

**The Common Agricultural Policy
of the European Union –
the present and the future**

**EU Member States
point of view**



INSTITUTE OF AGRICULTURAL
AND FOOD ECONOMICS
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The Common Agricultural Policy of the European Union – the present and the future

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4. The past, present and future of the CAP – the Hungarian viewpoint

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Abstract

The Common Agricultural Policy (CAP) was one of the first common policies of the European Community and it still allocates significant share of the common budget. With its initial objectives, CAP generated even more problems than it solved. The past several decades were dedicated to problem solving by different reforms.

Hungary accessed the EU on May 1, 2004 in the 2000-2006 financial planning period. The CAP provided and still provides enormous support to the Hungarian agricultural sector, however, it can be seen that it was in favour of the crop sector at the expense of the animal husbandry sector. The reforms definitely have impact on the sector, albeit to different extent. The future of this high level support is quite insecure which requires instant competitiveness actions from agricultural producers.

Keywords: Common Agricultural Policy, agricultural employment, farm structure

JEL codes: J21, N54, Q15, Q18

4.1. Introduction

The Common Agricultural Policy (CAP) was one of the first common policies of the European Community launched in 1962. It allocates a continuously decreasing, but still one of the highest shares of the common budget. The basis of the CAP was officially established in Paragraph 39 of the Treaty of Rome. The main objectives were the followings [The Treaty of Rome, 1957]:

- To increase the production and the productivity of the agricultural sector,
- To provide a fair standard of living,
- To set up stable market for agricultural products,
- To guarantee food supplies,
- To guarantee fair food prices for the consumers.

Due to its production oriented nature, the CAP resulted in self-sufficiency in a relatively short time (within 10 years) and overproduction for decades. Several reforms were dedicated to solve this problem with more or mostly less success.

The CAP is still one of the greatest part of the EU from financial point of view and affects 8.7 million farmers [Eurostat database, 2016]. Therefore, it earns much attention, several researchers and academics are dealing with this issue. Besides the continuous communications and analyses of the European Commission, Ackrill [2000] or Burell and Oskam [2000] gave a detailed overview of the first couple of decades of the CAP. Swinnen has published many books and articles on different aspects of the CAP, assessed the previous reforms [e.g. Swinnen, 2008], the future of the direct payments [e.g. Swinnen, 2009] or its impacts on land prices [Cianian et al., 2014]. Land issues are analysed also on Member State level, as CAP payments have direct impact on land prices via capitalization. It was particularly high e.g. for the least urbanized regions with small farms in Poland and motivated farmers to sell their land [Milczarek-Andrzejewska et al., 2018]. In contrast with these findings, Guastella and his fellows have not found strong evidences of capitalization into farmland rents in Italy based on Farm Accountancy Data Network (FADN) [Guastella et al., 2018]. According to their result, there was no capitalization in case of coupled payments and only limited one in case of decoupled payments. It may be connected to the land price and rent differences between the old and new Member States. Although it is not that clear, as O'Neill and Hanrahan found very high (67-90%) capitalization of coupled payments and somewhat lower of decoupled payments in Ireland [O'Neill-Hanrahan, 2016].

Unlike the Fischler reform, the Ciolos reform is labelled imperfect storm due to reasons like change in the decision making process (co-decision procedure) or less substantive changes [Swinnen, 2015]. Matthews paid attention on every stage of the CAP, analyzed the greening [Matthews, 2013] or the effects of the most recent significant change in the history of the EU, the so-called Brexit [Matthews, 2016]. It a question of how the EU can deal with it, but basically there are two options: lower budget or higher national contribution because UK is the second largest /net contributor of the budget. Greening was heavily criticized as it may not result as environmental benefits as it was planned, it is more of a greenwash rather than a greening [Alons, 2017]. Tangermann linked the future of the CAP to the risk management as agriculture faces various risk outside the control of farmers [Tangermann, 2011]. Due to the climate change, this issue becomes even more important.

As Hungary has accessed the European Union (EU) in 2004, the time horizon of the research starts from the initial accessing issues, Copenhagen Summit (2002) and the Fischler reform (2003). They are followed by the Health

Check (2008). These reforms have affected the Hungarian agriculture as aims and targets of the CAP were partly changed. Most notably the phasing-in of direct payments resulted in long lasting competitiveness disadvantages in new Member States (NMSs).

Present issues are based on the latest CAP reform in 2013, the so-called Coilos reform. It affected the current 7-year (2014-2020) period, the actual Multi-Annual Financial Framework (MFF) by setting up the CAP budget and its distribution. It has introduced some new elements, the most important ones were basic payment and greening.

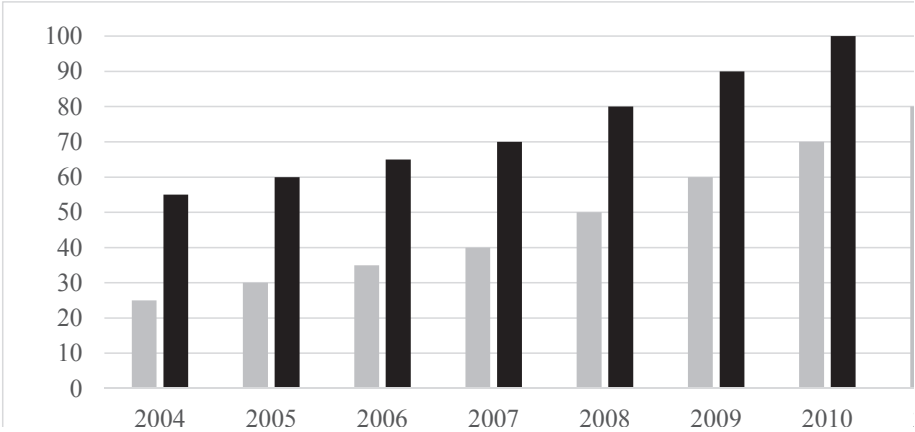
The European Commission’s latest communication on the future of the CAP (The Future of Food and Farming) contains mostly general issues, however, the future directions can be perceived [EC, 2017a].

