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## **The Distribution of Direct Payments of CAP to producers amongst EU Member States**

**Abstract.** The paper attempts to contribute to the discussion of the agricultural support distribution in the framework of Common Agricultural Policy of the European Union. Author used European Commission statistics of direct payments to explore the distribution patterns across farm holdings in EU Member States. The results show that distribution of direct payments is skewed towards a small number of very large holdings in a few Member States. Across the whole EU, 85% of direct payments funded from common budget went to the largest 19% of their recipients in 2005. In Poland, income from direct payments was also unfairly distributed.

**Key words:** direct payments, common agricultural policy, distribution, producers, European Union

### **Introduction**

An important objective of expenditure under the Common Agricultural Policy (CAP) is to redistribute income or wealth. Market and income measures of the CAP are those measures most closely linked to farming. Income support covers direct payments to producers which have been the major areas of CAP expenditure.

Income distribution as a problem of agriculture has attracted the interest of many researches [see for example Buckwell & Tangermann 1999, Zanas 2002, Anders et al. 2004, A Bond... 2004, Martens 2005, Equity and Development ... 2005, Baldwin 2005, Schmid et al. 2006a.]

The current agricultural policy instrument of direct payments to producers might be seen very much as a form of social welfare rather than agricultural policy instrument.

However, for example, according to Baldwin [2005], the CAP is a dooH niboR scheme (that's Robin Hood spelled backwards). At least in England, the CAP pays peanuts to most farmers while handing impressive amounts to big landowners, with the financing for all this support pro rata among all EU Member States, rich and poor alike. The pattern is very similar everywhere the detailed data have been released<sup>2</sup>.

In this context, the paper focuses on the allocation of direct payments to European Union farms/producers comparing their distribution between aid categories of beneficiaries in 2005.

### **Aim, data and methodology**

The paper attempts to contribute to the discussion about agricultural support distribution in the framework of Common Agricultural Policy (CAP) of the European

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<sup>2</sup> Online database of European Union farm subsidy payments is available at <http://farmsubsidy.org>

Union (EU).

Data on direct payments of several EU Member States are used to present how the distribution among farm holdings and countries differs. The data were drawn from the European Commission reports [Report ... 2005, Report... 2006].

Pursuant to Commission Regulation (EC) No 2390/1999, the services of the Commission receive from the Member States, on an annual basis, data on the payments made to the beneficiaries of the EAGGF Guarantee Section. Commission Regulation (EC) No 419/2002 permits aggregation of these detailed records. Tables and figures presented in the paper have been created using these data.

The data cover the expenditure paid as direct aid according to Council Regulations (EC) No 1259/1999 and No 1782/2003 for financial year 2005 and are based on the total amounts aggregated by every individual beneficiary identification code. Part of the expenditure (ca 3.6%) has been excluded since missing information on the final beneficiary or because of the recognized cases of problems with the identification code. Numbers of beneficiaries less than 10 have been made invisible in the tables and figures (in order to protect the anonymity), although they appear in the totals.

The figures for the 2005 financial year are based on direct payments made to beneficiaries from 16 October 2004 until 15 October 2005. In order to compare the information across all Member States, all expenditure has been converted into euro.

## **Direct payments as a tool of the CAP**

Until 1992, market price support and supply control policies were the major instruments of the CAP. In 1992, the EU adopted a radical reform of the CAP (MacSharry reform) which began the process of decoupling income transfers from agricultural production. Within the context of agriculture, decoupling means gradual reduction of the support prices for the main agricultural products and the compensation of farmers for the consequent revenue loss in the form of direct payments [Decoupling... 2001].

As a result of 2003 CAP reform, “single farm payments” (income support) have been introduced as a substitute of direct payments from 2005 on. They are based upon past entitlements of the individual holding obtained during the reference period 2000-2002 or are averaged across a region (i.e. are equal for all producers in a certain area).

