

# Agriregionieuropa Conference: The CAP and the EU Budget

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## Agricultural expenditure in the EU: Redistributive hypotheses and possible coalitions

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–Iniziativa realizzata con il contributo dell'Unione Europea, DG Agricoltura e Sviluppo Rurale  
–Gli articoli e i contributi ai convegni Agriregionieuropa rappresentano il pensiero dei singoli autori e relatori.  
–Essi non riflettono in alcun modo la posizione dell'Unione Europea.

# Outline

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**At the eve of a new CAP reform. Or rather: a reform of Direct Payments?**

**The evident paradox of the current Direct Payments.**

**The current structure of the CAP: are the two pillars still the best structure for the future CAP?**

**New possible criteria of financial resources distribution after 2013. Relevance of different intervention typologies in the “new resource distribution”. Effects on Old and New Member States. What possible coalitions?**

**Some concluding remarks.**

# The CAP post-2013

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## **The debate focuses on two main aspects:**

**The “ideal” quantity of resources for agriculture and rural areas within the EU budget;**

**The most efficient way to allocate those resources among pillars and instruments.**

About the first issue, the discussion on budget reform seems to be still, and it will probably gain more momentum when closer to the institutional deadlines.

On the second issue, one of the focal points is the nature and the goals of Direct Payments.

# Direct payments: a paradox?

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Direct payments (DP) were introduced as a compensation for farmers for the reduction of institutional prices.

Process of decoupling: support is granted on the base of a historical status.

Justification of DP: they remunerate “public goods” produced in agriculture, demanded by citizens and not successfully remunerated by the market.

**The process of decoupling has made clearer the need to justify DP in a different way from the past: the more transparent they are, the more evident this justification must be!**

# The structure of the CAP

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The debate about the new CAP after 2013 has pointed out the increasing difficulties of keeping the structure of the CAP based on two pillars:

The **first pillar** keeps together the “old” market measures with DP that have lost their compensative function, but it is not clear what they are now. “New” market policies might gain some attention with the reform.

The **second pillar** currently include very diversified measures aiming at different functions (sector, rural areas, environment...) and it is still often thought of as a sort of “accompanying pillar” to the first pillar.

However, the Commission seems to want to keep the current structure and is focused especially on the reform of DP.

# The problem of resource distribution in the CAP

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There is a generalised agreement on the fact that CAP resources in the EU-27 are unevenly distributed.

The Commission focuses especially on the distribution of the first pillar resources, and specifically on DP.

**This exercise keeps together financial resources of first and second pillars and try to re-allocate them according to the weight of some indicators.**

As a consequence, a new structure of the CAP expenditure is designed, with a diversified emphasis on different components of the expenditure.

# 5 hypotheses of resource distribution - 1

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**The hypotheses of distribution take into consideration 5 different variables:**

- Expenditure for DP (ceilings as in Reg. 73/2009);
- Expenditure for environmental measures (all measures affecting environment, including agro-environmental programmes and support for Natura 2000 areas);
- Expenditure for disadvantaged areas (specific measures for disadvantaged areas);
- Expenditure for sector modernisation (structural policies and human capital);
- Utilised Agricultural Area.

According to the weight of each of these variables in the distribution criteria, we can design alternative expenditure approaches, emphasising different objectives to address.

## 5 hypotheses of resource distribution - 2

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The scenarios designed here are a mere exemplification of “ideal models” of expenditures and **they neither represent the current orientation of the CAP reform (Communication of November 2010), nor “desirable” ones.**

In all of them, the *path dependency* of the CAP has been taken into account, so that the importance of the current distribution of DP in the CAP expenditure is considered very relevant for the post-2013 picture.

As a consequence, the 5 hypotheses have been ordered according to the importance of the DP component, from the most conservative one to the most “radical”.



## The 5 scenarios

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	Direct payments	Environment	Disadvant. Areas	Modernisation	UAA
Conservative	0,7	0,2			0,1
Environmental	0,2	0,5			0,3
Territorial	0,2	0,3	0,3		0,2
Sector oriented	0,2	0,1		0,5	0,2
Public goods		0,4	0,3		0,3

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**Conservative hyp.: higher share of DP (0.7).**

**Public good hyp.: totally independent from the current distribution of DP.**

## The re-distribution process

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The basic idea in this exercise is that of going beyond the current 2 pillar structure.

