

**CAP DIRECT PAYMENTS AS THE MAIN TOOL TO SUPPORT THE EU FARMERS:
AN ANALYSIS OF THEIR IMPLEMENTATION BASED ON SPAIN EXPERIENCE**

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Direct payments are the main tool of the EU Common Agricultural Policy (CAP) and the main objective is to support EU farmers incomes. They benefit from a particular attention during the new 2014-2020 reform. For the first time direct payments were introduced in 1992 after MacSharry reform and known as coupled payments (payments per hectare and animal head). In 2003 were introduced the decoupled payments focused at encouraging farmers and enhancing the competitiveness and sustainability of the EU agriculture. The aim of this paper is to analyze the application of direct payments as main support instrument to the EU farmers based on Spain experience. In Spain the new changes in the Single Payment Scheme (SPS) were first introduced in 2006, beginning with the regime of partial decoupling, until 2012, when the coupled payments disappeared, being integrated under the SPS or transformed into additional payment. In this analysis, secondary data provided by the Spanish Agrarian Guarantee Fund (FEGA), Ministry of Agriculture, Food and Environment of Spain (MAGRAMA) and Farm Accountancy Data Network (FADN). The analyzed data refers to the amount of allocated direct payments in Spain and EU countries, number of beneficiaries and its distribution on territorial aspect. So far, the distribution of direct payments in Spain, similar to other EU member states, is unequal, as a result of various factors, as the CAP development and diversity of production, the use of historical references to fix the decoupled payments per farm and others.

Key words: *agriculture, direct payments, farmers.*

Plățile directe sunt principalul instrument al Politicii Agricole Comune (PAC), având ca obiectiv esențial susținerea veniturilor agricultorilor din țările membre ale UE. Aceștia au beneficiat de o atenție deosebită și în cadrul reformei pentru perioada anilor 2014-2020. Pentru prima oară, plățile directe au fost introduse în anul 1992 în rezultatul reformei MacSharry, fiind cunoscute ca subvenții directe (subvenții pe hectar de pământ sau pe cap de animal). În anul 2003 au fost introduse plățile decuplate, care aveau drept scop încurajarea fermierilor și creșterea competitivității și durabilității agriculturii UE. Scopul acestei lucrări este analiza aplicării plăților directe ca principal instrument de susținere a agricultorilor în UE, având ca bază experiența Spaniei. În Spania noile modificări în Schema Plăților Unice (SPU) au fost introduse pentru prima dată în anul 2006, începând cu regimul de decuplare parțială, până în anul 2012, atunci când toate plățile directe au dispărut, acestea fiind integrate în SPU sau transformate în plăți suplimentare. În analiza respectivă au fost utilizate date secundare, furnizate de către Fondul European de Garantare Agricolă (FEGA), Ministerul Agriculturii, Alimentației și Mediului al Spaniei (MAGRAMA) și Rețeaua de Date Contabile Agricole (FADN). Au fost analizate datele referitoare la volumul de plăți directe, alocate pentru fermierii din țările UE și Spania, numărul de beneficiari și distribuția acestora în aspect teritorial. În rezultatul analizei s-a constatat, că distribuția plăților directe în Spania, similar cu alte state membre ale UE, este inegală, fiind cauzată de mai mulți factori, precum dezvoltarea PAC și diversitatea producției, utilizarea referințelor istorice pentru fixarea plăților decuplate la o fermă etc.

