Direct Payments: the Basic Payment Scheme from 2015

Convergence of the value of payment entitlements ('Internal Convergence')

The fiche presents the concept of 'internal convergence' in the 2013 CAP reform and the implementation of this provision 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 European Court of Justice to provide a definitive interpretation of the applicable Union law.

December 2015

1. Introduction

The internal convergence mechanism is one of the core elements of the political agreement reached in June 2013 in respect of the reform of direct support. In accordance with the corresponding rules, the value of the payment entitlements allocated under the Basic Payment Scheme (BPS), within a Member State, must move towards a more uniform level. It had become indeed increasingly difficult to justify the significant individual differences in the level of support per hectare. The objective is to ensure a more equitable distribution of direct support between farmers.

To achieve this, Member States could choose from different options (the three main models of internal convergence):

- The **basic model** is the flat rate from 2015 (all payment entitlements have the same unit value from 2015),

- from which Member States may derogate by **differentiating the values of payment entitlements (PEs)** on the basis of farmers' direct support for 2014 (with different options)[1]:

  - o If the Member State still decides to reach a uniform value by the end of the period of convergence (2015-2019), it applies the so-called **flat rate by 2019** (at the latest)[2];

  - o If the Member State decides to apply a longer transition, it applies a **partial convergence** ("tunnel model"), which can take several forms as framed by the EU legislation.

These models are applicable at national or at regional level if the Member State applies the option of regionalising the BPS[3]. The regionalisation of BPS can be based on agronomic or socio-economic characteristics, the agricultural potential or the institutional or administrative structure.

In addition, it should be noted that the greening payment can be paid as a flat rate payment or as a percentage of the BPS of the individual farmer (% of the value of his/her activated PEs). In this second model, convergence thus applies also to the amount of greening payment each farmer will be granted.

2. The three main models of internal convergence

2.1. Flat rate from 2015

In this model, the value of PEs is calculated by dividing a fixed percentage of the national ceiling available for granting direct payments (Annex II to Regulation 1307/2013, hereafter referred to as the 'national ceiling') for each year by the total number of PEs allocated in 2015 (except the ones allocated from the reserve)[4]. This fixed percentage corresponds to the share of the BPS ceiling excluding the reserve in the national ceiling in 2015 (also called the "theoretical BPS ceiling excluding the reserve" hereafter).

It means that the value of all PEs will have the same value (yearly average) in a Member State or in a region from 2015 onwards. It can be illustrated by the following graph.

The blue bars represent the "theoretical BPS ceiling excluding the reserve" (fixed percentage of the national ceiling every year) which follows the steps of external convergence. The total value of PE allocated in first allocation must fit this "theoretical BPS ceiling excluding the reserve" each year.

The green line represents the unit values of PEs throughout the period. They follow the average.
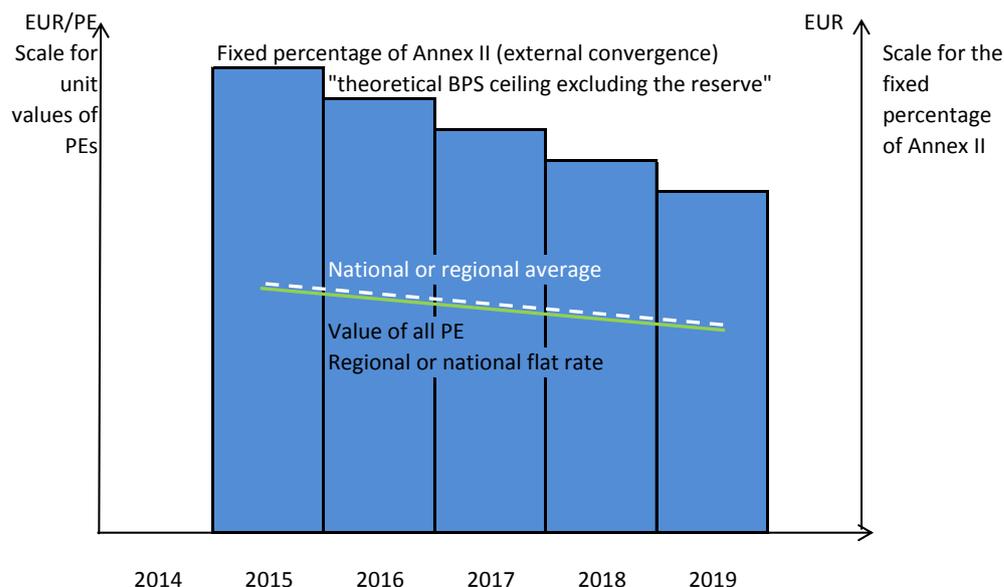
---

