

**PLĂȚILE DIRECTE: CARACTERISTICI
DE FINANȚARE ȘI POSIBILITĂȚI
DE REDISTRIBUIRE ÎN UE
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Lucrarea analizează acordarea sprijinului financiar pentru agricultori. Articolul include o imagine de ansamblu a politicii agricole comune, obiectivele sale principale, etapele de dezvoltare, finanțarea plăților directe, ca un element-cheie al sprijinului pentru agricultori și probleme de finanțare cauzate de extinderea UE. Lucrarea descrie Propunerea Comisiei Europene pentru un pachet financiar al plăților directe de pe teritoriul UE după 2013. Prezentarea și analiza rezultatelor pachetului financiar "pentru redistribuirea plăților directe, care se bazează pe costurile de producție agricolă la nivelul UE, precum și compararea acestora cu rezultatele propunerii Comisiei este cea mai mare realizare a articolului.

Cuvinte cheie: plăți directe, sprijin financiar

Introduction

With the entry into the European Union (EU) in 2004 Lithuania joined the countries that form the principles of the Common Agricultural Policy (CAP), the only common policy of its kind with more than 50 years of history [12]. The main policy objectives such as the maintenance of sustainable agriculture, the ensuring of food security, the protection of the environment and resources, the reducing of the social gap between the rural and urban areas, etc., didn't change throughout its history.

However methods and principles for achieving the objectives evolved by acquiring new elements required for the new tasks. To achieve CAP objectives, farmers and other rural people receive financial support from the EU funds and at national level.

It's more than fifteen years since the biggest part of the CAP budget has been spent on direct payments (DP) [6]. The level of direct payments (the amount of payments per 1 hectare) in different EU countries and regions varies significantly and it has a direct impact on the competitiveness of farmers. Therefore, in order to reduce the differentiation of farmers' competitiveness caused by level of direct payments, one the main issues of the CAP reform after 2013 is to increase the efficiency of direct payments and to uniform the allocation of financial resources between the EU.

**DIRECT PAYMENTS: FEATURES
OF THE FUNDING AND POSSIBILITIES
FOR REDISTRIBUTION ACROSS
THE EU AFTER 2013**

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The paper examines the provision of financial support to farmers. The article includes an overview of the common agricultural policy, its main goals, developmental stages, funding of direct payments as a key element of farmers support and funding issues caused by the EU enlargement. The paper describes the European Commission's proposal for a financial envelope of direct payments across EU after 2013. The presenting and analyzing of the results of financial envelope' for the direct payments redistribution, which based on costs of agricultural production across EU, and their comparison to the Commission's proposal results is the biggest highlight of the article.

Key words: direct payments, financial support

Lithuania and other Baltic countries are the members of the EU with reduced competitiveness in part through the unfair distribution of direct payments.

The purpose of this article is to find out the difference between the level of direct payments in Lithuania and other EU countries proposed by European Commission (EC) and their actual need, based on level of costs of agricultural production.

The development of the CAP

The Common Agricultural Policy is a system of subsidies and support programmes for agriculture operated by the European Union [4]. Throughout its history, starting from the 1960s, the CAP has changed and evolved.

In the early years the CAP aimed at encouraging better productivity in the food chain, ensuring fair standard of living to the agricultural community, market stabilization and ensuring the availability of food supplies to EU consumers at reasonable price [8]. While solving the basic problems, the CAP has faced a number of new problems (overproduction, pollution, etc.) for which were needed significant changes in policy (reforms) [15]. The most significant reforms of the CAP come on 1992, 2000 and 2003.

In 1992 after the implementation of the MacSharry reform the mechanisms of market regulation were reduced and replenished by direct payments.

MacSharry reform started the shift from product support (through prices) to producer support (through income support) and it contributed to a more rapid EU market liberalization process [17, 3].