Cuvinte-cheie: *agricultură, plăți directe, fermieri.*

Прямые выплаты являются основным инструментом Единой сельскохозяйственной политики ЕС (ЕСП), основной целью которых является поддержка доходов фермеров в ЕС. Им уделялось особое внимание и в рамках реформы на период 2014-2020 гг. Впервые, прямые выплаты были введены в 1992 году в результате реформы MacSharry, известны как прямые субсидии (субсидии на единицу площади земли и поголовье скота). В 2003 г. были введены новые

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формы субсидий, направленные на поощрение фермеров и повышение конкурентоспособности и устойчивости сельского хозяйства стран ЕС. Целью данной работы является анализ применения прямых выплат как основного инструмента поддержки фермеров в ЕС, на основе опыта Испании. В Испании, новые изменения в Схеме единых платежей (СЕП) были впервые введены в 2006 году, одновременно с частичным введением новых форм субсидий вплоть до 2012 г., когда прямые выплаты исчезли, будучи интегрированы в СЕП или преобразованы в дополнительные выплаты. В данном анализе были использованы вторичные данные, предоставленные Испанским фондом аграрного гарантирования (FEGA), Министерством сельского хозяйства, продовольствия и окружающей среды Испании (MAGRAMA) и Информационной системой сельскохозяйственной отчетности (FADN). Проанализированные данные относятся к объему прямых выплат, выделенных фермерам Испании и других стран ЕС, числу бенефициариев и их распределению в территориальном аспекте. В результате анализа было установлено, что распределение прямых выплат в Испании, как и в других странах ЕС, является неравномерным, в результате различных факторов, как развитие СЕП и разнообразие продукции, использование исторических предпосылок, для установления размера субсидий на одно хозяйство, и т.д.

Ключевые слова: сельское хозяйство, прямые выплаты, фермеры.

JEL Classification: H59, H71, Q14, Q18, Q19.

Introduction. Since the beginning of 90s, direct payments had been the main instrument aimed to support the agricultural sector in the EU. At the beginning, all direct payments were coupled (linked) to area or animals and were compensating farmers for cuts in price support. Decoupled direct payments (Single Payment Scheme (SPS)) are the most important CAP instrument and account about 75% of total CAP budget or around 30% of EU budget [1].

The direct payments were first introduced with the MacSherry reform in 1992 as payments per hectare and animal head for compensating farmers for the strong cut in guaranteed prices aimed at reducing the production supply and to facilitate the agreements in the Uruguay round.

Since 2003, direct payments were decoupled from farmers production decisions and as reference was used previous supports receipts in order to decide the rate of payment that must be allocated per farmer. The new decoupled payments were aimed at encouraging farmers and enhancing the competitiveness and sustainability of the agricultural sector. There are many contradictory opinions among economists about the role of direct payments. Many of them consider that direct payments are a needed basic income support for farmers while others consider that the direct payments should provide a compensation for the public goods farmers deliver. In the same time, some economists affirm that there is no need of applying direct payments for farmers as we should not distinguish agricultural sector from other economic sectors.

Long time was considered that direct payments are an alternative transfer mechanism and an important step to mitigate the negative effects of market price support: high consumer prices and excess supply. They are also considered as best alternative to achieve farm income goals of the Common Agricultural Policy and to avoid the regressive distribution effects of output linked support [5]. Decoupled direct payments are supposed to have minimal or no allocative effects at all and thus are considered as almost pure income support [6].

Nowadays, many issues are discussed concerning the idea of better linking payments to the provision of specific objectives (e.g. environmental aspect) as well as their distribution between individual farms and Member States [1].

Despite the fact that decoupled direct payments do not depend on production level but are only based on existing demand, they also have some disadvantages as: the payments are aimed at supporting farmers' incomes but are concentrated only on few large farms while small farms benefit only from a small share in total payments; there is noticed a tendency of unequal distribution among regions and farmers; there is an inadequate feedback between levels of public goods provided by agriculture and payments received by individual farms [3].

In general, subsidies have an impact on production in several ways: by changing relative prices of inputs and outputs; through an income effect changing investment decisions and the quantity and quality of on and off-farm labor supply; through an insurance effect on risk mitigation; and through farm

growth and exit. All these mechanisms should assume changes in both economic and technical performance of farms [8].

