

## National implementation of the regulations on direct payments in the CAP period 2014-2020

Die nationale Implementierung der Direktzahlungsregelungen in der GAP-Periode 2014-2020

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### Summary

The CAP 2014-2020 grants the EU Member States some flexibility in the implementation of direct payments regulations. In this article, we discuss how the Member States have made use of this flexibility with respect to: (a) the transition towards a flat-rate payment in order to achieve internal convergence; (b) the definition of additional criteria for certain direct payments and (c) the internal redistribution of funds. The fact that each Member State has opted for a different bundle of implementation decisions suggests that a 'one size fits all' model does not reflect the needs of today's European agriculture.

**Keywords:** CAP reform, CAP 2014-2020, direct payments

### Zusammenfassung

Die GAP 2014-2020 räumt den EU-Mitgliedsstaaten bei der Implementierung der Direktzahlungsregelungen einen gewissen Entscheidungsspielraum ein. Der vorliegende Artikel bespricht, wie die Staaten diese Flexibilität hinsichtlich (a) des Übergangs zu interner Konvergenz; (b) der Definition zusätzlicher Kriterien bei bestimmten Direktzahlungen; und (c) des Ausmaßes der Umverteilung innerhalb des Staates nutzen. Der Umstand, dass die Staaten für die Umsetzung des rechtlichen Rahmens unterschiedliche Entscheidungen getroffen haben, lässt darauf schließen, dass ein einheitliches Modell den Ansprüchen der Europäischen Landwirtschaft gegenwärtig nicht ausreichend entspräche.

**Schlagworte:** GAP-Reform, GAP 2014-2020, Direktzahlungen

## 1. Background

Since its introduction in 1962, the Common Agricultural Policy's (CAP) focus has progressively been recalibrated along five reforms, and its tool box has been modified accordingly (CHOTKOWSKI and GAZIŃSKI, 2016). The latest reform aims to achieve certain goals in the CAP period 2014-2020: a more selective support, with better targeted payments that are more equitably distributed between farmers, across sectors and regions (see e.g. EC, 2010 and 2015; SWINBANK, 2012). Member States (MSs) were also given more flexibility in the implementation of certain instruments (e.g. which schemes to adopt, the specifics of certain schemes). The objective of this paper is to examine how MSs have implemented the direct payments regulations in the CAP period 2014-2020.

In this paper, approach and data used in the analysis are described (section 2). The evolution of the direct payments mechanism up to the CAP period 2014-2020 are sketched (section 3), followed an overview of the MSs' decisions (section 4). The discussion (section 5) is followed by a summary and concluding remarks (section 6).

## 2. Approach and data

### 2.1 Approach

We are looking at how MSs have implemented the CAP 2014-2020 framework with respect to the reform's goals in a three-step approach. *Firstly*, we explore the evolution of the direct payment mechanism and its design as defined by the CAP reform 2003 and the CAP reform 2013. The purpose is to provide the necessary context for the analysis. The information was sourced from legislation and published literature. *Secondly*, we analyse the national implementation of direct payment regulations along the lines of the reform's goals. To do so, we define three categories: (a) the speed and extent of 'transition towards a flat-rate' basic payment; (b) the 'definition of additional criteria' for certain direct payments adopted by the MSs in order to select the beneficiaries (c) the extent of 'redistribution of direct payments within each MS'. The data was collected for each MS by means of a questionnaire survey. The MSs were then grouped in each of the categories (a) to (c) based on which and how many of criteria in question were adopted by each MS.

*Thirdly*, we reflect on how much the CAP baseline model was adjusted by the MS ('national tailoring' in our terminology). We use the term 'CAP baseline model' for the general CAP framework specified at the EU level without any national choices. The discussion of the national tailoring is based on the findings in the previous step.

## 2.2 Questionnaire survey

Legislation on direct payments was used as the primary source of information for the questionnaire survey. To overcome the language barrier, and to include knowledge on local conditions, national experts were asked to complete a detailed standardised questionnaire on how the direct payment regulations are legally specified at the national level. Where necessary, the experts gathered information from the respective ministries of agriculture (e.g. in case some of the legislation had not yet been completed at the time). The survey was carried out in the first semester of 2015, any information that had remained unanswered in the survey was sourced in the following months. The collected information was checked against data provided by EU bodies (e.g. Commission communications; ISAMM<sup>2</sup>), as well as by specialised literature and press (HENKE et al., 2015). It is important to note that the collected data informs about what was specified legally, but *not* about its actual impact on the domestic primary sector and beneficiaries (i.e. the number of farmers affected or the actual amount paid).

