The impact of the simultaneous MFF negotiations on the European Parliament’s influence on the 2013 CAP reform

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July 2014

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1. Introduction

The 2013 reform of the EU’s Common Agricultural Policy (CAP), the first under the ordinary legislative procedure, took place at the same time as the negotiations on the EU’s multi-annual financial framework (MFF) for the period 2014-2020. In 2010, following an extensive public debate (CEC, 2010a), the Commission published a Communication in November 2010 on meeting the food, natural resources and territorial challenges of the future (CEC, 2010b). The document was the Commission’s response to the public debate and outlined options for future CAP reform as the basis for further discussion with the other institutions and with stakeholders. This was followed in October 2011 by the publication of its legislative proposals for the future CAP together with an impact assessment of these proposals (CEC, 2011a).²

As part of the outcome of the negotiations on the 2007-2013 MFF, the Commission had been invited to undertake a full, wide-ranging review covering all aspects of EU spending, including the CAP, and of resources, including the United Kingdom rebate, and to report in 2008/2009 (Official Journal of the European Union, 2006). Due to the delays in the ratification of the Lisbon Treaty, the outcome of this review was postponed to 2010 (CEC, 2010c). On 19 October 2010, the Commission published its Communication on the budget review (CEC, 2010d). However, it did not define either future policy on EU own resources, EU spending priorities, the size of the budget, nor the share each policy would receive (Adinolfi et al., 2011).³ It was rather overtaken both by the publication in March earlier that year of the Europe 2020 strategy which proposed new priorities for EU expenditure, and by the preparations for the next MFF for the 2014-2020 period. These preparations began in June 2011 when the Commission put forward its first proposal for the MFF ceilings for the coming period (including for Heading 2 which covers the CAP) (CEC, 2011b). Thus, negotiations on both the future CAP and the future MFF began within a few months of each other, which had important implications for the way the debate on CAP reform evolved.

At least three important linkages can be identified.

First, much of the impetus for the 2013 CAP reform was framed by the need to create a narrative to legitimise and defend the share of the CAP budget in the 2014-2020 MFF. Of course, the environment for EU farming had also changed markedly since the completion of the Health Check reform (the Commission’s original Communication on the Health Check was published in November 2007, its legislative proposals in May 2008 and the reforms were agreed by the Council in November 2008). As the Commission’s November 2010 Communication outlines, the scale of the task in meeting the increase in global food demand projected by 2050 had become clearer, as had the impact of price volatility. Environmental and climate change challenges were also more evident, as was the need to maintain territorial balance in rural areas particularly in the new member states. Addressing these issues, in themselves, would have been sufficient to motivate a further reform of the CAP. However, there was an urgency to adapting the CAP to take these changes into account given the fact that the CAP budget was also up for discussion in the context of the MFF negotiations.

The fact that the CAP budget could not be taken for granted had been underlined by a leaked draft of an earlier Commission response to the budget review which suggested that “[Future reform of the CAP] must stimulate a further significant reduction in the overall share of the EU budget devoted to agriculture, freeing up spending for new EU priorities” (CEC, 2009, p. 17).⁴ Given the dominant role

³ A leaked earlier draft was much more draconian in its proposals for CAP spending, see below.
of the CAP budget in overall EU spending, it can be argued that it has always been the case that the CAP budget has been under threat in MFF negotiations. What made the 2014-2020 MFF negotiations different, however, was both the clear articulation of an alternative set of spending priorities (the Europe 2020 strategy) combined with the wide-ranging fiscal austerity in Europe which strengthened the resolve of the net contributor countries to limit the increase in EU budget ceilings and even to obtain a reduction relative to the 2007-2013 period. Thus, the option in previous MFFs to increase spending in other areas while also allowing an increase in CAP spending by raising the overall MFF ceiling was not an option on this occasion.

In seeking to maintain the share of CAP spending in the next MFF, the Commissioner for Agriculture and Rural Development needed allies around the cabinet table. It appears that Commissioner Cioloş gained the support of the Environment and Climate Change Commissioners to maintain the CAP budget provided, in return, that the reformed CAP placed greater emphasis on delivering for the environment and climate change. Arguably, the CAP proposals would have moved in this direction in any case given that there was some support for focusing CAP expenditure more on public goods in the public consultation held to gather ideas for the CAP reform (CEC, 2010a); however, the need to win support around the Commission cabinet table confirmed this momentum. The result was that the Commission MFF proposal, when it appeared, contained a ceiling for CAP expenditure which surprised and delighted farm groups. At this stage, the linkage with the MFF played an important agenda-setting role for the CAP reform proposals.

A second linkage was created in the negotiation phase of the CAP reform. In principle, once the CAP reform proposals had been published by the Commission in October 2011, the CAP negotiations could have continued independently of the MFF negotiations. The agricultural negotiators could have discussed the structure and design of direct payments, market management mechanisms, rural development programmes and horizontal management and financing issues in isolation from the budget talks. One could envisage the Council and Parliament approving the CAP regulations even in advance of the conclusion of the MFF negotiations.6

Politically and practically, however, this was never likely to be the case. Already in October 2011, the European Parliament (EP) secretariat had noted that the general adoption of the CAP legislative proposals by the co-decision procedure would probably not be possible before the inter-institutional agreement (IIA) on the financial perspectives 2014-2020 (Adinolfi et al., 2011). In its formal response to the Commission’s proposed MFF in June 2012, the Parliament made clear that it would adhere to the principle that ‘nothing is agreed until everything is agreed’ as an appropriate working method (European Parliament, 2012a).7 A number of stakeholder groups/member states/MEPs argued that their agreement on the scope of the greening measures in Pillar 2 was dependent on the scale of the

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5 Euractiv (2011) proposed a further explanation for the Commission’s decision to leave support to farmers largely unchanged. It points to a Franco-German understanding whereby Germany agreed to keep the current CAP budget unchanged in exchange for the introduction of ‘transition regions’ in the bloc’s cohesion policy. See http://www.euractiv.com/specialreport-budget/cap-budget-news-506285, accessed 23 July 2014.

6 The MFF sets the ceilings for expenditure on Heading 2 Sustainable Growth and Natural Resources and for the sub-heading Market-related expenditure and direct payments. Direct payment ceilings are set in the CAP regulation on direct payments. While the practice is to adapt the direct payment ceilings to the budgetary resources available in the regulation, this does not have to be the case. The financial discipline mechanism exists to ensure that, in any budget year, the appropriations for direct payments do not exceed the financial resources available. If the CAP negotiators overestimated the allocation to the CAP when the MFF was eventually agreed, this mechanism could be used to ensure CAP expenditure stayed within the MFF ceiling.

7 The Council may have adopted a somewhat different working method. In deciding how to progress the MFF dossier in July 2012 following the Danish Presidency’s first presentation of the negotiating box, the Cyprus Presidency proposed that “a strict demarcation will be kept between the financial and non-financial issues. Detailed examination of the Commission’s sectoral legislative proposals will continue actively in the relevant working parties, leaving aside the financial and horizontal aspects (Council of the European Union, 2012a).
Third, the MFF and CAP negotiations were not only linked by the volume of resources to be made available for agricultural policy in the 2014-2020 period. On this occasion, the Council Presidency in its initial draft of the ‘negotiating box’ (which eventually evolved into the European Council’s conclusions on the MFF in February 2013) explicitly introduced a number of elements which the Parliament held should be decided under the ordinary legislative procedure (Council of the European Union, 2012b). This inclusion of particular CAP elements in the MFF agreement created a specific dynamic around the inter-institutional negotiations on these issues. For example, when a political agreement between the institutions was reached in June 2013 under the Irish Presidency, these MFF-related issues were left to one side to be negotiated later in September 2013 under the Lithuanian Presidency. The consequences of this linkage for the outcome of the negotiations are discussed in detail below.

This paper discusses the influence of the simultaneous MFF negotiations on the CAP negotiations. Specifically, its purpose is to explore whether, and how, the linkage with the MFF negotiations affected the Parliament’s ability to influence the outcome of the CAP reform negotiations. Specifically, the paper seeks to answer three questions.

1. How were the legislative issues relating to the CAP included in the Council’s MFF negotiating box and in the European Council’s MFF conclusions resolved?
2. Did the inclusion of CAP-related issues in the MFF dossier weaken the EP’s influence on those particular issues relative to other issues negotiated in the trilogue process?
3. How did the sequencing of the MFF and CAP negotiations affect the outcome of the latter?

Section 2 of the paper briefly reviews the outcome of the MFF negotiations for the size of the CAP budget. Section 3 discusses the CAP legislative issues included in the MFF dossier and how these were resolved. Section 4 assesses the impact of the MFF dossier and its timing on the Parliament’s ability to influence the CAP reform outcome. Section 5 draws some general conclusions and lessons for the future. In addition, three annexes are attached to the paper. Annex 1 provides a timeline of both the MFF and CAP negotiations to indicate the relative sequencing of both. Annex 2 provides extracts from successive versions of the Council negotiating box relating to the CAP legislative issues. Annex 3 gives the relevant extracts from the European Council MFF conclusions on Heading 2 in both the 2007-2013 and 2014-2020 MFF conclusions.

2. The size of the CAP budget

The Commission published its proposal for the new MFF regulation for the period 2014-2020 in June 2011 (CEC, 2011b). It proposed a financial framework with 1.05% of GNI in commitments translating

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8 As an example, COMAGRI in its Opinion on the MFF adopted on 18 September 2012 stressed “… that the transition to a regional model and to further greening of the CAP in the next multiannual period will have a severe impact on farmers, and that extra cuts in the overall CAP budget would consequently put even more pressure on the position of individual farmers”.

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into 1% in payments coming from the EU budget. A further 0.02% in potential expenditure outside the MFF and 0.04% in expenditure outside the budget would bring the total figure to 1.11%.

In absolute terms, the Commission proposed an MFF expenditure ceiling of €1,025 billion for the 2014-2020 period compared to €994 billion in the 2007-2013 period (all in constant 2011 prices). This represented a modest 3% increase in real terms over the seven years. However, if expenditure outside the MFF and outside the budget is included, the 2014-2020 total amounted to €1,083 billion which is a 9% increase on the previous period (Little et al., 2013).

The initial Commission proposal for agriculture in the MFF surprised many because it maintained the level of CAP spending in nominal terms. Indeed, Commissioner Ciolos even claimed that the CAP budget had been maintained in real terms once elements not included in Heading 2 were taken into account, using the data in Table 1. The Commission proposal for the CAP was based on freezing the MFF 2014-2020 ceilings at the level of the 2013 ceilings in nominal terms. Further, no allowance was made for expenditure on public intervention or other crisis expenditure in this MFF total, but a crisis reserve allocation was placed outside the formal MFF.

Table 1. The Commission’s proposed budget for agriculture in the 2014-2020 MFF (constant 2011 prices)

<table>
<thead>
<tr>
<th>Total proposed budget 2014-20</th>
<th>€386.9 bn</th>
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</thead>
<tbody>
<tr>
<td>Of which:</td>
<td></td>
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<tr>
<td>Pillar I – direct payments and market expenditure</td>
<td>€281.8 bn</td>
</tr>
<tr>
<td>Pillar II – rural development</td>
<td>€89.9 bn</td>
</tr>
<tr>
<td>Food safety</td>
<td>€2.2 bn</td>
</tr>
<tr>
<td>Most deprived persons</td>
<td>€2.5 bn</td>
</tr>
<tr>
<td>Reserve for crisis in the agricultural sector</td>
<td>€3.5 bn</td>
</tr>
<tr>
<td>European Globalisation Fund</td>
<td>Up to €2.5 bn</td>
</tr>
<tr>
<td>Research and innovation on food security, the bio-economy and sustainable agriculture (in the Common Strategic Framework for Research and Innovation)</td>
<td>€4.5 bn</td>
</tr>
</tbody>
</table>

Source: CEC, 2011c.

The European Parliament set down an early marker on the size of the CAP budget it wanted to see in the coming MFF period. In adopting its resolution in May 2011 on the resolution responding to the Commission’s Communication on the CAP towards 2020 (rapporteur A. Dess), it called for the EU agricultural budget in the next financing period “to be maintained at least at the same level as the 2013 agricultural budget.” The following month, in adopting its resolution on the report of its special committee on the policy challenges and budgetary resources for a sustainable European Union after 2013 (the SURE committee), the Parliament reaffirmed that “the amounts allocated to the CAP in the budget year 2013 should be at least maintained during the next financial programming period”.

An ambiguity remained, however, in that the Parliament’s resolutions did not specify whether the CAP budget should be held constant at the 2013 level in real or nominal terms. In responding to the Commission’s formal legislative proposal on the MFF published in June 2011, COMAGRI in its Opinion on the Budgets Committee resolution (rapporteur P. de Castro) adopted a hard line. COMAGRI called for the cuts proposed by the Commission to be rejected and for Parliament to call for an amount corresponding to the ceilings for the current programming period. Specifically, COMAGRI interpreted “the maintenance of CAP spending at least at the same level” as referring to

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9 MFF commitments represent a ceiling for the annual budget headings and actual commitment appropriations are often lower, except for cohesion spending where the MFF ceilings are carried over automatically into the annual budgets.
expenditure in real terms. It wanted the Council to increase Heading 2 and the subheading for direct payments and market-related expenditure to €420,682 million and €336,685 million respectively, corresponding to a freeze in real terms.

It took the European Council four attempts based on proposals from the Council President Herman van Rompuy (two leading up and during its November 2012 meeting, and two leading up to and during its February 2013 meeting) to finally agree on MFF conclusions. Van Rompuy’s first proposal would have seen significant reductions in both Pillar 1 and Pillar 2 allocations compared to the Commission’s proposal, but the Pillar 1 reductions were partly reinstated in his second proposal. By the end of the February 2013 European Council meeting, a further amount had also been added to the CAP Pillar 2 allocation (Table 2).

| Table 2. CAP allocations in the 2014-2010 MFF, € billion (2011 prices) |
|---|---|---|---|---|
| MFF total commitment appropriations | 993.6 | 1,033.2 | 973.2 | 972.0 | 960.0 |
| Heading 2 | 420.7 | 386.5 | 364.5 | 372.2 | 373.2 |
| Of which: | | | | | |
| CAP Pillar 1 | 336.7* | 283.1 | 269.9 | 277.9 | 277.9 |
| CAP Pillar 2 | 95.5 | 89.9 | 83.7 | 83.7 | 84.9 |

Note: *Before modulation and other direct transfers to rural development
Sources: Little et al (2013); European Council Draft Conclusions SN37/12 dated 13 November and 22 November 2012, respectively.

In its response to the European Council conclusions, the EP decided not to challenge the overall level and distribution by heading of the proposed MFF, accepting the particularly difficult economic and financial context at the time of this decision. Instead, it focused on improving the implementation of the MFF by introducing greater flexibility to allow the ceilings to be used to the fullest possible extent, new arrangements relating to the MFF revision and the unity and transparency of the budget, as well as a further engagement on reforming the financing of the EU budget. However, it has insisted that this should not be perceived as a precedent and it has reiterated its position that the MFF figures, and every other part of the European Council’s relevant political agreement, are subject to negotiations with the Parliament (European Parliament, 2014). Thus, the European Council MFF conclusions on the size of the CAP budget provided the backdrop against which the negotiations on the new CAP regulations took place.

3. CAP-related issues in the MFF

A contentious issue in this CAP reform process was the inclusion in the MFF negotiating box (under the responsibility of the General Affairs Council) of issues which would ultimately be incorporated into the new CAP regulations (to be decided by co-decision between the Parliament and the Council in its formation as the Agriculture Council). The MFF Regulation is adopted by the Council by

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10 For details, see http://capreform.eu/no-decision-on-mff-budget-at-first-attempt/, accessed 23 July 2014.
11 Formally, it is the Agriculture and Fisheries Council but this shortened form is used throughout this paper.
unanimity after having obtained the consent of the European Parliament (the Parliament may approve or reject the Council’s position, but not adopt amendments). The sector-specific legal acts are subject to the ordinary legislative procedure (co-decision) which means that the Council and the Parliament decide together, and that the Council decides by qualified majority.