EU direct payments to support farmers: from coupled to decoupled payments. First important step in the conception and implementation of direct payments was made with the 2003 reform. In this way were replaced the production support for a single payment per farm under the Single Payment Scheme (SPS). So was switched from coupled to decoupled payments that had as aim to cancel the link between production level and support for enhancing the competitiveness of the agricultural sector. The process of transition from coupled to decoupled payments was realized gradually, so that the first was applied toward herbaceous crops, beef cattle, dairy cattle, sheep and goats. One year later was extended towards Mediterranean production: hop, cotton, tobacco and olive oil. In 2006 to the list was added sugar and in 2007 fruits and vegetables [5].

As well, from 2009 the process of applying the single payments was different in all countries. Still in certain zones was allowed some coupled payments in order to support low productivity and to keep agricultural activities in those regions. Thus, for cereals, oleaginous, leguminous and other crops 25% coupled payments per hectare are allowed. For sheep and goats was allowed until 50%, while for cattle until 100% of the first suckler cow. Many countries used different systems of decoupled payments, particularly for livestock [2].

With the new member states was needed a new calculation mode, while the other countries were receiving the direct payments based on the historical records. Anyway, for benefitting from the payment right both had to present the eligible hectares that includes any type of crop, except fruits and vegetables, permanent crops and potatoes. The number of payment rights that a farmer was eligible had to correspond with the number of eligible hectares. The titles are transferred between the beneficiaries of each country and in some cases between regions of a country.

As well, all direct payments coupled and decoupled are subject to a number of requirements in order to receive the payments. Thus, farmers had to respect the good agricultural and environmental conditions aimed to preserve the agricultural land established by the member countries; and some legal norms towards public health, animal health, environmental protection etc.

The 2009 CAP reform also called the Health Check was the base for the future direct payments after 2010. Between 2010 and 2012 all the payments partially coupled was left to the decision of the member states, in the same way as the most of the specific payments coupled to the production were progressively integrated in the Single Payment Scheme. As result of the agricultural market crisis and the increase in prices for cereals and oleaginous crops during 2007-2008 were diminished the risk that certain agricultural areas will be abandoned. Thus, since 2012, basically, all direct payments were decoupled (except northern cows and some specific payments received by other sectors and other payment regimes) [1].

Basically, the 2009 reform had strengthened the funds transfer from first to second pillar increasing by 5% during four years the percentage of the compulsory modulation. The payments higher than 5000 Euro started to be diminished by 5% in 2008, 7% in 2009, 8% in 2010, 9% in 2011 and 10% in 2012. Moreover, for imports exceeding 300000 euro per year the percentage will increase by 4 percentage points [2]. Also, from 2009 the deducted payments in the concept integrally were kept by the member state that generated them, and were aimed to answer the new challenges of rural development policy as: the climatic change, management of water resources, renewable energy and biodiversity.

The health check will allow member states that chosen a historical system for calculation of payments to switch towards a regional system with more uniform values that would allow eliminating the differences across member states. In 2012 some countries with values of the rights based on the historical references and that chosen systems which evaluated towards uniform payments under certain regions (Germany, Finland, UK). Nevertheless, countries as France maintained the historical model and took advantages from the flexibility of the opportunities specified in the regulation for transferring a part of the payment towards vulnerable productive systems, particularly livestock [1, 2].

The decoupling process of direct payments has as result that most of payments are now decoupled. Nevertheless, the distribution of direct payments is not equal among EU countries, sectors and farmers. The great flexibility that offered the decoupled process of the payments imposed difficulties to control the direct payments and influenced the common character of CAP because there are not two countries that would operate under the same system. The old CAP system based on production-coupled payments was criticized as being unequal and creating distortions in competition for the member countries as well as at national level.

In 2012, about 80% from beneficiaries in EU are receiving about 20% from the payments, fact that shows that the larger farms are those that receive the most of CAP direct payments.

As well, a new problem were the allocations of the payments for the new member states that joined in 2004 and 2007 who could not have payments linked to the historical support levels and needed to be estimated based on historic production. Thus, a simplified area payment model (SAPS) was chosen for a transition period, were payment levels were decided with a similar method as for the regional model. Therefore, differences are observed in the distribution of the allocated payments as well as significant gaps in the payment per area among different member countries (Figure 1).

