The Eastern European interest in EU agricultural subsidy reform

The Baltic Times, 2 July 2009
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At the end of the Czech EU presidency, Eastern European governments have tried to gain traction in the tug of war over agricultural subsidies from Brussels. The price justifies the effort – € 55 billion annually are at stake. And the inequality in the distribution of subsidies is indeed striking. In 2013, spoilt Greek farmers will get three to four times as many payments per hectare as Latvian farmers on the bottom rung of the EU subsidy distribution. The disparity is even more pronounced today because agricultural subsidies are still being gradually introduced in Eastern Europe. It thus appears natural that Eastern European governments push for a European flat rate of farm support. But a closer look reveals that they are unlikely to win big from any politically viable CAP reform. A smarter strategy would be to shift the money to structural and cohesion funds that are targeted at lagging regions and countries.

The CAP's heavyweight is the Single Farm Payment (SFP) that supports farmers' income independent of their current production. But 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.

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 because national spending alone is insufficient? 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. Similarly, member states should receive additional money for 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 thus obtain additional payments to enhance the environmental value of their forests.

Assuming that the future distribution of CAP payments will be shaped by such rational criteria as well as by long-standing entitlements, some rule-of-thumb observations about winners and losers from CAP reform can be made. What becomes clear is that Eastern Europe will gain little. If the CAP becomes more targeted at environmental public goods, it will privilege countries like Spain, Sweden, and Finland that have much more forest, Natura 2000, and organic farming areas.

Moreover, 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.

The new member states would therefore be served best by minimizing CAP expenditures in order to free up money for the EU's structural and cohesion funds. These European solidarity transfers from rich to poor states and regions are becoming increasingly targeted at Eastern Europe. Rather than calling for a European flat-rate approach to farm subsidies, and ending up with a scheme still biased towards richer member states, Eastern European countries would be well advised to strengthen the structural and cohesion funds that inherently play to their favor.