

## Miscellanea

### THE PLANNED REFORM OF THE COMMON AGRICULTURAL POLICY AND ITS EFFECT ON THE DIRECT SUPPORT SCHEME IN POLAND

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#### Abstract

*The planned reform of the Common Agricultural Policy (CAP) will change the legal framework determining the scope of decisions made by the European Union Member States in the field of the direct payments scheme for farmers. The main goal of this study is to determine to what extent the new legal framework proposed by the European Commission will enable Poland to implement the direct payments scheme in a similar form to the current one.*

*The comparative analysis of the current and planned regulations enabled the identification of equivalents of individual elements of the current direct payments scheme in the new scheme, to indicate differences between them and to assess the significance of these differences. The analysis led to conclusions about the planned reform of the CAP. They concerned the scope of decisions that the Member States could make about the direct payments scheme and the structure of using the funds from the first pillar of the CAP. The analysis showed that the proposed regulations will enable Poland to implement the direct support scheme after 2020 in a very similar form to the one that is used currently.*

*If there are attempts to maintain the status quo, the most important changes enforced by the reform will affect the scheme for small farms and the mechanism of reducing payments.*

**Keywords:** Common Agricultural Policy, reform of the Common Agricultural Policy, direct payments.

**JEL code:** Q18, Q38, Q57.

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## Introduction

The proposal for a Regulation of the European Parliament and of the Council (COM(2018) 392) provides that the Common Agricultural Policy (CAP) must be modernised to meet the challenges related to the economic condition of the agricultural sector, care for the environment, climate change mitigation measures and the need to create strong economic and social structures in rural areas in the European Union (EU). The CAP is also supposed to be simplified so that new challenges can be met with a minimum of administrative burden. Furthermore, the CAP is to be more closely linked to the EU policies in other areas to maximise its contribution to the implementation of the European Commission's priorities and the accomplishment of sustainable development objectives. The objective of a modernised Common Agricultural Policy is to support the transition towards a fully sustainable agricultural sector and to accelerate the development of rural areas, so that the EU population (over 500 million consumers) is provided with safe and high-quality food. It is assumed that a reformed CAP must enhance the European added value by reflecting the ambitious goals related to environmental protection and climate change mitigation and by addressing citizens' expectations regarding their health.

Nurzyńska and Drygas (2018) emphasize that an adequate agricultural and rural development policy, as well as its adjustments, needs to be based on continuous analytical and diagnostic work to assess the effectiveness and efficiency of the policy pursued, on the one hand, as well as to identify development problems and simulate various development scenarios resulting from national and international determinants of the applicability of diversified support.

The paper focuses on one of the aspects of the proposed CAP reform, namely a change in the EU legal framework determining the scope of the EU Member States' decision-making power as regards the scheme for direct support for farmers. The wider the scope of Member States' decision-making power in this area, the greater the likelihood of more immense diversity of implementation models within the EU. Grochowska (2018) critically assesses the effects of the gradual transfer of competences in forming agricultural policy from the EU level to the national ones – especially in the area of direct payments. In her opinion, the progressive decentralisation does not bring added value for the entire EU, and the departure from the one size fits all principle increases the complexity of implementation models and makes them more varied between the Member States.

Sadłowski (2012) claims that the varying level of payments in particular Member States and the varying rules governing access to aid, resulting from a wide scope of decision-making power, as well as different instruments used, make the direct support scheme itself a source of distortions of competition in the single market, making adjustments in the spatial distribution of agricultural production in the EU – beneficial in terms of the rationality of using the production potential – difficult. The wide scope of Member States’ decision-making power in accessing and targeting support also creates room for pressure from interest groups, which can adversely affect the objectification of agricultural policy. But then, the varied implementation of the direct support scheme can lead to enhanced effectiveness in combating specific local difficulties – in accordance with the principle of subsidiarity (Sadłowski, 2018b).

### **Research purpose and methods**

The main purpose of the paper is to answer the question: to what extent the new legal framework in the form proposed by the European Commission allows Poland, as the EU Member State, to implement a direct payment scheme in a form similar to the current one (in other words – to what extent Poland will be able to use instruments targeting aid at entities with the same characteristics and develop a similar structure of allocation of funds to be disposed of).

The answer to this question is of great practical importance to politicians who decide about the form of agricultural policy in Poland. Should it not be possible to preserve the *status quo*, the design of a new direct support scheme can begin with the identification of areas where, according to decision makers, adjustments are necessary due to changes in conditions, unsatisfactory effectiveness or efficiency of a given instrument or unacceptable side effects of its use.

The analysis of the scope of Member States’ decision-making power with respect to the different elements of the direct payment scheme was carried out in several areas, identified by the criterion of how they affected support distribution. The author presented in the paper the results of a comparative analysis of the current legal framework and the proposed one. This analysis helped identify equivalents of particular elements of the current direct support scheme in the new one, find any differences between the two schemes and assess the significance of these differences.

