

DISTRIBUTION ASPECTS OF THE DIRECT PAYMENTS BETWEEN EU MEMBER STATES

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Abstract

EC proposals concerning CAP reform for 2014-2020 try to cope both with the wide variety of agricultural systems and economic structures of the 27 EU MS but also with current global challenges that agriculture has to face: food security and poverty reduction, climate changes or biodiversity loss. This article aims to analyse the proposed measures consistency with the current situation of Romanian agriculture. Distribution aspects of the direct payments between Member States are concerned. The data are originated in FADN and Eurostat statistics, and a non parametric approach is used in order to better understand the correlation between the direct payments proposed for 2014 -2020 and some socio economic criteria. The paper provides a brief analysis of the existing research concerning the distributional aspects (studies and statistics) and contributes to the debate by examining if the proposed redistribution is a consistent and coherent answer to the future challenges the agriculture has to meet in the future and to the targeted equity criteria.

Key words: common agricultural policy, direct payments, redistribution, 2014 -2020 programming period

INTRODUCTION

Several reforms have led to the actual configuration of the EU CAP. Starting with 1992, its market orientation has increased while providing direct support to producers. The Agenda 2000 introduced environment focus and strengthen rural development dimension. During the last decades, demand for a better distribution of direct payment across Member States has raised. The current CAP reform proposes more equity in the support distribution across Member states, while also changing the direct payment system.

The current EU direct payment system, includes a SPS covering 16 Member States (EU-15 plus Slovenia) and a SAPS, operating in the new MS. SPS is not linked to farmers' current production but based on historical references. It remained strongly positively correlated with the productivity of farm (past crop yields and livestock herd stocking) and therefore difficult to justify [1]. Bringing rational criteria into the future distribution of CAP payments will contribute to the fulfilment of CAP's objectives.

The Commission proposed to replace the current schemes (SPS and SAPS) with: a single basic payment scheme across the EU, an additional payment (30% of annual national ceiling) for farmers following agricultural practices beneficial for the climate and the environment (greening), a voluntary additional payment (up to 5% of annual national ceiling) for farmers in areas facing specific natural constraints, an additional payment (up to 2% of annual national ceiling) for young farmers, a simplified scheme for small farmers (up to 10% of annual national ceiling) and a voluntary coupled support scheme (up to 5% of annual national ceiling) for specific types of farming; possibility to maintain Complementary National Direct Payments for Bulgaria and Romania and includes a specific payment for cotton [5].

Acknowledging the merit of this proposal, the first in a long series of CAP reforms, trying to introduce more equity by the redistribution of agricultural payments among and within MSs, in order to make the CAP support equitable and balanced [European Commission, 2010, p. 6], we express some concerns regarding the

adaptability of these measures to the Romanian socio-economic and environmental situation. This paper contributes to the debate by examining if the proposed redistribution is a consistent and coherent answer to the future challenges the agriculture has to meet and to the targeted equity criteria

MATERIAL AND METHOD

The data for this paper are mainly originated in the Commission proposal and strategic documents. The socioeconomic indicators from FADN and Eurostat database have been statistically processed and interpreted. A non parametric approach was used in order to better understand the correlation between the direct payments proposed for 2014 -2020 and some socio economic criteria : the farmers 'income level, agricultural area, agricultural employment, the inputs cost, the farm structure. A Spearman's coefficient was used as statistic test to establish whether the analyzed variables may be regarded as statistically dependent.

RESULTS AND DISCUSSIONS

The proposals on the multi-annual financial framework (MFF) 2014-2020 are based on a "nominal freeze" of the CAP (both pillars) at the 2013 level. Direct payments remains the most important feature of CAP, being proposed their redistribution across MS so as to achieve more equity and to enable agriculture to meet the future objectives: viable food production; sustainable management of natural resources and climate action; balanced territorial development. For 2014, the first pillar budget is forecasted to be at €42.5 billion, to be dedicated mostly (80%) to the old MS, with big disparities of the national payments: Greece and Netherland with €550 respectively €420 per hectare; on the other side, Latvia and Romania with €89, and €107 per hectare.(Table 1). The 2011 Commission proposal aims a better distribution of support, both across the Member States and within them, in order to improve resource efficiency and to make payments more understandable to the taxpayer and more linked to policy objectives.[5]