Direct payments made under the CAP have been extended to Central Europe. In most of the new Member States, including Poland, direct payments have been phased in through the transitional system of the Single Area Payment Scheme (SAPS)<sup>3</sup> which generally relates to a flat rate area-based payment, with the possibility of a Complementary National Direct Payment (CNDP)<sup>4</sup>. Under SAPS, financial aid for agricultural holdings is granted on a proportional basis to the area of agricultural land, regardless of the type of agricultural

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<sup>3</sup> Eight new Member States (except Slovenia and Malta) chose SAPS due to the fact that they were not prepared for the operation of the sophisticated system of the direct payments in the EU-15.

<sup>4</sup> In Poland, pursuant to the Act of 26 January 2007 on direct payments to agricultural land [Dz. U. of 2007 No 35, item 217], direct payment scheme is composed of two parts: SAPS and CNDP. Under SAPS, payments are granted where farmers have eligible hectares of agricultural land and forage area at their disposal. There is no obligation to cultivate this land except to keep it in good environmental/agricultural condition. Under CNDP, farmers receive support for having agricultural land with specific usage (e.g. cereals, oilseeds); payments do not depend on yields.

activity. As payments are coupled to land, they will be strongly reflected in land prices.

By 2011 at the latest, those states will apply the regional model of the Single Payment Scheme. The level of community direct payments in the new Member States will progressively increase from 25% of EU-15 level in 2004 to 100% in 2013 financial year at the latest. So, until 2013 farmers in the “East” and those in the “West” will be treated differently.

Direct payments have been the most important tool of the CAP and fiscal policy in the EU. Before the implementation of Agenda 2000 (i.e. in the 2000 financial year reflecting entitlements incurred in 1999) they amounted to 25.5 billions euros, representing 63% of the CAP expenditure under the Guarantee Section of the EAGGF. After the implementation of Agenda 2000 (the 2005 financial year) they reached 33.7 billions euros (69%). Considerable increase in direct payments between 2004 and 2005 resulted from the payments for SAPS in the new Member States (1.48 billions euros).

The 2003 CAP reform raised expectations about mitigating the income/agricultural support distribution highly skewed towards the largest, high-income farm units [Schmid et al. 2006b]. But it is unlikely that the distribution of payments by size of farm will be very different in the future than it was just since they are mainly based on the historical entitlements.

## **How did distribution of direct payments vary across states and producers?**

The breakdown of direct payments by Member State and size of payment for the 2005 financial year was presented in Table 1 and Figure 1.

In 2005, 6.945 million farm holdings in the EU-25 received direct payments amounting to 32.5 billion euros.

For the 2005 budget year, reflecting the first year after enlargement, comparison between the 25 Member States is somewhat problematical as for the new Member States (EU-10) direct payments were at their lowest level, only at 25% of the full amount.

Those countries accounted for around 19% of the agricultural area but in 2005 received 4.5% of direct payments in EU-25, relatively four times less. But it should be stressed that direct payments described in this paper only cover the support provided from EU budget and therefore do not comprise the complementary national direct payments allowed in the new Member States.

For the EU-25 direct payments from the EU budget were not equally distributed. This distribution was skewed towards larger units: 1.4% of the recipients got 29.5% of the transfers (Table 1). In 2003 the corresponding numbers were 1.5% and 27% respectively [Schmid et al. 2006a].

In EU-15, ca 20% of beneficiaries received around 80% of the direct payments. In EU-10, ca 11% of beneficiaries received around 39% of the direct payments.

Small but influential group of gigantic farms (1.06 thousand of farms receiving more than 500,000 euros) accounted for only 2 tenths of one percent of all EU farms; the average payment to these farms was 880,000 euros per year.

On the other end of the distribution, farms receiving below 5,000 euros (81.5% of the holdings) collected 15.4% of direct payments (Table 1). Among them the payment per farm averaged for all farms in this group was 884 euros per year.

Poland was the ninth largest recipient of EU direct payments, accounting for 0.7 billion euros in 2005. The distribution of direct payments, which are based on farm area, is causing uneven income distribution among farmers but this financial support of the EU and national government is a key reason behind the rise in Polish farmers' income. However, area-based payments continue to increase land values benefiting landowners not operators.

More detailed information from the Commission data sets is plotted in Figures 1 and 2 which give the comparison between distribution of beneficiaries in the EU-25 and Poland.

