

**ANNEX 2**  
**REPORT ON THE DISTRIBUTION OF DIRECT AIDS TO THE PRODUCERS**  
**(FINANCIAL YEAR 2008)**

**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 2008. To help readers benefit from that information, it is useful to insert it in the context of the development of the Common Agricultural Policy (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 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 5% in 2007) with the transfer of the corresponding funds to Rural Development. Most of these changes started taking effect from 2005 onwards.

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

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 EU direct payments in the new Member States will progressively increase from 25% of EU-15 level in 2004 (25% of EU-15 level in 2007 for Bulgaria and Romania) to 100% in 2014 budget year at the latest (2017 for Bulgaria and Romania). Modulation for EU-10 only applies when the level of direct payments in EU-10 is at least equal to the level of EU-15 taking into account the modulation reductions applied in EU-15.

## **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 the 2003 CAP reform. However, the financial year 2008 - comprising payments that mainly, but not exclusively, correspond to policy year 2007 - 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 Single Payment Scheme (SPS) are offered to Member States. The main difference is whether they base the SPS on what direct payments individual farmers received in the historical 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 Members States combining historical 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.

Year 2007 also reflects the first year after the accession of Bulgaria and Romania and the fourth year after the enlargement of 2004 when the direct payments in the 10 new Member States were still at 40% of their full level (25% in Bulgaria and Romania). It should also be stressed that the 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.

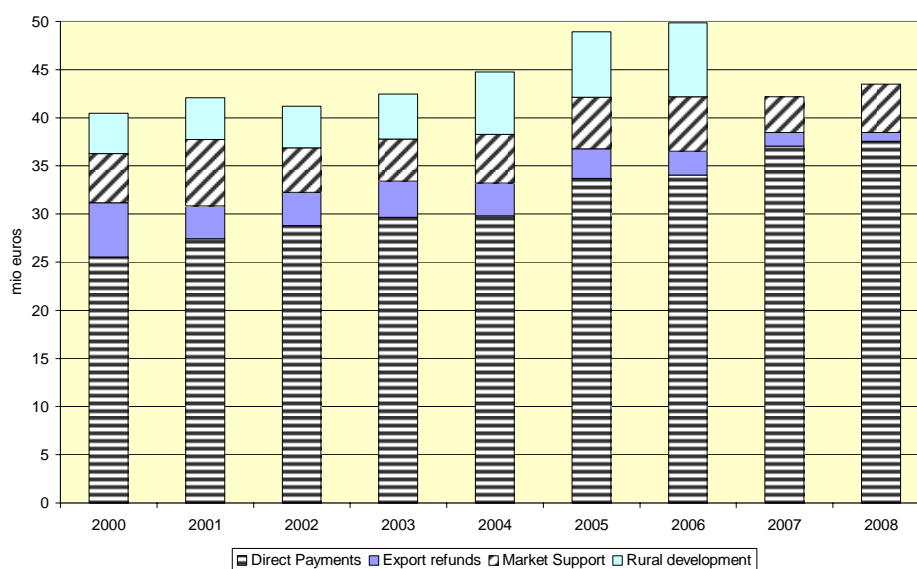
It is advised to carefully consider the limitations and comments as described in Annex 1.3 when consulting and interpreting the tables on the distribution of direct payments.

## 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 billion euros, representing 63% of the CAP expenditure under the Guarantee section of the European Agricultural Guarantee and Guidance Fund (EAGGF), 70% excluding rural development expenses. In 2008, after the implementation of Agenda 2000 and of the 2003 CAP reform, they reached 37.6 billion euros. It corresponds to 89% of the European Agricultural Guarantee Fund (EAGF, which has replaced, as from 2007, the Guarantee section of the EAGGF), covering market measures and direct aids, that does not cover any more some expenditures for the rural development policy (a new specific fund, European Agricultural Fund for Rural Development (EAFRD), has been implemented from 2007 financial year)<sup>2</sup>.

The increase of 500 million euros in direct payments between 2007 and 2008 is due to the increase of 960 million of the payments for SAPS in the new Member States, comprising Bulgaria and Romania, and to a decrease mainly due to the introduction in 2008 of voluntary modulation.

**Graph 1 Development of direct payments expenditures in EAGGF - section Guarantee (2000-2006) and EAGF (2007-2008) – EU-27**



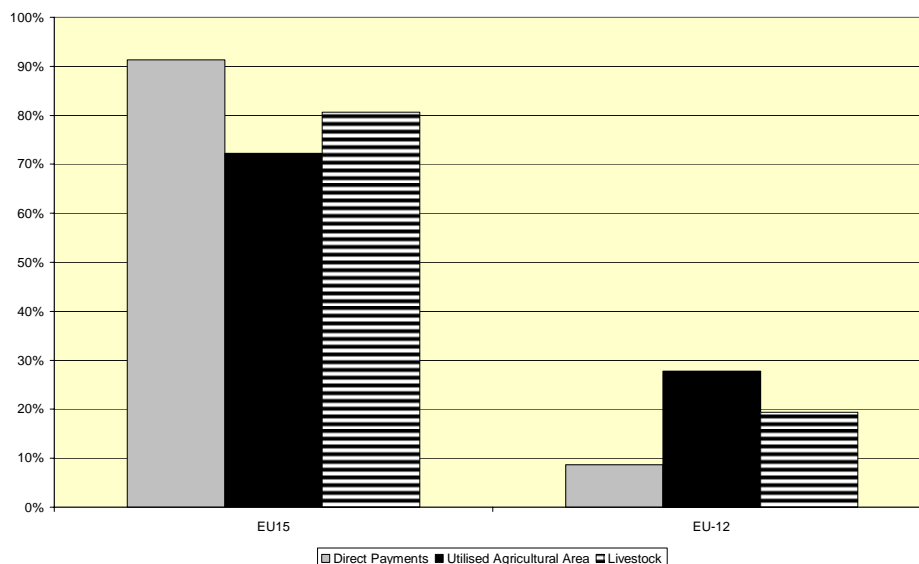
## 3. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN MEMBER STATES

As the direct payments were mainly based in the EU-15 on the historical levels of production, the distribution of direct payments between Member States broadly reflects the distribution of agricultural area and livestock between Member States. For the other Member States, the simplified scheme involved the payment of uniform amounts per eligible hectare of agricultural land. Therefore they are directly proportional to utilised agricultural areas.

<sup>2</sup> Council Regulation (EC) N° 1290/2005 of 21 June 2005 (OJ L 209, 11.8.2005, p. 1).

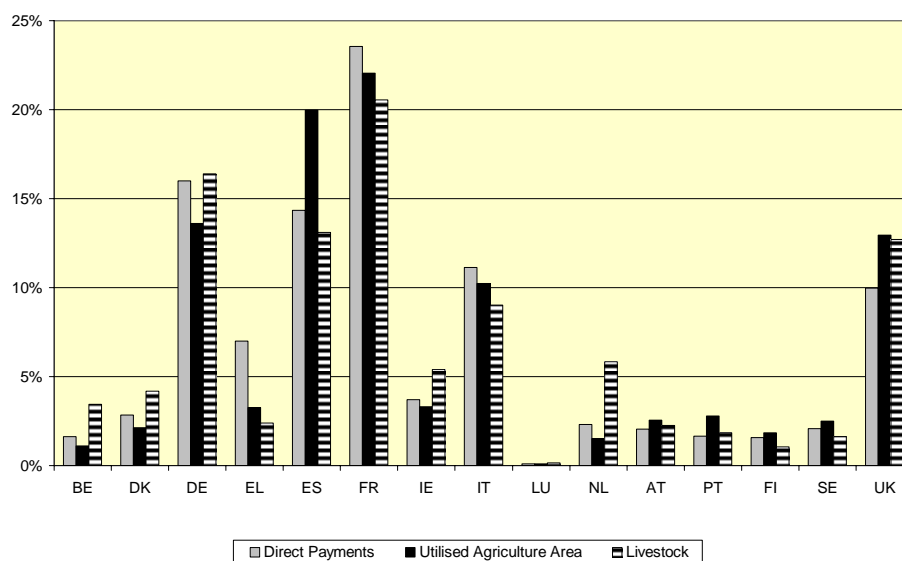
When compared to the previous years, the distribution of direct payments, utilised agricultural area and livestock between EU-15 and the new Member States shows a slight change in favour of the new Member States, due to the accession of Bulgaria and Romania (Graph 2a).

**Graph 2a Distributions of Direct Payments, Utilised Agriculture Area and Livestock in the EU-27 between EU-15 and EU-12, 2008 Financial Year and 2007 Farm Structure Survey (EU-27=100%)**

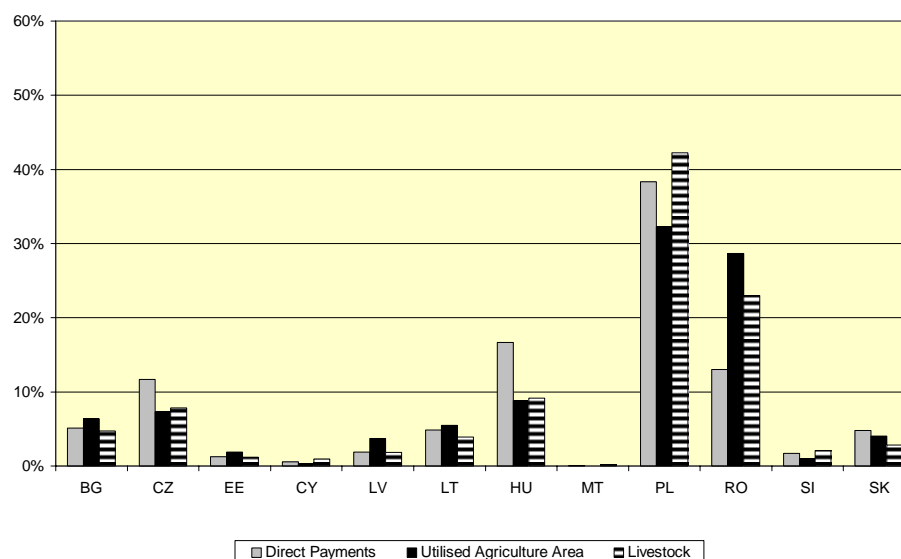


In any case, for the 2008 financial year, it is still difficult to compare the 27 Member States as for the Member States having acceded in 2004, direct payments are only at 40% of the full amount and for Bulgaria and Romania they are only at 25%. For this reason it is more appropriate to analyse separately the EU-15 and the EU-12 (Graphs 2b and 2c).

