Natural resources and environment: Heading 3 of the 2021-2027 MFF

SUMMARY

Dedicated to programmes and funds supporting agriculture and maritime policy, and environment and climate change, Heading 3 is the second biggest in terms of funding in the European Commission proposal on the future multiannual financial framework (MFF) for 2021-2027. The two agricultural funds – the European Agricultural Guarantee Fund (EAGF) and the Agricultural Fund for Rural Development (EAFRD) – are the main financial instruments for the common agricultural policy (CAP). They will continue to absorb the greater part of the financial resources under this heading. However, the European Commission proposes an amount of €324 284 million to cover both funds, which is a decrease of around €60 000 million (or 15 %) compared to the current MFF (2014-2020), after deducting current United Kingdom (UK) spending. The proposed European Maritime and Fisheries Fund (EMFF) would amount to €5 448 million, which is 13 % less than in the current MFF, after deducting current UK spending.

In its November 2018 resolution on the European Commission proposals for the new MFF, the European Parliament, raised the budget for agricultural and maritime policy back to the level of the current MFF (2014-2020), to €391 198 million. Where the European Commission proposes €4 828 million for the Programme for Environment & Climate Action (LIFE) for 2021-2027, Parliament’s resolution increased this amount considerably, requesting an allocation of €6 442 million. Parliament has also asked for a new Energy Transition Fund, with a budget of €4 800 million for 2021-2027, to address the negative socio-economic impact on workers and communities affected by the transition from a coal and carbon dependent economy to a low-carbon economy.

The Council has not yet adopted a position on the MFF proposal and national positions are divergent. However, according to the ‘negotiating box’ proposed by the Finnish Council Presidency, under Heading 3, the cuts in the budget for agriculture would represent a reduction of 13 % in spending, compared to the current MFF.

Source: EPRS.

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Background

The current multiannual financial framework (MFF) for 2014-2020 is due to expire on 31 December 2020. On 2 May 2018, The European Commission published a proposal for a Council regulation laying down the multiannual financial framework for 2021-2027. In this proposal the European Commission has put forward a new structure for the 2021-2027 MFF, which is the expression of new political priorities (see Table 1). Rather than a focus on ‘sustainable growth: natural resources’ (2014-2020 MFF), the emphasis in the new 2021-2017 MFF is on ‘Natural resources and environment’.

The European Union’s concern about the environmental and climate impact of EU policies has increased since the adoption of the current MFF. This is also reflected in the legislative proposals for a reformed common agricultural policy (CAP) beyond 2020.1

As one element of the European Green Deal, the Commission announced the farm to fork strategy, which it will present in spring 2020. The main aim is to further decrease the negative impact of farming on climate and the environment and to increase the market share of organic farming. These new priorities will have to be taken into account during the negotiations for the 2021-2027 MFF.

At the same time, the agricultural sector is facing new challenges, such as agricultural markets uncertainty, price volatility and trade conflicts. There is also a need for greater use of knowledge and the latest technologies in the modernised CAP.

Over the past 25 years, the CAP share of the total European Union (EU) budget has declined. In 1985, it still accounted for 73% of the total EU budget; in 2016, its share was 41%.2 In 2018, the annual budget for the CAP was €58 820 million.3 According to the Commission, under the current scheme, 20% of farmers receive 80% of direct payments. The Commission has therefore proposed a more balanced distribution through compulsory capping on amounts received.

The European Commission proposal on the 2021-2027 MFF already takes account of the budgetary consequences of the withdrawal of the United Kingdom (UK) from the European Union. The figures proposed by the Commission refer to the European Union of 27 Member States.

In this briefing, all comparisons between 2014-2020 figures and proposed 2021-2027 figures are in constant prices. Constant prices differ from current prices in that they apply a 2% annual deflator (as provided for in Article 6 of the current MFF Regulation and proposed in Article 5(2) of the 2021-2027 MFF regulation), to account for the effect of inflation. To allow comparison with the 2021-2027 proposals for the EU-27, which include the European Development Fund (EDF) estimates of allocations to the United Kingdom are deducted from, and the EDF added to, the current MFF.

European Commission proposal for 2021-2027

The total amount proposed for the next MFF is €1 134 583 million in commitments (2018 prices). Heading 3 accounts for almost 30% of this amount (€336 623 million) and covers programmes and funds currently included under Heading 2 and related to the common agricultural policy, the common fisheries policy and rural development and environmental measures.
In its proposal, the Commission underlines the increased importance of ‘greening’ and agro-environmental and climate measures in the context of the 2021-2027 MFF. The programmes and funds included in the proposed new Heading 3 correspond to those included under Heading 2 of the current MFF, however the distribution of the programmes between the different headings has important practical implications: 'Transfers between headings that exceed the margins or the scope of special instruments would require revision of the MFF regulation, whereas transfers within headings can take place through the budgetary procedure, with the approval of the two arms of the budgetary authority'.

