

## ANNEX 2

### REPORT ON THE DISTRIBUTION OF DIRECT AIDS TO THE PRODUCERS (FINANCIAL YEAR 2005)

#### 1. FOREWORD

The Commission regularly publishes the breakdown of direct payments by Member State and size of payment. Figures are now available for the financial year 2005. To help readers benefit from that information, it is useful to insert it in the context of the development of the CAP.

##### 1.1. CAP evolution and introduction of direct payments

In the first decades of the CAP, public support to agricultural producers was mainly provided via guaranteed prices, border protection and market intervention. Over the late 70s and 80s, it led to excessive public stocks, an increase in expenditure and international friction with our main trading partners. A radical reform of the CAP was then adopted in 1992 with a shift in policy achieved by the gradual reduction of the EU support prices for the main agricultural products (grains and beef) and the compensation of farmers for the consequent revenue loss in the form of direct payments. With this instrument, producers received a direct support based on their historical levels of production (areas, yields, number of animals).

This change in the support of the agricultural sector was deepened in the Agenda 2000 reform, through the introduction of additional price cuts and the increase in direct payments. The Agenda 2000 reform was introduced progressively during the period 2000-2002. In 2002, the support regime for sheep and goats was also adjusted.

A further far-reaching reform was decided in, respectively, 2003 and 2004, with progressive implementation from 2005 onwards. Several sectors were reformed (milk, rice, cereals, durum wheat, dried fodder and nuts) and some fundamental changes were introduced concerning direct payments. In particular, direct payments are now largely decoupled from production, and more money is available to farmers for environmental, quality or animal welfare programmes through the reduction of direct payments for larger farms. Most of these changes started taking effect from 2005 onwards.

In most of the new Member States, direct payments have been phased in through the transitional system of the Single Area Payment Scheme (SAPS - which broadly corresponds to a flat rate area-based payment) with the possibility of a complementary national direct payment. By 2011 at the latest, the new Member States will apply the regional model of the Single Payment Scheme. The level of community direct payments in the new Member States will progressively increase from 25 % of EU-15 level in 2004 to 100 % in 2013 budget year at the latest. Modulation will only apply from this time.

## **1.2. CAP evolution and reporting of direct payments**

The figures published in this report refer to the period of full implementation of Agenda 2000 and during the introduction of the mid-term review. Financial year 2005 reflects only partially the recent CAP reform. New schemes introduced from 2004 are:

- the dairy premium (and the additional payment),
- the aid for energy crops,
- the area payment for starch potatoes,
- the area payments for nuts.

It also reflects the first year after the recent enlargement when the direct payments in the new Member States were at their lowest level. It should also be stressed that direct payments reported in this note only cover the support provided from EU budget and therefore do not cover the Complementary National Direct Payments allowed in the new Member States.

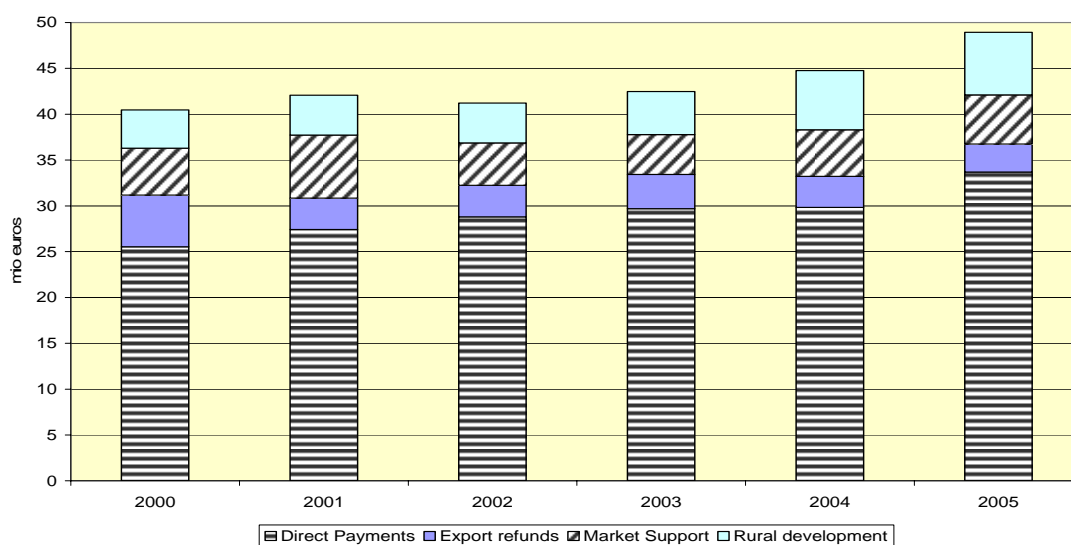
Moreover, it is very difficult to establish a simple link between the payments in a financial year and the policy implementation. The figures for financial year 2005 are based on direct payments made to beneficiaries from 16 October 2004 until 15 October 2005. These payments correspond mainly, but not exclusively, to the “policy year 2004”. Other elements of the reform implemented as of calendar year 2005 will progressively affect payments from financial year 2006 onwards.

It is advised to carefully consider the limitations and comments as described in Annex 1.3 when consulting and interpreting the tables on the distribution of direct payments.

## 2. IMPORTANCE OF DIRECT PAYMENTS WITHIN THE CAP

Before the implementation of Agenda 2000 (for instance in financial year 2000, reflecting payments for the year 1999) direct payments reached 25.5 billions euros, representing 63 % of the CAP expenditure under the Guarantee section of the European Agricultural Guarantee and Guidance Fund. After the implementation of Agenda 2000 and during the first phase of implementation of the mid-term review, they reached 33.7 billions euros, a share of 69 %. Most of the increase in direct payments between 2004 and 2005 is due to the introduction of the dairy premium (1 369 millions euros including additional payments) and the payments for SAPS in the new Member States (1 452 millions euros).

**Graph 1 Development of expenditures of EAGGF -section Guarantee – EU-25**



## 3. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN MEMBER STATES

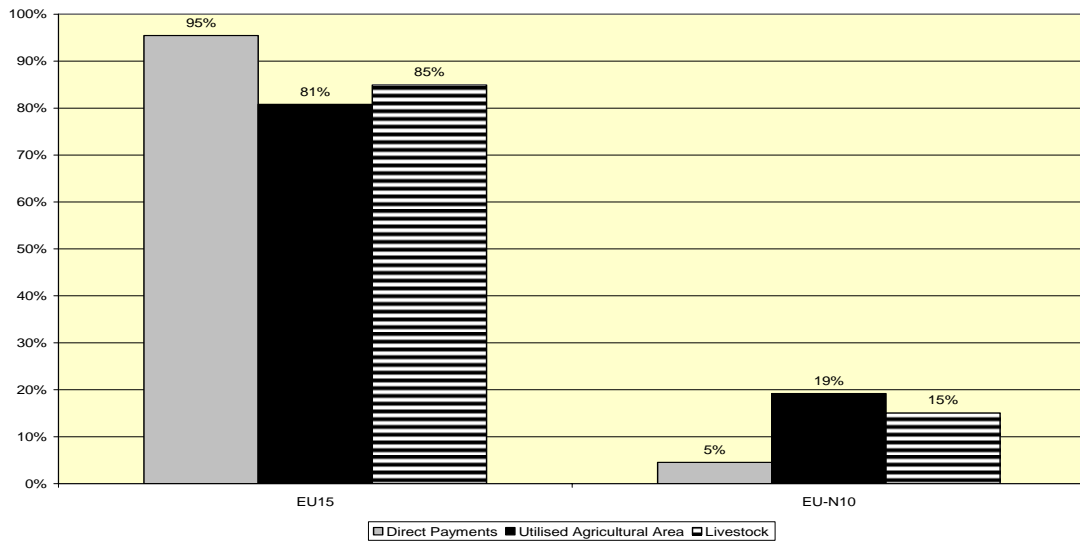
As the direct payments are mainly based on the historical levels of production, the distribution of direct payments between Member States broadly reflects the distribution of agricultural area and of livestock between Member States.

For the 2005 financial year, it is difficult to compare the 25 Member States as for the new Member States (EU-N10), direct payments are only at 25 % of the full amount (graph 2a)<sup>1</sup>.

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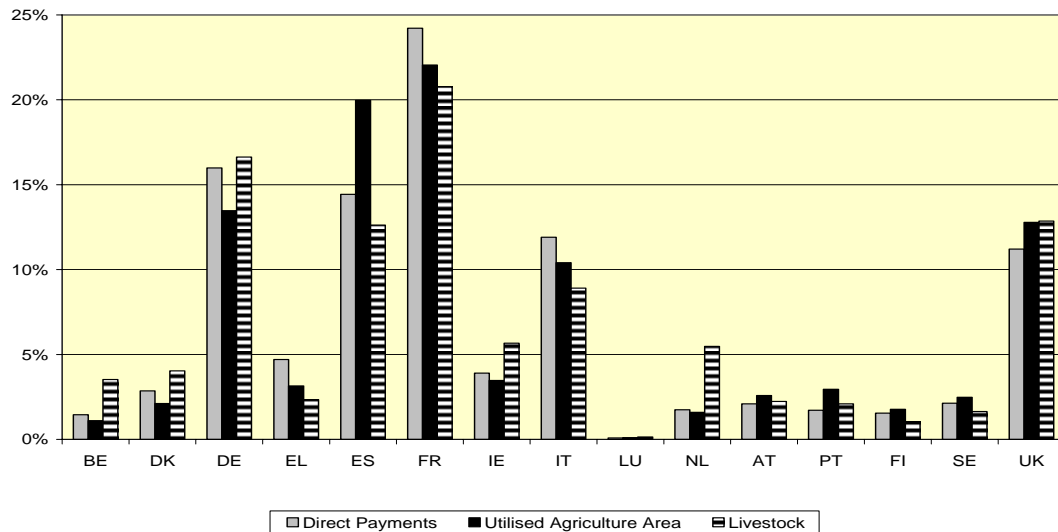
<sup>1</sup> This is well reflected in graph 2a that shows that EU-N10 accounts for around 19% of the agricultural area but received 5% of direct payments in EU-25, relatively four times less.

