



Аграрен университет – Пловдив, Научни трудове, т. LVII, 2013 г.
Втора българо-полска научнопрактическа конференция
София–Крапец–Добруджа, 9-14 септември, 2013
Agricultural University – Plovdiv, Scientific Works, vol. LVII, 2013
Second Bulgarian-Polish Scientific and Practical Conference
Sofia–Krapets–Dobrudzha, 9-14 September, 2013

**ДИРЕКТНИ ПЛАЩАНИЯ – ВЪЗДЕЙСТВИЕ ВЪРХУ ПРИХОДИТЕ И
ЕФЕКТИВНОСТ НА ЗЕМЕДЕЛСКИТЕ СТОПАНСТВА В ПОЛША
DIRECT PAYMENTS – IMPACT ON INCOME AND EFFECTIVENESS OF
AGRICULTURAL HOLDINGS IN POLAND**

**Марек Вигиер
Marek Wigier**

Институт по икономика на селското стопанство и продоволствието –
Национален изследователски институт (IERiGŻ-PIB), Варшава
Institute of Agricultural and Food Economics - National Research Institute
Warsaw

E-mail: wigier@ierigz.waw.pl

Abstract

Direct payments are an instrument of support for the income of agricultural holdings, commonly used in all Member States of the European Union. Between May 2004 and December 2012, the value of payments for farmers in Poland exceeded PLN 90 million, which accounted approximately for 54% of support provided under CAP. The aim of this article is to discuss the most important reasons for introducing the direct payments scheme in the EU, to analyse the direct payments scheme in Poland and to present, on the basis of research based on FADN data and on own survey data, the impact of direct payments on the income and effectiveness of agricultural holdings in Poland.

Key words: direct payments, effects of agricultural policy, income of agricultural holdings

REASONS FOR INTRODUCING DIRECT PAYMENTS TO CAP

Direct payments had been introduced to the Common Agricultural Policy on 1992, under the so-called MacSharry reform, as an instrument of support for the income of agricultural holdings. At the time, the payments were considered compensation for the reduction of agricultural income as a result of cuts in prices of agricultural products (cereals, oleaginous, high-protein, beef and veal). The amount of payments varied depending on the type of production. It was determined on the basis of crops, cultivation area and animal population in the reference period. EU measures in this respect were forced e.g. by the growing production surplus on agricultural markets, and thus by the increasing intervention costs, as well as by international agricultural negotiations on the World Trade Organisation forum with regard to the limitation of support for produce. Modification of the form

of subsidising agriculture through substitution of produce support with direct support guaranteed that the previous level of income of agricultural producers remained unchanged. With the MacSharry reform, for the first time in the history of the Common Agricultural Policy, the principle of dividing support for income and the quantity of produce was introduced. The relationship between the produce and the subsidised income actually ended. At the same time, the new scheme permitted easy transfer of the economic surplus to the agricultural sector without the need of the market mechanism. The changes secured the income of agricultural producers with the effect of reducing market prices [Žmija, 2011].

Another CAP reform under the so-called Agenda 2000 reduced the guaranteed/intervention prices and increased the amount of direct payments. Direct payments were also the subject of decisions of the Luxembourg CAP reform of 2003, which specified the form of CAP for years 2007-2013. An important component of the 2003 reform was to leave the decoupling reform while replacing the majority of the previous payments for specific types of produce with a Single Payment Scheme (SPS) which did not depend on the quantity of produce. Such a direction of CAP reforms improved market orientation, i.e. allowing more freedom to farmers with regard to their decisions concerning production and to the adjustment of the quantity and structure of the produce to the signals incoming from the market. Direct payments were disconnected from the need to generate a specific produce, and their value was linked with payments from historical reference period. The new scheme guaranteed that the income of agricultural producers would remain at the level similar to parity. The aim of the reform was also to reduce the amounts of payments for the largest holdings in order to strengthen the measures supporting rural development (the modulation principle), introduce financial discipline and the cross-compliance principle¹.

