



Will the CAP post 2020 be fairer – and what does that mean?

The post 2020 reform promised to deliver a fairer CAP: better targeting and distribution of resources. At the core of a fairer CAP, the Commission introduced mandatory capping – upper limits to payments – and degressivity – progressive reduction of payments above a certain level – to address a skewed distribution of around 80% of direct payments to only 20% of European farms. One month before the final plenary vote in the European Parliament and trilogue negotiations with the Council, the proposal does not seem to go towards its expected direction. What can we expect to happen? Matteo Metta reports on the state of play.

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Background

It used to be a lively debate; it remains the main slogan of this reform: **a fairer CAP**. A fairer CAP can mean many things: from more equal distributions of Pillar I direct payments among different types of farmers *within* and *among* EU Member States, to a CAP that respects the socio-economic, gender, and environmental conditions *within* and *beyond* the EU.

In the Commission's proposal (June 2018), a 'fairer' CAP mainly referred to a better distribution of direct payments, for instance from larger to smaller beneficiaries or to young farmers. This article looks only at three principal mechanisms: **capping, degressivity and redistributive payments**. It partially covers the **PMEF** (Performance Monitoring and Evaluation Framework).

We draw insights by comparing the current CAP 2014-2020 with the proposal post 2020 in light of the recent positions of the European Parliament and Council's Working Meetings on the distribution of direct payments.

The analysis is based on studies, regulations, Commission proposals, Council's progress reports and meetings, and informal positions of EP's political groups retrieved until Monday 21st September 2020. Overall, the article aims to answer the following questions: *what are the points most likely to find agreements in the negotiations for a fairer CAP, and where are the knots to be untied at this last stage of the legislative procedure?*

You CAP, we Adjust

Capping was a voluntary mechanism introduced in the CAP to stop paying farmers above a certain threshold, on the premise that they can be efficient also with lower levels of support, given their possibility to adjust via economies of scale. As established in Art. 11 of R1307/2013, Member States should have reduced the amount of direct payments for the part exceeding EUR 150 000 by at least 5 %, unless they decided to implement the redistributive payments using more than 5 % of the national ceiling for direct payments.

A European Parliament study (2015) on the [implementation of the first pillar of the CAP 2014 – 2020](#) showed that when capping is voluntary, this is inconsistently implemented across the EU Member States. Only 12 countries applied mandatory capping in the current programme. Among these, six set up high thresholds. For instance, Italy capped direct payments at EUR 500 000/farm with a 50% reduction for the part of the amount exceeding 150,000 Euro. The remaining countries did not impose any capping or degressivity at all (France, Germany, Romania, Croatia, etc.).

Countries with higher land concentrations (e.g. HU, SK, CZ, PL), but also those with different farm structure, have always showed some resistance towards capping direct payments. These countries appear to want to placate owners of large farms, and to avoid taking resources from them. The main anti-capping rhetoric uses arguments ranging from 'labour displacement', 'food sovereignty', 'food security', to the classic 'simplification' or 'protecting the diversity of EU farming'.

The inconvenient truth is that Ministries of agriculture do not want to upset large beneficiaries, such as large scale land owners, who could end up create artificial solutions to meet new policy requirements, nor they want to stop an inevitable 'structural change' in agriculture (e.g. bigger and more capital intensive agricultural holdings).

Capping and degressivity: unpacking the conundrum

Negotiations around capping and degressivity are interrelated to many other decisions on CAP (e.g. annual envelop for direct payments, conditionalities for small scale farmers, ringfencing of ecoschemes, payment entitlements). However, key decisions around these mechanisms might be boiled down to the following points:

- **Enforcement:** voluntary or mandatory for the Member States?
- **Threshold:** max amount of EUR/farm above which to apply the capping and degressivity
- **Deductions:** what to exclude from the amount of direct payment subject to capping and degressivity (e.g. labour costs, eco-schemes, income support for young farmers, etc.)
- **Exemptions:** under which conditions capping is not mandatory in the Member States (e.g. minimum amount of complementary redistributive payments)
- **Reallocation mechanisms:** where the surplus budget obtained from capping and degressivity is shifted to other interventions.

