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**TYPES AND STRUCTURE OF BUDGET SUPPORT  
INSTRUMENTS FOR AGRICULTURAL PRODUCERS  
IN THE SCOPE OF CAP**

Key words: Common Agricultural Policy, agricultural producers, financial support instruments, support types and structure, the European Union

**ABSTRACT.** The aim of the article is to identify the types and structures of applied instruments of financial support for agricultural producers from the budget support in the scope of CAP, justify the aims of financially supporting agricultural producers as well as analyse the structure of this support by incorporating various CAP instruments in the years 2014-2020. Analyses were conducted on the basis of data from the European Court of Auditors for particular EU countries. On the basis of averaged data for this period, it was established that the basic instrument of budget support for agricultural producers are direct payments (BPS or SAPS depending on the EU country). The second most significant instrument is payments for “greening”. Other support instruments are of lesser significance, though continue to play an important social and economic role. In the scope of CAP, there are discrepancies between both the significance and structure of particular budget support instruments for agricultural producers.

**INTRODUCTION**

One of the most important aims of the Common Agricultural Policy is ensuring farmers have a steady income [Hergrenes et al. 2001, Zegar 2001, Niezgodna 2009, Runowski 2014, Poczta, Rowiński 2019]. In order to achieve this aim, income support or “direct payments” complementing this income are offered, thus, simultaneously, ensuring the profitability of agricultural production [Phimister et al. 2004, Poczta-Wajda 2017, Runowski 2018, Wieliczko 2019]. Such support facilitates ensuring food security as well as guaranteeing farmer salaries for supplying public goods. Income support is allocated on the basis of farm size area as well as the offered services for the environment and society [Maciejczak 2009, Matuszczak 2020]. As a rule, EU members ensure direct payments, additional

income support for sustainable farming methods (so-called “greening”) as well as support schemes for young farmers [Zawalińska et al. 2015, Poczta, Rowiński 2019]. The types of payments presented are compulsory in all EU countries. Apart from these payments, particular EU countries can adopt other support addressed at supporting defined production types as well as agricultural forms in the form of support directed to small and medium sized farms, farms located in areas with natural constraints or even types of production encountering economic difficulties.

Direct payments constitute a form of complementing agricultural income ensuring agricultural producers a basis for functioning [Bureau, Witzke 2010]. It takes on the form of payments paid out in the scope of the basic payment scheme (BPS) or single area payment scheme (SAPS). Such support is allocated to agricultural producers running their own farm and meeting applicable criteria. For farmers meeting the criteria, upon annual form submission, payments are allocated. The forms specify the criteria concerning the crop type and area applicable for payments to be allocated. In the scope of the second solution (BSP), the basis for allocating payments are payment amounts on a historical support basis, from the previous payment system. However, due to the fact that one of the assumptions of CAP is departure from historical references, EU countries applying this solution have deemed it justifiable to steadily decrease differences in the level of entitlements given in different countries. Payments for active farmers are established on the basis of entitlements to payments claimed by active farmers and in reference to the declared eligible area.

Some EU countries, mostly those that accessed the EU at a later date, like Bulgaria, the Czech Republic, Cyprus, Estonia, Lithuania, Latvia, Poland, Romania, Slovakia and Hungary, instead of implementing the basic payment scheme, have introduced the single area payment scheme (SAPS). In this system there are no payment entitlements, as in the basic payment scheme. In SAPS, the basis for allocating payments are eligible areas declared by farmers. The payment amount per hectare is identical for all areas in a particular country.

Apart from basic payments, other direct payments are applied for specific farmer groups. The most widespread are bonuses for young farmers, payments for “greening” as well as other support systems that particular EU countries may establish individually, e.g. voluntary support connected with production.

The aim of the study is identifying the types and structures of applied agricultural support instruments in particular EU countries. Data from the European Court of Auditors for the years 2014-2020, averaged for the time period, have been applied.

## AGRICULTURAL PRODUCERS ELIGIBLE FOR BUDGET SUPPORT INSTRUMENTS IN THE SCOPE OF CAP

A farmer is eligible to receive direct payments on the condition that the farmer meets specified criteria and is an active farmer. According to the (EU) Regulation No. 1307/2013 [OJ L 347, 20.12.2013, p. 608-670], a farmer is a natural or legal person, or a group of natural or legal persons, whose holding is situated within EU territory and on which agricultural activity is exercised.

Apart from meeting the formulated definition of 'farmer', natural or legal persons applying to receive payments must have active farmer status. The definition of active farmer has been introduced to prevent natural persons and entities conducting economic activity not connected with agricultural production or conducting negligible agricultural activity from benefitting from support. In particular, this concerns entities farming on areas that do not require intervention or on which agricultural activity is not exercised (parks, natural and recreational areas, airports, sports fields as well as other areas listed on the so-called list of ineligible areas). It is considered that entities exercising activity listed on the list of ineligible areas are not farms, even if negligible agricultural activity is exercised on them.

