

**The CAP and national priorities
within the EU budget
after 2020**



INSTITUTE OF AGRICULTURAL
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The CAP and national priorities within the EU budget after 2020

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1. CAP between 2020 and 2027 – legislative proposals of the European Commission

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Abstract

The stage of making arrangements for the CAP financing rules in the new financial perspective (2021-2027) is nearing its completion. In May 2018, the European Commission has presented the proposals for Multiannual Financial Framework and draft regulations. Informal legislative proposals of the European Commission provide for sweeping changes in terms and conditions of the CAP implementation.

The major elements of the stance of the European Commission do not imply the end of works on the shape of the CAP in the coming years. The toughest part is still ahead and it is very likely to finalize only after the elections to the Parliament and election of a new Commission. But we might risk to state that the direction of changes charted in the discussed legal acts will be continued.

Keywords: Common Agricultural Policy, financial perspective 2021-2027, strategic plans, market regulations, direct payments

JEL codes: Q18, Q14

1.1. CAP financing

The stage of making arrangements for the CAP financing rules in the New Financial Perspective (2021-2027) is nearing its completion. In May 2018, the European Commission has presented the proposals for Multiannual Financial Framework (Table 1) and draft regulations. Informal legislative proposals of the European Commission provide for sweeping changes in terms and conditions of the CAP implementation. Draft regulations impose on Member States the obligation to develop strategic plans. This obligation will require the Member States to apply a far more coordinated approach to both the support areas and the implementation system. So far the programme-based implementation of support in the CAP was used only in the 2nd pillar (RDP), but in the next perspective it is tabled to apply the programme-based system also to the 1st pillar, integrating the

entire preparation and implementation process. In line with the proposals of the Commission, the plan preparation will require e.g. analyses as regards the specific objectives selected for country-level implementation. The analytical part will require more justification, in the aspect of the needs identified for a given area and application of the given type of intervention. These actions will enforce in-depth assessment of the needs at the local, regional and national level.

The obligation to ensure compliance of the realised aid with the WTO's decisions and principles of granting State aid is to fall to the Member States submitting their CAP strategic plans. This will require time-consuming analytical process, involving higher administrative and financial burdens. Development of a seven-year implementation plan specifying targets as well as annual targets will necessitate, especially as regards the outcome and impact indicators, to use detailed and actual data at the programming stage. Any possible breaches in this respect may result in sanctions, including financial ones, at the stage of annual settlements.

Table 1. Multiannual Financial Framework 2021-2027 (liabilities, EUR million)

Specification	2021	2022	2023	2024	2025	2026	2027	Total
Agriculture and maritime policy	52,536	52,782	53,066	53,227	53,389	53,552	53,712	372,264
European Agricultural Guarantee Fund (EAGF)	40,300	40,527	40,791	40,931	41,072	41,214	41,357	286,195
European Agricultural Fund for Rural Development (EAFRD)	11,259	11,259	11,259	11,259	11,259	11,259	11,259	78,811
European Maritime and Fisheries Fund	827	843	860	877	895	913	926	6,140

Source: data of the European Commission.

Analysis of proposals of draft regulations governing the principles of granting aid co-financed from the CAP and cohesion policy budget points to a major reconstruction of the implementation model, especially as regards the CAP.

Projects assume financing of agriculture from two funds:

- the European Agricultural Guarantee Fund,
- the European Agricultural Fund for Rural Development.

In order to spend agricultural funds from the EU budget it is essential for a Member State to have an operational management and control system allowing for reliable settlement and approval of expenditures.

The proposals of the Commission assume refinement of the definitions especially of:

- irregularities,
- governance structures forming institutions involved in the process of financing, management and control of the CAP,
- force majeure to properly interpret the possibility of departure from rules without financial consequences for the beneficiary.

The draft regulations also give a possibility to suspend payments in case of:

- failure to submit the annual statement of expenditure,
- unsatisfactory progress in implementation of the objectives of the National Strategic Plan for Common Agricultural Policy,
- improper functioning of the governance structures.

The proposals included in the regulations impose on Member States an obligation to develop strategic plans. The CAP strategic plan is to be developed with regard to all agricultural sectors that a Member State decided to cover with support. This means that it will be a very broad and multithread document.

The plan has to include indicators and a monitoring system. The proposed solutions closely tie the monitoring system for implementation of the CAP strategic plan with assessment of its realisation by verification of the achieved and planned targets in four categories:

- output indicators,
- outcome indicators,
- impact indicators,
- context indicators linked to different aspects with respect to the trends in the economy, environment and social aspects.

Sanctions are envisaged for failure to perform the annual plans.

