MEETING Director General of AGRI / CZ deputy Minister 	17 July 2018, am 11H00 – 12H00 Mr Plewa's office

Scene Setter

You will meet Mr Jiří Šír, the Czech deputy Minister of Agriculture.

The meeting aims at discussing the Commission's post-2020 CAP proposal.

You should ask for the CZ position on the CAP reform and on the MFF, whereas the deputy Minister is expected to raise the following specific issues:

Direct payments / Capping:

- The Commission is proposing a reduction of payments as of €60,000 and compulsory capping for payments above €100,000 per farm.
- CZ has the highest average size of agricultural holdings in the EU. The owners of the largest holdings have substantial influence on national politics. The CZ strongly opposes capping, arguing that weakening these large farms also weakens their important social and environmental function in rural areas.
- The CZ authorities were going to elaborate scenarios that could retain some of the money for large farms in exchange for additional environmental services, or for maintaining/creating jobs. The deputy Minister will argue in favour of watering down the proposed capping rules (e.g. to make it voluntary), possibly in exchange of such services.

Direct payments / Coupled Income Support:

- The post-2020 CAP proposal foresees a budgetary limit of 10+2% for CIS. Currently, the limit applicable to CZ is 13(+2)%, which they fully utilize.

- The deputy Minister will probably recall the importance of Voluntary Coupled Support in helping sectors in difficulty, and ask to at least maintain the current budgetary limit (i.e. 13(+2)% in their case) after 2020.

Rural development:

- The deputy Minister intends to ask why their RD envelope is reduced more (-16%) than other MS' (-13%). In fact, the Commission's calculations include uniform reduction rate (-15,3%) for all Member States; the different figures in the CZ calculations results from methodological differences: CZ calculations is made on the basis of the full 2014-2020 envelope, COM calculation on the amount for 2020 multiplied by 7. If needed, further clarity should be sought at technical level.

- The post-2020 proposal also foresees the lowering of the currently relatively high co-financing rates, and limiting the number of differentiated rates. The position of the CZ Ministry is not yet known in this regard.

Simplification of the CAP

- This point was on the agenda of the Council of 16 July. See LTT and defensive.

(AGRI.D.1 -
(AGRI.R.1 -
(AGRI.C.1 -)

First key messages

- Following intensive and widespread consultations, the Commission **adopted** its post-2020 CAP proposal on 1 June. It aims at addressing the numerous challenges set out in the Communication (November 2017), including the **cut of the CAP budget**.

  [Ask the deputy Minister about the CZ position on the CAP reform and the MFF].

- It is now up to the **co-legislators** (EP and Council) to take their respective positions. Swift agreement would be essential.

Direct payments / Reduction of payments and capping

- Based upon the Commission's proposal, **direct payments** would continue to play an essential role. But its distribution, in particular in light of the budgetary constraints, must become **fairer and better targeted**.
- C**apping and redistributive income support** play **important role** in this fairer distribution, while maintaining jobs on farms and preserving farming activity overall, hence strengthening the socio-economic fabric of rural areas.
- The progressive reduction and ultimate **capping** of direct payments must become **compulsory**. On the other hand, the savings remain available for agricultural support in the Member State concerned. Besides, a fairer and simplified system would also be put in place for subtraction of salaries and unpaid labour.

Direct payments / Coupled Income Support

- The Member States could continue to grant **coupled income support** with **considerable flexibility.** But it must remain subject to certain conditions and limits, inter alia a **budgetary limit** to minimize the potential market distortion. A **balanced approach** is necessary in this regard.

- The proposed percentage (10(+2)%) has been set on these considerations. It ensures a common level playing field.

Rural development co-financing

- The post-2020 proposal foresees the **lowering of the currently relatively high co-financing rates**. This has to be seen in the wider context of EU policies, as a rebalancing between EU and Member State contributions.
- Lower co-financing rates for Rural Development are aligned with the proposals for the other ESIF funds.
- The proposed increase in the national co-financing rates will allow maintaining the level of public support (EAFRD+national) for European rural areas.

