



WHERE IS THE CAP GOING?

**Legislative proposals of the Commission
for the CAP, 2021-2027**



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This workbook, the third in the *Where is the CAP Going?* series, is the result of the commitment of a working group coordinated by Fabrizio De Filippis and Gianluca Lelli, with contributions from both inside and outside Coldiretti. This group was made up of Felice Adinolfi, Claudia Albani, Paolo Di Stefano, Riccardo Fargione, Angelo Frascarelli, Stefano Leporati, Paolo Magaraggia, and Matteo Sotgiu.



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INTRODUCTION

A Europe that is now searching for its identity, and that is increasingly called into question within its own Member States, should look to its agriculture as a resource for ideas and solutions, because agriculture is the only sector that has achieved true and effective integration in recent years. Indeed, any attempt to weaken it would mean undermining the very foundations of the European Union – and at a particularly critical time for its future.

This is why any analysis as to the future of the CAP, outlined by the legislative proposals of the European Commission, must start with the issue of resources. We must confidently assert that the possible cuts to the Common Agricultural Policy raised in the Community's executive document on the first multi-year budget are unsustainable in a sector that is key for meeting the new challenges the EU is grappling with, from climate change to immigration and security. Nor can we allow agriculture to pay the bill for Brexit. The possibility of reducing funding was also rightly rejected by the European Parliament, as well as by the EU's own citizens, 90% of whom support agricultural policy at Community level due to its decisive role for the environment, land and health, according to the results of the Public Consultation promoted by the European Commission itself.

The key concern is the negative impact these cuts have on the bottom lines of farms committed to guaranteeing better health, environmental and quality standards, precisely when there is a need for a CAP to fund European public goods produced by agriculture, relating to the land and the environment, while confidently recovering its age-old role of supporting income and agricultural employment. This is needed to safeguard a sector that is strategic to food security and sovereignty, and to promote the growth of the whole European economy through the production chain that feeds it.

Yet beyond strengthening the budget, it is also needed to guarantee a fairer distribution of resources, overcoming past imbalances. It is a goal to be attained with external and internal convergence to make direct payments consistent with parameters such as production costs, labour, and added value. The socioeconomic diversity of the various European agricultures must be better represented, without applying intolerable linear cuts. Only this way can the positive elements of a proposal containing mixed benefits be reinforced.

The objective of moving beyond greening – the application of which is extremely complicated for farmers, in addition to being uneconomical and inconsistent with the CAP's environmental objectives – is certainly a positive one. However, the new “eco-scheme” will have to be properly managed, while grasping the opportunity given to Member States to adopt environmental measures to the best possible extent, in order to make them flexibly consistent with local needs. To be effective, ecological schemes and agri-environment measures must be designed taking account of a given territory's real environment needs; they cannot be a way of redistributing aid, but must

be an added bonus.

The proposal to grant aid only to genuine farmers, giving Member States the ability to determine aid based on national criteria, is in line with our appeal.

While Italy has been seeing new generations engaged in a history-making return to the land, young people need more support. Rural development plans, working in synergy with the mandatory first pillar support, will have to continue the path of transition from one generation to the next by incentivising the introduction of young farmers, farm multifunctionality, and sectoral projects that guarantee the right compensation for enterprises.

In a situation marked by the effects of climate change, risk management and income stabilisation are strategic objectives, and are complementary to the direct payment system. They should be implemented through instruments that can take prompt action at the time when the event occurs. The possibility of using systems based on income and/or indexed yields is definitely a positive opportunity for simplification.

The new aspects of the Commission's proposal include introducing the so-called "new delivery model" – a national plan for the entire CAP managed in accordance with the rural development approach, giving major flexibility to the management of direct payments and to sectoral measures. In addition to the risk of a potential nationalisation of the CAP, a key priority must be to keep the new model from resulting in distorted allocations of aid and further red tape, which is already at intolerable levels for enterprises. These are some of the key elements of the Commission's proposal currently giving rise to a complex negotiation for Italy, which has to defend its national agriculture's leading record in Europe in terms of quality, food and environmental security, as well as added value. A few days after the publication of the legislative proposals for the CAP 2021-2027, Coldiretti has now provided the first description and analysis document focusing on the proposal's general aspects and their possible implications. It is a contribution to the discussion, but also a support upon which to base the debate with the institutions involved in the decision-making process at both the national and Community level.

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CHAPTER 1

The Multiannual Financial Framework (MFF), resources for the CAP, and Italian agriculture

1.1 The 2021-2027 MFF

The Multiannual Financial Framework (MFF) determines the maximum annual amounts (the “ceilings”) that the EU can establish in the various sectors (the “headings”) for a period of at least 5 years. The current MFF covers a seven-year period, from 2014 to 2020.

The political priorities and general direction of the negotiation among Member States are conducted at European Council level, i.e. among the Heads of State and Government, in order to reach a political agreement on the MFF and establish the maximum total expenditure for the EU, commitment appropriations, and the schedule of payment appropriations.

On 2 May 2018, the European Commission presented the package of proposals on the MFF for the period 2021–2027, which includes a Communication, a proposal for a regulation regarding the MFF’s structure, a proposal for a regulation regarding the implementation of the budget, a proposal for an inter-institutional agreement on the budgetary discipline, a proposal on the own-resources system, and a Commission staff working document on the spending review.

The next multiannual budget will begin 1 January 2021 and will end on 31 December 2027; it will be the first one for a 27 Member-State European Union after Brexit.

The work on the proposals submitted by the Commission will commence on 28 June 2018, with an initial dialogue among the Heads of State and Government on the Commission’s proposals. Subsequently, the meetings of the European Council of 18 October and 13 December 2018 will be essential in this process for understanding the actual probability – which currently seems low – of reaching a provisional political agreement on the general elements of the proposal on the MFF (pre-Brexit) for 22 March 2019, in order then to reach the final agreement before the elections to the European Parliament during the summit in Sibiu (Romania) on 9 May 2019 (the first after the United Kingdom’s exit).

1.2 The proposal on the EU general budget (COM (2018) 321)

The Commission is considering a budget allocation of EUR 1,135 billion (constant 2018 prices) for the period 2021-2027, amounting to 1.11% of the gross national income (GNI) of the EU-27 (it is currently 1%). This level of commitments corresponds to EUR 1,105 billion (or 1.08% of the GNI) in terms of actual payments (expressed here, too, in constant 2018 prices).

In terms of commitments, in current prices (the Commission considers a fixed deflator of 2% per annum with respect to the amounts expressed in 2018 prices), the proposed amount is

EUR 1,279 billion. In terms of payment appropriations, the proposed amount for the EU general budget is EUR 1,246 billion (again in current prices).

Overall, given that the current financial allocation for commitment appropriations is EUR 1,087 billion for the entire 7-year period (2014-2020) in current prices, the new proposal calls for an increase in the EU general budget amounting to approximately EUR 192 billion (+17.7%).

If the comparison were made on the current financial allocation without the United Kingdom, the new proposal would entail an increase in the EU general budget of over 20%.

The structure of the new MFF consists of seven headings reported in Table 1.1 (in current prices) and in Table 1.2 (constant 2018 prices).

Table 1.1: Appropriations for headings (EUR million, current prices)

Commitment appropriations	EU 27 2021-2027
1. Single market, innovation and digital	187,370
2. Cohesion and values	442,412
3. Natural resources and the environment	378,920
3.1 Agricultural and maritime policy	372,264
<i>of which: Expenses connected to markets and direct payments (EAGF)</i>	286,195
<i>of which:- Rural development (EAFRD)</i>	78,811
4. Migration and border management	34,902
5. Security and defence	27,515
6. Neighbourhood and the world	123,002
7. European public administration	85,287
TOTAL COMMITMENT APPROPRIATIONS	1.279.408

Source: European Commission

Table 1.2: Appropriations for headings (EUR million, constant 2018 prices)

Commitment appropriations (constant 2018 prices, EUR million)	EU 27 2021-2027
1. Single market, innovation and the digital agenda	166,303
2. Cohesion and values	391,974
3. Natural resources and the environment	336,623
3.1 Agricultural and maritime policy	330,724
<i>consisting of: - Expenses connected to markets and direct payments (EAGF)</i>	254,247
<i>- Rural development (EAFRD)</i>	70,037
4. Migration and border management	30,829
5. Security and defence	24,323
6. Neighbourhood and the rest of the world	108,929
7. European public administration	75,602
TOTAL COMMITMENT APPROPRIATIONS	1,134,583

Source: European Commission

1.2.1 Financing and own resources

The Commission has presented a new proposal to reform the system of the 'EU's own resources, which is to increase the ceiling for the financial coverage relating to the payments and commitments, to 1.29% and 1.35% of the GNI respectively.

The sources of the revenue side of the EU budget – which have remained unchanged in recent decades – are as follows:

- customs duties;
- contributions by Member States based on the Value Added Tax (VAT);
- contributions based on Gross National Income (GNI).

Due to the gradual decline in customs duties, GNI contributions have become the main source of funding for the EU budget (approximately 80%, along with VAT contributions).

The Commission proposes introducing a “basket” of three new own resources, broken down as follows:

1. 20 % of revenues from the Emissions Trading System;
2. a 3% call rate applied to the new Common Consolidated Corporate Tax Base (to be phased in once the necessary legislation is adopted);
3. national contribution calculated on the amount of non-recycled plastic packaging waste of each Member State (EUR 0.80 per kilogram).

Based on the Commission's proposals, it is estimated that the share of new own resources would amount to a yearly average of EUR 22 billion in the period 2021-2027, i.e. approximately 12% of the revenue side of the EU budget.

In parallel, the Commission proposes making savings in some of the main spending areas and to reform the budget to make it more harmonised and get the most out of every euro.

1.2.2 Emergency Aid Reserve

The Emergency Aid Reserve can be used to respond quickly to specific emergencies within the EU or in third countries following events that could not be foreseen when the budget was created, such as natural events or manmade catastrophes, humanitarian crises, threats to public health, veterinary threats, and plant protection threats on a large scale, as well as situations of particular pressure due to the flows of migrants to the European Union's external borders.

The Reserve's annual amount is set at EUR 600 million (2018 prices) and may be used up to year n+1 in accordance with the Financial Regulation. The Reserve is entered in the EU general budget as a provision. The part of the annual amount derived from the previous year must be drawn first. The part of the annual amount for year n that is not used in year n+1 shall expire. By no later than 1 October each year, at least one quarter of the annual amount for year n remains available to cover the needs that arise until the end of that year. No more than one half of the amount available until 30 September each year may be mobilised for internal or external operations respectively. As of 1 October, the remaining part of the available amount may be mobilised for internal or external operations to cover the needs that arise until the end of that year.

It is to be borne in mind that the Emergency Aid Reserve will address extraordinary situations that cannot be tackled within specific programmes. For instance, the Reserve is not aimed at addressing the consequences of market related crises affecting agricultural production or distribution.

1.2.3 EU Solidarity Fund

The other special instrument associated with crisis response is the EU Solidarity Fund. It is also limited to an annual maximum amount of EUR 600 million, but it is very different in nature to the Reserve. The support from the Solidarity Fund is provided to a Member State as an expression of EU solidarity in its efforts to deal with the effects of a major natural disaster. The EU Solidarity Fund provides a financial contribution to help cover the costs of emergency and recovery operations borne by the public budgets of eligible States. It provides reimbursements to give budgetary support to restore essential infrastructure, assist the population by providing temporary accommodation and funding rescue services, secure preventive infrastructure and measures of protection of cultural heritage, as well as help clean up disaster-stricken areas, including natural zones. Due to the nature of the interventions, the Fund's delivery mechanism is simple and results-driven. The flexibility to carry over unspent amounts from the preceding year will be preserved, while allowing for higher advance payment amounts.

1.2.4 Mid-term review of the MFF

By no later than 1 January 2024, the Commission shall present a review of the MFF's operation. Where appropriate, this review shall be accompanied by pertinent proposals. By no later than 1 July 2025, the Commission shall submit a proposal for a new Multiannual Financial Framework.

1.3 CAP spending proposal

The Commission's proposal foresees an increase in the EU's general spending, prevalently through additional resources, but also by way of reassignments (around 80% and 20% respectively), with the aim of financing new and urgent priorities.

The immediate consequence of Brexit is built into this proposal, estimating that the United Kingdom's exit will leave an annual deficit of EUR 12 billion in the EU's budget after 2020. At the same time, the Commission's proposal considers the impact of Brexit through a combination of reductions/reassignments and increased spending (each at a proportion of around 50%).

With regard to the CAP, the Commission's proposal for the 2021-2027 MFF (COM (2018) 321) of 2 May 2018 foresees the following allocations in current prices (Table 1.3):

- EUR 286.2 billion assigned to the European Agricultural Guarantee Fund (EAGF) – Pillar I.
- EUR 78.8 billion for the European Agricultural Fund for Rural Development (EAFRD) – Pillar II.

Table 1.3: Proposal of annual expense allocations for Pillar I and Pillar II of the CAP, MFF 2021-2027 (EUR million, 2018 current prices)

	2021	2022	2023	2024	2025	2026	2027	Total
<i>Pillar I</i>	40,300	40,527	40,791	40,931	41,072	41,214	41,357	286,195
<i>Pillar II</i>	11,259	11,259	11,259	11,259	11,259	11,259	11,259	78,811
Total CAP	51,559	51,786	52,050	52,190	52,331	52,473	52,616	365,006

Source: processing of European Commission data

These agricultural funds are supplemented by an additional EUR 5 billion in funding from Horizon Europe, with an allocation of EUR 10 billion proposed to support research and innovation in food, agriculture, rural development and the bioeconomy.

Unlike what took place in 2011 during the proposal for the current MFF, when presenting the 2021-2027 MFF, the Commission provided no comparative details on the ceilings for the preceding period. There are objective reasons which make the comparison complicated. First of all, the upcoming MFF addresses 27 Member States without the United Kingdom, and therefore cannot be compared directly with the current MFF. Moreover, the Commission proposed a different and more simplified structure that makes direct comparison difficult, also in consideration of the need to take account of inflation and of the modulation of the funds between pillars, initiated by some Member States during the current programming period.

Commissioner Hogan declared that the average reduction of the CAP will be 4% in nominal terms, with a significantly larger cut in the allocation for rural development. In order to quantify the variation in the financial resources for the CAP for the first two programming periods, The Commission starts with the consideration that the next MFF will be distributed among 27 Member States, and then makes the comparison between the proposed CAP expenditure for the new EU-27 programming (2021-2027 MFF) and the CAP expenditure for the current period, net of the amounts attributable to the United Kingdom (MFF 2014-2020), EU-27(-UK). This calculation is illustrated in Table 1.4.

Table 1.4: Comparison of CAP financial resources between the two periods and without UK (EUR billion in current prices)

	1	2	3	4	5
Commitment appropriations	Current MFF (2014-2020) EU-28	Current MFF (2014-2021) EU-27(-UK)	Proposed MFF (2021-2017)	1-3 Current MFF-Proposed MFF	2-3 Current MFF without UK, EU-27 Proposed MFF, EU-27
Total CAP expenditure consisting of:	408	380	365	- 43 (-10.5%)	- 15 (-4%)
Pillar I (EAGF)	308	289	286	- 22 (-7.1%)	- 3 (-1%)
Rural development (EAFRD)	99	94	79	- 20 (-20%)	- 15 (-16%)

Source: processing of European Commission data

In current prices, by comparing the Commission's proposal with the budget allocation foreseen for the current programming period and excluding the United Kingdom's share, we obtain the 4% reduction mentioned by Hogan (EUR 15 billion in current prices), with a relatively low impact on the EAGF (1%, equal to around EUR 3 billion), and a far greater one on rural development, with a EAFRD reduction of approximately EUR 15 billion, i.e. 16%.

In constant 2018 prices (taking account of inflation), the reduction of budget resources for the CAP is clearly more significant, reaching a total of 15.6%, the result of a -13% for Pillar I and as much as -23% for Pillar II (Table 1.5).

Table 1.5: Comparison of CAP financial resources between the two periods and without UK (EUR billion in constant 2018 prices)

	1	2	3	4	5
Commitment appropriations	Current MFF (2014-2020) EU-28	Current MFF (2014-2021) EU-27(-UK)	Proposed MFF (2021-2017)	1-3 Current MFF- Proposed MFF	2-3 Current MFF, Proposed without UK
Total CAP expenditure consisting of:	413	384	324	- 89 (-21.5%)	- 60 (-15.6%)
Pillar I (EAGF)	316	292	254	- 62 (-19.6%)	- 38 (-13,0%)
Rural development (EAFRD)	97	91	70	- 27 (-27.0%)	- 21 (-23.0%)

Source: processing of European Commission data

Therefore, in brief, the comparison shows an insignificant Pillar I reduction in current prices (-1%) and a more marked one in real terms (-13%), whereas for Pillar II, the reduction is far more substantial: 16% in current prices and 23% in real terms.

Overall, the percentage impact of the CAP allocation on the total EU budget continues its trend of gradual decline, falling from 37.5% in the current programming (2014-2020), EU-28, to 28.5% of the allocation foreseen in the new programming (2021-2027), EU-27.

1.4 Direct payments: resources, the new “external convergence” and the effects on Italy

On 1 June 2018, the European Commission published the proposals for regulations of the new CAP with the annexes relating to the financial distribution of national allocations. With regard to Italy, the yearly distribution is illustrated in Table 1.6.

Table 1.6: National ceiling, direct payments (EUR million, current prices)

Calendar year	2021	2022	2023	2024	2025	2026	2027	Total 2021-2027
Italy	3,560.2	3,560.2	3,560.2	3,560.2	3,560.2	3,560.2	3,560.2	24,921

Source: extract from annex IV to the European Commission’s proposal

1.4.1 Reduction in current prices –Comparison system used by the Commission

When calculating the difference between the allocation of direct payments between the two programming periods, in order to determine the allocation for the current period, the Commission uses last year’s ceiling (for 2020) multiplied by 7 years.

For 2020, the foreseen ceiling (as per Annex III to delegated regulation 162/2018) is EUR 3,704.3 million. Therefore, based on the calculation system used by the Commission, the direct payments ceiling for Italy for the period 2014-2020 is EUR 25,930 million (3,704 x 7).

The reduction of the total allocation of direct payments between the two periods (25,930 – 24,921) is EUR 1,009 million, making a -3.9% decline in current prices (figure announced by Hogan for Italy).