The Luxembourg reform was continued with the CAP reform of 2004, which covered the market of tobacco, hop, cotton and olive oil; with the 2005 reform applicable to the sugar market; as well as with the fruit and vegetable market reform of 2007. All those measures were aimed at consolidation of the forms of support and at division of the value of payments and the quantity of produce. 2008 EU agricultural policy review, the so-called Health Check, and the achieved understanding was the further continuation of the measures aimed at full division of all forms of direct support, from produce to 2012 [CAP reform, 2009]. Agriculture became perceived as an activity necessary for the maintenance of rural landscape and rural production area [Czyżewski, 2007]. The EU argued that decoupled direct payments did not affect the conditions of international trade. In order to legitimise the support for agriculture from public funds, the need for agriculture to ensure the newly defined food security, food safety, agricultural multifunctionality, market instability or global threats (including climate change) was emphasised.

¹ A scheme where the amount of payment depends on the farmers' meeting specific standards and requirements. They mainly include keeping the land in Good Agricultural and Environment Conditions (GAEC) and meeting Statutory Management Requirements (SMR).

The direct payments remain the largest budgetary item in the EU that is allocated to the support of agriculture (69% in 2010, 61% in 2000). At the same time they play an important role in the creation and stabilisation of income in EU agriculture. In years 2008-2011, in the EU-27 the share of payments in generating farmers' income was approximately 60%, whereas in the EU-15 that share was higher than in the EU-12. In some former EU-15 Member States such share would account even for 100% of the generated income, which means that without payments such income would not have been generated and agriculture would have incurred losses. The important fact is that at present the share of direct payments is decisive for the volume of generated income in each EU Member State [Wilkin, 2009].

POLISH DIRECT PAYMENTS SCHEME

Poland, like the majority of the new EU Member States, applies the Single Area Payment Scheme (SAPS), under which Single Area Payments (SAP) and Complementary National Direct Payments (CNDP) are provided. Moreover, Polish farmers may receive other payments, such as sugar payments, tomato, soft fruit, energy plants and hop payments, as well as special support in the form of cow and sheep payments and special payments for small-seed leguminous and papilionaceous plants. Payments are granted per each hectare of crops in good agricultural condition in an agricultural holding whose area exceeds 1 ha. Total area entitled to payments in Poland is 14.1 million ha. The default level of Single Area Payments received by Polish farmers was much lower than the average payments in the EU-15. This resulted from the fact that Poland was covered by a 10-year transition period (Figure 1). At the same time, complementary payments were paid from the state budget.

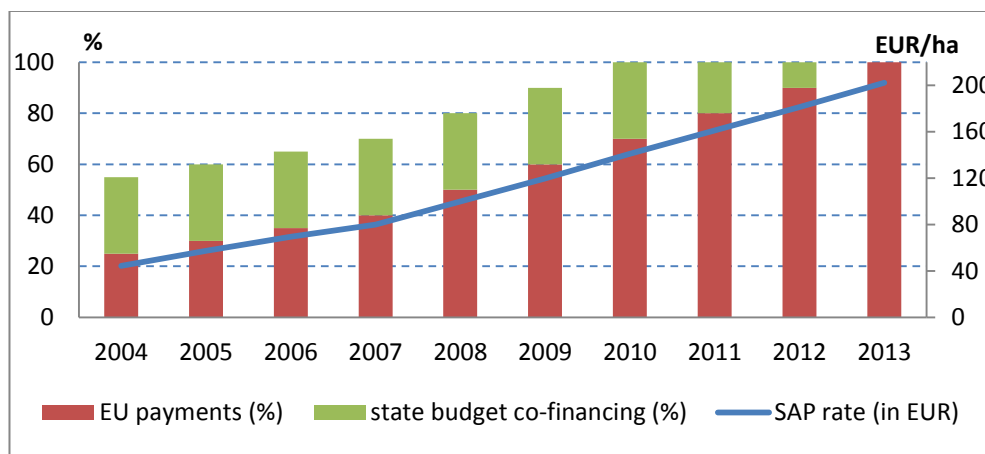


Figure 1. Level and rates of payments

The total amount of support under SAP and CNDP, denominated in PLN, increased from approximately PLN 503 in 2004 to PLN 984 in 2011. Due to the appreciation of Polish currency in 2012 against EUR, payment per hectare dropped compared to the previous year to PLN 943 (Table 1).