**Graph 2b Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States of EU-15, 2008 Financial Year and 2007 Farm Structure Survey (EU-15=100%)**



**Graph 2c Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States of EU-12, 2008 Financial Year and 2007 Farm Structure Survey (EU-12=100%)**



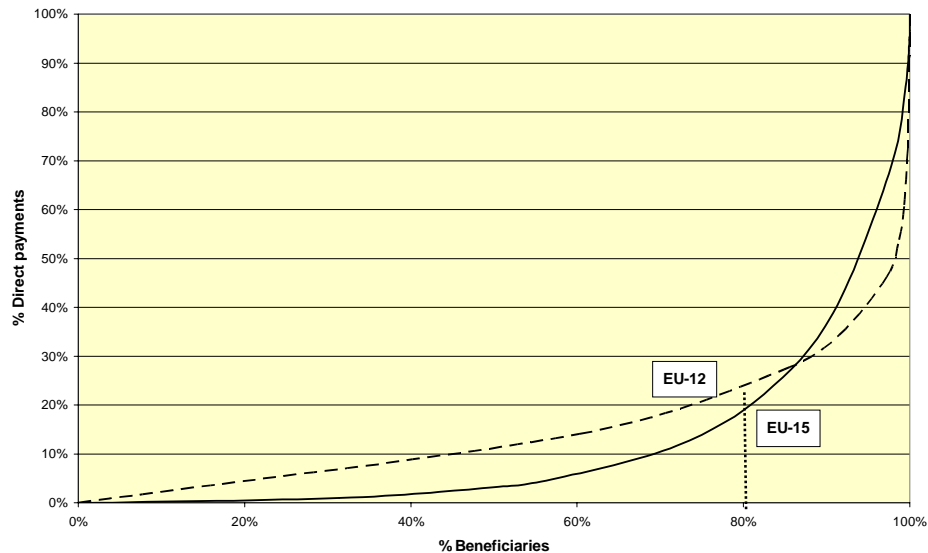
The distribution of direct payments between Member States also reflects the specialisation of the Member States between the agricultural sectors and the differences in the Common Market Organisations. An illustrative example concerns some typical Mediterranean products (such as fruit and vegetables,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

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

##### **4.1. 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 20% of the direct payments in 2008 whereas in EU-12, these 80% of beneficiaries received around 25% of the direct payments.

**Graph 3 Distribution of direct payments between beneficiaries in EU-15 and in EU-12, 2008 Financial Year**



However, the distribution of direct payments across producers varies among Member States (see Graphs 8 to 35 at the end of the document).

Due to the increase in the number of beneficiaries with a low average amount of direct payments in EU-12, the balance between beneficiaries in the EU has been deeply modified, above all after the accession of Bulgaria and Romania.

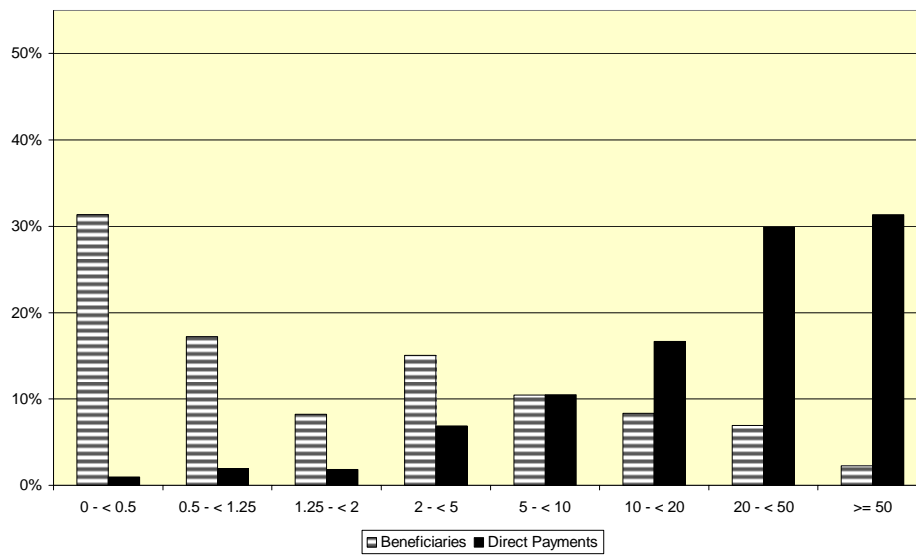
98% of beneficiaries in EU-12 (more than 3 millions) received no more than 5000 euros. This important change as compared to the previous years does not correspond to changes in structural trends of the farm sector but reflects the impact of the EU enlargement. Actually, with the restructuring of the farming sector the trend should have shown less small beneficiaries (due to abandonment and/or increase in size) and an increase of the average level of support received.

		2008		
		EU-12	EU-15	EU-27
number of beneficiaries (.000)		3.297	4.826	8.123
average amount (€beneficiary)		987	7.113	4.627
receiving 5 000 euros or less	% beneficiaries	98%	72%	82%
	% direct payments	46%	12%	15%

This explains the important decrease of the average amount at EU-27 level and the necessity to analyse separately EU-15 and EU-12.

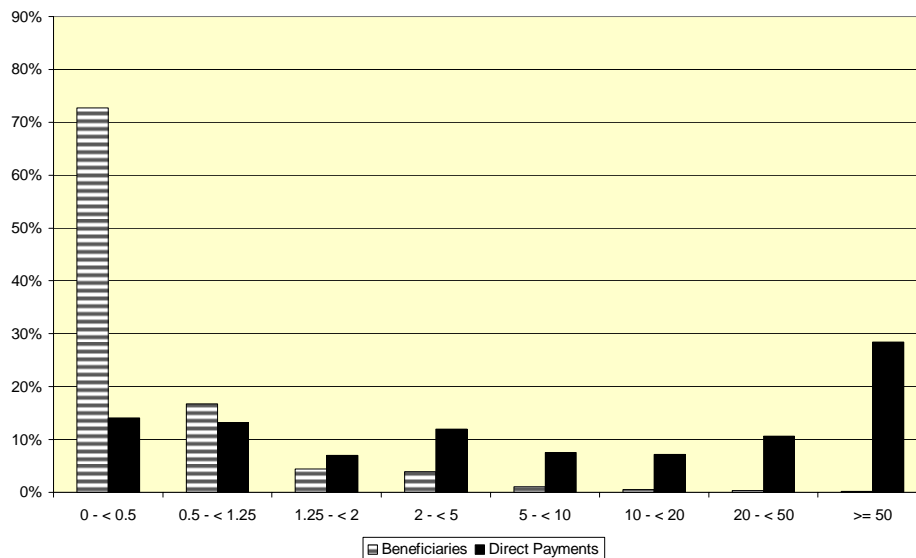
In the EU-15 it is estimated that 80% of beneficiaries received a percentage of direct payments varying approximately between 12% (Portugal) and 58% (Luxemburg).

**Graph 4a Distribution of beneficiaries and of direct payments in the EU-15 by category of direct payments received (in thousands euros), 2008 Financial Year**



In the EU-12 it is estimated that 80% of beneficiaries received a percentage of direct payments varying approximately between 4% (Slovakia) and 37% (Slovenia).

**Graph 4b Distribution of beneficiaries and of direct payments in the EU-12 by category of direct payments received (in thousands euros), 2008 Financial Year**

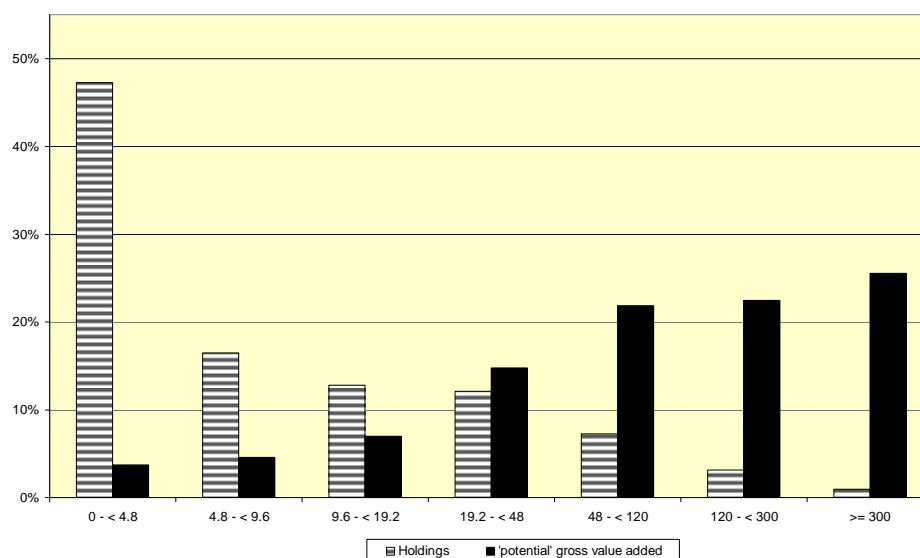


As the support is mainly based on area and livestock, even on an historical basis, the distribution of direct payments between beneficiaries also mainly reflects the differences in farm size<sup>3</sup>, as it can be seen when comparing Graphs 5a and 5b.

