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THE CAP IN THE EU BUDGET: NEW OBJECTIVES AND FINANCIAL PRINCIPLES FOR THE REVIEW OF THE AGRICULTURAL BUDGET AFTER 2013

STUDY

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This document was requested by the European Parliament's Committee on Agriculture and Rural Development.

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Abstract:

We are at the eve of a possible review of the EU budget and, at the same time, of a key CAP reform. The two issues are tightly connected and influencing each other and the outcomes will be mainly determined by the timing of the reforms.
In this study we present some alternative scenarios that keep together different hypotheses of EU budget review and CAP reform, looking at how the net balances of Member States change accordingly. The instrument of the net balance is key in understanding the costs and benefits of the Member States in each scenario and their consequent positions in favour or against a reform proposal.

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LIST OF ABBREVIATIONS

ARC	Agricultural and Rural Convention 2020
CAP	Common Agricultural Policy
CELCAA	European Liaison Committee for Agricultural and Agri-Food Trade
CEPS	Centre for European Policy Studies
CEJA	European Council of Young Farmers
CMO	Common market organisation
CPMR	Conference of peripheral maritime regions
DEFRA	Department for Environment, Food and Rural Affairs
DP	Direct Payments
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
ECIPE	European Centre for International Political Economy
EERP	European Economic Recovery Plan
EPC	European Policy Centre
ESF	European Social Fund
EU	European Union
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GNI	Gross National Income
GO	Gross Output
IEEP	Institute for European Environmental Pocicy
IMF	International Monetary Fund

IPRPE	Index of Population at Risk of Poverty or Exclusion
LFA	Less favoured areas
MFF	Multiannual Financial Framework
MS	Member State
NGO	Non Governmental Organization
NDP	National Development Program
NMS	New Member State
NR	Natural Resources
OECD	Organisation for economic co-operation and development
PPP	Purchasing power patity
RDP	Regional Development Program
R&D	Research and Development
RISE	Rural investment support for Europe
SIEPS	Swedish Institute for European Policy Studies
SFP	Single farm payment
TOR	Traditional Own Resources
UAA	Utilised agricultural area
UK	United Kingdom
VAT	Value Added Tax
VAP	Value of Agricultural Production
WTO	World Trade Organization
WWF	World Wildlife Fund

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EXECUTIVE SUMMARY

1. Analysis of the EU budget

The expansion of the EU economic and geographical size has led to a steady increase of its budget. Today, the EU includes 27 Member States, and has reached a budget of over € 112.3 billion (2009) of expenditures for the implementation of a political project that has greatly expanded the goals for action in comparison with the original idea.

The evolution of the EU expenditure as a percentage of Gross National Income (GNI) of the Member States reveals that the size of the EU budget has increased in a constant and consistent manner until the mid-80s, after which it settled into a steady trend.

Currently, the budget has two main sources of revenue:

1. the **own resources**, consisting of three components: traditional own resources (TOR); uniform taxation (with a rate of 0.3%) applied on a harmonized VAT base, subject to a ceiling of 50% of GNI of each country; the resource based on GNI, i.e. the payment of a national contribution variable from year to year in relation to budgeted requirements;

2. **other revenues** i.e. sum of various items of modest entity.

Own resources represent an element of centrality, originality and distinctiveness of European integration, to the extent that *Article 311* of the Lisbon Treaty states that "The Union shall provide itself with the means necessary to attain its objectives and fulfil its policies. The budget, without prejudice to other revenue, shall be financed wholly from own resources."

The size of the own resources contribution to the EU budget for the annual appropriations for payments is set at a maximum level of 1.24% of overall GNI, while the annual appropriations for commitments cannot exceed 1.31% of GNI.

With the approval of the current financial perspectives for 2007-2013, a reclassification of expenditure headings was implemented. The need for new classification arose from the re-prioritization policies pursued under the Lisbon Agenda: transformation of the EU into a dynamic knowledge-based economy, pursuit of sustainable economic growth and development of greater social cohesion. The renewal of political priorities is also associated with the need to establish new financial perspectives in a form containing a greater rationalization of measures, as well as the possibility of making adjustments over time.

The common budget is based on the compliance with specific principles: some of these principles are of institutional nature, as defined in the founding Treaties, financial regulations or decisions on own resources, designed to closely regulate the formation and management of the budget; some principles govern the implementation of common policies and their corresponding lines of spending; and other principles are of a more general nature, and commonly regard sound and proper financial management and accounting.

In relation to the definition of own resources, including the introduction of new resources and the elimination of existing ones, the new Treaty, in continuity with the regulations in force, gives the Council the power of deliberation under unanimity rule and, thus, restricts Parliament to a consultative role. The decision of the Council must subsequently be ratified by the Member States. The measures for implementing the decision on own resources are established through the enactment of regulations by the Council itself, with the approval of European Parliament.

Expenditure planning is set within a multiannual financial framework, with a five-year minimum, as established by *Article 312*.

With regard to annual budgets, the new Treaty simplifies approval procedures: the elimination of the distinction between obligatory and non-obligatory expenditures nullifies separation of powers between the Council and Parliament. In addition, the co-decision procedure is also extended to the budget. Lastly, it reduced the number of proposal steps between the institutions involved (one reading and, if necessary, conciliation).

In essence, the role of Parliament is reinforced particularly in relation to the definition process of annual budgets and multiannual framework, whose formation is, however, strongly bound by previous decisions on own resources, to which the Council has greater power thereof.

With particular reference to agricultural policy, the new Treaty on the Functioning of the European Union also introduces numerous crucial novelties (Part III, Section III, *Art. 38-44*). The most significant change is represented by the "ordinary legislative procedure", known as the co-decisional procedure for decisions on agricultural policy (*Article 43*). This implies that decisions concerning agriculture no longer dealt with at the Council level, but should involve the European Parliament.

In fact, the Treaty of Lisbon reinforces the European Parliament's role as legislator assigning new prerogatives over common policies and an increased power in the budgetary procedure (European Parliament, 2010a).

From this point of view, the European Parliament breaks free of the secondary role to which it was condemned by the separation of obligatory expenditures - including agriculture -, prerogative of the Council and non-obligatory expenditures, to which it could exert a greater role. Thus, the greater power granted to the institutional body representing the community can be considered as an opportunity to give more space to requests from the agricultural representatives, who have traditionally found attentive correspondence by the Parliament, which, up to now, only had command over weak marginal influence in final decisions. At the same time, however, it should be noted that the Parliament, with its new powers, which extend beyond agriculture to embrace all sectorial policies that comprises the Union action, becomes environment of choice for more general political debate and discussion on future action strategies to favour financial resources available to the common budget.

2. Analysis of the CAP Expenditure

The CAP review process, along with the reforms of the EU budget, has gradually led to a reduction in the overall expenditure on agriculture, which passed from 89% of the total budget in the early 70s to the current 42%.

Starting from Agenda 2000, agricultural spending was organized into "Pillars": the Pillar 1 dedicated to market support and direct payments, which were introduced as a measure of compensation for the gradual reduction of price support instruments; the Pillar 2 dedicated to structural policy and rural development. The latter encompassed, at the time of Agenda 2000, the so-called 'market accompanying measures'.

The CAP Pillar 1 includes market policies and direct payments. The latter, decoupled from production, now account for the majority of the support given to agriculture, while market policies tend to decrease over time as a result of the trend towards market liberalization demanded for by international constraints. The analysis of the EAGF - the fund responsible for supporting the market component and direct payments - makes it possible to highlight the evolution of Pillar 1 expenditures by measure and by Member State.

A few of the 27 EU Member States absorbs the bulk of expenditure channelled through Pillar 1. In particular, France is the main beneficiary of these actions, absorbing a share consistently above 20% of the total, followed by Germany and Spain, both with a relative impact above 13%, while Italy receives funding for about 11% and the United Kingdom hovers around 8%. In essence, with reference to 2009, only five countries absorb more than 66% of EAGF expenditure.

Looking at the type of intervention, direct payments absorb around 90% of the total (see Tab. 1.3), while actions to support agricultural markets (i.e. of the single sectors), barely reach 9% of the available resources, with a clear majority of spending on wine products and fresh produce.

With reference to the two macro-categories of expenditure identified, it is fairly easy to observe that the traditional measures of market support, represented by the refunds export and from storage, are now reduced to a mere marginal role. Within direct aids, the component bearing most impact is clearly represented by decoupled direct aids, which alone account for three quarters of EAGF expenditure.

The CAP Pillar 2 encompasses measures regarding the stimulus of farm competitiveness (mainly structural in nature), agri-environmental policy and territorial development, as well as diversification of income. This Pillar is the result of various policies implemented by the EU during different stages of its history (from structural policies to market accompanying measures, to diversification) and is in some ways affected by its heterogeneous composition. In fact, the beneficiaries of such policies are, depending on the measure, farmers, the rural population, and local territories. Expenditures of Pillar 2 policies are programmed for periods corresponding to the duration of the financial frameworks. In last programming period (2007-2013) the total amount of resources set up at 96 billion euro.

With regard to the contents of the Rural Development Programmes, the EAFRD financial resources have been allocated by the EU Member States for 34% to investments dedicated to supporting the competitiveness of the agri-food system (Axis I), 44% are allocated to initiatives and awards for improving the environmental sustainability of agriculture (Axis II) and 13% goes to income diversification and enhancement of quality of life in rural areas. LEADER approach (Axis IV) has an allocation of 6% of resources, with a considerable increase compared to previous programming.

3. The debate on budget review and CAP Reform

In 2010 the Commission presented two important communications: "The EU budget review" (COM(2010) 700 final) and "The CAP toward 2020" (COM(2010) 672 final). It launched a public and institutional debate which will turn into legal proposals on the MFF post-2013 in the end of June 2011 and on the CAP reform either in September or October 2011. At the time this report is written, the stakeholders are still defining their negotiation positions. Nevertheless we can already identify the most controversial issues that could influence the coming negotiations.

Launched by the Commission in 2007, the budget review moved from a broad public consultation including contributions by experts and Member States. Initially focused on an ambitious rethinking of long term priorities, the budget review has eventually been strongly influenced by the public debt crisis which shocked European economies since 2009. As a consequence, the Commission has been looking for new ways to spend the EU budget in a "smarter" fashion rather than focusing the discussion on its size.

"The EU budget review" defined several goals to be achieved for the EU budget such as: secure the EU's objectives, be policy-driven, respond to the new objectives defined by the Lisbon Treaty, and reflect the main action priorities. In the context of a global economic and fiscal crisis the overarching priorities are employment, firms' competitiveness and strengthening an open and modern single market. Other priority challenges quoted are energy, climate change, pressure on natural resources, demographic change, EU external action, justice and home affairs. It proposes to spend the EU funds to recover the economic growth capacity as defined in the Europe 2020 strategy: smart, sustainable and inclusive. In that scheme the CAP is seen as a contribution to a "sustainable" growth.

The CAP is considered necessary for the European economy in particular regarding cohesion, climate change, environmental protection and biodiversity, health, competitiveness and food security. This positive introduction is then followed by a clear positioning in favour of continuing the diminishing trend of its relative budget.

Considering the future reform, the Commission recommends to improve the sustainability of the policy and to follow four complementary axes:

1. A further targeting on the EU's broader policy priorities with the greening of direct aids to support more demanding environmental practices and positive improvements to boost innovation and competitiveness in the countryside;

2. A strengthening of the existing objectives of rural development;

3. Reliance on the market coupled with forms of insurance compatible with WTO green box and other tools for the management of risks linked to sudden shifts in incomes, combined with better competitive conditions in the food supply chain;

4. A better coherence between rural development and the other EU policies, notably regarding the common strategic framework and the national reform programmes under Europe 2020.

5. Member States have basically not updated the very broad and detailed analysis of the budget they gave in the framework of the 2008 consultation. Recent public statements following the publication of the Commission's EU budget review suggest that Member States agree on the main guidelines of the EU budget review (*e.g*. flexibility, policy-driven budget, more coherence, discipline, simplification) except for the issue of the EU own resources. Some of them also expressed new positions which show an evolution on a few issues covered by the future EU budget

Our study surveys the national reactions on the most influencing issues on the future of the CAP budget since the publication of the EU budget review. In particular, it provides information on the growing importance of the "juste retour" and net balance logic.

The communication on "The CAP toward 2020" published in November 2010 is based on the idea the EU has to face new challenges which will force European citizens to make choices that will have long term implications on rural areas and agriculture. The major challenges on which the Commission based its analysis and proposals are: food security; environment and climate change; territorial balance. More specifically, the reform is seen as necessary for internal reasons: enhance competitiveness, improve the efficiency of taxpayers' resources, and reach the Europe 2020 goals of a smart, sustainable and inclusive growth in rural areas.

The Communication proposes to set three main objectives for the future CAP:

1. A viable food production (to contribute to farm incomes and limit farm income variability; to improve the competitiveness of the agricultural sector and to enhance its value share in the food chain; to compensate for difficulties in areas with specific natural constraints);

2. A sustainable management of natural resources and climate action (to guarantee sustainable production practices and secure the enhanced provision of environmental public goods; to foster green growth through innovation; to pursue climate change mitigation and adaptation);

3. A balanced territorial development (to support rural employment and maintaining the social fabric in rural areas; to improve the rural economy and promote diversification; to allow structural diversity in the farming systems);

Considering the general reactions already expressed during the debate, the Commission suggests to keep the policy organized on the basis of a two-Pillar architecture including the co-financing system. The Pillar 1 would cover the annual payments to farmers, would be greener and fairer than the current one. The Pillar 2 would consist in "remaining the support tool for community objectives giving the Member States sufficient flexibility to respond to their specificities on a multi-annual, programming and contractual basis". It would be more oriented towards competitiveness and innovation, on *environment* and climate change.

Despite the unchanged general architecture, the Communication advocates for a "cleaning" of the instruments in order to successfully deal with the new challenges and objectives.

The "CAP toward 2020" draws three scenarios for reforming the agricultural policy. The first option (*conservative*) consists of continuing the reform process and introducing new gradual changes by prior focusing on major problems (such as a fairer allocation of DP). The second policy option (*greening*) aims at a more balanced policy on two dimensions: the greening of the policy and a better equity in its funds allocation. It would essentially be reached by a greening and a sharp targeting for the measures. The third option (*radical*) plans a deeper reform essentially focused on environmental and climatic priorities thanks to rural development. Income support and most of market measures would be phased out.

4. Budget reform scenarios and CAP Reform

It is rather difficult to estimate the future size of the EU budget, as well as an hypothesis for the distribution of resources available among future lines of expenditure. However, three different hypotheses have been established, on the basis of three relevant aspects:

1. the relative stability in recent years of the dimension of the expenditure in terms of GDP, which stood well below the ceiling allowed for by the framework decisions on the current financial framework (2007-13);

2. the repeated requests for restraint the annual disbursement on percentages close to 1% of the GDP;

3. together with the declarations of the heads of government of several countries that have historically had significant impacts on the common budget decisions (e.g. United Kingdom), three different hypotheses have been established.

The three hypotheses have been formulated on the basis of a structure similar to the one adopted by the Commission in relation to other reform proposals – including the CAP – that contemplates three possible scenarios:

- a conservative scenario (*Status Quo*), in which the absolute size of the budget undergoes almost no variation compared with the one reached during the final year of the current perspectives (2013), which corresponds to a burden on the GDP of about 1% (in terms of payments). This scenario also implies no changes to the absolute dimension of CAP expenditure in regards to amounts budgeted for 2013;

- a 'gradual evolution' scenario (*Redistribution*), in which the absolute size of the expenditure is not modified but CAP allocation is re-sized within its framework, compared to its value at the end of the current period (2013). The reduction of overall CAP expenditure (concentrated on Pillar 1) may take on variable dimensions, from a minimum value, calculated on the basis of the median reduction rate between one financial year to the next, to a maximum value, with an estimated value equal to 20% of the reference one (2013). The generated resulting savings would, in part, be allocated to empowering rural development measures (Pillar 2) and in part to the enhancement of the two current expenditure categories that correspond to the policies of Cohesion and Competitiveness, which may better contribute to the achievement of the 5 objectives of the Strategy Europe 2020 cited above;

- a more extreme scenario (*Reduction*), in which both the overall budget and the CAP would undergo expenditure cuts of equal entity without any allocation of funds to other intervention policies. The size of the reduction is set at a value equal to 20% of CAP (Pillar 1) expenditure at the end of the current multi-year framework (2013).

With regard to revenues, given the lack of indications on possible integration sources, the only source of for all cases included in the budget is the national payment systems based on GDP.

The proposals regarding CAP reform have a greater underlying structure and take three possible Options into consideration. The first is identified as a conservative option that calls for the prudent introduction of reform elements while mostly limiting itself to a more equal distribution of Pillar 1 direct payments. The second proposal makes explicit reference to the implementation of measures that are more "green"(CAP greening) and selective in nature. Lastly, the third proposal may be seen as a Radical hypothesis, which implies the gradual elimination of Pillar 1 and exclusive concentration on rural development and environmental measures.

The second hypothesis is defined as the one of greening given that it plans to adopt specific measures aimed at environmental protection and sustainable management of resources.

In principle, CAP greening could be promoted under the other two hypotheses through measures that in the first case (conservative option) could be incorporated both into Pillar 1 and 2, while in the second case (radical hypothesis) could only be adopted by Pillar 2. Nevertheless, we believe that the second hypothesis places the most focus on greening as an explicit objective of CAP re-orientation.

Obviously, though not being clearly explicit in the formulation of the other three proposals, each hypothesis is characterized by its distinct budgetary implications. Indeed, the possible combinations between budget and CAP reform hypotheses are numerous, but it can be hypothesized that some of these combinations - such as reduction of the budget and relevant maintenance of the size of CAP expenditure – are rather unlikely.

On these grounds, an attempt has been made to identify several possible scenarios - a result of possible combinations of the two reforms (Budget and CAP) – that seem to bear a greater degree of “coherence”.

In relation to the budget hypotheses, it must be noted that this study is based on simulations performed starting from the data of appropriation and expenditure indicated in the last update on the forecast of the current 2007-2013 financial framework for the last year of validity (2013).

The decision to restrain from making modification to the overall expenditures foreseen for 2013 has been based on several considerations:

- on the one hand, on the basis of the findings of the Commission Communication on the Budget Reform, with regard to the need of containing the expenditure evolution in the near future;
- on the other, on the basis of positions expressed by several of the more significant contributor Members (UK, Germany, France, Finland and Netherlands), whose political weight in regard to the EU budget has always strongly conditioned the negotiations;

- lastly, on the basis of the fact that the unchanged absolute size of expenditure would constitute an amount equal to 1.05% of EU GNI. With reference to this value, it must be noted that several countries have, at different times, expressed favour to an amount of budget expenditures correspondent to approximately 1% of GDP.

Coherence between different options of Budget and CAP proposals of reform

	No CAP reform	**CAP options of reform**		
No Budget Reform*	*Scenario 1:* *The Status Quo* - Maintenance of the general expenditures - Full implementation of the current CAP	Option 1:	Option 2:	Option 3:
Budget hypothesis of reform		*Conservative*	*Pillars Remodulation*	*Radical*
Hypothesis 1: *Status Quo*		*Scenario 2.a:* *The Inertial Decline* - Maintenance of general expenditures - Minimal reduction of Pillar 1 payments (-5%) in favour of Pillar 2 measures	*Scenario 2.b: The Rebalancing Pillars* - Maintenance of general expenditures - Drastic reduction of Pillar 1 payments (-20%) in favour of Pillar 2 measures	
Hypothesis 2: Redistribution				*Scenario 3.a: The CAP Decline - Light* - Maintenance of general expenditures - Drastic reduction of Pillar 1 (-20%) in favour of: Pillar 2 measures, Cohesion and Competitiveness *Scenario 3.b: The CAP Decline - Deep* - Maintenance of general expenditures - Drastic reduction of Pillar 1 (-20%) in favour of Cohesion and Competitiveness
Hypothesis 3: *Reduction*				*Scenario 4: The EU's Project Decline* - Drastic reduction of Pillar 1 expenditures (-20%) - Correspondent reduction of the general budget expenditures

* The budget maintain the 2013 amount of expenditures, but the revenues are modified: abolishment of all corrections and National contribution exclusively based on GDP
Legenda: White represents possible but weak or inconsistent

With regards to the greening of the CAP, we considered it in two different ways: 1) the shift of resources from pillar 1 to Pillar 2 (as in Scenario 2.a, 2.b and 3.a) and 2) one of the alternative processes of reallocation of resources within Pillar 1 (40% UAA; 40% VAP; 10% Natura 2000; 10% rural population) used in all the scenarios.

The underlying idea is that the greening of the CAP is a sort of "horizontal" process that can be reached at different levels and under different scenarios, no matter how much and to what extent the CAP declines within the EU budget.

5. An analysis of the EU budget and CAP reforms through the Net Balances

The Net Balance is the difference between payments made by each Member State to the EU budget and the EU expenditure allocated among them. The net balance is an indicator which is simple to calculate, and is helpful in highlighting and quantifying, in a single value, the difference between costs and direct financial benefits of EU membership. However, it has severe limitations to a large extent determined by its own simplicity, i.e. it is the result of an accounting calculation that is unable to take into account all the costs and benefits - intangible assets, not only of a financial nature - arising from the participation in the EU.

From the total net balances one can scale down to partial net balances, which reflect national positions on individual policies which make up the Union budget. The sum of partial net balances, obtained by the same mechanisms of calculation described above, is by definition equal to the total balance for each country. The scope of this breakdown is especially clear when negotiations on the definition of new rules for drawing up and managing the common budget and the adoption of a new financial framework start. Indeed, the partial net balances show the areas of intervention with respect to which each country is a net contributor or beneficiary and to what extent, thereby making visible the positions of convenience with respect to the individual policies implemented.

The partial net balances on which our attention is focused are: "Natural Resources" broken down between the CAP Pillars (1 and 2), plus a residual item, which includes mostly actions in favour of fisheries and the environment; "Competitiveness" and "Cohesion" and "Other", which includes the items "Citizenship, Freedom, Security and Justice" and "EU as a global player".

The results emerging from the simulation of the Scenarios represent a starting point for reflection on redistribution arrangements that may arise as a result of the various policy choices described above. In the construction and elaboration of the Scenarios we have tried to gradually take account of developments in the EU and national debate. The analysis of possible Scenarios shows how, at this stage of reform of both the EU budget and the CAP, significant changes in terms of net balances of the Member States could occur.

The Scenarios presented in the report are based on a budget equal to that provided in the current financial framework for 2013, which amounts to a total of 143,153 million Euro in terms of total payment appropriations, whose weight on the forecast of GNI for 2013 is 1.05%. The distribution of resources under headings and subheadings was based on the percentage weight of each item in terms of commitments[1]. These percentages were applied

[1] The breakdown by Member States is not available in terms of payments.

to the total operational payments, obtained by subtracting from the total budget the share relating to administrative costs (Administration).

Particular attention must be paid to the sub-headings of "Natural Resources" (NR), in which case, the allocations derive from the ceilings of direct payments (Annex VIII of Regulation (EC) No. 73/2009, as amended by Regulation (EU) No. 360/2010), as proxies of the commitments of Pillar 1 of the CAP in full swing[2], and from the ceilings set by the Financial Framework for Rural Development[3] (annual average 2007-2013), as proxies of Pillar 2 of the CAP. The percentage weights of each sub-heading have been applied to the sum of payments pertaining to "Natural Resources" for 2013 amounting to almost 57,700 million euro. The item Other Natural Resources, measured as residual share, includes an aggregate of actions ranging from fisheries (i.e. European Fisheries Fund), the protection and preservation of the environment (i.e. Life+).

In each Scenario (with the exception of Scenario 1), in addition to allocation decisions between headings and sub-headings, the application of **different criteria for the allocation of resources among the Member States is simulated**. This multiplicity of criteria overwhelmingly involves the pillars of the CAP.

To facilitate the interpretation of results and assessment of effects, results of each Scenario has been compared to the "basic" Scenario representing the benchmark in the analysis.

In view of the analysis presented, it should be noted that despite the many variables involved in the definition of Scenarios and the identification of criteria for allocating resources, the relative position of most countries tends to be free from major upheavals, taking into account the fact that we compared Scenarios based all on a contribution to the EU budget calculated solely on GNP and without correction mechanisms (i.e. rebate). Upon closer examination, however, we can see that some countries prove more sensitive to changes of Scenario, while others suffer more from changes to the allocation criteria, as has already exhaustively illustrated in the box above.

As a result of our analysis, Member States have been divided into three classes according to the impact of simulation on own net balance. Therefore, they are distinguished as: winners (losers), i.e. countries that would have an advantage (disadvantage) if the assumed conditions were implemented, and those that would be indifferent, i.e. States where the changes would not result in significant changes from the benchmark.

The application of Scenario 3.a (*The CAP Decline - Light*) is a simulation that would benefit - in terms of total net balance - the highest number of Member States, as many as 12. However, if we wish to minimize the number of loser countries, then Scenario 2.a (*Rebalancing Pillars*) would be the one to disadvantage the smallest number of States.

Therefore the simulations show how, **after introducing the new criteria for reallocation of CAP resources among Member States**, the scenario that would benefit the largest number of States is the one that brings the highest number of changes in the distribution of resources among headings: Scenario 3.a., in fact, involves three sub-headings in the reallocation: Pillar 2 of the CAP, Cohesion and Competitiveness (other scenarios involve two sub-headings at the most).

[2] Exceptions are Bulgaria and Romania for which the full regime will be implemented in 2016 (Annex VIII Regulation (EC) No. 73/2009).

[3] http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_rural_devt_2007-2013.xls

In relation to the "NR" heading alone, application of Scenario 3.a would benefit the largest number of countries, 13 out of 27, and minimize the number of loser countries to 9 (as for 2.b).

However, the overall results shed light on unusual positions in terms of advantages and disadvantages. For example, conservative scenarios of the CAP, backed by countries that aim to preserve the current system of agricultural policy, could result in a disadvantage for the same in terms of partial net balance for "NR" and the total net balance. However, the same countries would not suffer from that disadvantage if more radical reforms of the CAP were decided, which would benefit them in terms of partial net balance for "NR" and - at least - a substantial indifference in terms of total net balances (see the example of the French case)[4].

On the other hand, countries that are among the winners in terms of partial "NR" balances would be indifferent in terms of total net balances. (e.g. Malta in Scenarios 2.a, 2.b and 3.a; Bulgaria in Scenarios 2.b; Denmark, France and Sweden in 3.b).

With regards to the greening of the CAP, generally speaking, the NMS are the main beneficiaries from this process. Among Member States of EU15, the only four countries which benefit from a reinforcement of the greening components inside both the Pillars of the CAP, can be grouped into two clusters: Luxembourg and Netherlands, on one side, which show a synergic contribution among Pillars; and Portugal and Finland where the "greening effect" is led by Pillar1 while the Pillar 2 plays a counterbalance role. Regarding the other old MS of EU15, the extent of the "greening effect" change accordingly to the scenario considered.

6. CAP reform and co-financing

One relevant issue of the recent CAP reform proposals is the transfer of the budget from Pillar 1 to Pillar 2, which would mean additional national co-financing. More generally, the ongoing process to shift spending from Pillar 1 to Pillar 2 could be considered as a "budget-consistent" strategy to maintain an European Union (EU) agricultural policy.

If the process of CAP reform strengthens the link between agricultural expenditure and the provision of public goods and externalities, we believe that it will be difficult to avoid an extension to the EAGF of the principle of co-financing currently governing most of the remaining EU expenditure. Accepting the arguments for the continuation of Pillar 1 funding after 2013 rather than shifting its resources to Pillar 2, the rationale for co-financing is much less obvious, but the maintenance of an EU budget for the Pillar 1 could be secured by some degree of co-financing.

The possibility of introducing some mechanisms of co-financing was firstly mentioned with the diffusion of the Agenda 2000, a document in which the Commission proposed a more general rethinking of the whole economic and social policies of the (EU Commission, 1997). The sharp rejection of co-financing, especially from France, was (and quite often still is) justified with the argument that it would be a "first step" toward re-nationalization of the CAP. This may be a serious concern even if the present agricultural policy instruments are much less distortive than the price policies of the "old CAP". As a matter of fact, although it is true that compensatory payments have no allocative aim, this does not certainly imply

[4] It should be pointed out that the results relating to the "NR" heading are also the result of changes in the allocation criteria for allocating resources pertaining to Pillar 1 and Pillar 2.

that they have no allocative effects. In this respect, as long as the payments to farmers are not fully “decoupled”, the Commission has a crucial role to play in ensuring the preservation of the internal common market.

On the other hand, it should not be forgotten that the more agricultural policy instruments move away from price support mechanisms, the more agricultural policies should be implemented as well as financed at the level of the Member States rather than at the level of the EU (De Filippis, Salvatici, 1993). More generally, the “re-nationalisation critique” seems instrumental since the co-financing mechanisms do not address at all the “assignment problem”, that is the allocation of responsibilities to various levels of government. Co-financing only implies a different burden sharing of the financial cost of policies that are still designed and implemented at the EU level. It is also worth emphasizing that co-financing does not imply an increase in the administrative burden for Member States: presently they provide payments, and then get 100% back from the EU budget; with co-financing, they would be partially reimbursed.

The issue is likely to resurface in the debate about CAP reform and new financial perspectives. If European resources for agriculture are going to shrink, an obvious candidate to raise additional funding is co-financing, which has been advocated in various reports from the European Parliament (Böge 2006; Lamassoure 2006). It is important, then, to have a better understanding of the *pros* and *cons* of different possible mechanisms of co-financing and to provide a quantitative assessment for some of them.

Financial contribution creates an incentive for Member States to use EU funds responsibly to fulfill genuine needs. Member States can be expected to manage public funds more efficiently, attaining a greater impact for a given amount of money, if they share the burden of costs.

Moreover, there are few public goods that are fully "European": most of them have a higher value for local citizens, so it makes sense that local stakeholders contribute to the costs, in addition to EU taxpayers. This could rely on the idea of predefined national envelopes and co-financing rates that differ between Member States.

Given that flexibility within predefined national envelopes as well as different rates of co-financing between programmes and Member States are advisable, the rate of co-financing might be adjusted between Member States or between the type of farming/landscape protection involved, based on some objective criteria. Ideally, the differentiation of co-financing rates should be developed further in order to maximize the leverage effect of the EU budget.

One aspect of differentiation concerns the nature of the supported programme. EU contributions in favour of public goods with strong cross-border effects should be higher than those for public goods where most benefits remain within the subsidizing country. In other terms, the degree of co-financing could be different when public goods are local or when they are truly of importance for Europeans as a whole (migrating birds, climate, landscape with European importance, biodiversity under Natura 2000, water, etc.).

Furthermore, it is reasonable to presume that relatively poor regions are less likely to provide the optimal level of European public goods in agriculture and should therefore receive higher EU contributions. Accordingly, programmes implemented in poorer Member States should receive greater EU support.

Finally, the very fact that the current Pillar 1 is exclusively funded by the EU taxpayer whereas Pillar 2 requires some co-financing is a source of political distortions. Extending co-financing to Pillar 1 is useful to break the habit of calling for income support because this is (largely) paid by taxpayers in other Member States. Both Pillars, then, should be co-financed by Member States so as to avoid the current incentives against schemes that aim at supporting the provision of public goods. Co-financing would clearly raise complex institutional difficulties which deserve further examination, but it would be an important step towards removing the current policy bias generated by differences in co-financing between the two Pillars.

7. Conclusions: the SWOT analysis

Following the SWOT analysis scheme, we have identified the main strengths, weaknesses, opportunities and threats that can be highlighted on the base of the Scenarios that have been constructed.

We have focused on the criteria of evaluations of the four aspects of the SWOT analysis rather than going into the details of the assessment of each Scenario.

The SWOT analysis is not an objective interpretative method of analysis; however, it is very useful to highlight some relevant aspects that, according to the subjective judgement of the policy analyst, are worth to be stressed.

It is evident from our Scenarios that the combination of the CAP reform and the EU budget review makes the overall picture rather complex and the timing and intensity of the two reforms will strongly influence each other.

It is also very difficult to establish "a priori" and in a fully objective way the best and more wishful Scenario, considering how many different interests are involved and the weight of the political negotiation on the final decisions.

In all our Scenarios, the CAP goes through a change, because it is quite clear that, it is the intensity of the change to be under discussion, not the need in itself of a change.

This change can be either a simple financial cut, with consequences on the other items of the EU budget and on the net balances of the single Member States; or, a redistribution of resources within the CAP (Pillar 1 and 2) that could go into the direction expressed by the European Commission, the Parliament and also by stake holders, National governments and scholars.

A more direct connection between direct payments and public goods provision, a re-balance of financial resources among Member States, a more targeted set of measures for rural development, and a more balanced distribution of objectives and resources among EU Funds are the keywords for a more socially acceptable and more sustainable "CAP of the future".

Scenario 1 is the *Status Quo* and, although it is very useful as a benchmark, it is also clear that it represents a picture that will not be sustainable in the future for the existence itself of the CAP.

Scenarios 2 do not change any other item and they only imply a shift of resources from Pillar 1 to Pillar 2, more in continuation with the past reforms. The underlying idea is that Pillar 2 activates more actors in rural areas and has a clear territorial approach (at least part of it). This is not as conservative as it can seem at a first glance, and addresses effectively the whole idea of targeting the policies to the territories rather than to the persons.

Scenarios 3 involve other policies of the EU out of the CAP (Competitiveness and Cohesion). This is definitely a new approach compared to the older reforms, and it addresses a general principle of supporting new needs of the EU society according to the Europa 2020 strategy. However, in practise, the issue of the effectiveness and the efficiency of such a transfer of resources on other chapters of the EU budget is crucial.

Finally, Scenario 4 saves resources but does not activate any new expenditure strategy and development project. It has been labelled as the decline of the EU as a project based on the principles of union and solidarity and, for this reason, we think it does not indicate the best and most wishful way to go.

