

EU FARM SUPPORT POLICY: AN ANALYSIS OF DIRECT PAYMENTS IMPLEMENTATION IN SPAIN

Liliana CIMPOIES

State Agrarian University of Moldova, 44 Mircesti, 2049 Chisinau, Moldova, Phone: +37322432387, Fax: +37322312276, Mobile:+37379295721, Email: l.cimpoies@uasm.md

Corresponding author: l.cimpoies@uasm.md

Abstract

Direct payments are meant to support 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, in 2006 the new changes in the Single Payment Scheme (SPS) were introduced, at the beginning according to the regime of partial decoupling. In 2012, the coupled payments were integrated under the SPS or transformed into additional payment. The aim of this paper is to analyze the application of direct payments, as the main support tool for EU farmers based on Spain experience. In this context, the authors have used 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, number of beneficiaries and their distribution by territorial aspect. So far, the distribution of direct payments in Spain, similarly to other member states, is unequal, as a result of CAP development, diversity of production and the use of historical references to fix the decoupled payments per farm.

Key words: agriculture, direct payments, farmers, Spain

INTRODUCTION

There are many contradictory opinions among economists about the role of direct payments. Many of them agree that direct payments are a needed basic income support for farmers, while others consider that the direct payments should provide a compensation for the public goods farmers deliver [4]. In the same time some economists affirm that there is no need of applying direct payments for farmers as we should not distinguish agricultural sector from other economic sectors [6,7].

Since the beginning of 90s, direct payments had been the main tool aimed to support the agricultural sector in the EU. At the beginning all direct payments were coupled to area or animals and were compensating farmers for cuts in price support [1].

Decoupled direct payments (Single Payment Scheme (SPS)) are the most important CAP instrument and accounts about 75% of total CAP budget or around 30% of EU budget [1]. The direct payments were first introduced with the MacSharry reform in 1992 as

payments per hectare and animal head for compensating 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 were decoupled from farmers' production decisions and used as reference previous supports receipts in order to decide the rate of payment that must be allocated to each farmer. The new decoupled payments were aimed at encouraging farmers and enhancing the competitiveness and sustainability of the agricultural sector.

Long time was considered that direct payments are an alternative transfer mechanism and an important step to mitigate the negative effects of market price support: high consumer prices and excess supply. They are also considered as best alternative to achieve farm income goals of the Common Agricultural Policy and to avoid the regressive distribution effects of output linked support [5].

Decoupled direct payments are supposed to

have minimal or no allocative effects at all and thus are considered as almost pure income support [5].

Also, if direct payments were to fulfill the basic income function, then a consideration of relative needs, of actual farm income is needed [3].

Nowadays, many issues are discussed concerning the idea of better linking payments to the provision of specific objectives (e.g. environmental aspect) as well as their distribution between individual farms and Member States [1].

MATERIALS AND METHODS

In the given research data provided by the Spanish Agrarian Guarantee Fund (FEGA) and Ministry of Agriculture, Food and Environment of Spain were used. 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, in 2006 the Single Payment Scheme started to apply for the first time. The selected method to calculate the value of the payments was the historical model, based on the received payments by the farmers in the previous years. As well, 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 rights gathered are considered normal when they have as base the areas who received direct payments, and they are considered special in the case of the livestock payments without territorial base; 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 were normalized the withdraw rights

and they started to be part of normal rights.

Nevertheless, Spain chose the regime of partial decoupling at the beginning, with the aim to maintain the payments most coupled possible. The main reason was that the abolition of coupled payments could lead to the abandon of the agricultural activity and production deployment in important areas in Spain. Thus, Spain maintained and introduced new specific payments regime which would allow keeping linked the payments to production level. As example of these are: aids for wheat durum of high quality, aid per area of crops and leguminous plants producers, specific aid for rice, aid for producing potatoes for starch, aid per area for nuts, aid for seed producers, specific aid for the cotton crop, aid for energetic crop, aid for olive growth, tobacco, aid for sugar beet and sugar cane producers, premium for the livestock sector, sheep and goats breeding, payments for cattle.