1.4.2 Reduction in current prices – Comparison system between total allocations

In the system used by the Commission, for the purposes of calculating the total allocation for the 2014-2020 period, the annual ceiling for 2020 (for all 7 years) is used. Considering that the commitments diminish in the 2014-2020 programming period, the assignment calculated for 2014-2020 with (2020 x 7) provides a smaller basis for the comparison with the assignment of the 2021-2027 MFF. Therefore, in this case, the amount of the resulting reduction is lower.

Confirming this, for the purposes of calculating the difference relating to the general MFF proposal, the Commission makes the comparison between the periods using the actual allocations of the corresponding heading items.

Therefore, using the actual amount of the total allocation for the period 2014-2020 (Annex III, deleg. reg. 162/2018), amounting to EUR 26,700 million, the reduction between the two periods in current prices (26,700 – 24,921) is EUR 1,779 million, i.e. 6.7%.

1.4.3 Reduction in constant prices

Continuing on from the considerations made at the start of this chapter, when presenting its proposal for the MFF 2021-2027, the Commission provided no comparative details on the ceilings of the preceding period (2014-2021 MFF) in values in constant prices. The latest officially published details on these figures refer to 2011, i.e. for the previous reform.

Therefore, to make the comparison with the current period, the calculation systems referring to 2011 constant prices, or that take 2020x7 as their base of reference, are both inaccurate.

As such, to make the comparison in constant prices, it is considered more correct to use the reduction in current prices and to add the deflation rate.

Therefore, to calculate the figure in constant prices, it is necessary to apply the deflation rate on the individual ceilings for the period from 2021 to 2027.

The Commission considers a 2% annual rate (which is quite high today – in any case, the future rate cannot be foreseen).

This percentage reduction for deflation is confirmed by the Commission in its 1 June press release: *“It is easy to switch from constant to current prices and vice versa because the Commission uses – and has always used – as a proxy for future inflation rates, a fixed annual inflation rate of 2% when making its calculations. As a result, a reduction of around 5% for the CAP budget in current prices is proposed; this is equivalent to a reduction of around 12% in constant 2018 prices without inflation”*.

However, if reference is made to the entire 2021-2027 period, the total deflation rate amounts to around 12%.

Therefore, based on the official figures published by the Commission, considering an overall rate for deflation of 12%, the total reduction in real terms (i.e. in constant prices) is as follows:

- comparison used by the Commission (2021-2027 compared to 2020x7): -15.9%;
- comparison between the actual allocations of the two periods (2021-2027 compared to 2014-2020): -18.7%.

To conclude, as far as Pillar I is concerned, the total reduction of direct payments in real terms for Italy is significant and is at levels comparable to the reduction in the CAP expenditure that Italy had in the previous 2014-2020 reform. However, unlike the previous reform's reduction, which significantly impacted the volume of direct payments above all due to the external convergence mechanism, this time the reduction component is less marked and distributed evenly among all Member States.

In any event, despite the European Commission's strong ambition to adopt the new proposal on the next MFF within a short timeframe (by next spring), this accelerated adoption process will not be without obstacles. In fact, several Member States have reacted negatively to the Commission's proposal on the new MFF. The European Parliament itself, at its latest plenary session of 30 May, adopted a resolution in reaction to the proposals on the new MFF, as well as the non-legislative resolution on the future of the CAP (based on the draft report presented by MP Herbert Dorfmann), where it asked for the budget allocation for the CAP to be maintained at least at the current level.

1.4.4 External convergence and the effects on Italy

The Commission's proposal on the new 2021-2027 MFF with regard to the distribution of direct payments among Member States provides that their average national value should continue to converge towards the average EU value. The mechanism, however, is devised quite differently from the previous programming period, with effects that are less significant in terms of redistribution among Member States, and also less disadvantageous for Italy.

The Commission specified in its proposals that *the direct levels of payment per hectare will continue to converge among the Member States (external convergence). For all the Member States with direct payments under 90% of the EU-27 average, the gap between their current level and 90% of the EU's average direct payments will be reduced by 50%.*

All Member States will contribute towards this convergence, as it will be financed by a linear reduction of direct payments in the whole of the EU. In fact, before applying the new convergence mechanism, the Commission determines the new EU average value of direct payments by applying a linear reduction of 3.9% to current ceilings. This reduction of the EU average starting value also has the effect of reducing the gap with the current value of the Member States' payments that are under the EU average. Consequently, this lowers the total amount needed to compensate for these countries to bridge, by 50%, the gap between their current average level and the 90% of the new EU average. As a result, unlike what took place with the external convergence in the current MFF, the final reduction borne by countries whose payments per hectare are greater than 90% of the EU average is highly attenuated.

Therefore, the values of the ceilings for the new period are determined based on a 3.9% cut of the 2020 ceilings. This cut therefore establishes, in addition to the new EU average, the national starting ceilings of all Member States in 2021 (the year of the start of the new MFF); downstream of this cut, the convergence process begins from 2022. As mentioned above, compared with the current programming, the approach to the EU's average unit value is calculated differently. In fact, once the 3.9% reduction has been made, Member States whose direct payments are under 90% of the EU average will continue the process started during the period 2014-2020, to the point of reducing by 50% the gap between the current average value of their direct payments and 90% of the EU average over a six-year period.

The substantial difference from the convergence mechanism present in the current programming

period is that after 2020, all Member States will contribute to its funding, since the resources used to increase the lower payments originate from the initial linear cut of 3.9%. This means that, in addition to the Member States that are above the EU average, some Member States below the EU average will also see a reduction in their level of payments, since the increase due to the convergence does not offset the 3.9% linear reduction common to all countries. More specifically, the estimated results of the applied convergence may be summarised as follows:

- only for five Member States, the national allocation of direct payments increases from the current one, for a total of EUR 0.380 billion;
- all of the other Member States' national allocation will decrease from the current one, for a total of EUR -8.624 billion (EUR 1.011 billion for Italy¹);
- the net reduction of EU-27 direct payments, following the initial 3.9% cut and the subsequent distribution for the convergence, is EUR -8.244 billion, allocated for other headings;
- the total cumulative amount of the resources necessary to reduce the gap among Member States is EUR 2.4 billion (which corresponds to the figure provided by the Commission). In relative terms, this amount represents only 22.5% of the resources generated by the initial 3.9% cut.

With this new mechanism, the Member States with an initial value of direct payments exceeding 90% of the EU average lose the initial 3.9% cut, keeping their ceiling unaltered for the entire 2021-2027 period. This is made clear by examining the table of the ceilings for direct payments annexed to the proposal for a regulation: Member States like France, Germany, and Italy maintain – for the entire seven-year period – their initial level for 2020, albeit cut by 3.9%, while the variation is recorded only for the Member States that recover.

In current prices, the Member States that will increase their resources in comparison to the starting position are Estonia, Latvia, Lithuania, Portugal, and Romania. The first three recover more than 4% of the resources, despite the initial 3.9% cut, while Portugal and Romania recover just 0.4%. These percentages increase when considering the variations in comparison with the total 2014-2020 amount (Table 1.7). On the other hand, the Member States which, with convergence, recover only part of the initial 3.9% cut without exceeding the 2020 allocation are Slovakia, Bulgaria, Poland, Finland, Croatia, Spain, and Sweden. The variations increase substantially with respect to the total ceiling for the entire 2014-2020 period.

In other words, the effects of the convergence are attenuated by the fact that it is, de facto, financed not by reducing only the payments of the Member States above the EU average as in the past, but by the initial linear cut that concerns all Member States, including those with payments below the EU average, which then recover this cut, in whole or in part, thanks to the mechanism of approaching the average.

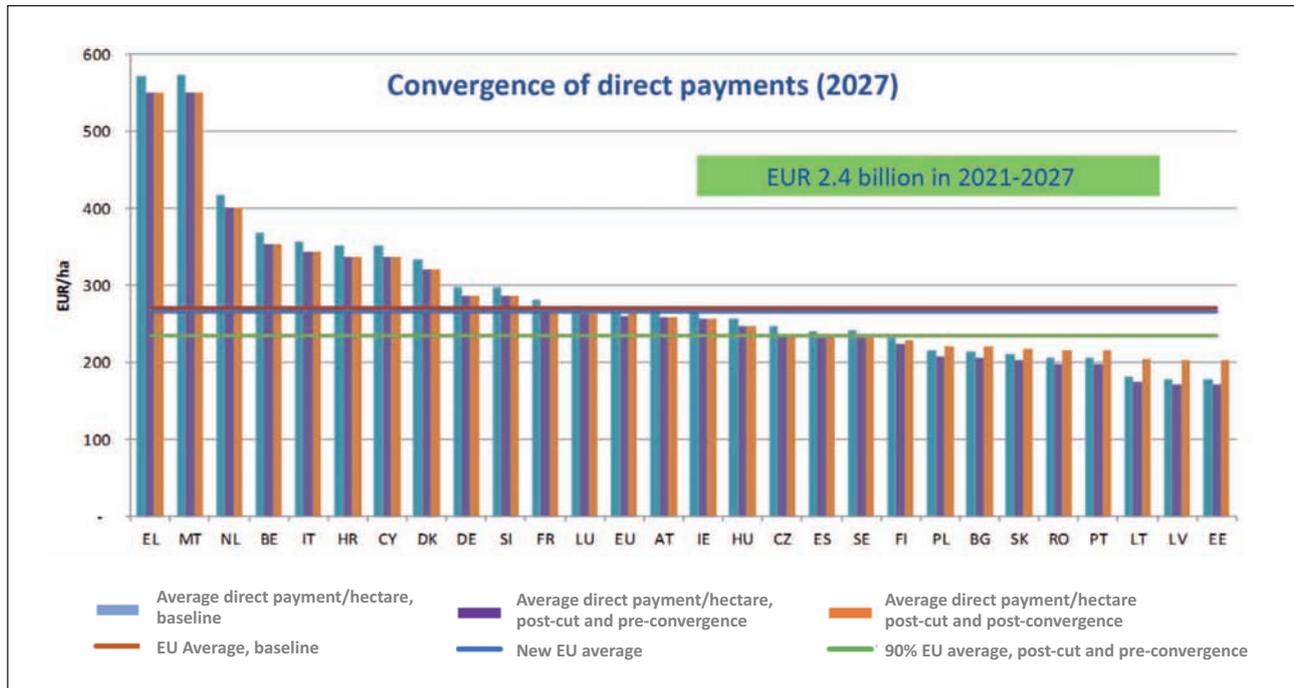
¹ Note that Italy's contribution to the convergence mechanism used in the current MFF was far greater: EUR 1.96 billion, amounting to approximately 1/3 of total resources redistributed among Member States.

Table 1.7: Variation of the resources per individual Member State (EUR million in current prices)

	Total 2014-2020	Total 2020x7	Total 2021-2027	% var. over 2014-2020	% var. over 2020x7
Belgium	3,695.9	3,536.9	3,399	-8.0%	-3.9%
Bulgaria	5,117.4	5,592.3	5,553	8.5%	-0.7%
Czech Republic	6,113.9	6,109.7	5,872	-4.0%	-3.9%
Denmark	6,348.0	6,162.7	5,923	-6.7%	-3.9%
Germany	35,763.0	35,128.8	33,762	-5.6%	-3.9%
Estonia	938.7	1,185.6	1,243	32.5%	4.9%
Ireland	8,491.9	8,477.5	8,148	-4.0%	-3.9%
Greece	15,432.2	14,829.6	14,256	-7.6%	-3.9%
Spain	34,719.9	34,679.9	33,481	-3.6%	-3.5%
France	52,804.1	52,060.4	50,035	-5.2%	-3.9%
Croatia	1,185.8	2,563.4	2,489	109.9%	-2.9%
Italy	26,983.3	25,930.6	24,921	-7.6%	-3.9%
Cyprus	351.5	340.5	327	-6.9%	-3.9%
Latvia	1,560.5	2,119.3	2,219	42.2%	4.7%
Lithuania	3,108.1	3,619.2	3,771	21.3%	4.2%
Luxembourg	235.3	234.0	225	-4.4%	-3.9%
Hungary	8,890.4	8,884.1	8,538	-4.0%	-3.9%
Malta	35.5	32.8	31.6	-11.0%	-3.9%
Netherlands	5,376.8	5,126.6	4,927	-8.4%	-3.9%
Austria	4,845.5	4,842.2	4,654	-4.0%	-3.9%
Poland	21,025.4	21,430.6	21,239	1.0%	-0.9%
Portugal	4,082.9	4,196.7	4,214	3.2%	0.4%
Romania	11,750.4	13,322.4	13,372	13.8%	0.4%
Slovenia	958.7	939.9	903	-5.8%	-3.9%
Slovakia	2,686.9	2,760.7	2,753	2.5%	-0.3%
Finland	3,662.9	3,672.4	3,567	-2.6%	-2.9%
Sweden	4,879.8	4,898.4	4,712	-3.4%	-3.8%
UE27	271,045	272,677	264,535	-2.4%	-3.0%

Source: processing of European Commission data

Figure 1.1: Variation in unit amounts and pre- and post-convergence comparison



Source: European Commission

Looking at Italy, the total loss (effects of the MFF reduction and adjustment for convergence) therefore relates to the reduction of resources for the entire programming, i.e. 3.9%. However, it bears pointing out that the 3.9% cut is calculated in current prices and applies to the amount of resources available for 2020 multiplied by 7 years. For Italy, it is a disadvantageous approach, since the 2020 ceiling is the dropping point in the distribution of resources in the current programming, and therefore the lowest ceiling. In fact, considering the entire amount of resources of the current 2014-2020 programming period (amounting to approximately EUR 27 billion), the cut percentage rises to 7.6% (in current prices)².

In the final analysis, even though we are dealing with a further reduction of resources, the application of this mechanism penalises Italy to a significantly lesser degree than the external convergence in the 2014-2020 MFF. Indeed, this convergence caused a loss of around 6% (6.5% for a total of EUR 1,950 million over the seven-year period) of the direct payments ceiling, leading to a far greater loss of resources for Italy (-18.6%) than the figure at EU level (-12.45%).

Therefore, also in the upcoming programming for the distribution of resources, no mechanisms are foreseen that take account of aspects such as labour and/or added value of the sector. This is very disadvantageous for Italy with its highly labour-intensive and high-added-value agriculture which, given these characteristics, should receive stronger support, given the role it can play for all of society in terms of healthy, quality food, employment, and maintaining the vitality of rural areas.

² It is worth specifying that the resources for the direct payments might undergo a further 3% reduction. In fact, the Member States may decide to allocate these resources to sectoral aid (under the “other sectors” item) as set out under the CAP strategic plan (see Chapter 5).

1.5 Expenditure for markets (CMO sectoral interventions)

The allocation in current prices amounts to EUR 2,545.5 million, which involves a 2.5% reduction from the financial allocation available for the period 2014-2020. Specifically, this reduction relates to the market measures for the sectors of olive oil and table olives, wine and hops (which have undergone a relative 3.9% reduction). The support currently envisaged for the fruit and vegetables sector remains stable, while support available for the beekeeping sector is on the rise.

Meanwhile, the financial allocation in constant prices is EUR 2,262.1 million.

In the future, Member States will have the ability to reserve up to 3% of the allocation of direct payments to support sectors other than those that already benefit from sectoral programmes (fruit and vegetables, wine, and olive oil). The Commission's proposals include stimulating the actions implemented by producer organisations to bolster competitiveness, sustainability, and risk/crisis management.

1.6 Pillar II: resources for rural development in Italy

The regulation proposals published on 1 June by the European Commission establishes a total allocation for Italy of EUR 8,892 million in current prices to support the initiatives set out in the area of rural development. The yearly distribution of this support is illustrated in Table 1.8.

As for rural development, considering that the deflation rate is different and variable from that of Pillar I, the exercise for highlighting the variations from the programming of the previous period shall be limited to the calculation of the reduction at current prices.

Therefore, considering that for the period 2014-2020, the total allocation for rural development is EUR 10,444.38 million (MFF Annex III delegated reg. 162/2018), the envisaged reduction of the allocation for rural development at current prices (10,444.38 – 8,892.18) is EUR 1,552.20 million, i.e. -14.9%.

Table 1.8: Annual distribution of support for rural development for the period 2021-2027 (EUR million, current prices).

Year	2021	2022	2023	2024	2025	2026	2027	Total 2021-2027
Italy	1,270	1,270	1,270	1,270	1,270	1,270	1,270	8,892
Total EU-27	11,230	11,230	11,230	11,230	11,230	11,230	11,230	78,613

Source: Annex IX of the Commission's proposal for a regulation

On the other hand, comparing the resources set out for the period 2021-2027 with the 2020x7 resources, the percentage reduction is greater, at -15.3%.

The proposals for regulations published on 1 June by the European Commission establish a total allocation for Italy of EUR 7,902 million in constant prices to support the interventions set out in the area of rural development.

The annual distribution of this support is illustrated in Table 1.9.

WHERE IS THE CAP GOING?

Legislative proposals of the Commission for the CAP, 2021-2027



Table 1.9: Annual distribution of support for rural development for the period 2021-2027 (EUR million, constant prices)

Year	2021	2022	2023	2024	2025	2026	2027	Total 2021-2027
<i>Italy</i>	1,197	1,173	1,150	1,128	1,105	1,084	1,062	7,902
<i>Total EU-27</i>	10,582	10,375	10,171	9,972	9,776	9,585	9,397	69,861

Source: Annex IXa of the Commission's proposal for a regulation

1.7. Total resources available to Italy

On the whole, the resources available to Italy with the CAP in the period 2021-2027 amount to EUR 36,359 million in current prices, and EUR 32,311 million in constant prices (Table 1.10). It should be pointed out that these are only Community resources, net of the co-financing of Rural Development.

Table 1.10: Allocations of direct payments, market measures, and rural development (EUR million)

	Direct payments	Market measures	Rural development	Total
Current prices	24,921.3	2,545.5	8,892.2	36,359.0
Constant prices	22,146.8	2,262.1	7,902.2	32,311.0

Source: processing of European Commission data

CHAPTER 2

Legislative proposals: a point-by point summary

The legislative framework for the CAP for the period 2021-2027 is based on three regulations:

- Regulation of the Strategic Plan on the CAP;
- Regulation amending the common market organisation in agricultural products;
- Horizontal regulation on the CAP.