The CAP reform Agenda 2000 divided the CAP into two pillars. The first pillar included direct payments and mechanisms regulating the market. Meanwhile a new rural development policy was introduced as a second pillar of the CAP. This new policy encouraged many rural initiatives while also helped farmers to diversify, to improve their product marketing and to otherwise restructure their businesses [24]. Along with the increase in expenditures for direct payments, the spending on the rural development has also increased [6].

The reform 2003 resulted decoupling of income support payments – the direct payments were no longer linked to production volumes.

The new elements of CAP such as the cross-compliance and the modulation were also introduced. Moreover, funding for rural development continued to increase [23].

Despite the fact that CAP had moved through the reforms 2003 and The Health Check (2008), the aim of which was to modernise, simplify and streamline the CAP and remove restrictions on farmers, today's CAP structure (CAP period 2007-2013) haven't changed since 2000 (Fig. 1).



Fig. 1. The structure of the CAP 2007-2013

Source: Compiled by the author based on the data [16], 2012.

The structure of the CAP evolves and gets new frame in accordance with the various problems in agriculture and rural development across the EU. The difficulties of the new CAP formation are caused by wide difference of national interests due to the expansion of the EU. Moreover, geographical and economical conditions are also different among EU members, in particular depending on the fertility of the soil, the climatic conditions, the demand for agricultural production, etc. Therefore, manoeuvring between the interests of whole EU and the satisfaction of separate national ambitions reduces the efficiency of the CAP.

The CAP period 2007-2013 is coming to an end. Thus, the brighter national positions and priorities are revealing by member states (MS). According to the proposal of the European Commission (EC) the structure of the CAP 2014-2020 will be similar to the current [5, 13]. The main issue that has caused the most debate and revision of the CAP for the new period 2014-2020 is the more uniform redistribution of direct payments across the EU.

The issues related with distribution of direct payments in the EU

Direct payments are the basic instrument to support income of farmers in EU. Currently 70 % of the CAP budget is spent on the funding of direct payments. [21]

Supporting farmers' income direct payments contribute to the development of agriculture and positive structural changes. Moreover, the appropriate level of direct payments helps to increase competitiveness of agricultural sector in the EU [19]. It is also recognized that MS with a higher level of direct support are more competitive in comparison with EU countries with lower level of DP [1]. However, the level of direct payments can't be the only reason for ensuring the competitiveness of farmers.

Currently EU farmers receive direct payments by two different payment schemes. MS that joined EU before 2004 (EU-15) together with Malta and Slovenia apply a single payment scheme¹ (SPS) [2]. Under the SPS, entitlements are used as the basis for subsidy payments. An entitlement gives a farmer the right to a payment, provided it is supported by a hectare of eligible land. Under this scheme, direct payments are calculated in accordance with the historical data period. There were no historical data on direct support for new member states (NMS) that have joined EU since 2004 (EU-12), which made impossible to calculate the SPS payments. Therefore, NMS were able to use the simplified single payment scheme or the single area payment scheme (SAPS) [2].

¹ Hungary has also started apply SPS from 2009

The level of the payment is obtained by dividing the country's annual financial envelope with its respective utilized agricultural area. It is simpler than SPS because there is no need to establish and administer payment entitlements. However it does not offer to farmers the flexibility of entitlements based on individual needs, such as sales or lease [8, 10, 12, and 14]. According to SAPS, the level of direct payments in the EU-10 (EU-12 without Romania and

Bulgaria, which joined the EU in 2007) was set as a result of agricultural activity for the period 2000-2002. [20].

According to data of direct payments' funding proposed by the Commission, the average level of direct payments per hectare for 2013 is 94,7 euro in Latvia and 457,5 euro in the Netherlands, while the average for the EU is 264,4 euro per hectare (Figure 2) [9, 14].