The final chapter gives an overview of the results together with conclusions.

4.2. The past issues of the CAP

Hungary has become the member of the European Union in 2004. The agreement on the accession of the NMSs was reached at the Copenhagen Summit in 2002. It contained the phasing-in schedule for the new direct payments with the option of topping-up at the expense of national budget. Figure 1 summarizes the phasing-in process.

Figure 1. Phasing-in of direct payments (%)



Source: author’s study.

In practice, phasing-in means a 10-year gradual increase of direct payments, started with additional 5 percentage points in the first four years and continued with 10 percentage points in the last six years compared to the average of the old Member States (OMSs). Although 30 percentage points topping-up was

granted for the NMSs³, but the condition of national budgets did not allow them to fully use it in this transition period. It has finished in 2016 in Bulgaria and Romania and will be finished in 2022 in Croatia. This process did not help NMSs to catch up with the OMSs, however, area payments became far higher than they were before the accession.

Table 1. Reference yields of the Member States (EU-27)

Member States	Reference yield (t/ha)	Difference from the EU-27 average	Difference from the EU-15 average
Austria	5.27	29%	11%
Belgium	6.24	53%	32%
Bulgaria	2.90	-29%	-39%
Cyprus	2.30	-43%	-52%
Czech Republic	4.20	3%	-11%
Denmark	5.22	28%	10%
Estonia	2.40	-41%	-49%
Finland	2.82	-31%	-41%
France	6.02	48%	27%
Germany	5.66	39%	19%
Greece	3.39	-17%	-29%
Hungary	4.73	16%	0%
Ireland	6.08	49%	28%
Italy	3.90	-4%	-18%
Latvia	2.50	-39%	-47%
Lithuania	2.70	-34%	-43%
Luxembourg	4.26	5%	-10%
Malta	2.02	-50%	-57%
Netherlands	6.66	64%	40%
Poland	3.00	-26%	-37%
Portugal	2.90	-29%	-39%
Romania	2.65	-35%	-44%
Slovakia	4.06	0%	-14%
Slovenia	5.27	29%	11%
Spain	2.90	-29%	-39%
Sweden	4.02	-1%	-15%
United Kingdom	5.83	43%	23%
EU-15 average	4.74	17%	0%
EU-12 average	3.23	-21%	-32%
EU-27 average	4.07	0%	-14%

Source: authors' calculations based on DG Agri Country Reports.

³ It is also called Complementary National Direct Payment (CNDP). The total percentage of direct payments (direct support plus top-up) was limited to 100%. It means that the maximum percentage of CNDP could have been 20% in 2011, 10% in 2012 and zero in 2013 as new Member States have reached 100% of the EU financed Pillar 1 support level.

In addition to the impacts of phasing-in, it should be kept in mind that area payments were linked to historical reference yields which were significantly lower in most of the NMSs and resulted/results in continuous competitiveness disadvantage. In the old Member States this inequality was conserved on 1986-1990 basis, while in the majority of new Member States this period was 1999-2001. Table 1 shows the reference yields of the Member States together with the EU level averages and their positive or negative difference from the EU-27 and EU-15 averages.

It can be seen from Table 1 that there are four 6-tonne countries (Belgium, France, Ireland and the Netherlands), their yields exceed even the EU-15 average by 27-40%. As a matter of fac, the NMSs, Slovenia (5.27 t/ha), Hungary (4.73 t/ha), the Czech Republic (4.20 t/ha) and Slovakia (4.06 t/ha) were able to reach a reference yield that compares to the EU-27 average. The remarkable difference between NMSs and OMSs can be seen in the last three rows, the EU-12 average is 21% lower than the EU-27 average and 32% lower than the EU-15 average.

The calculation of area payment is simple, basic amount (EUR 63 per t) is multiplied by the above-mentioned reference yield determined in the regionalisation plan for the region concerned [EC, 2003, Article 104]. If the base areas are exceeded, the payment is reduced proportionally for all farmers. Table 2 gives an overview of the evolution of the direct supports in the Visegrad 4 countries.

Table 2. The evolution of the direct supports [(SAPS + top-up)/ha] in the V4 countries (EUR/ha)

Member States	2004	2005	2006	2007	2008	2009	2010-2013
Czech Republic	145.7	159.0	172.2	185.5	212.0	238.5	265
Hungary	149.5	161.0	174.3	208.6	238.4	268.2	298
Poland	104.0	113.4	122.9	132.3	151.2	170.1	189
Slovakia	140.8	153.6	166.4	179.2	204.8	230.4	256
EU-10	138.6	151.2	163.8	176.4	201.6	226.8	252
EU-15	300.5	300.5	300.5	300.5	300.5	300.5	300.5
EU-10/EU-15	46.1	50.3	54.5	58.7	67.1	75.5	83.8

Source: authors' study based on DG AGRI, Country Reports.

Due to the differences in the reference yields, Hungarian farmers receive the highest amount of area payment (298 EUR/ha) among the Visegrad 4 countries, which almost equals to the EU-15 average (300.5 EUR/ha). Hungary is followed by the Czech Republic (265 EUR/ha) and Slovakia (256 EUR/ha). From strictly

financial point of view, Polish farmers' situation is the worse as they receive only 189 EUR/ha of direct support due to the low reference yield (3 t/ha) of the country. It should be highlighted that farmers in the OMSs receive 16.2% higher support than farmers in the NMSs on an average after the phasing-in period⁴.

The first reform which had impact on the Hungarian agriculture during its membership was the so-called Fischler reform in 2003. It made fundamental changes to the system with new elements like decoupling, Single Payment Scheme (SPS), obligatory cross-compliance and modulation. Details on the different elements can be found in Swinnen ed. [2008]. It set up a dedicated payment system for those NMSs who were not able to or did not want to introduce SPS. This system was the Simplified Area Payment Scheme (SAPS).

