

ANNEX 2
REPORT ON THE DISTRIBUTION OF DIRECT AIDS TO THE PRODUCERS
(FINANCIAL YEAR 2009)

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 2009. 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 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 5% in 2008) with the transfer of the corresponding funds to Rural Development. Most of these changes started taking effect from 2005 onwards.

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

With the reform implementation in 2005-2007, parallel market and policy developments indicated a rapidly changing environment facing EU agriculture. These developments, together with the experience gained from implementation, indicated the need for CAP adjustments which could not be foreseen when the 2003 reform had been carried out. The aims of the 2008 Health Check were therefore to: (1) assess the experience from the implementation of the Single Payment Scheme and introduce adjustments that further simplify and increase the effectiveness of the policy; (2) introduce adjustments to the CAP in order to allow it to respond to market opportunities and face new challenges related to energy/climate change policy objectives.

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 the 2003 CAP reform. However, the financial year 2009 - comprising payments that mainly, but not exclusively, correspond to policy year 2008 - 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 were 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.

It should 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.

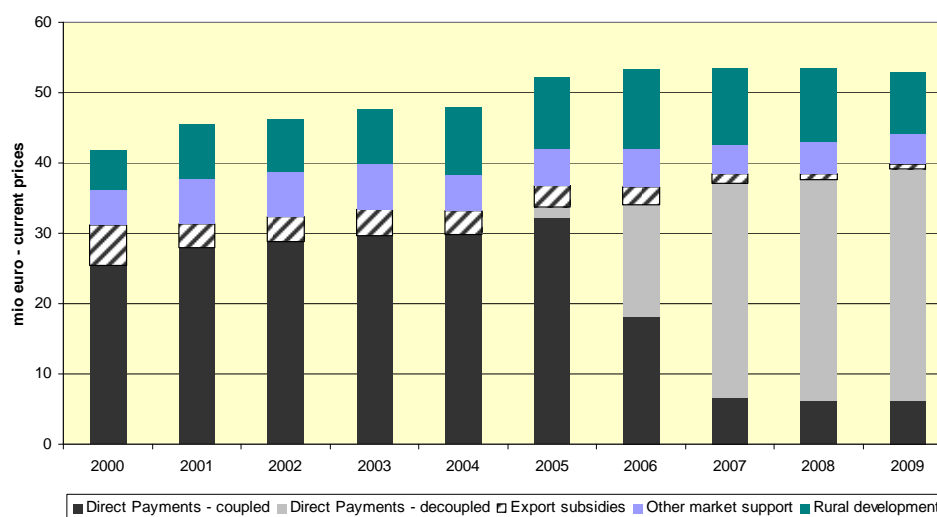
It is advised to carefully consider limitations and comments as described in Annex 1.3 when consulting and interpreting the tables on the distribution of direct payments.

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 2009, after the implementation of Agenda 2000 and of the 2003 CAP reform, they reached 39 billion euros. It corresponds to 90% 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)².

Direct Payments increased by 1500 million euros between 2008 and 2009 (+4% compared to 2008); more than half of this augmentation is represented by the increase of payments for SAPS in the new Member States, owing to the scheduled increments of such payments for the EU-12: from 40 to 50% (from 25 to 30% for Bulgaria and Romania) of the full amount from 2008 to 2009.

Graph 1 CAP expenditure in million EUR (current prices), 2000-2009



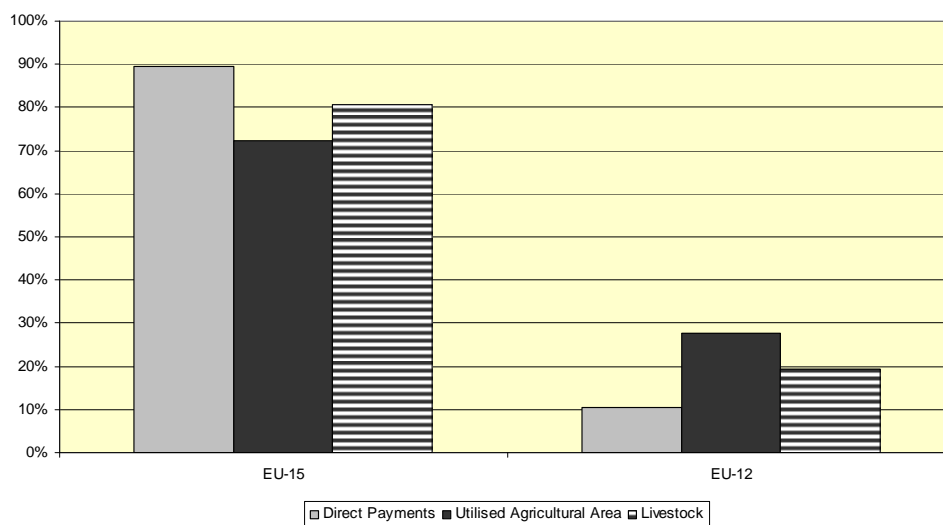
3. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN MEMBER STATES

As the direct payments were 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.

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).

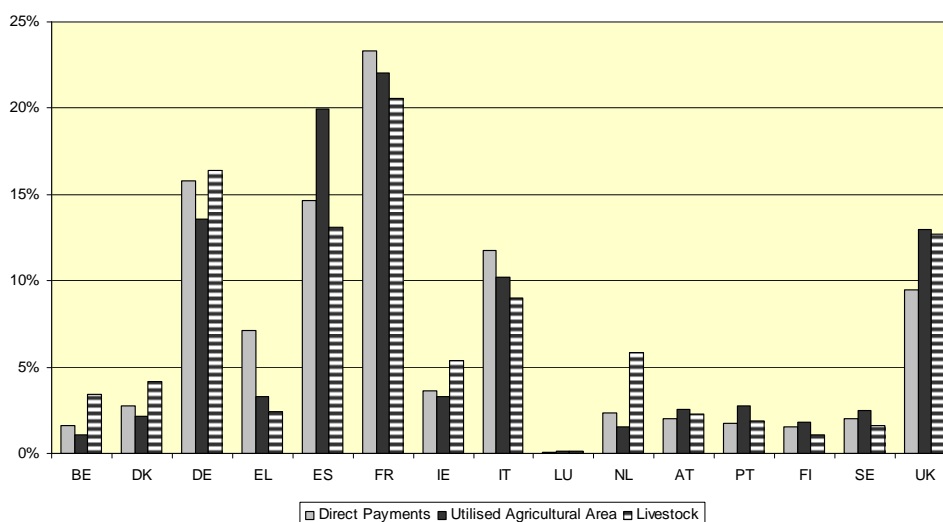
² Council Regulation (EC) N°1290/2005 of 21 June 2005 (OJ L 209, 11.8.2005, p. 1).

Graph 2a Distributions of Direct Payments, Utilised Agriculture Area and Livestock³ in the EU-27 between EU-15 and EU-12, 2009 Financial Year and 2007 Farm Structure Survey (EU-27=100%)



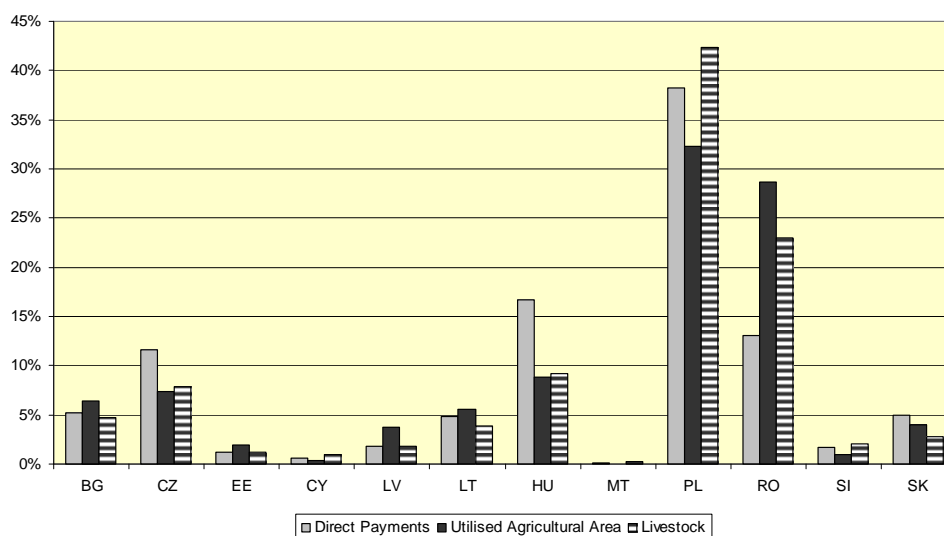
In any case, for the 2009 financial year, it is still difficult to compare the 27 Member States as for the Member States having acceded in 2004, direct payments were only at 50% of the full amount and for Bulgaria and Romania they were only at 30%, as already mentioned before. For this reason it is more 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, 2009 Financial Year and 2007 Farm Structure Survey (EU-15=100%)



³ Livestock is measured in Livestock Units, i.e. a standard measurement unit that allows the aggregation of the various categories of livestock in order to enable them to be compared (Regulation (EC) No. 1166/2008).

