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End of previous Forum article

Alan Matthews

The CAP in the 2021-2027 MFF Negotiations

The most recent reform of the EU's Common Agricultural Policy (CAP) was concluded in 2013 and entered into force in 2015. In early 2017, the European Commission initiated a public consultation seeking ideas on the 'modernisation and simplification' of the CAP. Based on the findings of this consultation,[1] the Commission published a Communication in November 2017 entitled 'The Future of Food and Farming' outlining its ideas for further CAP reform to coincide with the introduction of the next EU multi-annual financial framework (MFF) for the period 2021-2027.[2] Following a period of intense debate and further consulta-

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1 ECORYS: Modernising & Simplifying the Common Agricultural Policy: Summary of the results of the Public Consultation, 2017.
2 European Commission: The Future of Food and Farming, Communication COM (2017) 713 final, 2017.

tion with the European Parliament and the Member States among others, the Commission published its legislative proposals for the post-2020 CAP on 1 June 2018.[3]

It is at least partly surprising that the Commission launched a public consultation and published a Communication setting out the need for further CAP reform already in 2017. The two themes justifying this early review were the demand for simplification and the need for modernisation of the CAP. The third factor was the timing of the presentation of the next EU budget framework that will determine the resources available for the CAP budget in the period 2021-2027.

The demand for simplification is a clear driver of the Commission's proposal. Member States want less complex CAP rules and farmers want fewer and less intrusive inspections of their compliance. The 2014-2020 CAP made its administration even more complex by allowing Member States an unprecedented degree of flexibility in its implementation.[4] The new greening payment that farmers receive in return for complying with a set of environmental measures has received particular criticism, proving complex to administer and somewhat ineffective.[5] The requirement to programme rural development expenditures to meet identified priorities, although seen as positive in principle, has also been criticised as too complex and insufficiently result-oriented.[6]

The need to modernise the CAP to reflect heightened challenges and new commitments is the second driver of the Commission proposals. These challenges include: higher market price uncertainty and a more pessimistic market outlook; responding to increased market access under free trade agreements; harnessing innovation and advances in digital technologies both to improve the accuracy and efficiency of the implementation and monitoring of CAP instruments, as well as to accelerate their practical application in rural areas; and meeting societal farming and food expectations including a greater emphasis on environment and climate issues in CAP spending.

Pressure to embed environmental and climate action even more centrally into the CAP has also moved up the political agenda because of the EU's committment to action on the Paris Climate Agreement and the UN Sustainable Development Goals (SDGs).[7] The Paris Agreement lays out the EU emission reduction goals for 2030 to which agriculture must contribute.

The need to begin negotiations on the Union's MFF for the period 2021-2027 was the third driver of the Commission proposal. MFF legislation determines the overall size of the EU budget as well as how the EU budget should be financed. It also establishes maximum spending ceilings for the various programmes financed by the EU, including the CAP.

There is a reciprocal relationship between the parallel negotiations on the MFF and the CAP. On the one hand, the debate over the size and nature of CAP spending feeds into and affects the MFF negotiations. This is partly due to the sheer size of CAP expenditures in the EU budget, e.g. in the last year of the current MFF it accounts for 33% of MFF commitments. It is also because the pre-allocated CAP envelopes under Pillar 1 (financed by the European Agricultural Guarantee Fund, EAGF) and Pillar 2 (financed by the European Agricultural Fund for Rural Development, EAFRD) play a major role in determining the net budget transfers that Member States inevitably focus on during these negotiations.

On the other hand, decisions on the MFF are also likely to influence the outcome of the CAP negotiations. The size of the CAP budget may influence the extent to which those negotiating CAP legislation are prepared to make additional demands on farmers, e.g. to pursue environmental or climate objectives. The European Council's MFF conclusions may also determine some of the specific financial elements included in the CAP legislation, as was the case in the conclusions on the 2014-2020 MFF.

