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THE ROLE OF DIRECT PAYMENTS AS SUPPORT FOR EU FARMERS: AN ANALYSIS OF THEIR IMPLEMENTATION IN SPAIN

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Rezumat. Plățile directe au scopul de a sprijini producătorii agricoli din UE, având un loc central și în cadrul Politicii Agricole Comune (PAC), o atenție sporită fiindu-le acordată și în cadrul reformei 2014-2020. Introduse inițial în 1992 după reforma MacSharry și cunoscute ca plăți cuplate (plăți pe hectar și cap de animal), acestea au avut ca scop sprijinirea veniturilor producătorilor agricoli. În 2003, plățile decuplate orientate pe sprijinirea producătorilor agricoli au fost introduse cu scopul creșterii competitivității și durabilității agriculturii UE. În Spania, noile modificări în Schema Plăților Unice (SPU) au fost introduse pentru prima dată în 2006, la început cu un regim parțial de decuplare, până în 2012, când plățile cuplate au dispărut, acestea fiind integrate în SPU sau transformate în plăți suplimentare. Scopul acestei lucrări constă în analiza aplicării plăților directe ca instrument principal de sprijin a producătorilor agricoli din UE având la bază experiența spaniolă. În acest context, au fost analizate informațiile statistice secundare oferite de către Fondul Spaniol de Garantare Agricolă și Ministerul Agriculturii, Alimentației și Mediului Înconjurător al Spaniei privind suma plăților directe alocate în Spania, numărul beneficiarilor, precum și distribuția acestora în aspect teritorial. Până acum, distribuția plăților directe în Spania, ca și în alte țări membre ale UE, nu este echitabilă, acest lucru fiind cauzat de dezvoltarea PAC, diversitatea producției, precum și de utilizarea referințelor istorice pentru stabilirea plății decuplate pentru o exploatare agricolă.

Cuvinte-cheie: Agricultură; Plăți directe; Producători agricoli.

Abstract. Direct payments are aimed at supporting EU farmers being the main component of the Common Agricultural Policy (CAP) and receiving special attention during the new 2014-2020 reform. First introduced in 1992 after MacSharry reform and known as coupled payments (payments per hectare and animal head), they were designed to support farmers income. In 2003, the decoupled payments focused at encouraging farmers have been introduced in order to enhance the competitiveness and sustainability of the EU agriculture. In Spain, the new changes in the Single Payment Scheme (SPS) were first introduced in 2006, at the beginning according to the regime of partial decoupling, until 2012, when the coupled payments disappeared, being integrated under the SPS or transformed into additional payment. The aim of this paper is to analyze the implementation of direct payments as the main support tool for EU farmers based on Spain's experience. In this context, it was used the secondary data provided by the Spanish Agrarian Guarantee Fund (FEGA) and the Ministry of Agriculture, Food and Environment of Spain (MAGRAMA) concerning the amount of allocated direct payments in Spain, along with the number of beneficiaries and the distribution of direct payments by territorial aspect. So far, the distribution of direct payments in Spain, similarly to other member states, is unequal, this fact being caused by CAP development, diversity of production and the use of historical references to fix the decoupled payments per farm.

Key words: Agriculture; Direct payments; Farmers.

INTRODUCTION

There are many contradictory opinions about the role of direct payments among world's economists. Many economists agree that direct payments represent a required basic income support for farmers while others consider that the direct payments should provide a compensation for the public goods farmers deliver. At the same time, some economists assume that there is no need of giving direct payments to farmers as we don't have to distinguish the agricultural sector from other economic sectors (Rizov, M. 2013; Schmid, E. 2006; Zhu, X. 2010).

Since the beginning of 90s, the direct payments had been the main tool in supporting the agricultural sector in the EU. At the beginning, all direct payments were connected to the farms' area or animals for compensating farmers' cuts in price support (The Future of CAP Payments, 2011).

Decoupled direct payments (Single Payment Scheme (SPS)) represent the most important CAP tool amounting to about 75% of the total CAP budget or about 30% of the EU budget.

The direct payments were introduced for the first time by MacSharry reform in 1992 as payments per hectare and animal head to compensate farmers for the strong cut in guaranteed prices, aimed at reducing the production supply and to facilitate the agreements in the Uruguay Round.

Since 2003, direct payments have been decoupled from farmers' production decisions being used as reference for previous support receipts in order to decide the rate of payment that must be allocated to each farmer. The new decoupled payments aimed at encouraging farmers and enhancing the competitiveness and sustainability of the agricultural sector.