The point is not that the various CAP-related issues included in the MFF negotiating box risked being decided using the MFF decision rules (which would have severely limited the potential input and involvement of the Parliament). The role of the MFF Regulation is solely to establish the expenditure ceilings for the annual EU budgets as a whole and for the main sub-headings. All other CAP-related issues were ultimately included as provisions in the revised CAP regulations which were decided by the co-decision process. However, the issues on which the European Council had pronounced in its MFF conclusions appeared to be given a privileged status by the Council negotiators in the trilogue discussions. Initially, the Council’s position seems to have been that the European Council’s MFF conclusions on CAP issues were non-negotiable. The Council moved very slightly from this position in the last days of the Irish Presidency, but when a political agreement was reached on the revised CAP regulations on 26 June 2013, all of the issues included in the MFF conclusions were in square brackets and there was an agreement that these would be addressed later. By late August 2013 the Parliament’s CAP regulation rapporteurs had identified their priorities among the outstanding issues (distinguishing between those issues on which they wanted to insist on changes in the Council’s position, and those issues where they were prepared to accept the Council’s position provided concessions were made on their priority areas). On this basis, a political agreement including the MFF-related CAP issues was finally reached between the institutional negotiators at the informal trilogue meeting on 24 September 2013. The treatment of these particular CAP issues addressed in the MFF dossier is analysed in detail in this section.

Some historical perspective is gained by looking at the precedent of the 2007-2013 MFF negotiation. The relevant extract from the European Council conclusions agreeing this MFF on 19 December 2005 is set out in Annex III. Parliament refused its consent to the draft MFF regulation incorporating these conclusions in January 2006. In mid-May 2006, the Parliament accepted an only slightly revised agreement, which was signed on 17 May 2006. The 2007-2013 MFF was decided under the consent procedure which has now been overtaken by the new decision rules set out in the Treaty of Lisbon. However, it is worth examining how the CAP was treated in those MFF conclusions.

The 2007-2013 MFF conclusions first set out the ceilings for commitment appropriations for Heading 2 Preservation and Management of Natural Resources, the sub-ceiling for market-related expenditure and direct payments and the Rural Development Regulation. They also addressed the issue of voluntary modulation of funds from Pillar 1 to Pillar 2 and specified that modulated funds would not be subject to national co-financing and minimum spending per axis rules set out in the Rural Development Regulation. While the Commission was invited to allocate rural development expenditure between the member states (in the case of the EU15, subject to a key to be agreed by the Council), the European Council set down some markers in terms of minimum allocations and also allocated specific amounts to individual member states on rather unclear criteria. The individual member state allocations were not formally announced until the Commission approved in September 2006 a Decision fixing the total rural development budget for the period 2007-2013 (which also took into account the accession of Bulgaria and Romania as well as cotton and tobacco transfers) and including a subdivision in budget allocations by year and by member state (CEC, 2006). However, it seems that individual member states had a good idea following the European Council meeting of their individual rural development allocations even if these were not finally

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12 Article 312(3) of TFEU: ‘The financial framework shall determine the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations.’
confirmed until the Commission’s Decision the following September. These CAP issues related broadly to financial issues but did not otherwise touch on the content of the CAP policy.

In the preparations for the 2014-2020 MFF, there was a more extensive discussion of CAP-related issues in the MFF dossier. These began at an early stage. The progress report of the Polish Presidency in December 2011 mentions that a number of CAP issues were being discussed in the Council’s MFF working group (Council of the European Union, 2011). They included the overall volume of resources for the CAP budget, the pace and ambition of internal and external convergence, whether to pursue greening in Pillar 1 or Pillar 2, the size of any potential green payment in Pillar 1, the role of the crisis reserve and the rural development allocations by member state. Thus, from an early stage, the Council’s MFF working group was discussing both the MFF ceilings as well as the future shape of the CAP.

The General Affairs Council had its first opportunity to debate the ceiling for Heading 2 in the MFF at its April 2012 meeting. The Danish Presidency circulated a draft text for that section of the MFF negotiating box which covered the following issues (Council of the European Union, 2012c):

- The overall level of commitment appropriations for Heading 2, as well as the ceiling for the sub-heading for market-related expenditure and direct payments (no figures were included at this stage)
- Level and model for redistribution of direct support – details of the possible convergence model across Member States
- Capping of support to large farms
- The method for financial discipline
- Other elements relating to Pillar I [an apparent reference to possible linear reductions in direct payments]
- Greening [of direct payments]
- Flexibility between pillars
- Principles for distribution of rural development support
- Co-financing rates for rural development support

In addition, under common provisions relevant for all of the Structural Funds, including the EAFRD, it was proposed to bring them together under a Common Strategic Framework to maximise their effectiveness. Further, it was proposed that all the structural funds would be subject to macro-economic conditionality. The Commission would be empowered to request a member state to amend its Partnership Contract and the relevant programmes to support the implementation of Council recommendations under the EU’s economic governance arrangements. Where a member state failed to comply with the request, the Commission would be empowered to suspend some or all of the payments to the programme concerned.

At the end of the Danish Presidency in June 2012, the Presidency presented for the first time a draft version of the full MFF negotiating box including text on Heading 2 (Council of the European Union, 2012b). The CAP-related issues just enumerated remained as part of the text in this and successive drafts of the negotiating box up to and including the European Council conclusions on the MFF in February 2013. The positions of the Council and the Parliament on these issues are now reviewed. Table 3 provides a summary of the positions of the various institutions. The Council’s position is discussed mainly in terms of the conclusions of the European Council as these were incorporated

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13 For example, the Irish Prime Minister, Mr Bertie Ahern, was able to report the Irish rural development allocation in a newspaper article the day after the European Council meeting concluded. See “Totting up the many benefits for Ireland and EU of new budget deal”, Irish Times 19 December 2005.
unchanged into the Council’s general position agreed in March 2013 (Council of the European Union, 2013a).
### Table 3. CAP-related issues in the MFF

<table>
<thead>
<tr>
<th>Issue</th>
<th>EP mandate</th>
<th>Council mandate</th>
<th>EP proposed landing zone</th>
<th>Outcome</th>
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</thead>
<tbody>
<tr>
<td>National ceilings for direct payments (DP Recital 21 and Annex 2)</td>
<td>100% (rather than 90%) of the EU average used as the reference point, so that:</td>
<td>All MS with direct payments per hectare below 90% of the EU average close one third of the gap between their current direct payments level and 90% of the EU average, while all MS attain at least the level of €196/hectare in current prices by 2020. All MS with direct payments above the EU average to finance the redistribution proportionally to their distance from the EU average payment level, with the process of convergence phased over 6 years up until financial year 2020.</td>
<td>EP prepared to accept Council position in return for wider flexibility on the other EP priority issues</td>
<td>Council position adopted.</td>
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<tr>
<td></td>
<td>- In MS with a current level of direct payments per hectare that is below 70% of the EU average, that shortfall is reduced by 30%,</td>
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<tr>
<td></td>
<td>- In MS with a level of direct payments between 70% and 80% of the average, the shortfall should be reduced by 25%,</td>
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<tr>
<td></td>
<td>- In those MS where the level is more than 80% of the average, it should be reduced by 10%.</td>
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<td></td>
<td>The level of per hectare payment received in any MS should not be less than 75% of the EU average in 2019. Four-year convergence (as COM proposal), with a linear reduction used to fund redistribution.</td>
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<tr>
<td>Issue</td>
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<tr>
<td>* Progressive reduction and capping of direct payments (DP Art. 11)</td>
<td>Agrees with COM proposal (four mandatory tranches: 20% between €150-200K, 40% between €200-250K, 70% between €250-300K and absolute cap over €300K), with exemption for cooperatives and deduction for contractors’ charges</td>
<td>European Council original mandate was that capping of direct payments for large beneficiaries will be introduced by MS on voluntary basis. (Based on 25 June 2013 mandate) Mandatory degressivity reduction of 5% on amounts over €150K, with possible derogation for those using more than 5% of national ceiling for redistributive payments. Wanted explicit recognition in the final text that these percentages are minima, with the option, on a voluntary basis, to apply higher percentage reductions, or additional tranches, up to 100%</td>
<td>Mandatory degressivity reduction of at least 15% on amounts over €150K and reduction of at least 25% over €300K, with possible derogation for those using more than 15% of national ceiling for redistributive payments.</td>
<td>Direct payments reduced by at least 5% for the part of the amount exceeding €150,000, after subtracting salaries if MS wants. Where a Member State uses more than 5% of its national ceiling for the redistributive payment, it may decide not to apply this reduction.</td>
</tr>
<tr>
<td>Flexibility between Pillars (DP Article 14(2))</td>
<td>Agreed with Commission proposal to allow transfer of up to 5% of P2 ceiling to P1 for those MS with below-average P1 payments. Proposed up to 15% transfer possible from direct payment ceilings to rural development</td>
<td>25% transfer possible for those MS with lower than average per hectare direct payments and 15% for those with above average payments</td>
<td>15% transfer possible for those MS with lower than average per hectare direct payments (with special dispensation to go above this limit in duly justified cases) and 10% for those with above average payments.</td>
<td>MS can transfer up to 15%, or in the case of named MS with below average per hectare payments, up to 25%, of their rural development money to direct payments. MS can transfer up to 15% of their direct payments ceiling to rural development.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Issue</th>
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<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Transfer from P2 to P1</td>
<td></td>
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<tr>
<td>Transfer from P1 to P2</td>
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<tr>
<td>Issue</td>
<td>EP mandate</td>
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<tr>
<td>* Annual breakdown of EAFRD budget by member state (RD Article 64)</td>
<td>2013 allocations used as basis for table acting as placeholder to demonstrate desire to have breakdowns included as an annex to Basic Act (instead of an implementing act)</td>
<td>Series of discrete allocations made to 16 different MS, justified on the basis of them “facing particular structural challenges in their agricultural sector” or from them having “invested heavily in an effective delivery framework for Pillar 2 expenditure”</td>
<td>EP offers to accept Council’s allocations provided the breakdowns are contained in a delegated rather than implementing act, as well as wider commitment to degree of flexibility on the other EP priority issues</td>
<td>Resources and their distribution included as Annex 1 to the basic Regulation.</td>
</tr>
<tr>
<td>Crisis reserve and financial discipline (HZ Art 25 and 26)</td>
<td>Accepted the original COM proposal to fund the crisis reserve outside the MFF</td>
<td>Brought the crisis reserve within the budget for direct payments using financial discipline mechanism (equal annual instalments of €400 million (2011 prices) summing to a potential €2,800 million for the period 2014-2020 under Heading 2 of the MFF</td>
<td>EP prepared to accept Council position in return for wider flexibility on the other EP priority issues</td>
<td>Council position adopted</td>
</tr>
<tr>
<td>Pre-financing arrangements (HZ Art 34)</td>
<td>Initial pre-financing amount increased from 4% in original COM proposal to 7% of the EAFRD contribution to the programme concerned.</td>
<td>Lower rate of pre-financing (1% of the amount of EAFRD support for the entire programming period to the programme) paid in instalments in each of the years 2014, 2015 and 2016, except where a MS has been receiving financial assistance since 2010, when the pre-financing rate is increased to 1.5% for the first two years.</td>
<td>EP prepared to accept Council position in return for wider flexibility on the other EP priority issues</td>
<td>Council position adopted</td>
</tr>
<tr>
<td>Issue</td>
<td>EP mandate</td>
<td>Council mandate</td>
<td>EP proposed landing zone</td>
<td>Outcome</td>
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<tr>
<td>* Cofinancing rates (RD Art 65)</td>
<td>85% for less developed regions, outermost regions and smaller Aegean islands</td>
<td>75% for less developed regions, outermost regions and smaller Aegean islands</td>
<td>85% for less developed regions, outermost regions and smaller Aegean islands</td>
<td>85% for less developed regions, outermost regions and smaller Aegean islands</td>
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<td></td>
<td>75% for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 but whose GDP per capita is above 75% of the GDP average of the EU-27</td>
<td>Acceptance of Council position (i.e. 75%)</td>
<td>75% for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 but whose GDP per capita is above 75% of the GDP average of the EU-27</td>
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<td></td>
<td>63% for the other transition regions</td>
<td>Acceptance of Council position (i.e. 63%)</td>
<td>63% for the other transition regions</td>
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<tr>
<td>50% for other regions (as COM proposal)</td>
<td>53% for other regions</td>
<td>50% for other regions</td>
<td>53% for other regions</td>
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<tr>
<td>80% for Art 15/28/36/20(1)a(i)</td>
<td>80% for Art 15/28/36/20(1)a(i)</td>
<td>Acceptance of Council position (i.e. 80%)</td>
<td>80% for Art 14/27/35/19(a)(i). May be increased to a maximum of 90% for the programmes of less developed regions, outermost regions, the smaller Aegean islands and transition regions</td>
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<tr>
<td>55% for agri-environment-climate measures under Art 29</td>
<td>75% for agri-environment-climate actions under Art 18/23/24/29/30/31(3)/31(4)/32/35</td>
<td>Acceptance of Council position (i.e. 75%)</td>
<td>75% for agri-environment-climate actions under Art 17/21(1) a+b/28/29/30/31/34</td>
<td></td>
</tr>
<tr>
<td>50% (i.e. standard rate) for all funds transferred from Pillar 1, except for special 95% provision for MS under financial assistance for transfers under DP Art 14/1 flexibility</td>
<td>100% for all funds transferred from Pillar 1 (with other exemptions from national cofinancing requirements associated with discrete allocations for MS under financial assistance)</td>
<td>Acceptance of Council position (i.e. 100%)</td>
<td>100% for all funds transferred from Pillar 1 (with other exemptions from national cofinancing requirements associated with discrete allocations for MS under financial assistance)</td>
<td></td>
</tr>
<tr>
<td>Financial discipline (DP Article 8(1))</td>
<td>Where COM had proposed linear cuts on payments above €5,000 to finance the crisis reserve/avoid breaches of the financial sub-ceiling, EP wanted linear cut on all payments; no threshold</td>
<td>Linear cuts on payments above €2,000 to finance the crisis reserve/avoid breaches of the financial sub-ceiling.</td>
<td>No position.</td>
<td></td>
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</table>

Higher co-financing rate (by 10 percentage points) can be applied when MS receives financial assistance, subject to reassessment in 2016

Acceptance of Council position (i.e. higher co-financing rate for MS in receipt of financial assistance)

Higher co-financing rate (by 10 percentage points) can be applied when MS receives financial assistance, subject to reassessment in 2016

Notes: EP priority issues in the final stages of the negotiations marked with *. Article numbers refer to the Commission’s original proposal and the amendments to that.

3.1 Level and model for redistribution of direct support across member states

The Commission’s formula for redistribution between member states (external convergence) in its draft MFF regulation was that all member states with direct payments per hectare below 90% of the EU average would close one third of the gap between their current direct payments level and 90% of the EU average in the course of the next period. This convergence would be financed by all member states with direct payments above the EU average, proportionally to their distance from the EU average (CEC, 2011b). This formula was repeated in the Commission’s proposal for the new CAP direct payments regulation (CEC, 2011d).

The European Council meeting in February 2013 set out the principles for external convergence as follows.

“Direct support will be more equitably distributed between Member States, while taking account of the differences that still exist in wage levels, purchasing power, output of the agricultural industry and input costs, by stepwise reducing the link to historical references and having regard to the overall context of Common Agricultural Policy and the Union budget. Specific circumstances, such as agricultural areas with high added value and cases where the effects of convergence are disproportionately felt, should be taken into account in the overall allocation of support of the CAP” (European Council, 2013, p. 26).

The European Council adopted the Commission’s external convergence formula but modified it by agreeing that all member states should attain at least the level of €196 per hectare in current prices by 2020 (the idea of this minimum payment had already appeared in the COMAGRI rapporteur’s report). It agreed that the process would be implemented progressively over 6 years from financial year 2015 to financial year 2020.

The external convergence proposal suggested by the COMAGRI rapporteur on direct payments and approved by the Parliament in its mandate for negotiation in March 2013 was more favourable to the new member states. It suggested that “...the national envelopes for direct payments should also be adjusted so that in Member States with a current level of direct payments per hectare below 70% of the Union average, that shortfall is reduced by 30%. In Member States with a level of direct payments between 70% and 80% of the average, the shortfall should be reduced by 25%, and in those Member States where the level is more than 80% of the average it should be reduced by 10%. Following application of these mechanisms, the level received should not, in any Member State, be less than 65% of the Union average” (European Parliament, 2013b).

The Council’s position was adopted in the final agreement although, as noted, this had already adopted the idea of a minimum payment per hectare as a modification of the outcome of the Commission’s formula.

3.2 Capping and degressivity

The Commission’s proposal was to reduce direct payments to an individual farmer above a certain amount according to the following formula:
– by 20 % for the tranche of more than €150,000 and up to €200,000;
– by 40 % for the tranche of more than €200,000 and up to €250,000;
– by 70 % for the tranche of more than €50,000 and up to €300,000;
– by 100 % for the tranche of more than €300,000.

