

## ANNEX 2

### REPORT ON THE DISTRIBUTION OF DIRECT AIDS TO THE PRODUCERS (FINANCIAL YEAR 2006)

#### 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 2006. 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 development 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 (such as 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<sup>1</sup>. In particular, direct payments are now largely decoupled from production, even if the possibility exists to keep part of the direct payments linked to specific production. With the view of strengthening the rural development policy, a mechanism of compulsory "modulation" has been introduced. It consists in a reduction of direct payments (by 3% in 2005) with the transfer of the corresponding funds to "pillar 2". Most of these changes started taking effect from 2005 onwards, the year covered by this report.

In most of the new Member States (exceptions being Malta and Slovenia), 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. The

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<sup>1</sup> Council Regulation (EC) 1782/2003 of 29 September 2003, OJ L270 of 21.10.2003, p. 1

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 development and reporting of direct payments**

The figures published in this report refer to the period of full implementation of Agenda 2000 and to the introduction of the 2003 CAP reform. However, the financial year 2006 - comprising payments that mainly, but not exclusively, correspond to policy year 2005 - reflects only partially the 2003 CAP reform as the reforms of the olive oil, tobacco, cotton and sugar sectors were not yet implemented. In addition, if the Single Payment Scheme applies from 2005 onwards, the situation is not stabilised over the first years as there are possibilities of progressive implementation. For instance, some Member States (EL, ES, FR, MT, NL, SI and FI) have not introduced the Single Farm Payment in 2005 and the decoupling of milk payments was only implemented in a few Member States in 2005 (DK, DE, IE, LU, SE and UK).

Different options of implementing the SPS are offered to Member States. The main difference is whether they base the SPS on what direct payments individual farmers received in the historic reference period, thus producing different levels of SPS for each farmer, or whether all payments are averaged out over a state or region. With the latter (regional) model, some farmers may benefit of direct payments they were not entitled to in the previous period, increasing the number of beneficiaries of direct payments (but in general at a low level of support). In 2005, this concerns Denmark, Germany, Sweden and United-Kingdom (excluding Scotland and Northern Ireland).

To receive direct payments, beneficiaries must be in possession of payment entitlements. These payment entitlements are allocated to the farmers during the first year of application of the scheme and may be transferred (by sale or lease) to other farmers in the following years. In 2005, first year of this system, it seems that some farmers, in general with limited production and agricultural area, who had not applied for direct payments in previous years introduced demands to obtain entitlements that they could trade in the following years.

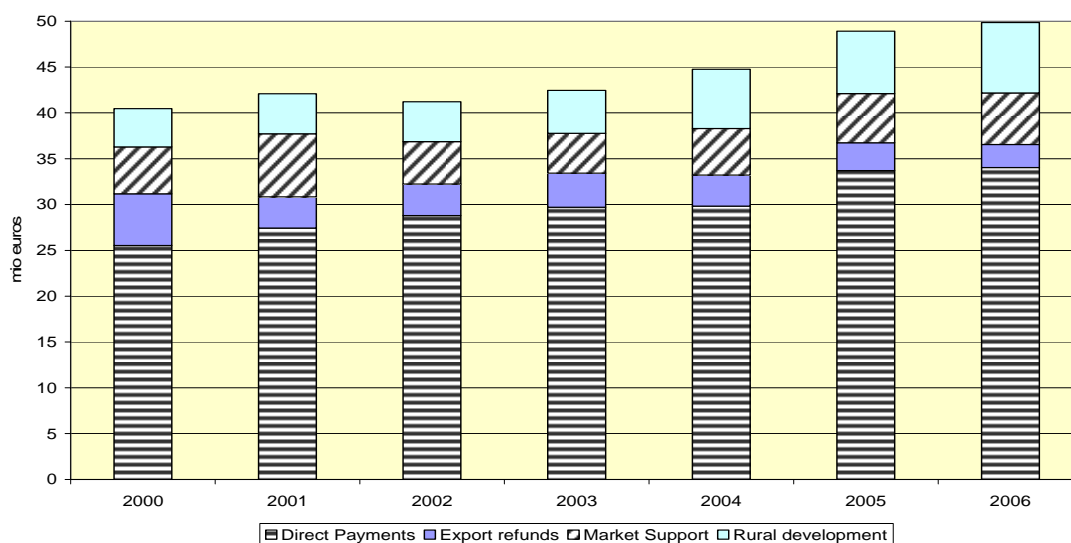
Year 2005 also reflects the second year after the enlargement of 2004 when the direct payments in the 10 new Member States were still at only 30% of their full level. It should also be stressed that direct payments reported in this note only cover the support provided from the EU budget and therefore do not cover the Complementary National Direct Payments allowed in the new Member States.

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. In 2006, after the implementation of Agenda 2000 and during the first phase of implementation of the 2003 CAP reform, they reached 33.7 billions euros, a share of 69 %. Most of the increase in direct payments between 2005 and 2006 is due to the increase of the payments for SAPS in the new Member States (+ 277 millions euros).

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

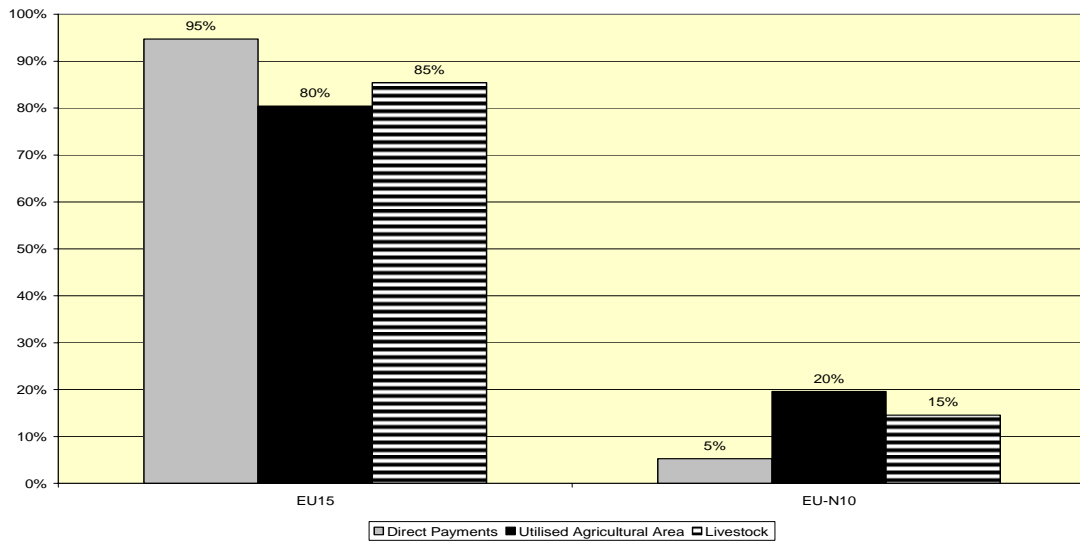


## 3. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN MEMBER STATES

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.

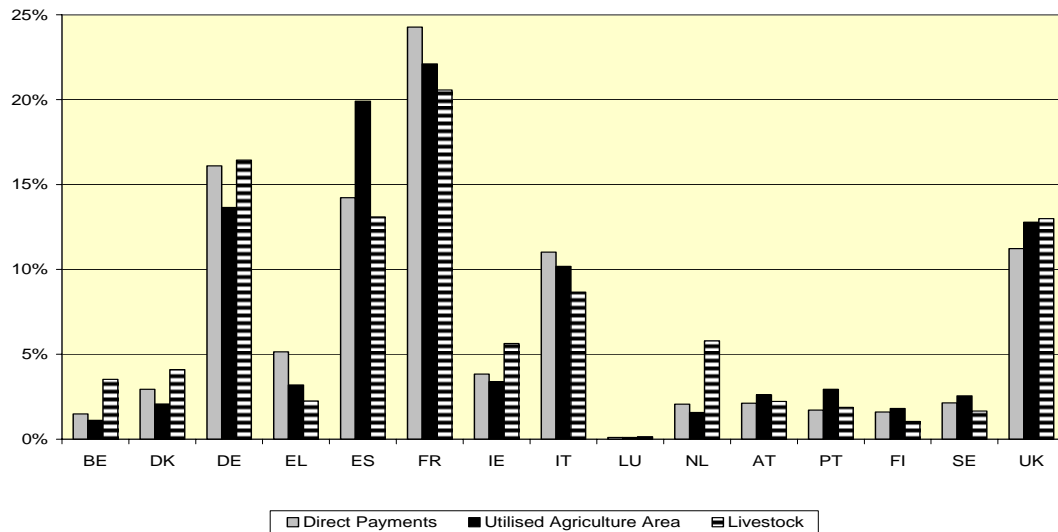
For the 2006 financial year, it is still difficult to compare the 25 Member States as for the Member States having acceded in 2004 (EU-N10), direct payments are only at 30 % of the full amount (graph 2a).

**Graph 2a Distributions of Direct Payments, Utilised Agriculture Area and Livestock in the EU-25 between EU-15 and EU-N10, 2006 Financial Year and 2005 Farm Structure Survey (EU-25=100%)**

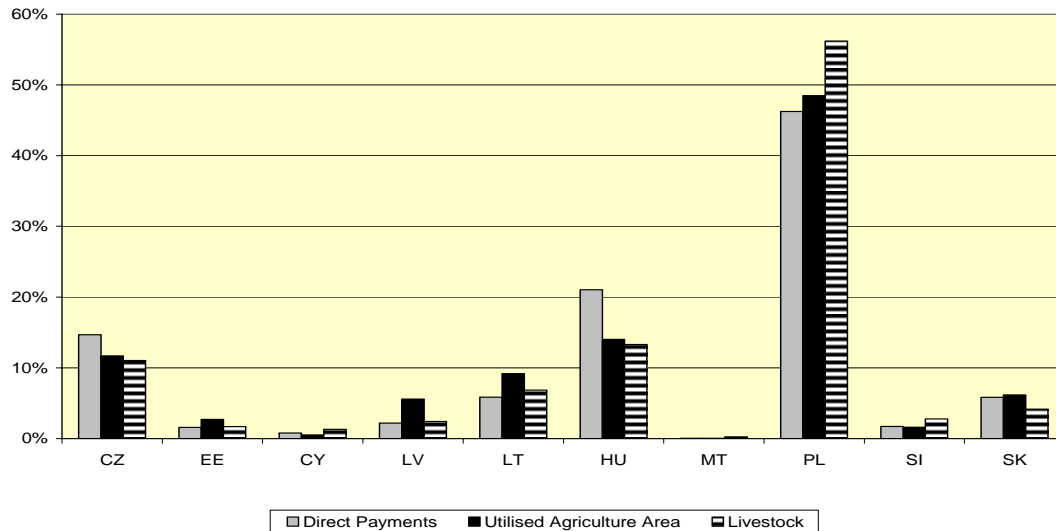


It is more appropriate to analyse separately the EU-15 and the EU-N10 (graphs 2b and 2c).