Table 1 benchmarks some of these key points between the current CAP and the reform post 2020 proposed by the Commission. As the latter is not adopted yet, we make this comparison based on EP political groups' informal positions and publicly available Council's progress reports and meetings.

Table 1: Commission, Parliament and Council's positions on reductions of direct payments in the current CAP 2014-2020 compared to the CAP post 2020

CAP		CAP post 2020			
2014-2020		Commission's proposal	European Parliament's group positions (Sept 2020) ¹		Council's position
References	R1307/2013	COM/2018/392 final	EPP's informal position	Greens' informal position	Council's progress reports ²
Capping of direct payments	Voluntary	Mandatory	In favour of mandatory, but also with exception	In favour of mandatory	Voluntary
Threshold (EUR/farm)	Up to MS	100 000	100 000	50 000	Up to MS
Degressivity before capping	at least 5 % for the part of the amount (of direct payments) exceeding EUR 150 000	a) by at least 25 % for the part between 60 000 and 75 000 b) by at least 50% for the part between 75 000 and 90 000 c) by at least 75 % for the part between 90 000 and 100 000 d) by 100% for the amount exceeding EUR 100 000	NOT in favour of any degressivity	a) by at least 25 % for the part between 35 000 and 40 000 b) by at least 50% for the part between 40 000 and 45 000 c) by at least 75 % for the part between 45 000 and 50 000 d) by 100% for the amount above EUR 50 000	Up to MS to choose degressivity or complementary redistributive income support

¹ We analysed four informal political groups' positions on this matter (EPP, RE, Greens, GUE), which were made available at the date of this analysis (Sept 2020). Only those specifically addressing these points are displayed in Table 1.

² The analysis considered all progress reports from the Austrian (2018) to the German (2020) presidency. Documents about Council's amendments were not accessible and could have enriched the analysis.

CAP 2014-2020		CAP post 2020			
		Commission's proposal	European Parliament's group positions (Sept 2020) ¹	Council's position	
Deductions for calculating the amount of direct payment subject to capping	Up to MS	a) salaries linked to an agricultural activity declared by the farmer, including taxes and social contributions; and b) equivalent cost of regular and unpaid labour linked to an agricultural activity practiced by persons working on the farm [...]	Expenses for eco-schemes, young farmers and 50% of labour costs	Expenses for eco-schemes, animal welfare, and labour costs	Some Member States expressed their position in favour of subtracting expenses on labour costs, ecoschemes, and young farmers. Generally, the Council strives for more flexibility to specify the method to calculate amounts to be deducted.

Source: own elaboration (Sept 2020)

Shall we 'cap' or shall we not?

Although based only on a small portion of the EP wide political representations, Table 1 shows that the EP and Commission are aligned on the establishment of **mandatory** capping. A similar result was reached also in the COMAGRI vote in April 2019 (mandatory capping at 100 000 EUR/farm, see [Herranz-Garcia's report](#)). EEP believes that capping should not be mandatory when the Member States allocate 10% of national envelope of direct payments to redistributive income support payments.

On the other hand, the Council - made up of national agriculture ministers from the Member States - is strongly united in keeping capping and degressivity **voluntary** for the Member States. The main rationale was already stated in the [Austrian Progress Report](#) in June 2018:

"The proposed reduction of payments (Art. 15) could hamper the economic prospects of certain farms, especially farms taking part in schemes for the climate and the environment and farms held by young people. It may induce farm divisions and generate considerable administrative burden, in particular through the deduction of labour costs."

By (mis-)using environmental, social (i.e. young farmers), and technical (e.g. administrative burden) concerns, the Council is watering down the Commission's proposal to avoid any mandatory capping. Alternative provisions could be created for a mandatory and tailor-made capping, which addresses this issue at national level, by taking into account socio-economic conditions. In practice, however, the Council is trying to avoid any provisions which ask Member States to commit for mandatory capping, as well as to undermine stricter checks when approving 'fairer' CAP Strategic Plans.

