

DIRECT PAYMENTS IN THE LIGHT OF THE COMMON AGRICULTURAL POLICY (CAP) REGULATIONS FOR THE PERIOD 2014–2020

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Abstract. The article presents the assessment of the changes in the system of direct payments as an instrument of the EU Common Agricultural Policy in the new financial perspective for 2014–2020. The level of financing under the Common Agricultural Policy in historical context was described as well as the level of spendings on direct payments was stated. The changes in the payment system were reviewed by referring to differentiations in the mechanism applied by Member States. The article presents the arguments and evidence that the new payment solutions continue to be inconsistent and many regulations in terms of their scope are left to the discretion of individual member states. The novelty in the current financial perspective is to define a farmer who is professionally active, creating the possibility of shifting part of the funds from the payment system to the rural areas and vice versa as well as to introduce the new rules relating to the environmental requirements on the farm.

Key words: common agricultural policy, direct payments, the 2014–2020 financial perspective

INTRODUCTION

The Common Agricultural Policy is one of the most important Community policies of the European Union. Legitimacy derives from Art. 38 of the Treaty on the Functioning of the Community in which the Union determines and is committed to the implementation of the Common Agricultural Policy [TFEU 2010]. Therefore, it can be concluded that the provisions of the Treaty on the Functioning of the EU trigger the treaty related budgetary commitments although that document does not specify the level of support for agriculture and the development of rural areas [Pietras 2008]. The community nature of the policy is visible first of all, in setting uniform targets, principles of this policy and the instruments having an impact on the agriculture. It should be noted, however, that in determining the

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measures serving the implementation of the Common Agricultural Policy, it is taken into account the special nature of the agricultural production, which results from the social structure of agriculture as well as from the structural and natural differences between the agricultural regions [Art. 39 TFEU]. The importance of the Common Agricultural Policy also highlights the amount of support from the EU budget, which still accounts for a significant proportion of expenditure (about 41% in the year 2013). Although the functions of agriculture and rural areas, including the objectives of the Common Agricultural Policy have evolved historically from the late 50s of the twentieth century to the present time, it still remains an important area of the activity of the European Union and thus it is the focus of researchers' attention and subject of numerous studies and analyses [Biernat-Jarka 2012]. The reforms in the field of this policy are a consequence on the one hand, of the internal pressures resulting from the expectations of the member states and on the other hand, of the trade negotiations undertaken on the international forum [Swinen 2008, Cunha and Swinbank 2009]. It is an example of the intervention policy of the European Union, in which case the arguments are sought to justify its use. Many economists believe that government intervention is needed, but the state has limitations and therefore it should intervene only there where there is the biggest market failure [Stiglitz 2004]. The main reasons for the application of the intervention measures, the so-called traditional measures, the economists assign to, among others, market failure, the presence of the public goods, the existence of the external effects or the existence of goods favourable or unfavourable from the perspective of the society [Wojtyna 1990, Milewski 2002, Stiglitz 2004]. These arguments can be directly applied to agriculture where the need for the protection of the natural environment or the provision of public goods has become a major justification for maintaining the intervention policy applied by EU [Buckwell 2007, Bureau and Mahé 2008, Rembisz 2010].

During 50 years of its operation, the CAP programme was transformed from the price supporting policy directly linked to the agricultural production into the policy of supporting agricultural revenues, but without linking it to the size of production [Biernat-Jarka 2012]. The major changes in the EU agricultural policy were introduced under Mac Shary's reform, after the enactment of which the system of effective direct payments came into force, undergoing many changes during subsequent reforms [Erjaven et al. 2011].

The current financial perspective of the EU budget introduces new rules concerning the use of the funds under the direct payment programmes. On the one hand, the payments remain the biggest financial instrument under the CAP programme, but on the other hand there are still many questions about the legitimacy of their use.

The main purpose of the debate presented in this article is to discuss and assess the changes in the system of direct payments as a support for farms in the years 2014–2020. The author describes the importance of payments in the EU intervention policy, determines the amount of expenditure for payments and points out the weaknesses of the existing system. The recent changes in the system of direct payments have not solved many problems and raise doubts arising from different levels of farm support in various countries of the European Union as well as from different ways of reaching the equalised level of subsidies.

