



EUROPEAN COMMISSION
 DIRECTORATE-GENERAL FOR AGRICULTURE AND RURAL DEVELOPMENT
 Directorate D. Direct support
D.1. Direct support regulatory aspects

DDG2/D/1/EL/mi D(2015)**6380192**

WORKING DOCUMENT

THE RESERVE IN THE NEW BASIC PAYMENT SCHEME

1. INTRODUCTION

In the new system of the Basic Payment Scheme (BPS) of the reformed CAP, payment entitlements (PEs) have in general a different unit value each year. PEs allocated in first allocation follow internal convergence and PEs allocated from the reserve follow the annual steps of the national ceiling set out in Annex II (mainly external convergence). The specificities of the new system (and in particular the convergence mechanisms) require to operate the national/regional reserve (hereinafter, the reserve) on a **multiannual** basis.

This working document describes the new way to operate the reserve under BPS.

2. CONSTITUTION OF THE RESERVE

In accordance with Article 30(1) of Regulation 1307/2013¹, the reserve is to be built in 2015 by operating a linear reduction of the BPS ceiling **with respect to every year of the period**. The BPS ceiling to be considered in this context should be the BPS ceiling of each year but without any change in allocations between schemes, overbooking or flexibility between pillars as compared to 2015. This ceiling can be called "**theoretical BPS ceiling before deduction of the reserve**". It is calculated by multiplying the share of the 2015 BPS ceiling in the 2015 national ceiling (Annex II) by the national ceiling for each year. After 2015, the changes in allocations between schemes, overbooking or flexibility between pillars should be dealt with on a yearly basis in accordance with Article 22(5); i.e. all PEs shall be linearly increased or decreased to ensure the respect of the annual BPS ceiling fixed by the Commission.

Accordingly, the reserve built in 2015 will be multiannual, i.e. it will contain annual amounts for the whole period covered by the Regulation. These annual amounts follow the steps of Annex II each year (mainly external convergence²). This reflects the need for financing annual unit values of PEs allocated from the reserve (see section 3.1). This is illustrated by the following example (table and graph):

¹ Hereafter, any legal reference should be read as referring to Regulation 1307/2013 unless otherwise stated.

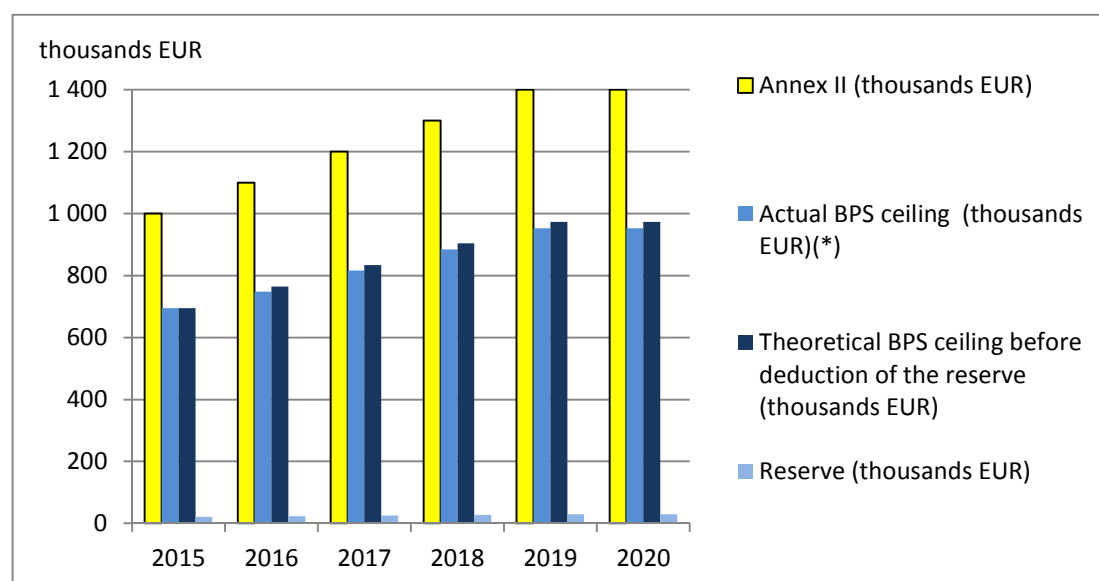
² In addition, variations in Annex II can be due to flexibility between pillars and phasing-in.