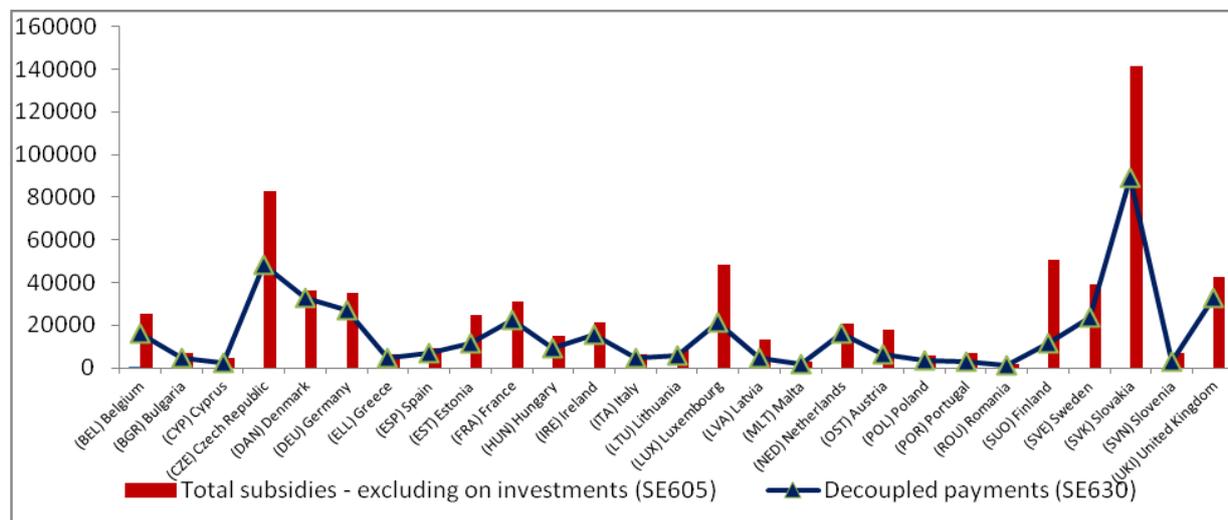


Fig. 1. Distribution of CAP direct payments among Member States

Source: Based on FADN data.

The average value for EU-12 is lower than that of EU-15 but there are exceptions to this rule, in both EU-15 and EU-12. For example, the payment level per beneficiary varies a lot between member states. A possible explanation for the high differences in the payment level per beneficiary in different member states is that the average farm size also varies considerably and is an additional determining factor for the amounts received per hectare. Countries with large average holding sizes have higher payments.

The application of direct payments in Spain

In Spain, in 2006 the Single Payment Scheme started to apply for the first time. The selected method to calculate the value of the payments was the historical model, based on the received payments by the farmers in the previous years. As well, the charge of these payments was not linked with any production level. In order to access the payment the farmer had to have the rights on a certain number of hectares that had to be maintained in good agricultural and environmental conditions. According to the type of payment received during a certain period, the rights gathered are considered normal when they have as base the areas who received direct payments, and they are considered special in the case of the livestock payments without territorial base; and withdrawal in the case of payments with compulsory withdraw of land. The 2009 CAP reform eliminated the compulsory withdrawal of arable land, thus in 2010 were normalized the withdraw rights and they started to be part of normal rights.

Nevertheless, Spain chose the regime of partial decoupling at the beginning, with the aim to maintain the payments most coupled possible. The main reason was that the abolition of coupled payments could lead to the abandon of the agricultural activity and production deployment in important areas in Spain. Thus, Spain maintained and introduced new specific payments regime which would allow keeping linked the payments to production level. As example of these are: aids for wheat durum of high quality, aid per area of crops and leguminous plants producers, specific aid for rice, aid for producing potatoes for starch, aid per area for nuts, aid for seed producers, specific aid for the cotton crop, aid for energetic crop, aid for olive growth, tobacco, aid for sugar beet and sugar cane producers, premium for the livestock sector, sheep and goats breeding, payments for cattle.

