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WORKING PAPER

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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Ad hoc Working Party on the Multiannual Financial Framework (MFF) 2021-2027
Subject:	Multiannual Financial Framework 2021-2027: Common Agricultural Policy (Fiche no. 24)

Delegations will find attached the above-mentioned document from the Commission.



16 July 2018

WORKING DOCUMENT OF THE COMMISSION SERVICES

Subject: Multiannual Financial Framework 2021-2027: Common Agricultural Policy

1. INTRODUCTION

This fiche contains complementary information requested at the Multiannual Financial Framework Ad-Hoc Working Party meeting on 18 June 2018. Replies are grouped by topic: direct payments and convergence between Member States, the European Agricultural Fund for Rural Development allocation, the agricultural reserve, the new Common Agricultural Policy delivery model and climate tracking of the Common Agricultural Policy financing.

Attached to this fiche is a working paper of the Commission services, previously provided in the Working Party on Financial Agricultural Questions (WK 6815/2018 INIT). It provides extensive technical explanations in relation to the Legislative Financial Statement that accompanies the Commission proposals for the Common Agricultural Policy for the period 2021-2027.

2. DIRECT PAYMENTS – ALLOCATION AMONG MEMBER STATES

To recall, for **2014-2020**, Member States' allocations for direct payments are set out in Regulation (EU) No 1307/2013 of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy. The convergence of the direct payments is based on the potentially eligible areas of 2009, which were the most recent available statistics at the time of the Commission's proposal.

In the **current convergence model**, for all Member States with an average aid level below 90% of the EU average, one third of the gap to 90% of the EU average is closed. Moreover, the national ceilings were calculated for all Member States reaching a minimum amount of 196 EUR per hectare. The convergence is achieved in six equal steps starting from the financial year 2015. It is financed by reducing the envelopes of Member States with aid levels above the EU average proportionally to their distance from that average.

During the current Multiannual Financial Framework, Member States have the option to shift a part of their direct payments' allocation to rural development or vice versa. So far, 17 Member States used this flexibility option. The direct payment ceilings in Regulation 1307/2013 and the European Agricultural Guarantee Fund sub-ceilings for market related expenditure and direct payments set out in the annex to the Multiannual Financial Framework

Regulation 1311/2013¹ were amended accordingly to reflect the flexibility decisions notified by Member States.

For the **Multiannual Financial Framework 2021-2027**, the Commission has proposed to continue the process of external convergence of direct payments. More specifically, for all Member States with direct payment aid levels below 90% of the EU-27 average, the gap between their average payment per hectare and 90% of the EU average will be closed by 50% over 6 years. The increase of the direct payment allocations for Member States benefiting from the convergence is achieved in six equal steps starting in financial year 2022.

The basis for the external convergence is the initial Member States' allocations of financial year 2020, i.e. before transfers between direct payments and rural development, and after application of a reduction of -3.9% to all Member States.

An average support level per hectare is calculated for each Member State using the most recent statistics for the potentially eligible area for claim year 2016. These control statistics, notified by Member States, were used as they relate to the areas declared for basic payments (i.e. the basic payment scheme and the single area payment scheme) and the small farmers scheme as the latter replaces the basic payment scheme and the single area payment scheme for the farmers concerned. Hence, the statistics reflect the areas declared for basic decoupled support in all Member States, which is the key tool for providing income support to farmers.

Similar to the model used for the Multiannual Financial Framework 2014-2020, the Commission took as a reference the average aid per hectare of the last year of the current Multiannual Financial Framework (respectively 2013 and 2020). Choosing the average of 2026 is not feasible, as this would imply a redistribution with a moving target (with gradually increasing total direct payments allocation and as average aid levels change each year precisely due to the convergence).

The financing model for the external convergence for the 2021-2027 period differs from the approach used for the current period. In the Commission proposal for post-2020, all Member States contribute to the financing of the convergence. This is intended to avoid disproportionate effects on individual Member States.

Further technical details on the calculation method of Member States' allocations for direct payments are included in point 8 of the attached working paper.

3. RURAL DEVELOPMENT

3.1. ALLOCATION AMONG MEMBER STATES

For **2014-2020**, the Commission had proposed to set out the rural development allocations among Member States based on past performance and policy-related objective criteria. The allocations were eventually laid down in the basic act on rural development support (Regulation (EU) No 1305/2013), reflecting the outcome of the European Council in February 2013.

