

Direct Payments: Financial mechanisms in the new system

The fiche presents the main financial provisions in the new direct payments' system introduced with the 2013 CAP reform and their implementation by Member States. It reflects the content of their notifications available to the Commission services to date. It is made available without prejudice to any finding in respect of their compliance with the regulatory framework. It is provided on the understanding that in the event of a dispute involving Union law it is, under the Treaty on the Functioning of the European Union, ultimately for the Court of Justice of the European Union to provide a definitive interpretation of the applicable Union law.

June 2016

1. Introduction

The new system of direct payments introduced by the 2013 CAP reform includes a series of financial mechanisms which aim at ensuring the respect of financial ceilings, providing Member States with flexibility in managing their financial envelopes, and optimizing the use of available funds. Certain mechanisms which have proven their effectiveness have been prolonged with or without adaptation (financial discipline, net ceiling and linear reduction, overbooking...). Others have been newly introduced (flexibility between pillars, financing of the Young Farmer Payment, financing of the Small Farmer Scheme...).

This fiche presents those mechanisms; first the ones common to all or several schemes, then those specific to certain schemes. This fiche also clarifies the order of application of the various mechanisms.

The policy functions within a Multiannual financial framework (MFF) covering the 7-years period from 2014 – 2020.

2. Cross-cutting provisions

2.1. Financial discipline

Financial discipline must be applied when the budgetary forecasts for the European Agricultural Guarantee Fund (EAGF) in a given year overshoot the EAGF net balance (sub-

ceiling established inside the Multiannual Financial Framework for the expenditure of the first pillar of the CAP, i.e. market measures and direct payments). In addition, as agreed in the MFF 2014-2020 and the 2013 CAP reform, financial discipline is applied each year to establish a crisis reserve (from 2014 onwards)¹.

Financial discipline is a linear reduction (adjustment rate) to **all direct payments in excess of 2 000 EUR** (so-called "franchise") **to be granted to a farmer in respect of a given calendar year**. Financial discipline is not applied in Member States still in "phasing-in"², i.e. in Bulgaria and Romania it applies from claim year 2016 and in Croatia from claim year 2022³. The rate of financial discipline is set annually in a Regulation in the context of the Draft Budget and it may be adjusted by 1 December the same year in the context of the Amending letter to the Draft Budget.

	2014	2015	2016
Financial discipline rate	1.302214%	1.393041%	[1.366744%] provisional

Sources: Regulations 1227/2014 and 2015/1146.

For example, a farmer entitled to 50 000 EUR of direct payments (gross amount, before any reduction) based on his 2014 application, the payment was reduced by 1.302214% for the amount in excess of 2 000 EUR, i.e. 48 000 EUR:

Farmer A	50 000 EUR	Gross amount		50 000 EUR	Gross amount	
Financial discipline rate	1.302214%					
	Gross amount	Financial discipline rate	Financial discipline amount			
Franchise	2 000	0	0			
Remaining	<u>48 000</u>	1.302214%	<u>625</u>			
Total	50 000		625			

2.2. Reimbursement

The financial discipline applied in year N is reimbursed to farmers in the following financial year, if at the end of financial year N, there are non-committed appropriations in the EAGF and within the 2% limit set by the Financial Regulation⁴. The amounts available for reimbursement include un-used funds in the crisis reserve⁵.

Farmers are eligible for reimbursement if they are subject to financial discipline in the year of reimbursement.

¹ Articles 25 and 26 of Regulation 1306/2013.

² Progressive increase of the direct payments in Member States joining the EU. Article 16 and 17 of Regulation 1307/2013.

³ Article 8 of Regulation 1307/2013.

⁴ Article 169(3) of Regulation 966/2012

⁵ Article 26 of Regulation (EU) No 1306/2013 and Article 169 of regulation (EU, EURATOM) No 966/2012.

The total amounts available for reimbursement in each Member State in a financial year are set by the Commission⁶. Member States are responsible for reimbursing these amounts to eligible farmers based on proportionate and non-discriminatory criteria.

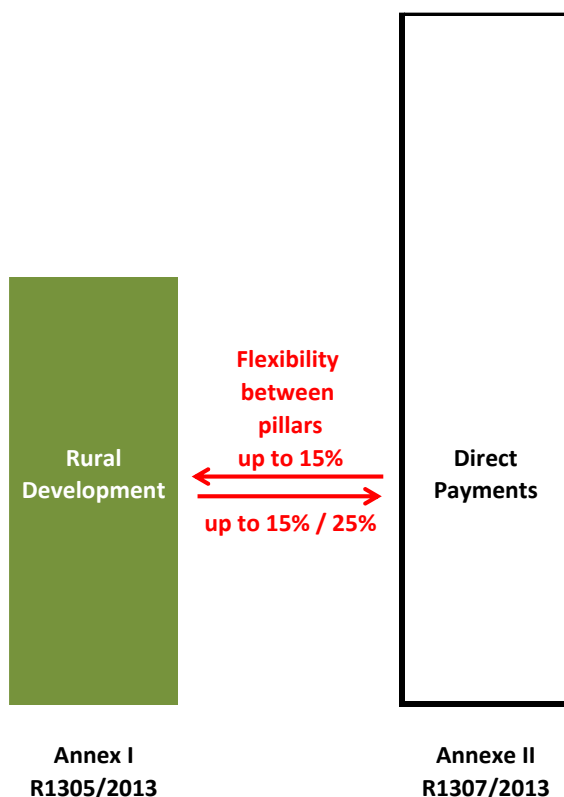
2.3. Flexibility between pillars

The flexibility between pillars allows Member States to transfer funds between direct payments (DP) and rural development programmes (RD) within certain limits⁷.

