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Understanding the Political Agreements on CAP and MFF

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Report Highlights:
Political Agreements were reached on most elements of the Common Agricultural Policy (CAP) Reform post-2013 and the 2014 – 2020 Multiannual Financial Framework (MFF) in June and July 2013 respectively. This report aims to clarify what has actually been agreed, to report stakeholders' reactions, and to describe the next steps required to implement the Agreements.

General Information:

Political Agreement Reached on CAP Reform

On Wednesday June 26, 2013, after three months of trilateral negotiations, the European Parliament, the Council of Ministers and the European Commission reached a political agreement on reforming the CAP post 2013. Compromise proposals are to be prepared and presented to the Lithuanian Presidency and to the Commission in September. The final package must be approved by both the Parliament's Agriculture Committee and the full House before it can be submitted to the Council, which must also approve the agreed texts before they can enter into force.

All aspects of the reform will be applicable as from January 2014 with the exception of the new direct payments structure ("green" payments, additional support for your farmers etc.) which will apply as from 2015.

Although the majority of elements on CAP Reform are included in the agreement, a number of outstanding issues related to the Multiannual Financial Framework (MFF) remain. Talks on these aspects are scheduled to begin in September.

The political agreement covers:

Who should receive EU-funded direct payments

A degree of flexibility will be provided in the definition of "active farmers" which defines the entity entitled to receive EU-funded direct payments. Member States will be obliged to have a negative list of entities which are automatically excluded from the definition of "active farmer" unless it is demonstrated that their agricultural activities form a significant part of their overall economic activities. Such entities would include transport and real estate companies, airports, permanent sports clubs, campsite operators, mining companies and other non-agricultural enterprises.

How to allocate direct payments more equitably within Member States

The system of allocation based on historic references will be phased out. The Commission's default proposal as an alternative to that system envisages that, as of 2019, payments received by all farmers in a given Member State are to be based on a uniform unit value (determined on a national or regional basis). The political agreement allows the further option whereby the entitlements of farmers receiving less than 90 percent of the national/regional average will be increased by at least one third of the difference between their payments in 2014 and 90 percent of the national/regional average.

How to improve environmental protection

The political agreement provides for 30 percent of the national budget for direct payments to farmers to be conditional upon compliance with "greening" measures. Should farmers fail to apply them, they would lose the greening component of their direct payments. Furthermore, during the third year after the new CAP enters into force, non-compliance could lead to additional sanctions of up to 20 percent and from the fourth year up to 25 percent of their greening payment. In parallel, 30 percent of rural development spending is to be earmarked for environment-related actions. However, the option of paying farmers twice for applying the same greening measure is excluded. More specifically, farmers would have to go beyond the mandatory greening measures in

delivering environmental benefits in order to be eligible for additional funding from the rural development budget.

The new environmental rules for farmers will be more flexible and linked to the size of the holding. The agreement maintains the Commission's three key proposed default measures (crop diversification, maintenance of existing permanent grassland, and ecological focus areas) while allowing certain exceptions to reflect geographical conditions and size of holding. Farmers whose holdings are certified under national or regional environmental certification schemes would be considered "green" only on condition that the measures they apply deliver the same or increased benefit as the default greening measures. The same applies to "equivalent practices" supported by CAP Pillar 2 (rural development) agri-environment schemes, which farmers could choose to apply as an alternative to the three default measures. Equivalent measures would be strictly defined by legislation and assessed by the Commission for suitable equivalence. Organic farmers will be automatically considered "green" without imposing any additional requirements.

How to allocate EU funds more flexibly

Member States that apply the Single Area Payment Scheme (Cyprus, Bulgaria, Romania, Hungary, Slovakia, Czech Republic, Poland, Lithuania, Latvia and Estonia) may continue to do so until 2020. These countries may also decide to continue to grant transitional national aid to farmers and sectors which were eligible for it in 2013. In 2005, the amount available for farmers will correspond to 75 percent of the previous sector-specific budget and will be reduced by 5 percent each year until 2020, when the support scheme will be phased out. Member States or regions that currently operate either a regionalized or a hybrid system of payments will be allowed to maintain their payment entitlements.