**Graph 2b Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States of EU-15, 2006 Financial Year and 2005 Farm Structure Survey (EU-15=100%)**



**Graph 2c Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States of EU-N10, 2006 Financial Year and 2005 Farm Structure Survey (EU-N10=100%)**



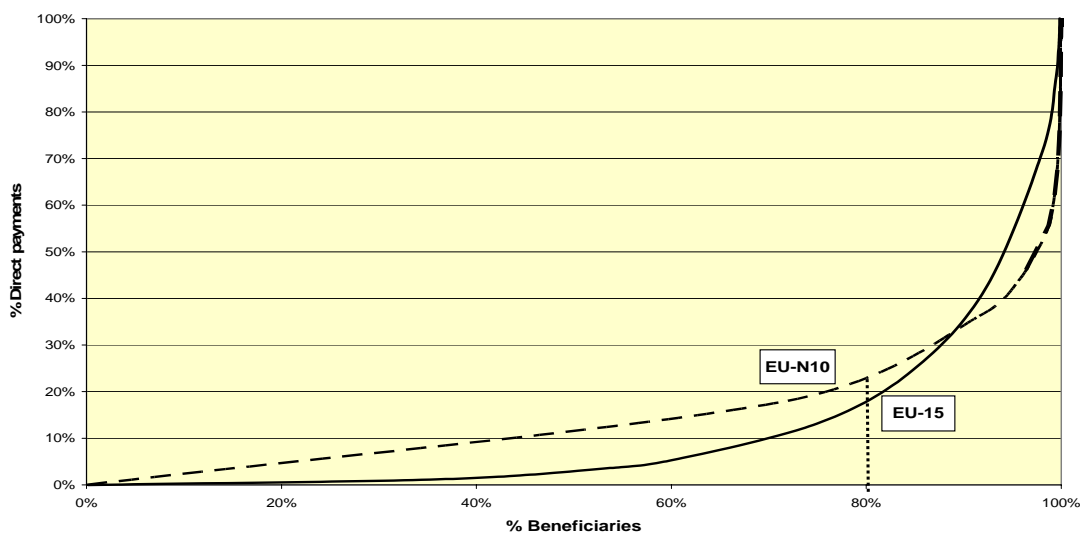
The distribution of direct payments between Member States also reflects the specialisation of the Member States between the agricultural sectors and the differences in the Common Market Organisations. An illustrative example concerns some typical Mediterranean products (such as fruit and vegetables, olive, wine, cotton, etc) but also horticulture and the pig and poultry sectors 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 the production of Mediterranean products, 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

Direct payments are not equally distributed in the European Union. In EU-15, 80 % of beneficiaries received around 19 % of the direct payments in 2006 whereas in EU-N10, these 80 % of beneficiaries received around 26% of the direct payments.

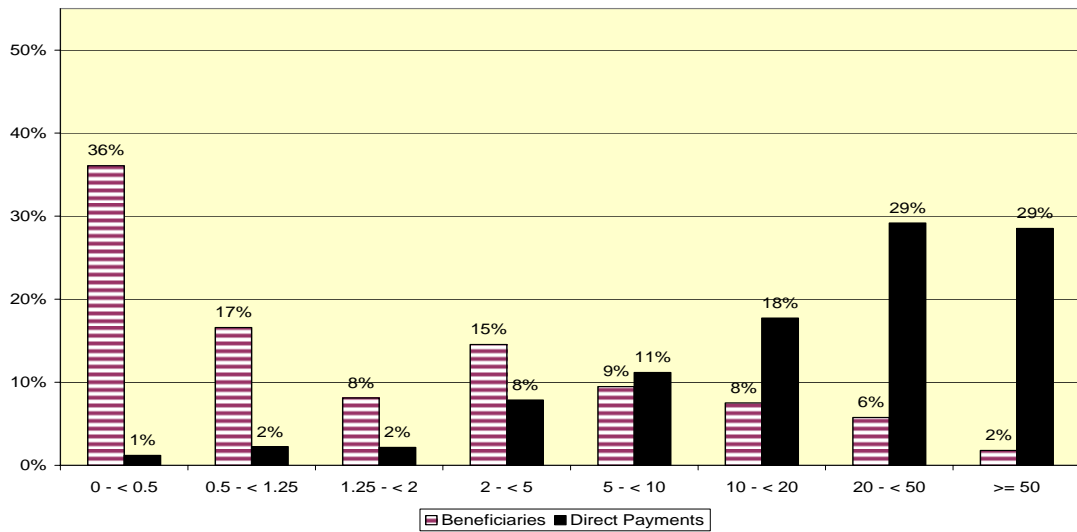
**Graph 3 Distribution of direct payments between beneficiaries in EU-15 and in EU-N10, 2005 Financial Year**



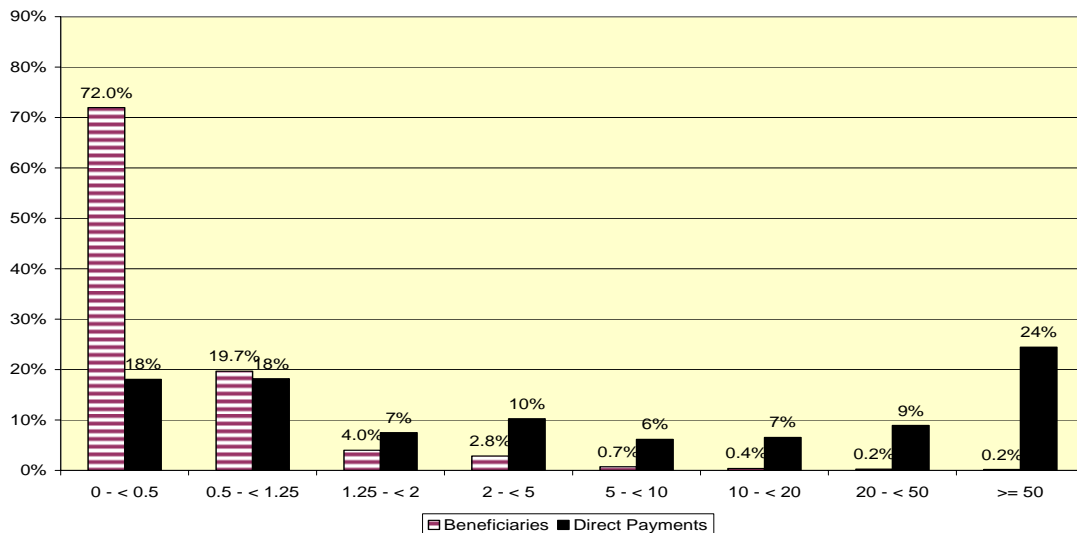
However, the distribution of direct payments across producers varies among EU Member States (see graphs 9 to 34 at the end of the document):

- In the EU-15 Member States, it is estimated that 80 % of beneficiaries received a percentage of direct payments varying approximately between 14 % (Portugal) and 57 % (Luxemburg),
- In the EU-N10 Member States, it is estimated that 80 % of beneficiaries received a percentage of direct payments varying approximately between 4 % (Slovakia) and 43 % (Slovenia).

**Graph 4a Distribution of beneficiaries and of direct payments in the EU-15 by category of direct payments received (in thousands euros), 2006 Financial Year**



**Graph 4b Distribution of beneficiaries and of direct payments in the EU-N10 by category of direct payments received (in thousands euros), 2006 Financial Year**

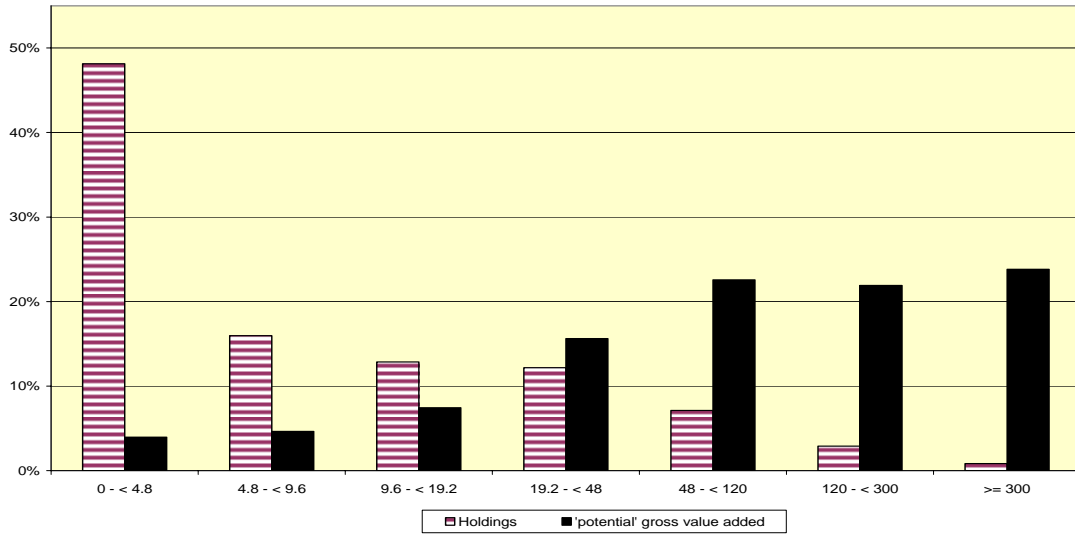


As the support is mainly based on area and livestock, even on an historical basis, the distribution of direct payments between beneficiaries also mainly reflects the differences in farm size<sup>2</sup>, as it can be seen when comparing Graphs 4 and Graphs 5.