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Annex II (thousands EUR) | 1 000 | 1 100 | 1 200 | 1 300 | 1 400 | 1 400 |
| Actual BPS ceiling (thousands EUR)(*) | 695 | 748 | 816 | 884 | 952 | 952 |
| <i>Share of 2015 BPS ceiling in 2015 Annex II</i> | 69.5% | | | | | |
| Theoretical BPS ceiling before deduction of the reserve (thousands EUR) (**) | 695 | 765 | 834 | 904 | 973 | 973 |
| % reserve (applied to the theoretical BPS ceiling) (***) | 3% | | | | | |
| Reserve (thousands EUR) | 20.9 | 22.9 | 25.0 | 27.1 | 29.2 | 29.2 |

(*) While the BPS ceiling for 2015 is fixed in Regulation 2015/1089, the actual BPS ceiling for calendar years 2016 onwards will only be known after Member States have notified their possible reviewed financial allocations by scheme, BPS overbooking and flexibility between pillars. For the purpose of this example, the entries for 2016 onwards are thus hypothetical (i.e. based on the assumption that certain policy decisions have changed).

(**) The theoretical BPS ceiling is calculated by multiplying the share of the 2015 BPS ceiling in the 2015 national ceiling (Annex II) by the national ceiling for each year.

(***) The reserve is built by applying the percentage chosen (3% in this example) to the theoretical BPS ceiling.



(*) While the BPS ceiling for 2015 is fixed in Regulation 2015/1089, the actual BPS ceiling for calendar years 2016 onwards will only be known after Member States have notified their possible reviewed financial allocations by scheme, BPS overbooking and flexibility between pillars. For the purpose of this example, the entries for 2016 onwards are thus hypothetical (i.e. based on the assumption that certain policy decisions have changed).

This way of constituting the reserve allows respecting the principle of equality of the sum of the allocated PEs and the amount remaining in the reserve with the BPS ceiling each year (Article 22(4) of Regulation 1307/2013).

3. USE OF THE RESERVE

3.1. Allocation of PEs

Article 30(8) defines how to establish the unit values of PEs allocated from the reserve:

- for the year of allocation, it is the regional or national average of that year (see first subparagraph of that provision);
- and for the remaining years, that value will be multiplied by the steps of the BPS ceiling resulting from the variations of Annex II (see third subparagraph of that provision). These steps of Annex II correspond to the steps of the "theoretical BPS ceiling".

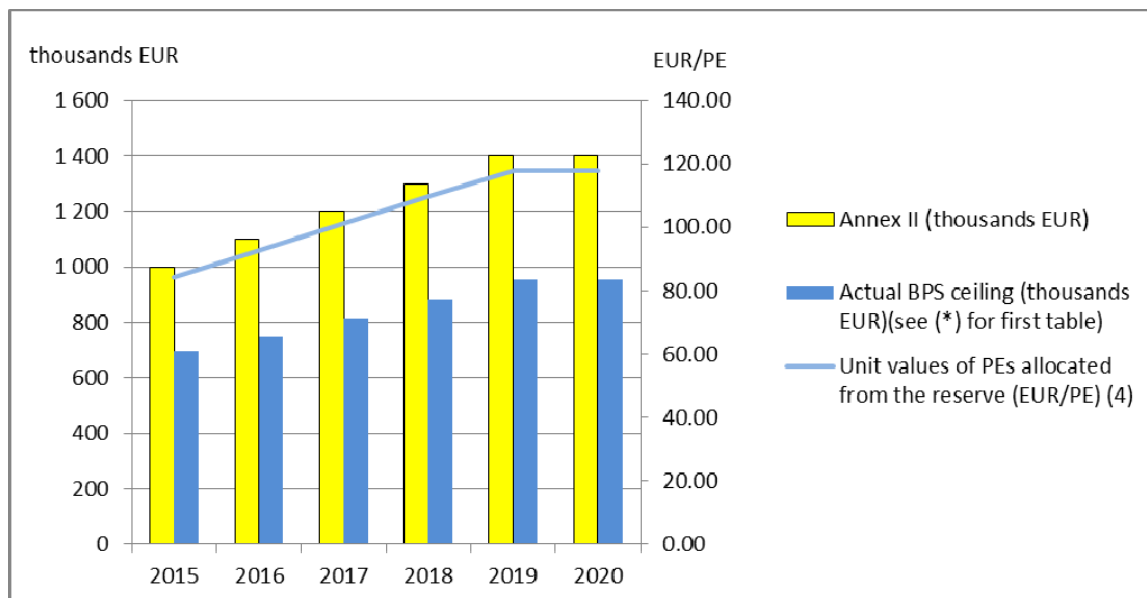
At the time of allocation, the amounts necessary for the financing should be taken out from the reserve for the year of allocation and for all the remaining years of the period. Only the amounts remaining in the reserve for each of these years would be afterwards regarded as "the national or regional reserve" referred to in Articles 22(4), 30(7)(e), 31(1) and 34(4) or "the amount of the national reserve or regional reserve" referred to in Article 30(8). This is illustrated by the following example:

