# New CAP reform: changes and prospects under the new MFF deal 2014-2020

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January 2014 marks the launch of the new seven-year Multi-annual Financial Framework (MFF) of the EU. One of the most important changes compared to the previous (2007-2013) MFF will be the re-designed Common Agricultural Policy (CAP). This article summarises the new features of the CAP.

The reform of the CAP was formally adopted first by the European Parliament (EP) in November and then by the Council of Agriculture Ministers in December 2013. Some delegated and implemented acts remain to be worked out by the Commission and have to be sent to the Council and the EP for admission until mid-March 2014, in order that all regulations may be voted on before the election of the new EP.

The process itself started in early 2010 with a wide-ranging public debate on the basis of the Commission's paper 'The CAP towards 2020', presented in November 2010. With this paper, indicating directions and options for the future CAP, and so being a sort of precursor to the legal proposals, the Commission initiated a second, this time narrower, professional-type debate with other involved institutions and the stakeholders.

The period between the publishing of the Commission's legal proposals in October 2011 and the political agreement on the CAP in June 2013 was characterised by ever intensifying negotiations. According to its role of co-legislator, bolstered as such by the Lisbon Treaty, the EP put forward more than eight thousand amendments to the proposals. Although a political agreement had been found on most details of the CAP reform package in June 2013, representatives of the three main institutions had to go back to the negotiating table in September in order to finalise the reform as a whole. The reason behind this was that some key issues of the reform (capping, degressivity, external convergence, transfers between pillars, co-financing rates for rural development, etc.), which were linked to the comprehensive MFF talks, had remained unsettled after the June agreement.

The CAP reform and the overall MFF deal have been closely linked together throughout the negotiations. Consequently, when evaluating whether the new Member States (NMS) of the EU are losers or winners of the new CAP, it is important to place the problem in the broader context of the MFF package. In this respect, it is interesting to discover that in terms of commitment appropriations, the new MFF makes real cuts only for those headings (agricultural and cohesion policies) where the NMS have traditionally been more successful in obtaining Community assistance. And on the contrary it is also true that funds grow most under those headings (competitiveness) and sub-headings (research) where the starting position of the NMS to draw on EU funds is less favourable compared to that of the highly developed Member States.

In the new MFF the CAP (practically heading 2, 'Natural resources') suffered a cut of 11.3% compared to the previous MFF. The share of the NMS in the allocation of the average annual CAP was 15.6% in the period 2007-2012, with a clearly ascending trend, rising from a level of 11.6% in 2007 to 22.0% in 2012. As for 'Market-related expenditure and direct aids', making up 78% of the CAP budget and cut back by 17.5% in the new MFF, the NMS average share was 11.5%, with an ascending trend going from 6.1% in 2007 to 16.6% in 2012. Naturally, these upward trends came from the phasing-in character of agricultural support for the NMS from the EU budget.

Based on the Commission proposals of October 2011, the agreement on the new CAP relates to five important EP/Council regulations: on direct payments; the single common market organisation; rural development; and a horizontal regulation for

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financing, managing and monitoring the CAP. The fifth regulation defines the transitional rules for the year 2014 as, for technical reasons, the direct payments regulation shall only apply from 1st January 2015.

As direct payments (DP) make up about 70% of the CAP budget, at times of bargaining they are always in the centre of attention. With the enlargement in 2004 and 2007 differences in the level of per hectare DPs across the Member States became larger. Differences in per hectare support became a subject of constant complaining by the NMS, especially the three Baltic States and Romania and Bulgaria. The new CAP, while cutting back DPs in general, allocates relatively more support for those Member States where per hectare payment is below 90% of the EU average. It also guarantees a minimum level of EUR 196 per hectare support to be reached by 2019. These changes are to be financed by Member States with above EU average DP per hectare, as the total sum of support declines. Thus one of the main novelties of the new CAP is a modest redistribution of the direct payments across (and also within) the Member States, a phenomenon called external (and internal) convergence.