The CAP budget proposals in detail

The Commission faced three major challenges in drawing up the 2021-2027 MFF. First, new EU priorities such as strengthening the EU external borders, addressing migration and supporting cooperation in defence procurement had to be funded. Second, the UK's exit from the EU in 2019, given that it is the second largest net contributor to the EU budget, will leave a significant gap in the existing funding. Third, several net contributor Member States are

3 European Commission: Future of the common agricultural policy, 2018, available at https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en.

4 ECORYS, IEEP, Wageningen Economic Research: Mapping and Analysis of the Implementation of the CAP, 2016, European Commission.

5 Alliance Environnement, Thünen Institute: Evaluation study of the payment for agricultural practices beneficial for the climate and the environment, 2017, European Commission; European Court of Auditors: Greening: a more complex income support scheme, not yet environmentally effective, Special Report No. 21, 2017.

6 European Court of Auditors, op. cit.

7 The Paris Climate Agreement was adopted at the twenty-first session of the Conference of the Parties (COP21) in Paris on 12 December 2015.

Table 1
CAP sub ceilings in the MFF
Commitments in million euro – current prices

	EU28 2014-2020 A	EU27 2020 (x 7) B	EU27 2014-2020 C	EU27 2021-2027 D	% change (B/D) E	% change (C/D) F
EAGF[1]	302,797	284,803	280,351	286,195	0.5	2
EAFRD[2]	100,273	97,67	95,078	78,811	-19	-17
Total CAP	403,07	382,473	375,429	365,005	-5	-3
Total MFF	1,115,919	1,151,866	1,063,101	1,279,408	11	20
CAP as % of MFF	36.1	33.2	35.3	28.5		

Note: [1] EAGF = European Agricultural Guarantee Fund; [2] European Agricultural Fund for Rural Development.

Source: A. Massot, F. Negré: Towards the Common Agricultural Policy beyond 2020: comparing the reform package with the current regulations, Briefing for the AGRI Committee, 2018, European Parliament.

Table 2
CAP sub ceilings in the MFF
Commitments in million euro – constant 2018 prices

	EU28 2014-2020 A	EU27 2020 (x 7) B	EU27 2014-2020 C	EU27 2021-2027 D	% change (B/D) E	% change (C/D) F
EAGF[1]	309,064	273,743	286,143	254,247	-7	-11
EAFRD[2]	102,004	93,877	96,712	70,037	-25	-28
Total CAP	411,068	367,621	382,855	324,284	-12	-15
Total MFF	1,136,105	1,107,138	1,082,320	1,134,583	2	5
CAP as % of MFF	36.1	33.2	35.3	28.5		

Note: [1] EAGF = European Agricultural Guarantee Fund; [2] European Agricultural Fund for Rural Development.

Source: A. Massot, F. Negré: Towards the Common Agricultural Policy beyond 2020: comparing the reform package with the current regulations, Briefing for the AGRI Committee, 2018, European Parliament.

opposed to raising the share of the EU budget (as a percentage) of the EU's Gross National Income (GNI) above the 'political ceiling' of one percent agreed to in the 2014-2020 MFF.

The Commission's proposal is a compromise between these conflicting pressures. It proposes a small increase in the size of the EU budget (from 1.0% to 1.08% of EU GNI).[8] It also allocates additional funding to specific priority areas but reduces spending on the two big-ticket items in the EU budget, cohesion and CAP spending, by around five percent each in nominal terms compared to the current MFF (Table 1). For the CAP, this translates into a reduction of around 12% in real terms, compared to the resources available in the 2014-2020 MFF (Table 2).[9] Most of the budget (apart from a small amount of market-related expenditure directly managed by the Commission) is pre-allocated to Member States at the beginning of the MFF period.