Future CAP / Simplification

- Among the **key elements** of the CAP proposal is the **new partnership** between the EU, MS/regions and farmers:
  - It is based on a **rethinking of the governance to reply to criticism of administrative burden and limits of a "one size fits all" approach**; this will allow better targeting, simplification and a policy focused on performance.
  - I am aware of the **different concerns on the delivery model,** but I firmly believe that all of these can be handled:
    - **No renationalisation:** Strong and common EU framework to continue including several safeguards and corrective action were needed (common objectives, common elements/interventions/requirements, common monitoring and evaluation framework, CAP plan approval by Commission, corrective action at disposal of Commission)
    - **Simplification:** Acting within the common EU framework, **CZ and other Member States** will benefit from **increased flexibility** and be able to

1. **Design intervention strategies, choose types of intervention from the EU-level menu and adapt them to their particular circumstances**. For instance, we propose a clear simplification of the EU framework as we will have fewer eligibility rules for many measures, such as investments (7 out of 13 are kept) and young farmers (Pillar 2 installation aid: 5 out of 15 are kept).
2. **Design their own control and penalty system**, including making decisions about control methods and levels, types and design of penalties etc [while still being under the general obligation to protect the financial interests of the Union by checking legality and regularity of operations, preventing fraud, imposing dissuasive penalties and recovering undue payments]
3. Use **new technologies** to simplify, speed-up and automate many of the administrative procedures.

- As a result, details of measures and rules (e.g. eligibility criteria) will be defined **much closer to the farmers' daily reality** and the wider public and in a more targeted way in line with real needs and local conditions.
- This new approach should also **ensure more transparency and accountability and better understanding, including legal certainty**, due to the relationship between administrations, which will set the operational details, and the beneficiary.
- Overall, the new delivery model hands CZ and the other MS a clear **opportunity** to implement the CAP in ways which are **genuinely simpler for administrations and beneficiaries**. However, whether or not these opportunities for simplification will be used in practice will depend on the MS.
- This enhanced subsidiarity is accompanied by a **shift from compliance to performance** in order put the progress towards our common objectives back to the centre of attention.

- I’d like to stress that moving towards a performance-based system means first of all a change in practice between administrations, e.g. via an annual performance report (most indicators and data already available) and a the creation of a link between the reimbursement of payments to MS and progress towards agreed targets.
- I say this to reply to fears that the performance-based system might induce delays of payment or additional burden for farmers.

Second key messages (defensive points)

CAPPING

Why does the Commission consider obligatory reduction of payments with lower thresholds, higher reduction rates and extension to all direct payments necessary after 2020?

- Better targeting and fairer distribution is an overarching objective, whose importance if further enhanced by the upcoming budgetary constraints. This explains the need for stricter rules.

- One of the driving principles of reduction of payments/capping is the economies of scale that farmers achieve when getting per-unit payments. This applies to all types of interventions in the form of direct payments whichever main EU objective they contribute to (e.g. environment, generational renewal, competitiveness, etc.). The overall objective is to limit the total public income support for a single farm.

- It is worth also pointing out that, the Commission's prior simulations show that the obligatory (and simplified) exemption of salaried and un-paid labour makes reduction/capping not only fairer, but it also considerably mitigates its effect on the larger farms.

How did the Commission determine the proposed reduction threshold (i.e. EUR 60 000), which is substantially lower than current one (i.e. EUR 150 000)?

- In the Communication, farms up to 250 ha have been considered as professional (family) farms, while bigger farms have been considered as "big" farms. A rough calculation consisting in multiplying the average rate of DP/ha (around EUR 250) by 250 ha gives a result of approximately EUR 60 000

COUPLED INCOME SUPPORT

Why was the CIS budgetary limit reduced compared to VCS?

- It cannot be seen as a reduction due to the following reasons:

- The uniform ceiling (10+2%) is in fact an increase compared to the baseline ceiling (8+2%) that applied in 2015-2020.

- In the current system, only those MS that fulfilled certain preconditions (potentially 22 MS, from which 18 MS decided to actually apply this possibility) could decide to increase their VCS ceiling to 13(+2)%. For these MS the new ceiling is somewhat lower indeed.

- However, on average, the MS decided to allocate 9(+1)% of their national ceiling for VCS (EU28, also including protein crop).

- Therefore, 10(+2)% appears a balanced compromise, in particular in light of the benefits (e.g. precise targeting according to the needs of a specific sector/type of farming/region) and possible drawbacks (e.g. potential market distortion) of coupled support.

Is there a possibility for exceeding the CIS budgetary limit?

- Exceeding this share will be possible only for those MS that justified their need for enhanced support in 2015-2020, which was also approved by way of a Commission implementing act (potentially BE, FI, PT).

- Even in these cases, this option to go beyond 10+2% will be limited at the VCS % formerly approved by the Commission for these MS in CY2018.

Should the CAP reform not take into account that reduced support due to the lower budgetary ceiling will adversely affect the long-term predictability for farmers?

- The CIS budgetary ceiling could only be seen as a reduction in certain cases (see above). On the other hand, it improves equity between all MS.