**Graph 2a Distributions of Direct Payments, Utilised Agriculture Area and Livestock between EU-15 and the new Member States, 2005 Financial Year and 2003 Farm Structure Survey**

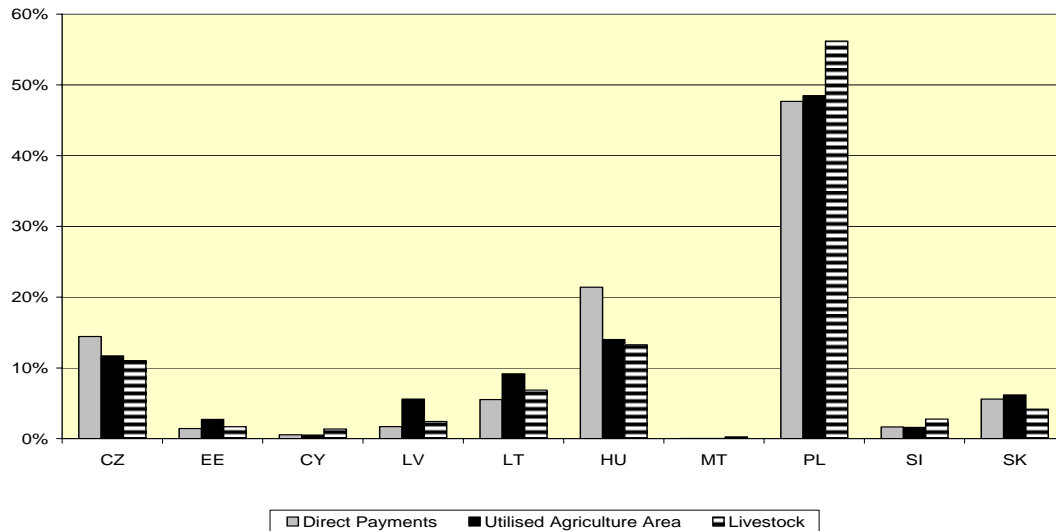


It is more appropriate to analyse separately the EU-15 and the EU-N10 (graphs 2b and 2c).

**Graph 2b Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States of EU-15, 2005 Financial Year and 2003 Farm Structure Survey (EU-15=100%)**



**Graph 2c Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States of EU-N10, 2005 Financial Year and 2003 Farm Structure Survey (EU-N10=100%)**



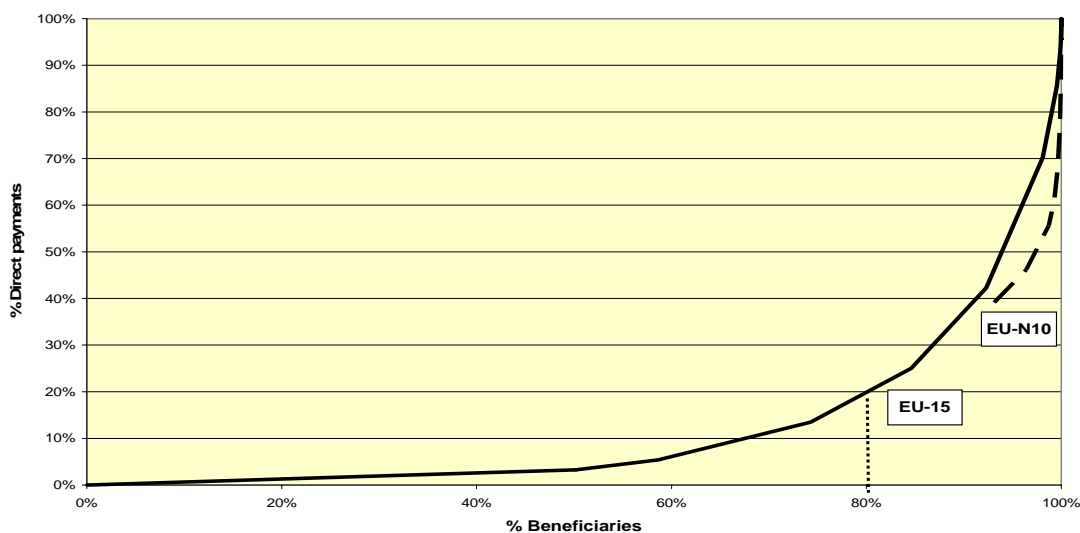
The distribution of direct payments between Member States also reflects the combination of the specialisation of the Member States between the agricultural sectors and of the differences of Common Market Organisations. An illustrative example is the milk sector which was supported over the period analysed by intervention price, border protection and production quotas with no direct payments. A similar situation can be found for some typical Mediterranean products (such as fruits and vegetables, olive, wine, cotton, etc), horticulture and pigs and poultry sector for which Common Market Organisations are/were also mainly based on instruments of market intervention rather than on direct payments. As a result, producers of countries specialised in milk production, in Mediterranean products, in horticulture or in pigs and poultry receive(d) less direct payments.

#### 4. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN BENEFICIARIES

##### 4.1. Distribution of direct payments between beneficiaries in 2005

For the European Union direct payments are not equally distributed. In EU-15, 80 % of beneficiaries received around 20 % of the direct payments. In EU-N10, 93 % of beneficiaries received around 39% of the direct payments.

**Graph 3 Distribution of direct payments between beneficiaries in EU-15 and in EU-N10\*, 2005 Financial Year**

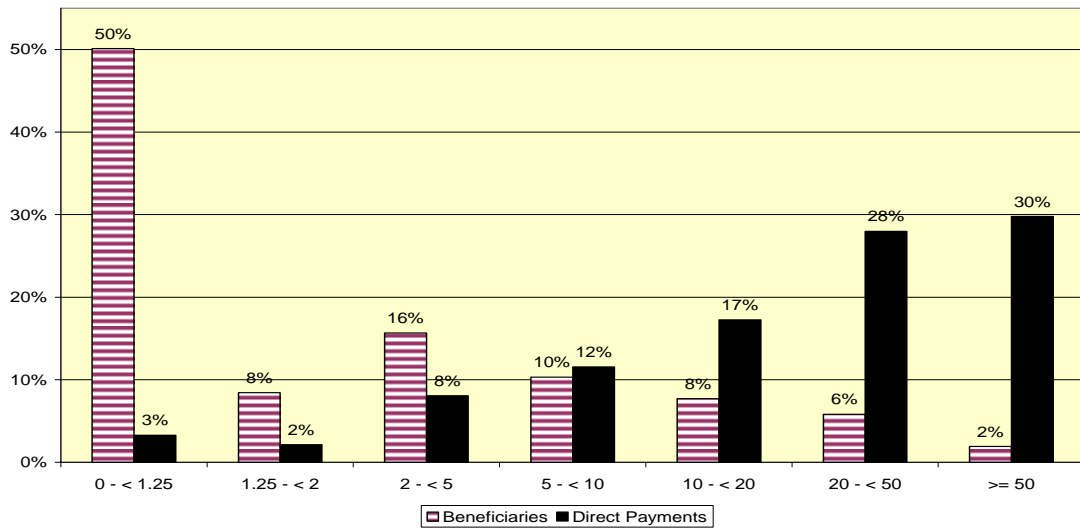


\* The information available when writing this note does not allow drawing the distribution between small beneficiaries in the new Member States.

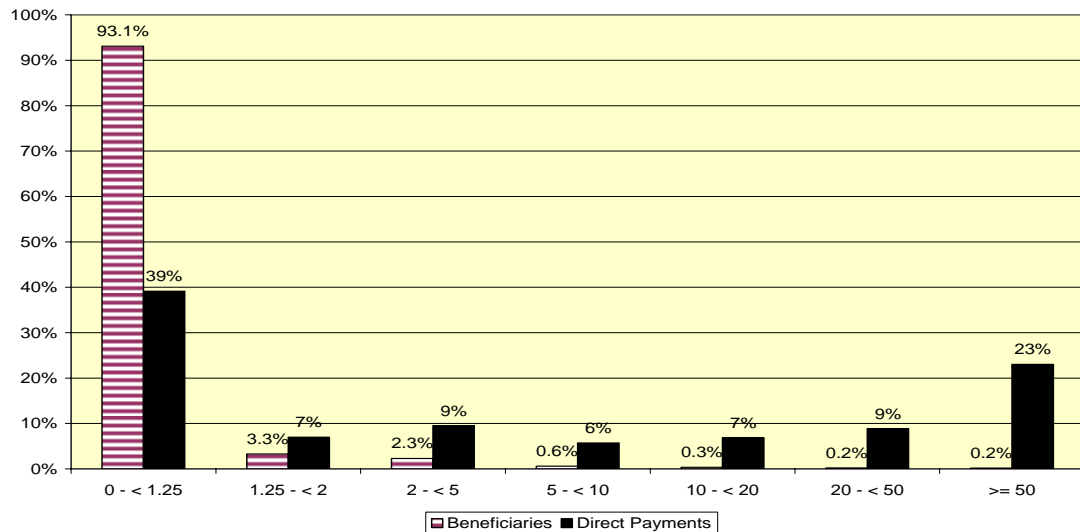
However, the distribution of direct payments across producers varies among EU Member States (see graphs 9 to 34 in annex):

- In the EU-15 Member States, 80 % of beneficiaries received a percentage of direct payments varying approximately between 14 % and 51 %,
- In the new Member States the proportion of beneficiaries receiving less than 1 250 euros of direct payments varied between 55 % and 99 %.

**Graph 4a Distribution of beneficiaries and of direct payments in the EU-15 by category of direct payments received (in thousands euros), 2005 Financial Year**



**Graph 4b Distribution of beneficiaries and of direct payments in the EU-N10 by category of direct payments received (in thousands euros), 2005 Financial Year**

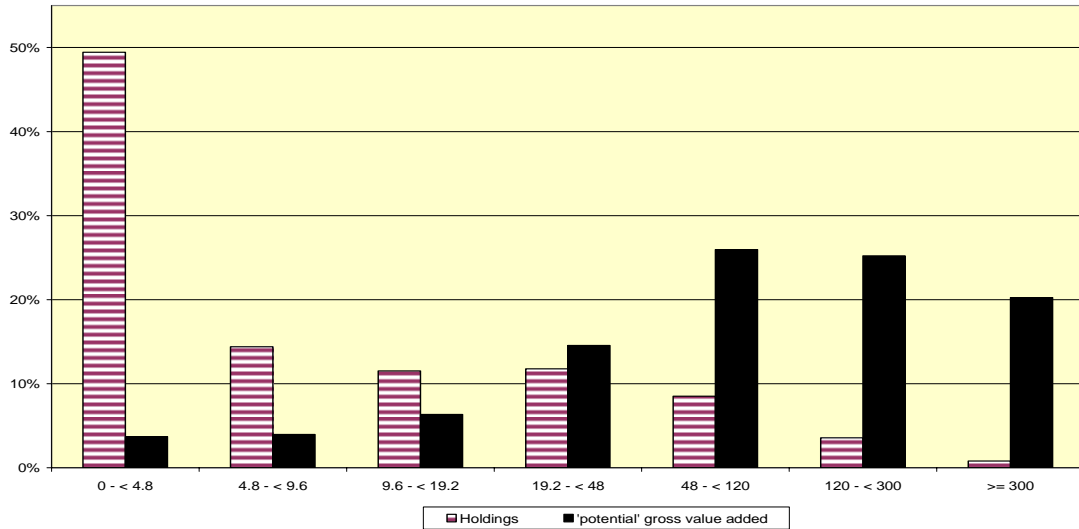


As the support is mainly based on area and livestock, even on an historical basis, the distribution of direct payments between beneficiaries also mainly reflects the differences in farm size<sup>2</sup>, as it can be seen when comparing Graphs 4 and Graphs 5.

