

ANNEX 2

REPORT ON THE DISTRIBUTION OF DIRECT AIDS TO THE PRODUCERS (FINANCIAL YEARS 2002 AND 2003)

1. FOREWORD

The Commission regularly publishes the breakdown of direct payments by Member State and size of payment. Figures are now available for financial years 2002 and 2003. 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 a structural overproduction, 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 has been deepened in the Agenda 2000 reform, through the introduction of additional price cuts and the increase in direct payments. The Agenda 2000 reform has been introduced progressively during the period 2000-2002. In 2002, the support regime for sheep and goats was also adjusted.

1.2. CAP evolution and reporting of direct payments

The figures published in this report refer to the last two years of this period of progressive implementation of Agenda 2000. It is nevertheless very difficult to establish a simple link between the payments in a financial year and the policy implementation.

First, it should be clarified that "financial year 2002" concerns payments made between 16 October 2001 and 15 October 2002. These payments correspond mainly, but not exclusively, to "policy year 2001". The same principle applies to financial year 2003. Secondly, under special circumstances (e.g. flooding in summer 2002), Member States may be authorized to provide advanced payments.

Concerning the interpretation of the distribution of direct payments between individual beneficiaries, some other elements should be mentioned:

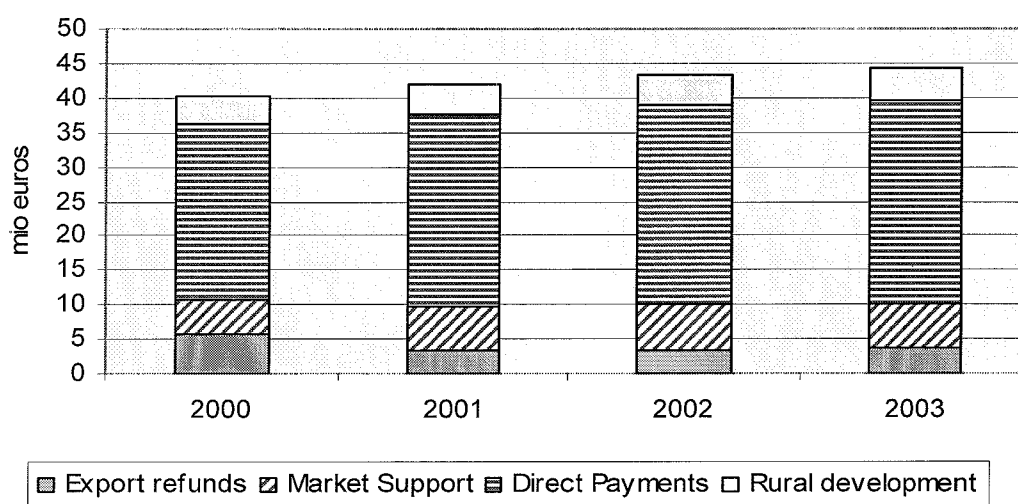
- some payments are not covered because they are not made directly to final (producer) beneficiaries but to producer associations (e.g. tobacco premiums);

- there are some inconsistencies in the application of the system of "unique identifier" for all beneficiaries, required from 01.01.2003 onwards (only partially covering financial year 2003, which started on 16.10.2002).

2. IMPORTANCE OF DIRECT PAYMENTS WITHIN THE CAP

Before the implementation of Agenda 2000 (for instance in financial year 2000, reflecting payments for year 1999) direct payments reached 25.5 billions euros, representing 62 % of the CAP expenditure under the Guarantee section of the European Agricultural Guarantee and Guidance Fund. After the implementation of Agenda 2000 (financial year 2003, reflecting payments for year 2002), they reached 29.7 billions euros, a share of 67 %.