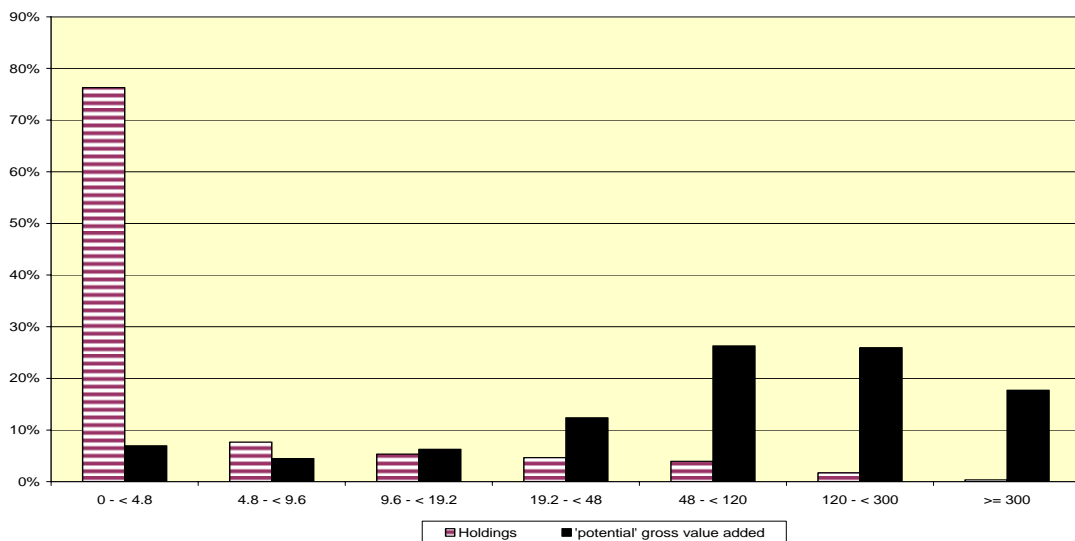
Differences in farm structures often lead to differences in the distribution of direct payments across Member States.

<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 kinds of production (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), 2005 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), 2005 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 reductions. 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 the largest beneficiaries with a view to improve the distribution of direct support. On all



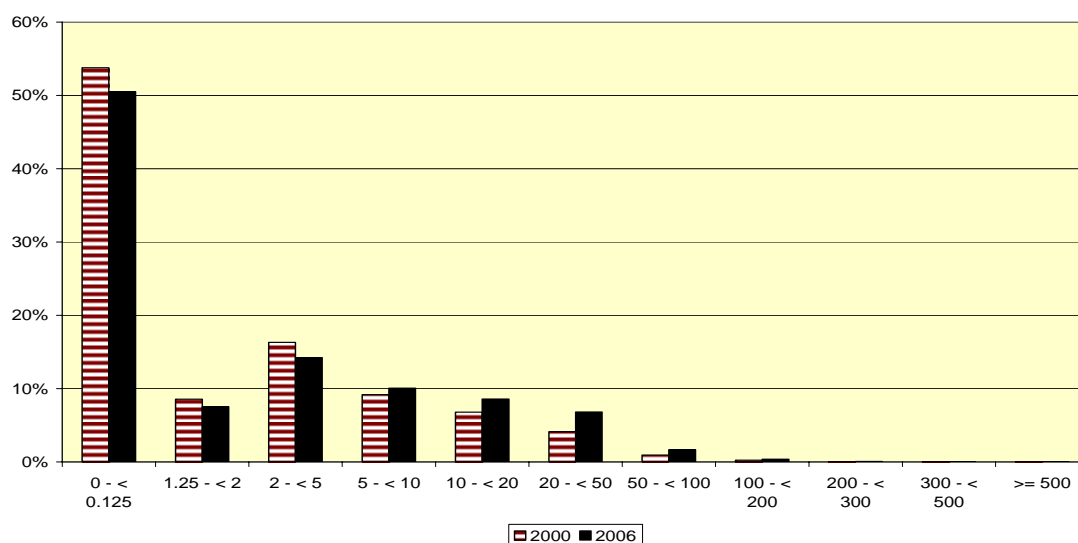
three occasions, the Commission proposals were turned down by Member States. It is an issue that the Commission intends to consider in the framework of the "Health Check".

#### 4.2. Development of the distribution of direct payments between beneficiaries between 2000 and 2006

This section only covers EU-15.

When comparing the distribution in 2000 and in 2006 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 2006 Financial Years**



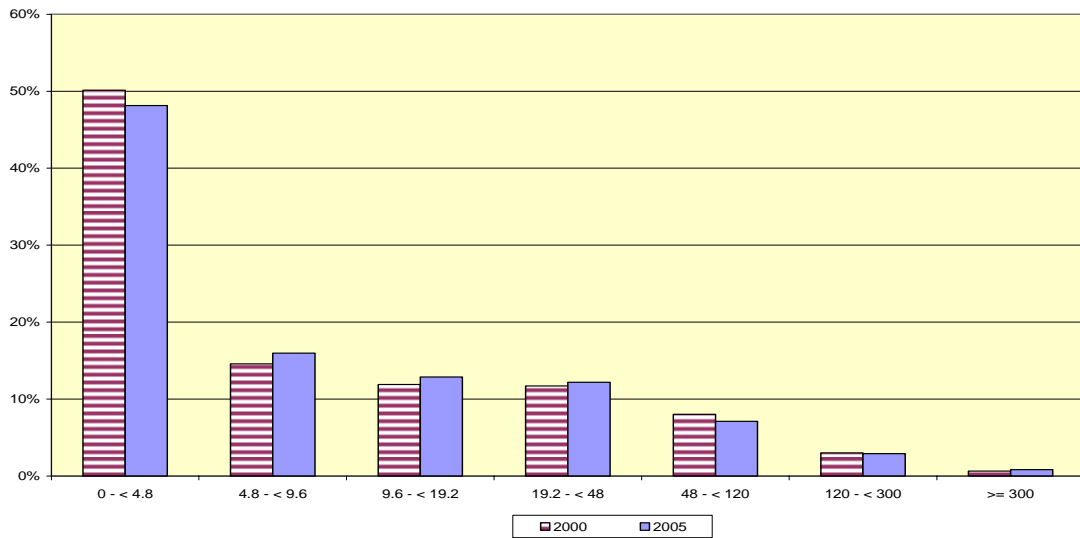
		2000	2006	
		EU-14	EU-14	EU-15
average amount per beneficiary		5 015	6 848	6 018
receiving 5 000 euros or less	% beneficiaries	78.6%	72.3%	75.3%
	% direct payments	17.8%	11.4%	13.5%

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;

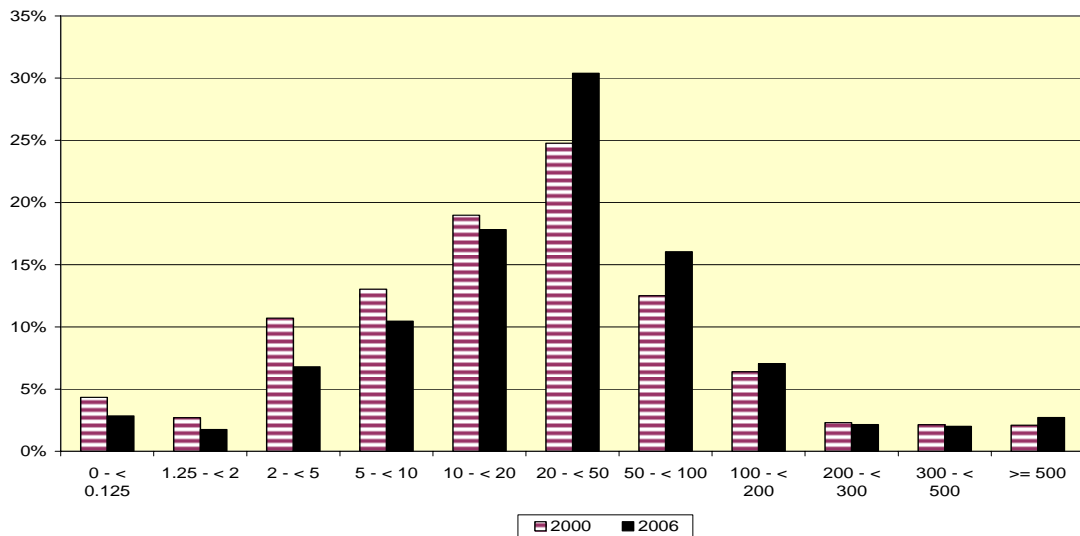
<sup>3</sup> The comparison is made for the Union without Greece (EU-14), as the distribution of beneficiaries is not available for this Member State in 2000.

**Graph 7 Distribution of holdings in the EU-15 by category of “potential” gross value added (in thousands euros), 2000 and 2005 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 2006 Financial Years**



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<sup>4</sup>).

However, it should be noticed that between 2005 and 2006 financial years, the number of small beneficiaries increased in some countries in relation with the implementation of the 2003 CAP reform, notably the regional model (in Denmark, Germany, Sweden and United-Kingdom) and the attribution of payment entitlements (this phenomenon was particularly striking in Italy).

## **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, followed by the reform of common market organisations for sugar, for bananas and for fruit and vegetables. 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 increases 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 (i.e. financial discipline), 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 are generating 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 is exempted from the reduction by a fixed percentage and from financial discipline) should favour a more balanced distribution of direct payments across beneficiaries.