In calculating these amounts, it proposed that salaries should first be subtracted. The savings would be recycled into the budgetary allocation for rural development and retained within the national envelopes of the member states in which they originated.
The Parliament’s mandate agreed with the Commission proposal. It added an exemption for cooperatives or other legal entities which group together a number of direct payment beneficiaries and which receive and channel the payments before distributing them in full to their members (European Parliament, 2013b). However, the position of the European Council was that capping of direct payments for large beneficiaries should be left to member states on a voluntary basis. Member states who wished to do so could reduce the amount of direct support allocated to farmers who receive more than €150,000 per year.

Degressivity of large payments was one of the priority issues for the Parliament. In June 2013, the Council agreed to revise the Irish Presidency’s mandate to agree to mandatory degressivity on amounts over €150,000 at 5% (strictly on the condition that other MFF issues were taken off the table). It was also agreed to give the possibility to decide not to apply this article where a member state implemented the redistributive payment where this amounted to more than 5% of a member state’s annual national ceiling. There was a logic to this element of the Council’s position as the redistributive payment would necessarily imply a reduction in payments to larger farms. Unlike the Commission’s position endorsed by the Parliament, however, it did not imply a maximum limit on the size of payment a farm could receive.

In the final trilogue in September 2013, the Parliament negotiators held out for a mandatory degressivity reduction of at least 15% on amounts over €150K and a reduction of at least 25% over €300K, with a possible derogation for those using more than 15% of national ceiling for redistributive payments.

The final agreement by and large reflected the Council’s position. Direct payments are reduced by at least 5% for the part of the amount exceeding €150,000, after subtracting salaries if a member state wants. Where a Member State uses more than 5% of its national ceiling for the redistributive payment, it may decide not to apply this reduction.

### 3.3 Flexibility between Pillars

The Commission proposed that member states could decide to make available as additional support up to 10% of their annual national ceilings for direct payments for measures under rural development programming. It also proposed that those member states with direct payments per hectare below 90% of the EU average (Bulgaria, Estonia, Finland, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia, Spain, Sweden and the United Kingdom) could decide to make available as direct payments up to 5% of the amount allocated to support for measures under rural development programming.

The European Council’s MFF conclusions raised the proportion which could be transferred to rural development funding to 15% of direct payment ceilings (this percentage had already been flagged in the COMAGRI rapporteur’s draft report). However, its conclusions would also allow all member states to make available as direct payments up to 15% of the amount allocated to support for measures under rural development programming. For those member states with direct payments per hectare below 90% of the EU average this percentage could be increased to 25%. The Council also took the view that these percentages may vary per calendar year and that member states should be allowed to review their transfer decision.

The Parliament’s mandate supported the transfer of up to 15% of direct payment ceilings to rural development programmes. On the reverse modulation, the Parliament supported allowing those member states with direct payments per hectare less than 90% of the EU average to transfer up to 10% of their rural development budgets to their direct payments allocation.
In the final trilogue negotiations with the Lithuanian Presidency, the Parliament negotiators tried to hold the line for modulation from Pillar 2 to Pillar 1 allocations at 10% of the Pillar 2 ceiling, or 15% for those countries with below average direct payments per hectare. The final outcome allows member states to transfer up to 15% of their direct payments ceiling to rural development. Alternatively, member states can transfer up to 15%, or in the case of the named member states with below average per hectare payments, up to 25%, of their rural development money to direct payments.

3.4 Principles for redistribution of rural development support

In its MFF proposal in June 2011, the Commission proposed to revisit the allocation of rural development funds on the basis of more objective criteria and better targeted to the objectives of the policy. This was reflected in its draft rural development Regulation published in October 2011. This proposed that the total amount of Union support for rural development for the period from 1 January 2014 to 31 December 2020, its annual breakdown and the minimum amount to be concentrated in less developed regions should be fixed by the European Parliament and the Council, on a proposal from the Commission in accordance with the 2014-2020 MFF and IIA. For the annual breakdown by member state of the total amounts, it proposed that it itself would, by means of an implementing act, determine this distribution, taking into account objective criteria linked to the objectives of the rural development regulation and past performance.

The European Council in its MFF conclusions agreed that support for rural development should be distributed between member states based on objective criteria and past performance. However, for a limited number of member states facing particular structural challenges in their agriculture sector or which have invested heavily in an effective delivery framework for Pillar 2 expenditure, it proposed a set of additional allocations. For member states receiving financial assistance in accordance with Articles 136 and 143 TFEU, it wanted a co-financing rate of 100% for the additional allocations until 2016 when the rule should be reassessed. However, the basis for the member state allocations was never revealed, despite repeated requests from the European Parliament.

The European Parliament’s mandate wanted the breakdown by member state to be set out in an Annex to the basic rural development regulation with the power to modify these amounts by means of a delegated act. The mandate removed any reference to possible criteria by which rural development funds should be allocated, leaving it unclear on what basis the Parliament wished to see the allocation of these funds. In the final regulation, the allocation by member state was included as an Annex to the basic act, with the amounts as agreed in the European Council’s MFF conclusions. The basic regulation contains no reference to possible criteria for this distribution or any explanation as to how this allocation was derived.

The Parliament on many occasions after the February 2013 meeting of the European Council expressed its frustration at the lack of information on the breakdown of Pillar 2 spending by member state.\textsuperscript{14} It took some months before the Commission made available these allocations to the Parliament, and no attempt was ever made to provide the basis for these allocations apart from the rather vague formulation in the European Council’s MFF conclusions. Ultimately, the absence in the

\textsuperscript{14} For example, in its resolution of 13 March 2013 on the European Council’s conclusions on the MFF, the Parliament “Denounces the lack of transparency in the way the political agreement was reached by the European Council on both the expenditure and the revenue side of the MFF; insists that it must have all relevant information at the disposal of the Commission on the level of agreed national allocations under cohesion and agricultural policies, including the derogations and specific allocations to each Member State; also requests all relevant information on the impact per Member State of the decisions taken on the revenue side of the MFF” (European Parliament, 2013c).
basic regulation of any discussion of allocation criteria for rural development funding strengthens
the view that the allocations were decided as a residual element in securing the unanimous
agreement of the European Council to the MFF conclusions at its February 2013 meeting.

3.5 Co-financing rates for rural development programmes

The co-financing issues concerned the general level of co-financing of rural development
programmes, preferential co-financing rates for particular regions, and preferential co-financing
rates for particular measures.

In the Commission’s original proposal, it proposed that the maximum EAFRD contribution rate
should be 85% of the eligible public expenditure in the less developed regions, the outermost
regions and the smaller Aegean islands; and 50% of the eligible public expenditure in the other
regions. As a derogation from these amounts, it proposed a higher co-financing rate of 80% for
measures in Articles 15 (knowledge transfer), 28 (setting up producer groups) and 36 (cooperation).

The European Council wanted the maximum EAFRD contribution rate to be 75% of the eligible public
expenditure in the less developed regions, the outermost regions and the smaller Aegean islands
and 53% of eligible public expenditure in the other regions, with higher rates of 63% and 75% for
transition regions. It also wanted a higher co-financing rate (by 10 percentage points) when a
member state is receiving financial assistance in accordance with Articles 136 and 143 of the TFEU. It
suggested a rate of 75% for operations contributing to the objectives of environment and climate
change mitigation and adaptation and 100% for amounts transferred from Pillar I to Pillar II.

The European Parliament mandate agreed with the Commission proposal on the general co-
financing rates of 85% of the eligible public expenditure in the less developed regions, the outermost
regions and the smaller Aegean islands and 50% of the eligible public expenditure in the other
regions. It accepted the Commission’s proposal for a higher co-financing rate of 80% for measures
referred to in Articles 15, 28 and 36 and 20(1)(a)(i). It wanted, in addition, a co-financing rate of
100% for operations receiving funding under Article 66 (operations which make a significant
contribution to innovation) and 55% for the agri-environment-climate measures referred to in
Article 29. It proposed that funds transferred from Pillar 1 would be subject to a co-financing rate of
50%, except in the case of member states receiving financial assistance under one of the Union’s
macroeconomic solidarity mechanisms when the co-financing rate would be 95%.

In the final outcome, the Parliament’s position of 85% co-financing for less developed regions,
outermost regions and smaller Aegean islands and the Council’s position of 53% (rather than 50%)
co-financing rate for standard regions were adopted. The Parliament also agreed with the Council’s
proposal to increase the co-financing rate to 75% for agri-environment-climate measures and to
allow 100% co-financing of funds transferred from Pillar I to Pillar II.

3.6 Crisis reserve

In an innovation in the presentation of the MFF, the Commission initially proposed to institute a
reserve for crises in the agricultural sector outside the MFF. It proposed an annual figure of €500
million or a total over the seven-year period of €3.5 billion. The idea was that funds under this
instrument would be mobilised using the same fast-track procedure as the Emergency Aid Reserve.
The Parliament in its mandate for the informal trilogues supported the Commission’s position.

The European Council in its MFF conclusions wanted this crisis reserve to be included under Heading
2 and reduced the amount to €2.8 billion. It proposed to establish the reserve by applying at the
beginning of each year a reduction to direct payments with the financial discipline mechanism. The
amount of the reserve would be entered directly in the annual budget and if not made available for crisis measures would be reimbursed as direct payments. This was the position eventually adopted in the final version of the horizontal CAP regulation.

3.7 Pre-financing arrangements

The pre-financing payment at the start of programmes ensures that member states have the means to provide support to beneficiaries in the implementation of the programme from the start. There were significant differences between the institutions on the appropriate pre-financing amounts. The Commission in its original proposal suggested a figure of 4% of EAFRD contribution to each programme which could be paid in up to three instalments, with 2% paid in the first instalment. The Parliament, in its mandate, wanted this increased to 7% of the EAFRD contribution. The European Council, on the other hand, wanted pre-financing rates to be reduced compared to the period 2007-2013. It was conscious that the RAL (reste à liquider) would be significantly higher than expected at the end of the financial framework for 2007-2013. Lower pre-financing amounts were one measure it suggested to ensure a manageable level and profile for the payments in all Headings. Specifically, it proposed an initial pre-financing amount of 3% of the amount of EAFRD support for the entire programming period to the programme paid in three equal instalments of 1% in each of the years 2014, 2015 and 2016, except where a member state has been receiving financial assistance since 2010, when the pre-financing rate is increased to 1.5% for the first two years. In the final agreement, Parliament accepted this Council position.

3.8 Method for financial discipline

The financial discipline mechanism, introduced by the 2003 CAP reform, aims to ensure that the level of direct support is adjusted whenever forecasts indicate that the CAP budget will be exceeded in a given financial year. Under the new CAP regulation, when applying this mechanism, account must also be taken of the amount required for the reserve for agricultural crises.

The Commission proposed in the direct payments regulation that the adjustment rate would only apply to direct payments in excess of €5,000. The European Council, in its MFF conclusions, wanted to retain the mechanism but was silent on the question of a threshold. However, it proposed to abolish the safety margin of €300 million per year before the mechanism was invoked.

In line with the European Council conclusions to maintain this mechanism, the Council set the level as of which any reductions of direct support would apply to farmers at €2,000 of direct support. The European Parliament in its mandate wanted the adjustment rate to apply to all direct payments granted to farmers. Strictly, despite the inclusion of the financial discipline mechanism in the European Council’s MFF conclusions, the threshold issue was not an MFF issue in contention as the European Council had given no guidance as to what threshold level it deemed appropriate. In the final outcome, the Council position was adopted.

3.9 Greening of direct payments

The Commission’s original proposal for a green payment in Pillar 1 was that farmers would become eligible for this payment by following three simple agricultural practices beneficial for agriculture and the environment. It envisaged that these measures would apply to virtually all farms, with the exception of small farms and organic farms which would be deemed to be ‘green by definition’.

The reference to greening in the European Council’s MFF conclusions was brief but significant. It noted that the overall environmental performance of the CAP would be enhanced through the greening of direct payments by means of certain agricultural practices, and that these would be
defined in the direct payments Regulation. Nonetheless, it gave important directions for the Council to pursue. It noted that member states should use 30% of the annual national ceiling in order to finance those practices, but insisted on a clearly defined flexibility for member states relating to the choice of equivalent greening measures. It also stressed that the requirement to have an ecological focus area (EFA) on each agricultural holding should be implemented in ways that did not require the land in question to be taken out of production and that avoided unjustified losses in the income of farmers.

In line with these conclusions, the Council made a significant number of adjustments to the greening provisions, aiming in particular to:
– adjust the scope of ‘equivalent practices’ (practices which yield an equivalent or higher benefit for the climate and the environment compared to the greening practices proposed by the Commission);
– provide for the progressive application of the requirement to provide for crop diversification on each farm, with a number of exemptions to that requirement;
– adjust the requirement to keep a minimum ratio of permanent grassland in relation to the total agricultural area;
– allow for the graduated application of the requirement to have an EFA on each farm (starting at a 5% rate with the possibility to bring this up to 7% as appropriate and subject to an evaluation report from the Commission), along with certain adjustments to the scope of eligible EFA and a number of exemptions.

The proposal that member states should use 30% of their annual national ceiling for direct payments to finance the green payment was not challenged by the Parliament and was retained in the final regulation. The Parliament’s mandate reduced the required EFA area to 3% initially, rising to 5% from 1 January 2016, with the possibility, following a report from the Commission to be delivered in 2017, that the percentage could be increased to 7% taking into account the impact on the environment and agricultural production. However, although the option of allowing member states to introduce equivalent practices as alternatives to the Commission’s three greening measures had been favoured by COMAGRI in their report to the plenary, this option was not supported in the plenary vote.

In the final agreement, in addition to the three greening practices originally proposed by the Commission, member states have the option to substitute practices covered by agri-environment-climate measures or certification schemes that are similar to greening and that yield an equivalent or higher level of benefit for the climate and the environment. The permitted practices are laid down in an Annex to the direct payments Regulation.

As regards EFAs, the final agreement requires EFA areas of 5% to be established where the arable area of a farm exceeds 15 hectares (with some exceptions for grassland farms), with the possibility that this could be increased to 7% after 2017 if the Commission makes a proposal to that effect. Any potentially adverse production effects of EFAs are minimised by allowing areas of short-rotation coppice, areas with catch crops and areas with nitrogen-fixing crops to be counted as EFA area, subject to conditions to be laid down by the Commission in a delegated act.

4. General discussion

4.1 CAP issues in the MFF negotiating box

The inclusion in the Council’s MFF negotiating box and ultimately in the European Council’s MFF conclusions of issues covered by the legislative proposals on the CAP was clearly a problematic
element in concluding the 2013 CAP reform. In its comprehensive resolution of 23 October 2012 outlining its views on the MFF, the Parliament noted (European Parliament, 2012b):

“78. [...] that any political agreement reached at European Council level constitutes no more than a negotiating mandate for the Council; insists that after the European Council has reached a political agreement, fully-fledged negotiations between Parliament and the Council need to take place before the Council formally submits for Parliament’s consent its proposals on the MFF regulation;

79. Reiterates that, according to the TFEU, Parliament and the Council are the legislative bodies and the European Council does not have the role of legislator; stresses that the negotiations on the legislative proposals relating to the multiannual programmes will be pursued under the ordinary legislative procedure.”

Three questions can be framed to better understand this problem. First, what is the distinction between the budgetary and the legislative aspects of the MFF agreement? Second, should the European Council (and the General Affairs Council in its preparation of draft MFF conclusions in the ‘negotiating box’) be discouraged from pronouncing on legislative issues in their MFF deliberations? Third, if the European Council does address legislative issues in its MFF conclusions, what is the status of these conclusions on legislative aspects when the Council and Parliament negotiate on the final legislation?

At a formal level, the distinction between MFF budgetary and legislative aspects is clear. Article 312 TFEU provides that the Council, acting in accordance with a special legislative procedure, shall adopt a regulation laying down the MFF. The purpose of the MFF is to ensure that Union expenditure develops in an orderly manner and within the limits of its own resources. Specifically, the MFF determines the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations. Thus, the budgetary aspects of the MFF are very limited, confined to setting annual ceilings at the EU level for the MFF as a whole and for its major headings. The MFF regulation must be adopted unanimously by the Council after obtaining the consent of the European Parliament. All other matters belong formally to legislation adopted under the ordinary legislative procedure where the Parliament has equal status as co-legislator with the Council.

The European Council has the responsibility to provide the Union with the necessary impetus for its development and shall define the general political directions and priorities thereof. However, it cannot exercise legislative functions (Article 15, TEU); legislative and budgetary functions are exercised by the Council jointly with the European Parliament (Article 16, TEU). In practice, it has become the norm that the actual decision on the MFF ceilings is taken by the European Council and later confirmed by the Council. In negotiating the 2014-2020 MFF, the MFF negotiating box was developed by successive Council Presidencies but the final agreement was reached at the European Council on the basis of successive drafts prepared under the responsibility of the European Council President, Mr Herman van Rompuy, who assumed control of the process in October 2012 (Kölling and Serrano Leal, 2014).