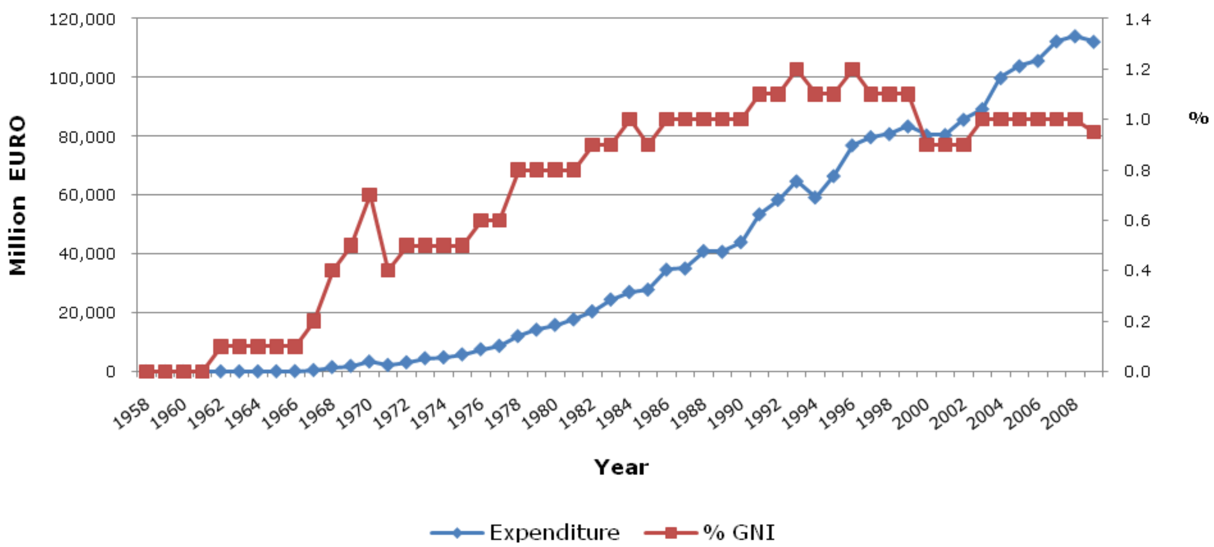
1. ANALYSIS OF THE EU BUDGET

KEY FINDINGS

- 50 years after its creation the EU expenditures are over 112.3 billion euro devoted to the implementation of the European political project.
- **Own resources** represent an element of centrality, originality and distinctiveness of European integration.
- The **own resources consists of three components**: traditional own resources (TOR); uniform taxation applied on a harmonized VAT base; the resource based on GNI.
- The system of collection of own resource is characterized by many ad hoc adjustments in favour of single countries (correction clauses).
- The **classification of expenditure headings arose from the objectives** pursued under the **Lisbon Agenda**: a dynamic knowledge-based economy, a sustainable economic growth, development of greater social cohesion.
- The **budget for the CAP**, Pillar 1 and 2, **is part of section 2**, together with headings for fishery and the environment.
- The **EU budget is based on the compliance with specific principles**: some have an institutional nature; some govern the implementation of common policies and their corresponding lines of spending; other are of a general nature

The expansion of the EU economic and geographical size has led its budget to a steady increase characterized by phases of both reduction and accelerated growth, mainly due to the implementation of new policy actions (Figure 1.1.).

Figure 1.1.: Evolution of EU budget: expenditure and share on GNI (1958-2009)



Source: INEA elaborations on EU data (European Commission, 2010)

Today, more than 50 years after its creation, the EU includes 27 Member States, and has reached a level of expenditure of over 112.3 billion euro for the implementation of a political project that has greatly expanded the goals for action in comparison with the original idea.

Conversely, the examination of the evolution of the EU expenditure as a percentage of Gross National Income (GNI) of the Member States reveals that the size of the EU budget has increased in a constant and consistent manner until the mid-80s, after which it settled into a steady trend. This occurred at the transition of the EU budget to a multiannual format, which since 1988 has programmed its development under the so-called financial perspectives (or financial frameworks) that represent the framework within which annual financial documents are developed.

1.1. The historical evolution: from the 1988-92 to the 2007-13 framework

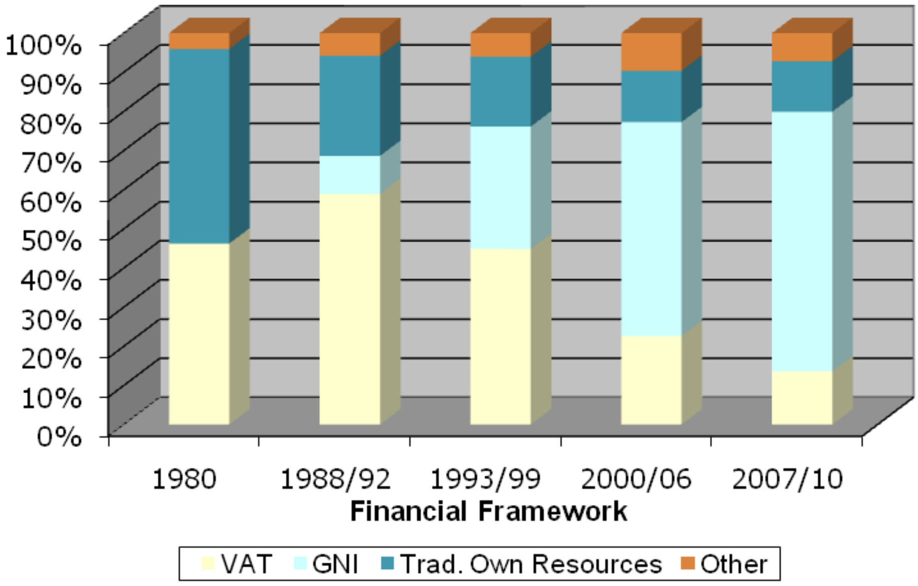
Approval of the first financial pluriannual framework (1988-1992) was an opportunity for a major overhaul of the own resource system that fuelled the common budget as well as for the introduction of mechanisms to control expenditure aimed at balancing funds available for various policies (Figure 1.2.). The Delors I Package, at its launch, required an expansion of resources and a more prudent management system as a consequence of the enlargement of the EU policy areas of influence: completion of the single market, strengthening of structural funds for economic and social cohesion, organization of research policy, establishment of a joint environmental policy, a more complex and consistent international policy (Figure 1.3.).

Hence integration of the three revenue components was established, represented by "traditional own resources” (TOR), levy on Value Added Tax (VAT), and national transfers (reduced to a marginal role), with the introduction of a fourth component, represented by a national payment commensurate to the size of the GNI of each Member State. While providing a major share of resources, the TOR component (customs duties and agricultural levies arising from the existence of a common customs system) seemed in decline. This was a sign of difficulties in coping with budget development needs by means of commercial protection policy. At the same time, the component concerning VAT, introduced at the end of the 70's, was brought under control by the introduction of a ceiling, set as the ratio between tax base and GNI of each Member State (55%) to mitigate the regressive effects on the countries with lower incomes. The GNI component was defined as a "residual resource" in the sense that its total amount, in the presence of the breakeven constraint that characterizes the common budget, would be equivalent to that required to meet the financial needs not covered by other sources.

With regard to expenditures, the new fiscal discipline introduced a maximum payment allowed each year, expressed as a percentage of GNI, and in relation to individual actions (agricultural guideline).

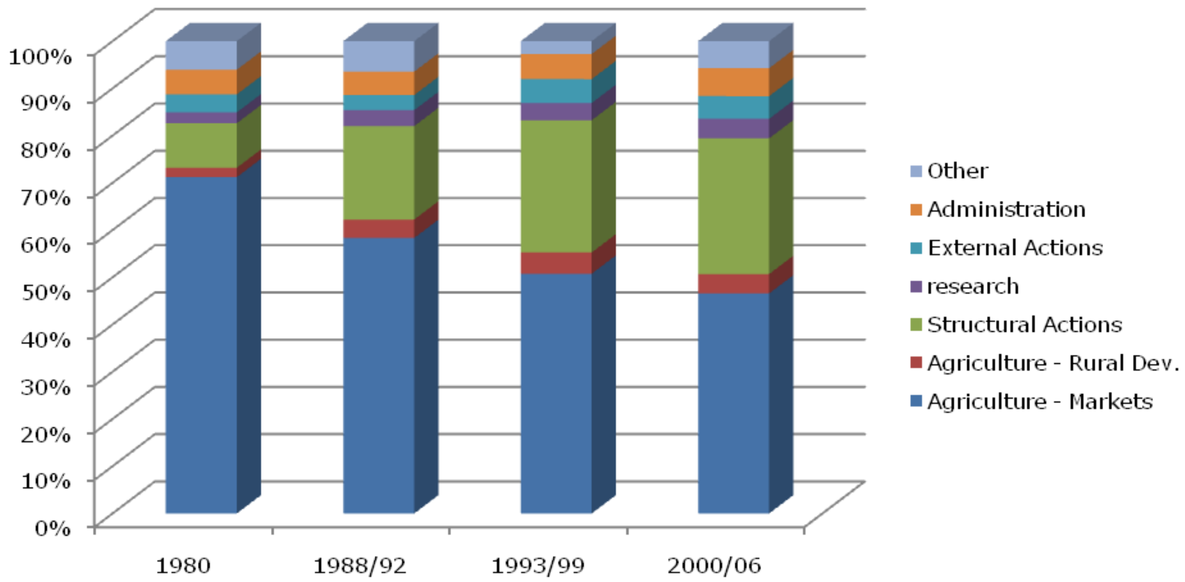
The second financial pluriannual framework (1993-99) was built on the basis of financial need expressed in the Delors II package, which aimed at strengthening the cohesion policy through the enhancement of structural actions (transport and infrastructure) for the benefit of most recent Member States, and at strengthening new action areas (European networks, culture, education, foreign policy, cooperation).

Figure 1.2.: Evolution of revenues to the EU budget



Source: INEA elaborations on European Commission data, 2010

Figure 1.3.: Evolution of EU expenditure per intervention item, 1980-2000/06* (%)



* The 2007-2013 framework it's not included because of the change in lines of expenditures (see Tab. 1.2)

Source: INEA elaborations on European Commission data, 2010

The new financial framework did not determine substantial changes to the revenue system, despite the fact that adjustments to the regulation for collection of each individual component ended up producing a significant increase in the proportion covered by the "residual" share linked to GNI. Further contribution to this result came from the simultaneous weakening of the VAT levy rate, in addition to further lowering of the taxable base ceiling relative to GNI (50%), for the mere benefit of countries with the lowest level of economic prosperity. The increased need for resources was also made possible by the progressive increase of the own resources ceiling from 1.20% of GNI in the first year to 1.27% in 1999. At the same time, containment of the CAP “market” component was undertaken, against a consolidation of the component for rural development with focus on strengthening the growth of financial commitment in support of structural measures.

Negotiations on the 2000-06 financial perspectives were complicated by the profound geopolitical shift resulting from the process of EU enlargement to 10 new Member States. The political agreement was signed in Berlin in March 1999, but it was only in the year 2000 that the Committee was able to launch the new budgetary discipline and to define the new system of own resources. The main points of the Berlin agreement accounted for spending stabilization and prevention of further increase in the negative financial imbalances of some countries (Germany, Netherlands, Austria and Sweden). Thus the ceiling on own resources was left untouched for the entire period, at the same level it had reached at the end of the previous period (1.27% of GNI). With regard to the allocation of the single funds, all lines of expenditure were reduced in relation to Committee recommendations, including agricultural spending, making it impossible to implement the CAP reform planned under Agenda 2000.

On the formation of own resources, the Council decided to: implement further reductions of the VAT contribution, with a new phase of progressive reduction in the rate of levy (set at 0.50% in 2004); increase from 10% to 25% the deduction on "traditional own resources" accorded to individual countries as reimbursement to the cost of collection; making some corrections to the UK rebate mechanism[5] including a reduction of reimbursements from the other four largest net contributor countries.

The last financial framework (2007-2013) was formalized in the Inter-institutional Agreement on Budgetary Discipline and sound financial management of June 2006[6], which was followed in 2007 by a Council Decision on the system of own resources[7]. The enlargement led to a significant expansion of territory and population, boosting the regional disparities between the now 27 EU Member States, in relation to an increase of GDP (hence, their potential budgetary revenue) of only 5%.

With regard to regulations on collection of own resource, *ad hoc* adjustments were implemented, many of which were at the benefit of single countries (correction clauses). With regards to expenditures, a new classification of the common budget headings was defined; however, with respect to the initial proposal of the Committee, drastic cuts were imposed to the resources allocated to the new lines of action which were intended to serve as stimulus for the achievement of the Lisbon Agenda objectives, while the CAP could count on a well-defined financial framework already defined and “shielded” against the previous French-German arrangement of 2002 that conditioned a substantial portion of the budget.

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[5] The principle of fair return, as affirmed by the Fontainebleau Agreement of 1984, attests the right of each Member State which bears a budgetary burden excessive in relation to its relative prosperity to benefit from a correction. The first and most important application of the fair return principle is represented by the rebate for the benefit of United Kingdom, providing for the reimbursement of an amount corresponding to 66% of the UK deficit, deficit defined through a complex calculation mechanism (Greganti, 2009, De Filippis, Sardone, 2010).

[6] OJEU, C 139/1 of 14.06.2006. Then modified by the EC Decision 2009/407 (OJEU, L 103 of 29.05.2009)

[7] OJEU, C 139/1 of 14.06.2006.

1.2. The current picture of the EU budget

Currently, the budget has two main sources of revenue:

3. The **own resources**, consisting of three components: traditional own resources (TOR); uniform taxation (with a rate of 0.3%) applied on a harmonized VAT base, subject to a ceiling of 50% of GNI of each country; the resource based on GNI, i.e. the payment of a national contribution variable from year to year in relation to budgeted requirements;

4. other revenue i.e. sum of various items of modest entity.

Own resources represent an element of centrality, originality and distinctiveness of European integration, to the extent that *Article 311* of the Lisbon Treaty states that "The Union shall provide itself with the means necessary to attain its objectives and fulfil its policies. The budget, without prejudice to other revenue, shall be financed wholly from own resources."

The size of the own resources contribution to the EU budget for the annual appropriations for payments is set at a maximum level of 1.24% of overall GNI, while the annual appropriations for commitments cannot exceed 1.31% of GNI.

With the approval of the current financial perspectives for 2007-2013, a reclassification of expenditure headings was implemented. The need for new classification arose from the re-prioritization policies pursued under the Lisbon Agenda: transformation of the EU into a dynamic knowledge-based economy, pursuit of sustainable economic growth and development of greater social cohesion. The renewal of political priorities is also associated with the need to establish new financial perspectives in a form containing a greater rationalization of measures, as well as the possibility of making adjustments over time.

Table 1.1.: Expenditure headings 2007-2013

1.*Sustainable growth*, *divided into two items*:
1a.*Competitiveness for growth and employment*, including spending for research and innovation; education and training; environmental security and sustainability of EU networks; support to the single market and accompanying policies for integration; implementation of social policy.
1b.*Cohesion for growth and employment*, including spending for enhancing the convergence of the Member States and the regions lagging behind in development, supporting the policy of sustainable development in less prosperous regions, supporting interregional cooperation.
2. *Sustainable management and protection of natural resources*, including internal spending for agricultural policies, fishery policies and environment-related policies.
3. *Citizenship*, *freedom*, *security and justice*, divided into two items :
3a. *Freedom*, *security and justice*, including policies for migration and policies to protect freedoms and fundamental rights.
3b. *Citizenship*, including access to public rights, policies for culture, youth, health and consumer protection information.
4. *The European Union as a global partner*, which comprises all external actions, including pre-accession instruments.
5.*Administration*.
6.*Compensations*.

The new classification, though more simple, makes it difficult to make long-term intertemporal comparisons, since it is not possible to accurately trace the amounts allocated in the previous sections, used until 2000-06, back to those currently in force[8].

In the current multiannual framework the budget for the implementation of the CAP, as far as both its 'markets' and 'rural development' components are concerned, is part of heading 2 (*Conservation and Management of Natural Resources*), together with sub-headings for fishery and the environment (Tab. 1.2.).

The total amount of resources devoted to heading 2 is around 413 billion euros for the period 2007-2013, representing the second heading after the heading 1 *Sustainable Growth*, with more than 436 billion euros.

Inside heading 2 around 330 billion euros are devoted in supporting market measures and direct payments (of which around 88% for the single payments), supported through EAGF. The resources for EAFRD (measures of CAP pillar 2) reach 78 billion euros (Tab. 1.3).

A focus on CAP appropriations commitments is highlighted in Table 1.3. The table highlights

Table 1.2.: Multiannual framework 2007-2013

(million Euro current prices)

APPROPRIATIONS FOR COMMITMENTS	2007	2008	2009	2010	2011	2012	2013	2007-2013
1. SUSTAINABLE GROWTH	**53,979**	**57,653**	**61,696**	**63,555**	**63,638**	**66,628**	**69,621**	**436,770**
Competitiveness for Growth and Occupation	8,918	10,386	13,269	14,167	12,987	14,203	15,433	89,363
Cohesion for Growth and Occupation	45,061	47,267	48,427	49,388	50,651	52,425	54,188	347,407
2. CONSERVATION AND MANAGEMENT OF NATURAL RESOURCES	**55,143**	**59,193**	**56,333**	**59,955**	**60,338**	**60,810**	**61,289**	**413,061**
of which: expenditure connected to the markets and direct payments (1)	45,759	46,217	46,679	47,146	47,617	48,093	48,574	330,085
3. CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE	**1,273**	**1,362**	**1,518**	**1,693**	**1,889**	**2,105**	**2,376**	**12,216**
Freedom, security and justice	637	747	867	1,025	1,206	1,406	1,661	7,549
Citizenship	636	615	651	668	683	699	715	4,667
4. EU AS GLOBAL PARTNER	**6,578**	**7,002**	**7,440**	**7,893**	**8,430**	**8,997**	**9,595**	**55,935**
5. ADMINISTRATION (2)	**7,039**	**7,380**	**7,525**	**7,882**	**8,334**	**8,670**	**9,095**	**55,925**
6. REFUNDS	**445**	**207**	**210**	**-**	**-**	**-**	**-**	**862**
TOTAL APPROPRIATIONS FOR COMMITMENTS	**124,457**	**132,797**	**134,722**	**140,978**	**142,629**	**147,210**	**151,976**	**974,769**
As a percentage of GNI (3)	1.02%	1.08%	1.13%	1.16%	1.13%	1.12%	1.11%	1.11%
TOTAL PAYMENT APPROPRIATIONS	**122,190**	**129,681**	**120,445**	**134,289**	**134,263**	**141,273**	**143,153**	**925,294**
as a percentage of GNI (3)	1.00%	1.05%	1.01%	1.10%	1.06%	1.08%	1.05%	1.05%

(1) This amount does not consider modulation and transfers to Rural Development Policy
(2) Expenditures for pensions below the ceiling for this item are calculated net of the contributions
(3) The figures are based on the technical adjustment of the financial framework for 2010 in line with movements in GNI, adopted by the Commission on 16 April 2010 (COM(2010)160)

Source: Prepared on the basis of the *Budget of the European Union for the financial year 2010 - The figures*, January 2010

[8] In fact, only one transitory reclassification between the third and fourth financial period is available.

Table 1.3.: The Common Agricultural Policy in the 2007/2013 financial framework (million Euro current prices)

APPROPRIATIONS FOR COMMITMENT	2007	2008	2009	2010	2011	2012	2013	2007-2013
BEFORE TRANSFERS FROM EAGF TO EAFRD								
EAGF Agriculture – Markets and direct aid	45,759	46,217	46,679	47,146	47,617	48,093	48,574	330,085
Of which: single payments EU27	*36,257*	*38,344*	*41,007*	*42,007*	*42,902*	*44,428*	*45,080*	*290,025*
EAFRD Agriculture - Rural Development	9,868	11,650	11,582	11,547	11,258	11,206	11,153	78,264
AFTER TRANSFERS FROM EAGF TO EAFRD								
EAGF Agriculture – Markets and direct aid	44,753	44,592	44,887	44,276	44,466	44,710	44,939	312,623
EAFRD Agriculture - Rural Development	10,874	13,275	13,974	14,335	14,408	14,589	14,789	96,244

Source: Prepared on the basis of the following documents: *Budget of the European Union for the financial year 2010 - The figures*, January 2010; Commission Regulation (EC) No 360/2010, Decision 2010/236/EC and Decision 2010/237/EC (OJ L 106, 28.4.2010); Decision 2009/379/EC (OJ L 117, 12.5.2009).

1.3. The principles of governance and the Treaty of Lisbon

1.3.1. The main principles

The common budget is based on the compliance with specific principles: some of these principles are of institutional nature, as defined in the founding Treaties, financial regulations or decisions on own resources, designed to closely regulate the formation and management of the budget; some principles govern the implementation of common policies and their corresponding lines of spending; and other principles are of a more general nature, and commonly regard sound and proper financial management and accounting.
The most important institutional principles are:

- *the principle of balance*, which more than any other characterizes the common budget by imposing a rigid breakeven constraint, has affected overall development of EU policies;

- *the principle of accu*racy, which ensures the EU does not spend more than necessary, implying that the revenue should be commensurate with the expenses foreseen and approved;

- *the principle of unity*, which ensures that all income and expenses related to a given year are included in the budget;

- *the principle of universality*, which stems from the principle of unity, and ensures no direct correspondence between individual revenues and expenditure budget items;

- *the principle of annuity*, which allows to monitor budget management, by tracing income and expenditure to a specific base year, with the exception of specific long-term operations;

- *the principle of specification*, which ensures a precise purpose for each appropriation with allocation to specific objectives;

- *the principle of transparency*, which requires the Union to provide public information on the budget, its corrections and its execution.

Among other guiding principles for the implementation of common policies the most significant are:

- *the principle of subsidiarity*, according to which, in fields which are not of exclusive EU competence, joint action should be carried out only in cases where action performed at lower administrative level cannot be considered to be more efficient;

- *the principle of proportionality*, as formalized by the Lisbon Treaty, limiting the joint action to the extent necessary to achieve the objectives;

- *the principle of additionality*, which acts only on certain lines of action of the common budget, and under which EU financial measures cannot be considered as a replacement of national measures where they are necessary;

- *the principle of EU added value*, for which there is no explicit definition, though essentially seems to coincide with the observance of the two joint principles of subsidiarity and proportionality.

1.3.2. The effect of the Treaty of Lisbon on the budget

The Lisbon Treaty, which entered into force on 1 December 2009, redefines the draft, approval and management procedures of the common budget by deeply amending them. The financial issues are addressed in Section II of Part VI of the Treaty on the Functioning of the European Union, in *Articles 310* to *319*, which state the provisions related to own resources, to the definition and implementation of the annual budget, and, for the first time, to the definition of the multiannual Financial Framework.

The main elements of novelty introduced by the Treaty of Lisbon (European Parliament, 2010a) with regard to the budget are:

- simplification of the annual budgetary procedure by suppressing the distinction between compulsory expenditure and non-compulsory expenditure, the disappearance of the preliminary draft budget and the elimination of second reading by the European Parliament;

- the formalisation of a new annual budgetary procedure similar to the ordinary legislative procedure, with a single reading and conciliation between the two branches of the budgetary authority;

- consolidation of the multiannual financial framework in the Treaty;

- application of the new ‘financial constitution’ through:

    a. adoption of a new regulation containing the multiannual financial framework;

    b. adaptation of the existing Financial Regulation to the new principles;

    c. possibly, adoption of a new interinstitutional agreement containing rules on the collaboration of the institutions during the annual budgetary procedure, which are not included in the two legal instruments above.

In relation to the definition of own resources, including the introduction of new resources and the elimination of existing ones, the new Treaty (*Art. 311*), in continuity with the regulations in force, gives the Council the power of deliberation under unanimity rule and, thus, restricts Parliament to a consultative role. The decision of the Council must subsequently be ratified by the Member States. The measures for implementing the decision on own resources are established through the enactment of regulations by the Council itself, with the approval of European Parliament.

Expenditure planning within a multiannual financial framework, with a five-year minimum, is established by *Article 312* through the approval of Council regulations and no longer as an Interinstitutional Agreement between Committee Council and European Parliament. The approval process does require prior consent of the European Parliament, which shall be on rule of majority of its members. In addition, the Council adopts the Financial Framework in rule of unanimity, or in unanimity assigns the decisional task to the EU Council, which rules under a qualified majority vote.

With regard to annual budgets, the new Treaty simplifies approval procedures: the elimination of the distinction between obligatory and non-obligatory expenditures nullifies separation of powers between the Council and Parliament. In addition, the co-decision procedure is also extended to the budget. Lastly, it is reduced the number of proposal steps between the institutions involved (one reading and, if necessary, conciliation).

In essence, from the overall reading of the new Treaty, the role of Parliament is reinforced particularly in relation to the definition process of annual budgets and multiannual framework, whose formation is, however, strongly bound by previous decisions on own resources, to which the Council has greater power thereof, which require rule of unanimity for their definition.

With particular reference to agricultural policy, the new Treaty on the Functioning of the European Union also introduces numerous crucial novelties (Part III, Section III, *Art. 38-44*). The most significant change is represented by the "ordinary legislative procedure", known as the codecision procedure for decisions on agricultural policy (*Article 43*)[9]. This implies that decisions concerning agriculture no longer dealt with at the Council level, but should involve the European Parliament.

In fact, the Treaty of Lisbon reinforces the European Parliament's role as legislator assigning new prerogatives over common policies and an increased power in the budgetary procedure.

From this point of view, the European Parliament breaks free of the secondary role to which it was condemned by the separation of obligatory expenditures - including agriculture -, prerogative of the Council and non-obligatory expenditures, to which it could exert a greater role in decision-making. On the basis of the new *Articles 314* and *315* this distinction has been suppressed and the two branches of the budgetary authority will decide jointly on all budgetary expenditures.

Thus, the greater power granted to the institutional body representing the community can be considered as an opportunity to give more space to requests from the agricultural representatives, who have traditionally found attentive correspondence by the Parliament, which, up to now, only had command over weak marginal influence in final decisions. At

[9] The codecision procedure has been extended from 44 to 85 areas.

the same time, however, it should be noted that the Parliament, with its new powers, which extend beyond agriculture to embrace all sectorial policies that comprises the Union action, becomes environment of choice for more general political debate and discussion on future action strategies to favour financial resources available to the common budget in the near future (De Filippis, 2009).

2. ANALYSIS OF THE CAP EXPENDITURE

KEY FINDINGS

- The big **Old Member States absorb the largest share of the CAP expenditure.** France is the major beneficiary, followed by Germany, Spain, Italy and UK.
- **Direct payments** represent the **bulk of support under Pillar 1** of the CAP.
- Traditional **market policies are in decline** given the trend toward market liberalisation and due to the commitments of the EU in the WTO.
- Pillar 2 of the CAP is the result of various policies implemented in the past and address sector-based, territorial and environmental goals. **Pillar 2 has also included the new agricultural challenges** highlighted by the CAP Health Check in 2009.

The CAP review process, along with the reforms of the EU budget, has gradually led to a reduction in the overall expenditure on agriculture, which passed from 89% of the total budget in the early 70s to the current 42%. This revision was necessary also after review of the objectives of the EU cohesion policy, which gave regional policies and convergence a greater role, and the progressive enlargement of the Union. Starting from Agenda 2000, agricultural spending was organized into "Pillars": Pillar 1 dedicated to market support and direct payments, which were introduced as a measure of compensation for the gradual reduction of price support instruments; Pillar 2 dedicated to structural policy and rural development. The latter encompassed, at the time of Agenda 2000, the so-called 'market accompanying measures'. A substantial difference between the two Pillars is the multiannual programming of Pillar 2 against the annual administration period of the first, and co-financing by Member States of Pillar 2, with rates that vary upon the different specific measures and in relation to selected areas targeted by the measure belonging to the Objective 1 of structural policies (currently 'Convergence objective'). Over time, direct payments have become the most significant item not only of Pillar 1, but of the entire CAP.

2.1. Analysis of the Pillar 1: goals, structure and expenditure

Traditionally, the CAP Pillar 1 includes market policies and direct payments. The latter, in their form decoupled from production, now account for the majority of the support given to agriculture, while market policies tend to decrease over time as a result of the trend towards market liberalization demanded for by international constraints (WTO). The analysis of the EAGF - the fund responsible for supporting the market component and direct payments - makes it possible to highlight the evolution of Pillar 1 expenditures by measure and by Member State.

Table 2.1. highlights how relatively few of the 27 EU Member States absorb the bulk of expenditure channelled through the Fund. In particular, France is the main beneficiary of these actions, absorbing a share consistently above 20% of the total, followed by Germany and Spain, both with a relative impact above 13%, while Italy receives funding for about

11% and the United Kingdom hovers around 8%. In essence, with reference to 2009, only five countries absorb more than 66% of EAGF expenditure.

Table 2.1.: Allocations of EAGF to EU Member States (2007, 2008, 2009)[1]

	Million euro			%		
	2007	2008	2009	2007	2008	2009
Belgium	769.2	747.9	717.2	*1.8*	*1.8*	*1.7*
Bulgaria	0.2	178.3	225.7	*0.0*	*0.4*	*0.5*
Czech Republic	351.6	401.7	502.2	*0.8*	*1.0*	*1.2*
Denmark	1,083.5	1,061.3	1,038.9	*2.6*	*2.5*	*2.4*
Germay	5,646.2	5,704.0	5,715.3	*13.4*	*13.5*	*13.2*
Estonia	38.4	41.7	54.7	*0.1*	*0.1*	*0.1*
Greece	2,681.0	2,553.8	2,594.5	*6.4*	*6.1*	*6.0*
Spain	5,874.9	5,864.1	5,986.3	*13.9*	*13.9*	*13.8*
France	9,172.4	8,946.9	8,920.1	*21.8*	*21.2*	*20.5*
Ireland	1,319.8	1,306.3	1.336.3	*3.1*	*3.1*	*3.1*
Italy	4,804.1	4,660.6	4,930.0	*11.4*	*11.0*	*11.4*
Cyprus	27.5	28.1	38.8	*0.1*	*0.1*	*0.1*
Latvia	54.8	63.3	80.8	*0.1*	*0.1*	*0.2*
Lithuania	168.2	173.9	218.0	*0.4*	*0.4*	*0.5*
Luxembourg	36.8	35.3	35.5	*0.1*	*0.1*	*0.1*
Hungary	473.2	513.6	758.0	*1.1*	*1.2*	*1.7*
Malta	2.0	2.6	3.6	*0.0*	*0.0*	*0.0*
Netherlands	1,110.2	977.4	1,077.3	*2.6*	*2.3*	*2.5*
Austria	746.8	741.6	747.0	*1.8*	*1.8*	*1.7*
Poland	1,209.5	1,453.3	1,749.7	*2.9*	*3.4*	*4.0*
Portugal	705.1	717.7	722.6	*1.7*	*1.7*	*1.7*
Romania	6.9	474.0	596.3	*0.0*	*1.1*	*1.4*
Slovenia	49.0	61.9	77.1	*0.1*	*0.1*	*0.2*
Slovakia	157.6	165.2	220.4	*0.4*	*0.4*	*0.5*
Finland	585.8	559.9	574.6	*1.4*	*1.3*	*1.3*
Sweden	758.9	745.1	751.9	*1.8*	*1.8*	*1.7*
United Kingdom	3,950.8	3,494.9	3,333.9	*9.4*	*8.3*	*7.7*
EU[2]	336.7	506.9	416.2	*0.8*	*1.2*	*1.0*
Total	**42,120.9**	**42,181.2**	**43,423.4**	***100.0***	***100.0***	***100.0***

[1] 2009 is provisional.
[2] Expenditures realized within programs not impuTable to single Member States.

Source: INEA elaborations on EU Data

The Fund in support of Pillar 1 can also be analysed in terms of expenditure distribution by type of intervention. Table 2.2. shows the net predominance of direct payments, which on average absorb 90% of EU fund assets, while actions to support agricultural markets (i.e. of the single sectors), barely reach 9% of the available resources, with a clear majority of spending on wine products and fresh produce.

With reference to the two macro-categories of expenditure identified, it is fairly easy to observe that the traditional measures of market support, represented by the refunds export and from storage, are now reduced to a mere marginal role. Within direct payments, the component bearing most impact is clearly represented by decoupled direct payments, which alone account for three quarters of EAGF expenditure.

Table 2.2.: EAGF expenditures in the EU per intervention (2007, 2008, 2009)[1]

	million euro			%		
	2007	2008	2009	2007	2008	2009
Export restitutions	1,444.7	925.4	1,109.5	*3.4*	*2.2*	*2.6*
Stocks	-106.7	147.5	108.8	*-0.3*	*0.3*	*0.3*
Other	3,529.6	3,086.3	2,768.7	*8.4*	*7.3*	*6.4*
Interventions on agricultural markets	**4,867.6**	**4,159.3**	**3,987.0**	***11.6***	***9.9***	***9.2***
Decouples direct payments	30,369.1	31,414.5	32,794.1	*72.1*	*74.5*	*75.5*
Other direct payments	6,260.8	5,620.4	5,777.7	*14.9*	*13.3*	*13.3*
Modulation restitutions	434.1	533.7	533.7	*1.0*	*1.3*	*1.2*
Other direct payments[3]	-18.1	-	-	*0.0*	-	-
Direct Payments	**37,045.8**	**37,568.6**	**39,114.0**	***88.0***	***89.1***	***90.1***
Other measures	**207.5**	**453.3**	**322.4**	***0.5***	***1.1***	***0.7***
Total EAGF	**42.120,9**	**42.181,2**	**43.423,4**	***100.0***	***100.0***	***100.0***
Sugar Restructuring Funds	551.4	1,284.1	3,017.7	**-**	**-**	**-**
Total expenditure	**42,672.3**	**43,465.3**	**46,441.1**	**-**	**-**	**-**

[1] 2009 is provisional.

[2] Direct payments other than those decoupled in the single payment scheme.

[3] Residuals, support for small farmers, corrections, other.

Source: INEA elaborations on EU Data

2.2. Analysis of the Pillar 2: goals, structure and expenditure

The CAP Pillar 2 encompasses measures regarding the stimulus of farm competitiveness (mainly structural in nature), agri-environmental policy and territorial development, as well as diversification of income. This Pillar is the result of various policies implemented by the EU during different stages of its history (from structural policies to market accompanying measures, to diversification) and is in some ways affected by its heterogeneous composition. In fact, the beneficiaries of such policies are, depending on the measure, farmers, the rural population, and local territories. As already mentioned, the expenditures of Pillar 2 policies are programmed for periods corresponding to the duration of the financial frameworks. The last programming period corresponds to 2007-13. Initial allocations to Member States by the Committee, in the period from 1 January 2007 to 31 December 2013, amounts to approximately 91 billion euro. The final budget, standing at to 96 billion euro, and its allocation among countries, is the result of subsequent adjustments due to:

- changes in compulsory modulation and implementation of the CMO wine reform (ref. Committee Decision 2009/14/EC);

- strengthening of the compulsory modulation provided by the CAP Health Check and the allocation of funds included in the framework of the European Committee plan (European Economic Recovery Plan - EERP) (COM (2008) 800 definitive) to face the global economic crisis (ref. Committee decision 2009/545/EC), but bound by broadband adoption in rural areas.

Table 2.3. shows commitment appropriations currently allocated to individual EU countries, relevant to each year of planning, and variations in comparison to the initial situation.

Table 2.3.: EAFRD resources in the 2007-2013 Planning per Member State before and after the Health Check

(Values in Million euro)

	Total EAFRD Resources before Health Check	Total EAFRD Resources after Health Check	Absolute Value Difference	Difference %	% distribution resources per Member State
Belgium	418.6	487.5	68.9	16.5	0.5
Bulgaria	2,609.1	2,642.3	33.2	1.3	2.7
Czech Republic	2,815.5	2,857.5	42.0	1.5	3.0
Denmark	444.7	577.9	133.2	30.0	0.6
Germay	8,130.2	9,079.7	949.5	11.7	9.4
Estonia	714.7	723.7	9.0	1.3	0.8
Greece	2,339.9	2,494.5	154.6	6.6	2.6
Spain	3,707.3	3,906.2	198.9	5.4	4.1
France	7,213.9	8,053.1	839.2	11.6	8.4
Ireland	6,442.0	7,584.5	1,142.5	17.7	7.9
Italy	8,292.0	8,985.8	693.8	8.4	9.3
Cyprus	162.5	164.6	2.1	1.3	0.2
Latvia	1,041.1	1,054.4	13.3	1.3	1.1
Lithuania	1,743.4	1,765.8	22.4	1.3	1.8
Luxembourg	90.0	95.0	5.0	5.6	0.1
Hungary	3,805.8	3,860.1	54.3	1.4	4.0
Malta	76.6	77.7	1.1	1.4	0.1
Nethelands	486.5	593.2	106.7	21.9	0.6
Austria	3,911.5	4,025.6	114.1	2.9	4.2
Poland	13,230.0	13,398.9	168.9	1.3	13.9
Portugal	3,929.3	4,059.0	129.7	3.3	4.2
Romania	8,022.5	8,124.2	101.7	1.3	8.4
Slovenia	900.3	916.0	15.7	1.7	1.0
Slovakia	1,969.4	1,996.9	27.5	1.4	2.1
Finland	2,087.4	2,155.0	67.6	3.2	2.2
Sweden	1,825.7	1,953.1	127.4	7.0	2.0
United Kingdom	4,598.7	4,612.1	13.4	0.3	4.8
Total	**91,008.7**	**96,244.2**	**5,235.5**	**5.8**	**100.0**

Source: INEA elaborations on EU Data (Decision 2010/236/EC)

The CAP Health Check process has identified new agricultural challenges that the Pillar 2 of the CAP shall address. Furthermore, strengthening of appropriations through the financial instrument of compulsory modulation shall be implemented. Enhancement of compulsory modulation, along with the resources allocated to new challenges and investment for broadband in rural areas have led to a budgetary increase of around 5.1 billion euro of financial resources made available to EU Member States for common rural development support.

