Briefing
December 2016

Common Agricultural Policy and revision of the 2014-2020 MFF

SUMMARY

The EU's 2014-2020 Multiannual Financial Framework provides medium-term expenditure predictability in support of investment in Europe's priorities.

The Commission presented its mid-term review/revision of the multiannual EU budget (2014-2020) on 14 September 2016 in Strasbourg. Without increasing spending limits, the package as presented is intended to free up an additional €6.3 billion in financing by 2020. These resources will be used mainly to foster job creation, investment and economic growth and to address the migration crisis.

In this context, the Commission presented a legal proposal (omnibus regulation) that contains changes to the basic EU Financial Regulation and to the main EU funding regulations. The omnibus proposal touches, inter alia, on all four of the basic regulations governing the Common Agriculture Policy. These cover Direct Payments, Rural Development, Common Market Organisation and the 'Horizontal' Regulation, covering issues such as funding and controls. The changes that are proposed aim at fine-tuning some elements of the current CAP, as described in this briefing, and making life easier for both farmers and national authorities.

Looking ahead, the proposed revision of the 2014-2020 Multiannual Financial Framework will prepare the ground for a subsequent MFF proposal in support of EU priorities for the post-2020 period. This could be presented by the end of 2017. With the omnibus regulation proposal, it appears unlikely that a major restructuring of the basic architecture of the CAP will take place in the current programming period. More substantial legal proposals for a post-2020 CAP could be presented in 2018, in line with the post-2020 MFF communication. Such a scenario would enable the European Parliament, as co-legislator, to negotiate the implications of the current CAP revision, and a more substantial post-2020 reform for the CAP in parallel.

In this briefing:

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Glossary

MFF: The Multiannual Financial Framework (MFF) lays down the maximum annual amounts (ceilings) which the EU may spend in different political fields (headings) over a period of seven years. The current MFF covers the 2014-2020 period.

Income stabilisation tool: a risk management tool, as provided in Article 39 of Regulation (EU) No 1305/2013, in the form of financial contributions to mutual funds, providing compensation to farmers in case of a severe drop in their income.

SAPS: New EU Member States may apply the single area payment scheme (SAPS) instead of applying the standard direct payment schemes. The SAPS provides a flat-rate decoupled area payment paid for eligible agricultural land without payment entitlements. At present, the SAPS is applied by all new Member States except Slovenia, Malta and Croatia.

Financial discipline: This mechanism ensures that expenditure under the provisions of the common agricultural policy does not exceed the limits specified in the European Union budget.

Financial Instruments (FI): European Union measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants.

Background

The EU's Multiannual Financial Framework (MFF) for 2014-2020 provides medium-term predictability for investment supporting Europe's priorities. However, in the current context of multiple crises, it also needs to be able to adjust swiftly to changing priorities and unforeseen events, and to deliver rapidly on the ground.

In this context, alongside the 2016 State of the Union address in Strasbourg on 14 September 2016, the Commission presented its mid-term review/revision of the multiannual EU budget (2014-2020). Without increasing spending limits agreed with the European Parliament and Council, the proposed package is intended to free up an additional **€6.3 billion** in financing by 2020. These resources will be used to foster job creation, investment and economic growth and to address migration and its root causes. The Commission also proposed an EU budget described as 'better equipped to respond to unforeseen circumstances' and simplification of financial rules 'focused more on results'.

The current common agricultural policy (CAP) for 2014-2020, greener and more market-oriented than in the past, with a budget of **€408.31 billion** (at current prices), will account for about 36 % of the EU's budget in 2020. The CAP's current pre-allocations between Member States will not be modified by the proposed MFF revision, as shown in Table 1 below. The Commission has, however, proposed some policy-related simplification measures through changes to the four basic CAP acts, where the Parliament is fully involved as co-legislator.

Other steps towards technical **simplification**, including through delegated and implementing acts, have already been proposed by the Commission since the 2013 reforms to the CAP came into force.