Later on, during 2006-2012 CAP reform, the payments linked to production level disappeared, being integrated under the Single Payment Scheme or transformed into additional payments (including 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 are maintained coupled the payments for cotton, national assistance for nuts, sugar beet producers, as well as the suckler cow premium, in the case of assistance regime for cattle. Also, the specific assistance for compensating the disadvantages caused by the decoupled payments in particular sensitive sectors is covered and is encouraged specific types of agricultural production, important in aspects of environmental protection, animal welfare and the quality of the agricultural products. The funds used for financing this assistance come from withholding 10% of maximum national limits of the single payments scheme and are not compulsory to be utilized in the sector of origin [2].

Table 1. Model of the Single Payments Scheme implementation 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)				100 (calves)
Prime for sheep and goats and others	50		100		
Additional payment for sheep and goat	100				
Dairy premium and additional payments	90				

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

In Spain are applied the following national assistance programs:

-National program to promote arable land rotation in drylands, 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 the production in the vegetable sector for human consumption.

-National program to promote specific agricultural activities with large environmental benefits in certain species of nuts. 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 the 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 the crop profitability.

-National program to promote the quality of sugar beet.

-Assistance for improving the quality and trade of beef. Are allocated payments per head of slaughtered cattle under certain quality systems.

-Assistance to compensate the specific disadvantage that affects the farmers' which holds suckler cows.

-Assistance for improving the quality of sheep and goat breeding production.

-Assistance for compensating the specific disadvantage that affects the farmers from sheep breeding sector, to ensure their continuous activity.

-Assistance to compensate the farmers' specific disadvantages from goat breeding sector, particularly those who are located in less favorable areas.

-Assistance to compensate the specific disadvantages that affect the farmers from

milk beef sector with the aim to progressively eliminate the quotas regimes.

-Assistance to improve the quality of milk and milk products according to certain standards of quality [2].

The decoupling of payments in Spain had various effects. The new system of direct payments led to a higher stability of farm incomes, and to establish a more exposed and market oriented agriculture. As result, producers respond easier to prices market signals which motivates a higher intensification and concentration of high value crops production. This production specialization and higher production diversity leads to the abandon of crops and areas less profitable. As result of the CAP reform, the area of cultivated land in Spain decreased, more in dry land than in irrigated, and decreased the extensive livestock, particularly in goats breeding and suckler cows and a deeper decrease in crop diversity. From the reform the olives and vineyards growth benefited, becoming important alternatives in Spanish dry and irrigated lands. Also, detached right for the land ownership was given, associated with the availability of the resource, that involved important distortions in the land and lease market. The change in agricultural structure (except the larger size farms and more commercial oriented) and the abolition of coupled payments in labor intensive crops like cotton or tobacco led to decline in the use of agricultural labor. This decline was not so strong in the last years as a result of the economic crisis which fostered the transfer of active population in other agricultural sectors [2].

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, like in other member states, in Spain is present 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 Spanish Agrarian

Guarantee Fund (FEGA). FEGA is an autonomous organization under the Spain Ministry of Agriculture, Food and Environment (MAGRAMA) aimed to ensure that CAP subsidies are strictly applied in order to achieve the objectives of the policy, reaching the beneficiaries who 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 the whole state territory.

According to FEGA, in 2011 the 74% of beneficiaries received only 15% of total payments. This fact demonstrates the significance of small farms, an important concentration of the payments resulted from the historical payments differences. Also, regional differences in the support level can be noticed, as result of the Spain product diversity and specialization of agricultural sectors.

Table 2. Distribution of direct payments in Spain

Year	Amount, Euro	Number of beneficiaries
2000	5,480,199,244.1	957,069
2001	6,174,891,882.75	1,014,085
2002	5,938,081,669.79	967,140
2003	6,473,878,264.21	981,986
2004	6,326,401,680.03	950,121
2005	6,410,489,074.04	965,054
2006	6,656,127,478.21	962,077
2007	5,694,144,882.46	926,792
2008	5,476,876,522.21	912,956
2009	6,068,452,138.54	963,417
2010	5,933,089,314.48	947,176
2011	5,811,699,716.22	920,707
2012	5,785,117,916.91	904,343
2013	5,811,567,412.3	891,055
2014	5,493,405,777.57	878,655
Total	89,534,422,973.82	

Source: based on MAGRAMA and FEGA data

In the last fifteen years in Spain were allocated more than 89 billion euro as direct payments under CAP. The average amount was of 5,968 mio euro per year. In 2006 for Spain as direct payments was allocated the largest amount of 6,694 mio euro for 962 thousands agricultural producers. The reason was that in this year the total amount of direct

payments allocated to member countries increased as well.