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

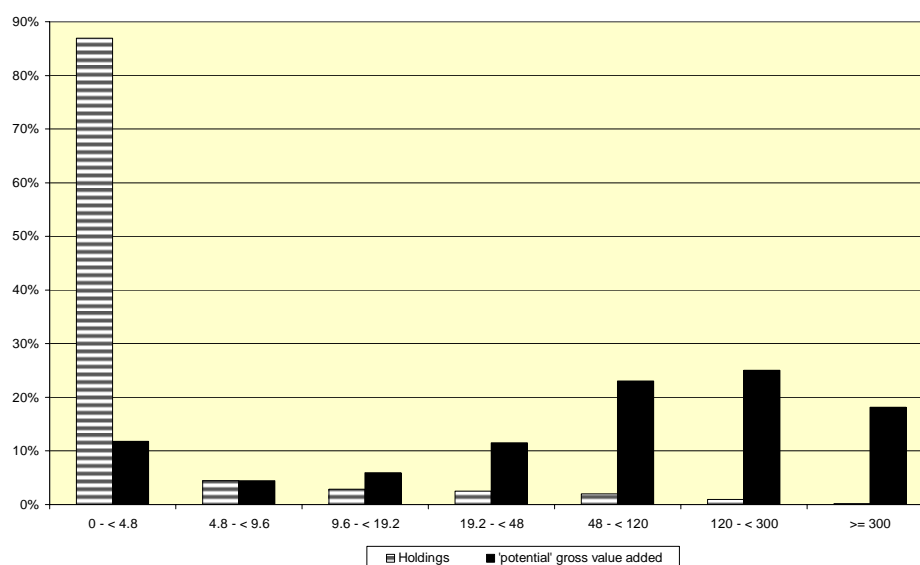
<sup>3</sup> It is convenient to measure the size in “potential” gross value added (also named economic size units) that allows to combine different kinds of production (arable crops, horticulture, permanent crops, milk, beef, pigs & poultry, etc).

**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), 2007 Farm Structure Survey**



Whereas no big changes occurred to EU-15 compared to the previous years, the accession of two new Member States lead to an increase in the holdings and in the “potential” gross value added for the small farms category in the EU-12 (Graph 5b).

**Graph 5b Distribution of holdings and of “potential” gross value added in the EU-12 by category of “potential” gross value added (in thousands euros), 2007 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 a support ensuring a certain farm income stability and, in combination with cross-compliance, promoting sustainable farming activity.

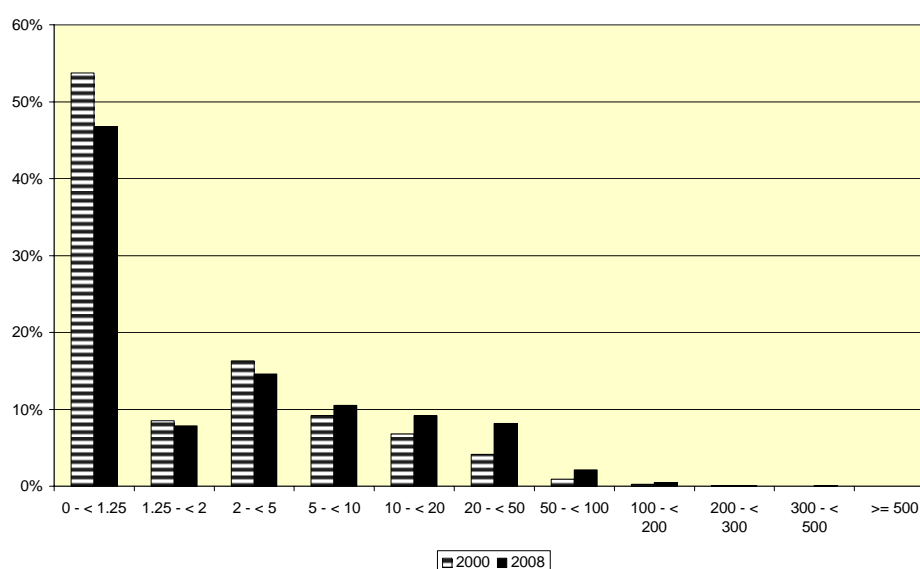


This is why the Commission has expressed on many occasions its concern with the way direct payments are distributed across agricultural producers. Already in the previous reforms the Commission proposed mechanisms to decrease or to limit the amount of direct payments to the largest beneficiaries with a view to improving the distribution of direct support but the Commission proposals were turned down by the Member States in the Council. With the Health Check reform it has been decided to increase the compulsory modulation that transfers a percentage of the payments to Rural Development and to introduce an additional progressive modulation which will affect only beneficiaries receiving larger amount (above the threshold of 300.000 euros), according to the idea that they should contribute more to meet the new challenges confronting the agricultural sector.

#### 4.2. Development of the distribution of direct payments between beneficiaries between 2000 and 2008

For the old Member States (EU-14<sup>4</sup>), when comparing the distribution in 2000 and in 2008, it appears that the share of beneficiaries receiving a small amount of direct payments is decreasing.

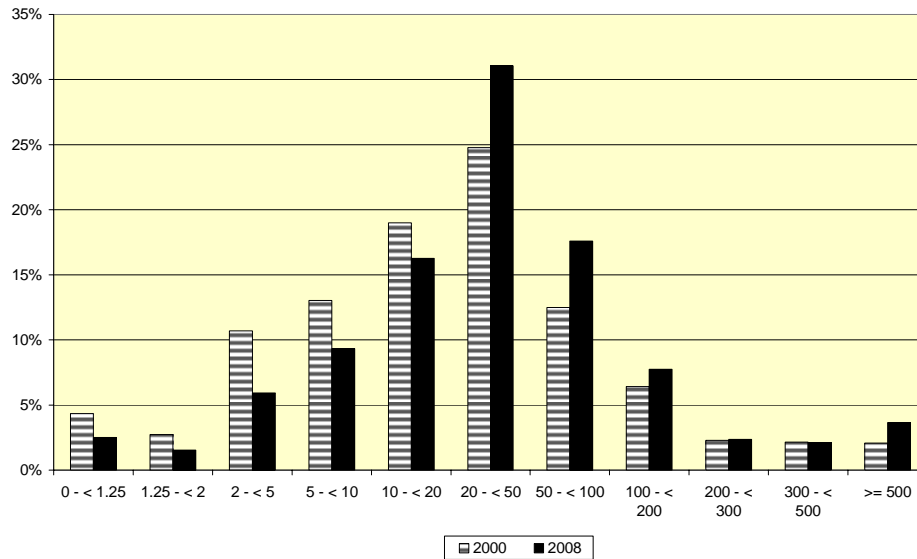
**Graph 6a Distribution of beneficiaries in the old Member States (EU-15 without Greece), by category of direct payments received (in thousands euros), 2000 and 2008 Financial Years**



		2000	2008		
		EU-14	EU-14	EU-15	EU-27
average amount (€/beneficiary)		5.015	8.073	7.113	4.627
receiving 5 000 euros or less	% beneficiaries	79%	69%	72%	82%
	% direct payments	18%	10%	12%	15%

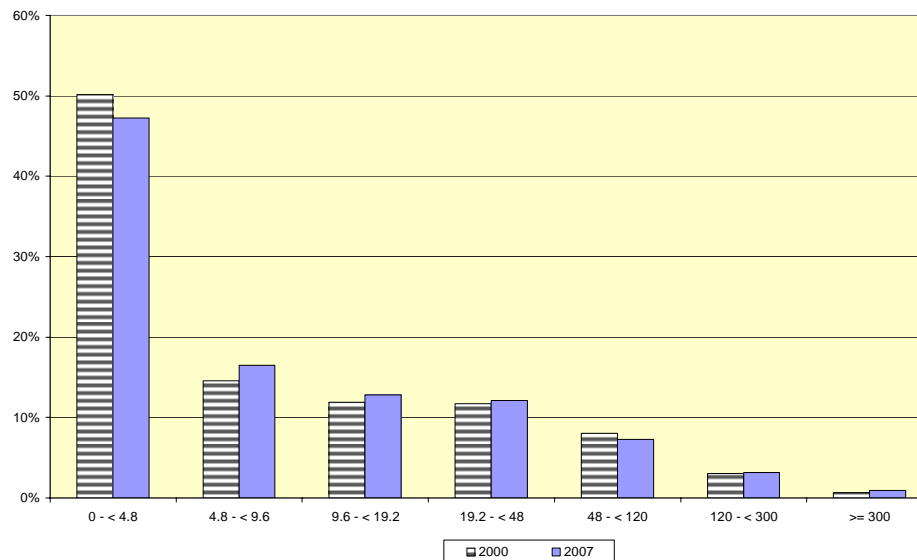
<sup>4</sup> The comparison is made for the EU-15 without Greece (EU-14), as the distribution of beneficiaries was not available for this Member State in 2000.

**Graph 6b Distribution of direct payments in the EU-14 (without Greece) by category of direct payments received (in thousands euros), 2000 and 2008 Financial Years**



There are several reasons for this change. First of all, there are less small farms in relation with the ongoing structural adjustments (abandonment of activity and/or increase in size) as shown in Graph 7.

**Graph 7 Distribution of holdings in the EU-15 by category of “potential” gross value added (in thousands euros), 2000 and 2007 Farm Structure Surveys**



Moreover, the implementation of Agenda 2000 has led to an increase in the level of direct payments received by each beneficiary (with some beneficiaries changing 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 is 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>5</sup>).

## **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 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, all direct payments that have not been fully decoupled from production yet, except suckler cow, sheep and goat premia, will be decoupled by 1<sup>st</sup> January 2012 at the latest; 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 different increases of direct payments across agricultural sectors could entail a change in the distribution of direct payments between agricultural holdings. 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 based on the historical payments and the various implementing rules and conditions that may apply in each Member State could possibly entail a substantial shift in the distribution of aids.

