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**МЕХАНИЗМИ ЗА ИЗВЪРШВАНЕ НА ПРЕКИТЕ РАЗПЛАЩАНИЯ  
ВЪТРЕШНО И МЕЖДУ СТРАНИТЕ ЧЛЕНКИ НА ЕС ЗА ГОДИНИТЕ  
2014-2020**  
**CONVERGENCE MECHANISMS OF DIRECT PAYMENTS WITHIN AND AMONG  
MEMBER STATES IN 2014-2020**

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**Abstract**

The paper discusses the mechanisms of direct payments redistribution under the first pillar of the Common Agricultural Policy. The current conditions of the diversification in direct payment levels among farmers within one country are shown, along with the reasons for establishing different national envelopes for direct payments among Member States. Then, an evaluation of proposed convergence of payments within and among Member States in 2014-2020 is presented. The analysis indicates that direct payments are treated by Member States as a simple instrument to redistribute funds, which provide a balance between their contributions into and out of the EU budget. Net contributors and the biggest beneficiaries of the CAP are not interested in carrying out a significant convergence of payments among Member States. Therefore, significant changes in the redistribution of direct payments within Member States cannot be expected.

**Key words:** Common Agricultural Policy, direct payments

**INTRODUCTION**

Rules of direct payments distribution preferred since the beginning of their introduction specific types of agricultural production and large agricultural holdings. Thus, payments led to significant differences in agricultural income: farmers receiving the highest income on the market from the sale of their products also receive the biggest support in the form of direct payments. The evolution of the Common Agricultural Policy (CAP) from market price support to direct support of agricultural producers has widened disparities among farmers. About 80% of the beneficiaries (in Bulgaria and Romania about 85%) receive only 20% of the

payments [Report, 2012]. Significant disparities in payments increased after the accession to the European Union (EU) new Member States in 2004 and 2007. At present, farmers in Greece and the Netherlands are receiving respectively 550 and 440 EUR/ha, while in Lithuania and Romania respectively 89 and 107 EUR/ha [Fintineru and Cofas, 2012].

During the discussion on the shape of the Common Agricultural Policy after 2013, the European Commission took another attempt to change the rules for the distribution of direct payments within (internal convergence) and among Member States (external convergence). The aim was to increase the effectiveness of European Union funds in the agricultural sector for its intended purposes, such as support for agricultural holdings income and compensation for the provision of public goods by farmers [A Budget for Europe 2020, 2011].

In this paper is stated that even in further financial perspective, i.e. in the years 2021-2027 the level of direct payments among Member States will not be equalised. Only the internal convergence effectively carried out within the EU-15 provides an opportunity to achieve external convergence which will result in the approximation of the level of payments received in the EU-15 and EU-12.

The aim of the paper is to present mechanisms underlying the redistribution of direct payments within and among Member States. The analysis focuses on the relationship between the internal and external convergence of payments in the European Union and the consequences of this process in the political and economical terms.

## **MATERIALS AND METHODS**

The analysis is prepared based on documents from European Union institutions, i.e. the European Commission, the Council and the European Parliament as well as the latest literature on the giving topic. Evaluation of proposed solutions for the redistribution of direct payments in the period 2014-2020 is carried out using an expert method.

## **RESULTS AND DISCUSSION**

### Historical circumstances for differences in the level of direct payments

The current level of direct payments is the result of historical circumstances. The payments introduced in 1992 by the McSharry's reform, were intended to compensate for farmers losses resulting from the reduction in price support for key agricultural products (cereals and beef). Their amount was determined on the basis of production (the criteria taken into consideration were: the cultivation area, a yield and a number of livestock) in individual agricultural holdings in the reference period. As a result, agricultural holdings/countries producing highly subsidized crops and meat receive the largest amount of payments. Agricultural holdings/countries producing or specialised in less subsidized products, such as vegetables and fruits, are the losers of this system. Successive reforms of the CAP have exacerbated these differences by reducing funds in support of agricultural markets and by increasing direct payments for farmers. In 2011, payments accounted for 72% of total expenditure of the CAP [Report, 2012].

Another factor influencing the differentiation among the levels of support among farmers and Member States are different schemes of direct payments.