- The Commission only gives the basic framework for the CAP in 2021-2027. According to the new delivery model, the MS will enjoy great subsidiarity to make their own support decisions in light of the local conditions/needs. Accordingly, the MS are in the best position to fulfil the farmers' expectations with regard to predictability. The sectors the most in need may certainly remain eligible.

- DP not used for coupled support remains available for other agricultural support schemes (e.g. BISS, CRISS, etc), so it will ultimately be paid to the farmers.

RURAL DEVELOPMENT

Why was the Czech EAFRD envelope reduced more (-16%) than other MS' envelopes (-13%)?

- Uniform reduction rate (-15,3%) was applied for all Member States.

- The different figures in the CZ calculations result from methodological differences. The Commission neutralizes, for example, the effect of the transfers between the two pillars under the current MFF, so that it becomes comparable with the post-2020 figures (also before cross-pillar transfers).

- If needed, technical level discussions should be proposed for further clarification.

SIMPLIFICATION

Strategic plan does not mean any simplification!

- In the future, a single CAP plan will bring together all simplified elements across pillars: three different administrative processes will be integrated into a single one.

- This will require a new way of working among your services and with your stakeholders but it will also bring several benefits:

    - There will not be overlaps between pillars, ensuring a more coherent policy and a more strategic approach towards DP/market measures

    - There will not be more overloaded RD programmes, since we are not to require detailed rules as today

- The CAP Plan will be subject to an approval process, which is the best safeguard in order to guarantee a level-playing field. The process will ensure the completeness, consistency, coherence of the national strategy and its effective contribution to the CAP objectives.

Background

I. Multiannual Financial Framework 2021-2027 – CAP support to the CZ

Overall allocation

The proposed allocation for the Common Agricultural Policy for 2021-2027 is EUR 365 billion for EU-27.

Direct payments to farmers will be moderately cut by less than 4%. Direct payment levels per hectare between Member States will continue to converge ("external convergence"). For all Member States with direct payments below 90% of the EU-27 average, the gap between their current level and 90% of that average will be closed by 50% over 6 years. All Member States will contribute equally to bridge this gap. The allocation of direct payments in the Czech Republic will be EUR 5 872 million, i.e. -3.9% compared to 2014-2020.

A compulsory cap on amounts or degressive payments will be introduced at farm level. Member States will need to take into consideration labour costs (both salaried and family labour) when applying this in order to avoid negative effects on jobs and to acknowledge family labour. The savings will remain in the envelope of the Member State in which they originate and used for redistributing agricultural support towards medium and smaller farms and possibly to rural development.

For other schemes financed from the European Agricultural Guarantee Fund (e.g. wine; olive oil; hops; support to outermost regions and small Aegean islands), a limited reduction of the pre-allocated amounts is proposed in view of the overall allocation for the Common Agricultural Policy.

For **rural development**, it is proposed to rebalance the financing between the EU and MS budgets. In line with what is foreseen for the European Structural and Investment Funds, a 10% increase in national co-financing rates will allow keeping public support to European rural areas largely unchanged. The allocation between Member States was based on objective criteria and past performance.

Member States will have the option to shift up to 10% of their direct payments to rural development or vice versa, with an additional flexibility towards rural development for interventions addressing climate and environmental objectives.

II. Direct payments

II./A) Overall envelope

Originally, EUR 6 145 million was earmarked for direct payments in financial years 2014-2020.

This amount decreased to EUR 6 010 million after the (optional) CZ decision to use 'flexibility between pillars' and the (obligatory) transfer of the product of reduction of basic payments, see below (in both cases for the benefit of rural development).

II./B) Degressivity/capping

The Czech Republic only applies the obligatory minimum reduction of payments, i.e. 5% of the basic payment (SAPS) for amounts in excess of 150 000. The optional subtraction of salaries is not applied.

The current product of reduction/capping is EUR 4.72 mio, which represents slightly more than 1% of the SAPS ceiling.

As far as the COM proposal for compulsory progressive reduction to all direct payments (above EUR 60 000) and capping (at EUR 100 000) are concerned:

- [redacted]

- On the other hand, the concentration of farms is very high in the CZ.

  The 850 holdings that are bigger than 1000 ha represent only 3% of the total number of holdings (27600 holdings), but cover almost 1.75 million ha (i.e. some 50% of the total UAA); and 637 000 ruminants (i.e. 45% of the total number of ruminants), from which 258 000 dairy cows (i.e. 70% of the total number of dairy cows).