From Hungarian point of view, cross-compliance and modulation played a significant role. Compulsory cross-compliance resulted in obligations and, therefore, higher production costs for some farmers/farms. It had two elements, Good Agricultural and Environmental Conditions (GAECs) which was about sustainability such as minimum level of maintenance (at least reaping), protection of water and soil [EC, 2009a, Annex III] and Statutory Management Requirements (SMRs) that deal with public, animal and plant health, environment and animal welfare [EC, 2009a, Annex II].

When farmers do not comply with them at any time, direct payments are reduced or even excluded. The other element, modulation, was about to redistribute financial resources from the 1st to the 2nd pillar by given percentage rates. Due to the significant share of large farms in the Hungarian agricultural production, it resulted in relatively high proportion of redistribution and, therefore, decreased their competitiveness. The presence of agricultural enterprises in the production mix in most of the NMSs is a general phenomenon of the transition countries and it is called dual production system [Mizik, 2010].

The Health Check was planned to be the mid-term review of CAP (analyzing the Fischler reform), but at the end it resulted in remarkable changes. From Hungarian aspect, substantive elements were [EC, 2009b]:

- Phasing-out of milk quotas. As Hungarian milk production was far below the national quota, it did not affect production, however, it allowed previous importer countries to raise their production and resulted in less or no import from Hungary.
- Further modulation. As it was mentioned above, modulation is not in favour of countries with large agricultural enterprises, so additional and progressive modulations had negative impact on those farms.

⁴ This difference was even higher during the phasing-in period and started on 46.1%. taking into account full top-up payment which was not granted in the NMSs.

- Change of intervention system. It became administratively harder to offer commodities for intervention, however, world market prices went appreciably up during the global crisis and surpassed intervention prices. On the one hand, it became more difficult to use intervention but, on the other, it was no longer needed due to high market prices.

As a summary of the Health Check, it only partly affected most of the Member States, so does Hungary, e.g. further decoupling or phasing out milk quotas and did not cause remarkable changes.

4.3. The present issues of the CAP

The CAP had and still has huge impact on the structure of production. The earlier coupled payments resulted in continuous concentration pressure, large farms became even larger. The decoupled payments have much less concentration impact, however, economies of scale can be used at larger level, especially in the crop sector. Apart from its main reason, concentration process lasts for many decades in the OMSs and resulted in reasonable farm sizes. The NMSs are lagging behind, moreover, in some countries farms sizes have significantly declined after the transition due to the chosen way of land compensation (e.g. Hungary) or characteristic of agricultural system (e.g. Poland, where its basis is the small, individual producer).

The EU farm structure surveys (FSS) provide detailed information on production structure of the European farms. Table 3 summarises the major results of the 2007, 2010 and 2013 FSSs.

According to the Table below, two clear trends could be identified:

- Number of farms shows a continuous decreasing trend in the whole EU. In the analysed 7 years its total rate was 26.0% in the EU-15, 28.4% in the EU-13 and 27.4% in the EU-28.
- On the other hand, concentration was even larger as the average farm size increased by 28.1% in the EU-28 (25.8% in the old and 31.4% in the new Member States). Although this process accelerated in the NMSs, but their average rate is still on a very low level (only 7.82 ha/farm).

Taking a look at the country level data, differences are far higher and sometimes contradictory to the general, EU level trend. For example the number of farms were higher in the last analysed year in Ireland compared to the first year or average farm size decreased in Cyprus. In general, the largest farms can be found in the Czech Republic, their average farm size was 133.0 ha in 2013. The Czech Republic is followed by the United Kingdom (93.1 ha/farm) and Slovakia (80.7 ha/farm). On the other side, excluding Cyprus and Malta, Romanian, Slovenian and Greek farms are the smallest ones in the EU, their average

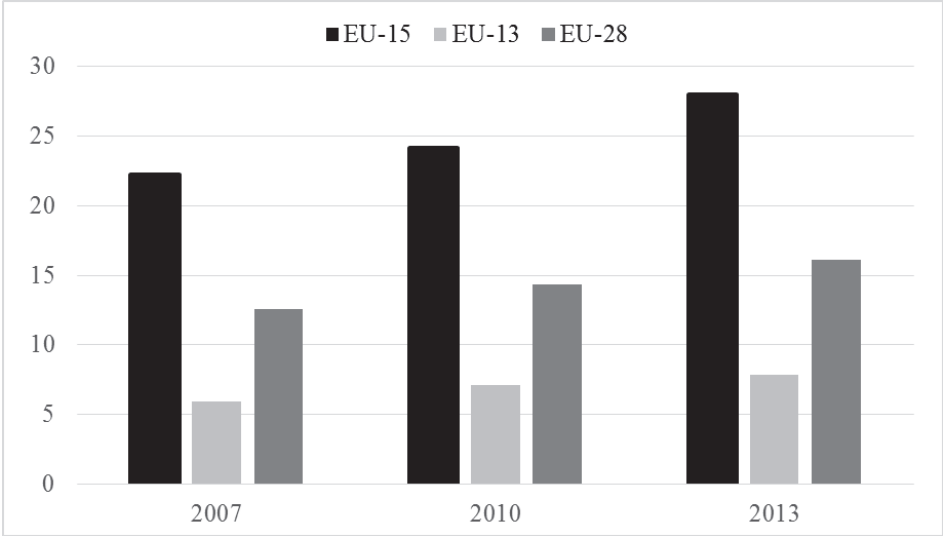
sizes are 3.6, 6.7 and 6.9, respectively. Figure 2 gives an overview of the evolution of farm sizes in the EU broken down by the EU-15 (OMSs), the EU-13 (NMSs) and the EU-28.