The funding under the new Heading 3 is intended to be used in pursuit of the following objectives:

- sustainable agriculture and maritime sectors,
- a safe, high-quality food supply,
- climate action and environmental protection.

The Commission is proposing a reform of the common agricultural policy (CAP), which, with a proposed budget of €324 284 million for 2021-2027, will continue to consist of two pillars: direct payments to farmers (78 %) and rural development funding (22 %).

The two pillars are financed through the two agricultural funds – the European Agricultural Guarantee Fund (EAGF) and the Agricultural Fund for Rural Development (EAFRD). These funds will continue to absorb the greatest share of the financial resources under this heading. However, the Commission proposes to decrease the allocations by around €60 000 million (or 15 %) compared to the current MFF (2014-2020), after deducing current UK spending. In addition, the annual amount allocated (in 2018 prices) will be reduced over the long-term (from €50 323 million in 2021 to €45 836 million in 2027), which is a reduction of nearly 9 %.

In addition, some €10 billion will be earmarked under Horizon Europe to support research and innovation in food, agriculture, rural development and the ‘bio economy’. The importance of research and innovation, as well as the need for greater use of knowledge and the latest technologies in the modernised CAP, is referred to in the Commission communication on the future of food and farming.

Regarding rural development funding, the Commission proposes to increase national co-financing rates. The policy will continue to be implemented, primarily under shared management between the EU and the Member States.

The Commission also proposes a new delivery model for the CAP, ‘shifting from today’s compliance-based policy to a result-oriented policy to deliver on common objectives set at EU level but more flexibly implemented at national level’. Direct payments will remain an important element of the policy, but they will be ‘moderately reduced and better targeted’. The operations will be brought together under a single programming instrument, the common agricultural policy strategic plans, established by the Member States. These will be approved by the European Commission if they are compatible with EU objectives (including climate and environment). In its proposal, the Commission promises that the new delivery model will entail ‘a far-reaching simplification of rules for farmers and administration’.

### Table 1 – Proposal for the 2021-2027 MFF

<table>
<thead>
<tr>
<th>Heading and Subheadings</th>
<th>2021-2027 MFF (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Single market, innovation and digital</td>
<td>14.7%</td>
</tr>
<tr>
<td>2. Cohesion and values</td>
<td>34.5%</td>
</tr>
<tr>
<td>Economic, social and territorial cohesion</td>
<td>29.1%</td>
</tr>
<tr>
<td>3. Natural resources and environment</td>
<td>29.7%</td>
</tr>
<tr>
<td>Market related expenditure and direct payments</td>
<td>22.4%</td>
</tr>
<tr>
<td>4. Migration and border management</td>
<td>2.7%</td>
</tr>
<tr>
<td>5. Security and defence</td>
<td>2.1%</td>
</tr>
<tr>
<td>6. Neighbourhood and the world</td>
<td>9.6%</td>
</tr>
<tr>
<td>7. European public administration</td>
<td>6.7%</td>
</tr>
<tr>
<td>Administrative expenditure of the institutions</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

The following key elements of the proposed CAP reform will have a budgetary impact:

- **Direct payments** will remain an essential part of the policy, but they will be moderately reduced. Basic income support through direct payments will comprise part of the interventions covered by the strategic plan established by Member States. The national ceiling for each Member State is set for each year, comprising the total value of all allocated payment entitlements. Member States will have the option of shifting a part of their direct payments allocations to rural development and vice versa.

- The European Commission wants to achieve a more balanced distribution through compulsory **capping** on amounts received, or degressive payments which decrease with farm size. Each Member State will have the possibility to redistribute support towards rural development or medium and smaller farms.

- The Commission proposal includes a mechanism for external convergence. This process already exists under the current 2014-2020 MFF and was put in place because direct payment levels per hectare differ considerably from one Member State to another. For Member States with direct payments below 90% of the EU-27 average, the gap between their current level and 90% of the EU average direct payments will be closed by 50%. All Member States will finance this convergence, with countries such as Estonia, Latvia and Lithuania, as well as Greece, benefiting from the mechanism.

