

## THE EVOLUTION OF DIRECT PAYMENTS WITHIN THE FRAMEWORK OF THE COMMON AGRICULTURAL POLICY REFORM

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**Abstract:** *Among the policies of the European Union, the Common Agricultural Policy (CAP) is of particular importance. This is not only because of the budget allocated by the Union to finance this policy, which is approximately 30% of the total Union budget for the 2021-2027 programming period, the number of people affected and the territory involved, but also because of its historical importance and the sovereign attributes delegated by the Member States to the Community level of decision-making. Direct payments are a key element of the Common Agricultural Policy (CAP). They provide income support for farmers and promote sustainability and environmentally-friendly farming practices. Since its establishment in the late 1990s, the direct payment scheme has evolved in line with the needs and challenges of the moment, in order to have a smart and resilient agricultural sector.*

**Key words:** *Common Agricultural Policies, European Union, direct payments, agriculture*

### INTRODUCTION

Among the European Union's Policies, the Common Agricultural Policy (CAP) stands out as one of the most significant [7]. This prominence is not only due to the substantial budget allocated by the Union to fund this policy (approximately 30% of the EU's total budget), the number of people affected, and the vast territory involved, but also because of its historical significance and the sovereign powers transferred by member states to the EU decision-making level. The importance of the Common Agricultural Policy also stems from its close connection to the single market and the economic and monetary union, two key areas of European integration.

Depending on agricultural developments, intra-community relations, and pressures from the World Trade Organization (WTO), the Common Agricultural Policy has undergone several adjustments aimed at correcting imbalances and implementing new strategic directions. Direct payments are a central component of the Common Agricultural Policy (CAP). They provide income support for farmers while promoting sustainability and environmentally friendly farming practices. Since its establishment in the late 1990s, the direct payment scheme has evolved in response to emerging needs and challenges, fostering a smart and resilient agricultural sector. Several key stages of the evolution of direct payments can thus be identified and are presented below [7,8,10,15].

- **The Evolution of Direct Payments in Europe**

1. **Early Period (1962-1992)**

The Common Agricultural Policy (CAP), launched in 1962, aimed primarily at ensuring food supply security and stabilizing agricultural markets. During this period, farmer support was provided mainly through market interventions and guaranteed prices [1].

2. **The 1992 Reform (MacSharry Reform)**

Direct compensatory payments were introduced to decrease guaranteed prices and prevent overproduction. These payments were based on cultivated land area and production volumes [5].

### 3. Agenda 2000

The policy continued to reduce guaranteed prices while increasing direct financial support for farmers. This stage also marked the introduction of the CAP's two-pillar framework: Pillar I: Direct Payments and Market Support and Pillar II: Rural Development Programs.

#### The 2003 Reform (Fischler Reform)

The reform introduced a decoupled **Single Payment Scheme (SPS)**, allowing farmers to align their production with market demands. A system of **conditionality** linked payments to adherence to environmental, food safety, and animal welfare regulations..

### 4. The 2013 Reform

"**Greening**" payments were introduced, directing 30% of direct payments toward environmentally sustainable agricultural practices. Additional financial aid was offered to young farmers and small agricultural enterprises. External convergence aimed to reduce payment inequalities between EU member states.

### 5. CAP 2023-2027

The policy's focus shifted toward environmental sustainability and aligning with the European Green Deal's objectives. **Eco-schemes** were established as voluntary financial incentives for farmers adopting green agricultural methods. Member states were granted more flexibility in distributing funds and setting national priorities [3].

- **The Evolution of Direct Payments in Romania**

#### 1. Pre-Accession Period (Until 2007)

Before joining the EU, Romania developed national agricultural support programs to align its agricultural sector with EU requirements.

#### 2. Post-Accession Period (2007-2013)

After EU accession, Romania adopted the **Single Area Payment Scheme (SAPS)**, granting per-hectare direct payments, tailored to new member states. Rural development policies were carried out through the National Rural Development Program (PNDR).

#### 3. Period 2014-2020:

The policy framework introduced environmental payments ("greening") and financial aid for young farmers. It also applied external convergence, gradually increasing the per-hectare payment levels [9].

#### 4. CAP 2023-2027

Agriculture and rural development funding is managed through Romania's CAP Strategic Plan, backed by a €15.83 billion budget [12]. The plan targets key intervention areas for rural development and market sectors, prioritizing sustainability, digital innovation, and support for small and medium-sized farms [14].

## MATERIALS AND METHODS

The present paper aims to provide an analysis of the direct payment system and its evolution from its establishment to the present day.

The databases used for the information analysis include those from the National Institute of Statistics, EUROSTAT, and reports from the European Commission and the Romanian Ministry of Agriculture and Rural Development.

