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IMPACTS OF MODULATION FOR DIRECT PAYMENTS IN HUNGARY¹

WPLYW MODULACJI NA BEZPOŚREDNIE PŁACE NA WĘGRZECH

Key words: SAPS, CNDP, subsidy redeployment, model calculation

Słowa kluczowe: SAPS, CNDP, przegrupowanie dotacji, obliczanie modelu

Abstract. The redeployment of subsidies through modulation was a new element in the system of Hungarian agricultural support in the premium year of 2012. In harmony with EU principles, it has become possible (within Hungarian implementation) to create a system which enables the radical moderation of actual volumes of subsidy redeployment resulting from modulation. The basis of model calculations was created by the finalized data of ARDA about payments in the premium year of 2011. Following the running of calculations, it can be confirmed that the implementation of the Hungarian method has resulted in reduced payments only in the case of 2% of all farmers eligible for direct subsidies, and about 10% of those who are actually involved in payment reduction.

Introduction, features of modulation schemes

The reform of Common Agricultural Policy (CAP) in 2003 has reformed the basic operation of the aid system and laid down the implementation of the Single Payment Scheme (SPS). The transformation of direct payments has also brought the introduction of the so-called modulation principle. In this regard the key objective was to expand the funds of rural development (2nd pillar) reinforced in the frames of CAP reform in 2003. Rural development policy should handle new challenges (climate change, bioenergy, water management, etc.)² emerging due to the gradually increasing expectations on behalf of society and member states. Further financial sources should be involved in order to urge member states to revise their rural development programs without reducing the intensity of their rural development activities in other fields. The financial plans for 2007-2013 did not make any provisions about the financial sources which may support the rural development policy of the Union. Therefore, a considerable part of required financial funds can be collected through modulation by gradually increasing the pace of reducing direct payments. The measures aim to create a better balance between special policies and to reinforce sustainable agriculture and rural development.

Besides ensuring funds for rural development, another decisive argument to strengthen modulation is the disproportional distribution of direct aid within the EU. Most of the payments go to a relatively small number of beneficiaries who get high amounts of support. The larger beneficiaries do not need the same amount of support to realize the income premium target and – due to their adaptation potential – they more easily operate at a lower subsidy level, too. Therefore, it is necessary to prescribe the agricultural producers entitled to large grants to provide further contributions for financing those rural development measures which are drafted to handle new challenges. According to the reform decision of 2003, the old member states (EU15) should have decreased direct support by 3% in 2005, by 4% in 2006, by 5% in 2007 and afterwards. Starting

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² The Union, as one of the parties of the Kyoto Protocol was called to adjust its policies by considering the recommendations concerning climate change. Moreover, due to the serious problems in regard to water scarcity and droughts, the Council included in its conclusions of October 30, 2007 that the agricultural sector should put more emphasis on water management issues. The Council, in its conclusions of December 18, 2006 about halting biological diversity losses, underlined that the protection of biological diversity remains an enormous challenge and, although there has been serious progress in this field, further efforts are needed to reach the objectives of the Union's policy set by 2010 (73/2009/EC).

from the above, the Health Check in 2008 aimed to further deepen the system. In this regard, the main rules of the still valid system have been adopted:

- modulation should not be applied if any grant transferred to the agricultural producer in a given calendar year does not reach EUR 5000;
- the amount of direct payment above EUR 5000 transferred to an agricultural producer in a given calendar year shall be decreased every year until 2012: by 7% in 2009, by 8% in 2010, by 9% in 2011 and by 10% in 2012;
- the amount of direct payment above EURO 300 000 transferred to an agricultural producer in a given calendar year shall be decreased by a further 4%, in addition to the above outlined withdrawals.

In the case of farmers of new member states (NMS) – which accessed on May 1, 2004 or later – the modulation system should not be applied until the level of direct subsidies does not reach the volume in the old member states. Together with this, the modulation cannot result in a lower net amount paid to the farmer in a new member state than the grant paid to an agricultural producer of a similar situation in an old member state. Therefore, when modulation is applied in regard to farmers of new member states, the degree of reduction should be limited to the difference between the level valid in the implementation period and the level valid in old member states after introducing modulation. Moreover, modulation must also be considered in the allocation of complementary national direct payments (top ups) for which the agricultural producers subject to modulation in new member states are entitled.

The principle and method of modulation has not been applied in NMS, or in Hungary, yet. Since the withdrawal implemented in the new member states has not been regulated by the European Committee (EC) until now, it was necessary to lobby strongly for Hungarian interests before its introduction in order to implement a reduction system which was more realistic than the first proposal of the EC and represented the interests of Hungarian farmers. Finally, this could be achieved.