Table 3. Number and average size of farms in the EU

	Number of farms			Average farm size (ha)		
	2007	2010	2013	2007	2010	2013
Austria	165 420	150 170	140 430	19.28	19.17	19.42
Belgium	48 010	42 850	37 760	28.63	31.69	34.64
Bulgaria	493 130	370 490	254 410	6.19	12.08	18.28
Croatia	181 250	233 280	157 440	5.40	5.64	9.98
Cyprus	40 120	38 860	35 380	3.64	3.05	3.09
Czech Republic	39 400	22 860	26 250	89.29	152.38	133.01
Denmark	44 620	41 360	38 280	59.67	64.00	68.43
Estonia	23 340	19 610	19 190	38.85	47.98	49.90
Finland	68 230	63 870	54 400	33.60	35.87	41.50
France	527 350	516 100	472 210	52.10	53.94	58.74
Germany	370 480	299 130	285 030	45.70	55.84	58.59
Greece	860 150	723 060	709 500	4.74	7.16	6.85
Hungary	626 320	576 810	491 330	6.75	8.12	9.48
Ireland	128 240	139 890	139 600	32.28	35.68	35.53
Italy	1 679 440	1 620 880	1 010 330	7.59	7.93	11.98
Latvia	107 750	83 390	81 800	16.46	21.54	22.96
Lithuania	230 270	199 910	171 800	11.50	13.72	16.65
Luxembourg	2 300	2 200	2 080	56.90	59.60	63.00
Malta	11 020	12 530	9 360	0.94	0.91	1.16
Netherlands	76 740	72 320	67 480	24.95	25.89	27.38
Poland	2 390 960	1 506 620	1 429 010	6.47	9.59	10.08
Portugal	275 080	305 270	264 420	12.63	12.02	13.77
Romania	3 931 350	3 859 040	3 629 660	3.50	3.45	3.60
Slovakia	68 990	24 460	23 570	28.07	77.49	80.68
Slovenia	75 340	74 650	72 380	6.49	6.47	6.71
Spain	1 043 910	989 800	965 000	23.85	24.00	24.15
Sweden	72 610	71 090	67 150	42.94	43.13	45.10
United Kingdom	226 660	185 200	183 700	70.78	91.15	93.07
EU-15	5 589 240	5 223 190	4 437 370	22.27	24.14	28.01
EU-13	8 219 240	7 022 510	6 401 580	5.95	7.08	7.82
EU-28	13 808 480	12 245 700	10 838 950	12.56	14.36	16.09

Source: author's calculations based on Eurostat data.

Figure 2. Evolution of farm sizes in the EU (ha/farm)

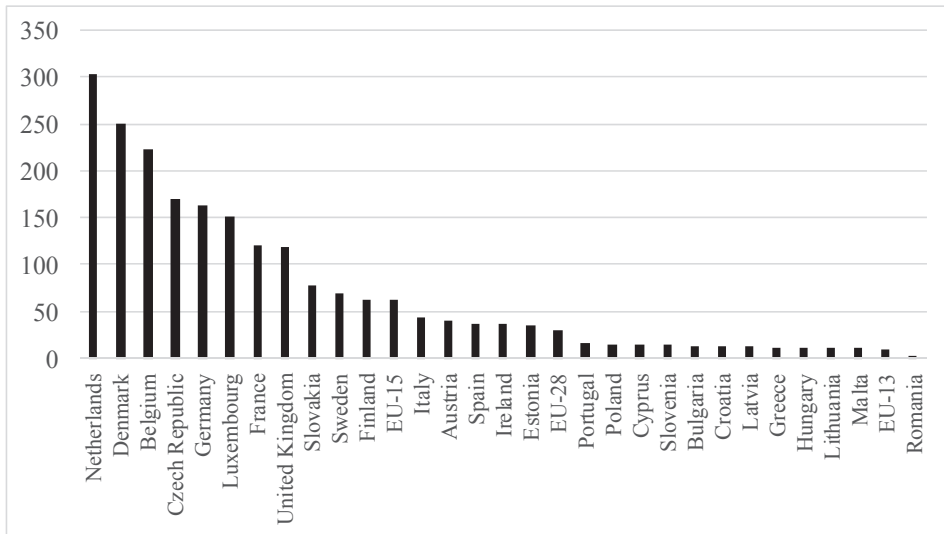


Source: author’s study based on Eurostat data.

It can be concluded that a family farm in the European agriculture can be characterized by low farm size, it is only 16.1 ha in the EU-28. Taking into consideration the far longer farm/land concentration period of the OMSs, their average is still below 30 ha/farm (28.0 ha/farm). This process has accelerated in the NMSs, but due to the very low base value it was below 8 ha/farm in 2013 (7.8 ha/farm).

Average farm size is one but maybe not the best way of measuring the size of different farms. For comparisons, the EU set up a standard measuring tool, the so-called standard output (SO). It has replaced the former European Size Unit (ESU) which was based on standard gross margin (SGM). “SO is the average monetary value of the agricultural output at farm-gate price, in euro per hectare or per head of livestock” (Eurostat website – SO). It allows to classify agricultural farms by type of farming and size. Splitting farms into SO categories on country level shows the incredible divergence among the Member States. Figure 3 contains these SO averages on country level.

Figure 3. Average SO in the EU in 2013 (EUR 1000)



Source: author's study based on Eurostat data.

On the one side, there is the Netherlands (EUR 304 000 of SO), while on the other – Romania with only 1% of the Dutch value (EUR 3000 of SO). Generally, Benelux countries are among the top countries. Remarkable the fourth rank of the Czech Republic, apart from it only Slovakia has higher average economic farm size than the EU-15 average. The tail-ender OMS is Greece, its value is more or less the same as the Hungarian, Lithuanian and Maltese ones (EUR 10-11 thousand of SO). Taking a look at the OMS-NMS values, the former one is approximately 7 times higher than the latter (EUR 62 000 of SO vs EUR 9000 of SO).

Analysis of these averages by SO categories, allows for more conclusions to be drawn on farm structure and production value. Table 4 and 5 show these values for EUR 0-24 999 of SO and above EUR 25 000 of SO, respectively, based on FSS 2013.