Table 2.4.: Distribution of EAFRD resources per Axis

	Axis I	Axis II	Axis III	Axis IV	TA*	Axis VI**	Totale
Belgium	43.7	40.7	9.1	4.7	1.9	0.0	100.0
Bulgaria	36.8	24.1	27.5	2.3	3.7	5.5	100.0
Czech Republic	22.5	54.4	17.0	5.7	0.5	0.0	100.0
Denmark	23.1	55.5	6.6	10.7	4.0	0.0	100.0
Germay	27.2	43.0	22.5	5.9	1.3	0.0	100.0
Estonia	36.5	37.0	13.1	9.5	3.9	0.0	100.0
Greece	9.7	80.2	0.5	9.4	0.1	0.0	100.0
Spain	41.0	36.6	14.7	5.7	2.0	0.0	100.0
France	43.9	40.7	3.7	10.6	1.2	0.0	100.0
Ireland	32.4	56.0	6.2	4.6	0.8	0.0	100.0
Italy	37.3	42.8	9.3	7.8	2.8	0.0	100.0
Cyprus	42.7	43.6	9.3	2.6	1.8	0.0	100.0
Latvia	38.1	38.6	16.8	2.5	3.9	0.0	100.0
Lithuania	41.5	37.4	11.0	6.2	3.9	0.0	100.0
Luxembourg	32.1	55.8	6.5	5.6	0.0	0.0	100.0
Hungary	44.0	33.8	12.8	5.4	3.9	0.0	100.0
Malta	34.4	25.8	31.9	4.0	3.9	0.0	100.0
Nethelands	34.0	30.9	26.4	8.2	0.5	0.0	100.0
Austria	13.4	72.5	6.9	5.3	1.9	0.0	100.0
Poland	42.0	32.1	19.7	4.7	1.5	0.0	100.0
Portugal	45.9	40.4	1.1	9.8	2.8	0.0	100.0
Romania	39.6	23.5	24.7	2.3	3.7	6.2	100.0
Slovenia	33.1	51.8	11.2	2.9	1.0	0.0	100.0
Slovakia	31.6	50.4	12.7	3.1	2.1	0.0	100.0
Finland	11.5	72.0	10.5	5.2	0.9	0.0	100.0
Sweden	17.1	64.7	9.7	5.4	3.0	0.0	100.0
United Kingdom	12.2	72.3	8.6	6.7	0.1	0.0	100.0
Average EU	**33.6**	**44.5**	**13.3**	**5.9**	**2.0**	**0.7**	**100.0**

* Technical assistance

** It refers to special aids granted to new Member States (Bulgaria and Romania)

Source: INEA elaborations on EU data

The amount of resources at issue is not negligible; nevertheless, it was necessary to revise the reference program (NDP and RDP) according to complex procedures through an organizational effort that at times seemed disproportionate. Such consideration is especially true when realizing that in many cases the objectives mentioned by the new challenges of the Health Check are already integrated in the programming documents approved. With regard to the contents of the Rural Development Program, the EAFRD financial resources have been allocated by the EU Member States for 34% to investments dedicated to supporting the competitiveness of the agri-food system (Axis I), 44% are allocated to initiatives and awards for improving the environmental sustainability of agriculture (Axis II) and 13% goes to income diversification and enhancement of quality of life in rural areas

(Table 2.4.). LEADER approach (Axis IV) has an allocation of 6% of resources, with a considerable increase compared to previous programming in terms of financial resources employed in favour of promoting forms of local governance.

Attention must go to the fact that the great variability between Member States in relation to the choice of allocating resources to priority Axes and the distinction between convergence and non-convergence regions substantially affect the financial leverage generated by national and private co-financing. For example, in Italy the EAFRD share accounts for 35% of total investments to be made against an EU average of 43%, while in some countries, including Greece, the EAFRD share exceeds 60% (in France the EAFRD contributes on investments is 42% and 29% in Spain).

Lastly, the use of automatic decommitment of community resources (generally known as n+2) devoted to the Pillar 2 should not be underestimated, whereby the non-utilization of community resources within two years of commitment to the Community budget entails a reduction of resources in the programs. With regard to Italy, which opted for regional programming and consequential resource allocation, this rule constitutes a high risk of funding loss for inefficient regional programs.

3. THE DEBATE ON BUDGET REVIEW AND CAP REFORM

KEY FINDINGS

- The Commission will publish its **legal proposals** on the MFF post-2013 and on the CAP reform respectively in the end of June 2011 and on September 2011.
- The EU budget review proposes to **spend in a smarter fashion** and to **continue the diminishing trend of the CAP** relative share while improving its targeting and allowing a fairer allocation of its support between MS and farmers.
- **Net balance logics** lead to MS **divisions and coalitions** on the size of the EU budget, the UK rebate, the fairer allocation and ceiling of the CAP budget.
- The Commission's communication on CAP reform reaches a **consensus on three main objectives** (food production, environmental, territorial) and on a remaining **two pillars architecture** beyond 2013.
- Among the MS the **main controversial** Commission's proposals on the next CAP instruments concern: the greening of the first pillar and the shape of the future DP.

Last year the Commission presented two important communications: "The EU budget review" (COM(2010) 700 final) and "The CAP towards 2020" (COM(2010) 672 final)[10]. It launched a public and institutional debate which will turn into legal proposals on the MFF post-2013 in the end of June 2011 and on the CAP reform either in September or October 2011. At the time this report is written, the stakeholders[11] are still defining their negotiation positions. Nevertheless we can already identify the most controversial issues that could influence the coming negotiations.

3.1. The positions about budget review

3.1.1. Commission's Communication on the Budget Review: implications for the CAP

In the following section we will focus on the consequences that "The EU budget Review" can have on the CAP reform and expenditures. This will allow us to review and understand the Member States' reactions to this paper. Based on this analysis we will be able to give some clue in order to identify the main variables that could be at stakes in the negotiations.

a) The neglected questions

Looking beyond the negotiations of the next MFF, the Commission's EU budget review embraces a long term horizon that doesn't cover most of the controversial issues of the budget debate: the size of the budget, the top spending priorities and the grants to each policy. Indeed it tries to feature the future EU budget as a mean reflecting the new challenges while respecting a continuity with the present situation. However it raises the sensitive issue of the provision of resources necessary to fund EU policies.

[10] Respectively the 19th of October 2010 and the 18th of November 2010.
[11] This chapter only presents the Member States' positions. Cf. Annex 1 for stakeholders' positions (academics, think tanks, NGOs and interest groups).

b) The next financial framework: context, objectives and principles

Context. Launched by the Commission in 2007, the budget review moved from a broad public consultation including contributions by experts and Member States. Initially focused on an ambitious rethinking of long term priorities, the budget review has eventually been strongly influenced by the public debt crisis which shocked European economies since 2009. As a consequence, the Commission has been looking for new ways to spend the EU budget in a "smarter" fashion rather than focusing the discussion on its size.

Principles and objectives. This document defined several goals to be achieved for the EU budget such as: secure the EU's objectives, be policy-driven, respond to the new objectives defined by the Lisbon Treaty, and reflect the main action priorities. In the context of a global economic and fiscal crisis the overarching priorities are employment, firms' competitiveness and strengthening an open and modern single market. Other priority challenges quoted are energy, climate change, pressure on natural resources, demographic change, EU external action, justice and home affairs. It proposes to spend the EU funds to recover the economic growth capacity as defined in the Europe 2020 strategy: smart, sustainable and inclusive. In that scheme the CAP is seen as a contribution to a "sustainable" growth.

EU Added value. The Commission considers the added value of public spending as a key-concept to assess the EU budget. It insists on the idea that "spending at EU level means a better deal for citizens than spending at national level". Indeed it could contribute to reduce total expenditure "by pooling common services and resources to benefit from economies of scale". The spending at the EU level is more efficient in three cases: firstly, to finance EU public goods, secondly to finance actions neither Member States nor Regions can finance themselves, thirdly to get better results (*e.g.* for projects that need a critical mass that national levels cannot reach). This concept is key in the global approach of the future EU budget.

Flexibility of the MFF. The Commission gives a thorough analysis of the MFF's rigidity. It considers that facing new events – such as economic crises, changing circumstances or new political imperatives – is currently hardly possible, indeed as quoted "the rigidity of the budget clearly damages the quality of spending". In the communication the rigidity appears to be the first lesson to draw from the budget and gives the examples of ITER and global crises such as the Tsunami. Therefore it suggests as one of the main way to achieve a budget that delivers results, to balance the budget "between predictability and flexibility".

c) Where does the CAP spending stands in the new EU budget?

Continuing the diminishing trend of CAP relative share. In the paper the CAP is considered necessary for the European economy in particular regarding cohesion, climate change, environmental protection and biodiversity, health, competitiveness and food security. This positive introduction is then followed by a clear positioning in favour of continuing the diminishing trend of its relative budget. This position is actually not supported by concrete arguments to justify it and no other financing tool (*e.g.* co-financing) is suggested. Indeed the *only* justification sums up in the consideration that the share of the CAP in the overall budget has been falling steadily in recent years: "Continuing the trend would still leave agriculture representing a major public investment – one falling on the EU's shoulders, rather than on national budgets."

CAP reforms: toward the next steps. The positive effects of the CAP reforms are noticed[12] and remaining problems[13] are pointed out. Considering the future reform the Commission recommends to improve the sustainability of the policy and to follow four complementary axes:

1. A further targeting on the EU's broader policy priorities with the greening of direct aids to support more demanding environmental practices and positive improvements to boost innovation and competitiveness in the countryside;

2. a strengthening of the existing objectives of rural development;

3. reliance on the market coupled with forms of insurance compatible with WTO green box and other tools for the management of risks linked to sudden shifts in incomes, combined with better competitive conditions in the food supply chain;

4. a better coherence between rural development and the other EU policies, notably regarding the common strategic framework and the national reform programmes under Europe 2020.

Three "different degrees of intensity" to reform

1. A restricted reform to "ironing out some current discrepancies, such as more equity in the distribution of direct payments between Member States and Farmers".

2. A more intensive one "making overhauls of the policy in order to ensure that it becomes more sustainable, and reshapes the balance between different policy objectives, farmers and Member States".

3. A "more radical reform would go further, moving away from income support and most market measures, and giving priority to environmental and climate change objectives rather than the economic and social dimensions of the CAP."

d) Other recommendations on the budget that could influence the CAP

Responding to changing circumstances. In order to improve the flexibility of the next MFF, the EU Budget Review calls for increasing the possible changes and the procedures by which the scrutiny of spending changes is done. It proposes: to agree on a fix percentage of EU budget to finance the changes; to transfer between headings in a given years; to transfer unused margins from one year to another; to increase the size of the existing tools[14]. The most potential impacting proposal for agriculture suggests to give "freedom to front or backload spending within a heading's multi-annual envelope, to allow for countercyclical action and meaningful response to major crises." Indeed such a change would allow reallocating some funds as countercyclical aids in case of farming crisis.

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[12] Tighter link between EU agriculture and the market, delivering of security, better management of natural resources and stable rural communities. "EU farming continues to be a major supplier of high quality food at a time when the needs of a rapidly growing world population continues to grow. The agro Industry is an important source of dynamism in the EU economy." (COM(2010) 700 final)

[13] Firstly the document advocates that direct payments based on historical references should be given up notably to avoid the culture of dependency, to better face the volatility of prices and to prevent from incentives that would ensure the delivery of results. Secondly it notes some variations of direct payments between Member States "can be justified" but no considerable discrepancies and ads "there is a strong case for progressively bringing payments levels together". (COM(2010) 700 final).

[14] i.e. Flexibility instrument and Emergency Aid Reserve.

Simplifying and minimizing unnecessary administrative burdens. The Commission notes that the high administrative requirements and controls discourage the use of community programs. One answer proposed is to include an assessment based more on results instead and on simplified measurement tools.

Reform of the EU financing: correction mechanisms. The Commission maintains the current system of financing the EU budget "is perceived as opaque and too complex, lacking fairness – notably with regard to corrections – and relying excessively on resources which are perceived as expenditures to be minimized by the Member States." It suggests a new financing system based on three directions: a simplification of the contributions from Member States (VAT abandonment), a progressive introduction of new own resources (Lamassoure, 2007), and the progressive phasing-out of all correction mechanisms. The latter were created in order to avoid the budgetary imbalances generated in the late 1970s by the CAP. Even if the situation is different nowadays this could link the correction mechanisms' debate to the CAP debate.

Recommendation concerning the EAFRD. At the present time the different funds that contribute to cohesion investments (cohesion fund, regional fund, ESF, EAFRD[15]) define their own objectives and then coordinate. A better organization would be to include them in a common strategic framework based on the Europe 2020 Strategy. Then Member States would present their National Reform Programmes based on this Strategic Framework. In this scenario one can notice that the EAFRD, as the main financing tool for rural development policy objectives, could lose its influence in favor of the Regional Fund.

3.1.2. Reactions of Member States to the "EU budget review"

Member States have basically not updated the very broad and detailed analysis of the budget they gave in the framework of the 2008 consultation. An analysis provided by De Filippis and Sardone (2010) sums up the Member States' positions on this debate and put that in relationship with the sign of their net balance[16].

Recent public statements following the publication of the Commission's EU budget review suggest that Member States agree on the main guidelines of the EU budget review (*e.g.* flexibility, policy-driven budget, more coherence, discipline, simplification) except for the issue of the EU own resources. Some of them also expressed new positions which show an evolution on a few issues covered by the future EU budget.

The analysis here below refers to the national reactions on the most influencing issues on the future of the CAP budget since the publication of the EU budget review. In particular, it provides information on the growing importance of the "juste retour" and net balance logic.

Size of the budget. The public expenses crisis has a direct consequence on Member States' positions on the EU budget size. The conclusions of the October 2010 European Council "stressed that, at the same time as fiscal discipline is reinforced in the European Union, it is essential that the European Union budget and the forthcoming Multi-annual Financial Framework reflect the consolidation efforts being made by Member States to bring

[15] European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD).

[16] Their study is based on the classification of Thurston and Clasper (2010) who rank the Member States into five categories, according to their positions on the future overall and CAP expenditures. Thurston and Clasper locate the Member States along two axes, one measuring their preference for simplifying or modernizing the budget (e.g. by opposing juste retour and scrapping all corrections and compensatory mechanisms), the other measuring their relative thriftiness (e.g. by advocating budget discipline, shrinking the CAP, or introducing national co-financing)".

deficit and debt onto a more sustainable path[17]." The most extreme position, supported by Lithuania, calls for a reduction of the EU budget in absolute terms. Such a statement tends to move this country's position from a "big spender" to a more conscious" one". Less radically, on the initiative of the UK, five countries among the biggest contributors (Germany, France, Finland and the Netherlands) call for a stable volume of spending in relative terms after 2013 (Cameron, Merkel, Sarkozy, Rutte, Kiviniemi, 2010). They add that the EU budget growth rate should stay in line with the inflation rate. This would convince France to behave in the next negotiation round as a "fence-sitter country" rather than a "big spender". However this clear positioning of these five net contributors provoked strong reactions of other member States. Austria and Sweden refused to sign the letter, and it was firmly opposed also by several officials from Eastern European Member States such as Poland.

Ceiling of the CAP budget. The Member States are divided on the share of the CAP in the EU budget. Indeed France, the Netherlands, Germany, Italy and Portugal expressed their wish to maintain the current size of the CAP budget in the future (IEEP, 2010). Regarding the position of France it is to be compared with its declaration about the planned decrease of the cohesion policy budget in October 2010. Romania also defends the idea that the share of the CAP is not an issue under discussion. In opposition, the UK[18] State Secretary for rural affairs, Caroline Spelman, is in favour of a reduction of the CAP expenses in the crisis context. Her declaration last June has been followed by the representatives of the Netherlands and Sweden. She added in January[19] 2011 "there must (…) be a very substantial cut to the CAP budget in the next financial framework" (DEFRA, 2011).

UK rebate and correction mechanisms. New pressures on the ceiling of the CAP budget can be expected with the opening of the debate on the UK rebate and the correction mechanisms. Indeed, both themes were linked in the 2005 MFF negotiations by Tony Blair, which ended up with the conclusion of no consensus in the June 2005 European Council. On this specific issue, recent official statements seem to suggest that the radically different approaches of the past are still predominant. David Cameron declared in December: "I will defend very, very strongly the British rebate. We are big net contributors to the EU (…). That rebate is justified".[20] On the contrary some States such as Finland opposed this correction mechanism: "the payment position should reflect national wealth without any exemptions being granted to any Member States."[21]

A fairer allocation of CAP funds between the Member States?[22] Two years ago, most Member States were in favour of a fairer allocation of the EU budget. Today this point of view is still defended by the British, the Finnish[23], Polish, Slovak and Latvian representatives. The French representative said France was ready to discuss a rebalancing of payments between East and West. But several statements tend to suggest that national interests are taking the lead on this issue. Portugal, France and Italy have rather ambiguous positions. Indeed they advocate for a fair subdivision of support between Member States and, at the same time, they want to ensure by means of a "vague" formula that the subdivision be "sustainable in budgetary terms" or that Member States'

[17] Brussels, 30 November 2010; EUCO 25/1/10; CO EUR 18.
[18] During the agricultural council of Merida (June 2010).
[19] Oxford speech, January 2011.
[20] Friday 17 December 2010, EU Summit Press Conference given by David Cameron.
[21] 20/12/2010, Finland in favour of moderate EU budgets.
[22] For scenarios based on the Commission's communication see: *The CAP towards 2020: Reallocation of the budget for direct payments*; European Parliament, Report, 2011. (http://www.europarl.europa.eu/activities/committees/studies/download.do?language=en&file=34988)
[23] "The overall objective should be to set up a support system that will be more balanced and fairer in terms of the distribution of support between the Member States than the present system".

characteristics, including budgetary ones, be fully taken into account. More frankly the Federal government of Germany considers that any redistributive effect – that should also take into account the allocation of second Pillar funds – should be kept limited and implemented gradually in order to avoid abrupt changes. Germany also "refuses distortions of competition in favour of certain categories of agricultural producers as well as the transfers of funds between Member States that could result from it"[24]. While conservative approaches could lead to the conservation of the main budget discrepancies between Member States, ten new Member States plus Sweden declared to be in favour of a fairer distribution based national envelopes within the CAP[25].

Renationalisation and co-financing. There's a shared position[26] in the Council not to renationalize the agricultural policy in consideration of the internal market. However there are different views concerning the EU or co-financed measures that would be suitable. France and Germany declared their opposition to any renationalization through a co-financing of direct payments to farmers (Assemblée Nationale, Bundestag, Sénat, 2010). These two countries as well as Finland are in favour of maintaining the co-financing in Pillar 2, as the implication of the Member States and the Regions in the conception of the policy contributes to a better targeting of EU financing. As far as Latvia is concerned, payments must remain entirely financed by EU funds, while Poland and Slovakia estimate that "Pillar 1 should be 100% financed by EU funds and Pillar 2 should be financed by EU funds with domestic co-financing" (Polish Ministry of agriculture, 2011). Germany is open to differentiate co-financing rate that would benefit to the Europe 2020 Strategy. The UK is in favour of maintaining the principle of co-financing, "one of the fundamental principles of EU funding, ensuring ownership and providing incentives to deliver effective programmes with sound financial management" (DEFRA, 2011). Finally, in a Joint Declaration ten New Member States plus Sweden advocate for keeping Pillar 1 fully financed by the EU. More generally, they recommend limited co-financing and State aids to focus more precisely on specific National purposes. That could lead to reject the idea "of an EU-wide flat-rate payment, instead floating the idea of guaranteeing farmers in all countries a minimum percentage of the EU average rate" (Euractiv, 2010).

3.2. The debate on CAP reform

3.2.1. The Commission on the CAP reform: guidelines and options

Reasons for a reform. The communication on "The CAP toward 2020" published in November 2010 is based on the idea the EU has to face new challenges which will force European citizens to make choices that will have long term implications on rural areas and agriculture. The major challenges on which the Commission based its analysis and proposals are: food security; environment and climate change; territorial balance. More specifically, the reform is seen as necessary for internal reasons: enhance competitiveness, improve the efficiency of taxpayers' resources, and reach the Europe 2020 goals of a smart, sustainable and inclusive growth in rural areas.

Key concepts. The Commission's communication justifies the policy as a contribution to a "territorially and environmentally balanced EU agriculture within an open economic

[24] Prise de position du Gouvernement Fédéral de l'Allemagne sur la Communication de la Commission européennes, 'la PAC à l'horizon 2020', 28/01/2011.

[25] Bulgaria, Cyprus, Czech Republic, Estonia, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Sweden; Joint Declaration on the CAP reform, 12 December 2010 Brussels.

[26] Appel de Paris pour une politique agricole et alimentaire commune, 11/12/2009.

environment". And for the future it considers a strong CAP able to deliver "more public benefits (…) because the goods provided by the agricultural sector cannot be adequately remunerated and regulated through the normal functioning of markets." On the contrary it considers that the withdrawal of public support would lead to several drawbacks (land abandonment, concentration of production, environment pressures, irreversible deterioration of agricultural capacity, etc.). The most striking concepts used as a basis for the communication are: the greening of the CAP and particularly of the first Pillar; the adaptation to new member States by asking for a fairer policy and consolidation of their potential; the intention to canalize the support toward active farmers and to remunerate the public goods. This will happen in continuity with the simplification of the CAP.

***Three main objectives for the future*.** The Communication proposes to set three main objectives for the future CAP:

1. A viable food production (to contribute to farm incomes and limit farm income variability; to improve the competitiveness of the agricultural sector and to enhance its value share in the food chain; to compensate for production difficulties in areas with specific natural constraints);

2. a sustainable management of natural resources and climate action (to guarantee sustainable production practices and secure the enhanced provision of environmental public goods; to foster green growth through innovation; to pursue climate change mitigation and adaptation);

3. a balanced territorial development (to support rural employment and maintaining the social fabric in rural areas; to improve the rural economy and promote diversification; to allow structural diversity in the farming systems);

Architecture of the policy. Considering the general reactions already expressed during the debate, the Commission suggests to keep the policy organized on the basis of a two-Pillar architecture including the co-financing system. The first Pillar would cover the annual payments to farmers, would be greener and fairer than the current one. The second Pillar would consist in "remaining the support tool for community objectives giving the Member States sufficient flexibility to respond to their specificities on a multi-annual, programming and contractual basis" (European Commission, 2010d). It would be more oriented towards competitiveness and innovation, on *environment* and climate change.

Diagnosis of CAP instruments. Despite the unchanged general architecture, the Communication advocates for a "cleaning" of the instruments in order to successfully deal with the new challenges and objectives.

1. ***Direct payments (DP)***: it advocates for a fairer allocation of this support; for a restructuring of the DP; and for a better targeting of the payments redefined on two objectives, one economic (insure a basic income), the other environmental (provide public goods). In order to avoid any radical change that could get a sound impact on regions and farming it recommends "a system that limits the gains and losses of Member States by guaranteeing that farmers in all countries receive on average a minimum share of the EU-wide average level of direct payments" (European Commission, 2010d). The restructuring of DP refers also to the European Parliament (Lyon, 2010b) proposal about the *capping* of the payments received by large individual farms in order to insure a fairer allocation of the funds both among farmers and Member States. This new allocation would use new criteria, namely land areas and

employment. Second the DP would be greened through the use of an obligatory environmental component yearly based that would go beyond cross compliance and would be linked to agriculture (*e.g.* permanent pasture, green cover, crop rotation and ecological set-aside). Third it would provide a specific and simple support to small farms. Fourth it would support specific natural constraints areas.

2. ***Market measures:*** the communication underlines the broad consensus on both a more market oriented CAP and the preservation of the market instruments architecture. Nevertheless the Commission suggests to streamline and simplify the tools. Concerning market measures and, specifically, the intervention measure, the Commission suggests the use of a safety net in case of price crisis and potential market disruption. It also proposes some adaptations of existing tools in order to improve their efficiency (*e.g.* intervention period). A third point focuses on the improvement of the food supply chain efficiency, especially as far as concerns the share of added value devoted to agriculture, the imbalance of bargaining power along the chain, the level of competition at each stage in the chain, the contractual relations, the need for restructuring and consolidation of the farm sector, transparency and the functioning of the agricultural commodity derivatives markets.

3. ***Rural development:*** environment, climate change and innovation are considered as the new strong guidelines of rural development. In this overall framework three concerns are considered as important to deal with: support for developing direct sales and local markets, addressing the specific needs of young farmers and new entrants. The Commission's communication defines four different levels of action: first improvement of the coherence with other EU policies that could lead to the creation of a common strategic framework; second a better efficiency of delivery mechanisms; third the introduction of a risk management toolkit available to Member States to address both production and income risks, ranging from a new WTO green box compatible (*e.g.* income stabilization tool, support to insurance instruments and mutual funds); four the use of objective criteria to allocate funds.

Three policy options. The "CAP toward 2020" communication draws three scenarios for reforming the agricultural policy. The first option (*conservative*) consists of continuing the reform process and introducing new gradual changes by prior focusing on major problems (such as a fairer allocation of DP). The second policy option (*greening*) aims at a more balanced policy on two dimensions: the greening of the policy and a better equity in its funds allocation. It would essentially be reached by a greening and a sharp targeting for the measures. The third option (*radical*) plans a deeper reform essentially focused on environmental and climatic priorities thanks to rural development. Income support and most of market measures would be phased out. The consequences of these scenarios on instruments are briefly summed up below.

Brief description of the three CAP reform options drawn by the European Commission (COM(2010) 672/5)

	Option 1 *Conservative*	Option 2 *Greening*	Option 3 *Radical*
Direct Payments	More equity in the distribution between MS and farmers	More equity in the distribution between MS and farmers Substantial change in composition of DP: - a basic rate (income support) - a compulsory additional aid for public goods (greening) - an additional payment related with natural constraints - coupled support for specific sectors/regions A scheme for small farms Capping of the basic rate	Phase-out of DP in their current form Limited payments for: - environmental public goods - additional specific natural constraints
Market Measures	Strengthen risk management tools Revision of existing market instruments	Improvement and Revision of existing market instruments	Abolish all market measures
Rural Developments	Increasing funding for the challenges related to: climate change, water, biodiversity, renewable energy, innovation.	Adjust and complement existing instruments to EU priorities, with support focused on: environment, climate change, restructuring, innovation, and to enhance regional or local initiatives. Strengthen existing risk management tools and introduce an optional income stabilization tool (WTO green box) Redistribution of funds between MS based on new objective criteria	The measures would be mainly focused on climate change and environment aspects

3.2.2. Positions of Member States

The objectives suggested by the Communication "The CAP toward 2020" have been discussed in the occasion of Agricultural Councils. This debate has been launched under the Belgian presidency and closed by the Hungarian presidency on the 17th of March 2011[27]. All delegations agreed on three main objectives for the future of the CAP, as suggested by the Commission, but failed to agree on the procedures to reach them.

Shared positions on the three objectives. In its conclusions on the discussion of the Commission's communication, the Council agreed with several issues for the future CAP. The three main objectives are agreed by the Member States (the viable food production goal; the sustainable management of natural resources and climate action; the balanced territorial development goal). They also agreed to continue with the simplification of the policy, as also on the need to avoid any administrative burden, the need for a more equitable distribution of direct income, to continue the market orientation and gain competitiveness in the next reform and the importance of improving the functioning of the food supply chain. Most delegations agreed that direct income support has proven to be effective and will remain an essential element of the CAP of the future, notably for the additional costs originated by the high EU environmental and animal welfare standards. At last concerning rural development policy, they agreed on its value and its need to address competitiveness, modernization and sustainability of the agri-food sector, maintaining farming activity in its diversity and developing the wider economic potential of rural areas. However, they underline the need to better address the specific problems of young farmers and new entrants.

[27] Council Conclusions on the communication from the Commission, 17/03/11.

The debate on the instruments out of the consensus. Only four Member States reacted in detail to the Commission's communication: Latvia, UK, Germany and Denmark. Only Latvia (option 2) and the UK (option 3) expressed their preference for a reform option. Other Member States' reactions may be partially assessed thanks to official statements and interviews of officials on the main controversial proposals of the "CAP toward 2020" communication: the greening of the first Pillar and the shape of the future DP.

1. ***On the greening of the first Pillar. During the January Farm Council the consensus was*** reached on the 'greening of the CAP' objective but the delegations disagreed about its implementation either in Pillar one or Pillar two. The UK representative Caroline Spelman acknowledged that the Communication was able to set out the key challenges for the sector but judged it insufficient "to create a dynamic strategy that would usefully contribute to President Barroso's 2020 vision."[28] She particularly suggested that residual resources from CAP budget cuts should focus "on enhancing competitiveness through rural development funding (Pillar 2)". France supports the greening of the first Pillar as proposed by the Commission. On the contrary, Poland and Slovenia oppose the greening of direct payments (Pillar 1), which "would primarily result in an increase of administrative burden, without achieving the goals set". The Netherlands, Germany, Italy, Sweden and Denmark plead to deal with environmental issues in the framework of the current measures (cross compliance) and particularly in the 2nd Pillar as "having additional ecological payments in the 1st Pillar, raise many questions" (Federal Ministry of Agriculture, 2011). The position in favor of a securing and promoting sustainable green growth in the 2nd Pillar is also shared by Luxembourg and Finland. They notably justify this orientation by stressing the fact that "only flexible and voluntary based measures of the second Pillar would allow to address specific problems at regional, local or sectoral"[29] as biodiversity, climate change and natural resources.

2. ***Shape of the future direct payments system***. The most controversial issue of the reform definitely concerns the future shape of the SFP which involve: decoupling, capping, and allocation of DP. The most radical position is held by the UK which "wants to see a future CAP that focuses on enhanced Pillar 2 measures, delivering environmental public goods" (DEFRA, 2011). Concerning Pillar 1, the next MFF would be a transition period leading to the end of direct payments. Several Member States considers the next MFF as a transitional period too[30] but in opposition with the UK, they defend the essential role of DP in Pillar 1. The reasons given for maintaining DP are that they "contribute to ensuring a fair standard of living for the agricultural community; it also enhances the provision of public goods and services by farmers for which the market does not pay"[31]. Moreover it balances the high standards for health protection, animal welfare and environmental protection. Many Member States (Poland, Czech Republic, Slovakia, Baltic Countries, Bulgaria, Spain and Luxembourg) urge to use new allocation criteria instead of historical references while Germany, Italy or Ireland plead for no dramatic but pragmatic change.

   Member States are divided on the question concerning the allocation keys for EU CAP-funding. France and Germany, the two main beneficiaries of the payments, "did agree

[28] Oxford speech, January 2011.
[29] Romain Schneider, Agriculture Minister of Luxembourg, 24/01/2011.
[30] Latvia and the Czech Republic, suggest no transition - or a very short one - from the current to the next DP system.
[31] Council conclusions on the communication from the Commission, 17/03/2011.

that moves to distribute future CAP subsidies more equally (…) must happen gradually, and should not be based on a flat, hectare-based rate" (Euractiv, 2010). Germany supports the proposal of the Commission: namely, the basic and decoupled support unified by region or State. Nevertheless, it is in contradiction with the three following points concerning the proposal. First, it is opposed to cap the direct payments for large holdings and considering employment as eligible criteria. This position is actually shared by many other Member States, included Czech Republic. Second, it is opposed to maintaining coupled payments in the next SFP, which is a position shared with the UK. Third it is against the tranfer of LFA measures in Pillar 1, in opposition to Poland, Latvia and Estonia. France and Portugal plead in favor of coupled payments considering their contribution to rural vitality, whereas Italy and Finland ask for some flexibility in the use of coupled measures. The Finnish Ministry of Agriculture mentioned "The DP made from Community funds should be gradually developed towards a regional flat-rate model covering all the Member States. However, it should be remembered that natural conditions, production costs, land prices and general living standards are far from uniform across Europe." According to Slovenia, DP are an indispensable part of the future CAP but need a greater homogeneity, and not a uniform payment per hectare throughout the EU but an economic, natural and structural characteristic of the Members States. More precisely Latvia suggests a new key allocation for the new SFP, based on UAA, costs of maintenance of agricultural land (labour, agricultural machinery, depreciation, and fuel costs) and GDP per capita.

Denmark advocates for a multi-level payments scheme based on public goods more precisely "Each Pillar should ensure the delivery of public goods. Direct payments could be based on a basic premium available to all farmers on a regional level. Another part could be paid as a top-up for delivering public goods." By letting direct farm subsidies in the period 2014-2020 it will insure payments for delivering public goods and it will "build incentives into the SFP". This support would be area-based and would include a large number of farms or cover a large area. In the same vein, the Portuguese Ministry's expert group suggests "that the post 2013 CAP should include a system of direct payments to farmers comprising: support for farmers for providing basic public goods within the EU, which are not required from our trading partners in Third Countries; further support for farmers for providing additional environmental public goods; specific support for farmers associated with agriculture in most vulnerable sectors and rural areas" (Portuguese Minister of Agriculture, 2010). These supports may be differentiated by region or by type of farming, and adjusted by other non-discriminatory objective criteria, in order to ensure proportionality to the additional costs incurred and to promote equity in income support.

At last, the Council of Ministers remains open to the Commission proposal to assist small farmers to decrease administrative burden and improve their competitiveness on the one hand, to provide support only to active farmers on the other hand. But these measures would be "possibilities for Member States to further target their direct income support within their national envelopes"[32].

3. ***Market regulation instruments and risk management in agriculture***. Most of the Member States recognize the need of a safety net and that greater flexibility and quicker deployment in the application of measures is required. To cope with risks which could result in substantial income loss, the Council welcomes the Commission's suggestion for a risk management toolkit but would prefer to keep it on a voluntary

[32] Council conclusions, 17/03/2011.

basis that should not distort competition and not interfere with existing activities in this area. Indeed, Latvia considers the Commission's proposals insufficient on market instruments and calls for a "considerably strengthened" risk management instruments; France and Portugal advocates for a new market regulation to protect farmers against price volatility, strengthened risk management tools and a better structuring of the agri-food chain; Greece, Ireland, Lithuania and Slovenia advocate for a flexible toolkit. Conversely, Germany considers the current instruments sufficient given that decoupled DP insure the most part of the risks, and support the idea that they should be kept only in crisis situations. As a consequence, it is opposed to an new stabilization instrument, that would add to the existing instruments of SFP and safety nets (German Federal Ministry of Agriculture, 2011). Denmark is in favor of a "real" safety net "that provides a floor under the market under extreme price fluctuations." With the UK and Sweden it is open to use futures and similar market based instruments.