[1] Article 26 of Regulation 1307/2013

[2] Article 25(3), 25(8) and 25(9) of Regulation 1307/2013

[3] Article 23 of Regulation 1307/2013

[4] Article 25(1) of Regulation 1307/2013

Flat rate from 2015

It should be noted that any change of the BPS ceiling from one year to the other due to a review of Member States decision (for transfers between direct payments and rural development, financial allocation to other schemes) should be handled via linear increase or decrease of the values of all PEs[5] and are thus not dealt with within the internal convergence calculations.

2.2. Flat rate by 2019

In this model the objective is to reach a uniform amount per hectare in maximum 5 steps. Member States differentiate initially the values of PEs which converge progressively until reaching a uniform value by 2019[6]. The **starting point** is the Initial Unit Value (IUV) calculated on the basis of the direct support the farmer was entitled to in 2014 adjusted to the proportion of BPS in 2015 and to the national ceiling as amended by the Multiannual Financial Framework 2014-2020.

The IUV shall be calculated differently depending on:

- Whether the Member State applied the Single Payment Scheme (SPS) or the Single Area Payment Scheme (SAPS) in 2014;

- Whether the Member State keeps the existing payment entitlements or not[7].

In addition Member States having applied the SPS in 2014 had to choose between two options:

- o to calculate the IUV on the basis of the **payments** the farmer was entitled to for 2014 (i.e. including payments for PEs leased-in by the farmer);

- o Or to base it on the total **value of the PEs owned** by the farmer in 2014 (i.e. including the value of PEs leased-out, and excluding the value of PEs leased-in).

[5]   Article 22(5) of Regulation 1307/2013

[6]   Article 25(3) of Regulation 1307/2013

[7]   Article 21(3) of Regulation 1307/2013

Moreover a Member State could decide to include the sector support granted for 2014 in the basis for calculating the IUV, provided it also decided not to support the same sector under the VCS[8].

The **ending point** is the average value in the target year in which the flat rate should be reached: it is at the latest 2019. The average value should also be calculated on the basis of the "theoretical BPS ceiling excluding the reserve" (see section 2.1) (as any change of the BPS ceiling from one year to the other due to a review of Member States' decisions should be handled via linear increase or decrease of the values of all PEs, and not via the calculation of internal convergence).