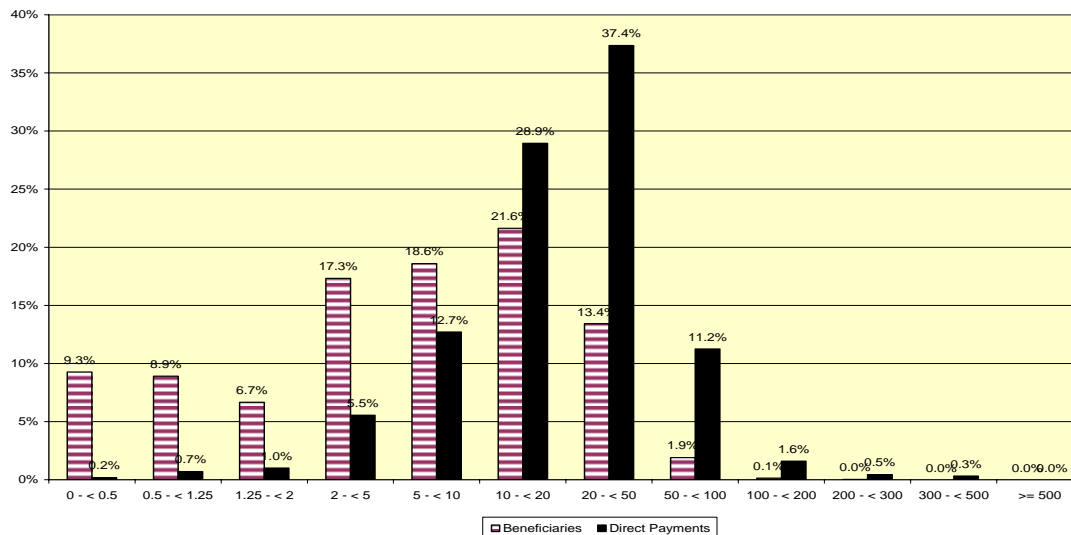
The outcomes of the Health Check of the CAP concerning changes in the modulation mechanism, the introduction of lower limits and the reductions of payments could influence the distribution of direct payments.

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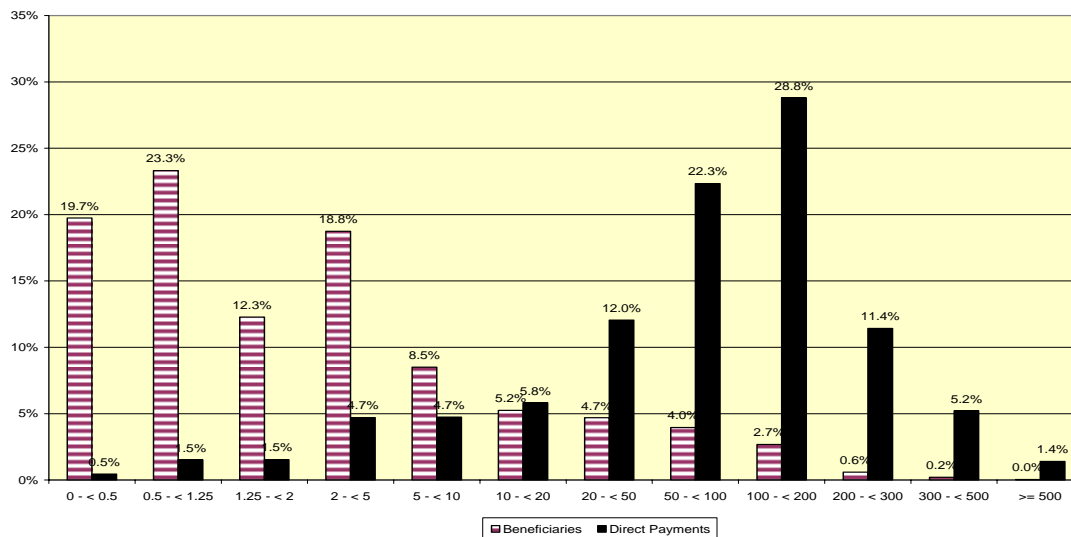
<sup>4</sup> This comparison can not be done for Financial Year 2006, due to the introduction of the Single Payment Scheme.

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 distribution of direct payments in the new Member States should mainly reflect the structural development, with a possible, though limited effect of the complementary national direct payments (as the SAPS and the regional model of the Single Payment Scheme by which it should be replaced at a later stage constitute two flat rate area-based payments).

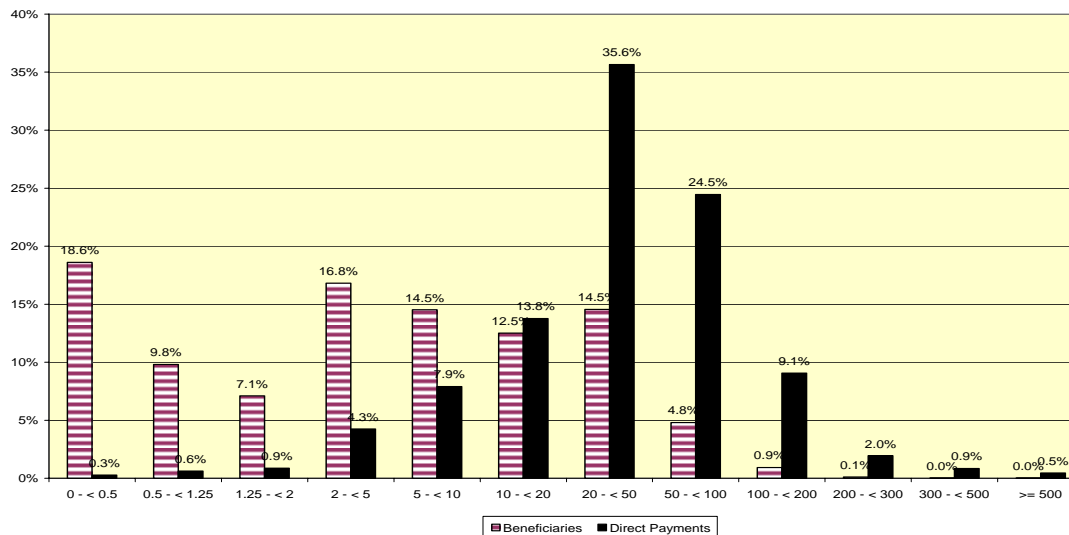
**Graph 9 Distribution of beneficiaries and of direct payments in Belgium by category of direct payments received (in thousands euros), 2006 Financial Year**



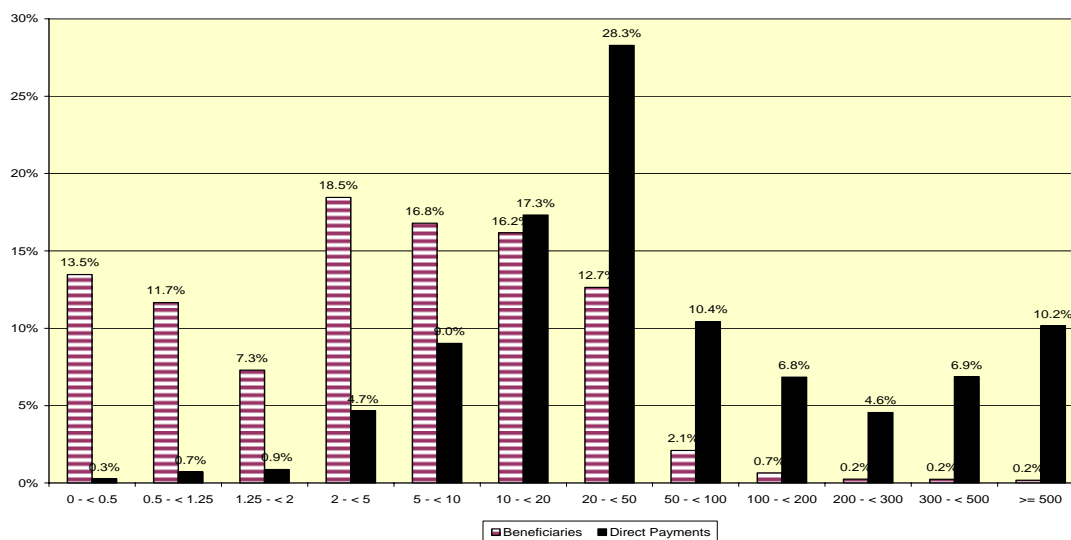
**Graph 10 Distribution of beneficiaries and of direct payments in the Czech Republic by category of direct payments received (in thousands euros), 2006 Financial Year**



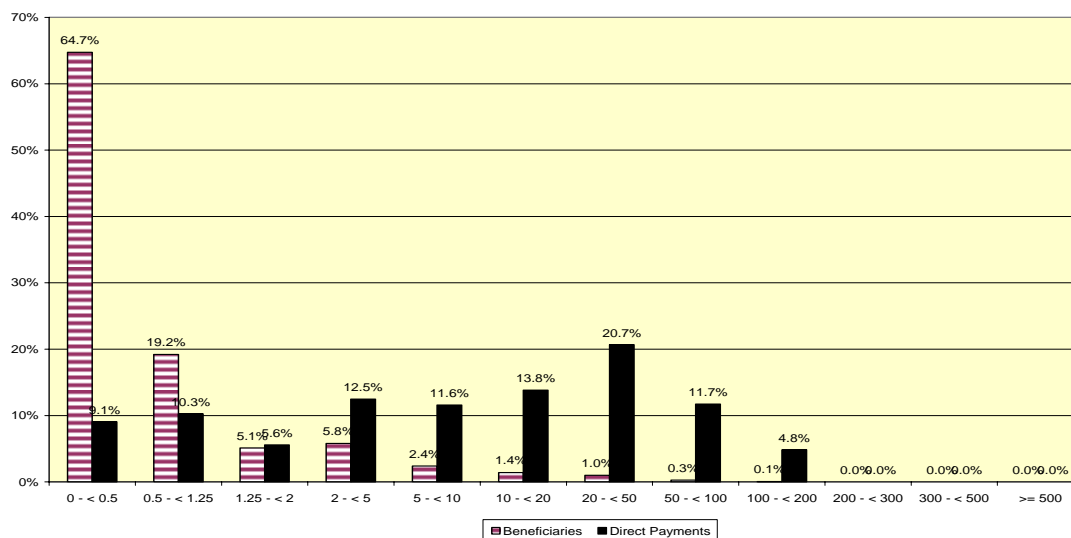
**Graph 11 Distribution of beneficiaries and of direct payments in Denmark by category of direct payments received (in thousands euros), 2006 Financial Year**



