FINANCING OF THE CAP

For many years the Common Agricultural Policy (CAP) was financed from a single fund, the EAGGF (European Agricultural Guidance and Guarantee Fund), which on 1 January 2007 was replaced by the EAGF and the EAFRD.

LEGAL BASIS

Article 40(3) TFEU;

Regulations (EU) Nos 1306/2013 and 1311/2013 (OJ L 347, 20.12.2013).

DEVELOPMENT OF THE FINANCIAL FRAMEWORK FOR AGRICULTURE

Established in January 1962, the CAP was at that time implemented through the European Agricultural Guidance and Guarantee Fund (EAGGF). In 1964, the EAGGF was split into two sections: the Guarantee Section and the Guidance Section, which were governed by different rules.

— The Guarantee Section, by far the larger of the two, was intended to fund expenditure stemming from the application of market and price policies. That expenditure was always unpredictable and the funding available was therefore adjusted to bring it into line with real requirements, by means of amending budgets. As a general rule, the EAGGF Guarantee Section financed market intervention measures in full.

— The Guidance Section helped to finance operations involving structural policy and the development of rural areas. Unlike the EAGGF Guarantee Section, the EAGGF Guidance Section was based on the principle of co-financing.

From 1988, in an effort to curb the increase in CAP spending, the funds available were made subject to strict budgetary discipline following the introduction of a multiannual agricultural guideline (Decision 88/377/EC, supplemented by the Interinstitutional Agreement of 22 June 1988, under the Delors I Package) (1.5.3).

Following the Treaty of Maastricht and the Edinburgh European Council (December 1992), the financial framework was overhauled (Delors II Package). The 1988 Interinstitutional Agreement was superseded by a new agreement on budgetary discipline for the period 1993-1999 (OJ C 331, 7.12.1993). It retained the principles first laid down in 1988, whilst improving the European Parliament's position as regards 'compulsory' expenditure under the EAGGF Guarantee Section. Decision 88/377/EC was superseded by Decision 94/729/EC (OJ L 293, 12.11.1994), which confirmed the principle whereby financial discipline would apply to all common policies. Agenda 2000 (5.2.3) extended the agricultural guideline under the financial perspective for the period 2000-2006 (OJ C 172, 18.6.1999). The financing arrangements for the CAP were laid down in the new Regulation (EC) No 1258/1999 (OJ L 160).

The multiannual financial framework for 2007-2013 was approved in 2006 (OJ C 139, 14.6.2006) (1.5.3). Its heading 2, 'Preservation and management of natural resources', covers the budget for agriculture and rural development, the environment, and fisheries (EUR 413 billion at current prices, equivalent to 42.3% of total commitment appropriations for the EU-27). The preparatory discussions on the multiannual financial framework for the period 2007-2013 also included a review of the CAP financing arrangements.

— Regulation (EC) No 1290/2005 (OJ L 209) created two European agricultural funds, namely the European Agricultural Guarantee Fund (EAGF), and the European Agricultural Fund for Rural Development (EAFRD). The EAFRD finances or, occasionally co-finances with the Member States, the following: CMO expenditure (5.2.4); direct support to farms (5.2.5); the Union's contribution to initiatives to provide information about and to promote agricultural products on the internal market and in third countries; and the Community share of the cost of veterinary measures and the collection and use of genetic resources, among other items of ad hoc expenditure.

— Regulation (EC) No 1290/2005 was accompanied by Regulation (EC) No 1698/2005 (OJ L 277) on support for rural development through the EAFRD, to take account of the financial and programming characteristics of the second pillar of the CAP (5.2.6). The EAFRD co-finances measures to improve competitiveness in the agricultural and forestry sectors, agri-environmental measures, and measures to improve the quality of life in rural areas and encourage the diversification of the rural economy and local capacity-building (Leader Initiative) (5.2.6).

