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PART 1/3

## COMMISSION STAFF WORKING DOCUMENT

### IMPACT ASSESSMENT

#### *Accompanying the document*

#### **Proposals 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) and repealing Regulation (EU) No 1305/2013 of the European Parliament and of the Council and Regulation (EU) No 1307/2013 of the European Parliament and of the Council**
- **Regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy and repealing Regulation (EU) No 1306/2013**
- **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, (EU) No 228/2013 laying down specific measures for agriculture in the outermost regions of the Union and (EU) No 229/2013 laying down specific measures for agriculture in favour of the smaller Aegean islands**

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## Glossary<sup>1</sup>

<i>Term or acronym</i>	<i>Meaning or definition</i>
AECM	Agri-Environment and Climate Measure
ANC	Areas with Natural or other Specific Constraints
AKIS	Agricultural Knowledge and Innovation Systems
AWU	Annual Working Unit
BPS	Basic Payment Scheme
CAP	Common Agricultural Policy
CATS	Clearance Audit Trail System
CDG	Civil Dialogue Groups
CLLD	Community-Led Local Development
CMEF	Common Monitoring and Evaluation Framework
CMES	Common Monitoring and Evaluation System
CMO	Common Market Organisation
DG AGRI	Directorate General for Agriculture and Rural Development
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EIP-AGRI	European Innovation Partnership for Agricultural Productivity and Sustainability
ESIF	European Structural and Investment Funds
EU	European Union
FADN	Farm Accountancy Data Network
FAS	Farm Advisory System

<sup>1</sup> A more detailed Glossary is available in Annex 10. A full-fledged glossary including definitions on the CAP can be found on the internet page of the Directorate General for Agriculture and Rural Development: European Commission (2015) [Glossary of the Common Agricultural Policy](#), (DG AGRI).

FNVA	Farm Net Value Added
GAEC	Good Agricultural and Environmental Condition
IA	Impact Assessment
IACS	Integrated Administration and Control System
JRC	Joint Research Centre (European Commission)
LEADER	Links between actions for the development of the rural economy
LPIS	Land Parcel Information System
LULUCF	Land Use, Land Use Change and Forestry
MFF	Multi-annual Financial Framework
MS	Member States
POSEI	Programmes d'Options Spécifiques à l'Eloignement et à l'Insularité (for Outermost Regions)
RDP	Rural Development Programme
SDG	Sustainable Development Goals
SFS	Small Farmer Scheme
SMR	Statutory Management Requirements
TFUE	Treaty on the Functioning of the EU
UAA	Utilised Agricultural Area
VCS	Voluntary Coupled Support
WFD	Water Framework Directive
WTO	World Trade Organisation

## 1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT

**This impact assessment accompanies the legislative proposals for the Common Agricultural Policy (CAP) Post 2020 in the context of the next Multi Annual Financial Framework (MFF).** With first steps already undertaken with the establishment of an Inter Service Steering Group (ISSG) and the publication of an Inception Impact Assessment in February 2017, the work was reorganised in mid-2017 to align it to the requirements established within the Commission for the preparation of the next MFF and to fulfil the requirements of the Financial Regulation in respect of preparing an ex-ante evaluation.

**Other programmes relevant for the CAP are assessed in separate Impact Assessments** for the new MFF:

- While the European Agricultural Fund for Rural Development (EAFRD) is part of the European Structural and Investment Funds (ESIF) other Funds are pertinent: **European Regional Development Fund (ERDF), European Social Fund (ESF), European Maritime and Fisheries Fund (EMFF) and the Cohesion Fund**, as Article 174 of the TFEU governing cohesion refers to particular attention to be paid to rural areas.
- **The 9<sup>th</sup> Framework Programme for Research and Innovation (R&I)**, that includes a component on agriculture promotion of Food and Nutrition Security and the Sustainable Management of Natural Resources aiming at supporting the growing innovation needs of a modernised CAP through stronger synergies through the development of an ambitious, integrated strategic R&I Agenda.

### 1.1. Scope and context

As foreseen in its Programme of Work for 2017, **the Commission consulted widely on the simplification and modernisation of the CAP** to maximise its contribution to the Commission's ten priorities and to the Sustainable Development Goals (SDGs). This **focused on specific policy priorities for the future** without prejudice to the financial allocations for the CAP in the next MFF.

The process included a large consultation, as well as analysis of available evidence on the performance of the CAP, including the relevant REFIT Platform opinions.

The outcome was presented in the **Communication adopted on 29 November 2017 and entitled "the Future of Food and Farming"**.<sup>2</sup> This policy document outlined challenges, objectives and possible avenues for a "future-proof" CAP that needs to be simpler, smarter and modern, and lead the transition to a more sustainable agriculture.

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<sup>2</sup> European Commission (2017) [The Future Of Food And Farming](#), Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM 713 final of 29 November.

In particular, the Commission **identified higher environmental and climate action ambition, the better targeting of support and the stronger reliance on the virtuous Research-Innovation-Advice nexus as top priorities of the post-2020 CAP.**

It also **proposed** to improve the performance of the CAP based on **a new delivery model that shifts the policy focus from compliance to performance** and rebalances with **more subsidiarity** the responsibilities between the EU and the Member State (MS). **The new model aims at better achieving EU objectives based on strategic planning**, broad policy interventions and common performance indicators, **thus improving policy coherence across the future CAP and with other EU objectives.**

Public debate on the ideas presented in the Communication focused on the new delivery model of the CAP: while there is a general support to a movement towards a more result-based policy and more flexibility in its implementation, concerns have been raised regarding the need to preserve the common dimension of the policy with the appropriate safeguards at EU level that could guarantee a level-playing field as well as the adequate ambition in reaching the new objectives.

**The Commission Reflection paper on the Future of EU Finances** of 28 June 2017<sup>3</sup> **set out options and scenarios for the future direction of the EU budget**, calling for a shift towards new, sustainable growth and stronger focus on the provision of public goods.

**The Communication "A new, modern MFF for a European Union that delivers efficiently on its priorities post-2020"**<sup>4</sup> recalled that a **modernised CAP must enhance its European added value** by reflecting a higher level of environmental and climate ambition and address citizen's expectations for their health, the environment and climate. The document referred to "a prominent suggestion ... to reduce and better target direct payments, in line with the objectives of the policy", with changes to the system of direct payments considered providing an opportunity to focus on expected results, such as sustained agricultural production in less profitable or mountainous regions, a focus on small and medium sized farms, investments in sustainable and resource efficient production systems and better coordination with rural development measures.

On 2 May 2018, the European Commission adopted its proposals for a new MFF for 2021-2027<sup>5</sup>. Under these proposals, the CAP will have a budget of EUR **365.2 billion** (current prices) for the EU-27 over this period. This represents a 5% cut compared to the CAP allocation foreseen for 2020 (after deducing budget pre-allocated to the UK).

The MFF Communication stated that direct payments to farmers would remain an essential part of the policy but would be streamlined and better targeted via capping or degressive payments. This means that support is redistributed towards medium-sized and smaller farms, and possibly to rural development. Moreover, direct payment levels per

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<sup>3</sup> European Commission (2017) [Reflection Paper on the future of EU Finances](#), COM 358 final of 28 June,

<sup>4</sup> European Commission (2018) [A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020](#), Communication from the Commission to the European Parliament, the European Council and the Council, COM 98 final, 14 February.

<sup>5</sup> European Commission (2018) [A Modern Budget for a Union that Protects, Empowers and Defends, the Multiannual Financial Framework for 2021-2027](#) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – COM 321 final, 2 May.

hectare will continue to converge across MS towards the EU average. The Commission further specified ways to enhance the environmental and climate ambition.

This impact assessment report prepared the ground for the decisions of the MFF proposals and focuses on the changes and policy choices which are specific to the CAP.

## 1.2. Lessons learned from previous programmes

Established in the early sixties around goals enshrined in the Treaty, the CAP is deeply rooted in the construction and in the development of the European Union (EU). It has since undergone several waves of reforms to improve the competitiveness of the agricultural sector, to foster rural development, to address new challenges and to better reply to societal demands.

The most recent major reform was adopted in 2013 under co-decision, a first in the ordinary legislative procedure for CAP. In the context of **the 2013 reform**, the **general objectives of the CAP were streamlined** around three blocks:<sup>6</sup>

- i. **Viable food production**
- ii. **Sustainable management of natural resources and climate action**
- iii. **Balanced territorial development**

To assess progress towards achieving the above objectives and identify future challenges, **a wide consultation process encouraged a structured debate** with all stakeholders, including non-agricultural actors.

This process included an open public consultation (with more than 322.000 submissions), structured dialogue with stakeholders, five expert workshops, opinions of the REFIT Platform, contributions from the European Economic and Social Committee, the Committee of the Regions, and from National Parliaments. The results were presented in a public conference in July 2017(see Annex 2 for details).

The process also considered recommendations of the Agricultural Market Task Force (AMTF)<sup>7</sup> and the Cork Conference on Rural Development (2016).<sup>8</sup> Furthermore, **evidence on the performance of the CAP** was gathered from a wealth of information available on the CAP (briefly summarised in Box 1 below), which served as background for assessing the achievements and shortcomings of the CAP over the years, but especially with respect to its most recent reform.

Building on these sources for evidence and opinion, major findings about the current performance of the CAP with respect to its 2013 reform objectives are summarised in the following section, with emphasis on relevant challenges for the future CAP. In summary, these findings point towards significant successes in previous reforms of the CAP in the economic and social cohesion area, while progress in the environmental contribution of

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<sup>6</sup> European Parliament and Council Regulation (EU) No 1306/2013 ([article 110\(2\)](#)) of 17 December 2013 [on the financing, management and monitoring of the common agricultural policy \(...\)](#)

<sup>7</sup> Report of the Agricultural Markets Task Force (the AMTF report) (2016) [Improving market outcomes enhancing the position of farmers in the supply chain](#).

<sup>8</sup> European Commission (2016) [Cork 2.0: European Conference on Rural Development](#), website.



the policy has been more mixed, and especially in the need of major improvements to meet broader future challenges.

***Box 1. Summary list of documentation on lessons learned from the CAP***

1. Evidence collected through the **Common Monitoring and Evaluation and Framework (CMEF)** which serves for measuring the performance of the CAP.<sup>9</sup>
2. A series of **evaluation studies** scheduled over the current **Multiannual Financial Framework (2014-2020)** to assess current CAP objectives, with first findings available in 2017/18 (see Annex 3).<sup>10</sup>
3. Results concerning progress towards targets and corresponding financial envelopes available in the **Annual Implementation Reports (AIR) for Rural Development**.
4. Additional **background documents, data, facts, figures** relevant for the impact assessment have been published on the internet page of DG AGRI:  
[https://ec.europa.eu/agriculture/statistics/facts-and-figures\\_en](https://ec.europa.eu/agriculture/statistics/facts-and-figures_en)  
[https://ec.europa.eu/agriculture/sites/agriculture/files/consultations/cap-modernising/eco\\_background\\_final\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/consultations/cap-modernising/eco_background_final_en.pdf)  
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[https://ec.europa.eu/agriculture/sites/agriculture/files/consultations/cap-modernising/soc\\_background\\_final\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/consultations/cap-modernising/soc_background_final_en.pdf)

*Note: Annex 9 includes references that served as a basis for the impact assessment.*

*1.2.1. Viable food production*

**Direct payments** fulfil multiple roles. Initially introduced to support the adjustment process of the sector to a more market oriented policy environment, they currently provide an income safety-net that supports the resilience of 7 million farms, contributing to more than 40% of the average income of the EU farming community (a proportion that is much higher in the most deprived regions and in some sectors).<sup>11</sup>

With income from agricultural activities still significantly below average wages in the overall economy (around 46% in 2017), the CAP supports the reduction of income gap between agricultural and other sectors and between Member States and regions. Without this income support, farming will not be economically viable in many parts of the EU and farmers. Beyond the negative impact on food security, phasing out the CAP would

<sup>9</sup> Established in art. 110 of European Parliament and Council Regulation (EU) No 1306/2013 of 17 December 2013 [on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations](#) and the Commission Implementing Regulation (EU) No 834/2014 of 22 July 2014 laying down rules for the [application of the common monitoring and evaluation framework of the common agricultural policy](#).

<sup>10</sup> European Commission (2017) [Evaluation and studies plan 2017-2021](#), Directorate General for Agriculture and Rural Development.

<sup>11</sup> European Commission (2016) [Annual Activity Report: annexes](#), DG AGRI, p. 210.

lead to land abandonment in some regions and concentration in the most productive areas.<sup>12</sup>

Several evaluations confirm that direct payments enhance income and provide relative income stability to farmers facing significant price and production volatility - which helps to keep the EU's vital food production base spread around the Union. At the same time, evidence suggests that the distribution of these payments, their targeting and their complementarity with interventions under rural development can all be improved.<sup>13</sup>

This is further supported by preliminary findings of the on-going evaluation of CAP measures addressing the general objective of "**viable food production**" which also indicate the administrative and management costs of the current CAP as considered to be generally higher than in the previous period.

In addition to direct payments, **market instruments** come into play to support farm income – mainly in times of crisis (to avoid distortion of market signals). Initial assessment of the exceptional measures deployed since 2015 confirm their effectiveness; while measures included in the dairy package were popular, their evaluation points to the risk of problems being moved forward instead of addressed, in particular as regards market imbalances.<sup>14</sup>

**Rural development policy** makes a substantial contribution in various ways. Among other things, in 2007-2013 it supported investments (e.g. 470 000 farm modernisation projects, through which EUR 10 billion of EAFRD funding led to total investment of EUR 49 billion), knowledge-building (e.g. 6.8 million days of training for farmers and others), and supply chain organisation (400 000 farms became involved in quality schemes).

Planned support from rural development programmes in 2014-2020<sup>15</sup> widened provisions for innovation<sup>16</sup> and risk management. However, evaluations point to the need to better use synergies in programming and designing measures, not only within rural development but also with other types of funding. According to the draft ex-post evaluation of the 2007-2013 Rural Development Programmes (RDP), the Objective "*Improving the competitiveness of the agricultural and forestry sector*" was achieved to a moderate extent at EU level. This was mainly due to trainings and investments in modern machinery and technology, improving the productivity of both human and physical capital. The average value for the related indicator *change in labour productivity* was estimated at 4 %. A greater potential is seen in the offer of so-called multi-functional measures which had positive effects for several fields of activity at the same time.<sup>17</sup>

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<sup>12</sup> M'barek, R. *et al.* (2017) [Scenar 2030 - Pathways for the European agriculture and food sector beyond 2020](#), Study to the European Commission.

<sup>13</sup> Ecorys *et al.* (2016) Mapping and first analysis of the CAP implementation, Study to the European Commission.

<sup>14</sup> Interim results for the forthcoming evaluation of the impact of CAP measures towards the general objective of viable food production.

<sup>15</sup> All planned outputs/results stated for 2014-2020 rural development programmes valid as of September 2016 (Cork 2.0 Conference on Rural Development). Some programmes have been modified since then.

<sup>16</sup> Especially through the European Innovation Partnership for Agricultural Productivity and Sustainability – [EIP-AGRI](#) – which brings together researchers, farmers and others to turn research into practical innovation.

<sup>17</sup> Ecorys (forthcoming) Synthesis of Rural Development Programmes (RDP) ex-post evaluations of period 2007-2013 (forthcoming).

EU **risk management** tools complement direct payments and safety net systems to support income. In practice they are made available under RDPs, as the European Agricultural Fund for Rural Development (EAFRD) enables multi-annual payments. Causes of low uptake of EU risk management schemes have been widely analysed.<sup>18</sup> They include too stringent WTO Green-Box requirements (e.g. too high loss thresholds to receive compensation), budget unpredictability, lack of farm-level data, unfamiliarity of stakeholders with novel tools, and the likelihood of ex post public support reducing incentives for an ex-ante risk management approach at farm level.

