

ANNEX 2
REPORT ON THE DISTRIBUTION OF DIRECT AIDS TO THE PRODUCERS
(FINANCIAL YEAR 2007)

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 2007. 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 regional 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 payments¹. 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 4% in 2006) with the transfer of the corresponding funds to "pillar 2". Most of these changes started taking effect from 2005 onwards.

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 level of Community direct payments in the new Member States will progressively

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

increase from 25 % of EU-15 level in 2004 to 100 % in 2013 budget year at the latest. Modulation only applies to normal level direct payment. In policy year 2006 for EU-10, the direct payments were at 35% of normal level.

1.2. CAP development and reporting of direct payments

The figures published in this report refer to the period of the implementation of Agenda 2000 and the 2003 CAP reform. However, the financial year 2007 - comprising payments that mainly, but not exclusively, correspond to policy year 2006 - reflects only partially the 2003 CAP reform as the situation is not stabilised over the first years as there are possibilities of progressive implementation, notably for decoupling.

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). A hybrid model has been implemented in some Member States combining historic references and regionalisation.

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. In 2006, these farmers had already traded or given their entitlement.

Policy year 2006 also reflects the third year after the enlargement of 2004 when the direct payments in the 10 new Member States were still at 35% 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.

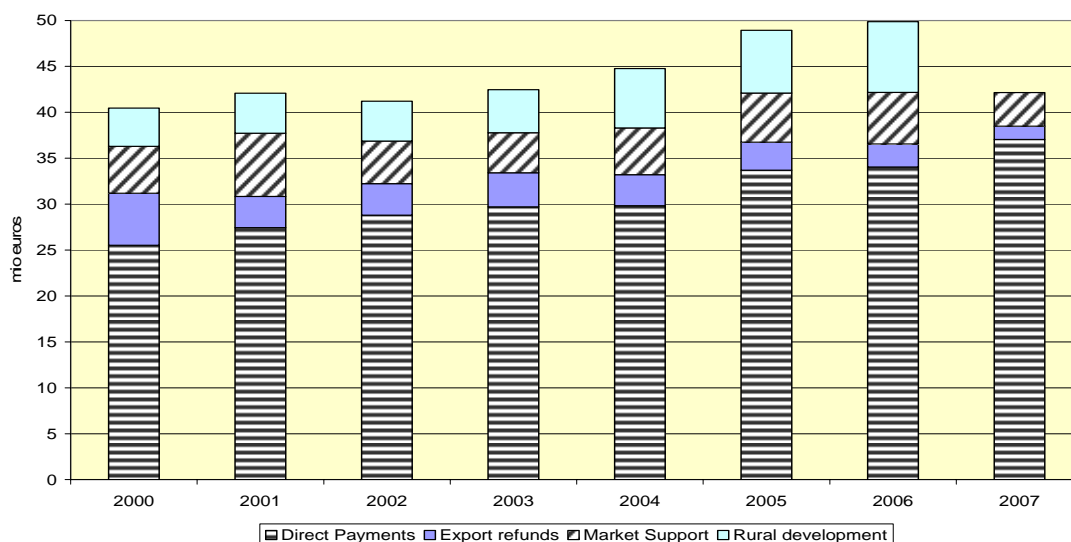
It is advised to carefully consider the limitations and comments as described in Annex 1.3 when consulting and interpreting the tables on the distribution of direct payments.

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 (70% excluding rural development expenses). In 2007, after the implementation of Agenda 2000 and of the 2003 CAP reform, they reached 37 billions euros. It corresponds to 88 % of the new fund "EAGF"² dedicated to market measures. From financial year 2007 onwards, a new specific fund "EAFRD"³ was created to cover the expenses for rural development policy⁴.

The increase of 3 680 millions in direct payments between 2006 and 2007 is due to the implementation of 2003 reform in the last Member States (Greece, Spain, France, Netherlands and Finland), the implementation of the tobacco, olive oil, cotton and sugar reform and the increase of 383 millions euros of the payments for SAPS in the new Member States.

Graph 1 Development of direct payments expenditures in EAGGF - section Guarantee (2000-2006) and EAGF (2007) – EU-25



3. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN MEMBER STATES

As the direct payments were mainly based in EU15 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 other Member States, the simplified scheme involved the payment of

² EAGF: European Agricultural Guarantee Fund

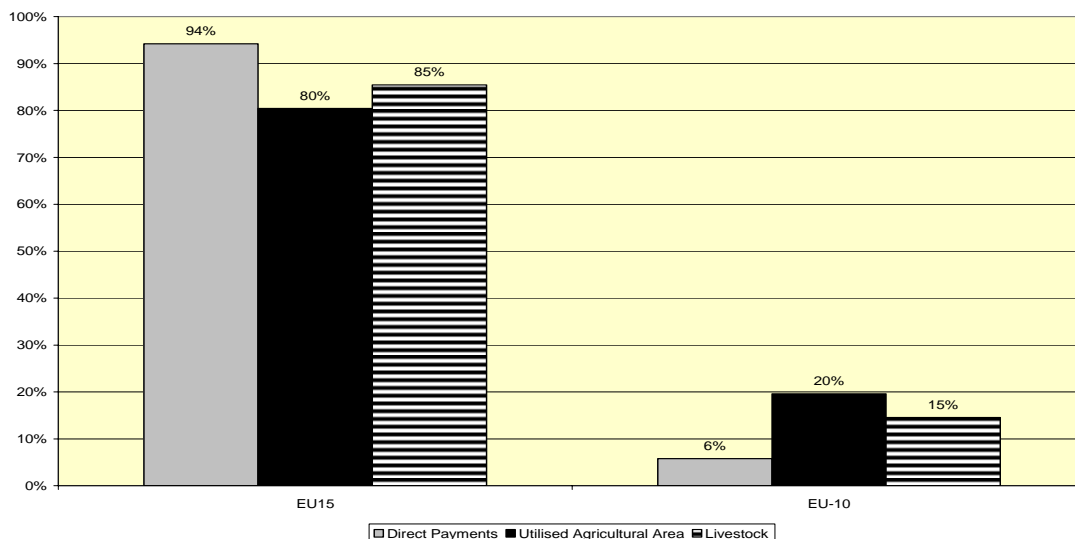
³ EAFRD: European Agricultural Fund for Rural Development

⁴ Council Regulation (EC) N°1290/2005 of 21 June 2005 (OJ L 209, 11.8.2005, p. 1.

uniform amounts per eligible hectare of agricultural land and therefore are directly proportional to utilised agriculture areas.

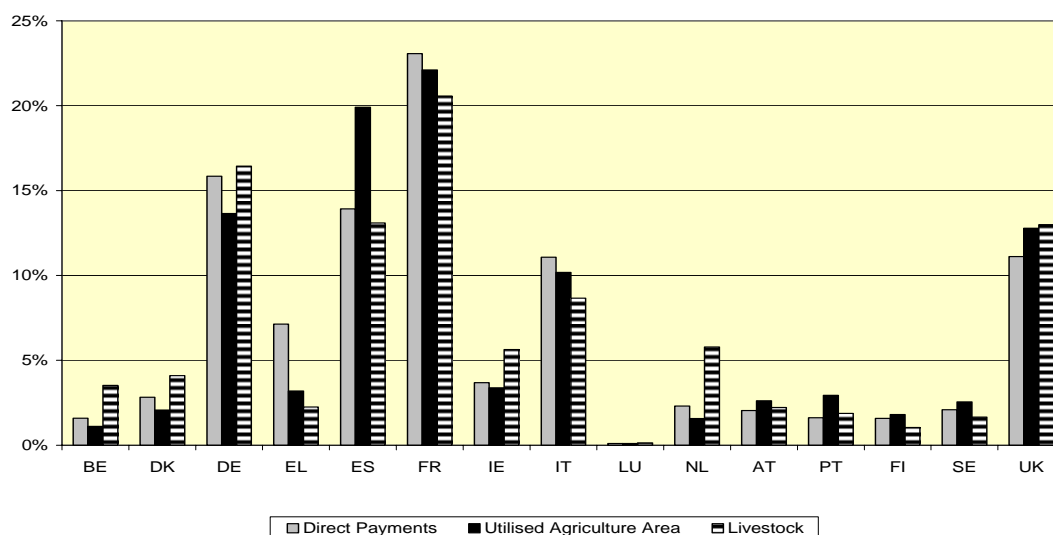
For the 2007 financial year, it is still difficult to compare the 25 Member States as for the Member States having acceded in 2004 (EU-10), direct payments are only at 35 % of the full amount (graph 2a).

Graph 2a Distributions of Direct Payments, Utilised Agriculture Area and Livestock in the EU-25 between EU-15 and EU-10, 2007 Financial Year and 2005 Farm Structure Survey (EU-25=100%)

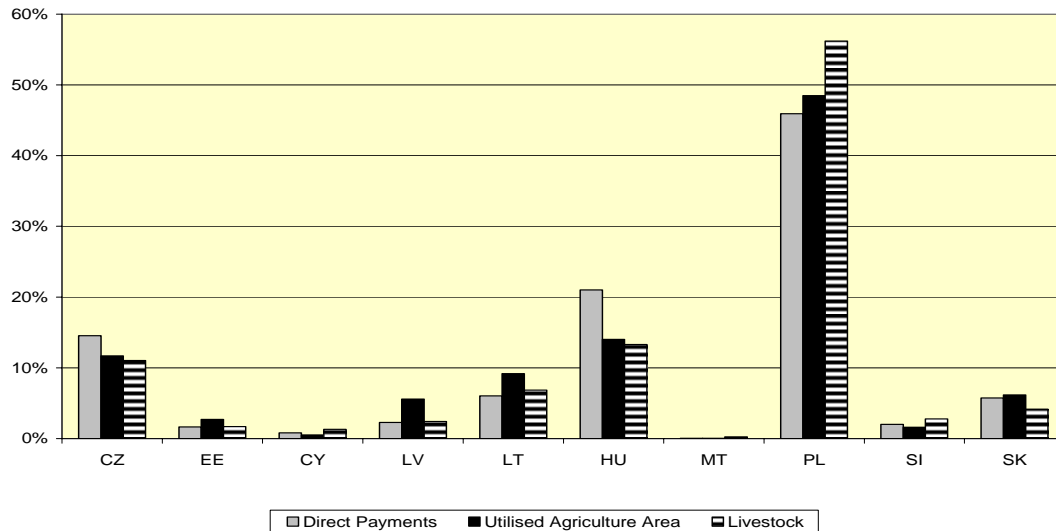


It is more appropriate to analyse separately the EU-15 and the EU-10 (graphs 2b and 2c).

Graph 2b Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States of EU-15, 2007 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-10, 2007 Financial Year and 2005 Farm Structure Survey (EU-10=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.