Determination of the scope of the Member States’ decision-making power is of particularly great importance to agricultural self-government organisations, wishing to actively participate in the legislative process aimed at developing legal acts implementing new solutions. This is due to the fact that at the stage of public consultation, it is possible to present one’s stance, and any postulates as to the form of the direct support scheme after 2020 addressed to national authorities have the chance to be taken into account only if they comply with the EU legal framework.

The aforementioned research tasks were implemented with the use of a selective analysis of the content of applicable legal acts and the European Commission's proposals regarding the shape of the CAP after 2020, reflected in the proposals for regulations developed by the Commission<sup>1</sup>. Economic analysis of law was used as a research method.

### **Access to support**

The solutions adopted both in the currently used direct support scheme and in the scheme designed by the European Commission for the next financial framework provide that direct payments can only be granted to farmers:

1. Meeting the conditions for "economic activity" (under the current scheme) or "genuine farmer" (under the new scheme), and
2. Meeting the minimum requirements for receiving payments.

The above conditions must be met to receive support under the direct payment scheme, i.e. they determine access to this support. The scope of the Member States' powers as regards the development of these conditions is presented in Table 1.

Conditions regarding "economic activity"/"genuine farmer" are to preclude quasi-farmers from the group of potential beneficiaries of direct support. The current practice of applying this regulation shows, however, that no unambiguous criteria have been developed either at the EU level or at the national level, that would allow for effective separation of applicants who should "not receive" payments, while adding insignificant complexity to application for payments and with a moderate administrative burden resting on the paying agency. As a great deal of difficulties emerged while specifying the criteria for recognising applicants as active farmers, that have not been dealt with satisfactorily, the applicability of this restriction is debatable. The criterion relating to the structure of income from agricultural and non-agricultural activities is particularly disputable, as the diversification of economic activities by rural residents is often supported under the CAP, showing a positive impact of diversifying income sources on strengthening the socio-economic fabric of rural areas. Therefore, the application of the criterion relating to the structure of income from agricultural and non-agricultural activities while setting the conditions for access to aid in the direct support scheme is inconsistent with this measure, as this approach may entail that those farmers that diversify their economic activity are ineligible for direct support. Similarly, compiling a list of non-agricultural activities that preclude entities conducting simultaneously agricultural activity from support under direct payments, makes the application for payments rather more complex instead of bringing any added value to the operation of the direct support scheme.

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<sup>1</sup> The proposals are still being worked on by the EU, hence the final solutions may differ from those initially proposed by the Commission.

Table 1

*The scope of Member States' decision-making power as regards the elements of the direct support scheme that define the rules governing access to aid*

Element of the current/new direct support scheme	Period	Scope of the Member States' decision-making power
Economically active farmer/ genuine farmer		Setting the limit of direct payments (not greater, however, than EUR 5,000) up to which the farmer is automatically deemed to meet the "economic activity" requirement.
	2015-2017	Extension of the so-called negative list, i.e. the list of non-agricultural activities the conduct of which – in the case of farmers exceeding the payment limit – requires documentation confirming that agricultural activity is not marginal relative to overall economic activities conducted (optional).
		Introduction of a principle under which farmers whose agricultural activity is not their principal business activity are precluded from support (optional).
	2018-2020	Option of not applying the "economic activity" requirement.
	After 2020	Adding clarity to the definition of a genuine farmer to determine which farmers will not be considered genuine farmers, based on conditions such as income, labour inputs on the farm, company object or inclusion in registers.
Minimum requirements for receiving payments/ Minimum requirements for receiving decoupled direct payments	2015-2020	Setting a threshold below which payments are not granted: by amount (EUR 100) or by area (1 ha). In the case of countries using livestock payments that have chosen the area threshold – the obligation to set an amount threshold for farmers receiving livestock payments, but not meeting the area threshold.
		Reducing/increasing the amount or area threshold within certain limits (optional).
	After 2020	Setting an area threshold up to which payments are not granted.

Source: the author's own study based on Regulation (EU) No. 1307/2013 of the European Parliament and of the Council and Proposal for a Regulation of the European Parliament and of the Council (COM(2018)392).

The solutions used in Poland in 2015-2017 reduced to a minimum the restrictiveness of the "economic activity" condition, without making the application for payments more complicated, at least for small farms. The aforementioned solutions involved the adoption of the maximum limit of direct payments permitted by the EU regulations, up to which the farmer was automatically considered to meet the "economic activity" condition, i.e. the equivalent of EUR 5,000. The "negative list", i.e. the list of non-agricultural activities the conduct of which – in the case of farmers exceeding the payment limit – would require documentation confirming that agricultural activity is not marginal relative to overall economic activities conducted, has not been complemented with additional types of activity. Furthermore, no additional rule has been introduced to preclude from the group of beneficiaries applicants whose agricultural activity is not their principal

business activity. As a result, the number of entities affected by this regulation, i.e. ones precluded from the support scheme or having to submit additional documents, was relatively small (Sadłowski, 2017a). When, as a result of the CAP review, the “economic activity” became optional, Poland abandoned this form of restriction of access to aid.

