Eastern Europe's interest in the next CAP reform

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Europe's Common Agricultural Policy (CAP) hands out € 55 million per year but the new member states benefit little. The Czech Republic put the uneven distribution of agricultural subsidies front and centre of its presidency and selected the issue for discussion at the informal meeting of agriculture ministers in Brno in early June. Many new member states wish to keep a big CAP budget and to increase their share after the next CAP reform in 2013. Their rallying cry is to move towards a European flat-rate payment that rewards agricultural area equally throughout the EU.

Yet, a new study by the European Centre for International Political Economy (ECIPE) shows that the new member states are likely to gain little from CAP reform. They will do better if the EU reduces its agricultural subsidies and strengthens its structural funds instead, which will help poor member states to catch up with the rest of Europe.

The CAP is divided into two pillars. The first pillar is dominated by the Single Farm Payment (SFP) that supports farmers' income independent of their current production. How much CAP money a member state gets for its farmers depends largely on how much it has got in the past when payments were coupled with production. Countries that produced a lot of highly-subsidized crops or meat therefore received – and still receive – the lion's share of the CAP budget. Countries with an agricultural sector that is less productive or specializes in products that were less subsidized, such as fruits and vegetables, are the losers of this system. The new member states are especially disadvantaged as their payments are only slowly phased in and even when they reach their maximum they will fall short of average EU levels.

Table 1 shows the disparity of first pillar subsidies. The numbers generally reflect 2013 entitlements when almost all member states receive their full payments (the exception is Bulgaria and Romania, whose payments are introduced more slowly and for whom 2015 entitlements are shown). At the top comes Greece with an astonishing € 544 per hectare; at the bottom is Latvia with a meager € 83. The average in the new member states (€ 185) is much lower than in the old member states (€ 295).

The second pillar of the CAP is dedicated to rural development and environmental protection. Member states' subsidy levels are again strongly determined by how much they received in the past. Entitlements up to 2013 are based on payments dating back as far as 1994. Political horse trading at EU summits is another important factor in how second pillar payments are distributed.

The surprising lesson is that the distribution of subsidies has nothing to do with the CAP's objectives. Subsidies do not go where the need to help poor farmers or to protect the environment is greatest. Their distribution can only be explained by national self-interest, power politics, and EU rigidity.

To attain a more reasonable distribution, member states will first have to agree on the objectives of the CAP. The guiding questions should be firstly, where does agriculture create value for society that is not remunerated on the market? And secondly, where is a European interest at stake that justifies EU subsidies rather than national spending? The answer is clear: EU subsidies are necessary to protect the environment. For instance, the protection of biodiversity is an EU task because animals cross borders, and so does biodiversity-threatening pollution. This is most evident in the case of migratory birds that need protection all along their travel routes. Other examples include the fight against climate change and flood control.

The next step is to define criteria for the distribution of CAP payments that correspond to the environmental objectives. Most simply, countries with a large agricultural area will need more money to preserve landscapes and promote environmentally-friendly farming. But not all landscapes have the same environmental value. Therefore, countries should be rewarded if they commit to respecting the strict environmental safeguards of the EU's Natura 2000 legislation. The more terrestrial areas they grant Natura 2000 status to, the more support from the EU they should get. The same rewards should apply to organic farming areas. And forest land also deserves attention. The importance of responsible forest stewardship is increasingly being recognized. Member states with significant forest areas should obtain additional payments to enhance the environmental value of their forests.

The final step is to give each of these criteria a weight in the distribution of CAP payments. Moreover, remaining payments that are not targeted at environmental protection, such as the Single Farm Payment, need to be distributed. ECIPE has calculated three such scenarios for the post-2013 CAP.

In the first one, old entitlements heavily influence future distribution, and little money is dedicated to environmental protection. Accordingly, it is labeled 'conservative'. In the 'area-focused' scenario, more money is earmarked for environmental protection and agricultural area plays a key role in the distribution. The 'multifunctional' scenario also assumes a strong emphasis on environmental protection. It assigns particular weight to Natura 2000 and organic farming areas.

The results (in tables 2 to 4) show that only the Baltic republics stand to significantly increase their share in the CAP payments. Romania might also do relatively well if future CAP payments heavily reward agricultural area. But overall, the new member states tend to lose from reform.

Three factors explain this surprising result. First, new member states currently receive a disproportionately high share of second pillar payments. This is often ignored in the debate centered on the disparity of first pillar subsidy levels.

Second, the share of CAP payments that the new member states can claim will be curtailed by their relatively low levels of GDP per capita. It appears almost inevitable that richer countries will be given more subsidies. In richer member states, wages in non-agricultural jobs that are comparable to agricultural employment are higher. So a higher level of income support is needed to ascertain a fair standard of living for farmers and prevent land abandonment. Furthermore, flattening income support across Europe without taking account of differences in GDP per capita would lead to excessively high support in poor member states and thus increase distortions in the economy.