The proposals put forward by the Commission are based on nine specific objectives that reflect the economic, social, and environmental importance of the CAP:

1. to support viable farm income and resilience across the EU territory to enhance food security;
2. to enhance market orientation and increase competitiveness, including with a greater focus on research, technology and digitalisation;
3. to improve farmers' position in the value chain;
4. to contribute to climate change mitigation and adaptation, as well as sustainable energy;
5. to foster sustainable development and efficient management of natural resources, such as water, soil and air;
6. to contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes;
7. to attract young farmers and facilitate business development in rural areas;
8. to promote employment, growth, social inclusion and local development in rural areas, including the bio-economy and sustainable forestry;
9. to improve the response of EU agriculture to societal demands on food and health, including safe, nutritious and sustainable food, as well as animal welfare.

Nevertheless, promoting knowledge, innovation, and digitalisation in the farm sector and rural areas is a cross-cutting objective.

2.1 The Strategic Plans for the CAP

To achieve these objectives, the Member States must develop measures that are suitable for their own agricultural and rural circumstances, organised in *Single Strategic Plans* for the CAP, which will have to be approved by the European Commission. If some elements of the Strategic Plan are established at the regional level, the Member State guarantees coherence and consistency with the elements of the CAP Strategic Plan established at national level.

Every Strategic Plan must include the assessment of needs, intervention strategy, types of direct payments, sectoral programmes, commitments for rural development, and the corresponding financial provisions.

The intervention strategy must establish – for each objective set out in the national Strategic Plan – the objectives for each specific relevant result indicator, measures to be taken, and the procedures for achieving the objectives, as well as the allocation of financial resources.

Moreover, a description is also needed of the interaction between national and regional interventions, including the distribution of financial allocations by intervention and by fund.

Once the CAP Strategic Plans are established, the Member States will present – on an annual basis – the progress achieved in their implementation, using a system of common indicators. Member States and the Commission will monitor the progress and assess the effectiveness of the measures taken.

Moreover, in their Strategic Plan, the Member States must determine the definitions of agricultural activity, agricultural area, eligible hectare, genuine farmer³, and young farmer:

Agricultural activity includes both producing agricultural products, including cotton and short rotation coppice, and maintaining the agricultural area in a state that makes it suitable for grazing or cultivation, without any preparatory measures beyond the usual agricultural methods and machinery.

- The *agricultural area* is made up of arable land, permanent crops and permanent grassland, the definitions of which are further specified by Member States.
- The *eligible hectare* is any agricultural area of the farm, at the farmer's disposal during the year for which support is requested for the interventions set out for the direct payments, and that is exclusive or predominantly used for agricultural activity. Where duly justified for environmental reasons, eligible hectares may also include certain areas used for agricultural activities only every second year. Moreover, "eligible hectares" also include the area that, under the prior basic payment scheme, was not considered as such based on the directive on natural habitats, the Water Framework Directive and the Birds Directive, or that on reforestation, afforestation or agri-environment-climate commitments. Areas used for the production of hemp shall only be eligible hectares if the varieties used have a tetrahydrocannabinol content not exceeding 0.2 %.
- The term *genuine farmer* refers to the need to ensure that no income support is granted to those whose agricultural activity makes up only an insignificant part of their overall economic activities or whose principal business activity is not agricultural, while not precluding pluri-active farmers from support. Member States define which farmers are not regarded as "genuine farmers", based on conditions such as income tests, labour inputs on the farm, company object and/or inclusion in national registers.
- A *young farmer* is considered as such where the farmer is no older than 40 years of age and has the conditions for being the "head of the holding", the appropriate training and/or skills required.

³ The proposal for a regulation in English introduces the role of the genuine farmer which, in the Italian version, is translated as "*agricoltore vero e proprio*". However, for the sake of simplicity, in this publication we will use the term "*vero agricoltore*" to denote the genuine farmer.

The beneficiaries of direct payments or annual payments for interventions in the area of rural development (for the types of environment and climate commitments, natural constraints, and area-specific disadvantages) must comply with the minimum mandatory management requirements established by the Member States pursuant to the regulations on good agronomic and environmental conditions in the following areas: climate and the environment, public health, animal health, plant health, and animal welfare. To this end, the Member States must establish these requirements – at national or regional level – in consideration of the local specific characteristics, including the soil and climatic conditions, existing farming conditions, land use, crop rotation, farming practices, and farm structures. Moreover, Member States must provide farmers with a *Sustainability Tool for Nutrients*, establishing a minimum of applications and functions, which, where applicable, could be integrated by the Commission through delegated actions. The Member States set up a system that involves applying administrative sanctions to beneficiaries who do not comply with the rules on conditionality, which result in reductions to – or the total removal of – the direct payments⁴.

In the new CAP, the Member States must include, in the Strategic Plan's legal framework, a system of farm *advisory services* for the farmers and the other beneficiaries of the CAP, in relation to a broad array of requirements regarding land management and farm management. These services include – among other things – consulting on the application of conditionality, farm management commitments and conditions contained in the CAP Strategic Plan of each country, assistance on how to ensure compliance with environmental regulations in relation to water, pesticides, clean air, etc., risk management and access to innovation and technology. To improve the quality and effectiveness of the advisory services, they will be fully integrated into the broader Agricultural Knowledge Innovation Systems (AKIS) which also set out the participation of researchers, farmer organisations, and other relevant stakeholders.

2.2. Types of intervention for direct payments

The new structure for direct payments is made up of the following types of intervention:

Decoupled direct payments:

- basic income support for sustainability;
- complementary redistributive income support for sustainability;
- complementary income support for young farmers;
- the climate and environment scheme

Coupled direct payments:

- coupled income support;
- crop-specific payment for cotton.

⁴ In the event of nonconformity due to negligence, in general, the percentage of this reduction is 3% of the total amount of the payments. In order to serve as a deterrent, in the event of repeated non-compliance, the reduction percentage may entail total exclusion from the payments and may be applied for one or more calendar years.

2.2.1 Capping

The Member States reduce the amount of the direct payments to be granted to a farmer in a given calendar year, starting from EUR 60,000 and applying the following minimum reductions for the following segments:

- 15% between EUR 60,000 and EUR 75,000;
- 50% between EUR 75,000 and EUR 90,000;
- 75% between EUR 90,000 and EUR 100,000;
- 100% for amounts exceeding EUR 100,000.

The established reductions are applied to the amount of direct payments that the farmer should earn, after deducting the cost of the labour used, calculated using the standard average national or regional salaries (including contributions and social taxes) in relation to the agricultural activity, multiplied by the number of annual workers declared by the farmer.

The resources derived from capping shall be used to contribute to funding redistributive support and other decoupled payments, or for rural development measures. The Member State may use all or part of the capping revenue to increase the resources available to Pillar II, with no limits on the transferable amounts.

2.2.2 Basic support

The Member States establish a basic income, granting an annual decoupled payment per eligible hectare to genuine farmers, under the conditions specified in the respective CAP Strategic Plans. The Member States may deliver the basic payments through payment entitlements or decide to grant this support through the payment of a uniform amount per hectare. In this case, the payment entitlements assigned under the previous regulations expire on 31 December 2020.

The unit value of the payment entitlements is determined through a proportional adjustment of the value of the payment entitlements established for the application year 2020, including the corresponding payment for greening, with the possibility of differentiating this value for various groups of territories identified based on similar socioeconomic and/or agricultural conditions (regionalisation). If, within a Member State or within a group of territories, the value of the payment entitlements is not uniform, a convergence of these values will have to be applied to achieve a uniform unit value by 2026, so that all payment entitlements are at least 75% of the average unit amount of the basic payment for the application year 2026, as defined in the CAP Strategic Plan.

The Member States may decide that the reduction in the historic value of the payment entitlements, after applying the internal convergence, must not exceed a given percentage based on a minimum set at 30%. However, Member States are obligated to determine a maximum ceiling on the amount of payment entitlements.

Each Member State constitutes a “national reserve” of payment entitlements or for group of territories. The resources of the national reserve are used, as a priority, to grant the entitlements to young farmers or to farmers setting up for the first time.

All payment entitlements may only be transferred to a genuine farmer, except in cases of actual or early succession.

Moreover, Member States may grant a lump-sum payment for “small farmers” as defined by the

Member States, in lieu of direct payments. The choice of whether to adhere to this scheme shall be optional for farmers.

Lastly, as seen in the previous chapter, the next MFF also plans to bring closer together the average value of the direct CAP payments in the various Member States, through a mechanism of convergence of the lowest values towards the EU average. However, as already pointed out, this mechanism will have less significant effects than the current MFF, and Italy will be at less of a disadvantage.

2.2.3 Redistributive support

In order to guarantee the redistribution of support from large farms to small and medium-sized farms, Member States establish redistributive income support through a yearly decoupled payment per eligible hectare, to farmers entitled to a payment as part of basic income support, calculated based on an additional amount per hectare, or using other amounts by bracket of hectares. To finance this payment, the financial proceeds from capping are also used.

2.2.4 Complementary support for young farmers

Member States may establish complementary income support for young farmers setting up for the first time, granting them an annual decoupled payment per eligible hectare which is available to farmers entitled to a payment under basic support.

Member States are required to reserve at least 2% of their national allocation for direct payments in order to support young farmers specifically, for complementary income support or for the settlement aid provided for in rural development. Countries are free to allocate a greater sum to encourage young farmers if they see a specific need.

2.2.5 The voluntary climate and environment scheme

Member States set out support for climate the environment, granting an annual payment to “genuine farmers” who voluntarily commit to observing certain agricultural practices that are beneficial for climate and the environment. The commitments taken on by the beneficiaries must go beyond the statutory management requirements established for conditionality, as well as other relevant mandatory requirements established by the national authorities. The payments may be granted in addition to the direct payments, or to offset (in whole or in part) the farmers’ additional costs incurred and foregone income.

2.2.6 Coupled income support

Member States may grant support coupled to income to genuine farmers, in the form of an annual payment per eligible hectare or per eligible head, for sectors that are important for economic, social, or environmental reasons, in order to address the difficulties while also improving competitiveness, sustainability or quality.

Coupled support may be granted up to a maximum amount of 10% of the ceiling for direct payments, which may be increased for Member States that currently grant an amount exceeding 13%. An additional increase of up to 2% is envisaged if this amount is intended to support protein crops.

2.3 Sectoral types of intervention

The following sectoral interventions, which are either mandatory or optional for the Member States, have been set out to be included in the CAP Strategic Plan:

- fruit and vegetables sector (mandatory);
- beekeeping products sector (mandatory);
- wine sector (mandatory for certain Member States);
- olive oil and table olives sector (optional);
- hops sector (optional);
- other sectors set out in Article 1(2) of Regulation (EU) No. 1308/2013 (optional).

2.3.1 *The fruit and vegetables sector*

The intervention established in the fruit and vegetables sector has the following objectives, set out by the Member States in their CAP Strategic Plans and implemented through the operational programmes of recognised producer organisations and/or associations of recognised producer organisations:

- a) to plan production, adjusting production to demand, to optimise production costs and returns on investments and stabilise producer prices;
- b) to concentrate the supply and place products on the market also through direct marketing;
- c) research and development of sustainable production methods, innovative practices boosting economic competitiveness and bolstering market developments;
- d) to promote and develop production methods that respect the environment, the sustainable use of natural resources, and in particular the protection of water, soil, and other natural resources;
- e) to help towards climate change mitigation and adaptation;
- f) to boost the products' commercial value and quality, including by developing products with a protected designation of origin, with a protected geographical indication, or covered by national quality schemes;
- g) promotion and marketing of fruit and vegetable products, whether in a fresh or processed form;
- h) to increase consumption of fruit and vegetables products, whether in a fresh or processed form;
- i) crisis prevention and management in fruit and vegetables markets.

2.3.2 *The beekeeping sector*

The intervention in the beekeeping sector must pursue at least one of the objectives set out for the CAP, choosing one or more types of intervention to be included in their support plans:

- a) technical assistance to beekeepers and beekeepers' organisations;
- b) actions to combat beehive invaders and diseases, in particular varroosis;
- c) actions to rationalise transhumance;

- d) actions to support laboratories for the analysis of apiculture products;
- e) restocking of beehives in the EU;
- f) cooperation with bodies specialised in research programmes in the beekeeping sector;
- g) market monitoring actions;
- h) actions to enhance product quality.

EU financial assistance to the beekeeping sector equals 50% of the maximum amount of the expenses incurred by the Member States.

2.3.3 The wine sector

The intervention envisaged in the wine sector pursues the following objectives:

- a) to improve competitiveness of EU wine producers, in particular for sustainable production systems and reducing the environmental impact;
- b) to improve the performance of EU wine companies and their adaptation to market demands, as well as increase their competitiveness and sustainable processes;
- c) to help restore the balance of supply and demand in the EU wine market in order to prevent market crises;
- d) to help safeguard EU wine producers' incomes where they incur losses as a consequence of natural disasters, adverse climatic events, animals, diseases or pest infestations;
- e) to increase the marketability and competitiveness of EU wine products with innovative products, processes and technologies, added value for the sector and knowledge;
- f) to use wine-making by-products for industrial and energy purposes, protecting the environment;
- g) to help increase consumer awareness about responsible consumption of wine and about EU quality schemes for wine;
- h) to improve competitiveness of EU wine products in third countries;
- i) to help boost producers' resilience to market fluctuations.

2.3.4 The olive oil and table olives sector

Interventions in the olive oil and table olives sector pursue the following objectives:

- a) to reinforce the organisation and management of the production of olive oil and table olives;
- b) to boost the medium and long-term competitiveness of the olive oil and table olives sector, in particular through modernisation;
- c) to reduce the environmental impact of olive cultivation;
- d) to improve the quality of olive oil and table olives;
- e) research and development of sustainable production methods;
- f) crisis prevention and management in the olive oil and table olives markets.

The Member States choose at least one objective and establish the types of intervention needed to achieve them in their Strategic Plans, implementing them through operational programmes of recognised producer organisations and/or associations of recognised producer organisations.

The allocation per intervention in the olive oil and table olives sector amounts to:

- EUR 10,666,000 per year for Greece;
- EUR 554,000 per year for France;
- EUR 34,590,000 per year for Italy.

2.3.5 Other sectors

Interventions are established in other sectors: cereals, rice, sugar, dried fodder, seeds, hops (if the specific intervention is not applied), olive oil and table olives (if the specific intervention is not applied), flax and hemp, bananas, tobacco, beef and veal, pork, sheepmeat and goatmeat, poultry, eggs, milk and dairy products, and silkworms, for which the Member States must pursue pre-established objectives.

2.4 Types of intervention for rural development

The following types of interventions are established in the area of rural development:

- a) payments for environmental, climate, and other management commitments;
- b) payments for natural or other area-specific constraints;
- c) payments for area-specific disadvantages resulting from certain mandatory requirements
- d) investments;
- e) establishment of young farmers and rural business start-ups;
- f) risk management tools;
- g) cooperation;
- h) knowledge exchange and information.

2.4.1 Payments for environmental, climate, and other management commitments

Member States may grant payments for environmental, climate and other management commitments to farmers and other beneficiaries who voluntarily undertake management commitments which are considered to be beneficial for achieving the specific objectives. The inclusion of agri-environment commitments in the CAP Strategic Plan is mandatory for Member States, for a minimum amount of 30% of the EAFRD share established in the CAP Strategic Plan.

Payments are granted for commitments which go beyond the statutory management requirements and standards of good agricultural and environmental conditions, the minimum requirements for the use of fertiliser and plant protection products, animal welfare, as well as other mandatory requirements established by national and EU law, the conditions established for maintaining the conformity of the agricultural area, and are different from the commitments provided as payments established in the Pillar I Eco-scheme.

Beneficiaries receive a payment covering the costs incurred and the loss of income caused by the commitments undertaken and, if necessary, can also cover the transaction costs. In duly justified cases, Member States may grant support as a flat-rate or as a one-off payment per unit. If the support is granted for agri-environment commitments and organic farming practices, the Member States establish a payment per hectare.

2.4.2 Payments for natural or area-specific constraints

Member States may grant an annual payment per hectare to genuine farmers for natural or other area-specific complaints in the zones designated during the 2014-2020 Rural Development programming period. The support is to compensate beneficiaries for all or part of the additional costs and income forgone due to the area-specific constraints in the area concerned.

2.4.3 Payments for area-specific disadvantages resulting from certain mandatory requirements

This support is granted to compensate beneficiaries for all or part of the additional costs and income foregone relating to the area-specific constraints in the area concerned, which are imposed with the regulations established applying the directive for the conservation of natural and semi-natural habitats and wild fauna and flora, the directive for the conservation of wild birds and the Water Framework Directive.

2.4.4 Investments

Member States may grant support for tangible and/or intangible investments. The support is limited to 75% of the eligible costs, and may be increased for afforestation and non-productive investments linked to specific environmental and climate objectives, investments in basic services in rural areas, investments in the restoration of agricultural or forestry potential following natural disasters or catastrophic events, and investments in appropriate preventive actions in forests and in the rural environment.

2.4.5 Establishment of young farmers and rural business start-ups;

Member States may grant support for the establishment of young farmers and rural business start-ups with a lump-sum amounting to a maximum of EUR 100,000, and may be combined with financial instruments.

2.4.6 Risk management tools

Member States may grant support to help genuine farmers manage the production and market risks connected with their agricultural activity, which are outside their control and which contribute to achieving the specific objectives.

Support may be granted in the form of financial contributions for the payment of premiums for insurance schemes and as financial contributions to mutual funds, including the administrative costs of setting up. It may be granted following losses of at least 20% of the average annual production or income of the farmer, for a maximum coverage of 70% of the eligible costs; over-compensation with other public or private risk management schemes must be avoided.

2.4.7 Cooperation

Member States may promote forms of cooperation which involve at least two parties, and which contribute to achieving the CAP's specific objectives. Support can entail all aspects of such cooperation, such as: the setting up of quality schemes; collective environment and climate actions; promoting the short supply chain and local markets; pilot projects; Operational Group (OG) projects within the European Innovation Partnership for agricultural productivity and sustainability (EIP-Agri); local development projects, smart villages, buyers' clubs and machinery rings; farm

partnerships; forest management plans; networks and clusters; social farming; community supported agriculture; actions within under LEADER; and setting up producer groups and producer organisations, as well as other forms of cooperation deemed necessary to achieve the CAP's specific objectives.

2.4.8 Advisory and farm innovation systems

Member States may grant support to promote access to training, consulting and exchanges of information and innovation, which contribute to achieving the specific objectives of the Common Agricultural Policy. Support may cover a maximum of 75% of the eligible costs or, in the event of creating farm advisory services, it may be granted in the form of a fixed amount of EUR 200,000.

2.5. Financial provisions

As stated above, the interventions established for direct payments and for the sectoral interventions relating to Pillar I are financed by the EAGF, while those for rural development for Pillar II are financed by the EAFRD.