In many ways, it is entirely appropriate that the MFF negotiations should also focus on legislative matters given that the MFF is intended to reflect the political priorities of the Union. It is neither possible nor sensible to restrict or prevent the Council or the European Council from drawing
conclusions on legislative issues when discussing the MFF regulation. Instead, it seems more useful to focus on the third question: the status of these conclusions in the subsequent negotiations between Council and Parliament.

The Parliament addressed this question in its resolution on the lessons to be learned from the 2014-2020 MFF negotiations and the way forward (European Parliament, 2014). The resolution:

“Deplores the fact that, despite Parliament’s strong objections, all successive ‘negotiating boxes’ presented by different Council presidencies and, ultimately, the European Council MFF agreement of 8 February 2013 contained a significant number of legislative elements that should have been decided under the ordinary legislative procedure; stresses that the legally required unanimity in the Council on the MFF Regulation could only be achieved by pre-empting certain major policy changes in EU sectoral policies, thereby hindering, in clear contradiction with the Treaties, Parliament’s prerogatives under co-decision, and in particular its right to amend on an equal footing with the Council;”

In response, it called for a standard formula recalling the provisions of Article 15(1) TFEU to be included in the conclusions of the European Council.

In assessing this issue, a distinction can be drawn between legislative measures which directly influence the net payment position of each member to the overall budget and other legislative measures. The budgetary aspect of the MFF relates to the setting of overall ceilings for Union expenditure in total and on individual MFF headings. However, in reaching unanimous agreement in the European Council on these figures, individual member states’ negotiating positions are very influenced by the impact of these figures on their net payment position. Politically, in the absence of a transparent mechanism to achieve an agreed redistributive outcome, it is not conceivable that member states will agree to the overall ceilings without knowing the specific allocations they will receive under directly-allocated programmes (cohesion and CAP Pillar 1 and Pillar 2 spending).

The Parliament has on many occasions deplored this juste retour approach to the MFF negotiations. It has based much of its justification for the reform of the EU’s own resources regime

15 Nonetheless, the Parliament wants to be fully involved in these discussions and felt that its views were not listened to in the current round. Parliament, in its resolution of 3 July 2013 on the MFF, expressed its dissatisfaction in the following terms (European Parliament, 2013d):

“15. Views as deeply regrettable the procedure that led to this agreement on the MFF 2014-2020, which in reality has had the effect of depriving Parliament of its true budgetary powers as provided for in the TFEU; considers that the numerous meetings held over the past few years between its delegation and the successive Council presidencies on the margins of the relevant General Affairs Council meetings, as well as its participation in informal Council meetings dealing with the MFF, served no clear purpose, as they had no impact on the spirit, calendar or content of the negotiations or on the Council’s position, including the need to distinguish the legislative from the budgetary aspects of the MFF agreement;

16. Calls, therefore, on its Committee on Budgets, in cooperation with its Committee on Constitutional Affairs, to draw the necessary conclusions and to come forward with new proposals on the modalities of such negotiations, in order to ensure the democratic and transparent nature of the whole budgetary procedure.”

16 In its resolution drawing lessons from the experience of the 2014-2020 MFF negotiations, the Parliament noted its deep concern:
on the argument that it will reduce the influence of this way of thinking on the final MFF outcome. But even under a reformed EU own resources system member states will still remain focused on their expected gross receipts from EU spending programmes. The ability to adjust these gross receipts is an important instrument in the hands of the European Council Presidency in seeking unanimous agreement on the MFF ceilings (in the case of the CAP, both allocations under Pillar 1 and Pillar 2 are involved). Until the European Union moves towards an explicit recognition of the EU budget’s redistributive role, it will be virtually impossible for the European Parliament to secure a change in these allocations in the trilogue process, given the balancing role that these financial allocations play in securing this unanimous agreement. This is confirmed by the recent experience where the European Council’s conclusions on the allocation of Pillar 1 and Pillar 2 were confirmed in the final agreement. Thus, while formally part of the co-decision process, it is hard to see how the Parliament will get to exercise its role as co-legislator on these issues until a financial mechanism to achieve acceptable net positions is introduced to explicitly acknowledge the redistributive role of the EU budget.

As regards the remaining legislative issues which might be discussed in the Council’s MFF negotiating box and the European Council’s MFF conclusions, where the Council and Parliament hold different views, there is no reason why the Parliament’s role as co-legislator should not be fully respected. In practice, on this occasion, the Irish Presidency seemed more reluctant to contemplate moving away from its mandate on these issues than on other issues. It was only in the closing stages of the informal trilogues that it made an offer to accept a minimum level of mandatory degressivity on large payments, in return for the Parliament’s agreement to take all other MFF issues off the table. In the event, the MFF issues were shelved until finally concluded under the Lithuanian Presidency after the Council adopted a new mandate with concessions to the Parliament’s position on the issues of degressivity of large payments, the legislative treatment of the rural development allocations by member state and co-financing rates for less developed regions, outermost regions and smaller Aegean island (see detailed review above). As the COMAGRI press release welcoming the agreement noted: “For Parliament, the key issue in this final negotiating phase was to ensure that policy content which should be legislated under co-decision is not determined solely by heads of state” (COMAGRI, 2013).

This is obviously an important marker for future negotiations. The Presidency logic may be that, because the MFF conclusions are adopted by unanimity by the European Council, they deserve to be ‘privileged’ in trilogue discussions. If this were the case, there would be an incentive for those member states which fear that they may be outvoted on an issue in the regular Council to raise the issue at the level of the European Council where adoption by unanimity could help them to strengthen their negotiating position on that issue. Arguably, this might explain the inclusion of some very specific conclusions on CAP issues in the February 2013 European Council conclusions.

“...at the fact that budgetary debates in the Council have been for many years poisoned by the logic of ‘fair returns’ instead of being driven by the logic of the European added-value;........... Believes that this logic also prevailed in the way the MFF agreement was struck by the European Council on 8 February 2013; considers it regrettable that this was reflected in the fact that the national allocations, especially from the two biggest areas of expenditure in the EU budget, agriculture and cohesion policy, were determined at that moment; criticises, in particular, the increased number of special allocations and ‘gifts’ granted in the course of negotiations between Heads of State and Government, which are not based on objective and verifiable criteria, but rather reflect the bargaining power of Member States, trying to secure their national interests and maximise their net returns; denounces the lack of transparency in striking this agreement and the reluctance of the Council and the Commission to provide Parliament with all relevant documents; highlights that the European added value should prevail over national interests; (European Parliament, 2014).
4.2 Sequencing of the budget and CAP negotiations

From the outset, the COMAGRI negotiators adopted the position that Parliament would only adopt its final position on CAP reform once the MFF ceilings had been decided. There is a view that this linkage between the MFF and CAP negotiations delayed the start of negotiations on the CAP and, given the general acceptance of the need to conclude negotiations by the end of the Irish Presidency if the new reforms were to enter into force on time in 2014, this may have compressed the time available for CAP negotiations, to the detriment of the Parliament’s position.

Indeed, the linkage with the MFF negotiations probably did shorten the time for the negotiations on the CAP regulations. If the European Council had agreed on their MFF conclusions in November 2012 as was the original intention, it is likely that the Council’s general position could have been agreed before March 2013. Whether the Parliament’s negotiators would have been ready to start informal trilogues before March 2013 is less clear. The COMAGRI rapporteurs pressed ahead and prepared their draft opinions by May 2012 which were then open for amendment over that summer. Given the volume of amendments to the rapporteurs’ draft opinions, the need to consolidate these amendments and then to vote on them, it is possible that this process could not have proceeded more rapidly than it did. On balance, however, it seems probable that the CAP trilogues could have begun a little earlier if the MFF negotiations were not taking place in parallel.

However, even if the informal trilogues had started earlier in 2013, it is not clear whether that would have allowed the European Parliament to gain more concessions from the Council than it eventually obtained. The opinions of interviewees reported in the main report on the impact of the compressed time for negotiations on the outcome were mixed (Knops and Swinnen, 2014). Some felt that the very intense negotiating period between April and September 2013 helped to concentrate minds on reaching an agreement, while others noted that it also rushed the drafting phases and could have put either player in a ‘take it or leave it’ position. However, there is no clear evidence that a longer negotiating period would have changed the outcome or led to a different agreement, with either the Council or the Parliament succeeding in achieving more of their original goals.

What is clearer is that the insistence of the Parliament that no serious CAP negotiations should begin until the budget numbers were known worked to strongly favour those holding to a status quo-oriented position on the reform proposals (for example, farm groups) while disadvantaging those who sought a more radical change in the orientation of the CAP (for example, environmental groups seeking a greater focus on environmental public goods). In the agenda-setting phase of CAP reform (which took place largely between Commissioners) the size of the budget proposed for the CAP in the MFF could be made contingent on the scale of the reorientation of the CAP promised by the Agriculture Commissioner. But once the MFF was adopted by the European Council and its overall size and ceilings accepted by the Parliament in early 2013, the threat of a budget cut no longer played a role in determining the outcome. Farm groups and status quo-minded member states and MEPs could work to weaken the ambition of the greening proposals without having to worry that this could lead to a further reduction in the CAP budget (Matthews, 2013). Environmental groups and reform-minded member states and MEPS, on the other hand, had to argue their position without being able to wield the threat that the budget could be reduced if their proposals were not accepted. In fact, status quo-minded actors attempted to turn the argument around to suggest that the scale of the greening required justified an even larger CAP budget. This contrasts with the argument within the Commission in the agenda-setting phase that the CAP budget would only be maintained provided an ambitious greening strategy was pursued.

17 COMAGRI meeting on March 20th 2012 with the Parliament’s Budget Committee rapporteurs on the MFF regulations.
4.3 Rolling CAP reform?

Another question raised by the linkage with the MFF negotiations on this occasion is whether the tempo and scheduling of CAP reforms in future will continue to be linked with the MFF duration. Parallel negotiation on MFF ceilings and CAP reform has occurred in the past; for example, the 1999 Agenda 2000 reform was closely linked to the negotiations on the 2000-2006 MFF. However, the 2003 Mid-Term Review (MTR) and the 2008 Health Check were not linked to MFF negotiations in the same way. In the case of the MTR, negotiated and concluded in 2003, the CAP budget for the 2007-2013 MFF had already been fixed as a result of a Franco-German agreement in 2002. The Health Check reform was negotiated and concluded in 2008 within the context of the already-existing MFF for the 20067-2013 period. Rural development programming has always taken place with the rhythm of MFF programming, but this was not necessarily the case for Pillar 1 and direct payments.

For example, Annex VIII to Regulation (EC) No 73/2009 sets out national ceilings for direct payments by member state which cover the period up to “2016 and later years”, with the implication that these payments could continue indefinitely. This is not to suggest that these direct payments were guaranteed. Recital 26 of the same Regulation makes clear that “common support schemes have to be adapted to changing developments, if necessary within short time-limits. Beneficiaries cannot, therefore, rely on support conditions remaining unchanged and should be prepared for a possible review of schemes, in particular in the light of economic developments or the budgetary situation.” Recital 28 goes on to state that “the determination of national ceilings should ensure that the total level of support and entitlements does not exceed current budgetary constraints.” There is now a subtle change as a result of the 2013 CAP reform. Regulation (EU) No 1307/2013 in the corresponding Annex II setting out national ceilings for direct payments by member states now provides ceilings data up to “2019 and the subsequent year”, i.e. coterminous with the duration of the 2014-2020 MFF. This suggests an expectation that a further CAP reform will accompany the negotiation on the next post-2020 MFF, creating a more direct linkage between agricultural policy and budget negotiations than we have seen in the past.

One of the issues which exercised the Parliament in the MFF negotiations was the duration of the next MFF. In its October 2012 resolution, the Parliament took the view:

“...that for the next MFF, a 7-year period set until 2020 should be considered as a transitional solution, given that it makes a clear link with the Europe 2020 strategy; believes, however, that a 5- or a 5+5-year period would better align the MFF’s duration with that of the institutions’ terms of office, thereby enhancing democratic accountability and responsibility; recalls that, in order to have a viable and effective MFF, a 7-year period requires a maximum level of flexibility”.

The Parliament succeeded in getting a declaration attached to the Council’s MFF Regulation which discussed the duration of future MFF’s in the following terms:

“In the context of the mid-term review/revision of the multi-annual financial framework referred to in Article 1a, the European Parliament, the Council and the Commission agree to jointly examine the most suitable duration for the MFF starting in 2021 before the Commission presents its proposals with a view to striking the right balance between the duration of the institutions’ political cycles – in particular those of the European Parliament and the European Commission – and the need for stability for programming cycles and investment predictability.” (Council 15997/13).

If in the future the duration of the MFF were shortened to five years, this could institutionalise the rhythm of past CAP reforms which have taken place at roughly five-yearly intervals. However, the
implications of such an arrangement require further reflection in the light of the new co-decision procedure.

First, the longer time required to complete a co-decision dossier implies a greater period of uncertainty for farmers regarding the longer-term outlook for CAP support. On this occasion, the MFF lasts for a seven-year period although the first year was covered by transitional arrangements. Farmers are getting to grips with the new rules which are only fully in place by 1 August 2014. The next MFF and any revision to the CAP regulations accompanying this MFF would need to be in place during 2020. If the next CAP reform were to be synchronised with the next MFF negotiations, then the Commission should make its proposals for revised regulations by the latest by the second half of 2018 if not before.\footnote{In practice, the new CAP regulations should be published in the Official Journal before March 2020 as payments in late 2020 would be financed under the next MFF.} If the negotiations were prolonged, they might not be concluded by the end of this Parliament’s term. Negotiations would have to be resumed from scratch with a new Parliament, which could well have a different political complexion, and would certainly have different actors in the key roles. In these circumstances, it is hard to see negotiations being concluded in time for new CAP regulations to be published in the Official Journal by March 2020 which would be required as payments in late 2020 would be financed under the next MFF. One option would be for the institutions to agree to ‘roll-over’ the current CAP for a further two or three years and to postpone the Commission’s proposals for new CAP regulations to late 2019 or, probably more likely, until after the next MFF was agreed in late 2020. This would allow the next Parliament (and the next Commissioner for Agriculture) to reflect on and complete the next review of the CAP regulations within its term of office.

Another factor in this jigsaw is the requirement under Article 110 of the new horizontal directive on monitoring and evaluation of the CAP for the Commission to present an initial report, including first results on the performance of the CAP, to the European Parliament and the Council by 31 December 2018. A second report including an assessment of the performance of the CAP shall be presented by 31 December 2021. Waiting until these evaluations were available could be a further argument to postpone any further fundamental review of the CAP until the next Parliament and the next Commissioner is in place. Were this to be the outcome, then the allocations for Pillar 1 and Pillar 2 in the next MFF would be decided on the basis of a continuation of the current CAP regulations. Conversely, negotiations on the new CAP regulations would take place in the context of MFF budget ceilings which were known, as was the case for the 2003 MTR.

These reflections are, of course, just speculation at this point in time. Only in hindsight will we be able to see if the linkage between the MFF and CAP negotiations which was established in the 2013 reform will become the future norm or not.

**5. Conclusions**

The 2013 CAP reform was not only the first to be concluded under the co-decision procedure between the Council and the Parliament, but it was also complicated by the parallel negotiations on the MFF for the period 2014-2020. In this paper, I argue that there were three elements which linked the MFF negotiations to the CAP negotiations and influenced the overall outcome of the latter.

The first element of linkage was in the agenda-setting phase of the CAP reform. Given the economic and fiscal situation in the EU after the 2008 crisis, there was a very limited prospect of increased resources for the EU budget while the Europe 2020 agenda had prioritised spending on growth
priorities such as innovation, the digital economy, employment, youth, industrial policy, poverty, and resource efficiency. It thus seemed eminently likely that the CAP budget would need to be cut significantly to free up resources for new spending priorities. In the event, there was no dramatic cut to CAP spending; the long-term steady decline in the share of the CAP in the total EU budget continues but this is largely due to the impact of inflation rather than to any significant discretionary reductions in CAP expenditure. While this CAP reform might have moved in the direction of greater targeting on environmental public goods in any event, the emphasis put on greening the CAP seems to have been part of a Commission agreement to protect the CAP budget provided that a significant share was redirected to supporting measures favourable for the environment and climate action. The 2013 CAP reform might have been a ‘green’ reform anyway, but there is little doubt that the timing of the MFF negotiations accelerated the move in that direction.