The CAP is currently organised in two pillars. Pillar 1 addresses farm income support and market management and is completely financed through the EU budget by the EAGF. Pillar 2 addresses rural development including agri-environment-climate measures and is co-financed jointly by the EU budget through the EAFRD and by Member States. The CAP budget reductions are not evenly spread across the two pillars. The Commission's priority was to protect the budget for income support (EAGF, financing Pillar 1 expenditure) in nominal terms. The entire nominal reduction will fall on EAFRD financing Pillar 2 expenditure. Part of this reduction will be offset by an increase in Member States' co-financing contribution to rural development expenditure by 10 percentage points. However, this will not be sufficient to prevent an overall reduction in Pillar 2 spending.[10] Outside the CAP budget, an additional 10 billion euro will be available through the EU's Horizon Europe research programme to support specific research and innovation in food, agriculture, rural development and the bio-economy.

Under the Commission's CAP proposals, it will be possible for Member States to transfer resources between the Pillars. A Member State will be able to transfer up to 15% of its Pillar 1 allocation (also referred to as its nation-

8 The Commission also proposes to include the European Development Fund within the MFF which would add 0.3% of EU GNI, thus the headline figure for the size of the EU budget in the 2021-2027 period is 1.11% of EU GNI.

9 There are different ways to compare the CAP budgets in the two MFF periods. The Commission favours the comparison with the year 2020 (the last year of the 2014-2020 MFF) multiplied by 7 (see column E in Table 1 and Table 2). The total resources made available over the two periods can also be compared (see column F in Table 1 and Table 2). The comparisons are complicated by the fact that the UK is included in the 2014-2020 MFF but is excluded in the 2021-2027 MFF.

10 A. Matthews: The Multi-Annual Financial Framework and the 2013 CAP Reform, in: L. Knops, J. Swinnen (eds.): The Political Economy of the 2013 CAP Reform, 2015, Centre for European Policy Studies.

al ceiling or national envelope) to its Pillar 2 budget and vice-versa. An additional transfer of up to 15% of its Pillar 1 envelope to its Pillar 2 budget will be possible if used specifically for interventions to address environmental and climate objectives. Finally, a transfer of up to two percent of Pillar 1 envelopes can be transferred to the Pillar 2 budget if used for assistance to young farmers.

This MFF proposal (including the decisions on how the budget should be financed) was taken up for negotiation in October 2018 by the EU Member States in the Council of Ministers. Differing views have been expressed on the Commission's proposal. Several Member States have voiced their opposition to the CAP budget reduction and have called for an overall increase in the MFF to allow the level of CAP spending to be maintained.[11] Other Member States have called for the Commission's budget proposal to be reduced even further, including additional cuts in CAP spending.[12] The final agreement must be ratified unanimously by the European Council, comprising the Heads of State or Government of the EU Member States. It also requires the consent of the European Parliament. The Parliament has criticised the Commission proposal and suggested a much larger MFF equal to 1.3% of EU GNI as well as the maintainance of the CAP budget in real terms.[13]

Distribution of the CAP budget between Member States

The Commission's presentation of its CAP legislative proposals in June 2018 includes Annexes setting out the Member State allocations both for Pillar 1 direct payments (Annex IV of the draft CAP Strategic Plan Regulation) and Pillar 2 rural development (Annex IX of the same draft Regulation).

The Commission's proposal in Annex IV for the Member State Pillar 1 direct payment envelopes follows from its external convergence proposal in the draft CAP legislation. For historical reasons, the value of income support per hectare differs significantly between Member States. Several Member States with below-average levels (mainly some of the newer Member States) have argued that these lower levels put their farmers at a disadvantage relative to farmers in other Member States and have called for a uniform value of income support per hectare to level the playing field. Other Member States point out that the value of income support cannot be seen in isolation from other factors such as the level of prices and average living standards.

The 2014-2020 CAP reform has moved towards a greater convergence of payments. In its legislative proposal, the Commission goes further but does not go far enough to meet all of the demands of these Member States. It suggests that all Member States with direct payments below 90% of the EU average will see a continuation of the process started in the period 2014-2020 and will close half of the existing gap to 90%. All Member States will contribute to financing this external convergence of direct payment levels. The Member States' allocations for direct payments in the CAP Strategic Plan Regulation are calculated on this basis.

