

Policy Briefing

European Budget & CAP Budget 2021-2027

Commission proposals

Reading keys of the various published analyzes

2018

On May 2, the European Commission proposed its budget orientations for the period 2021-2027 for the European Union and its policies.

Since then, many analyzes and comments have been made, putting forward variable figures as to the real financial impact of these proposals for the CAP.

This note aims:

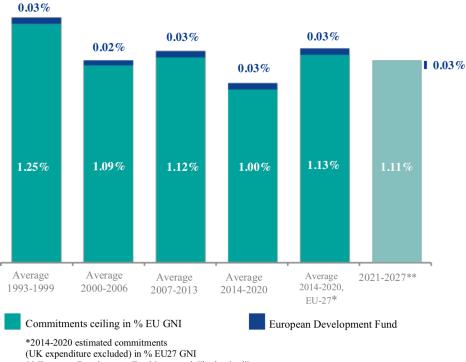
- to decipher these different analyzes which, if they are all mathematically exact, give very variable readings of the Commission's proposals
- to highlight the actual economic impact of the said proposals on European agricultural sectors and on the incomes of European farmers.

I- Presentation by the Commission: A rising budget for the EU27, a CAP budget in reduction of "only" 5%

The European Commission has presented its proposal as an ambitious budget to address new priorities and boost the European momentum.

At the same time, it appears that the proposed budget, expressed as a percentage of the EU27 GDP, is decreasing compared to the European actions currently financed in the 27 Member States. While the implementation of current EU policies in the EU27 now accounts for 1.16% of EU27 GDP, the budget for the coming period is proposed at 1.11% to finance both but also what is proposed as new priorities. So less money than the one currently used for existing European policies in the EU27 for more actions to be financed.

Therefore, the financing of the so-called new priorities proposed for the EU (defense, immigration, digital ...) supposes in the Commission's plan to ask the existing policies to cut their budgets both to compensate for the departure of the British net contributor and to fund the proposed new policies. This is the case for the CAP for which the Commission proposes a decrease of 19.6 billion in current euros over the period, plus a loss in real annual value of the amount of inflation, accentuating the erosion initiated since the 2000s of the CAP budget in the European budget.



The size of the EU budget as a percentage of gross national income (GNI)

** European Development Fund integrated ("budgetised")

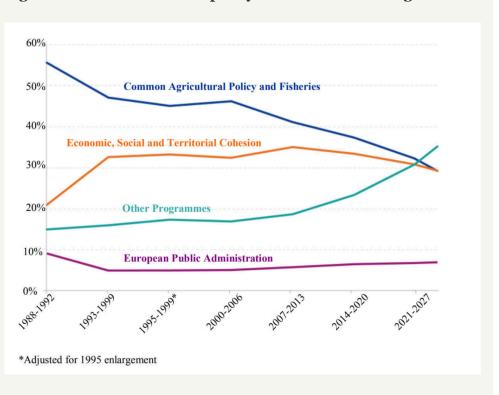


Figure 1: Evolution of main policy areas in the EU budget

Source: the chart on page 23 of the 2 May 2018 European Commission

- While the Commission's budget proposal increases by 2% (theoretical inflation rate) per year the national contributions that Member States will have to pay to the EU budget,
- While the production costs of the agricultural and agri-food sectors will most likely follow the evolution of inflation in the EU27,

the expression of the evolution of the CAP budget in current euros does not make it possible to give a real and objective reading of the <u>economic impact</u> of the proposals presented on the European agricultural and agri-food sector.

II- Analysis conducted by the European Parliament: comparison of the two budget periods reported in euros 2018.



Graph 2: Distribution of the 2014-2020 and 2021-2027 MFFs

Source: EPRS, based on European Commission data,

By choosing to compare the Community funding allocated to the different policies in 2018 euros for the period 2014-2020 and for 2021-2027, the European Parliament points out a difference, for the current heading 2 (mainly the CAP), of -21% between the two periods, the Commission's proposal for the coming period then being less than \notin 90 billion 2018.