4. BUDGET REFORM SCENARIOS AND CAP REFORM

KEY FINDINGS

- There is a **very tight connection between the budget review and the CAP reform**, both in terms of timing and political relevance: the schedule and the decisions of one will heavily influence the other.
- **Hypotheses of budget** reform include the status quo, a possible redistribution of resources among different items of the budget, or a linear cut of it. Each of these has a **different impact on the feasible shape of the CAP reform**.
- Hypotheses of CAP reform include the status quo, an "inertial decline" of the CAP in the EU budget, a quicker decline in favour of other items of the EU budget, or even a drastic reduction fully functional to a budget cut (and Member States savings).
- **The issue of resource redistribution within the CAP among Pillars and Member States is very relevant in terms of net balances**, sometimes even more relevant than the design of the scenario.
- The issue of transferring resources from the CAP to other items of the EU budget (competitiveness and cohesion) is very relevant, although it raises the unavoidable question of the expenditure effectiveness in these items.

By July 1, 2011 the Commission must present a proposal for the new financial framework after 2013. The scenario surrounding the EU budget of Community revenues and expenditures shall be characterized by strong economic crisis, but also special attention shall be placed on environmental and social issues such as climate change, safety and migrations, land and agriculture themes.

The recent Commission Report on the revision of the European Union Budget (COM (2010) 700) underlines that the definition of expenditures allocated to different intervention areas within the next multi-annual framework should consider the policy priorities identified in the Treaty of Lisbon and the achievement of the objectives set in the Strategy Europe 2020 for intelligent, sustainable and inclusive growth, which materialize itself in the five objectives below:

- increase employment for the age group 20-64 years to at least 75%;
- invest 3% of GDP in R&D;
- reduce greenhouse gas emissions by 20% (compared to 1990); raise the use of renewable energy sources to cover 20% of all energy consumption; increase energy efficiency by 20%;
- reduce school drop-out rate by 10% by 2020; and increase university degree holders aged 30-34 to at least 40%;
- allow 20 million people to overcome poverty.

During the same period of time, the Commission must present the regulations proposals to enact CAP reform on the basis of the indications in the Communication "CAP towards 2020": meeting the food, natural resources and territorial challenges of the future" (COM(2010) 672).

The two reform processes, though formally separate, seem to be strongly connected and interdependent. Such interdependence can be seen, aside from the parallelism with the general debate on the budget and the specific debate on the CAP, through the resulting experience of the previous planning periods, whose definition has always been conditioned by the need to ensure, on the one hand, expenditure needs resulting from the public agreements on the CAP, and, on the other, the development of other common policies under a reasonable limit of absolute amount of expenditures.

Additional testimony of the interdependence between the two reforms in act is provided by the many cross-references between the two Communications. The following work hypotheses have been formulated in an attempt to systematize the connections between the two documents.

4.1. General criteria for the identification of budget reform hypothesis

The debate on the community budget reform, which started in 2007, has continued without release of a proposal of action or of approximate amounts on its absolute entity by the Commission. However, the Communication released in October contains base directives and guidelines which have been implemented as base element of the hypotheses formulated and of the simulations exhibited in the study (see. Chap. 3).

Starting from the information inferred from the Communication, it is rather difficult to estimate the future size of the budget, as well as a hypothesis for the distribution of resources available among future lines of expenditure. However, three different hypotheses have been established, on the basis of three relevant aspects:

1. the relative stability in recent years of the dimension of the sustained expenditure in terms of GDP, which stood well below the ceiling allowed for by the framework decisions on the current financial framework (2007-13);
2. the repeated requests for restraint the annual disbursement on percentages close to 1% of the GDP;
3. together with the declarations of the heads of government of several countries that have historically had significant impacts on the common budget decisions (e.g. United Kingdom), three different hypotheses have been established.

The three hypotheses have been formulated on the basis of a structure similar to the one adopted by the Commission in relation to other reform proposals – including the CAP – that contemplates three possible scenarios:

- a conservative scenario (*Status Quo*), in which the absolute size of the budget undergoes almost no variation compared with the one reached during the final year of the current perspectives (2013), which corresponds to a burden on the GDP of about 1% (in terms of payments). This scenario also implies no changes to the absolute dimension of CAP expenditure in regards to amounts budgeted for 2013;

- a 'gradual evolution' scenario (*Redistribution*), in which the absolute size of the expenditure is not modified but CAP allocation is re-sized within its framework, compared to its value at the end of the current period (2013). The reduction of overall CAP expenditure (concentrated on Pillar 1) may take on variable dimensions, from a minimum value, calculated on the basis of the median reduction rate between one financial year to the next, to a maximum value, with an estimated value equal to 20% of the reference one (2013). The generated resulting savings would, in part, be allocated to empowering rural development measures (Pillar 2) and in part to the enhancement of the two current expenditure categories that correspond to the policies of Cohesion and Competitiveness, which may better contribute to the achievement of the 5 objectives of the Strategy Europe 2020 cited above;
- a more extreme scenario (*Reduction*), in which both the overall budget and the CAP would undergo expenditure cuts of equal entity without any allocation of funds to other intervention policies. The size of the reduction is set at a value equal to 20% of CAP expenditure at the end of the current multi-year framework (2013).

With regard to revenues, given the lack of indications on possible TOR integration sources, the only additional source for all cases included in the budget is the national payment systems based on GDP (see. Chap. 5).

4.2. Budget Hypothesis: implications on the CAP reform

The proposals regarding CAP reform, as previously illustrated (par. 2.1.2), have a greater underlying structure and take three possible Options into consideration. The first is identified as a conservative option that calls for the prudent introduction of reform elements while mostly limiting itself to a more equal distribution of Pillar 1 direct payments. The second proposal makes explicit reference to the implementation of measures that are more "green"(CAP greening) and selective in nature. Lastly, the third proposal may be seen as a "radical" hypothesis, which implies the gradual elimination of Pillar 1 and exclusive concentration on rural development and environmental measures.

The second hypothesis is defined as the one of greening given that it plans to, as already mentioned, adopt specific measures aimed at environmental protection and sustainable management of resources.

In principle, CAP greening could be promoted under the other two hypotheses through measures that in the first case (conservative option) could be incorporated both into Pillar 1 and 2, while in the second case (radical hypothesis) could only be adopted by Pillar 2. Nevertheless, we believe that the second hypothesis places the most focus on greening as an explicit objective of CAP re-orientation.

Obviously, though not being clearly explicit in the formulation of the other three proposals, each hypothesis is characterized by its distinct budgetary implications. Indeed, the possible combinations between budget and CAP reform hypotheses are numerous, but it can be hypothesized that some of these combinations - such as reduction of the budget and relevant maintenance of the size of CAP expenditure – are rather unlikely.

On these grounds, an attempt has been made to identify several possible scenarios - a result of possible combinations of the two reforms (Budget and CAP) – that seem to bear a greater degree of "coherence".

In relation to the budget hypotheses, it must be noted that this study is based on simulations performed starting from the data of appropriation and expenditure indicated in the last update on the forecast of the current 2007-2013 financial framework (see Chap. 1, Table 1.2.).

Starting from the data of appropriation and expenditure indicated for the last year of validity (2013), which respectively correspond to around 152.0 and 143.1 billion euro, the absolute dimension has been left unchanged.

Therefore, the simulations, whose results are shown in the following chapter 5, have been produced taking into consideration the above-stated amount of budget expenditure equal to 143.1 billion euro, divided among the different expenditure categories on the basis of the 2013 budget of the same financial framework (with reference to commitments, in relation to which an allocation of resources is available per line of measure).

Coherence between different options of Budget and CAP proposals of reform

	No CAP reform	**CAP options of reform**		
No Budget Reform*	*Scenario 1:* *The Status Quo* - Maintenance of the general expenditures - Full implementation of the current CAP	Option 1:	Option 2:	Option 3:
Budget hypothesis of reform		*Conservative*	*Pillars Remodulation*	*Radical*
Hypothesis 1: *Status Quo*		*Scenario 2.a:* *The Inertial Decline* - Maintenance of general expenditures - Minimal reduction of Pillar 1 payments (-5%) in favour of Pillar 2 measures	*Scenario 2.b:* *The Rebalancing Pillars* - Maintenance of general expenditures - Drastic reduction of Pillar 1 payments (-20%) in favour of Pillar 2 measures	
Hypothesis 2: Redistribution				*Scenario 3.a: The CAP Decline - Light* - Maintenance of general expenditures - Drastic reduction of Pillar 1 (-20%) in favour of: Pillar 2 measures, Cohesion and Competitiveness *Scenario 3.b: The CAP Decline - Deep* - Maintenance of general expenditures - Drastic reduction of Pillar 1 (-20%) in favour of Cohesion and Competitiveness
Hypothesis 3: *Reduction*				*Scenario 4: The EU's Project Decline* - Drastic reduction of Pillar 1 expenditures (-20%) - Correspondent reduction of the general budget expenditures

* The budget maintain the 2013 amount of expenditures, but the revenues are modified: abolishment of all corrections and National contribution exclusively based on GDP
Legenda: White represents possible but weak or inconsistent

The decision to restrain from making modification to the overall expenditures foreseen for 2013 has been based on several considerations (see. Chap. 3):

- on the one hand, on the basis of the findings of the Commission Communication on the Budget Reform (COM (2010) 700 final), with regard to the need of containing the expenditure evolution in the near future due to the ongoing global economic crisis that has a significant impact on the Member States since 2007, recovery from which appears slow and difficult;

- on the other, on the basis of positions expressed by several of the more significant contributor Members (UK, Germany, France, Finland and Netherlands), whose political weight in regard to the EU budget has always strongly conditioned the results of negotiations;

- lastly, on the basis of the fact that, in consideration of the unchanged absolute size of expenditure, this would constitute an amount equal to 1.05% of EU GNI. With reference to this consideration, it must be noted that several countries have, at different times, expressed favour to an amount of budget expenditures correspondent to approximately 1% of GDP.

Box: The greening of the CAP

The greening of the CAP is a process started with Agenda 2000 according to which financial resources are progressively devoted to improve environmental and territorial standards of the EU through the CAP (Henke, 2002). It involves both pillars of the CAP: the main instruments used for greening the CAP are the conditionality of direct payments in Pillar 1 and the agro-environmental measures in Pillar 2. The greening has been progressively improved with the next CAP reforms and it is still at the centre of the attention in the current reform debate.

The latest communication of the EU Commission on the CAP reform dedicates significant attention to the greening of the CAP. The communication pays specifically attention to the greening of Pillar 1 suggesting the possibility of "modulating" direct payments according to several levels: a basic level, common to the whole farmers, as a basic income support; a "green" level, granted according to specific commitments subscribed by farmers; a "specific" level for farmers in disadvantaged areas; finally, a coupled level to support specific types of agriculture (i.e. Art. 68 of the Reg. 73/2009).

In this study we considered the greening of the CAP in two different ways: 1) the shift of resources from Pillar 1 to Pillar 2 (as in Scenario 2.a, 2.b and 3.a) and 2) one of the alternative processes of reallocation of resources within Pillar 1 (40% UAA; 40% VAP; 10% Natura 2000; 10% rural population) used in all the scenarios.

The underlying idea is that the greening of the CAP is a sort of "horizontal" process that can be reached at different levels and under different scenarios, no matter how much and to what extent the CAP declines within the EU budget.

The proposal of the EU Commission about the greening of Pillar 1 is, at the moment this study is realised, impossible to assess in quantitative terms for two main reasons: 1) there is no clear indication about the shares of direct payments that compose the different levels and 2) it is impossible to simulate, at this stage, the answer of farmers to the proposed "modulation" of the direct payments, since, in theory, a single farmer could accept the basic payment and reject the rest of the payments.

However, in Chapter 5 we will briefly look, in more details, at the allocation effect of a possible redistribution of CAP resources according to the following combination (see section 5.3.2.): for Pillar 1 resources will be allocated according to the set of rules above mentioned; for Pillar 2 resources will be allocated according to the "objective criteria" (65% UAA, 35% agricultural labour, per capita GDP in PPP as a correction factor). Such combination represents for us the "greenest" feature of the new CAP given the information available and the Scenarios built accordingly.

Such feature can be assessed under any Scenario proposed, following our idea of the greening as a "horizontal" process that can be realised under any CAP and Budget reform hypotheses. The results of that specific combination considered for Pillar 1 and Pillar 2 resource allocation are reported in the columns "H" of the whole set of tables in Annex 2.

4.3. Scenario 1: The Status Quo

This scenario is used as the benchmark to assess the results of the other scenarios. This considers the natural development of the current features of the CAP, with the same amount of resources. As a consequence, no item is cut and resources are kept in the same items with the same allocative rules.

Scenario 1: The Status Quo

Budget:	143,153 meuro
Item cut:	- - -
Amount of cut:	- - -
Items receiving:	- - -
Amount of increase:	- - -
Criteria of allocation in the item:	
- Natural resources	
o **Pillar 1**	Ceilings 2013 (All. VIII Reg. EC 73/2009cons.)
o **Pillar 2**	Financial framework 2007-2013
o **Other***	Expenditures (average 2007-2009)
- Cohesion	Financial framework 2007-2013
- Competitiveness	Expenditures (average 2007-2009)
- Other	Expenditures (average 2007-2009)

* Fisheries and environment

4.4. Scenario 2: Equal budget and change between resources for first and second Pillar of CAP

Scenario 2 is based on the hypothesis of a mere redistribution within the Natural Resources Item. As a consequence, it is reasonable to presume a cut of resources from Pillar 1 in favour of Pillar 2 and a redistribution of resources within Pillar 1, according to the framework of the reform under discussion.

This scenario is based on the principle of modulation of direct payment, a CAP instrument that provided a shift of resources from Pillar 1 to Pillar 2. Modulation is still in act, but it is not considered in the current discussion on the CAP reform and should be abandoned. In the following two sub-scenarios what changes substantially is the amount of the cut imposed to Pillar 1 in favour of Pillar 2.

4.4.1. Scenario 2.a: The Inertial Decline

This sub-scenario has been defined "Inertial decline" because it considers a 5% cut of Pillar 1 resources in favour of Pillar 2, as in the current modulation of direct payments. This is a rather conservative scenario, however the cut of Pillar 1 in favour of Pillar 2 can be seen as a continuation of the current greening of the CAP, improving CAP measures based on planning and encouraging a territorial approach rather than top-down policies as those prevailing in Pillar 1. With the exception of the amount of the cut, all the other features of this sub-scenario are as in sub-scenario 2.a.

Scenario 2.a: The Inertial Decline

Budget:	143,153 meuro			
Item cut:	Natural Resources: Pillar 1			
Amount of cut:	5%			
Items receiving:	Pillar 2			
Amount of increase:	*100% of the cut*			
Criteria of allocation in the item:		*Different*	*Hypotheses*	
- Natural resources				
o ***Pillar 1***	*Ceilings 2013 (All. VIII Reg. EC 73/2009cons.)*	*100% UAA*	*- 50% UAA; - 50% VAP;*	*- 40% UAA; - 40% VAP; - 10% Natura 2000; - 10% Rural population;*
o ***Pillar 2***	*Financial framework 2007-2013*	*- 65% UAA; - 35% agr. labour; - pcGDP (PPP);*		
o ***Other****	*Expenditures (average 2007-2009)*			
- Cohesion	*Financial framework 2007-2013*			
- Competitiveness	*Expenditures (average 2007-2009)*			
- Other	*Expenditures (average 2007-2009)*			

* Fisheries and environment

4.4.2. Scenario 2.b: The Pillars rebalancing

Scenario 2.b discusses the hypothesis of a 20% cut of Pillar 1 resources, that follows what has been presented recently at the European Parliament (the so called Dess proposal). This can be considered a quite sensitive cut of Pillar 1 resources in favour of Pillar 2. It is crucial for this scenario the definition of the allocative criteria used to redistribute between Member States resources to Pillar 2 and the residual resources within Pillar 1. To this end, several hypotheses were tested, considering the main elements of the current debate:

- For resources of Pillar 1, different criteria of distribution were tested: current ceilings 2013; 100% of UAA (All. VIII); 50% UAA and 50% VAP; a combination of 4 indicators that take into consideration the production of public goods (40% UAA; 40% VAP; 10% Natura 2000; 10% rural population);

- for resources of Pillar 2, criteria used were the current distribution according to the Financial Framework 2007-2013 and the so-called objective criteria utilised for resources generated by modulation and redistributed to Member States (65% UAA; 35% agricultural labour; GDP per capita (PPP) as a correction factor).

In case of Pillar 2, the redistributive hypotheses do not produce relevant differences in the distribution. In case of Pillar 1, the UAA hypothesis is the starting point of any Commission reasoning about new distribution criteria, aimed at reducing Member States disparities and distortions in the current distribution. For this reason, we moved from the current distribution to the UAA case, and then we combined that with other indicators trying to involve other parameters such as production (VAP) and production of public goods (areas under Natura 2000 and rural population).

The aforementioned criteria will be used in all the following scenarios that consider redistribution of resources of Pillars 1 and 2.

Scenario 2.b: The Pillars rebalancing

Budget:	143,153 meuro			
Item cut:	Natural Resources: Pillar 1			
Amount of cut:	20%			
Items receiving:	Pillar 2			
Amount of increase:	*100% of the cut*			
Criteria of allocation in the item:		*Different*	*Hypotheses*	
- Natural resources				
o ***Pillar 1***	*Ceilings 2013 (All. VIII Reg. EC 73/2009cons.)*	*100% UAA*	*- 50% UAA; - 50% VAP;*	*- 40% UAA; - 40% VAP; - 10% Natura 2000; - 10% rural pop.*
o ***Pillar 2***	*Financial framework 2007-2013*	*- 65% UAA; - 35% agr. labour; - pcGDP (PPP);*		
o ***Other****	*Expenditures (average 2007-2009)*			
- Cohesion	*Financial framework 2007-2013*			
- Competitiveness	Expenditures (average 2007-2009)			
- Other	Expenditures (average 2007-2009)			

* Fisheries and environment

4.5. Scenario 3: Equal budget and reduction of CAP resources - Reinforcement of other budget items

Scenario 3 has been defined "radical" because the underlying hypothesis here is a substantial reduction of the CAP expenditure, realised with a 20% cut in the Natural Resources item budget but that presumably will be entirely covered by a cut of Pillar 1 of the CAP. For this reason, the scenario has been labelled as "CAP decline".

4.5.1. Scenario 3.a: The CAP Decline - Light

In the case of the "light" version (scenario 3.a), the reduction of CAP endowment, originating in the first Pillar of the CAP, is partially offset by the shift of 5 percentage points of that amount in favour of the second Pillar of the CAP (25% of the total cut). The remaining resources will be allocated to other items of the EU budget, and specifically to cohesion policies (50% of the remaining resources coming from the CAP, that is 37,5% of the total cut) and to competitiveness policies (50% of the remaining resources, that is 37,5% of the cut).

The redistribution of resources in the CAP Pillars are as in scenario 2. Under this scenario, there is also a relevant shift of resources to other items of the EU budget, so we need to define a criterion of reallocation of those additional resources.
In the case of Cohesion, additional resources have been reallocated following the Index of Population at Risk of Poverty or Exclusion (IPRPE), as calculated by Eurostat. It takes into consideration three sub indicators: Persons living in households with very low work intensity; Persons at risk of poverty after social transfers; Severely materially deprived persons[33].

In the case of competitiveness, additional resources have been reallocated following the current (average 2007-2009) expenditure trends.

[33] IPRPE is a complex index recently worked out by Eurostat with the scope to support policies devoted to the Lisbon Strategy objectives (Eurostat, 2011).

Even though we are in a scenario of CAP decline, the shift of resources from Pillar 1 to Pillar 2 of the CAP would probably be considered as an improvement of the greening of the CAP, or at least as a more effective attention to the issue of the provision of public goods in agriculture.

Scenario 3.a: The CAP decline – Light

Budget:	143,153 meuro			
Item cut:	Natural Resources: Pillar 1			
Amount of cut:	20%			
Items receiving:	Pillar 2	Cohesion	Competitiveness	
Amount of increase:	*25% of the cut (5 percentage points)*	*37.5% of the cut (7.5 percentage points)*	*37.5% of the cut (7.5 percentage points)*	
Criteria of allocation in the item:		*Different*	*Hypotheses*	
- Natural resources				
o ***Pillar 1***	*Ceilings 2013 (All. VIII Reg. EC 73/2009cons.)*	*100% UAA*	*- 50% UAA; - 50% VAP;*	*- 40% UAA; - 40% VAP; - 10% Natura 2000; - 10% Rural population;*
o ***Pillar 2***	*Financial framework 2007-2013*	*- 65% UAA; - 35% agr. labour; - pcGDP (PPP);*		
o ***Other****	*Expenditures (average 2007-2009)*			
- Cohesion	*- Financial framework 2007-2013 - IPRPE** (Eurostat 2009) for additional resources*			
- Competitiveness	*Expenditures (average 2007-2009)*			
- Other	*Expenditures (average 2007-2009)*			

* Fisheries and environment
** Index of Population at Risk of Poverty or Exclusion

4.5.2. Scenario 3.b: The CAP Decline – Deep

Scenario 3.b is the "deep version" of the CAP decline scenario, where resources cut from natural resources are shifted totally out of that item, towards Cohesion and Competitiveness, 50% of the cut for each item.

In this case, the greening of the CAP is not moved by a shift of resources to Pillar 2, and can be realised only via better targeting of the resources left in Pillar 1 and Pillar 2.
Allocative criteria are exactly the same as in Scenario 3.a.

Scenario 3.b: The CAP decline – Deep

Budget:	143,153 meuro			
Item cut:	Natural Resources: Pillar 1			
Amount of cut:	20%			
Items receiving:	Cohesion	Competitiveness		
Amount of increase:	*50% of the cut (10 percentage points)*	*50% of the cut (10 percentage points)*		
Criteria of allocation in the item:		*Different*	*Hypotheses*	
- Natural resources				
o ***Pillar 1***	*Ceilings 2013 (All. VIII Reg. EC 73/2009cons.)*	*100% UAA*	*- 50% UAA; - 50% VAP;*	*- 40% UAA; - 40% VAP; - 10% Natura 2000; - 10% Rural population;*
o ***Pillar 2***	*Financial framework 2007-2013*	*- 65% UAA; - 35% agr. labour; - pcGDP (PPP);*		
o ***Other****	*Expenditures (average 2007-2009)*			
- Cohesion	*- Financial framework 2007-2013 - IPRPE** (Eurostat 2009) for additional resources*			
- Competitiveness	*Expenditures (average 2007-2009)*			
- Other	*Expenditures (average 2007-2009)*			

* Fisheries and environment
** Index of Population at Risk of Poverty or Exclusion

Box: CAP and territorial cohesion policy in the EU

The assumptions introduced by this scenario touch upon an important aspect of the current debate on the future composition of the budget: the need to harmonise the different Community policies and ensure their compatibility with the objective of territorial cohesion. This objective is by now part and parcel of the Union's overall growth and development strategy ("Europe 2020") and an essential component of its guidelines for reforming the single policies in line with this strategy ('Fifth Cohesion Report' and 'Barca Report' for regional policies; 'The CAP Towards 2020' for agricultural and rural development policies).

The relations between the various EU policy areas and their degree of compatibility with the objective of EU territorial cohesion are constantly evolving and are still far from being "consolidated". Over the years, requests for greater equity and coordination for the purpose of bringing EU policies (including CAP) into line with the "Lisbon strategy" were largely ignored by subsequent CAP reforms and - with reference to the CAP trends foreseen after 2013 - existing analyses concur in emphasising the risk of a fundamental conflict between the effects of agricultural intervention and the objectives of the cohesion policy (Bureau and Mahè, 2008). In fact, some analyses (Bivand and Brundstad 2003, Esposti 2007) highlighted the negative impact of CAP payments on the economic convergence processes taking place between the EU regions and how the enormous volume of CAP spending had no positive effect upon regional growth, although not constituting "counter-treatment" with respect to the new regional policies.

Scenario 3 would reduce the anti-Cohesion impact of first-Pillar CAP spending by shifting financial resources towards Cohesion policies thus increasing territorial concentration and focus on regional structural disadvantage of overall Community expenditure.
As a consequence the transfer of First-Pillar resources towards Cohesion policies implied by Scenario 3 would affect EU territorial Cohesion by:

- reducing the potential distortive effect that CAP payments have produced so far limiting the redistribution of resources in favour of economically stronger regions (ESPON 2004);

- channelling additional resources towards the most economically disadvantaged regions, giving more emphasis to 'place based' interventions.

However, having ascertained the difficulty of making first-Pillar CAP spending functional for territorial cohesion purposes, the debate remains concentrated on the advantages from a cohesion standpoint of shifting resources towards intervention measures that have a territorial and place-based nature. The existing analyses of both rural development and regional policies clearly demonstrates that the compatibility of place-based interventions with territorial cohesion processes cannot be taken for granted and consequently should be the subject of careful empirical evaluation (Crescenzi, De Filippis, Pierangeli, 2011). If changes in the composition of overall Community spending from sectorial interventions in favour of explicitly place-based policies have to contribute towards cohesion processes, they cannot be limited to an increase in the overall budget quota reserved to cohesion policies "stricte sensu" but should also entail:

- the incorporation in the same framework of other types of intervention such as Rural Development interventions leading to a better coordination of the various policy interventions insisting on the same territory by means of a Common Strategic Framework;

- the reinforcement of the 'territorial' and 'tematic' concentration of place-based policies in line with the recommendation of the Barca report.

4.6. Scenario 4: Reduction of the budget and reduction of CAP resources

The last scenario is the most radical one, since it is based on a cut of 20% of the Natural resources budget (CAP Pillar 1). This implies a net budget saving with a consequent reduction of the contributions of the Member States.
This Scenario can be considered as witnessing the decline of the proper EU's project since it proposes a net cut of the EU budget, meeting the political arguments of those Member States that are in favour of a general reduction of the country contribution to the EU budget.

Scenario 4: The EU's Project Decline

Budget:	134,519 meuro			
Item cut:	Natural Resource: Pillar 1			
Amount of cut:	20%			
Items receiving:	- - -			
Criteria of allocation in the item:		*Different*	*Hypotheses*	
- Natural resources				
o ***Pillar 1***	*Ceilings 2013 (All. VIII Reg. EC 73/2009cons.)*	*100% UAA*	*- 50% UAA; - 50% VAP;*	*- 40% UAA; - 40% VAP; - 10% Natura 2000; - 10% Rural population;*
o ***Pillar 2***	*Financial framework 2007-2013*	*- 65% UAA; - 35% agr. labour; - pcGDP (PPP);*		
o ***Other****	*Expenditures (average 2007-2009)*			
- Cohesion	*Financial framework 2007-2013*			
- Competitiveness	*Expenditures (average 2007-2009)*			
- Other	*Expenditures (average 2007-2009)*			

* Fisheries and environment

5. AN ANALYSIS OF THE EU BUDGET AND CAP REFORMS THROUGH THE NET BALANCES

KEY FINDINGS

- The net balance is a simple and effective indicator; **it quantifies in a single value the difference between costs and direct financial benefits of the EU membership**. However, it has limits: it is unable to take into account all the intangible factors, not necessarily of a financial nature, that nonetheless affect the participation in the EU project.

- The **Scenarios are based on an assumption of budget equal to that provided in the current financial framework for 2013**, which amounts to a total of 143,153 million Euro in terms of total payment appropriations, whose weight on the forecast of GNI for 2013 is 1.05%.

- In addition to allocation decisions between headings and sub-headings, the application of **different criteria for the allocation of resources among the Member States is simulated.** Therefore, we distinguish between:

- **Scenario effect**: variation defined by comparing the net balances of scenario 1 (benchmark) with those of a simulation (2-4), keeping the ceilings for 2013 as the criterion for resource allocation among the Member States, which is the historical criterion;

- **Allocation criterion effect**: variation defined by comparing the net balances of scenario 1 (benchmark) with those of a simulation (2-4), applying to the latter a new allocation of resources (i.e. Table 5.3. and Annex 2).

- Despite the many variables involved in the definition of scenarios and the identification of criteria for allocating resources, the relative position of most countries tends to be free from major upheavals. Upon closer examination, **some countries prove to be more sensitive to changes of scenario, while others suffer more from changes to the allocation criteria.**

- The analysis highlights some **counterintuitive results.** Conservative scenarios of the CAP, normally backed by countries aimed at preserving the current system of agricultural policy, could result in a disadvantage for the same countries in terms of both partial net balance for “NR” and total net balance. However, they would not suffer from that disadvantage if more radical reforms of the CAP were decided. On the other hand, countries that are among the winners in terms of partial "NR" net balances would be “indifferent” in terms of total net balance.

5.1. A definition of Net Balance

The Net Balance is the difference between payments made by each Member State to the EU budget and the EU expenditure allocated among them. The balance is an indicator which is simple to calculate, and is helpful in highlighting and quantifying, in a single value, the difference between costs and direct financial benefits of EU membership. However, it has severe limitations to a large extent determined by its own simplicity, i.e. it is the result of an accounting calculation that is unable to take into account all the costs and benefits - intangible assets, not only of a financial nature - arising from the participation in the EU (Núñez Ferrer, 2007a; Gross, 2008; de la Fuente, Doménech, Rant, 2010; Iozzo, Michossi, Salvemini, 2008; Pietras, 2008).

As simple as it is, the calculation of the balance is based on a number of assumptions and choices. In particular, the possible options concerning the initial data - revenue, expenditure, cash or accrual budgeting data, criteria for adjustment of the final balance ("forcing") - may vary to the point that it is possible to formulate dozens of definitions, all justified and methodologically correct (European Commission, 1998).

Below are the results of the calculation of national average balances for the period 2007-2009 in terms of payments; moreover, the next section shows the simulations carried out for 2013, identified as the "basic year" of the next financial period. They were calculated on the basis of the following decisions.

1. For calculations on the first three years of the current financial period, we used the cash budgeting data relating to the implementation of the budgets of each calendar year (2007-2008-2009), reported in the Annexes to the Annual financial reports of the European Commission, available for the entire historical series, since the foundation of the Community.

   For the Scenarios defined for 2013 we used data from various sources: Communication of the Commission (SEC 473/2010) "Statement of estimates of the European Commission for the financial year 2011. Preparation of the 2011 Draft Budget"; "Financial Framework" (for cohesion and rural development); payment ceilings on direct CAP payments of Regulation (EC) No. 73/2009.

2. On the revenue side, for the period 2007-2009, all the entries in the annual financial statements were taken into account as contributions from individual partners (see Chapter 1).

   In relation to the TORs (i.e., traditional own resources), it was decided to keep them among the contributions made by the Member States, unlike what is usually done by the Commission in its financial reports, in which they are excluded in the calculation of the net balance because they are considered not attributable to a single country in the presence of a common customs system[34]. We therefore redistributed the total amount of the TORs among the countries according to their relative weight on the GDP of the entire EU (EU27 = 100). This methodology has enabled us to maintain the level of own resources more consistent with that reported in the annual financial statements, reducing the distortions arising from the geographical location of some countries on borders.

   As for the contribution to the UK rebate, it was decided to exclude this item of revenue and to follow – in a rather extreme way – some of the considerations from the debate on the budget (see Chapter 3), which increasingly support the idea of national

[34] The decision was dictated by two considerations. The first is that the TORs still make up more than 14% of the total revenue, so their exclusion would have required a rather large rebalancing of the final balance. The second refers to the hypothesis that the costs and benefits of the common customs system are shared between the Member States in proportion to their economic weight.

payments made almost solely on the basis of the GDP as the only source of the budget. To this we must add the repeatedly invoked need to make the common budget more transparent, by eliminating the various correction mechanisms of which the rebate is the most evident tool.

The analysis of the correlation between the actual total contribution, made by each Member State, as reported in the financial reports, and the total contribution calculated according to the above methodology, shows - for the entire period - a coefficient of 0.98.

For the simulations of 2013 (Scenarios 1-4) it was decided to make GDP the only source of budget support. This decision was based on a number of factors:

- as mentioned above, testing the principle of considering national payments exclusively on the basis of the GDP as the only source of the EU budget;
- giving more transparency to the budget, showing the natural position of each Member State with respect to partial and total net balances and the allocation parameters selected. Therefore, this goes beyond both the different political weight on which each heading or sub-heading can count at the national level and the agreement level (corrections) achieved by Member States at the EU level, of which the rebate is just the most evident one;
- compensating for the lack of estimates for 2013 relating to revenue items for each Member State, other than the GDP.

Again, the validity of the methodological choices was proven by establishing the correlation between the share of contribution determined on the basis of the GDP and the share of contribution quantified for the period 2007-2009 (0.997).

So, the idea of making GDP the only contribution to the EU budget is the basis for the calculations made in the simulations of Scenarios 1-4. Estimates of the average GDP 2013-2015 were used (source: IMF).

3. On the expenditure side, for the years 2007-2009, we took into account only the whole set of expenditures that the EU annual budget traces to the single EU Member States, therefore excluding those paid out in favour of third countries. We then eliminated administrative costs which, although allocated to individual partners, are inevitably concentrated in countries that host on their territory the main institutions of the EU (Belgium and Luxembourg).

   For the simulations of 2013 (Scenarios 1-4), we used predictions in terms of payments (Total payments Appropriations) as a proxy for future outlays broken down into headings and sub-headings on the basis of the available information (Statement of estimates of the European Commission for the financial year 2011, Preparation of the 2011 Draft Budget SEC 473/2010)[35]. In this case too, we curtailed "Administration" expenses from the total amount of payments.

4. Finally, to ensure that the sum total of the net balances of each country was zero, we "forced" the revenues to make their amount equal to the level of shared expenditures,

[35] For the methodology used in defining the amount of available resources, see par. 5.2.

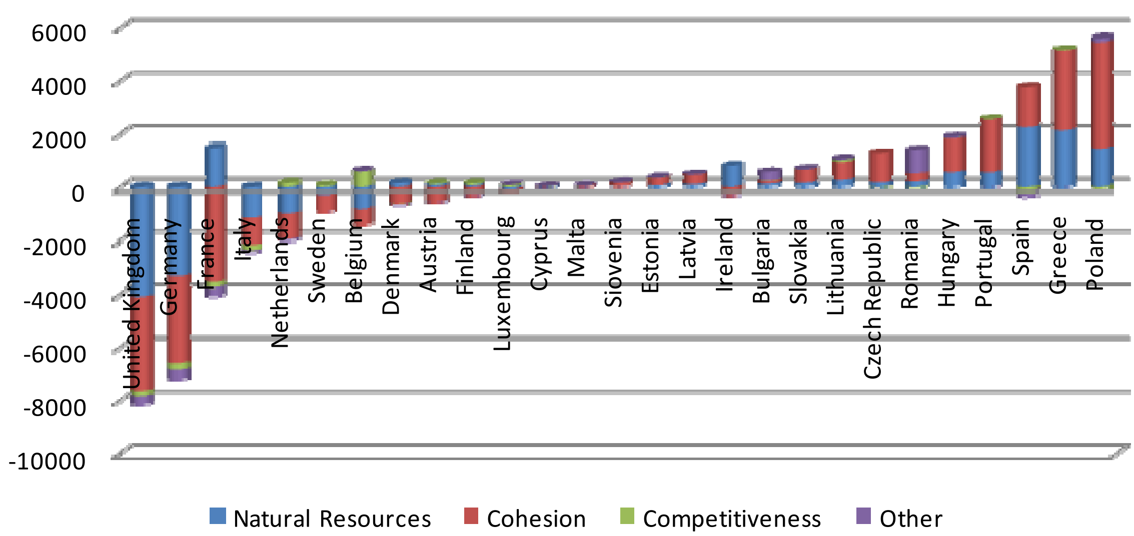
while maintaining the same proportion of the contributions of each Member State (point 2). In this way, at the level of EU-27 the resources for Union policies and the corresponding revenues are balanced, although in reality the latter are always higher than the former, due to the presence of costs not allocated to a single partner country (external actions, administration, etc.).