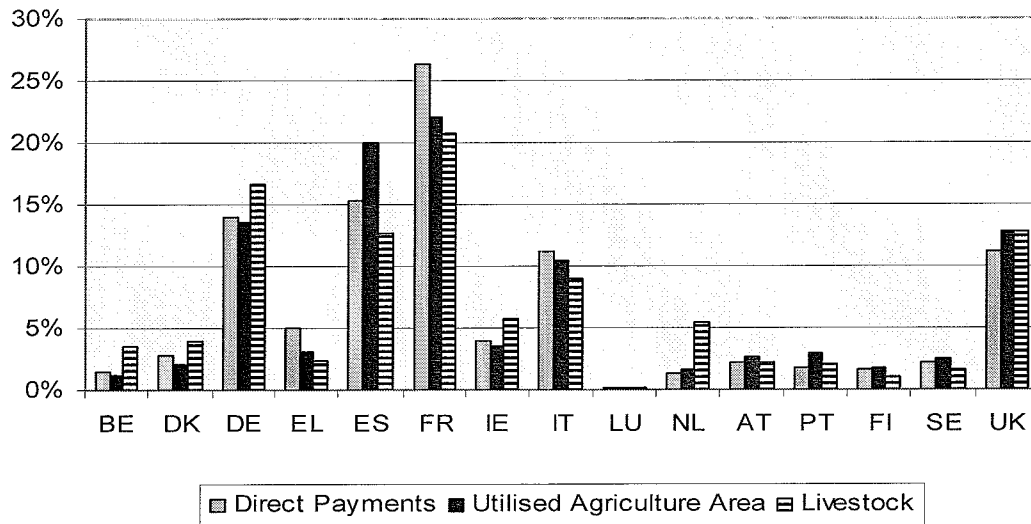
Graph 1 Development of expenditures of EAGGF -section Guarantee



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.

Graph 2 Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States, 2003 Financial Year and 2003 Farm Structure Survey



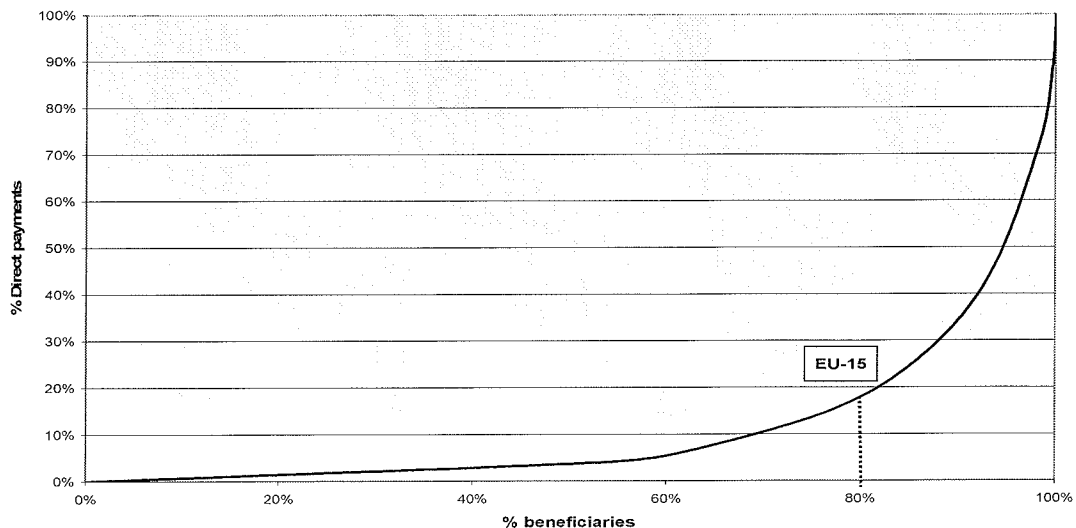
It also reflects the combination of the specialisation of the Member States between agricultural sectors and of the differences of Common Market Organisations. An illustrative example is the milk sector which was supported over the period analysed by intervention price, border protection and production 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) for which Common Market Organisations are also mainly based on instruments of market intervention rather than on direct payments. As a result, producers of countries specialised in milk production or in Mediterranean products receive less direct payments.

4. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN BENEFICIARIES

4.1. Distribution of direct payments between beneficiaries in 2003

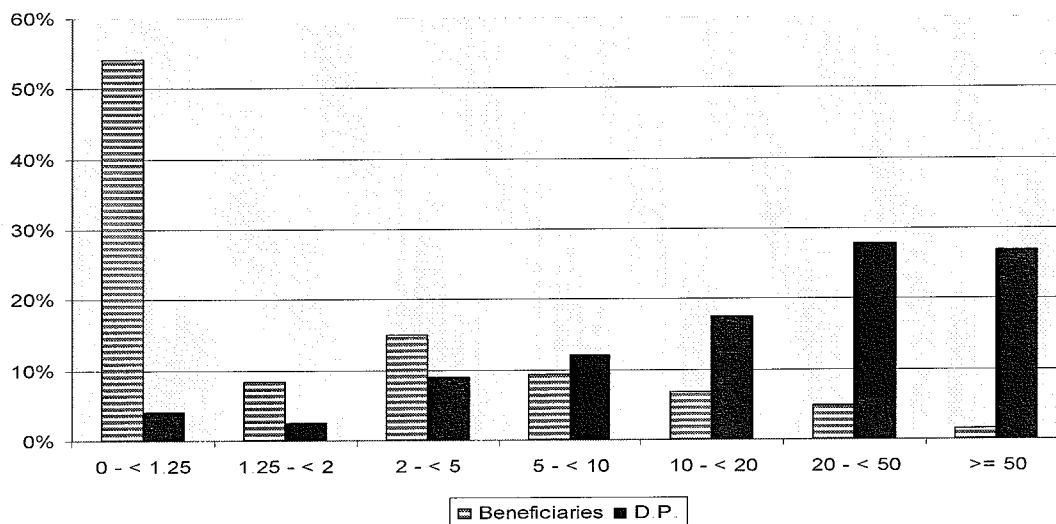
For the European Union direct payments are not equally distributed since 80% of beneficiaries received around 20% of the direct payments.

Graph 3 Distribution of direct payments between beneficiaries, 2003 Financial Year



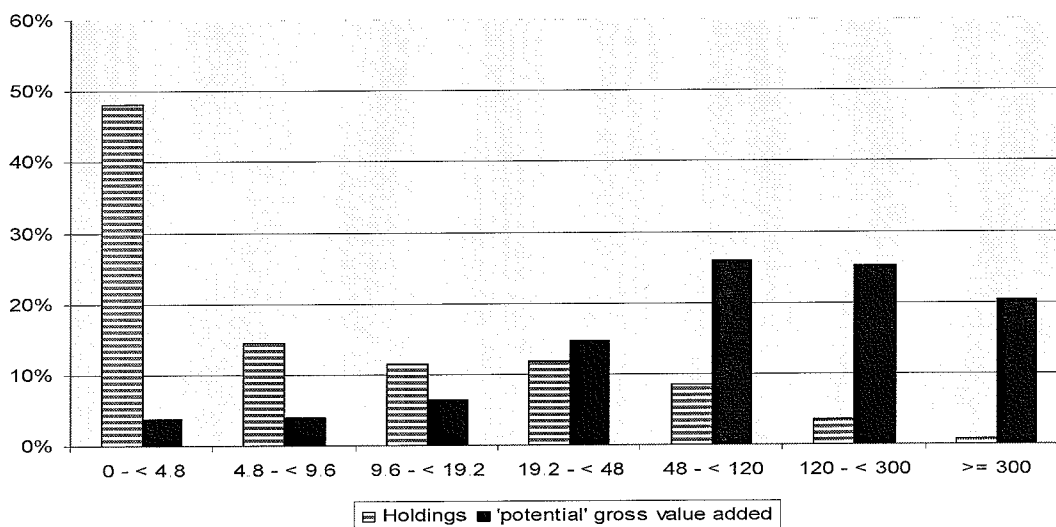
However, the distribution of direct payments across producers varies among EU Member States, with 80 % of beneficiaries receiving a percentage of direct payments varying approximately between 12 % and 50 %.