The proposed reform provides that after 2020, the Member States will again be required to apply this preclusion, whereby farmers who are to be entitled to support are defined as “genuine farmers”. The scope of the Member State’s decision-making power in this area is to be limited to the clarification of the definition of such a farmer<sup>2</sup>. The foregoing makes it possible to formulate this definition at the national level in such a way that its practical application does not make potential applicants resign from applying for payments following self-assessment of meeting the “genuine farmer” condition, nor does it result in discrepancies between the number of farmers applying for payments and the number of beneficiaries of these payments. Nevertheless, even such academic restrictions would entail some administrative burden on the paying agency and, in some cases, also some formal burden on applicants.

On the other hand, minimum requirements for receiving payments are to protect the paying agency against administrative burden connected with handling payment applications, that would be disproportionate to aid amounts that could be paid to applicants. The need to set a certain minimum entry threshold is not likely to be questioned, but what may be arguable is the threshold type (area, amount or other) and its quota.

In Poland, due to the changes introduced with effect from 2015 following the latest CAP reform, it was necessary to set – besides the area threshold – an amount threshold that applies to entities holding no land or less than 1 ha of UAA (i.e. those that do not meet the area threshold), that apply for livestock payments. The amount threshold has been set above the acceptable minimum, i.e. EUR 200. As for the area threshold, it has remained unchanged since Poland’s accession to the EU and is 1 ha (although the allowed minimum is 0.5 ha).

In accordance with the assumptions of the planned reform, after 2020, only the area threshold is to be used again. Therefore, the application of the two types of thresholds can be considered an episode, but it should be noted that such modifications of the solutions used, although short-lived and insignificant, make it very difficult for potential beneficiaries to understand and follow the rules governing access to aid. What is more, the capacity to increase the effectiveness (effect to input ratio) of the support scheme through such modifications is dubious.

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<sup>2</sup> The Member States are also to have powers to refine the definitions of agricultural activity, utilised agricultural area, eligible hectare and young farmer, thus affecting somehow access to aid distributed as part of the direct support scheme and its targeting.



## Targeting of support

All instruments that currently form the direct support scheme, except for payments for areas with natural constraints<sup>3</sup>, have their equivalents in the new scheme. The criteria for granting the various forms of support are used to target aid distributed under the direct support scheme. The scope of the Member States' decision-making power as regards the development of direct support instruments is presented in Table 2.

Table 2

*The scope of the Member States' decision-making power as regards the direct support scheme elements that determine the rules for targeting of support*

Element of the current/new direct support scheme	Period	Scope of the Member States' decision-making power
Single area payment/ Basic income support for sustainability	2015-2020	Countries that had committed to implement an entitlement-based scheme by 1 January 2018, at the latest, are allowed to differentiate the rate based on individual historical data on the average amount of support per hectare <sup>a</sup> . The maximum allowable level of financing the historical component is 20% of the envelope for the single area payment.
	After 2020	Option of regional differentiation of the rate, taking into account nonhomogeneous socio-economic or agrotechnical conditions of particular regions.
Payment for young farmers/ Complementary income support for young farmers		Setting out additional conditions for recognising the applicant as a young farmer (optional).
	2015-2020	Selection of the support amount calculation method from the available options (which shall include, where the selected option provides for support in the form of area payment – setting the maximum area of no less than 25 ha and no more than 90 ha).
	After 2020	Optional payment. If this type of payment is used, the Member State shall: <ol style="list-style-type: none"> <li>1) lay down the rules for access to aid, specifying in the definition of a young farmer which farmers are considered young, based on criteria such as: maximum 40 years of age, running a farm, completion of relevant training and having relevant skills,</li> <li>2) design the shape of this instrument, ensuring that support has the form of area payment.</li> </ol>

<sup>3</sup> This payment is optional for the Member States. Only two countries have opted for it: Denmark – that has allocated to it 0.3% of its national ceiling per annum in the period 2015-2020, and Slovenia – that has allocated to it 1.6% of its national ceiling per annum in the period 2017-2020 (European Commission, 2018). Hence, having regard to the whole EU, it has a negligible influence on targeting aid granted to farmers as part of direct support.

