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THE CAP IN THE MULTIANNUAL FINANCIAL FRAMEWORK 2014/2020

NOTE

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NOTE

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Abstract:

This is the third working paper written by Policy Department B on Common Agricultural Policy Reform. The purpose of this document is to provide an analysis of the Commission's Communication on "*A Budget for Europe 2020*", with the aim of facilitating the legislative work of the MEPs relating to the next reform of the CAP. After a description of the historical evolution of the European budget and spending on the Common Agricultural Policy, the paper explores the new proposed Multiannual Financial Framework for the 2014–2020 period, with particular reference to the CAP budget and its various components.

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LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific Group of States
CAP	Common Agricultural Policy
CE	Compulsory Expenditure
CFS	Common Strategic Framework
CFSP	Common Foreign and Security Policy
CMO	Common Market Organisation
CSF	Community Support Framework
DCI	Development Cooperation Instruments
EAFRD	European Agricultural Fund for Rural Development
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Commission
EC	European Community
ECSC	European Coal and Steel Community
EDF	European Development Fund
EGAF	European Globalisation Adjustment Fund
EIDHR	European Instrument for Democracy and Human Rights
EMFF	European Maritime and Fisheries Fund
ENI	European Neighbourhood Instruments
EP	European Parliament
EU	European Union
EVHAC	European Voluntary Humanitarian Aid Corps
FPAs	Fisheries Partnerships Agreements

GMES	Global Monitoring for Environment and Security
GNI	Gross National Income
GNP	Gross National Product
ICT	Information Communication Technologies
IFS	Instrument for Stability
IIA	Interinstitutional Agreement
INSC	Instruments for nuclear safety cooperation
ITER	International Thermonuclear Experimental Reactor
MFF	Multiannual Financial Frameworks
NCE	Non-compulsory Expenditure
OCT	Overseas Countries and Territories
PI	Partnership Instruments
RFMOs	Regional Fisheries Management Organisations
SMEs	Small and Medium-size Entreprises
TEU	Treaty of European Union
TFEU	Treaty on the Functioning of the European Union
VAT	Value Added Tax

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1. BACKGROUND: THE MULTIANNUAL FINANCIAL FRAMEWORK

1.1. Achievements of the Multiannual Financial Frameworks

Since 1988, Interinstitutional Agreements have been approved to cover the financial process and the distribution of the EU budget. These agreements are implemented through "***Multiannual Financial Frameworks (MFF)***", also known as "***Financial Perspectives***", in order to:

- provide a stable framework with EU own resources for the common policies on a *medium-term programming period* (at least *five years*);
- translate into expenditure terms the EU political priorities;
- ensure "*budgetary discipline*", specially addressed to curb the increase in CAP expenditure.

Four Multiannual Financial Frameworks have been implemented to date:

1988/1992 – The first *Interinstitutional Agreement (IIA)* between the European Parliament, the Council and the Commission was concluded as part of the ***Delors Package I*** on 22 June 1988. It covered the *1988/1992 period*, which was intended to sustain the implementation of Single European Act. Then, it focused on establishing the Internal Market in the EU-12. The CAP funds were subjected to strict budgetary discipline ("*agricultural guideline*") by the Decision 88/377/EC ([1]).

1993/1999 – Following the Treaty of Maastricht, the Edinburgh European Council on 11 and 12 December 1992 decided to retain and strengthen the budgetary discipline introduced in 1998. The existing Financial Framework was overhauled inside the ***Delors Package II***. A *new Interinstitutional Agreement* including the *financial perspectives for 1993 to 1999* was concluded on 29 October 1993 ([2]). The new MFF confirmed that *all* European expenditure should be subject to the principles of sound public finance and budgetary discipline. It gave priority to social and cohesion policy and the introduction of the Euro in 1999. The EU "*own resources*" ceiling was increased and the Structural Funds were doubled. Decision 88/377/EC was superseded by Decision 94/729/EC ([3]).

2000/2006 – The third IIA, also known as "***Agenda 2000***", was signed on 17 May 2006 and covered the period *2000/2006* ([4]) (Table 7). It focused on the enlargement of the EU. The new financial perspectives extended the "*agricultural guideline*". In parallel, the financing of the CAP was laid down in new Regulation (EC) N° 1258/1999 ([5]).

2007/2013 – The latest MFF for the period *2007/2013* was approved in 2006 ([6]). It gave priority to sustainable growth and competitiveness in order to create more jobs. To facilitate increased flexibility in the face of the globalisation challenges, a number of instruments were created ([7]): the EU Solidarity Fund ([8]), the European Globalisation

[1] OJ L 185 of 15 July 1988.
[2] OJ C 331 of 7 December 1993.
[3] OJ L 293 of 12 November 1994.
[4] OJ C 172 of 18 June 1999.
[5] OJ L 160 of 26 June 1999.
[6] OJ C 139 of 14 June 2006. See: http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm and http://ec.europa.eu/budget/biblio/documents/fin_fwk0713/fin_fwk0713_en.cfm#aii
[7] See: "*Flexibility in the Multiannual Financial Framework 2007-2013: revisions and use of instruments*", European Parliament, Note of Policy Department D: Budgetary Affairs, PE 453.218, 25 October 2010.

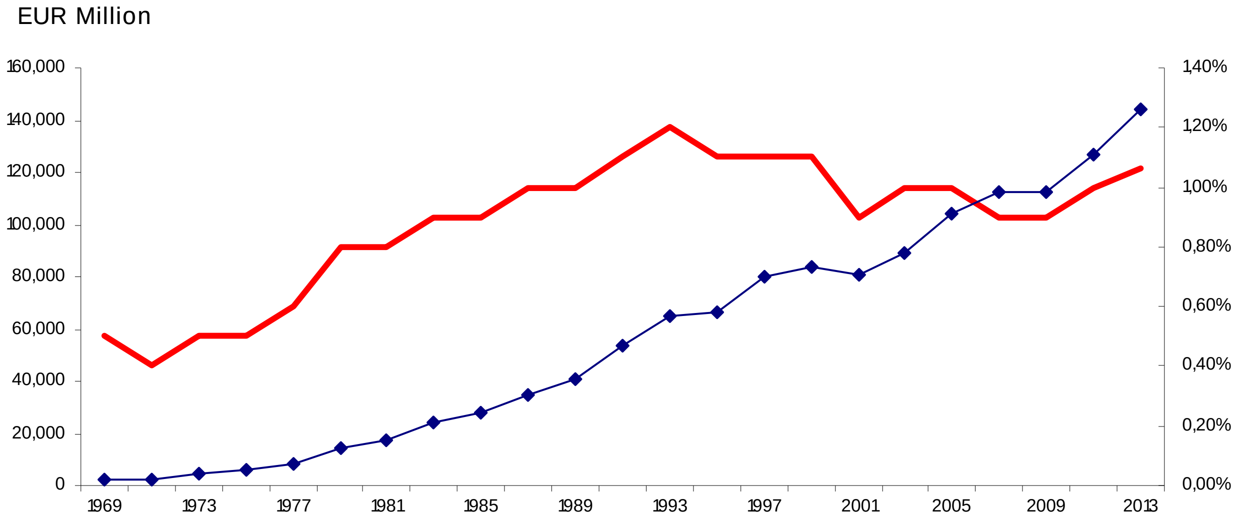
Adjustment Fund ([9]), the Emergency Aid Reserve and the Flexibility Instrument, in addition, to the possibility, "*in case of unforeseen circumstances*", of revising the MFF ceilings. Since its adoption on 17 May 2006, the MFF has been revised several times ([10]). The current ceilings ([11]), defined into 6 headings and some subheadings, are set out in Table 1.

Heading 1 (*Sustainable growth*) is the most important part of the MFF 2007/2014 (representing 45% of total commitment appropriations) (Table 1 and Figure 3). ***Heading 2*** (*Preservation and management of natural resources*) is the second largest (representing 42%), including the agricultural and rural budget. However, in implemented budget terms, Heading 2 becomes more important than Heading 1 (46.5% compared to 39.9% in 2010) (Table 9) and the CAP confirms its financial hegemony (representing 45.8% of payments appropriations in 2010) (Table 10).

EU expenditure as a percentage of GNI (Gross National Income) has been stabilised with the introduction of the different MFFs (1.1% in 1992; 1.1% in 1999; 1.0% in 2006; 1.06% in 2013). Figures 1 and 2 show the evolution of the EU budget and the CAP payments appropriations during the years 1968 to 2013.

It is appropriate to contrast the weight of the EU budget (representing around 1% of EU-27 GNI) with the Member States budgets (accounting for 44%). In fact, the sum of national budgets of all 27 Member states is almost 50 times bigger than the EU budget ([12]).

Figure 1
Evolution of EU budget: expenditure and share of GNI



Source: Elaborations by EP Policy Department B on data from "*EU Budget 2008 Financial Report,* Annex II". (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf)

Available in: http://www.europarl.europa.eu/activities/committees/studies/download.do?language=en&file=33115

8 Regulation (EC) N° 2012/2002 (OJ L 311, 14.11.2002).

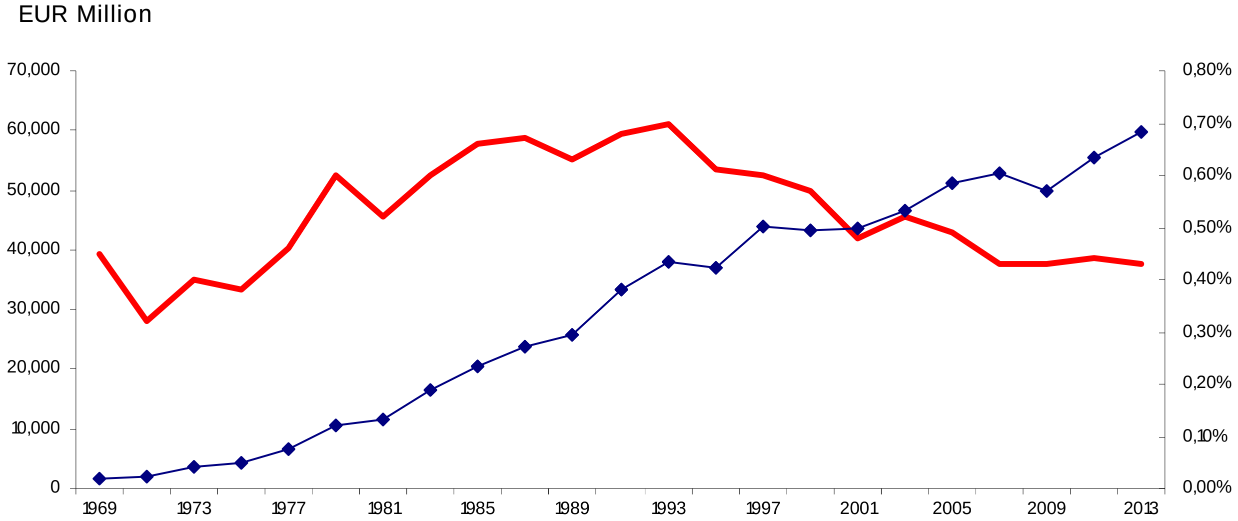
9 Regulation (EC) N° 1927/2006 (OJ L 406, 30.12.2006.). See also the last Commission's report to the EP and the Council relating the activities of the EGAF (COM (2011) 466 of 22.8.2011): http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0466:FIN:EN:PDF

10 See: http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#revision

11 Financial Framework 2007/2013 adjusted for ITER (COM (2011) 226, 20.4.2011).

12 Data from EC Commission: http://ec.europa.eu/budget/explained/myths/myths_en.cfm#1of15

Figure 2
Evolution of CAP budget: expenditure and share of GNI



Source: Elaborations by EP Policy Department B on data from "*EU Budget 2008 Financial Report*, Annex II". (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf)

- ***Four Multiannual Financial Frameworks have been implemented to date: Delors Package I (1988/1992), Delors Package II (1993/1999), Agenda 2000 (2000/2006) and MFF 2007/2013.***
- ***EU expenditure as a percentage of GNI (Gross National Income) has been stabilised with the introduction of the different MFFs (1.1% in 1992; 1.1% in 1999; 1.0% in 2006; 1.06% in 2013).***

1.2. EU expenditure and the own resources system

The main bulk of budgetary expenditure, and the associated MFF, are financed by the system of ***EU own resources***, supplemented by *other sources of revenue* (taxes on EU staff salaries; contributions from non EU countries to certain programmes, fines on companies for breaching competition, etc).