This is clearer in the last German Presidency background document (p. 7) on [‘State of play on the CAP reform and exchange of views’](#), published on 16 September 2020:

*“On the basis of the European Council's conclusions on MFF, the Presidency has adapted the legal drafting by indicating that **capping should be voluntary** for Member States. Keeping the spirit of the original Commission's proposal, it has also introduced a voluntary mechanism for reducing direct payments under EUR 100 000 and a voluntary capping for larger recipients beyond that limit that would provide a maximum degree of flexibility for Member States”.*

The exchange of views held on 21 September showed a large consensus among the national Ministries of Agriculture on the voluntary nature of capping. The Commissioner of Agriculture, Mr Janusz Wojciechowski, first stated his disappointment on the Council's directions, but then applauded the fast speed consensus process of the German presidency.

Degressivity

Regarding degressivity, language used is at variance with positions adopted. From the text above, the Council claims to respect the spirit of the Commission's proposal (i.e. *reducing direct payments under EUR 100 000*) but leaves any decisions up to the Member States. It is unclear on which basis is the Council claiming to respect the Commission's political power when they are systematically removing any actual obligations for the Member States.

Will countries like Italy continue to have a high threshold for capping (EUR 500 000) and why so? Will countries like Germany or France change their distribution mechanism and introduce mandatory capping? In other words, which political stand are agricultural ministries going to take to seriously address issues like ‘disappearing farmers’, ‘land concentration’, ‘capital-intensive agriculture’, ‘rent seeking farmers’, ‘low generational renewal’.

Is it ‘fair’ enough for the Ministries of Agriculture to ask for more flexibility and exempt small scale farmers from any conditionalities and on-spot checks when, on the other hand, they are the ones protecting larger beneficiaries and watering down any redistribution mechanisms?

If agricultural ministries and MEPs are concerned about the effects of capping on employment in rural areas, why don't they envisage a **complementary support for employment** under direct payments (i.e. rewarding annual work units), like the ones tabled by the EP's Green Party? There are certainly different ways to introduce capping without offsetting employment, but there seems to be low interest on this.

Where does surplus money go?

Where the surplus money is shifted to is another controversial decision concerning capping and degressivity of direct payments. In the spirit of a fairer redistribution, recital 25 and Article 15(3) of the Commission proposal establish that the product of reduction of payments shall be primarily used for ‘decoupled direct payments’ – giving priority to *complementary redistributive payments* over basic income support, eco-scheme, young farmers – or to transfer it to Pillar II. In relation to this point, we could not find specific positions of EP political groups or, they have not been explicitly expressed across the board.

Regarding the Council, there are still numerous question marks on the exact details, but the general position is again strong for higher flexibility. In June 2018, the [Austrian Progress Report](#) stated: “there is a need to clarify the provisions for the use of the product resulting from the reduction of payments, in particular with regard to the pillar under which it could be spent”. On the 21 September, the Ministries of Agriculture gave a clearer answer: we want more flexibility!

Fast rushing towards the approval

In a [blog posted in 2019](#), Prof. Alan Matthews (Trinity College Dublin, Ireland) put forward a compromise for capping direct payments and, at the same time, ‘not taking money away from larger beneficiaries’. A full reading on his proposal is certainly revealing. In a nutshell, instead of reallocating budget through complementary redistributive payments, he suggested to channel the product of capping towards *eco-schemes* and/or *agri-environmental-climate commitments*, giving higher priority to larger farmers to encourage their public goods provision.