Table 1: National ceilings for the basic payment scheme, 2014-2020

	2014		2020		Per ha 2014	
	000 EUR	%	000 EUR	%	EUR	
Belgium	553521	1,3	525.205	1,2	406	
Bulgaria	655661	1,5	812.106	1,9	130	
Czech R	892698	2,1	890.229	2,1	252	
Denmark	942931	2,2	909.353	2,1	357	
Germany	5275876	12,4	5.156.970	12,1	312	
Estonia	108781	0,3	134.749	0,3	117	
Ireland	1240652	2,9	1.235.779	2,9	296	
Greece	2099920	5,0	2.014.751	4,7	550	
Spain	4934910	11,6	4.988.380	11,7	216	
France	7732611	18,2	7.619.511	17,8	220	
Italy	4023865	9,5	3.841.609	9,0	302	
Cyprus	52273	0,1	50.290	0,1	432	
Latvia	163261	0,4	218.159	0,5	89	
Lithuania	396499	0,9	458.267	1,1	147	
Luxembourg	34313	0,1	34.123	0,1	262	
Hungary	1298104	3,1	1.294.513	3,0	224	
Malta	5316	0,0	4.917	0,0	532	
Netherlands	806975	1,9	762.521	1,8	420	
Austria	707503	1,7	705.546	1,6	223	
Poland	3038969	7,2	3.121.451	7,3	194	
Portugal	573046	1,4	610.800	1,4	155	
Romania	1472005	3,5	1.939.357	4,5	107	
Slovenia	141585	0,3	138.096	0,3	302	
Slovakia	386744	0,9	402.067	0,9	200	
Finland	533932	1,3	535.075	1,3	233	
Sweden	710853	1,7	713.681	1,7	232	
UK	3624384	8,5	3.662.774	8,6	205	
Eu 27	42409202	100,0	42.782.299	100,0	231	
Eu 12	8613910	20,3	9.466.221	22,1	167	
Eu 15	33795292	79,7	33.316.078	77,9	256	

Source: own calculation based on COM(2011) 625 final/2,

In the Commission view, direct payments should have two closely related purposes: to respond to low farm income and to encourage the provision of basic public goods.

We applied a non parametric approach to analyse the correlation between the direct payments distribution scheme proposed for 2014 -2020 and some socio economic criteria in order to understand if the distribution scheme represents a coherent tool to fulfil these objectives. A Spearman's coefficient was used

to establish whether the analyzed variables may be regarded as statistically dependent. The Spearman's rank-order correlation is a nonparametric coefficient and a measure of the strength of association between two ranked variables.

The following indicators were used: the utilised agricultural area, GDP per capita in PPS, the factor income, the farm net added value (FNVA). As FNVA is used to remunerate the fixed factors of production (work, land and capital), whether they be external or family factors, holdings can be compared regardless of the family/non-family nature of the factors of production employed.

The value for both income indicators is given per AWU in order to take into account the differences in the scale of farms and to obtain a better measure of the productivity of the agricultural workforce.

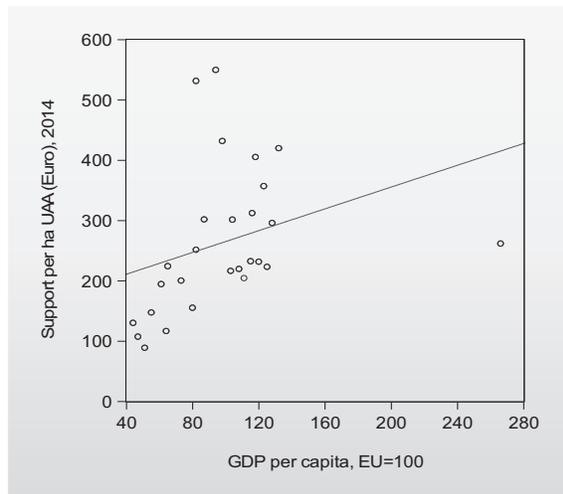


Fig. 1. GDP per capita (PPS, 2010) vs. Direct payments (EUR/ha, 2014) - a non parametric estimation across Member States

	GDP per capita (PPS, 2010)	Direct payments (EUR/ha, 2014)
GDP per capita (PPS, 2010)	1.000000	0.616089
Direct payments (EUR/ha, 2014)	0.616089	1.000000

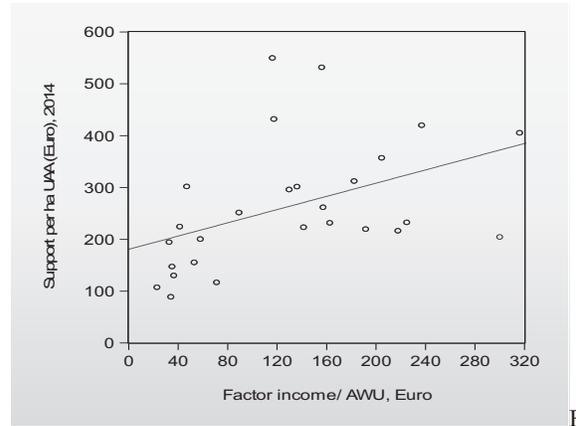


Fig. 2. Farmers' Factor income/ AWU (2009) vs. Direct payments (EUR/ha, 2014) - a non parametric estimation across Member States

	Farmers' Factor income/ AWU	Direct payments (EUR/ha, 2014)
Farmers' Factor income/ AWU	1.000000	0.539072
Direct payments (EUR/ha, 2014)	0.539072	1.000000