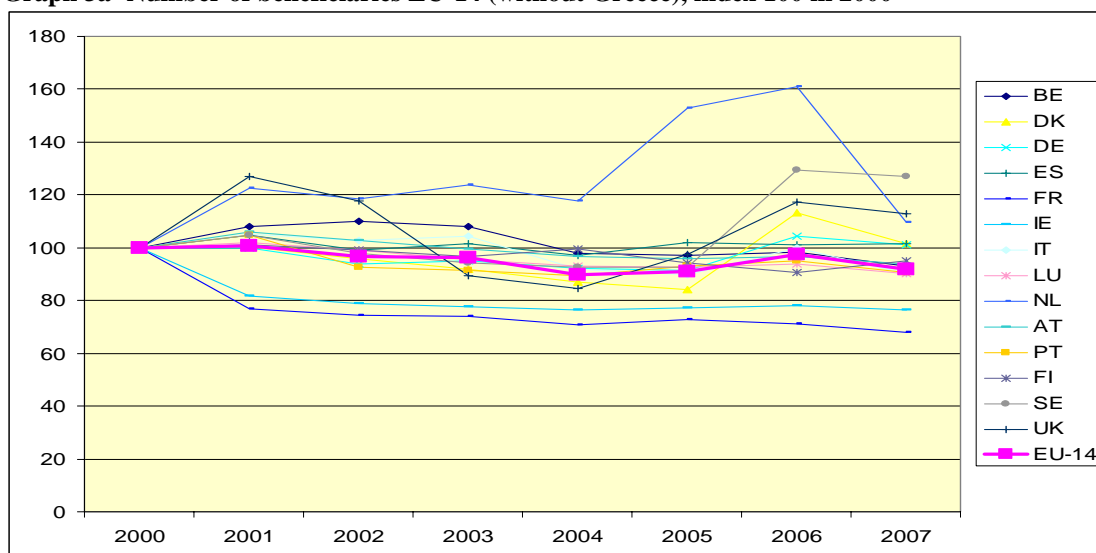
4. EVOLUTION OF NUMBER OF BENEFICIARIES

To understand some developments of the distribution of direct payments between beneficiaries, it may be useful to analyse the development of the number of beneficiaries. This is however a very difficult exercise for technical, economic and policy reasons:

- The implementation of the unique identifier for beneficiaries was only introduced from 2003 Financial Year onwards. Before this date, a single farmer who had received two different payments could have been counted twice. Even after, some problems could have lead to double counting, as in the Netherlands in 2005 and 2006.
- The technical coverage of the direct payments for this analysis has evolved over time (i.e. some direct payments existing in the first years were not covered).
- The evolution of the agricultural policy with the progressive replacement of various market supports by direct payments and the introduction of decoupled payments with entitlement rights, including the possibility of various hybrid and regional systems.

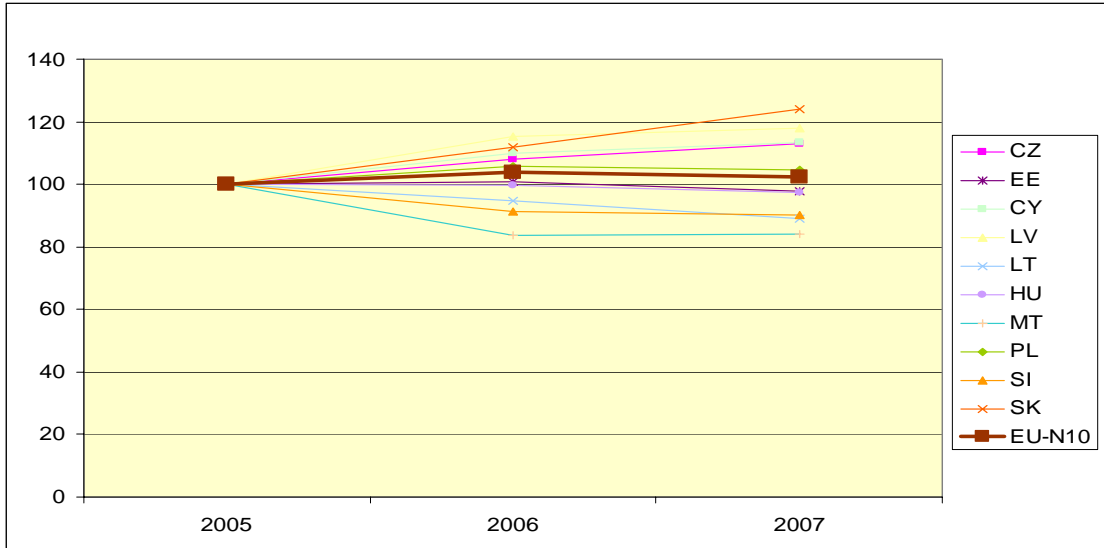
For instances, the foot and mouth disease of 2001 in UK could explain the decrease of beneficiaries in 2003 and 2004; the implementation of a regional model in Denmark, Germany, Sweden and United-Kingdom has led to the attribution of payment entitlements to new beneficiaries; the implementation of the 2003 CAP reform with the "historical model" also incites many small farmers to introduce applications to receive payments entitlements that could be leased or sold in the next years (e.g. in Italy).

Graph 3a Number of beneficiaries EU-14 (without Greece), index 100 in 2000



For EU-10, the evolution of number of beneficiaries is different according to the Member State due to the different speed in the operational implementation of SAPS in some Member States (+24% for Slovakia) or the adoption of "classical" CAP by Slovenia and Malta.

Graph 3b Number of beneficiaries in EU-10, index 100 in 2005



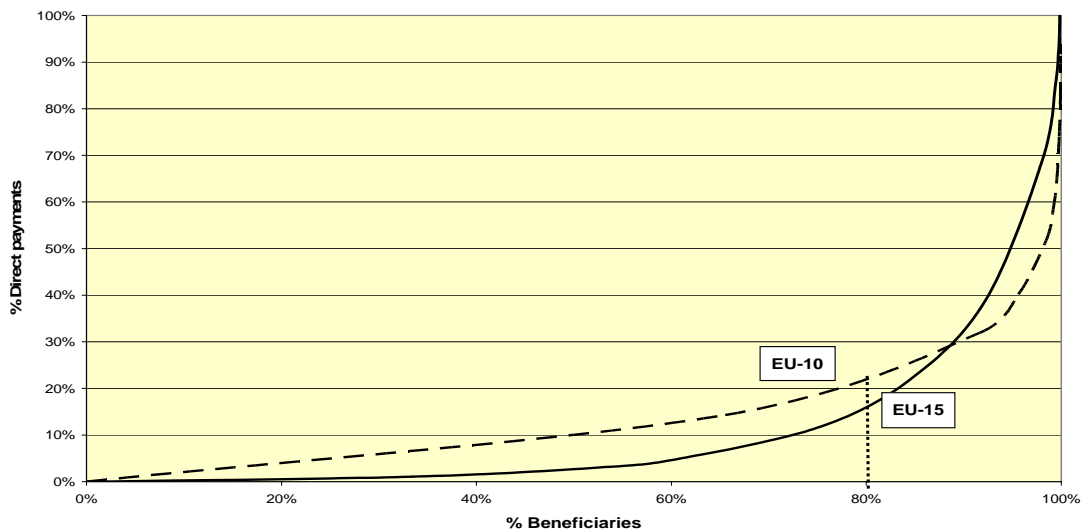
These variations in the number of beneficiaries are important to take into account when considering the average payment per beneficiary and the distribution of payments because as it impacts levels and trends.

5. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN BENEFICIARIES

5.1. Distribution of direct payments between beneficiaries in 2007

Direct payments are not equally distributed in the European Union. In EU-15, 80 % of beneficiaries received around 16 % of the direct payments in 2007 whereas in EU-10, these 80 % of beneficiaries received around 22% of the direct payments.

Graph 4 Distribution of direct payments between beneficiaries in EU-15 and in EU-10, 2007 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):

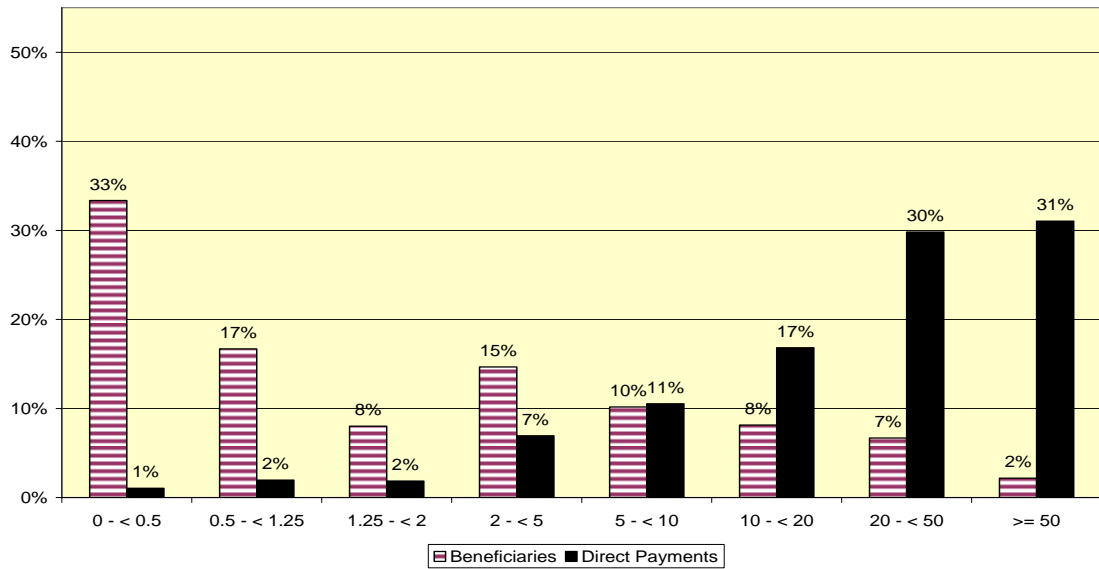
- Due to the 2 millions of beneficiaries in EU-10, with a low average amount of direct payments, the balance between beneficiaries in the EU has been deeply modified. 98% of beneficiaries in EU-10 received no more than 5000 Euros. This explains the important decrease of the average amount at EU-25 level and the necessity to analyse on one hand EU-15 and on the other hand EU-10.

This important variation in the number of beneficiaries explains the results of this year which is not in the structural trends. Actually, with the restructuration of the farming sector the trend should have been to have less small beneficiaries (due to abandonment and/or increase in size) and an increase of the average level of support received.