Technical details on the calculation method of the Member States' allocations for rural development for **2021-2027** are included in point 9 of the attached working paper.

¹ As amended by Council Regulation (EU, Euratom) 2017/1123 of 20 June 2017

3.2 EU CO-FINANCING FOR THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT

For **2014-2020**, the EU co-financing rates for the European Agricultural Fund for Rural Development are set in Article 59 of Regulation 1305/2013. The current rates (as percentage of eligible public expenditure) are dependent on:

- regions concerned:
 - less developed regions, outermost regions and smaller Aegean Islands – 85%;
 - transition regions – 75% or 63%;
 - other regions – 53%.

- measures concerned (derogations from the basic rates):
 - LEADER and business start-up for young farmers – 90% in less developed regions, outermost regions, smaller Aegean islands and transition regions; 80% in other regions;
 - 75% for environment and climate change and mitigation measures;
 - 100% for financial instruments;
 - 100% for funds transferred to the European Agricultural Fund for Rural Development;
 - 100% for certain amounts for Cyprus and Portugal then under financial assistance;
 - 10% premium for Member States under financial assistance (in 2014-2020 Greece).

The current European Agricultural Fund for Rural Development allocation for the 2014-2020 rural development programmes (EU-27), after flexibility transfers notified by 1 August 2017, is EUR 94.9 billion (EU contribution). The average effective rate of co-financing for programmes approved until 7/06/2018 is 66% and the total Member States' contribution is EUR 49.3 billion².

For **2021-2027**, the EU co-financing rates for the European Agricultural Fund for Rural Development are included in Article 85 of the Commission proposal on the Common Agricultural Policy strategic plans (COM(2018)392). The Commission proposal aims at:

- lowering the EU co-financing rates, as the current rates are relatively high;
- limiting the number of differentiated co-financing rates, while maintaining only some preferential rates for particular interventions.

The following maximum EU co-financing rates are proposed:

- 70% for less developed regions, outermost regions and smaller Aegean islands;
- 43% for other regions;
- 65% for payments for natural or other area-specific constraints;
- 80% for environmental, climate and other management commitments (article 65); for area-specific disadvantages resulting from certain mandatory requirements (article 67); non-productive investments (article 68); for support for the European Innovation

² Until 7/06/2018 programmes for EU-27 amounting to EUR 94.1 billion were approved with total public support of EUR 143.4 billion (this does not yet include programme modification reflecting the latest flexibility decisions of FR, LT and NL notified by 1/08/2017 and which affect financial years 2019-2020).

- Partnership (article 71) and for LEADER (article 25 of the Commission proposal for the common provisions regulation COM(2018) 375);
- 100% for funds transferred to the European Agricultural Fund for Rural Development.

3.3 DE-COMMITMENT RULES FOR THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT

Article 32 of the Commission proposal COM(2018)393 defines a N+2 de-commitment rule for the European Agricultural Fund for Rural Development.

The Commission has proposed this de-commitment rule for the entire programming period 2021-2027. The aim is to encourage a speedy implementation of the European Agricultural Fund for Rural Development interventions delivering results on the ground. It also takes into account the particular European Agricultural Fund for Rural Development implementation profile, characterised by a significant proportion of the annual measures in the programming facilitating the speedy implementation.

4. AGRICULTURAL RESERVE

In the Multiannual Financial Framework 2014-2020, a reserve for crises in the agricultural sector (EUR 400 million in 2011 prices) is set up each year, by a reduction in the direct payments (“financial discipline mechanism”). In case of unused European Agricultural Guarantee Fund appropriations at the end of the financial year, the amount of financial discipline applied is reimbursed by the Member States to farmers in the following financial year. The current reserve has proven to be administratively burdensome.

Therefore, in accordance with Article 14 of the Commission’s proposal COM(2018) 393, the Commission has proposed a new agricultural reserve, financed within the European Agricultural Guarantee Fund sub-ceiling in Heading 3. Its aim is to provide support for the agricultural sector for the purpose of safety net measures or exceptional market support measures.

The amount of the reserve will be at least EUR 400 million at the beginning of each financial year. The unused amounts of the agricultural crisis reserve in financial year 2020 will be carried forward to financial year 2021 to set up the reserve.