In *1970*, the *Luxembourg European Council* introduced for the first time a system of own resources for the EU budget, taking effect in 1971 (Council Decision 70/243/ECSC). The first own resources were customs duties and agricultural levies (known as "*traditional own resources*").

In the 1970s, a VAT-based resource was introduced as a new own resource. In *1984*, the *Fontainebleau European Council* increased the maximum rate of call for the VAT resource to 1.4%. It also established a correction mechanism for budgetary imbalances (known as the "*UK correction*" or "*rebate*").

The Fontainebleau decisions soon proved to be insufficient in the face of the rapid increase in CAP spending and the decline of the revenues from the "*traditional own* *resources*" because of the impact on EU tariffs of the liberalisation and opening up of the markets.

In J*une 1988, the Brussels European Council* introduced a new own resource based on the Member States' Gross National Product (GNP) (Council Decision 88/376/EEC). It also set an overall ceiling on the total amount of own resources which could be called to finance the EU expenditure.

The *Edinburgh agreement of December 1992* increased the overall ceiling to 1.27% of Europe's GNP, while at the same time introducing steps to further reduce the weight of the VAT resource to 50% of GNP (Council Decision 94/728/EC). This agreement entered into force at the beginning of 1995.

After the *Berlin European Council of 1999*, a new own resources decision was approved in September 2000 for the Multiannual Financial Framework 2000/2006. This decision entered into force in March 2002. Furthermore, as from the year 2002, the concept of Gross National Product (GNP) has been replaced by the concept of Gross National Income (GNI) in the EU budgetary and own resources area.

The last decision on own resources was adopted in June 2007 and has been in force since 1 March 2009, after ratification by all 27 Member States, with retroactive effect back to 1 January 2007 (Council Decision 2007/436/EC) ([13]).

As a consequence, there are now **three main categories of own resources**:

- ***Traditional own resources***: customs' duties, agricultural duties and sugar and isoglucose levies. Member States retain 25% of the amounts collected, to cover collection costs (Council Decision 2000/597/EC). On average, the share of these resources in total own resources reached around 15% over 2000/2006. In 2011, this resource corresponded to 12% of total revenue.

- ***VAT-based own resource***. Revenue from this resource gradually became the main source of financing, but turned out also to be insufficient to cover EU expenditure in the mid-1980s. In 2011, the total amount of this own resource levied reached 11% of total revenue. The uniform levied rate of the VAT own resource is fixed at 0.30% from 1 January 2007. However, for the period 2007/2013 only, the rate for Austria has been fixed at 0.225%, for Germany at 0.15% and for the Netherlands and Sweden at 0.10%.

- ***GNI-based resource*** (the "*additional 4th resource*") The GNI-based resource is determined so that total revenue balances total expenditure. It has gradually become the most important source of financing of the EU budget, representing on average 60% of total own resources payments over the 2000/2006 period. In 2011, the total amount levied reached 76% of total revenue.

Currently, the own resources ceiling as a percentage of GNI is established at *1.23%* (for the EU-27 in the 2007/2013 MFF period) (last row of Table 1) ([14]).

[13] OJ L 163 of 23 June 2007 (http://eur-lex.europa.eu/LexUriServ/site/en/oj/2007/l_163/l_16320070623en00170021.pdf).

[14] Due to a change in the way GNI is calculated, the limit for own resources revenue went from 1.24% to 1.23% of the EU's GNI. See Council Decision 2010/196/EU OJ L 87, 7.4.2010

Table 1
Financial framework 2007/2013 (EUR Million - current prices)

COMMITMENT APPROPRIATIONS	2007	2008	2009	2010	2011	2012	2013	TOTAL 2007/2013	%
HEADING 1. Sustainable Growth	**53,979**	**57,653**	**61,696**	**63,555**	**63,974**	**67,614**	**70,147**	**438,618**	*44.9*
1a. Competitiveness for Growth & Employment	8,918	10,386	13,269	14,167	12,987	14,853	15,623	90,203	*9.2*
1b. Cohesion for Growth & Employment	45,061	47,267	48,427	49,388	50,987	52,761	54,524	348,415	*35.7*
HEADING 2. Preservation and Management of Natural Resources if there:	**55,143**	**59,193**	**56,333**	**59,955**	**59,688**	**60,810**	**61,289**	**412,411**	*42.3*
CAP 1st Pillar (market related expenditure and direct payments)	*45,759*	*46,217*	*46,679*	*47,146*	*47,617*	*48,093*	*48,574*	*330,085*	*33.8*
HEADING 3. Citizenship, freedom, security and justice	**1,273**	**1,362**	**1,518**	**1,693**	**1,889**	**2,105**	**2,376**	**12,216**	*1.3*
3a. Freedom, security and justice	637	747	867	1,025	1,206	1,406	1,661	7,549	*0.8*
3b. Citizenship	636	615	651	668	683	699	715	4,667	*0.5*
HEADING 4. EU as a global player	**6,578**	**7,002**	**7,440**	**7,893**	**8,430**	**8,997**	**9,595**	**55,935**	*5.7*
HEADING 5. Administration	**7,039**	**7,380**	**7,525**	**7,882**	**8,144**	**8,670**	**9,095**	**55,735**	*5.7*
Compensations	**445**	**207**	**210**	**--**	**--**	**--**	**--**	**862**	*0.1*
TOTAL COMMITMENT (*) APPROPRIATIONS	**124,457**	**132,797**	**134,722**	**140,978**	**142,629**	**148,196**	**152,502**	**975,777**	*100*
as a percentage of **GNI** (Gross National Income)	*1.02%*	*1.08%*	1.16%	*1.18%*	*1.15%*	*1.13%*	*1.12%*	*1.12%*	
TOTAL PAYMENT APPROPRIATIONS (*)	**122,190**	**129,681**	**120,445**	**134,289**	**133,440**	**141,360**	**144,171**	**925,576**	--
as a percentage of **GNI** (Gross National Income)	*1.00%*	*1.05%*	*1.04%*	*1.12%*	*1.08%*	*1.08%*	*1.06%*	*1.06%*	
Own Resources ceiling as a % of GNI	*1.24%*	*1.24%*	*1.24%*	*1.23%*	*1.23%*	*1.23%*	*1.23%*	*1.23%*	--

Source: Financial Framework 2007/2013 adjusted for ITER (COM (2011) 226, 20.4.2011).
(*) See Note (19) on the definitions of "*Commitment appropriations*" and "*Payment appropriations*".

(http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:087:0031:0032:EN:PDF) and the Commission's Communication on the adaptation of the ceilings (COM (2010) 162) of 16.4.2010 (http://ec.europa.eu/budget/library/biblio/documents/financing/comm_2010_162_en.pdf).

- ***There are now three main categories of own resources: traditional own resources (in 2011, this resource corresponded to 12% of total revenue); VAT-based own resource (in 2011, the total amount of this own resource levied reached 11% of total revenue); GNI-based resource (in 2011, the total amount levied reached 76% of total revenue).***

- ***The own resources ceiling as a percentage of GNI is established at 1.23% for the EU-27 in the of 2007/2013 MFF period.***

1.3. Relationship between EU Budget review, EU 2020 Strategy, CAP Reform and the calendar

As formalised in a declaration attached to the *IIA of 17 May 2006*, the Commission was invited to undertake a full, wide-ranging review covering all aspects of EU spending (including the CAP) and of EU own resources (including the UK rebate) and to report in 2008/2009. Due to the delays in the ratification of the Lisbon Treaty, this was postponed to 2010.

On 19 October 2010, the Commission published its *Communication on the* ***budget review*** ([15]). However, it did not define either the future EU own resources, the EU spending priorities, the size of the budget, nor the share each policy would receive. In any case, the new budget should be seen in the broader context of the ***Europe 2020 Strategy*** ([16]), presented by the Commission in March 2010. This dictated that future EU financing should, above all, be designed to help deliver smart, sustainable and inclusive growth. It also meant directing it towards collective challenges like infrastructures, energy or climate change.

Concerning agriculture, the Conclusions of the European Council of 17 June 2010, adopting the *Europe 2020* Strategy ([17]) recognised that "*a sustainable productive and competitive agricultural sector will make an important contribution to the new strategy, considering the growth and employment potential of rural areas while ensuring fair competition*".

The final revision on all the EU budgetary elements will be put on the table as part of the negotiation on the *next* ***Multiannual Financial Framework 2014/2020***, for which proposals have already been presented by the Commission on 29 June 2011. In this context, the *financial negotiations* will run in parallel with the *negotiations on the* ***CAP reform***, due to commence on 12 October 2012, after the presentation of the legislative package by the Commission.

Agricultural interests are particularly at risk in this process, given that the CAP is currently the EU's single largest item of expenditure (at a cost of about €55.3 billion in payment appropriations in 2011) (Tables 8 and 9). As the scale of the agricultural budget after

[15] COM (2010) 700, 19.10.2010.
[16] "*Europe 2020: A strategy for smart, sustainable and inclusive growth*", COM (2010) 2020, 3.3.2010.
[17] Conclusions of European Council, 17 June 2010 (in particular, point 5).
(http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/115346.pdf).

2013 will concern to the new Multiannual Financial Framework, the general adoption of the ***CAP legislative proposals*** by co-decision procedure ***will not be probably possible before the* inter-*institutional agreement (IIA) on the financial perspectives*** 2014/2020. In other terms, the timings of the Multiannual Financial Framework negotiation and the CAP reform process will converge and influence mutually.

Furthermore, we have to add the legal vacuum existing on the **decision-making levels** of agricultural acts of the CAP reform. At this stage we do not know yet which will be the modalities of implementation of the **Article 43(3) TFEU**, permitting the establishment of some amounts of aids or levels of prices **exclusively by the Council.** Until now, the European Parliament has rejected all exceptions to the co-decision procedure. In this context, the legislative proposals of 12 October 2011 will be oblige to include specific provisions on the development of the Article 43(3) TFEU, with a clear delimitation of the legislative competences between European Parliament and Council with regard to the CAP.

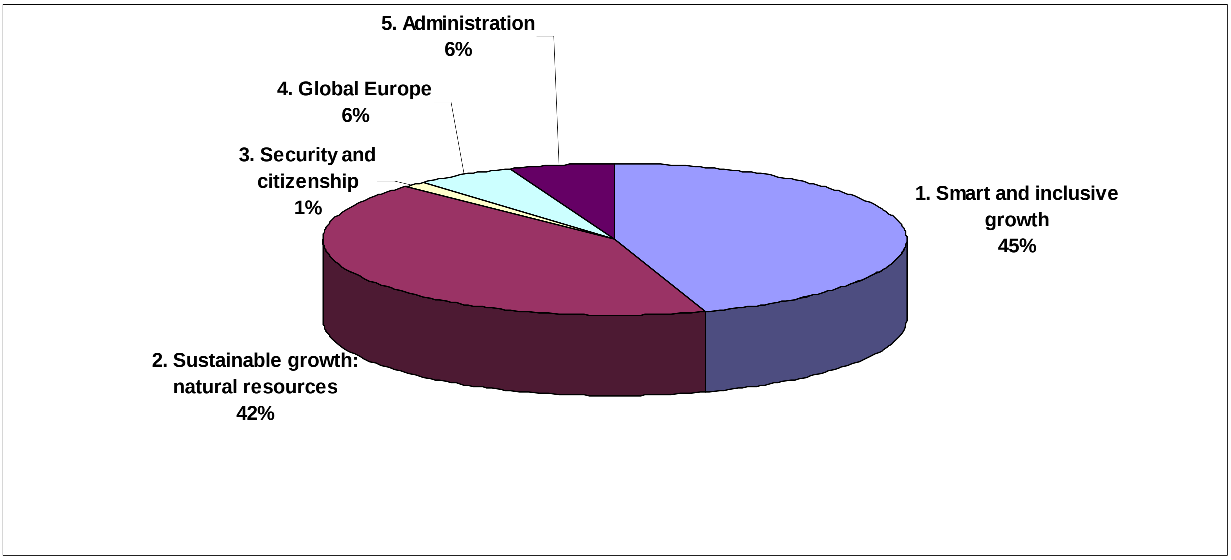
Paradoxically, the new decision-making framework will be decided at the same time of the new regulations of direct support, single CMO or rural development.