The evaluation of the system of direct payments contained in this report was prepared on the basis of the government documents, the EU Council Regulation, official studies and reports of the European Commission.

DISCUSSION AND RESULTS

The level of financing the Common Agricultural Policy

The expenditures on the Common Agricultural Policy since the beginnings of integration were a dominant position in the EU budget (see Table 1). At present, CAP still continues to be one of the most costly policies (except for the cohesion policy). In the year 2013, the expenditures on the Common Agricultural Policy amounted to approximately 41% of the total EU budget.

Table 1. The expenditures on the Common Agricultural Policy from the EU budget in the years 1968–2013^a

Year	Payments from EAGGF (guarantee section)	Payments from EAGGF (guidance section)	Total budget of CAP programme	Percentage share of expenditure on CAP programme in the total budget (%)
1968	1 259.7	34.0	1 293.7	86.9
1970	3 108.1	58.4	3 166.5	93.5
1975	4 327.7	76.7	4 404.4	75.7
1980	11 294.9	314.6	11 606.5	73.2
1985	19 727.8	685.5	20 413.3	73.2
1990	25 604.6	1 825.3	27 429.9	62.2
2005	48 346.8	2 943.3	51 290.1	49.3
×	Payments from EFRG	Payments from EFRROW	×	×
2010	43 690	11 493	55 183	45.8
2013	45 305	14 451	59 756	41.4

^aFrom 1968 to 1978 in millions of settlement units, since 1978 in ECU, after 2000 in EUR. By the end of the year 2006, the spendings on the Common Agricultural Policy were covered from the European Agricultural Guidance and the Guarantee Fund (EAGGF) (Guarantee section), while from the 1 January 2007 these expenditures are financed from the European Agricultural Guarantee Fund (EAGF).

Source: Adinolfi F., Little J., Massot A. The Cap in the Multiannual Financial Framework 2014–2020. General Directorate for the Internal Policy, Thematic Department B, Structural and Cohesion Policy. European Parliament, Brussels 2011.

Having analysed profoundly the expenditures within CAP programme in the year 2012 it shall be noted that the biggest item of expenditures from the European Agricultural Guarantee Fund was direct payments (91%) [Report of the Commission of 2013] – Figure 1.

Other expenses for the storage of the basic agricultural products (butter and olive oil), export refunds (beef, poultry, pork, eggs), other market instruments (food programs) and the so-called centralized direct expenses (veterinary and phytosanitary measures, the accounting of the farming households, CAP information campaigns) amounted to about

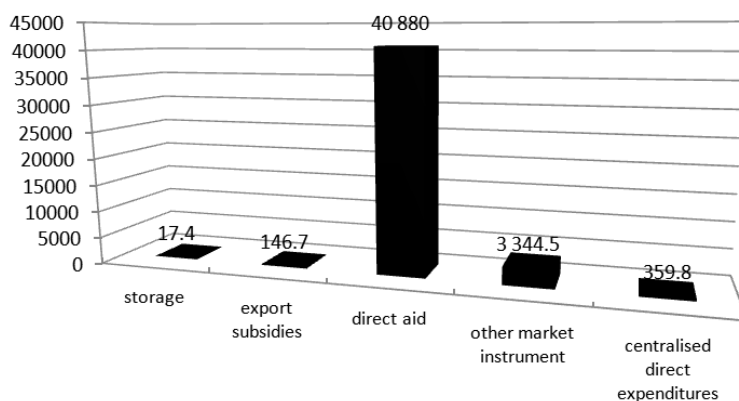


Fig. 1. Expenditures from the European Agricultural Guarantee Fund in the year 2012 (in thousand EUR)

Source: The Report of the Commission for the European Parliament and the European Council. 6th Financial Report of the Commission for the European Parliament and of the Council on the implementation of the European Agricultural Guarantee Fund (EAGF), the financial year 2012. European Commission, Brussels, 26.09.2013.

10% of the total expenditure of the European Agricultural Guarantee Fund. This situation confirms the Commission's efforts to support directly the income of the farm producers while reducing the market mechanisms which are in use [Marcysiak and Marcysiak 2013].