Subsequently, an annual roll-over of unused amounts of the agricultural reserve will apply in the period 2021-2027. In case the reserve is used, it can be re-filled using existing budgetary availabilities or by fresh appropriations. The reserve will form a component of the European Agricultural Guarantee Fund and will in the case of use of fresh appropriations be counted against the European Agricultural Guarantee Fund sub-ceiling fixed by the Multiannual Financial Framework 2021-2027. In case the latter risks being overshot when drawing up the budget for the next financial year, the financial discipline mechanism will apply to cover all needs above the sub-ceiling, including those for filling the reserve.

Hence, the repeated application of financial discipline for setting up annually the agricultural reserve is not foreseen in the period 2021-2027. The financial discipline mechanism will however remain for the purpose of ensuring the respect of the European Agricultural Guarantee Fund sub-ceiling.

5. NEW DELIVERY MODEL FOR THE COMMON AGRICULTURAL POLICY

5.1. SIMPLIFICATION AND LIMITING ADMINISTRATIVE BURDEN

The experience of complexity, uncertainty and the limits of a “one-size-fits-it-all” approach in a diverse EU agriculture landscape have induced the need to rethink the governance of the Common Agricultural Policy. What is proposed is a new division of responsibilities between the EU and Member States with a view to simplification, better targeting and performance-orientation of the policy.

The proposed new delivery model aims at improving the performance of the Common Agricultural Policy by shifting the policy focus from compliance to performance and rebalancing responsibilities between the EU and Member State towards more subsidiarity. 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 Common Agricultural Policy and with other EU objectives.

The proposed general and specific EU objectives cover the economic, environmental and social dimension of a sustainable development of EU farming and rural areas. Member States will benefit from more flexibility to design and target the measures to their needs, but they will do so within a strong and common framework at EU level including safeguards and mitigating actions in order to preserve the common nature of the policy. Within this framework, the future Common Agricultural Policy encourages Member States to better target interventions based on a clear assessment of their needs and an intervention strategy over two pillars in line with it. Member States will have to explain the ‘why’, ‘what’ and ‘how’ of their choices in the Common Agricultural Policy strategic plan, but the Commission will no longer set detailed rules at the level of the beneficiary. The new performance framework and its reporting requirements will further contribute to an open and transparent look at policy progress.

The proposed new delivery model is based on the stability of existing governance bodies, which have proven to work. As such, there should be no additional administrative cost to the Member States.

5.2. TARGETING UNDER THE NEW COMMON AGRICULTURAL POLICY

Under the new Common Agricultural Policy delivery model, Member States will have more room to target the support to their particular needs.

Within the framework of the EU basic objectives and rules, it will be up to Member States to define interventions and amounts of support. Hence, it is possible that following their choices, certain groups of beneficiaries (such as young or small and medium sized farmers) will not be impacted by any cuts or even the contrary their support may actually increase.

5.3. PERFORMANCE ASSESSMENT AND BONUS

Member States will submit an Annual Performance Report with information about realised output and expenditure as well as progress towards the targets set for the whole period, which have been set using common result indicators.

In cases of slow or insufficient progress towards achieving the targets set for the Common Agricultural Policy Strategic Plan, Member States will be required to carry out an analysis of shortcomings and will include in the report proposals for remedial actions.

The assessment of those reports would trigger interaction with Member States in view of helping them to implement the planned policy in an efficient way. This would involve a continuous exchange between Member States and the Commission, including in regular Annual Review and Monitoring Committee meetings, on the state of play of the evolution of implementation towards the targets. The Commission will play a supporting role by facilitating the exchange on good practice and providing recommendations to Member States. If needed, the Commission would request Member States to submit a formal action plan to remedy the situation.

Where the intended remedial actions have not been implemented by Member States or the Member State is not willing to engage with the Commission to fix the problem, the Commission may suspend payments. Should the problem not be solved, the suspended amounts would be definitively lost by the Member State.

Towards the end of the Common Agricultural Policy plan's duration, based on the then performed performance review, the Commission will decide whether or not to attribute the performance bonus (allocation partially withheld) to reward satisfactory performance in relation to environmental and climate targets (Articles 123 and 124 of COM(2018)392).

Member States will receive the bonus if they will have achieved at least 90% of their target values for the year 2025 for the environmental and climate related objectives. If the 90% level of the targets is not achieved, the bonus will not be awarded to the Member State in question. There will not be any reallocation of these bonuses not granted to other Member States, the amounts in question will be de-committed.