Table 1 – Common agricultural policy allocations 2014-2020 (in € million, current prices)

Member States	Direct payments	Rural development	Total CAP budget
Belgium	3 603	648	**4 251**
Bulgaria	5 106	2 367	**7 472**
Czech Republic	5 985	2 306	**8 291**
Denmark	6 044	919	**6 963**
Germany	34 534	9 446	**43 980**
Estonia	839	823	**1 663**
Ireland	8 507	2 191	**10 697**
Greece	14 808	4 718	**19 526**
Spain	34 634	8 297	**42 931**
France	51 354	11 385	**62 739**
Croatia	1 482	2 026	**3 508**
Italy	26 850	10 444	**37 294**
Cyprus	351	132	**484**
Latvia	1 452	1 076	**2 527**
Lithuania	3 104	1 613	**4 717**
Luxembourg	234	101	**335**
Hungary	8 932	3 431	**12 362**
Malta	37	97	**134**
Netherlands	5 223	765	**5 988**
Austria	4 850	3 938	**8 787**
Poland	23 313	8 698	**32 010**
Portugal	4 105	4 058	**8 163**
Romania	11 638	8 128	**19 766**
Slovenia	960	838	**1 797**
Slovakia	3 016	1 560	**4 576**
Finland	3 662	2 380	**6 042**
Sweden	4 866	1 764	**6 630**
United Kingdom	22 283	5 200	**27 483**

Source: European Commission – DG Budget.[1]

Commission proposals

The Commission proposals, as set out in the draft omnibus regulation[2] published on 14 September 2016, aim at fine-tuning some elements in the current CAP and making life easier for both farmers and national authorities. While many of the measures proposed are quite technical, some represent policy choices, which could have an impact on simplification of the CAP. The proposed changes, subject to the ordinary legislative procedure, apply to all four of the basic CAP regulations (Direct Payments, Rural Development, Single Common Market Organisation and the Horizontal Regulation) and are described in this order below.

Direct Payments Regulation (EU) No 1307/2013

The current system of direct payments to farmers, accounting for more than 70 % of the CAP budget, provides the backbone of the CAP. On direct payments, the Commission proposes to allow Member States greater discretion in the application of the definition of **active farmer**.

The 2013 CAP reform introduced rules on the categorisation of 'active farmers'. A number of companies had been able to claim direct payments even though their primary business activity was not agricultural. To address this issue, the 2013 reform introduced a compulsory negative list of professional business activities (such as airports, railway services, water works, real estate services and permanent sports and recreation grounds), which would be excluded from receiving direct payments. Member States can extend the negative list to include further business activities. This proposal would allow Member States to use only one or two, instead of the current three, criteria for beneficiaries who wish to contest their inclusion in the negative list.

Moreover, Member States will be able to decide whether they wish to continue applying the existing rules on active farmers or not. While the increased flexibility given to Member States can be considered a simplification, this proposal to make the definition of active farmer optional may be seen as a policy decision.

On **young farmers**, Member States currently shall use up to 2 % of their national ceilings for direct payments to grant young farmers an annual payment for a maximum period of five years, on top of the basic payment, limited to the first 90 hectares of the holding. The Commission proposes to remove the 90-hectare limit for the additional payments to young farmers, unless it is needed to remain within the 2 % ceiling. This 90-hectare limit for young farmers at EU level was introduced by the European Parliament in the last reform.

Other technical simplifications on the use of annual national ceilings would allow Member States applying the **single area payments scheme** (SAPS) to reduce the risk of funding going unspent, via a similar tool (the 'overbooking mechanism') to that available for Member States applying the basic payment scheme.

On **voluntary coupled support** (i.e. support, under certain conditions, to specific sectors experiencing difficulties), in the event of a market crisis, Member States can decide to grant support on the basis of the animals/hectares eligible in a previous reference year, without the obligation to rear the animals, as is already the case for the dairy sector.

Single Common Market Organisation Regulation (EU) No 1308/2013

Regarding the crisis measures in the operational programmes, **coaching producer organisations** would become a new eligible measure. In this way, a producer organisation from Member States where the scheme is working well could coach producer organisations from Member States where the scheme continues to encounter developmental problems.

National financial assistance (state aid) to producer organisations will be limited to only those Member States with a low proportion of such organisations,[3] without the need for a case-by-case analysis by the Commission, and without taking into account the regional level of aggregation.

This proposal includes further simplification in the **management of import quotas**. These will be published on the internet, rather than through the adoption of Commission regulations.

Rural Development Regulation (EU) No 1305/2013

On rural development, some changes were proposed involving the introduction of simpler rules for accessing loans and other **financial instruments** and greater access to capital for farmers, particularly young farmers for whom access to credit is an ongoing problem. For instance, where investment support is provided in the form of financial instruments, the input may also be a product not covered by Annex I of the Treaty on the Functioning of the EU (agriculture products), on condition that the investment contributes to one or more of the EU priorities for rural development.

In respect of **setting up support for young farmers**, the proposal will provide some clarification. Applications for this funding must be submitted within 24 months from the date of setting up a business, and the business plan must have a maximum duration of five years. The proposal clarifies that support for young farmers can be implemented by means of financial instruments, and that setting up a new business may be carried out solely or jointly with other farmers.