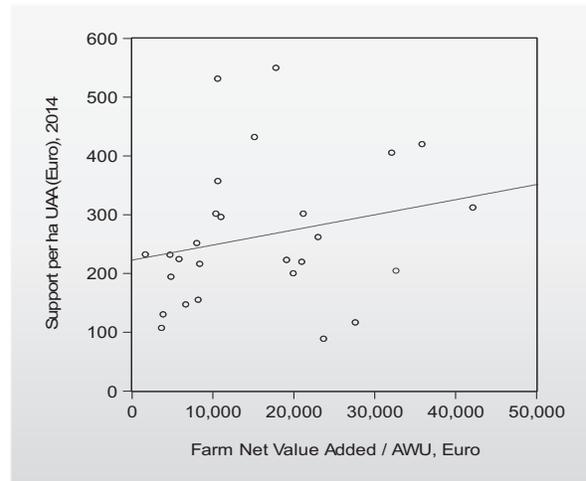


Fig. 3. FNAD/AWU (2009) vs. Direct payments (2014), a non parametric estimation across MS

	Farm Net Value Added / AWU (2009)	Direct payments (EUR/ha, 2014)
Farm Net Value Added / AWU (2009)	1.000000	0.283272
Direct payments (EUR/ha, 2014)	0.283272	1.000000

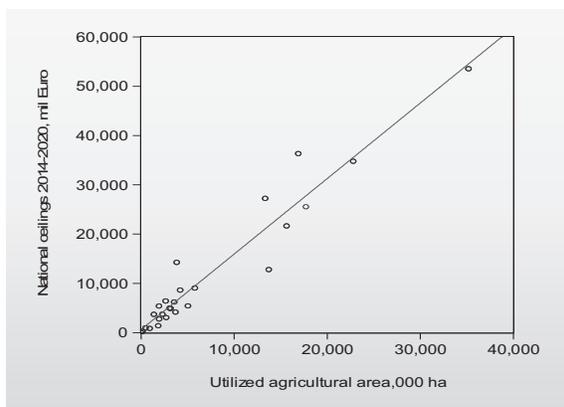


Fig. 4. Utilized agricultural area (2010) vs. Direct payments (EUR/ha, 2014), a non parametric estimation across Member States

Table 5: Spearman's Rank Correlation coefficients

	Utilized agricultural area (2010)	Direct payments (EUR/ha, 2014)
Utilized agricultural area (2010)	1.000000	0.941392
Direct payments (EUR/ha, 2014)	0.941392	1.000000

The results confirmed the existence of a positive agreement between the ranks of all analysed variables, though with different degrees of strengths with the direct payments level (EUR/ha). The level of support is positive and strong correlated with the utilised agricultural area and GDP per capita variables. The approach also shows a lower association between Farmers' Factor income/ AWU and the Direct payments per ha as well as between Farm Net Value Added/AWU and the support level, revealing a lower focus of the chosen redistribution criteria on structural and income gap. Some authors consider that a higher level of income is needed in rich countries to ascertain a fair standard living for farmers and prevent land abandonment, justification being the higher wages in non-agricultural jobs in these countries compared to agricultural employment[4]. But this direction of the DP distribution is not focusing on equity but on non-efficient functional concerns.[3]. Agricultural income in the EU-15 remains much higher than in the EU-12, due to larger farm structures, better yields, but also to a higher income levels in the overall economy [6]. By contrast, real income per AWU has declined in Romania after 2005 [Table 6, Fig 5.]

Table 6: Indices of real income AWU in EU27 and Romania

(2005 = 100)

	2005	2006	2007	2008	2009	2010
RO	100,0	99,3	76,8	114,4	97,1	87,7
EU-27	100,0	103,9	114,3	110,4	98,5	111,1

Source : EC, Eurostat EU Agriculture, Statistical and Economic Information, 2011

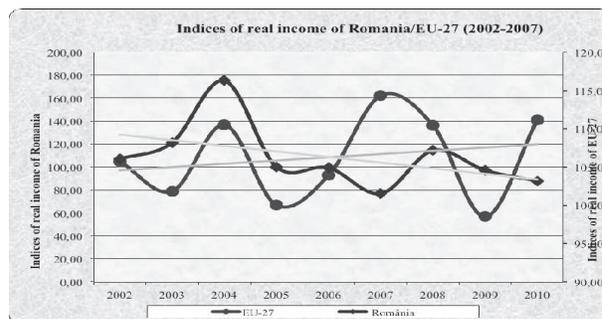


Fig. 5.Indices of real in EU27 and Romania, 2002-2005

CONCLUSIONS

If direct payments were to respond to their basic income function, then a more consideration of relative needs, of actual farm income is necessary.

Challenges are real and important for agriculture and all EU farmers should have the chance to strengthen the competitiveness, contributing to a balanced territorial development.

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