## 3. The evolution of the direct payments mechanism

The goals of the CAP set in the Treaty of Rome in 1957 aimed at increasing agricultural productivity, ensuring a fair standard of living for farmers, stabilising markets, ensuring the availability of supplies and making products available to consumers at reasonable prices. These general goals are still valid today. However, the CAP framework entailed some unintended drawbacks. Also, economies and societies have changed and further areas of interest were included in the CAP (e.g. environment, the multifunctional role of agriculture) (HAMBRUSCH et al., 2015). These factors provided impetus for five reforms (CAP

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<sup>2</sup> The 'Information System for Agricultural Market Management and Monitoring' (ISAMM) is used by MSs to notify the EC about their implementation decisions.

reform 1992; Agenda 2000; CAP reform 2003; Health Check 2008; CAP reform 2013), all of which pursued certain goals and changed the tools applied, including the direct payment mechanism. Initially, direct payments mostly depended on the quantity produced, which resulted in excess production, exorbitant CAP expenditure and international tension in the 1970/80s. *CAP reform 1992*<sup>3</sup> introduced the compensatory payments that, although substantially modified and redesigned, laid the basis for today's direct payment (SWINBANK, 2012). The decoupling process was advanced step-wise in the subsequent reforms (Agenda 2000, CAP reform 2003, Health Check 2008 and CAP reform 2013). The CAP reforms 2003 and 2013 are described in more detail below since the category 'transition towards a flat-rate' extends to this timeframe.

The *CAP reform 2003*<sup>4</sup> introduced the Single Payment Scheme (SPS) and the Single Area Payment Scheme (SAPS), which largely decoupled direct payments from production. Under the SPS, the MSs could choose to determine the single farm payment by means of the historical model or the hybrid model. In the historical model, the single farm payment was derived from the average payment received by the farm in a historical reference period. In the hybrid model, the single farm payment contained both a historical and a flat-rate component. In the static hybrid model, the proportion of the historical and the flat-rate parts were constant over time; in the dynamic one, the portion based on a flat rate payment increased over time. Under the SAPS, a flat-rate payment was made to farmers for eligible agricultural area. With the CAP reform 2003, the CAP moved away from as simple uniform policy effective for the whole EU territory, like the price policy, towards a larger involvement of the MSs who were granted some autonomy in the implementation of the CAP within a common EU framework. MSs were given the possibility to choose between the historical, hybrid and flat-rate models as well as if and to what extent to implement some tools (e.g., the payment for specific types of agriculture).

The *CAP reform 2013*<sup>5</sup>, defining the framework for the CAP period 2014-2020, introduced an entirely new system of direct payments. The SPS was replaced by the Basic Payment Scheme (BPS), providing the

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<sup>3</sup> Council Reg. (EEC) No 1765/92 and Council Reg. (EEC) No 2066/92.

<sup>4</sup> Council Reg. (EC) No 1782/2003.

<sup>5</sup> Reg. (EU) No 1307/2013 of the European Parliament and of the Council.

basic payment as a basic income for farmers. Compared to the SPS, the basic payment is downscaled and more homogeneously distributed per hectare both across MSs and, within each MS, across farms (SWINBANK, 2012). The SAPS was extended until 2020. Further schemes were introduced as top-ups to the BPS and the SAPS that remunerate specific practices (e.g. practices beneficial for the climate and the environment) or a specific status (e.g. farmers of young age or farms located in areas with natural constraints). In the new system, some components of direct payments are mandatory (i.e. basic payment, 'green payment', young farmers payment), others are optional (i.e. redistributive payment, payments for areas with natural constraints, payments coupled to production, small farmers payments). Even with the mandatory components, MSs were granted some leeway in the implementation (e.g. use more restrictive criteria to determine the circle of beneficiaries). Overall, the new CAP reform markedly increases the flexibility granted to the MSs who are called to decide upon: which of the voluntary components to adopt; the amount of resources devoted to each component and the corresponding eligibility criteria; the distribution of funds between direct payments and rural development of the CAP; the profile of the beneficiaries; the criteria for ensuring a certain rate of distribution within their territories.