The data for Poland indicate that farms receiving less than 5,000 euros accounted for 99.4% of all beneficiaries and obtained 80.3% of total amount of payments. For those farms, the average payment per farm was 410 euros. About 94.4% of Polish farms received less than 1,250 euros in direct payments; the average annual direct payment per farm in this group amounted to 325 euros – an amount that is too low to make much difference in an increasingly competitive market.

In contrast, in 2005, less than one percent (0.54%) of Polish farmers received nearly 20% of total direct payments. The largest beneficiaries ( $\geq 500,000$  euros) obtained in total 2.33 million euros, however their number is uncovered (less than 10).

Right now, one can at least learn the names of all Polish farmers granted EU direct payments<sup>5</sup>. In 2006, the biggest beneficiaries of direct payments were large corporations, not individual farmers. There was only one farmer in the top ten. Large amounts of euros were pocketed by big landowners, some of them people active on the political scene [Naszkowska 2007, Trębski 2007].

The data for Poland displayed in Figure 3 show that the distribution of CAP payments was actually skewed towards the biggest farms.

The distribution of direct payments varies significantly within the EU as Table 1 and Figure 1 illustrate. The numbers for Hungary, Slovakia, Germany, and Czech Republic are far, far more skewed than the EU-25 numbers. In Hungary, 53.8% of total payments were received by 2.3% of beneficiaries, in Slovakia, 62.6% of all payments went to 4.3% of the beneficiaries, in Czech Republic 40% payments were obtained by 2.9% of beneficiaries and in Germany, 41.5% of all payments went to just 4.1% of the farms.

Countries with a relatively small variation of payments among recipients include Cyprus, Latvia, Lithuania, Malta, Slovenia and Poland.

The differences in distribution of direct payments inside the EU reflect: division between old and new Member States, the various past aid regimes for different supported products, the differences in agricultural product specialization between countries and in Common Market Organisations. Thus, this distribution between Member States generally reflects the allocation of agricultural area and of livestock between them. In consequence, producers of countries specialized in milk production, in horticulture, in pigs and poultry or in Mediterranean products obtained less direct payments.

According to Tangermann [2003, 2004] while decoupling had been a big step forward in overcoming the problems of past forms of agricultural support, the next major step in policy development is in targeting support to specific objectives (environmental objectives, biodiversity, rural poverty alleviation etc.).

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<sup>5</sup> In Poland, the list of all beneficiaries of direct payments and sugar payment (covered the year 2006) was released for the first time by Agency for Restructuring and Modernization of Agriculture in July 2007. Online database is available at <http://www.arimr.gov.pl>

Table 1. Distribution of direct payments between beneficiaries in Member States, 2005 financial year