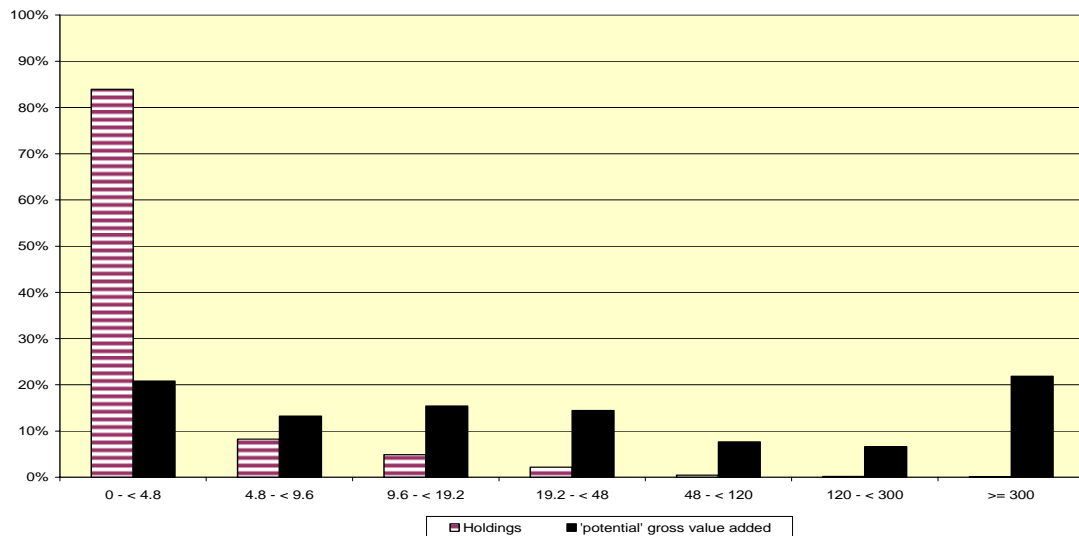
Differences in farm structures often lead to differences in the distribution of direct payments across Member States.

<sup>2</sup> It is convenient to measure the size in “potential” gross value added (also named economic size units) that allows to combine different kind of productions (arable crops, horticulture, permanent crops, milk, beef, pigs & poultry, etc).

**Graph 5a Distribution of holdings and of “potential” gross value added in the EU-15 by category of “potential” gross value added (in thousands euros), 2003 Farm Structure Survey**



**Graph 5b Distribution of holdings and of “potential” gross value added in the EU-N10 by category of “potential” gross value added (in thousands euros), 2003 Farm Structure Survey**



This distribution of direct payments between small and large farms has regularly been questioned, not least from the point of view of social cohesion. It should be reminded that the major part of the direct payments was established as a compensation for revenue losses of several support price reduction. A large farm producing more than a small farm encountered a more severe revenue loss and had therefore to be more compensated than a small farm. However, the direct payments have lost their compensatory character over time and have increasingly become income payments.

This is why the Commission has expressed on many occasions its concern with the way direct payments are distributed across agricultural producers. Already in the 1992 reform and again in Agenda 2000 and in the 2003 reform, the Commission proposed mechanisms to decrease or to limit the amount of direct payments of



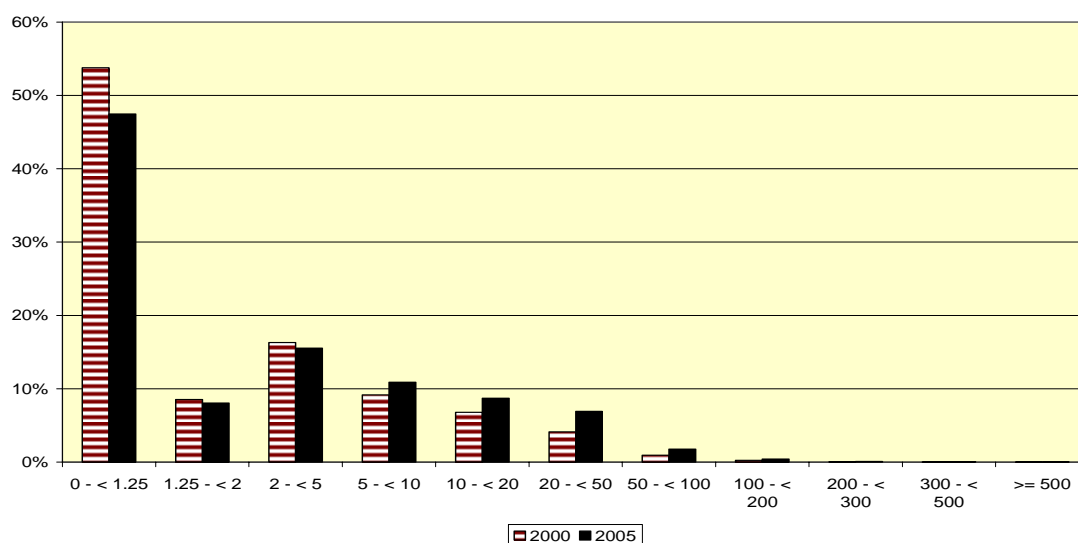
largest beneficiaries with a view to improve the distribution of direct support. On all three occasions, the Commission proposals were turned down by Member States.

#### 4.2. Development of the distribution of direct payments between beneficiaries between 2000 and 2005

As information concerning direct payments is only available for the financial year 2005, this section only covers EU-15.

When comparing the distribution in 2000 and in 2005 it appears that the share of beneficiaries receiving a small amount of direct payments is decreasing.

**Graph 6 Distribution of beneficiaries in the EU-14 (without Greece)<sup>3</sup>, by category of direct payments received (in thousands euros), 2000 and 2005 Financial Years**



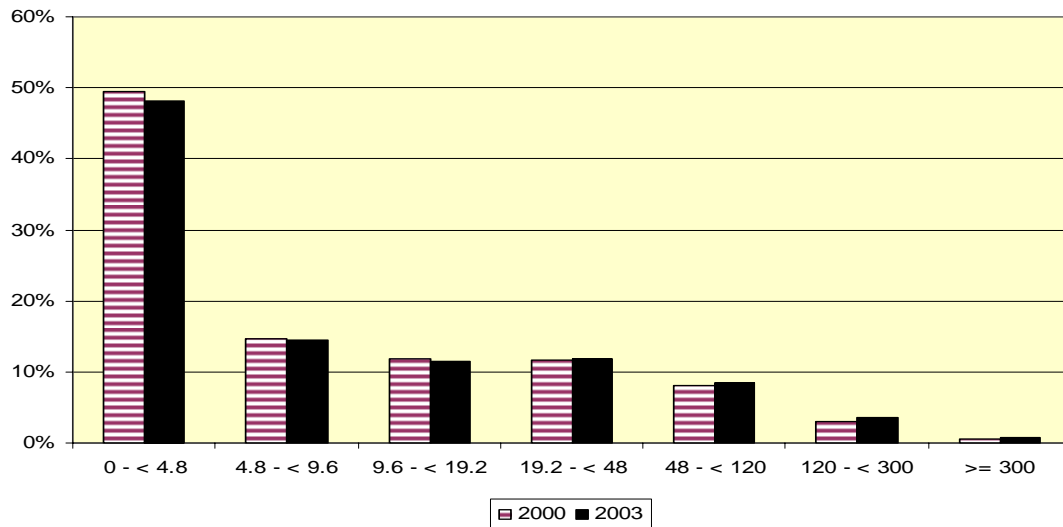
		2000	2005	
		EU-14	EU-14	EU-15
average amount per beneficiary		5 015	7 268	6 327
receiving 5 000 euros or less	% beneficiaries	78.6%	70.8%	74.3%
	% direct payments	17.8%	11.6%	13.5%

There are several reasons for this change:

- There are less small farms in relation with the on-going structural adjustment (abandonment of activity and/or increase in size) as shown on graph 7;

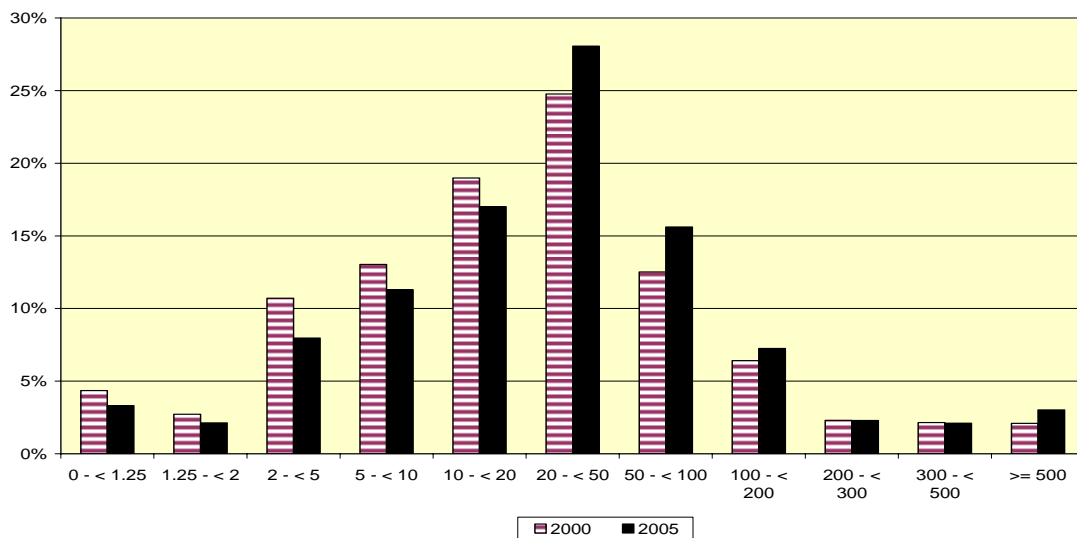
<sup>3</sup> The comparison is made for the Union without Greece (EU-14), as the distribution of beneficiaries is not available for this Member State in 2000.

**Graph 7 Distribution of holdings in the EU-15 by category of “potential” gross value added (in thousands euros), 2000 and 2003 Farm Structure Surveys**



- The implementation of Agenda 2000 has led to an increase in the level of direct payments received by each beneficiary (with some beneficiaries changing of class of direct payments);

**Graph 8 Distribution of direct payments in the EU-14 (without Greece) by category of direct payments received (in thousands euros), 2000 and 2005 Financial Years**



Furthermore, it should be noticed that the share of direct payments to the largest farms, in general arable crop farms, has relatively less increased than the share of direct payments to the medium-sized farms. One major factor in this development lies in the lower growth of direct payments for crops as compared to those for the animal sector with Agenda 2000 and the introduction of the dairy premium in the context of the 2003 CAP reform (the share of direct payments to crop producers decreased from 75 % to 67 % between the 2000 and 2005 financial years).