Graph 4 Distribution of beneficiaries and of direct payments in EU-15 by category of direct payments received (in thousands euros), 2003 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 size¹, as it can be seen when comparing Graph 4 and Graph 5.

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



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

¹ 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).

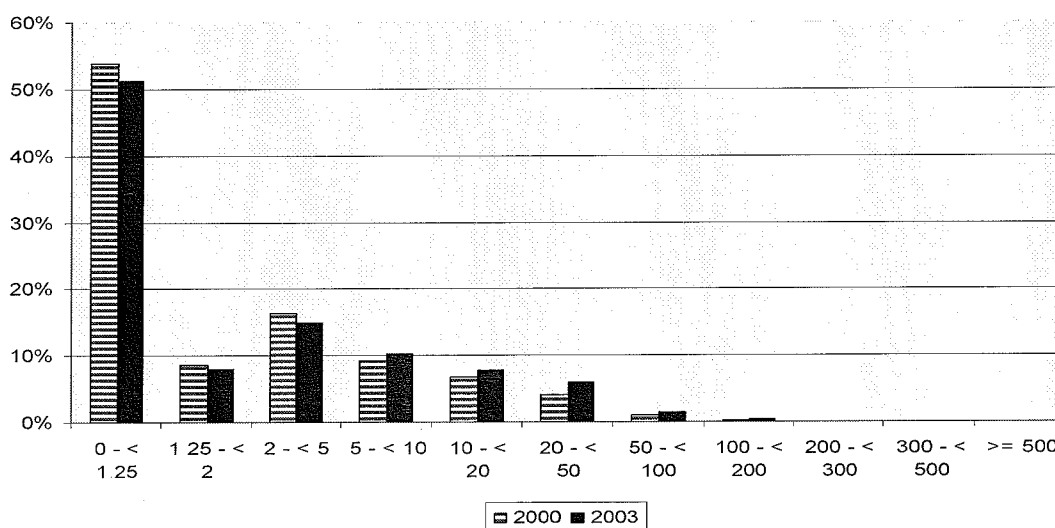
This distribution of direct payments between small and large farms has regularly been questioned, not least from the point of view of social cohesion. It should be noted that the major part of the direct payments was established as a compensation for revenue losses of several support price reduction. 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 2003

When comparing the distribution in 2000 and in 2003 it appears that the share of beneficiaries receiving a small amount of direct payments is decreasing.

Graph 6 Distribution of beneficiaries in EU-14 (without Greece)³, by category of direct payments received (in thousands euros), 2000 and 2003 Financial Years



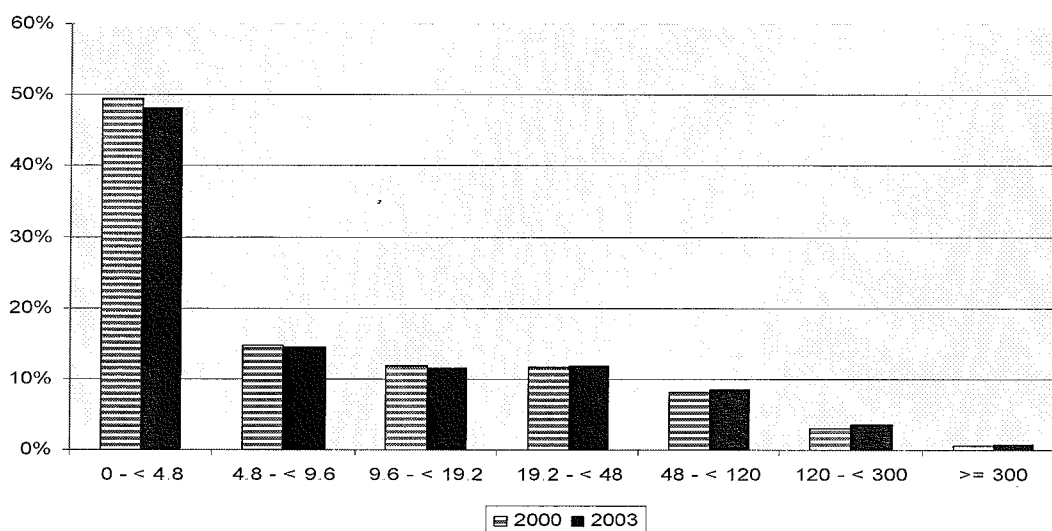
³ The comparison is made for the Union without Greece (EU-14), as the distribution of beneficiaries is not available for this Member State in 2000.