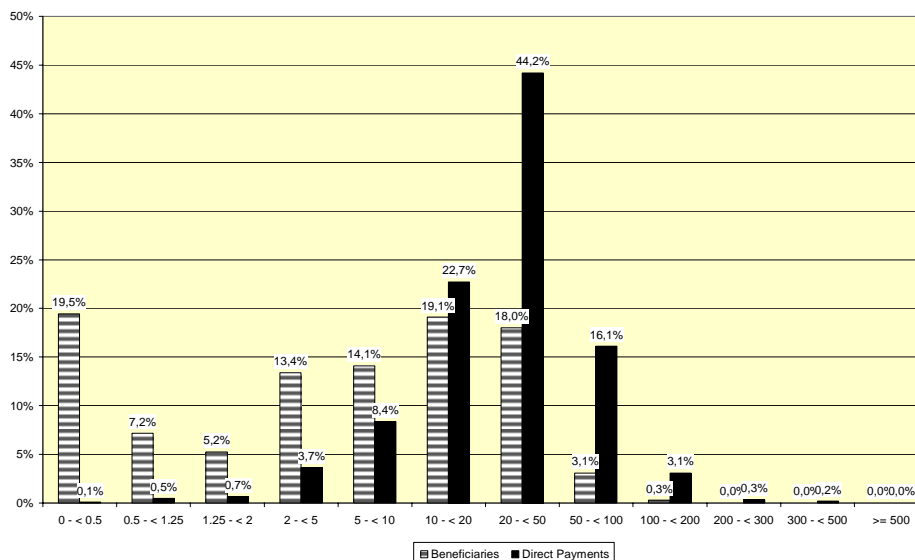
Compulsory modulation for all payments above 5.000 euros in the EU-15, which was introduced by the 2003 reform in order to transfer a percentage of direct payments to Rural Development, will increase until it reaches 10% in 2012. The EU-12 Member States have been exempted from modulation until their level of direct payments is at least equal to the level applicable in EU-15, taking into account the modulation reduction applied (i.e. 2012 for EU-10). The 5.000 euros franchise in the compulsory modulation mechanism, below which no reduction of direct payments is applied, and the introduction of the additional progressive modulation of 4% for direct payments above the threshold of 300.000 euros, should favour a more balanced distribution across beneficiaries.

Finally, the minimum threshold of 100 euros or 1 hectare as eligibility criteria for the Single Farm Payment, which has been agreed with the option of applying a different figure per Member State based on a coefficient reflecting Member State situations, should withdraw from the beneficiaries a certain number of small farmers.

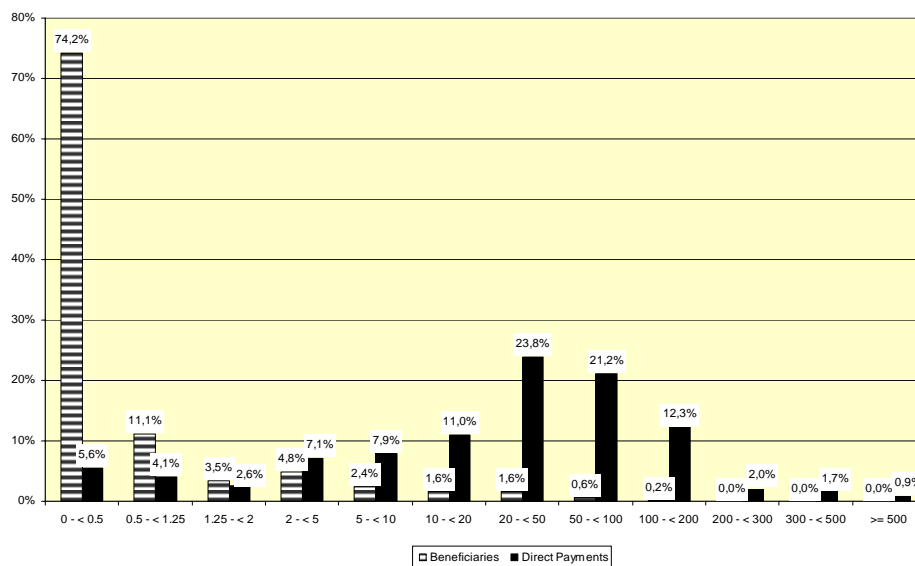
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<sup>5</sup> This comparison can not be done for the last financial years, due to the introduction of the Single Payment Scheme.

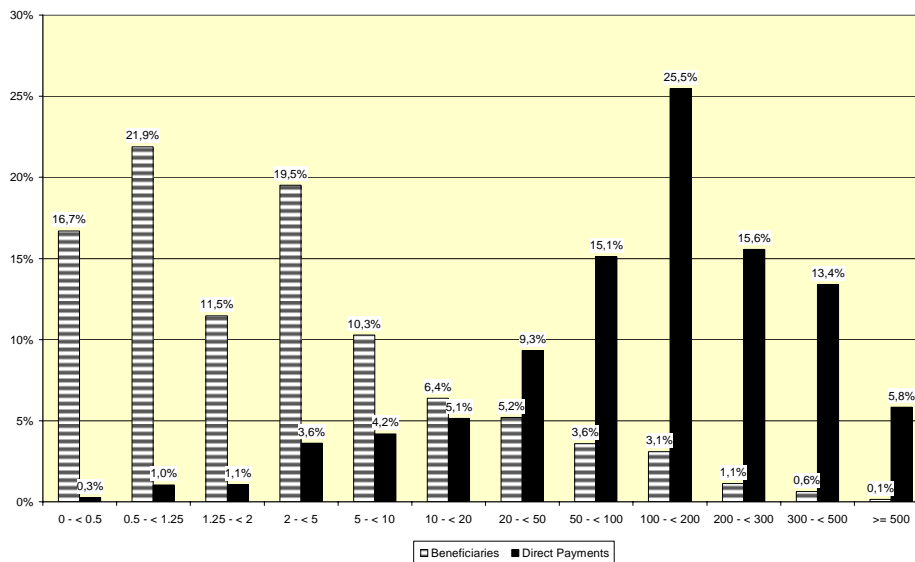
**Graph 8 Distribution of beneficiaries and of direct payments in Belgium by category of direct payments received (in thousands euros), 2008 Financial Year**



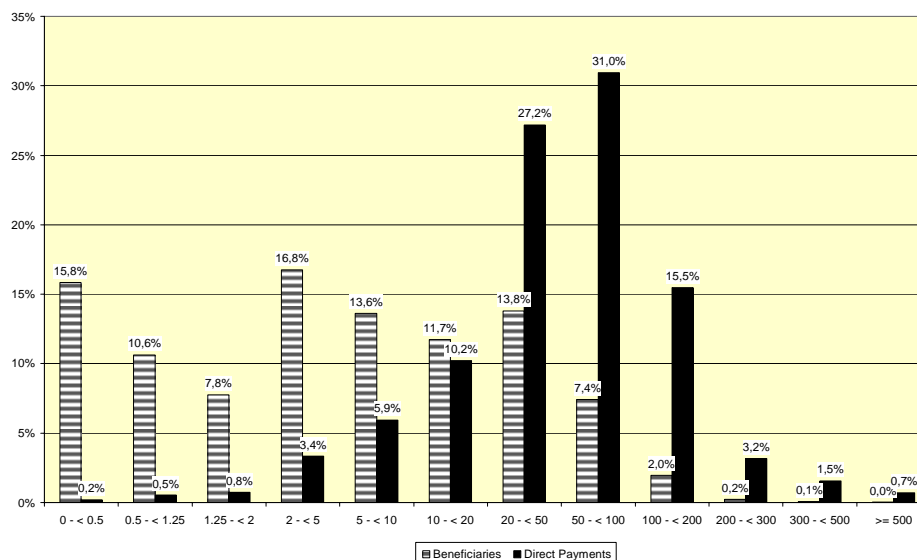
**Graph 9 Distribution of beneficiaries and of direct payments in Bulgaria by category of direct payments received (in thousands euros), 2008 Financial Year**



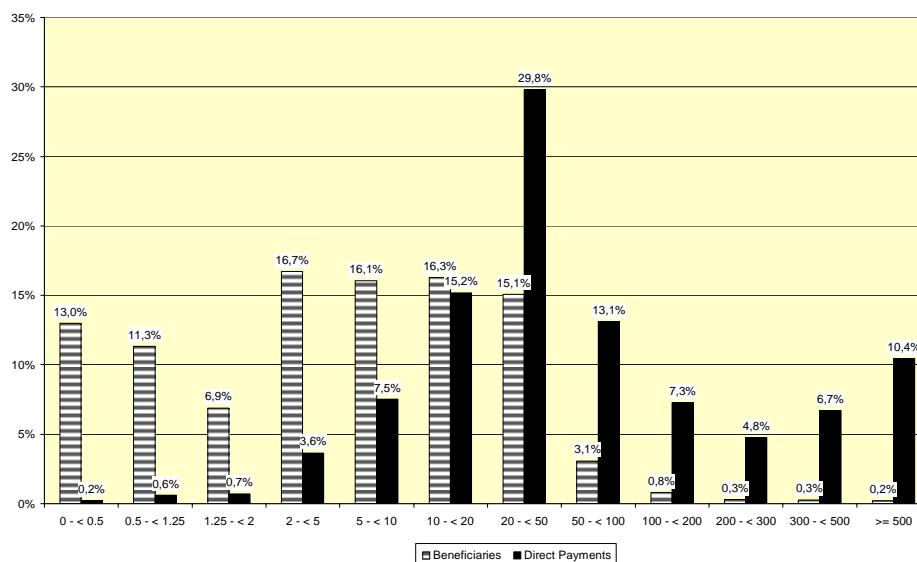
**Graph 10 Distribution of beneficiaries and of direct payments in the Czech Republic by category of direct payments received (in thousands euros), 2008 Financial Year**



