

ADVANTAGES AND DISADVANTAGES OF THE SINGLE PAYMENT SCHEME IN THE EU

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Features of law regulation of relations in the field of the common agricultural policy of the European Union were studied. Advantages and disadvantages of the single payment scheme in the EU were determined.

Common agricultural policy of the EU, single payment scheme.

The common agricultural policy is one of the most controversial policy areas in the EU. The most widely debated issue in the scientific literature and in the policy arena is the efficiency of the introduction of the single payment scheme.

Legal regulation of the common agricultural policy of the European Union was studied by the following scientists: O.V. Hafurova, T.V. Hohol, L.V. Lysenko, T.O. Ostashko, P.O. Ryzhko and others. But advantages and disadvantages of the single payment scheme were not summarized.

The purpose of this article is to determine advantages and disadvantages of the single payment scheme in the EU.

The common agricultural policy was created in 1957 under the Treaty of Rome and started operating in 1962. According to the article 39 of the Treaty on the Functioning of the European Union (TFEU) the objectives of the common agricultural policy shall be: a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labor; b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; c) to stabilize markets; d) to assure the availability of supplies; e) to ensure that supplies reach consumers at reasonable prices [1].

Originally, common organizations of the agricultural market operated through subsidizing agricultural produce. The mechanism of three prices was used: the target price; the intervention price; and the threshold price. The target price was fixed annually by the EC Council and represented the

amount which it was hoped that EC producers would receive. The intervention price was that at which the intervention agencies of member states were obliged to buy in commodities offered to them (in practice providing a minimum market price); and the threshold price was fixed in such a way as to bring the price of imported products into line with the target price. Where the price of imports fell below the threshold price, a variable import levy was imposed. Conversely, to enable EC producers to export, export refunds could cover the difference between prices on the world market and higher prices within the EC.

The first attempt to reform the CAP was made in 1992 with the MacSharry Reforms. Next reform was brought forward in 2000, however neither made a significant difference to the level of subsidies paid to farmers. The biggest agricultural change affecting farmers has been the fundamental reform of the common agricultural policy in 2005 and the introduction of the single payment scheme. The scheme replaced 11 forms of subsidy with one annual payment, which is linked to land management instead of production. As a result of reform the link between support and production was broken and the incentive for farmers to overproduce was reduced. This was achieved by system shift from production support to producer support. At present, decisions of farmers are driven by markets and not by support payments. After reform farmers have greater freedom to operate their business because the subsidy is no longer linked to production.

Council Regulation № 1782/2003 is the legislative framework governing direct payments in the EU [2]. This Regulation establishes: common rules on direct payments under income support schemes within the common agricultural policy which are financed by the European Agricultural Guarantee Fund; an income support scheme for farmers (the single payment scheme); and a variety of product-specific support schemes which fall outside the single payment scheme.

The single payment scheme is available to any farmer who has received a payment during specified periods under one of the relevant Common Agricultural Policy support schemes. It is also open to a farmer who has received a holding (or part of a holding) by actual or anticipated inheritance from another farmer who met this condition, and to one who received a payment entitlement from the national reserve or by transfer. The system is based on the allocation of payment entitlements to each farmer, allocated so that each is entitled to a payment entitlement per hectare. The entitlement is, in principle, calculated by dividing the reference

amount by the three-year average number of hectares that in the 2000–2002 reference period gave rise to specified direct payments. The reference amount is the three-year average of the total amounts of payments which the farmer was granted under the specified support schemes in the 2000–2002 reference period [3].

According to the Council Regulation № 1782/2003, in order to qualify for the payment farmers must adhere to certain land management prescriptions, of which there are two basic requirements: a farmer must respect statutory management requirements in relation to public animal and plant health, environmental protection and animal welfare (article 4); and he must maintain all agricultural land in good agricultural and environmental condition (article 5) [3].

Direct payments to the farmers are granted per hectare of land farmed by an operator. The level of payment per hectare differs from country to country and in several member states from region to region, depending on what the respective farm used to produce in the historical reference period preceding reform and also depending on the extent to which support prices for the products concerned were reduced under the reform. Farmers are able to use declared parcels of land for any agricultural activity (subject to specified exceptions). In fact in «old» member states the amount of single payments is higher than in «new» member states. This gives grounds for criticism mainly from representatives of «new» member states. But nevertheless these discriminatory provisions are also contained in the legislative proposals for reform of the common agricultural policy and rural development policy after 2013.

Cross compliance obligations under the direct payments system take two main forms: a farmer receiving direct payments must respect statutory management requirements in relation to public animal and plant health, environment and animal welfare (article 4 of the Council Regulation); and he must maintain all agricultural land in good agricultural and environmental condition (article 5) [3]. Member States shall ensure that all agricultural land, especially land which is no longer used for production purposes, is maintained in good agricultural and environmental condition. Member States shall define, at national or regional level, minimum requirements for good agricultural and environmental condition, taking into account the specific characteristics of the areas concerned, including soil and climatic condition, existing farming systems, land use, crop rotation, farming practices, and farm structures.

According to paragraph 2 of article 5 of the Council Regulation № 1782/2003, there is also an obligation to maintain land under permanent pasture [2]. «Permanent pasture» is defined as land used to grow grasses or other herbaceous forage naturally (self-seeded) or through cultivation (sown) and that is not included in the crop rotation of the holding for five years or longer [3]. Failure to comply with the statutory management requirements or the good agricultural and environmental condition results in reduction of or exclusion from direct payments (article 6 of the Council Regulation) [2].

As a result of past CAP reforms, direct payments to farmers now account for the lion's share of the EU expenditure on its policies for agriculture and rural development. The EU budget for 2012 foresees direct aids of € 40.7 billion, nearly three-quarters (precisely 71.6 %) of all expenditure on the CAP. As a matter of fact, direct aids under the CAP are the largest single expenditure item in the whole budget for the EU, making up nearly one-third (precisely 31.4 %) of all EU expenditure planned for 2012 [4]. Such big amounts of CAP payments are subject to criticism from the public and researchers. Some experts claim, that the CAP demands are far too high taking into account that single payment scheme supports only a small minority of EU businesses. Other experts, such as Minister of agriculture and rural development of Slovak Republic Lubomir Yahnatek and President of the Slovak agricultural and food chamber Milan Semanchik insist on maintaining the size of the budget for the common agricultural policy, justifying it by the fact that if these costs are reduced, European agriculture will not be able to meet all industrial, environmental and socio-economic functions which are required of it [5].

Each member state shall set up an integrated administration and control system over single payments to farmers. The integrated system shall comprise the following elements: a) a computerised data base, b) an identification system for agricultural parcels, c) a system for the identification and registration of payment entitlements, d) aid applications, e) an integrated control system, f) a single system to record the identity of each farmer who submits an aid application. The computerised data base shall record, for each agricultural holding, the data obtained from aid applications. This data base shall, in particular, allow direct and immediate consultation, through the competent authority of the member state, of the data relating to the calendar and / or marketing years starting from the year 2000. Member states shall carry out administrative checks on the aid applications including a verification of the eligible area and the

corresponding payment entitlements [2]. As a result, processing of farmers' common agricultural policy payments is expensive.

Considering the above mentioned, advantages of the single payment scheme in the EU include: single farm payments are less trade-distorting; they control production to a lesser extent and increase market influence; reform of the common agricultural policy in 2005 made European farmers more competitive; the incentive for farmers to overproduce is reduced; common agricultural policy helps protect the countryside. Disadvantages of the single payment scheme include: direct payments are the largest expenditure item in the budget of the EU; liberalization has generated the price variability on agricultural products.

References:

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