Table 1. Value of SAP and CNDP payments in years 2004-2012

		2004	2005	2006	2007	2008	2009	2010	2011	2012
SAP	PLN/ha	210.53	225	276.28	301.54	339.31	506.98	562.09	710.57	731.72
CNDP		292.78	282.35	313.45	294.91	269.32	356.47	327.28	274.23	211.80
Total SAP and CNDP		503.31	507.35	589.73	596.45	608.63	863.45	889.37	984.8	943.52

Moreover, in Poland, as it is the case in other EU Member States, additional forms of supports are used in the form of:

- Animal payments – introduced in 2007 and relating to payments to the area of fodder crops cultivated on permanent grasslands.
- Tomatoes and soft fruit payments (from 2008).
- Specific support scheme (from 2010), covering three measures: support for cow breeders in the voivodeships of south-eastern Poland (“cow payments”); support for sheep breeders in the voivodeships of southern Poland (“sheep payments”); and support for farmers growing small-seed leguminous and papilionaceous plants (“special area payments”). In 2012 the new support instrument was launched for tobacco (support for the improvement of the quality of agricultural products in that sector).

Total EU-27 budget for CAP in years 2007-2013 exceeds EUR 374.5 billion. Poland will receive approximately EUR 28.3 billion from the budget in that period. Agricultural policy will be co-financed also from the national budget with the amount of approximately EUR 8.2 billion. Total budget for the implementation of CAP in that period will thus exceed EUR 36.5 billion.

Under the Single Area Payment Scheme, farmers will receive approximately EUR 15.1 billion, which will be supplemented with EUR 4.2 billion of Complementary National Direct Payments. The remaining EUR 13.2 billion, supplemented with EUR 4 million from the state budget, will be allocated to the implementation of RDP 2007-2013.

The analysis of the absorption of funds under CAP shows that Polish farmers received approximately EUR 42 billion (PLN 167 billion) of financial aid between 2002 and end of June 2013 (Figure 2). The majority of payments, i.e. over PLN 90 billion, were granted to Polish farmers under the direct payments scheme. The main items in such payments were Single Area Payments (60% of the amount of total payments) and Complementary National Direct Payments (30% of the amount of payments). Other forms of complementary payments were insignificant in terms of the total budget of granted direct payments (e.g. animal payments accounted for 5% of total budget of payments and sugar payments accounted for 4%)

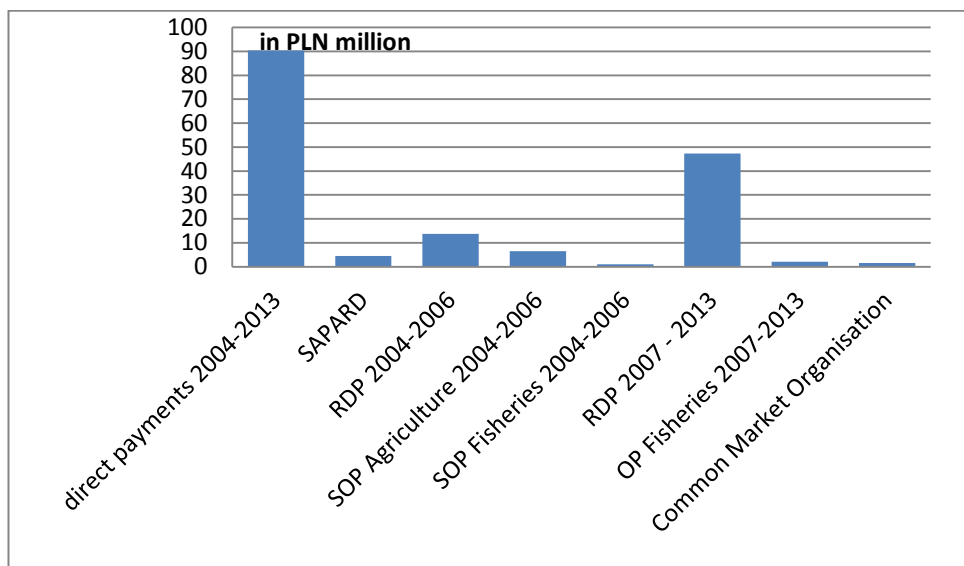


Figure 2. Payments under CAP between January 2004 and June 2013

Source: Own compilation on the basis of ARMA data published in annual reports on the Agency's activity and in reports on the implementation of respective schemes, available at: www.arimr.gov.pl

IMPACT OF DIRECT PAYMENTS ON THE INCOME AND EFFECTIVENESS OF AGRICULTURAL HOLDINGS

Direct payments have a very strong impact on the economic status of agricultural holdings. Current rules of distribution of support for agricultural holdings in the EU in the form of direct payments maintain unequal competition between Member States. This primarily follows from the amount of support intended for payments under multiannual budgets. In 2010, the share of EU-15 in the envelope of direct payments amounted to 86.33%, while EU-12 accounted only for 13.76% [Zahrnt, 2011]. Another problem with maintaining equal competition between Member States is significant diversification of the rules of payment distribution among sectors and agricultural holdings, both within the country and between different Member States. Each Member State applies a different support scheme. Attempts of the new Member States to consolidate the scheme within the EU-27 proved ineffective.