Table 3. Distribution of payments in Spain, by sectors, 2014

Sector	Amount, Euros	Number 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 breeding	248,498,132.11	42,385
Sheep and goat breeding	41,337.62	24
Pigs breeding	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
Clearance of previous years	-75,671,983.97	7
Total	5,493,405,777.57	878.655

Source: based of FEAGA and MAGRAMA data

According to the distribution of payments in Spain by sectors under the Single Payments Scheme (SPS) in 2014, the largest amount was allocated for POSEICAN (compensations for sellers of seafood products from periphery regions Azores, Madeira, Canarias Islands,

French Guyana and Reunion) of 264 mio euros. It is followed by cattle breeding (248 mio euro) which also has the largest number of beneficiaries (42,385), wine and alcohol production (191 mio euro) and fruits and vegetables (183 mio euro).

The average value of the single payment right (SPR) does not reach 200 euro per hectare in regions as: Madrid, Asturias, Cantabria y La Rioja, and in the CCAA (autonomous communities) with intensive irrigated crops or olives growth, like Murcia and Andaluca is over 400 euro/ha.

Table 4. Distribution of payments in Spain in territorial aspect, 2014

Autonomous region	Amount, Euros	N° de Beneficiaries
Not territorialized	-78,026,541.03	1
Andalucía	1,594,943,969.92	267,987
Aragón	439,524,016.51	49,108
Asturias	62,096,839.8	11,081
Illes Balears	25,643,814.94	7,136
Canarias	266,868,200.96	15,623
Cantabria	40,156,216.19	5,370
Castilla-La Mancha	754,972,554.08	135,546
Castilla y León	892,216,583.82	88,286
Cataluña	294,966,839.89	55,032
Extremadura	517,077,948.73	64,858
Galicia	165,792,999.97	35,057
Madrid	43,295,781.19	6,853
Murcia	108,315,977.88	14,790
Foral de Navarra	107,382,071.09	15,804
País Vasco	55,124,170.18	10,213
La Rioja	45,383,478.1	7,882
Valencia	157,670,855.35	88,188
Total	5,493,405,777.57	878,655

Source: based on FEAGA and MAGRAMA data

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

Because of the high production diversity in Spain and the existence of a large area without the historical right to payment have as consequence the 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 euro

and the average real is 285 euro, in other countries as France or UK the differences are smaller. In France the average payment per hectare is 294 euro and 300 euro the average real and in UK 212 and 229 euro [2].

CONCLUSIONS

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

In Spain, this process started to be applied in 2006, at the beginning with the regime of partial decoupling, maintaining the payments most coupled possible form the fear that its abolition would lead to the abandon of the agricultural activity. 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 farm incomes and create a exposed market oriented agriculture.

Unfortunately the distribution of direct payments in Spain, similar to other member states, is unequal, being caused by CAP development and diversity of production and the use of historical references to fix the decoupled payments per farm.

ACKNOWLEDGEMENTS

The research was supported by the EUROEAST post doctoral mobility program at Polytechnic University of Valencia.

REFERENCES

[1] Agricultural Policy Perspectives Briefs (2011). The Future of CAP Payments.

[2]Bardaji, I., 2014, Reflexiones en torno a la PAC, Serie Economia, CAJAMAR Caja Rural

[3]Fintineru, G., Cofas, E., 2012, Distribution of the direct payments between EU member states. Scientific Papers Series "Management, Economic Engineering in Agriculture and Rural Development", volume 12(4): 78-81.

[4]Rizov, M., Pokrivcak, J., Ciaian, P., 2013, CAP subsidies and productivity of the EU farms. Journal of Agricultural Economics, Vol. 64 (3):537-557.

[5]Sinabell, F., Schmidt, E., Hofreither, M., 2013, Exploring the distribution of direct payments of the Common Agricultural Policy, Empirica, Springer, 325-340

[6]Schmidt, E., Sinabell, F., Hofreither, M.F., 2006, Direct payments of the CAP – distribution across farm holdings in the EU and effects on farm household incomes in Austria. Institut für nachhaltige Wirtschaftsentwicklung, DP-16-2006.

[7]Zhu, X., Lansink, A.O., 2010, Impact of CAP subsidies on technical efficiency of crop farms in Germany, the Netherlands and Sweden. Journal of Agricultural Economics, Vol. 61 (3):545-564