The use of the direct payments systems in the EU raises many questions, not only because of the considerable burden on the budget (over 30% of the expenditures on direct payments in the total budget), but also due to the fact that 80% of beneficiaries still receive about 20% of the total amount of direct payments (in Bulgaria and Romania 88%) [Report of the distribution in 2013]. Therefore, we can ask a question who this system is destined for, certainly not for small farms which receive the least amounts from the payments. It can rather be said that the current justification for payments is the compensation for agriculture for the provision of public goods. As a result of those changes, mostly of structural nature, since the year 2005 the number of farms receiving direct payments from the EU has declined by 10% in the 15 old EU countries and by 6% in other 10 EU countries. The decrease in the number of beneficiaries affected in the slightest degree, Bulgaria and Romania which experienced the decline by 3% [Report of the distribution in 2013].

Still, the biggest problem in the field of direct payments is their differentiation between Member States. Achieving the same level of payments will not be possible also in the current financial perspective, but the aim of the Commission is to strive to close the gap in the support for farms in different Member States.

It should be emphasized that in the year 2012, in 10 new Member States, 93% of beneficiaries received payments of up to 5 thousand EUR (in Bulgaria that situation affected 98% of farms) – see Table 2. On the other hand, the average amount of payments per beneficiary in 27 EU countries fluctuated around 5.5 thousand EUR while in the 15 old Member States of the Community amounted to 7.8 thousand EUR.

Table 2. Beneficiaries of direct payments in the year 2012

Specification	EU-15	EU-10	Bulgaria and Romania	EU-27
Number of beneficiaries (in thousands)	4 397	1 913	1 199	7 510
The average amount of payments per beneficiary (in EUR)	7 805	2 753	1 079	5 444
Receiving 5 thousand EUR or less	% beneficiaries	69	93	80
	% amount of direct payments	12	37	16

Source: Report on the distribution of direct aids to the agricultural producers (Financial Year 2012). European Commission, November 2013.

Changes in direct payments system in the years 2014–2020

The system of direct payments in the current financial perspective remains the most important instrument of financial support. In the years 2014–2020 and especially from the year 2015 (the year 2014 was considered as a transition year) many issues concerning this system remain unchanged, but in some cases, the solutions were introduced which so far have not been used.

The new regulation introduced in the reform is the definition of the professionally active farmer, which is directly associated with the definition of the beneficiary of payments. The professionally active farmer is a person whose annual amount of payment represents at least 5% of the revenues from non-farming activities generated in the last operating year. Besides, the farming activity cannot be marginal. The above definition does not apply to farmers who in the previous financial year received payments not exceeding a certain amount fixed by the Member States and not higher than 5 thousand EUR. At this point, a question can be asked what level of payments will be adopted by Member States and in connection with this, which group of beneficiaries will not have to meet the criterion of an professionally active producer in order to receive direct payments. In Poland about 95% beneficiaries receive payments up to 5 thousand EUR per year and they constitute a population of 1,281 thousand beneficiaries.

In addition, the new regulation in the current financial perspective, which organizes the issue of determining the group of beneficiaries of the payments is the exclusion from the subsidy payments, of the natural and legal persons administering the airports, water pipelines as well as recreational and sports grounds or providing railway carriage services or services in the field of real estate trading. The Commission also gives the possibility to the Member States to complete the list of non-agricultural enterprises, which should not participate in the payment system and should not benefit from it.

In order to reduce the financial burden associated with the management system of direct payments, according to the Commission, the Member States should refrain from granting payments when the payment amount is less than 100 EUR or when the minimum area eligible for support is less than one hectare [Art. 10 of the Regulation]. In the

Member States where the agriculture is fragmented and significantly differs from the average structure of agriculture in the EU (the outermost regions and the Aegean islands¹), the Member States may decide to waive the minimum payment threshold. This is justified by socio-economic situation of those regions (insularity, small size, difficult topography

Table 3. Minimum limits defining the so-called thresholds for the granting of direct payments

