

Joint AES-AIEAA workshop on  
*The CAP after 2013: the Commission proposals and the decision process*  
University of Trento, 4 June 2012

# CAP Reform in the Shadow of the Eurozone Crisis and Deliberations over the 2014-20 Financial Framework

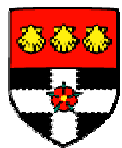
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# Outline

- Past multiannual financial frameworks (MFFs) and CAP reform
- The Budget Review
  - Fiscal Federalism?
- Redistribution by the CAP
- European Public Goods?
- Plan B?
- Conclusions?



# Past MFFs and CAP reform

- **1988-92**: may have been important in triggering the 1992 CAP reform
- **1993-99**:
- **2000-06 (Agenda 2000)**: diluted the CAP reform
- **2007-13**: pre-empted by the 2003 reform, but led to 2008/09 budget review

# The 2008/09 budget review (1/4)

- UK tried to trigger a new CAP reform debate in the summer of 2005, in exchange for a renegotiation of the British rebate
- Failed, but the December 2005 European Council (with a British Presidency), in determining the 2007-13 MFF, did call for a budget review:

# The 2008/09 budget review (2/4)

- *the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9 ...*
- Later included in the *Inter-institutional Agreement* of May 2006

# The 2008/09 budget review (3/4)

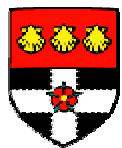
- DG Budget (and its then Commissioner, Dalia Grybauskaitė) and the Bureau of European Policy Advisers (BEPA), set about this with enthusiasm
- Public consultation launched
- BEPA held a major conference in April 2008, at which there was much talk of *Fiscal Federalism*, and little enthusiasm for the CAP

# The 2008/09 budget review (4/4)

- But the effort petered out
- Dalia Grybauskaitė resigned in February 2009 to become President of Lithuania
- ... and the first Barroso Commission failed to report
- Although a draft report was leaked in October 2009, according to the outgoing Commissioner for Agriculture it had been binned

# Some comments from the leaked text

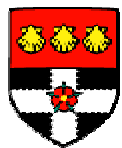
- *... the Commission considers that a root and branch reform of the EU budget is needed p.5*
- *... further reform and modernisation of agricultural spending is required to bring it fully into line with the principles of European value added, concentration on priorities and fairness. ... the future reform of the CAP ... must stimulate a further significant reduction in the overall share of the EU budget devoted to agriculture, freeing up spending for new EU priorities p.17*





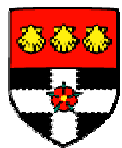
# And good advice ignored

- Allan Buckwell (November 2009 note for the EP): *We must first try and reach a consensus on the purpose of the CAP post 2013. This will dictate the nature and scale of EU funded payments to land managers, and thus the distribution of funds within and between the Member States. Then, and only then is it rational to decide the appropriate total EU budgetary resource.*
- Jo Swinnen (February 2009, BEPA workshop): *... too much of the current “future of the CAP” debate and proposals for reform is already anticipating political constraints and is, as a consequence, insufficiently imaginative in its proposals for change and the reform proposals are unnecessarily constrained.*



# *Fiscal Federalism* difficult to apply

- The EU is special. It is not a top-down *federal* government with powers and responsibilities devolved to the states. Instead it is a bottom-up construct with nation states pooling sovereignty
- It has a *very* small budget
- It has very little discretion over taxation
- *The EU is given the degree of competence that is politically acceptable and feasible, which entails a budget that only finances some areas the theory assigns to a supranational body and includes expenditures fiscal federalism would not allocate to such a body* (Jorge Núñez Ferrer, 2007)