The last 3 rows reveal the major difference between the OMSs and the NMSs: the first SO category (under EUR 2000 of SO) contains only 17.4% of farms in the former one, while more than half in the latter one (55.9%). It can be seen on their contribution to total SO as well, it is only 0.3% in the EU-15, while 4.7% in the EU-13. Among the NMSs, Romania and Hungary have the highest shares (dual production system!) of these farms, 68.7% and 67.6%, respectively. These farms have no or almost no market connections which is evidenced by their shares from total SO as well (13.9 and 4.2%). But then, their share is only 6.2% in the Czech Republic with insignificant production value (only 0.05% of total SO).

Table 4. Share of the EU farms and their SO by SO categories, 2013 (EUR)

SO	Below 2000		2000-3999		4000-7999		8000-14999		15000-24999	
	Farm	SO	Farm	SO	Farm	SO	Farm	SO	Farm	SO
AT	10.91%	0.29%	9.08%	0.67%	14.19%	2.07%	13.96%	3.86%	11.09%	5.39%
BE	0.93%	0.00%	1.67%	0.02%	4.34%	0.12%	7.47%	0.39%	7.26%	0.64%
BG	55.12%	3.89%	20.20%	4.33%	10.83%	4.53%	5.44%	4.52%	2.78%	4.05%
CY	53.93%	3.22%	16.48%	3.34%	11.96%	4.78%	6.81%	5.23%	3.17%	4.33%
CZ	6.17%	0.05%	9.49%	0.17%	17.68%	0.60%	17.22%	1.12%	11.47%	1.32%
DE	0.52%	0.00%	2.16%	0.04%	7.93%	0.30%	11.92%	0.83%	10.22%	1.24%
DK	3.32%	0.01%	2.66%	0.03%	6.35%	0.16%	13.58%	0.61%	12.04%	0.94%
EE	47.58%	0.59%	12.87%	1.06%	11.41%	1.88%	8.60%	2.68%	5.32%	2.92%
ES	24.54%	0.65%	14.63%	1.16%	15.80%	2.42%	13.19%	3.91%	8.48%	4.39%
FI	0.04%	0.00%	8.95%	0.44%	14.78%	1.41%	18.25%	3.24%	12.76%	4.01%
FR	6.58%	0.05%	5.16%	0.13%	7.38%	0.36%	7.53%	0.71%	6.70%	1.10%
GB	8.04%	0.07%	7.69%	0.19%	10.74%	0.53%	11.79%	1.11%	10.10%	1.67%
GR	31.93%	2.81%	17.72%	4.55%	17.54%	8.80%	12.89%	12.49%	8.36%	14.18%
HR	25.17%	2.20%	23.06%	5.21%	21.23%	9.34%	14.53%	12.22%	6.69%	9.91%
HU	67.57%	4.18%	11.47%	2.83%	7.69%	3.84%	5.08%	4.88%	2.92%	4.94%
IE	10.66%	0.31%	10.32%	0.86%	16.50%	2.70%	18.65%	5.80%	13.92%	7.51%
IT	11.74%	0.33%	17.80%	1.20%	17.35%	2.29%	15.33%	3.93%	10.17%	4.56%
LT	41.94%	3.16%	22.14%	5.71%	17.30%	8.66%	8.80%	8.49%	3.23%	5.53%
LU	0.96%	0.01%	3.37%	0.07%	6.25%	0.24%	6.73%	0.51%	6.25%	0.80%
LV	53.58%	2.66%	16.26%	3.87%	13.01%	6.01%	6.76%	6.06%	3.77%	6.05%
MT	59.62%	2.77%	10.36%	2.84%	11.22%	6.45%	6.41%	6.91%	4.38%	8.18%
NL	0.25%	0.00%	0.83%	0.01%	8.97%	0.18%	9.35%	0.34%	7.23%	0.46%
PL	28.18%	1.93%	19.82%	3.76%	18.30%	6.86%	12.82%	9.23%	7.89%	10.00%
PT	40.43%	2.29%	21.16%	3.53%	14.96%	4.90%	8.73%	5.59%	4.38%	4.94%
RO	68.70%	13.85%	15.91%	13.74%	10.34%	17.17%	3.15%	10.01%	0.93%	5.33%
SE	8.28%	0.10%	13.08%	0.56%	19.36%	1.61%	15.44%	2.43%	10.07%	2.81%
SI	16.86%	1.50%	21.24%	4.44%	26.64%	11.00%	15.79%	12.32%	8.08%	11.09%
SK	28.00%	0.41%	24.61%	0.92%	18.71%	1.35%	8.91%	1.25%	4.24%	1.06%
EU-15	17.44%	0.29%	13.31%	0.63%	14.50%	1.35%	12.81%	2.30%	8.92%	2.80%
EU-13	55.89%	4.67%	17.02%	5.55%	12.68%	8.08%	6.29%	7.75%	3.12%	6.83%
EU-28	40.15%	1.03%	15.50%	1.47%	13.42%	2.49%	8.96%	3.22%	5.49%	3.48%

Source: author's calculations based on Eurostat data.

Small farms (under EUR 2000 of SO) have small, less than 1% shares in Finland, the Benelux countries and Germany, while in Portugal and Greece 40.4% and 30.9%. The OMS-NMS differences are even more demonstrated by the use of cumulative shares, farms below EUR 25 000 of SO have 67% in number and only 7.4% in SO in the EU-15, while these numbers are 95% and 32.9% in the EU-13.

Moving toward larger farms (SO over EUR 25 000), Table 5 contains their detailed data.