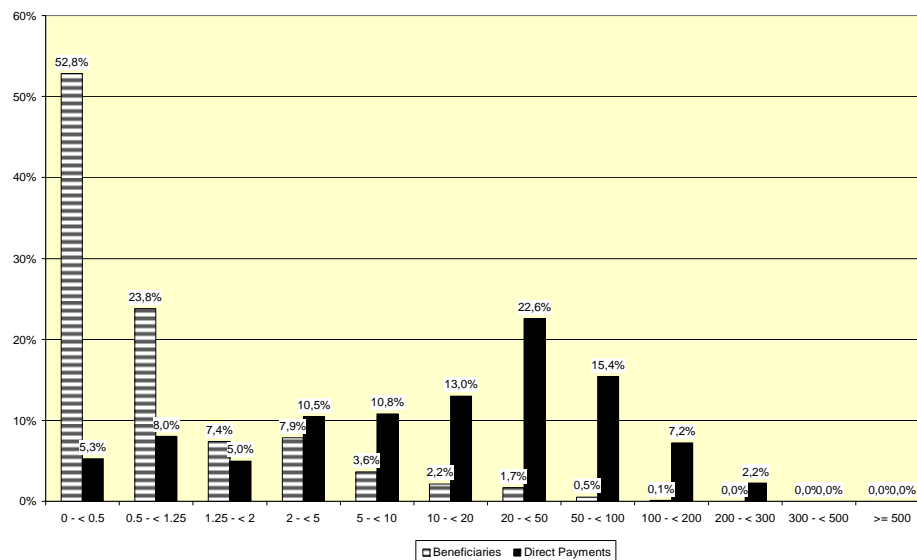
**Graph 11 Distribution of beneficiaries and of direct payments in Denmark by category of direct payments received (in thousands euros), 2008 Financial Year**



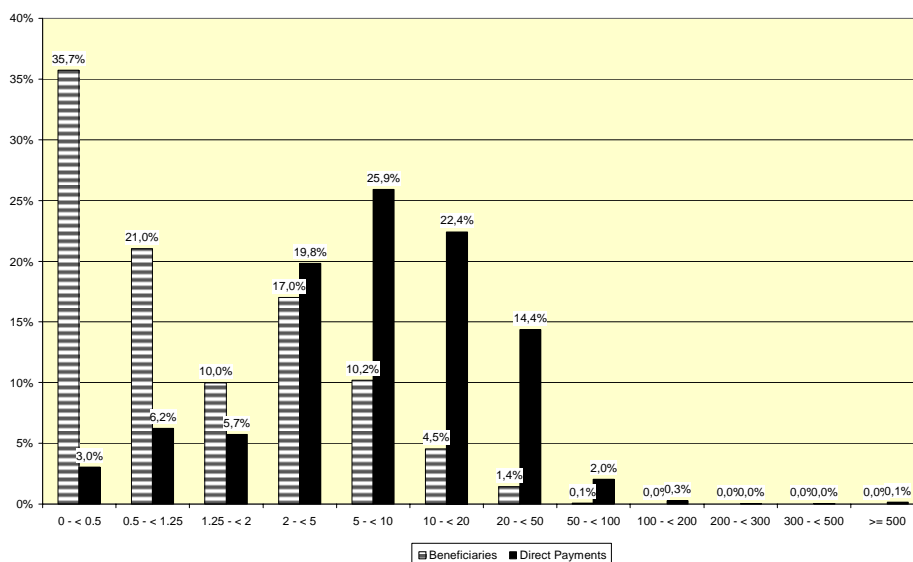
**Graph 12 Distribution of beneficiaries and of direct payments in Germany by category of direct payments received (in thousands euros), 2008 Financial Year**



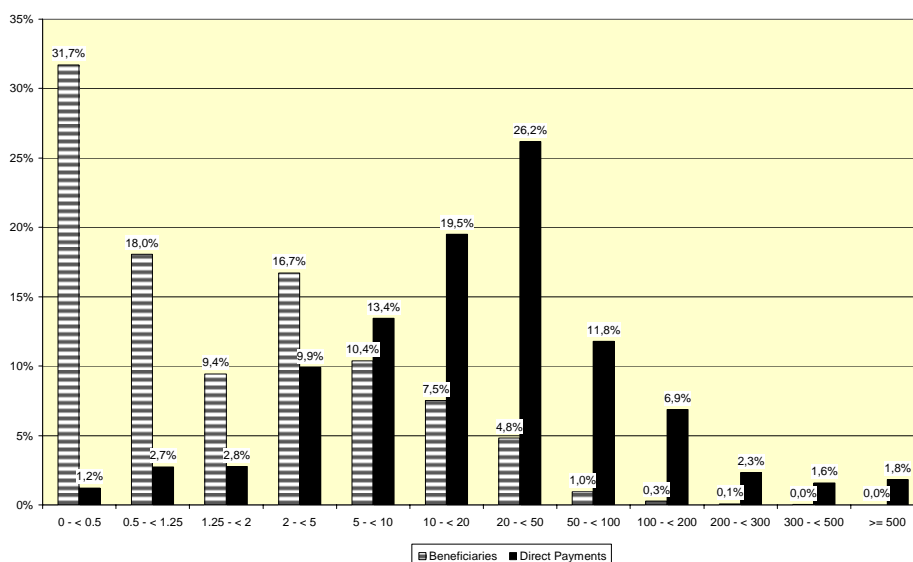
**Graph 13 Distribution of beneficiaries and of direct payments in Estonia by category of direct payments received (in thousands euros), 2008 Financial Year**



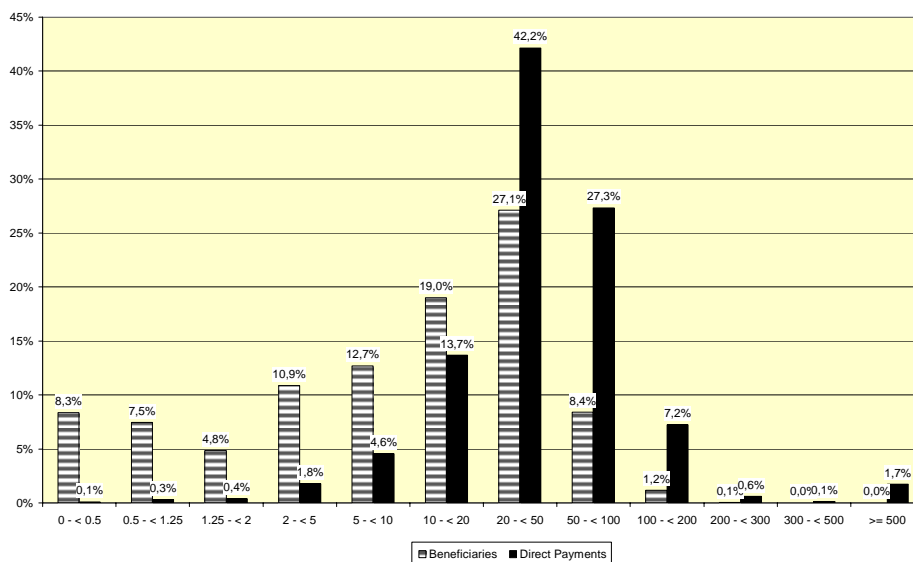
**Graph 14 Distribution of beneficiaries and of direct payments in Greece by category of direct payments received (in thousands euros), 2008 Financial Year**



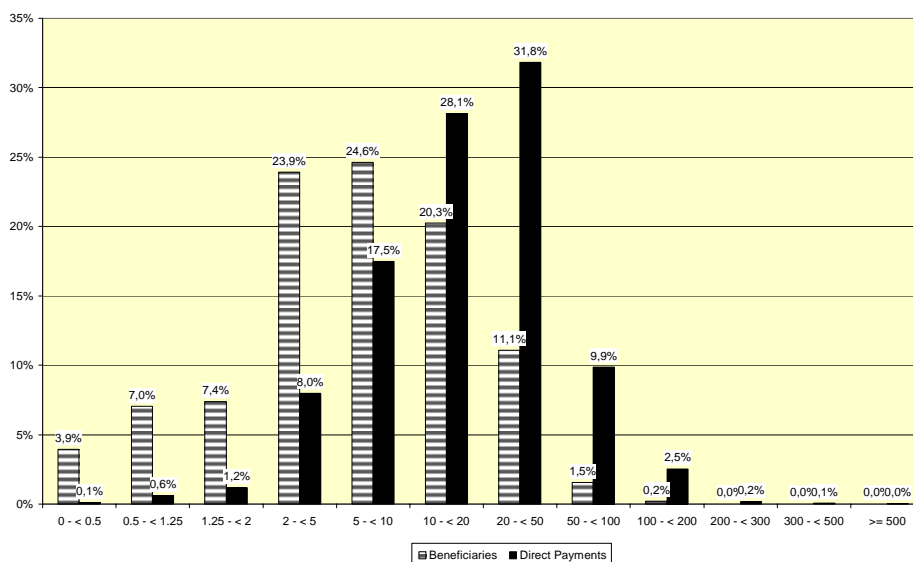
**Graph 15 Distribution of beneficiaries and of direct payments in Spain by category of direct payments received (in thousands euros), 2008 Financial Year**



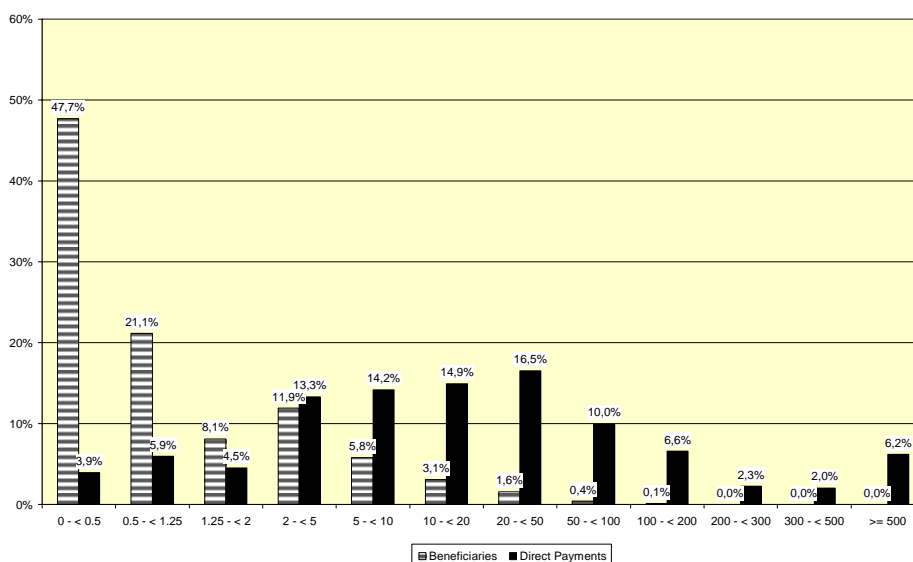
**Graph 16 Distribution of beneficiaries and of direct payments in France by category of direct payments received (in thousands euros), 2008 Financial Year**