Amendments introduced in the Omnibus package have addressed some of these issues, notably by lowering loss thresholds for certain instruments and introducing a new sector-specific tool for income losses.<sup>19</sup>

More attention should be paid to the enabling environment, such as functioning financial markets (futures to allow the development of insurance products), more transparent information exchange and overcoming the knowledge gap on risk management instruments at farm level.<sup>20</sup>

However, any action in this domain would need to allow for flexibility for both MS and farmers, since evidence confirms that a single model of risk management cannot be generalised across the EU.<sup>21</sup>

#### *1.2.2. Sustainable management of natural resources and climate action*

Land-based measures remain pivotal to achieving the environmental and climate-related goals of the EU, including clean energy production. **Direct payments** and associated mechanisms (cross compliance and greening) cover a large portion (90%) of the EU's farmed area and aim at mainstreaming practices beneficial for the environment.

**Cross-compliance** contributes to related EU objectives through the statutory management requirements (SMR) and good agricultural and environmental conditions (GAEC). However, the level of ambition for GAEC varies across MS, with the Court of Auditors noting an insufficient scrutiny role for the Commission.<sup>22</sup>

Since the 2013 reform of the CAP, a share (30%) of the national ceilings for direct payments is allocated to practices beneficial for climate and the environment, to be applied by farmers benefitting from direct payments, throughout the EU. The overall effects of the "**greening**" layer of direct payments, as currently applied, on farm management practices and the environment/climate are uncertain but appear to be fairly limited, although there are variations across MS. Its implementation is qualified as complex to manage and sometimes less ambitious than intended.<sup>23 24 25 26</sup>

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<sup>18</sup> See references in Annex 1 for various sources: Commission, Agricultural Market Task Force, OECD, etc.

<sup>19</sup> Amendments to the basic acts of the CAP adopted under co-decision in 2017.

<sup>20</sup> Ecorys et al. (Forthcoming-2018) Study on risk management in EU agriculture, Study to the European Commission.

<sup>21</sup> Workshop on Risk Management: [https://ec.europa.eu/agriculture/events/cap-have-your-say/workshops\\_en](https://ec.europa.eu/agriculture/events/cap-have-your-say/workshops_en).

<sup>22</sup> European Court of Auditors (2016) Making cross compliance more effective and achieving simplification remains challenging, Special report No 26.

<sup>23</sup> European Commission (2016) [Review of the Greening after one year](#), Staff Working Document, 218 final.

The **area-based payments** co-funded under **Rural Development Policy** build on this foundation, providing support to move beyond cross-compliance and requirements associated to direct payments. In 2007-2013, among other types of intervention, **agri-environment and climate** measures (AECM) paid farmers to care for soil, water, air and biodiversity in ways going beyond their legal obligations, on 48 million ha (around 25% of utilised agricultural area, UAA).

Support for **investment** and **knowledge**-building made a further contribution. Specific targets related to carbon sequestration, cutting greenhouse gas emissions and raising the efficiency of irrigation systems (on 15% of irrigated land) were added for the period 2014-2020.

The experience with agri-environment-climate measures shows that their potential could be better used, in particular to tackle local needs. Their design is not always sufficiently focused on environmental needs, often because some MS emphasise easier verifiability to reduce the risk of financial error.<sup>27</sup> In particular, co-ordinating the "greening" layer and agri-environment-climate payment has been challenging.<sup>28</sup>

Ex-post evaluations of RDPs for 2007-2013 conclude that support under Rural Development has contributed to a high extent to **climate change mitigation** and **water management**, and to a moderate extent to the **protection of natural resources and landscape**. Regarding the supply of renewable energy, most of the reports that have recognised a positive impact, also declared that the extent of the impact was difficult to determine and quantify. Climate change has in the meantime become an even more urgent priority, as well as clean energy transition, with important costs and opportunities to be faced by the farming community in the future.<sup>29</sup>

In conclusion, it is clear that the "greening" measures have not fully realised their intended potential to provide ambitious benefits for climate and environment. Also, the current environmental and climate architecture of the CAP has proved to be somehow difficult to manage and complex. Both farming community and other stakeholders generally share this assessment.<sup>30</sup>

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<sup>24</sup> European Commission (2017) [Implementation of the ecological focus area obligation under the green direct payment scheme](#). Report from the Commission to the European Parliament and the Council, COM 152 final of 29 March.

<sup>25</sup> European Court of Auditors (2017) Greening – a more complex income support scheme, not yet environmentally effective, Special Report No 21.

<sup>26</sup> Alliance Environment *et al.* (2017), Report of the evaluator for the Evaluation study of the payment for agricultural practices beneficial for the environment and climate.

<sup>27</sup> European Commission (2017), Directorate General for Agriculture and Rural Development, Background Document on climate and environmental challenges facing agriculture and rural areas.

<sup>28</sup> Workshop on Agri-Environment-Climate Measures (AECMs): Challenges of controllability and verifiability, 07/12/2016, Brussels.

<sup>29</sup> Pérez Domínguez, I. *et al.* (2016): [An economic assessment of GHG mitigation policy options for EU agriculture \(EcAMPA 2\)](#). JRC Science for Policy Report, European Commission, Luxembourg: Publications Office of the European Union.

<sup>30</sup> European Commission (2017) [Consultation on modernising and simplifying the common agricultural policy \(CAP\)](#), Directorate General for Agriculture and Rural Development.

### 1.2.3. *Balanced territorial development*

The CAP currently helps to achieve balanced territorial development both through support for the farm sector (which has strong links to the rest of the rural economy) and through direct assistance to non-farm entities and local strategies.

In 2007-2013, the CAP supported 280 000 projects related to **non-farm micro-enterprises, local basic services** (childcare, healthcare etc.) and other aspects of rural life – in addition to a further 170 000 projects under **community-led local development (CLLD) strategies**.

Ex-post evaluations for Rural Development Plans (RDP), strategies and frameworks for the period 2007-13 are predominantly positive about the contribution of RDPs to environment and climate action, as well as for growth and jobs. On the latter, the economic crisis was part of the limiting factors. Outcomes for the quality of life, diversification and innovation are more nuanced. Prioritisation within limited budget resources has had a limiting effect on innovative approaches. This support delivers benefits at the micro-level. There have sometimes been obstacles to effective targeting, including where this has required effective co-ordination with other EU funds (e.g. concerning infrastructure).<sup>31</sup>

In the period 2014-2020, **investment** in the general rural fabric is continuing: further improvements to local basic services should cover a total area which is home to 51 million citizens, while 153 million people should be covered by CLLD strategies (LEADER). There is a sharper focus on ICT: 18 million citizens should be covered by better ICT services and infrastructure. Ex-ante evaluations point to a need to further enhance needs prioritisation and internal coherence.<sup>32</sup>

A recent addition on evidence from CAP's contribution to **balanced territorial** developments came from the publication of the World Bank's study of the CAP (preliminary results of which were presented to one of the IA Workshops).

While stressing the need for better targeting of support in the future, the report argues that the CAP was associated with the reduction of poverty and the creation of better jobs for farmers across the EU, although this role differs depending on where a country finds itself along the process of structural transformation. The report also stresses the positive impact of decoupled support in increasing productivity and in structural adjustment (while it does not find a significant or similar impact from coupled support).<sup>33</sup>

A recent report underlines that EU funding will be essential for the development of the support services sector in Europe, especially in rural areas where services are scarcer and less developed.<sup>34</sup>

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<sup>31</sup> See, for example, European Court of Auditors (2015) [EU support for rural infrastructure: potential to achieve significantly greater value for money](#), Special Report N°25. Note that this refers to the 2007-2013 programming period.

<sup>32</sup> Kantor (2015) [Synthesis of ex ante evaluations of rural development programmes 2014 - 2020](#), Study to the European Commission.

<sup>33</sup> World Bank on the European Union (2017) [Thinking CAP Supporting Agricultural Jobs and Incomes in the EU](#) EU Regular Economic Report 4.

<sup>34</sup> Arroyo De Sande *et al.* (2018) Provision of social care and support services in remote rural areas: Challenges and opportunities, European association of service providers for persons with disabilities.

While acknowledging that the design of the 2014-2020 programming framework was more ambitious, the European Court of Auditors (ECA) noted that the implementation was affected by significant shortcomings, for instance programmes did not start earlier than in the previous period, despite efforts. To make the programming process more manageable and efficient, the Court encourages the Commission to review the design of programming documents with a view to simplifying their content and reducing the number of requirements for the **post-2020** programming period.

ECA further recommended that the Commission defines the various types of indicators more accurately to have a common set of result-oriented indicators that are more suitable for assessing results and the impact of interventions.<sup>35</sup>

Specific measures for agriculture have been implemented in **Outermost Regions (OR)** through the POSEI scheme (Programme of options specific to the remote and insular nature of the outermost regions). In its report presented in December 2016 after an external evaluation of the scheme, the Commission concluded that POSEI appears critical to maintaining agricultural production in these regions and to ensure a sufficient supply in agricultural products.<sup>36</sup> Following the Communication adopted by the Commission in December 2017 on a stronger and renewed strategic partnership with the EU's outermost regions,<sup>37</sup> no change was considered in this impact assessment for the specific provisions applying for agriculture in these regions.

#### *1.2.4. Cross-cutting issues*

Several concerns on cross-cutting issues emerged from the public debate and from studies and evaluations on the CAP. The REFIT Platform put emphasis on the perception of an excessive **administrative burden** of the current greening measures, the control and audit system and the growing overlaps between direct payments and rural development.<sup>38</sup> The stakeholders of the REFIT Platform called for a reduction of the regulatory burden of the CAP and an improvement of its value for money while ensuring the achievement of the objectives and increase its integration with other policy areas, especially with other European Structural Investment Funds (ESIF).

A study mapping the implementation of the 2013 reform of the CAP confirmed that the policy became more **complex** with the new flexibilities.<sup>39</sup> For the CAP Post 2020, MS are encouraged to establish a long-term strategy that better takes into account the CAP objectives including simplification. The public consultation on "modernising and

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<sup>35</sup> European Court of Auditors (2017) [Rural Development Programming: less complexity and more focus on results needed](#), Special report N°16.

<sup>36</sup> European Commission (2016) [The implementation of the scheme of specific measures for agriculture in favour of the outermost regions of the Union \(POSEI\)](#) Report from the Commission to the European Parliament and the Council, COM 797 final.

<sup>37</sup> European Commission (2017) "A stronger and renewed strategic partnership with the EU's outermost regions" COM 623 final.

<sup>38</sup> REFIT Platform Opinions on "Cross Compliance", "Greening", "Overlaps between pillar I and II", "Control and Audit", "Rural Development support" and "EU legislation on the Farm subsidies reform". Available at: European Commission (2016) [REFIT Platform Recommendations: Agriculture and Rural Development](#), website.

<sup>39</sup> Ecorys *et al.* (2016) [Mapping and analysis of the implementation of the CAP](#), Study to the European Commission.



simplifying the CAP" confirmed a widespread consensus on the idea that the current CAP tools successfully **addresses current challenges to some extent only**. A consensus also emerged on the **EU value added of the CAP**, but the excess of bureaucracy was highlighted as a key obstacle preventing the current policy from successfully delivering on its objectives.

**Criticism about fairness and targeting** was reiterated while the distribution of direct payments appears to remain unchanged, on average 20% of farmers still receive 80% of direct payments (although figures differ among MS). This ratio reflects land concentration, with half of CAP beneficiaries coming from very small farms while most of the payments go to medium-sized farms.<sup>40</sup>

Another cross-cutting concern is **generational renewal**: only 5.6% of all European farms are run by farmers younger than 35 years. Access to land, reflecting both land mobility and farm succession constraints, together with access to credit, are often cited as the two main constraints for young farmers and other new entrants.<sup>41</sup> ECA recommended that CAP support should be better targeted to foster effective generational renewal.<sup>42</sup>

The creation of the European Innovation Partnership for Agricultural Productivity and Sustainability (EIP) gave an impetus to **knowledge** creation and sharing, but important efforts should continue to be made to facilitate the access of farmers to knowledge.<sup>43</sup>

Finally, contributions in the public debate highlighted concerns on **food-related** issues, in particular food security, safety and quality.

## 2. THE OBJECTIVES

### 2.1. Challenges for the programmes of the next MFF

The total MFF **allocation for the CAP for 2014-2020** in current prices amounts to **EUR 408.3 billion** for the EU-28, including an effect of phasing in of direct payments for Bulgaria, Romania and Croatia.

In its proposal for the next MFF, the Commission proposed an allocation of **EUR 365 billion** for the period 2021-2027 for the EU-27. After deducting the UK budget contribution, this amount represents a 5% cut compared to the CAP budget allocation for the EU-27 in 2020.

Within this background of the proposed CAP budget, EU agriculture and rural areas face **developments** that **have significantly changed the broader environment** and the

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<sup>40</sup> European Commission (2017) [Direct Payments](#), Directorate General for Agriculture and Rural Development.

<sup>41</sup> The survey on the needs of young farmers provided full evidence on these barriers: Ecorys (2015) [Pilot project: Exchange programmes for young farmers](#), Study to the European Commission; question Number 8 of the on-line public consultation confirmed this (See Annex II); see also (EP) Young Farmers – policy implementation after the 2013 CAP reform, (EC) Young Farmers in the EU – structural and economic characteristics.

<sup>42</sup> European Court of Auditors (2017) [EU support to young farmers should be better targeted to foster effective generational renewal](#), Special Report N°10.

<sup>43</sup> Coffey *et al.* (2016) [Evaluation study on the implementation of the new European Innovation Partnerships \(EIP\) for Agricultural Productivity and Sustainability](#), Study to the European Commission.

challenges **within which EU's agriculture and the CAP will have to operate**. This is evident from the three major changes that have taken place since the 2013 CAP reform was implemented:

- i. **higher market-price uncertainty** has replaced the high price/high volatility and high co-movement environment after the financial crisis,
- ii. **trade negotiations** have **moved** from multilateral to **bilateral and regional agreements**, while
- iii. **new EU international commitments on Climate Change** and on **Sustainable Development Goals** added new dimensions to the challenges and opportunities facing the CAP.

These shifts are reflected in the **EU Agricultural Outlook**, which provides updated projections for agricultural markets until 2030 under an unchanged policy assumption.<sup>44</sup> This outlook points to an agricultural income decline in real terms up to 2030 **at sectoral level, but income per agricultural working unit is expected to increase driven by the continuous labour outflow from agriculture**.

The **public consultation confirmed the challenges** identified with the lessons learnt from the latest CAP reform: replies about future CAP **highlighted** the continuous **need for income support**, although **questions** were raised **about** whether **the current distribution of CAP support** leads to the best possible outcomes, **requests** were made **for agriculture** to be more **environment and climate-friendly**, and **expectations** were advanced about **farming's contribution to rural employment**. Moreover, answers also reflected further **societal demands about food** (organic, quality) **and animal welfare**, while the most common answer to the open question on **modernisation** was **sustainability**.

### ***Box 2. Stakeholder views on the CAP***

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<sup>44</sup> European Commission (2017) [EU Agricultural outlook for the agricultural markets and income 2017-2030](#) (DG AGRI with the support of the Joint Research Centre), presented in a conference with stakeholders in December 2017.



- The participants to the public consultation considered that the current CAP successfully addresses the existing challenges to some extent only (57%). This view is shared among different types of respondents (farmers, other citizens and organisations).
- All types of respondents (farmers, other citizens and organisations) also share a negative reply when assessing to what extent the current CAP addresses the environmental challenges (63%).
- The excess of bureaucracy and lack of attention to sustainability was often highlighted as the main problems/obstacles preventing the current policy from successfully delivering on its objectives.
- At the same time, “greening”, aid applications and controls are identified as the most burdensome and complex elements.
- The call for a reduction of administrative burden is a generalised demand in the papers submitted by farmers and public administrations.
- The wider public also raised a series of concerns on how agriculture interacts with the environment, climate, animal welfare, food safety and consumer protection, health standards and broader sustainability challenges.

The public consultation also reiterated the call for simplification when it comes to future CAP, with specific suggestions including the reduction of overlaps between Rural Development and other CAP measures, better use of new technologies and e-government tools to reduce controls.

