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## **Development of the Single Area Payments Scheme in the Visegrad Countries**

**Abstract.** One of the most important date for the Visegrad Countries<sup>2</sup> was year 2004, because of the accession to the EU. The four countries have to apply the Common Agricultural Policy (CAP) which provides facilities for the farmers in form of direct payment, market measures, agricultural and rural development programs. The analyses of the direct payments development in the Visegrad Countries are necessary for the further CAP reform.

**Key words:** SAPS, CNDP, Visegrad Group Countries

### **Introduction**

The subsidies system of agriculture was modified after the EU accession. The four examined countries chose the single area payment scheme, which could be complemented by the national budget. The Visegrad Group has different agricultural structure and diverse policy measures will have a different effect on agriculture of the four countries. If we take into account the SAPS payments in 2004 in Hungary and in Poland, then most of the beneficiaries were small holdings, contrary to Slovakia and Czech Republic where the medium size and bigger farms are more relevant. These more or less reflect the agricultural structure. The payment system which was chosen by the Visegrad countries will be presented and the structure of payments in the four countries analyzed. The real questions are the following:

- are there any effects of the payment system on the agrarian structure?
- are there any connections between the payments and this structure?

The analyses of the direct payment development in the Visegrad Countries are necessary to the further CAP reform.

### **Implementation of the Common Agricultural Policies in the Visegrad Countries**

After the accession in 2004 the 10 new members have to apply the *acquis communautaire*. The same situation was referred also to the regulations of the Common Agricultural Policies.

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<sup>2</sup> The Visegrad Group or Visegrad Four means four Central European Countries (CEC): Czech Republic, Republic of Hungary, Republic of Poland and Republic of Slovakia. That is a non official name of them. In the beginning it was called Visegrad Three, but after the disintegration of the former Czechoslovakia in 1993 it became Visegrad Four. On 15<sup>th</sup> of February, 1991 the three presidents signed a declaration that the three countries (nowadays four countries) will help each other in the way of European integration.

The new member states (NMS) had two possibilities of applying the direct payment scheme:

- standard system which has been used by the old members;
- Single Area Payment Scheme (SAPS) which could be used only by the new members.

Visegrad Countries implemented SAPS, which provides farmers a subsidy based on their farm area and a per-hectare entitlement calculated on a national basis. The only requirement is that the land be maintained in good agricultural condition. The amount is calculated by the total amount of direct payment funds available for a given member state in the calendar year, divided by the utilized agricultural area of the member state. The definition of 'utilized agricultural area (UAA)' is the total area taken up by arable land, permanent grassland, permanent crops and kitchen gardens which have been maintained in good agricultural condition as of June 30, 2003, whether or not in production at that date. The minimum size of a parcel is 0.3 hectare, but new members can decide to set it at a higher level, but not higher than 1 hectare. There is no set-aside requirement for SAPS, but production quotas which apply to sectors such as dairy and sugar, must be respected. The European Commission has already set the aid amounts for each of the new member states for 2004, taking into account the phasing-in of aid and the various direct payment programs that would be available for those countries. The SAPS means the same per hectare of eligible area payment for each farmer. There is a possibility to complement the payments from the EU with the Complementary National Direct Payments (CNDP). These are also known as 'topping-up; top-up' payments. The CNDP's are part of the compromise reached with NMS to offset the impact of the 10 year phase-in period for direct payments.

The 30% CNDP is only a possibility for the new member states. The measure is chosen by the countries. The situation of the national budget, goals of the government determinate the value of the available own resources. Czech Republic, Slovakia and Poland did not take advantage of the opportunity to give maximum financial aid for their agricultural sector.

The top up was set as 30% in 2004 in Czech Republic, but that decreased to 28,4% in 2005 and it was also less than 30% in 2006. The national direct payment was paid to farmers according to the area of arable crops, hops, cotton and number of ruminants [Agricultural... 2007].

In Poland CNDP was paid like SAPS except for starch potatoes and tobacco. Five different sectors were shaped to pay direct payment [Agricultural... 2007].