## **5. EXPECTED FUTURE DEVELOPMENTS OF THE DISTRIBUTION OF DIRECT PAYMENTS**

In the coming years, the first element that should influence the distribution of direct payments is the long-term structural development of the agricultural sector towards a reduction in the number of farms and an increase of their size.

As regards policy developments, an additional step has been made with the CAP reforms of 2003 and 2004. The range of sectors for which the support is provided through direct payments has been extended and additional price cuts have been implemented. Moreover, most of the direct payments will be “decoupled” from production. This means that the payments are not anymore related to a specific production: farmers can choose if and what to produce on the basis of the market situation while still benefiting from the direct payments.

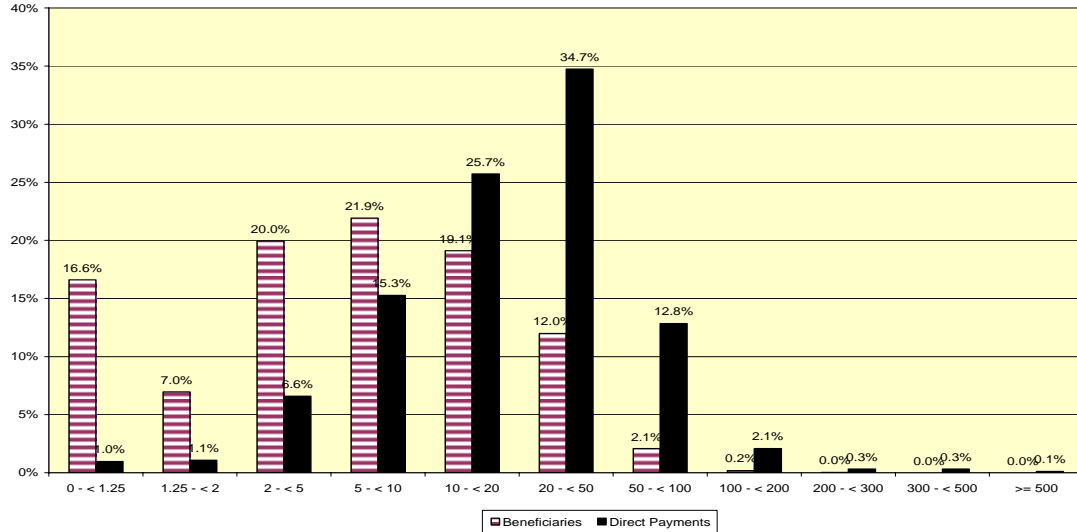
The 2003 and 2004 reforms could have several impacts on the distribution of direct payments:

- The different increase of direct payments across agricultural sectors could entail a change in the distribution of direct payments between agricultural holders. Taking into account the instruments implemented to control the budget expenditures, the distribution between Member States should not evolve significantly.
- The model of implementation of the Single Payment Scheme adopted by Member States may also play a role. Whereas the system based on the historical payments should not have a direct influence on the distribution of payments, the regional or the hybrid systems will generate some redistribution of direct payments between beneficiaries. Furthermore, the tradability of premium rights and its various implementing rules and conditions that may apply in each EU Member State could possibly entail a substantial shift in the distribution of aids;
- Finally the introduction of the 5 000 euros “franchise” in the compulsory modulation mechanism (which should be exempted from the reduction by a fixed percentage and from financial discipline) should favour a more balanced distribution of direct payments across beneficiaries.

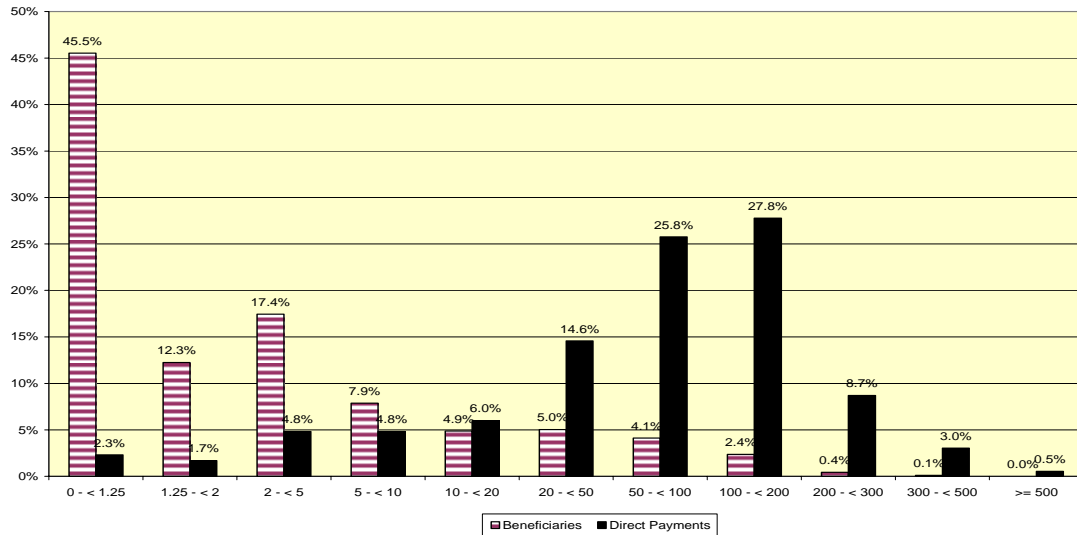
In the new Member States, the level of the direct payments will follow the progressive increase from 25 % of EU-15 level in 2004 up to 100 % in 2013 budget year. The SAPS (up to 2010 at the latest) and the regional model of the Single Payment Scheme (from 2011 at the latest) being flat rate area-based payments, the distribution of direct payments in the new Member States should therefore reflect the structural development, with a possible, though limited effect of the complementary national direct payments.

ANNEX

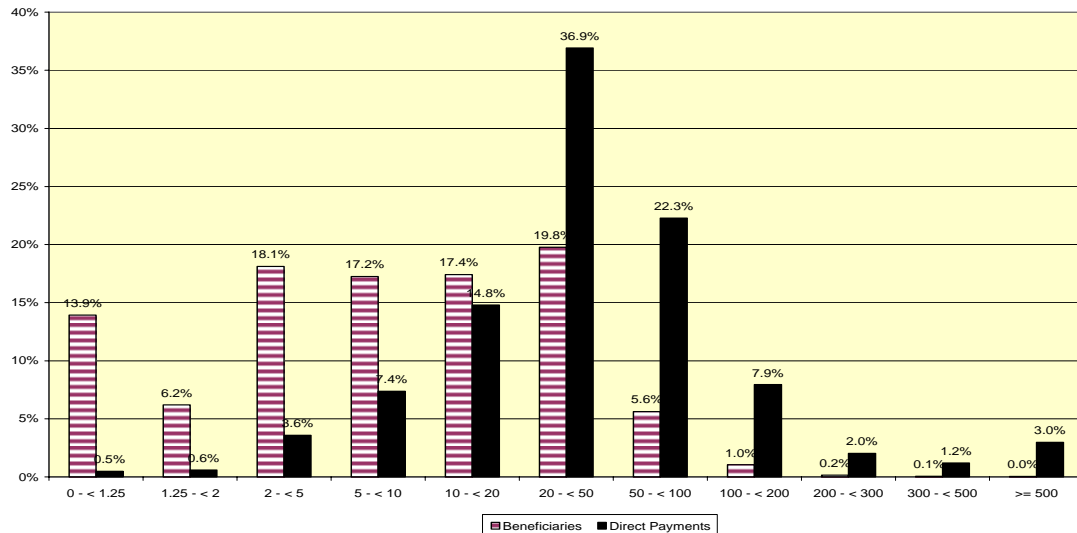
**Graph 9 Distribution of beneficiaries and of direct payments in Belgium by category of direct payments received (in thousands euros), 2005 Financial Year**



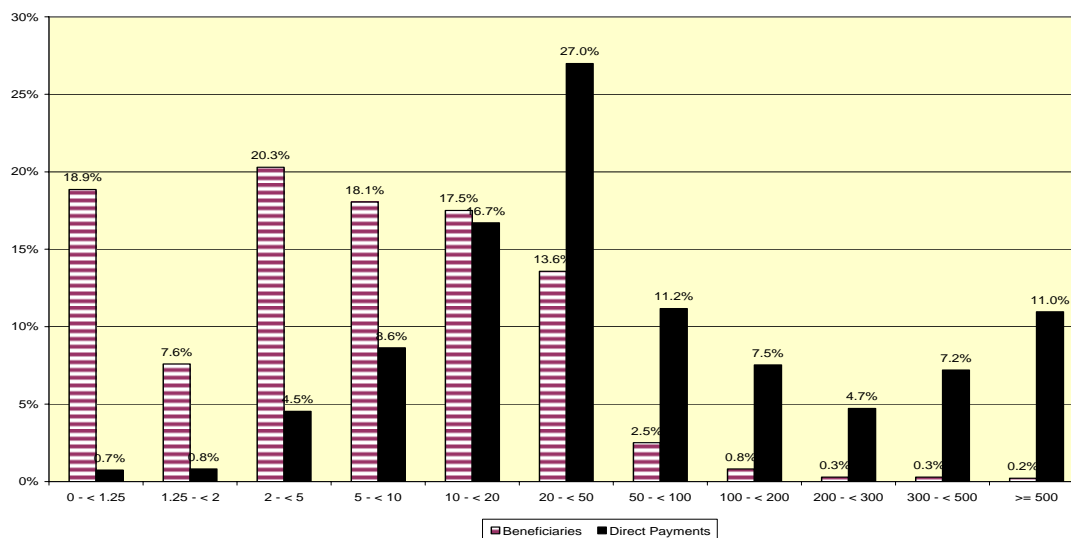
**Graph 10 Distribution of beneficiaries and of direct payments in the Czech Republic by category of direct payments received (in thousands euros), 2005 Financial Year**