1.2. Market regulations

Informal proposals of the European Commission do not anticipate greater changes in market regulations. A large part of the changes in the regulations is technical. The proposals call for deletion of the reference to the sugar definition, deletion of the article establishing marketing years for respective agricultural sectors, making more flexible the authorization system for vine plantings (does not apply to Poland), deletion of the obligation of the European Commission to report to the European Parliament and to the Council of the EU, which has al-

ready expired, deletion of the detailed provisions concerning the sugar sector, including sugar production quotas, approval of enterprises, which as a result of the last reform ceased to apply as of October 1, 2017.

The new proposals include e.g.:

- introduction of provisions regarding *control and sanctions* with respect to trade standards,
- introduction of an abridged one-step procedure for objection to registration of a geographical indication,
- harmonisation and facilitation of registration procedures for geographical indications of agricultural products, foodstuffs and flavoured wines,
- change in rules of application of the wine grape varieties to make wine by taking into account the possibility to use *Vitis Labrusca* varieties and their hybrids with *Vitis vinifera*,
- addition of the possibility to complete some names of wine categories of wines with the term “de-alcoholised” or “partly de-alcoholised”.

The Commission proposed also instruments to extend the range of possibilities of influencing the situation conducive to the crisis on agricultural markets and improving the risk management methods. A Member State will be able to use such measures / interventions as: setting up and/or supplementing mutual fund by recognized producer organisations, investments in tangible and intangible assets, joint storage of products manufactured by producer organisation or by members of a producer organisation, withdrawal of products from the market for free distribution, etc. Also the inclusion of commercial quality issues with regard to the control and sanctions system is a positive element falling within the scope of market management policy.

The possibility to use support to e.g. pigmeat, milk and dairy products, eggs, poultry meat and hops represents a flexible approach aimed at the needs of a Member State. However, because the possibilities of support are limited to the producer organisation only, in case of Poland this support will not be realised. In Poland such organisations do not exist at present, except for the fruit and vegetable sector.

Many controversies are raised by the announcement concerning liquidation of export refunds, because of overproduction on many EU markets and tightening competition on the global market.

1.3. Direct payments

Informal proposals of the Commission provide for changes in the system of direct payments. Five types of payments are planned:

1. basic income support for sustainable development (BISS),
2. Complementary Redistributive Income Support for Sustainability (CRISS),
3. Complementary Income Support for Young Farmers (CIS-YF),
4. voluntary schemes for the climate and the environment (“Eco-schemes”),
5. coupled income support (CIS).

The basic income support for sustainable development will be granted to genuine farmers per each eligible hectare as an annual decoupled support, instead of the Basic Payment Scheme (BPS) and the Single Area Payment Scheme (SAPS). Member States determine the definition of “genuine farmer” and “eligible hectare”. Member States would be obligated to allocate at least 60% of the national financial envelope (excluding capping) for BISS, at least for direct payments.

BISS is to be awarded basically without using entitlements. However, the Commission provides for the possibility to award support also based on entitlements for the Member States that applied the BPS under the regulation No. 1307/2013.

The Member State will have the option to award to small farmers (defined by the Member State) a lump sum that will replace all other direct payments.

Complementary Redistributive Income Support for Sustainability is to be a mandatory instrument for Member States which is to ensure redistribution of support from larger to smaller or medium-sized farms. The payments will be paid out as annual decoupled support. The flexibility for Member States will consist in establishing the amount per hectare and the maximum number of hectares per farmer for which the redistributive support will be paid. The amount granted per hectare cannot exceed the average national amount of direct payments per hectare.

The presented documents do not clarify how much funds can be allocated to this support and whether the funds obtained from capping are to be the only source of financing this support. The draft also does not show any maximum level for which it will be possible to award support. It is also unclear whether it will be possible to set a minimum threshold (as currently 3 ha in Poland).

Complementary Income Support for Young Farmers will be voluntary (but including the 2nd pillar, at least 2% of the direct payment envelope has to be appropriated for alternation of generations). It will be granted to farmers that start operations (there is no indication of when the start of operations would be expected). The support is to be paid as annual decoupled area support. The Mem-

ber States will be flexible as regards defining the eligibility criteria and the definition of a young farmer should include: (1) maximum age limit – no more than 40 years, (2) conditions referring to the fact of being a farm manager, (3) requirements regarding trainings or relevant skills.

Presently, the payment for young farmers is a mandatory instrument which is entitled to farmers who start their operations on an agricultural farm for the first time or who have already started such operations within 5 years prior to the first submission of the BPS / SAP application and whose age in the first year of the application submission does not exceed 40 years. In Poland, the payment is awarded to an area greater than 50 ha. Moreover, it is necessary to explain whether on the basis of the proposed regulations it will be possible to exclude from support young farmers who are legal persons.