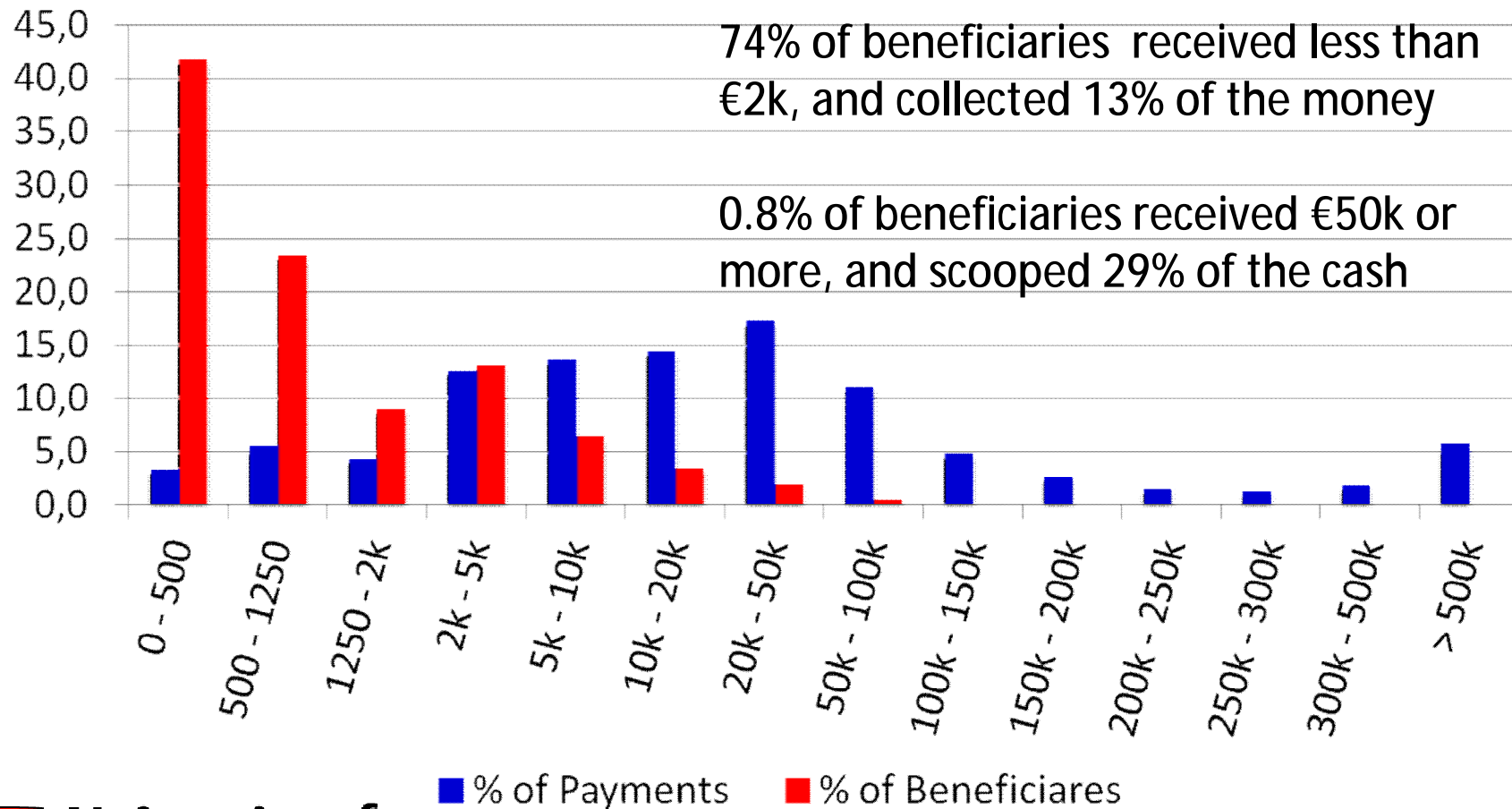
# The CAP is a redistributive policy

- From taxpayers to 'farmers'
- Between Member States
- And the Commission is proposing some changes to both for the post-2013 CAP

# From taxpayers to 'farmers'

- The Single Payment Scheme is an *income support for farmers*
  - Although the criteria underpinning the scheme are suspect
- Approximately 70% of the funds in the successor regime would remain as income support
  - Though, as now, linked to cross compliance
  - With some redistribution through regionalisation, capping, excluding *in-active* farmers, and between Member States