#### **4. National implementation decisions in the CAP 2014-2020**

Most MSs have chosen to implement the regulations in the CAP period 2014-2020 at the national level: Austria (AT), Bulgaria (BG), Croatia (HR), Cyprus (CY), Czech Republic (CZ), Denmark (DK), Estonia (EE), Finland (FI), France (FR), Germany (DE), Greece (EL), Hungary (HU), Ireland (IE), Italy (IT), Latvia (LV), Lithuania (LT), Luxembourg (LU), Malta (MT), Netherlands (NL), Poland (PL), Portugal (PT), Romania (RO), Slovakia (SK), Slovenia (SL), Spain (ES), Sweden (SE). Decisions were taken at a sub-national level in the United Kingdom (UK): England (UK-E), Wales (UK-W), Northern Ireland (UK-N), Scotland (UK-S); in Belgium (BE): Flanders (BE-F) and Wallonia (BE-W); and partly also in France (FR): Hexagone (FR-H) and Corse (FR-C).

#### 4.1 Transition towards a flat rate

Under the BPS, MSs are allowed to implement either ‘full convergence’ (a flat-rate basic payment) or ‘partial convergence’ (no flat rate in 2019). In this category, we look at the transition with respect to the type of model applied in the previous CAP period, the degree of convergence (full or partial) chosen in the current CAP period, and the point in time when the targeted degree of convergence will be achieved.

Some MSs have opted for full convergence, moving from a

- SPS historical model to a flat rate by 2019: AT, NL, UK-S, UK-W;
- SPS historical model to a flat rate by 2015: FR-C;
- SPS static hybrid model to a flat rate in 2020: SE;
- SPS dynamic hybrid model to a flat rate in 2015: UK-E;
- SPS dynamic hybrid model to a flat rate in 2019: FI, DK, DE;
- regional SPS model to a flat rate in 2015: MT.

Other MSs underwent fewer changes compared to their previous model by choosing partial convergence, starting from a

- SPS historical model: BE-F, BE-W, FR-H, EL, IT, ES, IE, PT;
- SPS static hybrid model: LU, UK-N;
- regional SPS model: HR, SI.

The new MSs (BG, CY, CZ, EE, HU, LT, LV, PL, RO, SK) who had already applied the SAPS in the previous period decided to keep it.

#### 4.2 Definition of additional criteria

Another objective of the CAP reform 2013 was to allow MSs to define criteria for certain payments in addition to those in the CAP baseline in order to better select beneficiaries. In this category, we take into account seven criteria that MSs could specify in addition to the CAP baseline model, relating to the

- (a) ‘active farmers clause’, under which support is granted to persons who demonstrate that their farming activity is not marginal (three criteria): Did the MSs specify a lower financial threshold below which a farmer is considered ‘active’ by definition? Were extra economic or professional requirements defined in order to being considered active farmer? Was the national negative list which defines persons ‘not active’ extended?;

- (b) lower threshold for receiving direct payments, to exclude farmers who would receive amounts smaller than the administrative cost (one criterion): Did the MS adjust the lower threshold?;
- (c) specific skills or training requirements for beneficiaries of the young farmers payment (one criterion): Did the MS define specific skills or training requirements?;
- (d) selection in the coupled support (two criteria): Did the MS define a differentiation of the unit amount for the same sector/product? Did the MS implement a territorial limitation of the coupled support?

In our analysis, one MS decided to define six additional criteria (IT); one opted for five (FR) ones. Some MSs specified four (AT, NL, UK-S, ES); three (BG, SK, EL, FI, BE-F, PL) or two (BE-W, MT, UK-N) additional criteria. Many MSs (CY, DE, DK, EE, HR, IE, LT, LU, PT, RO, SE, UK-E, UK-W) made only one extra specification, others (CZ, HU, LV, SL) made no additional specification at all.