It was assumed that direct payments were to, above all, stabilise (decoupled) agricultural income and influence production standards in agricultural holdings. Farmers were obliged to observe basic environmental standards, conditions of keeping animals and land in good agricultural condition, and food security standards. Compliance with these rules preconditioned payments. However, it was not always possible to achieve this effect. Subsidising agricultural holdings does not imply they would keep high environmental protection standards [Kleinhanss et al., 2007]. In order to enforce more environmental-friendly farmers' approach, separate environmental measures co-financed from the second pillar of CAP were also introduced to complete the current direct payments scheme. The generality of the direct payments scheme and homogeneity of the rate paid to the farmer per 1 ha of land results in the so-called free-riding, i.e. lowering the efficiency of implementation of the demanded behaviour. In Poland, direct payments were

additionally and informally attributed a social role [Gorzelak, 2010]. Even with a relatively low level of payments, in the smallest agricultural holdings payments are a stable and sustainable source of income depending solely on submitting a relevant application.

The impact of direct payments on the income situation of various types of production holdings can be described e.g. on the basis of agricultural accounting data of the Polish FADN. The analysis² conducted for 2009-2011 indicates that the value of production per farm increased steadily from PLN 72,000 for more than PLN 97,000 (Fig. 3). The increase in production was directly related to the systematic improvement of economic situation in agriculture. At the same time, though to a lesser extent, the cost increased from PLN 66,000 to PLN 78,000 per holding. Their share in the production, however, was significant and amounted to nearly 84%. However, farm income reached an average level of about PLN 32,000 (PLN 22,000 in 2009 and PLN 39,000 in 2011). However, subsidies to operating activities still has a significant share in the income. They ranged from PLN 15,000 to 25,000 per farm depending on the type of production. On average, it amounted to nearly PLN 19,000 a year per holding [Grochowska, 2013]. The highest subsidies (more than two times higher than the average) were received by farms with field crops whereas the subsidy value in horticultural farms was lower by nearly half of the average. The impact of direct payments on farmers' income was large enough to offset with excess the negative effects of climate change and adverse changes in the relation of agricultural product prices and the prices of inputs purchased by farmers. Occurrence of droughts in plant vegetation periods has been increasing for decades, which decreases the harvest of arable crops. The prices of agricultural products increased in 1999-2010 by ca. 41% while the prices of forms of production for agriculture by ca. 66%.

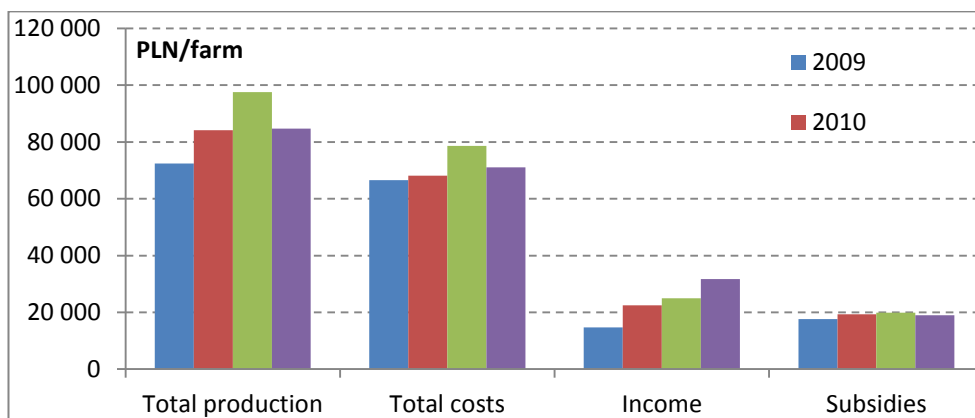


Figure 3. Value of production, costs, income and subsidies in 2009-2011

Source: Calculations on the basis of 2009-2011 FADN data, grouped according to uniform rules and parameters of Standard Output.