# Distribution of Direct Payments in Italy, 2010, by payment size



# CAP's budget impact between MSs (1/3)

- An accounting exercise based on
  - 2010 budget outcome (*EU budget 2010. Financial Report*)
  - Heading 2 (mainly CAP) expenditure by Member State (EU27 = €55.9 billion)
  - National contributions (excluding traditional own resources, but including corrections) (EU27 = €103.4 billion), scaled-back to equal €55.9 billion

*Heading 2 expenditure as a % of contribution*

# CAP's budget impact (2/3)

## EU15: Heading 2 as a % of national contribution

√	=	x
Greece 257.6	Denmark 102.5	Belgium 39.1
Spain 145.7	Finland 106.7	Germany 62.0
Ireland 262.3	France 100.3	Italy 77.6
Portugal 135.9	Austria 101.6	Luxembourg 43.1
		Netherlands 53.6
		Sweden 69.9
		UK 60.0

# CAP's budget impact (3/3)

## EU12: Heading 2 as a % of national contribution

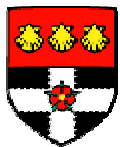
√	=	X
Bulgaria 342.3		Cyprus 85.2
Czech Rep. 150.2		Malta 79.5
Estonia 265.7		
Latvia 332.3		
Lithuania 437.4		
Hungary 304.6		
Poland 204.4		
Romania 254.8		
Slovakia 231.7		
Slovenia 119.9		





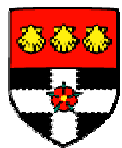
# European Public Goods?

- Global issues, such as food security & climate change
- Environmental protection & enhancement across internal borders
  - But agreeing on what to include is difficult
- Internal and external (e.g. WTO) aspects of the customs union: state aids, competition policy, etc.; the 'old' CAP of market price support
  - But decoupled income supports?



# The Eurozone Crisis

- Governments slashing social benefits and public sector jobs and benefits
- Private sector pensions and jobs under threat
- Would 'income support' payments for farmers escape if we had 27 national farm policies rather than 1 CAP?
- And yet the Commission has not proposed a reduced budget for Pillar I and II



# Plan B?

- What if finance ministers decide a 20% cut?
  - Equal pain across all Heading 2 activities?
  - 80% cut in Pillar II
  - Cut in Pillar I?
  - Shared financing of Pillar I expenditure?

# Shared financing?

- Another accounting exercise
  - Same (2010) budget numbers as in an earlier slide
  - Assume 50% national funding of direct payments
  - *EU* funding of Heading 2 falls from €56 to €36 billion
- Ratio for each MS: total budget receipts by 'farmers' (national & EU)/total budget cost

# CAP's budget impact: 50% shared financing. EU15

√	=	x
Greece 257.6/ <b>149.4</b>	Denmark 102.5/ <b>95.6</b>	Belgium 39.1/ <b>48.4</b>
Spain 145.7/ <b>123.5</b>	Finland 106.7/ <b>110.8</b>	Germany 62.0/ <b>69.8</b>
Ireland 262.3/ <b>162.3</b>	France 100.3/ <b>95.0</b>	Italy 77.6/ <b>83.9</b>
Portugal 135.9/ <b>137.4</b>	Austria 101.6/ <b>111.5</b>	Luxembourg 43.1/ <b>55.7</b>
		Netherlands 53.6/ <b>64.0</b>
		Sweden 69.9/ <b>79.8</b>
		UK 60.0/ <b>66.9</b>

# CAP's budget impact: 50% shared financing. EU12

√	=	X
Bulgaria 342.3/234.8		Cyprus 85.2/101.5
Czech 150.2/143.9		Malta 79.5/112.6
Estonia 265.7/241.3		
Latvia 332.3/282.4		
Lithuania 437.4/274.0		
Hungary 304.6/199.6		
Poland 204.4/176.7		
Romania 254.8/213.6		
Slovakia 231.7/217.3		
Slovenia 119.9/135.3		



# Conclusions?

- Opposition from COMAGRI and some MSs to change is formidable
  - UK government has no leverage
- Would need to design a policy that protected vulnerable economies
- Commission's proposal has determined the shape & tone of the debate
- No decisions until late 2013