Flat rate by 2019 at the latest
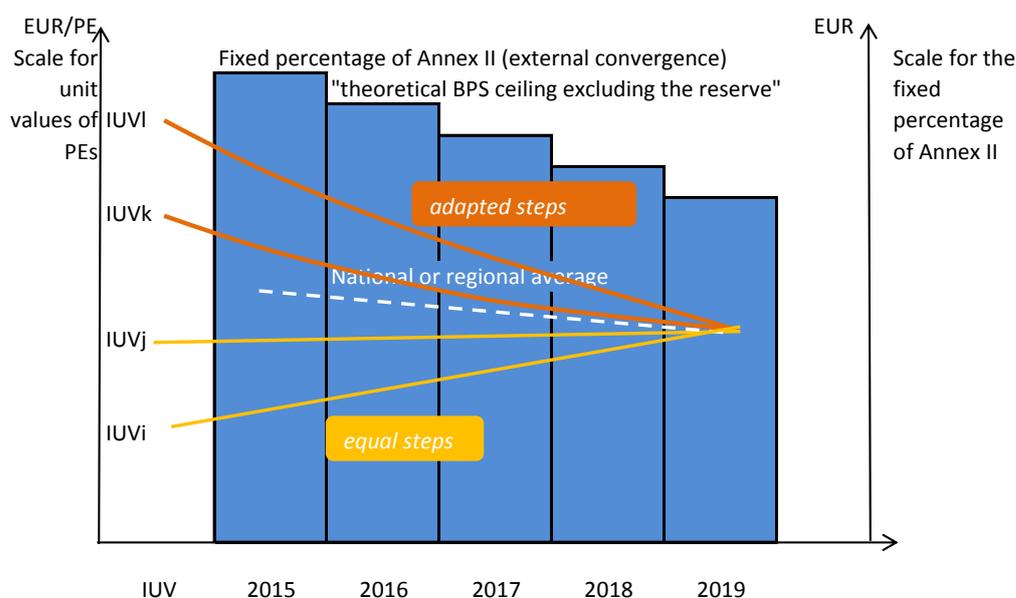
IUV: Initial Unit Value, calculated on the basis of 2014 DP adjusted by the proportion of BPS and new ceiling in 2015

The **transition** between the starting point and the ending point shall be made in equal steps[9]. However the adjustment to respect the annual "theoretical BPS ceilings excluding the reserve" should be applied only to PEs above average, thus the steps of PEs above average are also influenced by the steps of the "theoretical BPS ceiling"[10]. This is illustrated by the graph where the lines for PEs above average are not straight but curved to absorb also the steps of the theoretical BPS ceiling.

NB: Member States having defined already national steps in the 2003 Reform[11] may derogate from the "equal steps" rule.

Member States also have a margin of discretion to define their "flat rate by 2019":

- The target year for the flat rate (at the latest 2019);

---

[8]   A partial approach is also possible in accordance with the second subparagraph of Article 26(6).

[9]   Article 25(8) of Regulation 2013/2013

[10]   The steps of the theoretical BPS ceilings correspond to the steps of the national ceiling in Annex II to Regulation 1307/2013, i.e. generally the steps of external convergence (or phasing-in, and flexibility between pillars).

[11]   Article 63(3) of Regulation 1782/2003

- The number of equal steps (or national steps defined in the 2003 Reform for Member States concerned).

2.3. Partial convergence ("tunnel" model)

In the partial convergence (or "tunnel") model, the rules for the starting point and the transition between the starting and the ending points are the same as in the 'flat rate by 2019' model. What differs is the definition of the **ending point**.

First of all the **target value** is a percentage of the 2019 average which can be set by the Member States between 90% and 100% of the 2019 average. The 2019 average is also calculated on the basis of the "theoretical BPS ceiling excluding the reserve" (see section 2.1)[12]. Three groups of PEs should be distinguished:

o PEs whose IUV is below the target value should close at least one third of the gap between the IUV and the target by 2019 at the latest. In addition each payment entitlement should as a general rule reach a minimum value of 60% of the 2019 average by 2019[13]. The only possible exception to the minimum 60% is when Member States apply the optional "maximum 30% loss" (see next bullet).

o For PEs whose IUV is above the 2019 average, the difference between their value and the average should be decreased to finance the increase in the value of the PEs with a value below the target value[14]. Also, their value should be adjusted to ensure the respect of the "theoretical BPS ceiling excluding the reserve" (see section 2.1)[15]. Member States define objective and non-discriminatory criteria to decrease the value of PEs above average. It can be for example a "linear" decrease (same % of reduction for all PEs above average), or a decrease "proportional to the distance to the average" (different % of reduction according to the distance to the average). In addition, Member States may decide to limit the loss to 30% compared to the IUV. In this case, if all PEs above average have reached the maximum 30% loss, the minimum of 60% is adjusted downwards to respect the maximum 30% loss.

o The value of PEs between the target value (between 90% and 100% of the 2019 average) and the 2019 average does not change.