Aid categories (‘000 €)	BE	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LV	LT
Cumulative % of amount													
< 0	-0.03	0.00	-0.17	0.00	0.00	-0.01	0.00	0.00	0.00	-0.01	0.00	0.00	0.00
<0-1,25)	0.92	2.30	0.31	0.75	22.86	14.90	4.42	0.49	0.86	10.23	63.38	54.31	57.03
<1,25-2,0)	2.00	4.01	0.90	1.56	28.58	24.12	7.50	1.01	2.17	15.16	72.66	61.68	63.90
<2,0-5)	8.58	8.84	4.49	6.10	42.36	51.32	18.52	3.55	11.11	29.72	89.06	74.45	74.86
<5-10)	23.84	13.65	11.86	14.73	53.87	75.28	32.38	9.78	29.99	44.68	95.98	83.20	81.51
<10-20)	49.56	19.64	26.66	31.44	68.22	91.61	52.01	26.27	57.94	60.95	98.63	91.29	86.70
<20-50)	84.31	34.20	63.58	58.43	89.06	98.26	77.31	69.17	86.78	77.50	100.00	98.03	93.71
<50-100)	97.15	59.97	85.86	69.59	96.57	99.44	88.56	93.69	96.55	87.02	100.00	99.58	98.86
<100-200)	99.24	87.74	93.80	77.13	100.00	99.76	94.98	99.24	99.50	93.14	100.00	100.00	100.00
<200-300)	99.56	96.44	95.83	81.84	100.00	99.84	96.84	99.71	99.90	95.23	100.00	100.00	100.00
<300-500)	99.89	99.47	97.03	89.04	100.00	99.92	98.02	99.83	100.00	97.08	100.00	100.00	100.00
≥ 500	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Aid categories (‘000 €)	BE	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LV	LT
Cumulative % of number of beneficiaries													
< 0	1.20	0.00	0.40	0.02	0.00	0.00	0.04	0.06	0.07	0.00	0.00	0.00	0.00
<0-1,25)	17.81	45.53	14.33	18.87	86.93	66.16	51.56	16.44	12.80	69.35	97.03	95.92	96.65
<1,25-2,0)	24.76	57.78	20.53	26.46	91.04	76.31	61.11	21.96	20.51	77.46	98.43	97.65	98.17
<2,0-5)	44.71	75.23	38.65	46.75	95.99	91.30	78.02	35.05	45.34	89.40	99.68	99.21	99.43
<5-10)	66.63	83.09	55.89	64.81	97.84	97.40	87.77	49.67	70.08	94.97	99.91	99.68	99.76
<10-20)	85.73	87.96	73.31	82.30	99.00	99.54	94.63	69.16	88.98	98.03	99.97	99.90	99.89
<20-50)	97.71	92.99	93.08	95.88	99.79	99.96	98.87	92.75	98.35	99.48	100.00	99.99	99.97
<50-100)	99.79	97.11	98.70	98.39	99.95	99.99	99.70	99.18	99.76	99.84	100.00	100.00	100.00
<100-200)	99.98	99.46	99.75	99.21	100.00	100.00	99.94	99.95	99.98	99.96	100.00	100.00	100.00
<200-300)	100.00	99.89	99.90	99.50	100.00	100.00	99.98	99.99	100.00	99.98	100.00	100.00	100.00
<300-500)	100.00	100.00	99.96	99.78	100.00	100.00	99.99	100.00	100.00	99.99	100.00	100.00	100.00
≥ 500	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Table 1. Continued from previous page

Aid categories ('000 €)	LU	HU	MT	NL	AT	PL	PT	SI	SK	FI	SE	UK	EU25
Cumulative % of amount													
< 0	0.00	0.00	0.00	-0.09	-0.02	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01
<0-1,25)	0.46	18.15	63.61	2.58	3.41	60.42	12.18	71.35	2.72	1.26	1.13	0.41	4.90
<1,25-2,0)	0.78	23.74	81.09	5.67	7.18	70.19	16.86	83.21	3.61	3.23	2.26	0.88	7.24
<2,0-5)	3.62	35.73	100.00	23.94	26.07	80.27	28.67	91.62	6.64	17.30	8.39	3.63	15.37
<5-10)	13.73	46.22	100.00	53.68	53.39	84.07	39.25	93.10	10.10	44.38	20.40	9.28	26.67
<10-20)	44.15	60.62	100.00	68.94	80.53	88.02	49.12	93.97	16.42	74.56	41.79	20.00	43.44
<20-50)	87.67	69.08	100.00	80.42	95.00	94.18	65.58	95.00	37.37	95.80	74.05	45.01	70.54
<50-100)	98.80	78.98	100.00	86.64	97.45	97.26	81.84	96.19	67.88	99.32	90.11	69.96	85.66
<100-200)	100.00	92.13	100.00	89.38	98.18	99.12	94.00	97.98	92.84	99.76	96.33	88.66	92.85
<200-300)	100.00	95.91	100.00	90.27	98.62	99.46	97.61	100.00	98.83	99.91	98.08	94.41	95.11
<300-500)	100.00	98.16	100.00	91.00	98.83	99.67	99.03	100.00	100.00	100.00	98.70	97.94	97.13
≥ 500	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Aid categories ('000 €)	LU	HU	MT	NL	AT	PL	PT	SI	SK	FI	SE	UK	EU25
Cumulative % of number of beneficiaries													
< 0	0.00	0.00	0.00	0.48	0.20	0.00	0.04	0.00	0.00	0.01	0.00	0.17	0.04
<0-1,25)	13.20	83.72	98.74	25.74	28.41	94.44	77.57	95.21	75.36	13.49	21.47	15.33	62.80
<1,25-2,0)	16.24	89.30	99.58	36.43	39.98	97.66	84.33	98.54	79.09	22.12	29.24	21.57	69.72
<2,0-5)	27.41	95.31	100.00	66.35	68.09	99.44	92.90	99.84	85.41	51.56	49.44	39.06	81.46
<5-10)	46.70	97.65	100.00	90.75	87.32	99.72	96.40	99.95	88.65	78.60	67.97	55.76	88.92
<10-20)	76.65	99.18	100.00	97.18	97.16	99.87	98.02	99.98	91.57	94.18	84.76	71.74	94.45
<20-50)	97.46	99.60	100.00	99.33	99.77	99.97	99.22	100.00	95.71	99.57	96.70	88.54	98.61
<50-100)	100.00	99.81	100.00	99.86	99.95	99.99	99.75	100.00	98.62	99.97	99.38	96.25	99.66
<100-200)	100.00	99.96	100.00	99.97	99.98	100.00	99.95	100.00	99.84	100.00	99.90	99.23	99.92
<200-300)	100.00	99.99	100.00	99.99	99.99	100.00	99.99	100.00	100.00	100.00	99.98	99.74	99.96
<300-500)	100.00	100.00	100.00	100.00	99.99	100.00	100.00	100.00	100.00	100.00	100.00	99.94	99.98
≥ 500	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Notes: Aid categories reflect annual size of payment (in euro) per beneficiary; "Smaller than zero" category covers beneficiaries that in total had to reimburse money to the EAGGF (recoveries, corrections, etc.); BE = Belgium, CZ = Czech Republic, DK = Denmark, DE = Germany, EE = Estonia, EL = Greece, ES = Spain, FR = France, IE = Ireland, IT = Italy, CY = Cyprus, LV = Latvia, LT = Lithuania, LU = Luxembourg, HU = Hungary, MT = Malta, NL = Netherlands, AT = Austria, PL = Poland, PT = Portugal, SI = Slovenia, SK = Slovakia, FI = Finland, SE = Sweden, UK = United Kingdom; Numbers less than 10 are invisible in the table to protect the anonymity of beneficiaries.