It is important to highlight that, in order to allow the new CAP regulations to start in January 2014, a political agreement on the MFF ceilings should be taken ***no later than one year before*** the framework enters into force (i.e. December 2012).

The complexity of the EU decision-making system, added to the busy electoral schedule in many big countries during the negotiation process (France in 2012; Italy and Germany in 2013) could compromise the indicative calendar of the European Institutions, especially if the national governments change.

In any case, ***if there is no financial agreement before the end of 2013***, the 2013 ceilings will be automatically extended to 2014, plus a 2% inflation adjustment (see § III.1 - Article 312(4) TFEU). However, the effect of the delay would be evident with the multiannual programs (in rural development, cohesion policy, research framework, etc).

Figure 3
Sectoral distribution of expenditure in the MFF 2007/2013



Source: Elaborations by EP Policy Department B on EC Commission data (Table 1)

- ***The new CAP budget should be seen in the broader context of the Europe 2020 Strategy and the EU budgetary review process. In addition, the complex EU decision-making system and the busy electoral schedule in many big countries during the negotiation process could compromise the indicative calendar of the European Institutions.***

- ***If there is no financial agreement before the end of 2013, the 2013 ceilings will be automatically extended to 2014, plus a 2% inflation adjustment.***

2. CAP EXPENDITURE IN THE EU BUDGET

2.1. Implementing the CAP

Since January 1962, with the creation of the first *Common Market Organisations (CMO)*, the CAP was implemented via the ***European Agricultural Guidance and Guarantee Fund (EAGGF)***. In 1964 this was split into two sections: the *Guidance Section*, which helped to finance operations involving the structural policy and the development of rural areas; the *Guarantee Section*, which was always by far the larger of two and had the purpose of funding expenditure resulting from the application of the market and price policy (CMO). On January 2007, the EAGGF became two separate funds: the ***European Agricultural Guarantee Fund (EAGF)***, to finance market measures and incomes support (currently named, "*first pillar of the CAP*"); and the **European Agricultural Fund for Rural Development (EAFRD)**, to finance the measures of the "*second pillar*" of the CAP.

The cost of the CAP in relation to European Gross National Income (GNI) and the total EU budget has gradually decreased ([18]).

The CAP represented 80-90% of the EU implemented payments in ***the early 1970s*** (Table 2) ([19]) funding the development of the instruments of markets policy. This high proportion was because the CAP was practically the only common policy at the beginning of the European integration (EU-6). The CAP budget cost compared with the GNI of the founding Member States was equivalent to 0.3 - 0.5% during this inception period (Table 2, last column).

Since 1974, the share of agricultural expenditure in the European Union budget decreased constantly in relative terms (Tables 3 and 4), in spite of the enlargements (EU-9: 1973; EU-10: 1981; EU-12: 1986). In 1987, just before the implementation of the first MFF, CAP expenditure represented 67.6% of the total payments appropriations and 0.67% of EU GNI (Table 4).

The following MFF developed by the *Delors Package I* (1988/1992) and the *Delors Package II* (1993/1999) subjected agricultural expenditure to strict guidelines (Tables 5 and 6). Since 1992, the date of the first significant overhaul of the CAP and the introduction of direct aids, CAP expenditure remained stable despite the BSE crisis, the inclusion of the former East German Lander (1991) and the new accessions (EU-15: 1995). The share of the CAP in the global budget declined from 62% to 52% ***during the 1990s*** (0.68% to 0.57% in GNI terms) (Tables 5 and 6).

In ***the 21st Century***, the MFF of 2000/2006 (Agenda 2000) and 2007/2013 consolidated the stabilisation of agricultural expenditure. The accession of the East countries (EU-25: 2004; EU-27: 2007 ([20])) could not stop the decline of the CAP appropriations (from 52%

[18] See Annex for more details (Tables I to VII).

[19] The EU financial rules distinguish between "*commitment appropriations*" and "*payments appropriations*". "*Commitments appropriations*" cover the total cost of the legal commitments entered into during the current financial year. "*Payment appropriations*" cover payments made to honour the legal commitments entered into in the current financial year (even if those payments were committed earlier). The next tables on the CAP expenditure show the payment appropriations applied during the years 1968 to 2010 (the last year with a Financial Report and available data).

[20] See: http://eur-lex.europa.eu/JOHtml.do?uri=OJ%3AL%3A2005%3A157%3ASOM%3AEN%3AHTML regarding the last accession (EU-27).

of the global budget in 2000 to 45.8% in 2010; from 0.52% to 0.46% in GNI terms) (Tables 7 and 8).

Table 2

THE CAP IN THE BUDGET YEAR BY YEAR (EU - 6: 1968 / 1972)					
EU - 6	**Payment appropriations Million Unity Account (UA)**		**% TOTAL PAYMENTS CAP / EU BUDGET**	**% Total Payments / EU GNI**	**% CAP / EU GNI**
	Total Payments EU Budget (*)	**CAP Budget (EAGGF) (*)**			
1968	**1,487.9**	**1,293.7**	**86.9%**	**0.4%**	**0.34%**
1969	**1,904.8**	**1,719.9**	**90.2%**	**0.5%**	**0.45%**
1970	**3,385.2**	**3,166.5**	**93.5%**	**0.7%**	**0.65%**
1971	**2,207.1**	**1,817.1**	**82.3%**	**0.4%**	**0.32%**
1972	**3,122.3**	**2,583.8**	**82.7%**	**0.5%**	**0.41%**

Source: *EU Budget 2008 Financial Report*, Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.
(*) EU Budget without EDF and ECSC. CAP Budget includes the EAGGF Guarantee Section and the EAGGF Guidance Section.

Table 3

THE CAP IN THE BUDGET YEAR BY YEAR (EU - 9: 1973 / 1980)					
EU - 9 (UA before 1978; ECU after 1978)	**Payment appropriations Million UA / ECU**		**% TOTAL PAYMENTS CAP / EU BUDGET**	**% Total Payments / EU GNI**	**% CAP / EU GNI**
	Total Payments EU Budget	**CAP Budget (EAGGF) (*)**			
1973	**4,505.2**	**3,625.2**	**80.4%**	**0.5%**	**0.40%**
1974	**4,826.4**	**3,497.6**	**72.4%**	**0.5%**	**0.36%**
1975	**5,816.9**	**4,404.4**	**75.7%**	**0.5%**	**0.38%**
1976	**7,562.8**	**5,748.8**	**76.0%**	**0.6%**	**0.45%**
1977	**8,375.9**	**6,700.1**	**80.0%**	**0.6%**	**0.46%**
1978	**12,041.8**	**9,004.9**	**74.5%**	**0.8%**	**0.60%**
1979	**14,220.7**	**10,673.6**	**75.0%**	**0.8%**	**0.60%**
1980	**15,857.3**	**11,606.5**	**73.2%**	**0.8%**	**0.58%**

Source: *EU Budget 2008 Financial Report*, Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.
(*) EU Budget without EDF and ECSC. CAP Budget includes the EAGGF Guarantee Section and the EAGGF Guidance Section.

Table 4

THE CAP IN THE BUDGET YEAR BY YEAR (EU – 10/12: 1981/1987)					
EU - 10 EU - 12 (after 1986)	Payment appropriations Million ECU		% TOTAL PAYMENTS CAP / EU BUDGET	% Total Payments / EU GNI	% CAP / EU GNI
	Total Payments EU Budget (*)	CAP Budget (EAGGF) (*)			
1981	17,726.0	11,603.6	65.4%	0.8%	0.52%
1982	20,469.6	12,910.6	63.0%	0.9%	0.57%
1983	24,506.0	16,361.1	66.8%	0.9%	0.60%
1984	27,081.4	18,926.0	69.9%	1.0%	0.69%
1985	27,867.3	20,413.3	73.2%	0.9%	0.66%
1986 (EU-12)	34,675.4	22,889.3	66.0%	1.0%	0.66%
1987 (EU-12)	35,088.0	23,739.6	67.6%	1.0%	0.67%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.
(*) EU Budget without EDF and ECSC. CAP Budget includes the EAGGF Guarantee Section and the EAGGF Guidance Section.

Table 5

THE CAP IN THE DELORS PACKAGE I (EU – 12: 1988 / 1992)					
EU - 12 (+ new German Lander after 1991)	Payment appropriations Million ECU		% TOTAL PAYMENTS CAP / EU BUDGET	% Total Payments / EU GNI	% CAP / EU GNI
	Total Payments EU Budget (*)	CAP Budget (EAGGF) (*)			
1988	41,021.7	27,536.1	67.1%	1.0%	0.67%
1989	40,757.1	25,750.4	63.2%	1.0%	0.63%
1990	44,062.9	27,429.9	62.2%	1.0%	0.62%
1991 (new Lander)	53,510.6	33,188.6	62.0%	1.1%	0.68%
1992 (new Lander)	58,490.2	34,112.4	58.3%	1.1%	0.64%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.
(*) EU Budget without EDF and ECSC. CAP Budget includes the EAGGF Guarantee Section and the EAGGF Guidance Section.

Table 6

THE CAP IN THE DELORS PACKAGE II (EU – 12/15: 1993 /1999)					
EU - 12 EU - 15 (after 1995) (EUR after 1999)	Payment appropriations Million ECU / EUR		% TOTAL PAYMENTS CAP / EU BUDGET	% Total Payments / EU GNI	% CAP / EU GNI
	Total Payments EU Budget (*)	CAP Budget (EAGGF) (*)			
1993	64,783.4	37,850.0	58.4%	1.2%	0.70%
1994	59,273.1	35,429.3	59.8%	1.1%	0.65%
1995 (EU – 15)	66,547.4	37,021.0	55.6%	1.1%	0.61%
1996 (EU – 15)	77,032.2	42,684.5	55.4%	1.2%	0.66%
1997 (EU – 15)	79,819.1	44,003.0	55.1%	1.1%	0.60%
1998 (EU – 15)	80,878.1	42,589.5	52.6%	1.1%	0.58%
1999 (EU – 15)	83,491.6	43,242.6	51.8%	1.1%	0.57%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.
(*) EU Budget without EDF and ECSC. CAP Budget includes the EAGGF Guarantee Section and the EAGGF Guidance Section.

Table 7

THE CAP IN AGENDA 2000 (EU – 15/25: 2000 / 2006)					
EU - 15 EU - 25 (after 2004)	Payment appropriations Million EUR		% TOTAL PAYMENTS CAP / EU BUDGET	% Total Payments / EU GNI	% CAP / EU GNI
	Total Payments EU Budget (*)	CAP Budget (EAGGF) (*)			
2000	80,448.9	41,828.0	52.0%	1.0%	0.52%
2001	80,557.7	43,474.3	54.0%	0.9%	0.48%
2002	85,765.7	44,731.9	52.1%	1.0%	0.52%
2003	89,377.4	46,704.1	52.2%	1.0%	0.52%
2004 (EU – 25)	99,934.2	46,354.9	46.4%	1.0%	0.46%
2005 (EU – 25)	103,999.6	51,290.1	49.3%	1.0%	0.49%
2006 (EU – 25)	105,808.8	53,032.0	50.1%	1.0%	0.50%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.
(*) EU Budget doesn't include EDF and ECSC between 2000 and 2002. EU Budget without EDF after 2002. CAP Budget includes the EAGGF Guarantee Section and the EAGGF Guidance Section.