The 2014-2020 rural development programmes can be used to set up an **income stabilisation tool (IST)** to compensate farmers. This tool is similar to a mutual fund, with the difference being that the IST compensates farmers for **income losses higher than 30 %** of the average annual income in the last three or five years, instead of production losses. In order to be classified as a 'green box' (i.e. non-trade distorting) measure by the World Trade Organization (WTO), farmers' compensation can be triggered only for losses higher than 30 %, with a maximum compensation of up to 70 % of lost income.[4]

On this issue, the proposal introduces the following changes:

- considering that farmers are exposed to increasing economic risks and those risks do not affect all agricultural sectors equally, Member States should be able to help farmers with a **new sector-specific income stabilisation tool**, in particular for sectors affected by a severe drop in income. (Requests were made by Member States for the dairy and meat sectors);
- for the IST for farmers in a specific sector, the compensation can be triggered when the **drop in income exceeds 20 %** of the average annual income of the individual farmer in the preceding three-year period, or a three-year average, based on the preceding five-year period, excluding the highest and lowest entry;
- considering the difficulties in the implementation of the IST, a **public contribution to the initial capital stock** of the mutual fund **will be allowed.**

Overall, these amendments could potentially improve implementation of the IST, but this would be better assessed by examining the impact of a sector-specific IST.

Horizontal Rules Regulation (EU) No 1306/2013

On **financial discipline**,[5] given the technical character of the procedure for fixing the adjustment rate, the Commission will directly adopt an implementing act to fix the adjustment rate, without the ordinary legislative procedure involving the Council and Parliament.

In respect of **money recovered from irregularities**, a clearance mechanism exists for irregularity cases under which 50 % of any irregular payments which the Member States have not recovered from the beneficiaries within four years or, in the case of legal proceedings, eight years, are automatically charged to their national budgets (50/50 rule).

The proposal will replace the current 50/50 rule with one single clearance rule of 100 % of the outstanding debt charged only to national budgets.

On **assigned revenues,** it clarifies that some recoveries can be classified as assigned revenues to the EU budget.

Other technical changes include more proportionate rules on the recovery of undue payments in the case of violations of **public procurement rules**.

European Parliament

Simplification of the CAP was and is a key priority for the European Parliament. In May 2015, at the European Parliament hearing on 'How to simplify the common agricultural policy', some Members insisted that, if the Commission were serious about simplifying the CAP and reducing bureaucracy, it would need to review the legal texts and not simply make changes by way of secondary legislation. Some MEPs called for new risk management instruments and further efforts to support young farmers, while the necessity to maintain the strengthened environmental dimension of the CAP was also cited. Several Members raised implementation concerns from their own constituencies throughout the EU, criticising the bureaucratic burden faced by individual farmers.

On 12 October 2016, after the adoption of the proposed omnibus regulation as part of the MFF review package, the Commissioner for Agriculture and Rural Development, Phil Hogan, addressed the EP Committee on Agriculture and Rural Development (AGRI). The majority of Members welcomed this opportunity to simplify the CAP, but complained strongly about the way the Commission had decided to deal with it. Indeed, the policy and technical revisions of the four basic CAP regulations are not linked to wider budgetary issues. The procedure placing all the sectorial changes in an omnibus legal instrument dealing with several other policy areas under the MFF umbrella, was considered to be an attempt to circumvent the sectorial competences of the relevant EP Committee (AGRI) and Council formation (AGRIFISH).

In respect of the elements of the proposal, some Members commented on the relaxation of the definition of an active farmer, access conditions to the young farmer's scheme, the promotion of financial instruments in agriculture, and welcomed the planned revamp of the income stabilisation tool.

Overall, it became clear that most elements are not only proposals for simplification, but represent novel policy decisions in comparison with those contained in the CAP reform agreed in 2013.

Agriculture and Rural Development Committee coordinators Albert Dess (EPP, Germany) and Paolo De Castro (S&D, Italy) will act as co-rapporteurs for the CAP issues.

Council of the European Union

On 10 October 2016, during the AGRIFISH Council, Commissioner Hogan presented the omnibus regulation proposal, noting that the Commission aims to come to an agreement in 2017 and to have the new rules in force as of 1 January 2018. Member States generally welcomed the Commission's simplification efforts, in particular with regard to the increased flexibility in the definition of 'active farmer' and the introduction of a sector-specific income stabilisation tool, but the majority of delegations expressed concerns about the procedure. They underlined the importance that the AGRIFISH Council and the Special Committee on Agriculture (SCA) discuss the agricultural aspects of the proposal (as opposed to the General Affairs Council). Some Member States expressed negative opinions on the proposed changes to the recovery procedure (the current 50/50 rule, which provides that 50 % of the financial consequences of non-recovery shall be borne by the Member State and 50 % by the EU budget), the definition of permanent grassland, voluntary coupled support, and assigned revenues. Certain issues remain to be resolved, including the complexity of the financial discipline mechanism to fund the crisis reserve on an annual basis. The debate, however, has only just begun, and the details will be further discussed in forthcoming meetings of the Special Committee on Agriculture (SCA).