The resources utilised are: DP (ceilings post 2013) + RD resources (annual average programmed budget 2007-2013).

The weights previously considered are used to re-allocate the “envelopes” as defined before.

Example  $\Rightarrow$  for the conservative hypothesis the resources are as follows:

**[0.7 x (share of DP in the status quo) + 0.2 x (share of environmental expenditure) + 0.1 x (share of the UAA)].**

This gives, as a result, a synthetic key with which to re-distribute resources under the specific hypothesis considered.

# The outcome of the re-distribution process

	Agr. Exp.	Redistribution Hypotheses				
	SQ (2013)	Conservative	Environmental	Territorial	Sector	Pub. Goods
Belgium	675	684	505	411	851	341
Denmark	1.113	1.160	852	644	625	526
Germany	7.014	6.973	6.026	5.588	4.714	5.211
Greece	2.746	2.432	1.723	1.626	2.127	1.340
Spain	6.170	6.131	5.484	4.682	6.290	4.525
France	9.441	9.175	6.383	7.498	7.250	6.510
Ireland	1.675	2.031	2.469	2.652	1.451	2.786
Italy	5.555	5.602	5.491	4.687	6.696	4.605
Luxemburg	50	72	107	149	143	161
Netherlands	967	945	601	493	523	361
Austria	1.310	1.958	3.449	3.669	1.802	4.169
Portugal	1.167	832	929	1.300	1.199	1.346
Finland	869	1.361	2.302	3.762	1.198	4.077
Sweden	1.032	1.489	2.235	1.877	1.211	2.127
Un. Kingdom	4.645	5.595	6.294	5.128	3.808	5.371
<b>EU-15</b>	<b>44.429</b>	<b>46.441</b>	<b>44.849</b>	<b>44.165</b>	<b>39.887</b>	<b>43.455</b>
Bulgaria	953	770	819	783	1.215	809
Czech Rep.	1.312	1.295	1.480	1.591	1.079	1.653
Estonia	203	201	315	254	362	297
Cyprus	77	78	89	98	132	100
Latvia	295	252	368	365	608	417
Lithuania	629	561	688	698	1.029	753
Hungary	1.863	1.732	1.767	1.282	2.686	1.284
Malta	16	8	10	18	21	19
Poland	4.935	4.022	4.235	4.858	7.036	4.973
Romania	2.411	1.920	2.508	2.582	2.877	2.878
Slovakia	273	294	479	533	386	610
Slovenia	670	489	456	837	746	815
<b>EU-12</b>	<b>13.635</b>	<b>11.623</b>	<b>13.215</b>	<b>13.899</b>	<b>18.177</b>	<b>14.609</b>
<b>EU-27</b>	<b>58.064</b>	<b>58.064</b>	<b>58.064</b>	<b>58.064</b>	<b>58.064</b>	<b>58.064</b>

Source: elaborations on EU Commission data



# Results - 1

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How to read those figures? **Old and New Member States.**

Old MS (EU15) gain resources under 2 out of 5 Hypotheses: conservative (predominance of the actual distribution of DP) and, to a lesser extent the environmental one (more experience in agro-environmental measures?)

Conservative	Environmental	Territorial	Sector	Public goods
+2012,1	+420,3	-263,6	-4.542,0	-973,9

New MS (EU12), on the other hand, gain resources under the other Scenarios, especially under the Sector based one (modernisation)

## Results - 2

Looking at the single Member States, **some of the OMS, with very different positions in terms of benefits from the CAP, loose resources under any Hypothesis: France, Germany, Greece, Netherlands. UK is quite the opposite case (environmental: +35.5%).**

	Conservative	Environmental	Territorial	Sector	Public goods
Germany	-0,6	-14,1	-20,3	-32,8	-25,7
Greece	-11,4	-37,2	-40,8	-22,5	-51,2
Spain	-0,6	-11,1	-24,1	1,9	-26,7
France	-2,8	-32,4	-20,6	-23,2	-31,1
Italy	0,9	-1,1	-15,6	20,5	-17,1
Un. Kingdom	20,5	35,5	10,4	-18,0	15,6
EU-15	4,5	0,9	-0,6	-10,2	-2,2

Italy gains substantial resources under the sector based Hypothesis (+20.5%).