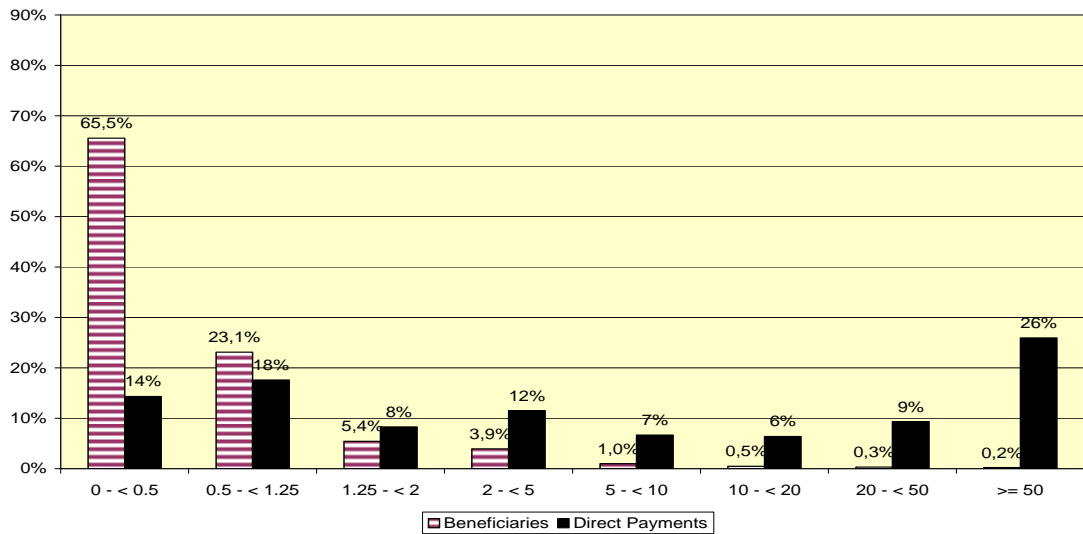
		2007		
		EU-10	EU-15	EU-25
Number of beneficiaries (in thousands)		2 093	5 039	7 132
Average amount (€/beneficiary)		1 017	6 881	5 160
receiving 5 000 euros or less	% beneficiaries	98%	73%	80%
	% direct payments	52%	12%	14%

- In the EU-15 Member States, it is estimated that 80 % of beneficiaries received a percentage of direct payments varying approximately between 12 % (Portugal) and 58 % (Luxemburg).
- In the EU-10 Member States, it is estimated that 80 % of beneficiaries received a percentage of direct payments varying approximately between 4 % (Slovakia) and 38 % (Slovenia).

Graph 5a Distribution of beneficiaries and of direct payments in the EU-15 by category of direct payments received (in thousands euros), 2007 Financial Year



Graph 5b Distribution of beneficiaries and of direct payments in the EU-10 by category of direct payments received (in thousands euros), 2007 Financial Year

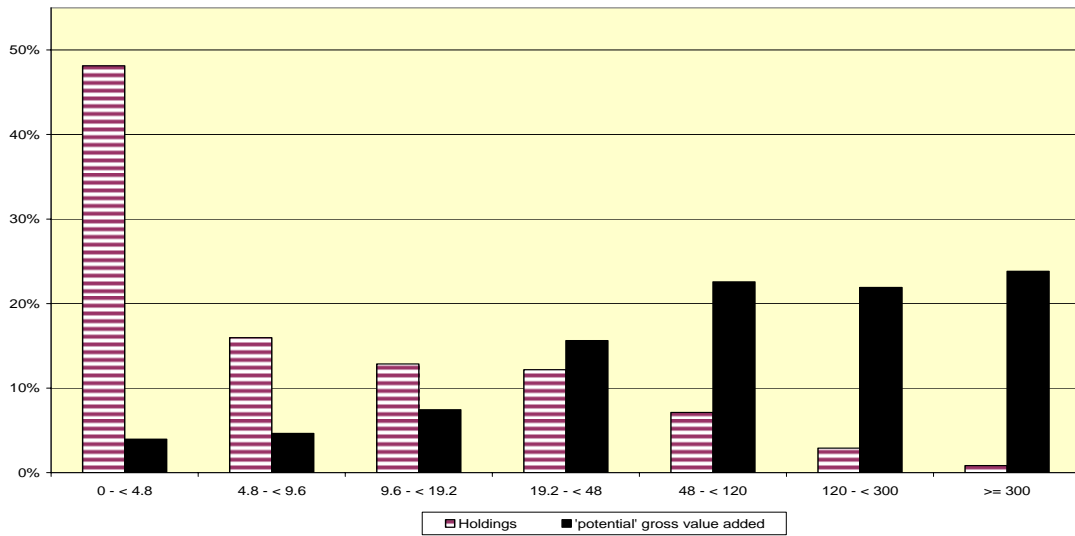


As the support is mainly based on area and livestock, even on an historical basis, the distribution of direct payments between beneficiaries also mainly reflects the differences in farm size⁵, as it can be seen when comparing Graphs 5 and Graphs 6.

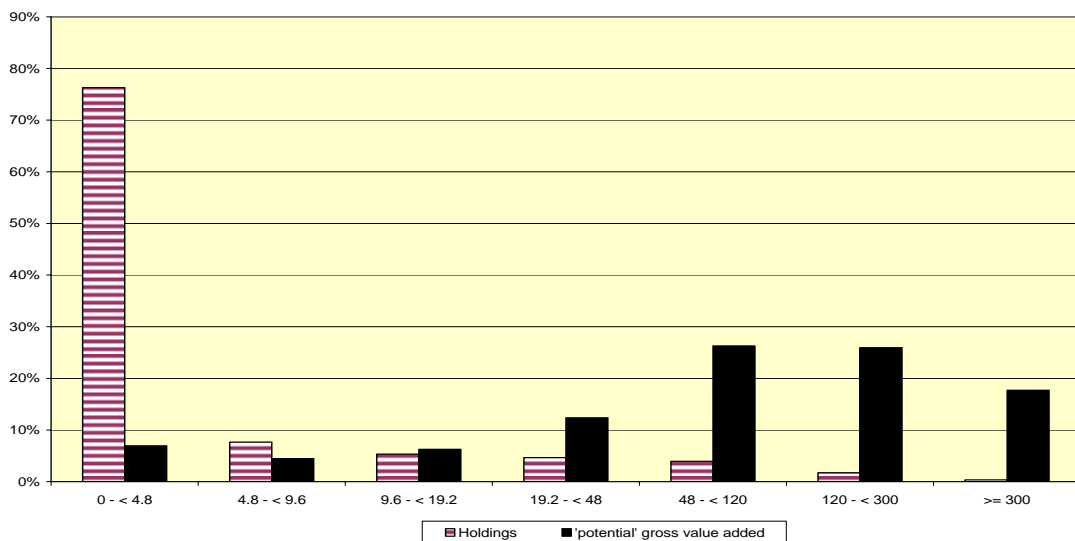
Differences in farm structures often lead to differences in the distribution of direct payments across Member States.

⁵ 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 6a 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 6b Distribution of holdings and of “potential” gross value added in the EU-10 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.

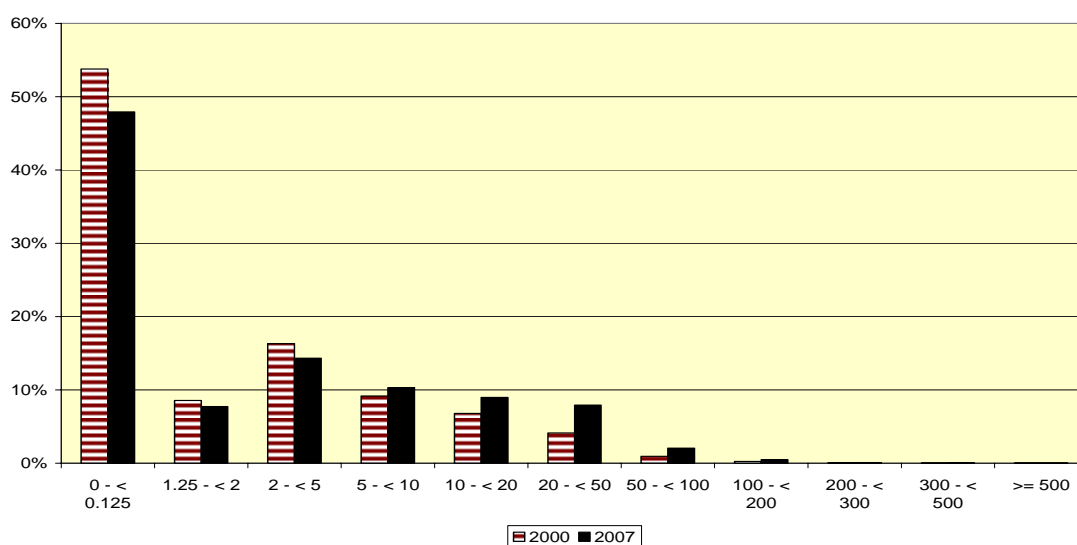
This is why the Commission has expressed on many occasions its concern with the way direct payments are distributed across agricultural producers. Already in the 1992 reform and again in Agenda 2000, in the 2003 reform and in the "Health Check" Communication, the Commission proposed mechanisms to decrease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

improve the distribution of direct support. On all four occasions, the Commission proposals were watered down by Member States. The last Health Check decision is to implement a progressive modulation with 4% of payment above 300 000 € which are going to be transferred to Rural Development.

5.2. Development of the distribution of direct payments between beneficiaries between 2000 and 2007

For EU-14, when comparing the distribution in 2000, in 2003 and in 2007 it appears that the share of beneficiaries receiving a small amount of direct payments is decreasing.

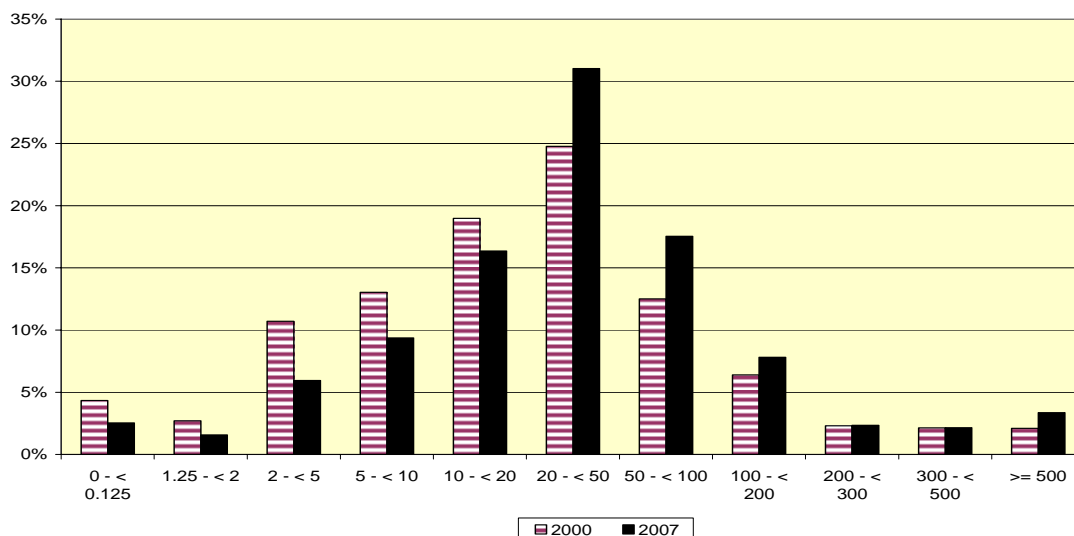
Graph 7a Distribution of beneficiaries in the EU-14 (without Greece)⁶, by category of direct payments received (in thousands euros), 2000 and 2007 Financial Years



	2000	2003		2007	
	EU-14	EU-14	EU-15	EU-14	EU-15
Average amount (€beneficiary)	5 015	6 201	5 403	7 860	6 881
receiving 5 000 euros or less	79%	74%	78%	70%	73%
% beneficiaries	18%	13%	16%	10%	12%
% direct payments					

⁶ 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.