Member States	Threshold limit (in EUR)	Threshold limit (in ha)	Member States	Threshold limit (in EUR)	Threshold limit (in ha)
Belgium	400	2	Lithuania	100	1
Bulgaria	200	0.5	Luxemburg	300	4
Czech Republic	200	5	Hungary	200	0.3
Denmark	300	5	Malta	500	0.1
Germany	300	4	Netherlands	500	2
Estonia	100	3	Austria	200	2
Ireland	200	3	Poland	200	0.5
Greece	400	0.4	Portugal	200	0.3
Spain	300	2	Romania	200	0.3
France	300	4	Slovenia	300	0.3
Croatia	100	1	Slovakia	200	2
Italy	400	0.5	Finland	200	3
Cyprus	300	0.3	Sweden	200	4
Latvia	100	1	United Kingdom	200	5

Source: Annex IV, Regulation of the European Parliament and of the Council (EU) No 1307/2013 of the 17 December 2013 laying down the rules regarding the direct payments to farmers on the basis of the support schemes under the common agricultural policy and repealing the Council Regulation (EC) No 637/2008 and the Council Regulation (EC) No 73/2009.

and climate, their economic dependence on a few products). The thresholds of minimum support are set out in Table 3.

The issue discussed for many years, which was reflected in the Regulation [Regulation of 2013] was the issue of lowering the direct payments to farmers obtaining the highest support. The Member States were obliged to reduce the payments which are paid out in respect of the part of the amount in excess of 150 thousand EUR. The lowering of the payments must be at least 5% above this amount. Potentially, the lowering of the payments may relate in 27 Member States to around 15 thousand farm households, while in Poland to only 510 (this is the group receiving over 150 thousand EUR of aid per year).

In turn, a novelty in the current programming period is the possibility of deducting from the direct payments received by farmers, the wages related to the employment of workers, including taxes and social security contributions. The basis of the deduction will be the amount of the declared and actual benefits paid in the previous calendar year. The funds obtained as a result of lowering the payments for big beneficiaries shall stay in the Member States where they were saved and should be made available under the European Agricultural Fund for Rural Development (EAFRD). Where it becomes necessary to re-

¹Guadeloupe, French Guiana, Martinique, Réunion, Saint-Barthélemy, Saint-Martin, the Azores, Madeira and the Canary Islands.

duce the total amount allocated for payment, e.g. because the estimated payments will be higher than the available budget for the first pillar of CAP, the reduction in annual payments shall not refer to beneficiaries receiving less than 2 thousand EUR per year.

The Member States may also decide to shift up to 15% of the funds earmarked for the direct payments directly to the Rural Areas Development Programme. The decision in this regard concerning the years 2015–2019 shall be taken by the 1 August 2014. There is also a possibility of shifting the funds for the pay-out of the direct payments from the European Agricultural Fund for Rural Development (up to 15% of the Fund) in the case of countries such as Bulgaria, Estonia, Spain, Lithuania, Latvia, Poland, Portugal, Slovakia, Finland, Sweden and the United Kingdom up to 25% of the funds.

Still, the big problem in the European Union is to differentiate the amount of direct payments per 1 ha of arable land (UR). While in Greece they accounted on average in the year 2013 for more than 500 EUR per 1 ha, in Malta, in the Netherlands and Belgium for more than 450 whereas in countries such as Latvia, Romania or Estonia it was about 100 EUR per 1 ha, but in Poland a little over 200 EUR per 1 ha [Baldock 2010]. Therefore, in the Member States in which the direct payments are below 90% of the EU average, the difference between the current level and this level of payments should be reduced by one-third. An important assumption is that by 2019 each farmer will receive payment of not less than 60% of the national or regional unit value. The alignment of payments should be financed proportionally by all Member States in which the level of direct payments exceeds the EU average (in the year 2013 it accounted for approximately 350 EUR per 1 ha).

The eligibility condition of the farms' farmland to receive direct payments in Poland and in the countries that joined the EU on the 1 May 2004 was maintaining the land in good farming culture. In the current 2014–2020 financial perspective the new regulation is the possibility of obtaining payments also for the farming land, which on the 1 June 2003 was not maintained in a good agricultural condition. Another extremely important issue is to run the non-agricultural activities on the farm and the question of whether such agricultural land of the farm is eligible for payment or not. Due to the fact that non-agricultural activities are highly desirable in the rural areas since it contributes to the diversification of farms' incomes and to the vitality of the rural areas, in the Commission's opinion the farmland of the farms used for non-agricultural activities should also be covered by payments provided that the farmland is used to greater extent for agricultural activity. The question arises on how to determine this proportion and what it has to mean? Therefore, Member States were required to identify common criteria for determining that overwhelming share and should prepare a list of areas not eligible for support.