This model can be illustrated by the following graph (in that case the target value is 90% of the 2019 average):
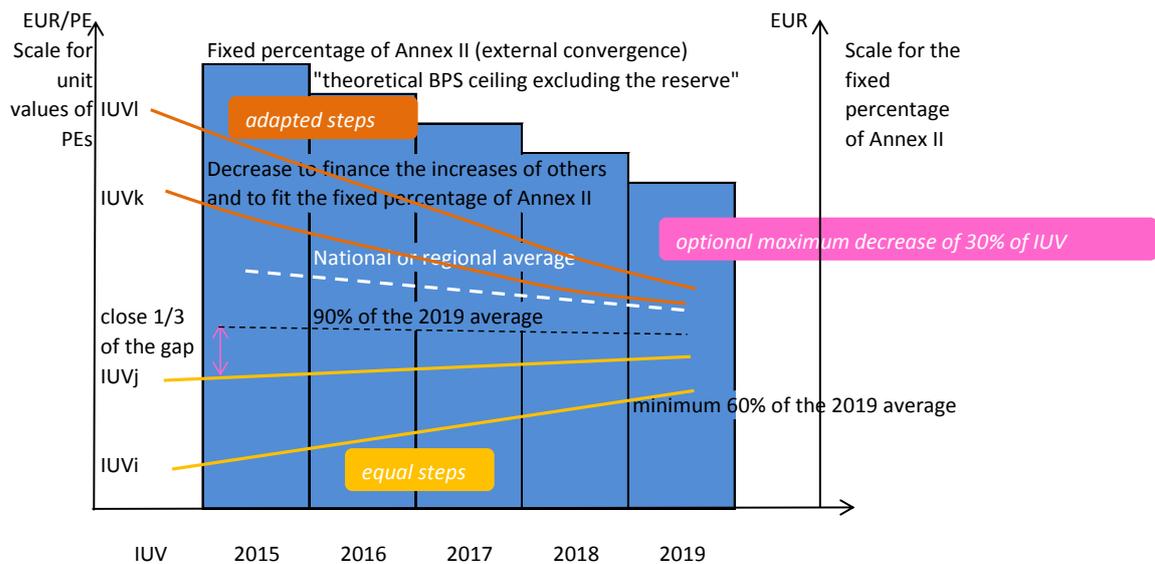
---

[12]   Article 25(5) and 25(6) of Regulation 1307/2013

[13]   Article 25(4) of Regulation 1307/2013

[14]   Article 25(7) of Regulation 1307/2013

[15]   Second subparagraph of Article 25(8) of Regulation 1307/2013

Partial convergence

IUV: Initial Unit Value, calculated on the basis of 2014 DP adjusted by the proportion of BPS and new ceiling in 2015

To sum up, Member States have a margin of discretion to define their "tunnel", notably:

- The target date by which the partial convergence should be achieved: at the earliest in 2015 and by 2019 at the latest, which determined also the number of steps,

- The target value: between 90% and 100% of the 2019 average,

- The extent to which the gap between the IUV and the target value should be closed: at least one third of the gap,

- The criteria to decrease PEs above average: for example between linear or proportional reduction,

- The application or not of the maximum 30% loss compared to the IUV.

3. Implementation by Member States

3.1. Main models chosen

Amongst the 18 Member States implementing the BPS, **6 have opted for regionalising the BPS**[16]: DE (by *Länder*), EL (3 regions according to historical land use: arable land, grassland, permanent crops), ES (50 regions based on historical land use and *comarcas*), FR (2 regions: Corsica and continental France), FI (2 regions), UK[17] (regional model applied within Scotland and England).

The following map illustrates the model of internal convergence chosen by each Member State.

---

[16]   Article 23 of Regulation 1307/2013

[17]   The 4 regions apply different convergence models; in addition, two of the UK regions (Scotland and England) have defined "sub-regions" with different target values.