Table 8

THE CAP IN THE MFF 2007/2013 (EU – 27: 2007 / 2013)					
EU - 27	**Payment appropriations Million EUR**		**% TOTAL PAYMENTS CAP / EU BUDGET**	**% Total Payments / EU GNI**	**% CAP / EU GNI**
	Total Payments EU Budget	**CAP Budget (*)**			
2007	**112,377**	**52,878**	**47.0%**	**0.9%**	**0.43%**
2008	**113,070**	**51,256**	**45.3%**	**0.9%**	**0.41%**
2009	**112,107**	**49,998**	**44.5%**	**0.9%**	**0.43%**
2010	**120,490**	**55,183**	**45.8%**	**1.0%**	**0.46%**
2011 (Budget) (**)	***126,527***	***55,324***	***43.7%***	***1.0%***	***0.44%***
2012 (Budget) (**)	***132,739***	***56,826***	***42.8%***	***1.0%***	***0.43%***
2013 (MFF provisions)	***144,171 (***)***	***59,756 (****)***	***41.4%***	***1.06%***	***0.43%***

Source: *EU Budget 2010 Financial Report,* Annex 2, pages 70-71 (http://ec.europa.eu/budget/library/biblio/publications/2010/fin_report/fin_report_10_en.pdf)
(*) EU Budget excludes EDF and earmarked revenues. CAP Budget includes market-related expenditure (EAGF), animal and plant health, and rural development expenditure (EAFRD).
(**) Data for 2011 and 2012: EU Budget provisions for payments.
(***) 2013 Total EU Budget: Payments ceiling included in the MFF 2007/2013 (Table 1)
(****) 2013 CAP Budget: Commitments ceiling included in the MFF 2007/2013 (Table 1)

The ***CAP reform of 2003*** reinforced the financial discipline inside the first pillar of the CAP by means of the decoupling of direct aids. The principle of *decoupling* establishes a payment by farm independent of production and, as result, it freezes the allocated amounts in function of the 2000/2002 historical references, based on the calculations of the payments.

If the level of spending reflects the EU's core policy priorities, then the CAP remains the main common policy during the period 2007/2013. Inside ***Heading 2*** ("*Preservation and management of natural resources*"), which also includes environment and fisheries, the CAP represents 45.8% of the total implemented payments in 2010 (Tables 8 and 9) ([21]).

[21] For more details on the CAP implementation and the allocation of the agricultural expenditure, see EAGF and EAFRD Reports (available in http://ec.europa.eu/agriculture/fin/finrep_en.htm) and *EU Budget Financial Reports 2007 to 2010 :*
EU Budget 2007 Financial Report
http://ec.europa.eu/budget/library/biblio/publications/2007/fin_report/fin_report_07_en.pdf
EU Budget 2008 Financial Report:
http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf
EU Budget 2009 Financial Report:
http://ec.europa.eu/budget/library/biblio/publications/2009/fin_report/fin_report_09_en.pdf
EU Budget 2010 Financial Report:
http://ec.europa.eu/budget/library/biblio/publications/2010/fin_report/fin_report_10_en.pdf

Table 9

CAP implementation inside heading 2 of the current MFF (years 2007/2012 - EUR Million - current prices)

PAYMENT APPROPRIATIONS	2007 (*)	% 2007	2008 (*)	2009 (*)	2010 (*)	% 2010	2011 (**)	2012 (**)
HEADING 1. Sustainable Growth	**43,174**	*38.4%*	**45,059**	**43,999**	**48,094**	*39.9%*	**53,280**	**57,701**
HEADING 2. Preservation and Management of Natural Resources of which:	**54,018**	*48.1%*	**52,267**	**50,798**	**56,060**	*46.5%*	**56,380**	**57,948**
a. CAP of which:	***52,878***	*47.0%*	***51,256***	***49,998***	***55,183***	*45.8%*	***55,324***	***56,826***
a.1. Market related expenditure, directs aids and healthy actions	***42,075***	*37.4%*	***40,727***	***41,259***	***43,690***	*36.3%*	***42,763***	***44,073***
a.2. Rural Development	***10,803***	*9.6%*	***10,529***	***8,739***	***11,493***	*9.5%*	***12,561***	***12,753***
b. Fisheries	*993*		*831*	*537*	*606*		*719*	*782*
c. Life +	*109*		*139*	*212*	*218*		*262*	*267*
d. Other actions	*38*		*41*	*51*	*53*		*75*	*73*
HEADING 3. Citizenship, freedom, security and justice	**1,011**	*0.9%*	**1,262**	**1,930**	**1,306**	*1.1%*	**1,459**	**1,514**
HEADING 4. EU as a global player	**7,091**	*6.3%*	**7,191**	**7,788**	**7,340**	*6.1%*	**7,238**	**7,294**
HEADING 5. Administration	**6,640**	*5.9%*	**7,085**	**7,382**	**7,690**	*6.4%*	**8,172**	**8,282**
Compensations	**445**	*0.4%*	**207**	**209**	**--**	*--*	**--**	**--**
TOTAL PAYMENT APPROPRIATIONS	**112,377**	*100*	**113,070**	**112,107**	**120,490**	*100*	**126,527**	**132,739**

Source: *EU Budget 2010 Financial Report,* Annex 2, pages 70–71 (http://ec.europa.eu/budget/library/biblio/publications/2010/fin_report/fin_report_10_en.pdf)
(*) EU Budget excludes EDF and earmarked revenues. CAP Budget includes animal and plant health, market-related expenditure, direct aids (EAGF) and rural development expenditure (EAFRD).
(**) Data for 2011 and 2012: EU Budget provisions for payments. Data non available for 2013.

- ***The cost of the CAP in relation to the total EU budget has gradually decreased in relative terms between the 1960s and 2010. The CAP represented 86.9% of the EU implemented payments in 1968. In 2010, the share of the CAP in the global budget represented 45.8%.***

- ***The cost of the CAP in relation to European Gross National Income (GNI) has progressively declined after the explosion of the 1990s (down from 0.70% in 1993 to 0.46% in 2010).***

- ***The CAP remains, however, the main common policy in financial terms.***

2.2. The CAP towards 2020

CAP first pillar – *direct payments and market regulation measures* (including veterinary and plant health actions) – represent 36.3% of the payments appropriations (Table 9). The sharp increase in ***directs aids*** since 1992 (84% of the EAGF spending) has resulted in a parallel decrease in other EAGF expenditure: ***exports subsides*** stand at just 1.4% and the ***other interventions*** (storage, restructuring measures, promotion and information actions, veterinary and phytosanitary measures) stand at 1.6% of EAGF ([22]).

From a Community point of view, it is important to highlight the visible effect of agricultural income support, which represents over €40 billion a year in ***direct aids*** received by European farmers. The current economic crisis is making this stabilising role even more valuable, especially in the context of a lack of liquidity and restriction of credit. Annual, guaranteed, free agricultural aid therefore represents the primary financial support for farms in the face of the volatility of costs and prices.

The mechanisms to combat volatility, added to the redefinition of the CAP direct support scheme in function of the specific objectives or social demands (public goods), will inevitably become the major subjects of the ***new CAP to be applied after 2013, inside the new MFF 2014/2020***.

In financial terms, several ***issues are linked to the new CAP*** ([23]), including the following:

- the ***size of the overall agricultural budget***, to be agreed as part of the Financial Perspectives negotiations;

- the ***nature and scope of redistribution of the current direct aids scheme***, following the advances from the Commission advocating a more "*equitable and balanced support*" between Member States, economic regions or production systems and farmers;

[22] Source: EAGF Report 2009 (available in http://ec.europa.eu/agriculture/fin/finrep_en.htm).
[23] Prior to the legislative proposals, see the previous Communication of the Commission "*The CAP towards 2020: meeting the food, natural resource and territorial challenges of the future*" (COM (2010) 672, 18 November 2010). For an analysis of the Communication, see: "*The CAP towards 2020: Working Paper on the EC Communication of 18 November 2010*", European Parliament, IP/B/AGRI/IC/2010-17, November 2010,

- the ***financial weight*** or the specific amounts allocated to ***every aid component*** inside the future ***national payments ceilings***; in fact, this crucial question stems from the definition of **priorities** inside the future first pillar;

- furthermore, which aid components will be voluntary, clarity on the ***criteria to be used*** for the ***internal distribution***, and the extent of the flexibility afforded to Member States in terms of defining the allocations;

- the new criteria for allocating ***rural development expenditures*** between Member States;

- the detail of the **rural *development strategic framework*** with an ***integrated approach*** to the Structural Funds, including the ***distribution of roles and financing*** between the EAFRD and the cohesion policy instruments;

- the relative importance of the ***mechanisms oriented to combat the volatility*** of costs and prices and to stabilise market incomes (safety nets; crisis reserves; management risk toolkit).

- ***CAP's first pillar represent 36.3% of the payments appropriations in the current MFF 2007/2013. The sharp increase in directs aids since 1992 (84% of the EAGF spending) has resulted in a parallel decrease in other EAGF expenditure: exports subsides stand at just 1.4% and the other interventions stand at 1.6% of EAGF.***

- ***The new CAP to be applied after 2013, inside the new MFF 2014/2020, is linked to several issues: the size of the overall agricultural budget; the nature and scope of redistribution of the current direct aids scheme; the specific amounts allocated to every aid component inside the future national payments ceilings; the new criteria for allocating rural development expenditures between Member States; the detail of the rural development strategic framework with an integrated approach to the Structural Funds; and the relative importance of the mechanisms oriented to combat the volatility of costs and prices.***

available at: http://www.europarl.europa.eu/activities/committees/studies/download.do?language=en&file=33963.

3. THE MULTIANNUAL FINANCIAL FRAMEWORK 2014/2020

3.1. The new MFF 2014/2020 in the scope of the Lisbon Treaty

The Treaty of Lisbon made significant financial changes, particularly with regard to inter-institutional relations and decision-making procedures ([24]). The main elements of the Treaty of Lisbon concerning the new Multiannual Financial Framework are ([25]):

a) Consolidation of the Multiannual Financial Framework in the TFEU

Prior to the entry into force of the Lisbon Treaty, the MFF was just the result of an Interinstitutional Agreement between the European Parliament, the Council and the Commission. Yet, the MFF and its rules are incorporated for the first time in primary legislation through Articles 310(4) and, in particular, 312 TFEU.

- **Article 310(4) TFEU** - Provisions on budgetary discipline are inserted in this Article (ex Article 268 TEC), which also mentions the "*Multiannual Financial Framework*".

- **Article 312 TFEU** - The Treaty of Lisbon
  - establishes the duration of the existing MFF (***at least five years***) (Article 312(1));
  - creates a special legislative procedure for the adoption of the regulation, so that, under the new Treaty, the decision on the MFF will be taken by the Council deciding unanimously ***after receiving the Parliament's consent*** (Article 312(2));
  - formalises the contents of the Union's multiannual programming, based on categories of expenditure corresponding to the Union's major sectors of activity; the MFF determines the amounts of the annual ceilings on commitment and payment appropriations (Article 312(3));
  - stipulates that if no regulation determining a new MFF has been adopted by the end of the previous financial framework, the ceilings and "*other provisions*" corresponding to the last year shall be extended until such time as that act is adopted (Article 312(4)); following these provisions, ***if there is no agreement*** before the end of 2013, the ***current ceilings will be extended to 2014, plus a 2% inflation*** adjustment;
  - and, finally, the Lisbon Treaty stipulates that the institutions must take any measure necessary to ensure the ***adoption*** of the financial framework (Article 312(5)).

[24] Consolidated versions of the Treaty on European Union (TEU) and of the Treaty on the Functioning of the European Union (TFEU) are available on OJ C 83 of 30 March 2010. See: http://www.consilium.europa.eu/treaty-of-lisbon.aspx?lang=en and http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2010:083:SOM:EN:HTML

[25] See for more details: "*Structural and Cohesion Policies following the Treaty of Lisbon*", European Parliament, Policy Department B, IP/B/COMM/NT/2010-01, PE 431.591, 15.2.2010. See in particular: Chapter 4 (page 45) . Available at: http://www.europarl.europa.eu/activities/committees/studies/download.do?language=en&file=30491

b) Future joint decision making between the EP and Council on all agriculture expenditure

Given the elimination of the distinction between "*compulsory expenditure*" (CE) and "*non-compulsory expenditure*" (NCE) by the new TFEU, the two branches of the budgetary authority (the EP and the Council) will now decide jointly on all agricultural expenditure. The Council, therefore, acquires decision-making powers over NCE and the European Parliament over CE. However, the distinction between CE and NCE remains in the current Interinstitutional Agreement (IIA) on budgetary discipline and sound financial management of 2006. The new IIA on the period 2014/2020 will have to update these provisions.