The payment system in Poland was modified in the first three years, therefore the farmers in Poland received 36%, 39% and 42% of the EU-15 level of direct payments per hectare between 2004 and 2006, instead of 25%, 30% and 35%. It does not mean higher share or more payment from the EU. It is just a result of redistribution between the structural fund and the European Agricultural Guidance and Guarantee Fund. The subsidies by that fund were reduced. The national top up in 2004 was 21.6%, in 2005 was 22.8% and in 2006 it reached only 24.4% because of the modification of the payments [Bakács&Wisniewski 2004].

The national complementary payment in Hungary meant 105 million euro in 2005. That figure increased three times and reached 340 million euro. Hungarian farmers could receive 'top up' for arable land, beef meet, sheep, goat and milk. The measures of it have reached 30% till now [Agricultural... 2007].

In Slovakia farmers received ‘top up’ according to the area of arable land, hops, tobacco and number of suckler cow, sheep and goat. The payments from national budget were less than 30% from 2005. It reached only 24% in 2005 and 19% in 2006, therefore farmers received only 54% of EU-15 payment (SAPS and top up) instead of 60% and 65% [Agricultural... 2007].

## Development of the direct payments in the Visegrad Countries

Data used come from the European Commission. The data show us the situation of 25 member states in 2005.

The direct payment system was determined by the Accession Treaty which was signed in Copenhagen in the end of 2003. The Treaty includes information on the base area, reference yields and quotas for all of the new member states. SAPS and ‘top up’ were calculated according to those data. The diverse data resulted in different payment levels. Table 3 shows the level of single area payment scheme in the four examined countries.

Table 1. SAPS payments in Visegrad Countries, euro/hectare

Year	Czech Republic	Hungary	Poland	Slovakia
2004	57.3	70.2	44.5	43.8
2005	71.42	86.21	57.42	54.13
2006	89.49	102.3	69.57	65.8

Source: [Iván 2005], [Agricultural... 2007], [Bori 2007].

We can see that the Hungarian direct payment was the highest during the examined three years. SAPS was 70 euro in 2004, it increased to 102 until 2006. The lowest value was linked to Slovakia with 43.8 euro payment, which reached 65.8 euro in 2006. All of the subsidies were calculated according to the size of base area and all of the claims based on actual entitled area.

If the size of the actual entitled area was higher than the size of the basic area, the level of payments had to be reduced proportionately. In Hungary the actual entitled area exceeded in size the base area by some 12% and in Czech Republic there were 2% more actual entitled areas than the base area, therefore per hectare payments were reduced in those two countries.

Table 2. Number and average area of applications in the Visegrad Countries

Country	Number of applications	Average area per application, hectare
Czech Republic	18 759	188.1
Hungary	210 000	23.1
Poland	1 400 180	9.8
Slovakia	12 399	146.3

Source: [Pilver 2005].

In Poland and Slovakia there was 7% less entitlement area than basic area. It resulted in an increased subsidy per hectare, but the farmers did not take advantage of the whole

payments. SAPS was complemented by the national 'top up'. It could reach maximum 30%, but in Slovakia and Czech Republic the CNDP have been less than 30% from 2005.

In Hungary there were 210 thousand beneficiaries in 2004. They applied from 30% of the total number of holdings. The average size of them was 23 hectare. In Poland more than 50% of the 2.5 million farmers (1.4 million) received SAPS. The farms had less than 10 hectare in average. The number of beneficiaries was lower in Slovakia and Czech Republic, but the size of farms was higher. In the Czech Republic 18 759 farmers out of the total of 42 thousand holdings received subsidies from the EU. In Slovakia 18% of the registered holdings, i.e. 12 400 farmers, got a direct payment this source.

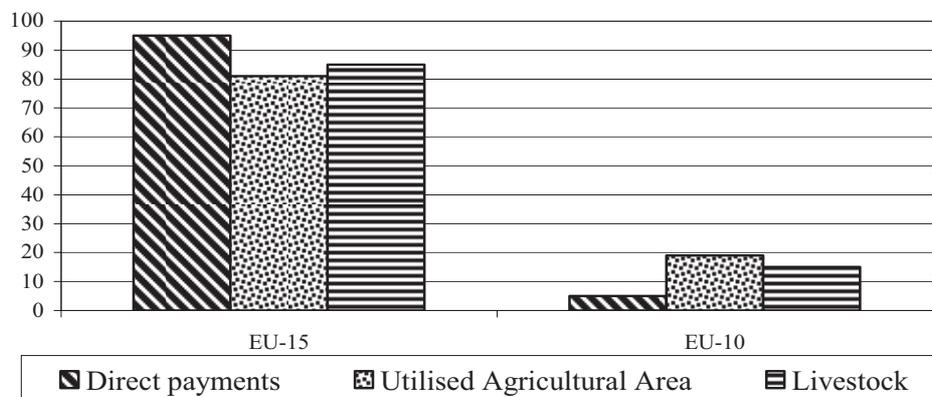


Fig. 1. Distribution of Direct Payments, Utilised Agriculture Area and Livestock between EU-15 and the new member states, 2005 Financial Year and 2003 Farm Structure Survey, EU-25=100%