Once calculated the total net balances, one can also proceed to calculate partial net balances, which reflect national positions on individual policies which make up the Union budget. The sum of partial net balances, obtained by the same mechanisms of calculation described above, is by definition equal to the total net balance for each country. The scope of this breakdown is especially clear when negotiations on the definition of new rules for drawing up and managing the common budget and the adoption of a new financial framework start. Indeed, the partial net balances show the areas of intervention with respect to which each country is a net contributor or beneficiary and to what extent, thereby making visible the positions of convenience with respect to the individual policies implemented.

The partial net balances on which our attention is focused are: "Natural Resources" (heading 2) broken down between the CAP Pillars (Pillar 1 and Pillar 2), plus a residual item, which includes mostly actions in favour of fisheries and the environment; "Competitiveness" and "Cohesion" (respectively sub-headings 1.a and 1.b under the "Sustainable Growth" heading) and "Other", which includes the items "Citizenship, Freedom, Security and Justice" and "EU as a global player".

Figure 5.1. shows the total net balances, as aggregation of partial net balances, of Member States in 2007-2009, compiled on the basis of payments and revenue actually realized (EU budget 2009 - Financial Report). It is essential to note that in this Scenario, the contribution of the Member States is the actual one (Financial Report), however having subtracted the UK rebate contribution, which, evidently, has a negative weight on all the Member States with the exception of the United Kingdom.

Figure 5.1.: Average of Partial Net Balances 2007-2009



Source: INEA elaborations on data from various sources

The graph shows the entity of the negative balance of the principal contributors (Germany, United Kingdom, France, Italy, the Netherlands, Sweden, Belgium, Denmark, Austria, Finland and Luxembourg) determined on the basis of the partial net balances for individual policies (headings). Given the "joint" nature underlying the political project of a united Europe, this is not surprising, since the richest Member States -- who inevitably had to bear the weight of the progressive enlargement to countries with weaker economic systems -- have benefited from the specific policies (structures and cohesion) addressed to them.

The graph shows the decisive effect of the agricultural component (included in the Natural Resources heading) and that of the "Cohesion" heading on the net balances of the majority of countries. The position concerning agriculture, for example, significantly reduces the overall negative balance of France, which explains the attitude of staunch defence of the CAP traditionally assumed by this country (De Filippis, Sardone, 2010). The importance of the balance of the "Cohesion" heading shows the effects produced by the processes of EU enlargement and the consequent strengthening of its relative policies.

5.2. Results of the Scenarios

The results emerging from the simulation of the Scenarios, presented below, represent a starting point for reflection on redistribution arrangements that may arise as a result of the various policy choices described above (Sections 4.3 and 4.4). In the construction and elaboration of the Scenarios we have tried to gradually take account of developments in the EU and national debate (see Chapter 3).

This Section presents a detailed analysis of possible Scenarios, which, at this stage of reform of both the EU budget and the CAP, could lead to significant changes in terms of net balances of the Member States. The following Scenarios (Sections 5.2.1-5.2.4) are based on a budget equal to that provided in the current financial framework for 2013, which amounts to a total of 143,153 million Euro in terms of total payment appropriations, whose weight on the forecast of GNI for 2013 is 1.05%[36].

The distribution of resources under headings and subheadings (1.a and 1.b) was based on the percentage weight of each item in terms of commitments (total commitment appropriations)[37]. These percentages were applied to the total operational payments, obtained by subtracting from the total budget the share relating to administrative costs (Administration) (Tables 5.1. and 5.2.).

[36] The weight of the total payment appropriations of the EU budget amounts to 1.08% of the EU27 GDP (average 2013-2015) on the base of the forecast of International Monetary Fund (IMF).
[37] The breakdown by Member States is not available in terms of payments.

Table 5.1.: Establishment of the Budget and the distribution of resources by headings and sub-headings (current prices)

	HEADINGS	COMMITMENTS 2013	SHARE ON TOT OPER. COMM.	PAYMENTS 2013
		(meuro)	(%)	(meuro)
Competitiveness for growth and employment	(1.a)	15,433	10.8	14,537
Cohesion for growth and employment	(1.b)	54,188	37.9	51,042
PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES	(2)	61,289	42.9	57,731
ADMINISTRATION	(5)	9,095	(5.98)	8,567
Altro	(3&4)	11,971	8.4	11,276
TOTAL APPROPRIATIONS		**151,976**	**-**	**143,153**
TOTAL (OPERATIONAL) APPROPRIATIONS*		**142,881**	**100**	**134,586**

* No Administration

Source: Prepared on the basis of the *Budget of the European Union for the financial year 2010 - The figures*, January 2010

Particular attention must be paid to the sub-headings of "Natural Resources" (NR), in which case, the allocations derive from the ceilings of direct payments (Annex VIII of Regulation (EC) No. 73/2009, as amended by Regulation (EU) No. 360/2010), as proxies of the commitments of Pillar 1 of the CAP in full swing[38], and from the ceilings set by the Financial Framework for Rural Development[39] (annual average 2007-2013), as proxies of Pillar 2 of the CAP. The percentage weights of each sub-heading have been applied to the sum of payments pertaining to "Natural Resources" for 2013 amounting to almost 57,700 million euro (Table 5.2.). The item Other Natural Resources, measured as residual share, includes an aggregate of actions ranging from fisheries (i.e. European Fisheries Fund), the protection and preservation of the environment (i.e. Life+).

Table 5.2.: Breakdown "Natural Resources" by sub-headings (current prices)

	COMMITMENTS 2013	SHARE ON OPER. COMMIT. NATURAL RESOURCES	PAYMENTS 2013
	(meuro)	(%)	(meuro)
CAP - First pillar: ceilings 2013*	*45,830*	74.8	43,169
CAP - Second pillar: average 2007/2013**	*12,998*	21.2	12,243
Other Natural Resources	2,461	4.0	2,318
PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES	**61,289**	**100.0**	**57,731**

* Annex VIII, Regulation (EC) No. 73/2009 as amended by Regulation (EU) No. 360/2010
** Financial Framework for Rural Development

To facilitate the interpretation of results and assessment of effects, each Scenario will be compared to a "basic" Scenario representing the benchmark in the analysis. Scenario 1 (Section 5.2.1), which - on the basis of the current political and financial framework - shows the redistribution structures as of 2013, represents the reference simulation of the

[38] Exceptions are Bulgaria and Romania for which the full regime will be implemented in 2016 (Annex VIII Regulation (EC) No. 73/2009).
[39] http://ec.europa.eu/budget/library/documents/multiannual_framework/2007_2013/tab_rural_devt_2007-2013.xls.

analysis against which to interpret the changes in the national net balances (partial and total) resulting from other Scenarios.

However, one should note that Scenario 1, defining the "status quo" in 2013, presents substantial differences in the findings for the period 2007-2009. As pointed out later, in fact, even the mere application of the current political and financial framework implies major changes compared to the 2007-2009 average picture. These differences are determined both by the process of implementation of Pillar 1 of the CAP still in progress (increase in resources granted by the New Member States), the use of the average annual spending limit for specific headings (Cohesion and pillar 2 of the CAP), and - though to a lesser extent - the different methodology used for defining the national contribution to revenues[40] (see Section 5.1).

In each Scenario (with the exception of Scenario 1), in addition to allocation decisions between headings and sub-headings, the application of different criteria for the allocation of resources among the Member States is simulated. This multiplicity of criteria overwhelmingly involves the pillars of the CAP[41]. This effort is reflected in the tables proposed in Annex 2. However, in the following sections, attention is focused only on certain criteria for the allocation of financial resources among Member States (Table 5.3.). More specifically, it will be highlighted where they cause more extensive and significant changes in balances than those due to the very differences between Scenarios. Therefore, for the most significant cases we will distinguish between:

- ***Scenario effect***: variation defined by comparing the net balances of Scenario 1 (benchmark) with those of a simulation (2-4), keeping the ceilings for 2013 as the criterion for resource allocation among the Member States, which is the historical criterion;

- ***Allocation criterion effect***: variation defined by comparing the net balances of Scenario 1 (benchmark) with those of a simulation (2-4), applying to the latter a new allocation of resources (i.e. Table 5.3. and Annex 2).

Table 5.3.: Allocation criteria selected by intervention

	Allocation Criteria
CAP - Pillar 1	50%UAA; 50% VAP
CAP - Pillar 2	65%UAA; 35% agr. Labour; correction pcGDP (PPP)
Cohesion	IPRPE (for additional resources)
Competitiveness	Expenditures (average 2007-2009)

5.2.1. Scenario 1: The status quo

As previously described (Section 4.3.), Scenario 1 shows the natural evolution of this political and financial framework up to 2013, in order to draw the picture, as a benchmark, at the eve of decisions on the budget and CAP reform.

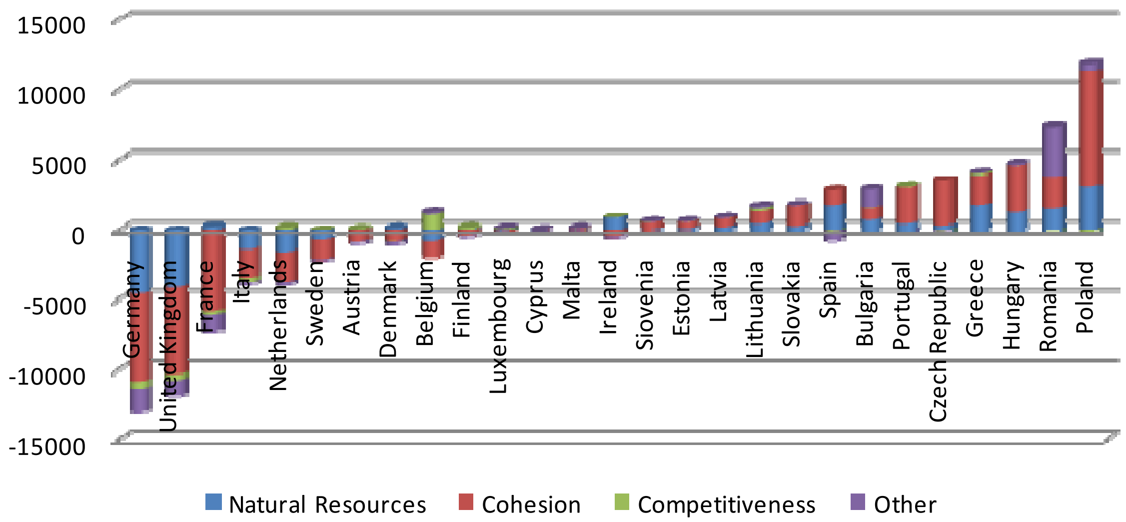
The simulation shows that, when fully implemented, we will see a deterioration in total net balances for the main contributors to the EU budget (i.e. Germany, the United Kingdom,

[40] As previously described, it deserves to be mentioned again that the Scenario of 2007-2009 will be defined on the actual contribution of the Member States to the budget (having preliminarily subtracted the effect deriving from the presence of the rebate), and not only on the GDP key, as occurs for the other Scenarios.

[41] This is reflected in Chapter 4.

France, Italy, the Netherlands and Sweden). As expected, the progressive implementation of the current programming cycle seems to imply in itself a strengthening of the "joint" nature at the base of the political project of the EU (De Filippis, Sardone, 2010). Even some older, less prosperous, Member States of the European Union (Greece, Spain and Ireland), which benefited from a positive net balance, are soon destined to deal with a contraction of that balance. In the cases of Denmark and Ireland it should be noted that the former sees a reinforcement of its recent position as net contributor, while the latter is undergoing a marked narrowing of its margin as beneficiary.

Figure 5.2.: Partial Net Balances Scenario 1



Source: INEA elaborations based on data from various sources

Focusing on partial net balances, national positions can be highlighted with respect to individual policies of the EU budget.

In particular, the "NR" heading - largely made up of the agricultural component - represents an important component in the determination of net balances, covering about 40% of the EU budget. Among net contributors there is a further decline in the position of Germany, the Netherlands, Italy, Sweden and Belgium while that of the United Kingdom remains essentially unchanged. France, however, sees a substantial weakening of its position as a net beneficiary, moving from third to twelfth place among the countries with a positive partial net balance. As regards the net beneficiaries, it is worth pointing out the role played by the progressive implementation of the national ceilings for direct support of the CAP (Annex VIII Regulation (EC) n. 73/2009), whose effects are particularly evident in the New Member States (i.e. Poland, Hungary and Romania).

The simulations show the measures in favour of "Cohesion" as priority factors in determining the total net balances in most countries. These measures deeply affect the negative balances of Germany, the United Kingdom, France, Italy, the Netherlands and Sweden; the sub-heading 1b of the EU budget also plays an important role in the positive balances of the NMS.

Under "Competitiveness", however, the partial net balances reveal a more heterogeneous situation than that observed previously for "Cohesion", in which there was a distinction between most of the old Member States from the new Member States. In pursuance of the objectives of growth and employment, investment in research, innovation and competitiveness, assigned to the sub-heading 1a, "Competitiveness" suffers the most from localization in the economically advanced countries.

5.2.2. Scenario 2: Equal budget and change between resources for Pillar 1 and 2 of the CAP

The scenarios developed in this section, in an attempt to test any proposals to reduce the financial resources pertaining to Pillar 1 of the CAP, deepens the analysis made so far by focusing attention on the various measures envisaged under the "NR" heading. In particular, the two scenarios that follow - as mentioned earlier (see section 4.4) - simulate a transfer of resources that takes place exclusively within heading 2 (NR) in favour of rural development, evaluating the effects (on net balances) if a mechanism similar to that of the current modulation is confirmed and developed (*Art. 10* Regulation (EC) No. 1782/2003).
In this regard two rates are proposed for a 5% (Scenario 2.a) and 20% (scenario 2.b) reduction of Pillar 1 payments.
In addition to changes in the net balances determined by a new "modulation", the resources allocated between the two pillars of the CAP are distributed among the Member States on the basis of objective allocation criteria, only some of which are presented in these paragraphs (Table 5.3)[42]. In some cases, the criteria for allocation of resources are prevalent, with respect to the changes characterizing each scenario, in the definition of the new position of a Member State in terms of net balances.

Scenario 2.a: The Inertial Decline

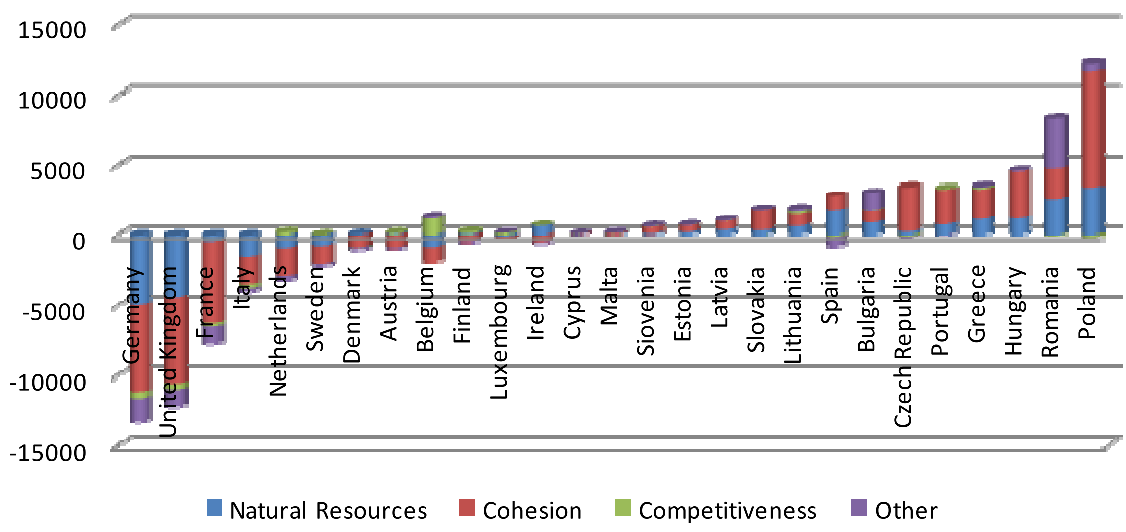
In this scenario, the shift of resources from Pillar 1 to Pillar 2 of the CAP is 5% of the direct payments (§ par. 4.4.2.).

Overall, comparing the scenario with the situation described in the benchmark (Scenario 1), we get four types of situations:

1. net contributors that worsen the total negative balance with respect to the benchmark (Denmark, France, Italy, Germany and the United Kingdom), while Belgium and Sweden remain substantially unchanged;
2. net contributors that improve the total net negative balance compared to the benchmark (the Netherlands, Austria and Finland, as well as Luxembourg with a slighter variation);
3. net beneficiaries that worsen the positive balance compared to the benchmark (Greece, Ireland, Cyprus, the Czech Republic and Hungary), to these Slovenia is added, whose balance is affected in a limited way to the conditions imposed in the scenario;
4. net beneficiaries that enhance the positive balance compared to the benchmark, affecting most of the NMS (Estonia, Lithuania, Latvia, Malta, Poland, Romania, Bulgaria and to a lesser extent Slovakia); this category also includes Portugal and, to a lesser extent, Spain.

[42] As already mentioned, the Annex shows the results of a wider range of simulations that test multiple combinations of criteria (or keys) for allocating the resources between the two pillars of the CAP.

Figure 5.3.: Partial Net Balances Scenario 2.a



Source: INEA elaborations based on data from various sources

If we focus only on the partial net balances for "NR"[43] we note a repositioning of the Member States in line with what observed in the case of total net balances. It is worth noting, even in this scenario, the transition of France from being a beneficiary of a positive balance (Scenario 1) to having a partial negative balance. With regard to the net contributors, there is a decline in the negative partial net balance of Germany, Italy and the United Kingdom, against an improvement that affects in particular the Netherlands and, secondarily, Luxembourg; in addition to these is Malta.
Most of the net beneficiaries for "NR", however, increase the amount of their partial net balance, except Denmark, Greece, Ireland, the Czech Republic, Hungary, Cyprus and Slovenia.

Under the NR heading, the effect of the resource allocation criteria in defining the new position of each Member State deserves further discussion. In fact, calculations clearly show how a different combination of criteria between CAP Pillars is able to determine important changes on the partial net balance such that it sometimes prevails over what is produced by the conditions laid down in the Scenario.

It is thus possible to highlight and distinguish the changes generated by the "scenario effect" from those attributable to the "allocative effect criterion" (see boxes below), referring to paragraph 5.2.5. the presentation of a brief summary.

[43] The other headings and sub-headings (Cohesion and Competitiveness) remain unchanged compared to scenario 1.

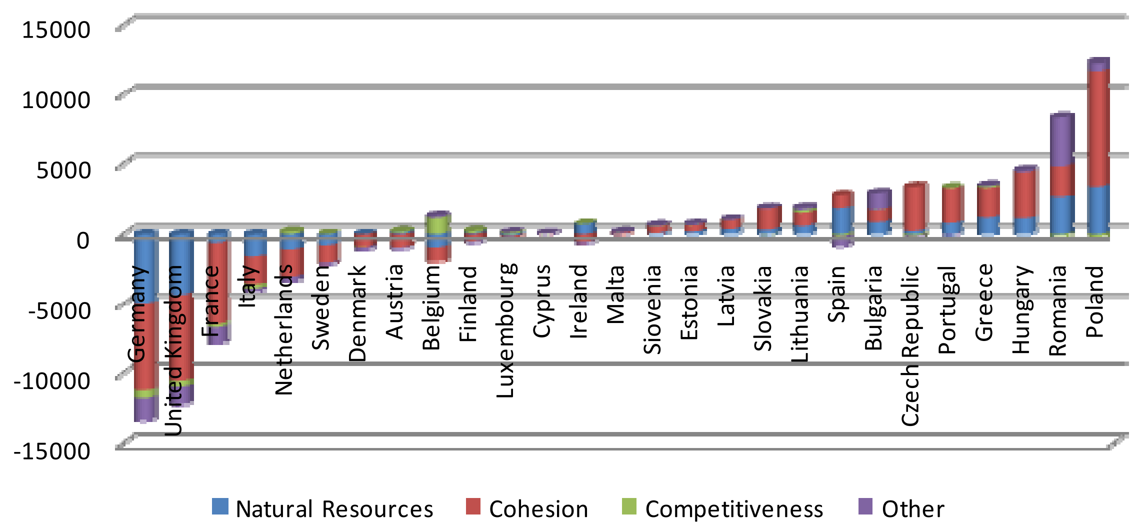
Box: effect of NR allocation criteria on the national position

France: the worsening of the net "NR" balance of France in this case is due to both effects (scenario and allocative): France would become a net contributor if CAP resources were redistributed according to the historical criteria (Pillar 1 and Pillar 2) and if the above-mentioned key were introduced (Table 5.3). However, the latter would be worse than the former case.
It would remain, however, a net beneficiary - albeit with a partial net balance significantly lower than that of the first scenario - if for Pillar 2 we used the allocative criteria defined as objective, while maintaining the criteria of Pillar 1 unvaried (historical criterion).
Denmark: the allocative effect weighs more than the scenario effect. The remaining partial net balance for "NR" would be slightly reduced, compared to that of Scenario 1, if the historical allocation criteria are still applied to Pillar 1. Applying the allocation key set out in Table 5.3, however, the partial net balance is reduced more markedly. Denmark, therefore, would be affected not so much by the transfer of funds to Pillar 2 but by the change in the criteria according to which the remaining resources would be reallocated to Pillar 1. A reallocation of the resources of Pillar 2, such as the one assumed in Table 5.3, would favour the position of the country, though to a limited extent.
Greece: the "NR" balance, besides barely suffering from the scenario effect, is further and largely disadvantaged by the introduction of allocation criteria for Pillar 1 different from the historical criteria (Table 5.3), remaining essentially neutral to changes in the resource allocation criteria for Pillar 2. The scenario and allocative effects therefore have a complementary and cumulative action on the position of the country as compared to the partial net balance.
Ireland: the deterioration of the partial net balance of this country is due to the allocative effect: in particular, the net balance worsens with respect to that of Scenario 1 in which new criteria are introduced for allocating the resources of Pillar 1.
If, given the transfer of simulated resources, the historical allocation criterion were kept for both Pillars of the CAP, the balance would remain almost unchanged (scenario effect), while the partial positive balance would increase if, next to the historical criterion for Pillar 1, new criteria were introduced for allocating the resources of Pillar 2.
Czech Republic: If no changes were made to the allocative criteria, the balance of this country would actually benefit from the conditions envisaged by the scenario (scenario effect): the "NR" balance, in fact, would increase, though to a limited extent. The worsening of the position of the Czech Republic would thus be attributed entirely to the allocative effect: in particular, the balance would deteriorate to the extent that the new elements were introduced into the allocation of resources of the two Pillars of the CAP.

Scenario 2.b: The Pillars Rebalancing

In response to a shift of resources, corresponding to 20% of Pillar 1, in favour of rural development (Section 4.4.2.), the total net balances show rather heterogeneous variations. In particular, among the net contributors, there is a decline in the balance of Denmark, France, Italy, Belgium and Germany, while the Netherlands, Finland and Austria see their negative balance improve compared to Scenario 1 (benchmark). Among net beneficiaries, it should be noted that Ireland would see its total net balance reduced, followed by Greece and Cyprus. However, the own net balance of Romania, Portugal, and Estonia would increase.

Figure 5.4.: Partial Net Balances Scenario 2.b



Source: INEA elaborations based on data from various sources

Focussing only on the partial net balances for "NR"[44], one can note how France would suffer from such a choice, losing the positive balance of the heading. Among the old Member States, the net contributors who suffer most from such a policy decision are: Italy, Germany, the United Kingdom and Belgium; however to these we must also add the net beneficiaries of the EU-15: Denmark, Greece Ireland and Cyprus which, on the contrary, would see their partial positive balance reduced, until the French case - mentioned above - which would change from being a beneficiary (Scenario 1) to being a net contributor.
Net contributors, which would benefit the most by reducing their partial negative "NR" balance, are also the Netherlands and Luxembourg. Finally, a large group of countries (11), already having a partial positive balance, would obtain an increase in their partial net balance.

Box: effect of NR allocation criteria on the national position

Denmark: the application of the historical criteria for allocating resources between countries – under the conditions set for the Scenario 2.b - would lead to the loss of the positive sign for "NR" (effect scenario). Implementation of various allocative criteria (Table 5.3.) would maintain a positive balance, though small (allocation criteria effect). In such a scenario, it would be advantageous for the country to limit the contraction of the positive balance, maintaining a historical criterion for Pillar 1 of the CAP and the use of objective criteria for Pillar 2.
France: the reduction of Pillar 1 of the CAP - of which France is known to be a net beneficiary - to the benefit of Pillar 2 would result in a net partial negative balance for the NR heading. In particular, keeping the historical criteria (scenario effect) shows a more marked decline compared to a complete change in the allocation criteria for the two Pillars of the CAP (Table 5.3.) and the allocation effect in this case would curb the amount of the partial negative balance for 2013.
In such a scenario, it would be beneficial for the country to apply the objective criteria for the allocation of resources for rural development, while maintaining the historical criterion for Pillar 1.

[44] The other headings and sub-headings (Cohesion and Competitiveness) remain unchanged compared to Scenario 1.

The Netherlands: the preservation of historical criteria determines a worsening of the negative balance compared to the benchmark (scenario effect); however, this trend finds gradual adjustments in the allocation criteria, allowing the country even to improve its balance if the revision of the allocation keys involves Pillar 1 of the CAP.
Italy: for this country there is an opposite situation to what observed for the Netherlands; the scenario effect is rather weak, leading to a slight worsening of the negative balance. In addition, the balance gets worse if the new criteria are applied, since the country is particularly vulnerable to allocations keys on Pillar 2 of the CAP.
Greece: the scenario effect on the country is rather weak; greater impact in this case comes from using objective criteria for the first Pillar of the CAP.

5.2.3. Scenario 3: Equal budget and reduction of CAP resources - Reinforcement of other budget items

The allocation of resources under the conditions of Scenarios 3.a and 3.b implies that the Member States with positive balances earn more under the "Competitiveness" and "Cohesion" headings. On the contrary, the most penalized countries are those with positive balances in the "NR" heading deriving from a high proportion of direct payments (Pillar 1 of CAP).

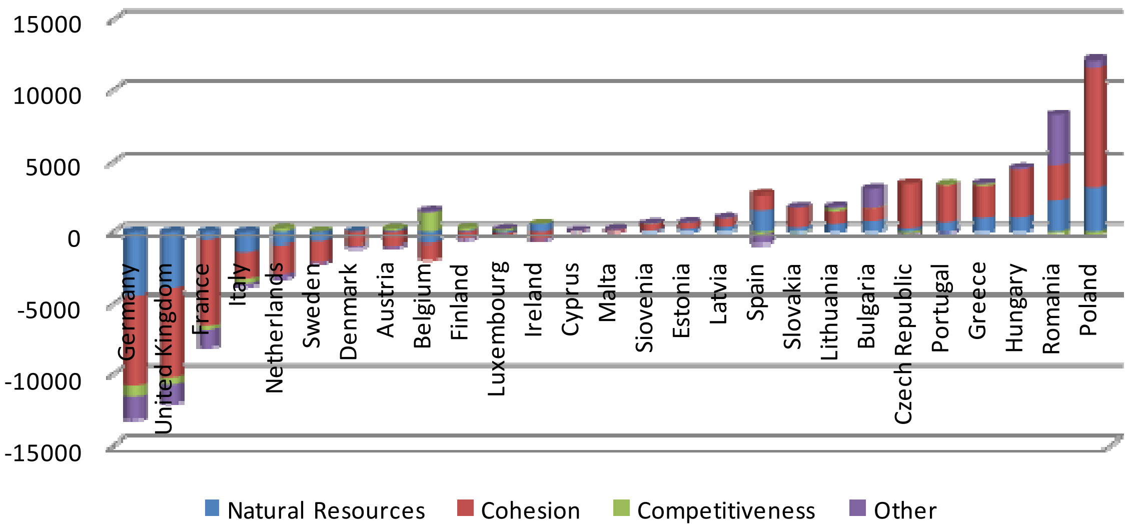
Scenario 3.a: The CAP Decline – Light

Figure 5.5. shows how countries with total negative balances are the same 11 as in Scenario 1, plus - considering the basic assumptions of the Scenario - even Ireland, which was a beneficiary and now is a net contributor of the EU budget. The variability between the extreme values of total net balances would remain almost unchanged compared to the benchmark.

Compared to Scenario 1, France and Denmark would experience an increase in their total contribution to the EU budget, and so would Germany, but to a much lesser degree. Italy, Sweden and the UK, however, given the combination of the conditions for the Scenario and the modification of allocation criteria (Table 5.3.), would remain completely unaffected in terms of total net balance, maintaining unchanged their contribution to the realization of the EU policy project. The net contributors who improve their total balance are Belgium, the Netherlands, Austria, Luxembourg and Finland.

In terms of net beneficiaries, the only ones to suffer a contraction in the total positive balance would be Greece, Spain, Czech Republic and Hungary, while nine countries, including the NMS (in addition to Portugal), would see a significant increase. The balance of Slovenia and Slovakia would remain substantially unchanged.

Figure 5.5.: Partial Net Balances Scenario 3.a



Source: INEA elaboration based on data from various sources

The curtailment of resources under the "NR" heading and the subsequent redistribution of some of them to Pillar 2 would decisively change the relative position of France, whose partial net balance would become in this case negative too, seeing the Pillar 1 deprived of a significant amount of resources. The other States which are net contributors, would continue to have a negative "NR" balance (as in Scenario 1), but more contained. More contained would become at the same time the surpluses in countries with a positive net "NR" balance. The application of the conditions of this scenario would imply an improvement of the positions of all countries with a partial negative "NR" balance and a worsening for almost all the countries with a positive partial net balance, with the exception of Austria, Finland, Estonia, Latvia, Lithuania, Portugal, Poland, Bulgaria and Romania which would earn a surplus greater than the reference.

As for "Competitiveness", the position of the partial net balances remains equal to that of Scenario 1 (note that in this case, the resources have been allocated to the Member States on the basis of the proportions of 2007-2009): the absolute values of the balances of all the countries therefore increase linearly, and therefore increase the variability between the extreme balances.

Even within "Cohesion" the intensity of the balances due to the increase of resources, re-distributed among Member States on the basis of their "IPRPE" values[45], increases fairly even. Among the States that in "Scenario 1" had a negative partial net balance, only Italy would experience a containment of the net outflow (for a savings of 30.4 million euro); among the States with a positive balance, only Slovenia and the Czech Republic would see their surplus decrease (although less than 1%).

Finally, although the relative positions are almost entirely maintained, it may be useful to think more deeply about the total net balances: all the countries with negative total net balances - with the exception of France and Denmark, for which the final result is

[45] As already pointed out in Chapter 4, the index is used as a criterion for allocating only the additional resources shifted from direct payments to "Cohesion".

influenced by the contraction of the CAP, Germany and Italy - would benefit from the application of the conditions simulated by the Scenario 3.a. Of these, Belgium would have a total net balance reduced by 43% with respect to the status quo, with a savings of approximately 314 million euro[46]. The remarkable improvement of the total amount in Belgium can be explained by the fact that it has in the partial net balance of Competitiveness a very positive component of the total net balance. As a result of this, the allocation of additional resources in this heading means an increase in the balance and a consequent decrease in the absolute value of the total net balance.

Among the countries with positive net balance, the reaction to the application of the scenario is more diversified: there are States that would earn by the redistribution of resources assumed (Cyprus, Malta, Latvia, Estonia, Portugal, Bulgaria and Romania), while the others (Greece, Spain, Ireland, Czech Republic, Hungary, Slovenia) would see a more substantial containment of the total surpluses, of which Ireland would suffer most of all: it would go from being a beneficiary country to being a net contributor.

In conclusion, the conditions envisaged by Scenario 3.a affect the total net balances of the Member States irrespective of their initial position as contributors or debtors.

[46] As already mentioned, the "Competitiveness" is affected by localization in economically advanced countries of activities and services suited to the objectives of the same sub-heading; Belgium is an obvious example.

Box: effect of NR allocation criteria on the national position

Denmark: scenario and allocative effects reveal a synergic action. In fact, the contraction of the partial positive balance determined by the case scenario hypotheses would be further amplified if they changed the allocation criteria of both Pillars of the CAP (Table 5.3.). A significant recovery of resources cut from the direct payments could derive from maintaining the historical criteria for Pillar 1, while using objective criteria for rural development. Conversely, the use of new criteria for Pillar 1 against historical criteria for Pillar 2 would lead to an almost zero "NR" balance of that country.
A similar situation would occur for **Ireland**.
Greece: in this case too the scenario and allocative effects reveal a synergistic action, as described for Denmark. In such scenario assumptions, therefore, for the country it is a priority to maintain the historical criteria in Pillar 1, while the criteria with which the resources of Pillar 2 are shared make no difference.
A similar situation would occur for the **Czech Republic** and **Hungary**.
France: scenario and allocative effects reveal a synergistic action: the partial net balance of the country - already negative due to the effect of the cut in direct payments - would further deteriorate if the criteria in Table 5.3 were introduced. As mentioned in the previous boxes, the country would be able to reduce the losses in the "NR" heading if they maintained the historical principles in Pillar 1 and introduced objective criteria in Pillar 2.
Germany: shows a clear dominance of the scenario effect over the allocative one. The country would benefit from a reduction of its partial negative balance if the historical criteria for both pillars of the CAP were maintained; the benefit would be slightly greater if the objective criteria were applied to Pillar 2. Therefore, a change to the criteria of Pillar 1 would be especially penalizing.
Such situation would affect the **United Kingdom** and **Italy**; latter, however, would benefit from a reduction of the negative balance by maintaining the historical criteria for the CAP as a whole.
Poland: scenario and allocative effects show diverging trends in this case, determining on the partial positive balance a contraction in the former case and an increase in the latter case. The greatest contraction arises from the maintenance of historical criteria for Pillar 1 and objective criteria for Pillar 2.
A similar situation would occur for **Romania**.