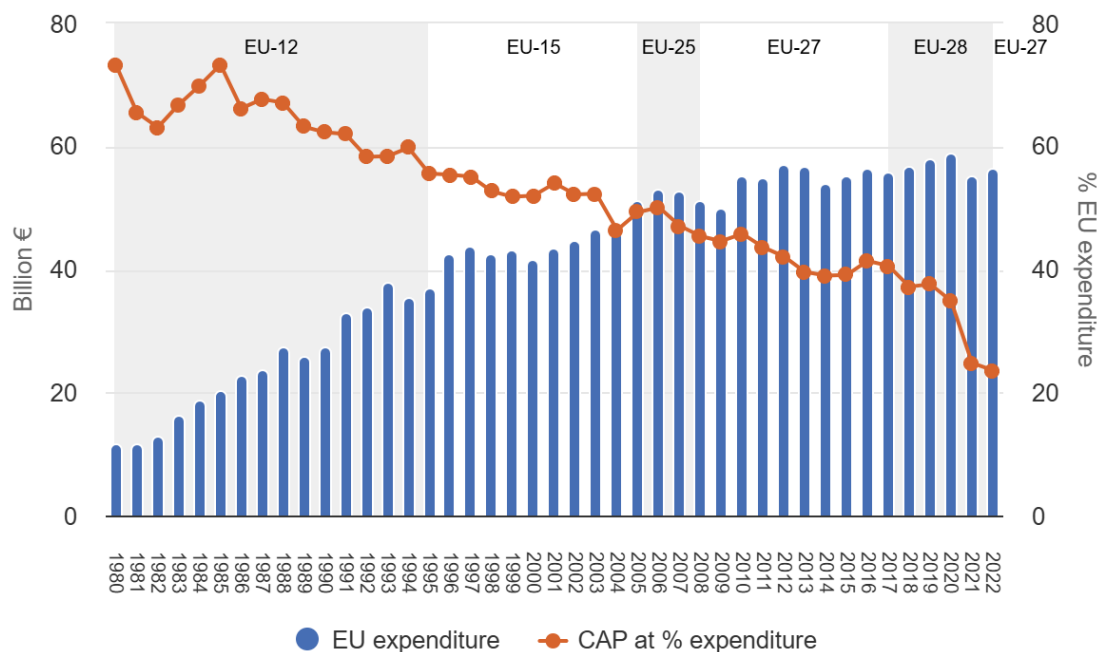
## RESEARCH RESULTS

Direct payments are a central component of the European Union's Common Agricultural Policy (CAP), serving to support farmers' incomes and promote sustainable agricultural practices. These payments are funded through the European Agricultural Guarantee Fund (EAGF) and distributed according to EU-wide schemes, with the flexibility for member states to adapt them to their specific national contexts [12].

For the 2021-2027 period, the CAP budget amounts to approximately €378.5 billion, of which 72% (around €270 billion) is allocated to direct payments for farmers. These payments include the following components:

- **Basic Income Support for Sustainability:** an annual per-hectare payment, representing half of the direct payment budget. Member states can choose to pay a uniform per-hectare amount or adjust payments based on socioeconomic or agronomic conditions.
- **Complementary Redistributive Income Support:** an additional payment for the first hectares of agricultural land, designed to redistribute payments from larger farms to small and medium-sized holdings. At least 10% of each member state's direct payment budget must be allocated to this scheme.
- **Complementary Income Support for Young Farmers:** extra financial aid for new farmers aged between 35 and 40 who qualify for basic income support.
- **Eco-Schemes:** payments for farmers who commit to climate-friendly, environmentally sustainable, and animal welfare practices. At least 25% of each national direct payment budget must be dedicated to these schemes.
- **Coupled Income Support:** Payments linked to the production of specific crops or types of farming that are economically or environmentally important [2].

CAP expenditures as a share of the EU budget have consistently declined over the years. This share dropped from 65.5% in 1981 to approximately 23.5% in 2022, continuing to decrease despite successive EU enlargements (Figure 1).