cont. Table 2

Element of the current/ new direct support scheme	Period	Scope of the Member States' decision-making power
Payment for agricultural practices beneficial for the climate and the environment/ Schemes for the climate and the environment	2015-2020	With regard to the practice involving the maintenance of permanent grassland – setting out permanent grassland with environmental value outside the <i>Natura 2000</i> sites (optional).
		With regard to the practice that involves setting ecological focus areas: 1) selection of types of land/crops/sites considered as ecological focus areas, 2) the use of weighting factors (mandatory for countries recognising as ecological focus areas types of areas for which the weighting factor is less than 1; in the case of other countries – optional), 3) the use of conversion factors (optional), 4) approval for joint exercise of the practice by farmers whose farms are in close proximity (optional).
		Narrowing down the list of practices considered as equivalent (optional).
	After 2020	Designing agricultural practices beneficial for the climate and the environment, as well as the shape of the instrument, ensuring that support has the form of area payment.
Payment for areas with natural constraints/ no equivalent in the new scheme	2015-2020	Optional payment. If this type of payment is used, the Member State shall set areas that are to be covered with it.
Coupled support/ Income support related to the output scale	2015-2020	Optional instrument. If this instrument is used, the Member State shall specify agricultural sectors in which aid is to be granted – from the list of sectors eligible for coupled support.
	After 2020	As above.
Small farmers' scheme/Round sum payment for small farmers	2015-2020	Optional instrument. If this instrument is used, the Member State shall select the support amount calculation method from the available options (which shall include – where the lump sum option is not selected – setting the maximum amount and rounding the lowest amounts to EUR 500) and lay down the rules for automatic inclusion of small beneficiaries to the small farmers' scheme (optional).
	After 2020	Optional instrument. If this instrument is used, the Member State shall design its shape, ensuring that support has the form of area payment.

<sup>a</sup> All Member States using the simplified scheme notified that they would continue using this solution until the end of 2020 (European Commission, 2017). Thus, none of them is allowed to differentiate the single area payment rate.

Source: the author's own study based on Regulation (EU) No. 1307/2013 of the European Parliament and of the Council and Proposal for a Regulation of the European Parliament and of the Council (COM(2018)392).



Basic income support for sustainability is the equivalent of the single area payment, which is characteristic for the simplified direct payment scheme, used, e.g. in Poland. The option of partial differentiation of the single area payment rate by introducing a historical component, calculated based on individual data on the average amount of support per hectare allocated for 2014 to particular farms under specific instruments<sup>4</sup>, was available only to those Member States that undertook to implement the entitlement-based scheme by 1 January 2018, at the latest. All Member States using the simplified scheme, including Poland, decided to continue using this solution until 2020, and therefore none of these countries has the option of differentiating the single area payment rate. Under the new scheme, all countries will be able to differentiate the rate of basic income support for sustainability. However, differentiation will not depend on the historical level of support per hectare on the farm, but territorial differences in socio-economic or agronomic conditions. This means that the rates of basic income support for sustainability will be uniform, at least at the regional level.

As for the payment for young farmers, it will be replaced with complementary income support for young farmers. In the current scheme, the payment for young farmers is obligatory for the Member States, but in the new one, its implementation will be optional. Under the current scheme, the Member States could lay down additional conditions for access to support for young farmers, involving the need to document their field-specific education, relevant agricultural experience or completed training. Poland did not take advantage of this opportunity, and thus the potential group of beneficiaries of support for young farmers has not been narrowed down. Furthermore, the Member States could choose the support amount calculation method from four available options. Two options provide for support in the form of an area payment. Support is allocated to the area covered by the single area payment on the farm, but the supported area cannot be larger than the maximum area, i.e. the area limit of no less than 25 ha and no more than 90 ha, set by the Member State. In the case of the other two options, support takes the form of a *quasi*-lump sum payment. Aid is not in fact a lump sum as a result of the introduced restriction providing that the aid amount may not exceed the amount of the single area payment due to a given farmer. This means that the final amount of aid corresponds to some extent to the specific value of a certain parameter describing the farm and, as a result, is not the same for all beneficiaries.

Poland has chosen an area option that is more favourable from the point of view of young farmers. The use of this method ensures a stable payment rate for young farmers, in EUR/ha throughout the period of using this instrument<sup>5</sup> (for Poland, it is EUR 61.01/ha) – subject to situations where a linear reduction of payment amounts

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<sup>4</sup> To be precise, as part of decoupled payments and specific support, except for specific support in the form of subsidies to insurance premiums for crops, livestock and plants and in the form of mutual investment funds (Poland has not used these forms of support as part of specific support).

<sup>5</sup> In the case of countries outside the Eurozone, the volatility of the payment rate denominated in the national currency per hectare causes fluctuations in the exchange rate at which payment rates are converted in particular years.

is necessary so that the financing of support for young farmers does not exceed 2% of the national ceiling. The area limit has been set at 50 ha. The higher this limit is, the larger the group of beneficiaries for whom the aid amount is proportional to the size of the farm is, and, at the same time, the greater the likelihood of reducing the rate (Sadłowski, 2017c).