Member States could transfer up to 15% of their DP envelope to RD or up to 15% of their RD envelope to DP. Member States with average DP/ha below 90% of EU average (before flexibility) could transfer up to 25% of their RD envelope to DP (this applies to 12 Member States: BG, EE, ES, LV, LT, PL, PT, RO, SK, FI, SE and UK) (see illustration on the right).

It could be applied from calendar year 2014 or from calendar year 2015 with two different notification deadlines: 31 December 2013 or 1 August 2014 respectively.

11 Member States have decided to transfer funds **from DP to RD** (BE, CZ, DK, DE, EE, EL, FR, LV, NL, RO, UK) and **5 from RD to DP** (HR, HU, MT, PL, SK) (see Table 2 in annex).



The flexibility between pillars can be revised once but **only in order to increase the RD** envelope with effect for DP claim years 2018-2019 (i.e. financial years 2019-2020 for RD). Any decision to review has to be notified by 1 August 2017.

The net result of the transfers that have been notified to date is a transfer to RD of around **EUR 3 billion** until the end of the current MFF (around EUR 500 million per year) (without prejudice to the possible review for calendar years 2018-2019).

2.4. National ceiling

The national ceiling is set in Annex II to the Basic Act (Regulation 1307/2013)⁸. It represents, **for each Member State**, the **maximum amount available for financing the direct payments schemes** except the crop-specific payment for cotton and the POSEI/SAI payments⁹. The national ceilings are expressed in thousands EUR BEFORE financial discipline and BEFORE reduction of payments (see 2.5.) ("gross amounts").

⁶ For example Regulation (EU) 2015/2094

⁷ Article 14 of Regulation 1307/2013.

⁸ Article 6 of Regulation 1307/2013.

⁹ Direct payments granted in the context of POSEI programs for outermost regions and in the smaller Aegean islands

The national ceilings are modified to reflect the developments of the total amount available for direct payments notably following the decisions of Member States to apply to flexibility between pillars or to take into account the de-mining of agricultural areas and their return to agriculture in Croatia¹⁰.

2.5. Reduction of payments

The reduction of payments applies only to the **basic payments** (Basic Payment Scheme, [BPS](#) or Single Area Payment Scheme, SAPS). The minimum reduction is **5% for the amount to be granted to a farmer in excess of EUR 150 000**¹¹ but depending on Member State's choices the percentage can be higher and progressive tranches of reduction can be applied.

Based on the notification of the decisions they had to take by 1 August 2015:

- 15 Member States/regions apply only the minimum 5% reduction to amounts in excess of EUR 150 000: CZ, DK, EE, ES, CY, LV, LU, MT, NL, PT, SI, SK, FI, SE and UK-England.
- 9 Member States/regions cap (100% reduction) the amount of basic payments at various levels (between EUR 150 000 and EUR 600 000): BE-Flanders, BG, IE, EL, IT, HU, AT, PL, UK-Northern Ireland, UK-Scotland and UK-Wales. Among them 4 Member States/regions apply also some progressive tranches (% of reduction): BG, IT, HU UK-Scotland and UK-Wales (see Table 1 in annex).

Member States also had the possibility to decide to **subtract the salaries** directly linked to agriculture activities actually paid and declared by the farmer from the amount to be reduced¹². This option is used by 9 Member States: BG, EE, EL, ES, IT, LV, LU, AT and SI.

Moreover, Member States which allocated more than 5% of the national ceiling to the redistributive payment may decide not to implement the mechanism of reduction of payments. This exemption possibility is used by 6 Member States: BE (Wallonia), DE, FR, HR, LT and RO.

The estimated product of the reduction of payments (around 112 million EUR per year) is transferred to the envelope available for financing the Rural Development programmes (RD) **from calendar year 2015 till calendar year 2019** (i.e. financial years 2016-2020¹³).

For example, a farmer entitled to 500 000 EUR of basic payment in a Member State applying a 5% reduction for amounts in excess EUR 150 000 and a capping at EUR 350 000 will have the following reduction:

¹⁰ Article 20 of Regulation 1307/2013. See Regulation 2015/851 for example.

¹¹ Article 11(1) of Regulation 1307/2013.

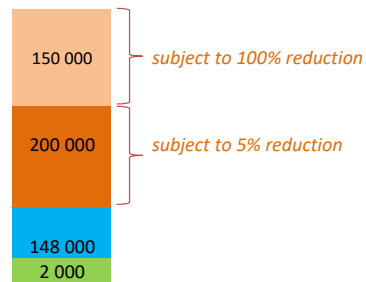
¹² Article 11(2) of Regulation 1307/2013.

¹³ As a general rule, direct payments claimed for calendar year N are paid in financial year N+1 (except late payments).

