The CAP and the EU budget: concluding reflections

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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.*

The budget debate

- Timeliness/relevance of this meeting given the 2013 CAP process
- How does the shape/format of the budget debate and budget rules influence the shape of CAP reform?
- Lessons/messages from the papers, questions to be pursued

Framework

- Bottom up vs top down approaches to determining size of overall EU budget
  - Will be top down based on historical experience
  - Franco suggested there will be cuts as share of EU GNP
- The CAP share
  - Franco's figures on CAP shares – higher in payments, greater importance of Pillar 1
- Distribution between pillars and instruments
  - distribution between the MS
- From MS point of view, these three levels are all linked

The future size of overall EU budget (Franco, Johan)

- Franco – effects of the crisis are ambiguous, raises needs but makes finding resources more difficulty
  - Crisis has reduced the GNI of the Union – 1.05% has become1.13%
- Letter from the MS France, Germany and the UK as well as the Netherlands and Finland called for real cut as share of GNI
- Johan - Major political problem. Payments have lagged behind payment appropriations in first part of MFF, will have to grow rapidly to catch up.
- Length of the MFF period – 5, 7, 5+2, 5+5 ??
- Target for budget agreement in the Council!! Then goes to EP

The flexibility dilemma

- The desire for flexibility – important for agriculture facing volatility
  - To date emergency money has been found under MFF ceilings without increasing the overall total. Mainly an accident because CAP ceilings were set too high under Chirac-Schroeder agreement
  - Council can raise about 4 billion using QMV (0.03%), but according to ECJ jurisprudence can only be agreed by unanimity
  - Contingency margin – but will operate only under principle of overall budget neutrality – one heading must compensate another, but without margins, no degrees of freedom
  - How to programme CAP market expenditure in face of greater volatility ?

The changing role of the budget in CAP reforms

- 1980s – desire to control budget expenditure drove reform
- 1992 reform – to meet trade obligations and budget facilitated
- 2000 reform – to prepare for accession, budget facilitated
- 2003 reform – to prepare for trade talks, budget neutral, CAP budget had already been decided
- 2008 reform – budget neutral (cf modulation)
- 2013 reform
  - CAP reform driven by desire to improve legitimacy in order to retain large budget share
  - explicitly redistributive
  - This is new – we have not been here before !

Enhancing CAP legitimacy

- The strong concentration of CAP expenditure in terms of both recipients and regions significantly reduces any alleged link between present CAP expenditure and provision of public goods through agriculture
- The quality of the proposal for the future CAP is widely assumed to be crucial to determine how much funds are allocated to it.
  - But is it reasonable to assume that the better the case for CAP funding, the more successful the CAP will be?
  - Perhaps over-emphasises the role of rational processes in the budget debate at the expense of politics

The net balances issue

- The focus on net balances is heavily criticised - Johann
- The fact that a Member State's net budget balance may bear no relationship to its net benefits from EU membership does not mean that net balances are unimportant.
- The obsession with net balances distorts decision-making and leads to sub-optimal EU budget - examples
  - Criteria for distribution of Pillar 1 and Pillar 2 payments
  - Roberto explicitly assumed voting behaviour linked to transfer distribution
- Can this weakness be addressed?
- Addressing distributional outcomes explicitly removes this incentive problem