2.5.1 Financial allocations for interventions in the form of direct payments

Notwithstanding the provisions of the financial regulations, the total amount of the direct payments which may be granted in a Member State in a calendar year shall not exceed that Member State's financial allocation of the national ceiling of direct payments.

2.5.2 Financial allocations for types of sectoral types of intervention

The Member States concerned may decide in their CAP Strategic Plans to transfer the total financial allocations for the sectoral interventions for olive oil and hops to their allocations for direct payments. In this case, said allocations shall no longer be available for these sectoral types of intervention for the first three years of the CAP Strategic Plan.

Moreover, they may use up to 3% of the Member States' allocations for direct payments, after deducting the amounts available for cotton, for types of intervention set out for "other sectors". The above decisions are binding for three years, and may be reviewed in 2023.

2.5.3 Financial allocations for rural development

The total amount of EU support for rural development for the period 2021-2027 is EUR 78,811 million (in current prices), and the annual breakdown is established by the multiannual financial framework for the years 2021-2027.

The ceilings may be reviewed annually to take account of the developments relating to the annual breakdown, including transfers for flexibility and capping, in order to make technical adjustments without changing the overall allocations, or to take account of any other changes set out by a legislative act following the adoption of this Regulation.

2.5.4 EU co-financing

In the Strategic Plan, the minimum EAFRD contribution rate is 20%, while the maximum rate is as follows:

- 70% for less developed regions, the outermost regions and the smaller Aegean islands, pursuant to Regulation (EU) No. 229/2013;
- 65% for regions with specific natural constraints;
- 43% in other regions.

In derogation from the above, the maximum EAFRD contribution is:

- 80% for non-productive investments for local LEADER development and for payments relating to agri-environment-climate management commitments;
- 100% for funds that are transferred from Pillar I to EAFRD for flexibility and capping.

2.5.5 Flexibility of financial transfer between the two Pillars

By no later than 1 August 2020, Member States may decide to transfer up to 15% of the amounts of their ceiling for the direct payments to their allocation for rural development (EAFRD) and vice versa. The percentage of transfer from Pillar I to II may be increased:

- up to 15% provided that the Member States use the corresponding increase for interventions to address environmental and climate objectives; and
- up to 2%, provided that the Member States use the corresponding increase to support the start-up of agricultural activities by young farmers.

2.5.6 Reserve to support the agricultural sector

To address the crisis in the agricultural sector, an agricultural reserve is established, amounting to at least EUR 400 million in current prices, available every year in the 2021-2027 period. The amount of the reserve is obtained from the financial year 2020 which, if unused, is carried forward to the financial year 2021, without refunding the final recipients for the year in progress. In fact, uncommitted allocations of the agricultural reserve shall be rolled over to finance the reserve in subsequent financial years.

2.5.7 Financial discipline

Budgetary discipline requires respect for the yearly ceiling for expenses financed by the EAGF in all circumstances and in every phase of the budget procedure. As such, the national ceiling for direct payments per Member State must be regarded as a financial ceiling, for said payments to be refunded within the limits of the financial ceiling.

2.5.8 National tax measures

The national tax measures applied to farmers with an income tax base calculated for a multiannual period shall be exempted from State aid rules.

CHAPTER 3

The new system of direct payments, capping, and internal convergence

As in the past, for the upcoming 2021-2027 programming, the regulation on direct payments calls for amendments to guarantee their effectiveness and suitability for the sector's new requirements. Based on what was reported in the "in consideration of" clauses of the proposal for a regulation, the direct payments will play an essential role in guaranteeing fair support to farmers' income, in line with the objective of promoting a smart and resilient farm sector.

The importance of direct payments also clearly emerged in the Commission's Communication published in November 2017, since they are regarded as the instrument that should make it possible to bridge the gap between farmers' income and that of other sectors. However, at EU level, the usual imbalance remains, where 20% of farmers hold 80% of the amount of the direct payments. To guarantee a fairer and more effective distribution of the payments, the Commission (already in the Communication) had proposed:

- to cap the total amount of direct payments per beneficiary, while taking account of labour to avoid negative effects on employment;
- to introduce decreasing payments to guarantee a redistribution of resources among farms, and to reduce support for large-scale farms;
- a redistributive payment to provide targeted support for small and medium-sized farms;
- the idea of setting aside support for genuine farmers, i.e. those exercising an agricultural activity in order to "earn a living" (once again proposing the principle of "active" farmer).

These principles announced in the Communication were adopted in the presented proposal for a regulation.

3.1 The components of direct payments in the 2021-2027 CAP

The new approach maintains the "package" arrangement, i.e. various types which, taken together, constitute the total amount of the payments to which the farmer is entitled. Whilst in the current programming, the Member State had the ability to choose from no fewer than six types of payment – three of which were mandatory (basic payment, greening payment, and payment for young farmers), and three optional (redistributive payment, payment for areas with natural constraints, coupled payments) – in the Commission's proposal for the period 2021-2027, the types of support are reduced to five, of which three are mandatory and the rest are optional (Table 3.1 and Table 3.2).

Table 3.1: Types of direct payments in the 2014-2020 programming

Type of payment	Mandatory?
Basic payment	Yes
Greening payment	Yes
Young farmers payment	Yes
Redistributive payment	No
Payment for areas with natural constraints	No
Coupled support	No

Source: our data

Table 3.2: types of direct payments in the 2021-2027 programming

Type of payment	Mandatory?
Basic income support for sustainability	Yes
Complementary redistributive income support for sustainability	Yes
Complementary income support for young farmers	No
Voluntary climate and environment scheme (Eco-Scheme)	Yes
Coupled income support	No

Source: our data

The possibility remains for Member States to establish a specific lump-sum payment for small farmers in lieu of direct payments, the definition of which shall be reported in the CAP Strategic Plan.

The proposal for a regulation unequivocally classifies the payments into two categories:

- decoupled: basic income support, complementary support for young farmers,
- complementary redistributive support, eco-scheme;
- coupled (coupled income support and crop-specific payment for cotton).

Compared to the current programming, there are three new elements:

- suppression of the greening payment, the commitments for which are included in the conditionality;
- introduction of the voluntary climate and environment scheme (Eco-Scheme);
- suppression of the payment for areas with natural constraints.

In the proposal, the greening commitments are not cancelled, but transferred (with some amendments) to the conditionality, enriching the basic commitments with which the farmer will have to comply in order to receive the support.

With regard to the new elements indicated above, particular mention should be made of the environmental payment option (Eco-Scheme) – voluntary for farmers but mandatory for Member States – which differs from the mandatory nature of the current greening payment. The voluntary application of environmental schemes for farmers does not demonstrate a loss of interest in the problem by the Commission. Rather, it shows that there is a desire to give Member States greater

flexibility to ensure the increase in the environmental offer, while respecting local needs and farmers’ real circumstances. This new vision is also the result of the negative assessment of greening by the part of Court of Auditors, which deemed it unlikely that said greening – as applied in the current programming – could significantly improve the CAP’s performance in relation to climate and the environment.

Lastly, given the introduction of the internal convergence process to the current 2014-2020 programming with the objective of “converging” the support per hectare towards a uniform payment, in the post-2020 CAP there was the expectation that the historic references would be shelved, with the definitive transition to a uniform payment. Convergence is proposed once again, and the possibility remains for Member States to continue with a process of gradual transition to payments of uniform value, while maintaining a reference to the historic component.

Table 3.3: What stays the same and what changes in the 2021-2027 proposal

WHAT STAYS THE SAME		
<p>STRUCTURAL ELEMENTS</p> <ul style="list-style-type: none"> • Basic income support • Complementary redistributive support • Support for young farmers • Voluntary coupled report • Support for cotton (Belgium, Greece, Spain, and Portugal) 	<p>KEY PRINCIPLES</p> <ul style="list-style-type: none"> • Payments subject to conditionality • Decoupling (except for coupled support) • Generic support per hectare, over eligible areas where an agricultural activity is exercised • Coupled support for sectors in difficulty, and limited 	<p>OTHER POSSIBILITIES, SUCH AS...</p> <ul style="list-style-type: none"> • Support without entitlements • Payment for small farmers
WHAT CHANGES		
<p>GREATER SUBSIDIARITY</p> <ul style="list-style-type: none"> • The Member State identifies definitions and interventions (including the conditions of eligibility) • Determination of levels of need-based support • Greater flexibility in financial management 	<p>GREATER TARGETING</p> <ul style="list-style-type: none"> • “Genuine” farmers • Young farmers • Basic payment for territory groups; • Internal convergence • Coupled support (quality, competitiveness, or sustainability) 	<p>GREATER REDISTRIBUTION towards smaller farms</p> <ul style="list-style-type: none"> • Reduction (from EUR 60,000) and capping (at EUR 100,000) per farm, while taking account of labour (salary earners and family members) • Mandatory redistributive payment • Objective: to ensure greater support per hectare for small- and medium-sized farms (dedicated result indicator)
	<p>NEW ECO-SCHEME</p> <ul style="list-style-type: none"> • Mandatory for the Member State • Voluntary for farmers • Additional payment or offsetting of costs/income forgone 	

Source: European Commission

3.1.1 Basic income support for sustainability

Member States grant, as basic income support, an annual decoupled payment per eligible hectare to “genuine farmers”.

The main mode of granting basic support is a uniform annual payment per eligible hectare, i.e. a payment linked to the area, without entitlements, on the model of the current Single Area Payment Scheme (“SAPS”) in force in the countries of Eastern Europe, who joined the EU in 2014, which differs from the Basic Payment Scheme (BPS) adopted by the other Member States.

However, there are two derogations from the aforementioned main procedure:

1. differentiation of the support by territory; the Member States can decide to differentiate the amount of the basic income support per hectare in different territories that have similar socioeconomic and/or agricultural conditions (regionalisation);
2. attribution of support based on rights (entitlements) to payment: the Member States can decide (to continue) to grant the basic income support based on the payment entitlements.

The second derogation is valid only for the Member States that had already adopted the basic payment scheme (BPS – Reg. (EU) No. 1307/2013) through the attribution of payment entitlements, as in the case of Italy. In other words, the Member States that had adopted the BPS can transition over to SAPS, but not the other way around.

If the Member States that applied the BPS decide not to grant the basic income support based on payment entitlements, those assigned with Reg. (EU) No. 1307/2013 will expire on 31 December 2020. Should the Member States that applied the BPS decide to continue to grant the basic income support based on payment entitlements, they determine the new unit value of the payment entitlements starting from the value of the payment entitlements of application year 2020 (last year of application of the BPS), and adding to it the corresponding greening payment for application year 2020. In other words, the value of the payment entitlements is determined by adding together their historic value and the corresponding payment received for greening; the amount obtained is then reduced in proportion to the ceiling available in 2021.

The Member States that – in the current CAP – used the historic method (Italy, Austria, Belgium, France, Greece, Ireland, Netherlands, Portugal, and Spain) ensure, by 2026, a convergence of the unit value of the entitlements at 75% of the average unit value. In other words, the unit value of the entitlements, in 2026, cannot be less than 75% of the unit value set out in the Strategic Plan for basic support. Moreover, the Member State is required to identify a maximum ceiling for the payment entitlements to be reached by no later than 2026.

The resources needed to make all entitlements converge at 75% of the unit value derive from applying the ceiling to the aid and, if necessary, from reducing the unit value of the higher payment entitlements. However, the Member States may establish that the reduction of the value of the higher entitlements may not exceed 30% (30% “stop loss” mechanism).

In other words, Member States are granted the possibility of applying a sort of “Irish model” of the 2014-2020 CAP, whereby the value of the entitlements will remain differentiated even after 2026, between a maximum value defined by the Member State and the minimum value equal to 75% of the average value.

In the event of applying payment entitlements, the obligation remains for the Member State to establish the national reserve to assign new entitlements or increase the payment entitlements

already assigned. The resources of the national reserve shall be used for young and new farmers as a priority.

In the event of transfer, this may take place only for genuine farmers, except in cases of actual or early succession.

3.1.2 Complementary redistributive income support for sustainability

In order to guarantee the redistribution of support from larger farms to small- and medium-sized ones, the Member States grant complementary redistributive support, through an annual decoupled payment per eligible hectare.

Compared to the current programming, this is a mandatory payment, accessed by farmers who are entitled to the basic payment, with criteria established by the Member States:

- amount per hectare or different amounts for different intervals of hectares, provided that the amount per hectare does not exceed the average national amount of direct payments for the specific year;
- maximum number of hectares per farmer.

To finance the complementary redistributive support, use will also be made of the capping proceeds, as discussed below. However, the Member State will have to plan a percentage of ceiling to be allocated to the redistributive payment.

3.1.3 Complementary support for young farmers

The Member States can provide complementary income support for young farmers who are entitled to the basic payment and that are setting up for the first time, in the form of an annual decoupled payment per eligible hectare.

The definition of “young farmer” is established in the CAP Strategic Plan:

- a maximum age limit of no more than 40 years;
- conditions for being the “head of the holding”;
- appropriate training and/or skills required.

In fact, for the first two points (Article 50, Reg. No. 1307/2013), the definition of “young farmer” is identical to the current regulations, while possession of appropriate training and/or skills is a new element.

To contribute to the objective of “Generational transition, to attract new farmers and facilitate their activity”, each Member State must use at least 2% of the allocations available for direct payments. The Member State can decide to use this percentage through direct payments with complementary support to young people, or by transferring these resources to rural development.

Annex X of the proposal for a regulation establishes the minimum amount of resources that the Member State must grant to young farmers: for Italy, this is EUR 71 million a year.

3.1.4 The voluntary scheme for the climate and the environment

Each Member State must have voluntary schemes for climate and the environment which generate an additional annual payment per hectare to genuine farmers who commit to observing

certain agricultural practices that are beneficial to climate and the environment. The environmental commitments are determined by the Member States, provided that they:

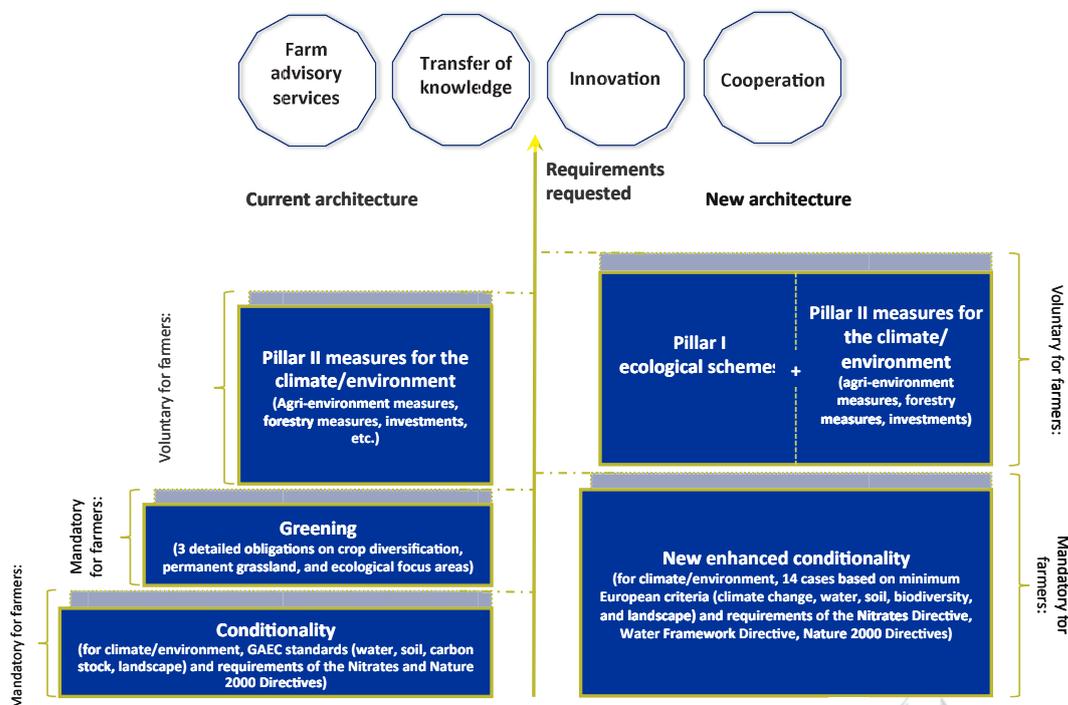
- a) go beyond the statutory requirements and standards of good agricultural and environmental conditions (conditionality);
- b) go beyond the minimum requirements for the use of fertiliser and plant protection products, animal welfare, as well as other mandatory requirements established by national and EU law;
- c) go beyond the conditions established for the maintenance of the minimum agricultural activity;
- d) are different from the commitments for which Pillar II agri-environment-climate payments were provided.

The eco-scheme support is provided in the form of an annual payment per eligible hectare, in accordance with two procedures established by the Member States:

- amount in addition to the decoupled direct payments (on the current greening model);
- amount that compensates beneficiaries for all or part of the additional costs and income foregone following the commitments (on the model of the current Pillar II agri-environment-climate payments).

The following figure illustrates the new green architecture proposed for the 2021-2027 CAP.

Figure 3.1: New green architecture proposed for the CAP



Source: European Commission

3.1.5 Coupled support

Member States may grant coupled income support to genuine farmers in the following sectors and crops: cereals, oilseeds, protein crops, grain legumes, flax, hemp, rice, nuts, starch potato, milk and dairy products, seeds, sheepmeat and goatmeat, beef and veal, olive oil, silkworms, dried fodder, hops, sugar beet, cane and chicory, fruit and vegetables, short rotation coppice and other non-food crops, excluding trees, used for the production of products that have the potential to substitute fossil materials.

This last case is in addition to the sectors established for the current 2014-2020 programme. The excluded sectors include tobacco, potatoes, and pig farming.

Coupled income support may only be granted to sectors or specific types of farming which are particularly important for economic, social, or environmental reasons and which are in difficulty. The interventions of the Member States are to address these difficulties by improving the competitiveness and/or sustainability and/or quality of the sectors or types of agriculture.

With regard to Regulation (EU) No. 1307/2013, the proposal specifically reports that to deliver the support to cattle or sheep and goats, the regulations on registering and identifying the animals must be complied with.

Moreover, the proposal resumes the Commission's ability to allow coupled support to continue to be paid until 2027 based on the number of animals/hectares requested as premium by individual farmers in a past reference period. In practice, with this change (which has already been introduced into the Omnibus Regulation), the Commission has the power to render "decoupled" the coupled CAP support, linking it to past production. As a result, in the event of application, the farmer will receive a payment that is in line with historic production levels, giving the ability to reduce the number of animals/hectares for which the farmer had made the support request, yet while still receiving the same support.