Third, new member states have few areas with Natura 2000 status or organic farming. If the CAP becomes more targeted at environmental public goods, it will privilege countries like Spain and Sweden that have much more Natura 2000 and organic farming areas.

The new member states would therefore be served best by minimizing CAP expenditures in order to free up money for the EU's structural funds. These European solidarity transfers from rich to poor states will go mostly to Eastern Europe. Dr. Valentin Zahrnt concludes, 'Even if Eastern European member states are surprisingly successful in moving towards a flat rate subsidy in agriculture, they will be much better off by shifting the money from the CAP to the EU's structural funds. The structural funds are much more targeted at the poorest member states.'

Like the CAP, the structural funds will also be redistributed after 2013. Consultations by the European Commission have made it clear that many stakeholders want to abolish EU payments to poor regions in wealthy member states, keeping only an inter-state transfer mechanism to the benefit of the poorest member states. Poor regions in countries like Germany or the UK would then be supported directly by rich regions in the same country, without the detour via Brussels. And even among those stakeholders who wish to maintain the possibility of tapping EU structural funds for all regions, most agree that these funds should be concentrated more strongly on less-developed member states and regions.

Reform of the CAP and the structural funds are linked. If the new member states support a rational reform of the CAP towards spending less but better on agriculture, this dynamic is likely to spill over to reform of the structural funds. And a rational reform of the structural funds would mean ending the inefficient web of cross-subsidies characteristic of current structural and cohesion policies and focusing European solidarity transfers on poor (Eastern European) member states.

Table 1: Distribution of first pillar payments before the 2013 reform

Member states	€ million	% share	per ha
Austria	752	1.65	236
Belgium	615	1.35	447
Denmark	1,049	2.30	394
Finland	571	1.25	249
France	8,521	18.70	310
Germany	5,853	12.84	346
Greece	2,217	4.86	544
Ireland	1,341	2.94	324
Italy	4,370	9.59	343
Luxembourg	37	0.08	283
Netherlands	898	1.97	469
Portugal	606	1.33	174
Spain	5,139	11.28	206
Sweden	771	1.69	247
United Kingdom	3,988	8.75	247
EU-15	**36,727**	**80.58**	**295**
Bulgaria	742	1.63	243
Cyprus	53	0.12	366
Czech Republic	909	1.99	258
Estonia	101	0.22	112
Hungary	1,319	2.89	312
Latvia	146	0.32	83
Lithuania	380	0.83	143
Malta	5	0.01	494
Poland	3,045	6.68	197
Romania	1,620	3.55	118
Slovakia	388	0.85	200
Slovenia	144	0.32	295
EU-12	**8,853**	**19.42**	**185**

Bulgaria and Romania: 2015 entitlements

Table 2: Scenarios for the distribution of CAP payments after 2013

Member states	2013 CAP share	Conservative		Area-focused		Multifunctional	
		% share	change	% share	change	% share	change
Austria	2.16	2.31	7%	2.14	-1%	2.59	**20%**
Belgium	1.15	0.97	**-15%**	0.82	-29%	0.74	-35%
Denmark	1.90	1.69	**-11%**	1.56	-18%	1.49	-22%
Finland	1.44	2.06	43%	2.55	77%	3.37	**133%**
France	16.16	15.26	**-6%**	15.09	-7%	13.05	-19%
Germany	11.97	11.12	**-7%**	10.11	-16%	9.99	-17%
Greece	4.86	4.05	**-17%**	2.94	-40%	3.32	-32%
Ireland	2.82	2.59	**-8%**	2.24	-21%	1.80	-36%
Italy	9.65	9.12	-5%	8.26	-14%	9.54	**-1%**
Luxembourg	0.08	0.09	**7%**	0.08	-2%	0.07	-11%
Netherlands	1.65	1.39	**-16%**	1.15	-30%	1.05	-36%
Portugal	2.01	2.13	6%	2.02	1%	2.25	**12%**
Spain	10.59	12.40	17%	14.76	39%	15.57	**47%**
Sweden	1.73	2.61	51%	3.42	98%	4.49	**159%**
United Kingdom	7.29	7.66	5%	8.61	**18%**	7.77	6%
EU-15	**75.48**	**75.46**	**0%**	**75.75**	**0%**	**77.10**	**2%**
Bulgaria	1.95	1.87	-4%	1.78	-9%	2.06	**5%**
Cyprus	0.13	0.12	**-8%**	0.10	-24%	0.10	-24%
Czech Republic	2.27	2.24	-1%	2.10	-8%	2.36	**4%**
Estonia	0.37	0.50	37%	0.62	69%	0.80	**119%**
Hungary	3.25	2.84	**-13%**	2.28	-30%	2.21	-32%
Latvia	0.51	0.75	48%	1.03	103%	1.22	**138%**
Lithuania	1.09	1.21	12%	1.36	**25%**	1.32	22%
Malta	0.03	0.02	**-23%**	0.01	-79%	0.00	-82%
Poland	8.39	8.06	**-4%**	7.54	-10%	6.59	-21%
Romania	4.89	5.23	7%	5.92	**21%**	4.45	-9%
Slovakia	1.21	1.23	2%	1.13	-6%	1.29	**7%**
Slovenia	0.44	0.44	1%	0.38	-14%	0.50	**14%**
EU-12	**24.52**	**24.54**	**0%**	**24.25**	**-1%**	**22.90**	**-7%**

