros over a 5 years period (or 52 millions annually). Considering this sum as small, the French farmers' unions have called for the government to further lower (to zero) the interest rates of the loans, so far with no avail.

The government will also exempt farmers in financial difficulties for paying social taxes on their farm workers salaries, with a maximum of 1800 Euros, per year per worker. The total cost should be around 170 million Euros; paid by the government to the farmers' social security.

The government also announced that farmers in financial difficulties could ask to be exempted from taxes on un-build land (the state will reimburse municipalities for the un-received money, about 50 million Euros). Farmers will also get back 170 million Euros of oil and gas taxes they will pay on the purchase of energy fluids in 2010 and 120 million Euros of carbon tax they will pay in 2010, also on energy fluids. In addition to earlier measures to specific sectors (fruits and vegetables, pork producers) these measures will cost 650 million Euros.

Analysts highlighted that the new measures only amount to slightly more than 2,100 Euros per French farmers, well below the 15,000 Euros ceiling recently set by the European Union in the temporary framework for state aid measures to support access to finance in the current financial and economic crisis. After a thorough examination of French measures to ensure that they do not create distortion between European farmers, the European Commission approved them on December 2, under the condition that the French government ensure that each recipient farmers does not get more than 15,000 Euros.

After the EU green light, the first payments are to be disbursed in mid December 2009.

This announced flow of money eventually calmed down the farmers though several demonstrations, some of them violent in the dairy sector, have occurred since Nicolas Sarkozy's speech. Moreover, the media reported that his speech was, for most of it, a "cut and paste" exercise of a previous speech to a farmers' audience in March 2009. Such report created a wide buzz on the internet and many farmers felt mocked thus commented negatively on the President via websites and blogs.

It appears more and more clearly that the economic situation is taking a heavy toll on the farms sectors. New figures show that both purchases of agricultural inputs (fertilizers, pesticides, seeds) and farm machinery declined sharply in the summer/fall of 2009. French agricultural trade surplus continued to shrink in September, with a near halving in the first nine months of 2009 compared to the same period in 2008.