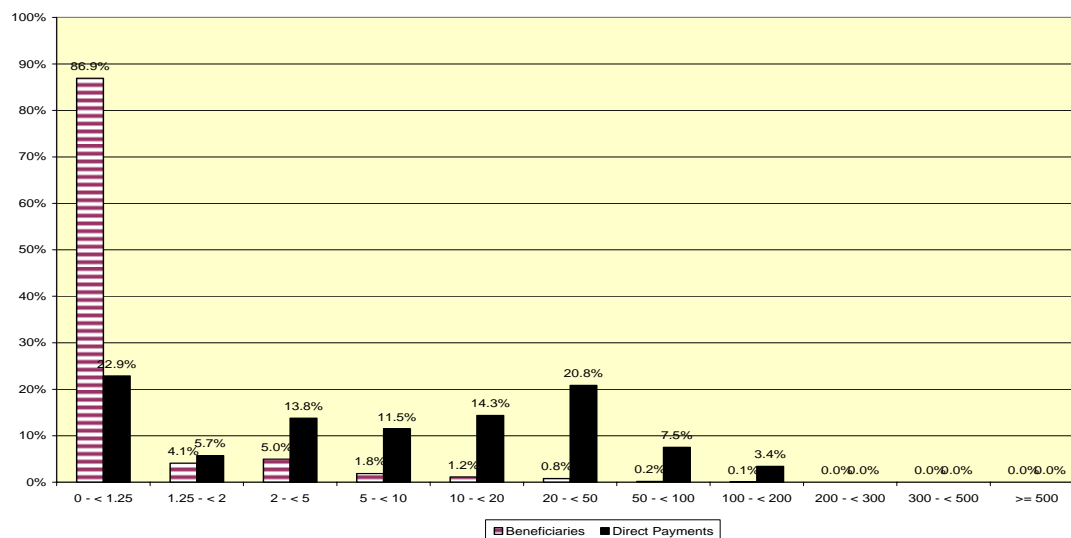
**Graph 11 Distribution of beneficiaries and of direct payments in Denmark by category of direct payments received (in thousands euros), 2005 Financial Year**



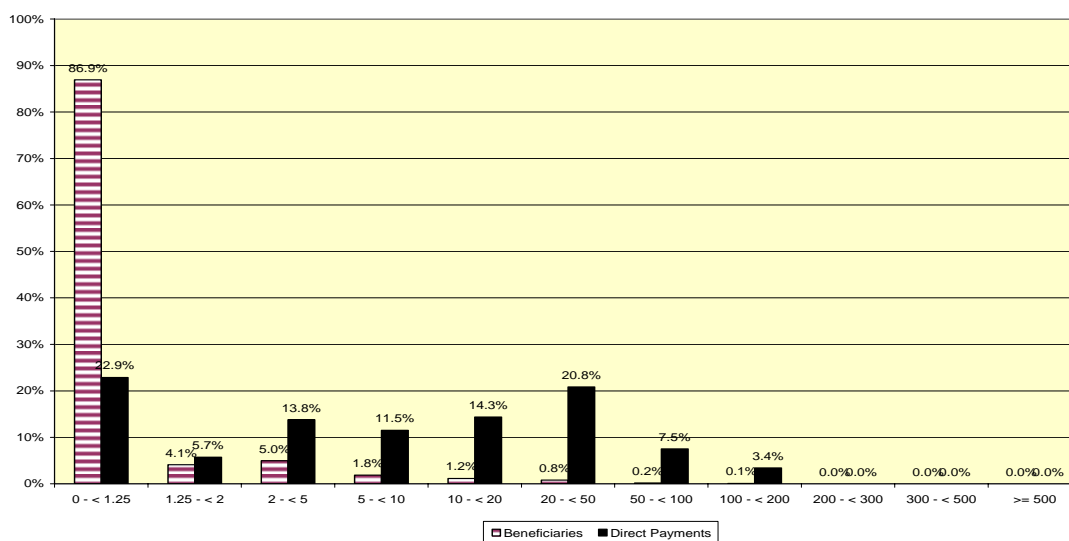
**Graph 12 Distribution of beneficiaries and of direct payments in Germany by category of direct payments received (in thousands euros), 2005 Financial Year**



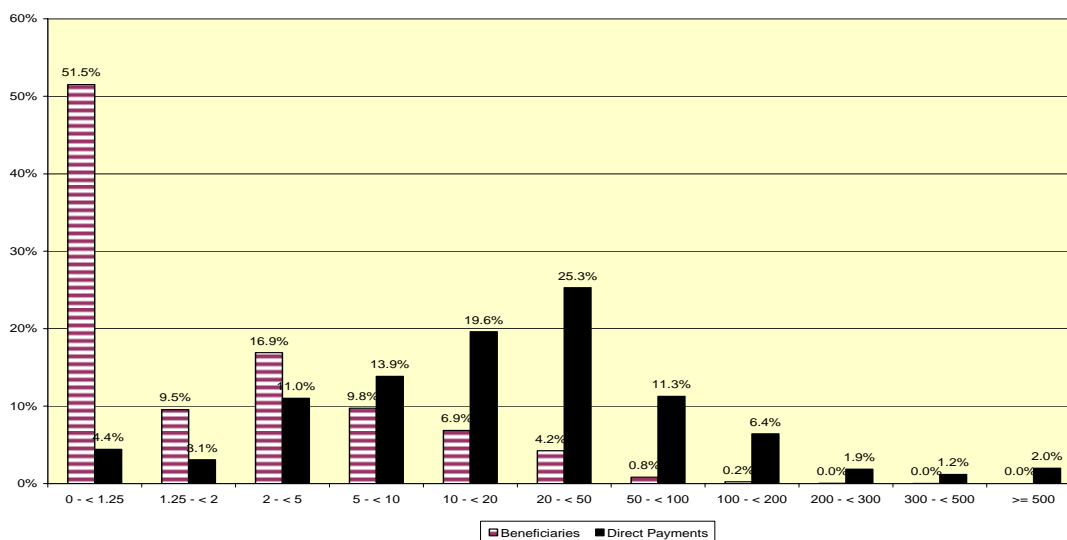
**Graph 13 Distribution of beneficiaries and of direct payments in Estonia by category of direct payments received (in thousands euros), 2005 Financial Year**



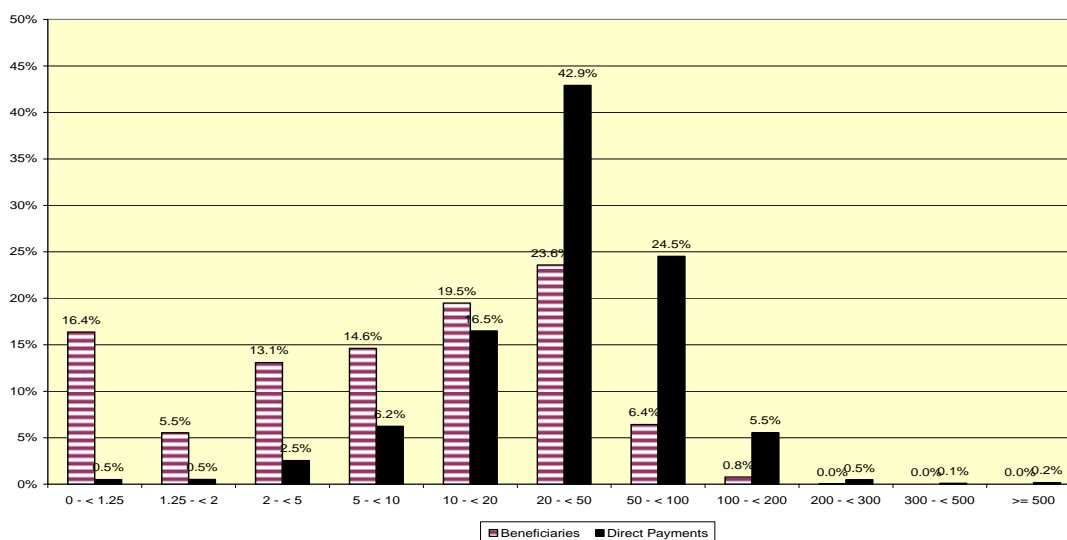
**Graph 14 Distribution of beneficiaries and of direct payments in Greece by category of direct payments received (in thousands euros), 2005 Financial Year**



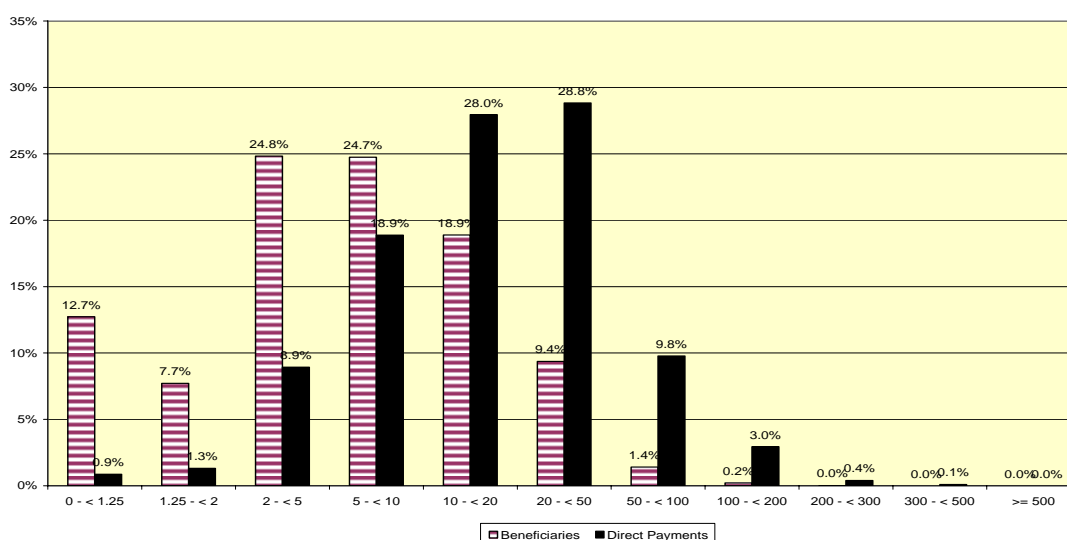
**Graph 15 Distribution of beneficiaries and of direct payments in Spain by category of direct payments received (in thousands euros), 2005 Financial Year**



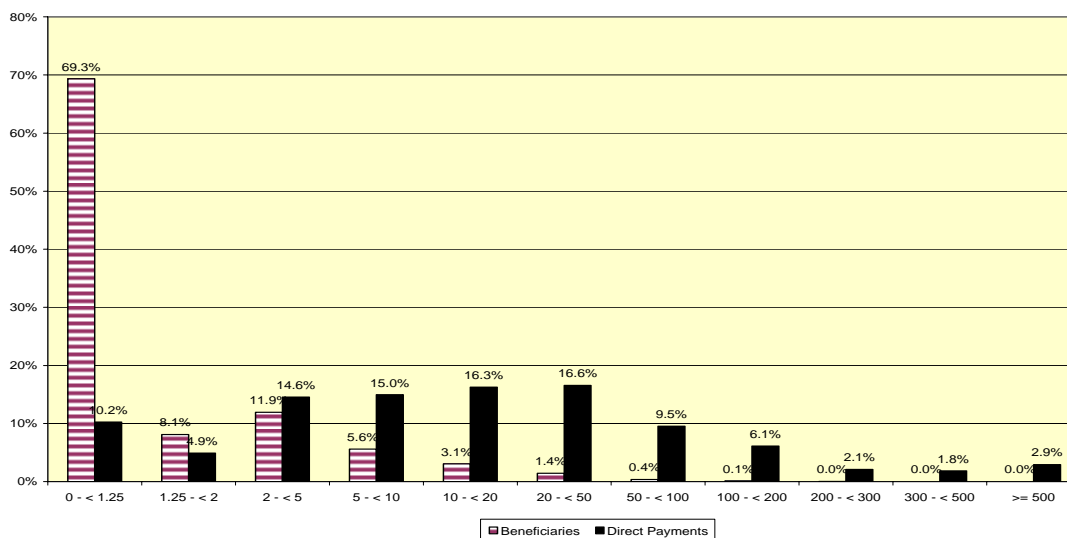
**Graph 16 Distribution of beneficiaries and of direct payments in France by category of direct payments received (in thousands euros), 2005 Financial Year**



