



## **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.

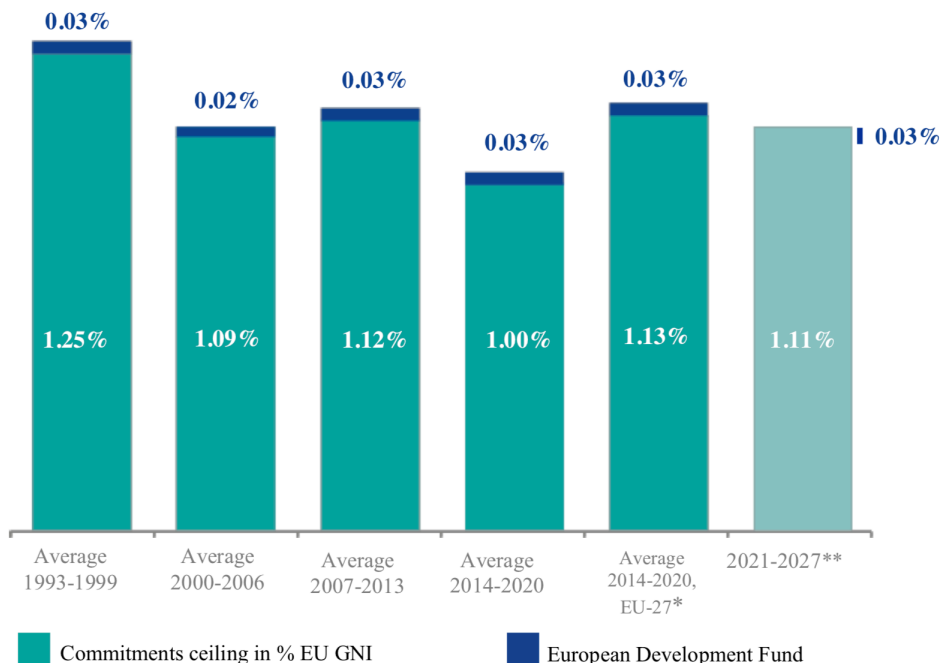
## I- Presentation by the Commission: A rising budget for the EU27, a CAP budget in reduction of "only" 5%

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)**

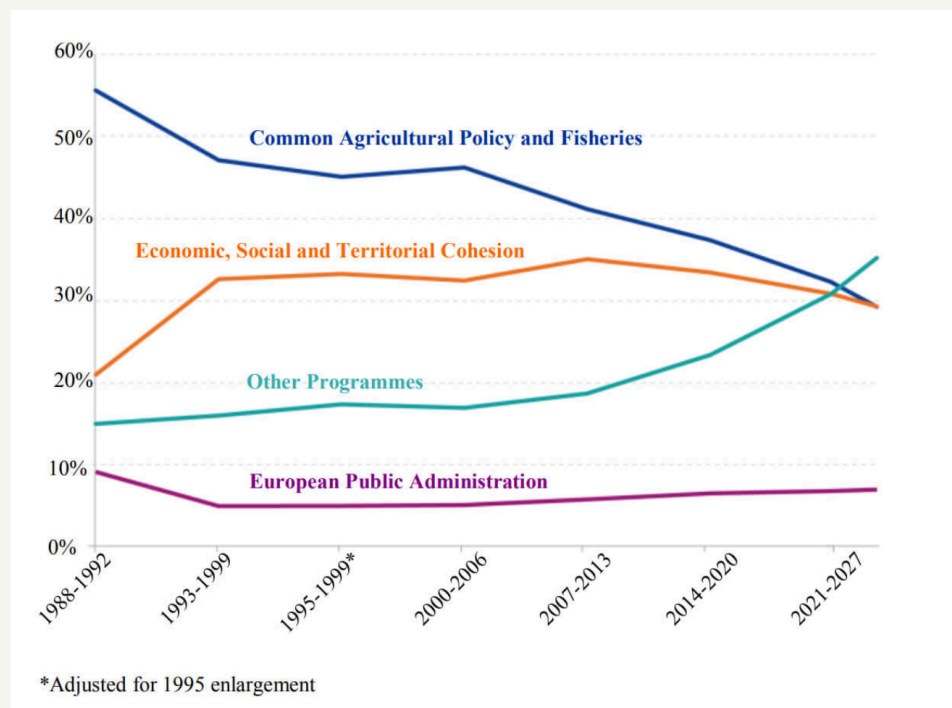


\*2014-2020 estimated commitments

(UK expenditure excluded) in % EU27 GNI

\*\* European Development Fund integrated ("budgetised")