How to help young and small farmers

An additional 25 percent payment has been approved for farmers under 40 years old for a maximum of 100 hectares. Member States will be obliged to use 2 percent of their national budgets to fund the support scheme. Member States will have the option to decide whether or nor not to introduce a support scheme for small farmers.

How to improve risk management

Risk management tools will be placed under CAP Pillar 2 (rural development) and will therefore be subject to co-financing by Member States. Such tools may include financial contributions to premia for crop, animal and plant insurance, and also mutual funds to pay compensation to farmers in the event of economic losses resulting from adverse climatic events, animal and plant diseases or pest infestation. The agreement also includes the creation of an income stabilization tool comprised of financial contributions to mutual funds as compensation to farmers in the event of a significant drop in their income. By the end of 2018, the Commission should undertake an assessment of the risk management tools and table a legislative proposal to improve their implementation as appropriate.

How to strengthen farmers' bargaining position

As a general rule, Member States will be free to decide whether or not to recognize a producer or "interbranch"

organization. Such organizations are set up to better equip farmers to cope with market volatility, and to strengthen their price bargaining position. However, in some cases, Member States will be required to recognize producer organizations in the fruit and vegetable sector, the olive oil and table olive sector, the silkworm sector, and the hops sector, and interbranch organizations in the olive oil, table olives and tobacco sectors.

EU competition rules applicable in the agricultural sector should be clarified to strengthen the farmers' position in the food supply chain. Farmers' organizations in the olive oil, beef, cereals and protein crops sectors should be allowed to negotiate supply contracts on behalf their members without breaching competition law.

Measures for milk, sugar, wine, fruit and vegetables

To enable beet growers to adapt to the reform of the sugar sector adopted in 2006, Parliament and Council rejected Commission plans to phase out sugar quotas by the end of September 2015, and agreed to maintain the system until the end of September 2017.

A system to regulate vine planting will be maintained until 2030. The current system of vine planting rights should be replaced by a vine planting authorization system which could be launched in 2016.

The agreement also provides for strategies to improve children's eating habits, such as school fruit and vegetable schemes, to promote local food producers and fight food waste.

Member States will also be allowed to grant support linked with specific production where a sector, which is particularly important for economic, social or environmental reasons, is experiencing difficulties. Up to 8 percent of their national budget for direct payments may be used by Member States to finance this support. This aid should be granted only to the extent necessary to maintain current levels of production in the region concerned. The aid coupling option could apply to cereals, oilseeds, protein crops, grain legumes, flax, hemp, rice, nuts, starch potato, milk and milk products, seeds, sheepmeat and goat meat, beef and veal, olive oil, silk worms, dried fodder, hops, sugar beet, cane and chicory, fruit and vegetables and short rotation coppice.

The agreement also empowers the European Commission to allow certain exceptions to EU competition rules (on the condition that they would not undermine the single market) to stabilize agricultural sectors in periods of severe market imbalances. Farming organizations could therefore use instruments including private storage, promotional sales, and product withdrawal from the market.

Pending issues

The political agreement on the CAP excludes several issues which are to be addressed later. These issues include:

- capping direct payments to the largest agricultural holdings,
- external convergence (i.e. making the allocation of direct payments among Member States more balanced),
- Transfers between Pillar 1 (national direct payment ceilings) and Pillar 2 (rural development budget).

Reactions to the Political Agreement

COPA-COGECA, the EU's main farm lobby group, welcomed the agreement as it ended the uncertainty facing farmers. However, the group regretted that more had not been done to strengthen farmers' and agri-cooperatives' economic role given expected food demand to increase by 70 percent by 2050. They were favorably disposed to allowing some environmental schemes to be deemed equivalent to the new greening rules, asserting that measures to green the CAP will be more practical and flexible. Member States were warned against the transfer of funds form Pillar 1 (direct payments) to Pillar 2 (rural development). The group maintains that Pillar 1 will become increasingly important if the EU is to ensure food security, stability and sustainability.