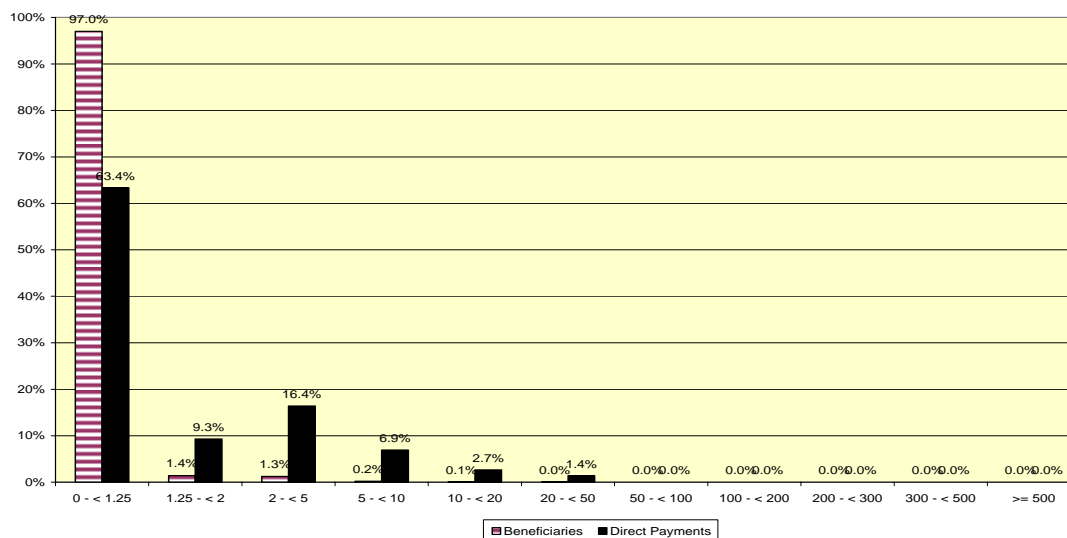
**Graph 17 Distribution of beneficiaries and of direct payments in Ireland by category of direct payments received (in thousands euros), 2005 Financial Year**



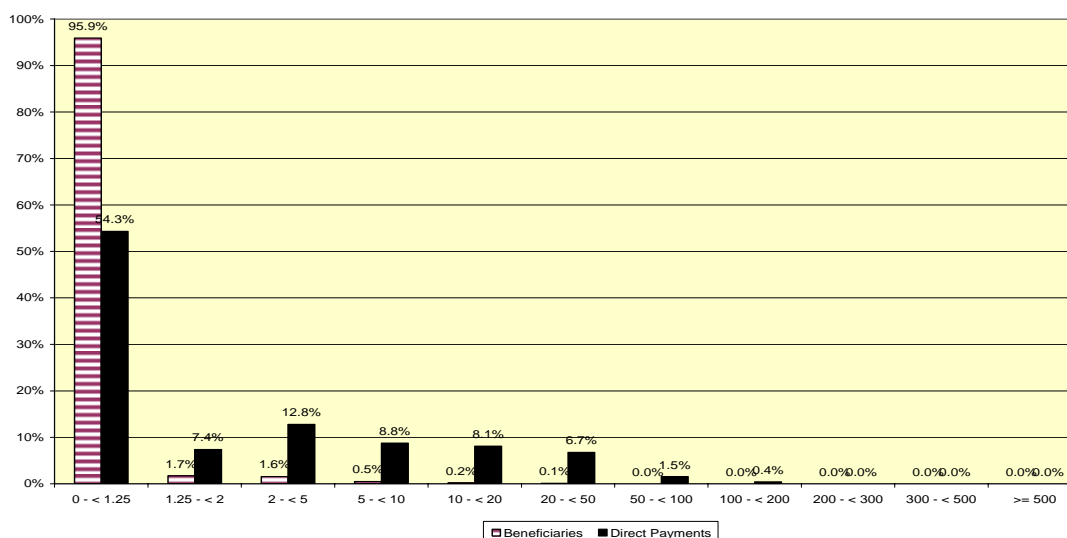
**Graph 18 Distribution of beneficiaries and of direct payments in Italy by category of direct payments received (in thousands euros), 2005 Financial Year**



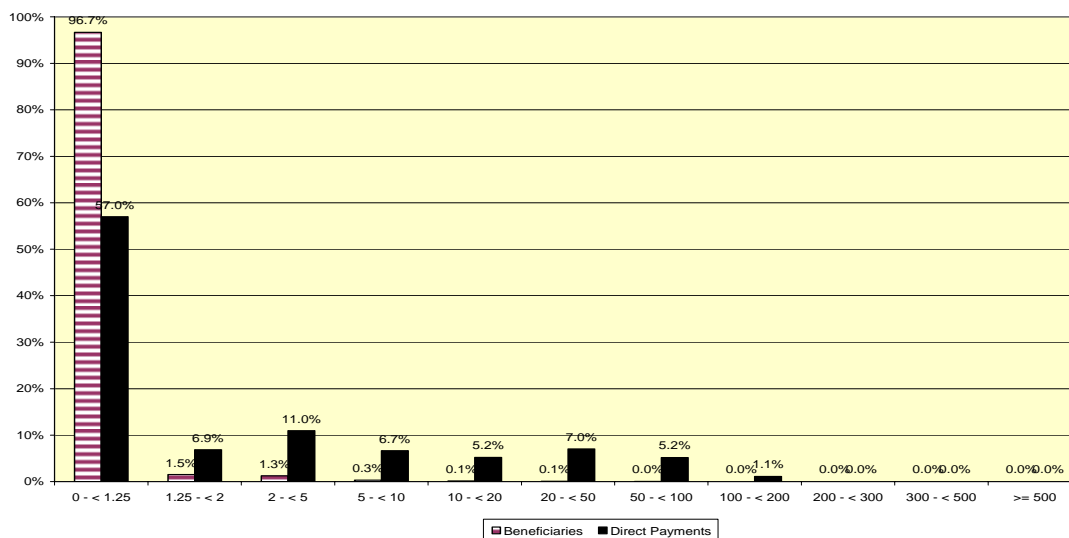
**Graph 19 Distribution of beneficiaries and of direct payments in Cyprus by category of direct payments received (in thousands euros), 2005 Financial Year**



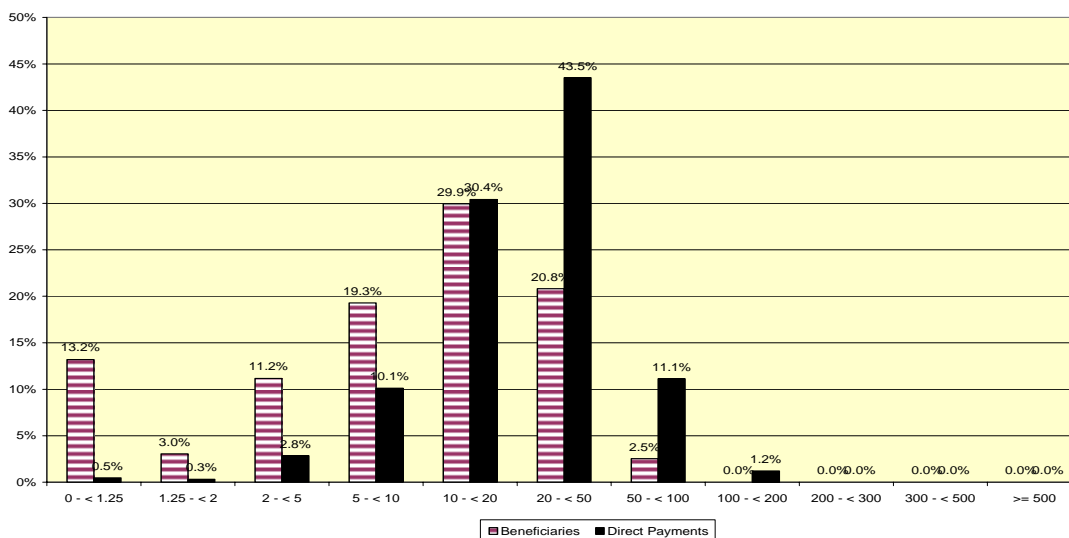
**Graph 20 Distribution of beneficiaries and of direct payments in Latvia by category of direct payments received (in thousands euros), 2005 Financial Year**



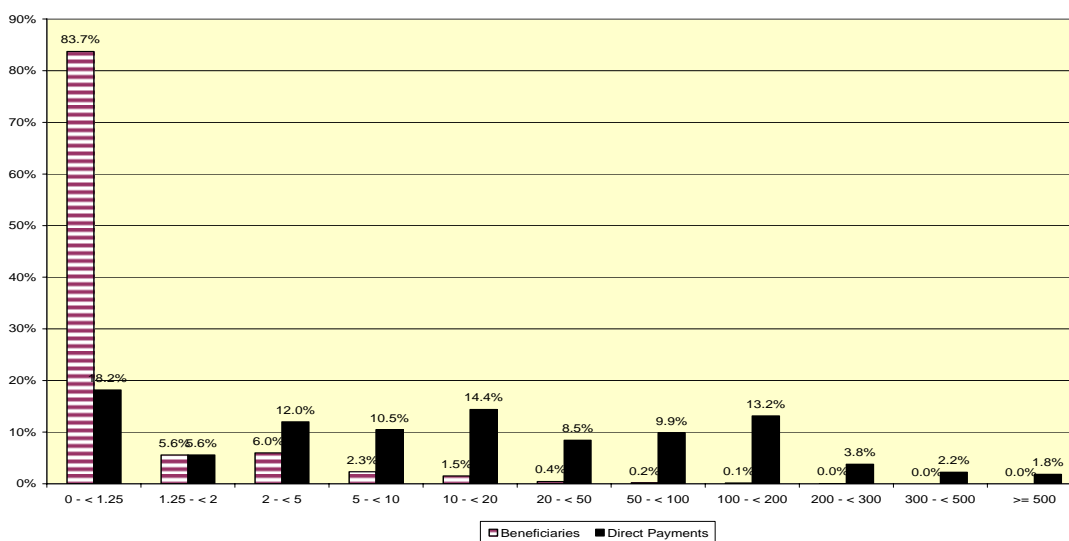
**Graph 21 Distribution of beneficiaries and of direct payments in Lithuania by category of direct payments received (in thousands euros), 2005 Financial Year**