A farmer must run a farm on his/her own. This means that the farmer takes responsibility for the risks but also reaps the benefits of cultivating the farm and breeding animals. The legal status of the cultivated farm area is insignificant. It may be owned, leased or utilized without agreement by the applicant. What is significant is that the land is actually in the hands of the farmer – the applicant – and utilised by the applicant for agricultural production purposes. In the context of direct payments, the farm area eligible for payments is the actual area utilised for agricultural activity. However, there are other areas eligible for payments, which due to certain practices (afforestation, ecological set-aside or Natura 2000 areas) do not exercise agricultural activity. The detailed rules applying in the scope of such practises are established by EU countries individually. Examples of such practises are: mowing green areas at least once a year, undertaking activity to prevent areas from overgrowing, cutting down plants between rows of trees on unused orchards or undertaking specified activity concerning fallow land.

Potential area eligible for direct payments remains relatively stable in particular years. For example, in 2018, the area of land eligible for such support was only slightly lower (by 0.9%) in comparison with 2015.

## JUSTIFICATION OF BUDGET SUPPORT FOR AGRICULTURAL PRODUCERS

Agriculture belongs to a high-risk economic sector. It is also a capital-intensive activity. Additionally, agriculture involves dealing with a clear shift when it comes to when expenditure is incurred and the period of time when income is earned by selling agricultural products. Agriculture is more dependent on the weather and climate than other sectors [Grzegorzewska 2008]. EU agriculture is under ever more pressure of developing world food trade and its liberalisation.

Though all commodity markets are susceptible to sudden spurts of growth or abrupt drops in shorter or longer time frames, recently, these fluctuations in agriculture are ever more evident. These fluctuations are caused by normal events and those connected with price changes as well as unpredictable events and weather anomalies. Furthermore, there are more and more market activities undertaken of speculative nature, which further intensify the changeability of the situation on agricultural markets. There are also more risks involved concerning climate changes. The frequency and intensity of extreme weather phenomena are increasing as well as sanitary and phytosanitary risks, leading to fluctuations in production and supply, while short-term demand remains stable.

The combination of price changeability and production risk inevitably puts more pressure on farms and income. In this context, the occurrence of various risk types related to how market prices are shaped, production size, product exchange and fluctuating income as well as various attitudes concerning the scope of risk among farmers in different EU regions can be observed. This all indicates a necessity to perfect and provide instruments stabilising income and managing risk [Sulewski, Pogodzińska 2018].

Economic instability in agriculture justifies the important role of the public sector in guaranteeing farmer income security. It is even more important due to the fact that there is a significant, yet differentiated depending on EU country, income disparity level of the agricultural and non-agricultural population.

In 2014-2020, direct payments formed the basis of the CAP and accounted for around 70% of the CAP budget of EUR 408.3 billion, or around EUR 42 billion per year [Tropea 2016]. In the EU, over 7.3 million farmers benefited from direct payments. Direct payments accounted for more than 25% of the gross value added of EU agriculture at EU level, and even more than 50% in some Member States.

## STRUCTURE OF FINANCIAL SUPPORT OF THE AGRICULTURAL SECTOR IN EUROPEAN UNION COUNTRIES ACCORDING TO APPLIED INSTRUMENTS

Further CAP reforms after 1992 ensured income support, initially in the shape of direct payments connected to production factors, and later mainly in the shape of support disassociated with production size. Currently, little support is connected with production and remains so to ensure the profitability of a given production type or production method. However, due to its negative impact on productivity growth, it is considered that its application be limited exclusively to certain economically inefficient, yet economically important sectors in the scope of specifically defined financial limits.

Table 1 presents the structure of support for the agricultural sector in particular EU countries according to support instrument. The data has been averaged for 2014-2020 and calculated on the basis of the data of the European Court of Auditors from 2014 to 2020. To ensure greater analysis transparency, the table first lists the countries applying the basic payment scheme (BPS) and, later, countries having implemented the single area payment scheme (SAPS). The data presented in Table 1 show that for 17 EU countries, the basic financial support system applied was direct payments constituting from 39% in France to 68% in Luxemburg. Direct payments constituted 60% in countries like Germany, Austria, Denmark, Great Britain, the Netherlands and Ireland, not to mention the aforementioned Luxemburg. Direct payments below a level of 50% were found in Finland, Portugal, Croatia, Belgium, France and Malta, the latter constituting only 12.4%.

The second most significant instrument (excluding Malta) was “greening”. It covers an amount of EUR 12 billion annually, constituting 30% of all direct payments in the scope of CAP and almost 8% of the whole EU budget. The average amount per hectare amounts to 80 Euro per year, with small differences between EU member states. In all countries this instrument constitutes 30% of support.