Scenario 3.b: The CAP Decline - Deep

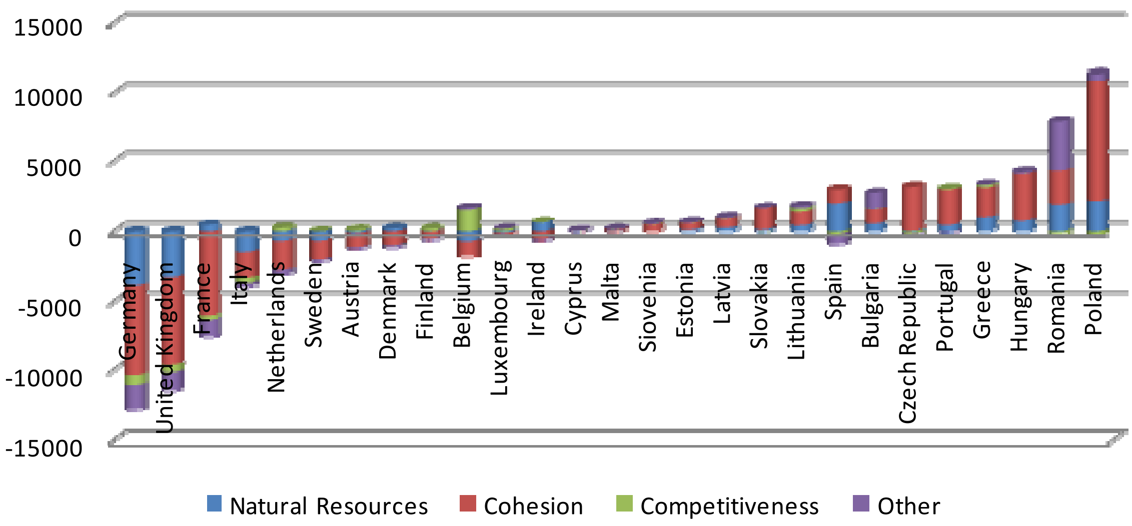
The total net balances of Scenario 3.b are represented in graph 5.6. The net contributors in this case would be the same 11 countries of Scenario 1, to which Ireland would be added. The variability between the maximum and minimum balances does not vary significantly.

For all the net contributor countries there would a reduction of the negative balance compared to Scenario 1 (*benchmark*), with the exception of France, Finland, Austria and, to a lesser extent, Italy and Denmark, which would see a worsening of the same. Among the countries that would see their position improve in terms of total net balance, Belgium is the one with the greatest relative variation, for a savings of over 480 million euro, followed by Luxembourg and the Netherlands.

As regards the net beneficiaries, the positions are diversified: eight countries, including Greece, the Czech Republic, Hungary and Poland, are disadvantaged by the scenario assumptions, while five other States, including Spain and Romania, would benefit; finally, in terms of total balance Portugal and Malta would remain in a neutral position.

Among the countries most disadvantaged by the scenario, Ireland would be the one that would suffer more than any other from the cut in direct payments of the CAP in favour of "Cohesion" and "Competitiveness". This imbalance can be explained in the amount of partial balances of the Ireland, which in Scenario 1 has a positive net balance due to the "NR" component; therefore, having reduced the relative weight of the agricultural policy on total balances, it would have a negative total balance.

Figure 5.6.: Partial Net Balances Scenario 3.b



Source: INEA elaborations based on data from various sources

The partial net balances for the "NR" heading would radically change with the application of the scenario conditions. The partial net balances of Denmark and France in particular, would improve compared to Scenario 1 because of the "correction" that would cause new allocation criteria for the CAP Pillars[47] (Tab. 5.3.): the worsening of their total net balance would therefore derive from negative impacts on the partial net balances of the other headings and sub-headings. Spain, Romania and Latvia would also see their partial positive balance increase, unlike the other net beneficiaries. Among the latter, the case of Austria and Finland, and, to a lesser extent, Cyprus, is particularly sensitive and they would see their balance become negative.

Regarding "Cohesion" in general, all the net contributor countries would see their partial net balance deteriorate, except Italy. The net beneficiary countries, however, for the most part would gain from the transfer of resources to "Cohesion".
With the increase in resources in the "Competitiveness" heading, the countries' positions would remain unchanged: to gain from such a scenario would therefore be countries with partial net balances under "Competitiveness" that were already positive in Scenario 1. The opposite trend would occur for the net contributor countries in this expenditure heading.

[47] Further details can be found the following box.

Box: effect of NR allocation criteria on the national position

Germany: scenario and allocative effects show a synergistic action, leading to a contraction of the partial negative balance that is greater with the application of objective criteria (Table 5.3.). However, for the country it would still be cheaper to maintain historical criteria for Pillar 1 and use new keys for allocating resources for Pillar 2.
The same situation is observed in **Luxembourg**, and the **UK**. The complementarity of the two effects can be seen also for **Belgium** and the **Netherlands**, where, however, the more favourable condition is based on new allocative criteria for both pillars.
Ireland: in this case too, the scenario and allocative effects show a synergistic action that would nonetheless entail a reduction in the partial positive balance that is more sensitive with the application of the so-called objective criteria (Table 5.3.). In order to minimize the contraction of the "NR" balance for Ireland, it would be advantageous to introduce new criteria allocated only to Pillar 2.
The same situation is observed for **Greece**. The complementarity of the two effects in the direction of a decrease in the positive balance is found also in **Portugal**, **Czech Republic**, **Estonia**, **Lithuania**, **Hungary**, **Poland**, **Slovakia** and **Bulgaria**.
France: the two types of effects show a diverging trend: maintaining historical standards, the country would become a net contributor of the heading (scenario effect), whereas if new objective criteria for both pillars were used, the partial net balance (already positive in Scenario 1) would further increase due to the increase of resources for Pillar 2 and the reduced participation in the expenses for the heading. For the country the best combination of allocation criteria is given by the maintenance of historical principles in Pillar 1 and the introduction of the new key in Pillar 2.
The diverging trend of the two effects and the simultaneous improvement in the balance with the application of new criteria also characterizes **Denmark**, **Spain**, **Latvia** and **Romania**.
The opposite effects (divergent) occur in **Italy**, **Austria**, **Finland**, **Sweden** and **Malta**. In particular, for Italy it would be beneficial in this case to preserve the historical criteria for the two pillars, while for the other countries it would be convenient to use new criteria for Pillar 1 (as well as for **Cyprus** and **Slovenia**).

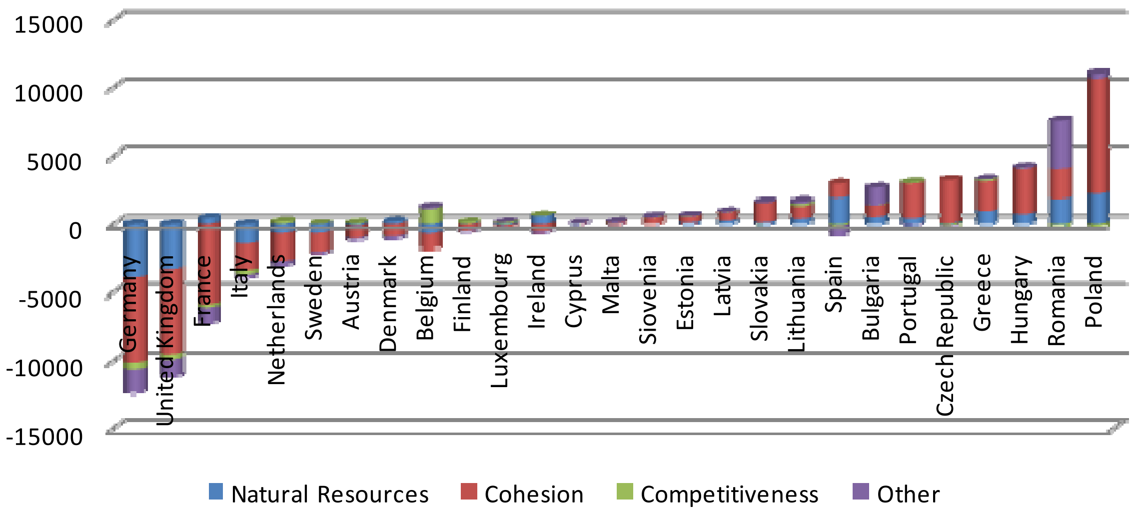
5.2.4. Scenario 4: Reduction of the budget and reduction of CAP resources

Graph 5.7 shows the partial budget balances for the simulation of Scenario 4, *The EU Project Decline*. The graph, which sorts the Member States on the basis of the value of the total net balance starting from the major net contributors, shows that 12 out of 27 have negative balances. The 20% reduction of the resources of the first Pillar of the CAP and the distribution of resources under the "NR" heading, according to the key selected (Table 5.3.), with the resulting cut in total resources of the budget, changes the amount of the total net balances of the Member Countries, thwarting the countries that gain more from the CAP and favouring those with a high proportion of contributions to the CAP. The relative positions of countries in the "ranking" of the balances remain almost the same as in Scenario 1, but also Ireland, which in Scenario 1 appears to be a net beneficiary , in this case would present a negative net total, feeling the effect of the heavy weight of the agricultural component in its total net balance. Compared to Scenario 1, the relative positions of Cyprus, Malta and Lithuania, who "gain" a position with respect to Ireland and Slovakia, change.

Recalling that the 20% reduction of the first Pillar of the CAP is entirely absorbed by the corresponding reduction in the budget, it is intuitive to conclude that for all the countries there is necessarily a decrease in the absolute value of the partial "NR" balance.

Consequently, the width of the interval decreases between the extreme balances in the heading. The same trend characterizes the total balance.

Figure 5.7.: Partial Net Balances Scenario 4



Source: INEA elaborations based on data from various sources

In general, countries that would benefit from the application of the above requirements are Germany, the United Kingdom, France, Netherlands, Sweden, Denmark, Belgium, Luxembourg, Latvia, Spain and Romania.

Latvia, Spain and Romania are the only countries with a positive total net gain from a cut in the CAP; for Germany, the United Kingdom and Sweden, a 20% cut in the CAP would mean an approximate 7% containment in expenditure for financing the EU budget with a corresponding positive effect on the balance. For Luxembourg, the reduction in the total net balance would be 20%, but Belgium and the Netherlands whose total (negative) net balance would contract by around 26%, would earn relatively more.

All the other countries would have curtailed total net balances compared to Scenario 1.

Finland and Austria are the only net contributor countries which, having a partial positive balance for "NR" in Scenario 1, would see their own situation worsen: a cut in the CAP and a distribution of resources on the new assumed key, would reduce the proportion of positive component of their total net balance. Italy would have a slight worsening of the total net balance (-0,5%).

The State that shows the greatest relative variation on the total net balance is Ireland (a cut in resources of the first Pillar of CAP - redistributed according to the key presented in Table 5.3. - by 20%, would mean a marked decrease in the net balance, with a loss of 273 million euro. In absolute terms, however, Poland would be more penalized: its total net balance would decrease by about 884 million euro because the partial net balance relative to the "NR" heading would decrease by about 3.07 billion (Scenario 1) to about 2.19 billion. Finally, for the Netherlands we observe a significant reduction of 953 million euro in the net balance.

Box: impact of allocation criteria on the national position for NR

France and Denmark: the increase in the "NR" balances of the two countries is entirely due to the allocative effect. With the cutting of resources of the first Pillar assumed by the scenario, and without the introduction of any re-allocative policy, countries would experience, in fact, a decrease in their "NR" balances. In particular, however, the allocative effect exerts a contrary action depending on whether it is acting on Pillar 1 or 2: the introduction of new criteria for allocating the resources of Pillar 2 would favour partial net balances of the countries against those who would be tested if they had kept the historical criteria for both pillars. In contrast, the partial net balances would increase more if, in addition to the reallocation of resources from Pillar 2, the historic allocation was kept on Pillar 1. Despite the reduction in CAP resources, France and Denmark would therefore enjoy the conditions assumed by Scenario 4 due to the reallocation of internal resources to Pillar 2.

In fact, the set of objective criteria for allocating resources for Pillar 2 take into account, with respect to the historical criteria, the "purchasing power parity" (see Tab. 5.3.), a condition that cannot but favour countries with a high GDP, such as Denmark and France.

Romania: also in this case the allocative effect determines the improvement in the "NR" balance, but unlike what happens in France and Denmark, it is the internal reallocation to Pillar 1 that has a positive effect on the position of the country. If the allocative criteria of Scenario 1 (historical) were kept, the "NR" balance would decrease; this, however, would more effectively decrease if the new criteria were introduced on Pillar 2, leaving unchanged those of Pillar 1. A reallocation of the resources of Pillar 1, such as the one assumed (Table 5.3.), however, would compensate for the loss of resources that the 20% cut in the pillar entails, to the point of favouring the country's position with respect to the partial net balance of Scenario 1.

Greece: both effects appear to be negative for the partial net balance of Greece, but the role of the allocative effect appears to weigh more on the worsening of the country's position. In particular, the contraction of the "NR" balance with respect to that of Scenario 1, is neutral upon inclusion of the new criteria of allocative Pillar 2, while it is highly sensitive to the change in the allocative criteria of Pillar 1. For this country, therefore, though it is true that the cut of resources in Pillar 1 would be burdensome, but it would be even more burdensome to re-allocate the remaining resources on the basis of criteria different from those adopted so far. An internal change to Pillar 2 does not seem to have a significant effect on the position of the country.

Ireland: both effects contribute to the reduction in the "NR" balance of the country. However, it should be emphasized that, while the introduction of new allocative criteria for the resources of Pillar 1 operates in the same direction as the scenario effect (thus shrinking the partial net balance of that country), new allocative criteria for the resources of Pillar 2 would curb the deterioration of the balance. The conditions assumed under Scenario 4, therefore, would thwart the Irish position in any event, but the country could suffer less from the cut if next to historical criteria for the allocation of Pillar 1 we introduced new criteria for Pillar 2.

The Czech Republic and Hungary: scenario and allocative effects act synergistically on the "NR" balances of the two countries. For each of them the partial net balance for “NR” worsens, with respect to Scenario 1; in fact the more we introduce new allocative criteria that act on Pillar 1 or 2, the more it worsens.

The Netherlands: in this case the "NR" balance would improve for the scenario effect and for the allocative effect, but the latter seems to exert a bigger role: in particular, the partial net balance improves significantly with the introduction of new allocative criteria in Pillar 1, but it is less sensitive to allocative changes within Pillar 2. The improved position of the Netherlands has therefore due to the cut in CAP resources (and the subsequent containment of the negative balance), and, above all, to a reallocation of the resources remaining in Pillar 1 of the UAA-VAP criteria.

5.3. An Horizontal Analysis of the Net Balances

5.3.1. A comparative approach for the evaluation of the Member States position

In view of the analysis just presented, it should be noted that despite the many variables involved in the definition of scenarios and the identification of criteria for allocating resources, the relative position of most countries tends to be free from major upheavals, taking into account the fact that we are comparing scenarios all based on a contribution to the EU budget calculated solely on GDP and without correction mechanisms. Upon closer examination, however, we can see that some countries prove to be more sensitive to changes of scenario, while others suffer more from changes to the allocation criteria, as has already exhaustively illustrated in the box above.

A second aspect to keep in mind - for a correct reading of the results of simulations - concerns the nature of the net balance (§ 5.1.): it quantifies in a single value the difference between costs and direct financial benefits of the EU membership; therefore, it has serious limits based on the fact that it is the result of a mere accounting calculation. The net balance is unable to consider all the intangible factors, not expressly of financial nature, that nonetheless arise from the participation and sharing in the EU project.

The following Tables (Tables 5.4., 5.5. and 5.6.) highlight, in an overview, the impacts on the positions of total and partial net balances of the Member States (compared to Scenario 1). They are based on the specific assumptions of the individual scenarios, although the criteria for allocation of the Pillars were modified (Table 5.3.). The Member States are divided into three classes according to the impact of simulation on own net balance. Therefore, they are distinguished as: winners (losers), i.e. countries that would have an advantage (disadvantage) if the assumed conditions were implemented, and those that would be indifferent, i.e. States where the changes would not result in significant changes[48] from the benchmark.

The application of Scenario 3.a (The CAP Decline - Light) is a simulation that would benefit - in terms of total net balance - the highest number of Member States, as many as 12 (Table 5.4.). However, if we wish to minimize the number of loser countries, then Scenario 2.a would be the one to disadvantage the smallest number of States.

Therefore the simulations show us how, after introducing the new criteria for reallocation of CAP resources among Member States, the scenario that would benefit the largest number of States is the one that brings more numerous changes in the distribution of resources among headings: Scenario 3.a., in fact, involves three sub-headings in the reallocation: Pillar 2 of the CAP, Cohesion and Competitiveness (other scenarios involve two sub-headings at the most).

Given the reallocation of the CAP resources among Member States according to the new criteria, the countries that would not benefit from any of the cases simulated are France, Italy, Denmark, Malta, Greece, Ireland, Hungary, Poland, the Czech Republic, Slovenia and Slovakia. Among them, Greece and Ireland are the only two States to be classified as "losers" in all the scenarios: their total net balance would suffer, compared to Scenario 1, in all cases, a relative decline of more than 5%. The countries that do not undergo a substantial (±5%) deterioration in own net balance, no matter what shift in resources is assumed (Scenarios 2-4), are the Netherlands, Portugal, Cyprus, Latvia, Lithuania, Estonia, Romania, Belgium and Germany. Among them, the Netherlands turns out to benefit from all simulations performed.

Table 5.4.: Position of the Member States for each scenario, compared to Scenario 1 (new allocation criteria - Table 5.3.): the Total Net Balances

	Scenario 2.a	Scenario 2.b	Scenario 3.a	Scenario 3.b	Scenario 4
WINNERS	Austria Netherlands Portugal Finland Latvia Estonia Lithuania Romania Bulgaria	Luxembourg Netherlands Austria Portugal Finland Estonia Latvia Lithuania Romania	Belgium Netherlands Luxembourg Austria Portugal Finland Estonia Cyprus Latvia Lithuania Romania Bulgaria	Belgium Luxembourg Netherlands Latvia Romania Spain	Belgium Germany Spain Luxembourg Netherlands Sweden United Kingdom
INDIFFERENT	Belgium Germany Italy Spain Sweden United Kingdom Czech Republic Cyprus Hungary Malta Poland Slovenia Slovakia Luxembourg	Spain Sweden United Kingdom Czech Republic Hungary Malta Poland Slovenia Slovakia Bulgaria Belgium Germany	Germany Italy Sweden United Kingdom Czech Republic Hungary Malta Poland Slovenia Slovakia	Denmark Germany France Italy Portugal Sweden United Kingdom Estonia Lithuania Malta Bulgaria	Denmark Italy France Portugal Estonia Latvia Lithuania Malta Romania
LOSERS	Denmark Greece France Ireland	Denmark Greece France Ireland Italy Cyprus	Denmark Greece Spain France Ireland	Greece Ireland Austria Finland Hungary Poland Czech Republic Slovenia Slovakia Cyprus	Greece Ireland Finland Austria Hungary Poland Czech Republic Slovenia Slovakia Bulgaria Cyprus

Source: INEA elaborations based on data from various sources

Also in relation to the "NR" heading alone, application of Scenario 3.a would benefit the largest number of countries, 13 out of 27 (Table 5.5.), and minimize the number of loser countries to 9 (as for Scenario 2b).

However, the overall results shown in Tables 5.5. and 5.4. shed light on unusual positions in terms of advantages and disadvantages. For example, conservative scenarios of the CAP, backed by countries that aim to preserve the current system of agricultural policy, could result in a disadvantage for the same in terms of partial net balance for "NR" and the total net balance; however, the same countries would not suffer from that disadvantage if more radical reforms of the CAP were decided, which would benefit them in terms of partial net

[48] Variations larger than ±5% are considered to be significant.

balance for "NR" and - at least - a substantial indifference in terms of total net balances (see the example of the French case)[49].

On the other hand, countries that are among the winners in terms of partial "NR" balances would be indifferent in terms of total net balances (e.g. Malta in Scenarios 2.a, 2.b and 3.a; Bulgaria in Scenarios 2.b; Denmark, France and Sweden in 3.b).

Table 5.5.: Position of the Member States for each scenario, compared to Scenario 1 (new allocation criteria - Table 5.3): the Partial Net Balance for "NR"

	Scenario 2.a	Scenario 2.b	Scenario 3.a	Scenario 3.b	Scenario 4
WINNERS	Austria Netherlands Portugal Finland Latvia Estonia Lithuania Romania Malta Poland Bulgaria	Luxembourg Netherlands Austria Portugal Finland Estonia Latvia Lithuania Romania Malta Poland Bulgaria	Belgium Netherlands Luxembourg Austria Portugal Finland Estonia Latvia Lithuania Romania Sweden Malta Bulgaria	Belgium Denmark Germany France Luxembourg Netherlands Latvia Romania Spain Sweden United Kingdom	Belgium Germany Denmark Spain France Luxembourg Netherlands Sweden United Kingdom Latvia Romania
INDIFFERENT	Belgium Spain Sweden Slovakia Luxembourg	Belgium Spain Sweden United Kingdom Slovenia Slovakia	Germany Italy United Kingdom Poland Slovakia	Italy	Italy
LOSERS	Denmark Greece France Ireland Germany Italy United Kingdom Czech Republic Hungary Slovenia Cyprus	Denmark Greece France Ireland Germany Italy Czech Republic Hungary Cyprus	Denmark Greece Spain France Ireland Czech Republic Hungary Slovenia Cyprus	Greece Ireland Austria Finland Hungary Slovenia Slovakia Czech Republic Portugal Estonia Lithuania Malta Poland Bulgaria Cyprus	Greece Ireland Portugal Finland Austria Hungary Poland Czech Republic Slovenia Slovakia Estonia Lithuania Malta Bulgaria Cyprus

Source: INEA elaborations based on data from various sources

In relation to "Cohesion" and "Competitiveness", the national balances would change only with the application of Scenarios 3.a and 3.b, the only ones that involve these sub-headings in the resource reallocation mechanism.

The weight of these two components on the total net balance of countries is much less important than the weight of "NR". The position of countries as winners (losers) in relation to the partial net balances of "Cohesion" and "Competitiveness" does not seem significantly to affect the position gained in relation to the total net balance.

As for "Cohesion", Table 5.6. shows that most countries would suffer a limited impact on the partial net balance in both scenarios and in particular in 3.a, while remaining indifferent

[49] It should be pointed out that the results relating to the "NR" heading are also the result of changes in the allocation criteria for allocating resources pertaining to Pillar 1 and Pillar 2.

to the assumptions of the simulations. As previously mentioned, the relative position of most countries tends to not show radical variations.

Table 5.6.: Position of the Member States for each scenario, compared to Scenario 1 (new allocation criteria - Table 5.3.): the Partial Net Balances for Cohesion

Cohesion		
	Scenario 3.a	Scenario 3.b
WINNERS	Romania Bulgaria	Romania Bulgaria Spain
INDIFFERENT	Germany Italy UnitedKingdom Poland Slovakia Sweden Malta Belgium Netherlands Austria Portugal Finland Estonia Cyprus Latvia Lithuania Denmark Greece Spain France Ireland Czech Republic Hungary Slovenia	Italy Cyprus Greece Ireland Austria Belgium Germany France Netherlands Latvia UnitedKingdom Hungary Slovenia Slovakia Czech Republic Portugal Estonia Lithuania Malta Poland
LOSERS	Luxembourg	Denmark Luxembourg Sweden Finland

Source: INEA elaborations based on data from various sources

In the case of "Competitiveness" (Table 5.7.), application of Scenarios 3.a and 3.b would benefit from the 17 out of 27 States (the same in both cases).

Table 5.7.: Position of the Member States for each scenario, compared to Scenario 1 (new allocation criteria - Table 5.3.): the Partial Net Balances for Competitiveness

Competitiveness		
	Scenario 3.a	Scenario 3.b
WINNERS	Luxembourg Netherlands Austria Portugal Belgium Ireland Finland Sweden Estonia Cyprus Latvia Lithuania Hungary Malta Slovenia Bulgaria Greece	Luxembourg Netherlands Austria Portugal Belgium Ireland Finland Sweden Estonia Cyprus Latvia Lithuania Hungary Malta Slovenia Bulgaria Greece
INDIFFERENT		
LOSERS	Denmark Germany Spain France Italy United Kingdom Czech Republic Poland Slovakia Romania	Denmark Germany Spain France Italy United Kingdom Czech Republic Poland Slovakia Romania

Source: INEA elaborations based on data from various sources

5.3.2. The greening perspective

The greening of the CAP – as already mentioned – is a sort of horizontal process that can be reached at different levels and under different scenarios. For the purpose of the present study, the greening process is represented by the shift of resources from the Pillar 1 to the Pillar 2 of the CAP, on one side, and by the re-allocation of CAP resources (Pillar 1 and Pillar 2) among MS, implementing a combination of objectives criteria which integrates structural, socio-economic and environmental issues, on the other side.
The European Commission proposal about the greening of Pillar 1 is, at the moment this study is realised, difficult to foresee. However, some evidences on the impact due to the reinforcement of the greening component inside the Pillars are provided.

Following the approach which characterizes the study, we define the "greening effect" by the application of the most complex mix of allocation criteria instigated:

- for the Pillar 1: 40% UAA + 40% VAP + 10% Natura 2000 + 10% rural population;

- for the Pillar 2: 65% UAA + 35% agricultural labour (PPPs correction).

Results are assessed comparing the partial net balances for "NR" of scenario 1 (*benchmark*) with those of the abovementioned simulations (scenarios 2-4), applying to the latter the aforesaid formula (see Annex 2, columns H for detailed results).

Generally speaking, the NMS are the main beneficiaries from a process of greening of the CAP, whose partial net balances for "NR" highlight an improvement determined by a sound "greening effects". In particular, Estonia, Cyprus, Malta, Latvia, Lithuania, Slovenia, Slovakia and Romania benefit – whatever the scenario considered – of a favourable reallocation of resources if compared with the historical criteria based on current ceiling. In these countries, it is the greening of the Pillar 1 to lead the enhancement. The implementation of objectives criteria to Pillar 2, even though affects negatively the partial net balance, is not able to offset the abovementioned positive "greening effect".

Regarding Poland and Bulgaria, instead, the increase determined by the "greening effect" of the Pillar 1 on the partial net balance for "NR" is completely offset, in some scenarios, by Pillar 2 new criteria.

Furthermore, Czech Republic and Hungary suffer a reduction of partial net balance for "NR" due to "greener" criteria both in the Pillar 1 and 2.

Among Member States of EU15, the only four countries which benefit from a reinforcement of the greening components inside both the Pillars of the CAP, can be grouped into two clusters: Luxembourg and Netherlands, on one side, which show a synergic contribution among Pillars; and Portugal and Finland where the "greening effect" is lead by Pillar1 while the Pillar 2 plays a counterbalance role.

On the other side, Germany, Greece, France, Ireland and Italy would be negatively affect by a process of greening of the CAP as depicted.

Regarding the other old MS of EU15, the extent of the "greening effect" change by scenario: those countries (Belgium, Denmark, Spain and Sweden) which benefit largely by the application of new criteria on the Pillar 2 are positively affect by a growing share of transfer of resources from EAGF to EAFRD or by a cut of CAP endowment (in the latter also United Kingdom).

Finally, "greener" criteria to Pillar 1 affect positively the Austrian partial net balance for "NR" in all the scenarios, although the counterbalance role of Pillar 2 results overriding in some scenarios, generally whenever the share of resources allocated to the rural development is increased.

6. CAP REFORM AND CO-FINANCING

KEY FINDINGS

- The CAP could gain some leverage in the coming budget debate by outlining some longer term reforms, such as the extension of the co-financing principle to Pillar 1 expenditure. However, the most recent Commission's proposals do not propose any ambitious change on the financial issues.
- Even if **there are not actual co-financing proposals** on the table, it is quite **likely that they will pop-up again (sooner or later)**. This would make the EAGF expenditure consistent with the principles adopted for other components of the EU budget. Moreover, it would make it easier the negotiation on the Financial perspectives, since it would reduce the cost of the CAP.
- Criticisms of the co-financing on the ground that it fostered the re-nationalisation of the CAP are instrumental. Within the limits required by the maintaining of the Single market, national governments should be allowed to set their own priorities on the distributive ground. **Co-financing mechanisms consistent with the principle of subsidiarity could help to get a satisfactory answer to the problem of allocating responsibilities among different levels of government**. Eventually, these mechanisms will “convince”, rather than “force”, national governments to implement specific expenditure patterns through a system of selective matching transfers.

6.1. Co-financing in the process of CAP reform

This section focuses on the role played by the mechanisms of co-financing that have always played a major role in CAP. According to the principles currently governing Structural Funds, Member States are required to match EU spending. Unlike the European Agricultural Guarantee Fund (EAGF), rural development measures financed by the European Agricultural Fund for Rural Development (EAFRD) are based on the principle of co-financing (Reg. (EC) n. 1290/2005).

One relevant issue of the recent CAP reform proposals regards the transfer of the budget from Pillar 1 to Pillar 2, which would mean additional national co-financing. More generally, the ongoing process to shift spending from Pillar 1 to Pillar 2 could be considered as a "budget-consistent" strategy to maintain an European Union (EU) agricultural policy.
If the process of CAP reform strengthens the link between agricultural expenditure and the provision of public goods and externalities, we believe that it will be difficult to avoid an extension to the EAGF of the principle of co-financing currently governing most of the remaining EU expenditure. Accepting the arguments for the continuation of Pillar 1 funding after 2013 rather than shifting its resources to Pillar 2, the rationale for co-financing is much less obvious, but the maintenance of an EU budget for the Pillar 1 could be secured by some degree of co-financing.

The possibility of introducing some mechanisms of co-financing was firstly mentioned with the diffusion of the Agenda 2000, a document in which the Commission proposed a more general rethinking of the whole economic and social policies of EU (European Commission, 1997). The sharp rejection of co-financing, especially from France, was (and quite often still is) justified with the argument that it would be a "first step" toward re-nationalization of the CAP. This may be a serious concern even if the present agricultural policy instruments are much less distortive than the price policies of the "old CAP". As a matter of fact, although it is true that compensatory payments have no allocative aim, this does not certainly imply that they have no allocative effects. In this respect, as long as the payments to farmers are not fully "decoupled", the Commission has a crucial role to play in ensuring the preservation of the internal common market.

On the other hand, it should not be forgotten that the more agricultural policy instruments move away from price support mechanisms, the more agricultural policies should be implemented as well as financed at the level of the Member States rather than at the level of the EU (De Filippis, Salvatici, 1993). More generally, the "re-nationalisation critique" seems instrumental since the co-financing mechanisms do not address at all the "assignment problem", that is the allocation of responsibilities to various levels of government. Co-financing only implies a different burden sharing of the financial cost of policies that are still designed and implemented at the EU level. It is also worth emphasizing that co-financing does not imply an increase in the administrative burden for Member States: presently they provide payments, and then get 100% back from the EU budget; with co-financing, they would be partially reimbursed.

The issue is likely to resurface in the debate about CAP reform and new financial perspectives. If European resources for agriculture are going to shrink, an obvious candidate to raise additional funding is co-financing, which has been advocated in various reports from the European Parliament (Böge 2006; Lamassoure 2006). It is important, then, to have a better understanding of the *pros* and *cons* of different possible mechanisms of co-financing and to provide a quantitative assessment for some of them.

6.2. Co-financing models

Mandatory national expenditures

It is the cost-sharing model that would transfer some (or, more radically, all) of the burden of financing the direct payments to the Member States. The crucial characteristic of this option is that the level of expenditure would remain mandated at the EU level. It should be recalled, though, that the EU has no constitutional powers to mandate that Member States commit to a pre-specified level of expenditure, so legally this option is not a runner. Moreover, this model is not consistent with the *subsidiarity* principle. In fact, in terms of fiscal federalism, the responsibility for financing should go along with the possibility for Member States to decide at least the amount of the expenditure.

Necessary national expenditures

This cost-sharing model represents a generalisation of the principles currently governing Structural Funds expenditure where the financial burden is shared since the Member States are required to match the EU spending. Under current Pillar 2 arrangements, Member States are assigned reference expenditure amounts but, in order to draw these down, they are required to provide some co-financing: the amounts vary according to whether or not a region fits the "Convergence Objective" features and the type of measure.

This model could be applied to Pillar 1 in a similar fashion, by assigning to each country a reference amount (which would be smaller than the current national ceilings for Pillar 1 direct payments), but requiring Member States to match this funding according to some key, which would be differentiated to reflect the financing capacity of individual Member States.

The *Necessary model* could, at least in principle, allow for an increase in Pillar 1 spending given that a euro of EU spending would now leverage some fraction of a euro of national spending, depending on the co-financing rates which to be established and the agreed size of the Pillar 1 budget after 2013. From a farmer's perspective, however, the total amount of resources likely to be available for support would become more uncertain, because it would be subject to decision-making at two separate levels. For domestic policy reasons, some Member States might not wish to put up the national financing to fully draw down the available EU budget. However, if a Member State decided to reduce the level of direct payments to its own farmers, it would bear the cost of foregoing a budget transfer from the EU.

The adoption of a matching transfers system by the EAGF presents two major benefits. First, the national matching or cost-sharing component provides the EU with a certain degree of control, since it requires a degree of accountability by national governments, ensuring that funds are directed toward expenditures on which the Union places a priority and addressing concerns about any possible 're-nationalization' of the CAP. Second, such an approach could easily take into account some equity concerns, through the adoption of different reimbursement rates according to the national (regional) income levels. In this perspective, the fine-tuning of co-financing rates could be used to influence the balances between national contributions to and receipts from the EU budget and this could greatly help in finding an agreement about the 2014-20 Financial Perspectives.

The specific design of the financial management so far differs between EAGF (Pillar 1) and EAFRD (Pillar 2) spending as regards the set of required accredited national authorities and the management mechanism. Pillar 2 payments are very different from Pillar 1 since they are disbursed on a programming basis after programs reviews and with multi-year commitment periods. Spending under the EAFRD, as a matter of fact, takes place under a rather complex procedure starting from the programming phase and including extensive monitoring. In particular, national strategies based on overall Council's strategies have to be specified by national multi-annual rural development programmes which are to be approved by the Commission for the whole phase of a financial perspective. As a consequence, the change of Pillar 1 spending procedures by allowing national co-financing may have an impact on the financial management procedures and involved authorities.

Optional national expenditures

This is a variant of the top-up model which has been used in the New Member States. New Member States, as a matter of fact, have been granted a derogation possibility to complement any direct payment with a complementary national direct payment ("top-ups"). They are funded by national budgets, and can be granted as supplements to the EU payments or, within limits, as commodity specific area or head payments. Total payments cannot exceed 100% of the EU payment rates.

According to this model, Member States would be allowed to increase the value of the single payments provided it was funded from their own resources. Allowing Member States to fund higher values of the Single Farm Payment (SFP) would raise concerns that competition within the single EU agricultural market would be distorted, although in principle the rhetoric around the SFP is that it does not have a production effect where it is fully decoupled. To alleviate such concerns, the EU could specify a maximum value to the top-up payment which would be allowed (as implemented for the New Members States in their phasing-in period).

This model has acted as a strong disincentive for cash strapped countries in implementing agri-environmental measures. As a consequence, there are worries that the *Optional model* could also result in a low protection of European public goods by a Member State, if the required rate of co-financing is going to be set too high. In this perspective, co-financing could be an obstacle for the implementation of policies – even those that are desirable from an EU wide point of view - in (relatively) poorer Member States.[50]

The impact on the overall level of direct payments to European farmers is unclear, as some Member States would make use of this freedom to reduce (even eliminate) direct payments, while others might be expected to increase them, relative to a continuation of the current baseline. As a consequence, the agricultural lobbies could be more worried about an overall reduction of the agricultural expenditure since Member States would have lower incentives to contribute the 'top ups'. On the other hand, this model of co-financing would prevent agricultural budget to be reduced to zero, if Member States cannot provide co-financing.

Finally, from a fiscal federalism point of view, the *Optional model* is less appealing than the *Necessary model*. As a matter of fact, it has lower incentive power to implement specific expenditure patterns through a system of selective matching transfers.