According to the European Commission, generational renewal should become a priority in the new policy framework, with Member States being best placed to stimulate generational renewal through their powers in land, tax, inheritance or spatial planning regulations. According to the Commission, the CAP should ensure freedom for the Member States in developing tailor-made programmes, i.e. ones addressing the specific needs of young farmers (Komisja Europejska, 2017). Therefore, it is not surprising that the regulations regarding complementary income support for young farmers, contained in the European Commission's proposal for a regulation establishing a new direct support scheme, are very general and specify, first of all, that support takes the form of a payment per hectare. This means that all those countries that currently apply the area option with respect to payments for young farmers (hence also Poland) will be able to provide support for young farmers after 2020 in the form they currently do.

As for the current payment for agricultural practices beneficial for the climate and the environment, it is to be replaced, after 2020, with schemes for the climate and environmental, called 'eco-schemes'. Currently, pro-environmental activities consisting in diversification of crops, maintenance of permanent grassland and setting ecological focus areas are supported with payments for agricultural practices beneficial for the climate and the environment. The choice of certain solutions for these practices, with varying levels of detail, has been left to the Member States, with the EU legal framework defining precisely the Member States' powers in this area. However, in the European Commission's proposal regarding the shape of the direct support scheme after 2020, such detailed regulations at the EU level have been abandoned, leaving the Member States a great deal of freedom in designing agricultural practices beneficial for the climate and the environment. For Poland, this means that although maintaining the state of affairs in this respect would be possible, it would require transposition of numerous EU regulations regarding payments under eco-schemes to national legislation.

As regards coupled support, some small changes have been introduced with effect from 2018 as part of the CAP review, reflected in the agricultural part of the regulation called "Omnibus". As part of the planned reform, a slight change in the name of the instrument is proposed, leaving essentially unchanged the key solutions determining its shape, i.e.:

- a) Acceptable forms of support (area payment, payment per livestock unit),
- b) A list of sectors eligible for aid (the only change is the addition of the sector 'other non-food crops, excluding trees, used for the production of products that have the potential to substitute fossil materials'), and
- c) Rules for the selection by the Member States of sectors to be supported.

This means that Poland will be able to apply decoupled support after 2020 in the same sectors and in the same shape as it does at present – unless there is such a significant change in conditions, in particular the situation of particular sectors, that specific adjustments will be necessary.

The last instrument forming the scheme of direct support for farmers is the small farmers' scheme. In the new scheme, it will be replaced with a round sum payment for small farmers. The most important decisions to be made at the national level with respect to the small farmers' scheme concerned the selection of the support amount calculation method (from several available options) and the introduction of the rule for automatic inclusion of some farmers into the scheme. Poland has chosen the option in which farmers are granted the same types of payments that they would receive under the standard scheme, setting the maximum amount of support per farm at EUR 1,250 (the highest level allowed by the EU regulations). However, the rounding of the lowest amounts to EUR 500 was not introduced. As a result, both the type of payments granted to a given farmer covered by the small farmers' scheme and their amounts are the same as those which the farmer would receive under the standard scheme (Sadłowski, 2017b) – provided that the amount limit is not exceeded – if it is, the total amount of support is reduced to EUR 1,250. In the new scheme, it will not be possible to use this solution because it is envisaged that only a lump sum payment can be set.

### **Reducing support concentration**

According to Majewski and Malak-Rawlikowska (2018), CAP instruments lead to excessive concentration of subsidies in a small group of larger farms. The aforementioned authors consider this issue – next to the interception of support directed to farmers by producers of agricultural inputs and intermediaries in the food distribution chain – an adverse impact of the CAP on the allocation of resources. According to Stępień, Guth and Smędzik-Ambroży (2018), although the EU agricultural policy improves the overall level of economic sustainability of agriculture, it does not meet the criterion of social sustainability, understood as a more even distribution of income. On the other hand, instruments or mechanisms that promote smaller farms or reduce payments for larger farms can result in farm adaptation involving unproductive measures to circumvent regulations (farm splitting), which defeats the intended effects (Forstner et al., 2018).

Table 3

*The scope of the Member States' decision-making power as regards those elements of the direct support scheme that reduce the concentration of aid*

Element of the current/new direct support scheme	Period	Scope of the Member States' decision-making power
Payment reduction <sup>a</sup>	2015-2020	Setting the reduction coefficient (which must be at least 5% for the excess <sup>3</sup> of the single area payment over EUR 150 thousand), or setting a gradation of this coefficient.
		Introduction of the rule for deducting employment costs from the reduction base (optional).
		Introduction – for farmers that are legal persons/group of natural or legal persons – of rules for reducing payments at the level of a member of a legal person/group of natural or legal persons (option available only in countries where national legislation provides – for individual members of a legal person/group of natural or legal persons – rights and obligations comparable to the rights and obligations of private farmers with the status of farmers running a farm).
	After 2020	Setting the reduction coefficient of: at least 25% for amounts between EUR 60,000-75,000; at least 50% for amounts between EUR 75,000-90,000; at least 75% for amounts between EUR 90,000-100,000; 100% for amounts over EUR 100,000.
Redistributive payment/ Complementary redistributive income support for sustainability	2015-2020	Setting the hectare range on the farm to be covered by the payment (the upper limit of this range may not exceeding 30 ha or the average farm area in the country – whichever of these values is greater), or setting a rate gradation.
	After 2020	Setting the hectare range on the farm to be covered by the payment or setting a rate gradation.