Farmer A
Reduction of payment

500 000 EUR Gross amount of basic payment
5% above EUR 150000 and 100% above EUR 350000

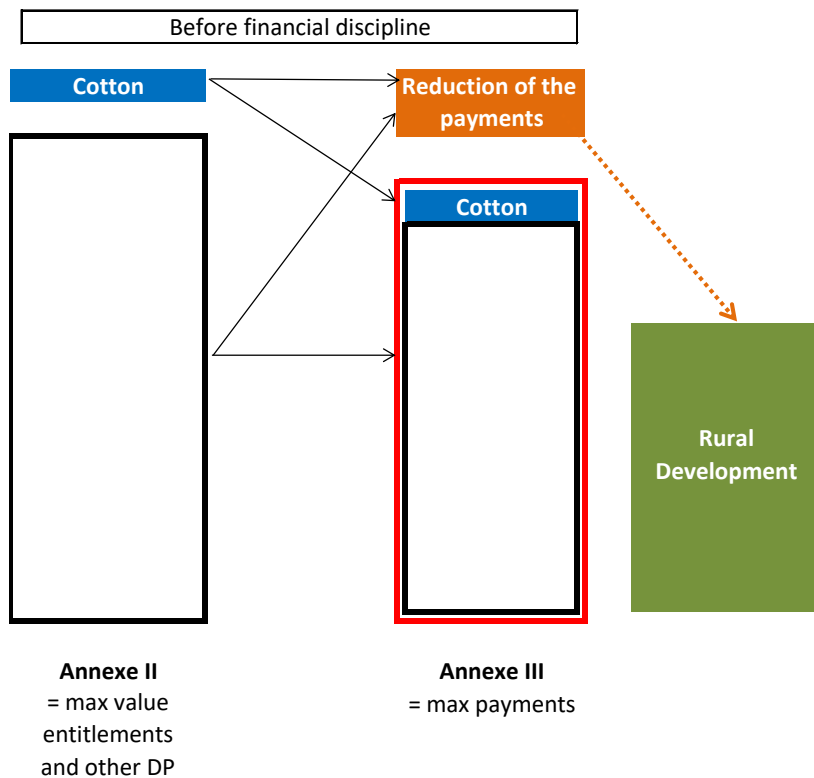
	Gross amount of basic payment	Reduction of Payment - rate %	Product of reduction of payment EUR
Franchise of financial discipline	2 000	0%	0
Amount below first tranche	148 000	0%	0
First tranche	200 000	5%	10 000
Second tranche	150 000	100%	150 000
	500 000		160 000



2.6. Net ceiling and linear reduction

The net ceiling is set in Annex III to the Basic Act (Regulation 1307/2013)¹⁴. It represents the **maximum payments** before financial discipline¹⁵ that a Member State may grant for a calendar year. It corresponds to the sum of the national ceiling set in Annex II and the envelope for the crop-specific payment for cotton minus the estimated product of the reduction of payments (see illustration on the right):

Net ceiling = Annex II + cotton envelope - reduction of payments



The net ceiling does not cover the POSEI/SAI payments. It is expressed in million EUR with one decimal BEFORE financial discipline but AFTER reduction of payments ("net amounts"). The net ceilings are amended to reflect changes in the maximum amount of direct payments that can be granted¹⁶.

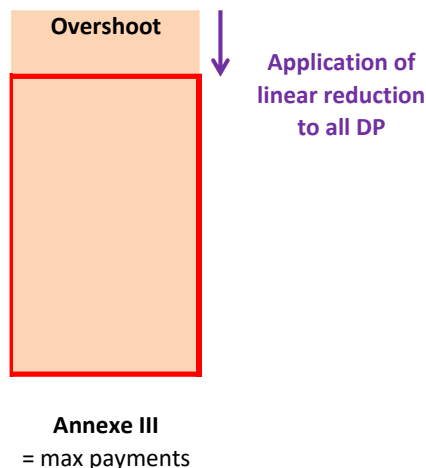
¹⁴ Article 7 of Regulation 1307/2013.

¹⁵ Total amount of direct payments including cotton payments after application of the reduction of payments, but before financial discipline.

¹⁶ See Regulation 2016/142 for example.

If the actual expenditure for direct payments in a Member State overshoots the net ceiling, the Member State must apply a **linear reduction to all direct payments** (except the POSEI/SAI payments) to respect that ceiling¹⁷ (see illustration on the right).

The sources of overshoot can be various: overall good budget execution in DP schemes in Member States using the overbooking of the basic payment scheme ([BPS](#), see section 0) or an actual product of reduction of payments lower than expected.



It should be underlined that Annex III in respect of a calendar year N is also the maximum amount of direct payments that can be made for all calendar years (including late payments) in financial year N+1 (Article 5(3) of Regulation 907/2014).

3. Provisions specific to certain schemes

3.1. Budgetary ceilings

The budgetary ceilings are set **annually in Implementing Acts** based on the notifications from Member States of their decisions in respect of the **% of the national ceiling allocated to each scheme** (see Graph 1 in annex)¹⁸. They represent the maximum value of direct payments granted in each scheme and by Member State. They cover all schemes except for the crop specific payment for cotton that is not included into the national ceiling and except the Small Farmer Scheme ([SFS](#)) which is financed with a specific mechanism (see section 3.4) and for which a maximum spending limit applies but only for certain Member States¹⁹.

The budgetary ceilings are expressed in thousands EUR BEFORE financial discipline and BEFORE reduction of payments for basic payments ("gross amounts"). They should not be overshoot. In the following some particular elements of these budgetary ceilings are mentioned.

The financial envelopes allocated to each measure of the voluntary coupled support are not set by way of Implementing Act but are binding with no possibility of overspending. They are notified by Member States within the limit of the maximum possible allocation of voluntary coupled support relevant for the Member State. They are expressed in thousands EUR BEFORE financial discipline.

3.2. Overbooking of Basic Payment Scheme (BPS)

As a general rule, the amount available for [BPS](#) (or SAPS) is the amount remaining after deducting all the budgetary ceilings for other DP schemes from the national ceiling (Annex II).