Source: European Commission



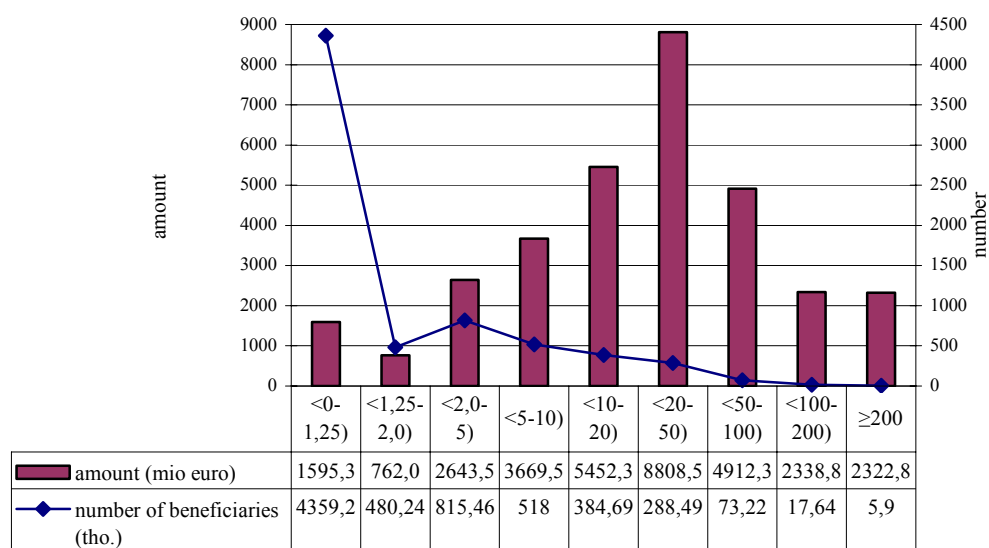


Figure 1. Distribution of beneficiaries and of direct payments in EU-25 by category of direct payments received (in thousands euros), 2005 Financial Year  
Source: Own compilation based on European Commission data.