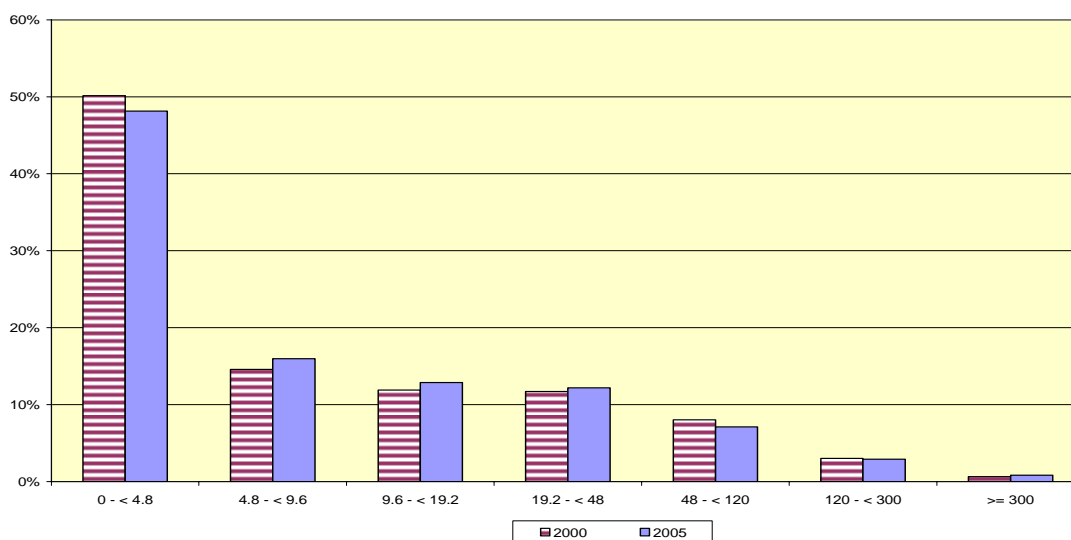
Graph 7b Distribution of direct payments in the EU-14 (without Greece) by category of direct payments received (in thousands euros), 2000 and 2007 Financial Years



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 8;

Graph 8 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);

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 years⁷).

Whereas for EU-25 the average payment is near of the average of FY2000 for EU-14. The number of small beneficiary increased hugely with the enlargement of the EU. Therefore, the comparison or the average is meaningless at EU-25 level.

6. 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, olive oil, cotton, tobacco, bananas and fruit and vegetables and the Health Check reform. 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 Health Check 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, modulation), 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;

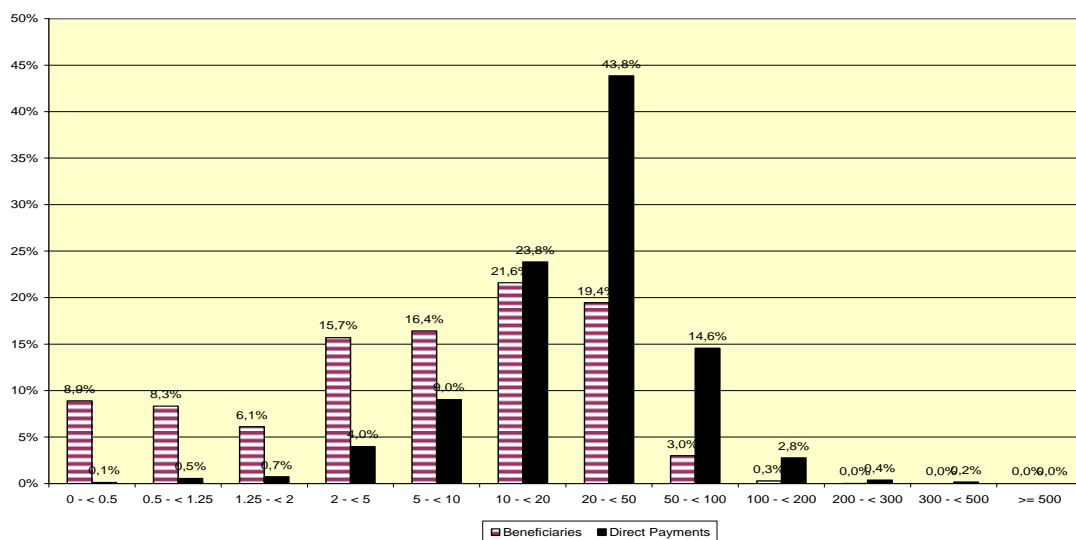
The introduction of the 5 000 euros “franchise” in the compulsory modulation mechanism (which is exempted from the reduction by a fixed percentage and from financial discipline) and the progressive modulation (4% reduction of direct payments above 300 000 euros) should favour a more balanced distribution of direct payments across beneficiaries.

⁷ This comparison can not be done for Financial Year 2007, due to the introduction of the Single Payment Scheme.

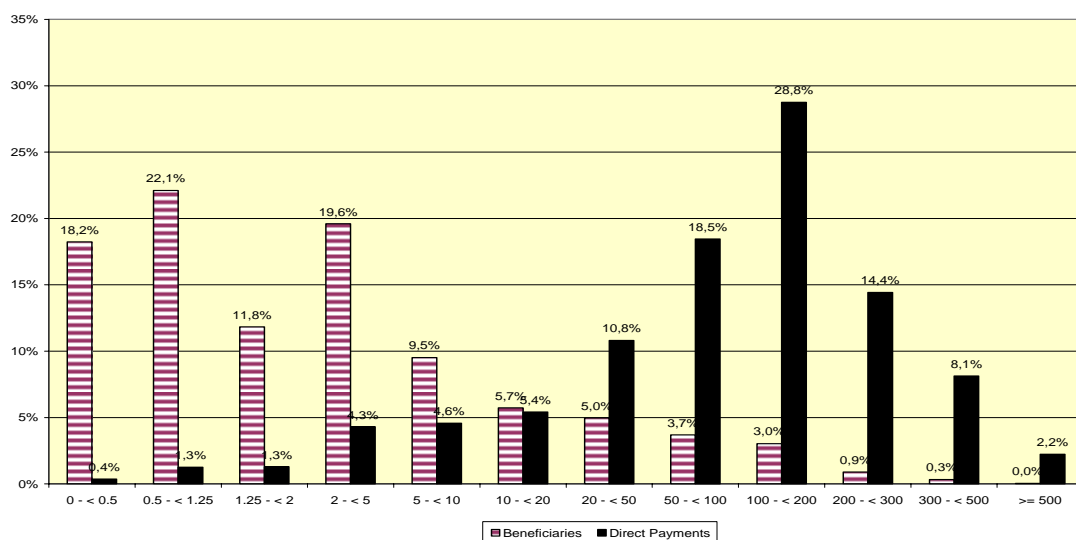
- Finally, the minimum threshold introduced with the Health Check decision should withdraw from the beneficiaries a certain number of small farmers. This minimum threshold of €100 or 1 hectare as eligibility criteria for the Single Farm Payment has been agreed, with the option of applying a different figure per Member State based on a coefficient reflecting Member State situations relative to the EU norm, such as 0.3 ha in Cyprus, Portugal, Hungary and Slovenia or 5 ha in United Kingdom.

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).

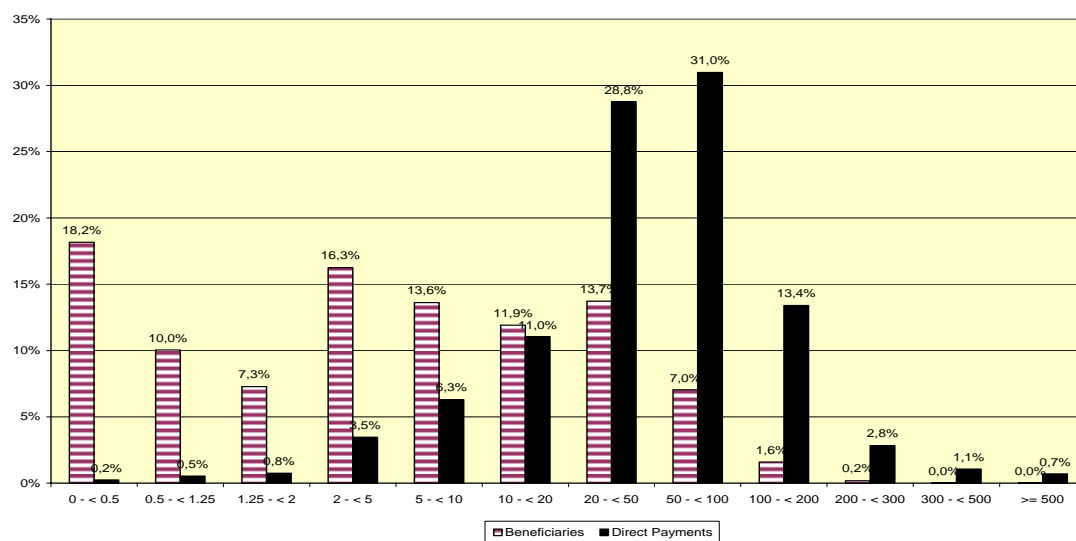
Graph 9 Distribution of beneficiaries and of direct payments in Belgium by category of direct payments received (in thousands euros), 2007 Financial Year



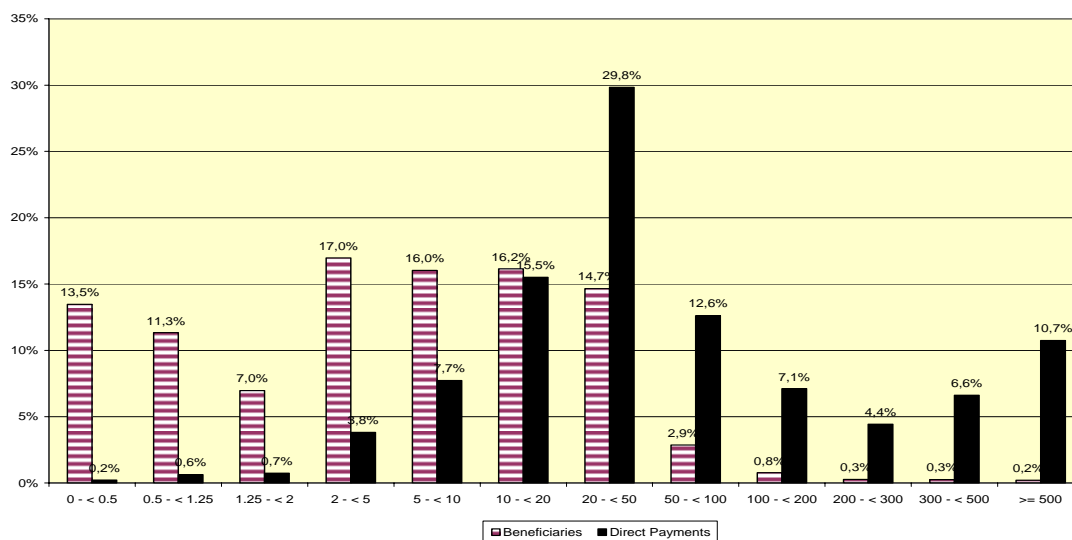
Graph 10 Distribution of beneficiaries and of direct payments in the Czech Republic by category of direct payments received (in thousands euros), 2007 Financial Year