However, if economic recovery does not happen, the Member States will find it difficult to accept bridging the gap of the reduced EU budget through increased co-financing of the CAP payments. In this perspective, it is quite natural to envisage the possibility of a mix between the Necessary and Optional models. The 'mixed model' would allow for a share of the EU expenditure granted independently from the national governments' choices, while the rest of the EU budget could be used by the Member states only sharing the burden of the policies' costs.

6.3. Co-financing goals

Allocative efficiency improvements

Financial contribution creates an incentive for Member States to use EU funds responsibly to fulfill genuine needs. Member States can be expected to manage public funds more efficiently, attaining a greater impact for a given amount of money, if they share the burden of costs.

Moreover, there are few public goods that are fully "European": most of them have a higher value for local citizens, so it makes sense that local stakeholders contribute to the costs, in addition to EU taxpayers. This could rely on the idea of predefined national envelopes and co-financing rates that differ between Member States.

[50] Note that co-financing has sometimes resulted in under-utilization of the EU budgets also in "old" Member States.

Given that flexibility within predefined national envelopes as well as different rates of co-financing between programmes and Member States are advisable, the rate of co-financing might be adjusted between Member States or between the type of farming/landscape protection involved, based on some objective criteria. Ideally, the differentiation of co-financing rates should be developed further in order to maximize the leverage effect of the EU budget.

One aspect of differentiation concerns the nature of the supported programme. EU contributions in favour of public goods with strong cross-border effects should be higher than those for public goods where most benefits remain within the subsidizing country. In other terms, the degree of co-financing could be different when public goods are local or when they are truly of importance for Europeans as a whole (migrating birds, climate, landscape with European importance, biodiversity under Natura 2000, water, etc.).

Furthermore, it is reasonable to presume that relatively poor regions are less likely to provide the optimal level of European public goods in agriculture and should therefore receive higher EU contributions. Accordingly, programmes implemented in poorer Member States should receive greater EU support.

Finally, the very fact that the current Pillar 1 is exclusively funded by the EU taxpayer whereas Pillar 2 requires some co-financing is a source of political distortions. Extending co-financing to Pillar 1 is useful to break the habit of calling for income support because this is (largely) paid by taxpayers in other Member States. Both Pillars, then, should be co-financed by Member States so as to avoid the current incentives against schemes that aim at supporting the provision of public goods. Co-financing would clearly raise complex institutional difficulties which deserve further examination, but it would be an important step towards removing the current policy bias generated by differences in co-financing between the two Pillars.

Facilitation of a budget agreement

Co-financing provides the EU with higher leverage for its limited funds, so that the Union could either more comprehensively shape European policies without increasing the budget or reducing the budget size maintaining the scope of the present EU agenda. Moreover, co-financing implies a reduction both of deficits and surpluses for net contributors and beneficiaries. Such a reduction of the financial redistribution could make it easier to reach an agreement on the next Financial guidelines. The degree of co-financing, then, is a politically sensitive issue that is likely to be dealt with during the negotiations about the 2014 – 2020 EU budget.

As far as the CAP is concerned, co-financing would allow to re-balance the financial contribution of the Member States to the EU budget without (necessarily) changing either the CAP instruments or its financial endowment. From the political point of view, this is a crucial issue since the structural financial imbalances among Member States are a central element of discussion at the eve of any possible CAP reform. As a matter of fact, it is well known that the positions both of net contributors like Germany and the Netherlands and net beneficiaries like France and Ireland hinge upon the effects of the possible reforms on the net budget positions.

The obsession with net balances distorts decision-making and risks to lead to sub-optimal EU decisions. Addressing distributional outcomes explicitly removes this incentive problem through the separation of distributional outcomes from allocative decisions on how to spend the EU budget. This could be achieved if the Member States (MS) agree *ex ante* on the desired level of inter-MS transfers. MS would negotiate the expenditure ceilings on individual financial headings, knowing that any decisions would not affect their *ex ante* agreed net balance (de la Fuente, Doménech and Rant, 2010). It would therefore be preferable to have a more nuanced set of, or formula for, co-financing rates that is responsive to regions' and Member States' GDP per capita.

Box: Co-financing and New Direct Payments

In the latest communication on CAP reform (COM(2010) 672) there is no mention of possible co-financing of Pillar 1. However, it is worth spending a few words on the expected effects of co-financing of the proposed different components of new direct payments.

The co-financing of the basic component of direct payments (the one that has as main goal the farmers' income support) can be basically considered as an extension of the principle of co-financing as it is featured for Pillar 2. Looking at the theoretical schemes of co-financing (see § 6.2), this is the case of "necessary national expenditures": if the single Member State wants to have access to that form of support (that is the basic direct payments as a form of income support) it has to co-finance the financial burden.

On the other hand, it could be possible also to co-finance the "green component" of direct payments. In this case, the single Member State might decide also to top up the financial resources devoted by the EU to the green component according to specific needs to improve local public goods through direct payments. This is the third model of co-financing mentioned earlier, the so called "optional national expenditures".

In theory, the two models of co-financing could even co-exist in the new CAP, since they respond to different ends and are compatible with the overall structure of the new CAP.

As for the effects of these two co-financing components, the first is like a linear reduction of the EU financial burden that shifts on the Member States. The net effect of this depends on the position of the single Member State as a net beneficiary or contributor to the specific heading in the EU budget. On the contrary, the second case, the possible co-financing of the green component of direct payments, depends on two factors: the level of co-financing decided by each Member State and the level of (voluntary) response of farmers in each Member State to the specific measure representing the greening commitment in order to have full access to direct payments.

6.4. The implications of co-financing for the Net Balances : an application

In Table 6.1., we compare the results of a 20% reduction in the Pillar 1 expenditure (Scenario 4) with the baseline (Scenario 1). In other terms, we assume that the EU is to reimburse the Member States only 80% –instead of 100%, as it currently is the case – of the expenditures afforded for their farmers' CAP direct payments.

Each member State is expected to compare the reduction in the payments received (column e) with the saving in the contribution paid to the EU budget (column g) calculated by redistributing the total savings (8,634 million euro) proportionally to the GDP shares. The difference between these two values is the amount each Member gains or loses as a consequence of co-financing. For 16 countries such a difference is negative and, with the exception of France, all these countries are net beneficiaries from the EU budget. These are the countries that can be expected to oppose any co-financing proposals and may not be willing/able to use the national budget to make up for the whole reduction in the EU expenditure under an Optional co-financing model.

In absolute terms the largest reductions in the net budget balances would be registered by Poland, France, Spain and Greece with losses around 300 million euro. On the contrary, the largest beneficiaries would be net contributors countries, such as Germany and United Kingdom with gains largely exceeding 500 million euro.

Table 6.1.: Impact of Pillar 1 co-financing on Member States (Scenario 4: cut of 20% of Pillar 1) – million euro

	Pillar 1 - direct payments			Budget savings	Co-financing Impact
	scenario 1	scenario 4			
	(a)	(b)	(e= b-a)	(g)	(h=e-g)
Belgium	589	471	-118	-244	126
Denmark	1,005	804	-201	-165	-36
Germany	5,605	4,484	-1,121	-1,715	594
Greece	2,123	1,698	-425	-146	-279
Spain	4,932	3,945	-986	-702	-284
France	8,162	6,530	-1,632	-1,342	-291
Ireland	1,284	1,027	-257	-110	-146
Italy	4,188	3,351	-838	-1,050	212
Luxembourg	36	28	-7	-29	22
Netherlands	860	688	-172	-391	219
Austria	720	576	-144	-189	45
Portugal	581	464	-116	-110	-6
Finland	546	437	-109	-122	12
Sweden	738	591	-148	-270	122
United Kingdom	3,819	3,055	-764	-1,296	532
Czech Republic	871	697	-174	-133	-41
Estonia	97	78	-19	-11	-9
Cyprus	51	41	-10	-13	2
Latvia	140	112	-28	-13	-15
Lithuania	364	291	-73	-20	-53
Hungary	1,263	1,010	-253	-73	-179
Malta	5	4	-1	-4	3
Poland	2,915	2,332	-583	-272	-311
Slovenia	138	110	-28	-26	-1
Slovak Republic	372	297	-74	-50	-24
Bulgaria	556	444	-111	-27	-84
Romania	1,211	969	-242	-112	-130
EU27	**43,169**	**34,536**	**-8,634**	**-8,634**	**0**

In order to have a better sense of the relevance of gains and losses for different countries, in Table 6.2. for each country we divide the co-financing impact by total EU transfers (column m) and net budget balance (column n).

In terms of the share of total EU transfers, the largest (negative) impact (roughly 50%) would be for some new Member states such as Bulgaria, Lithuania and Hungary. On the other hand, for most of the countries that would benefit from co-financing the share on total transfers never exceeds 6-7% even for countries such as Germany and United Kingdom that register the largest impacts in absolute terms.

The picture is quite different if we look at the shares on the net budget balances. Even excluding the extreme value of France (more than 900%), we get large percentages both for beneficiaries and losers from the co-financing. The general message is that absolute figures may be misleading and the countries' positions may better explained looking at what is at stake in relative terms.

Table 6. 2.: Pillar 1 co-financing: gains and losses for each Member State (Scenario 4) – values in million euro

	Co-financing Impact			Gross benefits	Net balance
	(h=e-g)	(m=h/i)	(n=h/l)	(i)	(l)
Belgium	126	9.1	-16.7	1,387	-756
Denmark	-36	-3.8	-29.7	937	121
Germany	594	6.1	-14.8	9,696	-3,998
Greece	-279	-33.7	-18.5	827	1,510
Spain	-284	-7.1	-19.3	3,985	1,473
France	-291	-3.8	931.8	7,620	-31
Ireland	-146	-23.2	-19.5	631	752
Italy	212	3.6	-17.6	5,941	-1,203
Luxembourg	22	13.3	-18.9	165	-117
Netherlands	219	9.9	-15.6	2,210	-1,400
Austria	45	4.2	78.6	1,070	57
Portugal	-6	-0.9	-1.2	624	481
Finland	12	1.8	19.8	691	63
Sweden	122	7.9	-18.9	1,546	-649
United Kingdom	532	7.2	-14.6	7,412	-3,656
Czech Republic	-41	-5.3	-13.1	777	313
Estonia	-9	-14.3	-6.6	61	131
Cyprus	2	3.3	45.5	72	5
Latvia	-15	-20.9	-6.9	73	222
Lithuania	-53	-46.6	-12.3	114	430
Hungary	-179	-42.8	-15.9	419	1,125
Malta	3	13.5	-53.1	24	-6
Poland	-311	-20.0	-11.3	1,558	2,767
Slovenia	-1	-0.8	-1.4	151	88
Slovak Republic	-24	-8.5	-8.5	287	286
Bulgaria	-84	-54.7	-13.4	154	628
Romania	-130	-19.6	-9.5	664	1,364
EU27	**0**	**0.0**	-	**49,097**	**0**

7. CONCLUSIONS: THE SWOT ANALYSIS

KEY FINDINGS

- The **SWOT** analysis is an **effective tool to assess the scenarios of EU budget review and CAP reform**, although to some extent affected by the subjective judgment and varying according to the point of view of different actors.
- Although with different intensity and potential impacts.
- **Some scenarios are compatible, to a various extent, with the goals of Europe 2020 and the CAP reform**, others imply an actual decline of the CAP as a milestone of the EU and a re-thinking of the EU project itself.

7.1. General remarks

The SWOT analysis is a strategic planning method used to evaluate Strengths, Weaknesses, Opportunities, and Threats involved in a project (or in a policy proposal). It requires the specification of the project objective(s) and the identification of internal and external factors that are favourable and unfavourable to achieve that objective(s). Strength/Weakness analysis aims at evaluating the inner situation of the project (proposal): a Strength (Weakness) is an advantage (disadvantage) that can favour (hinder) the exploitation of the Opportunities and avoid (aggravate) the Threats. Opportunity/Threat analysis aims at evaluating the external situation of the project (proposal) which can either favour (hinder) the realisation of the expected results, or hinder (favour) the realisation of unfavourable outcomes.

The SWOT analysis facilitates the understanding of the priorities between alternative actions in the achievement of the short, medium and long term objectives (Moseley, 1996; Weihrich, 1982). However, when SWOT analysis is applied to policy alternatives, a clarification is necessary (Sotte, Chiodo, 2005). In particular, it is important to keep in mind the target of the analysis and the final beneficiaries: it is quite evident, in fact, that a strength for a specific target or social category (i.e.: producers) can be a weakness for another (i.e. consumers).

In this case, the focus of the analysis will be the CAP, and all the other budget issues will be assessed according to the effects on the CAP and following the primary effects on it. The main focus will be the overall social welfare, keeping in mind the main social categories (producers, consumers, tax payers) and the balance between new and old Member States in the EU-27.

In particular, the methodology will be used to assess the following issues:

- the effectiveness to address future **challenges** (in accordance with Lisbon Agenda and Europa 2020), like socio-economic (i.e.: food security, price volatility, farms income, economic crisis), environmental (i.e.: public goods, climate change, GHG emissions) and territorial one (i.e.: viability in rural areas, diversification, cohesion);

- the consistency with CAP **objectives**, such as: *viable food production*, *sustainable management of natural resources and climate action*, *balanced territorial development;*
- the ability to set **priorities** in the definition of the new CAP tool box;
- the need to change the allocation criteria among Member States, aimed at reaching a more **equitable and balanced distribution**;
- the coherence with the principle of **simplification**.

Following the SWOT analysis scheme, we have identified in Table 7.1 the main strengths, weaknesses, opportunities and threats that can be highlighted on the base of the Scenarios that have been constructed.

The analysis of Scenario 1, our baseline, is used as a benchmark to compare the other scenarios, and its assessment is made on the base of the pure hypothetical idea that the CAP will go on after 2013, as it is now, without any change in the status quo.

Clearly, is some cases (as Scenario 2.a and 2.b) where the only relevant difference is the amount of resources cut from the CAP budget, the outcome of the SWOT analysis will be basically the same, only with a different intensity of the effects.

In the following section, we will present the criteria of evaluations of the four aspects of the SWOT analysis rather than going into the details of the assessment of each Scenario.

7.2. The main features of the SWOT analysis

Main strengths:

A stable and clear picture of the policy framework for Farmers.

A shift of resources from the Pillar 1 to the Pillar 2 of the CAP as a way to reach more targeted objectives of the CAP.

A stronger capacity to address the issue of public goods production through the EU policies;

The reduction of the rent position attached to the direct payments in favour of other forms of support that stimulate investments in agriculture.

A shift to other relevant items of the EU budget as a strategy more focused on the EU 2020 Strategy.

The maintenance of the same level of complexity, or rather the avoidance of any further level of complexity in the policy management.

Main weaknesses:

The difficulty in justifying the direct payments as a form of legitimate support, on the base of their nature and their main goal.

The lower social acceptability of the CAP.

The minor level of greening potentially consequent to the realisation of a specific scenario.

A more skewed distribution of direct payments among Member States.

The increase of financial burden on National Budgets.

The increase of management and administrative complexity.

The shift of resources towards items whose efficiency and effectiveness of expenditure is still to be proved.

Main Opportunities:

The possible increase of the Greening of the CAP.

A higher involvement of the National Institutions in the design and implementation of the policy (i.e. from Pillar 1 to Pillar 2).

A larger amount of resources explicitly aimed at realising the so-called "new challenges" of the CAP.

The enforcement of non-CAP expenditure in order to partially rebalance the EU budget.

Main Threats:

Possible external attacks to the CAP budget and, more in general, to the EU budget.

The current economic crisis is seen as a threat to the shift to co-financed measures (Pillar 2 and Structural Funds).

The potential lack of complementarity among Funds.

The decline of the EU project in terms of common policies and solidarity.

7.3. The SWOT analysis in a nut-shell: concluding remarks

The SWOT analysis is not an objective interpretative method of analysis; however, it is very useful to highlight some relevant aspects that, according to the subjective judgement of the policy analyst, are worth to be stressed.

It is evident from our Scenarios that the combination of the CAP reform and the EU budget review makes the overall picture rather complex and the timing and intensity of the two reforms will strongly influence each other.

It is also very difficult to establish "a priori" and in a fully objective way the best and more wishful Scenario, considering how many different interests are involved and the weight of the political negotiation on the final decisions.

In all our Scenarios, the CAP goes through a change, because it is quite clear that, it is the intensity of the change to be under discussion, not the need in itself of a change.

This change can be either a simple financial cut, with consequences on the other items of the EU budget and on the net balances of the single Member States; or, a redistribution of resources within the CAP (Pillar 1 and 2) that could go into the direction expressed by the European Commission, the Parliament and also by stake holders, National governments and scholars.

A more direct connection between direct payments and public goods provision, a re-balance of financial resources among Member States, a more targeted set of measures for rural development, and a more balanced distribution of objectives and resources among EU

Funds are the keywords for a more socially acceptable and more sustainable "CAP of the future".

Scenario 1 is the *Status Quo* and, although it is very useful as a benchmark, it is also clear that it represents a picture that will not be sustainable in the future for the existence itself of the CAP.

Scenarios 2 do not change any other item and they only imply a shift of resources from Pillar 1 to Pillar 2, more in continuation with the past reforms. The underlying idea is that Pillar 2 activates more actors in rural areas and has a clear territorial approach (at least part of it). This is not as conservative as it can seem at a first glance, and addresses effectively the whole idea of targeting the policies to the territories rather than to the persons.

Scenarios 3 involve other policies of the EU out of the CAP (Competitiveness and Cohesion). This is definitely a new approach compared to the older reforms, and it addresses a general principle of supporting new needs of the EU society according to the Europa 2020 strategy. However, in practise, the issue of the effectiveness and the efficiency of such a transfer of resources on other chapters of the EU budget is crucial.

Finally, Scenario 4 saves resources but does not activate any new expenditure strategy and development project. It has been labelled as the decline of the EU as a project based on the principles of union and solidarity and, for this reason, we think it does not indicate the best and most wishful way to go.

Table 7.1.: SWOT analysis of scenarios compared to the status quo (scenario 1)

	SCENARIO 1	SCENARIO 2.A	SCENARIO 2.B	SCENARIO 3.A	SCENARIO 3.B	SCENARIO 4
Strengths	Continuation with the past: clear picture for farmers Lighter burden for National Governments CAP as "the" milestone of the EU construction	More targeted resources allocation within agricultural policy (by measures, by territories) Countries lagging behind the 65% EU average (€/UAA; €/GO[51]; €/agr.empl.) will benefit of a larger amount of resources IF new allocation criteria are implemented (50% UAA; 50% GO) More effective public goods provision Reduction of the rent position within the CAP and higher activation of investments in Pillar 2 Higher multiplier effect in agriculture and rural areas. Higher social acceptability of the CAP	As in scenario 2.a, only with a deep intensity given the larger cut of Pillar 1	Higher contribution to the achievement of key objectives concerning innovation, growth and jobs, education and poverty/social exclusion (*EU 2020 Strategy*). Higher resources concentration (53.6% Heading 1; 36.3% Heading 2) Reduction of rent position in the CAP and higher activation of investments within Pillar 2	Higher contribution to the achievement of key objectives concerning innovation, growth and jobs, education and poverty/social exclusion (*EU 2020 Strategy*). Higher resources concentration (55.2% Heading 1; 34.7% Heading 2)	Budgetary savings Preservation of current level of complexity
Weaknesses	Hard justification of direct payments Lower social acceptability of the CAP Minor greening Skewed distribution of direct payments among Member States	Increase of financial burden on national budgets Increase of managing and administrative complexity	As in scenario 2.a, only with a deep intensity given the larger cut of Pillar 1	Increase of financial burden on national budgets Increase of managing and administrative complexity Increase of resources availability on sub-heading with still uncertain efficiency Increase of resources availability on sub-headings with still uncertain efficiency	Increase of financial burden on national budgets No additional resources to Pillar 2 Increase of managing and administrative complexity Increase of resources availability on sub-headings with still uncertain efficiency	Weakening of the EU solidarity principle

[51] GO = Gross Output.

Opportunities	Possibility of addressing the greening of the CAP through a strong Pillar 1	Higher involvement (in terms of resources affected) of Member States in agricultural policy design Larger amount of resources to address new challenges	As in scenario 2.a, only with a deep intensity given the larger cut of Pillar 1	Higher involvement (in terms of resources affected) of Member States in EU policies design Enforcement of Non-CAP expenditure	Higher involvement (in terms of resources affected) of Member States in EU policies design Enforcement of Non-CAP expenditure	
Threats	External attacks to the CAP and, more in general, to the EU budget	The current economic crisis represents an actual bound to the general increase of resources needed for this scenario	As in scenario 2.a, only with a deep intensity given the larger cut of Pillar 1	Increase of Structural Funds resources in a context of lack of complementarity among Funds The current economic crisis represents an actual bound to the general increase of resources needed for this scenario	Increase of Structural Funds resources in a context of lack of complementarity among Funds The current economic crisis represents an actual bound to the general increase of resources needed for this scenario	Decline of EU project

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ANNEX 1

STAKEHOLDERS' POSITIONS ON THE COMMISSION COMMUNICATIONS ON THE BUDGET REVIEW AND THE CAP REFORM

KEY FINDINGS

- Most of the **stakeholders are disappointed** by the Commission's communications on the EU budget and the CAP reform, particularly because of its **lack of bold changes** to raise the problems and address the next challenges.
- The EU Budget review is criticized to avoid the most controversial issues and notably the **share of the CAP spending** and its role among the EU policies to reach the objectives.
- The **vagueness of the CAP reform proposals** is denounced as it gives insufficient answers to most critical issues: direct payments, management of natural resources and climate change.
- The different priorities for the next MFF and the CAP beyond 2013 are most welcome but the "**food security**" objective is **harshly questioned**.
- The instruments proposed to green the CAP and DP are controversial: either seen as **additional costs** for farmers or inefficient to **provide public goods**.

A.1. Stakeholders' reactions on the "EU budget review"

In the paper on the EU budget review, the European Commission avoided the most controversial issues on the long term budget debate such as the size of the budget, the co-financing and sharing of the budget. However, it has arisen a new round of reactions from stakeholders providing more updated information on different positions compared to the ones published during the 2008 Commission's consultation on the EU budget. This section briefly reviews the main points of the ongoing debate that could influence the negotiations.

a) Positions of academics and Think tanks

After the conclusion of the public consultation of the CAP reform and before the publication of the Commission's budget review paper, several researchers shows some preoccupation about the biased approach often heard about the size of the CAP budget in the EU. David Harvey and Attila Jambor (2010) raised the "popular perceptions that the CAP is both a dominant EU policy in budgetary terms, and also continues to be both generous and highly protective of European farmers are now substantially misinformed and potentially highly misleading of EU politics". The scholars added how in the last 20 years the CAP spending has been reduced from 75% of the total EU spend to about 45%, so that nowadays it represents 0.4% of the EU GDP, "less than most parish councils". They also raised the issue of the consequences of the enlargements to 12 Member States, which doubled the number of farmers and farm workers. On its side Notre Europe researcher Nadège Chambon stressed that "the CAP is the EU's most integrated policy (…), the level of CAP spending is therefore an indication of the weakness of integration in other areas rather than of the exorbitant cost of agriculture. Curiously, this error of reasoning has become dogma in the European debate" (Chambon, 2010). She showed, by comparing the costs of European public policies including both EU's and Member States' spending, that agriculture occupies the 11^{th} position with 1.1% of the total in cumulated expenditure. As the question of the budget's size hasn't been raised by the Commission, the academic debate and speculation continue on this issue. Valentin Zarhnt (2011) from ECIPE (European Centre for International Political Economy) considers "that any estimation of the need of agriculture, are subject to great precaution". He suggests six factors to evaluate and be cautious with before estimating the size of the budget: clearly define the CAP objectives and the scope of public goods to cover; fix target levels to each objectives; define the types of farming practices that are most cost-effective to attain a set of policy objectives; valuate the national legal baselines; determine a price of change in farming practices; share the implementation costs of each Member State.

In the following pages we will focus on papers analyzing the Commission's budget review and more specifically its implication on the CAP. Jorge Nũnez Ferrer from the Centre for European Policy Studies (CEPS) judges the EU Budget Review as generally positive. This contrasts somehow with a more classical approach of the budget consisting in assessing the policies performance and the "financial absorption of funds, which heretofore has been the principal criterion of success" (Nũnez Ferrer, 2010a). Despite this original approach he deplores the weaknesses of the Communication on the current policies and the general trend to defend the existing budget lines instead of suggesting cuts to flow underfinanced policies. On the particular issue of the CAP (Nũnez Ferrer, 2010a) Nũnez Ferrer was expecting new ideas and criticizes the window-dressing proposals of the EU Budget Review. He particularly questions the consistency of the CAP's objectives chosen: namely, he disagrees with the Commission on food production capabilities and on the analysis of farm income on which the basic payments are said to be justified. He also denounces the domination of direct payments as they are "highly wasteful in terms of targeting farm incomes and other objectives" (Nũnez Ferrer, 2007b; Nũnez Ferrer, Kaditi, 2006). While the Commission proposes no cut in the CAP payments, it is clearly unrealistic to keep a basic payment for all (even if as a "flat rate"), to introduce a strong new green payment, and at the same time to redistribute money and hold out against co-financing and a reduction in the budget." On the contrary, he pleads for a phasing out of basic income payments except for poorer farms. Concerning the other tools, Nũnez Ferrer welcomes the will to better target and monitor rural development but deplores the lack of assessment in the current measures (*e.g.*: LFA). Similarly he recognizes the need of a toolkit for risk management but stresses the absence of proposition on its shape.

On his side Ian Begg, from the Swedish Institute for European Policy Studies (SIEPS), in an overall assessment of the EU Budget Review deplores the position of the Commission because it does not pay sufficient attention to the several crises the EU is facing since 2008 (Begg, 2010). The Commission's propositions are already under the pressure of the Member States and their will to tight public finances. As a consequence, the communication fails in shaping the discussions on the principles of the next MFF as this topic is already under the shadow of the Member States' confrontations around the figures. On the specific issue of the CAP in relationship with the cohesion policy, the paper could provide a platform to debate on the legitimacy and the structure of this largely distributive spending (3/4 of the EU budget). But this is not the case. The absence of spending priorities is observed for agricultural policy, for which the paper does not offer a clear vision of the Commission.

Begg suggests that the three key topics of the next budget negotiations are hardly discussed: a stable size for the next EU budget, a prevalence of the European Council in the final decisions and the "juste retour" issue. However, few issues leave a margin of negotiations. On the CAP, it concerns the co-financing by Member States, which is "undeniable that it would impose a heavy fiscal burden on some of the poorer (…) but could be a means of freeing resources for other purposes and of lowering imbalances in a way that would make an end to corrections feasible" (Begg, 2010). He also suggests that a debate would be necessary on the orientation of the next CAP, taking into account four dimensions: first, DP would need to be financed even if the CAP is phased out; second, the CAP budget remains the same in real terms since 1990; three, rural development is not an additional farm subsidy but a cohesion policy to a specific group of territories; four, the current distributive effects between Member States are perverse. These four points should be raised in the discussion but for Begg, the different Commission's statements can be analyzed in a contradictory manner, for instance one can find some arguments in favor of a radical reform while other can find a status quo position on the SFP.

Fabian Zuleeg from the European Policy Centre (EPC) considers the EU "had embarked on a substantial review of how the EU budget works, attempting to make the budget more appropriate for challenges the EU faces. But the review process has been overtaken by more recent events" (Zuleeg, 2011). Indeed the main factor of change is the economic crisis which is also a euro-zone crisis, that impacts on public finances debate. As a consequence, the gap with bold ideas defended during the public debate since 2007 until nowadays on the budget is very deep: whereas the EU's transformation to a green, low–carbon economy and global competitiveness were at stake, the communication of the Commission eventually focuses on Europe 2020, citizenship and the external dimension as key spending priorities. Beyond these considerations, the budget has little chance to satisfy its priorities. For instance the serious shift in spending which will be necessary to fulfill a smart, sustainable and inclusive economic growth (Europe 2020 Strategy) cannot be expected. The economist explains that the EU budget is submitted to a significant inertia because of the political economy that governs the budgetary decision in the Council, the so called unanimity principle, which leads to prevent controversial proposals to be implemented. Even the Lisbon Treaty which empowers the European Parliament on this issue won't be sufficient to change this situation. On top of that the impact of the economic crisis on European countries' GDP separates Member States in two groups: on one side those coping with difficulties (Portugal, Greece, Spain, etc.) and in need of more cohesion support, and on the other those which improved their position in relative terms (Germany, Netherlands, Poland). As quoted, "these changes could alter the relative position of both net recipients and net contributors, with increasing divergence between the countries performing well and those in crisis". Zuleeg sums up that this situation could drive the next MFF negotiation to a stalemate meaning there exist few chances to reform. Moreover, he underlines that only innovations and changes in limited areas could happen, for instance in improving the budget flexibility or the use of alternatives to traditional spending. Gradual changes continuing the path of the last years might also happen: for instance, the shift from the CAP to spending more resources for competitiveness/growth. Finally, the author concludes that the citizens will "continue to feel alienated by an EU that spends most of its money on historic priorities rather than current policy challenges".

On his side Alan Matthews, from Dublin Trinity College, considers that the political economy of the negotiations calls for "explicitly recognize that the pattern of transfers emerging from the budget negotiations is a legitimate source of concern, and to agree beforehand what that pattern would be" (Matthews, 2010b). This would allow the Member States to negotiate on important policy issues with a guarantee of their bottom-line in any agreement. Regarding the EU Budget Review's part devoted to CAP spending, he draws the attention on the fact that the proposals are very similar with those written in the CAP reform document published in October 2010.

b) Environmental think tanks and NGO's

Environmental NGOs are important opponents to the current approach of the EU budget. Seven of the most proactive ones published in November 2010 their own analysis of EU expenditure (Birdlife International, 2010). According to them the 2014-2020 MFF should deliver more public goods in relation with the three core environmental challenges: climate change, biodiversity loss and the resource overconsumption. Moreover, motivated by a sustainable EU budget - through expenditures and not resources -, they proposed ten guiding principles to all funding instruments and policies: (1) public money for public goods and ecosystem services; (2) targeted spending; (3)coherence within and across European policies and instruments; (4) maximizing EU leverage; (5) long term cost effectiveness; (6) integrated strategy; (7) transparency; (8) partnership; (9) accountability; (10) environmental proofing (climate, energy efficiency, biodiversity and resource use). They also raised a list of recommendations aimed for CAP funds, their goal being to "target funds at the achievement of the EU's sustainable development objectives, while phasing out all agricultural subsidies that facilitate the sale on world markets of goods at prices below their costs of production" (Birdlife International, 2010). Considering the influence of the CAP on land management and environmental, they also recognized the failure of the CAP to address "the pressing problems" and the need to "deliver value for money".

In the future long term budget, they suggest structural changes, addressed through DP, in order to encourage farmers to deliver more public goods. Indeed, payments should reward not only farmers but also land managers who provide environmental public goods[52] and who "would otherwise have no marketplace". They propose to use CAP funds as a tool to accelerate the transition towards sustainable farming systems which combine food production with reduced environmental impact and careful resource use. Retaining the idea defended by Bureau and Mahé (2008) they propose to ground the payments on a contractual basis so that both contracting parties will be aware of their commitments and reward, and which will finally improve the legitimacy of the spending. They advocate in favor of a national financial programme for CAP funds for which a previous negotiation between regions, states and the Commission would fix the rules, guidelines and objectives. Finally they insist on systematic ante-assessment of any new schemes on potential distorting effects on local markets of developing countries.

On the side of environmental think tanks, the Institute for European Environmental Policy (IEEP) calls the EU to be bolder (Baldock, Medarova-Bergström, Volkery, 2011) than what seems on the track. The British Institute considers that the key issue of the debate is not the size of the budget but the spending priorities and the efficiency of the expenditure in the next MFF. It should become as a tool to "achieve a shift in the European economy so that it is greener measured both by carbon efficiency and by overall environmental performance and is also creating new skills, jobs and investment towards recovery." The IEEP aims at suggesting proposals to enhance the environmental dimension of the legislative acts. It particularly suggests to go beyond the economic priorities of the Europe 2020 Strategy. Indeed, even if it gives priority to climate change mitigation and resource

[52] "The most important public goods associated with agriculture include farmland biodiversity, the conservation of agricultural genetic resources, watershed functionality, attractive agricultural landscapes, carbon storage,

efficiency, it should also include the CAP and the cohesion policy's wider spectrum of environmental concerns. They criticize the lack of precision in the proposal of the EU Budget Review regarding biodiversity and climate change, which "could create the basis for serious future policy failures". Moreover, they emphasize that the public good topic doesn't appear in the paper. On the contrary, it gives the feeling that the sustainability objective is not an end but a mean to achieve economic and social goals. More generally, the IEEP calls for more balanced between national contributions and own-resources in order to make the budget negotiation more targeted on political objectives instead of correction mechanisms and net balances of Member States.

c) Positions of interest groups

For Corrado Pirzio-Biroli (2010), Vice-Chairman of the RISE foundation, the key issue of the MFF is the creation of an own-resource for the European budget, consistent with the objective assigned by the Lisbon Treaty. The CAP reform is part of this overall debate but is the most controversial topic of the budget debate. He reminds that despite the low relative share of the CAP in the EU GDP (0.45%), as in each former CAP reforms, a further decrease will probably happen with the coming reform. He judges the implicit cause of this tendency is that the Member States use these opportunities as a chance to reduce their contribution to the EU budget. According to Pirzio-Biroli, food production and security are the two main streams of European agriculture. In that regards its major challenge is to improve at the same time its productivity and its sustainability. To cope with it, he advises to maintain the current level of expenses combined with a reform of the CAP so that it would improve the provision of eco-systemic services. Until now under-assessed the production of eco-systemic services requires an adequate European public response: to create a market for these "green" services, in a more engagement of the taxpayer but also to conceive public incentives. A complete answer to increase farming productivity in a green way would imply complementary policies' changes in transport, research and innovation, or competition. In case market could not provide enough to get environmental public goods, then public support and technical assistance to farmers and land managers will be justified either to complete the income losses due to the new demands or to remunerate the provision of these goods.

On its side, the Conference of peripheral maritime regions of Europe (CPMR) defends a real territorial approach under the Europe 2020 Strategy and in the budget but this dimension lacks in the EU Budget Review (CPRM, 2011). On the specific issue of the CAP, the CPRM welcomes the idea of a better balance of the support between the Member States and between the farmers, however asks to take also into account the local and regional impacts of the new allocation. Insisting on the territorial cohesion as a new objective of the Lisbon Treaty it pleads for "genuine, multi-level governance, both vertical and horizontal". For that reason it welcomes the Commission's plan to create a common strategic framework to the different European funds including EAFRD in order to go further than thematic approaches. CPRM expresses concerns in the segregation of urban and rural areas, for that reason it asks for a strong coherence between the 2nd Pillar of the CAP and cohesion policy to cover "the needs of all the different local and regional stakeholders in full compliance with the dual task of reducing territorial inequality and strengthening territorial competitiveness".

resilience to wildfire and other natural hazards, ecosystem resilience in the face of climate change and rural vitality." Changing perspectives, 2010, Op.Cit.