For a long period of time, it has been considered that direct payments represent an alternative transfer mechanism and an important step to mitigate the negative effects of the market price support: high consumption prices and supply surplus. Also, they are considered as the best alternative to achieve farmers' income goals of the Common Agricultural Policy (CAP) and to avoid the regressive distribution effects of output linked support. (Sinabell, F. 2013)

Decoupled direct payments are supposed to have minimal or no allocative effects at all and thus they are considered as almost pure income support (Sinabell, F. 2013). Nowadays, there are many discussions on the issues focused on the idea of better linking payments to the provision of specific objectives (e.g. environmental aspect) as well as their distribution among individual farms and Member States (The Future of CAP Payments, 2011).

MATERIAL AND METHOD

In the given research, there were used secondary data provided by the Spanish Agrarian Guarantee Fund (FEGA) and the Ministry of Agriculture, Food and Environment of Spain (MAGRAMA). In order to reach the goal and conclude the research tasks the analysis and synthesis of scientific literature, systematization of information, comparative analysis and summarizing methods were used.

RESULTS AND DISCUSSIONS

In Spain, the Single Payment Scheme started to be implemented for the first time in 2006. The method selected to calculate the value of payments was the historical model, based on the payments received by the farmers in the previous years. Also, the charge of these payments was not linked with any production level. In order to access the payment the farmer had to have the rights on a certain number of hectares that had to be maintained in good agricultural and environmental conditions. According to the type of payment received during a certain period of time, the acquired rights are considered normal when they have as basis the areas for which they received direct payments, and they are considered special in the case of livestock payments without territorial basis; and withdrawal in the case of payments with compulsory withdraw of land. The 2009 CAP reform eliminated the compulsory withdrawal of arable land, thus in 2010 the withdraw rights were normalized and they started to be part of normal rights.

Nevertheless, Spain, at the beginning, had chosen the regime of partial decoupling with the purpose of maintaining the payments coupled as much as possible. This was mostly due to the fear that the abolition of coupled payments would lead to the abandon of the agricultural activity and to the dislocation of production in areas important for Spain. Thus, Spain maintained and introduced new specific payment regimes which would allow keeping linked the payments to the production level. The following examples could be cited: aid for the production of high quality durum wheat, aid per area of crop and leguminous plant producers, specific aid for rice production, aid for farmers producing potatoes for starch, aid per area for nuts, aid for seed producers, specific aid for the cotton crop production, aid for energetic crop production, aid for olive and tobacco production, aid for sugar beet and sugar cane producers, premium for the livestock sector i.e. sheep and goat breeding and payments for cattle breeding (Bardaji, I. 2014).

Later, along with CAP reform, during 2006-2012, the payments linked to the production level disappeared being integrated under the Single Payment Scheme or transformed into additional payments.

The evolution of the decoupling process in Spain and the implementation of SPS by sectors are presented in table 1.

Nowadays, in Spain the payments for cotton, national assistance for nuts and for sugar beet producers, the suckler cow premium as well as the assistance regime for cattle breeding are maintained coupled. Similarly, the specific assistance for compensating the disadvantages caused by the decoupled payments within the particularly sensitive sectors are covered aimed at encouraging specific types of agricultural production important for Spain focused on the environmental protection, animal welfare and the quality of the sold agricultural products. The funding for this kind of assistance is maintained within the limits

Table 1. Model of the implementation of the Single Payments Scheme in Spain according to the type of production

Types of production	% of decoupled payments (incorporated in SPS)				
	2006	2008	2010	2011	2012
Crop production:					
Arable crops, flax and hemp	75		100		
Durum wheat supplement	75		100		
Quality durum wheat			100		
Voluntary withdrawal	75		100		
Compulsory withdrawal	100				
Leguminous crops	100				
Rice	58				100
Cotton	65				
Potatoes for starch producers	40				100
Dried fodder	100				
Hops	100				
Sugar beet and cane	90				
Raw tobacco	38		45		
Olives	93		100		
Tomatoes for processing		50		100	
Fruits for processing (peaches, pears, cherries, raisins)		100			
Citrus for processing			100		
Vineyards elimination			100		
Potable alcohol distillation			100		
Protein crop premium					100
Transformations of dried forages					100
Seeds					100
Transformation of flax and hemp					100
Nuts					100
Livestock:					
Suckler cow premium and others	0				
Beef extensification payments	93				
Special premium for male bovine animals	93				
Additional payments for bovine	93				
Cattle slaughter premium	60 (adult) 0 (calves)				100
Prime for sheep and goat and other animals	50		100		
Additional payment for sheep and goat breeding	100				
Dairy premium and additional payments	90				