<sup>a</sup> In 2015-2020, this was a voluntary mechanism for countries that allocated more than 5% of the national ceiling for redistributive payments.

Source: the author's own study based on Regulation (EU) No. 1307/2013 of the European Parliament and of the Council and Proposal for a Regulation of the European Parliament and of the Council (COM(2018)392).

Elements of the direct support scheme that reduce the level of support concentration resulting from the use of the instruments, described earlier in the paper, include the mechanism for reducing payments and the redistributive payment. The latter is replaced in the new scheme by complementary redistributive income support for sustainability. The use of these mechanisms/instruments leads to a more balanced allocation of funds distributed among farmers under the direct support scheme.

The scope of the Member States' decision-making power as regards those elements of the direct support scheme that reduce the concentration of aid is presented in Table 3.

Poland, in spite of notifying allocation of more than 5% of the national ceiling for the financing of the redistributive payment, which exempted it from the obligation to apply the payment reduction mechanism, did not decide on this option. What is more, as regards issues relating to the shape of this mechanism, which were

left to the discretion of the Member States, Poland chose an implementation option which is more restrictive from the point of view of large beneficiaries, involving (Sadłowski, 2018a):

- 1) Setting the payment reduction coefficient at the highest possible level (i.e. 100%) with respect to the total excess of the amount of the single area payment above the amount threshold of EUR 150,000;
- 2) Resignation from applying the rule enabling beneficiaries to deduct employment costs from the reduction base.

The key features distinguishing the new payment reduction mechanism from the currently used one include:

- a) Broader range and stronger impact – (i) reduction starts with a lower amount, namely from EUR 60,000 (and not, as it is now, from EUR 150,000), (ii) this amount includes all types of payments (and not, as it is now, only a single area payment), (iii) the minimum reduction coefficients for individual tranches are higher (the lowest one is 25%, compared to only one minimum coefficient of 5% used at present);
- b) Mandatory deduction of employment costs from the reduction base (under the current scheme, this rule was optional for the Member States);
- c) Allocation of funds “gained” as a result of reductions – it is not necessary to transfer these funds to the second pillar of the CAP; they can be allocated for complementary redistributive income support for sustainability, and then for other direct payments that are not coupled payments<sup>6</sup>.

What it means for Poland is that the payment reduction mechanism after 2020 will have to be reshaped.

Although after 2020, the group of farms affected by the payment reduction mechanism (i.e. subject to reduction or obliged to document employment costs) will be much more numerous, the restrictiveness of this mechanism may be significantly reduced as a result of deducting labour costs from the reduction base. According to Matthews (2018), payments will be reduced on a regular basis as a result of applying this rule only in three Member States (Bulgaria, Romania and Lithuania), and only in exceptional cases in other countries (applies to farms with labour inputs per utilized agricultural area unit that are significantly lower than the country average).

The redistributive payment is the other element of the direct support scheme that leads to a more egalitarian distribution of funds among beneficiaries. The potential of this payment as an instrument for levelling payment amounts among beneficiaries depends primarily on what part of the national ceiling will be allocated to its financing, and thus will not be used for other support instruments.

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<sup>6</sup> The author believes that financing direct payments with funds “gained” due to reduction is not advisable, as this would cause insurmountable technical difficulties leading to a vicious circle. Before calculating the amount of payment due to a given farmer, it is not possible to calculate the reduction basis, and the amount of the due payment will not be able to be determined until it is known how much of the funds “gained” as a result of reduction will be due to a given farmer. In turn, the introduction of a simplification, involving the distribution of the amount “gained” as a result of the reduction after making relevant reductions, would violate EU regulations, because it would be a systemic solution allowing for e.g. payments in excess of EUR 100,000.

After 2020, the Member States will have even greater opportunities to shape this instrument at the national level, because the EU regulations do not specify the upper limit of an area to which the payment can be applied (currently this upper limit is 30 ha or the average farm area in a given country, whichever is greater). This means that countries that grant a redistributive payment in the ongoing programming period will be able to implement its equivalent under the new scheme in the shape corresponding to the current payment.