The public consultation and subsequent analysis **also revealed concerns around three significant tensions that characterise modern agriculture** in its transformation towards what is often termed as Farming 4.0 (digital farming). These tensions relate to:

- the **need to improve simultaneously the economic and environmental and climate performance**, which sometimes creates a short-term trade-off (the public consultation illustrated different perceptions on economic and environmental challenges);
- the **risk for employment from efforts to raise productivity and growth**, especially in the primary farm sector;
- the often-complex **trade-off between simplification and targeting, and the appropriate degree of subsidiarity** in the context of very different structural characteristics in the farming sector of 28 MS.

Turning such tensions into synergies would be the litmus test for **the capacity of the future CAP to deliver in a coherent manner** to its objectives, as well as those of related EU policies and priorities. Such priorities include CAP' contribution **to many Union priorities**, including to key priorities (Jobs, growth and investment; the Digital Single Market; Energy Union and climate action; a Stronger Global Actor; and Migration).

Synergies also link successive reforms of the CAP, that aimed at improving the sustainability of agriculture and rural areas since the adoption of the EU sustainable development strategy in 2001, to a number of **UN Sustainable Development Goals** (SDGs), in line with the "European Action for sustainability", which outlines that "sustainable development is an essential guiding principle for all policies".<sup>45</sup>

Based on the lessons learnt from earlier reforms, a broader and more prospective analysis was carried out to identify problems and challenges, to anticipate needs up to 2030, in line with the horizon for the next MFF and SDGs.

Considering all the above, detailed **analysis** led to the classification of these challenges according to the three dimensions of sustainable development and linked them to the assessment of the related **achievements and shortcomings of the CAP reviewed** ahead of the Communication on "the Future of Food and Farming".<sup>46</sup> (These are summarised in Table 1).

Cross-cutting broader challenges such as those linked to food security, food safety, food quality, and sustainability are assumed to overarch the above challenges, and are thus not included in this table. The same applies for other cross-cutting challenges: simplification and modernisation.

**Table 1. Main challenges facing EU agriculture and their consequences**

Dimension	Challenge	Consequence
Economic	Pressures on farm income	Low standard of living
	Weaknesses in competitiveness	Low farm income margins
	Imbalance in value chains	Fragile farm bargaining power
Environmental and climate	Climate change	Extreme climate events, droughts, heatwaves, pests, forest fires
	Ammonia emissions from agriculture	Impact on human health and the environment
	Unsustainable soil management practices	Erosion, degraded soils, salinization, sub-optimal carbon sequestration
	Inputs of nutrients and pesticides, over-abstraction (irrigation)	Water pollution and scarcity
	Loss of nature and landscapes, habitats and land conversion	Loss of ecosystem and their services, reduced public goods, unfavourable conservation status
Socio-economic	Low growth, under employment,	Depopulation, farm aging,

<sup>45</sup> European Commission (2016) [Next steps for a sustainable European future: European Action for sustainability](#) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM 739 final.

<sup>46</sup> Annex 1, and especially European Commission (2017) [Background documents on challenges facing EU agriculture and rural areas: economic, social, environmental and climate](#), Directorate General for agriculture and rural development and reports of workshops for the present impact assessment.

	poor generational renewal	low job creation
	Sub-optimal infrastructure and services, social resilience	Lower quality of rural life
	Inequalities between territories and groups	Rural/urban divide, rural poverty

Complexity in terms of eligibility requirements and variety of measures leads to increased burden for beneficiaries (time for familiarising with information obligations and extent of information/evidence to be provided with applications) and lack of economies of scale for administrations. Gold-plating further increases burden as it adds unnecessary national requirements. A trade-off should be found between **simplification** and the need for accountability of the budget spent.

Major drivers for various problems include insufficient levels of **innovation** and **knowledge**, whether in products and processes or the provision of services. With investments in certain areas of R&D falling and difficulties in translating the results of research into practical innovation, the level of **knowledge** was deemed unsatisfactory.

Despite relevant CAP provisions on the **Farm Advisory System**, weaknesses and gaps in quality remain. Rural areas show lower participation in education and training than urban areas (in 2015 19% of the population of rural areas had tertiary education, compared with 27% of people in all areas).

## 2.2. Objectives for the programmes of the next MFF

CAP objectives are stemming from three different layers - the Treaty objectives, the broader policy objectives that link the CAP to other EU policies, and specific objectives stemming from the more immediate challenges identified above.

### *Treaty objectives*

The CAP objectives, set out in Art. 39 TFEU, aim at: (a) increasing agricultural **productivity** (including through technical progress and optimum usage of the factors of production); (b) thus ensuring a **fair standard of living** for the agricultural community (including by increasing earnings); (c) stabilising **markets**; (d) ensuring the **availability of supplies**; and (e) ensuring that supplies reach consumers at **reasonable prices**.

### *Broader policy objectives: Simpler, smarter, modern and more sustainable CAP*

However, achieving the above objectives in the current context necessitates **adjustments** to the CAP's objectives, which are herewith suggested as follows (see table 2).

Based on the Communication, this Impact Assessment as well as the broader EU political priorities, the corresponding **policy objectives** of the CAP can be summarised as follows:

- Foster a **smart and resilient agricultural sector** ensuring food security;
- Bolster **environmental care and climate action** and contribute to the environmental and climate objectives of the EU;
- Strengthen the **socio-economic fabric** of rural areas, including generational renewal.

These objectives correspond to the three dimensions of sustainability and complemented by the cross-cutting objectives pertaining to modernisation and simplification can be summarised in a **cross-cutting** manner:

- Further improve **sustainable development** for farming, food and rural areas; this includes addressing societal expectations about **food and health**;
- Promote **modernisation** by fostering knowledge, innovation and digitalisation in the agricultural sector and rural areas;
- Address **simplification** by streamlining the design and delivery of the CAP on relevant EU objectives through a shift from compliance to performance, in line with the requirements of Budget Focused on Results.

All the above is in line with the cross-cutting objectives for the next Multiannual Financial Framework: coherence, synergies, simplification and performance. The bulk of CAP expenditure is currently pre-allocated to MS to provide a degree of stability to MS and beneficiaries over the medium-term, but flexibility is offered to MS in the implementation of allocations within a newly defined EU framework.

These policy and cross-cutting objectives are broken down into **more specific objectives** which reflect the emphasis required by the identified challenges, Commission priorities and UN SDGs. Based on challenges highlighted in the previous section, table 2 summarises the general architecture of objectives. For evaluation and monitoring, these objectives were complemented by operational criteria that serve for the impact assessment as well as for setting up indicators (see Annex 5.3).

Compared to objectives stemming from the 2013 reform of the CAP, based on identified challenges, emphasis and/or wording are changing for some objectives and cross-cutting objectives are made more explicit within a streamlined architecture. Having three policy objectives - each of which is encompassing three specific objectives - aims at improving the **balance** across the dimensions of sustainable development. Moreover, the cross-cutting objective on sustainable development, alongside with the objectives of simplification and modernisation, are mainstreamed as part of this new architecture. These objectives apply to the whole CAP - they are the **entry point** for a single strategic planning encompassing both pillars (see section 3.3).

***Table 2. Architecture of CAP objectives***

<b>Policy objectives</b>	<b>Specific objectives</b>
Foster and smart and resilient agricultural sector ensuring food security	Support viable farm income and resilience throughout the territory
	Enhance competitiveness and market orientation
	Improve farmers position in value chains
Bolster environmental care and climate action and contribute to the relevant EU objectives	Contribute to climate change mitigation & adaptation
	Foster sustainable and efficient management of resources
	Preserve nature and landscapes

Strengthen the socio-economic fabric of rural areas	Attract new farmers and facilitate business development as well as generational renewal
	Promote employment, growth and local development in rural areas
	Address territorial imbalances, rural poverty and social inclusion
<b>Cross-cutting objectives</b>	
Further improve sustainable development for farming, food and rural areas	Address societal expectations on food and health
Promote modernisation by fostering knowledge, innovation and digitalisation in agriculture and rural areas	Co-create innovation and share knowledge, including across generations
Address simplification and policy performance	Streamline CAP design and delivery on relevant EU objectives

### 3. PROGRAMME STRUCTURE AND PRIORITIES

In its Communication for the MFF for 2021-2027<sup>47</sup>, the Commission confirmed that it would propose a reformed, modernised CAP. This will allow maintaining a fully integrated **single market**, ensuring **food** security, safety and quality, as well as placing greater emphasis on the **environment** and **climate**. The reform should "support the transition towards a fully **sustainable** agricultural sector and the development of vibrant **rural areas**".

#### 3.1. Why act through an EU-level policy?

##### 3.1.1. Legal basis

The main legal basis for EU action stems from the Treaty (Arts. 38 to 44 TFEU), which enshrines an obligation to establish and implement a CAP. See previous section for the objectives set out in Art. 39. Other Articles of the Treaty are also relevant. Arts. 174 and 175 on economic, social and territorial cohesion include a reference to rural areas, as do Art. 191 to 193 on the environment.

This fundamental legal basis is interpreted in various legislation emphasising the strong links of agriculture to the wider economy (especially the rural economy) and to the natural environment. Art 11 states that environmental protection requirements must be integrated into the definition and implementation of Union policies and activities, in particular to promoting sustainable development. Additionally, the Charter of Fundamental Rights of the European Union provides for protection of intellectual property that includes geographical indications (Article 17).

<sup>47</sup> COM(2018) 321 final, full quotation under 4.

### 3.1.2. *EU Added value*

Most of the challenges identified above have **cross-border** and **global nature** which require a common action at EU level:

- Firstly, the **single market for goods and services** offers substantial economic opportunities to farmers as well as important pressures which require a common safety net, including a system of income support that avoids potential distortions of competition, and underpins food security as well as food safety.
- Secondly, the effects of **increased exposure to world markets**, resulting from previous CAP reforms and trade agreements can only be addressed at EU level.
- Thirdly, key sustainability challenges like climate change, water use, air quality and biodiversity are cross-border, and also require **EU action to meet EU-wide objectives**.

In other areas, a strong EU-wide dimension needs to be combined with more subsidiarity. These areas include food quality, public health and nutrition, rural area challenges (with big gaps in rural unemployment existing between MS), poor rural infrastructure and services, and weaknesses in research and innovation. An appropriate EU-level response to these challenges allows more effective and efficient action when combined with more flexibility at MS level. A common budget enables all MS and regions to respond to the challenges and objectives set out, including those with limited financial resources. In this respect it supports **solidarity** and limits gaps between regions. Furthermore, the CAP promotes networking, spreading of good practices and supports the delivery of public goods across the EU. Both the World Bank study on the CAP and the JRC study on Scenario 2030 provided additional evidence on the value added of the CAP.<sup>48</sup>

One of the tested scenarios in the JRC study shows notably that removing the CAP would result in an 18% drop in farm income on average in the EU, threatening the economic viability and attractiveness of rural areas, a sizeable decline in production affecting food security, land abandonment, a decline in permanent grassland and a stronger production intensification, which can lead to more pressure on the environment.

### 3.1.3. *Subsidiarity and proportionality*

The Communication on the Future of Food and Farming suggests a new delivery model for the CAP which, by rebalancing responsibilities between the EU, MS and beneficiaries, is expected to enhance subsidiarity and flexibility for MS as described in sections 3.3 and 3.4 below.

The future policy approach set out in section 3.3 is proportional. The economic, environmental and social challenges facing the EU's farm sector and rural areas require a substantial response which does justice to the EU dimension of those challenges. The greater power of choice to be offered to MS in selecting and adapting available policy tools within the CAP to meet objectives, in a more results-based model, should make it even less likely that the CAP oversteps a proportionate level of action.

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<sup>48</sup> M'barek, R. *et al.* (2017) [Scenar 2030 - Pathways for the European agriculture and food sector beyond 2020](#), Study to the European Commission.

### 3.2. Critical mass of funding/projects required

The CAP is currently implemented under shared management, with MS setting up their specific governance structures in order to ensure sound management of EU funds. With regard to a critical mass of "projects" to meet its economic, environmental and social objectives the CAP needs to offer funding to large numbers of farmers and other beneficiaries in rural areas, and improve its targeting, so that farm income, food security, food safety, environmental and climate ambition and the diversity of rural areas are adequately addressed. However, this will take place efficiently only if the total available budget is adequate.

The notion of a critical mass of projects is unlikely to be an issue for the CAP as a whole. Nevertheless, this could be critical for some MS/their authorities in some cases or for some measures. In a policy such as the CAP – which addresses large numbers of potential beneficiaries and a large physical area – there is a possible danger that support is spread too thinly to have a significant effect. The risk is perhaps greatest in the case of area-based payments (not only direct payments but also various environmental payments) but is also present in other types of support, e.g. for investment.

### 3.3. Envisaged changes in the scope and structure of programmes

Against the background of a difficult budgetary context, the May Communication for the 2021-2027 MFF proposes a moderate cut for the CAP budget (- 5%).<sup>49</sup> Nevertheless, a **significant** part of the EU budget should continue to be dedicated to this common policy of strategic importance.

The Communication further confirmed that the reformed policy would continue to be built around two **pillars**. In current prices, the following allocations are proposed:

- EUR 286.2 billion allocated to the European Agricultural Guarantee Fund (EAGF) – pillar I.
- EUR 78.8 billion for the European Agricultural Fund for Rural Development (EAFRD) – pillar II.

These agricultural funds are complemented by additional funding of EUR 5 billion from Horizon Europe, out of an allocation of EUR 10 billion proposed to support **research and innovation** in food, agriculture, rural development and the bio-economy.

A more balanced distribution of **direct payments** (pillar I) will be promoted through either compulsory capping at farm level or degressive payments. Direct payments will also continue to converge towards EU average.

For **rural development**, a 10% increase in national co-financing rates is proposed to rebalance the financing between the EU and Member States' budgets, in line with what is foreseen for the other European Structural and Investment Funds. The distribution of

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<sup>49</sup> COM (2018) 321 final as referenced under 4) as well as related documents, in particular [Factsheet on the Common Agricultural Policy](#)

EAFRD support will be based on objective criteria linked to the policy objectives and taking into account the current distribution across MS.

A certain level of **flexibility** for transfers between pillars will be offered to MS. Up to 10% can be transferred between direct payments and EAFRD, in both directions. A higher percentage can be transferred from direct payments to EAFRD allocation for interventions addressing environmental and climate objectives and installation grants for young farmers.

Although no significant changes are envisaged in the **structure** of the programmes of the CAP, major changes in the **delivery** mechanism and the scope of various interventions are proposed to respond to the urgency, the range and seriousness of the identified challenges.

On the one hand, the CAP will continue to operate through **two funds**. In general terms, the EAGF – (CAP pillar I) will finance the bulk of income support payments for farmers as well as market instruments, while the EAFRD – (CAP pillar II) will be the source of funding for most other types of intervention, as at present. The two-fund structure is kept, reflecting differences between the respective types of support concerned: annual and fully Union-financed (pillar I) vs. mainly multi-annual and mainly co-financed by EU and MS (pillar II).

On the other hand, the **complementarity** and the **synergies** between the two pillars will be enhanced thanks to a **single strategic planning** process.