6. CLIMATE TRACKING

The share of the Common Agricultural Policy expenditure that is expected to be dedicated to climate action is 40%. The actual share will be estimated ex-post by the Commission by applying a weighting factor to the actual expenditure for each type of intervention. Weighting factors (based on the international Organisation for Economic Cooperation and Development Rio marker methodology) will be 0%, 40% or 100%, expressing respectively a nil, moderate or significant contribution to climate objectives.

6.1. WEIGHTING FACTORS FOR CLIMATE TRACKING

40% for Basic and Complementary Payments

The two policy instruments, Basic Payments and Complementary Payments, are subject to conditionality, which includes a bundle of requirements and standards (cf. Annex III to the Commission's proposal COM(2018)392), most of them aimed at environmental and climate objectives. Therefore, each euro spent under these instruments ensures environmental and climate results. As not all requirements and standards fully contribute to climate change, the 40% Rio marker applies for these payments.

100% for Eco-scheme payments

Eco-schemes are fully focused on climate and the environment and therefore the 100% marker is allocated. In agriculture, environmental measures always deliver jointly climate benefits, in terms of mitigation and/or adaptation.

100% for European Agricultural Fund for Rural Development ring-fencing

The Common Agricultural Policy proposal requires that at least 30% of the total European Agricultural Fund for Rural Development financial contribution to each Common Agricultural Policy plan should be reserved for interventions addressing environmental and climate objectives, excluding interventions for natural or other area-specific constraints. To the interventions counted under the 30%, a 100% marker is applied as, by definition, aimed at environment and climate.

40% for Areas under Natural Constraints payments

In line with recommendations by the European Court of Auditors in its Special Report on Climate Tracking, expenditure for areas under natural constraints is allocated a 40% climate marker.



Council of the European Union
General Secretariat

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WORKING PAPER

This is a paper intended for a specific community of recipients. Handling and further distribution are under the sole responsibility of community members.

WORKING DOCUMENT

From: General Secretariat of the Council
To: Working Party on Financial Agricultural Questions

Subject: Working document on the Legislative Financial Statement accompanying the CAP proposals

Delegations find attached a working document from the Commission Services concerning the legislative financial statement accompanying the CAP proposals, which the Commission will present at the AGRIFIN meeting of 8 June 2018.



Brussels, 8 June 2018

WORKING DOCUMENT FOR AGRIFIN MEETING OF 8 JUNE 2018

Subject: Legislative Financial Statement accompanying the CAP proposals

1. INTRODUCTION

This working document provides technical explanations on the budgetary calculations underlying the legislative proposals for the Common Agricultural Policy (CAP) for the period post 2020. The CAP proposals referred to are:

- **COM(2018) 392** – Proposal for a Regulation of the European Parliament and of the Council establishing rules on support for strategic plans to be drawn up by Member States under the Common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) 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
- **COM(2018) 393** – Proposal for a 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
- **COM(2018) 394** – Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) No 1308/2013 establishing a common organisation of the markets in agricultural products, (EU) No 1151/2012 on quality schemes for agricultural products and foodstuffs, (EU) No 251/2014 on the definition, description, presentation, labelling and the protection of geographical indications of aromatised wine products, (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

The explanations in this working document are additional to the information presented in the financial statement that accompanies the legislative proposals.

All amounts mentioned in this working document are in current prices.

2. ALLOCATION FOR THE CAP IN MFF PROPOSAL FOR 2021-2027 AND THE BASELINE

The allocation for the CAP in the proposal on the multiannual financial framework (MFF) 2021-2027 (COM(2018) 321) is EUR 365 006 million for EU-27 (in commitment appropriations). This represents a reduction of around 5% compared to the baseline allocation.

The baseline allocation is calculated as the 2020 CAP allocation for EU-27 and multiplied by 7.

The allocation for the first pillar of the CAP, financed by the European Agricultural Guarantee Fund (EAGF), amounts to EUR 286.2 billion, which represents a reduction of -1.1% compared to the baseline (before taking into account amounts for financial year 2020 transferred between direct payments and rural development). The allocation for the second pillar, financed by the European Agricultural Fund for Rural Development (EAFRD), amounts to EUR 78.8 billion, which represents a reduction of -15.3% compared to the baseline.