## Results - 3

With regards to NMS, they all loose resources under the Conservative Hypothesis.

**They all gain under the Sector one** (with the only exception of Czech Rep.): Poland +42.6%, Latvia +106%, Hungary +44%. Bulgaria loose resources under any other Hypothesis, Romania does not gain much under any of them.

	Conservative	Environmental	Territorial	Sector	Public goods
Bulgaria	-19,2	-14,1	-17,9	27,5	-15,1
Czech Rep.	-1,3	12,9	21,3	-17,7	26,0
Latvia	-14,5	24,8	23,5	106,1	41,3
Hungary	-7,0	-5,1	-31,2	44,2	-31,1
Poland	-18,5	-14,2	-1,5	42,6	0,8
Romania	-20,3	4,0	7,1	19,3	19,4
EU-12	-14,8	-3,1	1,9	33,3	7,1

## New possible coalitions?

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How credible are these new Scenarios in terms of votes?

The Treaty of Lisbon established the co-decision in the agricultural matter, and that makes the all process of vote, alliances and decisions much more complicated than in the past.

So, this, once again, is not a realistic test in terms of probability of realisation, but rather an assessment of possible majorities and coalitions among MS.

**The votes of each MS have been associated to the Scenarios according to the sign of their balance under each Hypothesis.**

The concept of “qualified majority” has been applied: 255 votes and the majority of MS in favour (62% of the total population).

# The results of the vote distribution - 1

	Conservative	Environmental	Territorial	Sector	Public goods
Votes against	219	229	207	138	180
Votes in favour	126	116	138	207	165

All the Hypotheses would be rejected if one considers the “qualified majority”.

One Hypothesis would get the “simple majority” (Sector).

However, if we consider “small” variations (+/- 5%) of the budget, MS could be interested to establish alliances or to express a “political” preference for different options.

In other words, the 5% variations can represent “the cost” of a political decision.



## The results of the vote distribution - 2

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In most scenarios very few MS are “indifferent”: majorities are quite “stable”.

The only exception is the Conservative Hypothesis, for which 10 partners are “indifferent” (7 from the EU-15) and 10 are against it. For them, the decision could be more related to political and strategic reasons than to the actual effects on the CAP budget.

The “conservative” scenario is not so conservative after all: considering the path dependency of the CAP, it actually reconsiders the distribution of resources according to environmental variables and the agricultural area:

*Greening of the CAP, in line with the recent reforms.*

The real losers would be the NMS, in spite of the emphasis on the need of a reallocation of resources in their favour.

# Conclusions - 1

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The 5 scenarios show a rather diversified reaction between Old and New Member states.

However, many differences also within these two groups.

In particular, in the EU-15:

France and Germany feature all “-” in all scenarios;

Italy features a “+” in the Sector scenario (and in the Conservative);

UK all “+” except in Sector scenario.

For the NMS:

Poland is indifferent to some of the scenarios but it is favoured by the sector Hypothesis and definitely against the Conservative and the Environmental one.

**Results show large room for bargaining and negotiation.**

## Conclusions - 2

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The main goal of this exercise is to highlight different criteria for the distribution of resources in the EU-27.

One of the main aspect of the political debate at the eve of a new Cap reform is that of the **uneven distribution of resources in the EU-27**. Will the reform address this issue? At the moment the Commission and the partners are focused almost exclusively on the DP issue (largest part of the EU support).

The **path dependency** of the CAP is strong and one of the most important explanations of the CAP resistance in time in its main features.

With regard to this, it is not a case that the “Conservative” and the “Sector” hypotheses here considered are the ones concentrating a higher consensus compared to the others.

## Relevant bibliography

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