Prior to any decisions on modulating funds between the Pillars, direct payment allocations are expected to fall very slightly, by 1.9%. Allocations for some Member States will increase slightly, either reflecting the final phasing in of payments following accession (Croatia) or the impact of the external convergence proposal (where the biggest gainers are the three Baltic states Estonia, Latvia and Lithuania and Greece). For Member States that are net contributors to external convergence (which includes the two newer Member States Hungary and Slovenia), the reduction in direct payments is generally 3.9%.[14]

The draft CAP Strategic Plan Regulation also includes an Annex with the pre-allocated amounts for Member State envelopes for Pillar 2 expenditure. This is a novelty compared to the Commission's procedure in the last CAP reform. On the last occasion, the Commission's draft legislation specified that the annual breakdown by Member State would be decided by the Commission by means of an implementing act taking into account (a) objective criteria linked to the three objectives for rural development policy set out in the draft regulation – namely, competitiveness of agriculture, sustainable management of natural resources and climate action, and balanced territorial development of rural areas; and (b) past performance.

In practice, the Pillar 2 allocations were agreed as part of the horse-trading within the European Council as it tried

11 Ministers of Agriculture: Memorandum – Future MFF – CAP, Ministers of Agriculture from Finland, France, Greece, Ireland, Portugal and Spain, 31 May 2018, available at https://www.agriculture.gov.ie/media/migration/farmingschemesandpayments/commonagriculturalpolicycappost2020/MemorandumFutureMFFCAP060618.pdf.

12 Council of the European Union, Austrian Presidency: Multiannual Financial Framework (2021-2027): State of play, Note by the Presidency to General Affairs Council No. 11871/18, 10 September 2018.

13 European Parliament: Resolution of 14 November 2018 on the Multiannual Financial Framework 2021-2027 – Parliament's position with a view to an agreement, Brussels 2018.

14 A. Matthews: Member State CAP Allocations and Progress on the MFF, CAP Reform.eu (blog), 16 October 2018, available at http://capreform.eu/member-state-cap-allocations-and-progress-on-the-mff/.

to reach unanimous agreement on the MFF for the period 2014-2020. They were published by the Commission only a considerable period of time after this agreement was reached.

In its 2018 legislative proposal, the Commission states that, "The distribution of EAFRD support is based on objective criteria linked to the policy objectives and taking into account the current distribution". In practice, the Commission has simply applied a uniform percentage cut (with the apparent exception of Greece, which for some reason escapes with a slightly lower cut than other Member States) to national allocations in the previous MFF.[15] There is no evidence that any political choices based on changing needs or objective criteria have been applied.

CAP decisions in the MFF conclusions

The extent to which decisions on the financial aspects of the new CAP regulations will be taken by the European Council in its MFF conclusions is a vexing question for the AGRIFISH Council and the AGRI Committee in the European Parliament. In July 2018, the Austrian Presidency made an initial assessment of the sectoral provisions considered most likely to form part of the horizontal negotiations on the MFF. The Presidency emphasised that this assessment was part of a dynamic process and is evolving as negotiations progress. The October 2018 Austrian Presidency progress report on the Council's discussions on the CAP Strategic Plan regulation noted:

> The Presidency recalls that the financial elements of the proposal, such as the proposed percentages of reduction of direct payments, the limits for EU financial assistance to the wine and olive oil sectors, the rules of de-commitment, Member States' allocation of support as set out in some Annexes, the co-financing rates under rural development and the scope of allowed flexibility between the two pillars are expected to form part of the horizontal negotiations on the multiannual financial framework 2021-2027. The identification of the perimeter of these elements is a dynamic process, and will evolve as negotiations progress.[16]

The 2013 European Council MFF conclusions also included wide-ranging decisions on both financial and non-financial aspects of the CAP legislation for 2014-2020. These elements of the European Council's conclusions greatly complicated the completion of the trilogue negotiations on the CAP legislation between the Council and Parliament.[17] The inclusion of CAP legisition issues in the MFF conclusions is contentious because the Parliament views this as overriding its powers as co-legislator in deciding on the CAP regulations under the ordinary legislative procedure.[18] In the CAP 2013 trilogue negotiations (led on the Council side by the Irish Presidency), the Council's initial position was that the elements covered by the MFF conclusions were non-negotiable. The Irish Presidency eventually made a slight concession – accepting a minimum level of mandatory degressivity on large payments in return for the Parliament's agreement to take all other MFF issues off the table in the final trilogues. Thus, the final CAP agreement essentially reflected the decisions announced in the European Council's MFF conclusions.