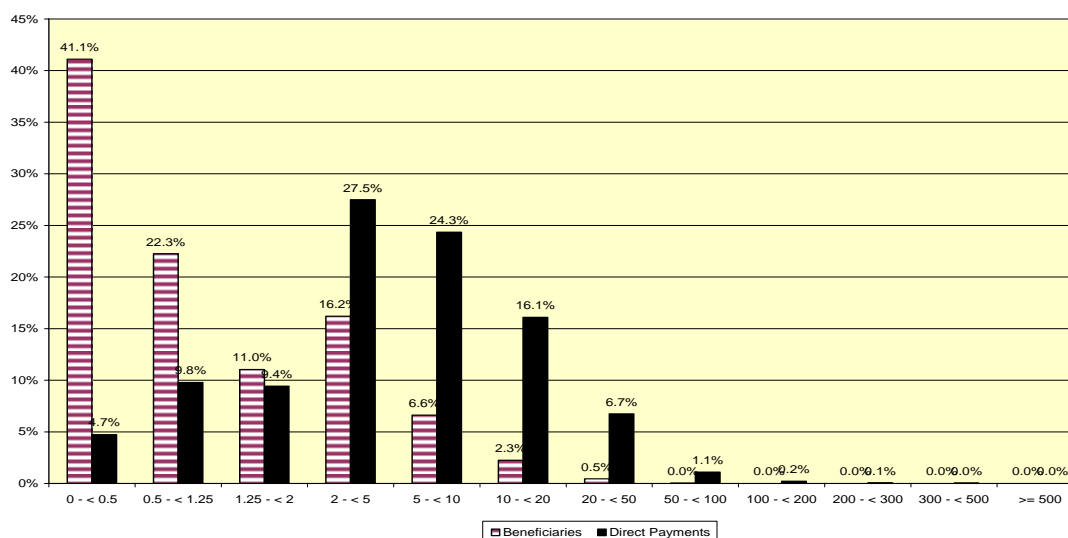
**Graph 12 Distribution of beneficiaries and of direct payments in Germany by category of direct payments received (in thousands euros), 2006 Financial Year**



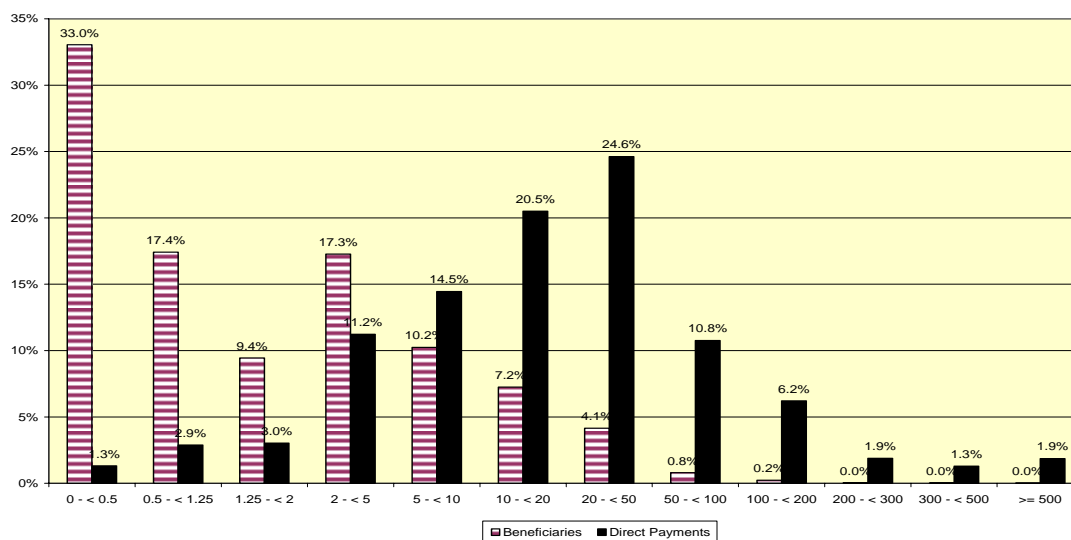
**Graph 13 Distribution of beneficiaries and of direct payments in Estonia by category of direct payments received (in thousands euros), 2006 Financial Year**



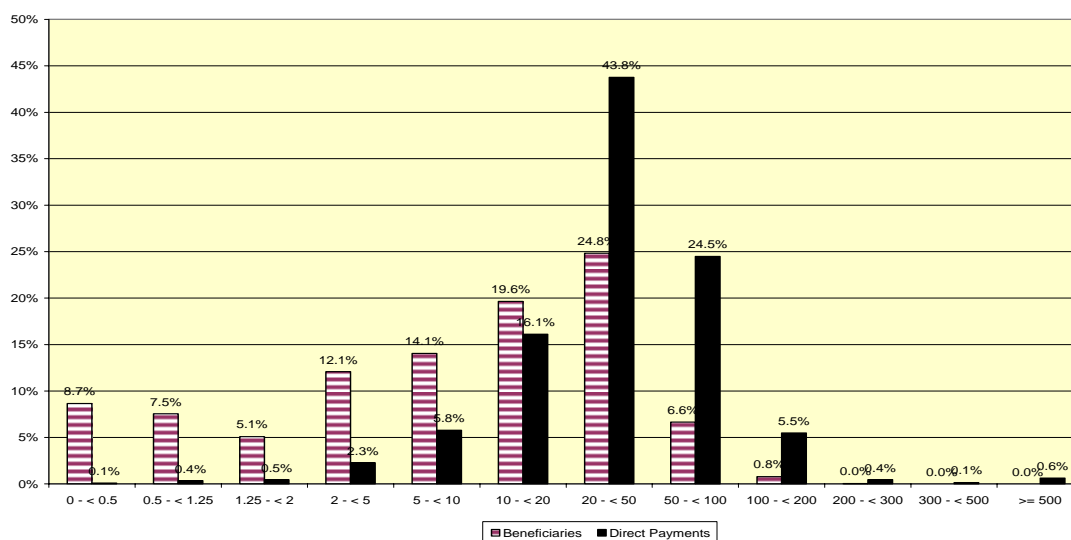
**Graph 14 Distribution of beneficiaries and of direct payments in Greece by category of direct payments received (in thousands euros), 2006 Financial Year**



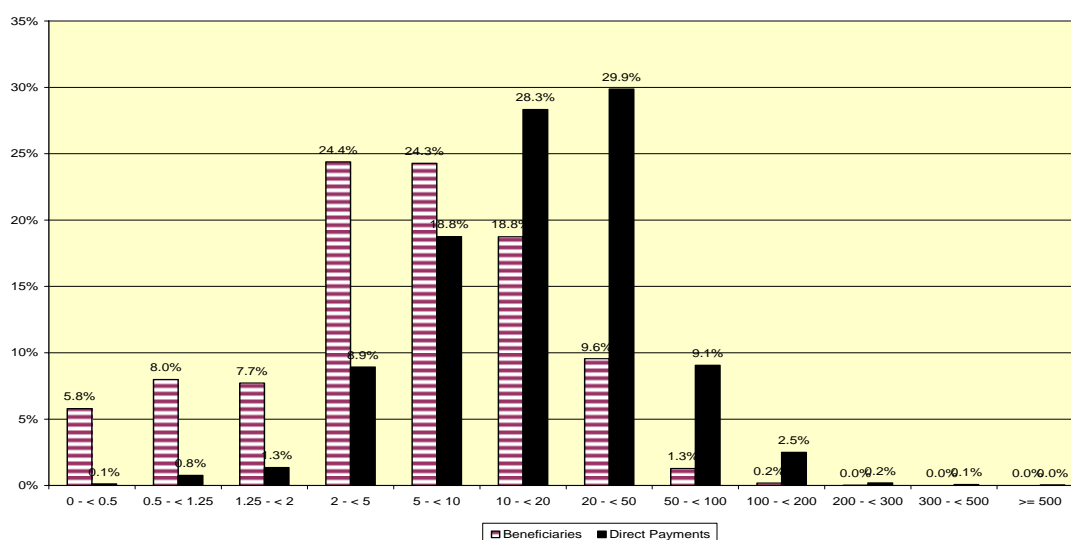
**Graph 15 Distribution of beneficiaries and of direct payments in Spain by category of direct payments received (in thousands euros), 2006 Financial Year**



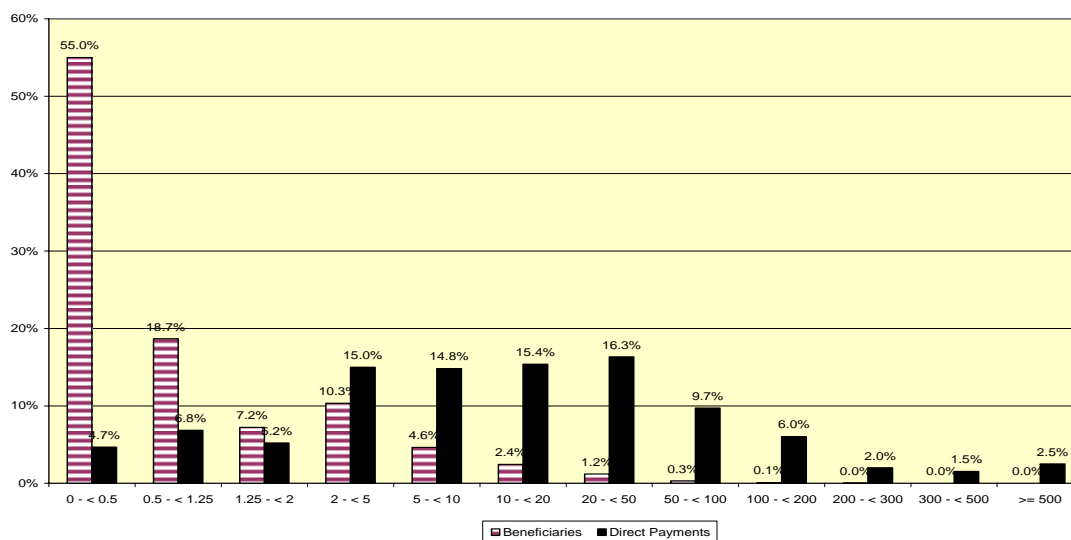
**Graph 16 Distribution of beneficiaries and of direct payments in France by category of direct payments received (in thousands euros), 2006 Financial Year**