¹⁷ Article 7 of Regulation 1307/2013.

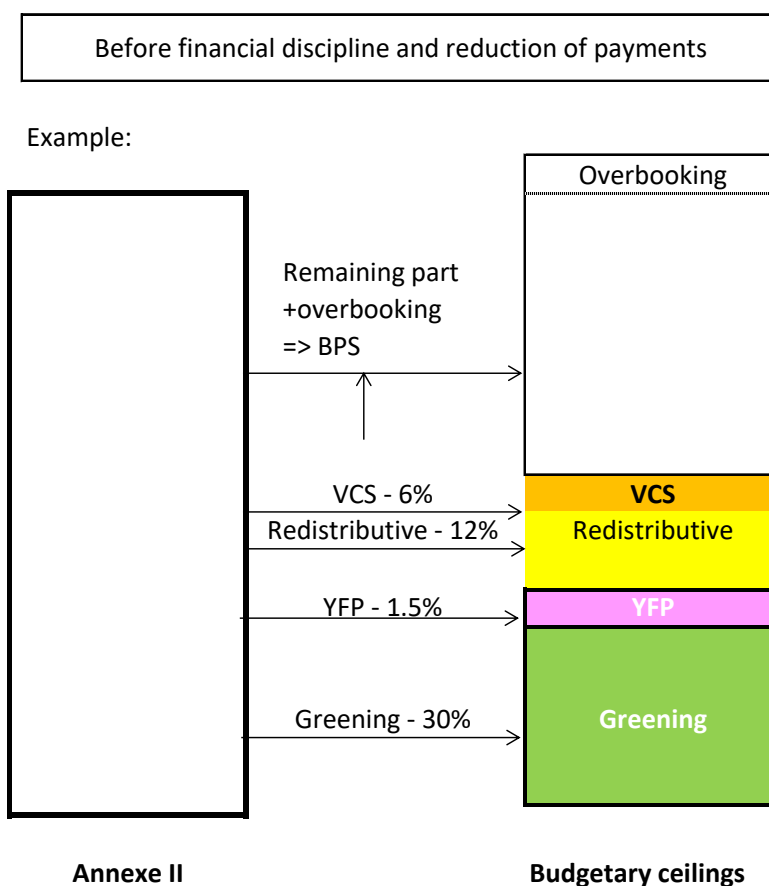
¹⁸ Articles 22(1), 36(4), 42(2), 47(3), 49(2), 51(4) and 53(7) of Regulation 1307/2013. See Regulation 2016/699 for example.

¹⁹ Article 65(4) of Regulation 1307/2013.

The so-called mechanism of **overbooking of BPS** allows Member States to increase the amount left available for the BPS by **up to 3%** of Annex II after deduction of the greening payment (see the example illustrated on the right).

It enables Member States to distribute a higher total value of BPS entitlements. In practice the sum of the budgetary ceilings can therefore overshoot the national ceiling of Annex II by the amount corresponding to this increase²⁰.

However, the total amount of all direct payments for a calendar year can never overshoot the net ceiling (Annex III).



This mechanism allows compensating for expected **unspent funds** in BPS and other DP schemes, so that Member States can optimise the use of available funds. For 2015, 13 Member States (out of 18 applying BPS) have decided to use this possibility to a certain extent: BE, DE, IE, EL, ES, HR, IT, NL, AT, PT, SI, FI and SE. The percentage can be revised each year based on the experience of the previous year (see Graph 2 in annex). In 2015, 2 Member States reviewed their % of overbooking of BPS for calendar years 2016 onwards (IE, SE).

3.3. Financing of the Young Farmer Payment (YFP)

Member States have to allocate **up to 2%** of their national ceiling to the Young Farmer Payment (YFP) based on their estimated needs for granting the young farmer payment (budgetary ceiling for YFP). This allocation can be modified annually based on the experience of the previous year²¹. In 2015, 12 Member States reviewed their % for YFP to be applied from 2016 (CY, DK, HU, SE, SI, UK, BE, BG, LT, LV, RO, SK), generally downwards but with some exceptions (HU, LV, SI) (see Graph 3 in annex).

In case of **extra needs above the notified % for** any year and if this notified % for that year is below 2%, Member States have to finance those extra needs **up to 2%** via the basic payment²²:

- For Member States applying the SAPS, via a linear reduction of SAPS payments,

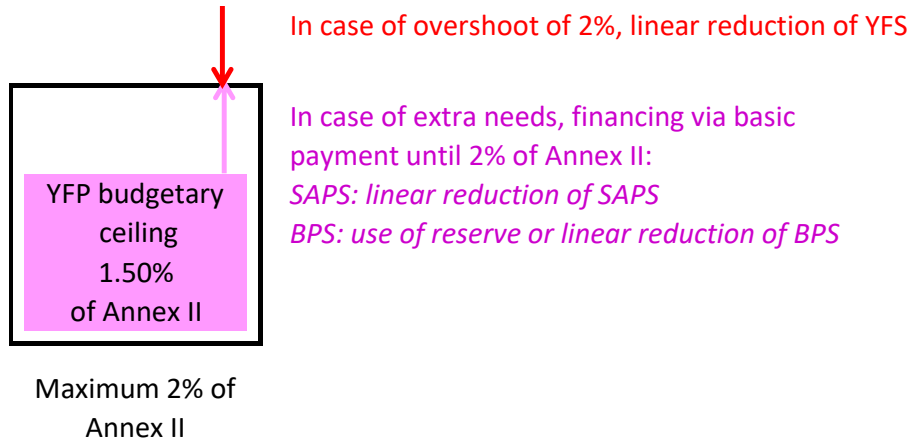
²⁰ Article 6(1) of Regulation 1307/2013, second subparagraph.