It should be noted that a 2014-2020 budget expressed in 2018 euros results in a larger amount (number of euros) than the decision of the Heads of State and Government in 2013, which decided to maintain the CAP budget in current euros only.

At the same time, expressing the Commission's budget proposal for the period 2021-2027 in 2018 euros leads to the inclusion of the lack caused by the non-indexation on the inflation rate for the years 2019 and 2020 even though it can not be imagined to modify the decision taken in 2013. Consequently, in view of the decisions taken and accepted in 2013 for the period up to 2020, the expression of the 2021-2027 budget in 2018 euros increases the lack of the CAP budget proposed by the Commission for the period. And to be noted that what is linked to non-indexation on inflation from 2018 has a cumulative effect (by multiplying each year by a factor of 1.02) in the end of the period 2027.

III – Analysis of the Bruegel Institute: comparison of the 2014-2020 CAP budget expressed in current euros and the 2021-2027 proposal expressed in 2018 euros.

	Col. 1: 2014- 2020 MFF	Col. 2: 2014- 2020 MFF excl. UK*	Col. 3: 2021- 2027 MFF	Col. 4: change (Col. 3/Col. 2), %		Col. 5: 2014- 2020 MFF	Col. 6: 2014- 2020 MFF excl. UK*	Col. 7: 2021- 2027 MFF	Col. 8: change (Col. 7/Col. 6), %			
	Current Prices					2018 prices**						
CAP	408	379	365	-4%		413	384	324	-15%			
ow: EAGF	313	289	286	-1%		316	292	254	-13%			
ow: EAFRD	96	91	79	-13%	Ι	97	91	70	-23%			
					T							
Cohesion	366	354	374	6%	Ι	369	358	332	-7%			
ow: ERDF	196	189	226	20%	T	198	190	201	5%			
ow: ESF+	95	91	101	11%		96	92	90	-3%			
ow: CF	75	75	47	-37%	T	75	75	41	-45%			

CAP: Common Agricultural Policy; EAGF: European Agricultural Guarantee Fund; EAFRD: European Agricultural Fund for Rural Development; ERDF: European Regional Development Fund; ESF+: European Social Fund +; CF: Cohesion Fund. For 2021-2027, ESF+ merges the former ESF, the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation programme and the Health programme. For consistency, we therefore merge these instruments for 2014-2020 as well.

* We compute these numbers by substracting the UK share of preallocations per programme (computed from <u>http://ec.europa.eu/budget/mff/preallocations/index_en.cfm</u>). For Health and ESI programmes, we approximate UK share with the UK share of Total Cohesion Policy.

** For col. 5 and 6, we convert each year's current prices into 2018 prices using the GDP deflator for EU excl. UK from DG ECFIN's Ameco database (May 2018). For col. 7, we deflate the annual current prices proposed values by the IMF inflation forecast (which is essentially 2%).

Through its analysis comparing the 2014-2020 CAP budget expressed in current euros (strictly taking into account the 2013 European Council decision) with a 2021-2027 budget translated into 2018 euros, the Bruegel Institute concludes a lower Commission proposal of -15% than what would have been necessary to keep the CAP budget at its previous level expressed in 2018 euros, thus to maintain this budget in value (real terms) 2018, lack decomposing for the 1st pillar by a lack of -13% and the second pillar by a lack of -23%.

This analysis leads to the calculation of what should have been the Commission's proposal to maintain the value of the previous CAP budget in real terms in 2018. Consequently, it is dispensing with the decision of the European Council of a non-indexed CAP inflation until the end of 2020 and returns to calculate the shortfall compared to a CAP budget which would be indexed to inflation not only during the entire period 2021-2027 but also from 2019 and 2020 at a rate of 2% per year, an increase of a factor of 1.0404 compared to a budget maintained in real terms only over the period 2021-2027.

IV - Comparison between the level of CAP aid (CAP budget) 2020, aid paid to the United Kingdom excluded, and Commission's proposal for 2021-2027: determination of the lack in relation to an objective of maintaining the CAP budget for the EU27 in real value 2020 (euros2020).