Calculation mechanism in Hungary

The main rule in operation was that the amount of any direct payment above EUR 5000, transferred to the agricultural producer in 2012, should be reduced by 10%. The volume of reduction would grow by a further 4%, if the amount of aid for which the farmer was entitled exceeded EUR 300 000. In the case of implementation in Hungary it means that the total amount of direct subsidies (SAPS, separated special grants and restructuring programs) and complementary national direct payments (top-ups) should be reduced by over EUR 5000. In the frames of modulation, several groups of titles should be formed. These groups serve the aim that those elements of support which are not or only partly paid owing to budget source deficit could be involved in calculations, because the amount of complementary national direct payments which can be used by the producer under different titles means the sum of all the national grants which complement direct aid, regardless of whether the member country actually provides it or not. The groups considered in calculation are as follows:

1. Unannounced (inactive) top up titles: these titles are not announced due to national budget sources (Cereals, oilseeds and protein crops – COP top up, separated rice and separated sockler cow premium).
2. In the case of some titles, the difference between the actually transferred grant and the maximum grant amounts that can be paid. These items (e.g. premium for beef cattle breeding) which could be operated with larger grants according to the approval of the Committee but, due to the limited national budget, the maximum amount cannot be paid. In the course of modulation, these unpaid items should also be considered.
3. Actually transferred grants: In such cases when the above two items are exhausted or were not available at all, the withdrawal is made from the amount to be paid. If the actually payable grants should be reduced, it is made in a specific order.

In cases when the producer is entitled to any of the grants and the total amount of grants³ to be paid for eligibilities is above EUR 5000, the reduction shall be applied and this withdrawal shall be made from the complementary national direct payments in the order laid down in legal regulations. Since both the old and the new member states stood at 90% of the aid level in 2012, the direct aid is reduced by 4%, if it is above EUR 300 000. Thus, the amount of aid does not decrease until EUR 300 000. Therefore, when the amount of direct support in itself exceeds EUR 300 000, the reduction is made only from the direct support. If the reduction is higher than the amount payable in the frames of complementary national payment, then it can be realized only up to its volume. The remaining difference cannot be charged on direct support or other payments. As a result of the procedure, effective aid reduction will probably not be seen in many cases because the impact of decrease for many producers will be eased by “buffer” items. The special feature of the procedure is that the Agricultural and Rural Development Agency (ARDA) should make the calculation together for all the titles awarded for the producer in order to precisely determine the degree of withdrawal, which may result in the prolongation of control and – consequently – payment in some cases to as far as the end of the first half of 2013. The ARDA resolutions, sent to the producers concerned, express the amounts in euro due to the principle of calculation. Only the amount actually payable is indicated in national currency.

Material and methods

The present paper only introduces one aspect of modulation. The mechanism and operation of support allocation as a result of modulation is analysed. Since the system has not been implemented in Hungary earlier, there are not any concrete databases or detailed analyses in this regard. Therefore, conclusions should be made on the basis of the – corrected – payment data of ARDA processed in 2011, the recent premium year. It has become obvious from examinations that – due to the special features of the database – a number of difficulties and limiting factors affect the consistency and reliability of data. In this regard the following methodological notes should be made:

1. The basic starting point is that the group and composition of producers, as well as their entitlements do not change. Although it is not very realistic, it should be fixed as a basic assumption in the calculations.
2. The database available at ARDA fixed the payments in HUF, therefore it should have been converted. The official exchange rates valid for the given period were used in the calculation⁴.
3. The data should have been corrected in order to precisely define the impact of aid reduction caused by modulation, because some titles have not been implemented before, therefore they should have been estimated. For the estimation, the number of entitlements in relation to producers in 2012 was apportioned to the values of top up eligibility in the previous year, presuming that there is a substantial overlap between the two titles. Since, however, in the meantime some producers have become ineligible for the new title, the estimation of their exact number and distribution was inaccurate, the apportioning of former eligibilities seemed to be the best solution. Thus, the value of eligibilities changed in case of each producer, but the reliability of data at a sectorial level could be ensured.
4. In the case of aid titles, it was still necessary to correct the payments proportionally in the case of each beneficiary, even by knowing the maximum value of each envelope. Thus, in 2013, the calculation was made by utilizing the grant allocation actually payable in 2013. Since there is a possibility to make substantial movements among producers, the real volume can be corrected only by knowing the actual results.

³ All the items that the producer is entitled to should be summed up for the calculation regardless of whether it is actually transferred or not.

⁴ The last exchange rate determined by the European Central Bank before October 1 of the given year according to Article 45 of 1290/2005/EK Council resolution about financing the common agricultural policy (2011: 292.55 HUF/euro, 2012: 284.89 HUF/euro).