Table 5. Share of the EU farms and their SO by SO category II, 2013 (EUR)

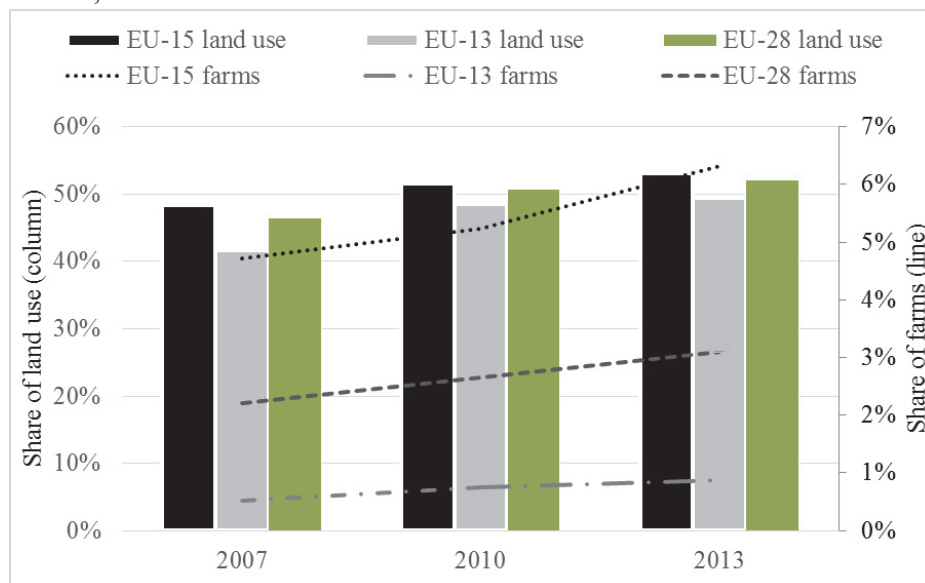
SO	25 000-49 999		50 000-99 999		100 000-249 999		250 000-499 999		500 000 and more	
	Farm	SO	Farm	SO	Farm	SO	Farm	SO	Farm	SO
AT	16.60%	14.86%	14.19%	24.61%	8.42%	30.98%	1.26%	10.06%	0.30%	7.21%
BE	11.68%	1.91%	13.48%	4.39%	24.84%	18.85%	17.32%	27.14%	11.04%	46.54%
BG	2.37%	6.33%	1.29%	6.82%	0.97%	11.60%	0.53%	14.17%	0.48%	39.76%
CY	3.11%	7.85%	2.23%	11.39%	1.50%	16.09%	0.48%	11.70%	0.34%	32.05%
CZ	10.93%	2.29%	9.26%	3.86%	7.58%	6.98%	3.24%	6.79%	6.90%	76.82%
DE	13.85%	3.08%	15.62%	6.98%	20.78%	20.72%	10.94%	23.35%	6.07%	43.46%
DK	15.99%	2.29%	12.36%	3.52%	11.52%	7.32%	7.18%	10.40%	14.99%	74.71%
EE	5.11%	5.10%	3.96%	7.99%	2.97%	13.18%	0.99%	9.67%	1.25%	54.93%
ES	8.81%	8.49%	7.10%	13.38%	5.01%	20.35%	1.41%	13.28%	1.01%	31.97%
FI	14.96%	8.58%	12.92%	15.06%	12.68%	31.14%	3.36%	18.08%	1.32%	18.04%
FR	12.21%	3.70%	16.96%	10.28%	24.52%	32.93%	9.86%	27.65%	3.11%	23.09%
GB	12.83%	3.87%	12.26%	7.42%	13.91%	18.82%	7.49%	21.99%	4.79%	44.34%
GR	7.82%	23.90%	2.90%	16.95%	0.71%	8.66%	0.09%	2.48%	0.04%	5.17%
HR	5.60%	15.03%	2.44%	12.76%	1.02%	11.52%	0.14%	3.67%	0.11%	18.14%
HU	2.46%	7.57%	1.36%	8.36%	0.90%	12.25%	0.26%	7.74%	0.29%	43.41%
IE	12.72%	12.36%	8.17%	16.30%	7.55%	31.83%	1.17%	10.75%	0.33%	11.58%
IT	11.42%	9.38%	8.08%	13.11%	5.50%	19.29%	1.58%	12.56%	1.02%	33.35%
LT	3.28%	10.33%	1.78%	11.12%	1.09%	14.47%	0.25%	7.52%	0.20%	25.00%
LU	11.54%	2.77%	13.94%	6.82%	30.29%	34.37%	17.31%	37.87%	3.37%	16.54%
LV	3.11%	8.97%	1.70%	9.73%	1.15%	14.53%	0.40%	11.64%	0.28%	30.49%
MT	3.95%	13.40%	2.14%	14.08%	1.39%	21.84%	0.32%	12.86%	0.11%	10.65%
NL	9.37%	1.11%	9.19%	2.18%	18.82%	10.82%	21.04%	24.43%	14.97%	60.48%
PL	7.59%	17.39%	3.59%	16.00%	1.32%	12.74%	0.30%	6.83%	0.17%	15.26%
PT	4.00%	8.30%	3.04%	12.69%	2.30%	20.76%	0.65%	13.00%	0.36%	23.98%
RO	0.52%	5.36%	0.22%	4.52%	0.14%	6.45%	0.06%	6.11%	0.04%	17.45%
SE	11.33%	5.76%	8.00%	8.15%	8.09%	18.50%	3.78%	18.79%	2.56%	41.28%
SI	6.49%	16.34%	3.33%	16.40%	1.31%	13.65%	0.17%	3.96%	0.07%	9.30%
SK	4.16%	1.90%	3.01%	2.82%	3.10%	6.24%	1.70%	7.92%	3.56%	76.12%
EU-15	10.39%	6.00%	8.70%	10.00%	8.51%	21.73%	3.50%	19.43%	1.93%	35.49%
EU-13	2.71%	10.76%	1.32%	10.33%	0.63%	10.73%	0.18%	7.26%	0.16%	28.03%
EU-28	5.85%	6.81%	4.34%	10.05%	3.85%	19.86%	1.54%	17.36%	0.89%	34.23%

Source: author's calculations based on Eurostat data.