²¹ Article 51(1) of Regulation 1307/2013.

²² Article 51(2) of Regulation 1307/2013

- For Member States applying BPS, via a linear reduction of BPS payments or via the use of potential unspent funds in the reserve.

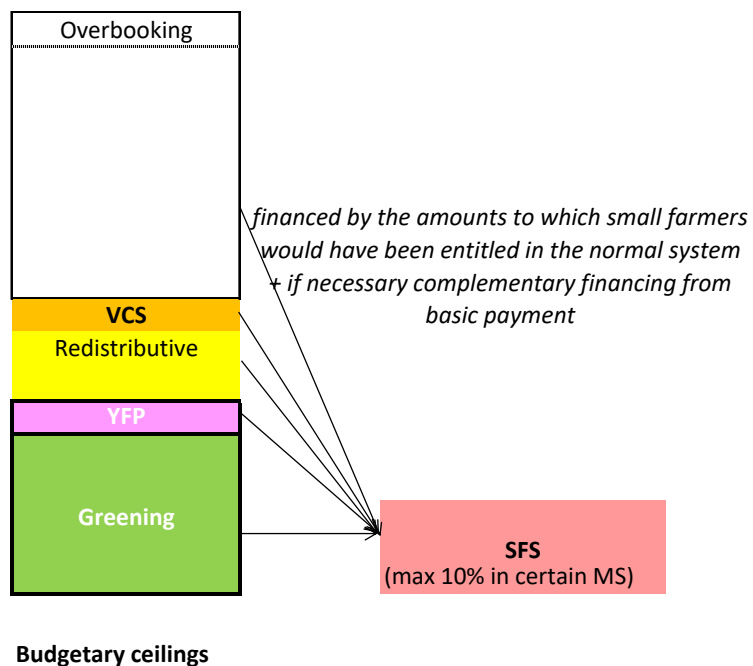
If the total payments for YFP go above the **maximum amount of 2% of the national ceiling**, the Member State has to apply a **linear reduction to all YFP payments** to respect that maximum amount²³. These financial mechanisms are illustrated in the example below. For the sake of clarity, the maximum amount of 2% of the national ceiling is also set in the Implementing Act setting the budgetary ceilings²⁴.



3.4. Financing of the Small Farmers Scheme (SFS)

The [SFS](#) replaces by nature all the other DP schemes and is financed primarily accordingly, i.e. by the **amounts to which the small farmers would have been entitled in the "standard" system**²⁵: BPS or SAPS, redistributive payment, greening payment, payment for areas under natural constraints, young farmer payment, cotton and voluntary coupled support (see illustration on the right).

This is the "basic financing" of SFS.



There are three methods to set the [SFS](#) payment: the "lump sum payment", the payment due each year" and the "payment due in 2015". In all cases a maximum limit of the individual payment is set. When the Member State applies the method of the "payment due

²³ Article 51(3) of Regulation 1307/2013.

²⁴ See Regulation 2016/699 for example.

²⁵ Article 65(1) of Regulation 1307/2013.

each year"²⁶, if the "basic financing" exceeds the individual maximum, the financing from each scheme in the "basic financing" should be reduced proportionately.

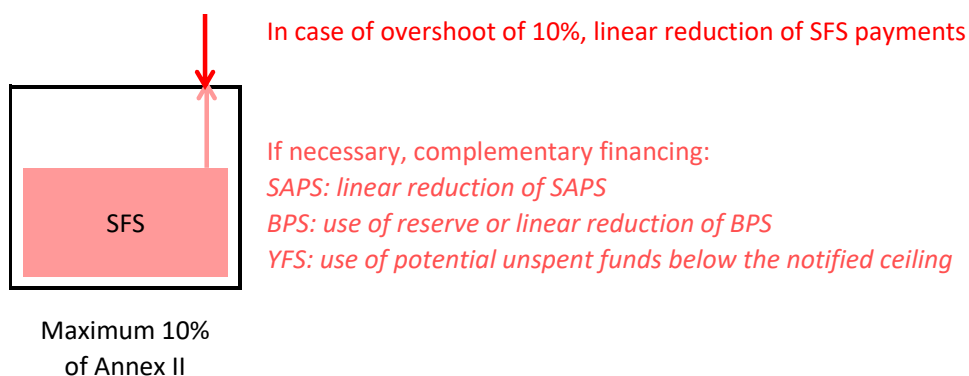
The basic elements (hectares, heads) used to calculate the "basic financing" are fixed except if the Member State applies the method of the "payment due each year"²⁷.

If the amounts to which the farmer would have been entitled to if he/she would not have participated in the SFS are not sufficient to finance the amount he is due under the SFS, Member States shall **complement the financing** via²⁸:

- a) The use of potential unspent funds in the BPS reserve (for Member States applying BPS)
- b) The use of potential unspent funds under the notified ceiling for YFP,
- c) A linear reduction of BPS or SAPS.

If the total expenditure for SFS goes above the **maximum of 10% of the national ceiling**, the Member State has to apply a **linear reduction of all SFS** payments to respect that maximum (see the illustration below). However, this maximum does not apply in certain Member States:

- Member States applying the method of the "payment due each year" without rounding-up²⁹ (DE, EE, EL, MT, AT, PL, RO);
- Member States applying the method of the "payment due in 2015" without rounding-up³⁰, whose national ceiling increases and who applies the flat rate from 2015 for BPS or SAPS.