- DE, MT, FR-Corsica and UK-England apply the **flat rate from 2015 (4)**:

    o For DE and UK-England, it is applied at regional level;

    o In addition DE will adapt progressively the regional BPS ceilings between 2017 and 2019 in order to reach a uniform unit value at national level in 2019.

- NL, AT, FI, UK-Scotland and UK-Wales will apply a **flat rate in 2019 (5)**.

    o For FI and UK-Scotland, it is applied at regional level.

- BE-Flanders, BE-Wallonia, DK, IE, EL, ES, continental FR, HR, IT, LU, PT, SI, SE and UK-Northern Ireland will apply a **partial convergence by 2019 (14)**.

    o EL, ES and FI will apply it at regional level.

    o SE will close 5/6 of the gap to 100% of 2019 average by 2019 and has already planned to move towards a flat rate from 2020.

The other Member States keep applying SAPS which is a flat rate area payment.
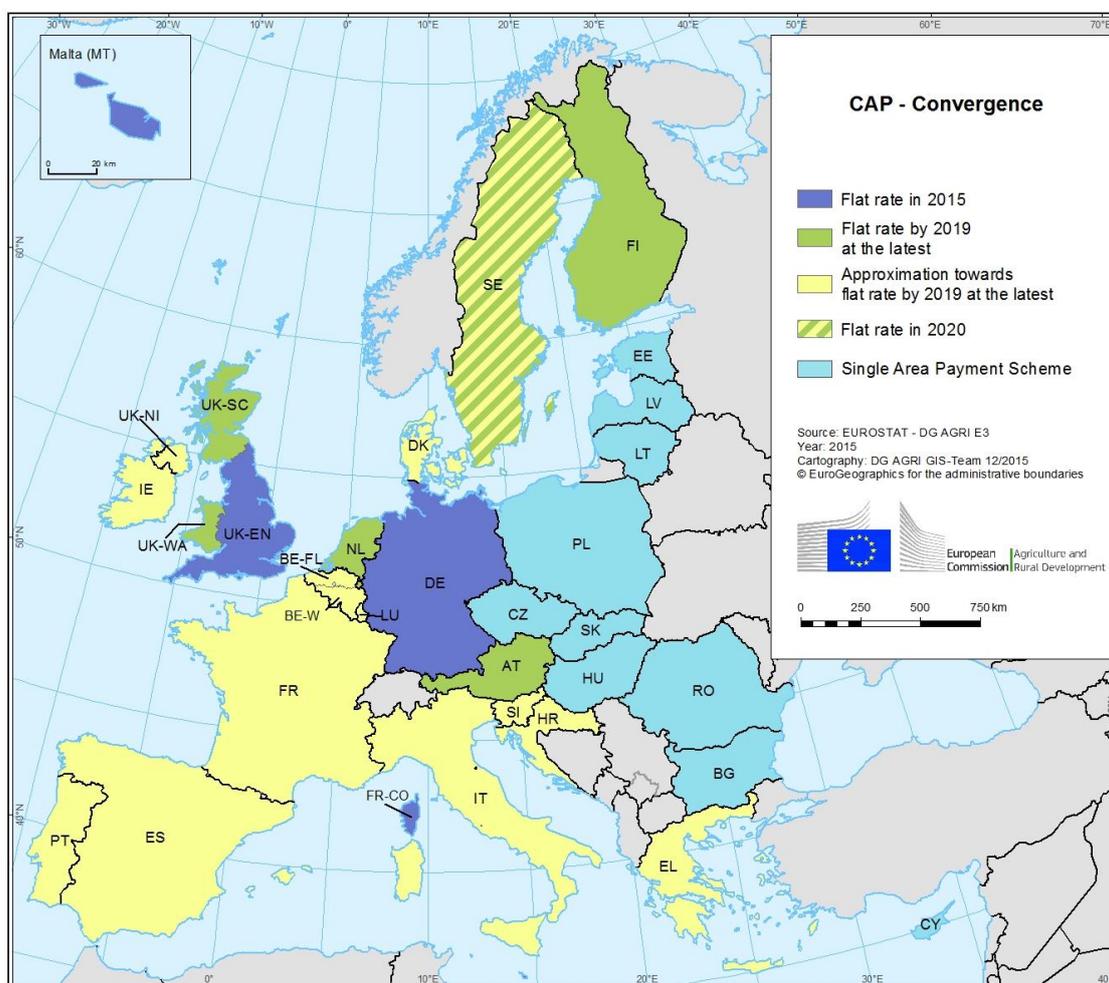
3.2. Details for the flat rate by 2019