**Graph 22 Distribution of beneficiaries and of direct payments in Luxemburg by category of direct payments received (in thousands euros), 2005 Financial Year**

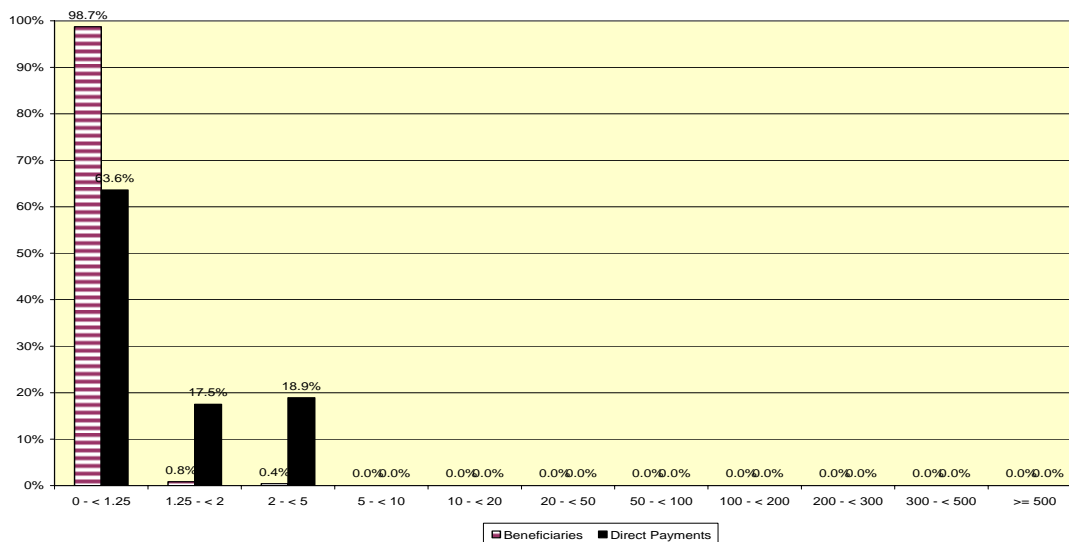


**Graph 23 Distribution of beneficiaries and of direct payments in Hungary by category of direct payments received (in thousands euros), 2005 Financial Year**

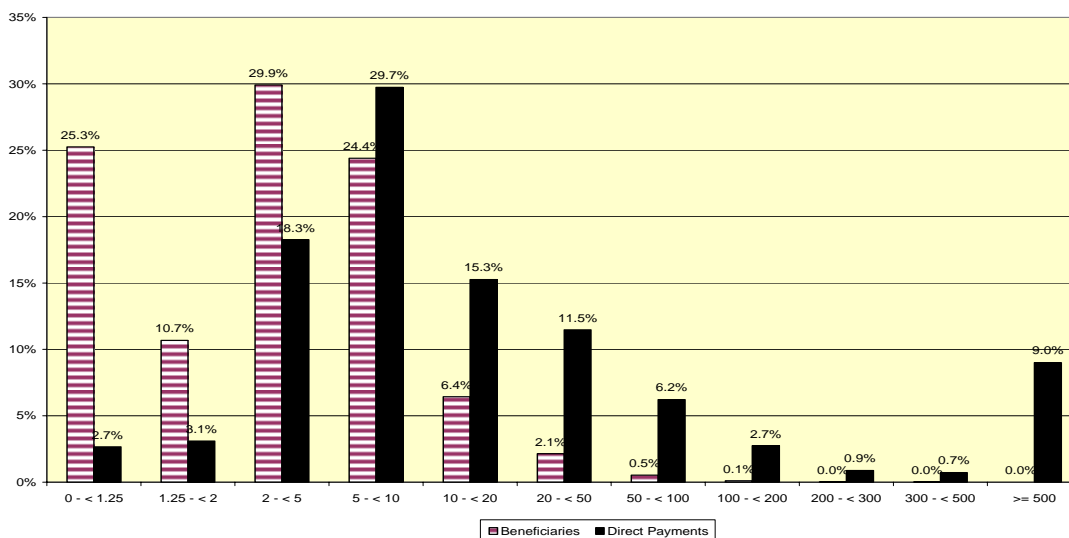




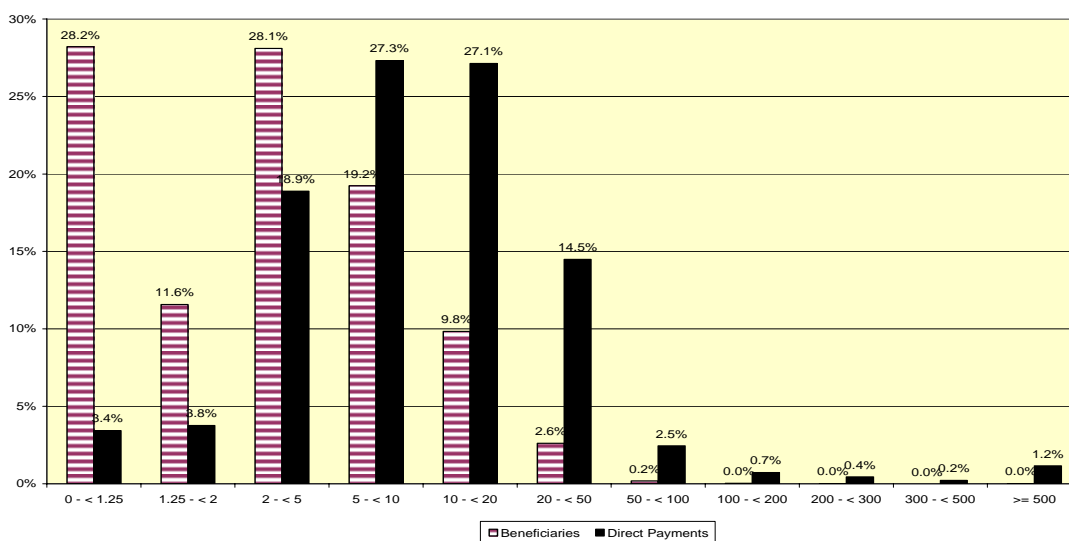
**Graph 24 Distribution of beneficiaries and of direct payments in Malta by category of direct payments received (in thousands euros), 2005 Financial Year**



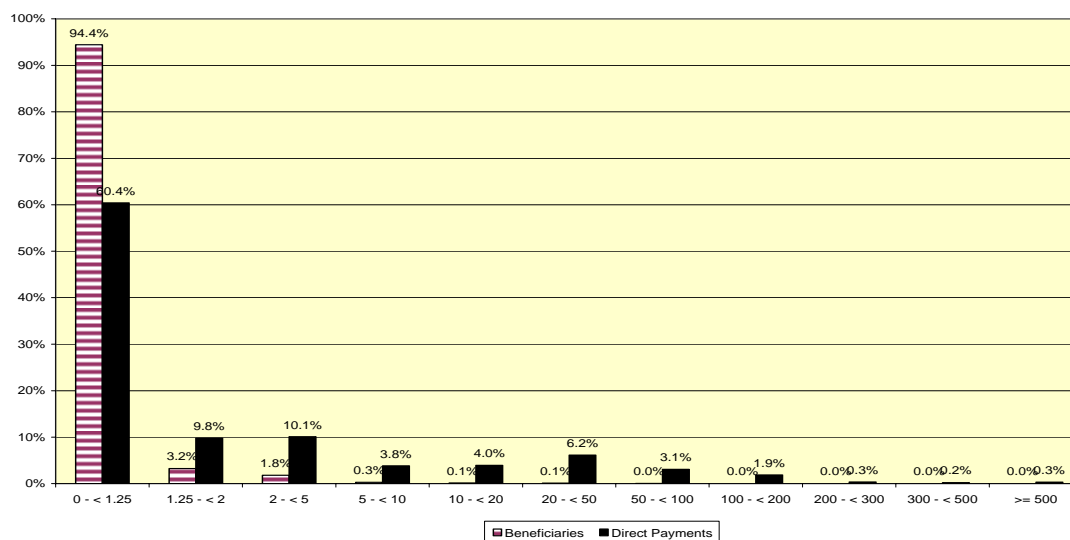
**Graph 25 Distribution of beneficiaries and of direct payments in The Netherlands by category of direct payments received (in thousands euros), 2005 Financial Year**



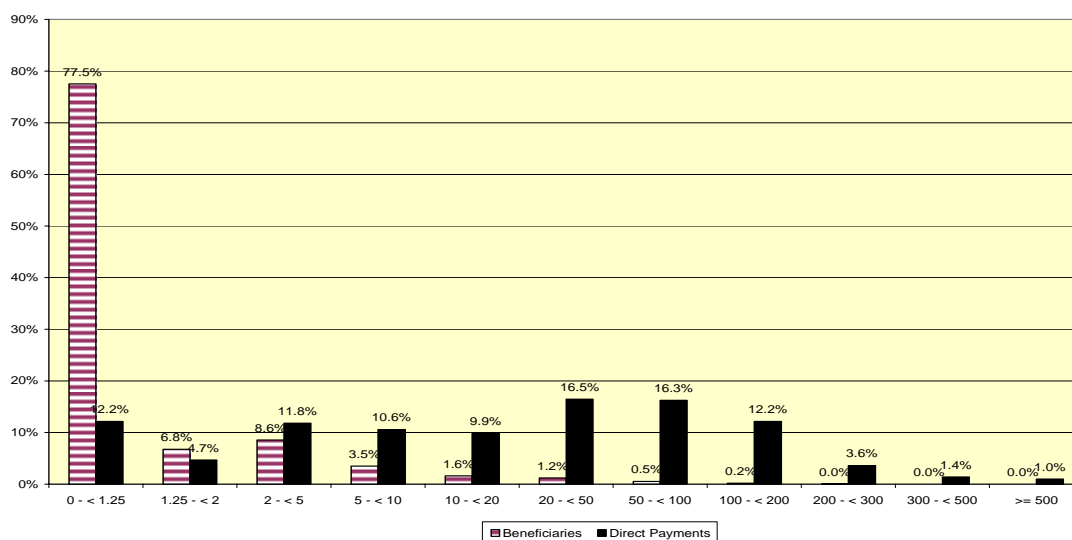
**Graph 26 Distribution of beneficiaries and of direct payments in Austria by category of direct payments received (in thousands euros), 2005 Financial Year**