	CAP 2020 EU-28 A	UK allocation 2020 B	CAP 2020 EU-27 C=A-B	Baseline EU-27 D=Cx7	MFF proposal E	F=(E-D)/F
Pillar 1 - EAGF	44 937	3 592	41 345	289 417	286 195	-1%
Pillar 2 - EAFRD	13 660	366	13 294	93 059	78 811	-15%
Total CAP	58 597	3 958	54 639	382 476	365 006	-5%

3. ANNUAL BREAKDOWN OF THE CAP AMOUNTS FOR 2021-2027

For the annual breakdown of the amounts for 2021-2027, the following needs to be noted:

- (1) The CAP amounts maintain a relatively stable profile
- (2) For the EAGF there is a slightly increasing profile which is the net effect of:
 - increasing envelopes for direct payments (DP) in line with the progressing in 6 steps related to the external convergence of the DP and the finalisation of the phasing-in of Croatia,
 - the expected evolution in market related expenditure for fruit and vegetables sector, and
 - the progressive decrease in the estimated amounts of revenue assigned to the EAGF following the introduction of the new CAP delivery model.
- (3) For the EAFRD, the annual amount for 2021-2027 corresponds to EUR 11 259 million per year.

	2021	2022	2023	2024	2025	2026	2027	TOTAL
Pillar 1 - EAGF	40 300	40 527	40 791	40 931	41 072	41 214	41 357	286 195
Pillar 2 - EAFRD	11 259	11 259	11 259	11 259	11 259	11 259	11 259	78 811
Total CAP	51 559	51 786	52 050	52 190	52 331	52 473	52 616	365 006

The amounts for both pillars cannot take into account the possible decision of Member States to use the flexibility of shifting amounts between DP and rural

development (RD) within the limits foreseen in Article 90 of Commission proposal COM(2018) 392.

These agricultural funds are complemented by additional funding from Horizon Europe, as the proposed envelope for this programme includes EUR 10 billion to support research and innovation in food, agriculture, rural development and the bioeconomy.

Moreover, a new agricultural reserve will be established in the EAGF to finance additional support for the agricultural sector. Unused amounts of the reserve in one year shall be carried over to the following.

4. MFF AND CAP REFORM PROPOSALS: ASSIGNED REVENUE

The MFF proposal is based on the assumption that assigned revenue will be available to cover a part of the budgetary needs of the first pillar of the CAP, in addition to the commitment appropriations proposed for the EAGF. This gives for the first pillar the following total amounts per financial year:

	(in EUR million)							
	2021	2022	2023	2024	2025	2026	2027	TOTAL
EAGF sub-ceiling in the MFF	40 300	40 527	40 791	40 931	41 072	41 214	41 357	286 195
Assigned revenue	280	230	130	130	130	130	130	1 160
Available for EAGF expenditure	40 580	40 757	40 921	41 061	41 202	41 344	41 487	287 355

The estimated amount of assigned revenue (EUR 1 160 million in total), significantly lower than in 2014-2020, is based on expected decreasing amounts for conformity clearance of accounts and irregularities, in view of the introduction of the new delivery model for the CAP. It also takes into account the amounts of deferrals of the execution of clearance decisions already decided.

	(in EUR million)							
	2021	2022	2023	2024	2025	2026	2027	TOTAL
Conformity	100	80	80	80	80	80	80	580
Deferrals	100	100	0	0	0	0	0	200
Irregularities	80	50	50	50	50	50	50	380
EAGF assigned revenue	280	230	130	130	130	130	130	1 160

5. OVERALL AMOUNTS AVAILABLE FOR BOTH PILLARS OF THE CAP

In view of the above, the overall amounts available under both pillars of the CAP are summarised in the table below.

	(in EUR million)							
	2021	2022	2023	2024	2025	2026	2027	TOTAL
Market-related expenditure	2 766	2 789	2 813	2 837	2 862	2 888	2 915	19 870
Direct payments	37 814	37 968	38 108	38 224	38 340	38 457	38 573	267 484
EAGF expenditure	40 580	40 757	40 921	41 061	41 202	41 344	41 487	287 355
EAFRD expenditure	11 259	11 259	11 259	11 259	11 259	11 259	11 259	78 811
Total CAP expenditure	51 839	52 016	52 180	52 320	52 461	52 603	52 746	366 166