Currently functioning schemes were introduced by the Council Regulation No. 73/2009, replacing the previous Regulation No 1782/2003.<sup>1</sup> EU-15 states as well as Malta and Slovenia apply the SPS (Single Payment Scheme), which can be implemented in very different ways. Under the historical model, farmers receive payments determined on the basis of the agricultural production in the past, hence the historical differences among farmers. Under the regional model the national envelope of payments (determined on the basis of a historical production) is divided into all farmers entitled to payments, even those who did not receive them in the historical period. Intermediate solution is a hybrid model, which is a combination of historic and regional model. The new Member States which joined the European Union in 2004 and 2007 (with the exception of Malta and Slovenia) apply the Single Area Payment Scheme (SAPS), similar to the rules of the regional model: arbitrarily determined amount of payments, depending on the size of the national envelope, is awarded for each hectare. Envelope size was not determined on historical production level as in the case of the EU-15, but in the accession negotiations. The great diversity in the system of direct payments reduces the transparency of the support in the agricultural sector in the EU and prevent the creation of equal competitive conditions among agricultural holdings with different types of agricultural production, regions or countries.

Repeated attempts to change the rules for the allocation of direct payments have proven to be ineffective (e.g. reduction of payments to large agricultural holdings by progressive modulation or upper payment limit per household, so-called capping). The compulsory introduction of the regional model, and thus attempt to align payment systems across the European Union, evokes a strong resistance of Member States. This is due to significant redistribution of payments among agricultural holdings, types of production and regions of the country. As a result, more beneficiaries will receive less support.

#### Arrangements for the redistribution of direct payments in 2014-2020

The next reform of the CAP will not bring significant changes in the rules of distribution of direct payments. It should be however noted that it proceeded under fairly exceptional conditions. First, at the same time negotiations on a new financial perspective for 2014-2020 were under way. Agricultural policy has always been regarded as the most difficult point of negotiations due to a dominant share in the EU budget. Second, the new rules came into force in decision-making process, introduced with the Treaty of Lisbon [Treaty, 2008]. The Treaty gives the Member States more competences in the field of agriculture, which allows a greater impact of them on the decisions. An important change is the recognition of co-decision procedure as an ordinary legislative procedure of the CAP (so far the consultation procedure was applied), which strengthens the role of the European Parliament in decision-making process. New rules for the operation of the decision making process in the EU promote the legitimacy of taken decisions, but at the same time make the process more complex. Examples include negotiations conducted by the

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<sup>1</sup> OJ L 30, 31.1.2009, p.16; OJ L 270, 21.10.2003, p.1.

leading European Union institutions in the field of convergence of direct payments and attempt to seek a compromise between the different political forces (Table 1).

As agreed by the Agriculture Council of 26 June 2013, [the CAP reform in 2013], no Member State may receive payment per hectare less than 75% of the EU average. The changes in the external convergence were staggered to 2019. In terms of the internal convergence the payment per hectare within a country or region cannot be less than 60% of the EU average. Farmers, who obtained more than regional/national average payment per hectare, must take into account the gradual reduction of support. Their loss, however, should not exceed 30% of the current amount of payment. Member States may increase payments for the first 30 hectares (redistributive payment), using 30% of their national envelope. These changes in the redistribution of payments within regions or countries should be completed by 2019.

**Table 1.** Position of the European institutions on internal and external convergences in the final stage of budget negotiations for 2014-2020

Type of convergence	European Commission	Council	European Parliament
Internal	Flat direct payment per ha at the national or regional level by 2019 (40 % adjustment in year 1).	Partial convergence by 2019 (10% adjustment in year 1); transition period parallel to external convergence; "green" payment not to be regionalized.	Partial convergence by 2019 (10% adjustment in year 1); countries may deviate from final target by up to 20%; no farm should see direct payments drop below the 2014 level by more than 30%.
External	Member States (MS) with direct payments below 90% of EU average will close 1/3 of the gap by 2018; financial resources come from MS with direct payments above EU average.	Member States (MS) with direct payments below 90% of EU average will close 1/3 of the gap by 2020; all MS should attain at least 196 Euro/ha by 2020.	MS with direct payments below EU average will reduce the gap by 2020 at digressive rates (between 10 and 30%); all MS should attain at least 55% of the EU average in 2014 and 65% in 2020.

Source: G. Anania, *The state of the play of the negotiations on the CAP post-2013*, AIEAA Conference, Parma, June 6-7, 2013.

#### Possibilities to unify the level of support in the EU after 2013

Despite strong pressure from the new Member States there will be no significant redistribution of direct payments among countries in the next financial perspective. Currently, the share of EU-15 in the amount of direct payments is

86.33%, while in the EU-12 only 13.67%. It is worth noting that the EU-15 incur the largest expenditure for the maintenance of the EU budget (92.15% share of contributions to the budget) [Zahrnt, 2011]. The actual external convergence of payments would require a substantial shift of funds among Member States. The problem is not the increase in the amount of payments to the EU-12, but the adoption of such principles of redistribution, which give minimum losses for the EU-15, especially now when a reduction of CAP expenditure in 2014-2020 are foreseen. For example, change in the rules for the distribution would result in reducing payments to farmers in the Netherlands from 440 to 389 EUR/ha [LEI, 2013]. The most affected farmers would be those involved in the production of veal and potato starch.