Source: Bardaji I. (2014), Reflexiones en torno a la PAC, Serie Economía, CAJAMAR Caja Rural

of maximum 10% from the national single payment scheme and it is not compulsory to be used in the sector of origin. In Spain the following national assistance programs are implemented:

- National program to promote arable land rotation in dry lands, with the aim to slowdown the strong tendency of the last years towards the cereal monoculture;

- National program to promote and protect the quality of production in the vegetable sector for human consumption;

- National program to promote specific agricultural activities which bring large environmental benefits by growing certain species of nuts. It is granted specific assistance for the producers of almonds, hazelnuts, nuts and carobs that improve the administration of vegetal residues from pruning and contribute to reduce air pollution.

- National program to promote the quality of tobacco, with the aim to improve the trade and competitiveness.

- National program to promote the quality of cotton, with the aim to facilitate its processing and improve crop profitability.

- National program to promote the quality of sugar beet.
- Assistance for improving the quality and trade of bovine meat. The payments are allocated per head of slaughtered cattle under certain quality systems.
- Assistance to compensate the specific disadvantage affecting the farmers breeding suckler cows.
- Assistance for improving the quality of sheep and goat breeding.
- Assistance for compensating the specific disadvantage affecting the farmers involved in the sheep breeding sector in order to ensure their stay in this activity.
- Assistance to compensate the specific disadvantages of farmers involved in the goat breeding sector, particularly those who are located in less favorable areas.
- Assistance to compensate the specific disadvantages affecting the farmers involved in the dairy and meat production sector with the aim to progressively eliminate the quota regimes.
- Assistance to improve the quality of milk and dairy products according to certain standards of quality (Bardaji, I. 2014).

The decoupling of payments in Spain had various effects. The new system of direct payments led to a higher stability of farm incomes and created an agriculture more exposed and market oriented. Producers respond easier to market signals regarding prices, which motivates a higher intensification and concentration of high value crop production. Farmers' decision to focus on the specialized production instead of higher production diversity leads to the abandon of less profitable crops and areas. As result of the CAP reform that was implemented in Spain, the area of cultivated land decreased, more in dry land than in the irrigated one, the extensive livestock decreased especially goat and suckler cow breeding and there was a continuous decrease in crop diversity. Olive and vineyard growing benefited the most from the reform becoming important alternatives both in dry and irrigated lands. Also, the farmers have been entitled with detached land rights but these rights have been associated with the availability of resources, fact which involved important distortions both on the land market and land lease market. The change in the agricultural structure (except the farms of larger size and more commercially oriented) and the abolition of coupled payments in intensive crop growing like cotton or tobacco, led to a decline in the use of agricultural labour. But this decline that was the result of the economic crisis, which fostered the transfer of active population in other agricultural sectors, was not so strong in the last years (Bardaji, I. 2014).

An important challenge is the equal distribution of direct payments, because in some cases farmers that cultivate the same crop can receive different payments. Similarly to other member states, Spain is facing an unequal distribution of payments resulted from CAP development, diversity of production and the use of historical references to fix the decoupled payments per farm.

In Spain, the main institution responsible for the administration and coordination of Single Payment Scheme (SPS) is the Spanish Agrarian Guarantee Fund (FEGA). FEGA is an autonomous organization under the Spain Ministry of Agriculture, Food and Environment (MAGRAMA) aimed at ensuring that CAP subsidies are strictly implemented in order to achieve the objectives of the policy. The beneficiaries of these subsidies have met the requirements established for their concession, within the timescales laid out in the regulatory legislation, while promoting homogenous application of CAP subsidies other than the whole state territory.

According to FEGA, in 2011, out of total 74% of beneficiaries only 15% received the payments (Fig. 1). This fact indicates to the significance of small farms and to the fact that the concentration of the payments result from the differences in historical payments of different products. Also, it can be noticed regional differences in the support level, because of the Spanish product diversity and specialization of agricultural sectors.

In the last fifteen years, in Spain, more than 89 billion euros have been allocated as direct payments under CAP. The average amount was of 5968 mio euro per year. In 2006, the largest amount of funds was allocated to Spain as direct payments: 6694 mio euro for 962 thousands agricultural producers. The reason was that in that year, the total amount of direct payments allocated to member countries increased as well.