It became already evident from Table 4, that the cumulative averages of large farms are 33% (number) and 92.6% (SO) in the OMSs and 5% (number) and 67.1% (SO) in the NMSs. The share of mega farms (SO over EUR 500 000) is over 10% in Denmark, the Netherlands and Belgium which provide a notable share of total SO production (74.7%, 60.5% and 46.5% respectively). As a matter of the NMSs, mega farms have the highest share in the Czech Republic (76.8%, which is the highest in the whole EU) followed by Slovakia (76.1%) and Hungary (43.4%). Contrary to these countries, share of mega farms is under 10% in Greece (5.2%), Austria (7.2%) and Slovenia (9.3%).

Average physical farm size is more important in the crop production, especially the share of large farms in land use. The largest size category in the Eurostat database is 100 ha, the results of this analysis are demonstrated in Figure 4.

Figure 4. Share of large (over 100 ha) farms in number of farms and land use in the EU, 2007-2013



Source: author's study based on Eurostat data.

Regarding land use, there is no significant difference between the old and the new Member States, large farms used around 50% of total utilized agricultural area (UAA) in 2013. It means 6% of total farms in the EU-15, while less than 1% in the EU-13, which in turn means that the average farm size is smaller in the NMSs, but far more concentrated.

The Ciolos reform has introduced basic payment along with compulsory greening component (30% of total direct payments). Greening can be considered as further expansion of cross-compliance, although the latter one has not fully reached its desired impact [ECA, 2008]. The application of the reform varied from country to country, the major characteristics of the distribution of the Hungarian envelope is the highest possible share of voluntary coupled support (13+2%). It is summarized in Table 6.

Table 6. Distribution of the Hungarian envelope

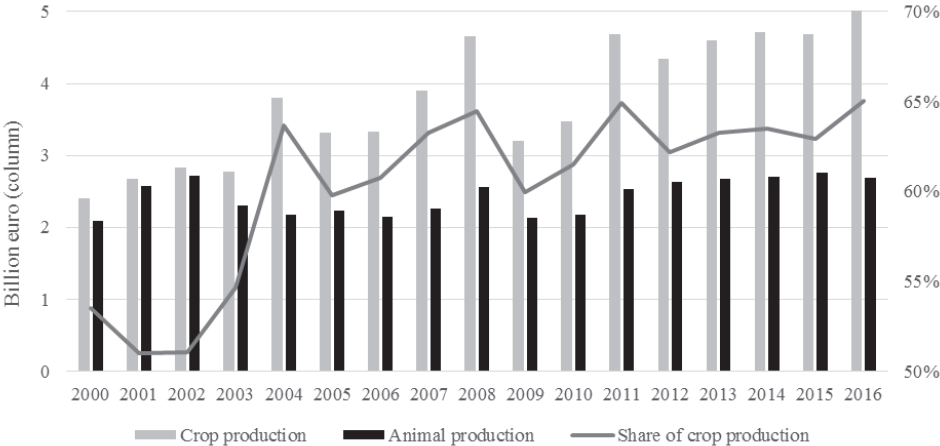
Hungarian envelope	100%
- Greening	30.00%
- Young farmers	0.62%
- Voluntary coupled support	13.00%
- Voluntary coupled protein support	2.00%
- Small farmers scheme	0.55%
- Basic Payment (SAPS)	53.83%

Source: author's calculations based on Ministry of Agriculture data.

A key issue of the reform was degressivity/capping in order to ensure more fair distribution of support. Member States had to reduce basic payments over EUR 150 000 per farm by a minimum of 5%, but they could opt up to 100%⁵. This element has made hardly any impact on distribution, it amounted to only EUR 109 million in 2015, but Hungary accounted for two-thirds of it [DG IP, 2016]. This was caused by the Hungarian implementation of the capping as the Hungarian authorities have introduced a basic payment ceiling of EUR 176 000 per individual farm (physical farm size is 1200 ha), meaning 100% reduction of support over that threshold [Szabó, 2017].

The CAP has enormous impact on agriculture and its support system can divert agricultural production. As it is more in favour of crop production, it has resulted in a significant sectoral change within the Hungarian agriculture. Figure 5 shows it between 2000 and 2016.

Figure 5. Change of distribution of agricultural production (current prices)



Source: author’s study based on data of the National Statistical Office (production) and Hungarian National Bank (exchange rate).

As it can be seen from the Figure above, size of animal production has not changed a lot over these years, however, crop production has more than doubled compared to the beginning of the period. Altogether it resulted in an increasing share of crop production from an initial value of approximately 50% to around 65%. It might not be a good direction for the Hungarian agriculture as it should be kept in mind that significant part of the crop production is input for animal production. Hungary has no opportunity for cheap sea transport and bulk products cannot be transported at long distances, so they should be used locally/ re-

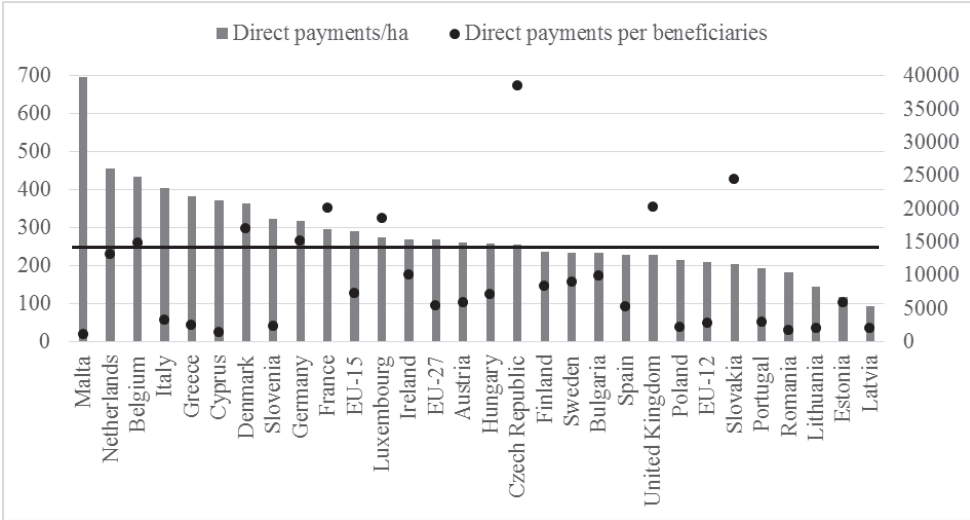
⁵ Shifting direct payments to smaller farms does not necessarily lead to more fair distribution because they have off-farm income, plus it results in uncompetitive agricultural structure [Matthews, 2017].