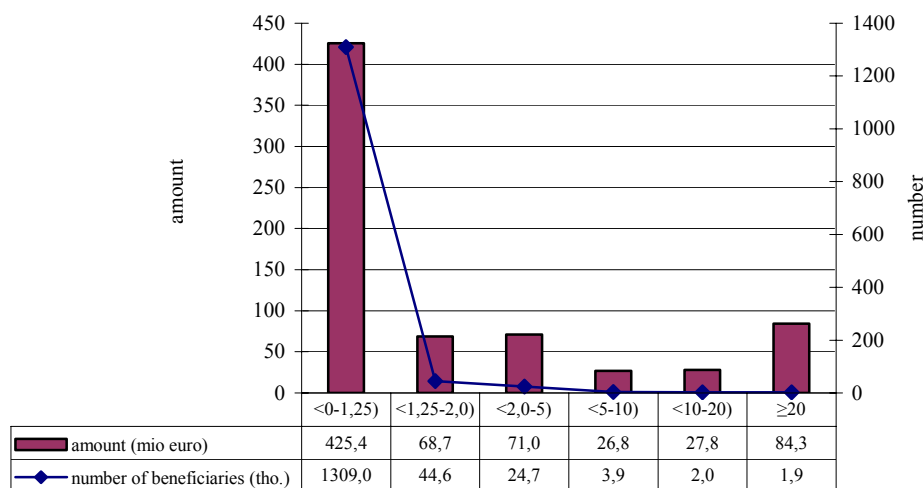


Figure 2. Distribution of beneficiaries and of direct payments in Poland by category of direct payments received (in thousands euros), 2005 Financial Year  
Source: Own compilation based on European Commission data.

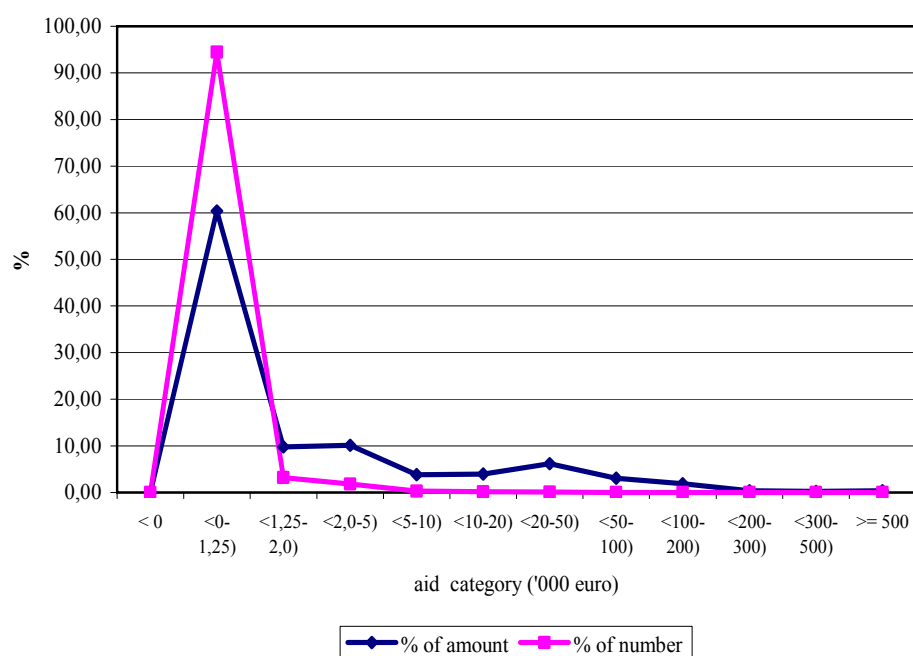


Figure 3. Distribution of direct payments between beneficiaries in Poland, 2005 Financial Year  
Source: Own compilation based on European Commission data.

## Tendencies in and expected developments of the distribution of direct payments

A comparison of the distribution of direct payments, in 2000 and 2005, reveals that the proportion of beneficiaries who collected a small amount was decreasing, as Table 2 illustrates. However, in 2005 this percentage increased compared to 2004.