²⁶ Article 63(2)(a) of Regulation 1307/2013.

²⁷ Article 65(3) of Regulation 1307/2013.

²⁸ Article 65(2) of Regulation 1307/2013.

²⁹ The amount resulting should not be higher than a maximum fixed by Member State between EUR 500 and EUR 1250. If the amount resulting is lower than EUR 500, Member States may decide to round up this amount to EUR 500.

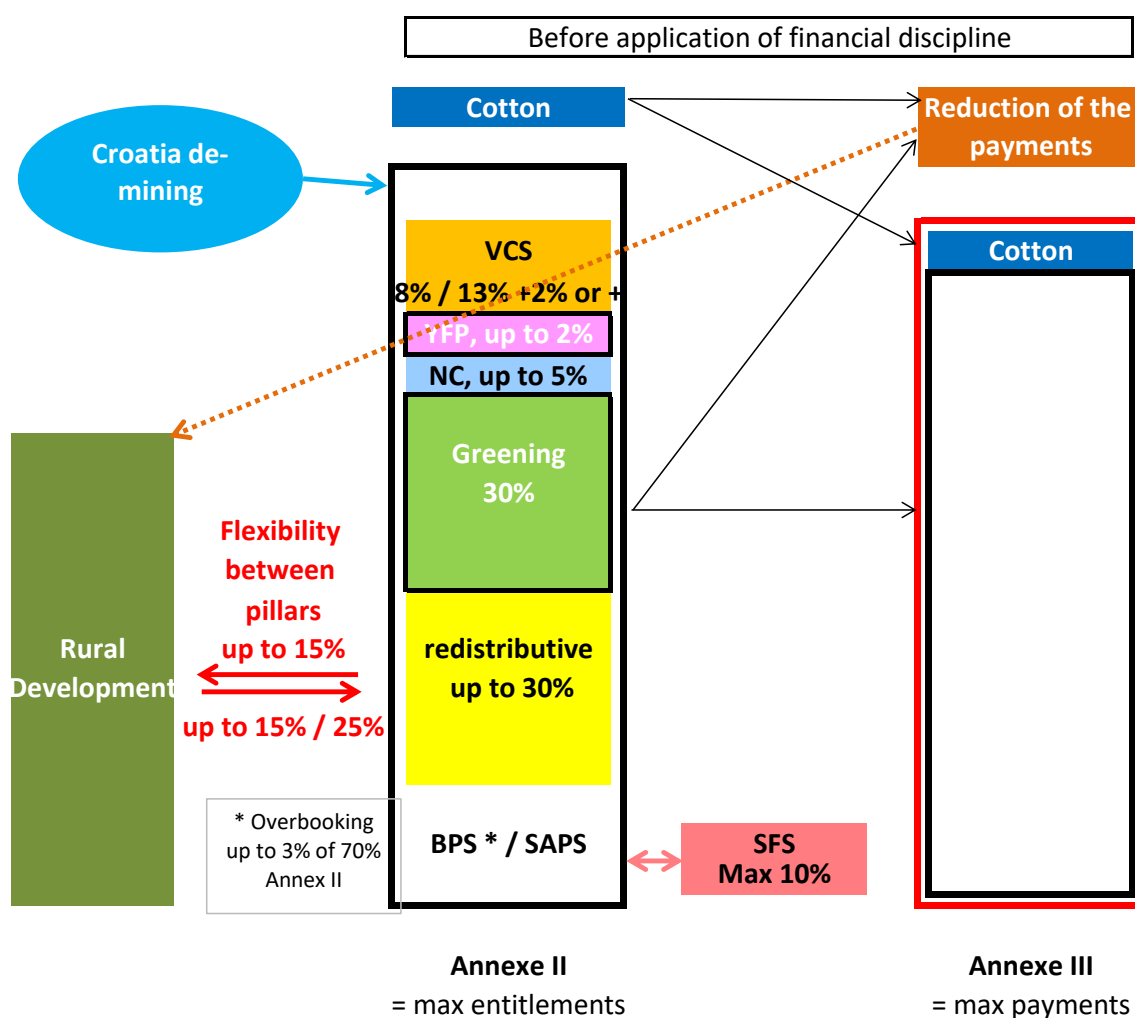
³⁰ The amount resulting should not be higher than a maximum fixed by Member State between EUR 500 and EUR 1250. If the amount resulting is lower than EUR 500, Member States may decide to round up this amount to EUR 500.

4. Order of reductions

The previous sections have shown that several financial reductions may apply to determine the amount of direct payments the farmer will actually be granted. It is therefore necessary to clarify the order of application of these reductions, or, in other words, to clarify to which amounts which reductions apply. Article 6 of Regulation 809/2014 lays down that financial reductions should be applied in the following order to each scheme separately:

1. Reductions and penalties (Integrated Administration and Control System)³¹,
2. Linear reductions of individual DP schemes (BPS/SAPS, Redistributive payment, YFP, SFS),
3. Reduction of payments (Article 11 of Regulation 1307/2013), the linear reduction to respect the net ceilings (Article 7(1) of Regulation 1307/2013) and financial discipline (Article 8 of Regulation 1307/2013) should be applied to the same amount.