Graph 2c Distributions of Direct Payments, Utilised Agriculture Area and Livestock between Member States of EU-12, 2009 Financial Year and 2007 Farm Structure Survey (EU-12=100%)

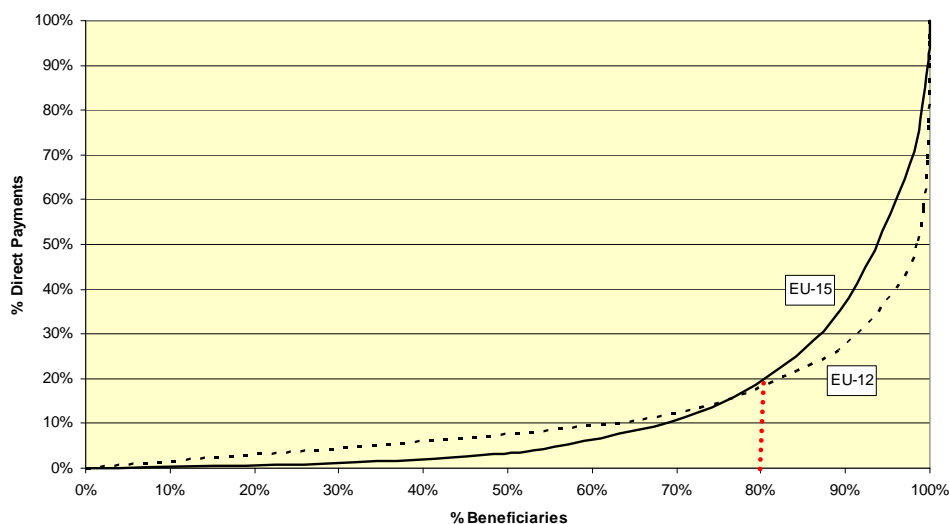


4. DISTRIBUTION OF DIRECT PAYMENTS BETWEEN BENEFICIARIES

4.1. Distribution of direct payments between beneficiaries in 2008

Direct payments are not equally distributed in the European Union: 80% of beneficiaries received around 20% of the direct payments in 2009, both in EU-15 and in EU-12.

Graph 3 Distribution of direct payments between beneficiaries in EU-15 and in EU-12, 2009 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).

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. On the contrary, due to the increase in the number of beneficiaries with a low average amount of direct payments after the EU-12 accession - and above all after the accession of Bulgaria and Romania - EU-27 average amount per

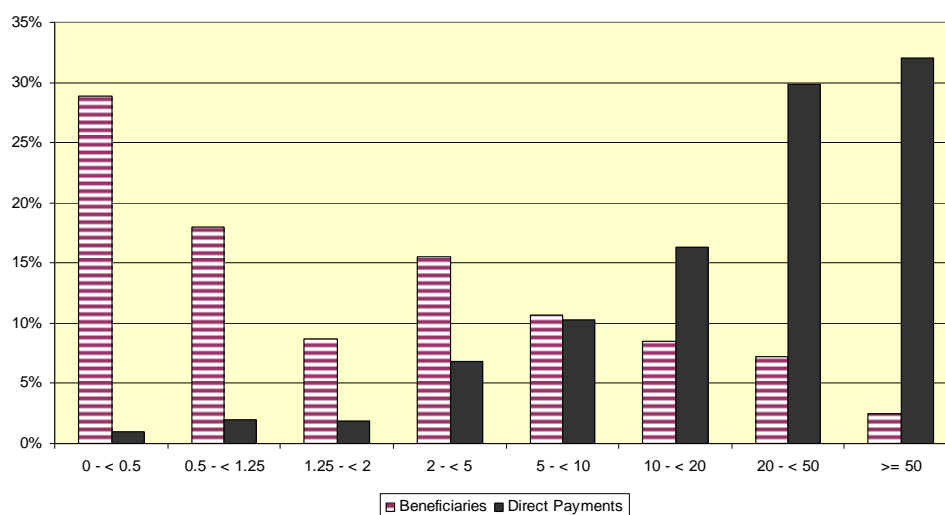
beneficiary was less than 5000 euros in 2009. Figures do not correspond to changes in structural trends of the farm sector but reflects the impact of the EU enlargement indeed.

Moreover, 97% of beneficiaries in EU-12 (more than 3 million) received no more than 5000 euros in 2009.

		2009		
		EU-12	EU-15	EU-27
number of beneficiaries (.000)		3 163	4 707	7 870
average amount (€beneficiary)		1 291	7 441	4 970
receiving 5 000 euros or less	% beneficiaries	97%	71%	82%
	% direct payments	43%	12%	15%

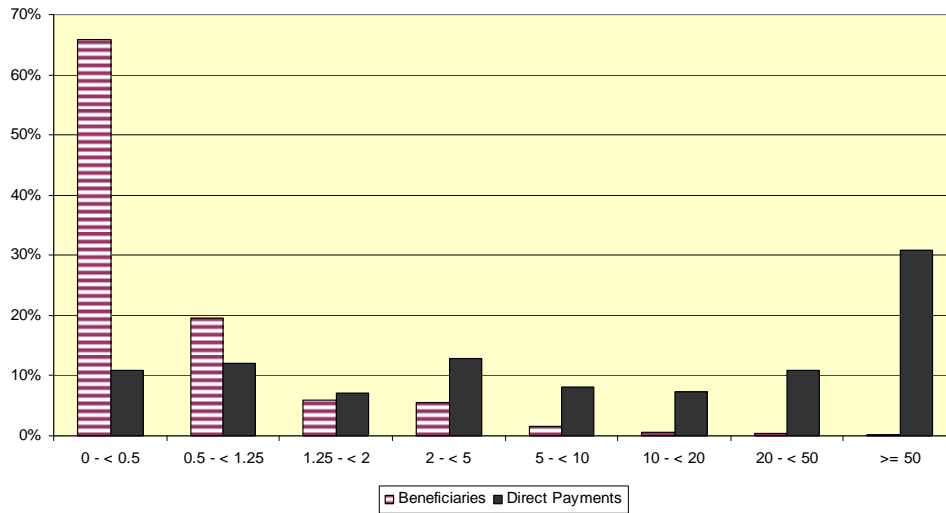
In the EU-15 it is estimated that 80% of beneficiaries received a percentage of direct payments varying approximately between 11% (Portugal) and 59% (Luxemburg).

Graph 4a Distribution of beneficiaries and of direct payments in the EU-15 by category of direct payments received (thousand EUR), 2009 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).

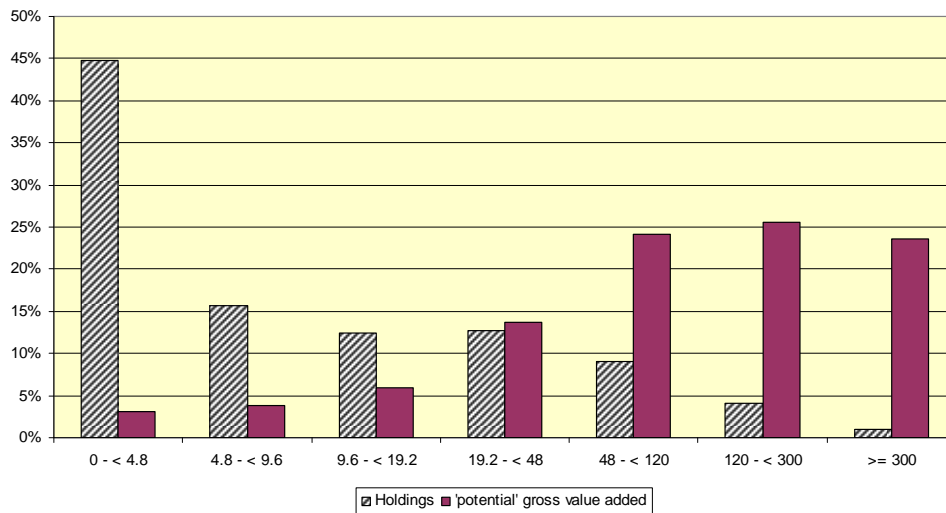
Graph 4b Distribution of beneficiaries and of direct payments in the EU-12 by category of direct payments received (thousand EUR), 2009 Financial Year



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 size⁴, as it can be seen when comparing Graphs 4a,b and 5a,b.

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

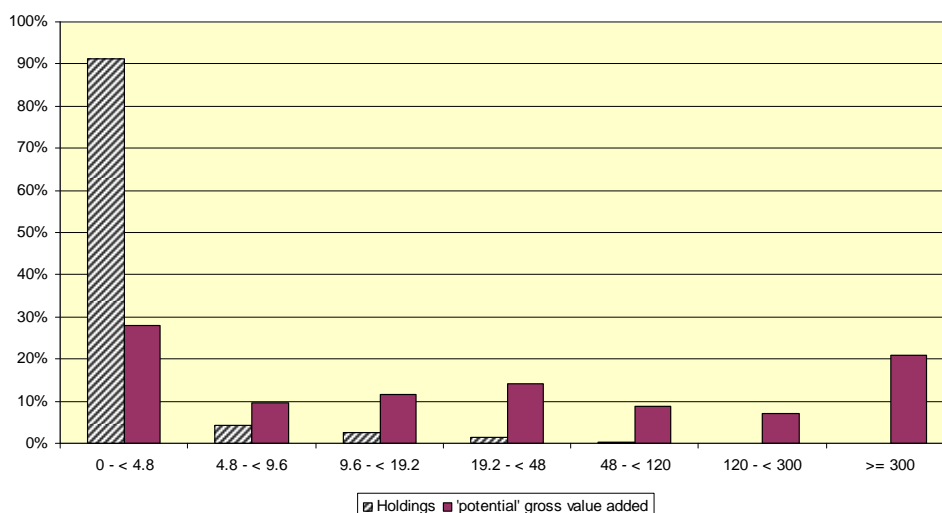
Graph 5a Distribution of holdings and of “potential” gross value added in the EU-15 by category of “potential” gross value added (thousand EUR), 2007 Farm Structure Survey



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 number of holdings and in the “potential” gross value added for the small farms category in the EU-12 (Graph 5b).