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



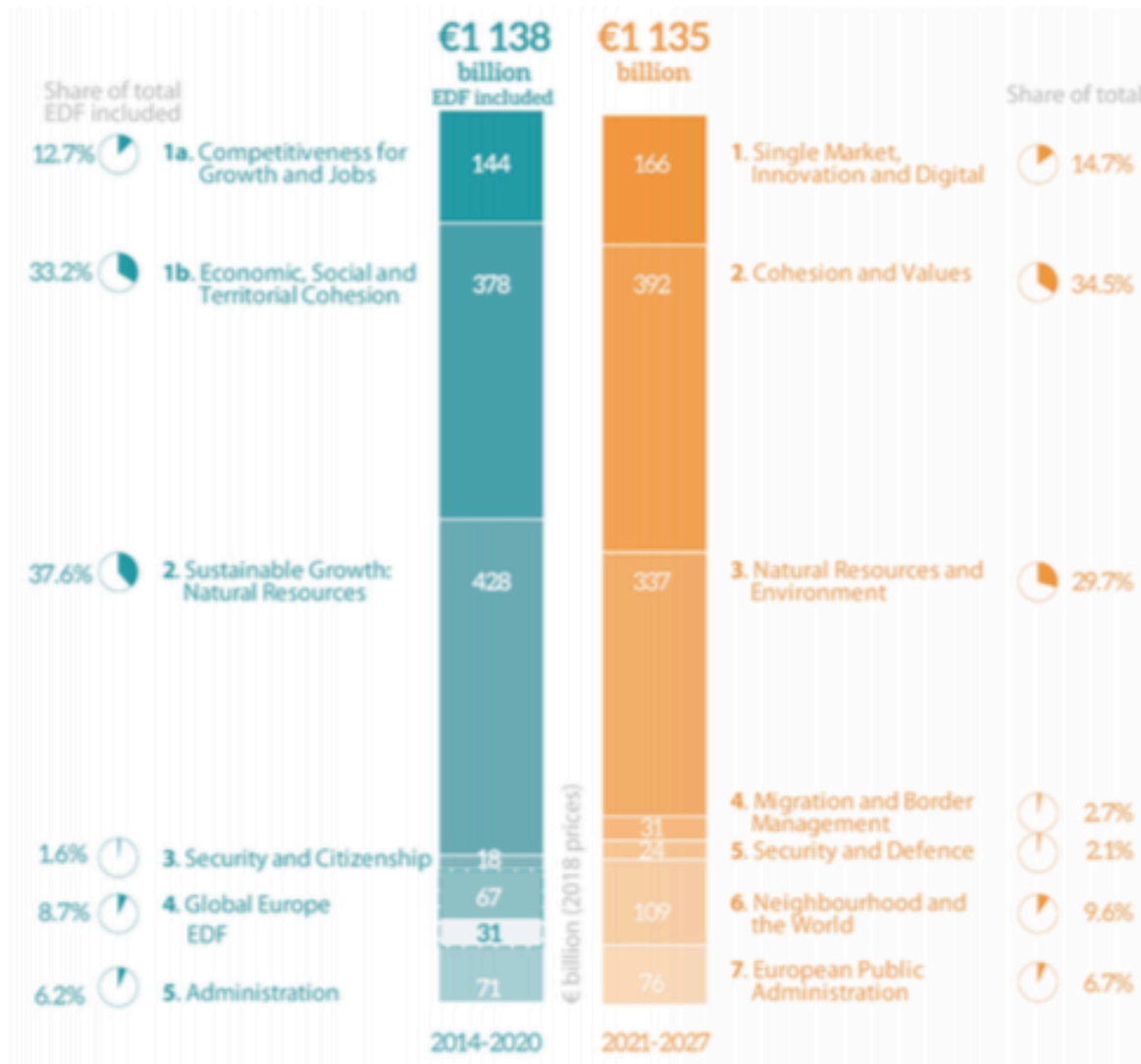
*Source: the chart on page 23 of the 2 May 2018 European Commission*

- 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 economic impact 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 € 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%		97	91	70	-23%
Cohesion	366	354	374	6%		369	358	332	-7%
ow: ERDF	196	189	226	20%		198	190	201	5%
ow: ESF+	95	91	101	11%		96	92	90	-3%
ow: CF	75	75	47	-37%		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 subtracting the UK share of preallocations per programme (computed from [http://ec.europa.eu/budget/mff/preallocations/index\\_en.cfm](http://ec.europa.eu/budget/mff/preallocations/index_en.cfm)). 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%).

Sources: European Commission, Bruegel

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% (€ 16.23 billion over the period) in the 2nd pillar.**

in €bn	2020 UK excluded	2021	2022	2023	2024	2025	2026	2027	average 21-27	Total
P1	41,35	40,3	40,527	40,791	40,931	41,072	41,214	41,357 <sup>✓</sup>	40,88 <sup>✓</sup>	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 <sup>✓</sup>	53,18 <sup>✓</sup>	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 PAC budget proposal on the evolution of average farm incomes	Evolution of average incomes over the period 2021-2027 (%)	Impact on average agricultural income for the year 2027 (%)
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
Ireland	-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