Source: [Report... 2007, p. 4].

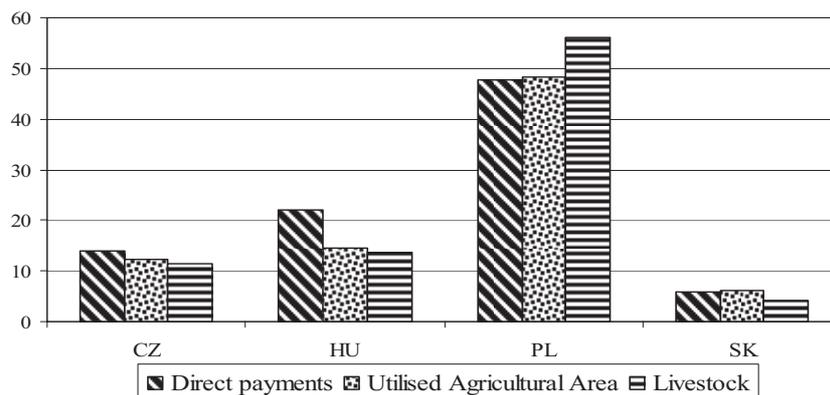


Fig. 2. Distribution of Direct Payments, Utilized Agricultural Area and Livestock Heads in the Visegrad Countries, EU-10=100%

Source: [Report... 2007, p. 4].

The first graph shows us the distribution of the direct payments, utilized agricultural area and livestock heads between EU-15 and the new member states. High discrepancy could be recognized between the two groups.

The old member states received higher share of payments than they entitlement according to UAA and livestock. We have to take into account the effect of phasing in system. 81% of the total UAA and 85% of the total livestock heads belonged to the old members and they received about 95% of the direct payments.

The ten new members had 15% of the livestock heads and 19% of the agricultural area, but they got only 5% of the direct subsidies. The fourth graph shows the situation of the Visegrad Countries.

In the Czech Republic and Hungary the proportion of payments was higher than the share of UAA and livestock. The highest discrepancy was in Hungary (6%, fig.2).

We can keep track of the distribution of direct payments in the four examined countries by the payment categories. In Poland most of the direct payments were received by the farmers in the lowest category. Holdings with less than 1 250 euro subsidies got about 60% of the total aid (704 million euro). The shares of the other categories were about 10%.