² The FADN sample is representative for approximately 750,000 agricultural holdings. The average area of usable agricultural land in the Polish FADN agricultural holdings amounted in 2009-2011 to 16.6 ha and was nearly two times higher than the average in the entire Polish agriculture.

The share of subsidies to operating activities in the income from a family farm was the highest in 2009 (i.e. the relatively worst year within the observed period of economic situation in the agriculture) and amounted to nearly 80% (Fig. 4). With the improvement in the economic situation, this share was steadily declining to 51% in 2011. This means that the financial situation of commercial farms in Poland are shaped to a greater degree by subsidies targeted via a channel outside the market rather than by productive activity. For some areas of production (sheep breeding, cultivation of hops, beef cattle breeding), subsidies for operating activities were even higher than the operating income. This means that some subsidies covered high production costs, which exceeded the income from the sales. The holdings would not be able to operate without subsidies.

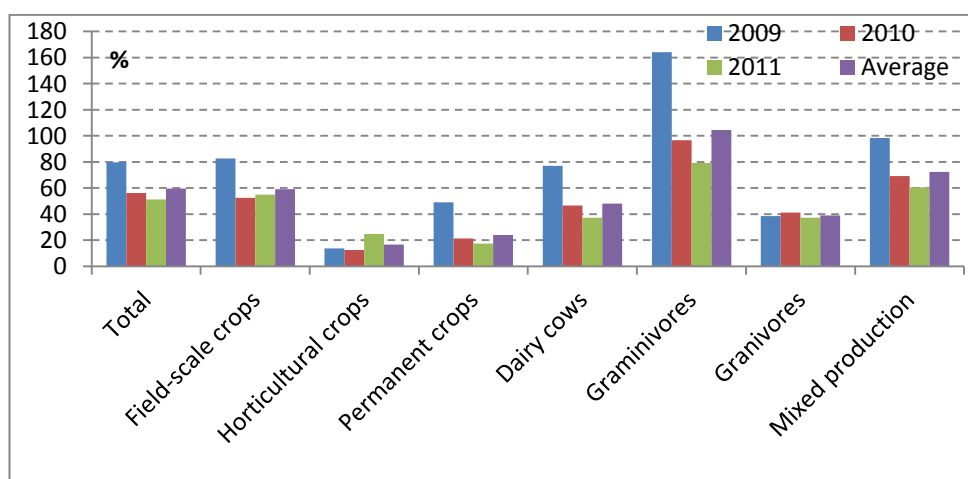


Figure 4. Share of operating payments in the income from family farms (%)

Source: Calculations on the basis of 2009-2011 FADN data, grouped according to uniform rules and parameters of Standard Output.

The research conducted by the IAFE-NRI in 2011 on a sample of 2,487 households³ revealed that 93.4% of surveyed households received basic and supplementary payments and LFA payments – 39.3%. Among other payments, the most frequent ones included sugar, cattle (suckler cows and local breeds) and fruit and vegetables subsidies. The average value of single and complementary area

³ Surveys carried out under the research area entitled “Analysis of the effects of selected instruments of Common Agricultural Policy and Rural Development Policy” of the 2001-2014 multi-year programme were implemented by the courtesy of the research team of Prof. A. Sikorska. This team has been carrying out representative surveys conducted periodically in the same 76 villages from various regions of Poland for many years under “Great Surveys of IAFE-NRI”. The places for the research were chosen deliberately so that they reflect the actual socio-economic characteristics of rural areas, in particular the structure of farms with an area of more than 1 ha of agricultural acreage, both on the national scale and in the regional perspective. The sample covers about 0.2% of the actual number of rural families. In general, 8,500 rural families were covered by the surveys in 2011, including 3,300 families with a farm user.

payments per farm amounted in 2011 to PLN 8,843. There is no doubt that single and complementary area payments represent the most important form of direct income support. The role and importance of these payments depending on the farm size varies. Area payments in smaller farms perform rather a social role whereas in large ones they are the major source of income. This generates differences in the use of the support [Łopaciuk, 2012]. Over 55% of surveyed farmers indicated the great importance of direct support in the farm income, and only 12% its absence.