As defined in the Regulation [Regulation of 2013] one of the most important objectives of the reform of the Common Agricultural Policy is to reduce the administrative costs of the system. It should be considered whether the new regulations regarding the direct payments will actually contribute to the simplification of the system of support, will become more clear and understandable for the beneficiaries and at the same time will require fewer administrative checks. A large part of the regulations is left to the discretion of the Member States, which on the one hand, takes into account the diversity of countries entering the European Union and on the other hand creates a number of solutions impact-

ing further differentiation of the system. The Member States applying the uniform area payment system in the year 2014, including Poland, may extend its validity until 2020.

Environmental activities in the framework of the Common Agricultural Policy

One of the objectives of the reform of the Common Agricultural Policy is to improve the impact of the agricultural activities on the natural environment. Therefore, all the farms benefiting from the payments are required to comply with the agricultural practices beneficial for the climate and the natural environment or the so-called equivalent practices. These actions may involve the crop diversification, the maintenance of permanent grasslands, including the traditional orchards, which with low density cover the area of permanent grassland and the maintenance of pro-ecological areas on the farmland.

Crop diversification means that if the farm covers an area of 10 to 30 ha, at least two plants must be cultivated. The main crop shall not represent more than 75% of the land area. On the farm with an area of more than 30 ha, at least three different crops shall be grown, the main crop shall represent not more than 75% of the area and together the two crops cannot occupy more than 95% of that land. The above rules do not apply to farms where grass or other herbaceous forage crops or fallow land occupy more than 75% of the arable land. In turn, the pro-ecological areas may consist of fallow land, buffer zones, forested areas, agricultural and forest areas but also it must be remembered to use the intercropping or winter green cover. It is also possible to use the so-called equivalent practices that result in equivalent or greater level of benefits for the climate and the environment. The list of practices equivalent to the diversification of crops is provided in Annex IX of the Regulation [Regulation of 2013]. In order to finance the payments for the keeping of the pro-ecological area, the Member States use 30% of the annual national ceiling allocated to payments [Annex II of the Regulation of 2013].

The Member States may grant payments to the farmers eligible for the area payments or the uniform area payments due to areas with natural constraints. In order to finance the payments for areas with natural constraints, the Member States may decide by the 1 August 2014 to use up to 5% of the ceiling allocated to direct payments.

Besides, the additional payment can also be paid out to the young farmers who for the first time start farming activity or who started operations not earlier than 5 years before the submission of the application. The young farmers are the persons who are still under 40 years of age. The payment for the young farmer shall be granted for a maximum period of 5 years, this period can be reduced by the number of years between starting a business activity and the first submission of the application. The Member States may allocate not more than 2% of the annual ceiling on direct payments to young farmers

A separate issue is the support related to production. This support may be granted only to those sectors or to those regions of the Member State in which certain types of farming or sectors are particularly important for economic, social or environmental reasons. The support related to the production shall be granted only to the extent that is necessary for encouraging the producers in the given region to maintain the current levels of production. Within the support linked to the production, up to 8% of the annual ceiling on payments can be used.

Another new instrument is the payment for small farms. The farmers participating in the system for small farms are exempt from farming practices. The farmers interested in this system shall submit an application within the period specified in the Member State, not later than by the 15 October 2015. The annual figure for farmers participating in the scheme for small farms is calculated as 25% of the national average payment per beneficiary, determined on the basis of the national ceiling and the number of farmers who declared the eligible areas or the amount corresponding to the national average payment multiplied by the number of corresponding hectares (maximum 5). The support for small farms can range from 500 to 1,250 EUR. According to Musiał [2010], Musiał and Wojewodzic [2011], in the system of small-scale farm support it is extremely vital to use the identical instruments in all Member States and the appropriate level of the transferred funds. The granting of direct payments based on the acreage or production is more reasonable than the complicated instrumental system of budgetary transfers, which has to connect simultaneously multiple objectives of the CAP.