⁴ 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 5b Distribution of holdings and of “potential” gross value added in the EU-12 by category of “potential” gross value added (thousand EUR), 2007 Farm Structure Survey



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.

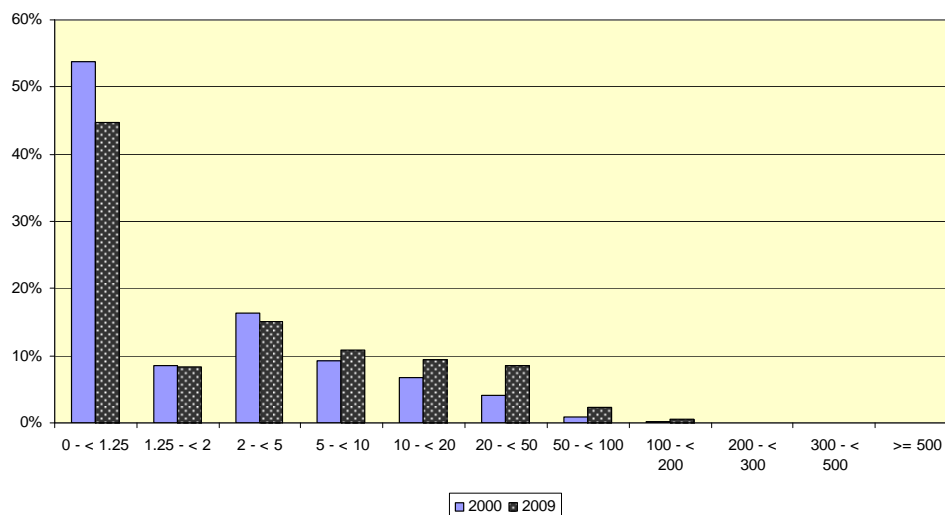
This is why the Commission has expressed on many occasions its concern with the way direct payments are distributed across agricultural producers and Member States. Already in the previous reforms the Commission proposed mechanisms to decrease or to limit the amount of direct payments to the largest beneficiaries with a view to improving the distribution of direct support. 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 2009 Financial Years

For the old Member States (EU-14⁵), when comparing the distribution in 2000 and in 2009, it appears that the share of beneficiaries receiving a small amount of direct payments is decreasing.

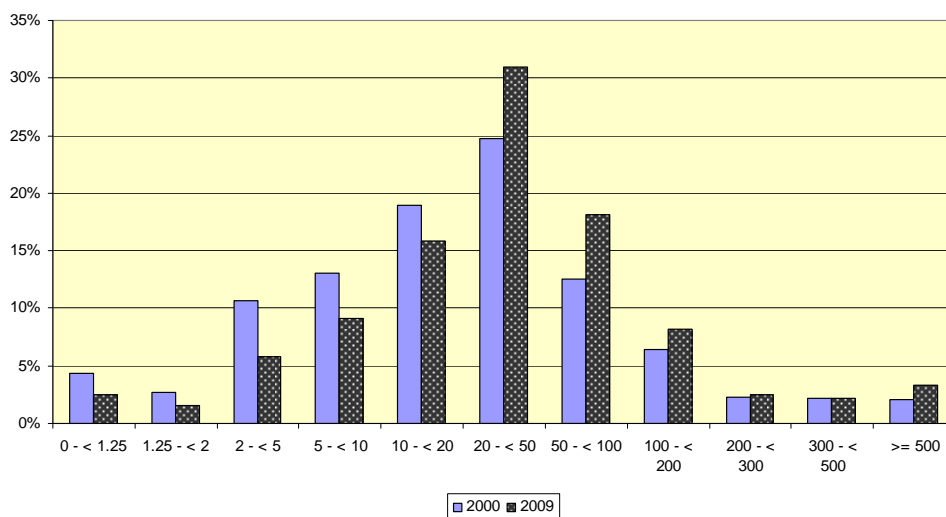
⁵ The comparison is made for the EU-15 without Greece (EU-14), as the distribution of beneficiaries was not available for this Member State in 2000.

Graph 6a Distribution of beneficiaries in the old Member States (EU-15 without Greece), by category of direct payments received (thousand EUR), 2000 and 2009 Financial Years



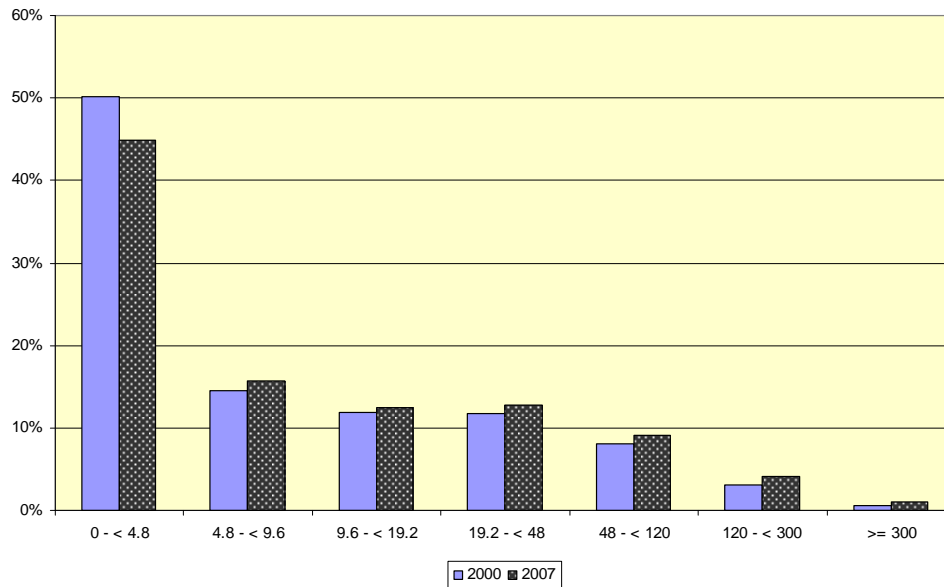
		2000	2009		
		EU-14	EU-14	EU-15	EU-27
average amount (€beneficiary)		8 073	8 483	7 441	4 970
receiving 5 000 euros or less	% beneficiaries	79%	68%	71%	82%
	% direct payments	18%	10%	12%	15%

Graph 6b Distribution of direct payments in the EU-14 (without Greece) by category of direct payments received (thousand EUR), 2000 and 2009 Financial Years



There are several reasons for this change. First of all, there are less small farms following 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 (thousand EUR), 2000 and 2007 Farm Structure Surveys



Moreover, the implementation of the different CAP reforms 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 years⁶).

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.

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, almost all direct payments that have not been fully decoupled from production yet will be decoupled by 1st 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.

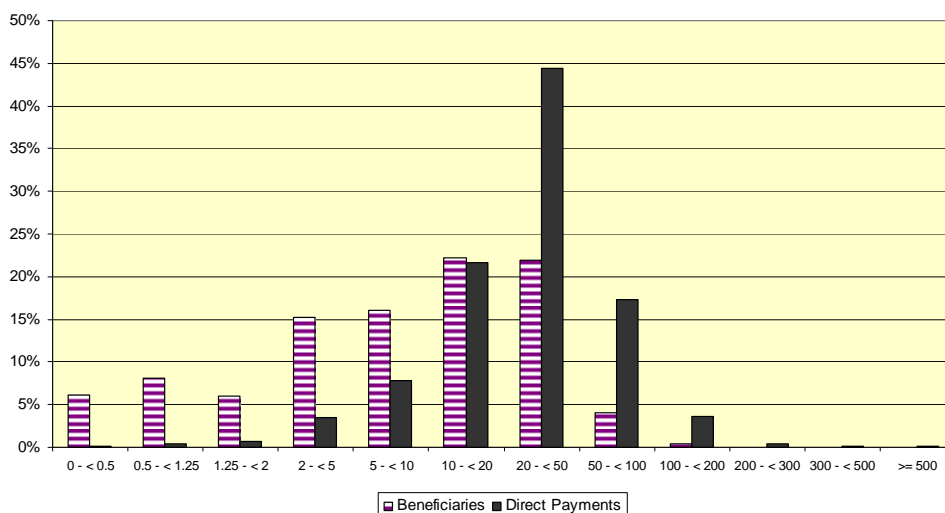
⁶ This comparison can not be done for the last financial years, due to the introduction of the Single Payment Scheme.