Outlook

The proposed revision of the 2014-2020 Multiannual Financial Framework (MFF) will prepare the ground for a **subsequent MFF proposal** which will address the EU's post-2020 priorities. This could be presented by the end of 2017.

After the omnibus regulation proposal, it appears likely that in the current programming period no major restructuring of the basic architecture of the CAP will take place, but rather a fine-tuning of certain of its elements. According to the Commission, some **post-2020 CAP policy options** will be presented after summer 2017 and more substantial legal proposals for a post-2020 CAP could be presented in 2018, in line with the post-2020 MFF communication. In such a scenario, the European Parliament, as co-legislator, could negotiate the current CAP review and a more substantial CAP post-2020 reform in parallel.

Main references

Proposal for a regulation on the financial rules applicable to the general budget of the Union and amending Regulation (EC) No 2012/2002, Regulations (EU) No 1296/2013, (EU) 1301/2013, (EU) No 1303/2013, EU No 1304/2013, (EU) No 1305/2013, (EU) No 1306/2013, (EU) No 1307/2013, (EU) No 1308/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014,(EU) No 283/2014, (EU) No 652/2014 of the European Parliament and of the Council and Decision No 541/2014/EU of the European Parliament and of the Council.

European Parliament, Committee on Agriculture and Rural Development hearing on how to simplify the common agricultural policy, May 2015.

Implementation of the CAP reform, European Commission, Directorate-General for Agriculture and Rural Development.

DG AGRI – Omnibus Regulation – Further Simplification of the CAP.

Endnotes

[1] Explanatory note Table 1, for 2014: Annex IV to Regulation (EC) No 73/2009 for calendar year 2013 and Annex VIII for Croatia, Romania, Bulgaria; 2015: Annex VIII to Regulation (EC) No 73/2009 for calendar year 2014; 2016-2020: Annex III to Regulation (EU) No 1307/2013 calendar years 2015-2019 (2) does not include direct payments for POSEI and smaller Aegean islands. Data subject to financial discipline reduction as referred to in Articles 25-26 of Regulation (EU) No 1306/2013. Data before flexibility between the pillars as referred to in Art 136a Regulation (EC) No 73/2009 and Art 14 of Regulation (EU) No 1307/2013; after UK voluntary adjustment for calendar year 2013 as referred to in Art 10(b) of Regulation (EC) No 73/2009. Before demining reserve notification for Croatia for calendar years 2015-2019. Table 1 does not include other CAP measures with pre-allocated Member State envelopes such as POSEI and SAI (Regulations (EU) No 228/2013 and (EU) No 229/2013), Wine national support programmes (Annex VI to Regulation (EU) No 1308/2013), Olive oil quality improvement (Art 29 of Regulation (EU) No 1308/2013) and cotton amounts referred to in Regulation (EC) No 637/2008 and Art 66 of Regulation (EU) No 1307/2013.

[2] The proposed omnibus regulation seeks to amend a total of 15 legal instruments concerning multiannual funding programmes, in areas such as structural and investment funds, and infrastructure, as well as the CAP regulations.

[3] Bulgaria, Croatia, Cyprus, Estonia, Finland, Greece, Hungary, Lithuania, Luxemburg, Malta, Poland, Romania, Slovakia and Slovenia.

[4] The WTO categorises subsidies in 'boxes' according to 'traffic light' colours. For the agricultural sector, there are 'green box' measures, which are allowed because they are considered to cause only minimal or no distortion to trade, and 'amber box' measures, which are seen as significantly trade-distorting and which should be reduced as soon as possible. For more information, see the WTO Background Fact Sheet on Agriculture negotiations.

[5] Article 26 of Regulation (EU) No 1306/2013 on financial discipline. 'In order to ensure that the annual ceilings set out in Regulation (EU, Euratom) No 1311/2013 for the financing of the market related expenditure and direct payments are respected, an adjustment rate for direct payments ("the adjustment rate") shall be determined when the forecasts for the financing of the measures financed under that sub-ceiling for a given financial year indicate that the applicable annual ceilings will be exceeded'.

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