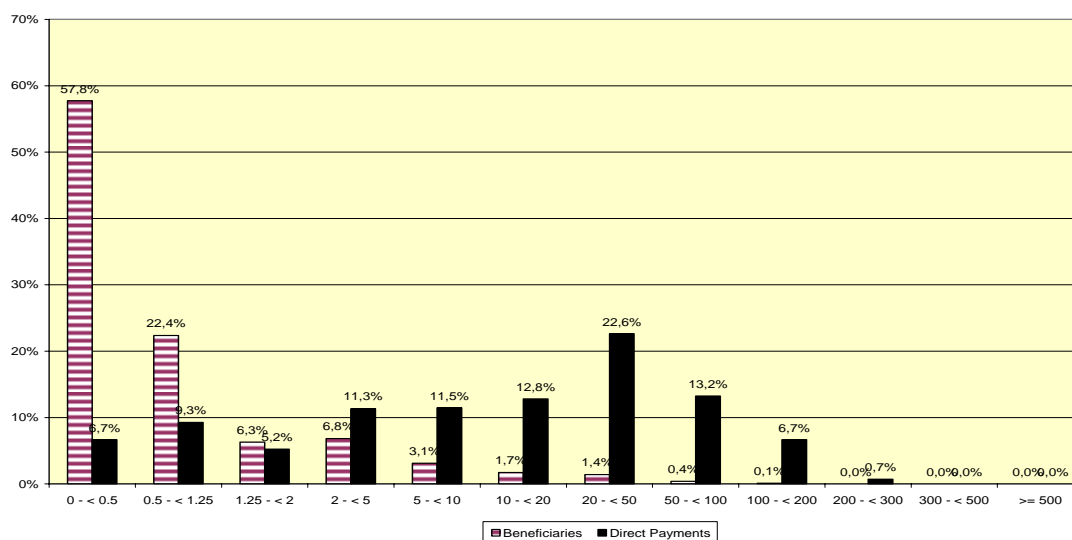
Graph 11 Distribution of beneficiaries and of direct payments in Denmark by category of direct payments received (in thousands euros), 2007 Financial Year



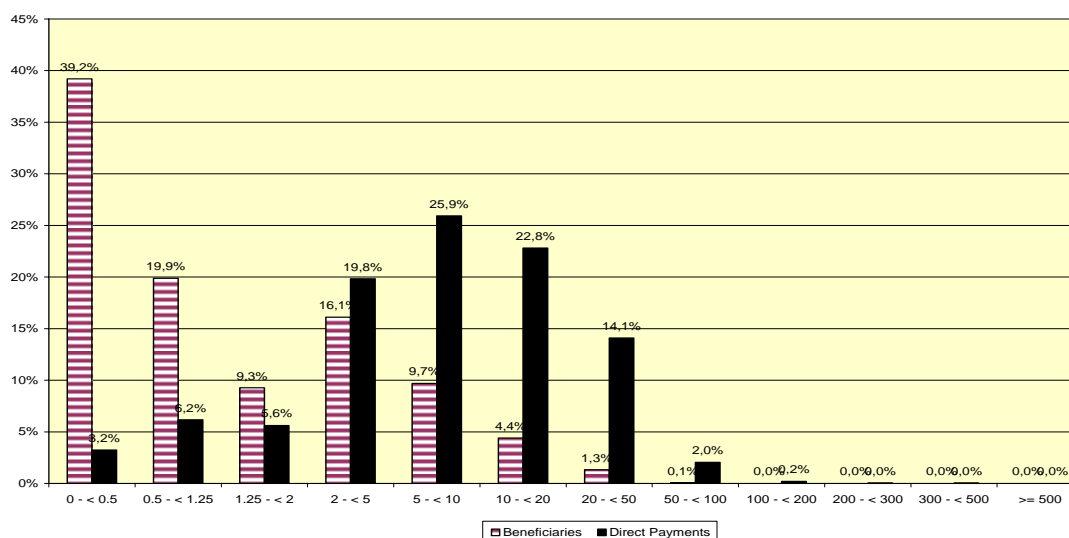
Graph 12 Distribution of beneficiaries and of direct payments in Germany by category of direct payments received (in thousands euros), 2007 Financial Year



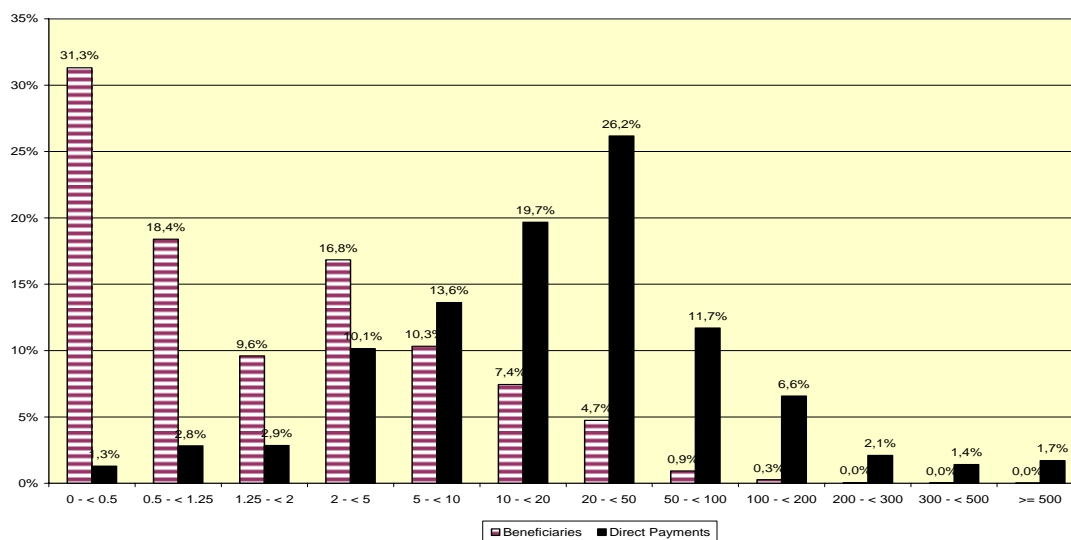
Graph 13 Distribution of beneficiaries and of direct payments in Estonia by category of direct payments received (in thousands euros), 2007 Financial Year



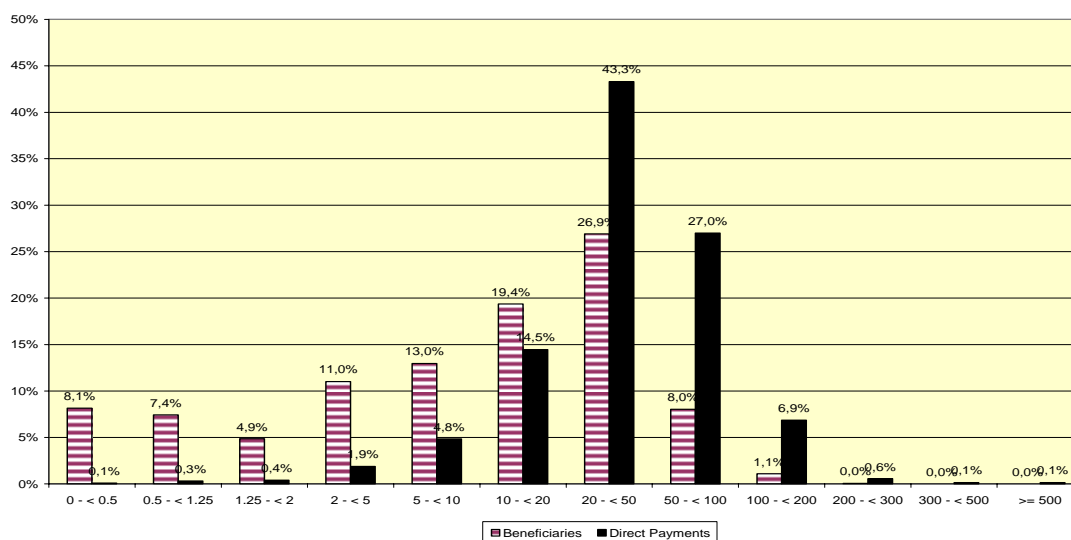
Graph 14 Distribution of beneficiaries and of direct payments in Greece by category of direct payments received (in thousands euros), 2007 Financial Year



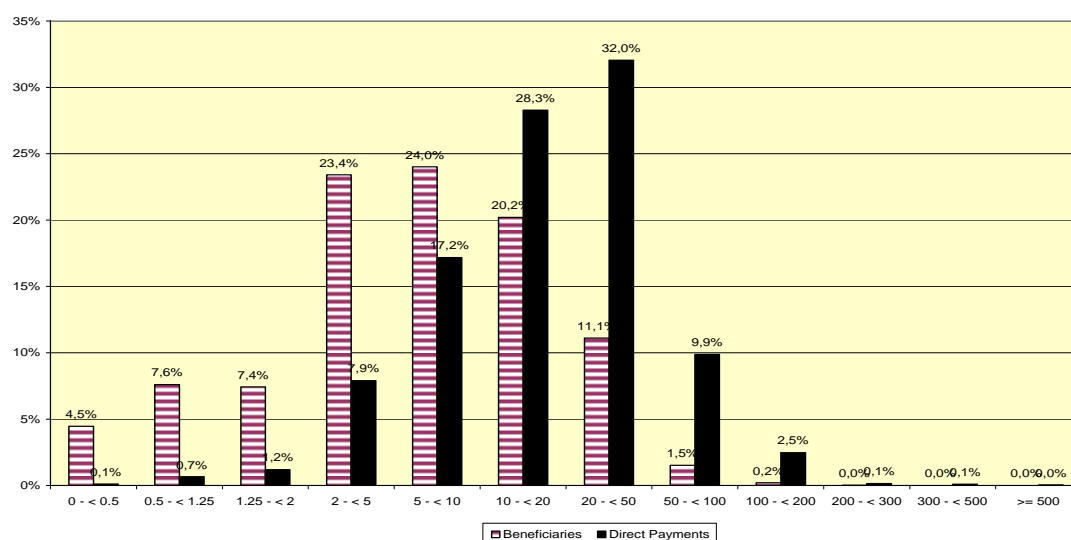
Graph 15 Distribution of beneficiaries and of direct payments in Spain by category of direct payments received (in thousands euros), 2007 Financial Year