- ***The TFEU calls for an EU budget that should be fully financed by own resources.***
- ***Today, more than 85% of EU financing is based on statistical aggregates derived from GNI and VAT.***
- ***The Commission proposes to introduce a financial transaction tax own resource and a new VAT resource from 1 January 2018 at the latest. This new own resource would finance around 40% of total EU expenditures and traditional own resources would account for close to 20% of the total.***

3.2. Towards a new EU own resources system

Following the provision of **Article 312 (1) TFEU**, the Commission's proposal for the MFF 2014/2020 highlights the need to implement the provision of the Treaty that calls for an EU budget that should be fully financed by own resources. Today, more than 85% of EU financing is based on statistical aggregates derived from GNI and VAT (see Table 10 and § I.2).

The large amount of national contributions has given rise to what the Commission defines as "*my money back attitude*" on the part of the net contributors, distorting the rationale for an EU budget and questioning the overarching solidarity principle of the Union.

This concern was recently raised by the European Parliament ([26]), which stressed that the debate often disproportionately emphasises the net balances between Member States, contradicting the principle of EU solidarity, diluting the European common interest and largely ignoring European added value. The EP Resolution also underlines that the own resources ceiling in the EU budget has been unchanged since 1993.

In the EC Communication on the "*Budget review*" ([27]), the Commission sets out a list of possible financing means that could gradually replace national contributions and relieve the burden on national treasuries. An extensive analysis of the viable options is available

[26] European Parliament resolution of 8 June 2011 on "*Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe*" (2010/2211(INI)). (http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0266+0+DOC+XML+V0//EN).

[27] COM(2010) 700. (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0700:FIN:EN:PDF).

in the Commission Staff Working Paper ([28]) that accompanies the EC Proposal on "*the system of own resources of the European Union*" ([29]), in which the Commission proposes a new own resource system, based on a ***financial transactions tax*** and a ***new VAT resource***.

These new own resources would partially finance the EU budget and could fully replace the existing complex VAT-based own resource, which the Commission proposes to eliminate, and reduce the scale of the GNI-based resource.

On this basis, the Commission proposes to introduce a financial transaction tax own resource and a new VAT resource ***from 1 January 2018 at the latest***. The result should be that the new own resources would finance around 40% of total EU expenditures and traditional own resources would account for close to 20% of the total. The GNI-based own resource would remain the single most important resource, financing about 40% of the budget (Table 10).

Table 10

Estimated evolution of the structure of EU financing (2012 - 2020)

	Draft budget 2012		2020	
	EUR billion	% of own resource	EUR billion	% of own resource
Traditional own resources	**19,3**	**14,7**	**30,7**	**18,9**
Existing national contributions	**111,8**	**85,3**	**65,6**	**40,3**
VAT-based resource	14,5	11,1	//	//
GNI-based resource	97,3	74,2	65,6	40,3
New own resources	**//**	**//**	**66,3**	**40,8**
new VAT resource	//	//	29,4	18,1
EU financial transaction tax	//	//	37	22,7
TOTAL OWN RESOURCES	**131,1**	**100**	**162,7**	**100**

Source: EC Proposal on "*The system of own resources of the European Union*". COM (2011) 510. (http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/proposal_council_own_resources_en.pdf)

- ***The Treaty of Lisbon consolidated the Multiannual Financial Framework in the TFEU and confirmed joint decision making between the EP and Council on all agriculture expenditure in the future.***

[28] *Financing the EU budget: report on the operation of the own resources system*, (SEC (2011) 876). (http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/proposal_council_own_resources__annex_en.pdf).

[29] EC Proposal on "*The system of own resources of the European Union*", COM (2011) 510. (http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/proposal_council_own_resources_en.pdf).

3.3. New EU expenditure priorities: the Europe 2020 Strategy

The President of the EU Commission points out, in the foreword of the EC Communication on "*A Budget for Europe 2020*", that the Commission proposes an innovative budget and invites the readers to look beyond the traditional headings and focus their attention on how, through the budget, it is possible to deliver the Europe 2020 goals.

In particular, the President underlines how the proposal represents a break from the culture of entitlement, where some public authorities expect to spend funds as they wish. He explains that the EC proposal is oriented towards a new perspective in which every request must be clearly linked to the ***goals and priorities*** that we have commonly agreed and that every euro spent will be a "*multi-purpose euro*".

The proposal does not in fact have many innovations in relation to the ***structure of the budget*** and several references seem to be reserved for the novelty of the organisation's spending.

The Commission proposes a financial framework with 1.05% of GNI in commitments translating 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 will bring the total figure to 1.11%. The funds allocated outside the MFF are earmarked to respond to crises and emergencies, and expenditures which benefit from *ad hoc* contributions from Member States (for instance, the EDF which has a contribution key which differs from that of the EU budget).

The major hallmarks of the next set of financial programmes and instruments will be, therefore, a ***focus on results***, increased use of conditionality and the simplification of delivery. The proposal points out that expenditure will be clearly related to the implementation of the Europe 2020 Strategy and the achievement of its targets. This means concentrating programmes on a limited number of high-profile priorities and actions that achieve a critical mass. At the same time, the Commission puts great emphasis on the role that will be played by stronger conditionality in cohesion policy and greening of direct CAP payments in delivering the Europe 2020 Strategy.

Finally, the proposal underlines how the modernisation of the European financial framework will be achieved through the reallocation of resources to ***priority areas*** such as ***pan-European infrastructures***, ***research and innovation***, ***education and culture***, ***securing the EU's external borders*** and ***external relations policy*** priorities such as the EU's neighbourhood.

In general terms, we can see the enlarged scope of Europe has come at the expense of agricultural policy, with a reduction in its weight in the MFF budget from 42% (2007 – 2013) to less than 37% (2014 – 2020) and an associated reduction of more than 10% of the resources allocated under the chapter "*Sustainable growth: natural resources*" (see Table 11 and Figure 4).

Table 11

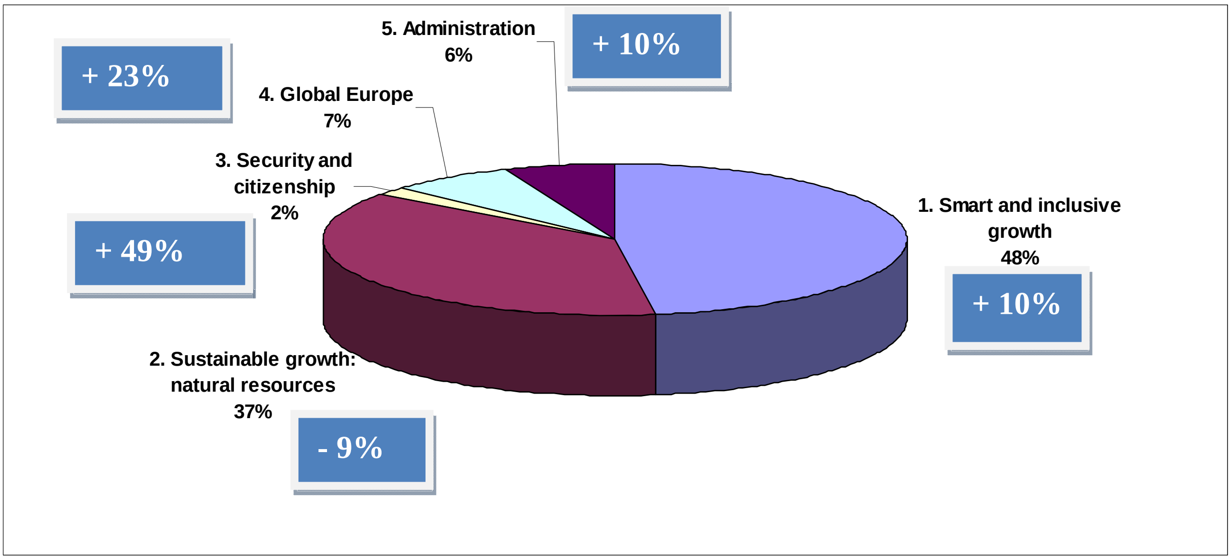
Main headings of multiannual financial framework 2014 - 2020 and comparison with MMF 2007-2013 (EUR million - 2011 constant price)

COMMITMENT APPROPRIATIONS	2014	2015	2016	2017	2018	2019	2020	TOTAL (2014 - 2020)	TOTAL (2007 - 2013)	DIFFERENCE (%)
1. Smart and inclusive growth	64,696	66,580	68,133	69,956	71,596	73,768	76,179	490,908	445,500	10,19%
of which: economic, social and territorial cohesion	50,468	51,543	52,542	53,609	54,798	55,955	57,105	376,020	369,700	1,71%
2. Sustainable growth: natural resources	57,386	56,527	55,702	54,861	53,837	52,829	51,784	382,927	421,100	-9,07%
of which: market related expenditure and direct payments	42,244	41,623	41,029	40,420	39,618	38,831	38,060	281,825	322,000	-12,48%
3. Security and citizenship	2,352	2,571	2,609	2,648	2,687	2,726	2,763	18,535	12,400	49,48%
4. Global Europe	9,400	9,645	9,845	9,960	10,150	10,380	10,620	70,000	56,800	23,24%
5. Administration	8,542	8,679	8,796	8,943	9,073	9,225	9,371	62,629	56,900	10,07%
of which: administrative expenditure of the institutions	6,967	7,039	7,108	7,191	7,288	7,385	7,485	50,464	48,400	4,26%
TOTAL COMMITMENT APPROPRIATIONS	142,556	144,002	145,085	146,368	147,344	148,928	150,718	1,025,000	993,600	3,16%
as a % of GNI	1,08%	1,07%	1,06%	1,06%	1,05%	1,04%	1,04%	1,05%	1,12%	
TOTAL PAYMENT APPROPRIATIONS	133,851	141,278	135,516	138,396	142,247	142,916	137,994	972,198		
as a % of GNI	1,01%	1,05%	0,99%	1,00%	1,01%	1,00%	0.94%	1,00%		
OUTSIDE THE MMF										
Emergency aid reserve	350	350	350	350	350	350	350	2,450		
European globalisation fund	429	429	429	429	429	429	429	3,000		
Solidarity fund	1,000	1,000	1,000	1,000	1,000	1,000	1,000	7,000		
Flexibility instrument	500	500	500	500	500	500	500	3,500		
Reserve for crises in the agricultural sector	500	500	500	500	500	500	500	3,500		
ITER	886	624	299	291	261	232	114	2,707		
GMES	834	834	834	834	834	834	834	5,841		
EDF ACP	3,271	4,300	4,348	4,407	4,475	4,554	4,644	29,998		
EDF OCT	46	46	46	46	46	46	46	321		
Global climate and biodiversity fund	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.		
TOTAL OUTSIDE MMF	7,815	8,583	8,306	8,357	8,395	8,445	8,416	58,316		
TOTAL MFF+ OUTSIDE MMF	150,371	152,585	153,391	154,725	155,739	157,372	159,134	1,083,316		
as a % of GNI	1,1%	1,1%	1,1%	1,1%	1,1%	1,1%	1,1%	1,1%		

Source: Elaborations by EP Policy Department B on EC Commission data

Figure 4

Distribution of expenditure in the proposed MFF 2014/2020 and comparison with the 2007 – 2013 PERIOD



Source: Elaborations by EP Policy Department B on EC Commission data

In the perspective of reallocating resources to some specific priority areas it is possible, in particular, to appreciate:

1) The proposal to allocate €80 billion for the 2014–2020 period for the ***Common Strategic Framework (CSF) for Research and Innovation***, increasing the budget allocated for this purpose in 2020 (the last year of the proposed MFF) by ***30%*** compared to the year 2013 (the last year of the current MFF).