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 within a Member State.

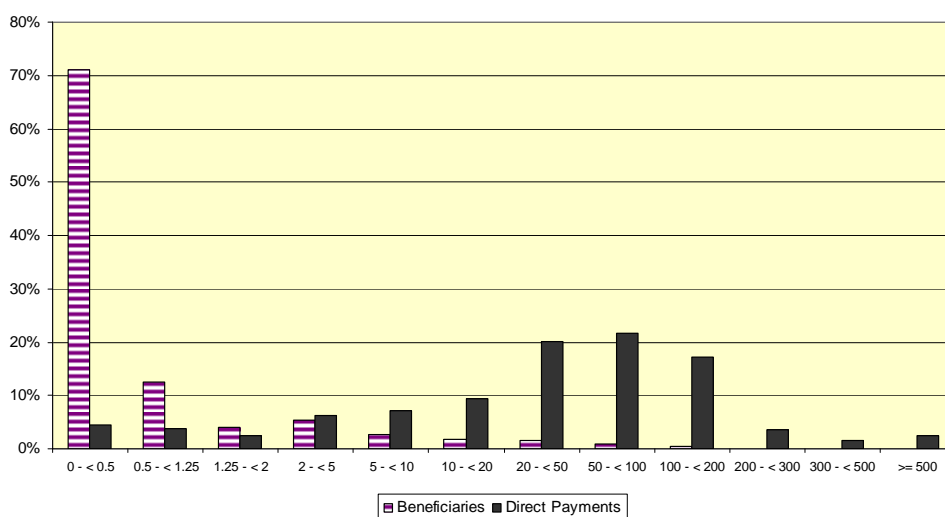
Compulsory modulation for all payments above 5.000 euros in the EU-15, which was introduced by the 2003 reform in order to transfer a percentage of direct payments to Rural Development, will increase until it reaches 10% in 2012. The EU-12 Member States have been exempted from modulation until their 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 influence the 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 exclude a certain number of small farmers from the beneficiaries.

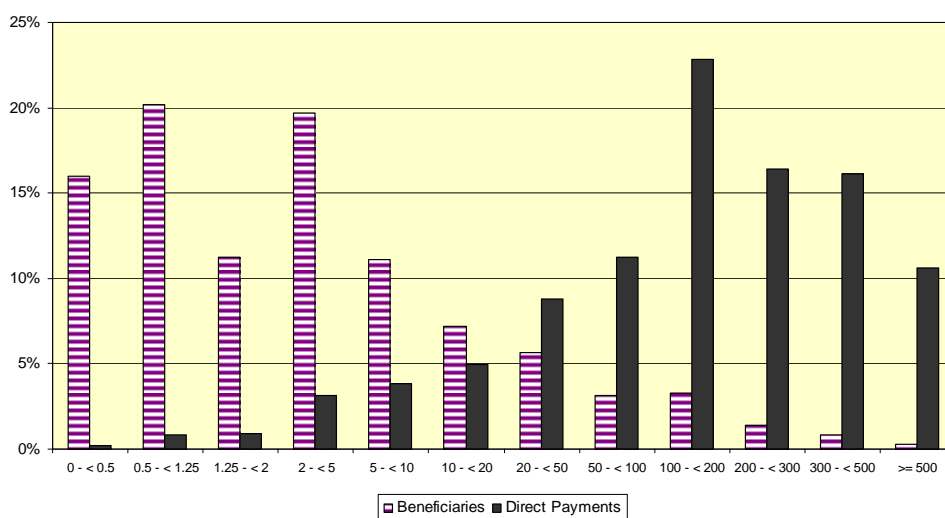
Graph 8 Distribution of beneficiaries and of direct payments in Belgium by category of direct payments received (thousand EUR), 2009 Financial Year



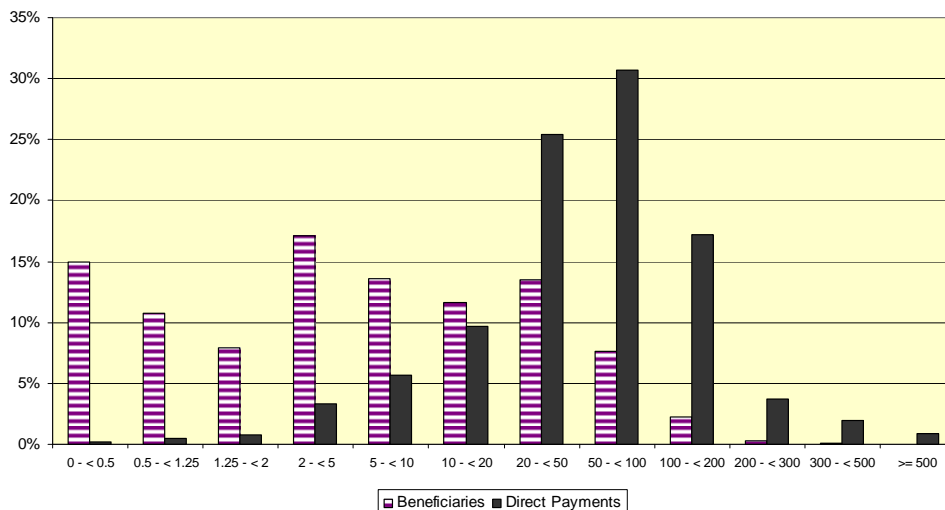
Graph 9 Distribution of beneficiaries and of direct payments in Bulgaria by category of direct payments received (thousand EUR), 2009 Financial Year



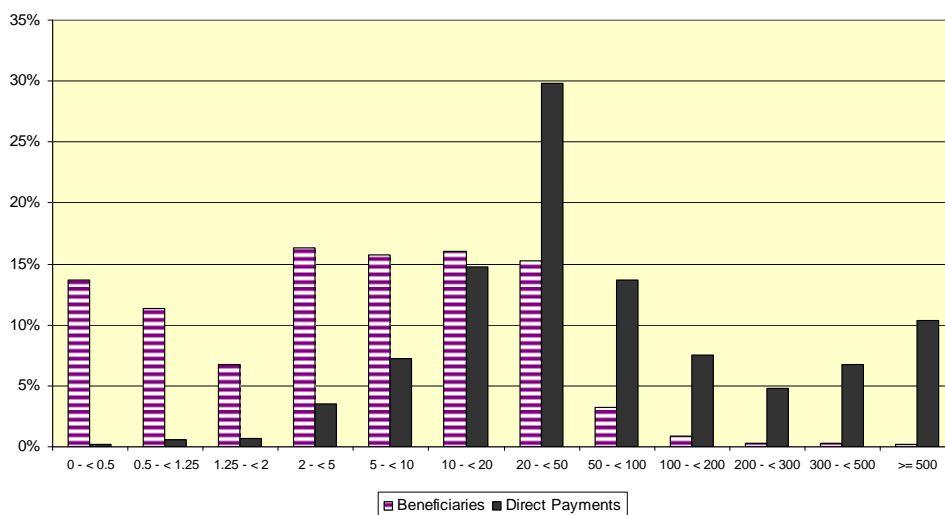
Graph 10 Distribution of beneficiaries and of direct payments in the Czech Republic by category of direct payments received (thousand EUR), 2009 Financial Year



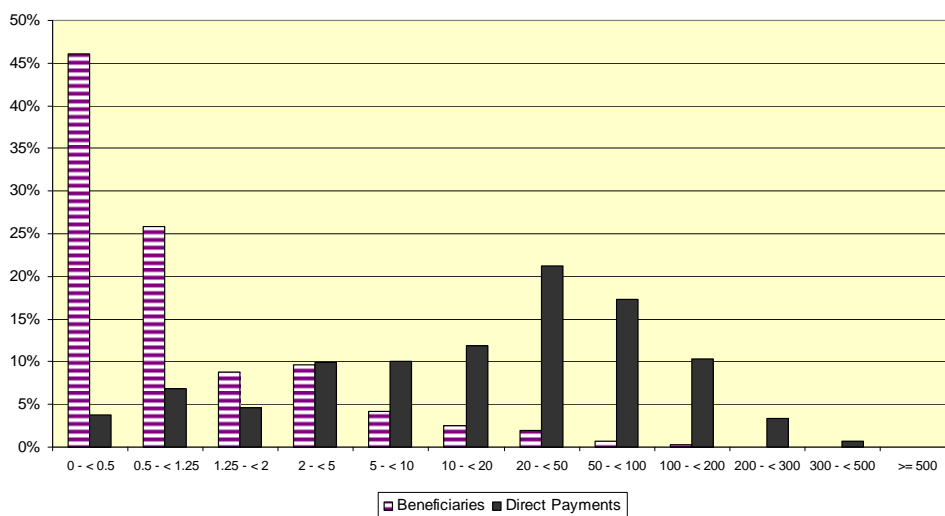
Graph 11 Distribution of beneficiaries and of direct payments in Denmark by category of direct payments received (thousand EUR), 2009 Financial Year