Environmental NGOs claimed that the reform would bring no significant environmental benefits, and represented a step backwards in some cases. They asserted that over one third of farmland will be exempted from the 5 percent requirement for ecological focus areas and new rules for crop diversification. Birdlife Europe is reported to have claimed that many of the measures are income support in disguise which should never have been included. WWF complained that negotiators failed to introduce crop rotation, which is a "proven practice" to improve soil quality, and have not protected all carbon rich grasslands and wetlands. EU Environment Commissioner, Janez Poocnik, was quoted to have said that the greening exemptions and loopholes *"…have greatly lowered the level of environmental ambition… All the exceptions make it possible that very few farmers will have to change their practices to comply with greening. So if we are to avoid greenwash, the burden is now on Member States to ensure greening means what it says.*"

Small farmer organizations welcomed greater production-linked coupled aid, but regretted that aid redistribution did not go far enough. The NGO, European Coordination Via Campesina asserted that the "…*difference in support levels between old and new Member States will be reduced, but the difference within a country will remain too high.*" The Slow Food organization expressed its regret that key issues including the small farmer scheme and a subsidy cap will be left to the discretion of Member States, while welcoming bureaucratic cuts for small farmers and the additional aid for young farmers,

The European Council of Young Farmers (CEJA) considered the agreement to mark an "historic" moment in agricultural policy because of the aid top-up for young farmers and additional support under rural development.

The European Sugar Users Association (CIUS) welcomed the compromise found between the EU institutions to end sugar and isoglucose quotas in 2017 and "…*appreciates the moves to find a better market management system until quotas end.*"

The European Federation of Origin of Wines praised the agreement as representing "…*a new and decisive step in our battle for regulation in the wine sector… We are pleased with their decision to rally the European Parliament's position on the duration of the new planting authorizations system which provides the wine sector with a stable and sustainable legal framework.*"

French Farm Minister, Stephane Le Foll, expressed the view that the agreement would lead to a fairer, greener, and more youth oriented CAP, claiming that "…*This is a victory for the French agricultural model*." He also

welcomed the Pillar 1 payments for young farmers, saying: "…*This new support will complement existing support in France for the installation of farmers in the second pillar, which will be consolidated.*"
Helir-Valdor Seeder, Estonia's Agriculture Minister, asserted that "…*Negotiations ended well for Estonia and we managed to receive favorable terms in the most important topics, at the very end of the talks.*" He was content that exemptions from the ecological focus area had been included as "…*half of Estonia is forested,*" adding that the ecological focus area requirement will still stand in less forested areas of the country.
The UK Government praised itself for "…*blocking a host of regressive proposals that would have meant a very bad deal for British farmers and tax payers.*" Environment Secretary, Owen Paterson, explained that: "*there have been some Member States pressing to take the CAP back to the dark days of butter mountains and wine lakes, with costly interventions in the market.*"

The European Parliament's Liberal and Democrat ALDE Group, the third largest political group, described the agreement as "*a big step in the right direction*" but regretted that it did not go further towards market liberalization. They also expressed their disappointment that MEPs were not given the chance to discuss issues that formed part of the MFF. ALDE MEP, George Lyon, was reported to have said "*The one area I have deep concerns about was Council refusing to negotiate in areas where the MFF conclusions strayed into co-decision matters such as capping of farm payments, flexibility to move money between Pillar 1 and Pillar 2 and the crisis reserve. This is a deliberate attempt by the council to steal back co-decision powers given to the Parliament by the Lisbon Treaty and is unacceptable to MEPs.*"