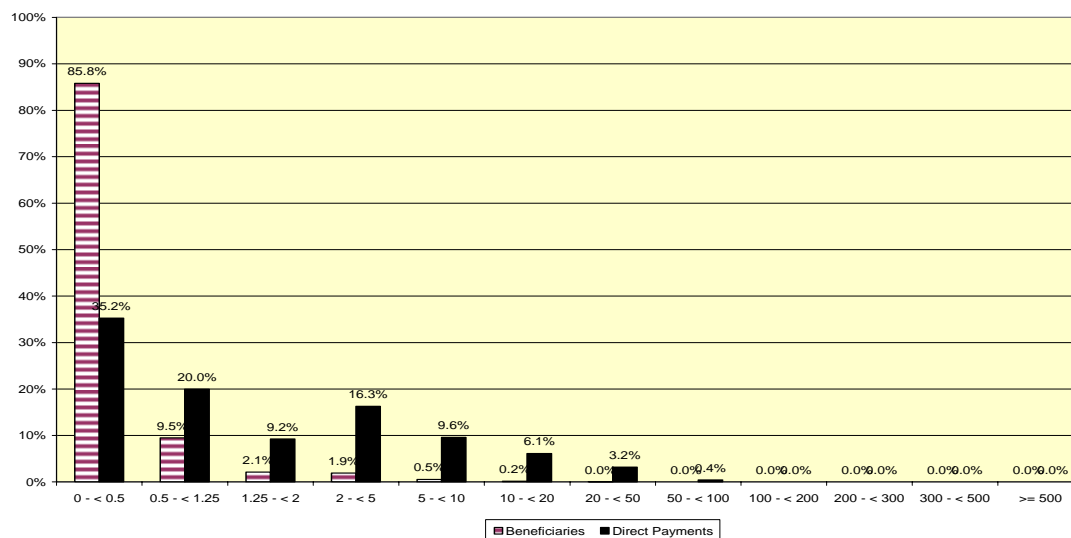
**Graph 17 Distribution of beneficiaries and of direct payments in Ireland by category of direct payments received (in thousands euros), 2006 Financial Year**



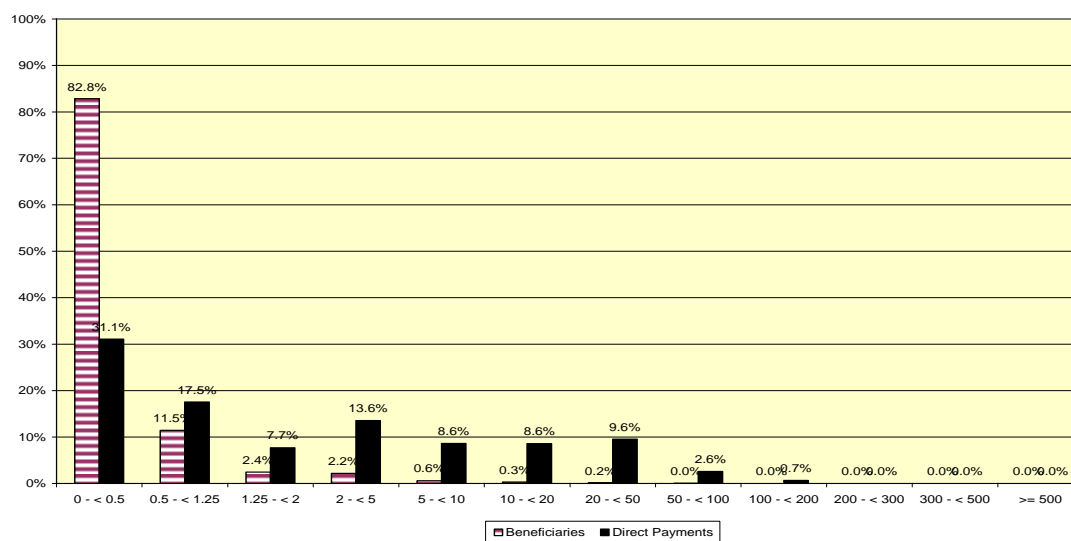
**Graph 18 Distribution of beneficiaries and of direct payments in Italy by category of direct payments received (in thousands euros), 2006 Financial Year**



**Graph 19 Distribution of beneficiaries and of direct payments in Cyprus by category of direct payments received (in thousands euros), 2006 Financial Year**

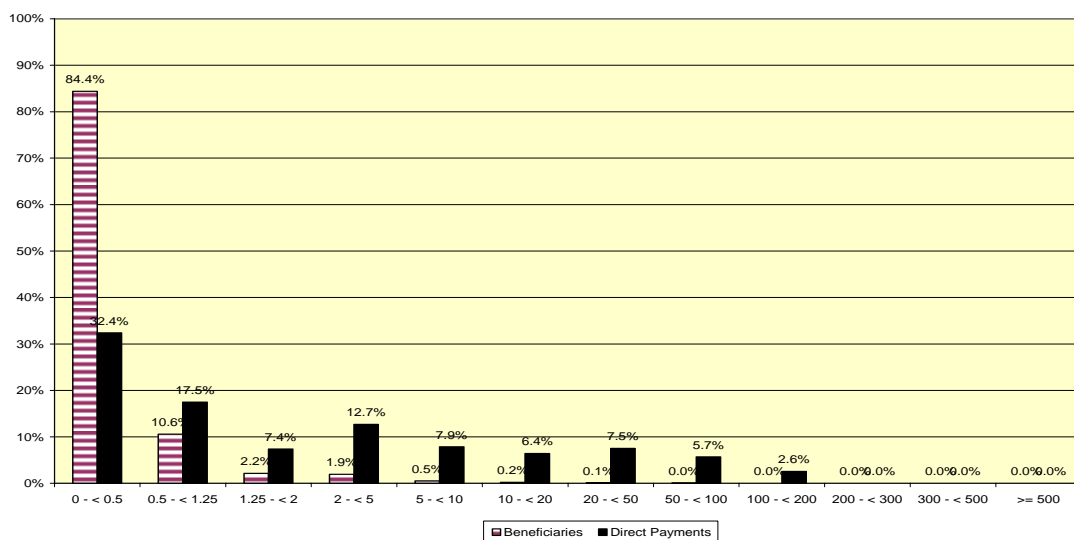


**Graph 20 Distribution of beneficiaries and of direct payments in Latvia by category of direct payments received (in thousands euros), 2006 Financial Year**

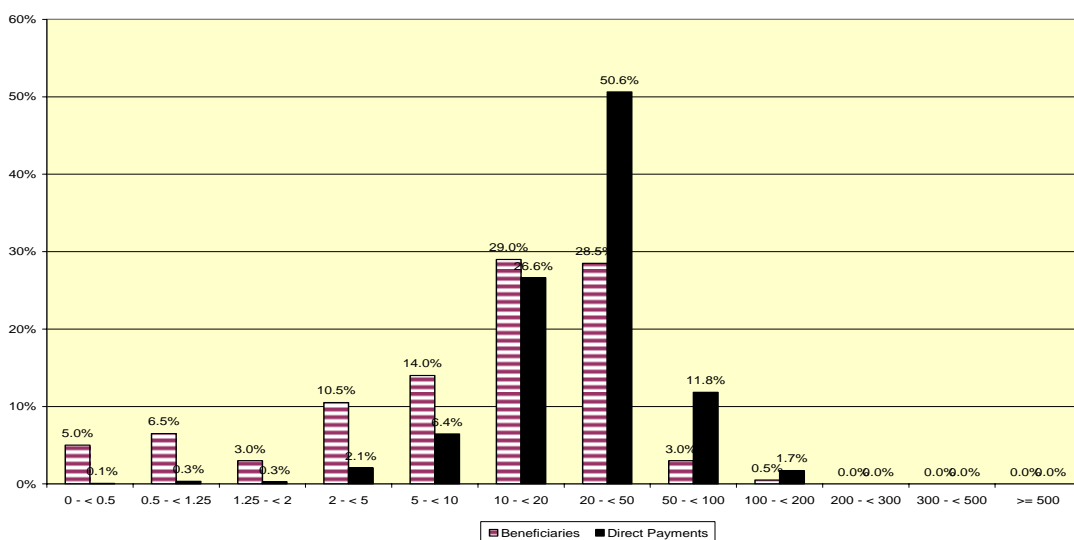




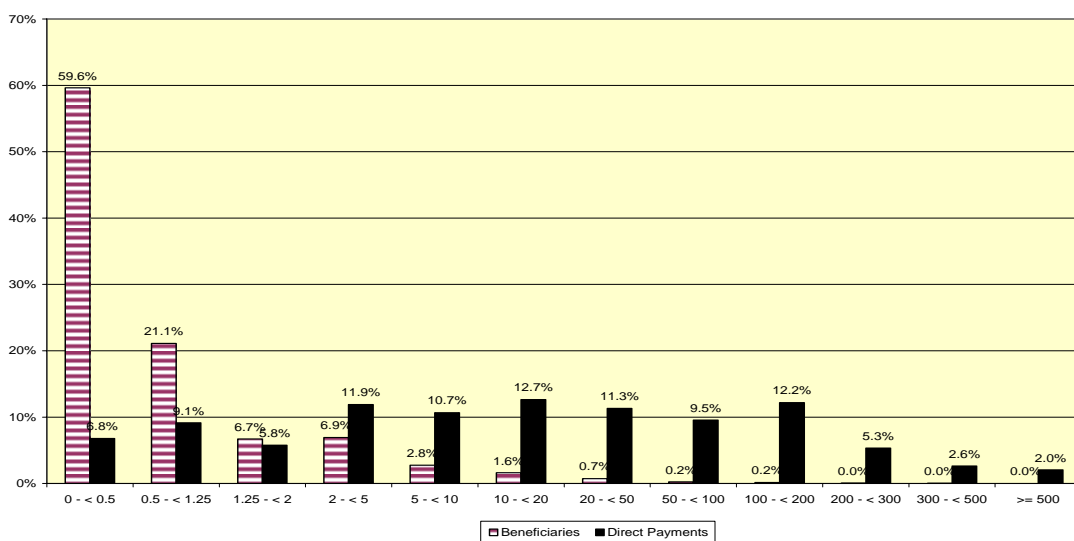
**Graph 21 Distribution of beneficiaries and of direct payments in Lithuania by category of direct payments received (in thousands euros), 2006 Financial Year**