What direct payments are used for affects the development of production, the level of investment, the direction and pace of structural change and the implementation of non-agricultural expenditure. Unlike many other programmes and public policy instruments, the areas for apportionment of subsidies is not limited by anything. The holding's manager fully decides on where to spend the income earned in this way, i.e. on current consumption, investment or savings. The reasons for the decisions always depend on individual preferences and market conditions [Burfisher ME, Hopkins, 2004]. If production decisions are based on objective parameters shaped by the market, they do not distort the behaviour of agricultural holdings in terms of rational allocation [Smith, Rembisz, 2002]. Such a situation occurs regularly when assuming a perfect competition and perfect markets. However, since we do not have to do with such a situation in the surrounding reality, we assume that the agricultural policy measures implemented in the form of direct transfers influence the decisions of agricultural holding managers, who are guided by rationality in their decisions. Thus, non-economic motives for economic decisions may be justified on the basis of the economic rationality formula. Undoubtedly, both past and future rules for granting direct payments, regardless of their relationship to production, affect the economy, finance and organisation of agricultural holdings and therefore the current investment decisions [Kulawik, 2011].

Direct payments, in large farms in particular, provide incentives for pro-investment behaviour. Farmers use payments for pre-financing of Structural Funds investments or financing of investments as the payments received by them are high and credit their bank account in a single payment. Therefore, they become a part of the financial package. Observed both in Poland and throughout Europe, the concentration of aid in large (in terms of area) agricultural holdings results in that they contribute to the acceleration of the process of concentration of production. They generate a kind of pro-investment impulse aimed at enhancing the competitiveness and improving the agricultural structures. At the same time, however, subsidies may also maintain employment in agriculture. This situation is mainly connected with the functioning of small farms with a social nature, which produce mainly for self-supply. In these entities, they reduce the farmers' willingness to sell land. Hence, they cause the process of slowing down the flow of land from less to more efficient entities and weaken the processes of structural transformations.

Another issue involves the impact of direct payments on production efficiency. Usually, the direct payments accelerate the technological development of a farm. Investments in modern machinery and equipment may contribute to greater efficiency. There is also an opportunity to use the economies of scale that may also have a direct impact on the increase in efficiency. The direct transfers change the

relationship of capital to other factors of production. If the investments conducted on the farm lead to over-investment, farms are less productive. The payments may decrease the willingness of farmers to undertake re-organisation in the production units run by them. By decreasing the probability of bankruptcy, they prevent the farmers from seeking organisational solutions to reduce production costs. Thus a clear negative correlation between the direct payments and the efficiency may be demonstrated, namely the higher the share of payments in the production value, the lower the effectiveness of resources use [Ferjani, 2008]. Payments usually distort the effectiveness, and they often result in its decrease [Kulawik, 2008].

However, not all analyses confirm the thesis of “counterproductivity” of payments [Czubak, 2013]. Research based on the data from the Polish FADN showed that the share of direct payments in the income decreased along with the size (calculated with the value of gross margin in ESU) of farms. The larger the farms, the greater the production and the higher the income per 1 ha, income per one full-time equivalent and the value of total income. The surveyed agricultural holdings failed to show any effects of excessive income or assets. In this case, the payments became the source of financing of expenditure directly linked to production. Although the managers of farms increased the use of production assets owing to payments, still in larger farms (which received more payments both in nominal terms and in terms of income), the productivity and profitability increased faster than in small farms.

SUMMARY

Direct payments are an important aid instrument that supports agriculture under the first CAP pillar. By definition, they allow farmers to increase income without the necessity of increasing the prices of agricultural products. They are a widely available instrument. They are used by 80-90% of agricultural holdings of over 1 ha (in the recent years, about 1.36 million applications have been submitted). However, for all agricultural holdings, this percentage amounts only to 60%. By the end of 2012, Polish farmers received support in the form of direct payments in the amount of over PLN 90 billion. The research on a FADN sample, IAFE surveys and literature sources indicate that payments had a significant contribution to improving the financial condition of farms, improve to the competitiveness of the Polish agricultural sector within the European Union and beyond its borders. On average, the amount of support equalled nearly PLN 9,000 per holding. An equally important source of income (independent of production and based only on the farm's location) is represented by payments for less-favoured areas (LFA). Each year these payments are used by ca. 700,000 farmers, i.e. half of those who receive direct payments. The land surface covered with LFA payments amounts to ca. 6.9 million ha.