[1] These amounts have a purely indicative character. They are the results of simulations which are not carved in stone: 1) they are based on a sample (FADN data), 2) they cannot anticipate all the decisions Member States will take in their future CAP Strategic Plans on how to distribute direct support, and 3) because of the criterion of subtraction of all labour (family and salaried) whereby, due to the lack of reliable and representative statistics, a simplified method of calculation is used.

For claim year 2016, 77.7% of the direct payments went to 9.4% of beneficiaries, who have a farm size larger than 250 ha (77.1% of the UAA).

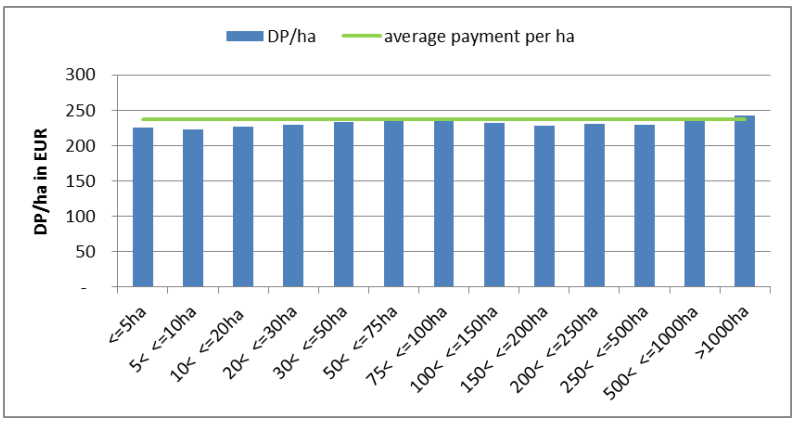
These large farms play important role in national politics, as well as in establishing the CZ position in EU matters.

II./C) Redistributive payment:

The Czech Republic decided not to apply redistributive payment (since CY2015), though it may have been an alternative for capping.

To give an indication of the 80/20 ratio, based on data for CY2015, 89% of the direct payments are granted to the 20% of the (biggest) beneficiaries.

The link between the level of income support per hectare and (physical) farm size in Czech Republic can be seen from the following graph (CATS CY2016):



The COM proposal provides for a compulsory redistributive income support for sustainability (CRISS) to grant a higher payment to the first hectares.

II./D) Voluntary coupled support (VCS)

VCS is an important support scheme in the Czech Republic under the present MFF. The available budgetary ceiling is used to its full extent (13(+2)% of their DP envelope) with the use-rate reaching 99% (claim years 2015 and 2016).

The CZ decided to finance 12 support measures as from claim year 2015, which remained unchanged ever since. The most supported sectors are: Milk and milk products (1 measure, 50 mio EUR i.e. 40%), Beef and veal (1 measure, 19 mio EUR i.e. 14 %), Protein crops (1 measure, 17 mio EUR i.e. 13%) and Sugar beet (1 measure, 17 mio EUR i.e. 13%).

Acknowledging the importance of coupled support under certain circumstances, the COM proposal foresees that Member States should be allowed to grant

coupled income support for the sectors undergoing difficulties. It aims at addressing these difficulties by improving their competitiveness, sustainability and/or quality.

Coupled Income Support, which would be no longer under blue box, will continue to be subject to a budgetary limit (10% + 2% for protein crops), whilst its administration will be simplified. The national authorities, as well as the sectors concerned, may find it difficult to accept if this results in decrease of amounts potentially available for coupled support (compared to VCS). The CZ is one of these MS.

III. Rural Development

III./A) Post-2020 envelope

The COM proposal compares MFF 2014-2020 and 2020-2027 as follows:

MFF 2014-2020: In order to neutralize the effect of cross-pillar transfers, which show substantial differences between the various Member States, the amount earmarked for RD in 2020 (based upon Annex I of R1305/2013), i.e. EUR 305,5 million for the Czech Republic, is multiplied by 7 in order to calculate the baseline amount (EUR 2138,7 million). The same calculation is made for each Member State.

MFF 2021-2027: The pre-transfer amount proposed for the Czech Republic is EUR 1811,4 million. This is by 15,3% lower than the baseline (see above). The same method has been applied to each MS, resulting in a uniform 15,3% reduction.