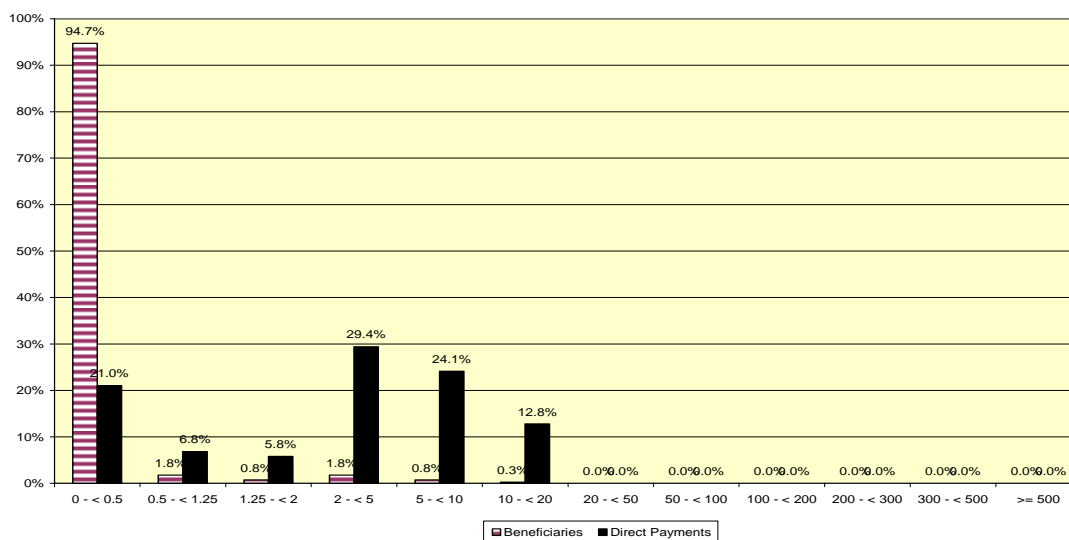
**Graph 22 Distribution of beneficiaries and of direct payments in Luxemburg by category of direct payments received (in thousands euros), 2006 Financial Year**



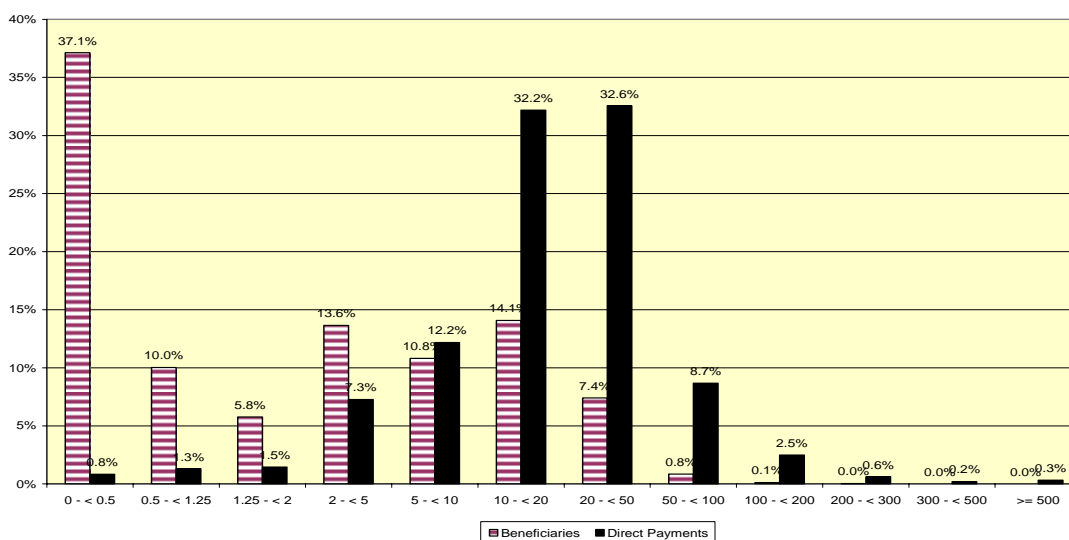
**Graph 23 Distribution of beneficiaries and of direct payments in Hungary by category of direct payments received (in thousands euros), 2006 Financial Year**



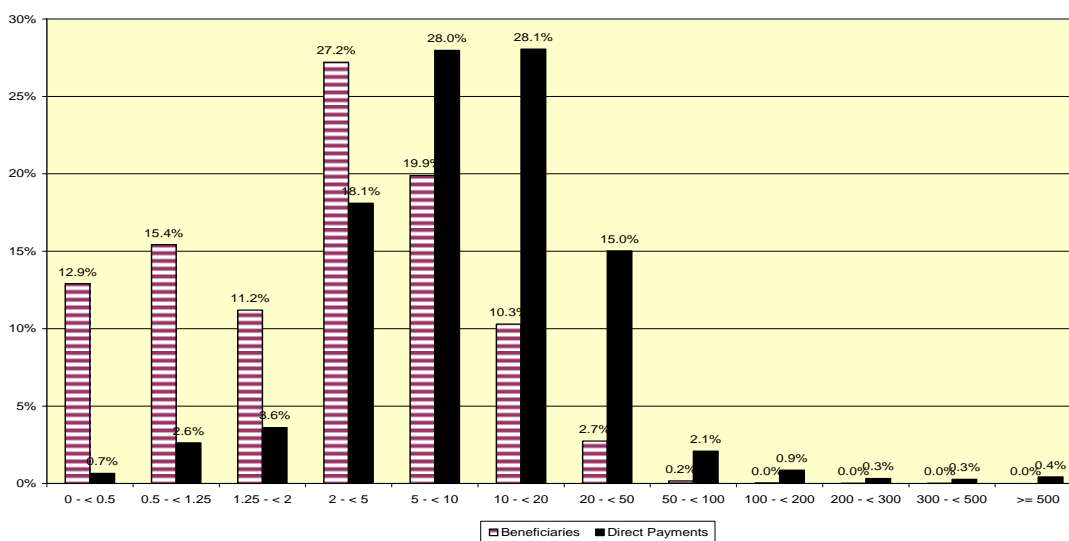
**Graph 24 Distribution of beneficiaries and of direct payments in Malta by category of direct payments received (in thousands euros), 2006 Financial Year**



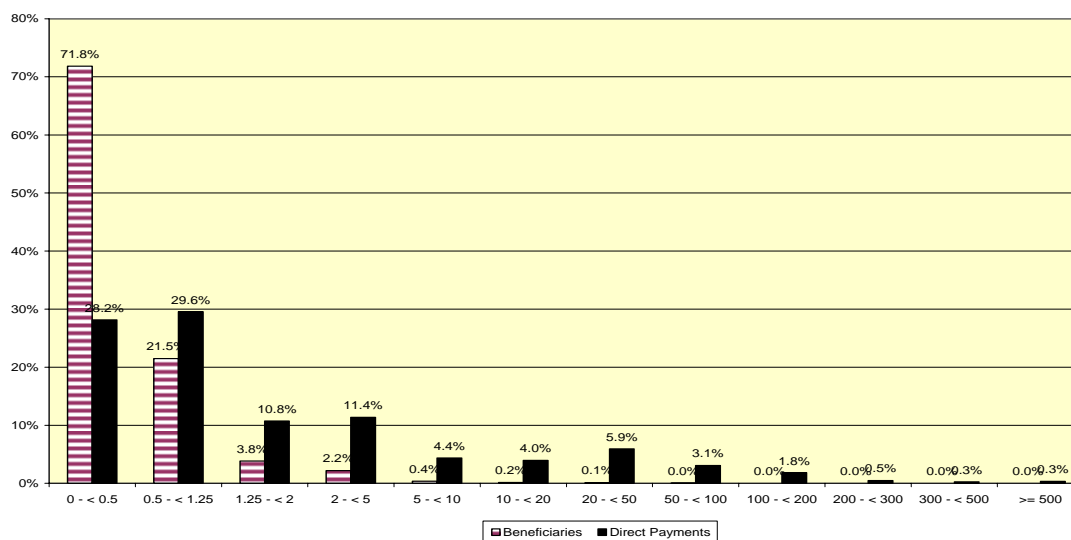
**Graph 25 Distribution of beneficiaries and of direct payments in The Netherlands by category of direct payments received (in thousands euros), 2006 Financial Year**



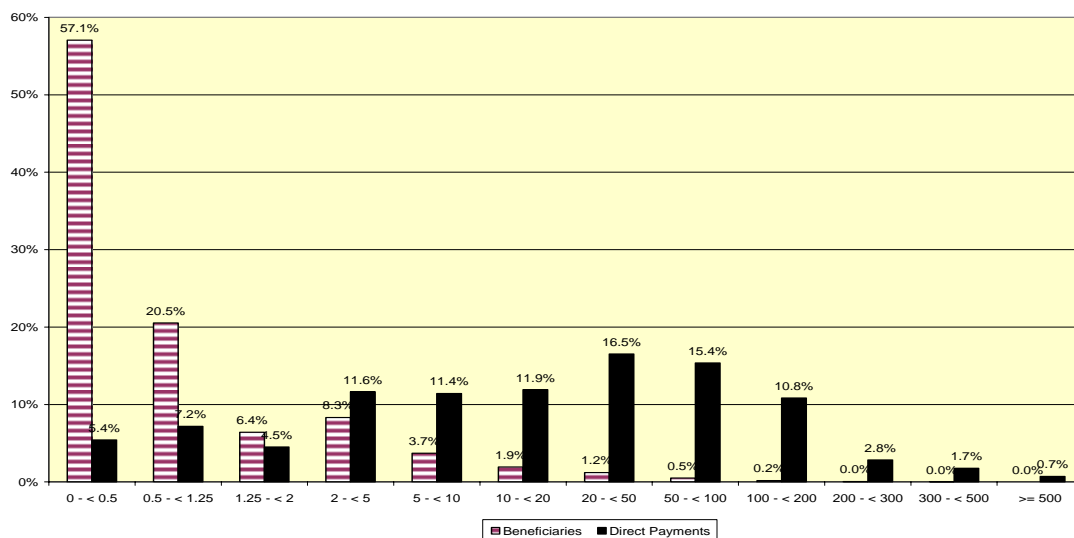
**Graph 26 Distribution of beneficiaries and of direct payments in Austria by category of direct payments received (in thousands euros), 2006 Financial Year**