- The ‘green direct payment’ (or ‘greening’) is already applied and aims at supporting sustainable land use. In order to receive green direct payments, three practices are mandatory: crop diversification, preservation of permanent grassland and areas beneficial for biodiversity. The effectiveness of the current greening measures has been the subject of discussion. The European Court of Auditors (ECA) issued a special report on greening in December 2017, presented to the European Parliament in February 2018. In this report, the ECA concludes that the current greening measures are ‘unlikely to significantly enhance the CAP’s environmental and climate performance’ and makes recommendations for the post-2020 CAP. The audit had examined greening measures in France, Greece, Poland, Spain and the Netherlands. The proposed reform of the CAP will integrate current cross-compliance, green direct payments and voluntary agro-environmental and climate measures', into a more targeted approach to achieve a higher level of environmental and climate objectives in the common agricultural policy. The Commission also proposes the introduction of ‘eco-schemes’, which are voluntary payment schemes, for incentivising or for remunerating the provision of public goods by agricultural practices beneficial to the environment and climate, or as compensation for the introduction of such practices.

- According to the Commission, at least 40% of the overall CAP budget as already proposed for 2021-2027, will be dedicated to climate measures.

- A new crisis reserve will be established within the European Agricultural Guarantee Fund.

The European Maritime and Fisheries Fund (EMFF) will continue to support the EU fisheries sector and the coastal communities which depend on this sector. It is the financial instrument used for the common fisheries policy (CFP), which the Commission defines as ‘a set of rules for managing European fishing fleets and for conserving fish stocks’. The proposed European Maritime and Fisheries Fund (EMFF) would amount to €5 448 million, which is 13% less than in the current MFF, after deducting current UK spending. According to the Commission, 30% of the proposed budget for the European Maritime and Fisheries Fund will contribute to climate objectives.

Under the current EMFF (2014-2020), the main beneficiaries are Spain, France, Italy and Poland. The objectives of the Fund under the Commission proposal on the next EMFF can be summarised as follows:

- fostering sustainable fisheries,
- contributing to food security in the Union,
enabling the growth of the sustainable blue economy,

strengthening international ocean governance.

Within the 'Agriculture and maritime policy' policy cluster, the Commission proposes, under 'other', a budget of €887 million for 2021-2027. This envelope finances the International Fisheries Agreements. These agreements allow EU fishing fleets access to the waters of third countries. They also provide funding for EU membership in regional fisheries management organisations, control and surveillance of fishing activities, as well as scientific research. The proposed budget is 9% less than in the current MFF, after deducting current UK spending.

The EU programme for the environment and climate action – LIFE – includes energy efficiency and small-scale renewables. In its proposal for a new MFF, the Commission already refers to the need for 'a clean energy transition', which the LIFE programme is intended to facilitate. It is also aimed at contributing to 'better indoor and outdoor air quality, circular economy and efficiency of resources … conserving nature and reversing biodiversity loss … while stimulating investment and a competitive and sustainable Union economy'.

The programme is divided into two main fields of action:

- environment: nature, biodiversity, circular economy, quality of life (64% of proposed funding)
- climate action: mitigation, adaptation and clean energy transition (36% of proposed funding).

The Commission proposes a budget of €4 828 million for 2021-2027, which is an increase of 50% compared to the current MFF, after deducting current UK spending.

The Commission also proposes to simplify the application procedure for beneficiaries under this programme and announces more flexibility while aiming at a balanced territorial coverage.

An executive agency supports the European Commission with the management of the grants and public procurement part of the LIFE programme: it has delegated the implementation of many components of the current LIFE programme to the Executive Agency for Small and Medium-sized Enterprises (EASME).

LIFE is complementary to other EU funding programmes, such as the InvestEU Fund, Horizon Europe, the European Regional Development Fund, the European Social Fund+, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund.

European Parliament position

On 14 November 2018, the European Parliament adopted a resolution on the Commission proposal for the 2021-2027 MFF. The main points of its position regarding Heading 3 can be summarised as follows:

- Parliament pointed to the 'serious problems linked to the underfinancing of the 2014-2020 MFF … and the necessity of avoiding a repetition of previous mistakes by securing, from the outset, a strong and credible EU budget for the benefit of citizens over the next seven-year period'.
- Parliament accepts the overall structure of the seven MFF headings, as proposed by the Commission.
- In its November 2018 resolution, Parliament declared 'its opposition to any reduction in the level of long-standing EU policies enshrined in the Treaties, such as cohesion policy and the common agricultural and fisheries policies'. Parliament underlined that it 'is particularly opposed to any radical cuts that will have an adverse impact on the very nature and objectives of these policies, such as the cuts proposed for the Cohesion Fund or for the European Agricultural Fund for Rural Development'.
Parliament decided to **maintain** the financing of the CAP for the EU-27 at the **level of the 2014-2020 budget** in real terms: it requests an amount of €383 255 million for EAGF and EAFRD. On 15 January 2020, Parliament adopted a [resolution](https://www.europarl.europa.eu/doceo/document/C8-2019-0701-CIT-01.pdf) on the Commission’s plans for the [European Green Deal](https://ec.europa.eu/environment/green-deal/index_en.htm). In this resolution, Parliament underlines that it ‘supports providing the CAP with a budget that allows it to achieve all its objectives, including fulfilling the environmental ambition of the EU’.

It opted to **increase by 10 %** the funding for the [European Maritime and Fisheries Fund](https://ec.europa.eu/fisheries/en/maef), to €6 867 million, in accordance with its new mission on the blue economy.

Parliament decided to **double the current funding for the LIFE programme**, including dedicated envelopes for biodiversity and the management of the Natura 2000 network: a total amount of €3 221 million was earmarked in the 2014-2020 MFF (EU-27+EDF). For 2020-2027, the Commission has proposed €4 828 million. In its November 2018 resolution on the MFF proposal, Parliament increased this amount to €6 442 million (see Figure 1).

Parliament puts a new initiative forward by introducing a specific allocation of €4 800 million for a [new Just Energy Transition Fund](https://ec.europa.eu/green-deal/en/just-transition-fund): this fund aims at addressing the negative socio-economic impact on workers and communities affected by the transition from a coal and carbon dependent economy to a ‘low-carbon, climate neutral’ economy. Initiatives such as reskilling coal miners could be financed under this fund. However, the amount allocated to the fund is criticised by NGOs and industry associations alike as being far too small to make a real, positive, impact. Indeed, for some Member States, which rely on coal for a very high percentage of their electricity, the shift to low-carbon energy sources will be a challenge, also in terms of financial means. According to the International Energy Agency (IEA), the share of coal and lignite in electricity generation in Poland was still nearly 80 % in 2017. As early as in December 2017, the European Commission launched a [platform for coal regions in transition](https://www.europarl.europa.eu/doceo/document/C8-2019-0701-CIT-01.pdf).

The idea of such a financial instrument has evolved since 2017 and on 14 January 2020, the Commission put forward a proposal for a regulation establishing the Just Transition Fund. This proposal comes in addition to the existing proposals for the next multiannual financial framework (2021-2027 MFF). According to the proposal, €7 500 million (in 2018 prices) will be allocated to the Just Transition Fund for budgetary commitment in 2021-2027, ‘which may be increased, as the case may be, by additional resources allocated in the Union budget, and by other resources in accordance with the applicable basic act.’

The Commission proposes a relatively small margin for Heading 3 (€814 million) for 2021-2027, which amounts to 0.24 % of the Heading 3 allocation. According to the European Parliament’s position, this amount needs to be increased to €1 999 million.

After the 2019 European elections, the newly elected European Parliament adopted, on 10 October 2019, a resolution confirming the position of the previous Parliament on the next MFF, as adopted in November 2018.
Council position

The Council has examined the MFF package over recent months, and the Finnish Presidency came up with a proposal in December 2019. According to the ‘negotiating box’, the Presidency allocates €346 582 million to Heading 3, of which €254 247 million would be allocated to market-related expenditure and direct payments (EAGF). This means that the Presidency proposal for Heading 3 reduces the cuts to agriculture spending to 13 %, compared to the 2014-2020 MFF (see Figure 2).

However, the overall commitment appropriations for Heading 3 allocated in this proposal are still 14.4 % less than the amounts demanded by Parliament. Concerning funding for the European Maritime Fund and the LIFE programme, the Finnish Presidency proposal does not differ from the Commission proposal. This means that, as far as the LIFE programme is concerned, the allocation proposed by the Finnish Presidency remains €1 630 million (25 %) below the level required by Parliament.

The Council ‘negotiating box’ also states that a 40 % share of the CAP expenditure should be dedicated to climate action.

Next steps

In its resolution of November 2019, the European Parliament underlines that agreement on the new 2021-2027 MFF is dependent upon an agreement being reached on the reform of the EU own resources system. To allow for timely adoption of the relevant legislation on the different programmes and funds, substantial progress in the negotiations on the new 2021-2027 MFF is therefore urgent.

At the same time, the EP has urged for the preparation of an MFF contingency plan with the aim of protecting beneficiaries and ensuring the continuity of funding in the event that it is necessary to extend the current MFF, in line with Article 312(4) TFEU.