Poland's proposals for changes in direct payments for 2014–2020

In July 2014, Poland presented draft amendments of direct payments to the European Commission. On the one hand, the draft adapts the system to the EU regulations. On the other hand, it takes into account the specificity of Polish farms [Project... 2014]. Funds for the direct payments for 2014–2020 (the system will be implemented from 2015) will amount to 23.49 billion EUR (out of 32.09 billion EUR for Poland within the CAP). One of the objectives of the proposed system is to support active small and medium-sized farms. It will be possible by shifting 25% of the envelope of the second pillar, i.e. 2.34 billion EUR, to the direct payments. These funds will primarily be used to finance additional payment for small and medium-sized farms, to the initial hectares from the range of 3.01–30 ha. It is also planned to allocate 15% of the national envelope to the payments related to production. The support will include, among others, following sectors: cattle, cows, sheep and goats, crops, soft fruits, tomatoes and starch potatoes. A new element, which is very important in the payment system, is the use of 30% of the funds for so-called green payment related to crop diversification, maintenance of permanent pasture or grassland ecology. In order to simplify the system and to reduce administrative costs, there was proposed a system for small farms, farms receiving up to 1,250 EUR, that which will release them from the control in terms of greening and cross-compliance. In accordance with the proposals of the European Commission, the support will be provided only to the economically active farmers. Restrictions on the direct support will be applied to individuals and legal entities that receive more than 5 thousand EUR and manage airports, water supply, sports or recreational grounds [Project... 2014]. Moreover, Poland proposed implementation of digressivity, involving reduction by 100% of the amount of the single direct payment exceeding 150 thousand EUR. The proposal submitted by Poland, after the approval by the European Commission, will be implemented from 2015.

CONCLUSIONS

Although there were many new regulation proposed by the European Commission as regards the direct payments system for the years 2014–2020, this system remains verified in different EU Member States. What is true is that the definition of the professionally active farmer, namely the beneficiary of the payments was done, but the possibility was left of establishing the threshold value below which this definition would not apply. Determining the threshold value depends on the decision of the state concerned, which causes differentiation of the system.

It was good that during the reform for the years 2014–2020, the decision was taken to exclude the entrepreneurs who do not run the farming activities but for example, administer the airports, the water pipelines, recreational sports grounds and others. In this case, it seems appropriate to leave the decision to the member states to complement the list by other landowning non-agricultural enterprises, which should not participate in the system.

The next most controversial issue in the field of payments is the differentiation of their amount per unit area in the EU Member States. It is true that in the period of 2014–2020 the activities will be taken to level up the differences in the amount of payments, but we are still very far from their alignment, which directly translates into competitiveness of the agriculture. The Member States were also required to reduce the payments paid out to large farms receiving more than 150 thousand EUR per year. However, it shall be remembered that there are fewer and fewer such farms and the savings accumulated in this way will not substantially increase the European Agricultural Fund for Rural Development.

Summing up the reform in the field of direct payments, it shall be noted that not all of the declared objectives of the European Commission concerning the standardization and simplification of this system have been achieved. Still, this system is varied in different Member States of the EU and therefore it is difficult to expect in the coming years the simplification and the reduction of the administrative costs of the system.

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PŁATNOŚCI BEZPOŚREDNIE W ŚWIETLE REGULACJI WSPÓLNEJ POLITYKI ROLNEJ NA LATA 2014–2020

Streszczenie. W artykule przedstawiono ocenę zmian w systemie płatności bezpośrednich jako instrumentu WPR UE w nowej perspektywie finansowej na lata 2014–2020. Pokazano zmiany w rozmiarach finansowania wspólnej polityki rolnej w ujęciu historycznym, a także poziom wydatków przewidzianych na płatności bezpośrednie. Dokonano przeglądu zmian w systemie płatności, odnosząc się do zróżnicowania tego mechanizmu w poszczególnych państwach członkowskich. W artykule przedstawiono argumenty i dowody, że nowe rozwiązania w zakresie płatności w dalszym ciągu są niejednolite i wiele regulacji w ich zakresie pozostawia się do decyzji poszczególnych państw członkowskich. Nowością w aktualnej perspektywie finansowej jest zdefiniowanie rolnika aktywnego zawodowo, stworzenie możliwości przesunięcia części środków finansowych z systemu płatności na