Direct payments to farmers in 2013

The reform of the EU's Common Agricultural Policy (CAP) is being negotiated by the Council and the European Parliament (ordinary legislative procedure). The new rules should enter into force on 1 January 2014. One of the proposed regulations in the 'CAP reform package' aims at ensuring a smooth transition in calendar year 2013 between the current [Regulation No 73/2009] and forthcoming CAP legislation concerning direct payments.

Direct payments: 71% of CAP expenditure

The CAP is structured around two 'pillars': Pillar 1 supports EU farmers' incomes, through direct payments and market measures (e.g. public storage of stocks). Pillar 2 supports rural development.

Figure 1: Structure of CAP payments in 2010 (€55.5 billion in total).

Pillar 1
€44 bn, of which:
- € 39.7 bn Direct Payments, of which:
  - Decoupled Payments: € 33.5 bn
  - Coupled Payments: € 6.2 bn
- € 4.3 bn Market Measures

Pillar 2
€11.5 bn

Data source: European Court of Auditors, 2011.

Since 1992, direct payments have been one of the main support instruments to farmers from the EU budget. They represented 29% of agricultural income in the EU in the period 2007-2009. There are currently different types of direct payment (listed in Annex I to Regulation No 73/2009), which is a consequence of successive CAP reforms.

They were introduced as coupled payments by the 1992 CAP reform, i.e. proportional to farmers' production, based on the area under cultivation or the number of animals. The 2003 CAP reform created decoupled payments: since 2005, direct payments have been linked less and less to production of a specific product. However, some Member States were allowed to maintain some coupled aid (e.g. for suckler cows in France).

Factors affecting direct payment ceilings

The amount of direct payments which may be granted in calendar years 2009 to 2012 cannot be higher than the net ceilings set out, per Member State, in Annex IV to Regulation No 73/2009. These ceilings particularly take into account these factors:

- **Phasing in**: direct payments have been gradually introduced in the new Member States, between 2004 and 2013 (2016 for Bulgaria and Romania).
- **Modulation**, i.e. the compulsory transfer, each year, of a percentage of funds from Pillar 1 to Pillar 2, for EU15 Member States (except in Outermost regions and in the Aegean Islands). For 2012 the modulation rate is 10% (14% for direct payments exceeding €300 000). Modulation only concerns farmers receiving more than €5 000 in direct payments. Moreover, new Member States are not affected by modulation until direct payments are completely phased in. In addition to compulsory modulation the UK has chosen to use voluntary modulation (Regulation No 378/2007).

- **Financial discipline**: a mechanism to ensure that CAP expenditure stays within the limits set in the Multi-annual Financial Framework.

Transitional measures

In calendar year 2013, Regulation No 73/2009 will remain the basis for granting direct payments. However, this Regulation only sets out ceilings up to calendar year 2012. The proposed regulation [COM(2011)630] establishes the ceilings for calendar year 2013, by adjusting the 2012 ceilings (e.g. taking into account the end of voluntary modulation). In the EU15, the modulation rate is set at 10% for payments between €5 000 and €300 000 and 14% for payments over €300 000. In the new Member States, only payments over €300 000 are concerned (at a rate of 4%), but not in Bulgaria and in Romania. Outermost regions and Aegean Islands are not concerned.

Figure 2: Top 8 beneficiaries of direct payments in 2013 (representing €32.8 billion, i.e. 80% of total direct payments (€41 billion)).

Data source: COM(2011)630

<table>
<thead>
<tr>
<th>Country</th>
<th>Direct Payments (€ million)</th>
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<tbody>
<tr>
<td>France</td>
<td>7 853</td>
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<tr>
<td>Germany</td>
<td>5 372</td>
</tr>
<tr>
<td>Spain</td>
<td>5 055</td>
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<tr>
<td>Italy</td>
<td>4 128</td>
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<tr>
<td>UK</td>
<td>3 650</td>
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<td>Hungary</td>
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