In 2014, in Spain, according to the distribution of payments by sectors under the Single Payment Scheme (SPS), the largest amount - of 264 mio euros - was for allocated as compensations for the seafood product sellers located in the following periphery regions: Azores, Madeira, Canarias Islands,

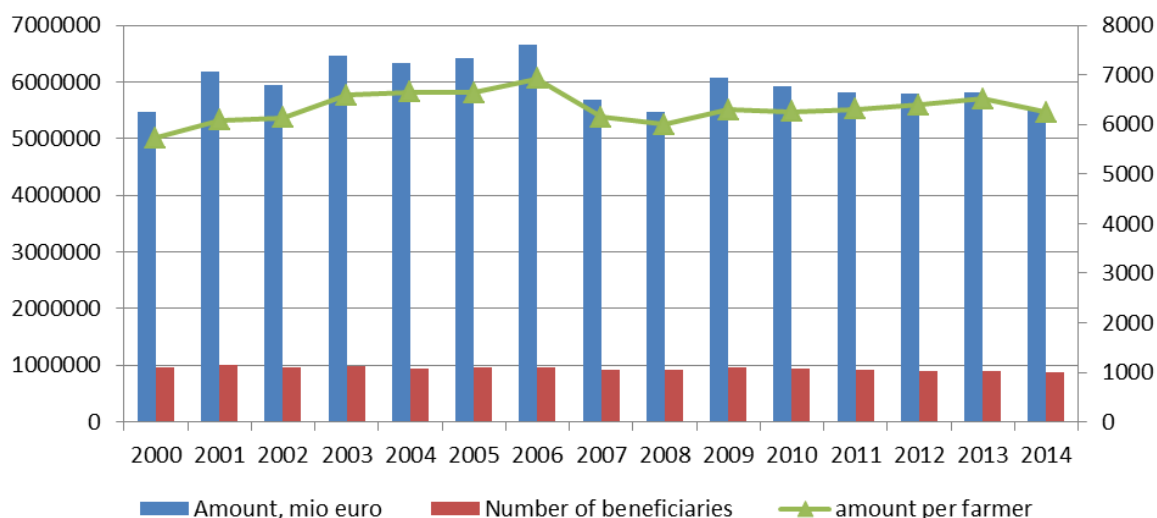


Figure 1. Distribution of direct payments in Spain

Source: based on FEAGA data

French Guyana and Reunion (POSEICAN). It was followed by the cattle breeding sector (248 mio euro), which also had the largest number of beneficiaries (42385), wine and alcohol production (191 mio euro) and fruit and vegetable production (183 mio euro).

Table 2. Distribution of payments in Spain, by sectors, 2014

Sector	Amount, Euros	N° of Beneficiaries
Single Payment Scheme (SPS)	4.404.727.113,81	853.261
Herbaceous crops	-97.281,09	57
Rice	17.703,29	7
Olive oil	131.093,31	69
Fruits and vegetables	183.347.791,06	829
Sugar and isoglucose	18.524.546,1	5.661
Fiber fax and hemp	139.976,29	2
Cotton	62.491.943,45	5.689
Silkworms	7.729,08	13
Wines and alcohol	191.660.324,58	9.368
Milk and dairy products	492.709,71	60
Cattle	248.498.132,11	42.385
Sheep and goat	41.337,62	24
Swine	8.761,6	2
Beekeeping	5.076.754,79	2.315
POSEICAN	264.547.726,71	15.547
Rural development	-22.833,49	43
Promoting measures	4.224.857,78	14
Other recovers, irregularities or fraud	-14.082.951,4	6.298
Other costs	-95.308,52	289
Compliance	-1.119.626,06	4.303
Additional payments and derivative modulation	557,3	2
Specific aid (art.68, Regulation (EC) n° 73/09)	200.556.703,51	122.449
Deviation from previous years	-75.671.983,97	7
Total	5.493.405.777,57	878.655

Source: based on MAGRAMA data

The average value of the single payment rights (SPR) does not reach 200 euros per hectare in Madrid, Asturias, Cantabria and La Rioja, while it can be over 400 euro/ha in the CCAA (Autonomous Communities) for the intensive irrigated crops or for olive production, like in Murcia and Andalucía.