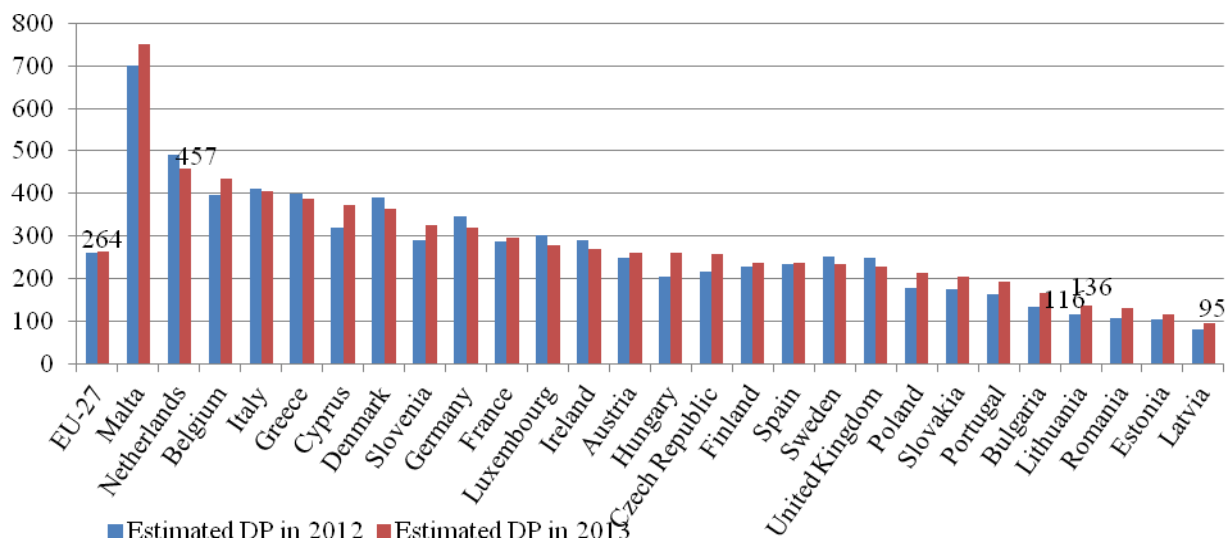


Fig. 2. The distribution of direct payments among MS in 2012 and 2013, €/ha

Source: Compiled by the author based on data from the European Commission and [9, 14], 2012.

Assessing the situation, by the end of 2011 the Commission proposed a rule for direct payments' redistribution across MS. The proposal foresees that over 2014-2020 in all MS with direct payments below 90% of the EU-27 average the gap between their current level and 90% of the EU average direct payments is closed by one third. The Commission has taken (after some adjustments) the current National Ceilings for 2016 (after the full phasing in of payments in Bulgaria and Romania) and divided this by the potentially eligible area (PEA) declared by the Member States for 2009 (Figure 3) [5, 11].

Reacting to this proposal and preparing for the new 2014-2020 CAP period, NMS were notably active. They made it clear that greater equity and more equality in the distribution of direct payments among MS should be insured in the new CAP stage. Due to the reduced competitiveness caused by significant low level of direct payments in the Baltic countries, it is no accident that Lithuania, Latvia and Estonia were among the strongest proponents of subsidies convergence [18].

Determining the level of direct payments in relation to the agricultural production costs

Assessing the problem of direct payments' distribution across EU it is important to emphasize the real purpose of DP – income support for those engaged in agriculture. The share of direct payments in the agricultural factor income stood in 2007-2009 at 29% on average in the EU. If all the subsidies are taken into account, the share of total public support in agricultural income reached 40% on average in the EU [7].

Therefore, in order to fair support income of farmers it is important to determine the level of costs of agricultural production and link it to the level of direct payments in the EU.

In order to determine the level of direct payments related to the level of agricultural production costs, at the first stage the structure of production costs with basic elements was identified during the research¹.

¹ The impact of production costs in the agricultural sector to the level of direct payments. Authors: Volkov, A., Drozd, J. Commissioned by Prime Minister's Office in collaboration with the Ministry of Foreign Affairs and European Law Department under the Ministry of Justice, the European Social Fund, the project "LESSED".

Referring to the recommendations of the Aleksandras Stulginskis University (former Lithuanian University of Agriculture) for the management of internal accounting for agricultural enterprises and farmers, production costs were grouped by main branches in agriculture – crop farming and animal agriculture (the costs for dairy production were evaluated separately). Moreover, agricultural production costs were separated into direct and indirect. The agricultural production costs were attributed to variable costs – expenses incurred in the agricultural production process.