### 4.3 Redistribution within the MSs

This category is concerned with the redistribution of direct payments within each MS as specified by the MSs themselves. We looked at two elements: (a) the shift to a flat-rate payment that has a redistributive purpose and (b) the application of the redistributive payment that aims at redistributing funds within a MS from large farms to smaller ones.

Five MSs (BG, DE, LT, PL, RO) decided to apply both tools, 18 MSs chose to apply only one tool (AT, HU, UK-S, UK-W, HR, CY, FI, FR, BE-W, SK, SE, NL, UK-E, LV, EE, DK, CZ, MT), the remaining nine MSs (BE-F, EL, ES, IE, IT, LU, PT, SL, UK-N) decided to apply neither of these two redistributive tools.

## 5. Discussion

Most MSs have started the process of *moving towards a flat-rate* payment in the previous CAP period. This is the case of the five MSs that had applied an SPS hybrid model, thus moving towards a more uniform payment among beneficiaries, and now choosing to apply the 'full convergence' of the payments. Eight MSs are moving from a historical model to 'partial convergence', a model that partially preserve the historical distribution of the direct payments among beneficiaries. A small group of four MSs is moving from a historical model in 2013

towards a flat rate in 2019, resolving in taking all the time allowed for the adjustment (5 years). By *defining criteria in addition* to the CAP baseline model, MSs are attempting to better target the direct payments within their own agricultural sectors at certain circles of beneficiaries and at certain practices. This is an important change compared to the previous CAP periods: while the CAP had evolved from a 'product-specific' policy into a 'producer-specific' policy under the reform 2003 (COOPER et al., 2009), the 2013 reform has expanded the scope by accounting for both farmers and certain functions of the agricultural sector.

The fact that few MSs have decided to make use of all *redistributive* elements has to do with internal pressure in favour of the maintaining of distributive status quo among beneficiaries and also with the will not to break the financial resources at MS disposal in many small payments, thus facilitating a higher per unit income support. As for the *national tailoring*, the MSs' flexibility in the transition towards a flat-rate payment, in defining additional implementation criteria and in redistributing funds within the MS are important features of the CAP reform 2013. This flexibility intends to enable the MSs to tailor the CAP to their own agricultural sectors. In other words, the CAP baseline model allowed the MSs to adapt the definition of players (the beneficiaries eligible for receiving direct payments), the definition of the playing field (the payment schemes available) and the definition of the rules of game (the specific implementation rules). D'AMICO et al. (2013) found that the CAP baseline model is more suitable for an agricultural sector characterised by a low degree of diversification and based on arable crops and extensive livestock production in areas dominated by grassland; MSs endowed with these features require little adaptation of the CAP baseline model. On the other end of the spectrum, Mediterranean MSs and some Eastern European MSs are relatively far from the CAP baseline model: they have implemented more adjustments to the CAP baseline model to better fit the CAP 2014-2020 to their needs. As a result, their national versions of the CAP have become more complex and less accepted by their farmers as compared to the Northern European MSs (DE FILIPPIS et al., 2013).



## 6. Summary and concluding remarks

In this article we have shown that the CAP reform 2013 has increased the MSs' flexibility in the implementation of direct payments regulations well beyond the simple management of decisions made by the EU (see e.g. ANANIA and PUPO D'ANDREA, 2015; GREER, 2013). Overall, the CAP reform 2013 attempts to build a CAP that is more suitable to all MSs than in the past, offering a wide range of instruments and modulating them in a way that the MSs are able to tailor the CAP to their national requirements. More specifically, the reform aimed at three main objectives: (a) to initiate a move towards a flat-rate basic payment; (b) to better target direct payments at certain circles of beneficiaries and at certain practices; (c) to allow for redistributing the amount of support granted in each MS (EC, 2010 and 2015). The high degree of heterogeneity in the national implementation of direct payments in the CAP 2014-2020 suggests that a 'one size fits all' model, as applied in the past, would not reflect the complexity of today's European agriculture. When allowed, MSs adapt the general CAP framework to their structural needs and agricultural systems. The new regime of co-decision, in which the European Parliament has a voice in the CAP reform, has increased the possibility of more flexible rules for MSs, since the Parliament is the place where national interests are legitimately expressed. This approach, in which tools are fine-tuned at the national level, may be maintained under the possible mid-term review of the CAP reform 2013.

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