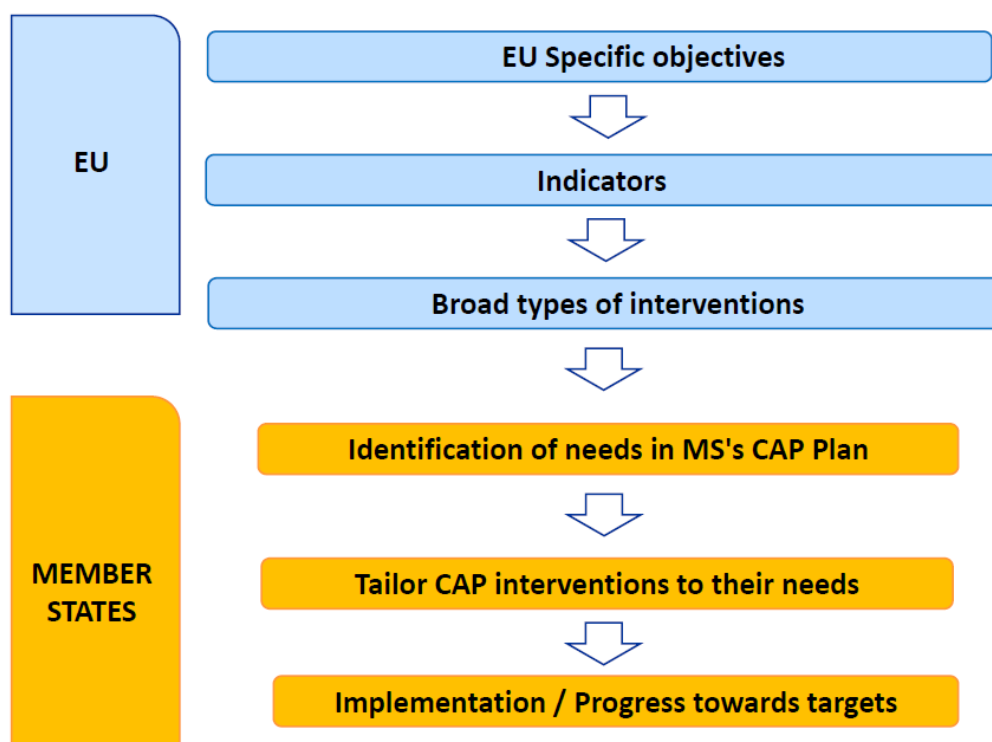
As proposed in the Communication on the Future of Food and Farming and confirmed in the MFF Communications (February and May), a **new delivery model** will bring a fundamental shift in the CAP, moving away from compliance with detailed EU-level rules towards placing more emphasis on achieving results against the policy's common objectives, defined and agreed at EU level.

This draws on the lessons learnt from the implementation of policy and from the public consultation. Having detailed EU rules raises issues about the **complexity** of the policy, the limitations of a "one size fits all" approach, the **effectiveness** and the **efficiency** of the policy, including the excessive administrative burden. Moreover, there is need to strengthen the **coordination** and **synergies** between CAP pillars and interventions, and to maximise the CAP contribution to EU priorities. While striving to accommodate the diversity of situations and challenges, the policy became more and more complex and its **main purposes** lost visibility.

Against this background, it is proposed to further simplify the CAP and to improve its performance (Chart 1). With the proposed new delivery model, CAP design and implementation is streamlined around the EU objectives spelled out in section 2. These objectives, to be agreed at EU level, should be clearly outlined in a new basic act of the CAP that should bring together the two pillars under a **common planning strategy** (proposal for a regulation for CAP Strategic Plans).



*Chart 1. The new delivery model for the CAP - key elements*



Annex 4 provides detailed explanations and illustrations on the new delivery model, as well as an analysis of opportunities and challenges and related safeguards. In essence, each MS will draw up a "**CAP strategic plan**" – covering **interventions planned under both CAP pillars to meet quantified targets** (based on result indicators set out in EU legislation) **linked to EU-level CAP objectives**. The targets and planned interventions (with financial allocations) will be justified by an analysis of strengths, weaknesses, opportunities and threats (SWOT) which the MS in question will carry out with regard to its farm sector and rural areas, taking into account their planning tools emanating from EU environmental, climate and energy legislation.

MS will also need to identify how their plan performs in terms of simplification and reduced administrative burden and justify when national rules add additional administrative burden for beneficiaries.

The Commission will **assess** whether the draft plan sets appropriate targets and a credible approach to meeting them, and request modifications as necessary before **approving** it. The approval process is designed as a strong safeguard to ensure strategic planning and enhanced efficiency. While effectiveness of national CAP plans will be assessed on the basis of the needs analysis, simplification can be assessed based on the MS description of administrative burden reduction, but it can also be estimated on the basis of the complexity of the planned strategy. Identifying potential issues early on at planning stage will allow adapting the national plans and increasing their coherence with the EU CAP objectives, including simplification.

The progress of the plans will be assessed each year against the targets set in terms of result **indicators** (all of which will be, by their nature, closely linked to the CAP). When

targets are missed by a significant margin, the Commission would request Member State to submit a formal **action plan** to remedy the situation. Where the intended remedial actions have not been implemented or the Member State is not willing to engage, the Commission may **suspend** payments. Should the problem not be solved, the suspended amounts would be definitively lost by the Member State. Such EU corrective actions would not apply at the level of beneficiaries.

The above-mentioned process will be the main means of "steering" what the CAP does, albeit in a manner less prescriptive and detailed than at present. Legislative acts will become more focused on creating a framework for MS to achieve EU-wide objectives in a more flexible way, while ensuring an EU level playing field and keeping accountability for results, in line with the principle of Budget Focused on Results.

This can be illustrated for **environment** and **climate** (Annex 4 also offers other examples). As previously mentioned, the current "green direct payments" have been heavily criticised. Among other things, what was originally supposed to be a short list of simple, generally applicable requirements expanded to encompass a mass of numerical thresholds and exemptions, and there have been loud calls for change.

But this does not mean that the new CAP will be shorn of environment - and climate-related rules connected to support payments.

A proposed new system of "**conditionality**" will draw on the most relevant aspects of cross-compliance and green direct payments. An extension of the scope is envisaged. This would lead to adding new requirements, for instance a ban on converting or ploughing wetlands or peatlands to protect carbon-rich soils, the use by farmers of a Farm Sustainability Tool for Nutrients that would reduce ammonia and N<sub>2</sub>O emissions, with reduced nutrient leaching and run-off expected to improve water quality.<sup>50</sup>

Other requirements could be more demanding than at present (e.g. crop rotation instead of crop diversification, which would bring multiple benefits such as helping replenish nitrogen in soil, reducing erosion, increasing the water infiltration capacity of the soil and preventing weeds - thus reducing pesticide use; ban on converting or ploughing any permanent grassland in Natura 2000 areas to preserve biodiversity and maintain carbon stocks).

The scope and definition of the elements included will ensure a solid foundation for a positive influence of the CAP on the environment and climate – especially as MS' planned implementation of conditionality will be assessed and approved in CAP strategic plans. But the level of prescriptiveness in EU legislation will be below that of green direct payments (i.e. with basic descriptions of the practices concerned, leaving MS to propose the details of implementation), giving MS sufficient flexibility to take into account the wide diversity of farming conditions across the EU.

This flexibility is essential for MS to meet their targets. In this respect, MS would also be able to deploy **voluntary** interventions promoting the provision of environmental and

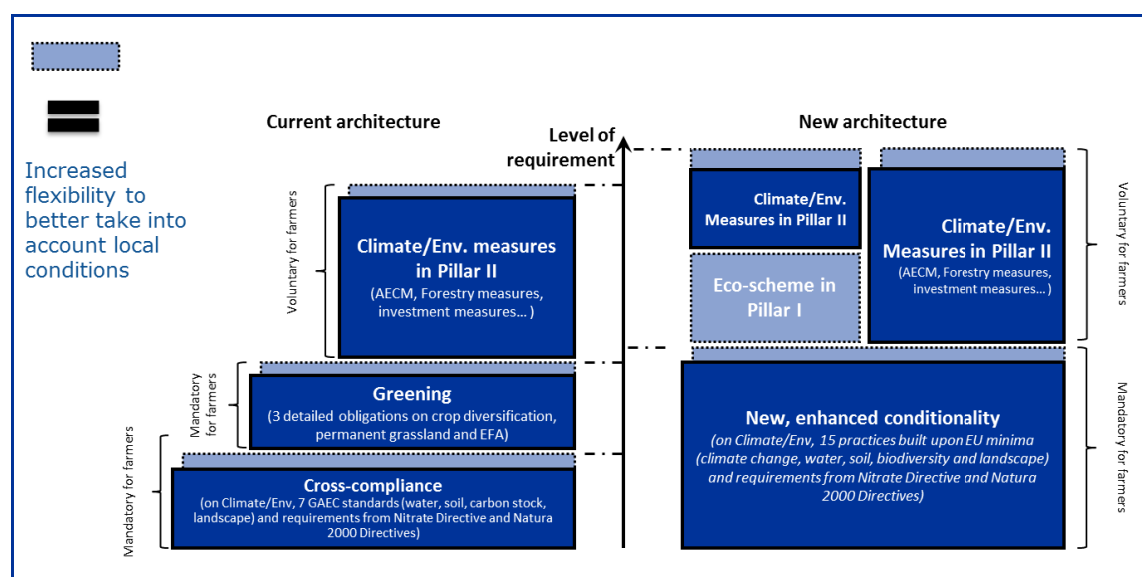
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<sup>50</sup> The situation with respect to the Water Framework Directive will be further assessed based upon the forthcoming Commission report on the implementation status of this Directive.

climate public goods, going beyond business as usual. In particular a new intervention is proposed under pillar I, the eco-scheme, aimed at enhancing the environmental and climate performance of the CAP, going beyond the basic conditionality. Additional commitments can be further supported under rural development (pillar II).

Chart 2 illustrates the changes proposed in the "green architecture" of the CAP. Enhancing current cross-compliance to a strengthened conditionality will work as a safeguard for related requirements stemming from EU legislation embedding statutory management requirements pertaining to public, animal and plant health (including relevant provisions of food law), as well as animal welfare, in addition to climate and environmental requirements.

*Chart 2. Current and proposed new green architecture of the CAP*



Conditionality also ensures that **direct payments** continue to serve several objectives (economic, climate and environmental, social). Their integration into strategic planning will further strengthen the linkage between needs, types of intervention and results. This new EU framework will still include some basic requirements, needed to ensure a level playing field, but it will enable MS to better target the implementation of direct payments according to needs.

The **types of intervention** which may be funded through CAP strategic plans will remain broadly like those available today – with possible amendments - and will be laid down in CAP legislation but bundled into broader categories (with fewer rules attached, as already indicated). In the following Box 3, a non-exhaustive list of such interventions is presented.

### ***Box 3. Broad CAP interventions considered under the new delivery model***

#### **Interventions generally funded under pillar I**

- *decoupled direct payments;*
- *voluntary coupled support;*
- *new approaches for the environment and climate – voluntary for MS and farmers (e.g. eco-schemes, top-ups);*
- *some sectorial programmes;*

#### **Interventions generally funded under pillar II**

- *payments related to constraints (i.e. payments in areas facing natural constraints – ANCs – as well as payments related to the Natura Directives<sup>51</sup> and the Water Framework Directive<sup>52</sup>);*
- *(area- and animal-based) payments for voluntary management commitments;*
- *support for investments of various kinds;*
- *support for business development (including for farmers setting up for the first time);*
- *risk management tools;*
- *support for co-operation (including innovation and the Leader approach);*
- *support for building human capital (training, other knowledge transfer etc.).*

The approach of steering policy design and implementation through plans rather than through compliance with detailed EU rules will mark a bigger change for pillar I rather than pillar II, as the new "planning" process for both pillars will have elements in common with the process for drawing up and implementing rural development programmes in the current period.

To summarise these main changes:

- **Objectives:** are streamlined into a limited number of general and specific objectives, applying to both pillars of the CAP.
- **Interventions:** the essence will remain the same but there will be a reorganisation. Current "measures" will be bundled into broader "types of intervention". More significantly, the number and detail of related EU rules will be cut back to what is strictly needed at EU level to ensure level playing field.
- **CAP Plan:** Member States will submit a **single strategic document** for both CAP pillars for their entire territory. However, where elements of the CAP Strategic Plan are established at regional level, the Member State will ensure the

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<sup>51</sup> European Council (1992) Directive 92/43/EEC of 21 May 1992 [on the conservation of natural habitats and of wild fauna and flora](#) and European Parliament and Council Directive 2009/147/EC of 30 November 2009 [on the conservation of wild birds](#).

<sup>52</sup> European Parliament and Council Directive 2000/60/EC of 23 October 2000 [establishing a framework for Community action in the field of water policy](#).

coherence and the consistency with the elements of the CAP Strategic Plan established at national level.

- **Length of plans/programmes:** the intention is that CAP strategic plans will contain less detail than current rural development programmes – though enough to judge whether MS are presenting a credible approach to meeting the objectives.
- **Factual basis for designing plans/programmes:** the obligation to base future CAP strategic plans on sound evidence will not mark a theoretical change from what should happen with current rural development programmes. However, a new policy period offers a chance to correct some cases of poor application of this principle. For pillar I, this implies moving from notifications to planning (MS must integrate interventions into their strategic analysis and plan, Commission must approve).
- **Reporting:** instead of annual notifications and implementation reports, annual performance reports will focus on outputs and results, with common indicators.
- **Technical assistance and networks** will be extended to cover both pillars.

In view of the large number of beneficiaries from CAP support, **shared management** remains the main implementation mode for the major part of the policy. Shared management provides for the possibility to establish tailor made instruments which take into account the envisaged geographical distribution.

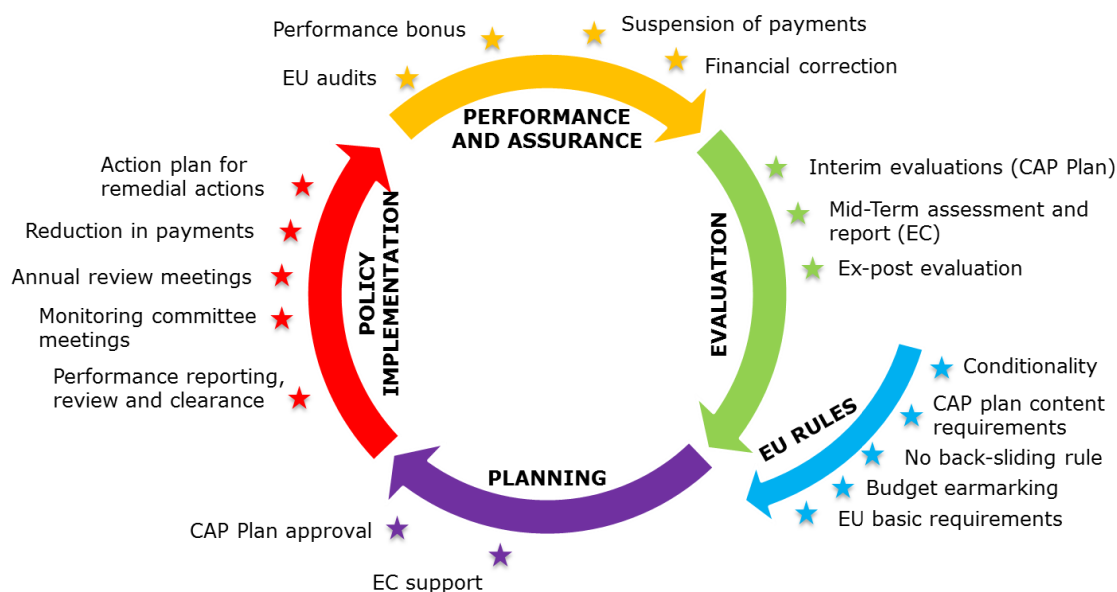
The existing **CAP governance bodies** set up in the Member States, notably the paying agencies and certification bodies, have shown their effectiveness in protecting the EU budget and ensuring sound financial management and reasonable assurance. The new CAP delivery model acknowledges this situation by conferring more **flexibility** to Member States in deciding and managing the control systems in place. Changes in the **assurance** framework are explained in Annex 4.

The new delivery model for the CAP will involve a shift from compliance towards results and performance and a **new distribution** of responsibilities between the EU and Member States, involving substantial changes at three different levels:

- 1) A multi-annual programming approach that will cover the two pillars of the CAP (direct payments, sectorial strategies under the current CMO and rural development), based on a common set of objectives, indicators and a common catalogue of broad types of interventions.
- 2) A new system of monitoring and steering policy implementation
- 3) An adapted approach to get assurance and perform audit

This policy shift comes with challenges and risks that are analysed in great detail in Annexes 4 and 5. The related safeguards to minimise these are further analysed in section 4 below. Section 5 outlines changes considered in the Common Monitoring and Evaluation Framework to improve performance reporting. These various checks and balances of the policy cycle are summarised in Chart 3.