The second element of linkage was the influence of the MFF negotiations on the timing of the CAP reform. From an early stage, the Parliament made clear that it was not prepared to negotiate on the proposed new CAP regulations until the budget allocations for the CAP were known. This meant that the CAP trilogues could not begin until after the MFF headline numbers had been agreed. Given the complexity of the CAP reform dossier, it is a moot point whether either the Council or the Parliament would have been in a position to start the CAP trilogues earlier if, say, the European Council had agreed on its MFF conclusions at its November 2012 meeting as had been originally planned, rather than at its February 2013 meeting as turned out to be the case. There is also no evidence to suggest that a longer period of negotiation would have led to a different outcome, or to a better outcome. However, what is clear is that the insistence of the Parliament that no serious CAP negotiations should begin until the budget numbers were known worked to strongly favour those holding to a status-quo oriented position on the reform proposals (for example, farm groups) while disadvantaging those who sought a more radical change in the orientation of the CAP (for example, environmental groups seeking a greater focus on environmental public goods). Farm groups and status-quo minded member states and MEPs could work to weaken the ambition of the greening proposals without having to worry that this could lead to a further reduction in the CAP budget. Environmental groups and reform-minded member states and MEPs, on the other hand, had to argue their position without being able to wield the threat that the budget could be reduced if their proposals were not accepted.

The third element of linkage was the inclusion of a number of CAP-related issues in the European Council’s MFF conclusions which were later given a privileged position by the Council Presidency in the trilogue negotiations with the Parliament. The Council Presidency was unwilling to show any flexibility in its negotiations on these issues until the last minute, and it was only some months after a political agreement had been reached on the CAP reform that agreement was reached also on these MFF-related CAP issues. One might speculate that the outcome of the negotiations on these issues would have been different if the Council Presidency had viewed them as subject to the usual co-decision bargaining.

Finally, the paper highlights some implications for the future of the linkages created between the MFF and CAP negotiations in the 2013 reform. The first is whether there is now an expectation that future reviews of the CAP regulations will be synchronised more closely with the cycle of MFF negotiations. If this were the case, then the demand of the Parliament to move to 5-year, or 5+5 year, MFF cycles synchronised with the Parliamentary election cycle would have implications also for the future CAP. Although CAP reform has occurred at roughly five-year intervals in the past, institutionalising this expectation could lead to increased policy uncertainty for farmers.

In the short-term, the timetable for the next CAP review is complicated by the lack of synchronisation between the parliamentary term of the 2014 EP which will end in mid-2019, and the
need for a new MFF to begin in 2021. Proposals for the shape of the CAP after 2020 would have to be advanced by the Commission towards the end of the life of this Parliament with a view to having the new CAP regulations in place by the first quarter of 2020. If the negotiations were prolonged, they would have to be restarted in the following Parliament which would make it very difficult to hold to that timetable. There are other reasons to expect that the next fundamental review of the CAP will be delayed until after 2020. Based on the experience of the 2013 CAP review, parliamentarians are reluctant to fundamentally modify the structure of Pillar 1 payments until the budget ceiling for these payments is known. Also, the evaluation of the 2013 reforms is not foreseen until, at the earliest, the end of 2018 with a further review scheduled for the end of 2021. These considerations point to a simple ‘transitional’ review by 2019 which would essentially roll over the direct payments, single CMO and horizontal regulations from the 2013 CAP reform while modifying the rural development regulation to adapt the programming rules for the next generation of rural development programmes in the next MFF.

A second issue for the future is whether the Parliament will succeed in having greater influence on the European Council’s conclusions on the distribution of CAP funds and other CAP-related issues in the next MFF during the co-decision process. Many were surprised by the extent of the involvement of the Heads of State and Government in the details of the CAP regulations on this occasion; if the speculations about the next CAP reform above turn out to be correct, then the coverage of CAP issues in the next MFF political agreement might not be so extensive. Nonetheless, the next MFF conclusions are likely to address issues such as further convergence in the value of payments per hectare across member states, the capping of payments, flexibility between Pillars, co-financing rates, the breakdown by member state of Pillar 2 allocations and the size of the crisis reserve. All of these issues are ultimately incorporated into the relevant CAP regulations and the Parliament has strongly argued that they should be decided as part of the co-decision procedure. Despite the view of the Council Presidency during the negotiations on the 2013 CAP reform that the unanimous decisions of the European Council were not negotiable in the trilogue process, the Parliament successfully achieved some changes in the MFF-related CAP issues and thereby established an important precedent.

This paper has made the distinction between those CAP legislative decisions which directly affect the net flows from the EU budget to member states (the external convergence formula, the distribution of Pillar 2 funds) and all other legislative issues that might be addressed in the European Council conclusions. On practical and political grounds, the paper argues that the Parliament will always find it virtually impossible to change the unanimous agreement of Heads of State and Government on the direct allocation of resources unless and until a financial mechanism to achieve acceptable net positions is introduced to explicitly acknowledge the redistributive role of the EU budget. On the other hand, all other issues should be fully open in the trilogue negotiations between the two institutions. If this analysis is accepted, it would make sense for the Parliament to focus its efforts on influencing these other issues in future rounds of CAP reform.
Annex I. Timeline of the MFF and CAP reform negotiations

This annex lists the major events and communications indicating the positions of the institutions on the linkages between the MFF negotiations and the negotiations on CAP reform.

16 June 2010 EP establishes the SURE committee
The European Parliament was the first institution to present its starting position on the next MFF. In June 2010 it set up a special committee on the policy challenges and budgetary resources for a sustainable European Union after 2013 (SURE) with the following remit (European Parliament, 2010a):

(a) to define Parliament’s political priorities for the post-2013 MFF, both in legislative terms and budgetary terms;
(b) to estimate the financial resources necessary for the Union to attain its objectives and carry out its policies for the period starting 1 January 2014;
(c) to define the duration of the next MFF;
(d) to propose, in accordance with those priorities and objectives, a structure for the future MFF, indicating the main areas of Union activity;
(e) to submit guidelines for an indicative allocation of resources between and within the different headings of expenditure of the MFF in line with the priorities and proposed structure;
(f) to specify the link between a reform of the financing system of the EU budget and a review of expenditure to provide the Committee on Budgets with a sound basis for negotiations on the new MFF;

The special committee was established for a term of 12 months from 1 July 2010 in order to submit a report to Parliament before the Commission presented its proposal with figures for the next MFF, planned for July 2011.

8 July 2010 Lyon report
The European Parliament’s 2010 report on the future of the CAP after 2013 (rapporteur G. Lyon) noted that “it is essential that the budget the EU allocates to the CAP is at least maintained at current levels” (European Parliament, 2010, para. W). This is expanded (para. 88) as follows: “Stresses the need, given the new Common Agricultural Policy objectives, to provide adequate funding in the new MFF, in order to be able to better support the policy in accordance with the major challenges this crucial sector for EU food security will have to face in the coming years.”

14 Sept 2010 Franco-German letter
The agricultural ministries of France and Germany drew up bilaterally a common position on the future of the CAP in September 2010, which emphasised a need for a strong CAP, more legitimacy of direct payments and efficient and sustainable rural development policy. The common position emphasised that there must be resources for action commensurate with our ambitions without specifying any figures, recognising that a final decision on all questions relating to finances would be made in the context of the MFF negotiations.

17 March 2011 Council position
The conclusions of the Presidency on the Commission’s Communication on the CAP towards 2020 adopted at the Agriculture Council of 17 March 2011 with the support of 20 Member States called for a strong CAP based on two pillars with financial resources that are commensurate with its objectives.

27 May 2011 Dess Report
The European Parliament’s report on the Commission’s Communication on the CAP towards 2020: meeting the food, natural resources and territorial challenges of the future (Dess report) “calls for the EU agricultural budget in the next financing period to be maintained at least at the same level as the 2013 agricultural budget; recognises that adequate financial resources will be necessary in order to meet the challenges of food security, environmental protection, climate change and territorial balance in an enlarged EU, as well as to allow the CAP to contribute to the success of the EU 2020 Strategy” (European Parliament, 2011, para. 6).

8 June 2011 EP adopts report of the SURE committee
On the basis of the report of the SURE Special Committee, the European Parliament adopted, by a large majority, a non-legislative resolution entitled “Investing in the Future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe”. The resolution makes clear that, in the EP’s view, freezing the next MFF at 2013 levels is not a viable solution. Instead, it proposes an increase of at least 5% over the 2013 level which would mean that the EU budget would be roughly 1.11% of the EU’s total Gross National Income (GNI).

The SURE Committee’s views on the appropriate budget for the CAP were framed by the following considerations:

“Is concerned that the expansion of the world population from 6 to 9 billion will intensify global competition for natural resources and put additional pressure on the global and local environment; notes that demand for food is likely to grow by 70 % by 2050 and that the inefficient and unsustainable use and management of raw materials and commodities exposes citizens to harmful competition between food, nature preservation and energy production, as well as costly price shocks; it can have also severe consequences for industry with regard to business opportunities, including restrictions on access to raw materials, threatening economic security and contributing to climate change; stresses therefore the need for the EU to immediately take action and lead the process towards an economy based on sustainable use of resources (Para. 9).”

Under the political priorities heading for the Common Agricultural Policy, the SURE Committee noted:

“78. Affirms that the common agricultural policy (CAP) should also be geared towards contributing to the achievement of the targets of the Europe 2020 strategy and that both pillars of the CAP should make a valuable and distinctive contribution to it, in a complementary way; emphasises that the CAP is firmly anchored in the Treaty of Lisbon, which defines its objectives and tasks;
79. Stresses that while the primary role of the current and the reformed CAP is to guarantee European Union food security as well as global food supply in times of rising food prices and food shortages, it is at the same time delivering a variety of public goods beyond agricultural markets, such as maintaining farm land in production throughout Europe, shaping the diversity of landscapes, enhancing biodiversity and animal welfare, mitigating climate change, preserving soils and water, combating rural depopulation, poverty and segregation, providing for employment and services of general interest in rural areas, contributing to a more sustainable food production and supporting renewable sources of energy;
80. Calls on the Commission to present proposals for a reformed CAP, which aim at a more effective and efficient allocation and use of the CAP budget, inter alia, via a fair distribution of direct payments between Member States, regions and farmers by strengthening conditionality towards delivering the public goods expected by society and by more
targeted payments in order to ensure best return for public money; emphasises the need for maintaining a two-pillar system of the CAP and for simplifying the implementation mechanisms;

81. Supports food autonomy of developing countries; recalls the commitment made by the WTO members during the 2005 Hong Kong Ministerial Conference to achieving the elimination of all forms of export subsidies; considers that the new CAP must be in line with the EU concept of policy coherence for development; underlines that the Union must no longer use export subsidies for agricultural products and must continue to coordinate efforts with the world’s major agriculture producers to cut trade distortion subsidies;

82. Insists that, given the wide array of tasks and objectives that the CAP is called to respond to, the amounts allocated to the CAP in the budget year 2013 should be at least maintained during the next financial programming period;

83. Calls for an increased coordination of the European Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF) and other cohesion and structural funds in order to strengthen a territorial approach; asks the Commission to present specific proposals on how better synergies could be achieved with regard to funding for non-agriculture related activities in the EAFRD and other relevant instruments; expects that the expenses linked to economic diversification in regions where agriculture is declining will increase over the period of the next MFF;”

29 June 2011 Commission MFF proposal
The Commission proposed its MFF ceilings and allocations (CEC, 2011b). The overall amount proposed by the Commission for the 2014-2020 period was €1,025 billion (2011 prices) in commitment appropriations – 1.05% of the EU’s GNI – and €972.2 billion – 1% of the EU’s GNI – in payment appropriations. The proposal represented an increase of 3.16% compared with the current MFF but a reduction of -0.1% compared to the 2013 level.

The proposal contained a detailed discussion of possible reforms to the CAP regulations. It noted that, in future, not only will the agriculture budget be used to increase agricultural productivity, ensure a fair standard of living for the agricultural community, stabilise markets, assure the availability of supplies and ensure that they reach the consumer at reasonable prices, but it will also support the sustainable management of natural resources and climate action and support balanced territorial development throughout Europe. It noted that the basic two pillar structure of the CAP will be maintained and reviewed the main changes proposed by the Commission, including the greening of direct payments, the convergence of payments, the capping of payments, support for active farmers, a more results-oriented rural development programme, a simplified scheme for small farmers as well as outlining the proposed market expenditure and crisis mechanisms.

15 November 2011 General Affairs Council first orientation debate on Heading 2 in the MFF
This was the first formal opportunity for the Council to address CAP-related issues in the MFF, and the outcome is summarised in the Polish Presidency’s progress report on the MFF discussions delivered the following month ((Council of the European Union, 2011).

1 December 2011 Progress report on MFF negotiations under Polish Presidency
The presentation of the Commission’s proposals for the future multiannual financial framework (MFF) coincided with the start of the Polish Presidency. Work within the Council started immediately after the submission by the Commission of its proposals. At the end of the Polish Presidency in December 2011, the following extract summarises the state of play with regard to the discussions on CAP-related issues in the MFF (Council of the European Union, 2011).

“Common Agricultural Policy
26. Views diverged on the level of the budget with some delegations supporting the Commission proposal to stabilize spending on 2013 level in nominal terms, while some others arguing for a more restrictive approach to agriculture related spending.

27. The proposed modalities for the convergence of direct payments in the Common Agriculture Policy raised some questions. On the one hand, some delegations found that the proposed scheme was too ambitious and should be more gradual, whilst others argued that it was too slow and did not provide for full equality of treatment. Several Member States felt the Commission proposal struck the right balance. The redistribution criteria, in particular the use of potentially eligible areas, were questioned by a few delegations.

28. Further greening of the direct payments was not opposed as such, but several delegations stressed the need for this to be done efficiently and proportionally. Some delegations felt that greening should be pursued in the second pillar of the CAP rather than through direct payments. Some took the view that the share of direct payments (30%) made conditional on green measures was too high, while a few regarded it as being too low. Many delegations asked the proper balance be maintained between greening and the administrative burden that may be involved in their implementation.

29. As regards rural development, some delegations welcomed its inclusion in the Common Strategic Framework, but questioned it being subject to macro-fiscal conditionality. Many delegations called on the Commission to come up as soon as possible with an annual breakdown per Member State of rural development allocations.

30. A few delegations opposed the creation of a reserve for crisis in the agricultural sector as well as the extension of the European Globalization Fund to farmers. “

20 April 2012 General Affairs Council discusses Heading 2 of MFF
The Danish Presidency for the first time circulated possible elements of the MFF negotiating box dealing with CAP-related issues (Council of the European Union, 2012c). The negotiating box is drawn up under the responsibility of the Presidency and is not a report on the discussions so far. The relevant extracts are shown in Annex 2.

13 June 2012 EP resolution on the Commission’s MFF proposal
The European Parliament adopted a resolution of 13 June 2012 on the Multiannual Financial Framework and own resources responding to the Commission’s July 2011 proposals and in view of the imminent submission to the June 2012 European Council by the Danish Presidency of the first version of the ‘negotiating box’ putting forward options for all aspects of the MFF negotiations (European Parliament, 2012a).

The resolution, which is quite short, confirms the content of its resolution of 8 June 2011. It opposes the Commission proposal to freeze the next MFF and reiterates its view that the EU needs a budget that is both robust in order to respond to its political objectives and sufficiently flexible to deal with new challenges.

The resolution states that the EP is not prepared to give its consent to the next MFF regulation without political agreement on reform of the own-resources system, putting an end to existing rebates and other correction mechanisms and leading to more transparency, fairness and sustainability. It welcomes the legislative proposals made by the Commission on 29 June 2011 on the reform of the own-resources system, including the proposals on a financial transaction tax (FTT) and a new EU VAT as own resources, which are aimed at reducing the share of Member States' GNI-
based contributions to the EU budget to 40% by 2020, thereby contributing to the consolidation
efforts of Member States;

It insists that the MFF 2014-2020 must provide enhanced budgetary flexibility within and across
headings, as well as between financial years within the MFF, in order to ensure that budgetary
resources can be appropriately aligned with evolving circumstances and priorities. It also insists on
the principle of unity of the EU budget, stressing that all EU policies and programmes should be
included within the MFF with appropriate funding, thus contributing to transparency, predictability
and accountability.

Finally, it proposes to adhere to the principle that ‘nothing is agreed until everything is agreed’ as an
appropriate working method.

19 June 2012 Danish Presidency First draft of the MFF Negotiating Box
While the Polish Presidency progress report of 1 December 2011 had indicated that discussions on
CAP-related issues were taking place in the Council’s MFF working groups, this first presentation of
the negotiating box made explicit for the first time the range of issues which were being discussed.