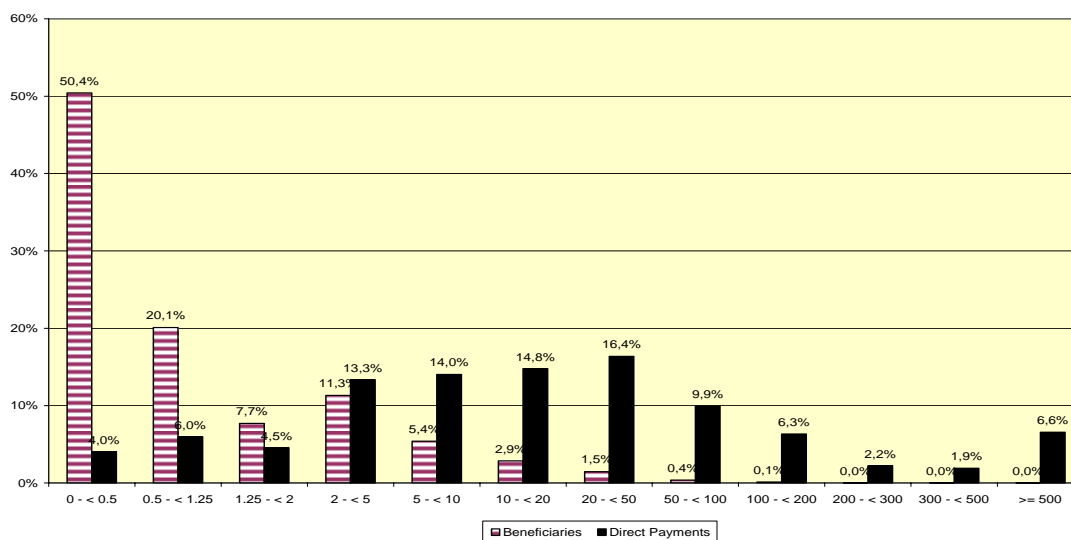
Graph 16 Distribution of beneficiaries and of direct payments in France by category of direct payments received (in thousands euros), 2007 Financial Year



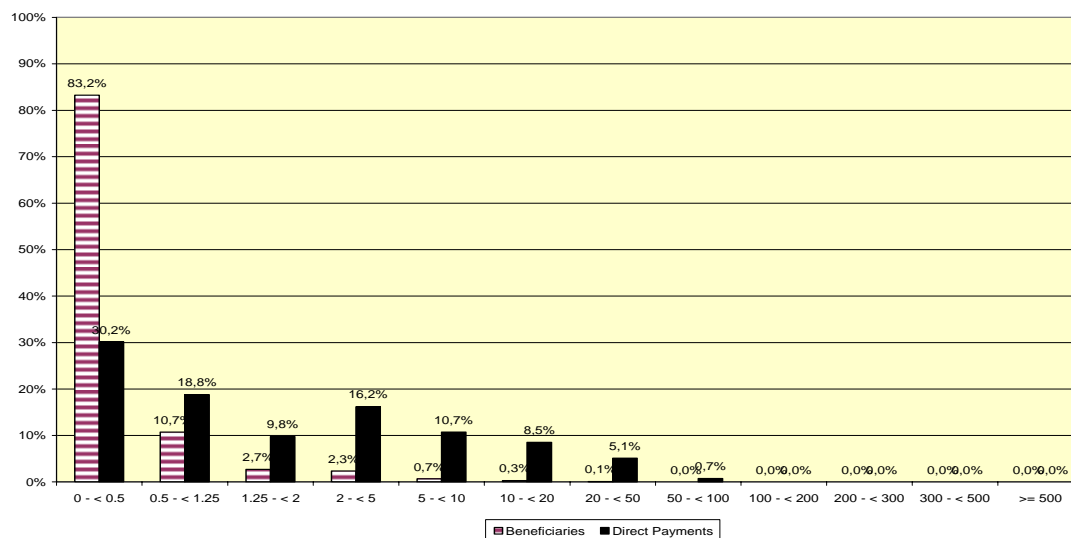
Graph 17 Distribution of beneficiaries and of direct payments in Ireland by category of direct payments received (in thousands euros), 2007 Financial Year



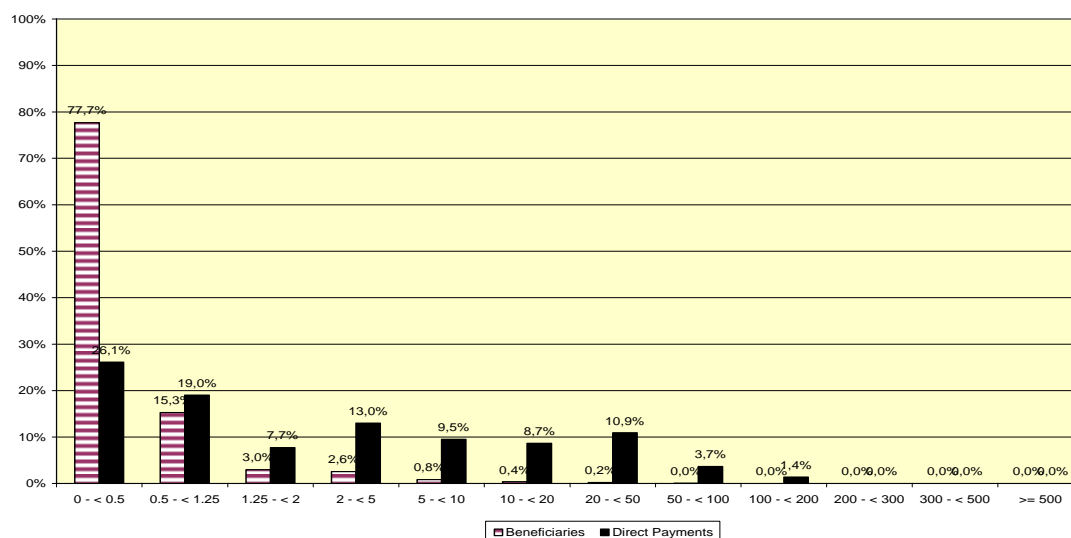
Graph 18 Distribution of beneficiaries and of direct payments in Italy by category of direct payments received (in thousands euros), 2007 Financial Year



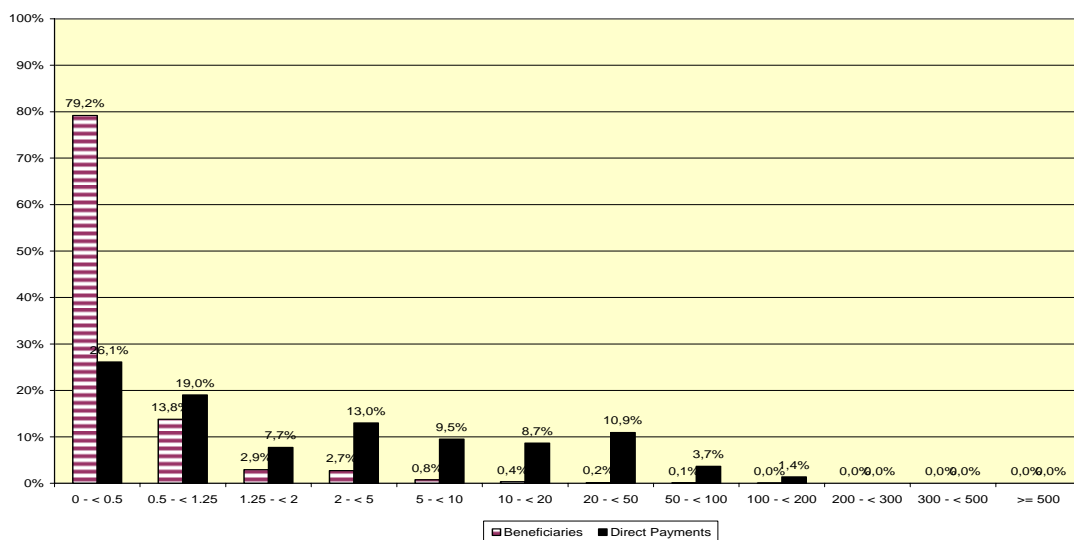
Graph 19 Distribution of beneficiaries and of direct payments in Cyprus by category of direct payments received (in thousands euros), 2007 Financial Year



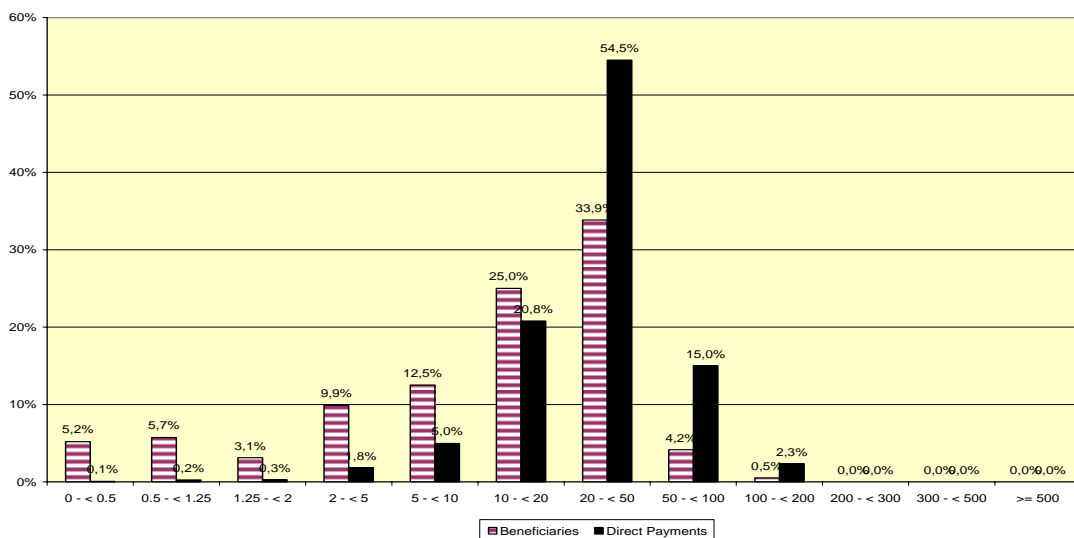
Graph 20 Distribution of beneficiaries and of direct payments in Latvia by category of direct payments received (in thousands euros), 2007 Financial Year