Results

Starting from the grant year data (2001) and making the necessary corrections, a database can be formed to support the preliminary estimations properly in order to quantify the effects emerging in case of payments in 2012. Based on the community terms, it can be observed, with regard to the dispersion of aid amounts, that the category receiving grants in the amount of between EUR 500 and 1250 was the most populous. Analysing the data more precisely, it is clear that 25.5% of beneficiary producers received more than EUR 500 but less than EUR 1250 in the premium year of 2012. In their case, the average aid level was EUR 817⁵ (Tab. 1).

With regards to modulation, it can be concluded on the basis of the expected volume of payable grants, that it will not concern 81.2% of the producers or about 142.4 thousand farmers, because, in their case, it does not reach the required limit. Due to the principle of calculation, however, all the possible aid items should be considered, thus the number of the potentially concerned is considerably higher than 33 000 – the number of those belonging to this category – it is in fact about 38 000. In the case of approximately 500 000 producers, the system of grant reallocation will not cause any actual withdrawal, so it will be considered only in the administrative sense. Almost half of the remaining 18.8% actually concerned producers receive less than EUR 10 000 as aid, therefore no significant withdrawals can be expected in their case, either. It is a basic principle in the calculation of modulation that the withdrawal in case of grants above EUR 5000, independently from its community or national origin, should be charged basically on complementary national titles (top ups). A significant group of inactive items is COP (cereals, oil seeds and protein) eligibilities. On the basis of data published by ARDA, it can be considered approximately above 3.6 million hectare in the calculation, which means eligibility for 24 hectares on average in case of 152 000 producers altogether.

Table 1. Estimated number and ratio of beneficiary producers in grant year of 2012, as well as the expected average level of aid

Tabela 1. Szacunkowy współczynnik i liczba beneficjentów w roku składkowym 2012 oraz przewidywany średni poziom pomocy

Amount of payments (farmer/year)[thous. EUR]/ Kwota płatności (rolnik/rok) [tys. euro]	Number of beneficiaries/ Liczba beneficjentów	Dispersion /Dyspersja [%]	Increasing in cumulated/ Wzrost [%]	Decreasing in cumulated/ Spadek [%]	Average amount of awarded aid/ Średnia wysokość przyznanej pomocy [EUR/ha]
≥0 and <0.5	44 477	25.3	25.3	100.0	305
≥0.5 and <1.25	44 717	25.5	50.8	74.7	817
≥1.25 and <2	21 196	12.1	62.9	49.2	1 593
≥2 and <5	32 052	18.3	81.2	37.1	3 160
≥5 and <10	14 322	8.2	89.3	18.8	7 021
≥10 and <20	8 652	4.9	94.3	10.7	14 071
≥20 and <50	6 279	3.6	97.8	5.7	31 093
≥50 and <100	2 225	1.3	99.1	2.2	66 061
≥100 and <150	496	0.3	99.4	0.9	122 065
≥150 and <200	262	0.1	99.5	0.6	173 897
≥200 and <250	180	0.1	99.6	0.5	224 108
≥250 and <300	116	0.1	99.7	0.4	272 441
≥300 and <500	286	0.2	99.9	0.3	388 304
≥500	243	0.1	100.0	0.1	915 911
Total/Razem	175 503	100.0			

Source: own calculation on the basis of ARDA Database... 2012

Źródło: kalkulacja własna na podstawie ARDA Database... 2012

⁵ On the basis of values stated on the basis of the last committee review (46.37 thousand eligible producers and 37.57 million grant) the difference was only about EUR 7 euro [EC 2012c].

Table 2. Dispersion of those actually involved in grant reallocation and the degree of withdrawal in regard to farm categories
 Tabela 2. Dywersja tych, którzy rzeczywicie biorą udział w relokacji dotacji oraz wycofanie wypłat wg kategorii gospodarstw rolnych

Amount of payments (farmer/year) [thous. EUR]/ Kwota płatności (rolnik/rok) [tys. euro]	Concerned farms [pcs]/ Zainteresowane gospodarstwa rolne [szt.]		Actual concerned farms by modulation /Gospodarstwa rolne rzeczywicie biorące udział według modulacji				
	number (pcs)/ liczba [szt.]	ratio compared to the possible/ możliwy współczynnik [%]	degree of withdrawal charged on them/ wysokość przysługujących wypłat [EUR]	average value of withdrawal by farms/średnia wysokość wypłat na gospodarstwo rolne [EUR]	value of "virtual" withdrawal in their case / wysokość wypłat „wirtualnych” w danym przypadku [EUR]	value of av. withdrawal by farms in their case/ średnia wypłata na gospodarstwo rolne w danym przypadku [EUR]	ratio of virtual withdrawal/ współczynnik wirtualnych wypłat [%]
≥5 and <10	14 322	3.9	99 815	180	38 522	69	27.8
≥10 and <20	8 652	8.7	469 502	622	273 809	363	36.8
≥20 and <50	6 279	13.2	1 340 797	1 619	925 371	1 118	40.8
≥50 and <100	2 226	15.7	1 286 689	3 676	1 037 990	2 966	44.7
≥100 and <150	496	15.7	491 603	6 303	458 513	5 878	48.3
≥150 and <200	262	13.0	284 610	8 371	322 012	9 471	53.1
≥200 and <250	116	7.8	145 259	16 140	199 181	22 131	57.8
≥250 and <300	116	7.8	183 389	20 377	60 521	6 725	24.8
≥300 and <500	286	89.2	1 041 988	4 086	13 241 824	51 929	92.7
≥500	243	100.0	6 311 902	25 975	29 082 132	119 680	82.2
Total/Razem	32 998	9.4	11 655 554	3 741	45 639 876	14 647	79.7