6 July 2012 Amended Commission MFF proposal
This was a technical amendment to take account of Croatia’s accession to the EU and the availability
of new macroeconomic data which resulted in a recalculation of member state allocations under the
cohesion fund.

20 August 2012 Cyprus Presidency informal issues paper
This document gives the first insight into how the Cyprus Presidency proposed to advance the MFF
discussions (Republic of Cyprus, 2012). Its specific comments on Heading 2 were as follows:

“Concerning the Common Agricultural Policy, given the sharply opposite preferences of the
Member States, the contribution to the overall reduction has to come from both Pillars and
further discussion is needed regarding the relative priority between them. At the same
time, while respecting the distinct objectives of the two Pillars, it would seem appropriate
to provide for somewhat more flexibility between them, possibly in both directions. The
principle of a more equitable distribution of direct support is accepted, while further
consideration is required on the ambition and speed of convergence as well as on
degressivity. The Presidency understands that the majority of Member States consider that
the distribution key for rural development is a necessary part of the overall agreement on
the MFF.”

18 September 2012 Cyprus Presidency presents revised version of negotiating box
The Cypriot Presidency presents a compromise proposal recommending large cuts to the MFF. The
revised negotiating framework provides for savings of at least €50 billion across the budget
headings. It opened for the first time the possibility of specific reductions in the direct payment
national envelopes in the following way:

“In order to adjust the overall level of expenditure under heading 2, the EU average level of
direct payments per hectare will be reduced by [X% to Y%] per year for the financial years
2015-2020.”

18 Sept 2012 COMAGRI Opinion on MFF resolution
This Opinion was attached to the EP’s Oct 2012 resolution. It outlined COMAGRI’s preference for a
larger CAP budget in the MFF than the Commission had proposed, as well as the need for flexibility
to move resources between the two pillars.
In line with the position expressed by Parliament in its earlier resolutions, it argued that the budget for the CAP should at least be maintained at the same level as in 2007-2013. Accordingly, the cuts proposed by the Commission should be rejected and Parliament should call for an amount corresponding to the ceilings for the current programming period. Specifically, however, COMAGRI interpreted the maintenance of CAP spending at least at the same level as referring to expenditure in real terms. It wanted the Council to increase Heading 2 and the subheading for direct payments and market-related expenditure to €420,682 million and €336,685 million respectively, corresponding to a freeze in real terms.

Against the background of budgetary constraints both in the member states and in respect of the EU budget, it also argued that it was essential to give member states the flexibility to move funds between the two pillars of the CAP (direct payments and rural development) so that they can address the challenges facing their rural areas in the most appropriate way.

23 October 2012 EP resolution on the MFF
This non-legislative resolution was adopted prior to the presentation by the Cyprus Presidency of a revised negotiating box to the November 2012 European Council meeting which was its first attempt to reach conclusions on the MFF. The resolution recommended that the Council should not try to reduce any further the level of Union budget than that in the Commission’s proposal. On the CAP the resolution noted:

“Recalls its position that, given the wide array of tasks, challenges and objectives that the CAP is called on to respond to, the amounts allocated to the CAP in the budget year 2013 should be at least maintained during the next financial programming period; believes that the new CAP should aim at a more effective and efficient allocation of its budget, inter alia via a fair distribution of direct payments and rural development allocations between Member States, regions and farmers, in order to reduce the existing gap; stresses, in this context, the important role played by the second pillar of the CAP, which makes a significant contribution to investment and job creation in rural areas, to enhancing the effectiveness and competitiveness of the farming industry, particularly in the light of the new challenges referred to in the Europe 2020 strategy, as well as to managing environment and preserving biodiversity” (European Parliament, 2012, Para. 27);

“Notes that any political agreement reached at European Council level constitutes no more than a negotiating mandate for the Council; insists that after the European Council has reached a political agreement, fully-fledged negotiations between Parliament and the Council need to take place before the Council formally submits for Parliament's consent its proposals on the MFF regulation;

“Reiterates that, according to the TFEU, Parliament and the Council are the legislative bodies and the European Council does not have the role of legislator; stresses that the negotiations on the legislative proposals relating to the multiannual programmes will be pursued under the ordinary legislative procedure;” (European Parliament, 2012b).

29 October 2012 Cypriot President presents revised draft version of the MFF negotiating box
For the first time in the negotiations figures are introduced into the negotiating box. This revised version presents savings across all Headings of the MFF amounting to at least €50 + (plus) billion. According to the assessment of the Presidency this is a starting point for delegations in order to reflect on the effects of reductions. More sizeable reductions are needed in order to reach a compromise. The paper notes that further reductions will require even bigger trade-offs and the
need to prioritise between policies and programmes. Specifically, the paper proposed that in order to adjust the overall level of expenditure under Heading 2, the EU average level of direct payments per hectare will be reduced by [0.27 to X]% per year for the financial years 2015-2020. This reduction of direct payments per hectare corresponds to a total reduction of direct payments over the period 2014-2020 by [1.3]% compared to the Commission proposal.

13 November 2012 President of the European Council circulates draft conclusions for the European Council meeting 22-23 November 2012 to the General Affairs Council

The President of the European Council Herman Van Rompuy tabled his proposal for expenditure and financing in the 2014-2020 MFF for discussion at the General Affairs Council scheduled for 20 November. The draft builds on the previous version of the MFF negotiating box developed by the Cyprus Presidency in October 2012 but revises the numbers, again in a downward direction.

The draft conclusions also makes explicit some CAP numbers and policy positions which were left unresolved [in square brackets] in the previous Cyprus Presidency proposal. On the convergence of direct payments across member states, the proposal confirms the Commission’s original MFF formula for redistribution.

“All Member States with direct payments per hectare below 90% of the EU average will close one third of the gap between their current direct payments level and 90% of the EU average in the course of the next period. This convergence will be financed by all Member States with direct payments above the EU average, proportionally to their distance from the EU average.”

However, the length of time for this convergence was extended to 6 years from the financial year 2015 to financial year 2020. The Cypriot proposal, inherited from the first Danish version of the negotiating box, was that this convergence would take place over 4 years from 2015 to 2018.

The Van Rompuy draft stated that, in order to adjust the overall level of expenditure under Heading 2, the EU average level of direct payments in current prices per hectare will be reduced over the financial years 2015-2020. However, the specific Cypriot Presidency depression formula of a reduction of at least 0.27% per annum is removed.

The draft conclusions propose to make use of the financial discipline mechanism to create the financing for any potential call on the new agricultural crisis reserve. The size of this reserve is set at €400 million per year (a total of €2.8 billion compared to the Commission’s proposal of €3.5 billion). The reserve will be established by applying at the beginning of each year a reduction to direct payments using the financial discipline mechanism. The amount of the reserve will be entered directly in the annual budget and if not required for crisis measures will be reimbursed as direct payments.

Greening is maintained at 30% of the annual national ceilings, although with a clearly defined flexibility for the member states relating to the choice of greening measures. The possibility of a ‘menu approach’ to greening at the member state level is introduced, plus the possibility of ‘green by definition’ designations at farm level.

Capping of the direct payments for large beneficiaries by member states is proposed on a voluntary basis.

Greater flexibilities are given to member states to shift resources between the two CAP pillars. Member states would be able to shift 15% of their direct payments ceiling to Pillar 2 (the Cypriot Presidency paper had suggested 10-15%). The draft conclusions would allow all member states (not just those with low average payments per hectare) to transfer up to 15% of their rural development money to Pillar 1.
The draft conclusions opted for the lowest figure for co-financing rates in the range proposed by the Cyprus Presidency paper. For example, the co-financing rate in less developed regions will be generally 75%, and 50% in developed regions, where the previous version of the negotiating box had left open the possibility that the rate could be as high as 85% in less developed regions and 55% in developed regions.

22 November 2012 Second proposal for draft European Council MFF conclusions prepared by Council President
Following the meeting of the General Affairs Council the previous week, the President of the European Council Herman van Rompuy prepared an updated set of draft MFF conclusions for discussion by the European Council leaders. The total budget (including extra-MFF spending) in this draft is maintained at exactly the same level as in the earlier one but because emergency aid for humanitarian crises in developing countries is moved out of the MFF, the MFF total falls by just over €1 billion euro. Within the overall budget, some of the CAP spending cuts are reinstated at the expense of all other budget headings (apart from Administration) while, within Heading 1, there is a shift from competitiveness (Europe 2020) to cohesion spending.

22-23 November 2012 European Council meeting
Heads of State and Government failed to agree on MFF conclusions.

8 February 2013 European Council conclusions on the MFF
The European Council reaches political agreement on the MFF. The package agreed amounts to €960 billion (1% of EU GNI). This means that the overall expenditure ceiling has been reduced by 3.4% in real terms, compared to the current MFF (2007-2013), reflecting the consolidation of public finances at national level. The ceiling for overall payments has been set at €908.40 billion, compared with €942.78 billion in the 2007-2013 MFF, which represents 0.95% of EU GNI.

13 March 2013 EP MFF resolution responding to European Council conclusions
The European Parliament adopts a non-legislative resolution tabled by the leaders of the EPP, S&D, ALDE, Greens/EFA and GUE/NGL political groups, rejecting the conclusions of the European Council of 8 February. The Parliament does not disagree with the overall amount of €960 billion in commitments appropriations adopted by the Council but lays down conditions for the adoption of the MFF: (i) to put an end to the growing problem of payment shortfalls, which jeopardises EU programmes; (ii) ensures greater flexibility; (iii) allows for a mid-term revision of the MFF; (iv) establishes own-resources. The resolution, adopted by a large majority, defines the European Parliament’s mandate in view of the future MFF negotiations with the Member States (European Parliament, 2013c).

13 March 2013 European Parliament adopts negotiating mandates on CAP regulations;
The European Parliament adopted four resolutions setting out the negotiating mandate for the COMAGRI negotiators with the Council Presidency.

19 March 2013 Council adopts its general position on CAP reform
The Council reached agreement on a general approach on the four main proposals for regulations within the framework of reform of the CAP (Council of the European Union, 2013b). This political agreement in the Council on the CAP reform package enables negotiations to be launched between the Parliament and the Council.

11 April 2013 Informal CAP reform trilogues begin
The trilateral negotiations on the CAP reform were launched on 11 April after both European Parliament and Council adopted their negotiating mandates.
6 May 2013 EcoFin Council adopts amending budget for 2013
The adoption of this amending budget marks the end of the stalemate on the MFF and the start of political negotiations on the Agreement. The proposed amending budget No 2/2013 allows for a first tranche of €7.3 billion to cover outstanding payment needs in 2012. A binding political commitment regarding the second tranche is also made and will be decided upon in early autumn 2013.

13 May 2013 Informal MFF trilogues begin
The first trilogue on the 2014-2020 MFF takes place (CEC, 2013a). It agrees on various technical issues such as the scope and calendar of the negotiations and that the negotiations would focus mainly on future flexibility of the EU budget, a revision clause, the future of the EU budget’s own resources and the unity of the EU budget, reflecting the EP’s demands in its resolution of 13 March 2013.

25 June 2013 General Affairs Council adjusts MFF mandate following discussions with EP
The Council took note of the state of play in the discussions between the Irish presidency and representatives of the European Parliament and of the Commission on the MFF for 2014-2020 (Council of the European Union, 2013c). The presidency presented the outcome of the negotiations with the chief negotiator of the European Parliament, Alain Lamassoure, in the form of a draft MFF regulation and a draft IIA. The documents build on the conclusions of the European Council of 8 February while addressing the following four issues raised by the European Parliament: flexibility, review/revision, unity of the budget and own resources.

25 June 2013 Agriculture Council adjusts mandate on CAP negotiations
During the Agriculture Council meeting held on 24-25 June, member states agreed to revise the negotiating mandate of the Irish Presidency to facilitate a political agreement with the EP negotiators (Council of the European Union, 2013d). Most of the issues addressed were specific to the CAP negotiations. However, the Irish Presidency’s proposal that the Council should agree to mandatory degressivity on amounts over €150,000 at 5% (strictly on the condition that other MFF issues are taken off the table), was agreed. It was also agreed to give the possibility to decide not to apply this article in case of redistributive payments where these amounted to more than 5% of a member state’s annual national ceiling.

26 June 2013 Political agreement reached on CAP reform
A general political agreement with the other EU institutions was reached on the CAP reform package (CEC, 2013b). However, the European Parliament considered that some outstanding issues linked to the MFF 2014-2020 were not part of the agreement. All CAP-related MFF issues were placed in square brackets. These issues included the financial provisions in the rural development regulation, the capping, external convergence and flexibility between pillars in the direct payments regulation, the crisis reserve and other provisions in the horizontal regulation.

27 June 2013 Political agreement reached on MFF
After several trilogue meetings, on 27 June, the Presidency of the Council of the European Union, the President of the European Parliament, and the President of the European Commission reached a political agreement on the next Multi-annual Financial Framework for 2014-2020.

28 June 2013 Council approves MFF political agreement with the Parliament
The Permanent Representatives Committee approved, on behalf of the Council, the agreement reached with the European Parliament on the next MFF (Council of the European Union, 2013e). The political agreement, adopted unanimously, confirmed the expenditure ceilings agreed by the European Council on 8 February. It concerned:
• a draft MFF Council Regulation, which has meanwhile been sent by the Council to the Parliament with the request for its consent;
• a draft Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline, cooperation in budgetary matters and sound financial management;
• four joint declarations by the three institutions;
• two unilateral declarations by the Commission.

The agreement addressed the four issues raised by the European Parliament to be able to adopt the MFF: (i) payment shortfalls; (ii) greater flexibility between and within headings, as well as between financial years, needs to be ensured in the next MFF; (iii) a mid-term revision of the MFF so as to allow the newly elected Parliament in 2014 and the new Commission a chance to examine the budgets inherited from the current legislators; (iv) introduction of own resources in order to reduce the share of GNI-based contributions to the EU budget to a maximum of 40% and phases out all existing rebates and correction mechanisms.

More specifically, the main elements of the Agreement were as follows (European Parliament, 2013e):

1. Payment issues: to ensure that the full amounts committed are actually paid throughout the next programming period, the Interinstitutional Agreement on budgetary management envisages a new article in regard to the outstanding commitments (reste à liquider - RAL). RAL are defined as the amount of appropriations committed that have not yet been paid. The RAL shall be closely monitored by the European Parliament, the Council and the Commission in order to mitigate the risk of blocking the implementation of EU programmes due to the shortage of payment appropriations at the end of the financial framework.

2. Flexibility: this is to ensure that the EU can fulfil its obligations and cope with unforeseen budgetary needs in spite of limited financial resources:

Starting in 2015, the unused margins under the payment ceiling of the previous year will be carried over to the following years, subject to limits in the last three years of the MFF:

- 2018: EUR 7 billion,
- 2019: EUR 9 billion,
- 2020: EUR 10 billion.

The payment ceilings of the years in which the unused margins arise will be cut accordingly in order to leave the overall ceiling unchanged.

A number of new special instruments are set up outside the multiannual financial framework, in addition to the existing ones:

- tackle youth unemployment: up to EUR 2.143 billion (in 2011 prices) would be frontloaded in 2014 and 2015 to tackle youth unemployment, meaning that the whole EUR 6 billion for the youth employment initiative would be committed in the first two years of the MFF;
- strengthen research: up to EUR 400 million (in 2011 prices) would be frontloaded in 2014 and 2015 for research, Erasmus and SMEs;
- global margin for commitments for growth and employment: this is for policy objectives related to growth and employment, in particular youth employment in the years 2016-2020; it is financed by the margins left available below the MFF ceiling for commitments in the years 2014-2017;
- aid for the most deprived: in order to maintain the current level of funding for this programme, Member States may decide to increase their allocation by up to EUR 1 billion on a voluntary basis, in addition to the EUR 2.5 billion already agreed;
- contingency margin: this is a last resort instrument to react to unforeseen circumstances and amounts to 0.03% of the EU's gross national income; any amounts made available would be fully offset against the margins for the current or future financial years.
3. Review: a review of the MFF is to take place in 2016 at the latest, allowing the newly elected European Parliament, the Council and the Commission to reassess the priorities for the remaining years of the financial framework.

4. Unity of the budget: all expenditure and revenue of the EU and Euratom should be included in the EU budget.

5. Own resources: a high-level group, composed of members appointed by the European Parliament, the Council and the Commission will be convened in order to undertake a general review of the own resources system and provide a first assessment at the end of 2014. On the basis of the results of this work, the Commission would assess whether new own resource initiatives are appropriate for the period after 2020.