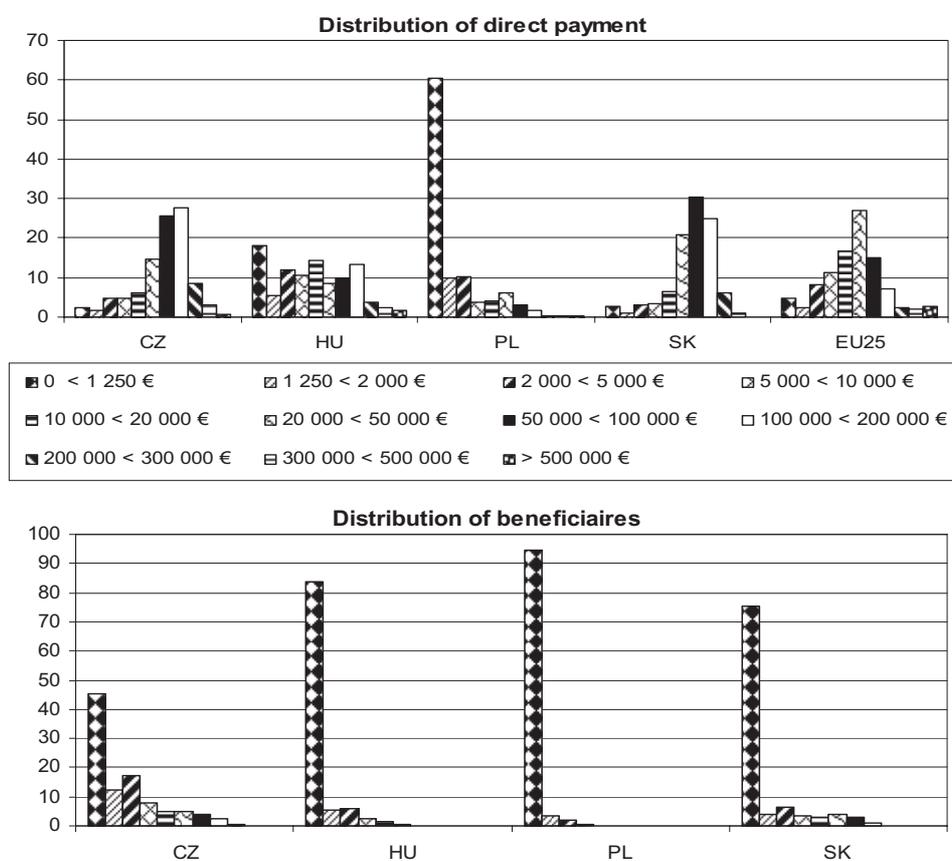


Fig. 3. Distribution of payments and beneficiaries in Visegrad Countries, %

Source: [Report... 2007].

The distribution of payments in Slovakia and the Czech Republic were different than in Poland. The highest share was awarded to farmers with 20-200 thousand euro of aid. In the Czech Republic this category of farmers got 68% and in Slovakia 76% of the total sum of subsidies. In Hungary the distribution of payments was relatively homogeneous. Farmers

in the first category got 18% of the SAPS, and the holdings belonging to the other categories got about 10% per category.

The distribution of beneficiaries is more homogenous. The highest proportion of the payments went to the holdings with less than 1 250 euro subsidies per year. In EU-25 about 62% of the beneficiaries were in this smallest support group. In Poland that figure was 94%, in Hungary 83%, in Slovakia 75%. In the Czech Republic only 45% of the entitled holdings received less than 1 250 euro payment. While in Hungary and Poland categories beyond 1250 euro include just few farmers, in the Czech Republic each category between 1 250 and 100 000 euro represent 5-10% of beneficiaries.

Taking into account figures from the two parts of the third graph we can see that 60% of the subsidies were received by 90% of the beneficiaries in Poland. In contrast with the situation of Poland in Slovakia and the Czech Republic 10-15% of the entitled farmers got 70% of SAPS. The distribution of payments is nearly the same in the Czech Republic and Slovakia as in the EU-25 in general. The distributions of payments and beneficiaries more or less reflect the agrarian structure of the Visegrad Countries.

In the Czech Republic 18 690 farmers received 213 million direct payments, in Poland nearly 1.4 million entitled holdings got 704 million subsidies, in Hungary 316 million euros were received by 203 400 beneficiaries and in Slovakia 12 340 farmers got 82 million euro in payments. According these figures we can say that the Czech farmers received the highest average subsidies among the four examined countries (Table 3).

Table 3. Average payments in the different categories, euro

Category	CZ	HU	PL	SK	EU-25
0 - 1 250 EUR	577	337	325	242	366
1 250 - 2 000 EUR	1 586	1 555	1 540	1 593	1 587
2 000 - 5 000 EUR	3 154	3 103	2 873	3 224	3 242
5 000 - 10 000 EUR	6 976	6 971	6 794	7 158	7 084
10 000 – 20 000 EUR	14 012	14 640	14 194	14 542	14 173
20 000 – 50 000 EUR	33 007	31 109	30 096	34 002	30 533
50 000 - 100 000 EUR	71 279	72 763	67 844	70 172	67 089
100 000 - 200 000 EUR	134 464	138 633	145 000	137 767	132 586
200 000 - 300 000 EUR	231 638	239 420	241 500	247 600	238 813
300 000 - 500 000 EUR	322 000	355 350	0	0	379 984
500 000 EUR <	0	581 200	0	0	879 509
Average	11 397	1 555	508	6 709	4 679

Source: [Indicative... 2007].