As for how the external convergence impacts on the NMS, we have to take into account that DP will be on strict diet in the next MFF; that the EU-27 will have to finance DP for Croatia; and that external convergence will have to be financed by members with above EU average DP (thus also by Slovenia among the NMS). If we compare average DP of the period 2015-2020 to those of 2013 (see bars in the middle in Figure 1) or the DP of the end year of the current and the next MFF (see right-side bars in Figure 1), it is clear that in real terms for most of the NMS DP will decrease rather than increase. Only the Baltic States (especially Latvia and Estonia) can get access to substantially more support than in the previous period. The small increase incurred by Romania and Bulgaria is only due to the overlapping of their phasing-in period for the CAP overarching two MFFs. After all, only 2.5-3.5% of the DP will be transferred from the old to the new Member States.

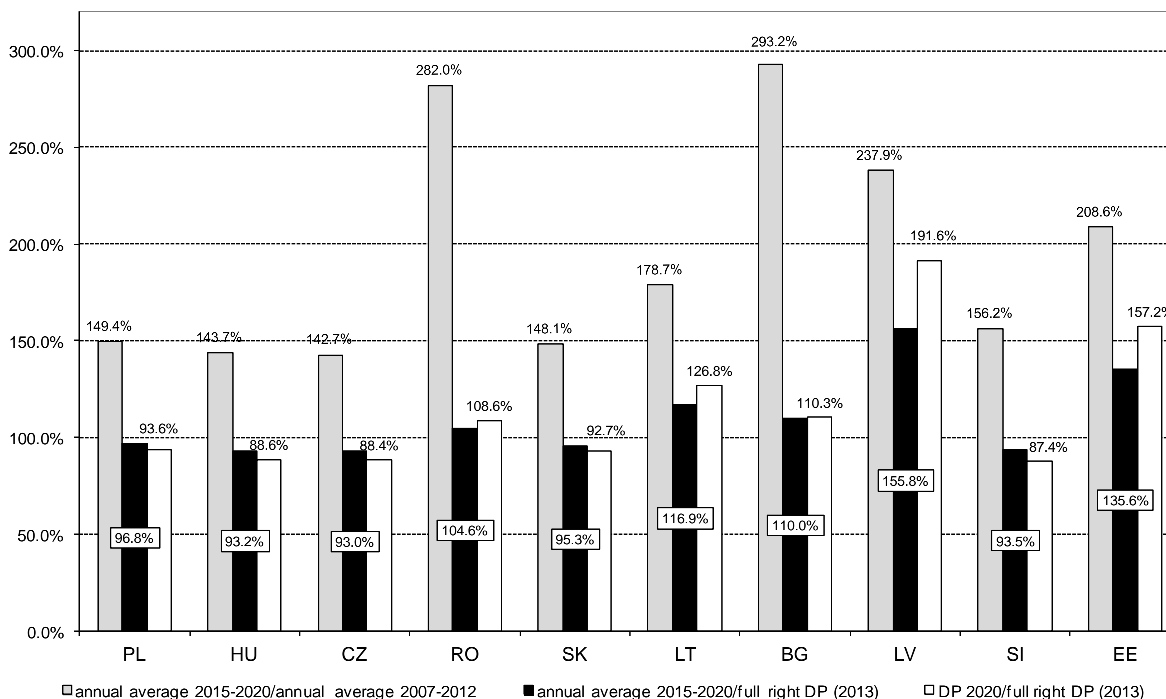
Another aspect of the DP regime is related to the fact that with the exception of Slovenia and Malta all other NMS apply the simplified Single Area Payment Scheme (SAPS), a flat rate payment per hectare at MS level. Originally the SAPS was established for a transitional period of five years. However, following the reform of 2008 (the so-called 'Health Check') its application had been extended until 2013, and now the new CAP deal changed the end-date to 2020.