gionally as much as possible. Competitive crop sector cannot live without notable animal sector. In addition, it can cause worse market price opportunities in the long run for the crop sector.

4.4. The future issues of the CAP

The Ciolos reform has already made remarkable steps toward more fair redistribution of direct payments. The major aim by 2020 is to decrease the gap with one-third in those Member States where the level of direct payments is below 90% of the EU average [EC, 2011a]. The current level of direct payments per hectare and per beneficiaries can be seen in Figure 6.

Figure 6. Distribution of direct payments among the Member States (EUR)



Source: author’s study based on EC [2011b].

The black line represents 90% of the EU average, Member States below that line will receive higher support by the end of the current MFF (external convergence), while Member States above it will receive less⁶. The overall redistribution effect is limited, the biggest expected beneficiaries are Romania, Poland and Spain, while the biggest contributors – Italy, Germany and France [EC, 2011a]. Still, both number of beneficiaries and expenditure decreased in the extreme classes (below EUR 1250 and over EUR 100 000) by ca. 10% in the majority of

⁶ Besides, the minimum rate will be 196 EUR/ha by 2020 and it will be financed by those Member States where this rate exceeds the EU average [EC, 2013].

Member States in 2016 compared to the previous year [EC, 2017b]⁷. As Hungary is a bit above the EU average, it does not affect its position significantly.

Although the gap will shrink, but concentration of direct payments will remain. It varies between EUR 1067 (Malta) and EUR 38 591 (the Czech Republic) per beneficiary. Further reforms may pertain to this issue as well.

The Hungarian standpoint is very clear about the future of the CAP, the bases of the governmental communication are as follows [e.g. Kiss, 2018, Ministry of Agriculture website]:

- No major changes or at least keep the good elements of the CAP (e.g. two-pillar system);
- Preserve the financial resources of the CAP and the Hungarian share in it;
- Introduce new objectives accompanied by new resources;
- No renationalization of funds;
- Maintain the shifting option of funds from the 2nd to the 1st Pillar.

Regarding the financial resources, at this moment 3 scenarios are on the table: no change, 15% and 30% cut. Due to different reasons (other priorities/challenges, Brexit, smaller and more economical EU governance, etc.), the second option seems to be the most probable. The MFF debate starts in May when the impacts of Brexit will become clearer. According to the latest communication of the Commission, the expected changes will be the followings [EC, 2017a]:

- Greater responsibility of Member States to meet common goals (environment, climate change and sustainability) – own strategic plans covering intervention in both pillars;
- Basic policy parameters set by the EU and greater responsibility of member states how to meet them (greater subsidiarity), which could result in some difficulties in Hungary where two separated ministries are responsible for the 1st and the 2nd Pillar;
- Greater market orientation (investment supports, risk management, etc.);
- Two-pillar system;
- Smart and modern agriculture, because “support for knowledge, innovation and technology will be crucial to future-proofing the CAP”;
- Greening is planned to be replaced by higher level of environmental and climate ambition;
- Generational renewal: ageing of the European farmers is still a big problem, according to FSS [2013], share of farmers aged 55 or more was 55.8%.

⁷ Despite the continuous (external and internal) convergence, the EU-28 average of direct payments concentration is still high as 20% of large farms received 80% of payments in 2015 [EC, 2017b].

The communication hardly contains concrete information and almost nothing on how to execute them, even though the devil is in the detail.

4.5. Summary and conclusions

The CAP support plays a crucial role in the agricultural sector, average support can have more than 50% in average farmer income in some Member States. It is shaping all the time due to changes in the agricultural sector and new challenges. My personal expectations for the CAP beyond 2020 are the following:

- Two-pillar system;
- Possible, but the lowest level, budget cut;
- More equal distribution of direct payments among the Member States and farms;
- Greening will be replaced by enhanced cross-compliance requirements;
- New directions due to new challenges (smart farming, environmental and climate actions, sustainability, etc.), which requires better targeting, because it should be carried out from possibly lower budget.

As for competitiveness, there are contradictory proposals in the communication. As greening is considered to be burdensome, too complex and ineffective element of the CAP [EC, 2017a], its abolition would have positive impact on competitiveness. Promotion of smarter agriculture points to the same direction, as well as generational renewal and market orientation. However, the latter one increases market competition which can be borne only by well-performing efficient farms. In case of abolition of greening, new rules or regulations are expected to take its place in order to support higher level of environmental and climate ambition. It will also gain in competitiveness. Finally, the probable (only to a small extent) budget cut and more fair redistribution (especially among farms) leads to less competitiveness. It was clear from FSSs that large farms could be the engine of growth. Hungarian agriculture is heavily dependent on the CAP payments, especially on direct payments, therefore, the future CAP is expected to be less advantageous without instant competitiveness actions from agricultural producers.

It was realized several times in the history of the CAP that one solution does not fit all. National interests are diverse, so the debate period should be used as efficiently as possible to form the future CAP according to our interest. NMSs seem to be partners in this process, but it may not be enough, some of the OMSs should also be involved. In the present MFF Hungary's position is very good (budget share is higher than the share of agriculture in production), so it will be hard to keep this position.

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