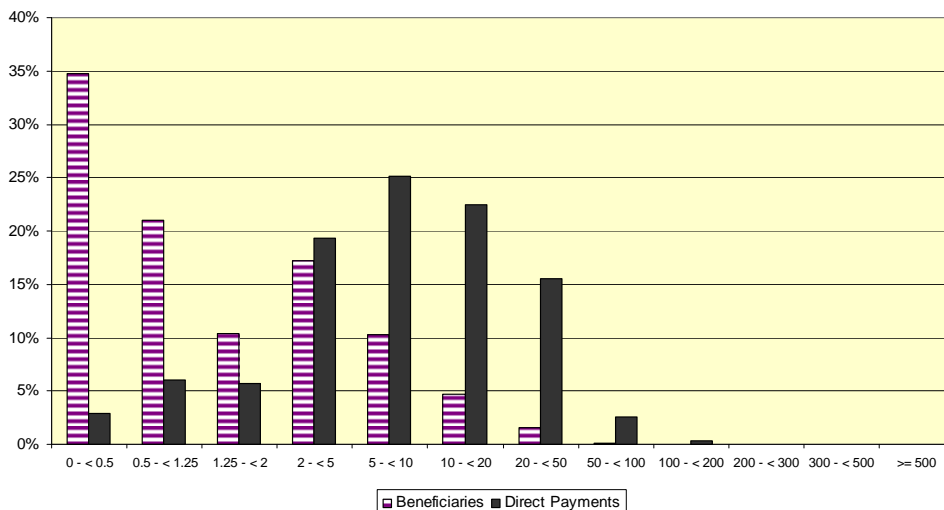
Graph 12 Distribution of beneficiaries and of direct payments in Germany by category of direct payments received (thousand EUR), 2009 Financial Year



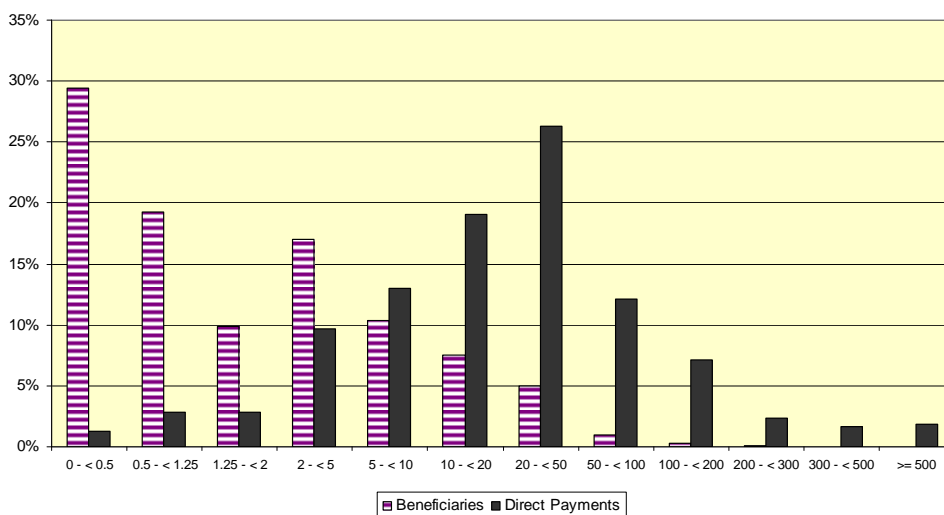
Graph 13 Distribution of beneficiaries and of direct payments in Estonia by category of direct payments received (thousand EUR), 2009 Financial Year



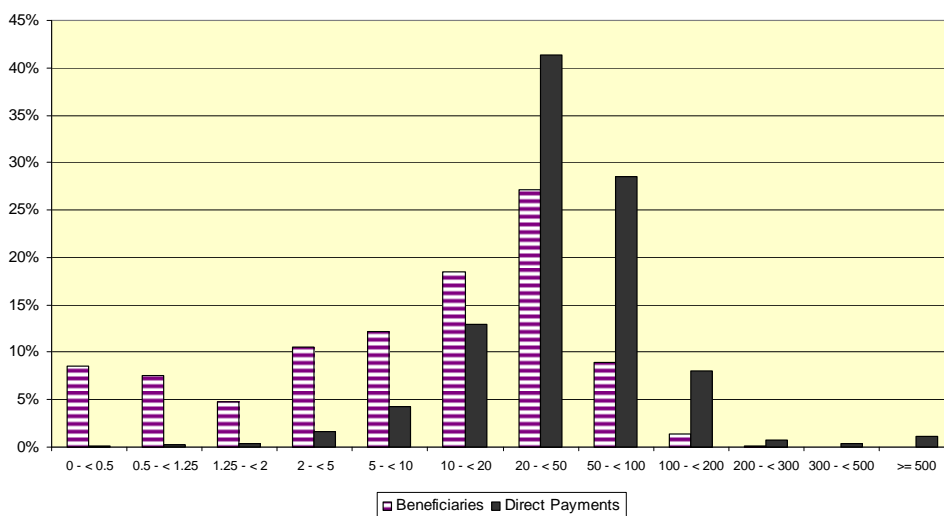
Graph 14 Distribution of beneficiaries and of direct payments in Greece by category of direct payments received (thousand EUR), 2009 Financial Year



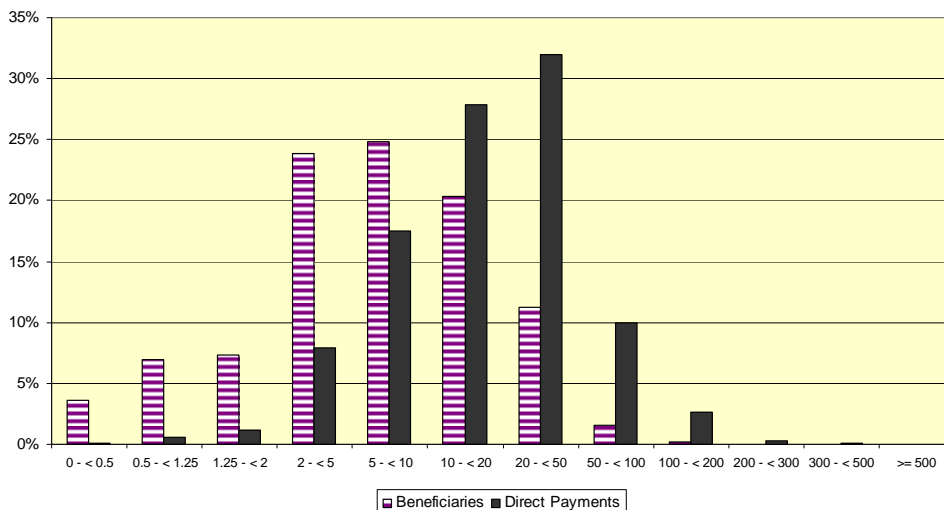
Graph 15 Distribution of beneficiaries and of direct payments in Spain by category of direct payments received (thousand EUR), 2009 Financial Year



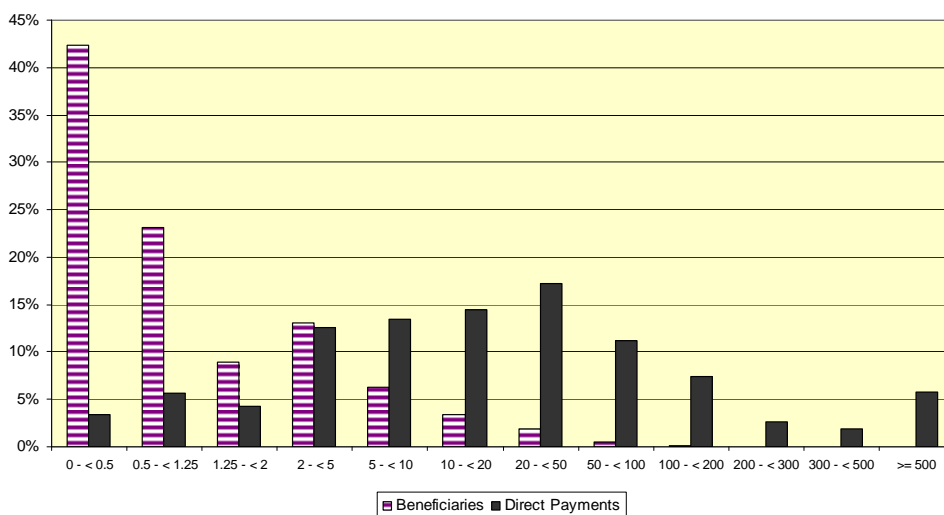
Graph 16 Distribution of beneficiaries and of direct payments in France by category of direct payments received (thousand EUR), 2009 Financial Year