Comparison of rural development per MS

	Rural development baseline (*)	Rural development 2021-2027	change	% change on RD
			million EUR	
BE	555.2	470.2	- 85.0	-15.3%
BG	2,328.2	1,972.0	- 356.2	-15.3%
CZ	2,138.7	1,811.4	- 327.2	-15.3%
DK	626.6	530.7	- 95.9	-15.3%
DE	8,181.3	6,929.5	- 1,251.9	-15.3%
EE	726.3	615.1	- 111.1	-15.3%
IE	2,187.4	1,852.7	- 334.7	-15.3%
EL	4,211.6	3,567.1	- 644.4	-15.3%
ES	8,274.5	7,008.4	- 1,266.1	-15.3%
FR	9,994.0	8,464.8	- 1,529.2	-15.3%

HR	2,325.2	1,969.4	- 355.8	-15.3%
IT	10,498.6	8,892.2	- 1,606.4	-15.3%
CY	132.1	111.9	- 20.2	-15.3%
LV	969.5	821.2	- 148.3	-15.3%
LT	1,613.1	1,366.3	- 246.8	-15.3%
LU	101.6	86.0	- 15.5	-15.3%
HU	3,439.7	2,913.4	- 526.3	-15.3%
MT	100.9	85.5	- 15.4	-15.3%
NL	604.6	512.1	- 92.5	-15.3%
AT	3,970.9	3,363.3	- 607.6	-15.3%
PL	10,891.8	9,225.2	- 1,666.6	-15.3%
PT	4,076.2	3,452.5	- 623.7	-15.3%
RO	7,979.5	6,758.5	- 1,221.0	-15.3%
SI	845.0	715.7	- 129.3	-15.3%
SK	1,881.7	1,593.8	- 287.9	-15.3%
FIN	2,413.4	2,044.1	- 369.3	-15.3%
SE	1,748.4	1,480.9	- 267.5	-15.3%
EU27	**92,816.0**	**78,613.9**	- 14,202.1	-15.3%

(*) 2020 envelopes before transfers between pillars and the reduction of direct payments multiplied by 7

The CZ administration looked at the total amount for RD in R1305/2013, which was EUR 2170 million (the amounts for CZ for some years are higher than the one for 2020). This is why they calculate a 16% reduction, and somewhat different percentages in the case of other Member States.

It is to be stressed that the Commission method described above is considered better to compare changes as it neutralizes (i) the flexibility between pillars decisions and (ii) the effects of reduction of payments. In order to be coherent, the Commission has followed the same method for rural development and direct payments.

III./B) Co-financing

For **2014-2020**, the EU co-financing rates for the European Agricultural Fund for Rural Development are set in Article 59 of Regulation 1305/2013. The current rates (as percentage of eligible public expenditure) are dependent on:

- regions concerned:
  - o less developed regions, outermost regions and smaller Aegean Islands – 85%;
  - o transition regions – 75% or 63%;
  - o other regions – 53%.

- measures concerned (derogations from the basic rates):

- LEADER and business start-up for young farmers – 90% in less developed regions, outermost regions, smaller Aegean islands and transition regions; 80% in other regions;
- 75% for environment and climate change and mitigation measures;
- 100% for financial instruments;
- 100% for funds transferred to the European Agricultural Fund for Rural Development;
- 100% for certain amounts for Cyprus and Portugal then under financial assistance;
- 10% premium for Member States under financial assistance (in 2014-2020 Greece).

The current European Agricultural Fund for Rural Development allocation for the 2014-2020 rural development programmes (EU-27), after flexibility transfers notified by 1 August 2017, is EUR 94.9 billion (EU contribution). The average effective rate of co-financing for programmes approved until 7/06/2018 is 66% and the total Member States' contribution is EUR 49.3 billion[1].

For **2021-2027**, the EU co-financing rates for the European Agricultural Fund for Rural Development are included in Article 85 of the Commission proposal on the Common Agricultural Policy strategic plans (COM(2018)392). The Commission proposal aims at:

- lowering the EU co-financing rates, as the current rates are relatively high;
- limiting the number of differentiated co-financing rates, while maintaining only some preferential rates for particular interventions.

The following maximum EU co-financing rates are proposed:

- 70% for less developed regions, outermost regions and smaller Aegean islands;
- 43% for other regions;
- 65% for payments for natural or other area-specific constraints;
- 80% for environmental, climate and other management commitments (article 65); for area-specific disadvantages resulting from certain mandatory requirements (article 67); non-productive investments (article 68); for support for the European Innovation Partnership (article 71) and for LEADER (article 25 of the Commission proposal for the common provisions regulation COM(2018) 375);

[1] Until 7/06/2018 programmes for EU-27 amounting to EUR 94.1 billion were approved with total public support of EUR 143.4 billion (this does not yet include programme modification reflecting the latest flexibility decisions of FR, LT and NL notified by 1/08/2017 and which affect financial years 2019-2020).

- 100% for funds transferred to the European Agricultural Fund for Rural Development.