The table below shows the details of the decisions taken by Member States in implementing the flat rate by 2019. They have all chosen the target date of 2019 and the majority apply

five equal steps. Only FI applies the derogation foreseen in Article 25(9) of Regulation 1307/2013 using the steps decided nationally in the context of the 2003 reform. Member States applying the BPS regionalisation are highlighted in the table.

Member State / Region	Flat rate reached by	Steps
	Article 25(2) R1307/2013	Article 25(8) or 25(9) R1307/2013
Austria	2019	5 equal steps starting in 2015
Finland	2019	Applies art. 25 (9) derogation - steps decided nationally (cf. art. 63(3) of Regulation 1782/2003)
Netherlands	2019	5 equal steps starting in 2015
United Kingdom Scotland	2019	5 equal steps starting in 2015
United Kingdom Wales	2019	5 equal steps starting in 2015

3.3. Details of the partial convergence models

The table below presents the details of the decisions taken by Member States implementing the "tunnel" model. All have chosen 2019 as target date (except SE: 2020). Among the 14 MS/regions implementing a tunnel, 10 have chosen 90% of the 2019 average as target value while the others chose 100%. 11 apply the "basic tunnel" reducing by 1/3 the distance to the target value. FR, UK-Northern Ireland and SE will reduce the gap by 70%, 71.4% and 5/6ths respectively. 8 Member States reduce the value of PEs above average linearly while the others reduce it proportionally to the distance to the average. 8 Member States apply the maximum 30% loss. All apply 5 equal steps (except SE which will apply a 6th step to reach the flat rate in 2020). Member States applying the BPS regionalisation are highlighted in the table.

Member State / Region	Target date	Target value of PE (in % of 2019-average)	Criteria to increase PE to target value	Criteria to decrease PE above average	Maximum decrease		Steps
	Article 25(4) to (7) R1307/2013	Article 25(4) R1307/2013 second sub§	Article 25(4) R1307/2013 first sub§	Article 25(7) R1307/2013	Article 25(7) R1307/2013		Article 25(8) and (9) R1307/2013
Belgium Flanders	2019	90%	1/3 of the gap*	Proportional to the distance to the average**	Yes	30%	5 equal steps starting in 2015
Belgium Wallonia	2019	90%	1/3 of the gap*	Proportional to the distance to the average**	Yes	30%	5 equal steps starting in 2015
Croatia	2019	100%	1/3 of the gap*	Proportional to the distance to the average** (to be confirmed)	No		5 equal steps starting in 2015
Denmark	2019	90%	1/3 of the gap*	Linear reduction ***	No		5 equal steps starting in 2015
France	2019	100%	70% of the gap	Proportional to the distance to the average**	Yes	30%	5 equal steps starting in 2015
Greece	2019	90%	1/3 of the gap*	Linear reduction ***	Yes	30%	5 equal steps starting in 2015
Ireland	2019	90%	1/3 of the gap*	Linear reduction ***	No		5 equal steps starting in 2015
Italy	2019	90%	1/3 of the gap*	Proportional to the distance to the average**	Yes	30%	5 equal steps starting in 2015
Luxembourg	2019	90%	1/3 of the	Linear	No		5 equal steps