**Chart 3. The checks and balances of the policy cycle**



The funding mechanisms should remain mainly **grants**, mixed with financial instruments in the EAFRD as currently. Financial instruments may be used independently or in combination with grants. On CAP plan level they may contribute with additional financing in particular for revenue generating projects. The use of financial instruments under Rural Development is to be further encouraged in the next MFF as access to capital for the sector differs very much between MS. A limiting factor for further use of financial instruments is the lack of experience of the MS authorities. Specific actions under technical assistance will also be necessary in future to facilitate the implementation. Furthermore, the preparation and programming of financial instruments needs to be simplified.

### 3.4. Types of action to be prioritised

For the sake of preserving the balance across the dimensions of sustainable development, all the objectives identified in section 2 do matter. However, within their CAP strategic plans MS will respond to the EU objectives in ways which reflect the analysis of their situation and needs. A wealth of evidence drawing on the experience of implementing the CAP over many years points to a need for various types of support through the CAP – along the lines of those described in section 3.3.

The best way to meet the CAP's objectives is to strike the right balance between common rules established at EU level and flexibility granted to MS in selecting broad intervention types and designing measures within this framework. In such a way MS can better prioritise the appropriate interventions to address the objectives considering the economic, environmental and social conditions prevailing on their respective territories.

In the proposed future CAP, MS will address potential difficulties in the choices which they make (within CAP strategic plans) about how to allocate funding on their territory to achieve objectives. The easiness or difficulty of this exercise depends partly on available funding.

Significant involvement and oversight from the Commission will ensure a level-playing field with common requirements, for instance on conditionality, indicators and minimum target setting and accountability (see section 5). In the areas of the environment and climate it emerged that, although voluntary tools have a very large role to play, they need to be complemented by a certain level of "mandatory" standards, especially (but not only) regarding domains in which there is no EU legislation but nevertheless commitments for action, such as that of soil.<sup>53</sup>

Options testing various degrees of emphasis on EU objectives/broad interventions are assessed in the next section.

#### 4. DELIVERY MECHANISMS OF THE INTENDED FUNDING

Options were designed to test how EU objectives can be best met (Table 2 in section 2), while reflecting broad ideas of the ongoing public debate, i.e. better **targeting** of payments, increased **environmental and climate ambition** and fostering of **modernisation** and **simplification**. In addition, the **greater subsidiarity** given to MS under the new delivery model to plan CAP interventions against EU objectives and to shift from compliance to performance is assessed. This section summarises the options tested in this impact assessment and presents key impacts that would result from a shift in priorities to address EU objectives (more details are available in Annex 5).

##### 4.1. Which options are assessed?

The baseline for the period post 2020 takes into account the fully phased-in envelopes by MS and the distribution between direct payments and rural development as currently in place (i.e. after applying the flexibility between pillars). A "post-Brexit baseline" for the EU-27 deducting UK pre-allocated envelopes and related contributions was developed.

The overall budgetary envelopes for options were determined by assuming that the withdrawal of the UK would translate into an 8.9% reduction in CAP budget. In this assessment, the budget for market measures is kept unchanged as their share in total CAP support is now very small (reaching 5% of the total CAP budget).

With these instruments offering limited possibilities for cuts since they perform an essential role in times of price declines, in particular as safety net, a higher cut for direct payments (-10%) was simulated instead. Since options tested in this impact assessment could not prejudge the next Multiannual Financial Framework (MFF), they did not include assumptions on EU resources and kept the distribution of envelopes between MS unchanged. Specifications about proposals tabled by the Commission for the future MFF can be found in the summary section (4.2.7).

Since MS potential choices in their future **CAP Strategic Plans** are not known, options should be interpreted as illustrative of different ways to achieve these objectives, more particularly in terms of environment-climate performance as well as for targeting and re-

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<sup>53</sup> EU soil thematic strategy aiming at protecting soils and preventing soil degradation, SDGs, FAO voluntary guidelines for soil sustainable management.

distributing support. Because of this design, **options are not mutually exclusive, and results should not be interpreted as indicative of a preferred option**. Sub-options were defined to reflect the degree of **subsidiarity** left for MS under the new delivery model and possible differences in the level of ambition in the environmental and climate priorities of MS, as these are the areas where most uncertainty exists about these possible differences. Both voluntary and mandatory (conditionality) approaches were tested to achieve higher environmental sustainability (insights on behavioural differences for those approaches summarised in Annex 8).

To ensure an increase in environmental and climate ambition, a new basic conditionality is proposed; it includes some additional minimum requirements going beyond the current cross-compliance rules (as explained in section 3.3). While the Commission reaffirmed the need to enhance the environmental and climate ambition, this new conditionality applies to all options with different ways of articulating with voluntary measures. (see 4.2.2).

#### *4.1.1. Policy options<sup>54</sup>*

**All assessed options assume the 2013 CAP reform fully implemented and 2030 market environment as described in the EU agricultural Outlook,<sup>55</sup> with a value of production increasing on average by 2 % per year in nominal terms, i.e. almost stagnating in real terms and subject to risks of output variability. The initial baseline was updated to incorporate the post-Brexit budgetary envelopes.**

**Option 3 (incentives for environment, climate action and health)** tests the potential of a voluntary eco-scheme to increase environmental sustainability. It also examines the potential role of risk management tools with lower direct payments in supporting farmers' income. Two sub-options reflect different MS environmental ambitions and approaches to direct payments:

- Option 3a: Stronger priority on environment than on economic sustainability
- Option 3b: Lower environmental ambition than in 3a, but greater focus on direct payments redistribution.

In **option 4 (jointly address environmental and economic sustainability)**, direct payments are better targeted and the implementation of conditionality is more ambitious in order to improve the joint economic and environmental performance of the CAP, as well as address climate challenges. Sub-options are also developed to illustrate possible differences in MS ambition regarding environmental targets.

- Option 4a: Environmental and climate ambition addressed via higher requirements exceeding basic conditionality
- Option 4b: No requirements beyond basic conditionality (already more ambitious than currently).

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<sup>54</sup> Initially, an Option 2 was developed to assess the value-added of the CAP (for more details see footnote 46), but this option was not retained in this impact assessment as phasing out CAP would not be in line with the Treaty obligations. However, to avoid confusion, the original numbering of options was kept as in the inception impact assessment.

<sup>55</sup> [EU Agricultural outlook for the agricultural markets and income 2017-2030](#).

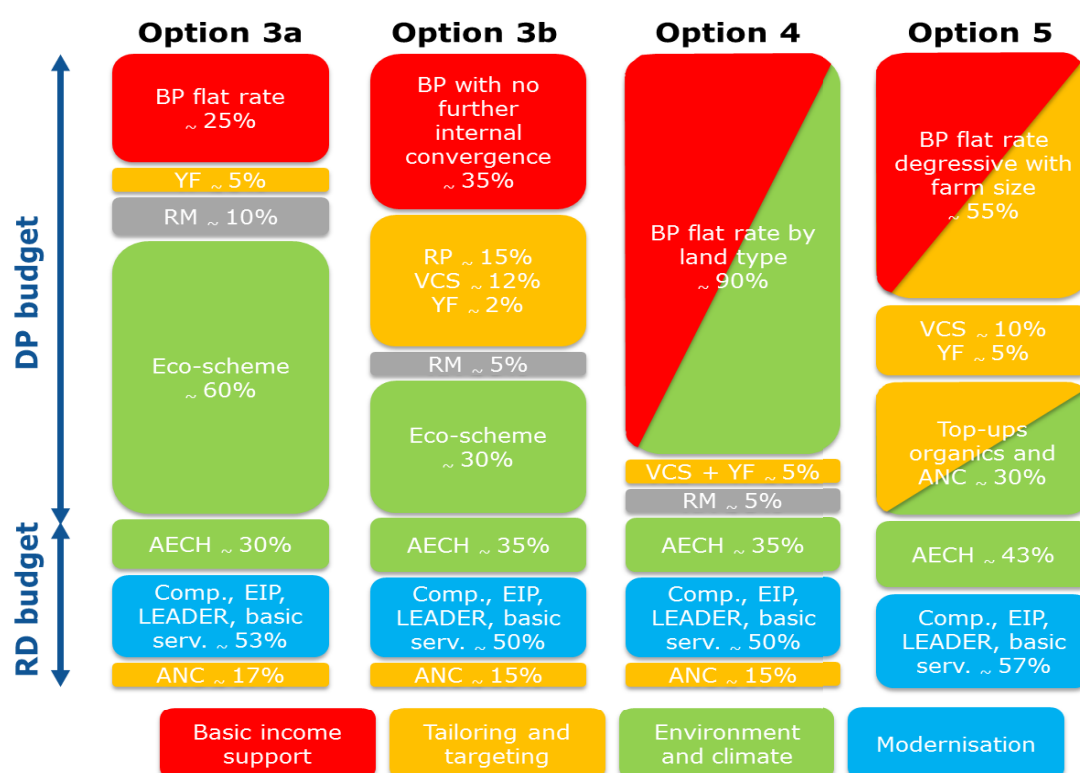


**Option 5 (focus on small farms and the environment)** places strong emphasis on environmental care and employment – and shifts the focus on small and medium size farmers to keep jobs in rural areas. MS are obliged to allocate 30% of pillar I payments to provide top ups for four schemes that would be voluntary for farmers, organic farming, permanent grassland, Areas with Natural Constraints (ANC) and linear landscape elements. This ring-fencing obligation would further encourage climate action and sustainable management of natural resources.

## 4.2. Assessment of the analysed options

Chart 4 summarises the elements included in the analysed options and sub- options.

**Chart 4. Summary of main assumptions for IA options<sup>56</sup>**



*Note: The above allocation of funds to different policy interventions in the various options is purely based on assumptions for purposes of analysis and is in no-way indicative of preference of a specific option. Some differences were on purpose made wide so that differential impacts could be better assessed. Options 4a and 4b are similar in terms of direct payments.*

*Interventions: BP= Basic Payment, RP= Redistributive Payment, YF= Young Farmers, RM= Risk Management, AECH = Agri-Environmental-Climate and Health, VCS= Voluntary Coupled Support, Comp= Competitiveness, EIP= European Innovation Partnership, ANC= Areas with natural constraints.*

The different budget allocations and interventions were translated into more detailed schemes and payment levels for modelling purposes. Some environmental requirements were selected in view of their modelling feasibility for the purpose of testing the options.

<sup>56</sup>

See Tables 1.1 and 1.2 in Annex 5.

In particular, a number of requirements considered under the new conditionality could be assessed (crop rotation, winter soil cover, nutrient management, minimum share of area devoted to non-productive features, restrictions on permanent grassland...).

These were applied at farm level, regional or national level depending on the model used and results could be aggregated at EU level. More explanations on what was precisely modelled in this impact assessment can be found in Annex 5.1. In addition, to cover the items which are not sufficiently captured by the models, and to summarize the impact of the options vis-à-vis the baseline, Multi-criteria Analysis, including an extensive literature review, was used (See Annex 5.2).

#### *4.2.1. Impact on farm income*

The **role of direct payments in stabilising farm income** is generally recognised, but both the Communication on the Future of Food and Farming and the MFF related documents called for a more balanced distribution of support. This possibility was further explored across the various options in three ways: a compulsory capping of direct payments, degressive payments as a way of reducing the support for larger farms, and with enhanced focus on a redistributive payment in order to be able to provide support in a targeted manner e.g. to small-medium sized farms.

A different focus on environmental and climate payments also affects the distribution of support, and thus income. In option 3 basic payments are significantly reduced and support is targeted towards a new voluntary eco-scheme; option 3a is more environmentally ambitious, but entails no further redistribution of support (as direct payments are reduced), while option 3b is less environmentally ambitious, but combined with more redistribution, capping and coupled support. Option 4 tests jointness by coupling direct income support with extra environmental requirements, while also redistributing towards permanent grassland; the latter is associated with lower incomes. Option 5 targets small and medium size farms.

*A note of caution is necessary about the interpretation of results. In this analysis, farm income decline is overestimated, as the model used does not account for structural change, iterative price feedbacks and longer term benefits due to changes in production systems. Nonetheless, the analysis gives an accurate indication of the relative performance of the various options in the short-term, as well as of the expected impact on different farm types and sectors.*

#### ***Cumulating budget cuts, redistribution and higher requirements weighs on the scoring of options***

The quantitative assessment of income impacts (see Table 3) shows that the baseline pre-Brexit outperforms all options (given the higher budget). The baseline post-Brexit (which implies a linear cut) already has a significant impact on income in some sectors (Graph 1). In addition to the **budget reduction, alternative allocations** (e.g. towards risk management), **redistribution of support** (e.g. towards small farms and regionalisation) **and the additional environmental requirements in the options bear on the final impact** of options on average EU income level.

**Table 3. Impact of policy options on EU average farm income**

	Relative to baseline pre-Brexit	Relative to baseline post-Brexit				
	Post Brexit	3a	3b	4a	4b	5
Direct payments	-10%	-75%	-40%	-6%	-6%	-26%
Total support	-10%	-11%	-7%	-4%	-4%	-6%
<b>Income</b>	<b>-2%</b>	<b>-10%</b>	<b>-5%</b>	<b>-8%</b>	<b>-5%</b>	<b>-5%</b>

Note: Direct payments include BP, RP, YF, VCS; Total support includes Direct payments, eco-schemes and ANC.

Source: JRC, IFM-CAP

Compared to the post-Brexit baseline, farm income declines on average by 5% in option 3b, 4b and 5; the decline in options 3a and 4a is higher, 10% and 8% respectively. The latter difference is explained by the very low basic payment in option 3a as budget is devoted to other measures. When adding other criteria, such as targeting smaller farms and farms with lower incomes, option 5 outperforms the other options in terms of income distribution. However, this result is also conditional to the fact that the total level of support (EU and national) is maintained in **areas with natural constraints (ANC)**.<sup>57</sup>

Sectorial impacts differ and are substantial (Graph 1 and 2). The **cut in direct payments** (baseline post-Brexit and option 3) has a strong effect on cattle, crop, sheep and olive producers because direct payments represent a large share of their income. In addition, cattle and sheep sectors, where significant **coupled support** is currently granted, are by definition more affected when coupled support is removed (option 3a).

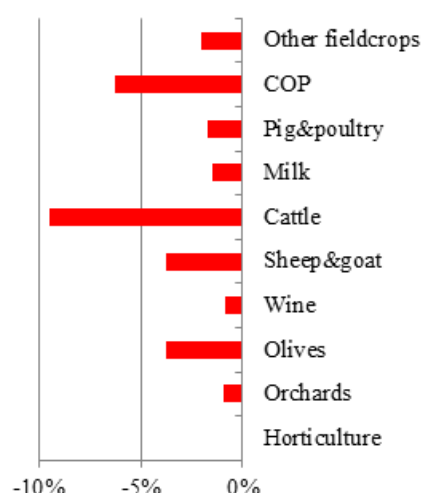
Furthermore, the stronger the link to high historic references the higher the income drop due to the **regionalisation** of the basic payment (flat rate) and to **capping** (options 3a and 4). This is typically the case for olive growers, intensive livestock and cereal producers. The **redistribution of support to smaller farms** (options 3b and 5) leads to higher income drops for larger farms (mostly cereal producers and extensive livestock farms), while olive growers (on average 65% smaller than the average EU farm) benefit from this redistribution.

By contrast, the **redistribution of support to permanent grassland** benefits to extensive systems (option 4 and 5). Finally, the **higher requirements to increase environmental performance** have a bigger impact on crop producers; a 3 year rotation affects particularly sugar beet and potato producers.