When analysing the structure of payments, it is worth noting the huge difference in instrument significance in the shape of voluntary support related to production. Its share constitutes 0.2% in Ireland, up to 19.6% in Finland and 19.7% in Portugal, excluding Malta where the share exceeded 57%. Another big difference worth highlighting concerns the significance of redistribution payments. In the group of countries applying basic payments in the shape of BPS, redistribution payments were handed out in five countries and constituted 3.2% in Portugal and up to 15% in France. It is worth noting that no member state opted for system regionalisation, while Germany introduced gradation concerning the level of support: a higher amount for 1 to 30 ha in comparison with the following 16 ha.

An obligatory financial support instrument in the EU is the programme “Young Farmer”. Support in the scope of this programme constituted a group of countries applying the

BPS from below 1% in countries like Malta, Denmark and the United Kingdom up to a maximum 2% in Austria, Spain, Croatia, Greece, Ireland, the Netherlands and Spain.

When analysing the structure of support instruments in the group of countries applying the single area payment scheme (SAPS), it is worth noting that this instrument constituted the basic source of agricultural budget support in these countries. The share of such support constitutes from 37% in Lithuania to 65% in Estonia. In Poland the share equals 45.8%. In second place, when it comes to the significance of budget support of the agricultural sector, similarly to the group of countries applying the BPS system, is “greening”. Within this group of countries, support constitutes 30% of total financial support. Budget injections from voluntary support related to production in countries implementing the SAPS constitutes 4.1% in Estonia to 15% in countries like Bulgaria, the Czech Republic, Lithuania, Latvia and Romania. In Poland this indicator was close to the aforementioned countries and equalled a close 15%. The support instrument in the shape of redistribution payments in groups of countries applying SAPS took place in only four countries: Bulgaria, Romania, Lithuania and Poland. While the share of support within the scope of the programme “Young Farmer” equalled 0.2% in the Czech Republic to 1.4% in Latvia and Lithuania. In Poland this share constituted 1%.

Direct payments introduced in 1992 turned out to be a rather effective, simple and transparent instrument, which, from the start of implementation, ensures a steady flow of income, directly benefitting farmers, and, what is important, guaranteeing consumers lower prices of food products. In following years, these payments were given out on the necessity of meeting certain conditions (e.g. “greening” among others), which, as a result, weakened the profitable role of direct payments.

The conditions laid down combine income support financed with EU funds with the necessity of applying agricultural practices and norms which are environmentally friendly and climate friendly [Wieliczko 2019]. Meeting such norms is costly, which means that a significant sum of payments received by farmers constitute a form of compensation for the additional costs arising from the conditions set.

In evaluating the justification for offering particular public goods, it is necessary to reflect upon and confront suggested proposals with the level of wealth of a given country. What is deemed purposeful and justifiable in wealthy countries, is not necessarily a priority in countries with a higher poverty level, in which there are many other unsolved social issues concerning the level and quality of life. Admittedly, support for improving the ecosystem and their biodiversity as well as promoting practices protecting the climate from changes are justifiable, certain activities exercised, such as e.g. the highly advanced implementation of costly practices aimed at improving animal well-being, when compared to a lack of “well-being” in the functioning of people in poorer countries, may raise doubts as to the justification of applying such practices.

Table 1. Structure of instruments of financial support for farms in EU countries (averaged for 2014-2020)

Country	Basic Payment Scheme (BPS)	Single Area Payment Scheme (SAPS)	Redistribution payments	Payments for regions with natural constraints	'Young Farmer' Payments	Payment – voluntary support connected with production	Payment for 'greening'	Total
	%							
Luxembourg	68.0	–	–	–	1.5	0.5	30.0	100.0
Ireland	67.8	–	–	–	2.0	0.2	30.0	100.0
Netherlands	67.5	–	–	–	2.0	0.5	30.0	100.0
United Kingdom	67.5	–	–	–	0.8	1.7	30.0	100.0
Denmark	66.3	–	–	0.3	0.6	2.8	30.0	100.0
Austria	65.9	–	–	–	2.0	2.1	30.0	100.0
Germany	62.0	–	7.0	–	1.0	–	30.0	100.0
Greece	58.6	–	–	–	2.0	9.4	30.0	100.0
Italy	57.5	–	–	–	1.0	11.5	30.0	100.0
Spain	56.0	–	–	–	2.0	12.0	30.0	100.0
Sweden	55.5	–	–	–	1.5	13.0	30.0	100.0
Slovenia	54.4	–	–	–	1.4	14.2	30.0	100.0
Finland	49.4	–	–	–	1.0	19.6	30.0	100.0
Portugal	45.1	–	3.2	–	2.0	19.7	30.0	100.0
Croatia	43.0	–	10.0	–	2.0	15.0	30.0	100.0

Table 1. Cont.