Each Member State may decide to assign to the coupled support up to 10% of its direct payment ceiling. Member States that in the current 2014-2020 programming have allocated more than 13% of its own resources⁵ to coupled support may decide to raise the support percentage above 10%. In any event, the percentage to be allocated to coupled support may be increased by 2% provided that the percentage in excess of 10% is allocated to the production of protein crops.

3.2 Horizontal criteria

3.2.1 Reduction of payments and capping

An important new element regards the reduction of the payments (capping), modulated with the cost of labour, to be applied to the total amount of the direct payments received by the farmer, and not only to the basic payment, as is the case of the current programming however.

The reduction of payments applies to farmers who receive an amount of direct payments in excess of EUR 60,000, while capping applies to farmers with an amount of direct payments exceeding EUR 100,000. However, the cut is staggered and divided into the following segments:

- at least 25% for the amount between EUR 60,000 and EUR 75,000;

⁵ In the 2014-2020 programming, Italy allocated 12% of its national direct payment ceiling to coupled support.

- at least 50% for the amount between EUR 75,000 and EUR 90,000;
- at least 75% for the amount between EUR 90,000 and EUR 100,000;
- 100% for the amount exceeding EUR 100,000.

The effects of the capping are broadly softened by the modulation with labour. The mandatory deduction from the amount of payments subject to labour cost cuts makes capping an innovative tool for the distribution of support.

More specifically, the proposal for a regulation establishes that the Member States must deduct from the amount of the direct payments subject to capping:

- a. the salaries connected to the agricultural activity declared by the farmer, including the taxes and the social contributions connected to employment;
- b. the equivalent cost of regular and unpaid work connected to an agricultural activity practiced by persons working at the farm who do not receive wages (or who earn remuneration that is less than the amount normally paid for the services rendered), but are remunerated through the economic result of the farm.

To calculate the amounts of the cost of labour, Member States use the average standard values at national or regional level, multiplied by the number of annual workers declared by the farmer in question. The calculation of the labour cost therefore involves two pieces of data:

- the workers (actual and declared by the farmer);
- the standard cost of the workers.

The amounts derived from the reduction of payments shall be used to help finance the redistributive payment. The mandatory nature of the capping therefore has a dual objective: to reduce the payments to large farms that use a small amount of labour, and to increase support for small farms, making it a tool aimed explicitly at promoting a redistribution of resources among enterprises.

Whilst the ex-ante analysis carried out by the Member State concerned demonstrates that the estimated reduction of payments exceeds the requirement for the redistributive payment, Member States can use the excess amounts to contribute towards financing other decoupled direct payments or to support rural development.

3.2.2 Conditionality

In the proposals presented, conditionality remains a basic requirement to be respected in order to receive direct payments and – for rural development – agri-environment-climate payments, payments for disadvantaged areas, as well as payments for areas with specific disadvantages resulting from certain mandatory commitments.

The new conditionality system makes a complete connection between the provision of CAP support and the beneficiaries' compliance with the regulations regarding the environment, climate change, public health, animal health, plant health, and animal welfare. Indeed, conditionality must be an integral part of the CAP's "environmental" architecture, representing the baseline reference for more ambitious environmental commitments.

The arrangement based on Statutory Management Requirements (SMRs) and on Good Agricultural and Environmental Conditions (GAEC) remain, but with a strong orientation towards innovation (Table 3.4).

Table 3.4: Conditionality compared in the two programming periods

2014-2020 PROGRAMMING	2021-2027 PROGRAMMING
<ul style="list-style-type: none"> • 7 GAEC • 13 SMRs 	<ul style="list-style-type: none"> • 10 GAEC • 16 SMRs • Inclusion of greening (rotation included to replace diversification) and of sustainability instrument for farms, with regard to the GAEC nutrients • Inclusion of compliance with specific directives and regulations on environment and animal health within the SMRs • Definition of conditionality in the Strategic Plan with subsequent approval by the Commission

Source: our data

The GAEC must be applied taking account of the commitments applied in the current programming with greening, climate change mitigation, and the need to improve the sustainability of farm enterprises, with a particular focus on nutrient management. Incorporating greening into conditionality is an important innovation. The greening commitments are in part continued and/or amended in the following GAECs: GAEC 1 (Maintenance of permanent grasslands based on the relationship between permanent grasslands and agricultural area), GAEC 8 (Crop rotation), GAEC 9 (which partially resumes the commitments currently set out with EFAs), GAEC 10 (Protection of habitats and species). The complete list of the new GAECs and new SMRs is shown in Table 3.5.

For the implementation of the GAEC, Member States set out a national rule for each condition established at the EU level, taking account of the specific characteristics of the area concerned, including the soil and climatic conditions, existing farming conditions, land use, crop rotation, farming practices, and farm structures. Member States may add other national rules for the purpose of improving awareness of the environment and climate in the framework of the GAECs⁶.

The SMR will have to comprehend what is provided for by EU regulations in the matter of the environment, public health, animal health, plant health, and animal welfare. The SMR shall therefore include the Habitat directive, Birds directive and Nitrates directive.

3.2.3 The genuine farmer

Another element that is confirmed with the Commission’s proposal is the desire to provide aid to those who actually make their living through agriculture, with the broad objective of improving the CAP’s performance. In the proposal, therefore, the current definition of “active farmer” disappears, and is replaced by that of the genuine farmer.

⁶ Regarding the management of nutrients, a major new aspect is the definition of a sustainability instrument for farms that have the purpose of supporting and improving farm performance in both agricultural and environmental terms. These instruments must be implemented with specific IT supports for the enterprise’s sustainability and made available by the Member State to individual farmers. The objective is to provide support to the decisions based on minimum nutrient management functions with the possibility of adding other on-farm and e-governance applications.

Table 3.5: SMRs and GAECs under the 2021-2027 programming

AREA OF INTEREST	MAIN PROBLEM	REQUIREMENT AND STANDARD	MAIN OBJECTIVE OF THE STANDAR
Climate and environment	Climate change (mitigation and adaptation)	GAEC 1 – Maintenance of permanent grasslands based on the relationship between permanent grasslands and agricultural area GAEC 2 – Protection of moorlands and wetlands GAEC 3 – Prohibition against burning stubble, except for health reasons	General safeguarding against the conversion of areas into other uses to preserve the carbon stock Protection of carbon-rich soils Maintenance of the soil's organic matter
	Water	SMR 1 – Directive 2000/60/EC of 23 October 2000, establishing a framework for Community action in the field of water policy SMR 2 – Directive 91/676/EEC of 12 December 1991 on the protection of waters against pollution caused by nitrates from agricultural sources GAEC 4 – Buffer strips along water courses GAEC 5 – Use of the sustainability instrument for farms with regard to nutrients	Protection of water courses from pollution runoff Sustainable management of nutrients
	Soil (protection and quality)	GAEC 6 – Tillage management to reduce risks of soil degradation, taking account of the slope GAEC 7 – Do not leave the soil bare during more sensitive periods GAEC 8 – Crop rotation	Minimum land management reflecting the specific conditions of the site to limit erosion Protection of the soil in the winter
	Biodiversity and landscape (protection and quality)	SMR 3 – Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds (<i>Official Journal</i> L 20 of 26 January 2010, p. 7): Article 3(1), Article 3(2)(b), Article 4(1), (2), and (4) SMR 4 – Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora (<i>Official Journal</i> L 206 of 22 July 1992, p. 7): Article 6(1) and (2)	

		<p>GAEC 9: Minimum percentage of farm area to be used for non-productive zones or elements Maintenance of the characteristic elements of the landscape Prohibition against pruning shrubs and trees during bird mating and nesting season Optionally, measures to combat invasive plant species</p> <p>GAEC 10 – Prohibition against converting or ploughing permanent grasslands in Nature 2000 sites</p>	<p>Preserve the potential of the Maintenance of non-productive elements and areas in order to improve biodiversity in farms</p> <p>Protection of habitats and species</p>
Public health, animal and plant health	Food security	<p>SMR 5 – Regulation (EC) No 178/2002 of the European Parliament and of the Council of 28 January 2002 laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety.</p> <p>Articles 14 and 15, Article 17(13), and Articles 18, 19, and 20</p>	<p>SMR 6 – Council Directive 96/22/EC of 29 April 1996 concerning the prohibition on the use in stockfarming of certain substances having a hormonal or thyrostatic action and of β-agonists, and repealing Directives 81/602/EEC, 88/146/EEC and 88/299/EEC (<i>Official Journal</i> L 125 of 23 May 1996, p. 3)</p> <p>Article 3 a), b), d), and e), and Articles 4, 5, and 7</p>
Identification and registration of animals	Animal diseases	<p>SMR 7 – Council Directive 2008/71/EC of 15 July 2008 on the identification and registration of pigs: Articles 3, 4, and 5</p> <p>SMR 8 – Regulation (EC) No. 1760/2000 of the European Parliament and of the Council of 17 July 2000 establishing a system for the identification and registration of cattle and regarding the labelling of beef and beef products and repealing Council Regulation (EC) No 820/97: Articles 4 and 7</p> <p>SMR 9 – Council Regulation (EC) No. 21/2004 of 17 December 2003 establishing a system for the identification and registration of ovine and caprine animals and amending Regulation (EC) No 1782/2003 and Directives 92/102/EEC and 64/432/EEC: Articles 3, 4, and 5</p>	

		<p>SMR 10 – Regulation (EC) No. 999/2001 of the European Parliament and of the Council of 22 May 2001 laying down rules for the prevention, control and eradication of certain transmissible spongiform encephalopathies: Articles 7, 11, 12, 13, and 15</p> <p>SMR 11 – Regulation (EU) No. 2016/429 of the European Parliament and of the Council of 9 March 2016 on transmissible animal diseases, Article 18(1), limited to foot and mouth disease, swine vesicular disease and blue tongue</p>	
	Plant protection products	<p>SMR 12 - Regulation (EC) No. 1107/2009 of the European Parliament and of the Council of 21 October 2009 concerning the placing of plant protection products on the market and repealing Council Directives 79/117/EEC and 91/414/EEC: Article 55, first and second sentences</p> <p>SMR 13 – Directive 2009/128/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for Community action to achieve the sustainable use of pesticides: Article 5(2), and Article 8(1-5)</p> <p>Article 12 with regard to the restrictions on the use of pesticides in protected areas defined based on the framework directive on water and the legislation relating to Nature 2000. Article 13(1) and (3), on the handling and storage of pesticides and the treatment of the remnants</p>	
Animal welfare	Animal welfare	<p>SMR 14 – Council Directive 2008/119/EC of 18 December 2008 laying down minimum standards for the protection of calves: Articles 3 and 4</p> <p>SMR 15 – Council Directive 2008/120/EC of 18 December 2008 laying down minimum standards for the protection of pigs: Article 3 and article 4</p> <p>SMR 16 – Council Directive 98/58/EC of 20 July 1998 concerning the protection of animals kept for farming purposes: Article 4</p>	

Source: our data

The definition of the genuine farmer lies with individual Member States. However, to ensure a uniform approach within the EU, the Commission sets out a common framework with the essential elements to identify this figure. In particular, the proposals specify that the definition of the genuine farmer must prevent aid being granted to those whose agricultural activity accounts for an insignificant part of their activity, or whose main activity is not an agricultural one. However, the Commission specifies that one cannot preclude providing support to “pluri-active farmers” – i.e. those who carry out farming activities but are also employed in a non-farming activity outside their enterprise, where their “pluri-activity” can serve to reinforce the socioeconomic fabric of the rural areas.

The elements that individual Member State will have to consider in order to identify the genuine farmer and that make up the common framework established by the Commission may include: income tests, labour inputs on the farm, company object and/or inclusion in registers. The black list, the principle of significance (effectively already deactivated with the Omnibus Regulation) and the concept of minimum agricultural activity disappear from the proposal, while the principle of the farmer’s inclusion in tax and/or social security registers (already introduced in the Omnibus Regulation) is confirmed.

3.2.4 Minimum threshold

The Member States set an area threshold and grant decoupled direct payments only to genuine farmers whose eligible area of the holding for which decoupled direct payments are claimed goes beyond this area threshold. The minimum threshold therefore applies only to the area and no longer to the value of the direct payments as takes place in the current CAP⁷.

In setting the area threshold, Member States aim to ensure that the management of the corresponding payments does not entail excessive administrative burdens.

3.3 Conclusions

In brief, the proposal on direct payments – which is perhaps the most important part of the new CAP – reconfirms many of the past approaches, but also contains a good deal of new elements.

The first and most important aspect that has been reconfirmed is the recognition of the role of direct payments, which constitute about 46% of the EU’s agricultural income; they are aimed at bridging (at least partially) the gap between agricultural income and income generated in other economic sectors; they are an important safety net and ensure agricultural activity in all of the EU’s regions, including the areas subject to natural constraints. They increasingly associate the supply of essential public goods with the economic benefits.

Although the role of direct payments in stabilising farm income is generally welcomed, the fact that 20% of farmers receive 80% of the payments raises concern over their fair distribution, or even worse, over potential cases of “abuse” favouring parties who should not benefit from the system. Being well aware of these problems, the Commission stresses the need to promote a more balanced distribution of the *income support provided by the CAP*, by simplifying the direct payments system and making it more selective and targeted.

⁷ The national choices of the 2014-2020 CAP have established a mandatory minimum threshold of EUR 250 for the years 2015 and 2016 and EUR 300 starting from 2017.

To this end, the Commission's proposal reviews the system of the direct payment components, which drop from six down to five. The removal of the greening payment is one of the most important new elements, although it was broadly announced after the report of the Court of Auditors, which stressed how greening had not pursued clear and sufficiently ambitious objective/values.

The abolition of the greening payment does not mean that the CAP's environmental objectives are reduced in size; rather, they are strengthened, confirming their environmental role entrusted to direct payments. Most of the greening commitments are transferred to conditionality, furthering the basic requirements farmers will have to comply with in order to receive support. To this end, it is also interesting to note the new name of the main direct payment instrument, the "Basic income support for sustainability," which clarifies that the main objective of the direct payments is two-fold: income support and remuneration of environmental public goods.

As for the new architecture of direct payments, there are both new elements and recurring aspects but the most important one is the subsidiarity approach which has been stepped up to entrust the choices to the Member States. The legislative proposals provide a framework of reference, leaving the Member States plenty of room for manoeuvre.

The most interesting new element is the ability to introduce a uniform annual payment per eligible hectare, connected to area, without entitlements, on the model of the current Single Area Payment Scheme in force in the countries of Eastern Europe, and therefore the ability to abandon the approach of payment entitlements. Remaining alongside this potential new element is the ability for Member States to maintain the current system linked to historic entitlements, albeit accompanied by a process of gradual and partial internal convergence: gradual because it would take place over a long period, from 2021 to 2026, and partial, because in 2026 the entitlements must reach 75% of the average value. Other recurring elements of the current direct payments scheme are capping and the selection of beneficiaries through the concept of "genuine farmer" – aspects which are significantly reinforced in the proposal.

Capping is required to be applied from EUR 60,000, compared to the EUR 150,000 of Reg. 1307/2013, and is applied to all direct payments and not only to the basic payment. The modulation with labour is a clear choice given the importance of this issue in the new CAP objectives. Indeed, the effects of capping are potentially significant, but the modulation with labour makes it possible to virtuously mitigate its effects for the more structured farm enterprises. In fact, the only enterprises impacted by capping would be the large ones (averaging over 200 hectares), with absentee holders, creating little employment. In any event, capping will be a hot issue in the negotiations, and it cannot be ruled out that it might be somewhat weakened, as it has been in the past.

Lastly, the new wording must be pointed out, which replaces the "active farmer" with "genuine farmer", confirming the objective of selecting beneficiaries with a simpler and clearer legal wording. This change was already made necessary with the Omnibus Regulation in response to the criticisms of the excessive administrative and bureaucratic burdens in checking the requirements of active farmers.

CHAPTER 4

Rural Development

4.1. The new structure of the 2021–2027 Rural Development Policy

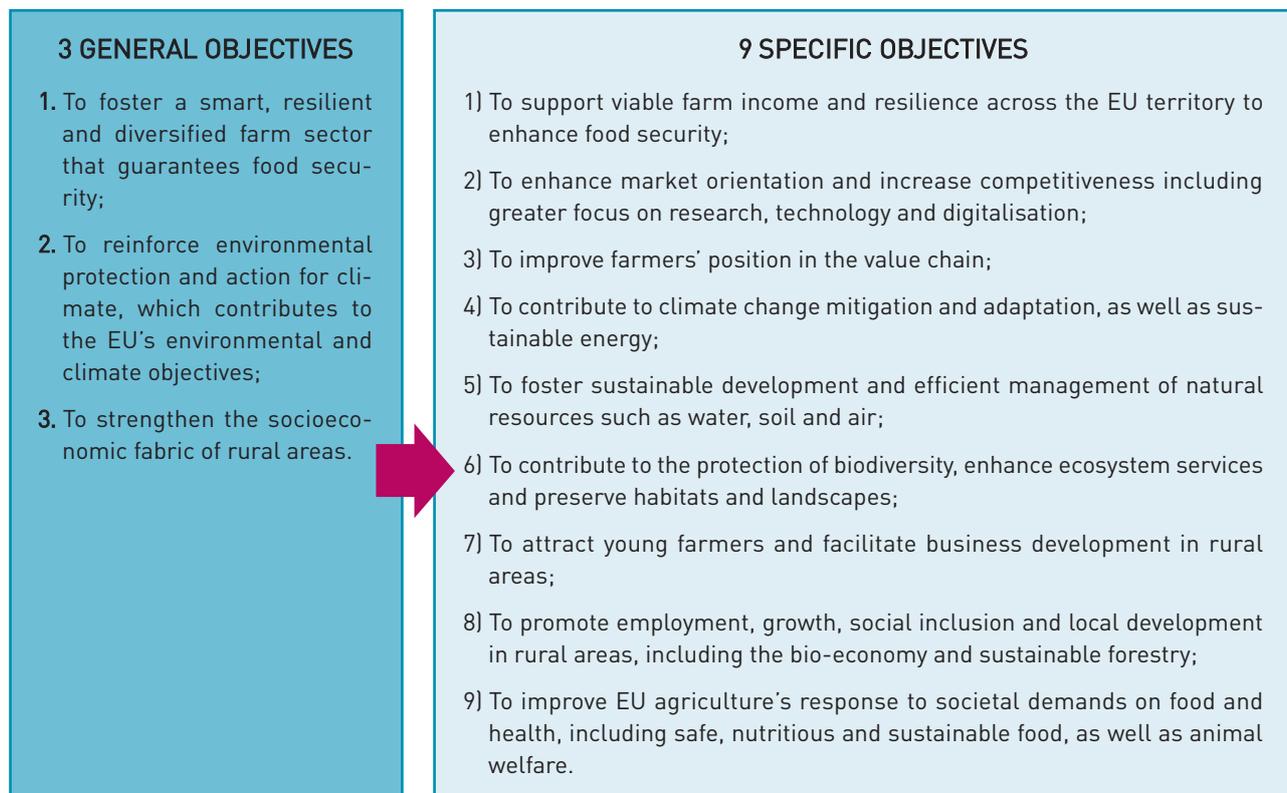
As demonstrated by the analyses of the regulation proposals for the post-2020 CAP, Rural Development in the future 2021–2027 programming may undergo significant revisions. In particular, the proposals presented by the Commission establish that the Rural Development Policy hinges on 3 General Objectives and 9 Specific Objectives integrated with Pillar I. This is a substantial transformation from the current structure of the 2014–2020 programming period which, on the other hand, is characterised by 6 Priorities and 18 Focus Areas, as shown in Figure 4.1.