Annex IV to Commission proposal COM(2018)392 proposes ceilings by Member State for DP types of interventions starting from calendar year 2021 (financial year 2022). The DP ceilings set out in the annexes to Regulation (EU) No 1307/2013 for calendar year 2020 (financial 2021) remain unchanged, whereas in line with the MFF proposal the amounts available for EAGF expenditure in 2021 are decreasing compared to the amount for EU27 in 2020. Unless those ceilings would be adjusted by an amendment to Regulation (EU) No 1307/2013, the EAGF sub-ceiling in heading 3 is likely to be insufficient to cover the market related expenditure and direct payments in financial year 2021. Consequently the mechanism of financial discipline that can apply to these payments is maintained in Article 15 of Commission proposal COM(2018) 393 for cases where the EAGF sub-ceiling in heading 3 is not sufficient to cover the estimated pillar 1 expenditure.

6. MARKET RELATED EXPENDITURE AND SUPPORT TO OUTERMOST REGIONS AND SMALLER AEGEAN ISLANDS

6.1. Sectorial types of interventions under the CAP plan

Chapter III of Commission proposal COM(2018) 392 foresees sectorial types of interventions for the following sectors:

- fruit and vegetables sector,
- apiculture products sector,
- wine sector,
- hops sector,
- olive oil sector and
- other sectors.

Where EU and Member States envelopes are available for these sectors in Regulation (EU) No 1308/2013 (i.e. for the wine, hops and olive oils sectors), it is proposed that those are equally adjusted by -3.8914% (hereafter referred to as -3.9%) to reflect the overall reduction in the amounts available for the EAGF in line with the MFF proposal. The envelopes for these sectors are presented respectively in Annex V, Article 82(3) and (4) of Commission proposal COM(2018) 392.

For the fruit and vegetables sector, it is proposed that the financing for the producer organisations continues to be limited by a proportion of their value of the marketed production, defined in Article 46 of that proposal.

As regards the apiculture sector, a yearly envelope of EUR 60 million is proposed, with the allocations available to the Member States presented in Annex VIII to the proposal. The MS allocations are based on the number of beehives communicated in 2013 and redistribution of available funds to other Member States when some did not make full use of their initial allocation¹.

As regards the other sectors, the financing for the producer organisations is limited by a proportion of their value of the marketed production, defined in Article 63 of Commission proposal COM(2018) 392. As provided in Article

¹ In accordance with Article 4 and 8(2) of Regulation (EU) 2015/1366

82(6) of that proposal, the financing for the sectors can only be made available by the Member States via a transfer of up to 3% of their respective allocation for DP.

It is estimated that the total expenditure for market related interventions under the CAP plan would be EUR 14 814 million, so on average EUR 2 116 million per year with an increasing profile in view of the expected evolution in the value of marketed production in the fruit and vegetables sectors. These amounts do not take into account possible transfers from the DP for the financing of the other sectors and transfers to DP of the allocations for hops and olive oil sectors in case the Member States concerned would decide to do so in accordance with Article 82(5) of the proposal.

6.2. Market related expenditure and direct payments outside the CAP plan

Market related expenditure outside the CAP plan is estimated to amount, for the period 2021-2027, to EUR 4 468 million in total, so EUR 638 million a year. DP outside the CAP plan are estimated to amount for that period to EUR 2 949 million in total, so EUR 421 million a year.

This includes the amounts for the financing of the:

- school schemes,
- promotion and
- support to the outermost regions and the smaller Aegean islands.

For the financing of the school schemes, it is proposed to reduce the current allocation of EUR 250 million per school year set out in Regulation (EU) No 1308/2013 of the European Parliament and of the Council by the indicative allocation for the United Kingdom set out in Annex I to Regulation (EU) No 1370/2013 of the Council. The revised total allocation for the school schemes is presented in point (4) of Article 1 of Commission proposal COM(2018) 394.

The amounts for promotion, which according to the legislative financial statement for accompanying the Commission proposal COM(2013) 812 should reach in commitments EUR 200 million in 2020, will also be reduced by -3.9%. The estimated amounts for 2021-2027 include also the contribution to the financing of the executive agency CHAFEA. The remaining amounts for the agricultural promotion programmes will be allocated on an annual basis via a Commission decision.

Finally, the amounts of support to the outermost regions and the smaller Aegean islands provided for in Regulation (EU) No 228/2013 and 229/2013 will be also reduced by -3.9%. The revised allocations are presented in Articles 4 and 5 of Commission proposal COM(2018) 394.