3 July 2013 EP adopts mandate for concluding MFF negotiations
The European Parliament adopted this resolution on the 2014-2020 MFF which welcomes the political agreement reached with the Council and lays down certain key priorities including the new arrangements relating to the revision of the MFF, provisions on its flexibility, and an undertaking regarding the settlement of the issues of own resources and of the unity and transparency of the budget (European Parliament, 2013d).

8 July 2013 COMAGRI indicates MFF issues still open
At the COMAGRI meeting with the Lithuanian minister for agriculture and president-in-office of the Agriculture Council, the COMAGRI Chair indicated that Parliament’s negotiators intended to prepare compromise proposals on the outstanding CAP reform issues, i.e. those not covered by the 26 June political agreement, and present them to the Lithuanian presidency and to the Commission in early September (European Parliament, 2013f).

15 July 2013 Agriculture Council reviews CAP political agreement
At the public debate on the CAP reform political agreement at the Agriculture Council July 2013 meeting, several member states highlighted that further discussion on the outstanding issues linked to the Multiannual Financial Framework (MFF) 2014-2020 in the CAP reform package risks to unbalance the entire agreement on the CAP reform package; they considered that there is no more flexibility from the Council side on the MFF-related issues. The Presidency however highlighted that further trilogues with the European Parliament on MFF-related issues cannot be excluded but considered that the mandate given to the Presidency by the Council is clear and reflects both the European Council conclusions of 7-8 February 2013 on the Multiannual Financial Framework (MFF) and the revised mandate agreed by the Council in June (Council of the European Union, 2013f).

11 September 2013 EP Budgets Committee postpones MFF consent vote
The EP Budgets Committee decides to postpone the consent vote to the EU’s 2014-2020 budget regulation and the MFF regulation due to the fact that the conditions set out in the Committee’s resolution of 3 July are still not met, according to a statement issued by the three largest political parties (European Parliament, 2013g). The statement called for the issue of payment shortfalls to be resolved, an issue which the institutions committed themselves to in their joint statement on payments for 2012 and 2013 signed by the Parliament, Council and the Commission in December 2012. They further insisted on the need to establish a high-level working group on EU own resources to promote the modernisation of the EU’s financing.

23 September 2013 Council adapts its MFF mandate
At its meeting on Monday 23 September 2013, the Agriculture Council adjusted its negotiating position on the MFF aspects of the CAP reform package. Ministers decided to make final adjustments to the Presidency mandate in the legal text to reflect the broad agreement reached after intensive negotiations led by the Lithuanian Presidency (Council of the European Union, 2013g).
The main elements of the final adjusted Council position are summarised below:

– As regards direct payments and more specifically on degressivity, the Council made a major effort in the direction of the Parliament by moving towards a rate of 5% for amounts above €150,000 along with a 5% rate for the derogation in relation to the redistributive payment. Degressivity shall apply only to the basic payment or the single area payment.

– On the presentation of the breakdown of the rural development budget, the Council agreed to include this breakdown in an annex to the rural development regulation with the power for the Commission to amend this annex through delegated acts in clearly defined circumstances.

– Concerning the co-financing rates for rural development, the Council could finally accept the Parliament request to increase the rate for less developed regions, outermost regions and smaller Aegean islands on a voluntary basis to 85%. This constitutes a major additional concession from the Council side on the clear understanding that all other requests from the Parliament will be dropped and that an overall agreement is now concluded on CAP reform.

19 November 2013 EP gives consent to MFF regulation
The European Parliament adopted by 537 votes to 126, with 19 abstentions, a legislative resolution on the draft Council regulation laying down the multiannual financial framework for the years 2014-2020. It approved the Multiannual Financial Framework for the years 2014-2020 reached by interinstitutional negotiations as well as the joint declarations by Parliament, the Council and the Commission annexed to this resolution.

20 November 2013 EP adopts CAP reform texts on first reading
The European Parliament adopted by 440 votes to 238 with 10 abstentions, a legislative resolution on the proposal for a regulation 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 (CAP).

The European Parliament adopted by 426 votes to 253 with 8 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council establishing a common organisation of the markets in agricultural products (Single CMO Regulation).


The European Parliament adopted by 500 votes to 177 with 10 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy.

2 December 2013 Council approves the MFF regulation
The Council finally adopted (at the Competitiveness Council) the regulation laying down the EU’s multiannual financial framework (MFF) for 2014-2020 (11791/7/13).

16 December 2013 Council adopts CAP regulations after EP’s first reading
The Agricultural Council adopts the package of the four main legal texts, plus a transitional regulation for the year 2014 and a regulation determining measures on fixing certain aids and refunds related to the common organisation of the markets in agricultural products. This followed the first reading agreement with the European Parliament (Council of the European Union, 2013h).

20 December 2013 Final CAP acts published in the Official Journal
Annex II. CAP-related issues in the 2014-2020 MFF negotiating box


**Common Agricultural Policy**

26. Views diverged on the level of the budget with some delegations supporting the Commission proposal to stabilize spending on 2013 level in nominal terms, while some others arguing for a more restrictive approach to agriculture related spending.

27. The proposed modalities for the convergence of direct payments in the Common Agriculture Policy raised some questions. On the one hand, some delegations found that the proposed scheme was too ambitious and should be more gradual, whilst others argued that it was too slow and did not provide for full equality of treatment. Several Member States felt the Commission proposal struck the right balance. The redistribution criteria, in particular the use of potentially eligible areas, were questioned by a few delegations.

28. Further greening of the direct payments was not opposed as such, but several delegations stressed the need for this to be done efficiently and proportionally. Some delegations felt that greening should be pursued in the second pillar of the CAP rather than through direct payments. Some took the view that the share of direct payments (30%) made conditional on green measures was too high, while a few regarded it as being too low. Many delegations asked the proper balance be maintained between greening and the administrative burden that may be involved in their implementation.

29. As regards rural development, some delegations welcomed its inclusion in the Common Strategic Framework, but questioned it being subject to macro-fiscal conditionality. Many delegations called on the Commission to come up as soon as possible with an annual breakdown per Member State of rural development allocations.

30. A few delegations opposed the creation of a reserve for crisis in the agricultural sector as well as the extension of the European Globalization Fund to farmers.

**Draft text on CAP-related issues, General Affairs Council April 2012**

**HEADING 2 - SUSTAINABLE GROWTH : NATURAL RESOURCES**

35. The objectives of the Common Agricultural Policy (CAP) is to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture, to stabilise markets, to ensure the availability of supplies and to ensure that supplies reach consumers at reasonable prices. Account should be taken of the social structure of agriculture and of the structural and natural disparities between the various agricultural regions.

36. Against that background reforms must ensure 1) a viable food production; 2) sustainable management of natural resources and climate action; and 3) balanced territorial development. Furthermore, the CAP should be thoroughly integrated into the Europe 2020 strategy objectives.
notably the objective of sustainable growth, while fully respecting the objectives of this policy as set out in the Treaty.

37. Commitment appropriations for this Heading, which covers agriculture, rural development, fisheries and a financial instrument for the environment and climate action will not exceed the following level:

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38. The Common Agriculture Policy for the period 2014-2020 will continue to be based on the two pillar structure:

- Pillar I will provide direct support to farmers and finance market measures. Direct support and market measures will be funded entirely and solely by the EU budget, so as to ensure the application of a common policy throughout the single market and with the integrated administration and control system (IACS).
- Pillar II of the CAP will deliver specific environmental public goods, improve the competitiveness of the agriculture and forestry sectors, promote the diversification of economic activity and quality of life in rural areas including regions with specific problems. Measures in Pillar II will be co-financed by Member States, which helps to ensure that the underlying objectives are accomplished and reinforces the leverage effect of rural development policy.

**Pillar I**

*Level and model for redistribution of direct support - details of convergence across Member States*

39. Direct support will be more equitably distributed between Member States, while taking account of the differences that still exist [in wage levels and input costs], by stepwise reducing the link to historical references and having regard to the overall context of Common Agriculture Policy and the Union budget.

40. All Member States with direct payments per hectare below [90%] of the EU average will close [one third] of the gap between their current direct payments level and [90]% of the EU average in the course of the next period. [This convergence will be financed by all Member States [with direct payments above the EU average, proportionally to their distance from the EU average] OR [in a linear manner]. This process will be implemented progressively over [4] years from financial year [2015] to financial year [2018]].

**Capping of support to large farms**

41. Capping of the direct payments for large beneficiaries will be introduced while taking due account of employment. The proceeds of the reduction and capping of payments to large beneficiaries should remain in the Member States where they were generated [and should be used for financing projects with a significant contribution to innovation under the EAFRD] OR [and should be used under the EAFRD].
OR
[There will be no capping of the direct payments for large beneficiaries.]
Method for financial discipline

42. [With a view to ensuring that the amounts for the financing of the CAP comply with the annual ceilings set in the multiannual financial framework, the financial discipline mechanism currently provided for in Article 11 of the Regulation 73/2009, pursuant to which the level of direct support is adjusted when the forecasts indicate that the sub-ceiling of heading 2, is exceeded in a given financial year should be maintained, but without the safety margin of EUR 300 000 000.]

OR

[Other provisions concerning financial discipline, including the possibility of maintaining the safety margin and introducing a minimum threshold for farmers affected].

Other elements relating to Pillar I

p.m. possible mechanism to adjust direct payments.

Greening [of direct payments]

43. The overall environmental performance of the CAP will be enhanced through the greening of direct payments by means of certain agricultural practices, to be defined in the Regulation 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, beneficial for the climate and the environment [that all farmers will have to follow]. [Flexibility for the Member States relating to the choice of greening measures [sic] will be established.] In order to finance those practices, Member States will use [30] % of the annual national ceiling.

OR

[Other provisions aiming at enhancing the overall environmental performance of the CAP.]

Flexibility between pillars

44. Member States may decide to make available as additional support for measures under rural development programming financed under the EAFRD, up to [10] % of their annual national ceilings for calendar years 2014 to 2019 as set out in Annex II to the Regulation on direct payments. As a result, the corresponding amount will no longer be available for granting direct payments.

45. Member States with direct payments per hectare below [90%] of EU average after general budget reduction, phasing in and redistribution may decide to make available as direct payments under this Regulation up to [5] % of the amount allocated to support for measures under rural development programming financed under the EAFRD in the period 2015-2020. As a result, the corresponding amount will no longer be available for support measures under rural development programming.

Pillar II

Principles for distribution of rural development support

46. Support for rural development will be distributed between Member States based on objective criteria and past performance, while taking into account the objectives of the rural development and having regard to the overall context of Common Agriculture Policy and the Union budget.

47. The overall amount of support for rural development will be EUR [X]. [The annual breakdown will be fixed by the European Parliament and the Council.] [Amounts for the individual Member States will be adjusted to take account of the above mentioned provisions in paragraphs [41,] 44 and 45.]

48. [The Commission will, by means of an implementing act, make an annual breakdown by Member State of the final amounts [(including amount generated by the capping of the direct payments)]. In
making the annual breakdown the Commission will take into account objective criteria and past performance:]

[Objective criteria to be defined relating to:
- the competitiveness of agriculture;
- sustainable management of natural resources, climate action;
- balanced territorial development of rural areas.]

OR
[The distribution of the overall amount for rural development between Member States is among others based on objective criteria and past performance and will be as follows:
(insertion of table with distribution of rural development support between Member states).]

Co-financing rates for rural development support
49. The rural development programmes will establish a single EAFRD contribution rate applicable to all measures. Where applicable, a separate EAFRD contribution rate will be established for less developed regions [transition regions] and for outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93. The maximum EAFRD contribution rate will be: - [75 - 85]% of the eligible public expenditure in the less developed regions, the outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93 ; - [75]% of the eligible public expenditure for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 for the reference period but whose GDP per capita is above 75% of the GDP average of the EU-27 ; - [60] % of the eligible public expenditure for the transition regions other than those referred to in the previous indent ; - [50 - 55]% of the eligible public expenditure in the other regions.
- [75]% for operations contributing to the objectives of environment and climate change mitigation and adaptation.
- amounts transferred from pillar I to pillar II referred to in paragraph 9 as additional support under rural development will be co-financed according the general co-financing rates

OR
[100] % for amounts transferred from pillar I to pillar II referred to in 9 as additional support under rural development.
The minimum EAFRD contribution rate will be 20%. Other maximum EAFRD contribution rates to specific measures will be set in the Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)].

Provisions relevant for the ERDF, the ESF, the CF, the EAFRD and the EMFF
[Place in the negotiation box to be decided.]

The Common Strategic Framework

51. The structural and cohesion funds will be brought together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) under a the Common Strategic Framework - in order to maximise their effectiveness and optimise synergies. This will involve defining a list of thematic objectives in line with the Europe 2020 Strategy.

Macro-economic conditionality
52. Establishing a closer link between cohesion policy and the economic governance of the Union will ensure that the effectiveness of expenditure under the Common Strategic Framework (CSF)
Funds is underpinned by sound economic policies and that the CSF Funds can, if necessary, be redirected to addressing the economic problems a country is facing.

53. The Commission may therefore request a Member State to review and propose amendments to its Partnership Contract and the relevant programmes, where this is necessary:
(a) to support the implementation of a Council recommendation, addressed to the Member State concerned and adopted in accordance with Articles 121(2) and/or 148(4) of the Treaty, or to support the implementation of measures addressed to the Member State concerned and adopted in accordance with Article 136(1) of the Treaty;
(b) to support the implementation of a Council recommendation addressed to the Member State concerned and adopted in accordance with Article 126(7) of the Treaty;
(c) to support the implementation of a Council recommendation addressed to the Member State concerned and adopted in accordance with Article 7(2) of Regulation (EU) No .../2011 [on the prevention and correction of macroeconomic imbalances], provided that these amendments are deemed necessary to help correct the macroeconomic imbalances; or
(d) to maximise the growth and competitiveness impact of the available CSF Funds pursuant to Article 21(4) of Regulation (EU) No ..., if a Member State meets one of the following conditions:
(i) Union financial assistance is made available to it under Council Regulation (EU) No 407/2010;
(ii) medium-term financial assistance is made available to it in accordance with Council Regulation (EC) No 332/2002;
(iii) financial assistance in the form of an ESM loan is made available to it in accordance with the Treaty establishing the European Stability Mechanism.

54. (ii) medium-term financial assistance is made available to it in accordance with Council Regulation (EC) No 332/2002;
(iii) financial assistance in the form of an ESM loan is made available to it in accordance with the Treaty establishing the European Stability Mechanism.

55. Where, a Member State fails to take effective action in response to the Commission’s request, the Commission may adopt a decision suspending all or part of the payments to the programmes concerned.
The Commission shall suspend part or all of the payments and commitments for the programmes concerned where:
(e) the Council decides that the Member State does not comply with the specific measures set out by the Council in accordance with Article 136(1) of the Treaty;
(f) the Council decides in accordance with Article 126(8) or Article 126(11) of the Treaty that the Member State concerned has not taken effective action to correct its excessive deficit;
(g) the Council concludes in accordance with Article 8(3) of Regulation (EU) No [...]/2011 [on the prevention and correction of macroeconomic imbalances] that, on two successive instances, the Member State has not submitted a sufficient corrective action plan or the Council adopts a decision declaring non-compliance in accordance with Article 10(4) of that Regulation;
(h) the Commission concludes that the Member State has not taken measures to implement the adjustment programme referred to in Council Regulation (EU) No 407/2010 or Council Regulation (EC) No 332/2002 and as a consequence decides not to authorise the disbursement of the financial assistance granted to this Member State; or
(i) the Board of Directors of the European stability mechanism concludes that the conditionality attached to an ESM financial assistance in the form of an ESM loan to the concerned Member State was not met and as a consequence decides not to disburse the stability support granted to it.

56. Decisions on suspensions should be proportionate and effective, taking into account the economic and social circumstances of the Member State concerned, and respects equality of treatment between Member States, in particular with regard to the impact of the suspension on the economy of the Member State concerned.
57. [Other possible supplementary provisions on the scope, extension and impact of macroeconomic conditions.]

58. The suspensions will be lifted and funds be made available again to the Member State concerned as soon as the Member State takes the necessary action.

**Draft text on CAP-related issues in the negotiating box, General Affairs Council, June 2012**

The relevant paragraphs are as follows:

*Level and model for redistribution of direct support - details of convergence across Member States*

53. Direct support will be more equitably distributed between Member States, while taking account of the differences that still exist [in wage levels, purchasing power, output of the agricultural industry and input costs], by stepwise reducing the link to historical references and having regard to the overall context of Common Agricultural Policy and the Union budget.

All Member States with direct payments per hectare below [90%] of the EU average will close [one third] of the gap between their current direct payments level and [90%] of the EU average in the course of the next period. [This convergence will be financed by all Member States [with direct payments above the EU average, proportionally to their distance from the EU average] OR [in a linear manner]. This process will be implemented progressively over [4] years from financial year [2015] to financial year [2018]].