### **Structure of funds' use**

The volume of funds allocated for direct payments in a given country is affected by, besides the baseline national ceiling, the direction and level of inter-pillar transfer. Under the new scheme, transfers of up to 15% in any direction are to be allowed, whereas in Poland, since 2014 (i.e. since transfers of funds between CAP pillars have been allowed), a quarter of the baseline national ceiling under the second pillar of the CAP has been allocated for the financial envelope for direct payments.

The difference in the amount of baseline Pillar 1 national ceilings for Poland in subsequent years of the future financial framework compared to the current framework will be equal to the net effect of the following opposing factors:

- 1) The process of external convergence, i.e. the gradual reduction in differences between the Member States in the average level of support per hectare (*in plus* measure),
- 2) Budgetary restrictions resulting in particular from the exit of a large net payer (UK) from the EU (*in minus* measure).

As a result, it is only in 2024 that the baseline Pillar 1 national ceiling for Poland will exceed the corresponding ceiling for 2020.

In turn, the potential maximum amount of funding for Pillar 1 ceiling from Pillar 2 ceiling will be lower due to the lower Pillar 2 baseline national ceilings and a lower allowable level of transfer from Pillar 2 to Pillar 1.

The structure of the use of funds allocated for direct payments is largely influenced by the Member State through its independent decisions on the amounts of financing of particular instruments, which must, however, be within the ranges set in the EU regulations. These ranges for the on-going programming period are presented in Table 4, and the structure of the use of direct payments in Poland is presented in Figure 1.



Table 4

*Allowable level of funding for the different direct support instruments in 2015-2020*

Support instrument	Funding level (% of the national ceiling)
Single area payment	18-70% <sup>a</sup>
Redistributive payment	0-30%
Payment for young farmers	0-2% <sup>b</sup>
Payment for agricultural practices beneficial for the climate and the environment	30%
Payment for areas with natural constraints	0-5%
Coupled support	0-15% <sup>c</sup>
Small farmers' scheme	0% <sup>d</sup>

<sup>a</sup> The global amount allocated to the single area payment is a residual amount, left after deducting the amounts allocated for financing other support instruments from the national ceiling. Thus, the level of financing for this payment, expressed as a percentage of the national ceiling, is also a residual amount which may fluctuate between the two indicated extreme values. 50 percentage points in this range is at the sole discretion of the Member State – depends on the decision to use optional payments or not, and on the level of their financing. The allocation of the other two percentage points depends on the demand for the mandatory payment for young farmers.

<sup>b</sup> The Member State does not predetermine the level of financing for the payment for young farmers. The proportion of the national ceiling allocated for this payment is the result of the shape of this instrument, the number of young farmers in the country and – if the area option is used – the size of their farms.

<sup>c</sup> The amount of this percentage depends on the Member State's historical decisions regarding the use of specific support and the level of its financing in the five-year period preceding the latest CAP reform, i.e. in 2010-2014, and on the amount of the funds the Member State allocates to support protein crops. The value refers to Poland, assuming that at least 2% of the national ceiling is allocated to support protein crops

<sup>d</sup> In the case of the implementation option used by Poland, support granted to small farms has the form of a single area payment, redistributive payment, payment for young farmers, payments for agricultural practices beneficial for the climate and the environment as well as coupled support, and therefore it is granted in the amounts of payments made under these instruments.

Source: the author's own study based on Regulation (EU) No. 1307/2013 of the European Parliament and of the Council.



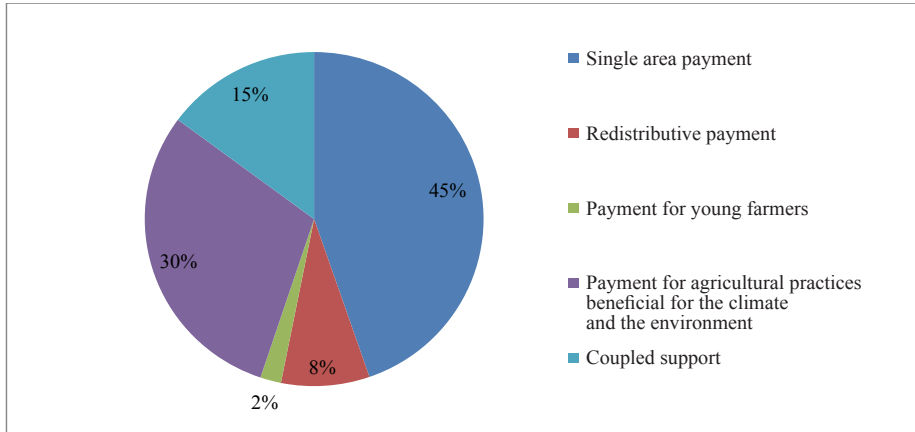


Fig. 1. The structure of the use of funds allocated for direct payments in Poland in 2015-2020.

Source: the author's own study based on data provided by the Ministry of Agriculture and Rural Development.