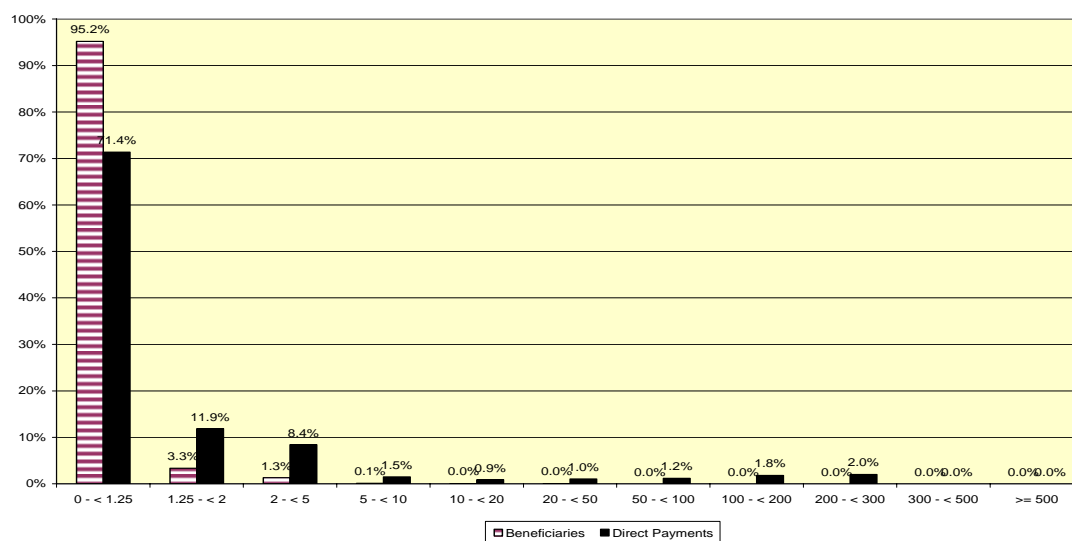
**Graph 27 Distribution of beneficiaries and of direct payments in Poland by category of direct payments received (in thousands euros), 2005 Financial Year**



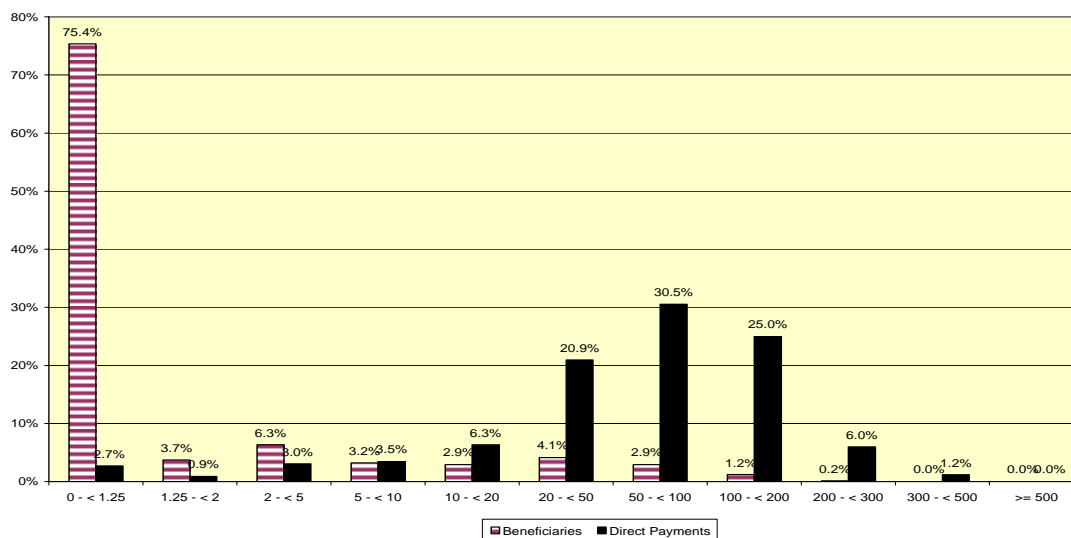
**Graph 28 Distribution of beneficiaries and of direct payments in Portugal by category of direct payments received (in thousands euros), 2005 Financial Year**



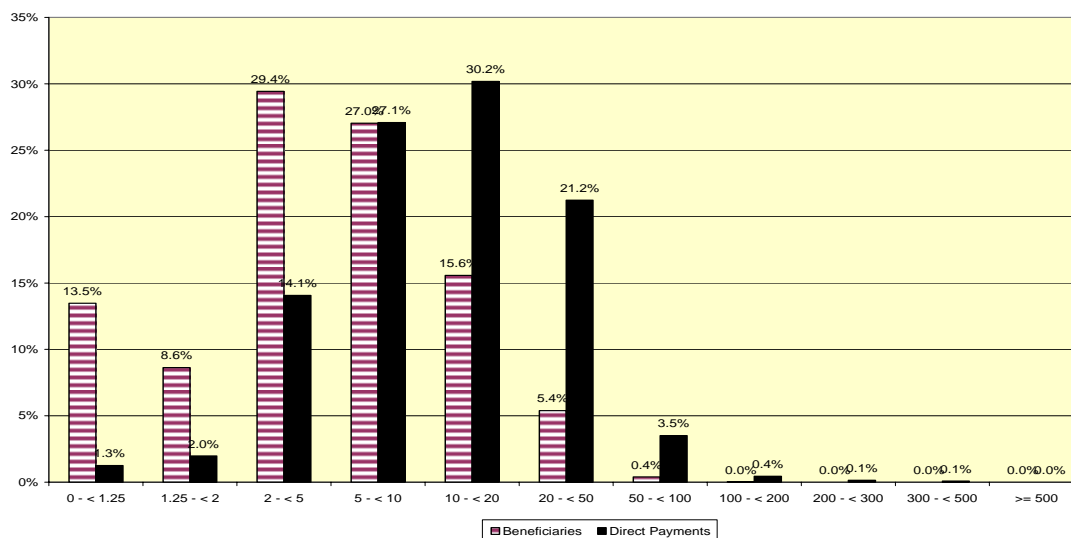
**Graph 29 Distribution of beneficiaries and of direct payments in Slovenia by category of direct payments received (in thousands euros), 2005 Financial Year**



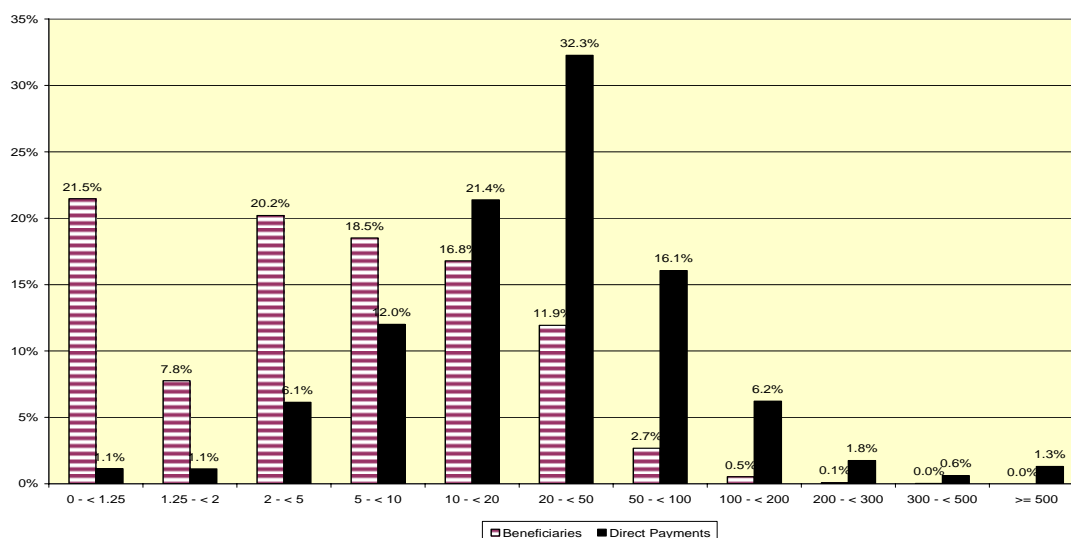
**Graph 30 Distribution of beneficiaries and of direct payments in Slovakia by category of direct payments received (in thousands euros), 2005 Financial Year**



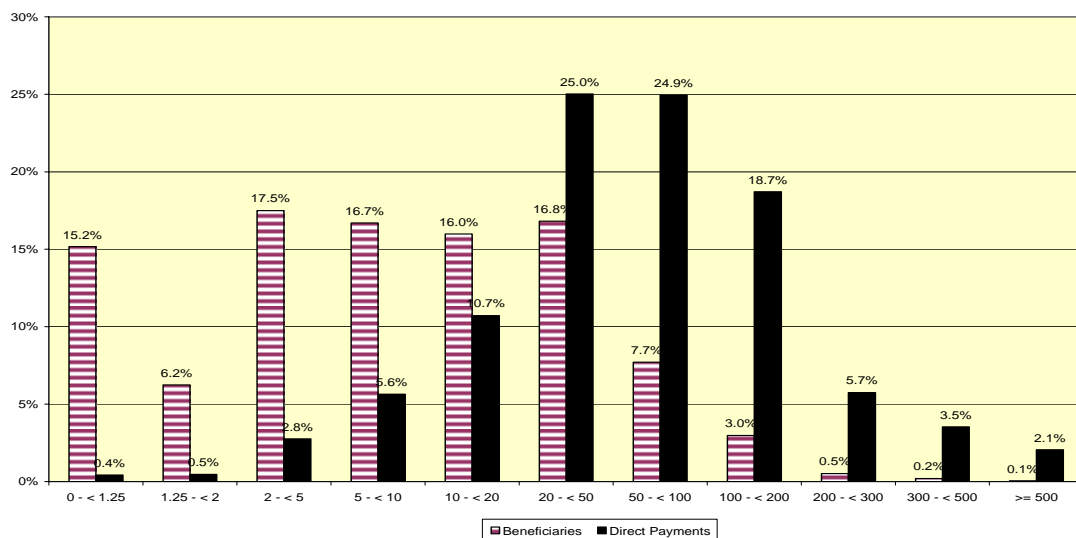
**Graph 31 Distribution of beneficiaries and of direct payments in Finland by category of direct payments received (in thousands euros), 2005 Financial Year**



**Graph 32 Distribution of beneficiaries and of direct payments in Sweden by category of direct payments received (in thousands euros), 2005 Financial Year**



**Graph 33 Distribution of beneficiaries and of direct payments in United Kingdom by category of direct payments received (in thousands euros), 2005 Financial Year**



**Graph 34 Distribution of beneficiaries and of direct payments in EU-25 by category of direct payments received (in thousands euros), 2005 Financial Year**