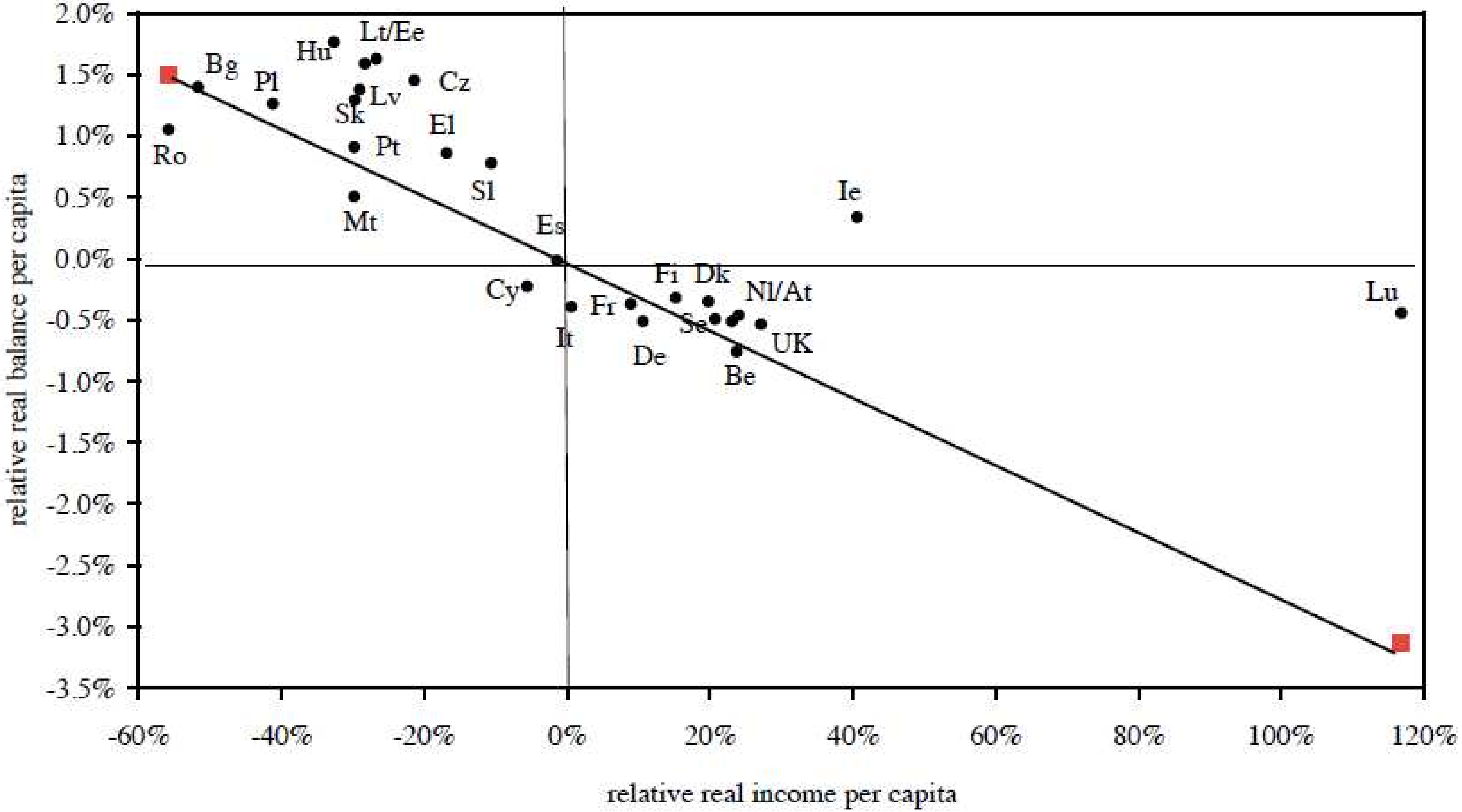
Addressing net imbalances

- Four options
  - Hope that EU budget changes will reduce need for correction mechanisms over time
    - Johann tried to downplay its importance, peanuts in the macro context
  - Finance EU budget solely by EU taxes
  - Link net balances to levels of Member State prosperity through a generalised correction mechanism (Commission proposal)
  - Explicitly separate distributional outcomes from allocative decisions on how to spend the EU budget

Explicitly keep distributional and allocation budget decisions separate

- Idea would be to agree ex *ante* on the desired level of inter-MS transfers
- MS would negotiate the expenditure ceilings on individual MFF headings, knowing that any decisions would not affect their ex *ante* agreed net balance
- Would lead to improved allocative decision-making
- Problems include
  - Agreeing the redistribution coefficient (but one is already implicit in the existing transfers, see next graph)
  - Payments have very different economic effects
    - Some are transfers (DPs), some of reimbursements for services and cost incurred…

Figure 2: Per capita relative real balances vs. relative real income per capita in 2013



De la Fuente, Domenech and Rant (2008)

Looking forward

- The next MFF will be very difficult to agree
  - Negotiations taking place in economic conjuncture which is affecting different MS very differently, but most MS are under severe fiscal pressure
  - First time 27 MS ad particularly the new MS will discuss the budget
  - First time the Parliament is involved
  - First time redistribution of CAP monies explicitly on the table