After 2020, the Member States are to have much more freedom to decide on the structure of the use of funds allocated for direct payments, although there will still be some restrictions. The most important of these include the principle that no more than 12% of the national ceiling may be allocated for coupled support, provided that at least 2% of the ceiling is allocated to support protein crops. What it means for Poland is that the new legal framework as proposed by the European Commission would make it impossible to maintain the current level of financing of coupled support. The proposed EU regulations also set minimum amounts that the Member States are obliged to allocate in each year (under Pillar 1 or Pillar 2 of the CAP) to finance instruments “attracting young farmers and facilitating business development”, which is still a slight restriction, as these amounts account for only 2% of the baseline Pillar 1 national ceilings. Furthermore, as regards the level of financing of complementary redistributive income support for sustainability, the rate of this support planned for a given year may not exceed the national average amount of direct payments per hectare.

## Conclusions

The analysis leads to the following conclusions:

1. The future financial framework provides for extending the decision-making power of the EU Member States as regards shaping the scheme of direct support for farmers and the structure of the use of funds under Pillar 1 of the CAP.
2. The burden of rationalising the use of particular types of intervention and their shape will rest with the Member States which will be obliged to include these issues in strategic plans that are subject to evaluation by the European Commission.
3. The planned changes to the regulations defining the group of beneficiaries of the direct support scheme draw to a large extent on concepts tried in the past. The obligatory verification whether the applicant for payment is a genuine farmer is based on the previously applied verification whether the farmer is economically active, which is no longer mandatory for the Member States after the latest CAP review. Changes of this kind make it difficult for potential beneficiaries to understand non-market conditions of conducting business activity and lead to instability of these conditions rather than to improvement in applied solutions.
4. The proposed provisions enable Poland to implement the direct support scheme after 2020 in a shape very similar to the one currently used. In case of striving to maintain the *status quo*, the most important changes “forced” by the reform would concern the small farmers’ scheme, in which support would have to be provided in the form of a lump sum payment, as well as the payment reduction mechanism, whose scope and impact will be greater, although its effects will be mitigated to some extent due to the obligation to deduct employment costs from the reduction base.
5. After 2020, the introduction of solutions similar to those currently in use or the implementation of any other option will require laying down new legal grounds at the national level and some administrative burden related to, e.g. the adaptation of IT systems, procedures and documents as well as conducting an information campaign addressed to potential beneficiaries of the direct support scheme.
6. The Member States’ decisions regarding inter-pillar transfers and the level of funding for particular direct support instruments are trade off choices, leading to the distribution of limited resources among alternative options. The proposed regulations provide the Member States with greater freedom to choose the level of funding for particular instruments, except for coupled support, in the case of which the acceptable level of funding – as proposed by the European Commission – is to be slightly lower than in the current financial framework.

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## WPŁYW PLANOWANEJ REFORMY WSPÓLNEJ POLITYKI ROLNEJ NA MOŻLIWOŚCI KSZTAŁTOWANIA SYSTEMU WSPARCIA BEZPOŚREDNIEGO NA POZIOMIE KRAJOWYM

### Abstrakt

*W wyniku planowanej reformy wspólnej polityki rolnej (WPR) nastąpi zmiana unijnych ram prawnych, wyznaczających zakres decyzyjności państw członkowskich Unii Europejskiej (UE) w odniesieniu do systemu wsparcia bezpośredniego dla rolników. Podstawowym celem opracowania jest ustalenie, na ile nowe ramy prawne w postaci zaproponowanej przez Komisję Europejską umożliwiają Polsce jako państwu członkowskiemu UE wdrożenie systemu płatności bezpośrednich w kształcie zbliżonym do dotychczasowego.*

*Przeprowadzona analiza porównawcza obecnie obowiązujących i projektowanych przepisów pozwoliła na identyfikację odpowiedników poszczególnych elementów obecnego systemu wsparcia bezpośredniego w nowym systemie, wskazanie różnic między nimi i ocenę znaczenia tych różnic. Na jej podstawie wyciągnięto kilka wniosków w sprawie planowanej reformy WPR, które dotyczyły zakresu decyzyjności państw członkowskich w obszarze kształtowania systemu wsparcia bezpośredniego i kierunków wykorzystania środków I filaru WPR. Stwierdzono m.in., że projektowane przepisy dają Polsce możliwość wdrożenia po 2020 roku systemu wsparcia bezpośredniego w kształcie bardzo zbliżonym do obecnie stosowanego, a – w przypadku dążenia do utrzymania status quo – najistotniejsze, wymuszone reformą zmiany dotyczyłyby systemu dla małych gospodarstw oraz mechanizmu zmniejszania płatności.*

**Słowa kluczowe:** wspólna polityka rolna, reforma wspólnej polityki rolnej, płatności bezpośrednie.

*Accepted for print: 13.09.2019.*