The Guarantee Section had always been classified as compulsory expenditure (CE) under the Community budget, i.e. expenditure resulting directly from the Treaty or acts adopted pursuant thereto. Conversely, all EAGGF Guidance Section expenditure was classified as non-compulsory. Until the entry into force of the Lisbon Treaty (5.2.1), the Council, the senior arm of the EU's budgetary authority, traditionally had the last word on compulsory expenditure under the annual budget procedure. The European Parliament held decision-making power in respect of non-compulsory expenditure, subject to a maximum rate of increase calculated by the Commission on the basis of economic parameters. Under the new TFEU (5.2.1), this distinction has been done away with, and the two arms of the budgetary authority (the European Parliament and the Council) now take joint decisions on all agricultural expenditure.

As regards the period 2014-2020, on 19 November 2013 (in resolutions T7-0455/2013 and T7-0456/2013) the European Parliament endorsed the regulation on the new multiannual financial framework (Regulation (EU) No 1311/2013, OJ L 347) and the Interinstitutional Agreement on sound financial management (OJ C 373, 20.12.2013). What is more, Regulations (EC) Nos 1290/2005 and 1698/2005, which were repealed in the 2013 reform, have been replaced by Regulation (EU) No 1306/2013 on the financing, management and monitoring of the common agricultural policy and by Regulation (EU) No 1305/2013 on support for rural development by the EAFRD (OJ L 347).

The new multiannual financial framework establishes a total budget for the heading 'Preservation and management of natural resources' (including the CAP) of EUR 373.17 billion, at 2011 prices, accounting for 38.9% of total commitment appropriations for the EU-28. The regulation of agricultural markets and direct payments account for 28.9% of total planned commitments (5.2.10, table I, line B). In addition, rural development measures account for 8.8% of the total (5.2.10, table I, line C). Accordingly, the projected agricultural and rural development budget for 2020 stands at EUR 49 billion, equivalent to 34.9% of the total, below the percentage allocated to the CAP at the start of the period covered by the financial perspective (40.5% in 2014) (5.2.10, table I, line D).

The multiannual financial framework for agriculture was revised in 2015, following transfers between the two pillars of the CAP agreed on by the Member States (Implementing Regulation (EU) No 205/141 (OJ L 24)). The table below shows the proportions of CAP funding accounted for by the CMO, direct payments and rural development.

CAP BUDGET 2014-2020 (EU-28)	**Total 2014-2020 (EUR billion at current prices)**	**% CAP**
MARKET MEASURES (CMO)	19.002	
(a) Assigned revenue	(4.704)	
(b) Crisis reserve	+3.155	
(A) TOTAL CMO [(a) + (b)]	17.453	4.3%
DIRECT PAYMENTS (DP)	298.438	
(c) Transfers to pillar 2	(7.369)	
(d) Transfers to DP	+ 3.359	
(e) NET TRANSFERS [(c) + (d)]	(4.010)	
(b) Crisis reserve	(3.155)	
(B) TOTAL DP [(e) + (b)]	291.273	71.3%
TOTAL PILLAR 1 [(A) + (B)]	308.726	75.6%
RURAL DEVELOPMENT MEASURES (RD)	95.577	
(e) Net balance in favour of pillar 2	+ 4.010	
(C) TOTAL PILLAR 2 (RD)	99.587	24.4%
TOTAL CAP 2014-2020 [(A)+(B)+(C)]	408.313	100%

In September 2016, the Commission initiated a mid-term review of the 2014-2020 multiannual financial framework (COM(2016) 0605). Even if the CAP amounts are not affected, that revision includes a number of changes to the basic agricultural acts of 2013 (5.2.9).

THE CHANGING NATURE OF AGRICULTURAL AND RURAL EXPENDITURE

A. Overview

The share of the European Union budget accounted for by agricultural spending has been steadily declining in recent years. Whereas the CAP represented 66% of the Community budget in the early 1980s, it accounts for just 37.8% of it in the period 2014-2020 (5.2.10, table I, line D). Since 1992, the date of the first significant overhaul of the CAP and the explosion in the volume of direct aid, agricultural expenditure has remained stable in real terms, apart from in 1996 and 1997 (as a result of the BSE crisis and the accession of three new Member States). Between 1990 and 2020, therefore, the budgetary cost of the CAP, when set against EU gross national income (GNI), will have decreased from 0.54% to an expected 0.34% (5.2.10, table I, line D).