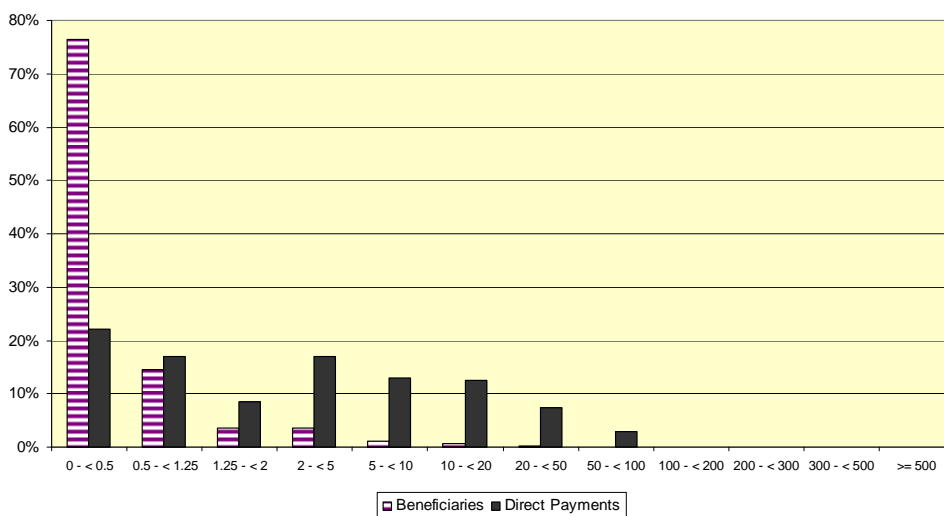
Graph 17 Distribution of beneficiaries and of direct payments in Ireland by category of direct payments received (thousand EUR), 2009 Financial Year



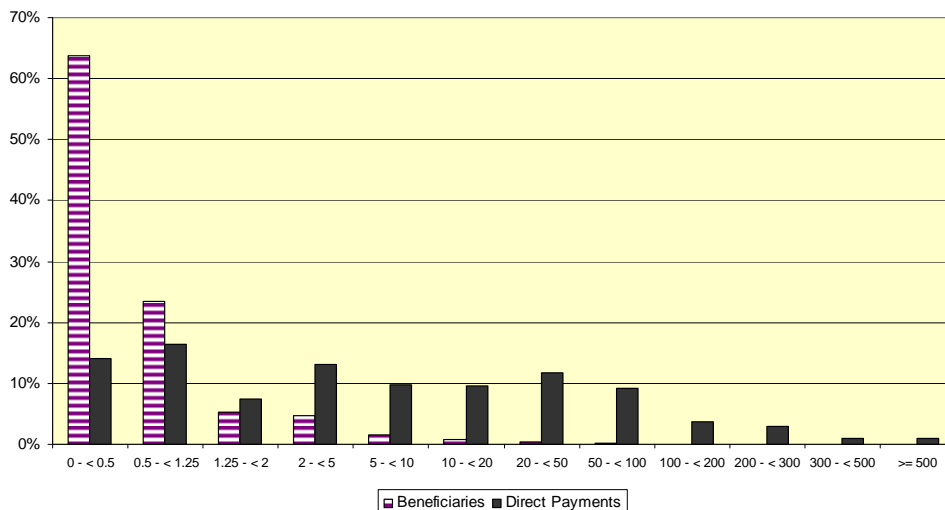
Graph 18 Distribution of beneficiaries and of direct payments in Italy by category of direct payments received (thousand EUR), 2009 Financial Year



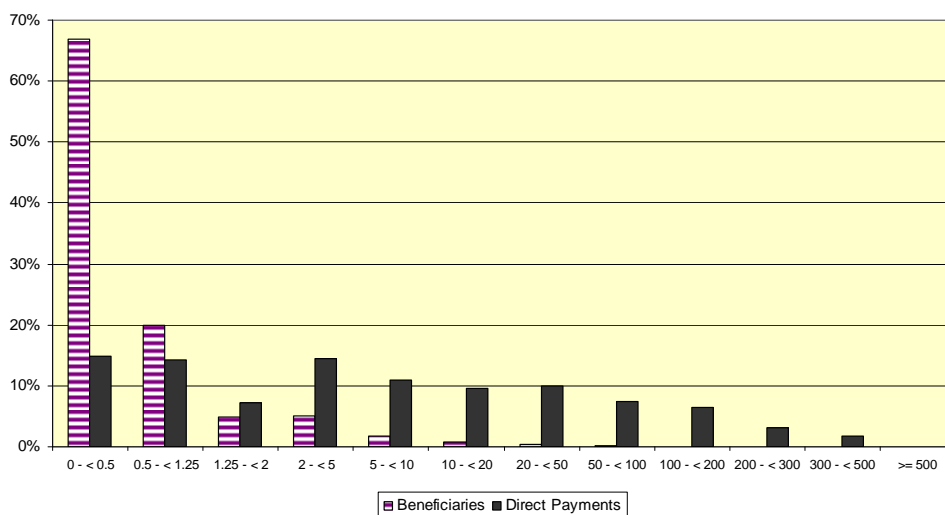
Graph 19 Distribution of beneficiaries and of direct payments in Cyprus by category of direct payments received (thousand EUR), 2009 Financial Year



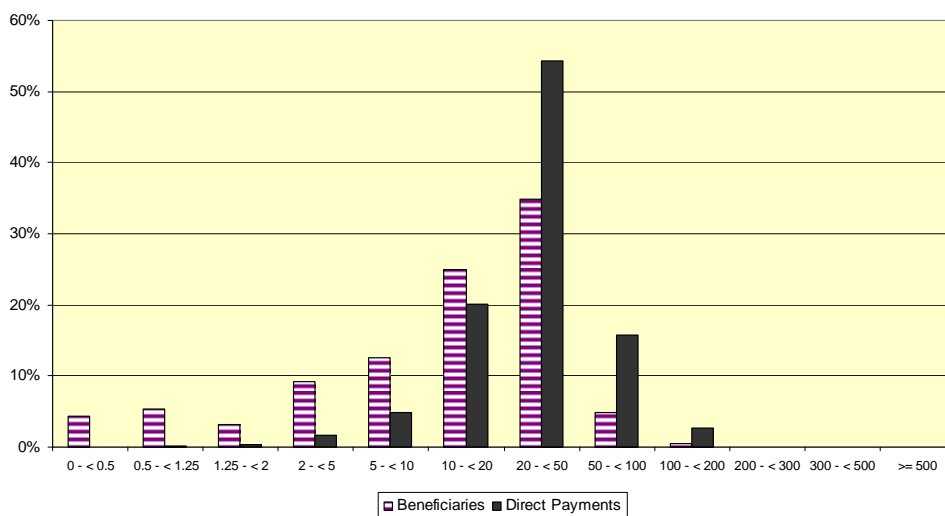
Graph 20 Distribution of beneficiaries and of direct payments in Latvia by category of direct payments received (thousand EUR), 2009 Financial Year



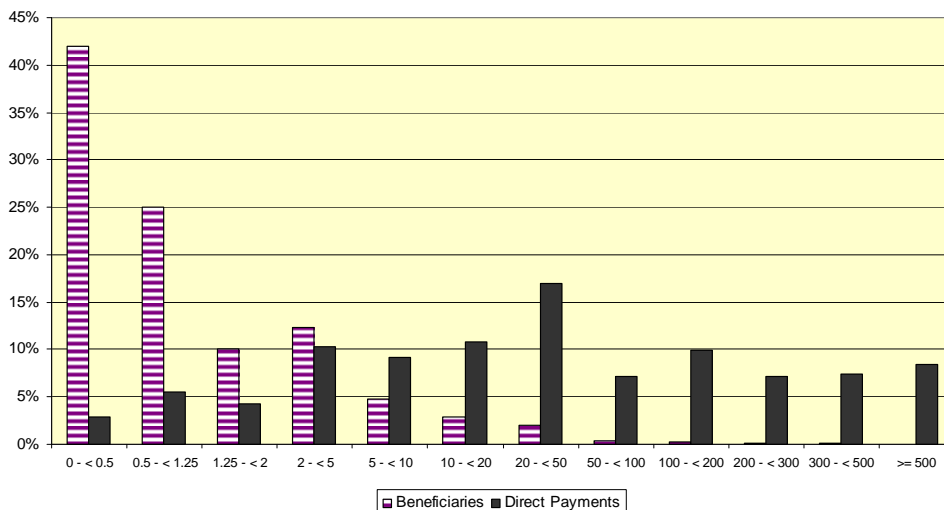
Graph 21 Distribution of beneficiaries and of direct payments in Lithuania by category of direct payments received (thousand EUR), 2009 Financial Year



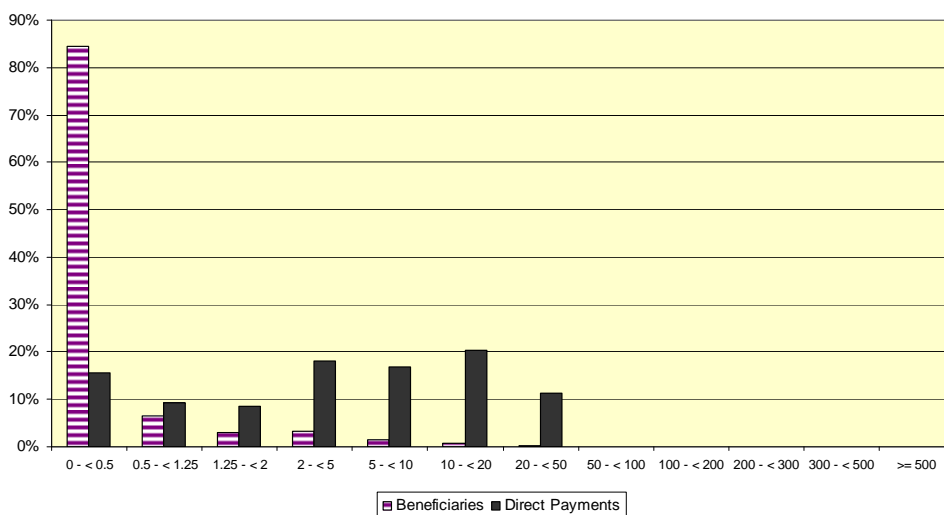
Graph 22 Distribution of beneficiaries and of direct payments in Luxemburg by category of direct payments received (thousand EUR), 2009 Financial Year