Later on, during 2006-2012 CAP reform, the payments linked to production level disappeared, being integrated under the Single Payment Scheme or transformed into additional payments (including additional payments).

Nowadays, in Spain are maintained coupled the payments for cotton, national assistance for nuts, sugar beet producers, as well as the suckler cow premium, in the case of assistance regime for cattle. Also, the specific assistance for compensating the disadvantages caused by the decoupled payments in particular sensitive sectors is covered and is encouraged specific types of agricultural production, important in aspects of environmental protection, animal welfare and the quality of the agricultural products. The funds used for financing this assistance come from withholding 10% of maximum national limits of the single payments scheme and are not compulsory to be utilized in the sector of origin [2].

The decoupling of payments in Spain had various effects. The new system of direct payments led to a higher stability of farm incomes, and to the establishment of a more exposed and market oriented agriculture. As result, producers respond easier to prices market signals, which motivates a higher intensification and concentration of high value crops production. This production specialization and higher production diversity leads to the abandon of crops and areas less profitable. As result of the CAP reform, the area of cultivated land in Spain decreased, more in dry land than in irrigated, and decreased the extensive livestock, particularly in goats breeding and suckler cows and a deeper decrease in crop diversity. The olives and vineyards growth benefited from the reform, becoming important alternatives in Spanish dry and irrigated lands. Also, detached right for the land ownership was given, associated with the availability of the resource, that involved important distortions in the land and lease market. The change in agricultural structure (except the larger size farms and more commercial oriented) and the abolition of coupled payments in labor intensive crops like cotton or tobacco led to decline in the use of agricultural labor. This decline was not so strong in the last years as a result of the economic crisis which fostered the transfer of active population in other agricultural sectors [2].

An important challenge is the equal distribution of direct payments, because in some cases farmers that cultivate the same crop can receive different payments. Similarly, like in other member states, in Spain is present an unequal distribution of payments resulted from CAP development, diversity of production and the use of historical references to fix the decoupled payments per farm.

In Spain, the main institution responsible for the administration and coordination of Single Payment Scheme (SPS) is Spanish Agrarian Guarantee Fund (FEGA). FEGA is an autonomous organization under the Spain Ministry of Agriculture, Food and Environment (MAGRAMA) aimed to ensure that CAP subsidies are strictly applied in order to achieve the objectives of the policy, reaching the beneficiaries who have met the requirements established for their concession, within the timescales laid out in the regulatory legislation, while promoting homogenous application of CAP subsidies other the whole state territory.

According to FEGA, in 2011 the 74% of beneficiaries received only 15% of total payments. This fact demonstrates the significance of small farms, an important concentration of the payments resulted from the historical payments differences. In addition, regional differences in the support level can be noticed, as result of the Spain product diversity and specialization of agricultural sectors (Figure 2).