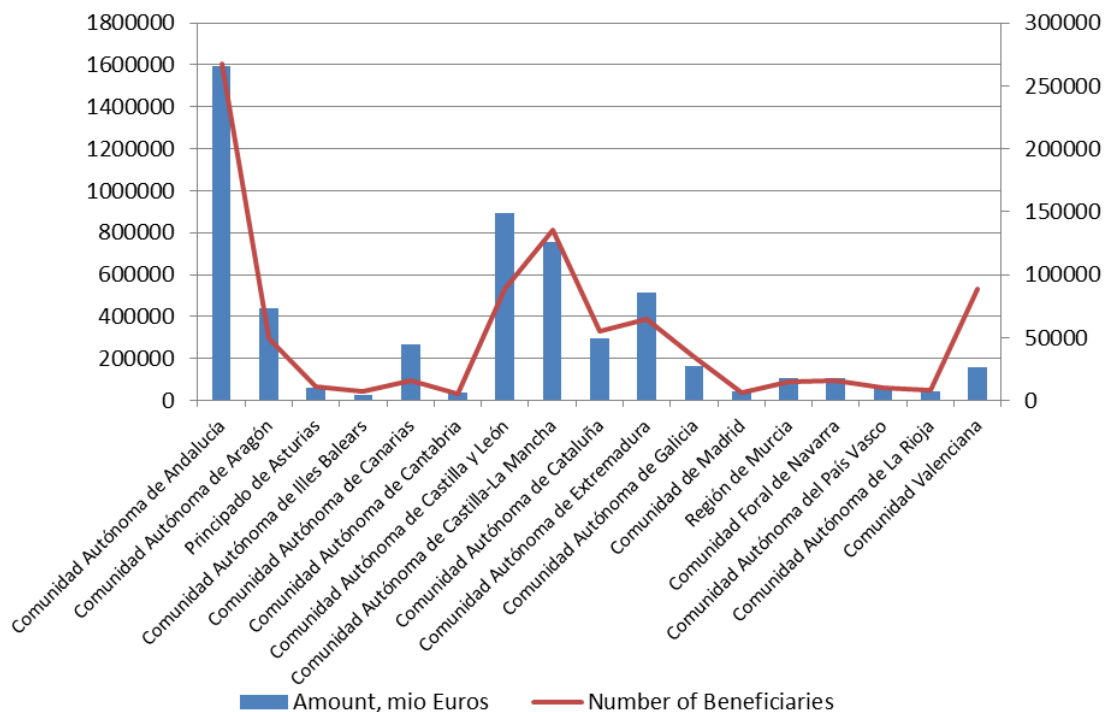


Figure 2. Distribution of payments in Spain by territorial aspect, 2014

Source: based on MAGRAMA data

Concerning the territorial distribution of direct payments in Spain and according to the amount and number of agricultural producers, the leader who benefitted the most is Autonomous Community of Andalucía, followed by Autonomous Community of Castilla y León and Autonomous Community of Castilla-La Mancha. Nevertheless, the amounts distributed by farm were larger in the last two regions, compared to Andalucía region where the number of beneficiaries was higher.

As a consequence of the high production diversity in Spain and the existence of a large area without the historical right to payment, there is recorded a variability in the regional payment per hectare which is higher in Spain than in other European countries. If in Spain the average payment per hectare is 202 euros and the real average is 285 euros, then in other countries as France or UK this difference is smaller. In France the average payment per hectare is 294 euro and the real average - 300 euro and in UK 212 and 229 euros respectively (Bardaji, I. 2014).

CONCLUSIONS

1. Since 1990s direct payments have become the main tool to support EU farmers. At the beginning all payments were coupled to the area or animals and aimed at compensating farmers' cuts in price support. Later, gradually, all payments became decoupled from farmers' production decisions being used as reference for previous support receipts in order to decide the rate of payment that must be allocated to each farmer.

2. In Spain this process started to be implemented in 2006, at the beginning according to the regime of partial decoupling, maintaining the payments as more coupled as possible because of the fear that the abolition of coupled payments would lead to the abandon of the agricultural activity. Along with the CAP reform until 2012, the coupled payments disappeared, being integrated under the Single Payment Scheme or transformed into additional payment. The new decoupled direct payments contribute to a higher stability of farms' incomes and create a more exposed and market oriented agriculture.

3. Unfortunately the distribution of direct payments in Spain, similar to other member states, is

unequal, this fact being caused by CAP development, diversity of production and the use of historical references to fix the decoupled payments per farm.

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