Considering that the decision taken in 2013 by the European Council will not be called into question for the period 2013-2020, the comparison of the levels of CAP budgets proposed by the Commission for the years 2021 to 2027 must then be made with the level of the last year of the current budget period: 2020. This year includes the consequences of all the decisions taken in 2013.

For the EU27, excluding CAP aid to the UK, the 2020 CAP budget is € 56.6 billion, with € 41.35 billion for the first pillar and € 15.3 billion for the second pillar.

Maintaining for EU27 farmers this 2020 level of CAP support for each of the years from 2021 to 2027 would entail increasing the 2020 amounts by 2% (inflation rate used by the Commission to determine the evolution of national contributions EU budget) per year, from one year to the next.

The table below shows (in bold) the amounts that are missing each year from the Commission's proposal, for each pillar, to make up the difference between the Commission's said proposal and a target to maintain the CAP budget in real terms at the level of the year 2020.

In total, the Commission's proposal is 12% lower than it would be to meet this target, due to a shortfall of -9.56% (27.37 billion euros over the period 2021-27) for the 1st pillar and a lack of -21% (\in 16.23 billion over the period) in the 2nd pillar.

in€bn	2020 UK excluded	2021	2022	2023	2024	2025	2026	2027 av	erage 21-27	Total
P1	41,35	40,3	40,527	40,791	40,931	41,072	41,214	41,357	40,88	286,192
P1 (/2020) in €bn		-1,88	-2,49	-3,09	-3,83	-4,58	-5,35	-6,14	-3,91	-27,37
P1 in % (/2020)		-4,66	-6,16	-7,58	-9,35	-11,16	-12,99	-14,85	-9,54	-9,56
P2 in €bn	15,3	-2,18	-2,23	-2,27	-2,32	-2,36	-2,41	-2,46	-2,32	-16,23
CAP Budget	56,6	52,536	52,782	53,066	53,227	53,389	53,552	53,712 🖡	53,18 🖡	372,264
CAP Budget in % (/2020)		-7,73	-8,94	-10,10	-11,54	-13,01	-14,50	-16,01	-11,71	-11,71
Farm Europe, May	2018									

These rates take into account the entire period. It should be borne in mind that due to the non-compensation of inflation in the Commission proposal, the situation is deteriorating from year to year, the difference reaching for the year 2027 a -14,85 % for the 1st pillar of the CAP.

The Commission's proposal would have a substantial impact on the evolution of farm incomes in the Member States because of this significant lack of funding as CAP aids represent on average 46% of agricultural incomes in the EU.

These revenues would be reduced by the mere fact of the proposed evolution of the agricultural budget (thus excluding the impact of the CAP reform that will be presented at the beginning of June ; the impact of the CAP reform that will be proposed is evaluated in addition, with a constant CAP budget, by the Commission services between - 8% and - 10% minimum income for European farmers) of:

Impact of the Commission's	Evolution of average	Impact on average
PAC budget proposal on the	incomes over the period	Impact on average agricultural income for the
evolution of average farm	2021-2027 (%)	year 2027 (%)
incomes	2021-2027 (70)	year 2027 (70)
Belgium	-5,45	-7,48
Bulgaria	-4,71	-6,46
CZ Republic	-13,27	-18,19
Danemark	-26,91	-36,89
Germany	-7,07	-9,69
Estonia	-5,83	-7,99
Irland	·	
	-7,44	-10,2
Greece	-5,21	-7,14
Spain	-3,10	-4,25
France	-6,32	-8,67
Croatia	-1,86	-2,55
Italy	-3,59	-4,93
Cyprus	-2,32	-3,06
Latvia	-5,33	-7,31
Lituania	-7,32	-10,03
Luxembourg	-10,29	-14,11
Hungary	-6,07	-8,33
Malta	-0,74	-1,02
Netherlands	-3,35	-4,59
Autria	-4,71	-6,46
Poland	-3,47	-4,76
Portugal	-4,96	-6,80
Roumania	-2,73	-3,74
Slovenia	-3,59	-4,93
Slovakia	-60,76	-83,30
Finland	-6,69	-9,18
Sweden	-10,91	-14,96
EU27	-8,31	-11,39