Voluntary schemes for the climate and the environment. The Member States can, but do not have to implement the instrument. The payment may be awarded to “genuine farmers” who will undertake to observe on the eligible hectares agricultural practices favourable to the climate and the environment which were defined by the Member State. These practices are drawn up to meet one or more detailed environmental or climate objectives of the CAP. The support has the form of an annual payment to eligible hectares such as: additional payments or compensating payments for the whole or part of the incurred additional costs or lost income. The payments refer to liabilities which go beyond the basic management requirements (SMR) and good agricultural and environmental conditions (GAEC) that:

- go beyond the minimum requirements concerning the use of fertilisers and plant protection products, animal welfare and also other obligatory requirements specified by the national and the EU law,
- are other than the obligations under the “Payments for management of liabilities regarding the environment, climate and other” (but cohesive with them).

The proposal to execute Eco-schemes as an additional, non-mandatory instrument for a Member State to support pro-environmental measures enables to make CAP more flexible and development of national obligations compliant with the diagnosed needs.

Coupled income support may be awarded in the same sectors as at present (cereals, oilseeds, legumes, flax, hemp, rice, nuts, starch potato, milk and dairy products, seeds, sheepmeat / goat meat, beef / veal, olive oil, silkworms, dried fodder, hops, sugar beet, sugar cane and chicory, fruit and vegetables and short rotation coppice). The maximum percentage of the financial envelope for support will be 13% with an option to increase it by a maximum of 2%, on condition that this increase will be allocated to support protein crops. Annual payment

per hectare or animal may be awarded only to these sectors which are important because of economic, social and environmental aspects and are in a difficult situation. Support in these sectors is to impact better competitiveness or sustainable development and quality. Coupled payments are very important in the family farm support system and also to maintain the diversity of the EU agricultural production or to maintain jobs in agriculture and sustainable production systems. Among the new proposals, what should be noted is the possibility of taking into account improved quality as one of the objectives of coupled support use. The proposal restricting the possibility of granting support only in selected sectors is controversial. Poland has repeatedly advocated the extension of the list of sectors whose support in this form is permissible or called for complete abandonment of such a list in favour of an open catalogue.

The draft regulations institute a *mandatory reduction of direct payments*, direct payments (in total) would be granted to the limit of EUR 60,000. Remunerations (and equivalent costs) related to agricultural activities would be deducted from the payment amount, while the amounts obtained as a result of the reduction would be used for the redistributive payment. In the event that the result of the *ex ante* analysis shows that they cannot be fully utilized in this way, the surplus could be used for other decoupled payments. If as a result of such management, there would still be some funds left, they could be used for the second pillar measures.

The mechanism of payment reduction will result in changes in the level of funding of individual direct support instruments and possibly an increase in the funds of the second pillar of the CAP at the expense of direct payments (it is unlikely that the deduction of labour costs would completely neutralize the results of coupling). At the same time, the payment reduction mechanism redistributes funds from a relatively small group of the largest beneficiaries to the other farms, and so, to some extent, it reduces the diversification of the level of support for respective farmers.

The proposals of the Commission uphold the possibility to shift funds (up to 10% of the national envelope) between pillars. In case of a transfer from the direct payments to the RDP, the European Commission provides for a possibility to increase the shift by: (1) 10 percentage points as far as additional funds will be used for measures related to the climate and the environment, (2) 2 percentage points provided that this increase concerns funds for the implementation of measures to support young farmers by at least 2%. The proposed level of the shift (10%) is much lower than the one presently used in Poland (25%).

1.4. Rural monitoring

Draft regulations introduce also an obligation for the Member States to **monitor rural areas** (rural area monitoring system). The system is to enable observations of the activities performed by the farmer on the field with the use of e.g. data from Sentinel satellites. Rural land monitoring is to replace the present control system in place. Acquiring images for inspection is possible to be every few days (5-6), and access to them is to be full and free.

The European Commission already in 2018 introduced a possibility of voluntary use of the area monitoring by the Member States. According to the opinions, the optional possibility of using the new approach will enable the Member States to prepare for the full implementation of monitoring, including adaptation of IT procedures and tools from the beginning of the new financial perspective.

The rural monitoring system means a 100% control level. The control will cover agricultural activity, without the need to conduct time-consuming and burdensome for farmers on-site controls. Field inspections will be necessary only in special cases.

The major elements of the stance of the European Commission do not imply the end of works on the shape of CAP in the coming years. The toughest part is still ahead which is very likely to finalize only after the elections to the Parliament and the election of a new Commission. But we might risk to state that the direction of changes charted in the discussed legal acts will be continued.

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1. Proposal for a Regulation of the European Parliament and of the Council establishing rules on support for strategic plans to be drawn up by Member States under the Common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD). Brussels, May 2018.
2. Proposal for a Regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy Brussels, May 2018.
3. Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No. 1308/2013 establishing a common organisation of the markets in agricultural products, (EU) No. 1151/2012 on quality schemes for agricultural products and foodstuffs, (EU) No 251/2014 on the definition, description, presentation, labelling and the protection of geographical indications of aromatised wine products. Brussels, May 2018.