7. AGRICULTURAL RESERVE

For any of the years during 2021-2027, no assumption is made as to any additional financing that may be needed to cover market support measures introduced due to any possible market disturbances. For this reason, in accordance with Article 14 of

Commission proposal COM(2018) 393, a new agricultural reserve will be established in the EAGF. Its aim is to provide additional support for the agricultural sector for the purpose of safety-net measures in the context of market management or stabilisation and/or in case of crises affecting the agricultural production or distribution.

The amount of the reserve will be at least EUR 400 million at the beginning of each financial year. The unused amounts of the agricultural crisis reserve in financial year 2020 will be carried forward to financial year 2021 to set up the reserve.

Subsequently, an annual roll-over of the unused amounts of the agricultural reserve will apply in the period 2021-2027. In case the reserve is used, it will be re-filled using existing budgetary availabilities or by fresh appropriations. The reserve will form a component of the EAGF and will in the case of use of fresh appropriations be counted against the EAGF sub-ceiling fixed in the MFF 2021-2027. In case the latter risks being overshoot when drawing up the budget for the next financial year, the financial discipline mechanism will apply to cover all needs above the sub-ceiling, including those for filling the reserve.

In this context, the repeated application of financial discipline for the purpose of setting up annually the agricultural reserve is not foreseen in the period 2021-2027. The financial discipline mechanism will anyway remain for the purpose of ensuring the respect of the EAGF sub-ceiling.

8. DIRECT PAYMENTS TYPES OF INTERVENTIONS UNDER THE CAP PLAN

The MS envelopes for DP types of interventions under the CAP plan are presented in Annex IV to Commission proposal COM(2018) 392. The amounts are a result of the reduction to the baseline DP envelopes and the budgetary need for the external convergence. The only exception is the envelopes for Croatia for which the gradual introduction of DP continues until calendar year 2022 (financial year 2023) in accordance with Article 17 of Regulation (EU) No 1307/2013. Therefore, for Croatia the reduction of DP is only applied as of financial year 2023.

8.1. The baseline DP envelopes

The **baseline amounts for the application of the reduction** are:

- the envelopes for calendar year 2019 (financial year 2020) in Annex III to Regulation (EU) No 1307/2013 (equals Annex II + amounts for crop-specific payment for cotton)²,
- the amounts before transfers between DP and RD resulting from application of either flexibility between the CAP pillars in accordance with Article 14 or the reduction of payments in accordance with Article 11 of the same Regulation.

For the sake of calculating the budgetary need for the external convergence, the baseline DP envelopes for Croatia are taken as fully phased-in. On the other hand, the baseline for calculating the convergence does not include the

² Corresponds to the initial allocation in Regulation (EU) No 1307/2013 for financial year 2020 adjusted for the definitive wine transfers in EL, LU and MT and for the demining in Croatia.

amounts for cotton referred to in Article 58 of Regulation (EU) No 1307/2013.

8.2. Principles of the DP external convergence

In accordance with the MFF communication³ “*direct payment levels per hectare between Member States will continue to converge (external convergence). For all Member States with direct payments below 90% of the EU-27 average, the gap between their current level and 90% of the EU average direct payments will be closed by 50%. This convergence will be financed by all Member States*”.

For the calculation of the convergence, the baseline DP envelopes without cotton as referred to in point 8.1 are first reduced by -3.9% for all Member States. Based on these allocations, an average support level per hectare (ha) is calculated for each Member State using most recent available statistics for the potentially eligible area PEA (control statistics for claim year 2016).

(in ha)

MS	PEA 2016
BE	1 371 833
BG	3 721 524
CZ	3 541 284
DK	2 641 779
DE	16 883 150
EE	953 576
IE	4 530 347
EL	3 708 742
ES	20 558 328
FR	26 465 861
HR	1 090 260
IT	10 371 911
CY	138 683
LV	1 695 273
LT	2 849 827
LU	122 377
HU	4 942 768
MT*	8 192
NL	1 756 408
AT	2 571 981
PL	14 207 400
PT	2 916 806
RO	9 245 118
SI	452 193
SK	1 872 808
FI	2 256 444
SE	2 898 642
EU 27	<u>143 773 515</u>

*PEA 2015

³ COM(2018) 321 final

The EU average support level based on the same amounts after the -3.9% reduction is 259 EUR/ha. 90% of this average is 233 EUR/ha.