<sup>57</sup>

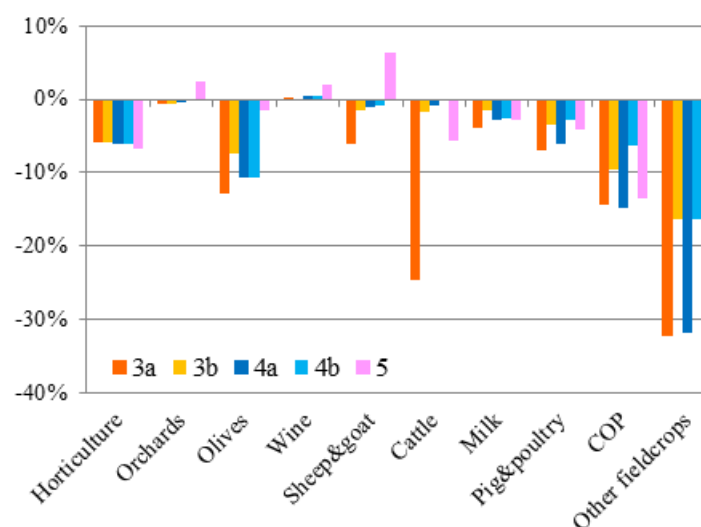
In this simulation, total ANC support (EU and national) was maintained in all options, including in option 5 where ANC support is granted in pillar I via a top-up at fixed level. This level is below the current level of EU and national support in several MS. It was assumed that the gap was bridged with national funds. However, this co-financing of pillar I interventions is unlikely.

**Graph 1. Impact of a 10% linear cut in support on EU income by type of farming**



Source: JRC, IFM-CAP

**Graph 2. Impact of a shift in priorities applying on top of a support cut on EU income by type of farming**



Source: JRC, IFM-CAP, changes relative to option 1

### **Impact on income depends on choice of target**

The *quantitative analysis* shows that targeting **small and medium size farms** can be best achieved with **decoupled payments modulated by size** (combining both degressivity of payments by size and capping). However, this redistribution results in undesired effects: a strong reduction in support for very large farms (more than 500 ha, employing 20 persons on average), an increase in basic payments for more intensive farms (smaller on average, selecting products with higher returns), as well as a decline of support to most extensive farmers.

Therefore, in option 5, whose support redistribution is based on such a mechanism, the latter effect can partly be compensated with coupled support to extensive livestock systems and top-ups to permanent grassland. Granting a redistributive payment (top-up on first hectares of the farm, as applied in option 3b) is another possibility to redirect support to small-and medium-sized farms, while limiting undesired effects of a payment modulated by size.

**Coupled support**, if not well tailored, can lead to unfair competition and affect the EU level playing field. In addition, contrary to decoupled payments and pillar II support, it hampers productivity gains. However, it can address specific issues that the decoupled payment would otherwise leave unresolved. Coupled support could be limited and granted to sectors identified by MS as undergoing certain difficulties, in line with the EU legislative framework.

**Targeting EU support to environmental benefits** via top-ups to permanent grassland, organic farming and biodiversity-enhancing elements could be envisaged by MS in their CAP strategic plans (option 5). However, the analysis shows the difficulties linked to obliging MS to have the same share of pillar I envelope to be dedicated to these top-ups and ANC due to significant differences in these features across MS.

**Capping** direct payments per farm can address concerns about the high level of support received by few large beneficiaries. However, a correction for salaries paid could be considered since often these large farms provide a large number of jobs, all the more since they are mainly located in central Europe where income levels are lower. In the absence of further convergence of direct payment level (option 3b), capping per hectare (proportional to the national or regional average payment) could limit differences in support between farmers. However, this will have more negative effects on Southern MS and on certain sectors (e.g. olive oil, cattle).

In addition, the introduction of a capping with the objective to create savings could go against cohesion and convergence, concentrating the burden on a few MS (notably BG and RO, which one would expect on the contrary to benefit from convergence). By contrast, it could be envisaged to redistribute the capped amount to smaller beneficiaries. Finally, lower available budget and shifts in priorities as well as possible reductions in direct payment imply potentially lower capped amounts.

Overall, *quantitative analysis* demonstrates that the most effective way to achieve a **reduction in support concentration** is to modulate decoupled payments by size (e.g. by classes of hectares as included in option 5) and, second, to introduce a redistributive payment.

In mountain areas, farmers' income is nearly 40% below the income of farms located outside **areas with natural constraints** (ANC), and in other ANCs the income is more than 30% lower. Any cut in this support might threaten the viability of farms in ANC, which have a key role for the vitality of rural areas and for the provision of environmental services. This result is also supported by findings of the recent World Bank study, which shows that the CAP contributes significantly to poverty reduction in rural areas. This is why maintaining support to ANCs is key, even when other interventions are cut. Thus, for MS with large ANC area, it is better to keep ANC payments in pillar II, where co-financing allows granting higher support, while keeping EU funds to address other challenges. In addition, income disparity between ANCs and outside ANCs can be reduced with a redistribution of support to permanent grassland (options 4 and 5) and increasing support to ANCs.

#### 4.2.2. *Impact on higher environmental and climate ambition*

The higher ambition of the new CAP in terms of environmental sustainability is reflected in an **increase of minimum green requirements** of the new conditionality applying in all options. These green requirements, applying in the whole EU, go beyond the current cross-compliance rules and account for current greening provisions while overcoming some drawbacks in its implementation identified in previous analyses. In addition, the removal of exemptions automatically broadens the area covered by conditionality.

**Beyond these minimum requirements**, MS would have the possibility to define **stricter conditionality** requirements and opt for **voluntary schemes**, via an **eco-scheme** or via **agri-environment, climate action and health interventions** (AECH).<sup>58</sup> Moreover, the

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<sup>58</sup> AECH include the agri-environment-climate measures as well as the support to organic, Natura 2000, water framework directive payments, animal welfare, forestry and non-productive investments.

assumed budget allocation to AECH, EIP and FAS is another determining factor partly explaining the difference in the environmental performance of the various options.

### ***Voluntary schemes come with more uncertainty***

From the Multi-Criteria Analysis (MCA), which combines a *qualitative assessment* with elements from the *quantitative assessment*, it emerges that the more **ambitious environmental schemes** (options 3a and 4a) **perform best in terms of addressing environmental and climate ambition**.

The MCA also finds that **the overall environmental outcome** depends on the **uncertainty** surrounding the coverage and implementation of measures by MS. An approach based on ambitious **conditionality** (option 4a) seems to be more effective than a voluntary approach as it is easier to control and it avoids annual budget swings. Most importantly, it **ensures the engagement of all farmers**: conditionality works as a **safeguard** to enforce the law and any additional requirements set at EU or MS level.<sup>59</sup>

Furthermore, enhanced conditionality could perform better where there is no existing regulation in place (e.g. for soil) or if the issue is of general concern (e.g. climate change). As enhanced conditionality needs to apply to all farmers concerned, it will be necessarily less demanding/targeted compared to the eco-scheme. Option 5 also scores high on environmental outcomes as it combines both conditionality and environmentally targeted top-ups. But the effect of these top-ups is not uniform across MS, as highlighted in the previous section, because of the significant differences in features across MS, such as permanent grassland and organic area.

A voluntary eco-scheme is more effective in the case of hot spot problems as it can better target the desired **environmental outcome**. Typically under a voluntary eco-scheme, those already performing well will sign up, while those lagging behind will hesitate to engage if the provided incentive is not high enough, all the more as the economic incentive remains key for farmers to change practices (see Annex 8 on behavioural insights).

Thus, in order to stimulate ambitious environmental and climate choices, additional safeguards (e.g. target setting or budget earmarking) would be needed. The approval of CAP plans by the Commission will serve as a first safeguard to ensure sufficient ambition is translated into adequate targets and financial means, while performance reporting, and incentives for performance, will bring MS to follow up on their ambition.

### ***All analysed options show potential for climate and environmental gains***

Previous analysis shows that there is a need to give an **incentive to farmers** in order to reduce GHG emissions. The EcAMPA project showed that, in the absence of a compulsory emission reduction target for agriculture, a subsidy covering 80% of the costs of mitigation technologies, could deliver significant non-CO<sub>2</sub> emission reductions, with little negative impact on EU production.

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<sup>59</sup> Farmers face a possible reduction of their CAP support if they do not comply with these requirements.

However, a widespread adoption of these practices by farmers would come with considerable budgetary and unitary costs and imply substantial incentives. The fact that such incentives are not explicitly included in the present analysis (also because of its budget-neutral assumption) explains why only small **reductions in non CO<sub>2</sub> emissions** compared to baseline are reached in this assessment.

In the present *quantitative assessment*, the main driver for the reduction in N<sub>2</sub>O emissions is the introduction of a **farm sustainability tool for nutrients with reduction targets of N-surplus**. Close to 60% of the total reduction in GHG emissions is achieved via mitigation technologies in option 4a, while it is around 25%-45% in the other options. The major part of the reduction is due to precision farming and the use of nitrification inhibitors out of four farming practices modelled.

However, **the positive effect of a reduction in GHG emissions is partly offset by leakage of emissions to other parts of the world**. This effect is the strongest in option 3a due to the strong decline of EU beef production replaced by imports from less efficient regions in terms of GHG emissions/kg of product. The *qualitative assessment* considered that the main factors to reduce non-CO<sub>2</sub> emissions are policy measures that impact on cattle numbers and fertiliser use (included in options 3a, 4a and 5); not all such measures could be modelled in this exercise.

The analysis assumes that the minimum conditionality requirement to **maintain** the share of **permanent grassland** in UAA and the redistribution of support towards permanent grassland (option 4 and 5) both favour the **preservation and sequestration of carbon**, and therefore reduce CO<sub>2</sub> emissions. This might also lead to the maintenance of animal numbers, but the net impact on emissions is always difficult to assess. The protection of wetlands and peatlands under basic conditionality in all options is clearly seen as an improvement compared to current policy as it preserves or restores the large existing carbon pool.

The assessment explored how the introduction of **farm sustainability tool for nutrients** combined with nutrient reduction targets could contribute to **improve water quality**, concentrating the analysis on nitrogen and introducing reduction targets, differentiated by regions according to their N surplus and to the possibility they have to trade manure.

The imposed reduction targets were met with an average reduction for the EU of close to 4% of N-surplus in the most constraining scenario. Farmers take advantage of more N-efficient technologies and are reducing significantly the use of mineral fertiliser, by 1.5% (option 3b) to 5% (options 3a and 4a).

The analysis shows that **cover crops can potentially reduce soil erosion** on arable land by 15% and on permanent crops by 30% with a cover rate at 75% in the EU. They can also produce additional biomass for energy (e.g. biogas) and non-energy uses, without land use competition (although these impacts were not assessed in the model simulations). However, soil cover is not systematically used by farmers and not sufficient to decrease soil erosion. Therefore, the **winter soil cover** requirement would need to be **combined with** other measures e.g. **crop rotation**, in order to reduce erosion to acceptable levels in all MS. Crop rotation obligation leads notably to a decline in grain maize and durum wheat area, which are more often cultivated in monoculture.

The simulated obligation to dedicate 3% of the UAA to non-productive elements such as set aside, fallow land, linear elements and afforested area is binding in several MS (and thus for many farmers) and should contribute positively to improving **biodiversity**.

This IA shows the efficiency of some specific requirements in addressing challenges. Within the EU legislative framework, based on the analysis to draw their strategic plans, MS should select the most relevant interventions and requirements to address local and national needs.

#### *4.2.3. Strong CAP needed to address societal expectations on food and health*

As stated during the public consultation and in the Communication on the Future of food and farming, the CAP is expected to respond better to **consumer demands on food and health**. Related societal expectations stretch over various food-related aspects such as food security, safety and quality, affordability of food, health issues such as pesticide load and antimicrobial resistance, food waste and agricultural losses as well as responding and anticipating to changing demands. These issues are covered across several of the objectives against which the different options are tested<sup>60</sup>.

Regarding **food security**, the Scenar 2030 study <sup>61</sup> clearly shows the negative impact of removing the CAP on EU production and trade balance. In addition to the overall level of production (-6%), the impact on its localisation needs to be considered (concentration in most productive areas, abandonment elsewhere). For the other options tested in this Impact Assessment, the quantitative analysis<sup>62</sup> shows a predominantly negative effect on the EU's net trade balance due to the increased environmental climate requirements, the redistribution of support and the budget cut.

The impact on **food safety** is not assessed as it is part of the basic requirements and should be ensured in all options. On top, advances in reduction of pesticide load and antimicrobial resistance are analysed for the different options in the qualitative part under the environmental objective.

The many **societal expectations on food and health** touch upon several economic, social and environmental objectives. None of the tested options achieves best scores on all items, hence the interest of complementary approaches. As an example, to quickly transmit consumer demands to farmers, the policy should not blur market signals (e.g. through excessive use of coupled support), provide for a well-functioning advisory system, create synergies along the value chain (e.g. by organising farmers in producer organisations) while also leaving room for short supply chains. Food waste and agricultural losses can be reduced by stimulating efficiency gains (through advice, extension and investment support) and further embedding agriculture in the bio-economy (innovation, investment on farms and in rural areas).

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<sup>60</sup> Annex 5 p73 and onwards.

<sup>61</sup> Reference see footnote 47.

<sup>62</sup> Annex 5 p25, Table 2.10. Also in the qualitative part (Annex 5 p. 48-49) the impact of the policy options on trade is assessed, with broadly similar conclusions.



#### 4.2.4. *Assessing how options address specific objectives*

From the *quantitative analysis* it becomes clear that budget cuts together with changes in income support and higher environmental ambition have strong negative effects on farmers' income, with a **decline of overall farm income** in the options compared to the baseline. CAP support is crucial in reducing the income gap between agricultural income and other economic sectors and between Member States and regions.

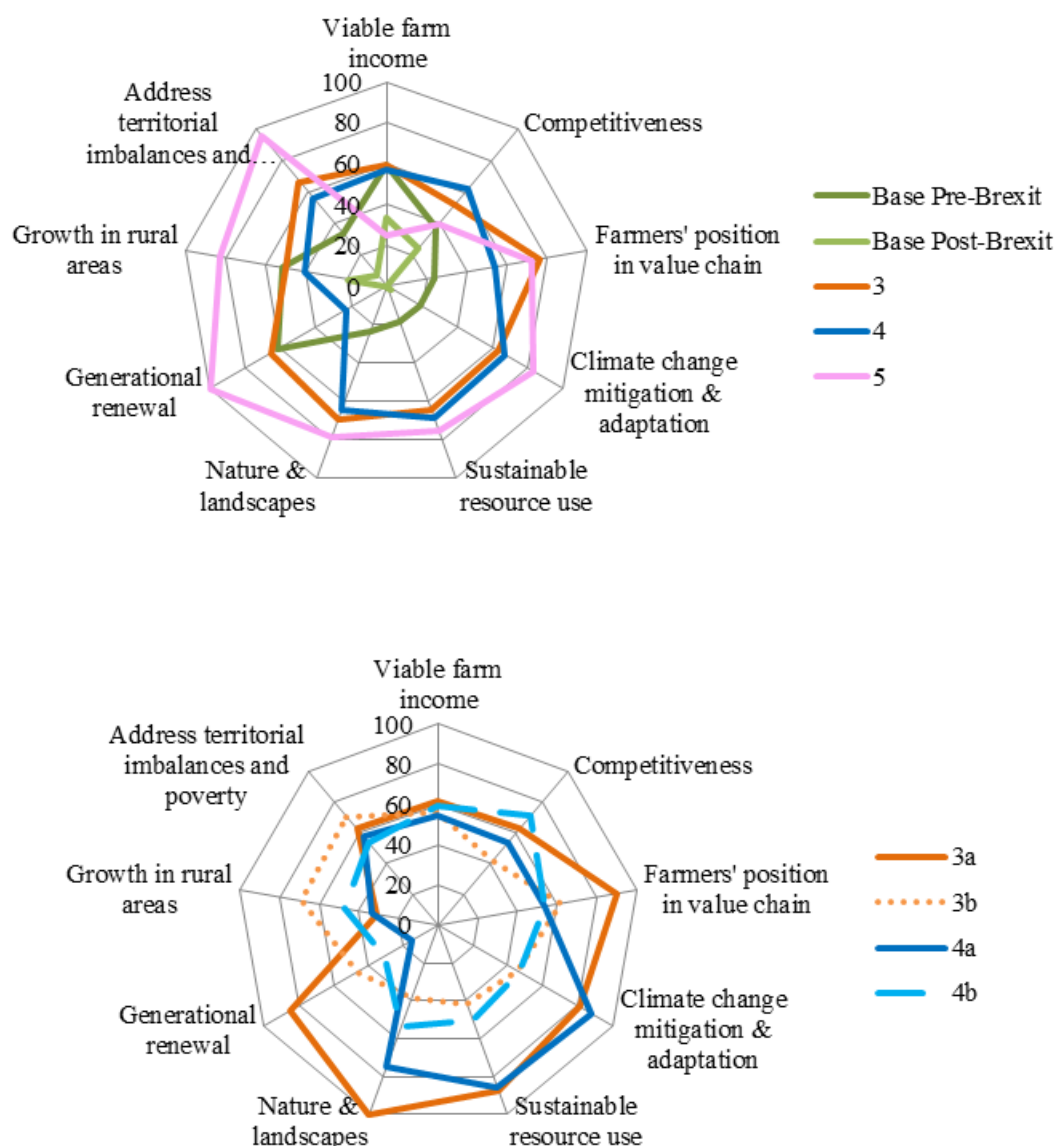
The analysis further shows that budget cuts have strong negative effects on farms viability for cattle, sheep and cereal producers, sectors for which direct payments represent a large share of income. A re-allocation of support to production systems contributing to environmental sustainability, notably through coupled support to extensive livestock production systems and redistribution of support to permanent grassland, can attenuate their drop in income.