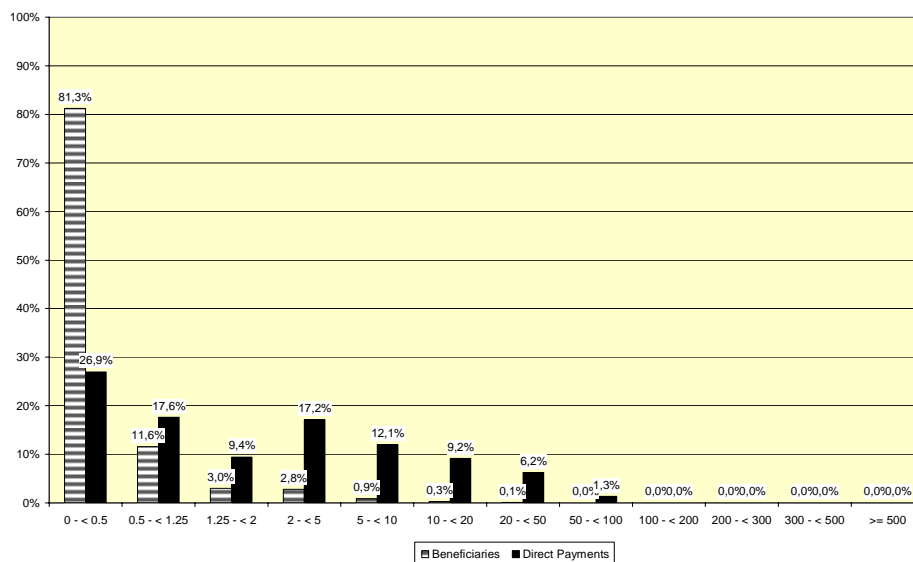
**Graph 17 Distribution of beneficiaries and of direct payments in Ireland by category of direct payments received (in thousands euros), 2008 Financial Year**



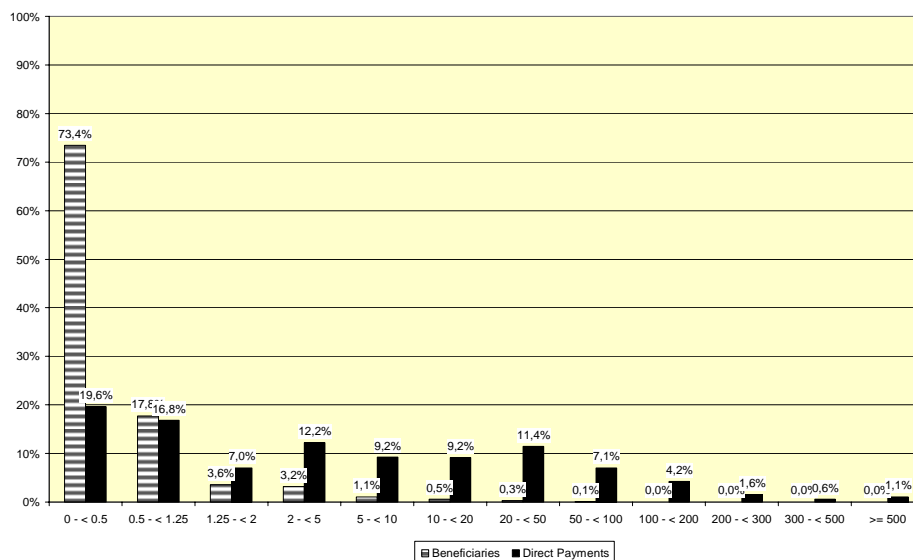
**Graph 18 Distribution of beneficiaries and of direct payments in Italy by category of direct payments received (in thousands euros), 2008 Financial Year**



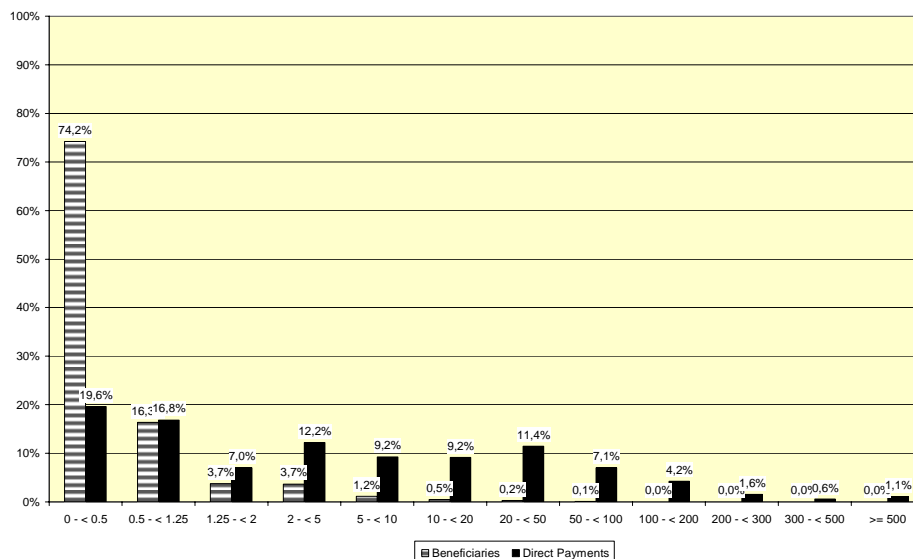
**Graph 19 Distribution of beneficiaries and of direct payments in Cyprus by category of direct payments received (in thousands euros), 2008 Financial Year**



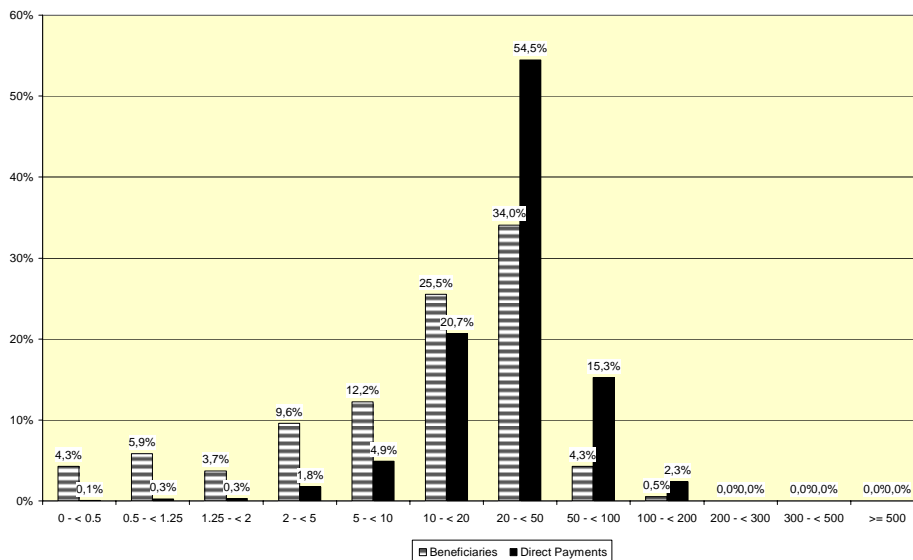
**Graph 20 Distribution of beneficiaries and of direct payments in Latvia by category of direct payments received (in thousands euros), 2008 Financial Year**



**Graph 21 Distribution of beneficiaries and of direct payments in Lithuania by category of direct payments received (in thousands euros), 2008 Financial Year**

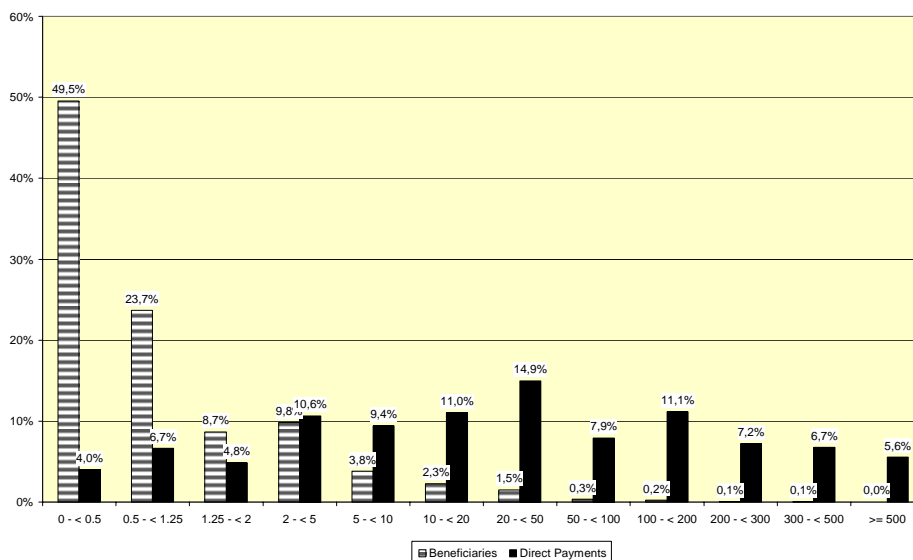


**Graph 22 Distribution of beneficiaries and of direct payments in Luxemburg by category of direct payments received (in thousands euros), 2008 Financial Year**