Farm Europe - May2018 - Assessment of the impact on the evolution of European farm incomes of the Commission's proposal for a CAP budget

Annex: European Commission tables - communication on the 2021-2027 budget

						(-	011 111111011 - 0	urrent prices,	
Commitment appropriations	2021	2022	2023	2024	2025	2026	2027	Total 2021-2027	
1. Single Market, Innovation and Digital	25.421	25.890	26.722	26.604	27.000	27.703	28.030	187.370	
2. Cohesion and Values	54.593	58.636	61.897	63.741	65.645	69.362	68.537	442.412	
Of which: Economic, social and territorial cohesion	48.388	49.890	51.505	53.168	54.880	56.647	58.521	373.000	
3. Natural Resources and Environment	53.403	53.667	53.974	54.165	54.363	54.570	54.778	378.920	
Of which: Market related expenditure and direct payments	40.300	40.527	40.791	40.931	41.072	41.214	41.357	286.195	
4. Migration and Border Management	3.264	4.567	4.873	5.233	5.421	5.678	5.866	34.902	
5. Security and Defence	3.347	3.495	3.514	3.695	4.040	4.386	5.039	27.515	
6. Neighbourhood and the World	15.669	16.054	16.563	17.219	18.047	19.096	20.355	123.002	
7. European Public Administration	11.024	11.385	11.819	12.235	12.532	12.949	13.343	85.287	
Of which: Administrative expenditure of the institutions	8.625	8.877	9.197	9.496	9.663	9.951	10.219	66.028	
TOTAL COMMITMENT APPROPRIATIONS	166.721	173.694	179.363	182.892	187.047	193.743	195.947	1.279.408	
as a percentage of GNI	1,12%	1,13%	1,13%	1,12%	1,11%	1,11%	1,09%	1,119	
TOTAL PAYMENT APPROPRIATIONS	159.359	163.969	177.350	180.897	184.515	188.205	191.969	1.246.263	
as a percentage of GNI	1.07%	1.07%	1,12%	1.10%	1.09%	1.08%	1.07%	1,08%	
Margin available	0.22%	0.22%	0,17%	0,19%	0.20%	0.21%	0.22%	0,21%	
Own Resources ceiling as a percentage of GNI*	1,29%	1,29%	1,29%	1,29%	1,29%	1,29%	1,29%	1,29%	
The percentages are without prejudice to the ceiling set out in the O	wn Resources De	cision in force							
OUTSIDE THE MFF CEILINGS									
Special Instruments:									
Emergency aid reserve	637	649	662	676	689	703	717	4.734	
European Globalisation Adjustment Fund (EGF)	212	216	221	225	230	234	239	1.578	
European Union Solidarity Fund (EUSF)	637	649	662	676	689	703	717	4.734	
Flexibility instrument	1.061	1.082	1.104	1.126	1.149	1.172	1.195	7.889	
European Investment Stabilisation Function*	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	
European Peace Facility	800	1.050	1.300	1.550	1.800	2.000	2.000	10.500	
TOTAL OUTSIDE THE MFF CEILINGS	3.347	3.648	3.950	4.253	4.557	4.812	4.868	29.434	
TOTAL MFF + OUTSIDE THE MFF CEILINGS	170.068	177.341	183.313	187.145	191.604	198.555	200.816	1.308.843	
as a percentage of GNI	1,14%	1.15%	1,16%	1,14%	1.13%	1.14%	1.11%	1,149	

MULTIANNUAL FINANCIAL FRAMEWORK (EU-27)

* For the European Investment Stabilisation Function an interest rate subsidy will be provided through external assigned revenues equivalent to a share of monetary income. Current prices are calculated by applying annually a fixed deflator of 2% to the amounts in 2018 prices.