In accordance with ordered and grouped data (based on Eurostat and FADN (The Farm Accountancy Data Network) database statistics), the agricultural production costs across the MS were compared and analyzed. According to the obtained statistics, overall indices of agricultural production costs in the different agricultural branches were calculated:

$$c_i = \sum_{j=1}^n s_{i,j} \quad (1)$$

Where:

c_i – overall index of production costs in i -th agricultural branch;

$s_{i,j}$ – index of j -th type of production costs (expenditure) in i -th branch of agriculture;

i – branch of agriculture;

j – type of expenditure;

n – the number of types of expenditures.

For each i of index c_i is determined the significance (or weight) which can vary according to changes in the structure of agriculture in the EU, and in line with policy priorities. In order to calculate financial envelopes for direct payments accurately the weight w_i of index c_i has to be the same for all EU countries. The total sum of the weights of these indices has to be 1 (or 100%):

$$\sum_{i=1}^k w_i = 1 \quad (2)$$

Where:

w_i – i -th weight of the c_i index.

k – the number of c_i indices.

Such a multi-criteria evaluation, which estimates the agricultural production costs, enables to calculate the financial envelopes of direct payments to all MS:

$$E_m = E_{EK} \times \left(\sum_{i=1}^k c_{m,i} \times w_i \right) \quad (3)$$

Where:

E_m – m -th EU country's financial envelope for direct payments.

E_{EK} – annual financial envelope for direct payments (in this article based on EC financial proposal for 2014-2020).

m – m -th Member State.

After the calculation of the financial envelopes of direct payments for all MS, direct payments were recalculated per 1 ha of utilized agricultural area. The results were compared with the projected DP outlined by the Commission. Results

Results of statistical data processing have shown that agricultural activities in the EU are fairly different. Farmers of NMS are more focused on the production of crops, while livestock sector is more developed in EU-15. According to FADN statistics about 60% of the agricultural activity on average in the EU is concentrated on the cultivation of crops, about 30% – in the production of meat and a little more than 10 % – in the production of milk and dairy products.

The obtained data is used as weights for the agricultural production costs indexes: the weight of costs' incurred in production of crops index is equal to 0.6, respectively in production of meat and milk – 0.3 and 0.1. On the basis of weights of the indices and obtained data of agricultural production costs the levels of direct payments per 1 hectare for each EU country were calculated (Figure 3).