[In this context, and in order to adjust the overall level of spending in heading 2 the ceiling for pillar I will be reduced by [x] % from financial year [x] to financial year [y].]

*Capping of support to large farms*

54. Capping of the direct payments for large beneficiaries will be introduced while taking due account of employment. The proceeds of the reduction and capping of payments to large beneficiaries should remain in the Member States where they were generated [and should be used for financing projects with a significant contribution to innovation under the EAFRD] OR [and should be used under the EAFRD].

OR

[There will be no capping of the direct payments for large beneficiaries.]

*Method for financial discipline*

55. [With a view to ensuring that the amounts for the financing of the CAP comply with the annual ceilings set in the multiannual financial framework, the financial discipline mechanism currently provided for in Article 11 of the Regulation 73/2009, pursuant to which the level of direct support is adjusted when the forecasts indicate that the sub-ceiling of heading 2, is exceeded in a given financial year should be maintained, but without the safety margin of EUR 300 000 000.] OR

[Other provisions concerning financial discipline, including the possibility of maintaining the safety margin and introducing a minimum threshold for farmers affected].

*Greening [of direct payments]*

56. The overall environmental performance of the CAP will be enhanced through the greening of direct payments by means of certain agricultural practices, to be defined in the Regulation 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, beneficial for the climate and the environment [that all farmers will have to follow]. [Flexibility for the Member States relating to the choice of greening measures [sic] will be established.] In order to finance those practices, Member States will use [30]% of the annual national ceiling.

OR

[Other provisions aiming at enhancing the overall environmental performance of the CAP.]

Flexibility between pillars

57. Member States may decide to make available as additional support for measures under rural development programming financed under the EAFRD, up to [10]% of their annual national ceilings for calendar years 2014 to 2019 as set out in Annex II to the Regulation on direct payments. As a result, the corresponding amount will no longer be available for granting direct payments.

58. Member States with direct payments per hectare below [90%] of EU average after general budget reduction, phasing in and redistribution may decide to make available as direct payments under the Regulation on direct payments up to [5]% of the amount allocated to support for measures under rural development programming financed under the EAFRD in the period 2015-2020. As a result, the corresponding amount will no longer be available for support measures under rural development programming.

Principles for distribution of rural development support

59. Support for rural development will be distributed between Member States based on objective criteria and past performance, while taking into account the objectives of the rural development and having regard to the overall context of Common Agricultural Policy and the Union budget.

60. The overall amount of support for rural development will be EUR [X]. [The annual breakdown will be fixed by the European Parliament and the Council.] [Amounts for the individual Member States will be adjusted to take account of the above mentioned provisions in paragraphs [54], 57 and 58.]

61. [The Commission will, by means of an implementing act, make an annual breakdown by Member State of the final amounts [(including amount generated by the capping of the direct payments)]. In making the annual breakdown the Commission will take into account objective criteria and past performance:]

[Objective criteria to be defined relating to:
- the competitiveness of agriculture;
- sustainable management of natural resources, climate action;
- balanced territorial development of rural areas.]

OR

[The distribution of the overall amount for rural development between Member States is among others based on objective criteria and past performance and will be as follows: (insertion of table with distribution of rural development support between Member states).]

Co-financing rates for rural development support

62. The rural development programmes will establish a single EAFRD contribution rate applicable to all measures. Where applicable, a separate EAFRD contribution rate will be established for less developed regions [transition regions] and for outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93. The maximum EAFRD contribution rate will be:

- [75 - 85]% of the eligible public expenditure in the less developed regions, the outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93;
- [75]% of the eligible public expenditure for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 for the reference period but whose GDP per capita is above 75% of the GDP average of the EU-27;
- [60] % of the eligible public expenditure for the transition regions other than those referred to in the previous indent;
- [50 - 55]% of the eligible public expenditure in the other regions.
- [[75]% for operations contributing to the objectives of environment and climate change mitigation and adaptation.]
- amounts transferred from pillar I to pillar II referred to in paragraph 57 as additional support under rural development will be co-financed according the general co-financing rates
- OR
- [100] % for amounts transferred from pillar I to pillar II referred to in paragraph 57 as additional support under rural development.
The minimum EAFRD contribution rate will be 20%. Other maximum EAFRD contribution rates to specific measures will be set in the Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

A new reserve for crisis in the agricultural sector
64. A new Reserve for crises in the agricultural sector, to bring support in case of major crises affecting agricultural production or distribution, will be included under Heading 2. There shall be a ceiling on the annual amount available in the Reserve of [X] million euro (2011 prices).

Macro-economic conditionality

European Council Conclusions on the 2007-2013 MFF

The relevant extract is as follows (European Council, 2005):

**Heading 2 – Preservation And Management Of Natural Resources**

60. Commitment appropriations for this Heading, which is intended to cover agriculture, rural development, fisheries and a new financial instrument for the environment, and which include those funds transferred from sub-Heading 1b), should not exceed the following level:

<table>
<thead>
<tr>
<th>HEADING 2</th>
<th>(Million euros, 2004 prices)</th>
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<tbody>
<tr>
<td>2007</td>
<td>54,972</td>
</tr>
<tr>
<td>2008</td>
<td>54,308</td>
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<tr>
<td>2009</td>
<td>53,652</td>
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<tr>
<td>2010</td>
<td>53,021</td>
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<td>2011</td>
<td>52,386</td>
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<tr>
<td>2012</td>
<td>51,761</td>
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<tr>
<td>2013</td>
<td>51,145</td>
</tr>
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</table>

61. The amounts for market-related expenditure and direct payments correspond to those agreed at the October 2002 European Council, expressed in 2004 constant prices. These constitute a ceiling and also include the sums which, according to modulation arrangements1, will be transferred to and disbursed under the new Rural Development instrument.

62. At their discretion, Member States may transfer additional sums from within this ceiling to rural development programmes up to a maximum of 20% of the amounts that accrue to them from market related expenditure and direct payments. The European Council invites the Council, on the basis of a proposal from the Commission, to establish the modalities which will govern such transfers. Sums transferred to support rural development measures pursuant to such arrangements shall not be subject to the national co-financing and minimum spending per axes rules set out in the Rural Development Regulation (Including those equivalent arrangements covering the cotton and tobacco sectors and additional voluntary modulation at the discretion of individual Member States).

63. The allocation for the new Rural Development instrument, consisting essentially of amounts transferred from the funds supporting the regional component of the Convergence objective and amounts currently disbursed under the guarantee section of the EAGGF, will be € 69.75 billion before modulation, of which € 41.23 billion is currently disbursed under the guarantee section of the EAGGF. The Commission will allocate total Rural Development expenditure, including transfers from the EAGGF, and will ensure that at least € 33.01 billion is allocated to the EU10, Bulgaria and Romania. Of the remaining €36.74 billion, €18.91 billion shall be allocated to the EU15 according to a key to be proposed by the Commission and agreed by the Council in line with the Rural Development Regulation (1698/2005) adopted on 20 September 2005, and the other € 4.07 billion will be allocated to Austria (€1.35 billion), Finland (€0.46 billion), Ireland (€0.50 billion), Italy (€ 0.5 billion), Luxembourg (€20 million), France (€0.1 billion) Sweden (€0.82 billion), and Portugal (€ 0.32 billion) which owing on the specific difficulties of the Portuguese agriculture outlined in the European
Council conclusions on the Commission’s report on Portuguese agriculture (doc. 10859/03) shall not be subject to the national co-financing requirement.

64. The allocation for the new Fisheries instrument, consisting of amounts transferred from the funds supporting the regional component of the Convergence objective and the Regional Competitiveness and Employment objective, will be € 3.8 billion.

65. The amounts transferred to the Rural Development and Fisheries instruments from the funds supporting the regional component of the Convergence objective have been determined by each Member State after consultation with the Commission, drawing on the historical percentages of expenditure in these areas during the period 2000-2006 (2004-2006 for the new Member States) as a reference point. They will not be subject to reallocation.

European Council Conclusions on the 2014-2020 MFF

Heading 2 - Sustainable Growth: Natural Resources

61. The objectives of the Common Agricultural Policy (CAP) is to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture, to stabilise markets, to ensure the availability of supplies and to ensure that supplies reach consumers at reasonable prices. Account should be taken of the social structure of agriculture and of the structural and natural disparities between the various agricultural regions.

62. Against that background reforms must ensure 1) a viable food production; 2) sustainable management of natural resources and climate action; and 3) balanced territorial development. Furthermore, the CAP should be thoroughly integrated into the Europe 2020 strategy objectives notably the objective of sustainable growth, while fully respecting the objectives of this policy as set out in the Treaty.

63. Commitment appropriations for this Heading, which covers agriculture, rural development, fisheries and a financial instrument for the environment and climate action will not exceed EUR 373 179 million of which EUR 277 851 million will be allocated to market related expenditure and direct payments:

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<tr>
<td></td>
<td>55 883</td>
<td>55 060</td>
<td>54 261</td>
<td>53 448</td>
<td>52 466</td>
<td>51 503</td>
<td>50 558</td>
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<tr>
<td>of which</td>
<td>Market related expenditure and direct payments</td>
<td>41 585</td>
<td>40 989</td>
<td>40 421</td>
<td>39 837</td>
<td>39 079</td>
<td>38 335</td>
</tr>
</tbody>
</table>

The Common Agricultural Policy for the period 2014-2020 will continue to be based on the two pillar structure:
- Pillar I will provide direct support to farmers and finance market measures. Direct support and market measures will be funded entirely and solely by the EU budget, so as to ensure the application of a common policy throughout the single market and with the integrated administration and control system (IACS).
- Pillar II of the CAP will deliver specific environmental public goods, improve the competitiveness of the agriculture and forestry sectors promote the diversification of economic activity and quality of life in rural areas including regions with specific problems. Measures in Pillar II will be co-financed by Member States according to the provisions in paragraph 73, which helps to ensure that the underlying objectives are accomplished and reinforces the leverage effect of rural development policy.

**Pillar I**

*Level and model for redistribution of direct support - details of convergence across Member States*

64. In order to adjust the overall level of expenditure under Heading 2 while respecting the principles of phasing-in of the direct payments as forseen in the Accession Treaties, the EU average level of direct payments in current prices per hectare will be reduced over the period. Direct support will be more equitably distributed between Member States, while taking account of the differences that still exist in wage levels, purchasing power, output of the agricultural industry and input costs, by stepwise reducing the link to historical references and having regard to the overall context of Common Agricultural Policy and the Union budget. Specific circumstances, such as agricultural areas with high added value and cases where the effects of convergence are disproportionately felt, should be taken into account in the overall allocation of support of the CAP.

All Member States with direct payments per hectare below 90% of the EU average will close one third of the gap between their current direct payments level and 90% of the EU average in the course of the next period. However, all Member States should attain at least the level of EUR 196 per hectare in current prices by 2020. This convergence will be financed by all Member States with direct payments above the EU average, proportionally to their distance from the EU average. This process will be implemented progressively over 6 years from financial year 2015 to financial year 2020.

*Capping of support to large farms*

65. Capping of the direct payments for large beneficiaries will be introduced by Member States on a voluntary basis.

*Method for financial discipline*

66. With a view to ensuring that the amounts for the financing of the CAP comply with the annual ceilings set in the multiannual financial framework, the financial discipline mechanism currently provided for in Article 11 of the Regulation 73/2009, pursuant to which the level of direct support is adjusted when the forecasts indicate that the sub-ceiling of Heading 2 is exceeded in a given financial year should be maintained, but without the safety margin of EUR 300 million.

*Greening of direct payments*

67. The overall environmental performance of the CAP will be enhanced through the greening of direct payments by means of certain agricultural practices, to be defined in the *Regulation 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*, beneficial for the climate and the environment, whilst avoiding unnecessary administrative burden, that all farmers will have to follow. In order to finance those practices, Member States will use 30 % of the annual national ceiling, with a clearly defined flexibility for the Member States relating to the choice of equivalent greening measures. The requirement to have an ecological focus area (EFA) on each agricultural holding will be implemented in ways that do not require the land in question to be taken out of production and that avoids unjustified losses in the income of farmers.

**Flexibility between pillars**
68. Member States may decide to make available as additional support for measures under rural development programming financed under the EAFRD, up to 15% of their annual national ceilings for calendar years 2014 to 2019 as set out in Annex II to the Regulation on direct payments. As a result, the corresponding amount will no longer be available for granting direct payments.

69. Member States may decide to make available as direct payments under the Regulation on direct payments up to 15% of the amount allocated to support for measures under rural development programming financed under the EAFRD in the period 2015-2020. Member States with direct payments per hectare below 90% of the EU average may decide to make available as direct payments an additional 10% of the amount allocated to support for measures under rural development. As a result, the corresponding amount will no longer be available for support measures under rural development programming.

Pillar II
Principles for distribution of rural development support

70. Support for rural development will be distributed between Member States based on objective criteria and past performance, while taking into account the objectives of the rural development and having regard to the overall context of Common Agricultural Policy and the Union budget.

71. The overall amount of support for rural development will be **EUR 84 936 million**. The annual breakdown will be fixed by the European Parliament and the Council. Amounts for the individual Member States will be adjusted to take account of the above mentioned provisions in paragraphs 68 and 69.

72. The distribution of the overall amount for rural development between Member States will be based on objective criteria and past performance. For a limited number of Member States facing particular structural challenges in their agriculture sector or which have invested heavily in an effective delivery framework for Pillar 2 expenditure, the following additional allocations will be made: Austria (EUR 700 million), France (EUR 1000 million), Ireland (EUR 100 million), Italy (EUR 1 500 million), Luxembourg (EUR 20 million), Malta (EUR 32 million), Lithuania (EUR 100 million), Latvia (EUR 67 million), Estonia (EUR 50 million), Sweden (EUR 150 million), Portugal (EUR 500 million), Cyprus (EUR 7 million), Spain (EUR 500 million), Belgium (EUR 80 million), Slovenia (EUR 150 million) and Finland (EUR 600 million). For Member States receiving financial assistance in accordance with Articles 136 and 143 TFEU, this additional allocation will be subject to a co-financing rate of 100%. This rule shall continue to apply to these Member States until 2016 when it shall be reassessed.

Co-financing rates for rural development support

73. The rural development programmes will establish a single EAFRD contribution rate applicable to all measures. Where applicable, a separate EAFRD contribution rate will be established for less developed regions, transition regions and for outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93. The maximum EAFRD contribution rate will be:

- 75% of the eligible public expenditure in the less developed regions, the outermost regions and the smaller Aegean islands within the meaning of Regulation (EEC) No 2019/93;
- 75% of the eligible public expenditure for all regions whose GDP per capita for the 2007-2013 period was less than 75% of the average of the EU-25 for the reference period but whose GDP per capita is above 75% of the GDP average of the EU-27;
- 63% of the eligible public expenditure for the transition regions other than those referred to in the previous indent;
- 53% of the eligible public expenditure in the other regions;
- 75% for operations contributing to the objectives of environment and climate change mitigation and adaptation;
- 100% for amounts transferred from pillar I to pillar II referred to in paragraph 68 as additional support under rural development.

The minimum EAFRD contribution rate will be 20%. Other maximum EAFRD contribution rates to specific measures will be set in the Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

A higher co-financing rate (by 10 percentage points) can be applied when a Member State is receiving financial assistance in accordance with Articles 136 and 143 of the TFEU, thus reducing the effort required from national budgets at a time of fiscal consolidation, while keeping the same overall level of EU funding. This rule shall continue to apply to these Member States until 2016 when it shall be reassessed within the framework of the review foreseen in paragraph 54.

74. Financing under Heading 2 will also support the Common Fisheries Policy and Integrated Maritime Policies, in particular through the European Maritime and Fisheries Fund and an envelope for the international dimension of the CFP as well as activities in the fields of climate and environment through the Programme for the Environment and Climate Action (LIFE).

A new reserve for crises in the agricultural sector
75. A new reserve for crises in the agricultural sector, to bring support in case of major crises affecting agricultural production or distribution, will be included under Heading 2 with an amount of EUR 2 800 million. The reserve will be established by applying at the beginning of each year a reduction to direct payments with the financial discipline mechanism. The amount of the reserve will be entered directly in the annual budget and if not made available for crisis measures will be reimbursed as direct payments.
References


CEC, 2010b. The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future, Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions. Brussels.


Official Journal of the European Union, 2013. CAP Regulations (EU) 1305-1308 on support for rural development, on the financing, management and monitoring of the common agricultural policy, establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, and establishing a common organisation of the markets in agricultural products, L347, Volume 56, 20 December. Commission of the European Union, Brussels.