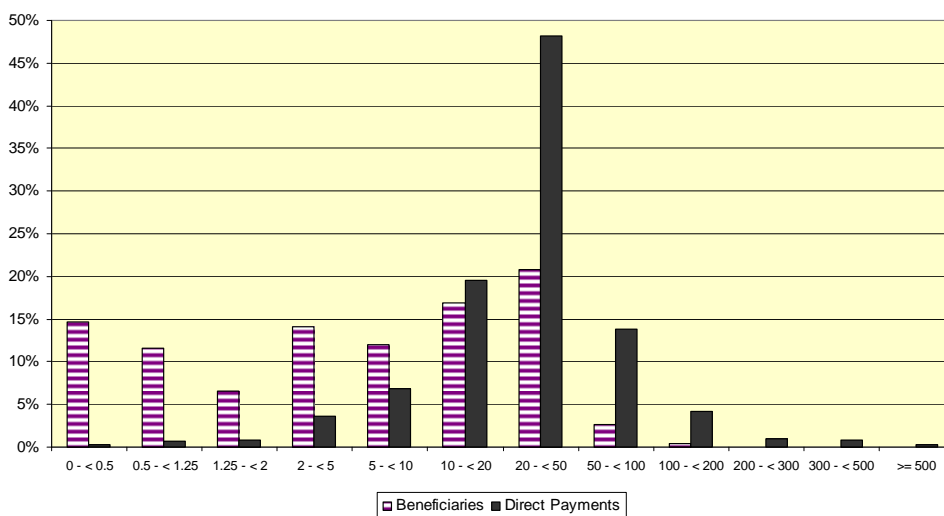
Graph 23 Distribution of beneficiaries and of direct payments in Hungary by category of direct payments received (thousand EUR), 2009 Financial Year



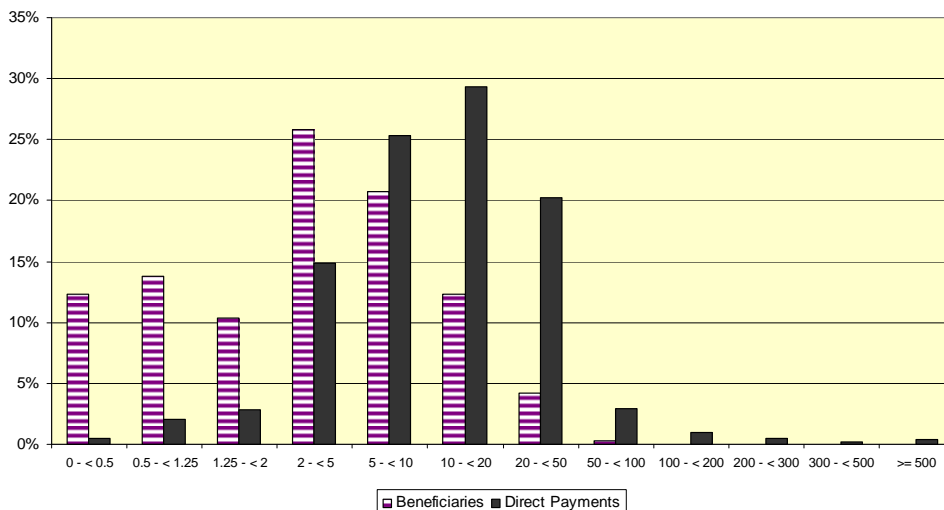
Graph 24 Distribution of beneficiaries and of direct payments in Malta by category of direct payments received (thousand EUR), 2009 Financial Year



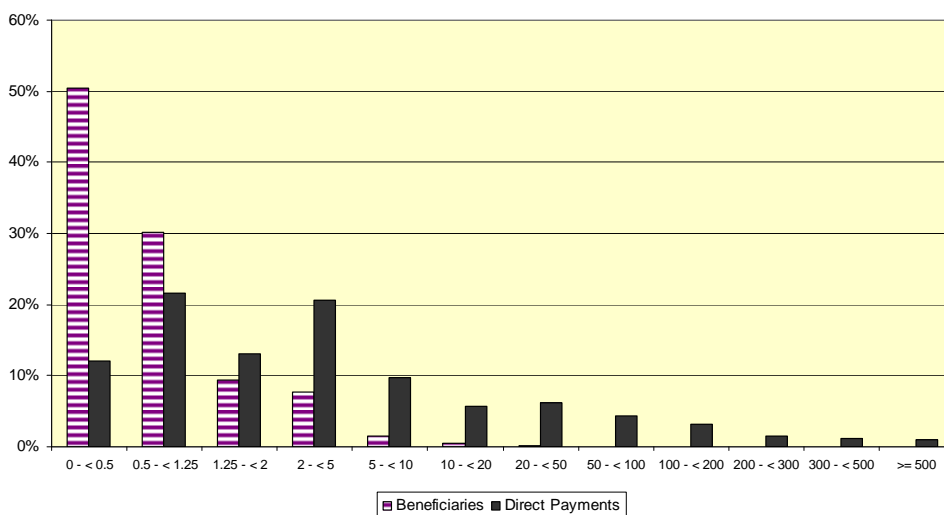
Graph 25 Distribution of beneficiaries and of direct payments in The Netherlands by category of direct payments received (thousand EUR), 2009 Financial Year



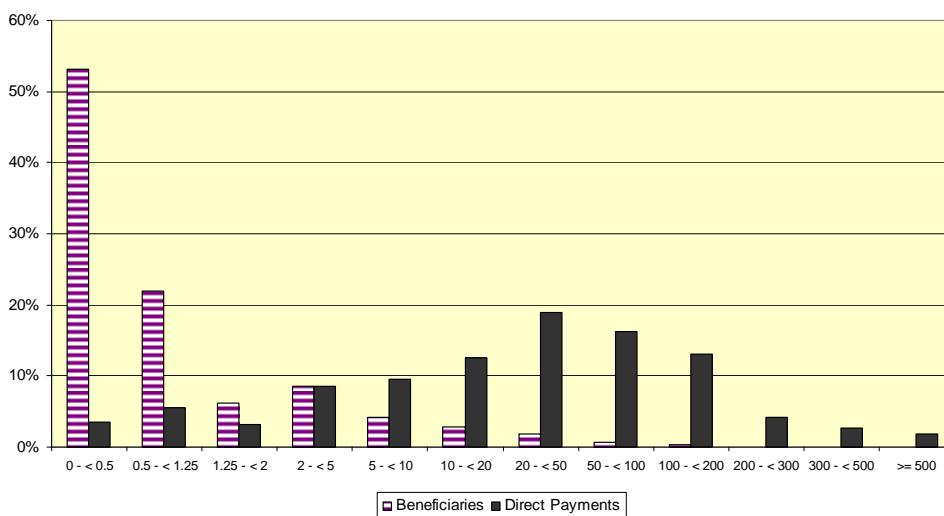
Graph 26 Distribution of beneficiaries and of direct payments in Austria by category of direct payments received (thousand EUR), 2009 Financial Year



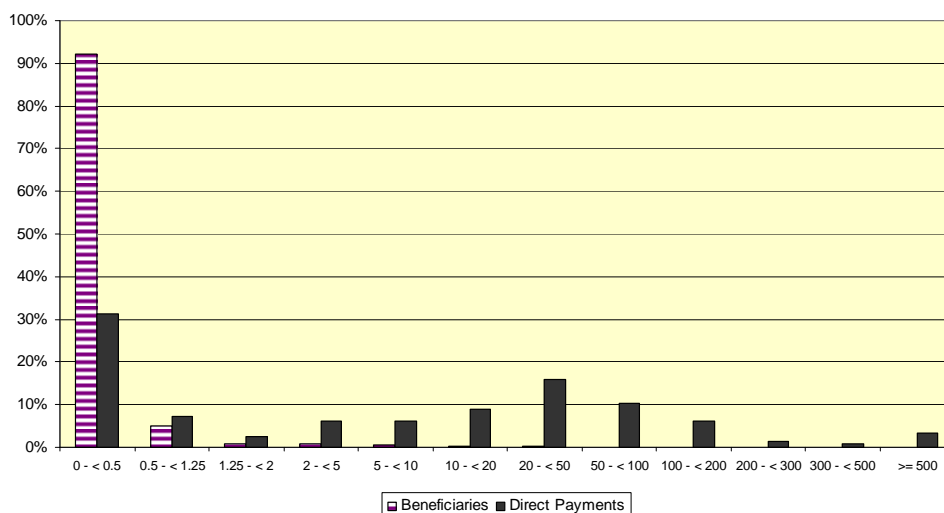
Graph 27 Distribution of beneficiaries and of direct payments in Poland by category of direct payments received (thousand EUR), 2009 Financial Year