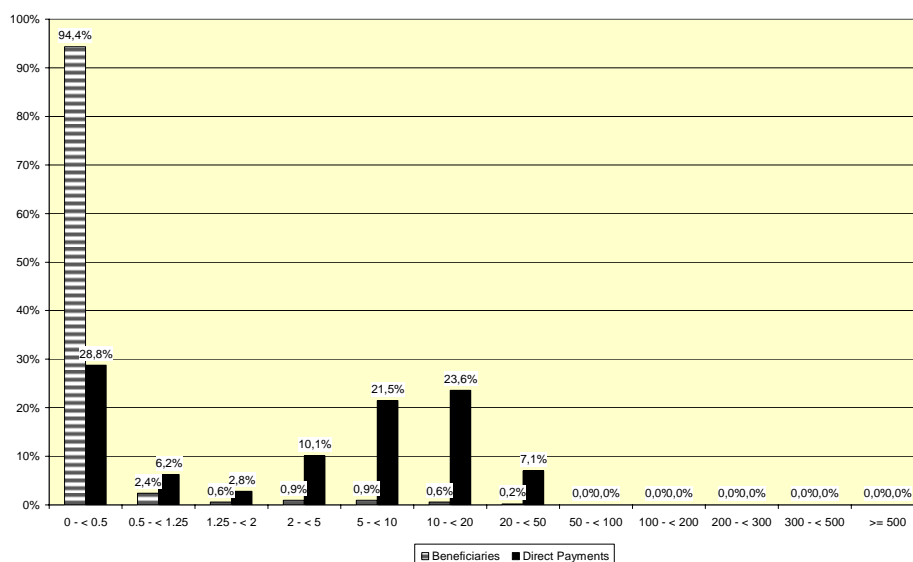




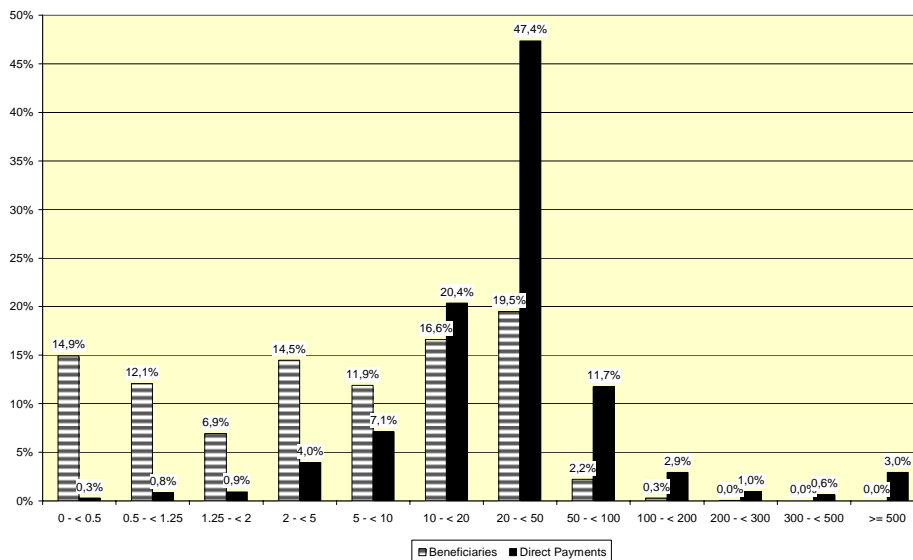
**Graph 23 Distribution of beneficiaries and of direct payments in Hungary by category of direct payments received (in thousands euros), 2008 Financial Year**



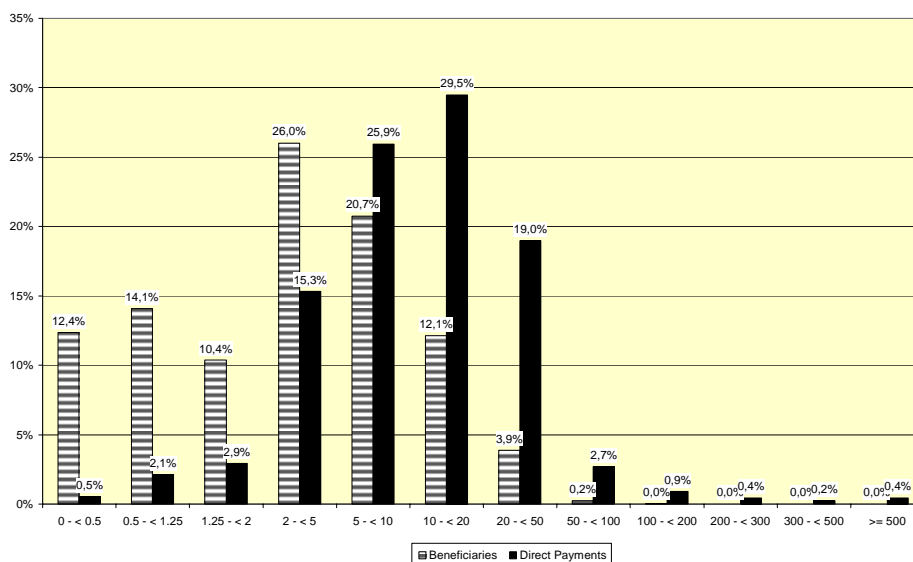
**Graph 24 Distribution of beneficiaries and of direct payments in Malta by category of direct payments received (in thousands euros), 2008 Financial Year**



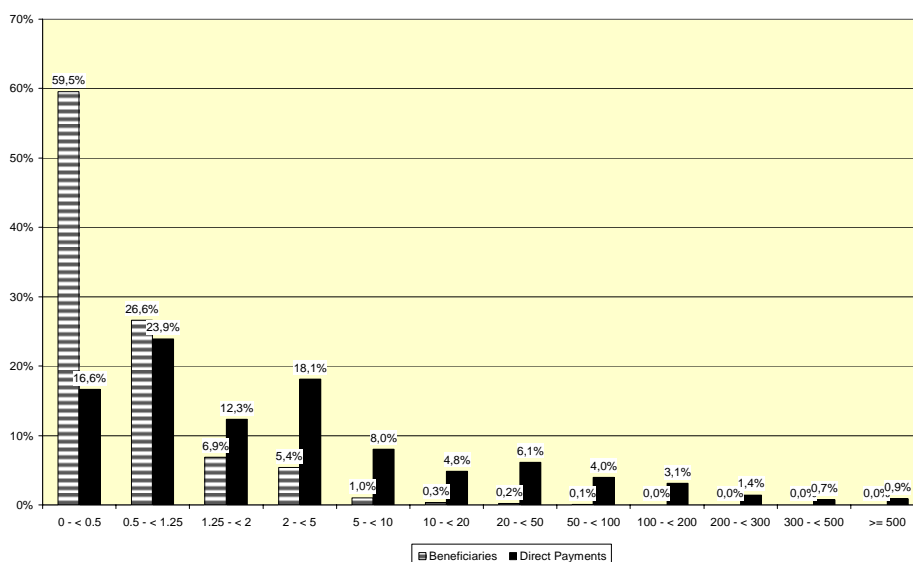
**Graph 25 Distribution of beneficiaries and of direct payments in The Netherlands by category of direct payments received (in thousands euros), 2008 Financial Year**



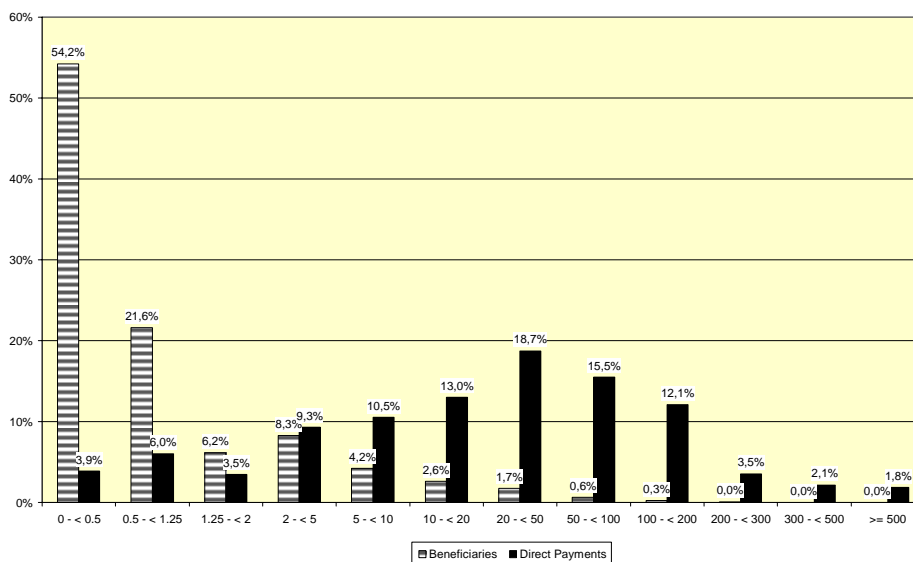
**Graph 26 Distribution of beneficiaries and of direct payments in Austria by category of direct payments received (in thousands euros), 2008 Financial Year**



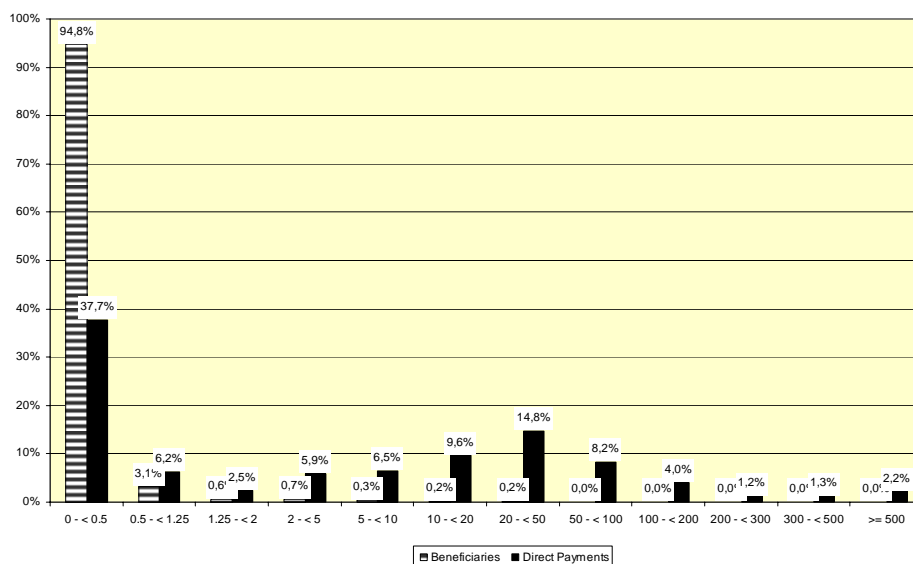
**Graph 27 Distribution of beneficiaries and of direct payments in Poland by category of direct payments received (in thousands euros), 2008 Financial Year**