Figure 4.1: Structure of the 2014–2020 Rural Development Policy

6 PRIORITIES	18 FOCUS AREAS
Priority 1: Knowledge Transfer and Innovation	FA 1A: Fostering innovation, cooperation and the development of the knowledge base in rural areas; FA 1B: Strengthening the links between agriculture, food production and forestry and research and innovation; FA 1C: Fostering lifelong learning and vocational training in the agricultural and forestry sectors.
Priority 2: Farm Viability and Competitiveness	FA 2A: Improving the economic performance of all farms and facilitating farm restructuring and modernisation; FA 2B: Facilitating the entry of adequately skilled farmers into the agricultural sector and generational renewal.
Priority 3: Food Chain Organisation and Risk Management	FA 3A: Improving competitiveness of primary producers by better integrating them into the agri-food chain; FA 3B: Supporting farm risk prevention and management.
Priority 4: Restoring, Preserving and Enhancing Ecosystems	FA 4A: Restoring, preserving and enhancing biodiversity; FA 4B: Improving water management; FA 4C: Preventing soil erosion and improving soil management.
Priority 5: Resource-efficient, Climate-resilient Economy	FA 5A: Increasing efficiency in water use by agriculture; FA 5B: Increasing efficiency in energy use in agriculture and food processing; FA 5C: Facilitating the supply and use of renewable energy sources; FA 5D: Reducing greenhouse gas and ammonia emissions from agriculture; FA 5E: Fostering carbon conservation and sequestration in agriculture and forestry.
Priority 6: Social Inclusion and Economic Development	FA 6A: Facilitating diversification, creation and development of small enterprises, as well as job creation; FA 6B: Fostering local development in rural areas; FA 6C: Enhancing the accessibility, use and quality of information and communication technologies (ICT) in rural areas.

Source: our data

Figure 4.2: New structure for the 2021-2027 rural development



Source: our data

In particular, the 3 General Objectives that should guide Rural Development policies for the 2021-2027 period are as follows:

1. To foster a smart, resilient, and diversified agriculture;
2. To bolster environmental care and climate action;
3. To strengthen the socioeconomic fabric of rural areas.

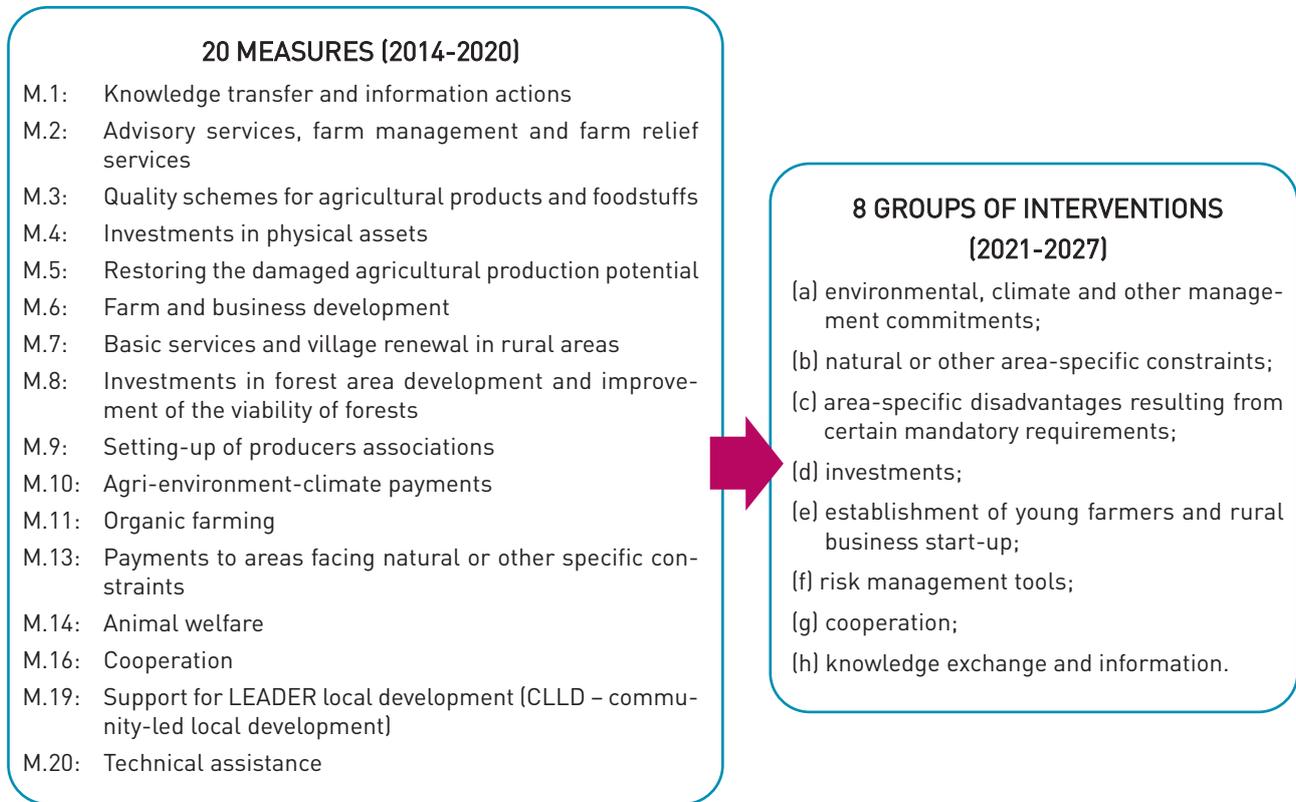
Those objectives should run alongside the cross-cutting objective of modernising the sector by fostering and sharing knowledge, innovation and digitalisation in agriculture and rural areas.

In turn, the 3 General Objectives break down into 9 Specific Objectives, which focus on the following aspects: the competitiveness of enterprises and supply chain relationships, mitigation of climate change, sustainable environmental development and protection of the landscape, support for employment and social inclusion (Figure 4.2).

4.2 From 20 Measures to 8 groups of intervention

A comparison between the current programming and that set out by the Commission for the near future shows a significant streamlining of the number of measures. In fact, the 20 Measures (including Technical assistance) defined in the 2014-2020 programming and further broken down into sub-measures and types of operations, become the 8 groups of Interventions provided for in the arrangement of the new proposal for a regulation under discussion (figure 4.3).

Figure 4.3. Comparison between Measures/Interventions between 2014-2020 Programming and 2021-2027 Programming



Source: our data

In addition to a reduction of the number of interventions, there is also to be a smaller degree of detail than the current Regulation (EU) No. 1305/13. This approach is a result of the desire to streamline the Community-level regulatory scaffolding in the future, shifting the focus towards results and effectiveness. Member States should therefore be free to decide how to best achieve common goals, while at the same time responding to the specific needs of their farmers, their rural communities, and society as a whole.

The following is a brief examination of the Rural Development interventions proposed for the new CAP.

a) Payments for environmental, climate and other management commitments;

Member States grant payments for management commitments that go beyond the relevant statutory requirements established by conditionality, as well as the other statutory requirements laid down by national and EU law. The inclusion of agri-environment-climate commitments in the CAP plan is mandatory for Member States. Indeed, Member States must allocate at least 30% of the EAFRD resources of the CAP Strategic Plan to interventions relating to climate-environment objectives.

The commitments are taken on for a 5- to 7-year period. Exceptions may be set out, with a longer period established in the CAP plan, where necessary, in order to achieve or maintain certain environmental benefits.

b) Payments for natural or other area-specific constraints;

Member States may grant support for natural or other constraints to offset, in whole or in part, additional costs and foregone income in the area concerned.

These payments are granted to genuine farmers in the areas set out in Article 32 of Reg. (EU) No. 1305/2013, which classifies the eligible areas as follows:

- mountain areas;
- areas, other than mountain areas, facing significant natural constraints;
- other areas affected by specific constraints.

Payments are granted on an annual basis by hectare of area.

c) Payments for area-specific disadvantages resulting from certain mandatory requirements;

Member States may grant payments for area-specific disadvantages resulting from the implementation of environmental directives.

When determining the areas with disadvantages, Member States may include the following types:

- Natura 2000 agricultural and forest areas as referred to in Directives 92/43/EEC and 2009/149/EC;
- other confined nature protection areas with environmental restrictions applicable to farming or forests, provided that these areas do not exceed 5% of the designated Natura 2000 areas of each CAP Strategic Plan;
- agricultural areas included in river basin management plans pursuant to Directive 2000/60/EC.

Also for this intervention, payments are granted per hectare of area and are aimed at offsetting, in whole or in part, additional costs and foregone income in the area concerned.

d) Investments

Member States may support only tangible and/or intangible investments which contribute to achieving the specific CAP objectives. Support to the forestry sector shall be based on a forest management plan or equivalent instrument.

The maximum support at EU level is limited to 75% of the eligible costs, and may be increased in the following cases:

- afforestation and non-productive investments linked to environmental- and climate-related objectives;
- investments in basic services in rural areas;
- investments to restore agricultural or forestry potential following natural disasters or catastrophic events.

e) Establishment of young farmers and rural business start-ups;

A noteworthy new element is the measure for start-ups of farm activities by young people, with support that may be granted *up to a maximum of EUR 100,000 in the form of lump sums, and which may be combined with financial instruments*. In the current programming, the maximum contribution that may be granted is EUR 70,000 in the form of an outright grant.

The data shown below on the intervention's application in Italy highlights young people's interest in this instrument, which might play an important role in the upcoming programming as well. It is an opportunity we hope will be further strengthened and geared towards a greater simplification of procedures.

In addition to supporting the establishment of young farmers, Member States may grant support for:

- the start-up of rural business linked to agriculture and forestry or farm household income diversification;
- start-ups of non-agricultural activities in rural areas which are part of local development strategies.

f) Risk management tools

The post-2020 regulatory proposals reconfirm the current architecture of the risk management tools that emerged after approval of the Omnibus Regulation. Indeed, Member States may grant support in order to promote risk management tools which help farmers manage production and market risks relating to their agricultural activity, in the form of:

- financial contributions towards insurance premiums;
- financial contributions towards mutual funds, including administrative set-up costs.

In line with the new elements introduced by the Omnibus Regulation, support is limited to a maximum rate of 70% of the eligible costs, and is guaranteed to cover losses exceeding 20% of the average production (in the case of insurance) or income (for mutual funds).

g) Cooperation

Intervention on Cooperation, which was a new element in the 2014-2020 programming, is also confirmed by the Commission's post-2020 proposal. Member States may grant support to cooperation for the development and implementation of Operational Group projects of the European Innovation Partnership for agricultural productivity and sustainability (EIP), community-led local development strategies (LEADER) and to promote quality schemes, producer organisations, producer groups, or other forms of cooperation.

Support for cooperation is granted in the form of an overall amount covering the costs of cooperation and implementation of projects which involve at least two parties. Interventions that involve only and exclusively research bodies are not eligible. Support is limited to a maximum of 7 years unless in the event of exceptions that may be granted, for example, for actions aimed at pursuing environmental and climate-related objectives.

h) Knowledge and farm innovation systems

As far as the farm advisory issue is concerned, as discussed in chapter 2 and as shall be set out in detail below, the approach is to strengthen knowledge and information tools, including by setting up the Farm Advisory System. In particular, for the interventions established for Rural Development, Member States can grant support for knowledge exchange and information in farm, forest, and rural sectors.

Support covers actions aimed at promoting innovation, access to training, advice and exchange, as well as dissemination of knowledge and information to achieve the CAP's specific objectives.

The maximum intensity of aid is 75% of the eligible costs while, for setting-up farm advisory services, a maximum fixed amount of EUR 200,000 has been established.

4.3 Allocation of resources, results, and decommitment in the period 2021-2027

The 2021-2027 programming also re-proposes certain minimum thresholds for the allocation of EAFRD resources for certain interventions.

In particular, Member States must mandatorily activate the agri-environment-climate commitments in their own CAP Strategic Plan, allocating them resources amounting to at least 30% of the total EAFRD resources. Moreover, with regard to the constraints on attributing resources as provided for by the proposal for a regulation, at least 5% of resources must be allocated to LEADER, and no more than 4% to Technical Assistance.

Here it is worth discussing the implementation of the LEADER Measure in Italy in the current 2014-2020 programming. In particular, an analysis of the data on the level of implementation at 31 December 2017 shows little spending progress for the Measure, which is among those lagging furthest behind in the Rural Development area. In fact, in late 2017, spending for the intervention was 3.24% of the total (EUR 1,220.53 million) amounting to EUR 39.56 million, against an average total expenditure for rural development programmes of 13%.

In relation to the issue of spending delays, the analysis of the new regulatory texts for the next programming period shows a *greater focus on the constant monitoring of progress and on the achievement of the agreed objectives*. In particular, this reinforces the results-based model, which will be linked to the assessments as to the provision of financing, in addition to a possible mechanism of decommitment of resources connected with the achievement of targets, and based on regular checks. Indeed, in the upcoming programming period, at an annual frequency, countries must send the Commission an effectiveness report in order to demonstrate the progress achieved based on specific result indicators. The Commission will examine the reports and, if necessary, develop recommendations to improve effectiveness.

It should be borne in mind that during the current programming period, the decommitment of resources is linked exclusively to the capacity to commit and spend them, and not to the achievement of physical targets. On the other hand, the achievement of these targets only characterises the attribution of the performance Reserve which, for the 2014-2020 period, is EUR 1.25 billion. Indeed, the assignment of this performance Reserve is conditional upon the achievement of objectives set out in the programme. In particular, the attribution of the reserve is tied to the achievement of the programmes' interim targets (broken down by priority) based on the findings of the Annual Implementation Report submitted by the Member States in 2019. In this regard, the European Commission has two months to adopt a Decision and to attribute the effectiveness reserve to the Priorities that have achieved the interim targets.

Moreover, as far as decommitment is concerned, the intention – after the n+3 parenthesis in the 2014-2020 period – is to return to the n+2 rule. This choice is no small challenge for Italy, given the country's traditionally slow speed of spending. The data on the level of spending in Italy in late 2017 shows that, since the start of the programming, only 13.40% of the total resources has been spent (net of the amounts paid as pre-financing, equal to 3% of the budget of each rural development programme). This comes to EUR 2,803 million, with EAFRD accounting for EUR 1,377 million (updated to 31 December 2017). This situation is exacerbated by significant territorial divergence with regions in greater spending difficulty.

4.4 The farm advisory outlook

Analysis of the proposal for a regulation confirms the importance attributed to Farm Advisory as an instrument of support for farmers, in order to promote integration between farm and territorial management.

Member States will have to include in the CAP Strategic Plan appropriate Advisory Services for farmers and other beneficiaries for farms and land management. These Advisory Services – in addition to providing support in terms of technological innovation – will have to specifically encompass the three areas of sustainability: the economic, environmental, and social aspects.

These advisory services must be integrated into the Agricultural Knowledge and Innovation Systems (AKIS) with the objective of improving the quality and effectiveness of advice and providing up-to-date information and scientific technologies developed by the world of research and innovation. In particular, by promoting interaction among the various players in research, education, development/dissemination services and end-users, AKIS can contribute towards achieving the farm advisory objectives and the CAP objectives more generally.