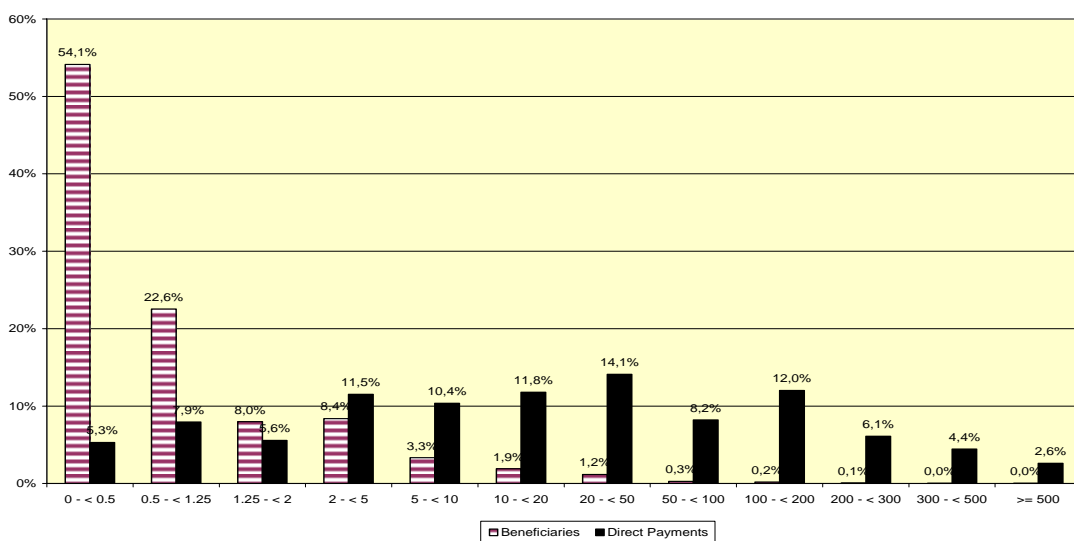
Graph 21 Distribution of beneficiaries and of direct payments in Lithuania by category of direct payments received (in thousands euros), 2007 Financial Year



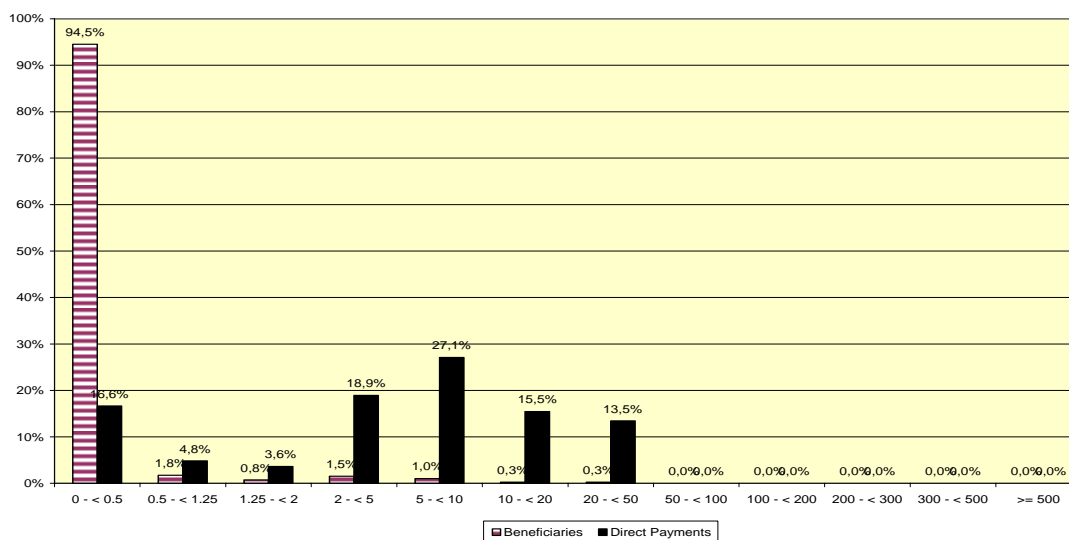
Graph 22 Distribution of beneficiaries and of direct payments in Luxemburg by category of direct payments received (in thousands euros), 2007 Financial Year



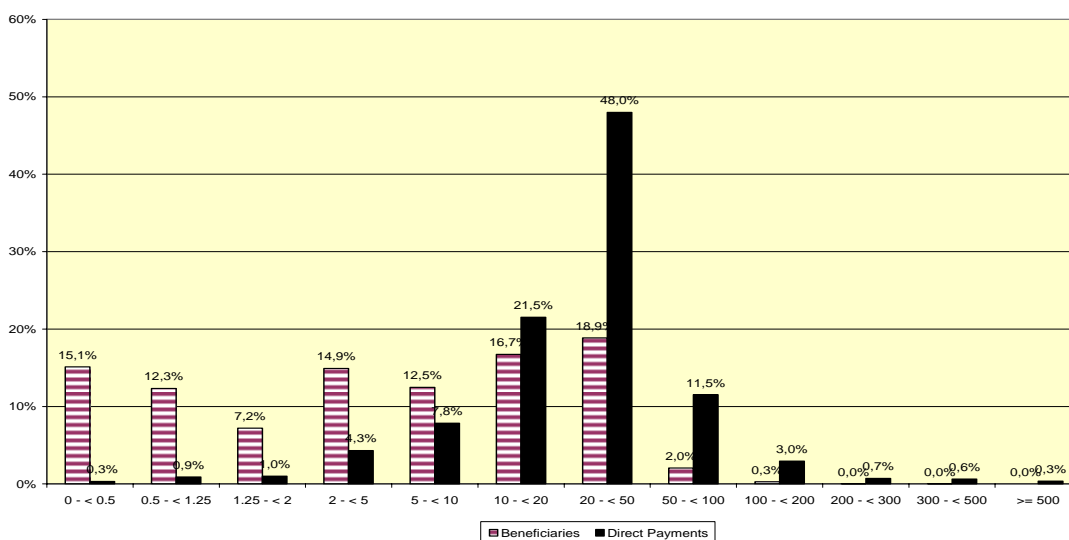
Graph 23 Distribution of beneficiaries and of direct payments in Hungary by category of direct payments received (in thousands euros), 2007 Financial Year



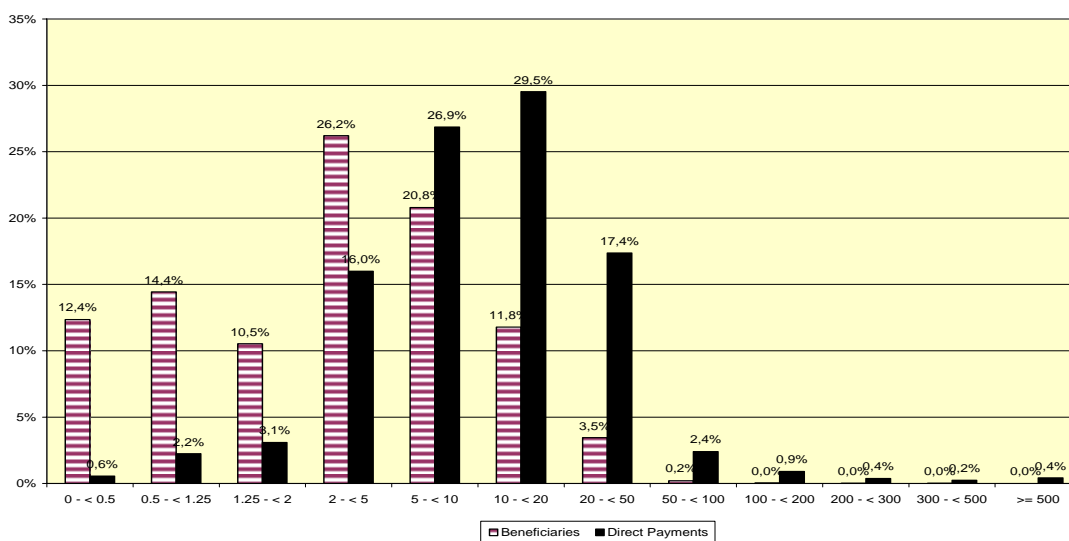
Graph 24 Distribution of beneficiaries and of direct payments in Malta by category of direct payments received (in thousands euros), 2007 Financial Year



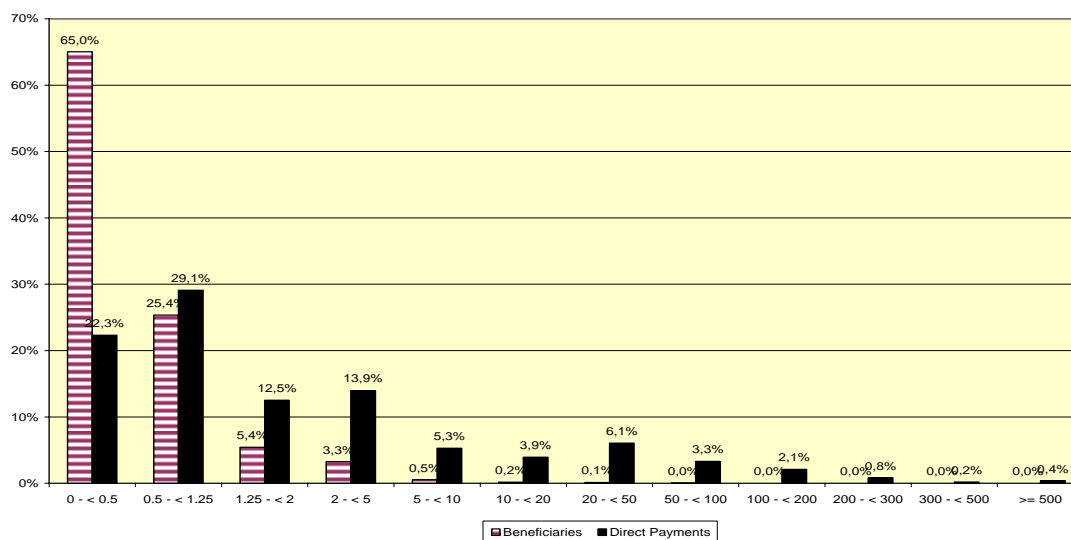
Graph 25 Distribution of beneficiaries and of direct payments in The Netherlands by category of direct payments received (in thousands euros), 2006 Financial Year



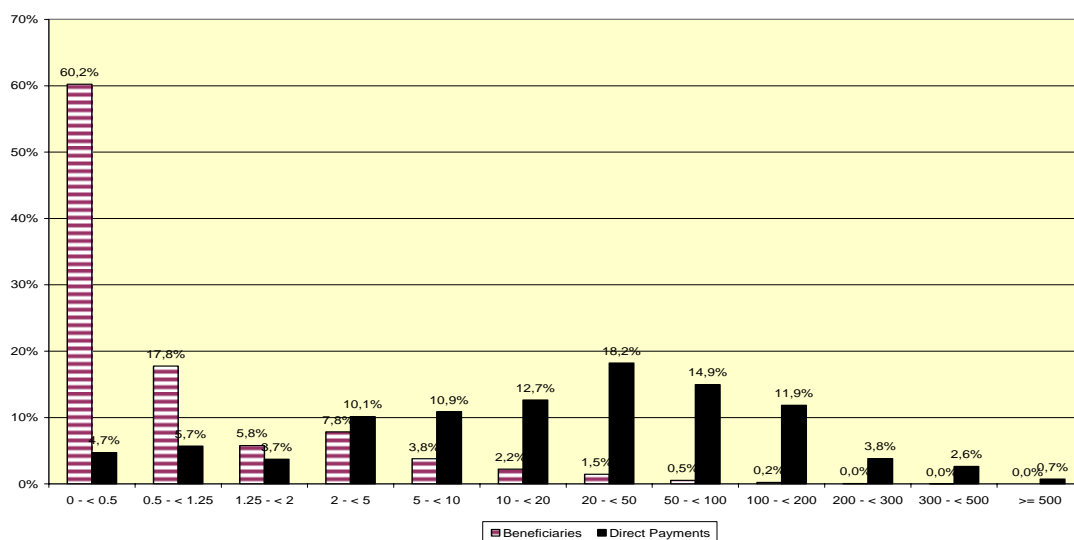
Graph 26 Distribution of beneficiaries and of direct payments in Austria by category of direct payments received (in thousands euros), 2007 Financial Year