		2000	2003	
		EU-14	EU-14	EU-15
average amount per beneficiary		5 015	6 201	5 403
receiving 5 000 euros or less	% beneficiaries	78.6%	74.3%	77.5%
	% direct payments	17.8%	13.3%	15.5%

There are several reasons for this change:

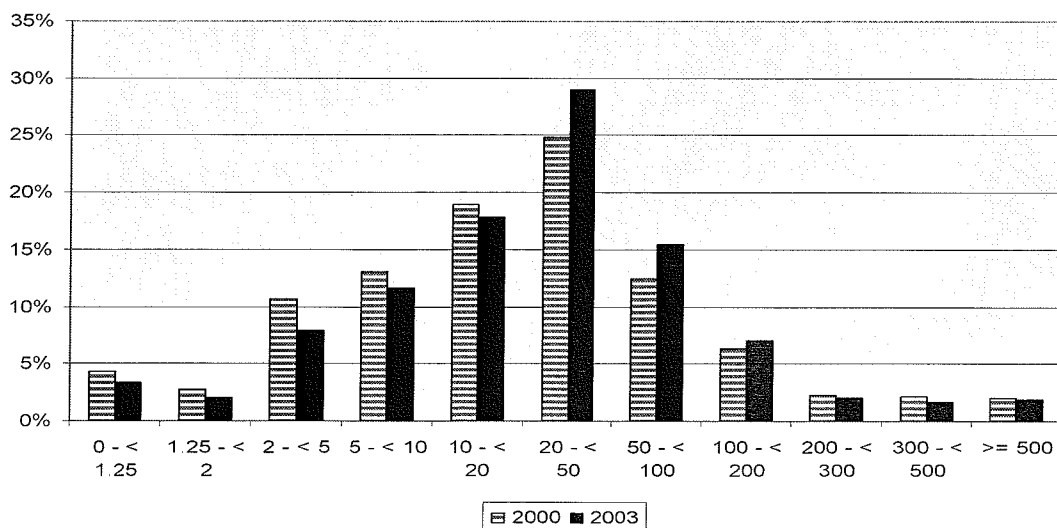
- There are less small farms as a result of the on-going structural adjustment (abandonment of activity and/or increase in size) as shown on the graph below;

Graph 7 Distribution of holdings in 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 category of direct payments);

Graph 8 Distribution of direct payments in EU-14 (without Greece) by category of direct payments received (in thousands euros), 2000 and 2003 Financial Years



Furthermore, it should be noticed that as direct payments for crops have relatively less increased than those for the animal sector with Agenda 2000 (the share of direct payments to crops decreased from 75% to 61% between 2000 and 2003 financial years), the share of direct payments to the largest farms, in general arable crop farms, has relatively less increased.

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 should be “decoupled” from production. This means that the payments are no longer 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. Taken 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 may generate some redistribution of direct payments between beneficiaries;
- Finally the introduction of the 5 000 euros “franchise” in the compulsory modulation mechanism (farmers receiving subsidy less than 5 000 euros are exempted from the reduction by a fixed percentage for modulation and from financial discipline) should favour a more balanced distribution of direct payments across beneficiaries.

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 2009 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.

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 payment. The on-going enlargement process of the European Union should have a significant impact on the average distribution of direct payments between beneficiaries in the European Union, given the differences in the structure of the agricultural sector in the EU-15, the new Member States and the accession countries.