5. Overview



³¹ Article 16 of Regulation (EU) No 640/2014 applies to overall amount payable to the beneficiary. Nevertheless this penalty for not declaring all parcels can be applied to each scheme concerned separately. Attention has to be paid to the cases where penalty under Article 28(2) of Regulation (EU) No 640/2014 is applied and is deducted from the penalty calculated under above mentioned Article 16. The deduction has to be applied only once and only in respect of the greening payment.

Annex

Table 1: Reduction of payments – application by Member States

		BE/F	BG	CZ	DK	EE	IE	EL	ES	IT	CY	LV	LU	HU	MT	NL	AT	PL	PT	SI	SK	FI	SE	UK/E	UK/NL	UK/S	UK/W	Count:	
€150 000	5.00%		√	√	√	√			√		√	√	√	√	√	√				√	√	√	√	√		√			18
€150 000	15.00%																										√		1
€150 000	50.00%									√																			1
€150 000	100.00%	√					√	√									√	√							√				6
€176 000	100.00%													√															1
€200 000	30.00%																										√		1
€250 000	55.00%																										√		1
€300 000	100.00%		√																								√		2
€500 000	100.00%									√																			1
€600 000	100.00%																									√			1
Subtraction of salaries			√			√		√	√	√		√	√				√			√									9

Table 2: Flexibility between pillars – application by Member States

From DP to RD – max 15% per year

	Notification due by	Financial Year 2015 - Calendar Year 2014	Financial Year 2016 - Calendar Year 2015	Financial Year 2017 - Calendar Year 2016	Financial Year 2018 - Calendar Year 2017	Financial Year 2019 - Calendar Year 2018	Financial Year 2020 - Calendar Year 2019
France	DEC 2013	3.000000000%	3.330000000%	3.330000000%	3.330000000%	3.330000000%	3.330000000%
Latvia	DEC 2013	7.46490602%	7.46490602%	7.46490602%	7.46490602%	7.46490602%	7.46490602%
United Kingdom	DEC 2013	10.75929500%	10.75929500%	10.75929500%	10.75929500%	10.75929500%	10.75929500%

	Notification due by	Financial Year 2016 - Calendar Year 2015	Financial Year 2017 - Calendar Year 2016	Financial Year 2018 - Calendar Year 2017	Financial Year 2019 - Calendar Year 2018	Financial Year 2020 - Calendar Year 2019
Belgium	AUG 2014	2.316500000%	3.474800000%	3.474800000%	4.633000000%	4.633000000%
Czech Republic	AUG 2014	3.38824148%	3.39139443%	3.39466215%	1.27301435%	1.27302893%
Denmark	AUG 2014	5.000000000%	6.000000000%	7.000000000%	7.000000000%	7.000000000%
Germany	AUG 2014	4.500000000%	4.500000000%	4.500000000%	4.500000000%	4.500000000%
Estonia	AUG 2014	6.14753426%	14.31477700%	14.98240598%	14.92679519%	14.99710686%
Greece	AUG 2014	5.000000000%	5.000000000%	5.000000000%	5.000000000%	5.000000000%
Netherlands	AUG 2014	4.03424627%	4.09974751%	4.16742739%	4.23321095%	4.30110463%
Romania	AUG 2014	1.83426481%	2.27842106%	2.23133645%		

From RD to DP – max 15% per year

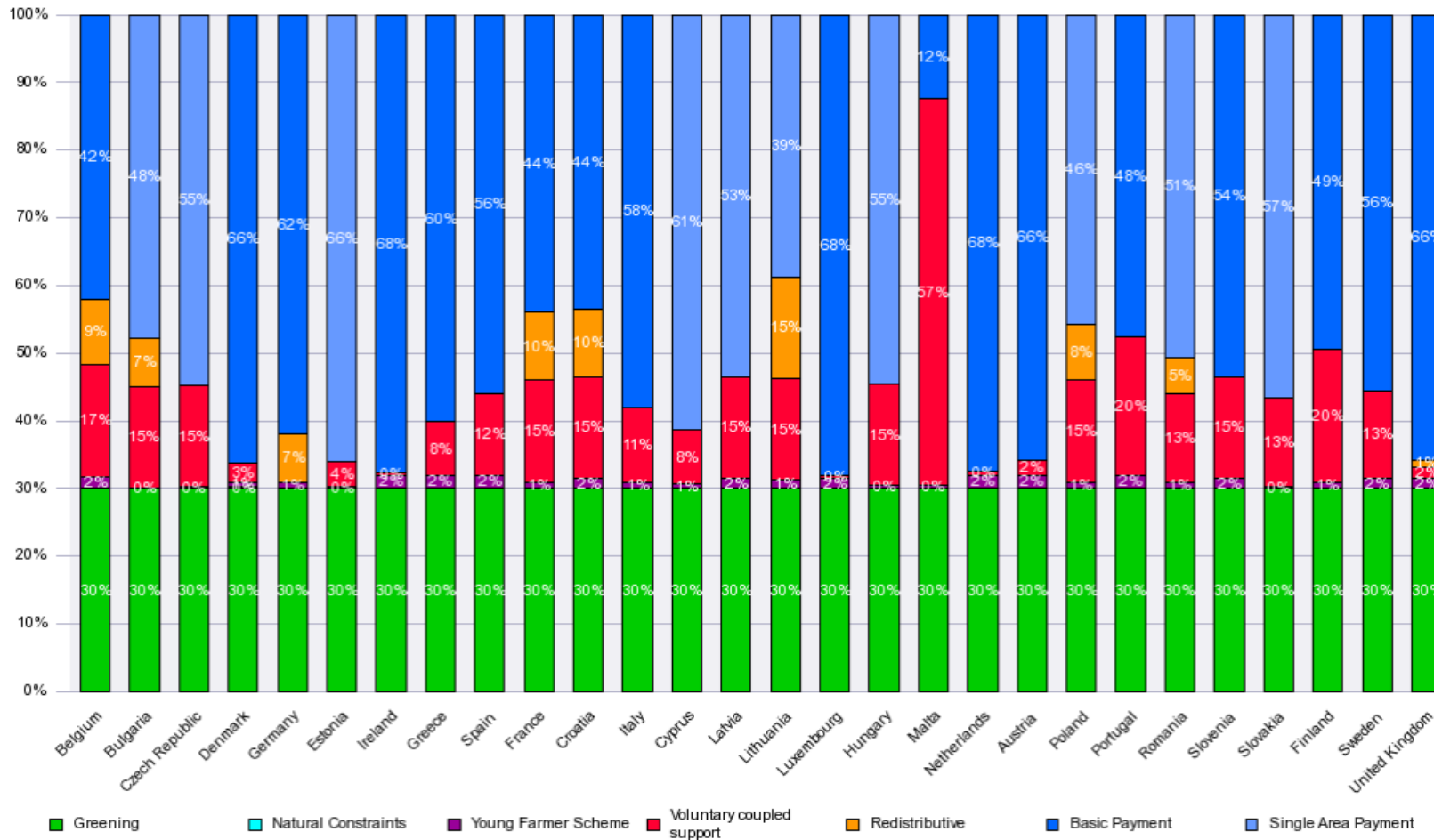
	Notification due by	Financial Year 2015 - Calendar Year 2014	Financial Year 2016 - Calendar Year 2015	Financial Year 2017 - Calendar Year 2016	Financial Year 2018 - Calendar Year 2017	Financial Year 2019 - Calendar Year 2018	Financial Year 2020 - Calendar Year 2019
Croatia	DEC 2013	15.000000000%	15.000000000%	15.000000000%	15.000000000%	15.000000000%	15.000000000%
Malta	DEC 2013		0.802003000%	1.59412236%	2.36917772%	3.10610882%	3.84037878%