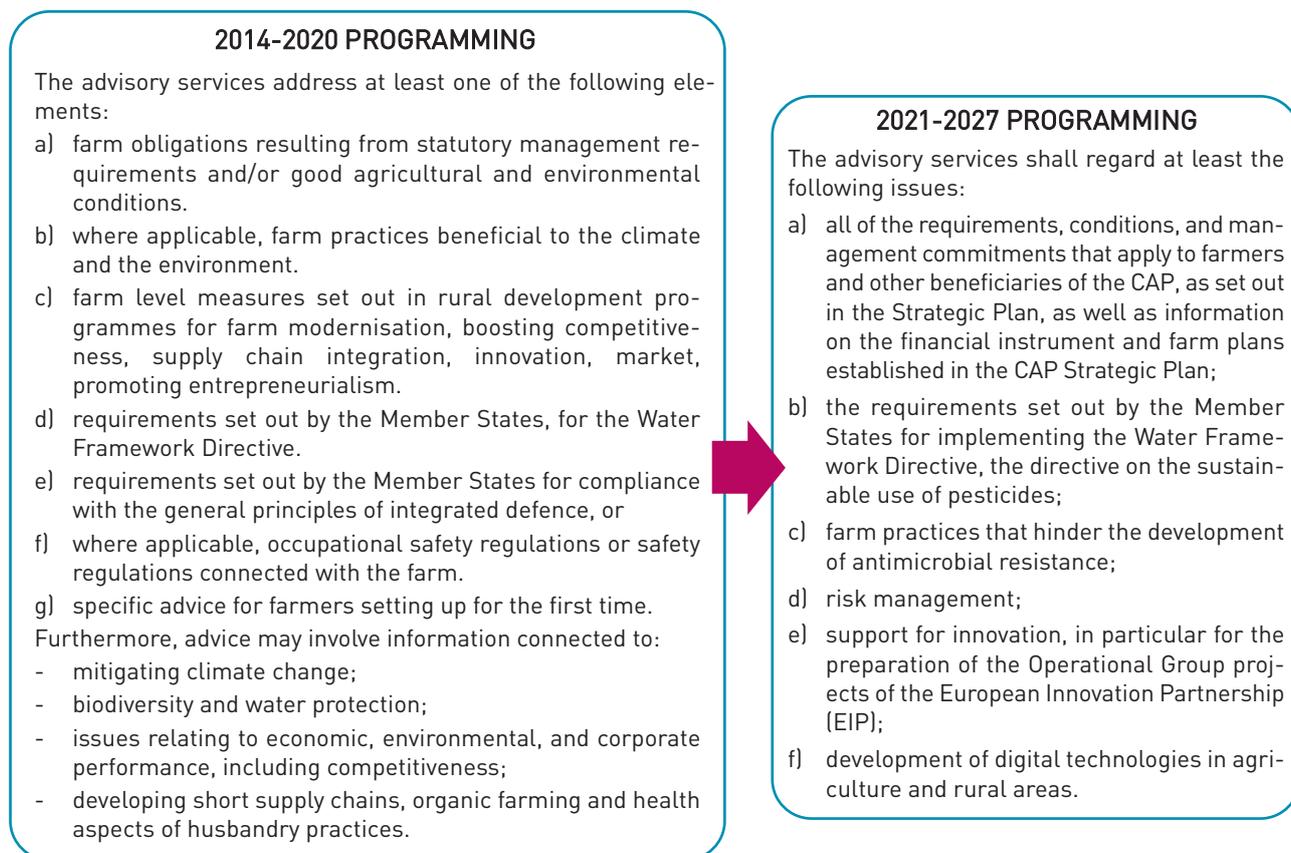
The regulatory proposals also show a stronger bond between the modernisation of the CAP and the system of knowledge, innovation, and digitalisation the advisory services are part of. Indeed, in their Strategic Plans, Member States will have to specifically highlight:

- a) how the CAP Strategic Plan will contribute to the cross-cutting objective of promoting and sharing knowledge, innovation, and digitalisation. In particular, AKIS organisational arrangement will have to be described, as well as the ways in which advisory services, research, and the CAP's networks will work together. More in-depth analysis will also have to be dedicated to the way in which consulting and innovation support services are provided;
- b) the strategy for the development and use of digital technologies in farming and rural areas to improve the effectiveness and efficiency of the CAP Strategic Plan.

Returning to the general provisions on the implementation of the farm advisory services, the new proposal for a regulation sets out a list of the topics on which the farm advisory services will be based. A comparison will be shown between the topics established in both the current and future programming.

Therefore, for the future of advisory services, certain strategic issues, such as “environment”, “innovation” and “risk management”, recur and are given further attention. However, certain topics of importance set out in the current regulations, such as the establishment of young people, issues relating to the short supply chain, and the broader issue of competitiveness, have been left out (Figure 4.4).

Figure 4.4: Comparison of Advisory topics



Source: our data

Box 1: Application of Farm Advisory in the current programming

In recent years, the issue of farm advisory has been playing an ever-greater role in establishing farm policies, with a growing programming commitment. However, despite the Measure's strategic importance and the programming commitment dedicated to it, farm advisory has encountered various application challenges to date that have kept it from getting started.

These difficulties may be attributed mainly to certain new elements introduced with Reg. (EU) 1305/13, in particular on the issue of the "beneficiaries" and their "selection procedures". On top of that is the problem of VAT eligibility.

In order to guarantee the intervention's complete operativity, Coldiretti has taken action to demand an immediate solution to these critical areas of application, in a series of dialogues and in-depth analyses with the Ministry of Agricultural, Food and Forestry Policies (MIPAAF), AGEA, and other stakeholders.

Following a series of amendments set out in the text of the Omnibus Regulation, the Farm Advisory Measure now seems ready for its final launch in all regions. This launch is also consolidated by the publication of the 'Method for determining the Standard Cost Units for advisory services funded by sub-measure 2.1 of the Regional Development Programmes' by MIPAAF/ISMEA (Istituto di Servizi per il Mercato Agricolo Alimentare) on 11 May 2018.

In this regard, it is important to bear in mind that the regulatory provisions provided for in Reg. 1305/13, prior to the amendments introduced by the Omnibus Regulation, meant that it was not possible to adopt the simplified costs for the intervention. This is because the application of the regulation on public tenders for the selection of the Advisory Bodies was mandatory.

By removing said obligation, the recent amendment of Reg. 1305/13 under the aforementioned Omnibus Regulation introduced this possibility.

It is also important to discuss the type of beneficiaries of the support, which as of the 2014-2020 programming period, became directly the bodies/entities rendering the advisory service. Nonetheless, the farmer remains the final recipient of the intervention.

CHAPTER 5

The inheritance of the single Common Market Organisation (CMO) and the CAP in the sectors

5.1 The new arrangement of the single CMO

The Commission's proposal regarding the Common Market Organisation (CMO) calls for amendments to the management of specific sectors, while the general architecture of Reg. 1308/2013 remains unaltered, maintaining its main features. Therefore, unlike the other CAP regulations that are proposed with an ex novo juridical wording, the Single CMO is only subject to an amendment of the current Reg. 1308/2013.

The most important change in the future management of the CMO is the transition of sectoral interventions (fruit and vegetables, wine, olive oil, beekeeping, hops) from Reg. 1308/2013 to the general regulation on the CAP, along with direct payments and Rural Development. As such, the sectoral supports come under the Member States' Strategic Plans.

The proposed amendments to Reg. 1308/2013 regard the following aspects:

- to simplify the first part of the Regulations (part on the introductory provisions), eliminating redundant and obsolete definitions;
- to update the limits of aid to schools by the EU for fruit and vegetable products, milk, and milk products;
- to remove the interventions to support fruit and vegetables, wine, oil, hops, and beekeeping products sectors, and of other sectors like cereals, rice, sugar, dried fodder, seeds, flax, hemp, bananas, tobacco, beef, pork, sheepmeat and goatmeat, poultry, eggs, milk and dairy products, and silkworms;
- to remove a series of obsolete provisions, including the system of regulating the production and requirements applicable to the sugar sector, which expired at the end of the 2016/2017 marketing campaign;
- to simplify the regulations on geographical indications;
- to simplify the regulations in the wine sector to address the new economic, environmental, and climate challenges more decisively.

Additional variations relate to the provisions that transfer the commitments taken on by the EU and its Member States to domestic legislation in the context of the recent ministerial decisions of the World Trade Organisation, particularly on export subsidies and more generally on export competitiveness measures.

The shift of sectoral supports (fruit and vegetables, wine, olive oil, apiculture, hops) from Reg.

1308/2013 to the general regulation on the CAP is an important choice, with the aim of ensuring better consistency in the new CAP interventions. This way, the Strategic Plans serve as a genuine and complete national rural and farm plan, encompassing all the interventions: direct payments, market measures, rural development.

It should be stressed that optional interventions may be inserted into new sectors (beef, pork, sheepmeat and goatmeat, poultry, eggs, milk and dairy products), with a similar model to the current one for fruit and vegetables.

In brief, all sectoral support policies are removed from the single CMO, leaving only a legal text that regulates the management of the domestic market (safety nets), marketing rules, and exchanges with Third Countries.

5.2 Sectoral interventions: from Reg. 1308/2013 to the CAP Strategic Plan

The mandatory and optional interventions that Member States must have as a reference when constructing their national plan, relate to the following sectors:

- fruit and vegetables sector (mandatory);
- beekeeping products sector (optional);
- wine sector (mandatory);
- olive oil and table olives sector (optional);
- hops sector (optional);
- other sectors set out in Article 1(2) of Regulation (EU) No. 1308/2013, except for the sectors of processed fruit and vegetables, tobacco, ethyl alcohol, and other products (optional).

5.2.1 Fruit and vegetables sector

The interventions established in the fruit and vegetables sector, the application of which is mandatory, present no substantial new elements, and the objectives have remained unchanged:

- a) planning of production, adjusting production to demand (particularly in terms of quality and quantity), optimising production costs and returns on investments and stabilising producer prices;
- b) concentrating the supply and placing the products on the market including through direct marketing; (mandatory for Member States);
- c) research and development of sustainable production methods, such as resistance to parasites and innovative practices to boost economic competitiveness and bolster market developments;
- d) developing and implementing production methods that respect the environment, environmentally sound cultivation practices and production techniques, sustainable use of natural resources, in particular the protection of water, soil, air, biodiversity and other natural resources (mandatory for Member States);
- e) helping towards climate change mitigation and adaptation (mandatory for Member States);
- f) boosting products' commercial value and quality, including by improving product quality and developing products with a protected designation of origin, with a protected geographical indication or covered by national quality schemes;

- g) promoting and marketing products from the fruit and vegetables sector, whether in a fresh or processed form;
- h) increasing consumption of products from the fruit and vegetables sector, whether in a fresh or processed form;
- i) crisis prevention and risk management to avoid and address crises on the fruit and vegetables markets.

The objectives and types of intervention in the fruit and vegetables sector, determined by Member States in their Strategic Plans, are implemented through the operational programmes of recognised producer organisations and/or associations of recognised producer organisations that can set up an operational fund to finance precisely the operational programmes approved by the Member States.

The operational fund may be funded by:

- contributions from members of the producer organisation and/or the producer organisation itself, or by associations of producer organisations through the members of those associations;
- EU financial assistance, which may be granted to producer organisations or to their associations where those associations present an operational programme.
- EU financial assistance amounts to the sum of the financial contributions currently paid and limited to 50% of the actual expenditure incurred, limited to:
 - 4.1% of the value of the marketed production of each producer organisation;
 - 4.5% of the value of the marketed production of each association of producer organisations;
 - 5% of the value of the marketed production of each transnational producer organisation or transnational association of producer organisations

Additional exceptions are established for producer organisations.

5.2.2 *The beekeeping sector*

The intervention in the beekeeping sector must pursue at least one of the objectives established for the CAP, for which Member States must choose one or more types of intervention from among those established in the beekeeping sector to be included in their Strategic Plans:

- a) technical assistance to beekeepers and beekeepers' organisations;
- b) actions to combat beehive invaders and diseases, in particular varroosis;
- c) actions to rationalise transhumance;
- d) actions to support laboratories for the analysis of apiculture products;
- e) restocking of beehives in the EU;
- f) cooperation with specialised bodies for the implementation of research programmes in the field of beekeeping and apiculture products;
- g) market monitoring actions;
- h) actions to enhance product quality.

EU financial assistance to the apiculture sector amounts to a maximum 50% of the expenditure incurred by the Member States.

5.2.3 Wine sector

The intervention foreseen in the wine sector – with mandatory application for Member States – pursues the following objectives:

- a) to improve the competitiveness of EU wine producers, in particular for sustainable production systems and to reduce environmental impact;
- b) to improve the performance of EU wine companies and their adaptation to market demands, as well as boost their competitiveness and sustainable processes;
- c) to help restore the balance of supply and demand in the EU wine market in order to prevent market crises;
- d) to help safeguard EU wine producers' incomes where they incur losses as a result of natural disasters, adverse climatic events, animals, diseases or pest infestations;
- e) to boost the marketability and competitiveness of EU wine products through innovative products, processes and technologies, added value for the sector, and knowledge;
- f) to use wine making by-products for industrial and energy purposes, protecting the environment;
- g) to help raise consumer awareness about responsible consumption of wine and about EU quality schemes for wine;
- h) to improve competitiveness of EU wine products in third countries;
- i) to help increase producers' resilience to market fluctuations.

For each specific objective, Member States choose one or more of the following types of intervention in their Strategic Plans:

- restructuring and conversion of vineyards, not including the normal renewal of vineyards consisting of replanting the same parcel of land with the same grape variety according to the same system of vine cultivation, when vines have come to the end of their natural life;
- tangible and intangible investments in processing facilities and winery infrastructure, as well as marketing structures and tools;
- green harvesting meaning the total destruction or removal of grape bunches while still in their immature stage, thereby reducing the yield of the relevant area to zero and excluding non-harvesting where commercial grapes are left on the plants at the end of the normal production cycle;
- harvest insurance against income losses as a result of adverse climatic events such as natural disasters, adverse climatic events, animals, plant diseases or pest infestations. Insurance contracts require beneficiaries to adopt the necessary risk prevention measures;
- tangible and intangible investments in innovation consisting of developing innovative wine products and by-products, processes and technologies, other investments adding value at any stage of the supply chain, including for the exchange of knowledge;
- distillation of wine-making by-products carried out in accordance with the conditions established;
- awareness actions on EU wines carried out in Member States encouraging responsible consumption of wine or promoting EU quality schemes covering designations of origin and geographical indications;

- promotion carried out in third countries, with various actions such as public relations, promotion or advertisement, particularly highlighting the high standards of EU products, especially in terms of quality, food safety or the environment.

EU financial support to the wine sector, allocated within the set budget limits, shall not exceed the following limits:

- for restructuring: 50% of actual costs for restructuring and converting vineyards or 75% of the actual costs for restructuring and converting vineyards in less developed regions;
- for the investment cost: 50% in less developed regions, 40% in other than less developed regions, 75% in the outermost regions, 65% in the smaller Aegean islands;
- for green harvesting: 50% of the sum of the direct costs of the destruction or removal of grape bunches and the loss of revenue relating to said destruction or removal;
- for harvest insurance premiums: 80% for losses resulting from natural disasters, 50% for losses caused by adverse climatic events and losses caused by animals, plant diseases, or pest infestations. EU financial assistance for harvest insurance may be granted if the insurance payments in question do not compensate producers for more than 100% of the income loss incurred, taking into account any compensation the producers may have obtained from other support schemes relating to the insured risk;
- for innovation (eligible investment costs): 50% in less developed regions, 40% in regions other than less developed regions, 75% in the outermost regions, 65% in the smaller Aegean islands;
- information and promotion actions: 50% of eligible expenses.

The Member States concerned shall set in their national support programmes a minimum percentage of expenditure for actions aimed at protecting the environment, adapting to climate change, improving sustainability of production systems and processes, reducing the environmental impact of the EU wine sector, energy savings and improving global energy efficiency in the wine sector.

5.2.4 Olive oil and table olives sector

Intervention in the olive oil and table olives sector pursues the following objectives:

- a) to reinforce the organisation and management of production of olive oil and table olives;
- b) to boost medium and long-term competitiveness of the olive oil and table olives sector, in particular through modernisation;
- c) to reduce the environmental impact of olive cultivation;
- d) to improve the quality of olive oil and table olives;
- e) research and development of sustainable production methods;
- f) crisis prevention and management in the olive oil and table olives markets.

The Member States choose at least one objective and establish the types of intervention needed to achieve them in their Strategic Plans.

EU financial assistance is limited to the share of the amounts withheld by the Member State:

- 75% for interventions linked to the objectives referred to in points a) b) c), and e);
- 75% for fixed assets investments 50% for interventions linked to the objectives referred to in point d);

- 50% for interventions linked to the objectives referred to in point f);
- 75% for the intervention where the operational programme is implemented in at least three third countries or non-producing Member States by producer organisations from at least two producing Member States;
- 5% of the marked production value of each producer organisation or association of producer organisations.

Member States provide complementary financing up to 50% of the costs not covered by EU financial assistance.

The objectives and types of intervention established by the Member States are implemented through operational programmes of recognised producer organisations and/or associations of recognised producer organisations.

5.2.5 Hops sector

The intervention in the hops sector pursues the following objectives:

- a) planning of production, adjusting production to demand, particularly in terms of quality and quantity;
- b) concentrating the supply and placing products from the hops sector on the market, including through direct marketing;
- c) optimising production costs and returns on investments in response to environmental standards and stabilising producer prices;
- d) research and development of sustainable production methods, including pest resilience, innovative practices that boost economic competitiveness and bolster market developments;
- e) promoting, developing and implementing production methods that respect the environment, environmentally sound cultivation practices and production techniques, sustainable use of natural resources, particularly for the protection of water, soil and other natural resources;
- f) helping towards climate change mitigation and adaptation.

In their CAP Strategic Plan, Member States set out one or more types of interventions for the purpose of pursuing the chosen objectives for which the interventions have been determined.

5.2.6 Interventions in other sectors

Optional interventions are established in other sectors (beef and veal, pork, sheepmeat and goatmeat, poultry, eggs, milk and dairy products) that pursue the following objectives:

- a) planning of production, adjusting production to demand, particularly in terms of quality and quantity, optimisation of production costs and returns on investments and stabilising producer prices;
- b) concentrating supply and placing products from one or more sectors on the market;
- c) research and development of sustainable and innovative production methods and production techniques that promote the specific objectives;
- d) promoting and implementing production methods that respect the environment, animal welfare standards, respectful conservation techniques, production techniques and production methods, environmentally sound use and management of by-products and waste, sustain-

able use of natural resources, particularly the protection of water, soil and other natural resources;

- e) helping towards climate change mitigation and adaptation;
- f) boosting products' commercial value and quality, and promoting products, including by developing products with a protected designation of origin, protected geographical indication, or which are covered by national quality schemes;
- g) promoting and marketing products from one or more sectors;
- h) crisis prevention and risk management to avoid and address crises in the markets.

For these objectives, the Member States choose one or more types of intervention in their Strategic Plans.

For each sectoral intervention that the Member States choose to implement in their Strategic Plans, the objectives in points b), d), e), and h) are mandatory.

The operational programmes establish the types of intervention and may be implemented only by recognised producer organisations and/or associations of recognised producer organisations.

Producer organisations and/or their associations can set up an operational fund and the EU's financial assistance amounts to the sum of the financial contributions paid and limited to 50% of the actual expense incurred.

EU financial assistance is limited to 5% of the marketed production value of each producer organisation or association of producer organisations.

5.3 Regulations on geographical indications (GIs)

The simplification of the rules on geographical indications (GIs), as already stated by the EU Commission's communication on the future of the CAP, aims to make them more attractive to farmers and consumers, with streamlined regulations, faster registration of geographical indications, and a more efficient approval of amendments to the product specifications.

For geographical indications for wine, the simplification should make it possible to:

- limit EU scrutiny of applications to checking them against manifest errors;
- separate intellectual property rules from other requirements laid down by the product specifications;
- authorise Member States to decide on amendments that do not have impacts at EU level, to streamline approvals, shorten timelines, and rationalise resources, in line with the principles of subsidiarity and proportionality;
- simplify certain specific procedures, such as the objection procedure, and that for making the approval process more efficient.

For aromatised wines, the GI scheme should not be operational (as the numbers are modest in size) and should be merged into another scheme – the agricultural products and foodstuffs scheme as it already covers other alcoholic beverages.