B. Allocation by expenditure category and by sector

Ninety-four per cent of expenditure under the first pillar (EUR 44.9 billion in 2015, consists of direct aid to farmers (EUR 42.1 billion) (5.2.10, table V, column 1(a) and (b)). The sharp increase in direct aid since 1992 has resulted in a corresponding fall in other EAGGF Guarantee Section/ EAGF expenditure: export subsidies were more or less eliminated in 2015 (EUR 212 943), and the cost of other intervention measures (storage, measures to restructure the sugar industry, promotion and information actions, and veterinary and phytosanitary measures) amounted to just EUR 2.7 billion (5.9% of the total) (5.2.4, Table 1).

The three sectors which used to receive most funding under the EAGGF Guarantee Section were arable crops (cereals, oilseeds, and protein crops), beef, and milk products. After the 2003 reform (5.2.3 and 5.2.5) and the resulting decoupling of aid from production, the top expenditure item was single payments to farms (85.1% of the EAGF total in 2015), followed by direct aid linked to production (6.7%) (5.2.2).

C. Distribution by country and by type of farm

As shown in Table V, relating to the financial year 2015 (5.2.10), the largest CAP recipient is France (16.3%), followed by Spain (12.9%), Italy (11.1%) and Germany (10.8%). As far as the EAFRD is concerned, however, Romania is the top recipient (19.5%), followed by Poland (18.1%) and Italy (17.7%). It should be noted that the new Member States (EU-13) account for a relatively small proportion of EAGF spending (21.0% in 2015). However, they are already receiving a significant share of EAFRD funding (51.1%), in accordance with the priority being given to the modernisation of agricultural facilities and the development of rural areas.

Table V, column 2 (5.2.10) also illustrates the uneven distribution of CAP direct aid at farm level: 78.8% of CAP beneficiaries in the EU-28 received less than EUR 5 000 in annual payments in 2015, giving an aggregate amount equivalent to 15.7% of the total direct aid paid out under the EAGF. By contrast, a very small percentage of farms (131 329 out of a total of 7.24 million, i.e. 1.81%) each receive more than EUR 50 000, giving an aggregate amount equivalent to EUR 13.75 billion (32.6% of the total direct aid paid out in 2015). Countries with a higher percentage of large farms (or firms) which receive money under the CAP are Denmark, France, the Czech Republic, the United Kingdom and Slovakia. This state of affairs obviously calls into question the legitimacy of CAP aid when set against the values espoused by European society as a whole.

ROLE OF THE EUROPEAN PARLIAMENT

The 1988, 1993, 1999, and 2006 interinstitutional agreements gave the European Parliament a greater say on compulsory expenditure. The lengthy negotiations on the regulation laying down the financial framework for 2014-2020 resulted in a political agreement at the end of June 2013, and this was adopted by the two arms of the budgetary authority in November 2013. Because its consent was required and it was therefore able to exert pressure, Parliament managed to amend the European Council's agreement in principle of 7-8 February 2013. Among the changes secured were: increased flexibility in the management of budget headings, the reinforcement of the Budget Unit, the immediate use by Member States of outstanding appropriations from the 2013 budget and the improvement of appropriations allocated under Heading 1 (competitiveness) (resolutions T7-0455/2013 and T7-0456/2013). After the last trilogues in September 2013, the Committee on Agriculture and Rural Development made further improvements to some of the financial aspects of the new direct payment system and the new rural development policy). These changes enabled Parliament, on 20 November 2013, to give the go-ahead to all of the regulatory texts relating to the new CAP (resolutions T7-0490/2013 toT7-0494/2013). The five new regulations were published on 20 December 2013 (OJ L 347).

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