2) The proposal to allocate €40 billion for the 2014–2020 period for the ***Connecting Europe Facility*** (Heading 1) to be complemented by an additional €10 billion ring fenced for related transport investments inside the Cohesion Fund. This amount comprises €9.1 billion for the energy sector, €31.6 billion for transport (including €10 billion inside the Cohesion Fund) and €9.1 billion for Information and Communication Technology. The total budget allocated for this purpose in 2020 should be increased by about ***376%*** compared to the year 2013.

3) The proposal to allocate €15.2 billion in the area of ***education and training*** (Heading 1) and €1.6 billion in the area of culture for the 2014–2020 period, increasing the budget allocated for this purpose in 2020 (last year of the proposed MFF) by ***20%*** compared to the year 2013 (the last year of the current MFF).

4) The proposal to set up specific financial instruments to support the role of ***Europe as a global player*** (Heading 4) inside (€70 billion for the 2014–2020 period for external instruments) and outside (€353.5 billion for the 2014–2020 period for ACP countries, overseas countries and territories and Emergency Aid Reserve) the MFF.

Table 12

Detailed breakdown of multiannual financial framework 2014 – 2020 and comparison with MMF 2007–2013 (EUR million - 2011 constant price)

COMMITMENT APPROPRIATIONS	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL (2014 - 2020)	DIFFERENCE year 2013 - year 2020
1. Smart and inclusive growth	**66,354**	**64,696**	**66,580**	**68,133**	**69,956**	**71,596**	**73,768**	**76,179**	**490,908**	**14.8%**
Galileo	2	1,100	1,100	900	900	700	900	1,400	7,000	69900.0%
Nuclear safey + decommisioning	279	134	134	134	134	55	55	55	701	-80.3%
CSF research and innovation	9,768	10,079	10,529	10,979	11,429	11,879	12,329	12,776	80,000	30.8%
New competitiveness/SME	177	235	270	305	340	375	410	445	2,380	151.4%
Single education, training, youth and sport	1,305	1,423	1,673	1,923	2,173	2,423	2,673	2,923	15,211	124.0%
Social development agenda	119	121	121	121	121	121	121	124	850	4.2%
Customs - Fiscalis- AntiFraud	107	120	120	120	120	120	120	120	840	12.1%
Agencies	258	237	291	290	291	265	326	331	2,031	28.3%
Other	308	267	267	267	267	267	267	267	1,869	-13.3%
Margin	49	513	533	553	573	593	613	633	4,011	1191.8%
Energy	22	973	1,233	1,033	1,173	1,303	1,503	1,903	9,121	8550.0%
Transport	1,552	2,299	2,499	2,899	3,099	3,499	3,699	3,700	21,694	138.4%
ICT	3	642	782	1,182	1,442	1,512	1,712	1,913	9,185	63666.7%
Connecting Europe facility	*1,577*	*3,914*	*4,514*	*5,114*	*5,714*	*6,314*	*6,914*	*7,516*	*40,000*	376.6%
Regional convergence	30,692	22,032	22,459	22,836	23,227	23,631	24,012	24,393	162,590	-20.5%
Transition regions	1,693	5,549	5,555	5,560	5,565	5,570	5,574	5,579	38,952	229.5%
Competitiveness	6,314	7,592	7,592	7,592	7,592	7,592	7,592	7,592	53,144	20.2%
Territorial cooperation	1,304	1,671	1,671	1,671	1,671	1,671	1,671	1,671	11,697	28.1%
Cohesion fund	11,885	9,577	9,620	9,636	9,708	9,888	10,059	10,222	68,710	-14.0%
Outemost and spaesely populated regions	249	132	132	132	132	132	132	132	924	-47.0%
Cohesion policy	*52,406*	*46,554*	*47,029*	*47,428*	*47,895*	*48,484*	*49,041*	*49,589*	*336,020*	-5.4%
2. Sustainable growth: natural resources	**59,031**	**57,386**	**56,527**	**55,702**	**54,861**	**53,837**	**52,829**	**51,784**	**382,926**	**-12.3%**
Market related expenditure and direct payments	43,515	42,244	41,623	41,029	40,420	39,618	38,831	38,060	281,825	-12.5%
Rural development	13,890	13,618	13,351	13,089	12,832	12,581	12,334	12,092	89,897	-12.9%
EMFF (incl. Market measures)+FPA's + RFMO's	984	945	950	955	955	960	960	960	6,685	-2.4%
Life +	362	390	415	440	465	490	515	485	3,200	34.0%
Agencies	49	49	49	49	49	49	49	49	343	0.0%
Margin	230	140	140	140	140	140	140	139	979	-39.6%
3. Security and citizenship	**2,209**	**2,532**	**2,571**	**2,609**	**2,648**	**2,687**	**2,726**	**2,763**	**18,536**	25.1%
Migration management fund	487	490	490	490	490	490	490	493	3,433	1.2%
Internal security	604	528	548	568	588	608	628	648	4,116	7.3%
IT systems	132	104	104	104	104	104	104	105	729	-20.5%
Justice	44	44	50	55	60	65	70	72	416	63.6%
Rights and Citizenship	35	41	45	50	55	60	65	71	387	102.9%
Civil protection	20	35	35	35	35	35	35	35	245	75.0%
Europe for citizens	29	29	29	29	29	29	29	29	203	0.0%
Food safety	//	330	323	317	311	305	299	293	2,178	//
Public Health	54	57	57	57	57	57	57	54	396	0.0%
Consumer protection	24	25	25	25	25	25	25	25	175	4.2%
Creative Europa programme	181	182	197	212	227	242	257	273	1,590	50.8%
Agencies	387	431	431	431	431	431	431	431	3,017	11.4%
Other	155	106	106	106	106	106	106	106	742	-31.6%
Margin	57	130	130	130	130	130	130	129	909	126.3%
4. Global Europe	**9,222**	**9,400**	**9,645**	**9,845**	**9,960**	**10,150**	**10,380**	**10,620**	**70,000**	**15.2%**
Instrument for pre-accession (IPA)	1,888	1,789	1,789	1,789	1,789	1,789	1,789	1,789	12,523	-5.2%
Eur neighborhood instruments (ENI)	2,268	2,100	2,213	2,226	2,265	2,340	2,439	2,514	16,097	10.8%
EIDHR	169	200	200	200	200	200	200	200	1,400	18.3%
Stability (IFS)	357	359	359	359	359	359	359	359	2,513	0.6%
Security (CFSP)	352	359	359	359	359	359	359	359	2,513	2.0%
Partnership Instruments (PI)	70	126	130	135	141	148	156	164	1,000	134.3%
Development Coop Instr. (DCI)	2,553	2,560	2,682	2,808	2,938	3,069	3,202	3,338	20,597	30.7%
Humanitarian aid	841	930	925	920	915	910	905	900	6,405	7.0%
Civil protection (CPFI) + ERC	5	30	30	30	30	30	30	30	210	500.0%
EVHAC	0	20	22	25	29	33	38	43	210	//
Instruments for nuclear safety Cooperation (INSC)	76	80	80	80	80	80	80	80	560	5.3%
macro-financial assistance	132	85	85	85	85	84	84	85	593	-35.6%
Gurantee fund for external actions	250	236	231	226	195	157	128	84	1,257	-66.4%
Agencies	20	20	20	20	20	20	20	20	140	0.0%
Other	141	134	134	189	134	134	134	134	993	-5.0%
Margin	101	374	388	396	422	439	458	523	3,000	417.8%
5. Administration	**8,833**	**8,542**	**8,679**	**8,796**	**8,943**	**9,073**	**9,225**	**9,371**	**62,629**	**6.1%**
Pension expenditure and European Schools	1,522	1,575	1,640	1,687	1,752	1,785	1,839	1,886	12,164	23.9%
Administrative expenditure of the Insitutions	6,802	6,812	6,869	6,924	6,991	7,074	7,156	7,239	49,065	6.4%
Margin	510	155	170	185	200	215	230	247	1,402	-51.6%
TOTAL COMMITMENT APPROPRIATIONS	**145,650**	**142,556**	**144,002**	**145,085**	**146,368**	**147,344**	**148,928**	**150,718**	**1,025,000**	**3.5%**
as a % of GNI	**1.1%**	**1.1%**	**1.1%**	**1.1%**	**1.1%**	**1.1%**	**1.0%**	**1.0%**	**1.1%**	
TOTAL PAYMENT APPROPRIATIONS	**?**	**133,851**	**141,278**	**135,516**	**138,396**	**142,247**	**142,916**	**137,994**	**972,198**	
as a % of GNI	**?**	**1.0%**	**1.1%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**	**0.94%**	**1.0%**	

Source: Elaborations by EP Policy Department B on EC Commission data

- ***The proposal does not have many innovations in relation to the structure of the budget and several references seem to be reserved for the novelty of the organisation's spending.***

- ***The Commission proposes a financial framework with 1.05% of GNI in commitments translating 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 will bring the total figure to 1.11%.***

- ***The major hallmarks of the next set of financial programmes and instruments will be, therefore, a focus on results, increased use of conditionality and the simplification of delivery.***

- ***The Commission proposes the reallocation of resources to priority areas such as pan-European infrastructures, research and innovation, education and culture, securing the EU's external borders and external relations policy priorities such as the EU's neighbourhood.***

- ***The enlarged scope of Europe has come at the expense of agricultural policy, with a reduction in its weight in the MFF budget from 42% (2007 – 2013) to less than 37% (2014 – 2020).***

4. THE CAP IN THE MULTIANNUAL FINANCIAL FRAMEWORK 2014/2020

4.1. Overall budgetary allocation for agriculture

In commitment terms and at 2011 constant prices ([30]), the Commission's June proposal for the next Multiannual Financial Framework allocates a total of €371.7 billion to what might be termed 'classic' CAP spending. The share of total budget commitments this represents is around 36%, which is a ***significantly smaller proportion*** than in the 2007–2013 funding period (see Table 8).

To get a true picture of the overall budgetary allocations to agriculture and a more accurate indication of support to EU farmers, it is necessary to include the ***additional proposals*** funded outside CAP expenditure's traditional home of Budget Heading 2 – "*Sustainable growth: natural resources*". Table 13 shows how up to a further €15.2 billion of agricultural spending is proposed to be made up of five different contributions, spread across Budget Headings 1 and 3, as well as some ***off-budget expenditure*** falling outside the conventional structure of the MFF.

If these additional spending lines are included with the '*classic*' CAP expenditure within Heading 2, a comparison between the Commission's proposal and the amount available in the current funding period indicates a reduction of around 7.2%. A more severe reduction of around 10.9% can be presented if the additional spending lines are excluded from the comparison. Such comparisons are, however, complicated given that CAP expenditure on direct payments in the ***new Member States*** will only reach its full level by 2013 and only in 2016 for Bulgaria and Romania. An alternative measure might compare agricultural expenditure in ***2013***, the last year of the current financial perspective, with the figures for ***2020***, the last year of the next funding period. Based on this calculation, the reduction in the CAP budget in real terms is ***9.2%***, as shown in Table 13.

It is also worth remembering that ***Croatian accession*** to the EU could have an effect on the Commission's proposed budget for the CAP. Press reports of DG AGRI calculations in advance of the publication of the MFF proposals suggest that an additional €3.85 billion ought to be earmarked to accommodate such an enlargement, €1.25 billion for Pillar 1 and €2.6 billion for Pillar 2 ([31]).

[30] All figures in this section are expressed as 2011 constant prices, unless otherwise indicated.

[31] Agra Facts, No. 52-11, 24 June 2011, "*Leaked DG AGRI demands point to a 'budget freeze' for CAP 2014–2020*", p.1.