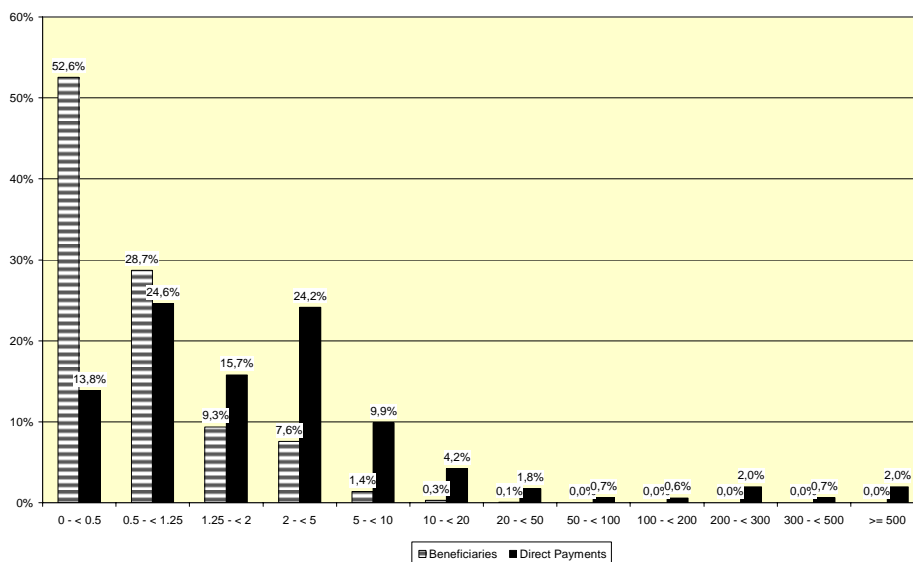
**Graph 28 Distribution of beneficiaries and of direct payments in Portugal by category of direct payments received (in thousands euros), 2008 Financial Year**



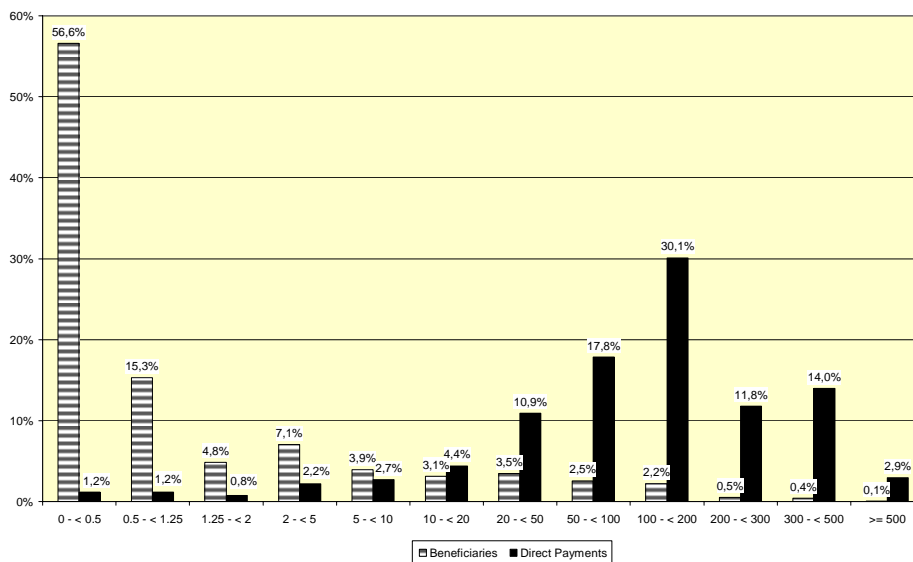
**Graph 29 Distribution of beneficiaries and of direct payments in Romania by category of direct payments received (in thousands euros), 2008 Financial Year**



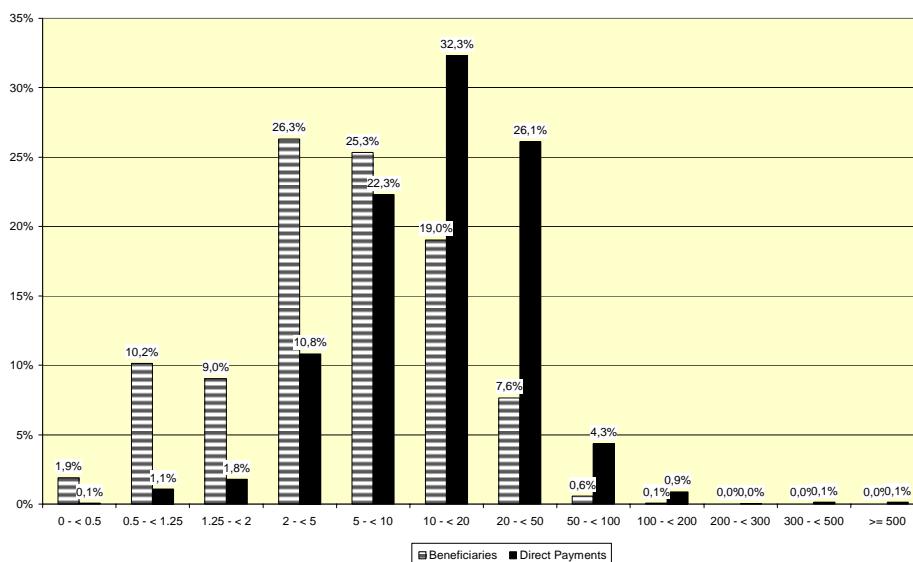
**Graph 30 Distribution of beneficiaries and of direct payments in Slovenia by category of direct payments received (in thousands euros), 2008 Financial Year**



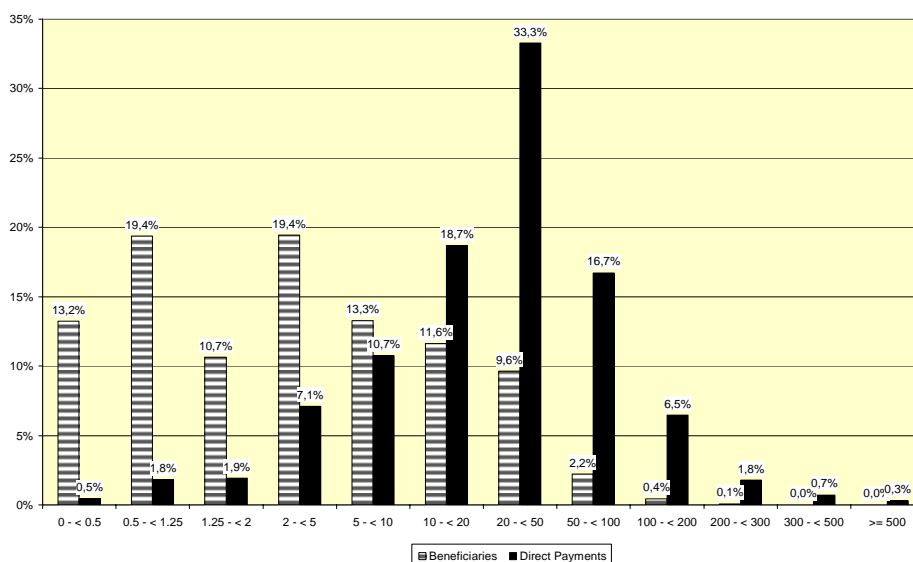
**Graph 31 Distribution of beneficiaries and of direct payments in Slovakia by category of direct payments received (in thousands euros), 2008 Financial Year**



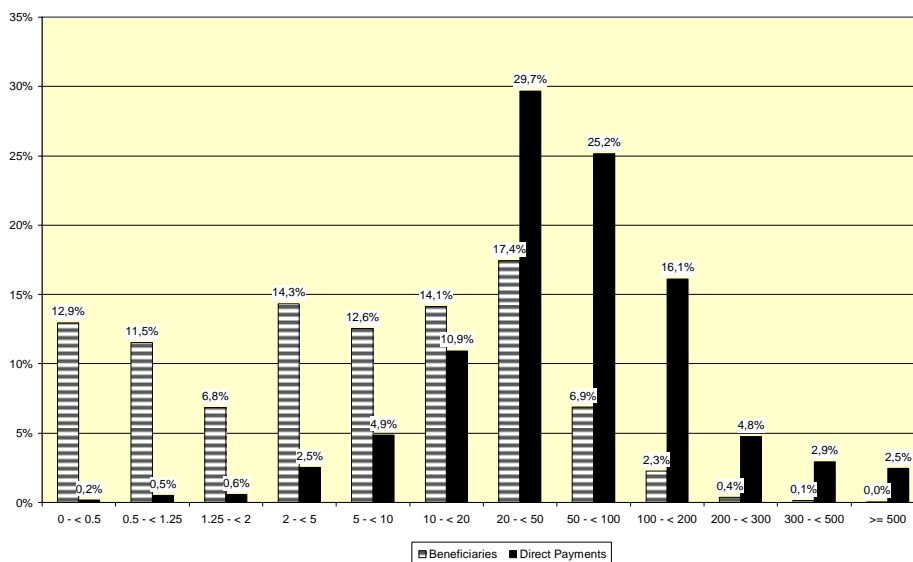
**Graph 32 Distribution of beneficiaries and of direct payments in Finland by category of direct payments received (in thousands euros), 2008 Financial Year**



**Graph 33 Distribution of beneficiaries and of direct payments in Sweden by category of direct payments received (in thousands euros), 2008 Financial Year**



**Graph 34 Distribution of beneficiaries and of direct payments in United Kingdom by category of direct payments received (in thousands euros), 2008 Financial Year**



**Graph 35 Distribution of beneficiaries and of direct payments in EU-27 by category of direct payments received (in thousands euros), 2008 Financial Year**