Source: see tab. 1

Źródło: jak w tab. 1

As regards top up, in case of titles, the difference between the actually paid premium and the maximum possible grant should be considered in calculations. Paradoxically, those in the sector who received the maximum aid payable – on the basis of special policy priorities – had less scope of manoeuvre in the calculations related to modulation – in regard to this decreasing item. In their case, it may result in an even higher volume of withdrawal. If other decreasing items cannot be considered in regards to the mechanism, the actual payable top up will come to the fore.

The distribution of community sources in itself counts only in case of payments exceeding EUR 300 000, but it should be considered in the determination of a pooled basis of calculation. By examining the group of those concerned in direct aid, the distribution of participants in the ruminant restructuring programme should be waived because their volume – due to the introduction of the title in 2012 – could only be stated by estimations, and thus their volume was estimated on the basis of the distribution of top up eligibilities, approved applications and the size of the available envelope. The data of the other titles indicate that a major part, 81 % of those receiving SAPS aid, will not be affected by modulation. With regard to the titles, it should be noted that – out of the approximately 175 000 eligible farmers – about 152 000 farmers would be entitled for complementary national payments, thus, in their case, these items would appear as reducing items. In the calculation, the inactive items mean relief for 32.3 thousand farmers, while the buffer items help another 4100 farmers,

therefore, in their case, effective withdrawal should not be made. On the basis of the calculation, it can be concluded that aid reallocation would concern approximately 33 000 producers for whom the payable grant exceeds the minimum calculation limit (Tab. 2).

By considering and utilizing the buffer items, effective reduction can be expected for about 3100 producers. If these items did not exist, the amount of withdrawal would reach the amount of totally payable complementary national payments. Modulation means actual reduction for all the producers of the group which receive the highest aid. Moreover, 90% of those who are entitled to aid amounting to between EUR 300 000 and 500 000 are also concerned. The dispersion is more modest in other categories: proportionally, the degree of reduction is the lowest in case of those who are under EUR 10 000. The two extremes can be explained by the fact that a 4% withdrawal should be realized from community sources. In the case of the next lower category only the total value exceeds the limit value of progressive withdrawal in the 31 farms. In case of the lowest category, the group of those involved is much smaller due to the beneficial impact of inactive and buffer items.

Conclusions

On the basis of the figures, it is obvious that substantial withdrawals can be expected in the case of farms which belong to the EUR 20 000 to 100 000 category, although withdrawal is the highest for farms in the highest category. The withdrawal amounts to about EUR 11.6 million, which is EUR 3741 on average for 3116 farms. If the impact of inactive and buffer items are also considered, it is obvious that virtual items have a significant share in the moderation of withdrawal because – by considering EUR 45.6 million – they fended off almost 80% of the total withdrawal framework. Therefore, this amount could not be withdrawn in the case of those concerned. If the volume of withdrawal is compared to the total group of beneficiaries, 175 000 producers, hardly 2% of all the beneficiaries, and about 1% of the EUR 1.2 billion available aid framework is affected by the reallocation required by modulation.

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Streszczenie

Nową częścią węgierskiego systemu wsparcia rolnictwa w roku składkowym 2012 było przegrupowanie dotacji poprzez modulację. Na Węgrzech możliwe stało się stworzenie systemu, który zgodnie z zasadami UE umożliwił radykalne obniżenie aktualnej wysokości przegrupowania dotacji będącej wynikiem modulacji. Podstawą do obliczenia modelu były dane ARDA na temat wpłat za rok składkowy 2011. Można potwierdzić, że wprowadzenie węgierskiej metody skutkowało zmniejszeniem składek tylko w przypadku 2% wszystkich rolników, którym przysługują bezpośrednie dotacje i ok. 10% w przypadku tych, którzy rzeczywiście przyczyniają się do zmniejszenia składek.

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