- ***The MFF proposals allocate €371.7 billion to 'classic' CAP spending, representing around 36% of total EU budget commitments.***
- ***A further €15.2 billion of agricultural spending is proposed to be made up of five different contributions, spread across Budget Headings 1 and 3, as well as some off-budget expenditure falling outside the conventional structure of the MFF.***
- ***Comparing all agricultural expenditure in the 2014/2020 MFF proposals with the amount available in the current funding period indicates a reduction of around 7.2%.***
- ***If agricultural expenditure in 2013, the last year of the current financial perspective, is compared with the figures for 2020, the last year of the next funding period, the reduction in the CAP budget in real terms is 9.2%.***

Table 13
MFF 2014–2020 – Agricultural expenditure in detail (2011 constant prices)[32]

COMMITMENT APPROPRIATIONS	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL (2014 - 2020)	DIFFERENCE year 2013 - year 2020
Under Heading 2	**57,955**							**50,713**		**-12,5%**
Market measure	3,182	2,471	2,440	2,418	2,397	2,370	2,313	2,257	16,665	-29,1%
Direct payments	40,883	40,403	39,800	39,215	38,616	37,829	37,088	36,360	269,312	-11,1%
Rural Development	13889	13,621	13,354	13,092	12,836	12,584	12,337	12,095	89,920	-12,9%
Under other Heading	**288**							**1,293**		**348,8%**
Food safety (Heading 3)	//	330	323	317	311	305	299	293	2,178	//
Food aid for the needy (Heading 1)	//	357	358	357	357	357	358	357	2,500	//
Research and Innovation	288	643	643	643	643	642	643	643	4,500	
Off budget	**//**							**857**		
European Globalisation Fund	//	357	358	357	357	357	357	357	2,499	//
Reserve for crises in the agriculture sector	//	500	500	500	500	500	500	500	3,500	//
Total Agriculture expenditure	**58,243**	**58,682**	**57,775**	**56,900**	**56,016**	**54,944**	**53,895**	**52,863**	**391,075**	**-9,2%**
as % of Budget	**39,6%**	**39,0%**	**37,9%**	**37,1%**	**36,2%**	**35,3%**	**34,2%**	**33,2%**	**36,1%**	

Source: Elaborations by EP Policy Department B on EC Commission data

[32] The year 2013 takes into account legislative changes already agreed, i.e. voluntary modulation for the UK and Article 136 "*unspent amounts*" will cease to apply by the end of 2013. For all the years considered, the amount of direct payments includes the "*estimated assigned revenue*".

Table 14
MFF 2014–2020 – Agricultural expenditure in detail (current prices)

COMMITMENT APPROPRIATIONS	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL (2014 - 2020)
Under Heading 2									
Market measure	3311	2622	2641	2670	2699	2722	2710	2699	18763
Direct payments	42535	42876	43081	43297	43488	43454	43454	43454	303104
Rural Development	14451	14455	14455	14455	14455	14455	14455	14455	101185
Under other Heading									
Food safety (Heading 3)	//	350	350	350	350	350	350	350	2450
Food aid for the needy (Heading 1)	//	379	387	394	402	410	418	427	2817
Research and Innovation	277	682	696	710	724	738	753	768	5071
Off budget									
European Globalisation Fund	//	379	387	394	402	410	418	427	2817
Reserve for crises in the agriculture sector	//	531	541	552	563	574	586	598	3945
Total Agriculture expenditure	**60574**	**62274**	**62538**	**62822**	**63083**	**63113**	**63144**	**63178**	**440152**

Source: Elaborations by EP Policy Department B on EC Commission data

4.2. CAP expenditure inside Heading 2

The Commission's MFF proposal confirms the retention of the two-pillar structure of the CAP, with ***€281.8 billion*** allocated to pay for ***direct payments and market measures*** in Pillar 1 ([33]), while ***€89.9 billion*** is assigned to ***rural development*** expenditure within Pillar 2. Aside from the complications of the *phasing in* of direct payments within the new Member States, this proposal essentially extrapolates the budgetary position in 2013 forward into the next funding period, without taking account of inflation. The direct payments figures are, therefore, corrected to deduct *compulsory modulation*, with the receipts allocated accordingly to Pillar 2. However, the Commission has chosen not to include the effect of *voluntary modulation* in its budgetary baseline.

The significant reduction (around 29%) in ***market expenditure*** when comparing 2013 to 2020 is illustrated in Table 13 above. This loss is, however, offset by the creation of two instruments outside the MFF, which are described in § IV.4.

Table 13 also demonstrates that, by taking account of at least compulsory modulation, the reductions in the ***direct payment allocation*** are roughly ***equivalent to the real terms cut in rural development funding***. Indeed, if the balance between overall Pillar 1 expenditure (including Heading 2 market measures) and the Pillar 2 allocation for 2013 and 2020 is compared, the relative reductions become even closer.

For the next financial perspective, the trajectory of allocations of both Pillar 1 and Pillar 2 is largely set by the ***deflationary effect*** of being frozen in nominal terms at 2013 levels, with the proportionate split remaining roughly constant throughout the seven-year duration. This contrasts with the rebalancing of the CAP pillars which took place over the last funding period through the steady, stepwise increase in the percentage rate of compulsory modulation, which rose from 5% in 2007 up to 10% in 2012. This transfer of resources from Pillar 1 to Pillar 2 chimed with the repeated references in the speeches of the previous Commissioner, Mariann Fischer Boel, to rural development being where "the music will play", clearly signalling her belief that Pillar 2 was the future of the CAP ([34]).

While the final published Commission proposal for the 2014–2020 MFF maintained the 2013 split between the two CAP Pillars, if specialist press reports are to be believed, it was DG AGRI's intention to raise slightly the proportion of rural development funding at the expense of the direct payments budget. The Agricultural Directorate's draft pitch to Commission President José Barroso and his team is reported to have described a preference for using a 2% inflator for rural development funding across the financial perspective, which would have expanded the €89.9 billion allocation for Pillar 2 at 2013 nominal terms up to €97.2 billion ([35]). The EU contribution to Pillar 2 is, of course, only one component of overall rural development funding and constraints on the ability of Member

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[33] The figure of €281.8 billion for Pillar 1 expenditure cited in the MFF proposals excludes estimated assigned revenues, which have been incorporated into the *"Direct payments"* totals in Tables 13 and 14. The entries for 2013 in the tables have also been adjusted to exclude the effect on the budgetary baseline of both voluntary modulation and the transfer of *"unspent monies"* to EAFRD (under Article 136).

[34] See, for example, Mariann Fischer Boel's evidence to the UK Parliament Environment, Food and Rural Affairs Committee, 16 October 2006, Q287, (http://www.publications.parliament.uk/pa/cm200607/cmselect/cmenvfru/546/546ii.pdf).
See, also, Mariann Fischer Boel's speech to the Conference on rural networks entitled "Making connections for a better rural development policy", Brussels, 30 March 2009, (http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/09/155&type=HTML).

[35] Agra Facts, No. 52-11, 24 June 2011, "*Leaked DG AGRI demands point to a 'budget freeze' for CAP 2014–2020*", p.1

States to find sufficient resources to cofinance the money they draw down from the EU will have to be taken account of in the light of the economic crisis.

- ***€281.8 billion is allocated to pay for direct payments and market measures in Pillar 1, while €89.9 billion is assigned to rural development expenditure within Pillar 2.***
- ***The significant reduction in market expenditure is offset by the creation of two instruments outside the MFF.***
- ***The Commission's proposal maintains the 2013 budgetary split between the two CAP Pillars, including the effects of compulsory modulation (but not voluntary modulation) in the baseline.***

4.3. Expenditure under other budgetary headings

The MFF Communication describes how the Commission "*will take the opportunity of the new MFF to refocus the CAP on its core and new activities*" ([36]). An example of this is seen with the Commission's proposal to transfer the €2.2 billion allocated for food safety to Budget ***Heading 3*** – "*Security and Citizenship*", aligning it more closely with actions for public health. This is a change from the current MFF where funding for food safety is contained in Pillar 1 of the CAP.

In the light of the judgement of the European Court of Justice prohibiting the direct market purchase of food for the *'aid for the needy' scheme* ([37]), the Commission is also proposing to transfer the funding of food support for the most deprived persons to ***Heading 1*** – "*Smart and Inclusive Growth*". This proposal sidesteps the problems over the legal basis of the current scheme by grouping together actions to fight poverty and exclusion. €2.5 billion is allocated across the seven year funding period.

In another CAP-related line of expenditure, research and innovation on food security, the bio-economy and sustainable agriculture has been allocated €4.5 billion over the course of the MFF. These funds will sit within the *Common Strategic Framework for Research and Innovation*, under ***Heading 1***.

- ***€2.2 billion allocated for food safety is transferred to Budget Heading 3.***
- ***€2.5 billion of funding for food support for the most deprived persons is transferred to Heading 1.***
- ***Research and innovation on food security, the bio-economy and sustainable agriculture has been allocated €4.5 billion over the course of the MFF.***

[36] European Commission, "*A Budget For Europe 2020 – Part I*", COM(2011) 500 final, 29.6.2011, p. 15, (http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/MFF_COM-2011-500_Part_I_en.pdf).

[37] European Court of Justice, case T-576/08, 13 April 2011.

4.4. Expenditure outside the MFF

The Commission is proposing a further €3.5 billion for ***crisis management measures*** in agriculture to be funded outside the MFF. This would involve the creation of an ***emergency mechanism*** to react to crisis situations to provide immediate support to farmers through a fast-track procedure. Examples cited include crises resulting from a food safety problem or sudden markets developments, with the procedure for mobilising this fund being the same as the ***Emergency Aid Reserve***. The annual €300 million margin in the existing budget for market interventions will go some way to funding this measure. Experience of the existing reserve instruments in the EU budget suggests that the stated focus on expediting the process of deployment will be necessary if the mechanism is to be able to act in time to avert a crisis.

The MFF proposal also envisages farmers becoming eligible to receive funding from the ***European Globalisation Fund*** ([38]), designed to assist their adaptation to a new market situation resulting from indirect effects of globalisation and to cushion any negative impacts of a MERCOSUR trade deal or others bilateral agreements (Chile, Euro-Mediterranean countries, etc). Up to €2.5 billion has been allocated for this purpose.

- ***A further €3.5 billion for crisis management measures in agriculture are to be funded outside the MFF.***
- ***The MFF proposal also envisages farmers becoming eligible to receive funding from the European Globalisation Fund, with up to €2.5 billion being allocated for this purpose.***

4.5. Elements of reform indicated by MFF proposals

The Commission's MFF proposals are also notable for the way they pre-empt the legislative CAP reform package by anticipating several of the key future orientations ([39]). Presumably in an attempt to justify the scale of the proposed budgetary allocation devoted to agriculture, the MFF plans outline the following:

- **Convergence of payments –** A *more equal distribution of direct support* will be achieved over the funding period as all Member States with direct payments below the *level of 90% of the EU-27 average will close one third of the gap between their current level and 90% of the EU average direct payments*. This convergence will be financed proportionally by all Member States with direct payments above the EU average. While this rebalancing of Pillar 1 allocations between Member States is proposed to be conducted in a purely mechanistic way, a commitment is made to revise the allocation key for rural development funds on the basis of more objective criteria, described as reflecting the future economic, social, environmental and territorial policy objectives.

[38] See §I.1 and Footnote (9). The new proposal on EGF is available at: http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation/egf/egf_proposal_en.pdf

[39] The proposed changes outlined in this section draw on information contained in both Part I and Part II (Policy fiches) of COM(2011) 500 final, 29.6.2011.

- **Greening of direct payments –** To ensure that the CAP helps the EU to deliver on its environmental and climate action objectives, *30% of direct payments* will be made conditional on compliance with a range of environmentally-supportive practices, going beyond cross compliance. This means that all farmers receiving payments will be obliged to carry out the stipulated practices, in an effort to more closely associate Pillar 1 support with the delivery of *environmental public goods*.

- **Support for active farmers –** The MFF proposals state that the benefit of direct support will be reserved for active farmers to ensure the efficient use of CAP resources. The Commission's definition of '*active farmer*' is, however, left to the more detailed legislative proposals.

- **Capping the level of direct payments for the largest farmers –** What is described as a "*moderate and progressive process of 'capping' of the level of direct income support for the largest holdings*" is proposed, "*while taking due account of the economies of scale of larger structures and the direct employment these structures generate*" ([40]). The Commission also proposes that the savings of the capping mechanism be recycled into the budgetary allocation for rural development and retained within the national envelopes of the Member States in which they originate.