A simplified system of direct payments (payment amount depends on the area of an agricultural holding) inhibits transformation of the agricultural structures and causes a faulty allocation of EU aid funds – instead of solving the structural problems of Polish rural areas (low level of education of the population, poor infrastructure, etc.), the current policy of supporting rural areas is focused on transfers to the agricultural sector. Changing this situation will not be easy and will require political courage. It is necessary to find a clear definition of a farm to refer to interactions with the market – the subsistence farms would be classified as agricultural land and deprived of the right to

payments. The foregoing must not mean that this group of holdings will be left without any financial support, on the contrary, the payments should be replaced by Cohesion Policy measures, e.g. to retrain the people involved in it. The farms producing traditional products should be promoted by means of specific aid mechanisms rather than the general system of direct payments.

LITERATURE

Burfisher, M.E., Hopkins J., (2004), Decupled payments in a changing policy setting, USDA ERS Agric. Econ. Rep. 838, pp. 49-54 et seq.

Czubak, W., (2013), Rozwój rolnictwa w Polsce z wykorzystaniem wybranych mechanizmów wspólnej polityki rolnej Unii Europejskiej, Rozprawy naukowe nr 458, Poznań University of life Sciences, pp. 224-225.

Czyżewski, A.(ed.), (2007), Uniwersalia polityki rolnej w gospodarce rynkowej. Ujęcie makro i mikroekonomiczne. Wydawnictwo AE w Poznaniu, Poznań.

Ferjani, A., (2008), The relationship between direct payments and efficiency on Swiss farms, Agric. Econ. 9, 1: 93.

Grzelak, A., (2010), Rolnictwo wobec wybranych wyzwań ekonomicznych, Zeszyty Naukowe SGGW, Ekon. Org. Gosp. Żywn. 85, pp. 5-18.

Grochowska, R., Mańsko S., Seremak-Bulge J., Potrzeby zróżnicowania wsparcia bezpośredniego dla poszczególnych sektorów polskiego rolnictwa po 2013 r. poprzez płatności związane z produkcją, Ekspertyza przygotowana na potrzeby MRiRW, IERiGŻ-PIB, Warszawa 2013.

Kowalski, A., Rembisz W., (2002), Rynek rolny a interwencjonizm – szkic teoretyczny, [in]: Wieś i rolnictwo – perspektywy rozwoju. IAFE, Institute of Rural and Agricultural Development-Polish Academy of Sciences, Warsaw School of Economics, Warsaw, pp. 83-92 et seq.

Kleinhanss, W., Murillo C., San Juan C., Sperlich S, (2007), Efficiency, subsidies, and environmental adaptation of animal farming under CAP, Agri. Econ. 36, pp. 49-65.

Kulawik, J. (2011), Dopłaty bezpośrednie i dotacje budżetowe a finanse oraz funkcjonowanie gospodarstw i przedsiębiorstw rolniczych, Multi-Annual Programme Report 2011-2014, Notebook 20, IAFE-NRI, Warsaw.

Łopaciuk, W., (ed.), Judzińska A., (2012), Wpływ Wspólnej Polityki Rolnej na zmiany w rolnictwie, Multi-Annual Programme Report, no. 38, IAFE-NRI, Warsaw, pp. 85-85.

Wilkin, J., (2009), Ekonomia polityczna reform Wspólnej Polityki Rolnej. Gospodarka Narodowa 1-2, 1-25.

Zahrnt, V., Financing the Common Agricultural Policy: Which member states pay for the waste of the public money?, ECIPE, 2011.

<http://www.reformthecap.eu/sites/default/files/CAP%20net%20payers%20ECIPE.pdf> (data odczytu 12.06.2012r.).

Żmija, D. (2011), System płatności bezpośrednich w Polsce w kontekście rozwiązań stosowanych w Unii Europejskiej, [http://www.wne.sggw.pl/czasopisma/pdf/PRS_2011_T11\(26\)_z1_s193.pdf](http://www.wne.sggw.pl/czasopisma/pdf/PRS_2011_T11(26)_z1_s193.pdf)

**Рецензент – доц. д-р Васко Копривленски
E-mail: koprivlenski@au-plovdiv.bg**