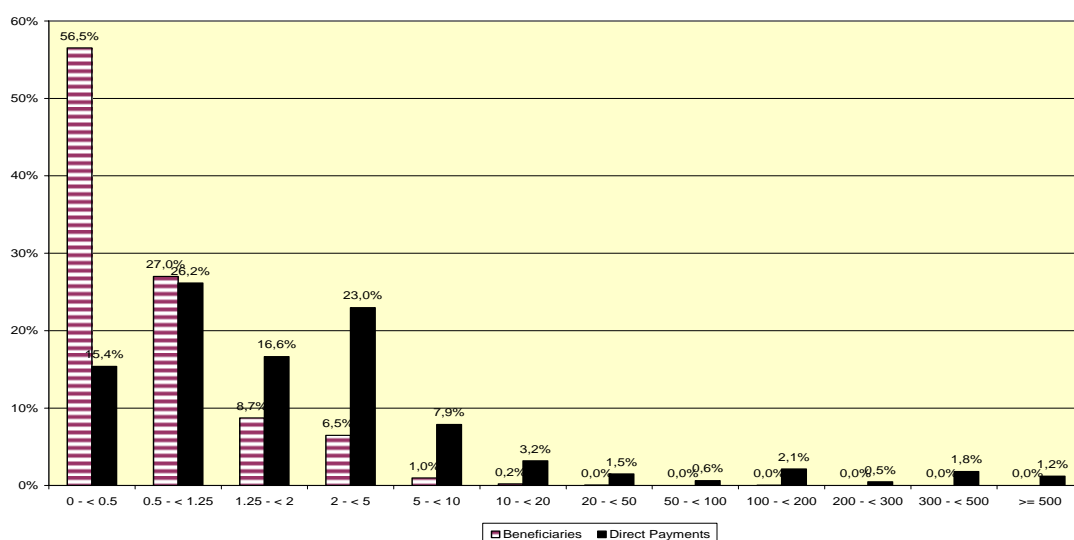
Graph 27 Distribution of beneficiaries and of direct payments in Poland by category of direct payments received (in thousands euros), 2007 Financial Year



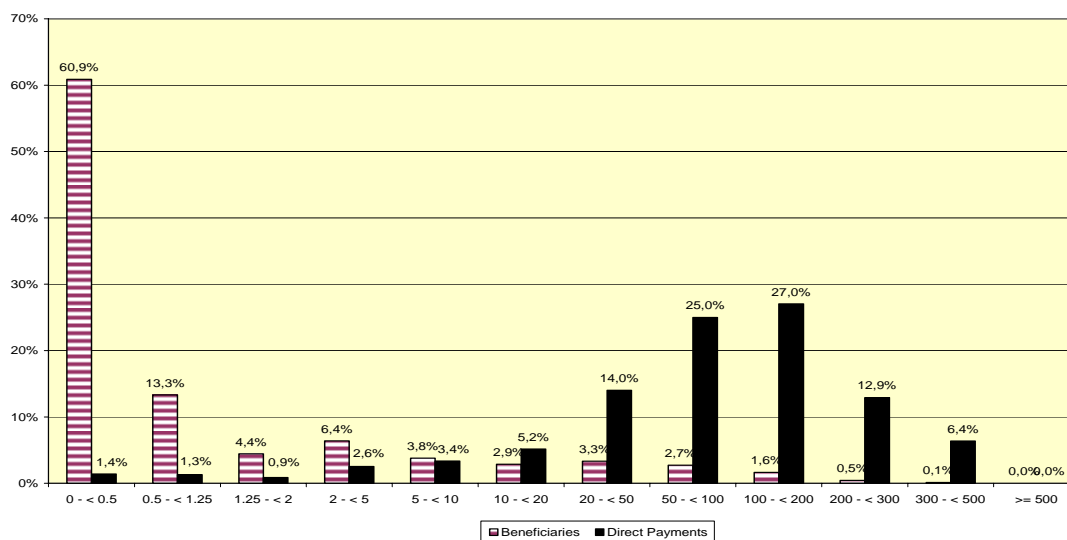
Graph 28 Distribution of beneficiaries and of direct payments in Portugal by category of direct payments received (in thousands euros), 2007 Financial Year



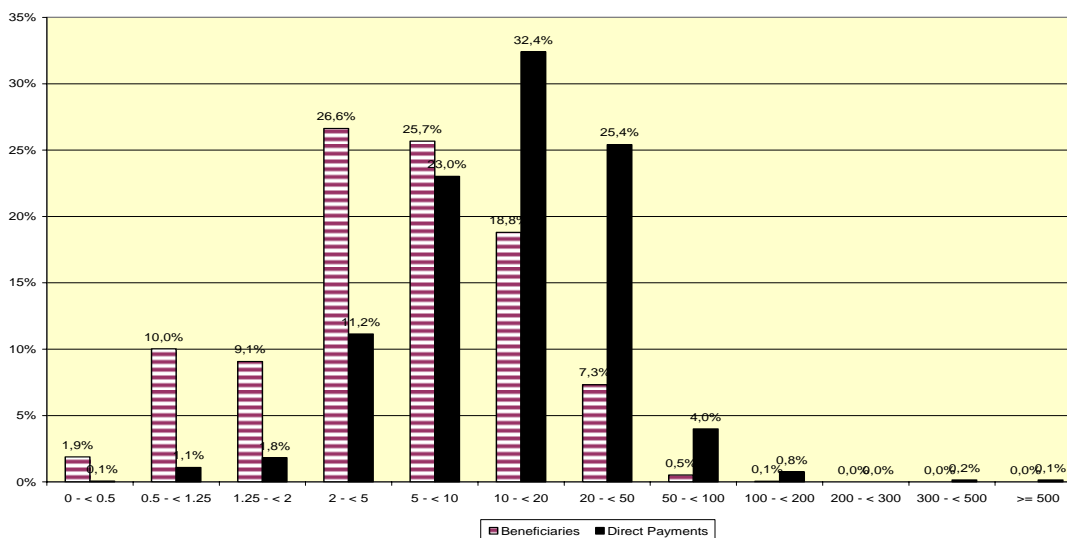
Graph 29 Distribution of beneficiaries and of direct payments in Slovenia by category of direct payments received (in thousands euros), 2007 Financial Year



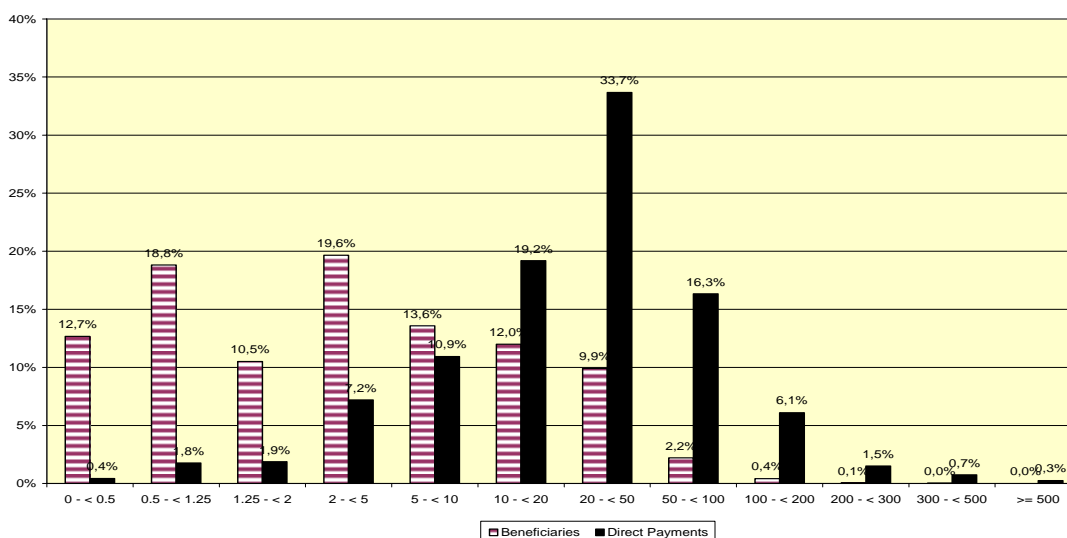
Graph 30 Distribution of beneficiaries and of direct payments in Slovakia by category of direct payments received (in thousands euros), 2007 Financial Year



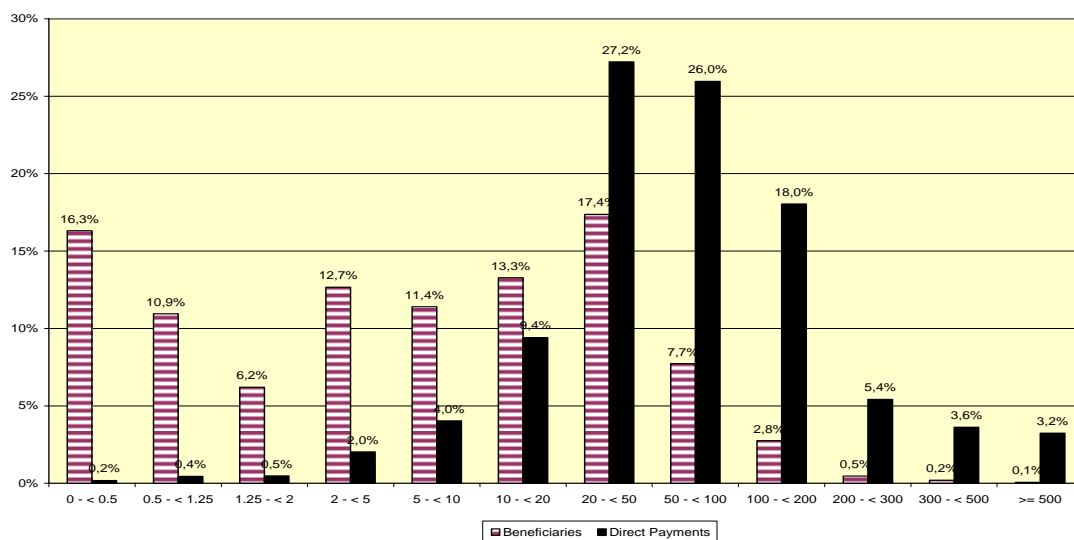
Graph 31 Distribution of beneficiaries and of direct payments in Finland by category of direct payments received (in thousands euros), 2007 Financial Year



Graph 32 Distribution of beneficiaries and of direct payments in Sweden by category of direct payments received (in thousands euros), 2007 Financial Year



Graph 33 Distribution of beneficiaries and of direct payments in United Kingdom by category of direct payments received (in thousands euros), 2007 Financial Year



Graph 34 Distribution of beneficiaries and of direct payments in EU-25 by category of direct payments received (in thousands euros), 2007 Financial Year