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Annex II (thousands EUR) | 1 000 | 1 100 | 1 200 | 1 300 | 1 400 | 1 400 |
| Actual BPS ceiling (thousands EUR)(see (*) for first table) | 695 | 748 | 816 | 884 | 952 | 952 |
| Reserve (1)(thousands EUR) | 20.9 | 22.9 | 25.0 | 27.1 | 29.2 | 29.2 |

Allocation of PEs from the reserve in 2015

| | | | | | | |
|--|-------|-------|--------|--------|--------|--------|
| BPS ceiling without the reserve (thousands EUR) | 674 | | | | | |
| Total number of allocated PEs | 8 000 | | | | | |
| Average of the year of allocation (2) (EUR/PE) | 84.27 | | | | | |
| Number of PEs allocated from the reserve | 10 | | | | | |
| <i>Steps of Annex II (3)</i> | 100% | 110% | 109% | 108% | 108% | 100% |
| Unit values of PEs allocated from the reserve (EUR/PE) (4) | 84.27 | 92.70 | 101.12 | 109.55 | 117.98 | 117.98 |
| Total financing need (EUR) (5) | 842.7 | 927.0 | 1011.2 | 1095.5 | 1179.8 | 1179.8 |
| Amount remaining in the reserve after allocation (thousands EUR) (6)=(1)-(5) | 20.0 | 22.0 | 24.0 | 26.0 | 28.0 | 28.0 |

- (1) The reserve is built in 2015 with a linear reduction of the BPS ceiling to be applied for every year of the period.
- (2) The average of the year of allocation is calculated as laid down in the second subparagraph of Article 30(8) as the division between the BPS ceiling without the reserve (674 000 EUR) and the total number of allocated PEs before the allocation from the reserve (8000).
- (3) The steps of Annex II are calculated as the ratio between the amount in Annex II in year N divided by the amount in Annex II in year N-1.
- (4) The unit values of PEs allocated from the reserve correspond to the average for the year of allocation which is 2015 in this case multiplied by the steps of Annex II (i.e. from 2016 onwards) (2).
- (5) The total financing need is calculated by multiplying the unit values of PEs allocated from the reserve by the number of PEs allocated (10 in this case).



3.2. Increase in unit values of existing PEs

The increase in unit value (Article 30(10)) should be made for each of the remaining years of the period. Accordingly the annual increase should be calculated in the year of allocation for each of the remaining years of the period. In particular, when it is decided to increase the value of an entitlement to the average, the increase is the difference between 1) the national or regional average as adapted with the steps of Annex II (see the third subparagraph of Article 30(8)) and 2) the unit value of the PEs as defined in first allocation (internal convergence), for each of the years of the period. The amounts necessary for their financing should thus be taken out from the reserve for all the remaining years of the period. This is illustrated by the following example³:

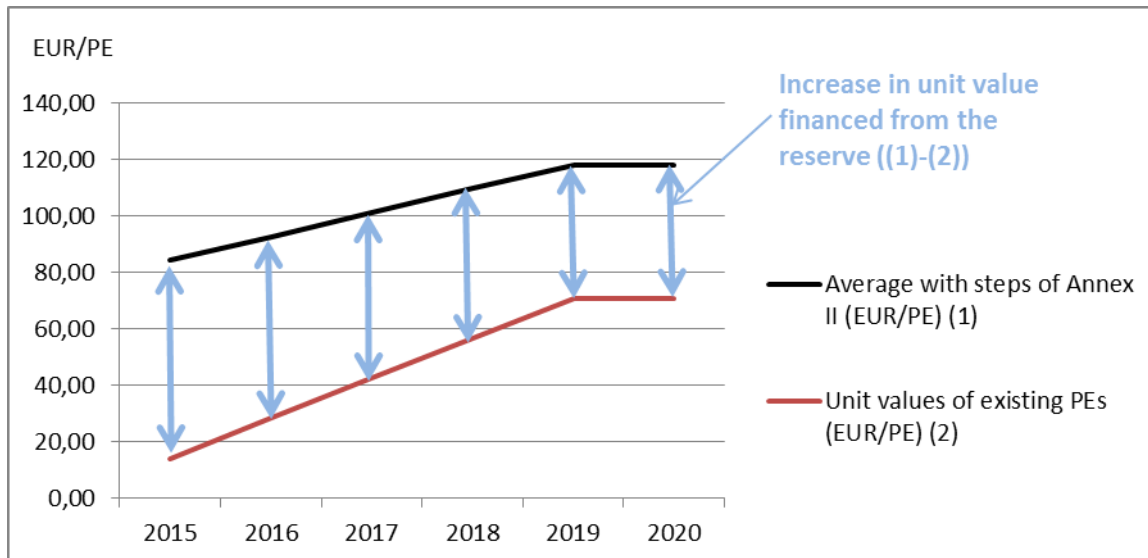
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Annex II (thousands EUR) | 1 000 | 1 100 | 1 200 | 1 300 | 1 400 | 1 400 |
| Actual BPS ceiling (thousands EUR)(see (*) for first table) | 695 | 748 | 816 | 884 | 952 | 952 |
| Reserve (thousands EUR) | 20.9 | 22.9 | 25.0 | 27.1 | 29.2 | 29.2 |

Increase in unit value of existing PEs

| | | | | | | |
|---|-------|-------|--------|--------|--------|--------|
| BPS ceiling without the reserve (thousands EUR) | 674 | | | | | |
| Total number of allocated PEs | 8000 | | | | | |
| Average of the year of allocation (EUR/PE) | 84.27 | | | | | |
| Number of PEs increased | 10 | | | | | |
| <i>Steps of Annex II</i> | 100% | 110% | 109% | 108% | 108% | 100% |
| Average with steps of Annex II (EUR/PE) (1) | 84.27 | 92.70 | 101.12 | 109.55 | 117.98 | 117.98 |
| Unit values of existing PEs – hypothetical example (EUR/PE) (2) | 14.16 | 28.31 | 42.47 | 56.63 | 70.79 | 70.79 |