While this proposal can be consistent with rational of the CAP (public money for public goods), in reality, the Council is just concerned about two things: 1) quickly form a common position for the negotiations with the Parliament in October; 2) reduce any risk of low uptake of eco-schemes (and its financial implications). There is little hope for these kinds of solutions. On eco-schemes, arguments have been made at Council level for dropping the proposal of mandatory ringfencing, giving more flexibility in the first implementation years (including full flexibility into any other direct payment areas for two years, as proposed by the [German Presidency on 3rd September](#)), watering down conditionalities (especially GAEC 9) to make space for ‘easy to uptake’ ecoschemes.

Performance Monitoring and Evaluation Framework

A **fairer** and **performance-oriented** CAP was so high in the initial Commission’s political agenda outlined by the ex-commissioner of agriculture, Mr Phil Hogan, that three common indicators were proposed in Annex I:

- **Result Indicators R.6** – Redistribution to small farms: Percentage additional support per hectare for eligible farms below average farm size (compared to average)
- **Result Indicators R.7** – Enhancing support to farms in areas with specific needs: Percentage additional support per hectare in areas with higher needs (compared to average)
- **Impact Indicator I.24** – A fairer CAP: Improve the distribution of CAP support

Although there were some limitations to the quality of these indicators, as there always are in almost all existing indicators in Annex I, a large number of Member States were in favour of the proposal by Ireland, France, Germany, Austria, and Spain’s to delete R.6 and R.7, because it was considered to be “non-relevant to measure CAP’s performance”. Nevertheless, the Croatian Presidency kept these two indicators in the [revised version of Annex I](#) and we will continue watching the progress. As regards the impact indicators, and particularly I.24, the last publicly available information goes back to [March 2019 \(Grexe meeting\)](#). If someone has seen any updates on indicator fiches or has news about them, please let us know – it has not been seen by many.

Are we really going to see a fairer CAP?

Whether capping and degressivity will be mandatory or not across Europe, and how, will most likely be known only when the European Parliament’s position is voted in plenary. If this will be different

from the Council's position (which is united for voluntary), then we need to see the outcomes of the trilogue meetings.

A voluntary capping might come at the expense of a common level playing field across the EU. It could be desirable only if Member States come up with ambitious and tailor-made proposals for capping, degressivity and redistributive payments at national level. Voluntary capping requires also a rigorous, transparent and evidence-based approval process of the CAP Strategic Plans, rather than just recommendations to get a 'fair' stamp from the Commission. We should learn from the experience with the implementation of the current CAP 2014-2020.

The Commissioner, the German Presidency of the Council, and many Agricultural Ministries (except Lithuania) firmly agree that we are very close to a new CAP. That is true when the reform is all about 'flexibility' and 'subsidiarity'. If the aim were to have a common reform, many other decisions about a more equal distribution of CAP direct payments were still pending. People expecting to see a fairer CAP across Europe may be very disappointed. Instead of a better reform at EU level, the new CAP might end up repeating the same business as usual.

Final thoughts

For a fairer CAP, we should enlarge our focus beyond capping, redistributive payments, or degressivity, and to consider the full picture, to include payment entitlements, external convergence, sectorial support, and more. A fairer CAP is all about better targeting of resources, which ultimately means asking politicians and administrations to be more selective and accurate on the way support is designed and delivered to address specific and targeted needs.

While the idea of simplification is laudable, CAP needs to keep strong its political will to reduce inequalities even in face of its technical challenges. In practice, this means that in addition to a political shift, the CAP shall continue to build capacity and equip administrative units with the right tools, database, arrangements, and skills to distribute payments more accurately. A fairer CAP goes hand by hand with the upgrading of delivery mechanisms and technical assistance too.

Finally, a fairer CAP must not be limited to its socio-economic dimension, such as better targeting of direct payments to small scale or young farmers. A large share of CAP spending is for environmental and climate purposes. Are we really scrutinizing enough and setting up more selective criteria about how Pillar I and II interventions are going to address the beneficiaries and areas with the most urgent environmental problems (e.g. soil erosion risks, water pollution, biodiversity decline, flood)? And what of the broader interpretation of fairness – of inclusion and CAP's impact outside the EU? There is a lot to consider when it comes to fairness, and CAP has much progress to make.

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