Table 2 presents member states' share in the 2013 CAP (for Bulgaria and Romania again 2015 data) and the share they would have under three different scenarios, together with the percentage change compared to the 2013 distribution. The scenario in which a country does best is marked in bold.

Table 3: Winners and losers from CAP reform: % change

Conservative		Area-focused		Multifunctional	
Winners		**Winners**		**Winners**	
Sweden	51%	Latvia	103%	Sweden	159%
Latvia	48%	Sweden	98%	Latvia	138%
Finland	43%	Finland	77%	Finland	133%
Estonia	37%	Estonia	69%	Estonia	119%
Spain	17%	Spain	39%	Spain	47%
Lithuania	12%	Lithuania	25%	Lithuania	22%
		Romania	21%	Austria	20%
Moderate		UK	18%	Slovenia	14%
Romania	7%			Portugal	12%
Luxembourg	7%	**Moderate**			
Austria	7%	Portugal	1%	**Moderate**	
Portugal	6%	Austria	-1%	Slovakia	7%
UK	5%	Luxembourg	-2%	UK	6%
Slovakia	2%	Slovakia	-6%	Bulgaria	5%
Slovenia	1%	France	-7%	CZ	4%
CZ	-1%	CZ	-8%	Italy	-1%
Poland	-4%	Bulgaria	-9%	Romania	-9%
Bulgaria	-4%				
Italy	-5%	**Losers**		**Losers**	
France	-6%	Poland	-10%	Luxembourg	-11%
Germany	-7%	Slovenia	-14%	Germany	-17%
Cyprus	-8%	Italy	-14%	France	-19%
Ireland	-8%	Germany	-16%	Poland	-21%
		Denmark	-18%	Denmark	-22%
Losers		Ireland	-21%	Cyprus	-24%
Denmark	-11%	Cyprus	-24%	Greece	-32%
Hungary	-13%	Belgium	-29%	Hungary	-32%
Belgium	-15%	Hungary	-30%	Belgium	-35%
Netherlands	-16%	Netherlands	-30%	Netherlands	-36%
Greece	-17%	Greece	-40%	Ireland	-36%
Malta	-23%	Malta	-79%	Malta	-82%

Table 3 presents the same information in a different way. Member states are ranked by the percentage changes they experience in their CAP payments. Three groups are distinguished: the winners who increase their share by at least 10%, the losers whose share falls by 10% or more, and a moderately affected group in-between.

Table 4: Winners and losers from CAP reform: € million per year

Conservative		Area-focused		Multifunctional	
Winners		**Winners**		**Winners**	
Spain	996	Spain	2294	Spain	2738
Sweden	482	Sweden	931	Sweden	1516
Finland	339	United Kingdom	725	Finland	1058
United Kingdom	204	Finland	609	Latvia	388
Romania	187	Romania	566	United Kingdom	261
Latvia	134	Latvia	288	Estonia	240
Austria	79	Lithuania	148	Austria	233
Estonia	75	Estonia	139	Portugal	135
Lithuania	70	Portugal	8	Lithuania	131
Portugal	67			Bulgaria	58
Slovakia	14	**Losers**		Czech Republic	46
Luxembourg	3	Luxembourg	-1	Slovakia	44
Slovenia	2	Malta	-12	Slovenia	34
		Austria	-13		
Losers		Cyprus	-17	**Losers**	
Malta	-3	Slovenia	-34	Luxembourg	-5
Cyprus	-6	Slovakia	-41	Malta	-12
Czech Republic	-18	Bulgaria	-95	Cyprus	-17
Bulgaria	-42	Czech Republic	-97	Italy	-61
Belgium	-95	Belgium	-181	Belgium	-222
Denmark	-116	Denmark	-190	Denmark	-226
Ireland	-127	Netherlands	-277	Romania	-242
Netherlands	-143	Ireland	-324	Netherlands	-329
Poland	-179	Poland	-465	Ireland	-565
Hungary	-227	Hungary	-535	Hungary	-571
Italy	-287	France	-586	Greece	-846
Greece	-445	Italy	-765	Poland	-990
Germany	-470	Germany	-1022	Germany	-1089
France	-494	Greece	-1058	France	-1707

Table 4 presents the gains or losses in € million that will result for each member state from the changes in the distribution key. It is assumed that the post-2013 CAP budget that will be distributed to national envelopes amounts to € 55 billion (roughly the current size of the CAP).