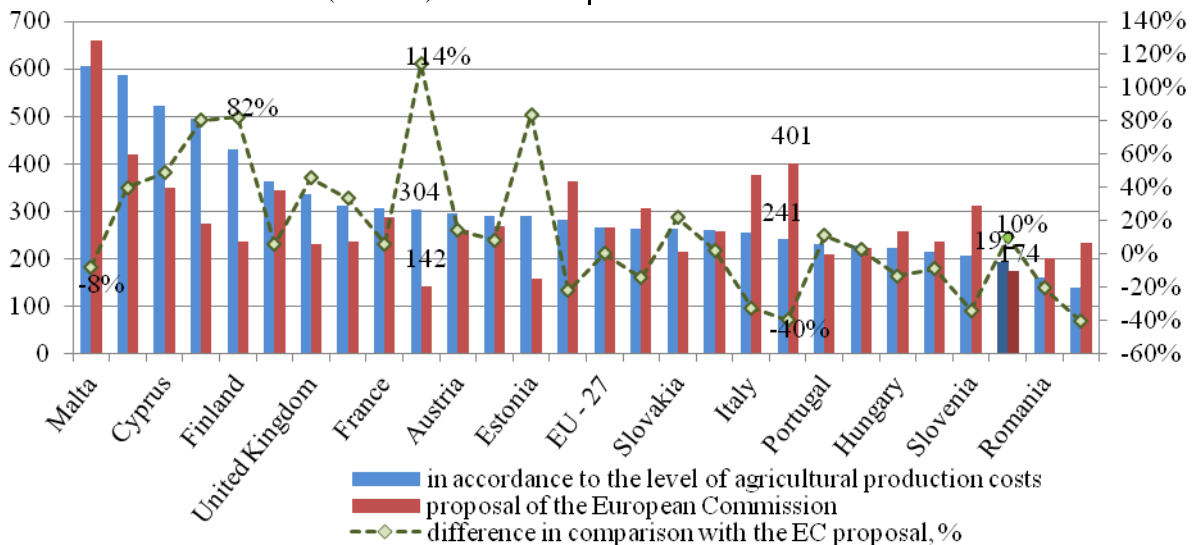


Fig. 3. The distribution of direct payments among MS after 2013, €/ha

Source: Compiled by the author based on data from FADN, Eurostat and [9, 14], 2012.

Analysis of Fig. 3 shows that the distribution of direct payments based on the costs of agricultural production is significantly different from current distribution of direct payments (Fig. 2) and the proposed level of payments by Commission (Fig. 3).

Regarding the distribution of direct payments in accordance to the level of production costs, Belgium and Latvia are the most prominent. Direct payments in Belgium would be 241 euro per ha or 60% of the proposed payments by the Commission. The level of direct payments in Latvia would be more than twice higher (from 142 to 304 €/ha) in comparison with the proposal of the European Commission. Considering the geographical location of Lithuania, the price level in all three Baltic countries and the identical farming practice, it can be assumed that in comparison with the results for Latvia and Estonia, Lithuanian farmers did not provide full information on all costs of agricultural production. Despite relatively low level of direct payments obtained in Lithuania (192 €/ha), it is at least 10% greater and more equitable than proposed by the EC. A similar situation of possibly inaccurate data could have occurred with the results of Belgium.

However in the most cases the gap between the distribution of direct payments according to the costs of agricultural production and the distribution of payments proposed by the Commission, which is very similar to the current distribution of DP is conditioned by the principles of determining the levels of direct payments based on historical data, which nowadays does not reflect the real need of income's support level in agriculture.

Conclusions

1. CAP has experienced a number of reforms before it got a structure with such agricultural support elements as direct payments and a separate scheme targeted on rural development.

2. EU expansion and the historically formed principle of distribution of direct payments forced EU countries to face the problem of high differentiation in direct payments' level, which caused the reduction of farmers' competitiveness in some EU countries.

3. 2011 Commission proposal on the distribution of direct payments would slightly reduce the difference of payments' level among MS. However the proposed reduction of gaps did not satisfy the needs of direct payments' level in the EU-12, particularly in those with the lowest level of DP, such as the Baltic countries, which requires new, fair and more justified criteria for the distribution of direct payments.

4. The research revealed that one the most equitable distribution criteria of direct payments could be a method of distribution in accordance with the level of agricultural production costs. According to agricultural production costs and the intensity of agricultural activity across EU the level of direct payments was estimated for all EU countries.

5. Analyzing the data of agricultural production costs, it appeared that NMS are more focused on the production of crops, while livestock sector is well-developed in the EU-15.

6. FADN data analysis has also shown that near 60% of the agricultural activity on average in the EU is concentrated on the cultivation of crops, about 30% – in the production of meat and a little more than 10 % – in the production of milk and dairy products.

7. The research findings showed that the distribution of direct payments based on the agricultural production costs is significantly different from the distribution of DP proposed by the Commission. According to the DP distribution based on production costs, Belgium was distinguished by a relatively low level of DP – 241 €/ha and Latvia – by a rather high – 304 €/ha. Level of direct payments in Lithuania would reach up to 192 €/ha or 10% more than proposed by the EC.

8. Analyzing the results of the research the distribution of direct payments proposed by Commission which is caused by principles of determining the levels of direct payments based on historical data, currently does not reflect the real need of income's support level in agriculture. The distribution of direct payments among MS in the new period of the CAP should be based on the fair criteria taken into account the level of agricultural production costs across EU.

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