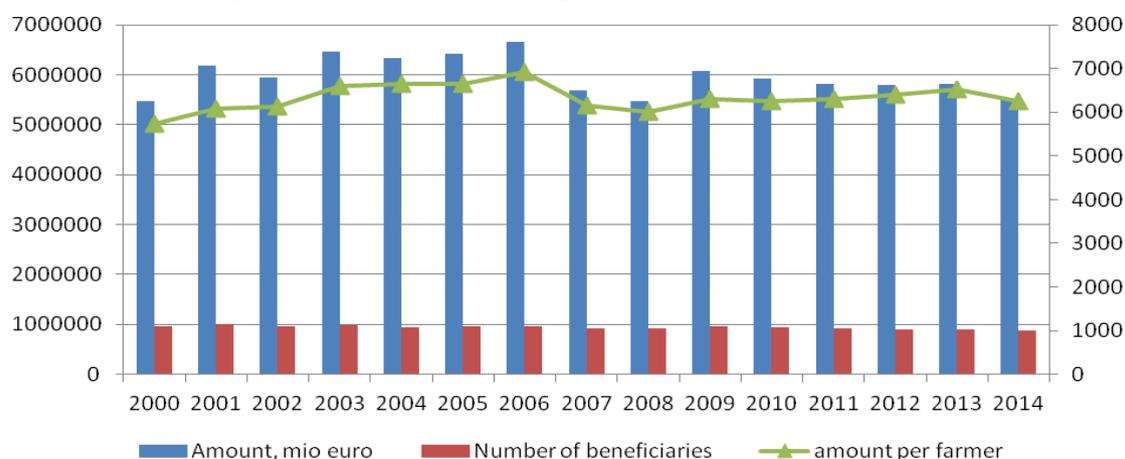


Fig. 2. Distribution of direct payments in Spain

Source: Based on FEGA data.

In the last fifteen years in Spain were allocated more than 89 billion euro as direct payments under CAP. The average amount was of 5968 mio euro per year. In 2006 for Spain as direct payments was allocated the largest amount of 6694 mio euro for 962 thousands agricultural producers. The reason was that in this year the total amount of direct payments allocated to member countries increased as well.

The average value of the single payment right (SPR) does not reach 200 euro per hectare in regions as: Madrid, Asturias, Cantabria y La Rioja, and in the CCAA (autonomous communities) with intensive irrigated crops or olives growth, like Murcia and Andalucia is over 400 euro/ha (Table 1).

Table 1

Distribution of payments in Spain in territorial aspect, 2014

Autonomous region	Amount, Euros	Number of Beneficiaries
Not territorialized	-78.026.541,03	1
Andalucía	1.594.943.969,92	267.987
Aragón	439.524.016,51	49.108
Asturias	62.096.839,8	11.081
Illes Balears	25.643.814,94	7.136
Canarias	266.868.200,96	15.623
Cantabria	40.156.216,19	5.370
Castilla-La Mancha	754.972.554,08	135.546
Castilla y León	892.216.583,82	88.286
Cataluña	294.966.839,89	55.032
Extremadura	517.077.948,73	64.858
Galicia	165.792.999,97	35.057
Madrid	43.295.781,19	6.853
Murcia	108.315.977,88	14.790
Foral de Navarra	107.382.071,09	15.804
País Vasco	55.124.170,18	10.213
La Rioja	45.383.478,1	7.882
Valencia	157.670.855,35	88.188
Total	5.493.405.777,57	878.655

Source: Based on FEGA and MAGRAMA data.

Analyzing the territorial distribution of direct payments in Spain, the leader by both amount and number of agricultural producers who benefitted is Autonomous Community of Andalucia, followed by Castilla y León and Castilla-La Mancha. Nevertheless, the amounts distributed by farm were larger in the last two regions, compared to Andalucia region were the number of beneficiaries was also higher.

Because of the high production diversity in Spain and the existence of a large area without the historical right to payment have as consequence the variability in the regional payment per hectare which is higher in Spain than in other European countries. If in Spain the average payment per hectare is 202 euro and the average real is 285 euro, in other countries as France or UK the differences are smaller. In France the average payment per hectare is 294 euro and 300 euro the average real and in UK 212 and 229 euro [2].

Conclusions. Since 1990s, direct payments had become the main tool to support EU farmers. At the beginning, all payments were coupled to area or animals and were aimed at compensating farmers for cuts in price support. Later gradually all payments became decoupled from farmers production decisions and previous supports receipts were used as reference in order to decide the rate of payment that must be allocated to each farmer.

In Spain, this process started to be applied in 2006, at the beginning with the regime of partial decoupling, maintaining the payments most coupled possible form the fear that its abolition would lead to the abandon of the agricultural activity. With the CAP reform until 2012, the coupled payments disappeared, being integrated under the Single Payment Scheme or transformed into additional payment. The new decoupled direct payments contribute to a higher stability of farm incomes and create exposed market oriented agriculture.

Unfortunately, the distribution of direct payments in Spain, similar to other member states, is unequal, being caused by CAP development and diversity of production and the use of historical references to fix the decoupled payments per farm.

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