- **Integrated rural development policy focused on results –** The second pillar of the CAP, covering rural development, will be subject to the same Europe 2020 performance-based conditionality provisions as the other structural funds. In the post-2013 period, the *European Agricultural Fund for Rural Development (EAFRD)* will be included in the *common strategic framework* for all structural funds and in the contracts foreseen with all Member States.

- **Simplified scheme for small farmers –** A simplified allocation mechanism is proposed to support the large number of beneficiaries of direct support who are classified as being small farmers. The objective is to substantially reduce the administrative burden for Member States and farmers, while being neutral for the EU budget.

- **Market expenditure and crisis mechanisms –** As noted above in § IV.4, the Commission proposes to create two instruments outside the MFF which will be subject to the same fast-track procedure as the *Emergency Aid Reserve*: an emergency mechanism to react to crisis situations (for instance a food safety problem) and a widening of the scope for the *European Globalisation Fund* to make farmers affected by globalisation eligible for compensation.

- **Flexibility between the Pillars –** The MFF Communication describes how, in order to "*enable the CAP to respond to the challenges that are linked with the economic, social, environmental and geographical specificities of European agriculture in the 21st century and to effectively contribute to the Europe 2020 objectives*", the Commission would "make proposals to permit flexibility between the two pillars" ([41]). The history of compulsory, voluntary and progressive *modulation* may have directed expectations to assume that this would have been a mechanism to continue

[40] COM(2011) 500 final, 29.6.2011, Part II, pp. 4–5.
[41] COM(2011) 500 final, 29.6.2011, Part I, p. 16.

the flow of resources from Pillar 1 to Pillar 2. However, the notion of '*reverse modulation*' (i.e. transfers from Pillar 2 to Pillar 1) was floated in the 'MFF: Questions & Answers' briefing mounted on the Commission website, when it was suggested that "*in order to avoid a reduction in farmers' income, the Commission will propose to allow Member States, if they so wish, to maintain the current nominal level of funding through transfers from Pillar Two to Pillar One*" ([42]). While this reference was deleted from subsequent versions, it was a clear indication that the Commission was minded to introduce a two-way valve, allowing ***bidirectional flexibility between the two CAP Pillars***. In this context, it is worth remembering the precedent set in the early years of accession for the EU-10 Member States, between 2004 and 2006, during which time they were allowed to use part of their rural development resources to top up their Pillar 1 allocations ([43]).

- ***To some extent, the Commission's MFF proposals pre-empt the legislative CAP reform package by anticipating several of the key future orientations.***

- ***Highlights include a mechanistic way of distributing direct support more equally between Member States, the allocation of rural development payments based on more objective criteria, making 30% of direct payments conditional on compliance with a range of environmentally-supportive practices, and the 'capping' of the level of direct income support for the largest holdings.***

- ***Flexibility allowing the transfer of resources between the two CAP Pillars is also proposed, apparently including 'reverse modulation' (i.e. transfers from Pillar 2 to Pillar 1).***

[42] "*Multiannual Financial Framework (MFF): Questions and answers*", MEMO/11/468, Brussels, 29 June 2011, accessed on 29/06/2011 at 23:52 hrs, (http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/468).

[43] See: MEACAP Project deliverable: "Recent evolution of the EU Common Agricultural Policy (CAP): state of play and environmental potential", p.26, (http://www.ieep.eu/assets/224/WP6D4B_CAP.pdf).

5. CONCLUSION

The Commission's proposed ***freezing of the CAP budget in nominal terms*** followed shortly behind two significant European Parliament resolutions, both of which delivered a clear steer on the expectations for the future CAP budget. The resolution of 23 June 2011 on the Dess Report on the CAP towards 2020 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*" ([44]). This closely mirrored the resolution of 8 June 2011 on the Garriga Report, which stated that "*the amounts allocated to the CAP in the budget year 2013 should be at least maintained during the next financial programming period*" ([45]).

The off-budget items, including two key market support measures that have been taken out of the CAP, cleverly act to disguise the true overall size of the planned future expenditure on agriculture in the next funding period. This allows the Commission to under or over exaggerate the ***real terms budgetary cut***, depending on its target audience. In contextualising the Commission's proposals, it is worth noting that, consistently throughout the current MFF, CAP expenditure ceilings have not been reached, with this highlighted by the famous example in 2007 of unused resources being diverted to fund Galileo, the EU project to develop its own satellite navigation system.

While the Commission's MFF proposals have laid out the framework for the future CAP, helping to justify agriculture's share of the overall EU Budget, it will only be when the ***legislative package*** is launched that the detailed picture will become clearer. These proposals for the next major reform of the CAP are due to be released on ***12 October 2011***.

[44] European Parliament resolution of 23 June 2011 on the "*CAP towards 2020: meeting the food, natural resources and territorial challenges of the future (2011/2051(INI))*", P7_TA-PROV(2011)0297, Rapporteur: Albert Dess, para 6.

[45] European Parliament resolution of 8 June 2011 on "*Investing in the future: a new Multiannual Financial Framework (MFF) for a competitive, sustainable and inclusive Europe (2010/2211(INI))*", P7_TA-PROV(2011)0266, Rapporteur: Salvador Garriga Polledo, para 82.

ANNEX

IMPLEMENTING THE CAP IN THE BUDGET (1968 / 2013)

Table I

EU - 6: PERIOD 1968 / 1972					
UE - 6	CAP Payment appropriations Million Unity Account (UA)		Total CAP Budget (EAGGF)	% Total CAP Budget / Total EU Budget	% Total CAP / EU GNI
	EAGGF Guarantee Payments	EAGGF Guidance Payments			
1968	1,259.7	34.0	1,293.7	86.9%	0.34%
1969	1,668.6	51.3	1,719.9	90.2%	0.45%
1970	3,108.1	58.4	3,166.5	93.5%	0.65%
1971	1,755.6	61.5	1,817.1	82.3%	0.32%
1972	2,485.6	53.2	2,583.8	82.7%	0.41%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.

Table II

EU - 9: PERIOD 1973 / 1980					
EU - 9 (UA before 1978; ECU after 1978)	CAP Payment appropriations Million UA / ECU		Total CAP Budget (EAGGF)	% Total CAP Budget / Total EU Budget	% CAP / EU GNI
	EAGGF Guarantee Payments	EAGGF Guidance Payments			
1973	3,614.4	10.8	3,625.2	80.4%	0.40%
1974	3,459.8	37.8	3,497.6	72.4%	0.36%
1975	4,327.7	76.7	4,404.4	75.7%	0.38%
1976	5,636.7	112.1	5,748.8	76.0%	0.45%
1977	6,587.1	113.0	6,700.1	80.0%	0.46%
1978	8,679.3	325.6	9,004.9	74.5%	0.60%
1979	10,387.1	286.5	10,673.6	75.0%	0.60%
1980	11,291.9	314.6	11,606.5	73.2%	0.58%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.

Table III

EU – 10/12: PERIOD 1981/1987					
EU - 10 EU-12 (after 1986)	CAP Payment appropriations Million ECU		Total CAP Budget (EAGGF)	% Total CAP Budget / Total EU Budget	% CAP / EU GNI
	EAGGF Guarantee Payments	EAGGF Guidance Payments			
1981	11,063.7	539.9	11,603.6	65.4%	0.52%
1982	12,259.8	650.8	12,910.6	63.0%	0.57%
1983	15,785.8	575.3	16,361.1	66.8%	0.60%
1984	18,330.4	595.6	18,926.0	69.9%	0.69%
1985	19,727.8	685.5	20,413.3	73.2%	0.66%
1986 (EU-12)	22,118.1	771.2	22,889.3	66.0%	0.66%
1987 (EU-12)	22,950.1	789.5	23,739.6	67.6%	0.67%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.

Table IV

THE DELORS PACKAGE I. EU – 12: PERIOD 1988 / 1992					
EU - 12 (+ new German Lander after 1991)	CAP Payment appropriations Million ECU		Total CAP Budget (EAGGF)	% Total CAP Budget / Total EU Budget	% CAP / EU GNI
	EAGGF Guarantee Payments	EAGGF Guidance Payments			
1988	26,395.2	1,140.9	27,536.1	67.1%	0.67%
1989	24,401.4	1,349.0	25,750.4	63.2%	0.63%
1990	25,604.6	1,825.3	27,429.9	62.2%	0.62%
1991 (new Lander)	31,103.2	2,085.4	33,188.6	62.0%	0.68%
1992 (new Lander)	31,254.5	2,857.9	34,112.4	58.3%	0.64%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.

Table V

THE DELORS PACKAGE II. EU – 12/15: PERIOD 1993 /1999					
EU - 12 EU-15 (after 1995) (EUR after 1999)	CAP Payment appropriations Million ECU / EUR		Total CAP Budget (EAGGF)	% Total CAP Budget / Total EU Budget	% CAP / EU GNI
	EAGGF Guarantee Payments	EAGGF Guidance Payments			
1993	34,935.8	2,914.2	37,850.0	58.4%	0.70%
1994	32,952.8	2,476.5	35,429.3	59.8%	0.65%
1995 (EU – 15)	34,490.4	2,530.6	37,021.0	55.6%	0.61%
1996 (EU – 15)	39,324.2	3,360.3	42,684.5	55.4%	0.66%
1997 (EU – 15)	40,423.0	3,580.0	44,003.0	55.1%	0.60%
1998 (EU – 15)	39,068.0	3,521.5	42,589.5	52.6%	0.58%
1999 (EU – 15)	39,468.6	3,774.0	43,242.6	51.8%	0.57%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.

Table VI

AGENDA 2000. EU – 15/25: PERIOD 2000 / 2006					
EU - 15 EU-25 (after 2004)	CAP Payment appropriations Million EUR		Total CAP Budget (EAGGF)	% Total CAP Budget / Total EU Budget	% CAP / EU GNI
	EAGGF Guarantee Payments	EAGGF Guidance Payments			
2000	40,437.3	1,390.7	41,828.0	52.0%	0.52%
2001	42,131.2	1,343.1	43,474.3	54.0%	0.48%
2002	43,178.0	1,553.9	44,731.9	52.1%	0.52%
2003	44,414.3	2,289.8	46,704.1	52.2%	0.52%
2004 (EU – 25)	43,612.0	2,742.9	46,354.9	46.4%	0.46%
2005 (EU – 25)	48,346.8	2,943.3	51,290.1	49.3%	0.49%
2006 (EU – 25)	49,825.9	3,206.1	53,032.0	50.1%	0.50%

Source: *EU Budget 2008 Financial Report,* Annex II, page 79 (http://ec.europa.eu/budget/library/biblio/publications/2008/fin_report/fin_report_08_en.pdf) and EP - Policy Department B elaborations.

Table VII

THE MFF 2007/2013. EU – 27: PERIOD 2007 / 2013					
EU - 27	**CAP Payment appropriations Million EUR**		**Total CAP Budget (EAGF + EAFRD)**	**% Total CAP Budget / Total EU Budget**	**% CAP / EU GNI**
	EAGF Payments (*)	**EAFRD Payments**			
2007	**42,075**	**10,803**	**52,878**	**47.0%**	**0.43%**
2008	**40,727**	**10,529**	**51,256**	**45.3%**	**0.41%**
2009	**41,259**	**8,739**	**49,998**	**44.5%**	**0.43%**
2010	**43,690**	**11,493**	**55,183**	**45.8%**	**0.46%**
2011 (Budget) (**)	***42,763***	***12,561***	***55,324***	***43.7%***	***0.44%***
2012 (Budget) (**)	***44,073***	***12,753***	***56,826***	***42.8%***	***0.43%***
2013 (MFF provisions) (***)	***45,305***	***14,451***	***59,756***	***41.4% (****)***	***0.43%***

Source: *EU Budget 2010 Financial Report,* Annex 2, pages 70–71 (http://ec.europa.eu/budget/library/biblio/publications/2010/fin_report/fin_report_10_en.pdf)
(*) EAGF includes market-related expenditure, direct aids and animal and plant health.
(**) Data for 2011 and 2012: EU Budget provisions for payments.
(***) 2013 CAP Budget: Commitments ceiling included in the MFF 2007/2013 (Table 1)
(****) 2013 Total EU Budget: Payments ceiling included in the MFF 2007/2013 (Table 1)

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