Fulfilling the demands of EU-12 associated with a more equitable distribution of direct payments among states is particularly difficult when the EU budget is mainly based on contributions of Member States in relation to their gross national income. The result is that each country - in line with the principle of return (*juste retour*) - seeks to recover funds paid to the budget. And in an era lasting from several years of economic crisis and rising public deficits in European countries, the concept of maintaining a balance between payments to and payments out the EU budget as a tool to assess the financial costs and benefits of EU membership becomes even more important [Grochowska, 2012]. Given the above, it is difficult to provide positive external convergence of payments through the process of decision-making in the Council. Large Member States have enough votes to block any unfavourable for them solution. France, Germany and Italy - the beneficiaries of the CAP, by forming a coalition with Spain and Portugal - beneficiaries of the Cohesion Policy, may impede any reform. Probably, the only change in the revenue of the EU budget (replacement of membership contributions by own resources derived for example from taxes) and the expenditure (more funds for more innovative EU policies and actions) can lead to real reform of the CAP and efficient expenditure of public funds.

It should also be noted that the reduction of variation in the level of direct payments among states is a complex process closely associated with the course of internal convergence. States receiving more funds per hectare than the EU average will lose some of its funds to states below the average. Additionally, they should in accordance with the provisions of the Council carry out in 2019 the redistribution of payments within the country by introducing a regional model. These actions will significantly affect farmers income and must be supported by a thorough analysis of the advantages and disadvantages of the decisions taken.

Any changes in the amount of support have in fact a significant impact on the structure of production and the costs on agricultural holdings. The benefits of support are particularly capitalized in the land, affecting the price of its purchase and lease. What is important, capitalisation of support is different in Member States and models used for direct payments. Historical model belongs to that direct payment schemes, which carry the most negative implications for the agricultural sector (for example, increase in the costs of production, stimulating specific market behaviours, favouring landowners over tenants and farmers who want to increase or restructure their agricultural holdings) [D 'Oultremont, 2012]. So it is easier to

justify termination of historical model in the country to farmers than to shift part of their direct payments to other Member States.

The process of direct payments alignment within Member States will depend mainly on how regions in the country will be defined. For example, if the largest agricultural holdings in the region are grain farms, then the unification of payments as a result of regionalization will benefit small farmers maintaining livestock in the region. According to Matthews [2013] an important role in this process may play redistributive payment application (additional support for the first 30 ha of the agricultural holding), which will have an even greater impact on the redistribution of payments in a given region or country than the modulation and capping. Each Member State can also choose from a pool of various instruments and programmes (e.g. for young farmers, small agricultural holdings, support for selected types of production) that are the most useful for its agricultural sector. On one hand, this creates the possibility of adapting the CAP to the specificities of the country, on the other, further aggravates the support differentiation among states.

In the end, it is worth asking the question whether the requirement of the EU-12 on flat rate of direct payments in the EU is likely to be realized. First, each of the parties involved (EU-15 vs. the EU-12) differently understands "fair" distribution of payments. Secondly, what could be a source of the funds for levelling the payments among Member States. In times of strong pressure of net contributors to the EU budget reduction, the only solution is to get from one in order to increase payments to other countries. In this case it should be reckoned with the fact that countries which are obliged to reduce their national envelope for others, can receive compensation in the second pillar of the CAP or other EU policies. Thus, the EU-12 may have little to gain in agricultural policy, but lose a lot in other areas.

During the budget negotiations the obligation for the Commission to review the EU budget in 2016 was established. The introduction of new rules for the creation of new own resources could make the EU budget independent from contributions of Member States and led to more efficient than ever before-spending EU funds.

## **CONCLUSIONS**

The Common Agricultural Policy after 2013 does not foresee major changes in the allocation of direct payments among Member States. Significant changes in the redistribution of payments within Member States also cannot be expected.

In order to achieve external and internal convergence of payments across the EU in the future the fulfilment of the following conditions may contribute:

- the consistent support of obligation to implement regional model in the EU-15 in 2014-2020, leading to the gradual unification of the level of support within a country,
- independence of the own revenues of the EU budget from contributions from Member States and thereby shift from the principle of return (maximum recovery of funds paid to the EU budget).

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