For the Protected Designation of Origin, the clarification of the definition aims to enable producer groups to use new varieties, also in response to climate change, and to adapt applications in line with viticulture and winemaking enterprises. It is also proposed to reinforce the protection of GIs against counterfeiting on imported goods and those in transit.



The simplification for GIs should also be applied to agricultural products and foodstuffs (as for the wine sector) to ensure a reasonable level of consistency between the schemes and to bring the above benefits to producers of GIs in this sector.

CHAPTER 6

The new CAP architecture and new delivery model: risks and opportunities for Italy

The Commission's Communication on the future of the CAP of November 2017 was at first sight less dense in content than the similar forward-looking works that accompanied the CAP reform proposals in the past. It comes as no surprise that many of the first comments had underscored the lack, in the text presented by the Commission, of clear references to strategic scenarios resulting from the initial impact assessment, published only a few months earlier (http://ec.europa.eu/smart-regulation/roadmaps/docs/2017_agri_001_cap_modernisation_en.pdf) and only very vague references to the future design of the CAP, to which the document in fact dedicates a single, brief paragraph.

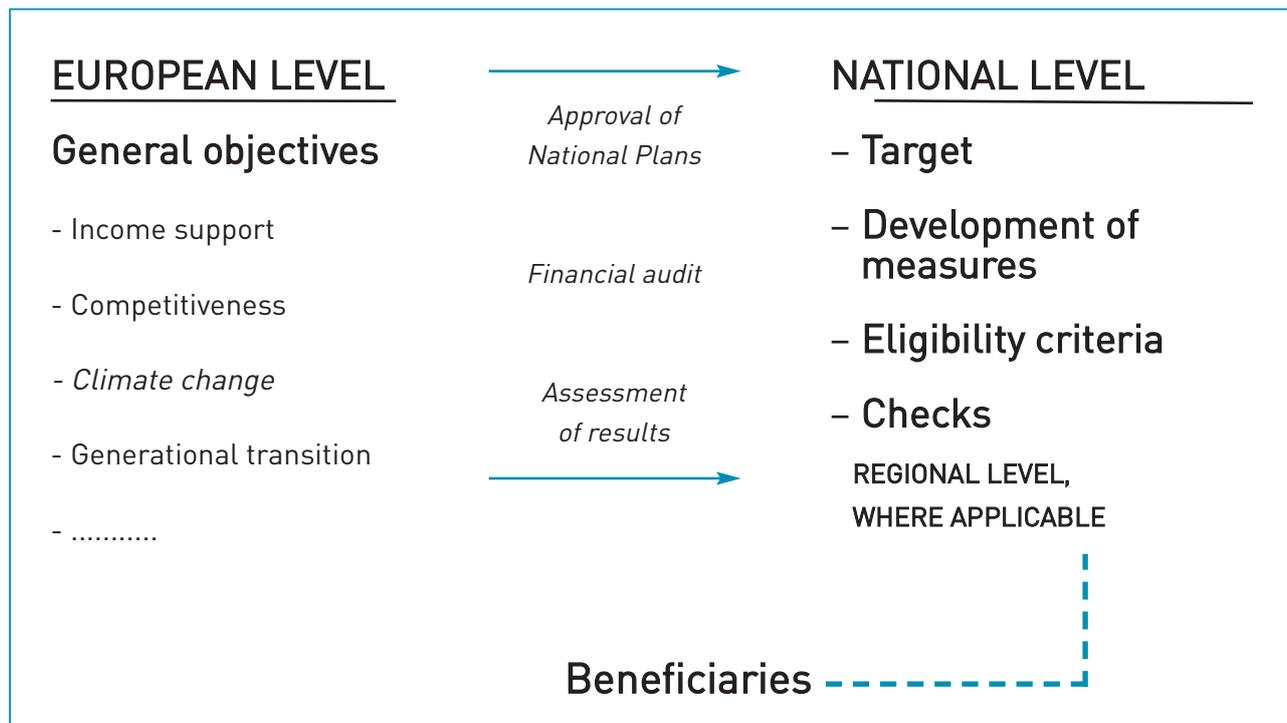
However, upon further analysis, the few lines devoted to this subject in the chapter on the so-called "new delivery model" may signal a radical turning point in the architecture and governance of the CAP, heralding an extension also to the Pillar I measures (direct payments and market interventions) of the programming approach that characterises the management of rural development policies.

This turning point would mean extending two basic principles to the entire CAP. The first one – linked to the idea of subsidiarity – is that the territories (Member States and Regions) are grappling with challenges and constraints that are often very varied and that, therefore, a single, rigid intervention model is not easily reconciled with the need to contextualise support for the sector. This idea takes shape in the growing operational flexibility given to the Member States in adapting the CAP to their own needs which is, in turn, reflected in the Member States' greater programming prerogatives and in the wider room for negotiation/mediation between national choices and Community objectives. The second principle lies in the relationship between Community resources and their beneficiaries, the management of which requires greater commitment and accountability from the Member States and/or Regional Authorities.

This requires taking a closer look at the decentralisation (or re-nationalisation) process of the CAP, also in its component to support farmers' income and manage the markets. The Commission's proposal, by combining these two principles, heralds a two-level intervention scheme: the first connects the Commission to the Member States, where the Commission supervises the consistency of the national/regional plans, with the basic references established by the new Regulations and the subsequent implementing acts. These references mainly result in objectives, indicators, basic requirements of the measures and beneficiaries, supervisory activities, as well as potential sanctions. The second level connects the Member States/Regions to the beneficiaries, with Member States tasked with setting the specific objectives, the measures to be adopted, their distribution, eligibility criteria for beneficiaries, and the control mechanisms

This set of choices makes up the framework for what the Commission proposal describes as the National Strategic Plan which, in addition to rural development measures, includes the direct payments and measures established by the proposal on the Common Market Organisation (CMO).

Figura 6.1: dagli obiettivi all'intervento: il doppio livello del *new delivery model*



Source: our data

6.1 National Strategic Plans

The introduction of direct payments and market measures into the purview of national programming may be interpreted as the completion of a path started some time ago. Indeed, a reading of the CAP's recent history shows us that many steps in this direction have already gradually been taken: from the 2003 reform, which opened up the first room for discretion for Member States in designing the direct payment system, up until the most recent 2013 reform which gave Member States broad autonomy in the distribution of resources between the mandatory and voluntary components of the current "menu" of direct payments. Today, in fact, more than 50% of the resources available for direct payments are available to the national authorities to be allocated among the scheme's components according to their discretion, and each Member State has put its own puzzle together, with significant divergences. Some of them were the result of various choices made in the aftermath of the 2003 reform between the system's regionalisation and anchoring to historic premiums, while others are the result of more recent strategic approaches following the development of the national farm policy objectives.

A clear demonstration of this process is provided by the decisions made on the coupled component of direct payments, which show substantial differences among the various Member States. This is the most discretionary (and potentially most distortive) part of the intervention and it is

clear to see that some countries – above all, France – have seized this opportunity to provide strong support for the husbandry sector, which was strongly marked by the recent crises in the prices of both milk and meat. Others, on the other hand, including Italy, have activated the coupled component with a “shower” approach to back more individual and territorial-based approaches by supporting multiple productions. The same differences found in the intensity of aid, expressed in relative terms with respect to the national budget dedicated to direct payments, make up an extremely varied picture of the use of the coupled premium in Europe. Ultimately, the distribution of resources allocated to coupled payments clearly shows the intention of the Member States that activated this component, to support the main domestic specialisations. Therefore, France (which holds around 20% of Europe’s beef cattle) accounts for more than 40% of the coupled resources used for the sector, and Spain (with a similar allocation of animals) only 13%. Dairy cattle and the rest of animal husbandry show the same dynamics. The risk of all of this is that it could penalise the most diversified national contexts, which inevitably dissipate coupled support over a number of sectors, in favour of more specialised models of agriculture.

These areas of flexibility are in addition to further decisions that now provide a better understanding of the Commission’s proposal. In particular, during the management of the recent milk crisis, extraordinary measures were adopted, the timing, selection and duration of which were entrusted entirely to the Member States, and the decisions that ensued differed greatly: some countries like Italy opted for price assistance; others, like the Netherlands, opted for incentives to contain supply, while others still opted for structural measures. The progressive expansion of the margins for manoeuvre granted to the Member States is widely perceived as an appropriate adjustment of the CAP to make the intervention more consistent with the specific national and territorial needs: a process to take proper account of existing differences among the various European agricultures, without abandoning a robust common framework and a European agriculture development project.

With the new delivery model, an additional, decisive step forward is taken in broadening the margins for manoeuvre granted to Member States and the regions. It is in fact proposed that the National Plan be drawn up in accordance with the current approach of the programming of rural development policies: where Europe is called upon to establish the strategic framework of reference and the common framework of monitoring and assessment, and where national/regional Authorities are engaged in developing the set of specific objectives, the contribution to the European strategy, and the procedures for measuring the results achieved.

6.2 Opportunities and risks of the new intervention model

The opportunities of the new delivery model are in the recitals to the legislative proposal, and may be summarised with the greater potential effectiveness of a programmed and coordinated intervention, and with the more efficient and consistent architecture.

On the first point, there is no argument over the general idea that the model – at least in the abstract sense – is capable of better responding to the needs of the various territories and their specific features. This is, in other words, a proper articulation of subsidiarity. More particularly, the possibility of better targeting the resources to the available instruments by administrations that are closer to the beneficiaries gives the opportunity to broaden the positive impacts of the resources used, while also contextualising their use. In the same way, the Commission’s hope, with this new architecture, is to reduce the administrative burdens connected with the manage-

ment of the CAP. The objective is clearly one that may be agreed with, but there is no clear explanation of how – or how far – to proceed with this path of subsidiarity: the proposal establishes only that the National Plan must contain a section dedicated to simplifying and reducing the administrative costs for the CAP's beneficiaries. Yet this does not explain what is underlined in the proposal's "in consideration of" clauses, i.e. the benefit that may result from the possibility given to Member States, through the National Plan, to define the eligibility criteria for CAP measures, and then to adapt it to their own needs.

Moreover, these undeniable opportunities expressed on the abstract level are countered by a series of perplexities involving both strategic aspects and more concrete and operational ones.

From an initial standpoint, whilst the transition to a CAP, which is focused less and less on products and production, and more and more on farms and their relationship with the territory, justifies greater consistency between the political initiative and specific territorial and sectoral features, a prospect of nationalisation as made possible in the Commission's proposal may even go further. If the CAP partly remains also a sectoral economic policy, the first effect of a diversified policy on a national or even regional basis is in fact that of attenuating – if not removing altogether – the European sense of this policy and, with it, the "C" in the CAP. This opens the door to potential distortions among Member States and Regions: a more flexible use of the resources allocated to direct payments and to market and sectoral interventions than the current one might result in national farm policies that are too far removed from one another, and in potential market crisis reactions that are no longer coordinated.

While Pillar II, given its nature as a container of local development policies, lends itself better to this approach, to the contrary many of the Pillar I measures, given their "cross-cutting" economic and sectoral nature, require a common framework of reference, one that is perhaps sturdier than what appears to be ensured by the new delivery model.

As far as the operational aspects are concerned, many doubts emerge, also with respect to the ambition of translating the infrastructure of the new delivery model into a simplification of the CAP and a reduction of its red tape. Member States are asked for unprecedented planning effort, and to systematise an intervention monitoring and management system which does not seem easy to achieve in the short term. In other words, while the new delivery model perhaps makes life easier for the Commission's officials, it is quite likely to create a lot more headaches for the Member States, especially those – like Italy – whose organisation establishes a primary role for the Regions in agricultural matters. It is easily be imagine how a possible regional development of the principles of the new delivery model might lead to a proliferation of intervention models, which prove risky from two standpoints:

- The potential for distorted/unequal distribution of support, in part already seen in the surface measures of rural development, as well as in the different rates of support and different selection criteria adopted for other measures contained in the regional rural development plans. The introduction of additional measures (relating to direct payments and sectoral interventions) within regional planning amplifies this risk, given also the financial importance of the interventions in question.
- Coordination and governance. The many difficulties that marked the birth, life, and at times the failure of the interregional bodies launched in Italy has for some time made us reflect on the issue of coordination and governance of farm policies in our country. The possibility of new or more extended administrative superstructures further intermediating the relationship between resources and beneficiaries would be a concrete risk in the event of a regionalisation

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of the Strategic Plans. This is perhaps inevitable, given the need to contextualise the coordination and administrative management mechanisms based on the decisions adopted during programming. This is all without considering that, should there be a desire to integrate the regional plans into a single national Strategic Plan – as would be hoped for – the timeframes and consistency of this national plan might be negatively impacted by delays from individual regions and/or by their various sensitivities towards the objectives to be pursued and instruments to be implemented.

CONCLUSIONS

The frame within which the proposal on the EU's financial prospects for 2021-27 was developed is defined by three main elements:

1. increased European revenues;
2. Brexit's effect of reducing the budget, as a result of the exit of a net-contributor Member State, and the need to come to terms with this;
3. the need for the EU to intervene in some emerging settings, such as migration phenomena. Regional and farm policies end up being penalised, and for the CAP it is in particular the rural development policy that pays the price, while more contained – but still considerable – is the cut proposed for Pillar I direct payments. The effect of this cut, combined with the criteria proposed for external convergence (penalised to a lesser extent than was feared on the eve of the cut), would lead to a net loss of the CAP budget for Italy in the upcoming Multiannual Financial Framework (2021-2027), which may be estimated in the order of 10% in current prices, compared with the current allocation (2014-2020). The external convergence mechanism proposed by the Commission continues to be based on the criterion of area, but the impact for Italy, as for some other countries, is fortunately mitigated by the provision of a preventive horizontal cut to the CAP budget of all Member States, amounting to 3.9%, more than enough to absorb the “cost” of the convergence.

As for content, the proposed changes are doubtlessly important – more than what the Commission's document of November 2017 would have initially led to believe.

The direct payments system is reviewed by the Commission's proposal in many points: the greening obligations are incorporated into a reinforced conditionality; the redistributive payment component becomes mandatory; the Member States are given the power to introduce an additional payment to offset the more ambitious environmental commitments. Moreover, capping and the internal convergence system complete a framework that is significantly renewed, within which to organise the system of direct support. The impacts of some of these proposals are to be examined in greater depth, while those of other proposals are already clear. The load of environmental obligations generated by the new super-conditionality, for example, might turn out to be excessively onerous with respect to the amount of the basic payment – certainly more than what has taken place thus far with the greening obligations. This will also depend on the weight that the Member State attributes to the other components of the direct payment system, within the broad margins granted by the proposal. With regard to Italy, it is our belief that the best road to take remains that of revisiting the current greening component, while replacing the set of current commitments with a broader menu of actions to respond to the Member States' specific and more articulated environmental needs. From this standpoint, the eco-scheme should take the place of the current greening component, essentially leaving un-

changed – or slightly increased – the current conditionality criteria which are mandatory for all.

Also, from the standpoint of market and sectoral interventions, the Commission proposes considerable new elements. The single CMO has all its sectoral measures removed, and its provisions are aimed exclusively at regulating the management of the markets, including security networks. The regulation of sectoral interventions is transferred to the general regulation with a number of new elements. In fact, only the interventions for the fruit and vegetables sector and the wine sector remain mandatory, while those in other sectors, with certain exclusions, particularly tobacco, processed fruit and vegetables, and ethyl alcohol, are considered optional.

Lastly, rural development appears to be the least affected chapter in the proposed reform presented by the Commission, although it is the one that suffers the most significant cut. Beyond the traditional update of the strategic framework of reference, articulated in objectives, actions, and measures, the hypothesis of broader margins of flexibility for the Member States is also confirmed for this area of intervention. However, worthy of note in the context of rural development is the central importance attributed to the spread of innovation and knowledge, as anticipated by the Communication on the future of the CAP. The strategic value of access to innovation, and the importance of support services for farmers, has been reconfirmed. We believe this point is highly sensitive given the characteristics of our model of agriculture, and that the issue of infrastructure, like that of knowledge-dedicated services, including advisory services, must undergo further analyses to seize the opportunity to promote a broader integration between the farm fabric and the service system.

The common and politically more important aspect of the proposals that have been presented is certainly the further expansion of the flexibility granted to the Member States in programming and managing CAP interventions. This finds its place in a new architecture of European intervention: the so-called “new delivery model”, which gives Member States, and – where applicable – the Regions, far broader tasks of programming, coordination and management than at present. It is an approach which, in the abstract, responds to the need to better calibrate the intervention with respect to national specific features, including through a better coordination of the various intervention environments. Yet, in concrete terms, it runs the risk of producing considerable administrative and operational distortions and complications. This risk would be the consequence of entering a horizon of re-nationalisation of the CAP, which might be fuelled by this approach. This is a risk that in decentralised institutional arrangements like Italy’s might be amplified by the broad remit given to the Regions in the area of agriculture and rural development.

The possibility that the governance of the new CAP might be resolved in a complicated puzzle of national and regional plans should be absolutely avoided, and for these reasons, we believe that the judgment on this system should be examined further, with the objective of preserving the Community vision of the intervention. In any event, without prejudice to the need to operate “defensively” on this front, it should also be borne in mind that Italy and its administrations – central and regional – must prepare to manage a complex challenge, which will engage them in major changes to the governance of the future CAP.

Lastly, in closing this contribution which presents and discusses the European Commission’s proposals on the 2021-2027 MFF and on the future CAP, it must be stressed that these are proposals, over which there will be intense and complex talks involving all of the EU’s 27 Member States for at least a year, and perhaps far longer. In particular, as regards the MFF, the confirmation of the level of financial resources proposed by the Commission presupposes that, in the

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European Council, the Heads of State and Government will reach an agreement to increase the funding of the EU budget from the current 1% to 1.11% of the Gross National Income (GNI) of the EU-27. It is no easy agreement, requiring unanimity in the Council, upon consultation of the European Parliament and ratification by all Member States. Clearly, if no agreement were to be found, or if the negotiation were to close at a lower level of financing, the cuts to the common policies and to the CAP first of all, would be greater than announced.

This is a risk to be avoided if we wish to ensure continuity for the broad range of economic, environmental and social values that European agriculture bears. Also for this reason, the talks on the MFF 2021-2027 and on the future CAP should be overseen with great attention, building a strategy both on “offense” in terms of objectives to be pursued, and on “defence” in terms of risks and threats to be avoided, with the due medium-term vision of the economic, social and political effects for our country.



COLDIRETTI

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