The Austrian Presidency's reference to decisions that it expects to appear in the forthcoming MFF conclusions suggests that it will be working towards a similar outcome in the General Affairs Council. In this respect, the decision to include an Annex with Member States' Pillar 2 allocations in the CAP legislative proposal may complicate the MFF negotiations. If these proposed allocations are considered non-negotiable, it removes a potential variable in the jigsaw that the European Council President must complete to secure unanimity on the next MFF. If the allocations are changed, there is the risk that such changes lead to losers as well as winners compared to the figures included in the current Annex, which would also lead to difficulty in reaching unanimity. This zero-sum game outcome could be avoided through an agreement to increase the overall size of the MFF and the total resources allocated to the CAP. Although favoured by many Member States, we have already noted that there are others who strongly object to this outcome.

Conclusions

Decisions on the EU's Multiannual Financial Framework are always among the most difficult decisions EU leaders must make because many Member States approach these negotiations from a *juste retour* perspective and unanimity is required. The CAP budget plays an important role in these negotiations, both because of its still significant share of the overall EU budget and because the highly visible pre-allocated amounts to Member States contribute directly to their net transfer position with respect to the EU budget.

15 Ibid., op. cit.
16 Council of the European Union, Austrian Presidency: Regulation on CAP Strategic Plans - Progress Report, Note to the AGRIFISH Council No. 12892/18, 10 October 2018.
17 A. Matthews: The Multi-Annual Financial Framework..., op. cit.
18 European Parliament: MFF negotiations 2014-2020: lessons to be learned and the way forward, T7-0378/201, resolution of 15 April 2014.

On this occasion, the Commission has proposed a nominal cut in CAP spending in the next programming period of 3-5% compared to the 2014-2020 MFF, adjusting for the UK's departure, in the context of a modest increase in the overall MFF from 1.00% to 1.08% of EU GNI (1.11% when the budgetisation of the European Development Fund is considered). Many – even most – Member States, supported by the European Parliament, have expressed the wish to maintain CAP spending in real terms. This, however, would most likely require a further increase in the MFF ceiling. There is strong opposition to this outcome from some net contributor Member States. It remains to be seen how the European Council will resolve this Gordian knot.

The other unknown at the time of writing is the extent to which the European Council conclusions, when reached, will affect other decisions with respect to elements covered in the proposed CAP legislation. The Austrian Presidency has stated that the conclusions may cover the expenditure limits for different kinds of CAP interventions (e.g. coupled payments, sectoral programmes, basic payment, eco-scheme), the degree of external convergence, co-financing rates for Pillar 2 expenditure and the extent of allowed flexibility to move resources between the Pillars. One could envisage the conclusions also resulting in decisions about the Commission's proposal for the capping and degressivity of direct payments, the minimum share of expenditure that should be devoted to agri-environment and climate objectives, the limits to internal convergence of direct payments, and other issues. Prior experience including similar elements in the European Council's conclusions during the last CAP reform process, indicates that this would complicate the finalisation of the CAP trilogue negotiations considerably. It is hard to argue that the European Council should not have the last word on the Member State financial allocations in the Annexes.[19] However, the European Parliament is likely to strongly object to what it will view as an erosion of its rights under the ordinary legislative procedure if the Council insists that other decisions in the MFF conclusions are non-negotiable in the trilogue process.

19 A. Matthews: The Multi-Annual Financial Framework..., op. cit.