Meanwhile in the old Member States the Single Payment Scheme (SPS) has been in use since the 2003 reform. The calculation of the SPS varies from one MS to another and, depending on the model chosen, reflects past performances at individual or regional level. As a differentiation like that is impossible within the SAPS, those differences in average per hectare DP between the old and the new Member States which, despite the above-described external convergence, will remain considerable, may show even higher differences at farm gate level. The so-called internal convergence introduced in the new CAP may, however, be considered as a first step in the right direction as it pushes Member States with historical references to move towards a fairer and more converging per hectare payment at national or regional level.

A third important feature of the new CAP relates to the fact that the post-2013 Common Agricultural Policy will be anything but common. Though there will be a common framework of agricultural policy, in practice 28 different agricultural policies will be implemented. This is due to the new regulation that makes the whole system largely flexible and renders several of its main elements optional. Some examples: the share of 'coupled' payments, i.e. linked to a specific product, which at the end of 2013 was 6%, may reach as much as 15% of the national envelope, and the Commission may approve an even higher rate where justified; in case

Figure 1

**Evolution of direct payments in real terms (2011 prices) under the new MFF deal compared with the old one**




*Source:* European Commission, EU expenditure and revenue, http://ec.europa.eu/budget/figures/interactive/index_en.cfm ; Eurostat, HICP inflation rate, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&tableSelection=1&labeling=labels&footnotes=yes&language=en&pcode=tec00118&plugin=1

N.B.: All data referred to in this article are calculated in 2011 prices.

of general market disturbances the Commission will, for all sectors, be authorised to take emergency measures. Further flexibilities and options involve the possibility to redistribute payments for the first 30 hectares of the farms and/or towards small farmers and/or towards farms situated in less favoured areas and in areas with natural constraints. Finally, there is the possibility of transferring quite important shares (i.e. up to 15-25%) of funds between the two pillars of the CAP (i.e. between direct payments and the rural development envelope). Considering the enlarged set of policy instruments available under the new CAP, as well as its '*à la carte*' character, for the smaller, i.e. for most of the NMS, it will be better not to be in a hurry to elaborate their own policy mix; instead, they better wait for their biggest intra-EU export markets (Germany in most of the cases) to decide first. A hasty step might seriously disadvantage important players in one or more sectors in the agri-food chain of a small NMS.

As for some special issues where the NMS could have easily been on the loser side (e.g. capping and greening) we must note that the Commission's original proposals were considerably watered down, so that no big harm will occur. Instead of introducing a compulsory capping – which would have been progressive for farms with DP more than EUR 150 thousand a year and confiscating above EUR 300 thousand – there will only be a compulsory 'degressivity' and a voluntary 'capping'. This, in practice, will take away at least 5% of the DP above EUR 150 thousand (greening not included and salary costs deducted), which is good news for the biggest farms vis-à-vis the originally envisaged 'confiscatory' capping. As for the greening, two of its three basic practices (crop

diversification and ecological focus area) will only be applied above a certain farm size, which is good news for the very small farms. Due to dual farm structures in some of the NMS – an enduring heritage of the past – very big and very small farms are of quite an importance. So, all changes affecting their incomes or costs pose important challenges at the political level.

**Conclusions**

In Europe, the profitability of farming activity depends a lot on public subsidies. In this respect, a part of the NMS competitiveness was determined by their accession treaties which did not allow these countries to apply for CAP subsidies on the basis of their past performances dating back to the late 1980s, i.e. according to the regulation which was in force for the old Member States at that time. This sort of discrimination, which went entirely against the logic of the single market, has been somewhat mitigated since then, and will be further alleviated under the new CAP regime. But the leftover of this handicap, together with the important technological backwardness, will continue to undermine the competitiveness of the agricultural operators of the NMS (especially in the animal sectors).

Although the new CAP contains a lot of measures which are designed to fight these tendencies, it is to be feared that negative features of agriculture in the NMS, such as the concentration and the extensification in arable land systems, as well as stagnation/depletion in livestock numbers, will persist.