For the Member States for which the average support level is less than 90% of the EU average (233 EUR/ha), the allocations are increased in order to close 50% of the gap to 90% of the EU average in financial year 2027 (calendar year 2026). The final allocations to reach the target are calculated based on the same 2016 area statistics. The increase of the allocations for the relevant Member States benefiting from the convergence is done in 6 equal, gradual steps starting in financial year 2022.

8.3. Calculation of DP annexes to COM(2018) 392

The amounts of Member States allocations for DP as presented in **Annex IV** to COM(2018) 392 are the following:

- for BG, EE, ES, LV, LT, PL, PT, RO, SK, FI and SE – the amounts of the baseline, reduced by -3.9% and subsequently increased by the amounts resulting from the convergence calculation as explained in point 8.2;
- for HR – for calendar year 2021, 90% of the sum of the following amounts: DP envelope resulting from the Accession Treaty and the full demining reserve of EUR 9.6 million. As of calendar year 2022, 100% of the abovementioned sum reduced by -3.9%;
- for all other Member States, the baseline envelope reduced by -3.9%;
- the envelopes for BG, EL, ES, PT include as well the amounts for the financing of the crop-specific payment for cotton in accordance with Article 36 of the proposal. These envelopes are also reduced by -3.9% but they are not taken into account in the baseline for the calculation of the external convergence. These amounts are separately presented in **Annex VI**.

The calculation of the amounts in **Annex VII** is based on the Member States allocations for DP as presented in **Annex IV** after having excluded the amounts of the crop-specific payment for cotton in **Annex VI**. Finally, **Annex X** is calculated as 2% of the amounts in Annex VII.

8.4. Reduction of DP and flexibility between DP and EAFRD allocations as well as allocation for the sectorial types of interventions

The amounts in the Annex IV are without prejudice to the decisions of Member States to implement the following provisions on:

- the reduction of DP in accordance of Article 15 of the proposal, whereby the product of the reduction shall be primarily used within the DP, however it can also be transferred, partially or entirely, to the EAFRD allocation,
- the flexibility between the DP and EAFRD allocation in accordance with Article 90 of the proposal,

- the allocations for hops and olive oil sectors in case the Member States concerned decide to do so in accordance with Article 82(5) of the proposal and
- the financing for the other sectors, in accordance with Article 82(6) of the proposal, that can only be made available by the Member States via a transfer of up to 3% of their respective allocation for DP.

9. RURAL DEVELOPMENT TYPES OF INTERVENTIONS UNDER THE CAP PLAN

9.1. Total EAFRD allocation

The Commission proposal on the MFF 2021-2027 includes EUR 78 811 million for the EAFRD (in current prices). The level of the allocation reflects a proposed decrease of the EU co-financing rates for the EAFRD, similar to the proposals for the other European Structural and Investment funds.

The Commission has estimated the average effective rate of co-financing in the 2014-2020 rural development programmes. On that basis, it projected a new EU EAFRD contribution, which together with the new lower EU co-financing rates aims to allow maintaining total public support to rural areas at a largely unchanged level in 2021-2027.

9.2. Breakdown of the EAFRD allocation

The Commission proposal on the CAP plan gives details on the allocation of rural development support. These are presented in Annex IX to Commission proposal COM(2018) 392 in current prices and in Annex IXa in constant 2018 prices for information purposes.

Continuing current practice, 0.25% of the total EAFRD allocation will be used for **technical assistance** of the Commission (EUR 197 million for 2021-2027). This will finance actions under Commission direct management provided for in Article 7 of Commission proposal COM(2018) 393.

The amount of EAFRD allocation relating to MS allocations is consequently EUR 78 614 million broken down into equal annual amounts. For all Member States, the 2021-2027 allocation corresponds to a 15.3% decrease compared to their 2020 baseline allocation (before transfers between DP and RD).

9.3. Reduction of DP and flexibility between DP and EAFRD allocation

The MS allocations in Annex IX are without prejudice to decisions of MS to implement the following provisions on:

- the reduction of DP in accordance of Article 15 of the proposal, whereby the product (apart from being used within DP) can also be transferred, partially or entirely, to the EAFRD allocation and
- the flexibility between the DP and EAFRD allocation in accordance with Article 90 of the proposal.