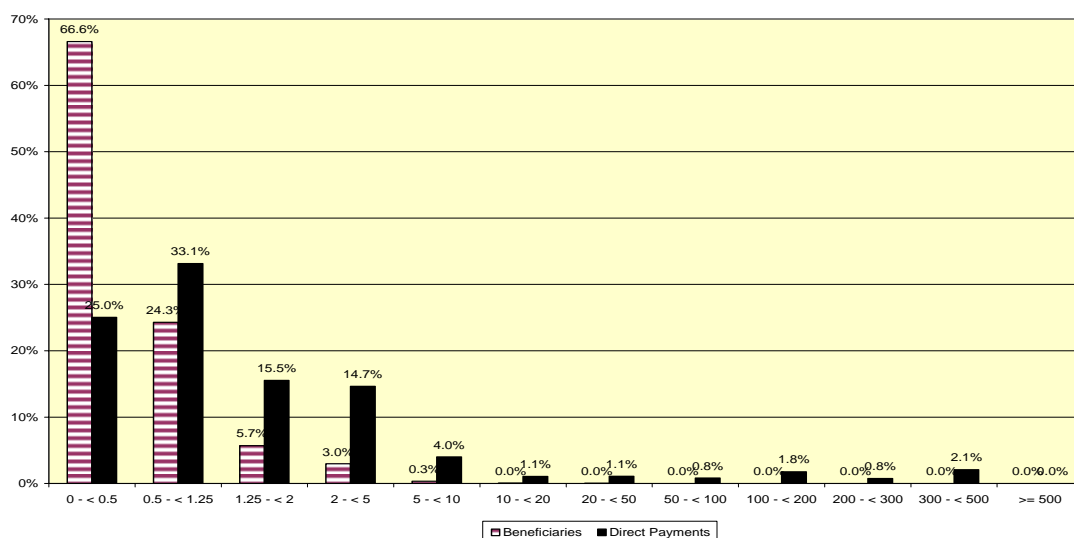
**Graph 27 Distribution of beneficiaries and of direct payments in Poland by category of direct payments received (in thousands euros), 2006 Financial Year**



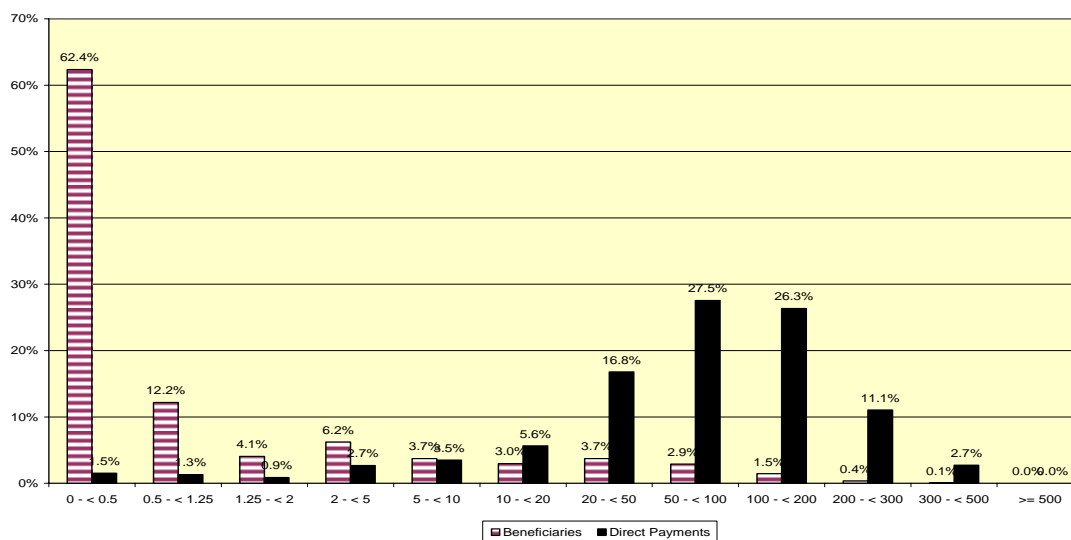
**Graph 28 Distribution of beneficiaries and of direct payments in Portugal by category of direct payments received (in thousands euros), 2006 Financial Year**



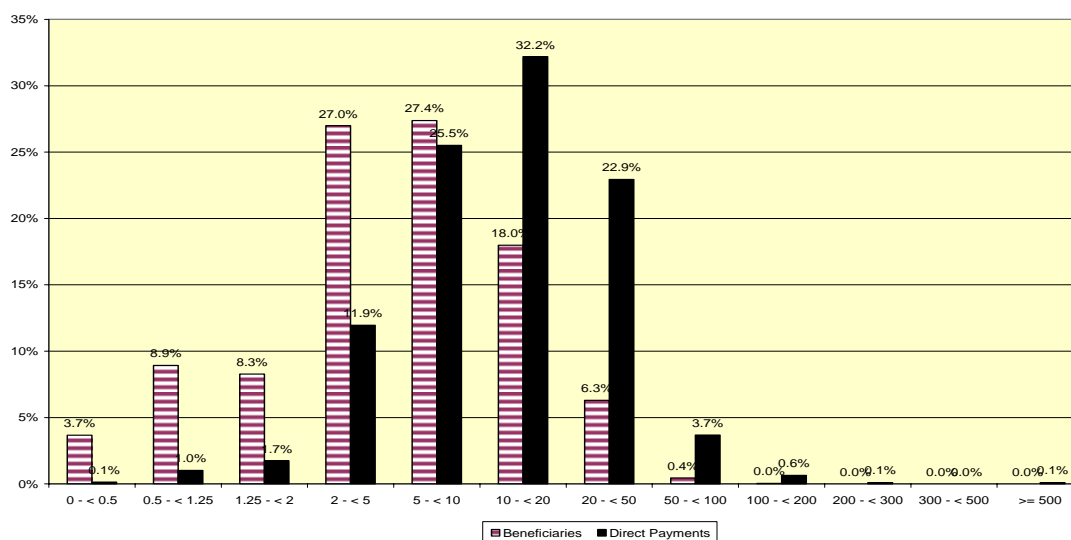
**Graph 29 Distribution of beneficiaries and of direct payments in Slovenia by category of direct payments received (in thousands euros), 2006 Financial Year**



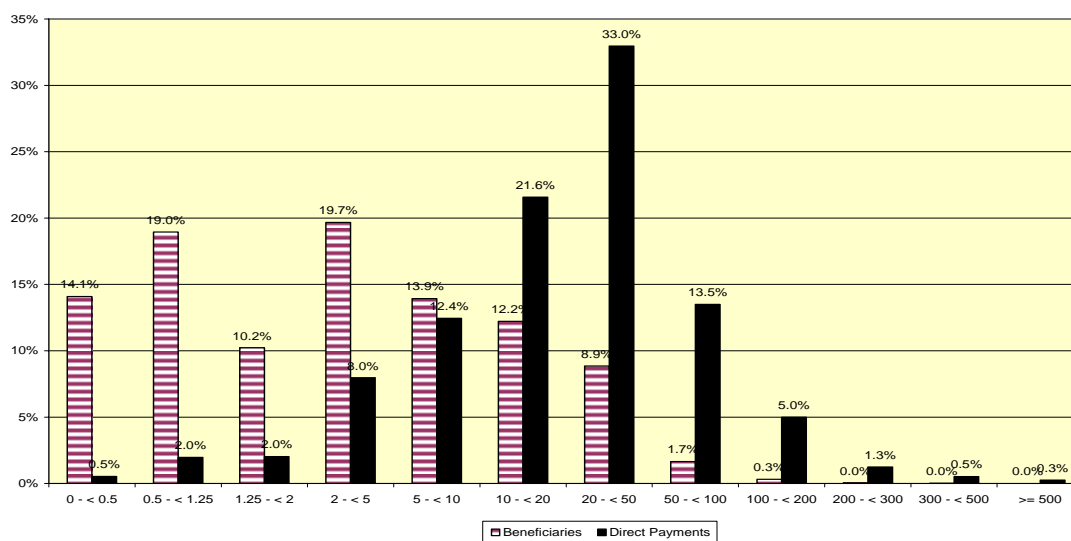
**Graph 30 Distribution of beneficiaries and of direct payments in Slovakia by category of direct payments received (in thousands euros), 2006 Financial Year**



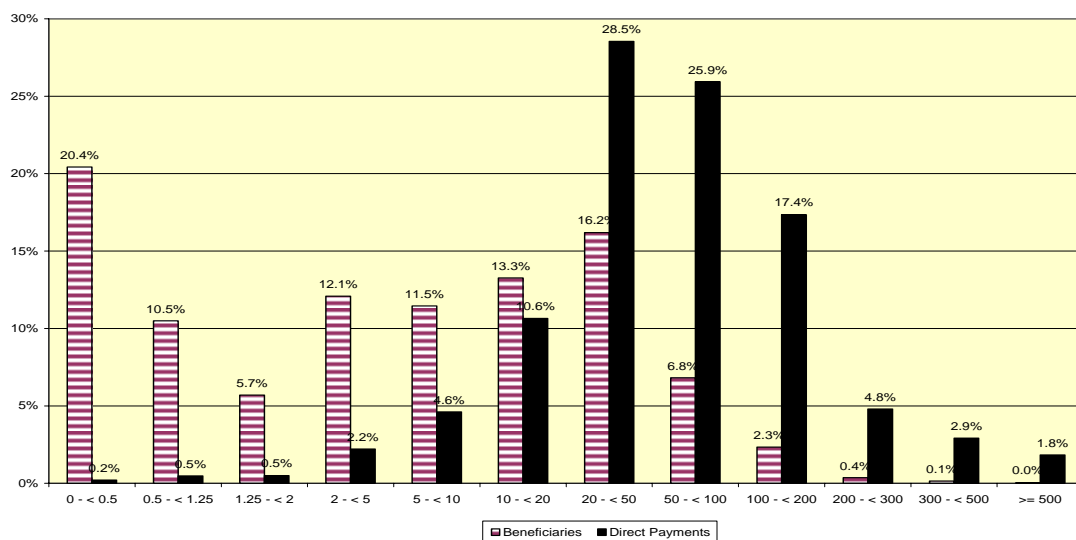
**Graph 31 Distribution of beneficiaries and of direct payments in Finland by category of direct payments received (in thousands euros), 2006 Financial Year**



**Graph 32 Distribution of beneficiaries and of direct payments in Sweden by category of direct payments received (in thousands euros), 2006 Financial Year**



**Graph 33 Distribution of beneficiaries and of direct payments in United Kingdom by category of direct payments received (in thousands euros), 2006 Financial Year**



**Graph 34 Distribution of beneficiaries and of direct payments in EU-25 by category of direct payments received (in thousands euros), 2006 Financial Year**