The farmers in the EU-25 got on average 4 679 euro in direct payments per farm. The level of Czech average subsidies reached 11 397 euro, which was more than two times bigger than the average payments in the EU-25. That figure was 1 500 euros in Hungary and it was only 500 euros in Poland.

The benefits of the countries and the differences between them are not as clear when we analyze the figures in each category. In most of categories the Czech figures were the highest, but the Slovak farmers got higher payments in categories between 2 000 and

10 000 euros. The peak average direct payment in category between 100-200 thousand euro was in Poland. In the upper categories Hungarian farmers received higher average subsidies.

Even the modulation does not play any role for the new members until they will receive 100% of the full direct payment. In the European Union about 84% of the direct payments went to those exceeding 5 000 euros, it concerned 18% of the beneficiaries. The modulation played very high role in the old member states.

In the Czech Republic the share of subsidies beyond 5 000 euro reached the 91%, and it concerned one-fourth of the beneficiaries. In Slovakia 14% of the entitled farmers received more than 5 000 euro in direct payments and that meant some 93% of the total sum of the aid. According to the data in Table 4 we can say that the modulation would have had effect in Slovakia and Czech Republic, if it had been applied already. In Poland only 20% of the subsidies exceeded 5 000 euro, which was received by 0.5% of the beneficiaries, so 99.5% of the farmers got less than 5 000 euros payments. The modulation is not going to play as high role as in the Czech Republic and Slovakia.

Table 4. Distribution of payments beyond and below 5000 euro in the Visegrad Countries, %

Category	CZ	HU	PL	SK	EU25
<b>Payments</b>					
Below 5000 EUR	8.83	35.72	80.26	6.65	15.37
Beyond 5000 EUR	91.17	64.27	19.72	93.35	84.63
<b>Beneficiaries</b>					
Below 5000 EUR	75.22	95.32	99.44	85.41	81.45
Beyond 5000 EUR	24.78	4.68	0.55	14.59	18.53

Source: [Indicative... 2007].

We have to take into account that the level of the direct payments in 2005 in the new member states was only 30% of the full payment, so the modulation after full implementation should play a higher role in Czech Republic, Slovakia and Hungary. The effect of it might be higher than in the old member states.

## Conclusion

The Single Area Payment Scheme was chosen by the Visegrad Countries. The SAPS could be complemented by national payments, but that is only a possibility. Different base areas, yields and quotas result in different levels of payment. In Poland and Slovakia less area was entitled to any subsidy than was the basic area. That means farmers got the maximum agreed level of payments on the contrary to the situation in Hungary and the Czech Republic; where the level of payments were decreased because of the overclaim. But that situation did not mean higher payment per hectare. The four examined countries use SAPS and CNDP for different titles which result in different per hectare payments. Only 5% of the total direct payments in the EU was received by the new members. Poland got 45% of the new members' direct payments. Hungarian farmers received 21%, Czech holdings 15% and farmers in Slovakia got only 5% of the new members' direct payments.

In Hungary and the Czech Republic the share of direct payments were higher than the share of utilized agricultural area, and livestock heads in the new member states. The highest per hectare payment was received by Hungarian farmers. But the highest amount of payments per farm was paid in the Czech Republic and Slovakia because of the higher size of holdings. The distribution of direct payments more or less reflects the agricultural structure in the Visegrad Countries. In Slovakia and the Czech Republic the farms with more than 1 250 euro per year subsidies relatively more numerous than in Hungary and Poland. It means the size of holdings (natural size and economic size) were higher in the Czech Republic and Slovakia. It is expected that only holdings beyond one ESU got any direct payments in contrast to Poland and Hungary, where farms below one ESU received direct payments as well. According to the data from European Commission we can say that the future effect of modulation could be very high in the Czech Republic, Slovakia and Hungary. That effect is going to be harder because of the result of the phasing-in system.

In author's opinion the payment system (SAPS) influences the production system. After the EU accession the proportion of the animal husbandry has dropped because of subsidizing system which prefers the crop production and because of the high level of animal welfare requirements. If the subsidies system prefers plant growing most of the holdings will stop the keeping animals and will switch to the crop production. Most of the farmers will produce only such plants which could receive any subsidies.

In general we can say that all of the entitled farmers get higher subsidies nowadays than before accession, which increases their possibilities. However holdings outside of the payments system are increasing their disadvantage continuously.

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