FINANCING OF THE CAP

For many years, the common agricultural policy (CAP) was financed from a single fund, the European Agricultural Guidance and Guarantee Fund (EAGGF), which on 1 January 2007 was replaced by the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).

LEGAL BASIS

Article 40(3) of the Treaty on the Functioning of the European Union (TFEU);

Regulation (EU) No 1306/2013 and Regulation (EU, Euratom) No 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 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 by means of amending budgets to bring it into line with real requirements. As a general rule, the EAGGF Guarantee Section financed market intervention measures in full.

— The Guidance Section helped to finance operations in connection with structural policy and the development of rural areas. Unlike the EAGGF Guarantee Section, the EAGGF Guidance Section was based on the principle of cofinancing.

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/EEC, supplemented by the Interinstitutional Agreement of 22 June 1988, under the Delors I Package) (1.4.3).

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 The 1988 interinstitutional agreement was superseded by a new agreement on budgetary discipline for the 1993-1999 period (OJ C 331, 7.12.1993). Decision 88/377/EEC was superseded by Decision 94/729/EC (OJ L 293, 12.11.1994), which confirmed the principle that financial discipline would apply to all common policies. Agenda 2000 (3.2.3) extended the agricultural guideline under the financial perspective for the 2000-2006 period (OJ C 172, 18.6.1999). The financing arrangements for the CAP were laid down in new Regulation (EC) No 1258/1999 (OJ L 160, 26.6.1999, p. 103).

The 2007-2013 Multiannual Financial Framework was approved in 2006 (OJ C 139, 14.6.2006) (1.4.3). Heading 2, 'Preservation and management of natural resources', covered 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 2007-2013 period also included a review of the CAP financing arrangements.

- Regulation (EC) No 1290/2005 (OJ L 209, 11.8.2005, p. 1) created two European agricultural funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). The EAGF finances or sometimes cofinances, together with the Member States, common organisation of the market (CMO) expenditure (3.2.4); direct support to farms (3.2.5); the EU's contribution to initiatives to provide information about and to promote agricultural products on the internal market and in third countries; and the EU's 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, 21.10.2005) on support for rural development through the EAFRD, to take account of the financial and programming characteristics of the second pillar of the CAP (3.2.6). The EAFRD cofinances measures to improve competitiveness in the agricultural and forestry sectors, agro-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) (3.2.6).

The Guarantee Section had always been classified as compulsory expenditure 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 Treaty of Lisbon (3.2.1), the Council, the senior arm of the EU's budgetary authority, traditionally had the last word on compulsory expenditure under the annual budget procedure. On the other hand, 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 TFEU (3.2.1) this distinction was 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 2014-2020 period, on 19 November 2013 [in resolutions P7_TA(2013)0455 and P7_TA(2013)0456, OJ C 436, 24.11.2016], the European Parliament endorsed the regulation on the new multiannual financial framework

[Regulation (EU, Euratom) No 1311/2013, OJ L 347, 20.12.2013] and the Interinstitutional Agreement on sound financial management (OJ C 373, 20.12.2013). The 2014-2020 Multiannual Financial Framework established a total budget for the heading ‘Preservation and management of natural resources’ (including the CAP) of EUR 373.17 billion, at 2011 prices, or 38.9% of total commitment appropriations for the EU-28. The 2014-2020 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 2015/141 (OJ L 24, 30.1.2015)]. The 2014-2020 CAP budget ultimately established allocated EUR 291.273 billion for direct payments (71.3% of the CAP total), EUR 99.587 billion for rural development (24.4%) and EUR 17.453 billion for market measures (CMO) (4.3% of the total). For the 2014-2020 period, agricultural expenditure totalled EUR 408.313 billion.

As regards the 2021-2027 period, in December 2020 the co-legislators endorsed the regulation on the new multiannual financial framework [Regulation (EU, Euratom) 2020/2093] and the Interinstitutional Agreement on budgetary matters (OJ L 433I, 22.12.2020). As a result, EUR 378 532.3 millions (at current prices) was made available to CAP beneficiaries as from 1 January 2021, representing 31% of the total EU budget [see table below – lines (3) and (5)]. Rural development measures under the CAP will be given additional resources from the NextGenerationEU programme (NGEU) to fund economic and social recovery following the COVID-19 crisis (EUR 8 070.5 million [see table below – line (2b)]. Total CAP commitments for the 2021-2027 period are therefore EUR 386 602.8 million [see table below – line (6)].