The *qualitative assessment* on its turn shows that none of the options come close to the theoretical maximum (100), so combining the strong points of the different option designs will further increase the performance (Graph 3). In general, the policy compensates for the provision of public goods, which are not sufficiently rewarded by the market, resulting in better scores on the environmental and social objectives.

From the analysis, several **trade-offs** emerge. Enhancing the environmental and climatic performance of the CAP will contribute to preserve natural resources (e.g. the soil) to **produce in a more sustainable way**; over the medium and long term, this is expected to have **positive effects on productivity**. However in the short term, it could come at an economic cost for farmers and the agri-food sector.

In particular, the extended requirements considered under the new conditionality (e.g. obligation to dedicate more land to non-productive elements, land re-allocation to fulfil crop rotation and cover crop costs) lead to a significant decline in cereal area in favour of set aside and fallow land, and thus to a decline in market revenue of arable crop producers as well as to a deterioration of the EU trade balance. Approaches supporting the **shift towards different production systems and new technologies are necessary to smoothen the impact on farm income and food security**.

**Graph 3. Effectiveness of the options towards the policy objectives  
(details for sub-options a and b below)**



Also from options comparison, **potential trade-offs** between policy objectives emerge. This is for example clear for sub-options 4a and 4b, with 4a scoring better on **environmental** objectives, while 4b scores better on **economic** objectives, as it is less environmentally demanding. From a pure economic point of view option 3a performs best because the stronger reduction in the basic payment is supposed to trigger faster structural change, making the agricultural sector, after an abrupt transition, more efficient and resilient (for example by using more risk management tools). This comes at the detriment of the **social** (and potentially environmental) dimension, as fewer farms will survive. By contrast, option 5 contributes greatly towards social objectives but attains a lower score on the **economic** objectives. As explained in Annex 5, according to the Multi-Criteria Analysis, its strong focus on small farms is hampering structural change driven by economies of scale.

Regarding **consumers' demands on food and health**, the (sub-) options scoring better on price and economic efficiency underperform somewhat with respect to contributing to **healthier lifestyles and sustainable use of pesticides and antibiotics**. So also here there is a trade-off between **higher priced food** with higher environmental and health quality attributes versus lower priced food.

A transfer of funding from direct payments to **risk management tools** could potentially help farmers facing income variability. Risk management tools should be seen in combination with the direct payments and market measures that also provide a buffer against volatility. As shown in Annex 5, compensating income drop via an income stabilisation tool for all EU farmers is very costly.<sup>63</sup> It would need to be targeted to those that are more frequently exposed to high income variability and have fewer alternative tools available (futures, insurances, etc.).

This targeting could drive support away from sectors where the main problem is the level of income rather than its variability, for which direct income support remains a better solution. Furthermore, there is no guarantee of uptake given the complexity of such tools and the need for farmers to get organised (e.g. to create mutual funds).<sup>64</sup>

Rendering the access to a possible agricultural **crisis reserve** conditional to the use of risk management tools at farm or sectorial level might result in penalising certain farm types, especially the most vulnerable and unprotected, not always in the best position to adopt risk management tools. In addition, it would generate deadweight losses as those who already receive compensation from their risk management schemes would also benefit from the crisis reserve. Finally, the heterogeneity of risks and tools related to price, income or climate makes compliance to conditionality difficult to assess at farm level.

#### *4.2.5. Research and innovation can turn tensions into synergies*

Agriculture research may deliver new insights which often remain confined to the scientific world only; also, the agricultural sector itself has a considerable and under-used innovation capacity. Overall, with take up of new knowledge and technology still rather slow, bridging the gap between research and farming practice is key.

The tensions identified in the previous sections between enhanced environmental ambition and viable farm income can be partly bridged and turned into synergies in a **well performing Agricultural Knowledge and Innovation System (AKIS)**. Current technological advances offer an unprecedented opportunity to move toward modern farming - more sustainable, resilient, and productive, to a significant extent also based on EU advanced technologies (e.g. Copernicus). Nature-based solutions can also be further considered, and knowledge from their applications better spread. However besides advice, farmers need support to adopt innovation, as the positive effect on income comes after several years and some environmental requirements will lead to lower returns, at least in the short/ medium term.

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<sup>63</sup> The average annual cost of an IST for all EU farmers was estimated close to the current pillar II budget.

<sup>64</sup> See footnotes 17 and 19.

The basis for enabling an innovation environment is a well-functioning AKIS, where the actors and potential partners in innovation projects can meet and discuss the main challenges, and be fed with innovative knowledge. The efficiency and effectiveness of advisory services can best be upgraded by improving their connections within the AKIS and sharing knowledge and innovative applications more intensively.

Enhancing interactive innovation is essential to develop solutions which are more ready to be applied in practice and cover real needs. Supporting digital transition in agriculture is needed to make sure the potential of digital technologies is fully realized.

All options score significantly better in this area, especially compared to the baseline post-Brexit. The CAP plans should include a strategic approach towards modernisation, which will be followed up in the performance reporting. Experts consider that most significant impact on this objective is to be expected from the EIP, hence its budget allocation is significantly increased in the alternative options. Other instruments, such as the young farmer payment, or additional budget for competitiveness or infrastructure and services, are also important to facilitate innovation uptake.

A digital farm dossier, as well as organising the data gathering and sharing through the whole supply chain can lead to the simplification of the CAP administration, monitoring and management systems; together with the building of efficient learning networks useful for cross-policies implementations. (Additional insights are available in Annex 6)

#### *4.2.6. Synergies from greater flexibility and focus on performance*

Annex 7 assesses the **simplification** under the new delivery model, driven by the shift towards performance and a streamlined CAP implementation approach. Simplification of programming and notification procedures, better adaptation to local needs and better coordination of the actions of the two pillars can reduce administrative burden and can also improve the acceptance of the CAP.

Higher **policy coherence** could also result in simplification for administrations and farmers alike.<sup>65</sup>

Less prescriptive EU compliance elements and less detail for measures and eligibility rules would allow economies of scale for checks and reduce burden for planning and applications as less time would be required for familiarising with information obligations. Performance-orientation allows putting less emphasis on ex-ante checks, reducing further administrative burden for applications (less evidence to collect/submit) and for administrative checks (less evidence to check). Cutting down on EU requirements also provides for simplification of audits performed by the Commission.

Option 4 holds potential for improved performance with **reduced administrative burden** because of the lower uncertainty of conditionality compared to eco-schemes, which are dependent on their uptake by farmers. High potential reduction in administrative burden stems from the lower variety and complexity in the schemes taken

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<sup>65</sup> European Commission (2018) [Annex](#) to the Communication on the Multiannual Financial Framework for 2021-2027 COMM (2018) 321 final, P. 54

up by MS, which simplifies administrative processes at all levels. While orientation towards performance is assessed as comparable for options 3 and 5, uncertainties in simplification derive from the divergences in ambition and related interventions, and how these translate into the administrative processes. With regard to proportionality of administrative burden options 3a and 5 score best, due to their higher effectiveness. However, under greater subsidiarity, the development of national CAP Plans and the way administrations implement them at beneficiary level will strongly determine the resulting **simplification and performance**.

**Safeguards** and mitigating measures built into the policy cycle should guarantee that both are met. The **EU legislation** will include a number of safeguards for anticipation of risks such as imbalanced strategies, inadequate targeting or lack of ambition. Safeguards include requirements for content of CAP plans, more ambitious EU basic requirements (e.g. conditionality), a rule on no back-sliding/increased ambition, and budget earmarking.

The need to increase the environmental performance requires securing some **minimum requirements** (current cross-compliance plus greening) via conditionality. This was tested across all options, as their basic conditionality contained higher environmental requirements compared to the baseline. The comparison of the options indicates that setting minimum requirements works well. In option 4a, minimum requirements for environmental and climate action were set at a higher level, resulting in a better environmental performance compared to the baseline. At the same time, the level of prescriptiveness in EU legislation will be lower and MS will define the details of implementation of conditionality leading to simplification.

While ambition under measures like conditionality can bring some certainty on performance, enhanced incentives (some degree of **budget earmarking**, performance bonus) to performance could also be needed. As the comparison between option 3a and 3b shows, when more budget is allocated to the eco-scheme, the environmental and climate performance also improves.

**Approval of CAP plans** is thus an essential safeguard to assess the completeness, consistency, coherence and effective contribution to the CAP objectives of the national strategy. CAP plans should include elements related to simplification and reduced administrative burden for final beneficiaries. Synergies between economic, social and environmental objectives can be achieved from better targeting on local needs. Planning based on needs analysis allows for adequate targeting of measures to regional needs.

The **setting of targets** in the CAP plans is an important safeguard to monitor whether MS action is genuine and delivering on the ground. Appropriate attention should be paid to translating these targets at regional and beneficiary level. It is hence at planning stage that possible issues can be first detected, such as imbalances, incoherencies, lack of ambition and gold plating. The continuous and strengthened technical assistance from the Commission throughout the planning process can help for a better understanding of EU requirements in terms of planning and so avoiding delays at time of approval. The scope of the current network for rural development will be extended to the first pillar, to cover the whole CAP Plan.

The **annual performance review process** constitutes a further basis for detecting upcoming risks, such as issues with data quality or first signs of underperformance. In case of underperformance or deficiencies, the European Commission will be able to take **corrective actions** including the request to Member States for an action plan for remedial actions, suspension of payments and financial correction. Last but not least, timely evaluation will identify remaining issues, by assessing the effectiveness of the CAP and the realised administrative burden reduction, and allow taking on board lessons for the next MFF.

#### *4.2.7. Summary of results in the context of the next MFF*

The results of the present analysis point out that difficult trade-offs are inherent when the basic parameters of a policy addressing diverse objectives are significantly changed.

With respect to farm income, both the level and the distribution of support matter. Securing an adequate level of support and thus farm income remains a key element for the future, in order to ensure food security, environmental and climate ambition, as well as rural vitality. In a context of growing market uncertainties, there are limits in pushing the uptake of risk management tools, as they come at a significant cost and are not equally available and efficient in all sectors and regions. Moreover, **targeting support** to small and medium sized farms and areas with natural constraints can help keeping more jobs on farms and farming activity on the whole territory, hence strengthening the socio-economic fabric. In addition, capping and degressivity can improve the distribution of direct payments. It is clear that any option that significantly redistributes direct payments towards farms and regions of lower productivity will, in the short-term, lead to a reduction of EU competitiveness, while it enhances the protection of environment.

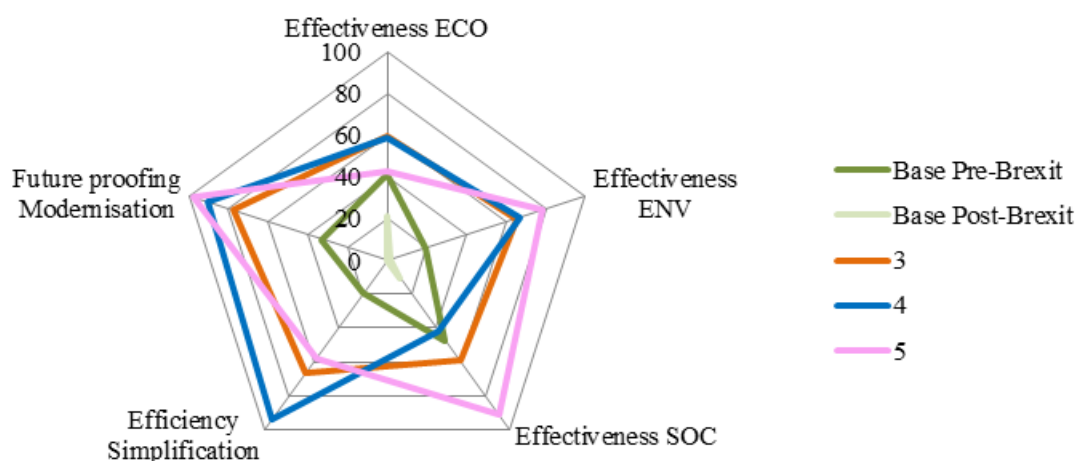
Less clear, however, is the appropriate combination of measures that could mitigate negative income and competitiveness effects, while at the same time better addressing challenges that are also pertinent for agriculture - such as environment and climate, and **societal expectations**. This requires incentivising adjustments that improve both the economic as well as the environmental performance of the sector and its **modernisation**.

Contributions from the stakeholder consultation and analyses demonstrate that this is possible, provided that the necessary accompanying measures addressing a **higher environmental and climate action ambition** enable the adoption of best practices (in both conventional and other forms of farming) that include **knowledge, innovation** and the latest pertinent technology. In addition, as shown in various analyses, the economic incentive for farmers remains a key element to promote the uptake of these practices.

On the basis of the assumptions and choices made in the present analysis, Graph 4 below summarises the potential trade-offs in the achievement of economic, environmental and social objectives of the CAP, as well as with respect to its desired modernisation and simplification. In summary, redistribution could lead to manageable income impacts, and support the desired increased ambition of environmental and climate action and other **CAP synergies**. This, however, would require that the sector and the policy grasp the opportunities offered by innovation and technologies already allowing modernisation and simplification.

Other assumptions and choices would certainly alter this graph, but not its underlying message – that *the preferred option for the future CAP should combine the most performing elements of the various options, but avoid their weaknesses by introducing the necessary safeguards to ensure an EU level-playing field*. This implies the need for clear criteria for the level and the distribution of income support, the climate and environmental conditionality and overall ambition, the incentives for modernisation and the appropriate degree of subsidiarity/simplification.

**Graph 4. Overall assessment of options performance towards policy objectives**



On the basis of the assessment of all these options and combinations thereof, further specifications can be added on elements included in the **proposals for the next MFF** for the CAP (both under the May MFF Communication and the CAP legislative proposals):

- **Cut in CAP budget:** the cut of 5% proposed by the Commission is within the range assessed in this impact assessment, and appears moderate in the difficult context for the next MFF. While accounting for revealed MS preferences as regards transfers between pillars, options tested various combinations of allocations between broad interventions. This shows that the combined effect of the cut in budget, the redistribution of support and the emphasis put on environment and climate is significant. Distribution of support across broad interventions matters for achieving common objectives assigned to the CAP, hence the relevance of considering some degrees of earmarking/ring-fencing.
- **External convergence:** It is proposed that all MS with direct payments below 90% of the EU average will close 50% of the existing gap to 90%, in continuation of the process started in the period of 2014-2020. All MS above average will contribute to financing this external convergence of direct payments levels. It means that the envelopes distribution between MS proposed is somewhat different from the one used in this impact assessment. Further analysis confirmed that external convergence contributes to cohesion by reducing differences between MS.