MULTIANNUAL FINANCIAL FRAMEWORK (EU-27)

							(EUR million	- 2018 prices	
Commitment appropriations	2021	2022	2023	2024	2025	2026	2027	Total 2021-2027	
1. Single Market, Innovation and Digital	23.955	23.918	24.203	23.624	23.505	23.644	23.454	166.30	
2. Cohesion and Values	51.444	54.171	56.062	56.600	57.148	59.200	57.349	391.974	
Of which: Economic, social and territorial cohesion	45.597	46.091	46.650	47.212	47.776	48.348	48.968	330.642	
3. Natural Resources and Environment	50.323	49.580	48.886	48.097	47.326	46.575	45.836	336.623	
Of which: Market related expenditure and direct payments	37.976	37.441	36.946	36.346	35.756	35.176	34.606	254.24	
4. Migration and Border Management	3.076	4.219	4.414	4.647	4.719	4.846	4.908	30.82	
5. Security and Defence	3.154	3.229	3.183	3.281	3.517	3.743	4.216	24.323	
6. Neighbourhood and the World	14.765	14.831	15.002	15.290	15.711	16.298	17.032	108.92	
7. European Public Administration	10.388	10.518	10.705	10.864	10.910	11.052	11.165	75.60	
Of which: Administrative expenditure of the institutions	8.128	8.201	8.330	8.432	8.412	8.493	8.551	58.54	
TOTAL COMMITMENT APPROPRIATIONS	157.105	160.466	162.455	162.403	162.836	165.358	163.960	1.134.58	
as a percentage of GNI	1,12%	1,13%	1,13%	1,12%	1,11%	1,11%	1,09%	1,11	
TOTAL PAYMENT APPROPRIATIONS	150.168	151.482	160.631	160.631	160.631	160.631	160.631	1.104.805	
as a percentage of GNI	1.07%	1.07%	1,12%	1,10%	1.09%	1,08%	1.07%	1.08	
Margin available	0,22%	0,22%	0.17%	0,19%	0.20%	0.21%	0.22%	0,21	
Own Resources ceiling as a percentage of GNI*	1,29%	1,29%	1,29%	1,29%	1,29%	1,29%	1,29%	1,29	
*The percentages are without prejudice to the ceiling set out in the	e Own Resources	s Decision in force	2						
OUTSIDE THE MFF CEILINGS									
Special Instruments:									
Emergency aid reserve	600	600	600	600	600	600	600	4.200	
European Globalisation Adjustment Fund (EGF)	200	200	200	200	200	200	200	1.400	
European Union Solidarity Fund (EUSF)	600	600	600	600	600	600	600	4.200	
Flexibility instrument	1.000	1.000	1.000	1.000	1.000	1.000	1.000	7.00	
European Investment Stabilisation Function*	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	p.m.	
European Peace Facility	753	970	1.177	1.376	1.567	1.707	1.673	9.22	
TOTAL OUTSIDE THE MFF	3.153	3.370	3.577	3.776	3.967	4.107	4.073	26.02	
TOTAL MFF + OUTSIDE THE MFF	160.258	163.836	166.032	166.179	166.803	169.465	168.033	1.160.606	

as a percentage of GNI 1,14% 1,15% 1,14% 1,13% 1,14% 1,11% 1,14\% 1,14\% 1

3. Natural Resources and Environment	50,323	49,580	48,886	48,097	47,326	46,575	45,836	336,623
8. Agriculture and Maritime Policy	49,506	48,763	48,064	47,264	46,478	45,706	44,943	330,724
European Agricultural Guarantee Fund (EAGF)	37,976	37,441	36,946	36,346	35,756	35,176	34,606	254,247
European Agricultural Fund for Rural Development (EAFRD)	10,609	10,401	10,197	9,997	9,801	9,609	9,421	70,037
European Maritime and Fisheries Fund	779	779	779	779	779	779	775	5,448
Other	126	126	126	126	126	126	125	878
Decentralised agencies	16	16	16	16	16	17	17	113
Furonoan Commission								

European Commission