CAP BUDGET, EU-27 (commitment appropriations - EUR million at current prices)	**(A) Year 2021**	**(B) Multiannual Financial Framework 2021-2027 (MFF)**	**% (B)**
(1) CAP PILLAR 1 Direct payments and agricultural market measures	40 368.0	290 534.0	76.8%
(2) CAP PILLAR 2 (2a) Rural development measures under MFF (2b) Additional rural development measures under NGEU (temporary recovery instrument)	15 345.0 2 387.7	87 998.3 8 070.5	23.2% ---
(3) TOTAL CAP 2021-2027, EU-27 [(1) + (2a)]	55 713.0	378 532.3	100%
(4) TOTAL EU COMMITMENTS	168 496.0	1 221 719.5	---
(5) % of CAP [(3) / (4)]	33.1%	31.0%	---
(6) TOTAL CAP: MFF 2021-2027 + NGEU 2021-2022 [(1) + (2a) + (2b)]	58 100.7	386 602.8	---
(7) TOTAL MFF 2021-2027 + NGEU 2021-2022	333 108.9	1 642 788.7	---

(8) % of CAP [(5) / (6)]	17.4%	23.5%	---

THE CHANGING NATURE OF AGRICULTURAL AND RURAL EXPENDITURE

A. Overview

The EU budget for 2021 contains a total of EUR 168.5 billion in commitment appropriations. The CAP accounts for 33.1% of the 2021 EU-27 budget (EUR 55.71 billion). Direct payments and market measures (CAP pillar 1) represent 76.8% of agricultural appropriations (EUR 40.4 billion), and rural development measures (CAP pillar 2) 23.2% (EUR 15.3 billion [see table above – column (A)].

The share of the EU budget accounted for by agricultural spending has been steadily declining in recent years. Whereas the CAP represented 66% of the EU budget in the early 1980s, it accounted for just 37.8% of it in the 2014-2020 period and accounts for 31% for the 2021-2027 period. Since 1992, when there was the first significant overhaul of the CAP and an 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 2021-2027, therefore, the budgetary cost of the CAP, when set against EU gross national income, will have decreased from 0.54% to a projected 0.32%.

B. Allocation by expenditure category and by sector

Ninety-four percent of expenditure under pillar 1 (EUR 43.9 billion according to the most recent financial report published for 2019) consists of direct aid to farmers (EUR 41.33 billion) (3.2.10, 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 almost eliminated in 2019, and the other market intervention measures (storage, promotion and information actions, and school distribution programmes) amounted to just EUR 2.6 billion (6% of the total) (3.2.4, table 1).

C. Distribution by country and by type of farm

As shown in table V, for financial year 2019 (3.2.10) the largest CAP recipient is France (17.3%), followed by Spain (12.4%), Germany (11.2%) and Italy (10.4%). As far as the EAFRD is concerned, France and Italy are the top recipients (14.9% and 10.4% respectively of actual payments in 2019), followed by Germany (9.2%) and Italy (8.4%). It should be noted that the new Member States (EU-13) account for a relatively small proportion of EAGF spending (26.8% in 2019). However, they are already receiving a significant share of EAFRD funding (32.2%) in accordance with the priority being given to the modernisation of agricultural facilities and the development of rural areas.

Table V, column 2 (3.2.10) also illustrates the uneven distribution of CAP direct aid at farm level: 74.9% of CAP beneficiaries in the EU-28 received less than EUR 5 000 in annual payments in 2019, giving an aggregate amount equivalent to 15.1% of the total direct aid paid out under the EAGF. By contrast, a very small number of farms (121 844 out of a total of 6.3 million, i.e. 1.93%) received more than EUR 50 000 each, giving an aggregate amount equivalent to EUR 12.67 billion (30.6% of the total direct aid paid out in 2019). Countries with a higher percentage of large farms (or firms) which receive money under the CAP are Denmark, the United Kingdom, the Czech Republic, Slovakia and France. This situation poses problems of legitimacy of aid in the light of the principles applied to all citizens (tax progressivity, fight against inequality, and economic and social recovery because of the pandemic).

THE 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 an agreement in November 2013. Exercising the influence it had acquired because of the need for plenary to give its assent, Parliament secured increased flexibility in the management of budget headings, strengthened budget unity, the immediate use by Member States of outstanding appropriations from the 2013 budget and an increase in appropriations allocated under Heading 1 (competitiveness) [resolutions P7_TA(2013)0455 and P7_TA(2013)0456]. After the final trilogues in September 2013, the Committee on Agriculture and Rural Development made improvements to some of the financial aspects of the new CAP.

The first proposal for a multiannual financial framework post-2020 (without the United Kingdom) was presented on 2 May 2018. That draft long-term budget was superseded in May 2020 by a second proposal supplemented by the NextGenerationEU instrument in order to ensure that EU funding might more effectively help repair the economic and social damage brought about by the COVID-19 pandemic. The European Parliament adopted its position in its resolutions of 14 November 2018 [P8_TA(2018)0449], 23 July 2020 [P9_TA(2020)0206] and 17 December 2020 [P9_TA(2020)0360]. Following a lengthy process of negotiations between the two arms of the budgetary authority, an agreement was concluded on 17 December 2020.

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