Country	Basic Payment Scheme (BPS)	Single Area Payment Scheme (SAPS)	Redistribution payments	Payments for regions with natural constraints	'Young Farmer' Payments	Payment – voluntary support connected with production	Payment for 'greening'	Total
Belgium	42.5	–	9.5	–	1.7	16.3	30.0	100.0
France	39.0	–	15.0	–	1.0	15.0	30.0	100.0
Malta	12.4	–	–	–	0.4	57.2	30.0	100.0
Estonia	–	65.6	–	–	0.3	4.1	30.0	100.0
Cyprus	–	61.1	–	–	0.9	8.0	30.0	100.0
Slovakia	–	56.7	–	–	0.3	13.0	30.0	100.0
Czech Republic	–	54.8	–	–	0.2	15.0	30.0	100.0
Hungary	–	54.6	–	–	0.4	15.0	30.0	100.0
Latvia	–	53.6	–	–	1.4	15.0	30.0	100.0
Romania	–	49.5	5.0	1.4	1.1	13.0	30.0	100.0
Bulgaria	–	47.4	7.1	–	0.5	15.0	30.0	100.0
Poland	–	45.8	8.4	–	1.0	14.8	30.0	100.0
Lithuania	–	38.6	15.0	–	1.4	15.0	30.0	100.0

Source: own calculations based on data from the European Court of Auditors for 2014-2020



## CONCLUSIONS

Direct payments are relatively effective and transparent instruments, guaranteeing a steady financial flow injected into farms carrying direct benefits both to farmers in the shape of income growth and consumers in the shape of lower food product prices.

The most important support instruments include: single basic payment (BPS) in the “old” EU countries and single area payment (SAPS) in the countries joining the EU in 2004 and later. They account for around 40% to around 70% depending on the country, with the exception of Malta, where the largest share is voluntary coupled support. A significant part of direct payments (30%) are “greening” payments. Payments for the “Young Farmer” programme fall, depending on the country, from 0.2 to 2%.

Following years of implementing direct payments have introduced the necessity of meeting specific conditions resulting in a weakening of profitability of direct payments. The conditions introduced combine income support financed with EU funds with practices and agricultural norms which are environmentally- and climate-friendly. In evaluating the justification for offering particular public goods, it is necessary to reflect upon and confront suggested proposals with the level of wealth of a given country and its social needs. Supporting the development of rural areas aimed at improving ecosystems, promoting the effective management of resources and supporting the shift to a low-emission economy, or implementing practices protecting the climate from changes are fully justifiable. Similar justification is found for payments (bonuses) for young farmers or production types economically at risk. Though particular agricultural support instruments in particular EU countries are similar, when it comes to the scope of their structure, it is possible to notice a difference between particular countries.

In the discussion on the new CAP for the years 2021-2027, it is advisable to carry out an in-depth analysis of the effects of the financial support instruments used so far, in particular in terms of the implementation and effects of the “greening” policy, which should take the specificity of individual EU Member States into account.

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## RODZAJE I STRUKTURA INSTRUMENTÓW WSPARCIA BUDŻETOWEGO PRODUCENTÓW ROLNYCH W RAMACH WSPÓLNEJ POLITYKI ROLNEJ

Słowa kluczowe: wspólna polityka rolna, producenci rolni, instrumenty wsparcia finansowego, rodzaje i struktura wsparcia, Unia Europejska

### ABSTRAKT

Celem artykułu jest rozpoznanie rodzajów i struktury stosowanych instrumentów wsparcia finansowego producentów rolnych w poszczególnych krajach Unii Europejskiej. Przedstawiono warunki korzystania przez producentów rolnych ze wsparcia budżetowego w ramach WPR, uzasadnienie celowości wspierania finansowego producentów rolnych oraz przeanalizowano strukturę tego wsparcia z uwzględnieniem różnych instrumentów WPR w latach 2014-2020. Analizę przeprowadzono na podstawie danych Europejskiego Trybunału Obrachunkowego dla poszczególnych krajów UE. Na podstawie uśrednionych za ten okres danych ustalono, że podstawowym instrumentem wsparcia finansowego producentów rolnych jest płatność podstawowa (BPS lub SAPS w zależności od kraju UE). Drugim pod względem znaczenia instrumentem jest płatność z tytułu „zazielenia”. Pozostałe instrumenty wsparcia mają mniejsze znaczenie, choć również pełnią ważną ze społecznego i ekonomicznego punktu widzenia rolę. Pomiędzy krajami UE występują różnice zarówno pod względem znaczenia i struktury poszczególnych instrumentów wsparcia budżetowego producentów rolnych w ramach WPR.

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