On 19 December 2019, following the failure of the Council to progress on its position on the MFF, the leaders of the political groups in the European Parliament decided to freeze large sections of the negotiations with the Council on the MFF.
Figure 2 – Allocation for natural resources and environment: comparison between the current MFF (2014-2020), Commission proposal, EP position and proposal by the Finnish Presidency

Source: EPRS.
ANNEX – COMMISSION PROPOSAL FOR THE 2021-2027 MFF, INDIVIDUAL PROGRAMMES (2018 PRICES)

Source: EPRS.
Table 1 – Proposal for Heading 3 – Natural resources and environment in the 2021-2027 MFF

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<tbody>
<tr>
<td>Policy clusters</td>
<td>€ million 2018 prices</td>
<td>2021-2027</td>
<td>2021-2027</td>
<td>2021-2027</td>
<td>2021-2027</td>
</tr>
<tr>
<td>Total</td>
<td>399 608</td>
<td>336 623</td>
<td>404 718</td>
<td>-16 %</td>
<td>346 582</td>
</tr>
<tr>
<td>8. Agriculture and maritime policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Agricultural Guarantee Fund (EAGF)</td>
<td>286 143</td>
<td>254 247</td>
<td>254 247</td>
<td>-11 %</td>
<td>254 247</td>
</tr>
<tr>
<td>European Agricultural Fund for Rural Development (EAFRD)</td>
<td>96 712</td>
<td>70 037</td>
<td>80 037</td>
<td>-28 %</td>
<td>80 037</td>
</tr>
<tr>
<td>European Maritime and Fisheries Fund</td>
<td>6 243</td>
<td>5 448</td>
<td>6 867</td>
<td>-13 %</td>
<td>6 867</td>
</tr>
<tr>
<td>Other</td>
<td>962</td>
<td>878</td>
<td>962</td>
<td>-9 %</td>
<td>962</td>
</tr>
<tr>
<td>Decentralised Agencies</td>
<td>95</td>
<td>113</td>
<td>113</td>
<td>20 %</td>
<td>113</td>
</tr>
<tr>
<td>9. Environment and climate action</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programme for environment and climate action (LIFE)</td>
<td>3 221</td>
<td>4 828</td>
<td>6 442</td>
<td>50 %</td>
<td>6 442</td>
</tr>
<tr>
<td>EP: Energy transition fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decentralised agencies</td>
<td>272</td>
<td>257</td>
<td>278</td>
<td>-9 %</td>
<td>278</td>
</tr>
<tr>
<td>Margin</td>
<td>5 960</td>
<td>814</td>
<td>1 999</td>
<td>-86 %</td>
<td>1 999</td>
</tr>
</tbody>
</table>

Source: EPRS, based on European Parliament resolution of 14 November 2018, and Negotiating Box of the Finnish Presidency.17

The following decentralised agencies are included in Heading 3:

- Agriculture and maritime policy: European Fisheries Control Agency (€113 million),
- Environment and climate action; European Environment Agency (€250 million) and European Chemicals Agency (€7 million).

MAIN REFERENCES


ENDNOTES


3 Source: European Commission website.


5 To compare the current 2014-2020 MFF with the Commission proposal for a new 2021-2027 MFF, the figures used in this document are 2018 prices.


8 For some Member States, this will increase slightly: either because of the final phasing-in of payments following accession (Croatia), or for other Member States because of the mechanism of external convergence.

9 For the period covered by the current MFF: see table in Annex II of Regulation 1307/2013 of 17 December 2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy.

10 For Member States that are net contributors to external convergence (including also two newer Member States, Hungary and Slovenia), the reduction in direct payments is around 3.9 %.

11 For more information on the position of the European Parliament on the proposed legislative package for a reformed CAP beyond 2020, see the reports adopted by the Committee on Agriculture and Rural Development, A8-0200/2019 and A8-0198/2019.

12 For more information on these voluntary payment schemes for farmers, see J. McEldowney and P. Kelly, CAP strategic planning: Operational perspectives, EPRS, European Parliament, September 2019, p. 17.

13 See European Commission, Heading 2: Sustainable growth: natural resources.

14 See European Commission, Fact Sheet ‘From Farm to Fork’.

15 For more information on the financial allocation under the current common fisheries fund per Member State, see website of the European Commission.

16 Article 3, paragraph 2 of the Commission proposal for a regulation establishing the Just Transition Fund, COM/2020/22 final, 14 January 2020.


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