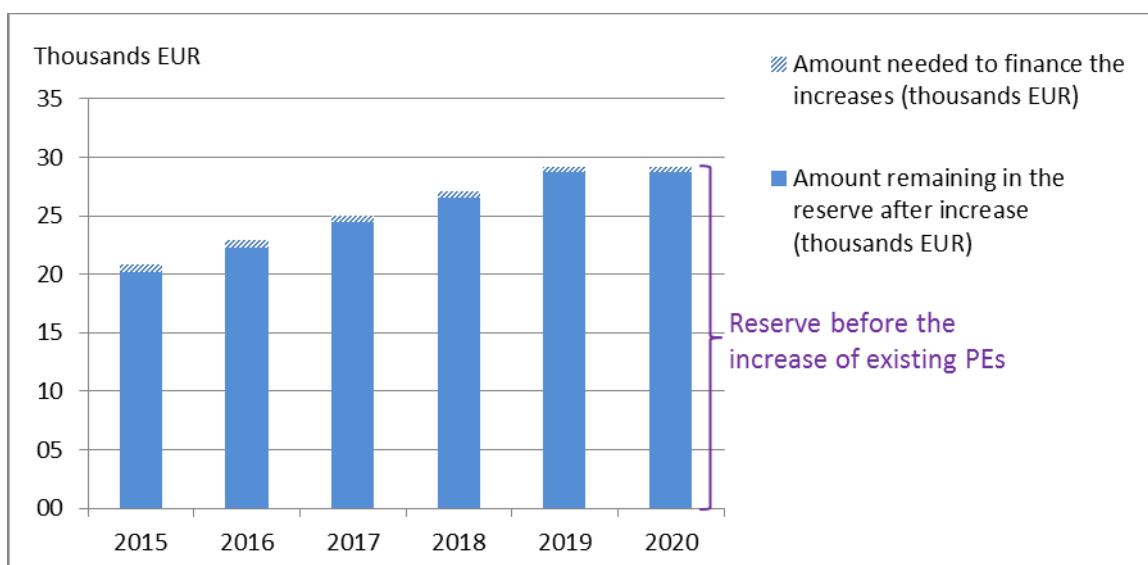
³ In this case, the year of allocation is 2015 and it is assumed that existing PEs are increased to the average (it is also possible to increase at a lower level than the average, see in particular the second and the third subparagraph of Article 28(2) of Regulation 639/2014).

| | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| Increase in unit value financed from the reserve (EUR/PE) ((1)-(2)) | 70.11 | 64.38 | 58.65 | 52.92 | 47.19 | 47.19 |
| Total financing need (EUR) | 701.1 | 643.8 | 586.5 | 529.2 | 471.9 | 471.9 |
| Amount remaining in the reserve after increase (thousands EUR) | 20.1 | 22.3 | 24.4 | 26.6 | 28.7 | 28.7 |



It should be noted that if a MS changes a decision of allocation between schemes (or overbooking, flexibility between pillars), PEs allocated from the reserve would be linearly adapted in accordance with Article 22(5) as any other PEs.

The fact that the increases in unit values from the reserve are calculated this way and that the changes of allocation between schemes are dealt via linear increase/decrease of all allocated PEs guarantee that the final unit value of PEs increased from the reserve will never overshoot the average value of PEs each year.



3.3. Linear increase of existing PEs

Similarly, the linear increase of existing PEs pursuant to Article 30(7)(e) should cover also the remaining years of the period. To finance it, amounts are taken out from the reserve for all the remaining years of the period.

3.4. Financing the Young Farmer Scheme (YFS) and the Small Farmer Scheme (SFS)

Given the very purpose of the provision, which is to cover possible needs of the year for YFS and SFS, it should not be implemented in a multiannual way. An amount of the reserve of the year concerned should be deducted if needed. The "corresponding" amounts for the following year(s) would remain available under the reserve for any allocations under the reserve. Where a Member State would apply Article 30(7)(f) every year, it could still be a different amount each year depending on the financing needs under those schemes and amounts available under the reserve.

4. REPLENISHMENT OF THE RESERVE

When replenishing the reserve for any reason (windfall profit clause pursuant to Article 28, "tax" for transfer of PEs without land pursuant to Article 34(4), linear reduction to finance new needs for young farmers....), PEs (or parts of PEs) refund the reserve in the year of reversion, but also in the following years according to their annual unit values of the following years. An example is shown below.

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Annex II (thousands EUR) | 1 000 | 1 100 | 1 200 | 1 300 | 1 400 | 1 400 |
| Actual BPS ceiling (thousands EUR)(see (*) for first table) | 695 | 748 | 816 | 884 | 952 | 952 |
| Reserve (thousands EUR) | 20.9 | 22.9 | 25.0 | 27.1 | 29.2 | 29.2 |

Replenishment of the reserve

| | | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| Number of PEs reverting | 10 | | | | | |
| Unit values of PEs reverting – hypothetical example (EUR/PE) | 14.16 | 28.31 | 42.47 | 56.63 | 70.79 | 70.79 |
| Total amount reverting (EUR) | 141.6 | 283.1 | 424.7 | 566.3 | 707.9 | 707.9 |
| Amount in the reserve after replenishment (thousands EUR) | 21.0 | 23.2 | 25.4 | 27.7 | 29.9 | 29.9 |