Table 2. Tendency in distribution of direct payments in the EU-15, 2000-2005

Specification	2000		2004		2005	
	EU-14		EU-14	EU-15	EU-14	EU-15
Average amount per beneficiary (euro)	5015		6708	5781	7268	6327
Producers receiving 5 000 % direct payments	78.6		72.8	76.6	70.8	74.3
euros or less % beneficiaries	17.8		11.6	12.6	15.0	13.5

Notes: The EU-14 without Greece, as the distribution of beneficiaries in not available for this country in 2000.  
Source: Own calculations based on European Commission data [2005, 2006].

There are at least two explanations for this change:

- since on-going structural adjustment (abandonment of farm land and/or increase in size) the number of small holdings decreased;

- the implementation of Agenda 2000 has led to a rise in the level of direct payments collected by each beneficiary (with some beneficiaries changing aid category).

Highly unfair distribution of direct payments between small and large beneficiaries has regularly been questioned. One of the rationales for this questioning was that the CAP makes payments to farm owners, not to farmers (before enlargement about 40% of EU farmland was not farmed by its owner). The European Commission also has expressed on many occasions its concern with the method of distribution. In the 1992 reform, in Agenda 2000 and in the 2003 reform, the Commission proposed mechanisms to decrease or to limit the amount of direct payments of largest beneficiaries (ex. at 300,000 euros in single farm payments every year) but this proposal met with such a stiff opposition that it had to be withdrawn.

What are the expected developments of the distribution of direct payments in coming years?

According to European Commission [2006], this distribution is supposed to be affected by:

- The long-term structural development of the agricultural sector towards a reduction in the number of farms and an increase of their size.
- The model of implementation of the Single Payment Scheme (SPS) adopted by Member States. The system based on the historical payments (basic/historic system) is not expected to have a direct effect on the distribution of payments but the regional (flat rate) or the hybrid/mixed (being combination of the two) systems will generate some redistribution of direct payments between beneficiaries.
- The tradability of premium rights<sup>6</sup>, as well as its various implementing rules and conditions that may apply in each Member State.
- The introduction of the 5,000 euros “franchise” in the compulsory modulation (i.e. reduction in direct payments) mechanism; direct payments up to an amount of 5,000 euros per farm will remain free of reductions and will be exempted from financial discipline. Modulation for bigger farms started with a rate of 3% of direct payments in 2005, 4% in 2006 and will stay at 5% respectively from 2007 onwards until 2012. According to financial discipline, starting in 2007, a decline in direct payments will be proposed by Commission when forecasts indicate that the spending on CAP will be exceeded in a given budget year.
- In the new Member States, modulation and financial discipline will not apply until direct payments reach EU-15 levels (2013). The distribution of direct payments in those countries should reflect the structural changes in agriculture.

## Conclusions

1. The bulk of CAP payments come in the form of direct income support to farmers. The figures, which relate to the 2005 financial year, show that across the whole EU, 85% of direct payments go to the largest 19% of Europe’s farms (beneficiaries).

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<sup>6</sup> Single farm payment includes former arable payments, beef premia and milk premium etc. Premium rights (entitlements) can be transferred.

2. For the small farmers, the direct support does not exceed 5,000 euro a year. Such farmers constitute 81.5% of all beneficiaries.
3. While the direct payments to small farmers can, in the long run, be convincingly justified in terms of income policy or in terms of the socio-economic context, it is obvious that small number of rich farmers in Europe is placed at an unjustified competitive advantage. Moreover, the different levels of the direct payments between the EU-10 and EU-15 have not ensured a level playing field.
4. In the context of social welfare system, CAP income support is quite unlike any other; apart from the fact that payments principally benefit the biggest farms in the richest EU countries, they are not linked to the income levels in the rest of national society, there is no maximum value of claimed income support, nor any maximum time period for its eligibility.
5. From an economic point of view, the key question is whether and under what circumstances the EU should continue direct payments as a specific, sectoral income policy in the long run. Redefining direct payments as a social policy instrument is also necessary. They must have a different basis than at present so as to achieve sustainable objectives [see also Buckwell & Tangermann 1999].
6. The Single Payment Schemes cannot be considered a good basis for the future of EU agricultural policy given that they are the continuation or sometimes modification of past support to agriculture and have established a powerful interest group in favor of their continuation, despite their advantages or disadvantages [see also Thomson & Davidova 2007].

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