	Notification due by	Financial Year 2016 - Calendar Year 2015	Financial Year 2017 - Calendar Year 2016	Financial Year 2018 - Calendar Year 2017	Financial Year 2019 - Calendar Year 2018	Financial Year 2020 - Calendar Year 2019
Hungary	AUG 2014	15.000000000%	15.000000000%	15.000000000%	15.000000000%	15.000000000%

From RD to DP – max 25% per year

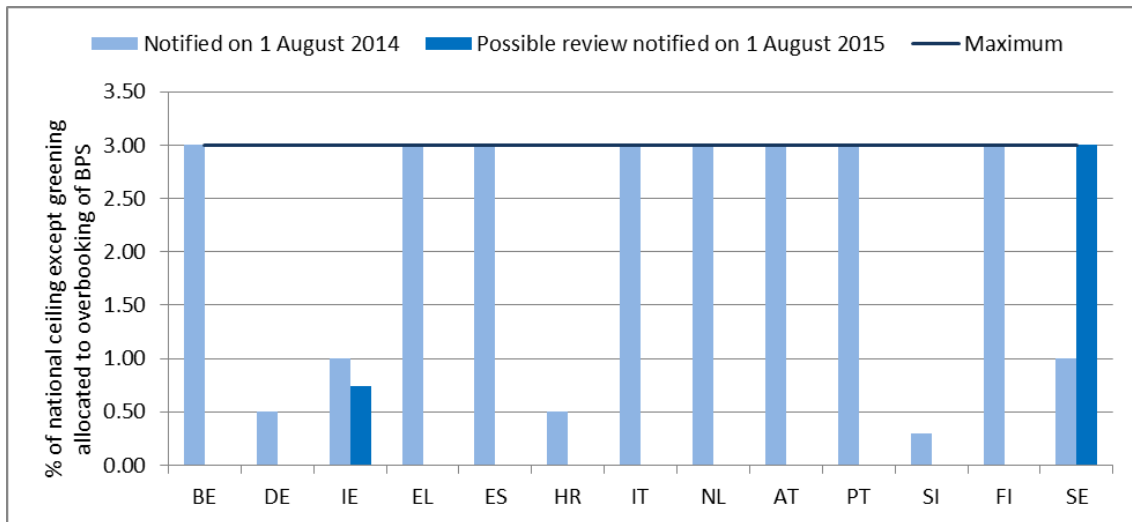
	Notification due by	Financial Year 2015 - Calendar Year 2014	Financial Year 2016 - Calendar Year 2015	Financial Year 2017 - Calendar Year 2016	Financial Year 2018 - Calendar Year 2017	Financial Year 2019 - Calendar Year 2018	Financial Year 2020 - Calendar Year 2019
Poland	DEC 2013	25.000000000%	25.000000000%	25.000000000%	25.000000000%	25.000000000%	25.000000000%
Slovakia	DEC 2013	21.306000000%	21.306000000%	21.306000000%	21.306000000%	21.306000000%	21.306000000%

Graph 1: % of national ceiling allocated to each DP scheme by Member State – calendar year 2016



NB: the share of BPS represented in this graph do not take into account the overbooking.

Graph 2: % of national ceiling minus greening allocated for BPS overbooking for calendar year 2016 (for MS using the option)



Graph 3: % of national ceiling allocated to YFP for calendar year 2016