- **Capping or degressivity of direct payments** will promote a more balanced distribution of support. As shown in the analysis, the impact of capping or degressivity should not be used to create savings and should remain budgetary neutral for MS. Therefore, it is proposed that the product of capping could be used to finance a redistribution of support to smaller farms within the same MS or potentially be transferred to pillar II. Within this impact assessment, capping was tested in all options, with a ceiling ranging between EUR 60 000 and 100 000. Moreover, the analysis pointed to the importance of taking into account labour cost when applying capping, to avoid negative effects on jobs. To further acknowledge family labour, related costs could also be taken into consideration, especially with a low ceiling.
- **Rural Development:** In line with other ESIF, it is proposed to increase the national co-financing rate for rural development by 10%. However, less developed regions should continue to benefit from higher EU co-financing rates. This should also apply to interventions of EU priority such as LEADER and the payments for Agri-Environment, Climate and Health.
- **Higher level of environmental and climate ambition, thanks to safeguards:**
  - The strengthening of conditionality: the analysis showed that this works as a safeguard for ensuring observance of the requirements covered by the extended conditionality.
  - The introduction of voluntary eco-schemes in pillar I.
  - The ring-fencing of a significant part of pillar II funding for environment and climate action.
  - Climate mainstreaming: in line with the Paris Agreement and the commitment to the United Nations Sustainable Development Goals, the Commission proposes to set a more ambitious goal for climate mainstreaming across all EU programmes, and thus the CAP, with a target of 25% of EU expenditure contributing to climate objectives. This should be seen together with ring-fencing, as many interventions deliver win-win effects for both climate and environment.
- **Market measures:** against the background of budget cut and needs for external convergence, a limited reduction of pre-allocated amounts is proposed. On the other hand, the operation of the crisis management reserve is smoothened. Moreover, it is proposed to transfer part of the interventions currently undertaken under the Common Market Organisation (CMO) with sectorial programmes under the CAP Strategic Plans. This will enhance the coherence of sectorial interventions with the objectives of the CAP. Based on the effectiveness of existing programmes, it is proposed to extend this possibility to other sectors within a given budget allocation.
- **Crisis reserve:** A new agricultural reserve will be established in the EAGF, to provide additional support for the agricultural sector for the purpose of market management or stabilisation or in case of crises affecting the agricultural production or distribution.



- **Risk management:** Access to the crisis reserve will be conditional on the set-up of a risk management strategy at national level (not at farm-level). Risk management tools are to be included into the CAP strategic plans, and a platform will facilitate exchange of experience.

## 5. HOW WILL PERFORMANCE BE MONITORED AND EVALUATED?

A shift towards a more performance-oriented policy requires the establishment of a solid performance framework that, based on a set of common indicators, will allow the Commission to assess and monitor the performance of the policy.

The current **Common Monitoring and Evaluation Framework (CMEF)** and the current monitoring system of Direct Payments and Rural Development would be used as a basis for monitoring and assessing policy performance, but they will have to be streamlined and further developed (including consistency between the two pillars). Further investment into developing appropriate indicators and ensuring sufficient data streams would be needed.

A new **Performance Monitoring and Evaluation Framework (PMEF)** will cover all instruments of the future CAP: the CAP strategic plans as well as those elements of the CAP not covered by the CAP plans (some parts of the Common Markets Organisation, specific schemes). Performance would be measured in relation to the Specific Objectives of the policy by using a set of common indicators.

### 5.1. Experience from the current Common Monitoring and Evaluation Framework

#### 5.1.1. *Two different Monitoring and Evaluation approaches*

The 2013 reform of the CAP established, for the first time, a monitoring and evaluation framework that would cover the whole CAP (both pillars). This framework has undergone some changes in terms of promoting simplification and coherence while still maintaining an in-depth coverage of policy interventions. The monitoring and evaluation framework for the CAP 2014–2020 is set out by EU regulations at different levels:

- The horizontal regulation (Regulation (EU) No 1306/2013, Article 110) establishes a common monitoring and evaluation framework with a view to measuring the performance of the CAP. It covers all instruments related to the monitoring and evaluation of CAP measures and in particular direct payments, market measures and rural development measures.
- More specifically, for pillar II (rural development), the monitoring and evaluation system is set out by: the common provisions regulation (Regulation (EU) No 1303/2013), which defines the common monitoring and evaluation elements for the European Structural and Investment Funds (ESIF); and the rural development regulation (Regulation (EU) No 1305/2013), which addresses the specificities for the rural development programmes.

In the current framework, the performance of the CAP measures is assessed in relation to the three general objectives of the current CAP (i.e. viable food production, sustainable management of natural resources and climate action, and balanced territorial development) and, in the case of pillar II, in relation to the thematic objectives and rural development priorities for the Europe 2020 strategy for smart, sustainable and inclusive growth.

Despite the important advance in developing a single framework for monitoring and evaluation of the CAP based on the current three general objectives of the CAP, the existence of different delivery models among the two pillars of the CAP imply, in practical terms, the coexistence of two different systems to assess performance: a programming approach in pillar II implies a set of rules and mechanisms for monitoring and evaluation that coexist with the general mechanisms for the whole policy.

#### 5.1.2. *Evaluations*

These two approaches also imply different allocation of responsibilities concerning **evaluations**:

- Evaluations of pillar I measures and of CAP horizontal issues (covering both pillar I and pillar II) are carried out by independent external contractors under the responsibility of the Commission services on the basis of a multiannual evaluation plan. The independent external contractor carries out the evaluation according to the terms of references under supervision of a steering group in a given, contractually fixed time period.
- For pillar II, the CMES established that MS report on implementation and are responsible for evaluating their rural development programmes (ex-ante evaluation, evaluation replies in 2017 and 2019, ex post evaluation). MS must also submit the ex-post evaluation reports to the Commission by the end of 2024. The Commission is responsible for the syntheses at EU level of the *ex ante* and ex post evaluations (the latter are planned for 31 December 2025).

The process of alignment of the objectives of the policy and the growing overlaps among the instruments of the two pillars require a more consistent and coherent evaluation system covering all the instruments of the CAP.

#### 5.1.3. *Indicators, data and reporting obligations. Key lessons learnt*

In 2018, the Commission will present an initial report on the implementation of the current Common Monitoring and Evaluation Framework, including first results on the performance of the CAP<sup>66</sup>. With a view to this report, some findings have already been identified:

- **Number of indicators.** Apart from 45 context indicators describing general operational environment of the policy current CMEF contains 166 indicators

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<sup>66</sup> Art. 110 of European Parliament and Council Regulation (EU) No 1306/2013 of 17 December 2013 [on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations](#) and the Commission Implementing Regulation (EU) No 834/2014 of 22 July 2014 laying down rules for the [application of the common monitoring and evaluation framework of the common agricultural policy](#).

which are used to determine whether the CAP is achieving its objectives. It includes 16 impact indicators, 41 result indicators (16 for pillar I and 25 for pillar II), 24 target indicators for pillar II and 85 output indicators (58 for pillar I, and 26 for pillar II). Indicators should give an overview of the achievements of the policy. Experience has shown that currently there are too many indicators (and sub-indicators). Therefore, the new framework will propose a significant reduction of the number of indicators.

- ***Suitability of the indicators to their monitoring purposes.*** The current output and result/target indicators used in the Rural Development policy aim at the follow up of targets set by MS for the programming period. Therefore, the indicators defined and their specific reporting requirements (e.g. with regard to frequency and timing) do not always make them suitable for monitoring purposes on annual basis. Therefore, the new framework should ensure that the indicators used for monitoring purposes are, taking into account programming transition period, available on annual basis.
- ***Overlapping in the reporting obligations.*** The current implementation has allowed Commission services to identify the coexistence of different reporting obligations covering the same or similar information. For example, the data reported to CATS-Combo for audit purposes and data reported in the RD Annual Implementation Report. A future CAP organised under a single CAP Strategic plan and a single set of reporting mechanisms should allow for important simplification in this domain.
- ***Reliability/quality of data.*** There are quality concerns on available data: beyond material errors in the notification, inconsistencies among data from MS have been detected. Therefore, for the future CAP, certification bodies should ensure the quality of the data before the data is sent to the Commission.
- ***Availability of data.*** The current framework includes result and target indicators for which the data should be obtained via surveys by evaluators in MS. Problems have been identified concerning the availability of this data. Therefore, future output and result indicators should primarily be based on data which are directly available via existing systems. Timing of data delivery should be clear. Particular attention is needed with regards to data availability for the agro-environmental, biodiversity and climate related indicators.
- ***Sharing of data:*** the future set of indicators should take into account increasing reluctance from MS to introduce new indicators and their decreasing administrative capacity to follow-up existing ones. This is why the use of new technologies, new data sources and optimisation of existing administrative data oriented procedures should be encouraged.

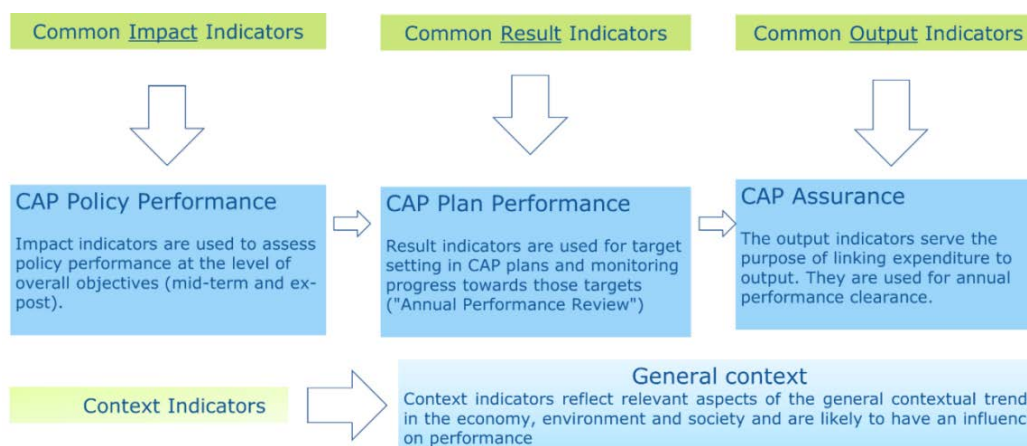
## **5.2. The new Performance Monitoring and Evaluation Framework (PMEF)**

### *5.2.1. Basic principles – indicators*

The new model will be organised around the following principles:

- **Context** indicators remain pertinent, as they reflect relevant aspects of the general trends in the economy, environment and society, and are likely to have an influence on performance.
- A selection of a limited, but more **targeted set of indicators** should be made primarily in a way to choose those that reflect as closely as possible whether the supported intervention contributes to achieving the objectives versus established baseline and using clear definitions.
- Overall policy performance will be assessed multi-annually on the basis of **impact** indicators. Regular policy performance follow-up will rely on the full list of **result** indicators by using different means of analysis to arrive at conclusions on policy efficiency and effectiveness.
- **Output** indicators would annually link expenditure with the performance of policy implementation. The latter is an annual exercise, and relies on a list of (primarily already available) output indicators.
- The **reliability** of relevant performance indicators can be facilitated by synergies between statistical and administrative data, but requires the presence of a system of quality controls.

*Chart 5. Rationale of sets of indicators*



In essence, what is being proposed is a shift in responsibilities and opportunities within a common framework, clearly defined and enforced, to deliver on more than one key objective at the same time, namely simplification, result-orientation (rather than compliance) and policy efficiency and effectiveness.

The new performance-based delivery model requires a solid evidence base composed of indicators which are reliable, comparable and available on time. Both the Commission and MS have to commit themselves to producing and using them.

It is proposed to organise the monitoring and evaluation of the future policy on the basis of a common set of indicators that was developed in line with the impact assessment (see Table on indicators in the legislative proposal on establishing rules on support for CAP strategic plans).

### 5.2.2. *Annual Performance review*

An annual performance review is foreseen as the key element of the ongoing monitoring and steering of policy implementation. In order to make an annual performance review operational, adequate output indicators and result indicators will have to be submitted jointly in an annual report on the implementation of the CAP plan, the so-called *Annual Performance Report*. MS will report annually on financial allocations, along with realised output and expenditure as well as distance to targets set for the whole period, expressed as values of common and programme specific result indicators.

In cases of delayed progress towards the targets set for results for the whole period, or where schemes/interventions are failing to take off, MS will carry out an analysis of shortcomings and will include in the report proposals for remedying actions. The assessment of those reports would trigger interaction with MS in view of helping them to implementing the planned policy in an efficient way. This exercise would also involve the continuous exchange between MS and the Commission including in a regular *Annual Review* and *Monitoring Committee* meetings, on the state of play of the evolution of programme implementation towards the targets. In this context, on the basis of the provided information and available evidence, the Commission could provide pertinent recommendations to MS.

### 5.2.3. *Evaluation planning and reporting obligations*

The following steps are foreseen as regards evaluation planning and reporting obligations:

- MS are responsible for evaluating their **strategic plans** (ex-ante, on-going and ex-post) and report yearly on implementation. MS also establish and carry out a specific evaluation plan for their strategic plan.
- The Commission will provide a **synthesis** of the MS ex-ante and ex-post evaluations.
- On top of the annual reporting by MS on their strategic plans, the Commission will launch **specific evaluations** on specific topics during the programming period. These evaluations will combine the information facilitated by MS with the evidence directly available to the Commission.
- Evaluations are **planned** in accordance with the policy cycle and the study and evaluation plan of DG AGRI (which is publicly available).
- All CAP evaluations should be based on robust **methodologies**, using counterfactual approaches where feasible.
- The Commission will carry out a **mid-term assessment of the performance of the policy** when the available evidence permits a meaningful causality link of the policy to results (e.g. after the first 3 years of implementation).
- The Commission would present two **reports** to the European Parliament and the Council on the implementation of the CAP strategic plans. These reports would be based on information collected from the PMEF, covering all instruments of the future CAP: the CAP strategic plans as well as those elements of the CAP

not covered by the CAP plans. It also includes common context, output, result and impact indicators. This would include findings from both MS CAP strategic plan evaluations and from the Commission evaluations. The Commission could present an initial report, including first results on the performance of the CAP by December 2025 and a second report by December 2031.

#### *5.2.4. Data / Sources of information*

The new focus on policy performance requires comprehensive, complete, timely and reliable information on EU agriculture and rural areas. Existing data sources need to be adapted and strengthened to match better with the new policy and where needed, new data sources should be explored and mobilised in order to reduce the burden for farmers and administrations, while at the same time improving policy evidence base.

The **FADN database** is already widely used for analytical and evaluation purposes but FADN coverage needs to be expanded to provide the best possible representation of market-oriented farms in the EU. This may require a revision of variables in the farm return (also taking into account the recommendations of the **FLINT project**<sup>67</sup>), and the way in which CAP beneficiaries participation in the FADN data collection is organised.

**Agricultural statistics** will continue to play a major role in CAP performance assessment. The ongoing modernisation of agricultural statistics is providing the foundation for future data availability and aims to ensure continuity of core data combined with an element of flexibility for new and urgent data needs.

Further development of data quality especially in relation to impact indicators linked to agro-environmental, biodiversity and climate related issues is needed in order to make them more fit for purpose to evaluate the performance of the CAP.

A key challenge lies in **cross-linking existing data sets** such as administrative databases stemming from application forms (IACS, LPIS) and registers maintained by MS and data collected and coordinated by Eurostat (Farm Structural Survey, land use and livestock surveys, agro-monetary and agro-environmental statistics) and FADN in DG AGRI. Close cooperation between the European Statistical System (ESS), European institutions and MS' administrations is crucial to ensure that data collected for administrative purposes can also be used for statistics and analyses and for overall functioning of the evaluation framework of the future CAP.

In addition, new sources of data such as satellite monitoring (Copernicus), big data solutions, and cooperation with specific data providers should be better utilised.

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<sup>67</sup> LEI- WUR *et al.* (2016) [Farm Level Indicators for New Topics in policy evaluation project \(FLINT\)](#), financed under the FP7, website.