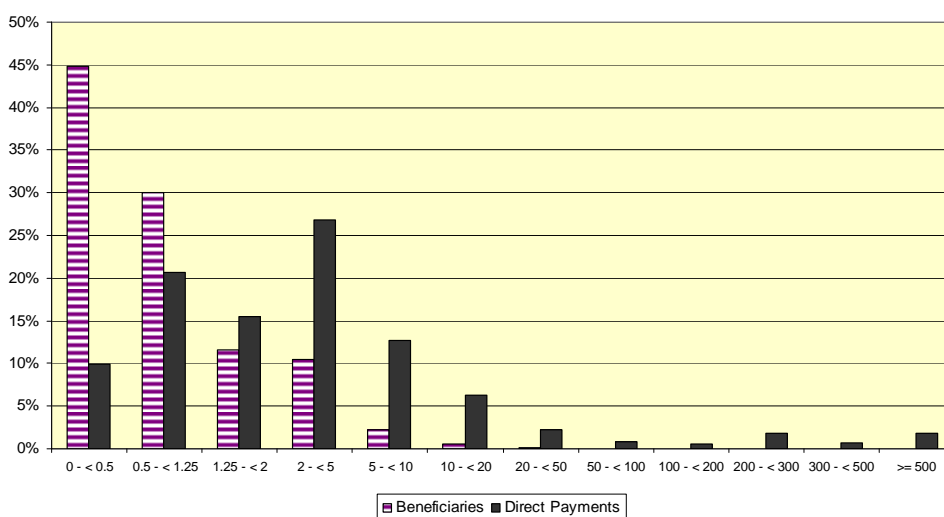
Graph 28 Distribution of beneficiaries and of direct payments in Portugal by category of direct payments received (thousand EUR), 2009 Financial Year



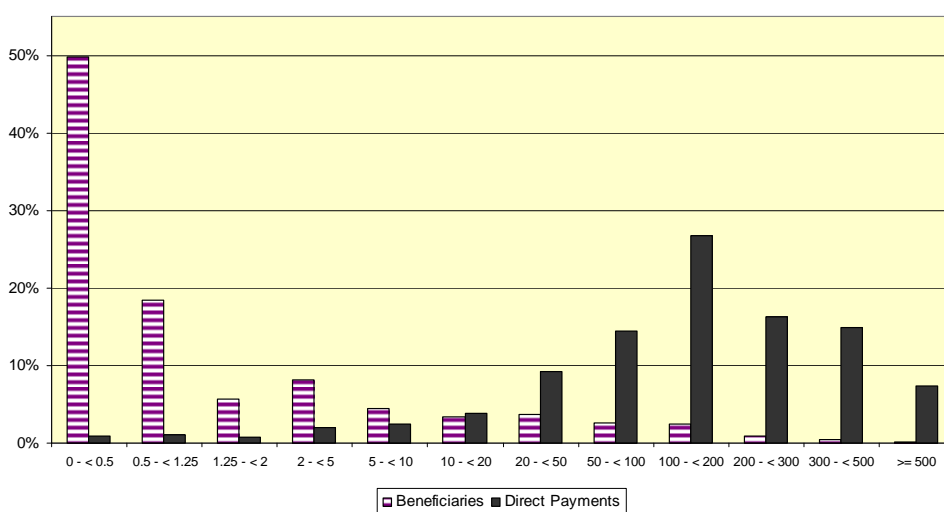
Graph 29 Distribution of beneficiaries and of direct payments in Romania by category of direct payments received (thousand EUR), 2009 Financial Year



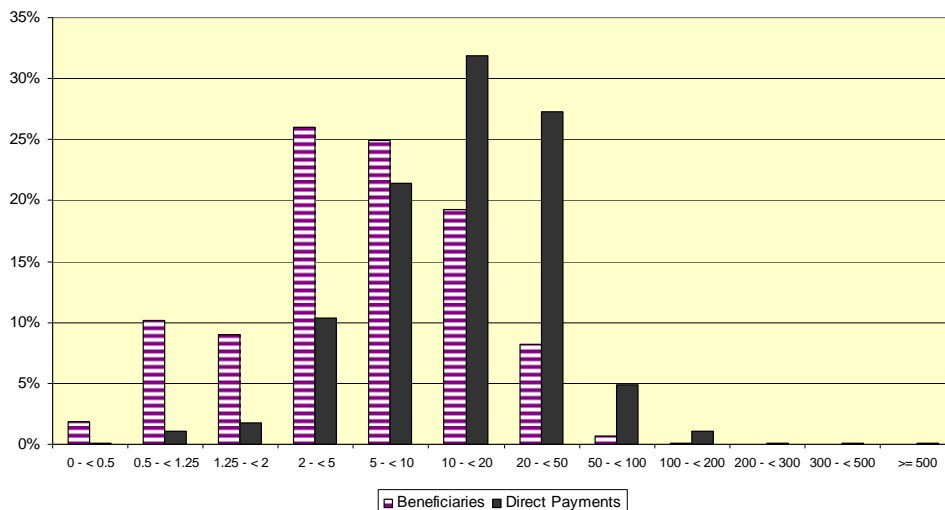
Graph 30 Distribution of beneficiaries and of direct payments in Slovenia by category of direct payments received (thousand EUR), 2009 Financial Year



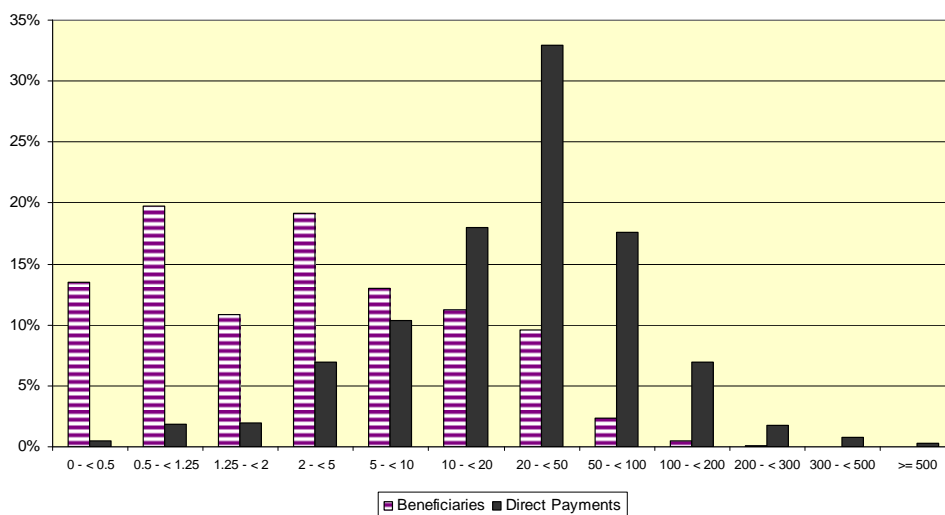
Graph 31 Distribution of beneficiaries and of direct payments in Slovakia by category of direct payments received (thousand EUR), 2009 Financial Year



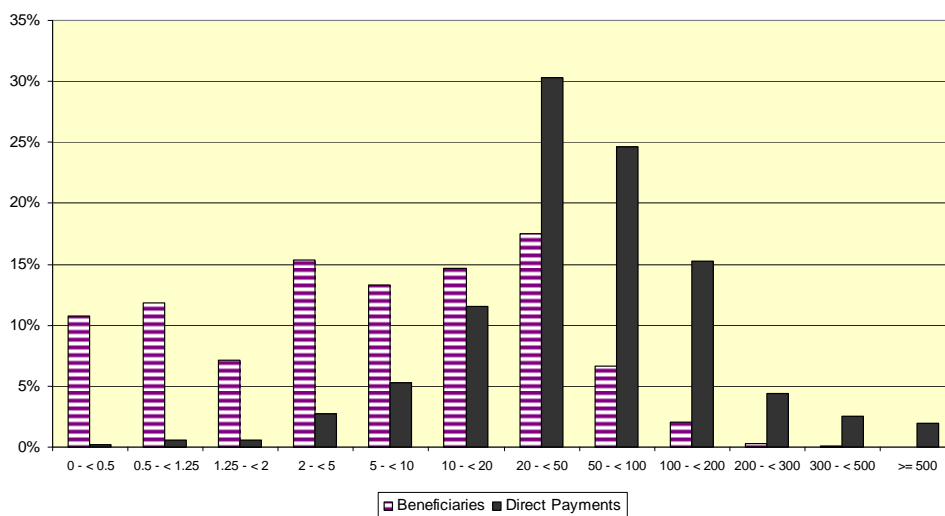
Graph 32 Distribution of beneficiaries and of direct payments in Finland by category of direct payments received (thousand EUR), 2009 Financial Year



Graph 33 Distribution of beneficiaries and of direct payments in Sweden by category of direct payments received (thousand EUR), 2009 Financial Year



Graph 34 Distribution of beneficiaries and of direct payments in United Kingdom by category of direct payments received (thousand EUR), 2009 Financial Year



Graph 35 Distribution of beneficiaries and of direct payments in EU-27 by category of direct payments received (thousand EUR), 2009 Financial Year