Member State / Region	Target date	Target value of PE (in % of 2019-average)	Criteria to increase PE to target value	Criteria to decrease PE above average	Maximum decrease		Steps
	Article 25(4) to (7) R1307/2013	Article 25(4) R1307/2013 second sub§	Article 25(4) R1307/2013 first sub§	Article 25(7) R1307/2013	Article 25(7) R1307/2013		Article 25(8) and (9) R1307/2013
			gap*	reduction ***			starting in 2015
Portugal	2019	90%	1/3 of the gap*	Linear reduction ***	Yes	30%	5 equal steps starting in 2015
Slovenia	2019	90%	1/3 of the gap*	Proportional to the distance to the average**	Yes	30%	5 equal steps starting in 2015
Spain	2019	90%	1/3 of the gap*	Linear reduction ***	Yes	30%	5 equal steps starting in 2015
Sweden	2019	100%	5/6 of the gap	Linear reduction ***	No		5 equal steps from 2015 to 2019, with flat rate reached in 2020.
United Kingdom Northern Ireland	2019	100%	71.40% of the gap	Linear reduction ***	No		5 equal steps starting in 2015

* The notification does not require specifying those details but Member States often addressed the issue in their notification. For the others, it is assumed that the increase is the basic reduction of 1/3 of the gap between the IUV and the target value.

** "Proportional to the distance to the average" means that the percentage of reduction will increase with the difference between the unit value of PE and the 2019 average.

*** "Linear reduction" means the same percentage of reduction of the part of the PE above average.

3.4. Method chosen for the greening payment

The table below shows that among the 18 MS/regions which had the possibility to pay the greening payment as a percentage of the individual BPS[18], 16 actually chose it, with only Luxembourg and UK-Scotland applying the uniform greening payment per hectare. However since UK-Scotland regionalises the greening payment, it will be uniform per hectare inside each Scottish BPS region.

In these cases where the green payment is a percentage of the BPS payment, the green payment will follow the same convergence path as the BPS.

Among the 8 MS/Regions which apply the BPS regionalisation, 4 have chosen to also regionalise the greening ceiling: EL, FI, UK-England and UK-Scotland. The national greening ceiling is in these cases distributed between the BPS regions in the same way as the BPS regional ceilings. The greening payment in FI, UK-England and UK-Scotland will be uniform per hectare inside each BPS region. In Greece, as the greening ceiling has been regionalised but greening is paid as a percentage of the individual BPS, a farmer with entitlements from different regions will get different greening amounts for each BPS region in which he/she has activated PEs.

Member State/Region	Decision to apply the greening payment as a percentage of BPS	Decision to apply the greening payment at regional level
Belgium Flanders	Yes	N/A

---

[18] Member States applying the flat rate by 2019 of the partial convergence.

Member State/Region	Decision to apply the greening payment as a percentage of BPS	Decision to apply the greening payment at regional level
Belgium Wallonia	Yes	N/A
Denmark	Yes	N/A
Germany	N/A	No
Ireland	Yes	N/A
Greece	Yes	Yes
Spain	Yes	No
France	Yes	No
Croatia	Yes	N/A
Italy	Yes	N/A
Luxembourg	No	N/A
Malta	N/A	N/A
Netherlands	Yes	N/A
Austria	Yes	N/A
Portugal	Yes	N/A
Slovenia	Yes	N/A
Finland	N/A	Yes
Sweden	Yes	N/A
United Kingdom England	N/A	Yes
United Kingdom Northern Ireland	Yes	N/A
United Kingdom Scotland	No	Yes
United Kingdom Wales	Yes	No

3.5. Conclusion

Among the Member States implementing the BPS, 4 MS/regions (DE, MT, FR-Corsica and UK-England) apply the flat rate from 2015 and 5 the flat rate by 2019 (NL, AT, FI, UK-Scotland and UK-Wales).

For the 14 MS/regions applying the partial convergence, if the majority of Member States applies the "basic tunnel" reducing 1/3 of the gap to 90% of the average with the maximum 30% loss, some have defined more "converging" tunnels by setting the target at 100% of the 2019 average and/or by reducing a larger share of the gap between the IUV and the average.

The application of the BPS regionalisation and of the option to grant the greening payment as a percentage of BPS also plays an important role in the actual level of convergence finally achieved.