MEPs from the *Socialist and Democratic S&D Group*, the second largest political group in the Parliament, similarly welcomed the agreement, but regretted "…*the stubborn opposition from EU Governments to more ambitious changes.*" S&D MEP, Luis Capoulas Santos, asserted that: "*Our goal was to ensure more fairness, transparency and funds for farmers, creating jobs and preserving our environment. Today's deal is a good compromise, taking into account the strong opposition of the conservative majority of EU Governments to some of our requests.*"

The European People's Party EPP Group, the largest political group, considers the agreement to reflect the EU's strong response to the ongoing challenges of food safety and climate change, as well as playing a key part in promoting and sustaining growth and jobs in rural areas. EPP MEP, Elisabeth Kostinger, is quoted to have said: "…*it is very important to point out that rural development policy is also growth policy. We want to motivate our farmers to create new ideas on how to make cooperatives, how to carry out direct marketing.* " Michel Dantin, also an EPP MEP, asserted that: "…*European farmers, all thirteen and a half million of them, are up against eight or nine big distributors who establish the prices in the market. So where I consider, and where the EPP Group considers that the Commission has not gone far enough, is in giving farmers the power to organize themselves to sell their products together, so as to stand up to these distributors, which are of course much bigger. And that requires a change to EU competition law.*"

Political Agreement reached on Multiannual Financial Framework (MFF)

The MFF, a spending plan that translates EU priorities into financial terms, sets the maximum annual amounts that the EU may spend in different political fields over the seven year period, 2014 to 2020. As such, it is not a seven year budget, but rather the basis for the annual budgetary exercise. On June 27, 2013, the leaders of the

European Parliament, Council and Commission agreed a compromise political agreement on the MFF. On July 3, 2013, the European Parliament adopted a resolution endorsing the agreement under certain conditions (including a guarantee that the outstanding payment claims for 2013 are covered in full.)

Next Steps

The Parliament must give its formal consent ("yes" or "no" with no amendments) when the Council adopts its draft MFF Regulation. This is achieved by a majority of the Parliament's component members. The Parliament could vote on the matter during the fall of 2013. The vote will be subject to the conditions the Parliament has set in its resolution being followed.

Following the Parliament's consent, the Council must formally adopt the Regulation with unanimity.

The final package consists of a number of documents: the MFF Regulation itself which sets out expenditure ceilings for the next seven years, the inter-institutional agreement that focuses on the practical implementation of the MFF and the budgetary rules for the 2014 – 2020 period, and various declarations.

Content of the Political Agreement

The agreement foresees a ceiling of Euros 959.988 billion over the period under five headings. The global commitment ceiling amounts to 1.00 percent of EU gross national income as compared to 1.12 percent for the 2007 to 2013 Financial Perspective period.

The CAP is included under the heading "Preservation and Management of Natural Resources" which accounts for Euros 373.179 billion, representing 38.9 percent of the total for the 2014 – 2020 MFF period. Spending under that heading was limited to Euro 420.682 billion over the 2007 – 2013 Financial Perspective period, which equated to 42.3 percent of the equivalent total ceiling of Euro 994.176 billion.

Ceilings in respect of "Market Related Expenditure and Direct Payments" for the 2014 to 2020 MFF are reduced by Euro 40.969 billion or 12.8 percent over the previous seven year Financial Perspective period. The other component of the Preservation and Management of Natural Resources heading is "Rural Development", ceilings for which having been reduced by 11.3 percent for the 2014 – 2020 MFF period in comparison to the previous Financial Perspective period.

Simple Comparison Between 2007 – 2013 Financial Perspective and Political Agreement on 2014 – 2020 MFF (Euros billion)

Preservation and Management of Natural Resources	**2007 – 2013 Financial Perspective**	**2014 – 2020 Political Agreement**	**Percentage Change**
Of which, Market Related Expenditure and Direct Payments	318.820	277.851	- 12.8
Of which, Rural Development	95.741	84.936	- 11.3

Total Preservation and Management of Natural Resources	420.682	373.179	- 11.3
Total Ceiling	994.176	959.988	- 3.4