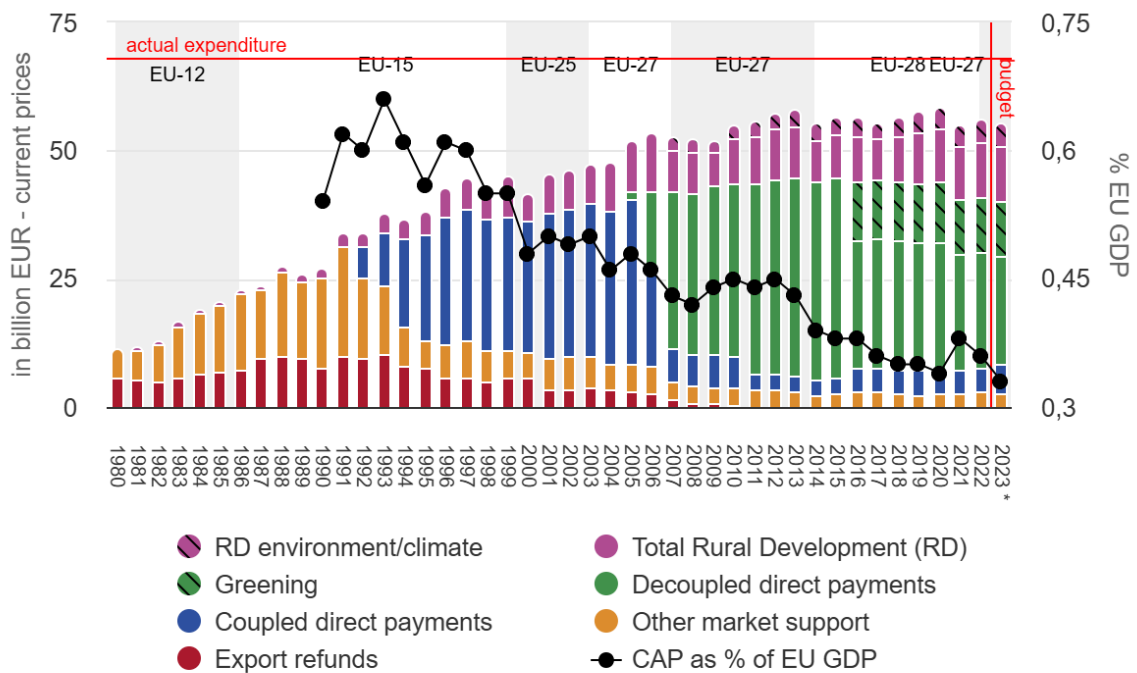


**Figure 1. CAP expenditure as % expenditure (current prices)**

Source: European Commission, 2022d [4]

The declining share of CAP in EU expenditures is primarily due to CAP reforms and the increasing share of other European policies in the EU budget. The more significant decreases in 2021 and 2022 are linked to additional EU spending under the NextGenerationEU funds.

Figure 2 illustrates the evolution of CAP expenditures and policy changes introduced over time, as presented by the authors.



**Figure 2. CAP expenditure and CAP reform path (current prices)**

Source: European Commission, 2022d [4]

In the 1980s, CAP expenditures primarily targeted price support through market mechanisms. These included public purchases (also known as interventions) and export subsidies, which increased by the end of the decade due to agricultural surpluses. As part of the 1992 CAP reform, market price support was reduced and replaced with producer support in the form of direct payments. At the same time, expenditures on rural development measures grew.

Agenda 2000 continued the reform process. Rural development policy was introduced as the second pillar of the CAP. With the 2003 reform, most direct payments were decoupled from actual production, being based instead on farmers' past incomes. Spending on rural development continued to rise.

The "Health Check" of 2008 further advanced CAP reforms, reducing market support even more. The 2013 reform maintained the market-oriented reform trajectory while strengthening the link between decoupled direct support and measures related to environmental and climate goals.

Despite successive enlargements, the CAP's total expenditures as a percentage of GDP actually declined, dropping from 0.54% in the 1990s to 0.36% in 2022. The UK's withdrawal led to a relative increase to 0.38% of the EU's GDP in 2021.

Since 2015, direct payments have included both mandatory and voluntary schemes, depending on the options chosen by EU countries. The shaded areas in Figure 2 highlight the focus on environmental sustainability. This includes greening payments (2015-2022), eco-schemes (from 2023 onward), and the portion of the rural development budget allocated to environmental and climate-related actions [6].

Recent expenditures related to other types of market support mainly include funding for: national programs in the wine sector, producer organizations in the fruit and vegetable sector, the school program promoting the consumption of fruits, vegetables, and milk, agri-food product promotion programs, beekeeping initiatives [1,13].

## CONCLUSIONS

Among the policies of the European Union, the Common Agricultural Policy (CAP) is considered one of the most important policies. Within this policy, direct payments are the main form of income support for farmers.

Expenditure on the Common Agricultural Policy (CAP) over the years, as a percentage of the EU budget, has been constantly decreasing. The downward trend in the share of the CAP in EU spending is mainly due to CAP reforms and the increasing share of other European policies in EU spending. The larger decreases in 2021 and 2022 are linked to the additional overall EU spending for the NextGenerationEU funds, which support Europe's recovery from the COVID-19 crisis.

Since its establishment in the late 1990s, the direct payments scheme has evolved in line with the needs and challenges of the moment, in order to have a smart and resilient agricultural sector.

Direct payments are a central element of the European Union's Common Agricultural Policy (CAP), with the role of supporting farmers' incomes and encouraging sustainable farming practices.

The total value of direct payments has remained relatively constant in recent years (in nominal terms). However, the number of beneficiaries has decreased, which has resulted in an increase in the average amount per beneficiary.

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