A.2. Stakeholders' positions on the Commission's communication "CAP towards 2020"

a) Positions of academics and think tanks

An abundant literature on the CAP reform has been published since 2008. Among the intellectual debate there is no discussion on the need to phase out DP considered as obsolete and so inadequate to meet the future challenges. Nevertheless a dividing line exists between the authors on the existence on a transitional period and on the new or no system expected in the next CAP. The report prepared for the European Parliament by Bureau and Witzke (2010) provides the most comprehensive review on DP analysis and the alternative DP scenarios and other reports (De Filippis, Sardone, 2010) already analyzed the debate on the CAP and the budget reform before the Commission's communications in the end of 2010. For those two reasons the following review concentrates on the comments on the 18th November communication on the CAP towards 2020.

Harvey and Jambor (2010) focus their attention on a critical issue of the future CAP reform, namely the DP which are "well past their sell-by date". The authors underline several reasons why the SFP is inefficient (Mahé and Bureau, 2008; Swinnen, 2009). First, DP didn't stop the continuing decreasing of agricultural employment despite the large and increasing support it provides. Second, DP doesn't take into account the growing share of farm household income which comes from non-agricultural earnings. Third, the authors criticize the uneven support between farm sizes and the questionable repartition of the payments. Fourth, they denounce the consequent increase of land prices because of the capitalization of the historical rights linked to land use. Fifth, DP is inefficient and infective on cross compliance regarding public goods provision. Sixth, DP is unable to stabilize markets and incomes. Seventh, the administrative procedures to become a DP beneficiary most of the time exclude the small farms from the system. Eighth, it creates discrepancies because of the wide differences of DP per hectare between the Member States. Finally DP is highly questionable from the new Member States point of view as, mentioned in Gorton and al. (2009), it does not concern those countries. The different regimes between EU 12 and EU 15 prevent the economic convergence, it creates not only differences in farm structures (size and organization), but also an inappropriate balance between Pillars 1 and 2, rural development being not shaped for the specific needs of EU 12. To go beyond the criticisms and SFP, British and Hungarian co-authors suggest to update the proposal of CAP bond, put on the debate by Tangermann further discussed by Swinbank and Tranter (2004), in the next reform.

Stefan Tangermann, Former Director for Trade and Agriculture at the OECD, gives a biting diagnosis of the CAP toward 2020 communication (Tangermann, 2011). He recognizes the importance of the three main challenges of the document but partially disapproves the Commission analysis and deplores its inconsistent responses of the next CAP proposal. His main criticism concerns DP. He considers that the Commission implicit defines DP as a permanent feature of the CAP, which seems wrong to his opinion. Indeed, according to him the only goal to add a greening component to DP is to increase their acceptance by taxpayers. Moreover, he stresses that DP won't provide an income support and suggests the latter to be based on household incomes instead. Because it is dependent on the land use, he points out that the provision of basic public goods will remain even in the absence of DP, and considers that DP per hectare is a blunt instrument. Finally, he denies any economic justification: to specific support to small scale farming, to capping the DP, to organize a fair distribution of the payments between the Member States and to use the notion of active farmer for DP. According to Tangermann, the new challenges require new policies and globally in a different frame than the Commission's proposal to truly cope with the future challenges. First, in a perspective of high world food prices, food security doesn't need to be incentive by other means. Competitiveness should be strengthened, not through DP – that keep farmers dependent on public support – but through other measures. Concerning environment and climate change issues, the very much differentiate types of farming require a location of specific measures on a contractual basis that is only possible in Pillar two. A major shift of policies and resources towards this Pillar would be needed but "this is not what the Communication proposes" (Matthews, 2011). Third, relatively to territorial balance, Tangermann pleads this target would be better reached by a broad-based support, again more in phase with the second Pillar. Finally, he criticized the redistribution among Member States that "may be politically necessary, but there is no economic advice regarding 'right' distribution", but also the upper-ceiling of DP which is not fair and distorts land market and any remaining coupled support.

According to Alan Matthews, the communication lacks detail and substance and more broadly, "does little to challenge well-known positions" (Matthews, 2010a) on the design of the CAP. However he retains the following considerations on the clues given by the Commission's future reform proposal. On the three objectives, undoubtedly consensual, he criticizes the way the Commission justifies the food production goal. Indeed referring to intellectual debates, he disputes the threat to the European food safety and the link between farm incomes and quantity produced. However he supports the idea of improving farm competitiveness and empowerment of farmers in the food chain as "policy objectives which deserves supports". Concerning the environmental policy channel he draws the attention on the possible contradiction between the instruments to address at the same time: provision of public goods, climate change, greenhouse gas emissions. Finally on the balanced territorial objective, he disagrees with agro-centric vision of rural development (Pillar 2) and the weak ambition for competitiveness and quality of life in rural areas. Indeed significant instruments are outside of the CAP. A second sequence of criticism concerns the option 2 reform scenario. On one hand the proposal does not precise "the balance of expenditure between the basic payment, the environmental and marginal areas payment and Pillar 2". On the other hand the Commission's proposal doesn't give details on the key to allocate budget of DP across Member States. To conclude, Pr. Matthews notes that two crucial questions will have to be answered for the net financial perspectives: the scope of basic income payment relatively to the other payments and the share of DP that will support environmental public goods.

ECIPE's fellow Valentin Zarhnt (2011) considers DP, historically legitimized as a compensation of the 1992 reform, is not needed anymore. When the Commission defends the idea that DP can have positive effect to deliver public goods, he argues that targeted measures would be more efficient such as the broad scope offered by SFP. Furthermore he disagrees with the so called "compensation to high EU standards" which DP is supposed to provide to producers. Indeed farmers incur fewer losses due to higher standards (e.g. it also increase of consumer confidence) and the potential production transfer it could provoke in foreign competitors countries would not be "necessarily harmful to the global environmental commons". If DP remains in the future CAP – including greened ones – he suggests a repartition between the Member States on new criteria even if he recognizes the difficulties to develop indicators based on robust data that would allow to "allocate money where it offers the highest payoff and rewarding governments that promote good environmental stewardship". He added that a simple EU-wide flat rate is unfair (due to living cost and GDP heterogeneities across the Members States) and excludes the idea of using labor. As far as the capping and the introduction of digressive land-based payments which support small scale or labor intensive farms are concerned, he strongly opposes to this idea in the light of the distortions and the "incompatibility with the principle of a free market economy". Zarhnt also denies any real threat on food security and price fluctuations and advocates for private instruments to manage the risks. Concerning the provision of public goods on rural development he considers it should be a broader objective policy to avoid a biased sectoral approach and is in favor of a national rather than EU governance. On the environmental objectives, he pleads for limiting actions of the CAP to "public goods that spill across the borders". As suggested in the co-signed Declaration "A common Agricultural Policy for European Public Goods", it concerns: climate change, protection of biodiversity and water management. He also asserts for better tasks repartitions between payments for public goods and polluter-pays principles, for instance by including agriculture in emission trading system.

Christopher Haskins (2011) did review[53] the main arguments on the ongoing CAP reform and came to the following conclusions. Firstly he refutes the food security objective for the next policy by arguing "There is no food security problem in the EU, and nor would there be if subsidies were phased out". On the contrary, he estimates that the better European farmers would benefit from the remove of subsidies and protectionist barriers the most probably inefficient farmers – notably small scale farms - will go out of the business. According to the former chairman of Northern food, it would be needed to go further in reduction of market support (tariffs on food imports, restrictions on production) nevertheless he is in favor of keeping a safety net for exceptional circumstances. The latter would allow the Commission to buy and store some products when market prices soared, and to sale stocks as soon as the market recover. Haskins also pleads for capping the supports beyond 1000 ha farms and limiting the payments only to farmers and not to manufacturers. While he asks for a phasing-out of DP by 2023, he highlights that it could only be done on the condition leading agricultural economies (i.e. the USA and Canada) agreed on doing the same. As for him during a transition period, public policy should help farmers to become less reliant on farm subsidies. Finally, to improve the efficiency and fairness of the future CAP, Haskins suggests developing structural reform of European agriculture mainly by encouraging "small farmers to expand and providing support for those existing farmers who want to retire". He also put forward a review of environmental support and a renationalization of rural development policy except in the new Member States as agrarian reform were very limited.

Among the rather disappointed comments on the Commission's communication, Jack Thruston (2011) draws the attention on the bolder tone of the Consultation Document for Impact Assessment[54]. According to him the obvious « more radical and ambitious » positions expressed in this document could influence the legislative proposal of September 2011. He advises then to read carefully the conclusions on the impact assessment of the CAP reform scenarios.

b) Positions of environmental think tanks and NGOs

WWF[55] welcomes the Commission ambition to improve the environmental commitments of DP and to positively assess existing environmental measures like Natura 2000 or high nature value systems. However they focus on the implementation of the future policy, more specifically they expect the environmental eligibility criteria for support to be higher "than what good agricultural practice says farmers should be doing anyway". As WWF fears

53 Haskins, C., (2011).
54 Published on the website of DG AGRI in January 2011.
55 WWF (2010).

"cosmetic changes" it calls for the CAP budget to be devoted more than half of the SPS to environmental component. It expresses a great concern on the absence of agri-environmental measures on the Communication. Moreover they ask for actions not only on the budgetary approach but also on the legislation ones.

Birdlife international also positively approves the Commission signals green CAP reform (Birdlife International, 2010) but criticizes its lack of ambition by choosing an option containing positive aspects but also outdated and untargeted subsidies. Concerning the first Pillar, Birdlife international recognizes the effort to include environmental commitments in the basic income support. But stressing the lack of details accompanying the emphasis on the green payment, the NGO estimates that" the document still falls short of providing clear justification for the significant budget attached to the policy or insuring that green intentions are not turned into green wash". In addition it deplores the absence of environmental conditionality in any of the five payments proposed so that these payments do not guarantee societal benefits. As far as the second Pillar is concerned, as the WWF it welcomes the explicit and positive reference to high nature value farming and Natura 2000 but regrets the absence of any mention to agri-environmental schemes, which contributes to maintain biodiversity and "reward farmers for environmental delivery".

The coalition of seven environmentalist NGOs (Birdlife International, 2010) estimates that the cross-compliance system, important regarding their influence on 80% of the CAP budget (1st Pillar), has failed. The defaults of the system are an inadequate control and penalty system, the vagueness of most of the environmental requirements, the lack of evaluation and the "perverse incentive for Member States to minimize any deductions". Concerning the co-financed measures of the CAP budget, the EAFRD, axis 2 which covers agri-environmental schemes is assessed as the most important environmental measures. However they underline the existing rural development programs that harm biodiversity or the insufficiently designed to support sustainable farming systems.

According to the IEEP, for the CAP reform the diagnosis is the same than on the EU budget: its size is less important than its priorities and its efficiency. Concerning the Commission's Communication on the future of the CAP, the IEEP accuses to miss "to clearly refocus the CAP on the provision of public goods with the potential to contribute significantly to the delivery of a number of key environmental objectives in Europe" (IEEP, 2011). Again, they criticize the vague solutions given by the communication on the public goods, which is very much needed by rural areas.

c) Positions of interest groups

The COPA-COGECA's position on the future of the CAP is mainly to defend the need to get a competitive agri-food sector to ensure food security in the EU and in the world; then to warn that the future greening of the CAP must not undermine their economic viability and "the competitiveness of the EU agri-food sector or threaten farmers' productive capacity" (COPA COGEGA, 2011b). Concerning the instruments for the future CAP, the EU farm leaders plead for maintaining the "vital" (COPA COGEGA, 2010b) first Pillar and for adding to existing market management tools new measures. They agree with the Commission's proposition to concentrate the payments on active farmers and to develop an EU farm advisory system. However they call for taking into account the potential effects a deep use of it could have as the EU already holds a pioneering position in greening agricultural practices. It most focuses on its impacts on European products competitiveness compare to import free from the environmental constraints, drawing the attention on the raising of the production prices and the consequences it could have on the "shift production to other places of the world, causing deforestation and other environmental damage" (COPA COGEGA, 2011a). It then proposes to note the efforts already made and to concentrate the reform on payments which could both enhance competitiveness and environment protection like grassland payments. They suggest fostering the greening of the CAP on several conditions: first by an increase in the current CAP budget, second by providing incentives for farmers on a voluntary-basis, third by not distorting their competitiveness, fourth by enhancing innovation. At last, concerning the income issue the EU farm leaders welcome the idea of fairer contractual relations but criticize the absence of concrete measures in the Commission's communication that would ensure the farmers and their cooperatives a fairer share of the added value in the food chain. Beyond the CAP reform the COPA-COGECA is in favor of a change in competition rules in order to grow their size and scale and to improve the functioning of the agri-food chain.

On its side the European Council of Young Farmers (CEJA) welcomes several proposals from the Commission's reform plan. Concerning the general outlines it agrees with maintaining the two Pillars structure and the three main objectives for the future policy, the second option scenario is considered as the only constructive. On the DP system, the Young farmers welcome most of the points advanced by the Commission: remove historical references, target active farmers and wish to improve the fairness and transparency of the payments, empower farmers and transparency in the food chain. Nevertheless it warns about the potential heaviness of a top-up of the payments for large individual farms. Recognizing the market failure to remunerate public goods they call for a dialogue to better define the computation method and the remuneration of them. Besides their definition of public goods include a broad scope related on the one hand to "food production, food safety, healthy and quality food at remunerative prices for producers and reasonable prices for consumers, at enough quantity to meet the EU and worldwide demand" (CEJA, 2011b); on the other hand to "believe that agri-environmental services, such as preservation of natural resources, respecting and enhancing bio-diversity, soil protection, water resources management, landscape management, play an active role for mitigating and adapting to climate change, and should be remunerated" (CEJA, 2011b). As a consequence they agree to green the first Pillar considering even the basic-rate provides, in addition of income support, some answers to the different policy objectives. However they insist on the need to use Pillar two measures to address specific environmental challenges and to reward measures which reduce competitiveness and increase production costs. More generally they oppose to any heaviness of administrative burden or extra costs due to a greener CAP. Regarding market measures they also consider positively the proposal of safety-net measures in case of market crisis and risk management toolkit. They are opened to mix private and public devices to mitigate production and income risks while avoiding a renationalization of the CAP through national crisis interventions. It is worth to mention the CEJA provides a specific proposal for enhancing the support to young farmers in the next CA called "Young Farmers Package" (CEJA, 2010). In that view they notice the Commission's communication take into account young farmers but call for an installation policy at EU level simultaneously to an ambitious agricultural employment policy. This installation policy would consist to implement a top-up payment for young farmers to direct payments and under Pillar two, to reinforce from 10% to 20% the axis 1 in order to ensure an adequate support to young farmers. Moreover, to facilitate these measures, they advocate in favor of a co-financing divided as follows: 20% from Member States and 80% from the EU and credit preferences given to young farmers and new entrants.

The CELCAA, the European Liaison Committee for Agricultural and Agri-Food Trade, criticizes in the Commission's communication the risk to increase the competition rules of the common market and warn of the risk of fragmentation (CELCAA, 2010) the propositions could lead to. Unsurprisingly, it shows concerns about the proposition of the empowerment of the farmer in the food chain, calling for "letting market forces determine commercial decisions as much as possible". Indeed the agricultural traders argue that the proposition could lead to possible distortions on the common market but also on a reduction of competitiveness At the same time they consider the main challenge is to ensure food security to a growing world population without endangering the planet for the future generations, they suggest to reach this goal by innovation and optimal allocation of the production capacities at the global level. They also insist on the need to leave market measures as much as possible to private sector and solve price volatility thanks to futures markets for certain commodities. The CELCAA's second overall critic concerns the lack of a pro-active agricultural trade-policy echoing the international dimensions of the future challenges and the competitiveness of the agri-food chain. They particularly call for a phasing out of all trade distorting export subsidies and improving market access by reducing imports tariffs.

As most observers, the Agricultural and Rural Convention 2020 (ARC) cautiously welcomes (ARC, 2010) the Commission's communication as it remains vague and opaque on the details of its propositions. The ARC which aims at giving a voice to civil society on the CAP reform, supports the most radical one, thus calls the Commission to keep courage in advancing sharpened ideas on the future. Generally defending a stronger rural development policy that would help a "rural renaissance" it particularly puts the emphasis on addressing in the next policy the deepest problems of areas like ageing population, subsistence farming and poverty concentration. But its concerns are broader: the Convention advocates for a European food, agriculture and rural policy that would help to implement a "paradigm shift from industrialized agriculture towards sustainable farming everywhere in the EU". Defending a simultaneous environmental, economic and social development approach, its vision on agriculture and rural areas is based on regional and local diversity, animal welfare, resource efficiency and the use of agro-ecological innovation. However this broad approach of the CAP should, according to the ARC, be financed by two different European funds: the Agricultural fund and the rural one. On the instruments advanced in the communication, the ARC gives a particular attention to the greening of the support and especially DP, to the ceiling of the support for the farm that contribute to a better equity in the distribution and to the concern for natural handicapped areas and small farms. At last it underlines the measures in favor of local markets, local products and more widely measures which strengthen the farmer position in the food chain.

ANNEX 2

In addition to resources distribution between headings and sub-headings in the Scenarios, the study provides simulations of different criteria for the allocation of financial endowments among Member States. This multiplicity of criteria involves particularly the two pillars of the CAP[56], and – as already highlighted – they are able to determine important changes in Member States position in terms of total and partial net balance.
Thus, the simulations by each allocation criteria and Member States are provided in this Annex, showing a range of results wider than the one offered in paragraphs and boxes of Chapter 5.

LEGENDA

A	*Pillar I: Current Ceiling 2013* *Pillar II: Financial Framework 2007-2013*
B	*Pillar I: Current Ceiling 2013* *Pillar II: 65%UAA; 35% agr. Labour + pc GDP (PPP)*
C	*Pillar I: 100% UAA* *Pillar II: Financial Framework 2007-2013*
D	*Pillar I: 100% UAA* *Pillar II: 65%UAA; 35% agr. Labour + pc GDP (PPP)*
E	*Pillar I: 50% UAA; 50% VAP* *Pillar II: Financial Framework 2007-2013*
F	*Pillar I: 50% UAA; 50% VAP* *Pillar II: 65%UAA; 35% agr. Labour + pc GDP (PPP)*
G	*Pillar I: 40% UAA; 40% VAP; 10% Natura 2000; 10% rural pop* *Pillar II: Financial Framework 2007-2013*
H	*Pillar II: 40% UAA; 40% VAP; 10% Natura 2000; 10% rural pop* *Pillar II: 65%UAA; 35% agr. Labour + pc GDP (PPP)*

[56] This is reflected in Chapters 4 and 5.

Table A.2.1.: Total Net Balance for the EU-27 by allocation criteria. Inertial Decline versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 2.a The Inertial Decline							
		A	B	C	D	E	F	G	H
Belgium	-722	-742	-732	-991	-981	-734	-724	-768	-758
Denmark	-912	-952	-923	-1,197	-1,167	-1,054	-1,025	-1,067	-1,038
Germany	-13,028	-13,127	-13,058	-13,989	-13,919	-13,472	-13,402	-13,829	-13,759
Greece	4,100	4,076	4,076	3,637	3,637	3,428	3,428	3,494	3,494
Spain	1,964	1,892	1,973	1,921	2,002	1,887	1,967	1,526	1,607
France	-6,954	-7,218	-7,033	-8,236	-8,052	-7,884	-7,700	-8,494	-8,309
Ireland	271	259	277	263	281	-11	7	85	103
Italy	-3,892	-3,911	-3,938	-5,217	-5,244	-4,003	-4,030	-4,182	-4,209
Luxembourg	-165	-164	-162	-165	-163	-164	-162	-75	-73
Netherlands	-3,763	-3,795	-3,766	-4,244	-4,215	-3,116	-3,087	-3,131	-3,102
Austria	-920	-869	-909	-811	-851	-831	-871	-728	-768
Portugal	3,006	3,066	3,027	3,282	3,243	3,285	3,246	3,437	3,398
Finland	-374	-355	-369	-264	-278	-340	-355	-203	-217
Sweden	-2,215	-2,211	-2,208	-2,078	-2,075	-2,234	-2,231	-2,228	-2,225
United Kingdom	-12,022	-12,076	-11,972	-11,650	-11,546	-12,372	-12,268	-12,696	-12,592
Czech Republic	3,309	3,328	3,298	3,430	3,400	3,224	3,194	3,286	3,256
Estonia	640	651	641	782	771	704	694	851	841
Cyprus	62	58	55	50	47	64	61	220	217
Latvia	902	919	906	1,193	1,180	1,042	1,030	1,182	1,169
Lithuania	1,709	1,730	1,710	2,080	2,060	1,853	1,833	1,974	1,954
Hungary	4,720	4,742	4,691	4,880	4,829	4,633	4,582	4,685	4,634
Malta	151	152	150	150	148	156	154	187	185
Poland	11,761	11,910	11,762	12,913	12,765	12,225	12,077	12,136	11,988
Slovenia	620	634	621	620	608	623	610	885	873
Slovakia	1,774	1,800	1,772	1,940	1,912	1,813	1,785	2,003	1,975
Bulgaria	2,843	2,898	2,862	3,236	3,200	3,032	2,996	3,115	3,079
Romania	7,132	7,306	7,250	8,465	8,409	8,245	8,189	8,334	8,277
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.2.: Total Net Balance for the EU-27 by allocation criteria. Rebalancing Pillars versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 2.b The Pillars Rebalancing							
		A	B	C	D	E	F	G	H
Belgium	-722	-800	-760	-1,010	-970	-794	-754	-822	-782
Denmark	-912	-1,071	-954	-1,277	-1,160	-1,156	-1,040	-1,167	-1,051
Germany	-13,028	-13,384	-13,106	-14,109	-13,831	-13,674	-13,396	-13,974	-13,696
Greece	4,100	4,025	4,025	3,655	3,655	3,479	3,479	3,535	3,535
Spain	1,964	1,664	1,985	1,688	2,009	1,659	1,980	1,355	1,677
France	-6,954	-7,978	-7,240	-8,836	-8,097	-8,539	-7,801	-9,052	-8,314
Ireland	271	235	306	239	309	8	79	89	159
Italy	-3,892	-3,945	-4,053	-5,044	-5,152	-4,022	-4,130	-4,173	-4,281
Luxembourg	-165	-163	-155	-164	-156	-163	-155	-88	-80
Netherlands	-3,763	-3,889	-3,773	-4,267	-4,151	-3,318	-3,201	-3,330	-3,214
Austria	-920	-695	-855	-646	-806	-663	-823	-576	-737
Portugal	3,006	3,262	3,106	3,443	3,287	3,446	3,290	3,574	3,418
Finland	-374	-287	-344	-210	-266	-275	-331	-159	-215
Sweden	-2,215	-2,190	-2,178	-2,078	-2,067	-2,209	-2,198	-2,204	-2,193
United Kingdom	-12,022	-12,339	-11,924	-11,981	-11,565	-12,588	-12,173	-12,861	-12,446
Czech Republic	3,309	3,400	3,282	3,486	3,367	3,313	3,194	3,365	3,246
Estonia	640	688	648	798	757	733	692	857	816
Cyprus	62	65	55	59	49	70	60	202	191
Latvia	902	973	922	1,203	1,153	1,077	1,027	1,194	1,144
Lithuania	1,709	1,801	1,720	2,096	2,015	1,905	1,824	2,006	1,925
Hungary	4,720	4,827	4,622	4,943	4,739	4,735	4,531	4,779	4,574
Malta	151	157	150	155	148	160	153	186	180
Poland	11,761	12,427	11,834	13,271	12,678	12,692	12,099	12,617	12,024
Slovenia	620	678	629	667	618	668	620	889	841
Slovakia	1,774	1,886	1,773	2,004	1,891	1,897	1,784	2,057	1,944
Bulgaria	2,843	2,987	2,843	3,271	3,127	3,100	2,956	3,170	3,026
Romania	7,132	7,667	7,441	8,643	8,417	8,458	8,232	8,532	8,306
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.3.: Total Net Balance for the EU-27 by allocation criteria. CAP Decline – Light versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 3.a The Cap Decline - Light							
		A	B	C	D	E	F	G	H
Belgium	-722	-424	-414	-634	-624	-418	-408	-446	-436
Denmark	-912	-1,017	-988	-1,222	-1,193	-1,102	-1,073	-1,113	-1,084
Germany	-13,028	-12,990	-12,920	-13,715	-13,646	-13,280	-13,210	-13,580	-13,511
Greece	4,100	3,927	3,927	3,557	3,557	3,381	3,381	3,437	3,437
Spain	1,964	1,686	1,766	1,711	1,791	1,681	1,762	1,378	1,458
France	-6,954	-7,677	-7,493	-8,535	-8,350	-8,238	-8,054	-8,752	-8,567
Ireland	271	142	160	146	163	-85	-67	-4	13
Italy	-3,892	-3,794	-3,821	-4,893	-4,920	-3,871	-3,898	-4,022	-4,049
Luxembourg	-165	-127	-125	-128	-126	-127	-125	-52	-49
Netherlands	-3,763	-3,667	-3,638	-4,045	-4,016	-3,096	-3,067	-3,108	-3,079
Austria	-920	-847	-887	-798	-838	-815	-855	-728	-768
Portugal	3,006	3,107	3,068	3,288	3,249	3,291	3,252	3,419	3,380
Finland	-374	-334	-349	-257	-271	-322	-336	-206	-220
Sweden	-2,215	-2,176	-2,173	-2,065	-2,062	-2,196	-2,193	-2,191	-2,188
United Kingdom	-12,022	-11,871	-11,768	-11,513	-11,409	-12,120	-12,017	-12,393	-12,290
Czech Republic	3,309	3,264	3,234	3,350	3,320	3,176	3,147	3,229	3,199
Estonia	640	653	643	763	753	698	688	822	811
Cyprus	62	61	58	54	52	66	63	197	195
Latvia	902	928	915	1,159	1,146	1,032	1,020	1,150	1,137
Lithuania	1,709	1,751	1,730	2,046	2,025	1,854	1,834	1,956	1,936
Hungary	4,720	4,665	4,614	4,781	4,730	4,573	4,522	4,617	4,566
Malta	151	156	155	154	153	159	158	186	184
Poland	11,761	11,826	11,678	12,670	12,522	12,091	11,943	12,016	11,868
Slovenia	620	637	624	626	614	627	615	848	836
Slovakia	1,774	1,792	1,764	1,911	1,883	1,804	1,776	1,963	1,935
Bulgaria	2,843	2,929	2,893	3,214	3,178	3,042	3,006	3,112	3,076
Romania	7,132	7,400	7,344	8,377	8,320	8,191	8,134	8,266	8,209
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.4.: Total Net Balance for the EU-27 by allocation criteria. CAP Decline – Deep versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 3.b The Cap Decline - Deep							
		A	B	C	D	E	F	G	H
Belgium	-722	-298	-241	-508	-452	-292	-235	-320	-263
Denmark	-912	-998	-833	-1,204	-1,038	-1,083	-918	-1,094	-929
Germany	-13,028	-12,845	-12,451	-13,570	-13,176	-13,135	-12,741	-13,435	-13,041
Greece	4,100	3,901	3,901	3,531	3,531	3,355	3,355	3,410	3,410
Spain	1,964	1,689	2,145	1,714	2,169	1,684	2,140	1,381	1,836
France	-6,954	-7,566	-6,519	-8,424	-7,376	-8,127	-7,080	-8,640	-7,593
Ireland	271	116	216	119	219	-112	-12	-31	69
Italy	-3,892	-3,735	-3,887	-4,834	-4,987	-3,812	-3,964	-3,963	-4,115
Luxembourg	-165	-115	-103	-115	-104	-115	-103	-39	-28
Netherlands	-3,763	-3,592	-3,428	-3,970	-3,805	-3,021	-2,856	-3,033	-2,868
Austria	-920	-891	-1,118	-842	-1,069	-858	-1,086	-772	-999
Portugal	3,006	3,060	2,840	3,242	3,021	3,245	3,024	3,373	3,152
Finland	-374	-347	-426	-269	-349	-334	-414	-218	-298
Sweden	-2,215	-2,169	-2,152	-2,057	-2,040	-2,188	-2,171	-2,183	-2,166
United Kingdom	-12,022	-11,749	-11,160	-11,391	-10,802	-11,998	-11,409	-12,271	-11,682
Czech Republic	3,309	3,223	3,055	3,309	3,141	3,136	2,968	3,188	3,020
Estonia	640	643	585	753	695	687	630	811	753
Cyprus	62	66	52	60	45	71	57	203	188
Latvia	902	915	844	1,145	1,074	1,019	948	1,137	1,065
Lithuania	1,709	1,736	1,622	2,031	1,917	1,840	1,726	1,941	1,827
Hungary	4,720	4,617	4,328	4,734	4,444	4,526	4,236	4,569	4,280
Malta	151	156	147	154	145	159	150	186	177
Poland	11,761	11,649	10,808	12,493	11,652	11,914	11,073	11,839	10,998
Slovenia	620	624	556	613	545	615	547	836	767
Slovakia	1,774	1,765	1,604	1,883	1,723	1,776	1,616	1,936	1,775
Bulgaria	2,843	2,885	2,680	3,169	2,965	2,998	2,793	3,068	2,863
Romania	7,132	7,257	6,937	8,234	7,913	8,048	7,727	8,123	7,802
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.5.: Total Net Balance for the EU-27 by allocation criteria. EU's Project Decline versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 4 The EU's Project Decline							
		A	B	C	D	E	F	G	H
Belgium	-722	-595	-539	-806	-749	-589	-533	-617	-561
Denmark	-912	-948	-783	-1,154	-989	-1,034	-868	-1,044	-879
Germany	-13,028	-12,444	-12,050	-13,170	-12,776	-12,734	-12,340	-13,035	-12,641
Greece	4,100	3,821	3,821	3,451	3,451	3,275	3,275	3,330	3,330
Spain	1,964	1,679	2,134	1,703	2,159	1,674	2,129	1,370	1,826
France	-6,954	-7,246	-6,199	-8,104	-7,057	-7,807	-6,760	-8,321	-7,273
Ireland	271	126	225	129	229	-102	-2	-21	79
Italy	-3,892	-3,684	-3,837	-4,784	-4,937	-3,762	-3,914	-3,913	-4,065
Luxembourg	-165	-143	-131	-143	-132	-142	-131	-67	-56
Netherlands	-3,763	-3,546	-3,382	-3,924	-3,759	-2,975	-2,810	-2,987	-2,822
Austria	-920	-876	-1,103	-827	-1,054	-844	-1,071	-757	-985
Portugal	3,006	3,000	2,779	3,181	2,961	3,185	2,964	3,312	3,092
Finland	-374	-362	-442	-285	-365	-350	-429	-234	-313
Sweden	-2,215	-2,090	-2,074	-1,979	-1,962	-2,110	-2,093	-2,105	-2,088
United Kingdom	-12,022	-11,482	-10,893	-11,123	-10,535	-11,731	-11,142	-12,004	-11,415
Czech Republic	3,309	3,271	3,103	3,357	3,189	3,183	3,015	3,236	3,068
Estonia	640	632	574	741	683	676	618	800	742
Cyprus	62	65	50	58	44	70	55	201	187
Latvia	902	887	816	1,118	1,047	991	920	1,109	1,038
Lithuania	1,709	1,656	1,542	1,951	1,837	1,760	1,645	1,861	1,747
Hungary	4,720	4,541	4,251	4,658	4,368	4,450	4,160	4,493	4,203
Malta	151	154	145	152	143	157	148	183	174
Poland	11,761	11,452	10,611	12,296	11,456	11,717	10,876	11,642	10,802
Slovenia	620	619	551	608	540	610	542	831	762
Slovakia	1,774	1,750	1,590	1,869	1,709	1,762	1,602	1,921	1,761
Bulgaria	2,843	2,759	2,554	3,044	2,839	2,872	2,668	2,942	2,737
Romania	7,132	7,007	6,686	7,983	7,662	7,797	7,477	7,872	7,551
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.6.: Partial Net Balance "NR" for the EU-27 by allocation criteria. Inertial Decline versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 2.a The Inertial Decline							
		A	B	C	D	E	F	G	H
Belgium	-883	-903	-893	-1,152	-1,143	-895	-885	-929	-919
Denmark	157	116	146	-128	-99	15	44	2	31
Germany	-4,582	-4,681	-4,612	-5,543	-5,473	-5,025	-4,956	-5,382	-5,313
Greece	1,789	1,765	1,765	1,326	1,326	1,117	1,117	1,183	1,183
Spain	1,759	1,687	1,767	1,716	1,797	1,682	1,762	1,321	1,401
France	261	-3	182	-1,021	-837	-669	-485	-1,279	-1,094
Ireland	898	885	903	889	907	615	633	711	729
Italy	-1,410	-1,430	-1,456	-2,735	-2,762	-1,521	-1,548	-1,701	-1,727
Luxembourg	-139	-138	-136	-139	-137	-138	-136	-49	-47
Netherlands	-1,616	-1,648	-1,619	-2,097	-2,068	-970	-941	-984	-955
Austria	13	64	24	122	82	102	62	205	165
Portugal	487	547	508	763	724	766	727	918	879
Finland	50	69	55	161	147	84	70	222	208
Sweden	-773	-769	-767	-637	-634	-792	-789	-787	-784
United Kingdom	-4,195	-4,250	-4,146	-3,824	-3,720	-4,546	-4,442	-4,870	-4,766
Czech Republic	350	369	340	471	442	265	236	328	298
Estonia	140	151	141	281	271	204	194	351	341
Cyprus	3	-2	-4	-10	-12	4	2	160	158
Latvia	237	253	240	527	514	377	364	516	504
Lithuania	483	505	484	855	835	628	608	748	728
Hungary	1,304	1,325	1,274	1,464	1,413	1,217	1,166	1,268	1,217
Malta	-9	-8	-10	-10	-12	-4	-6	27	25
Poland	3,076	3,225	3,077	4,228	4,080	3,540	3,392	3,451	3,303
Slovenia	89	103	91	90	77	92	80	354	342
Slovakia	310	335	307	476	448	349	321	538	510
Bulgaria	712	767	731	1,105	1,069	902	866	985	949
Romania	1,489	1,664	1,607	2,823	2,767	2,603	2,546	2,691	2,635
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.7.: Partial Net Balance "NR" for the EU-27 by allocation criteria. Rebalancing Pillars versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 2.b The Pillars Rebalancing							
		A	B	C	D	E	F	G	H
Belgium	-883	-961	-921	-1,171	-1,131	-955	-915	-983	-943
Denmark	157	-2	114	-208	-92	-88	29	-99	18
Germany	-4,582	-4,937	-4,660	-5,663	-5,385	-5,227	-4,949	-5,528	-5,250
Greece	1,789	1,714	1,714	1,344	1,344	1,168	1,168	1,224	1,224
Spain	1,759	1,458	1,780	1,483	1,804	1,454	1,775	1,150	1,471
France	261	-763	-25	-1,621	-882	-1,324	-586	-1,837	-1,099
Ireland	898	861	932	865	935	634	705	715	785
Italy	-1,410	-1,463	-1,571	-2,563	-2,670	-1,540	-1,648	-1,691	-1,799
Luxembourg	-139	-137	-129	-138	-130	-137	-129	-62	-54
Netherlands	-1,616	-1,742	-1,626	-2,120	-2,004	-1,171	-1,055	-1,183	-1,067
Austria	13	238	77	287	127	270	110	356	196
Portugal	487	743	587	924	768	927	771	1,055	899
Finland	50	137	81	215	158	150	94	266	210
Sweden	-773	-749	-737	-637	-625	-768	-756	-763	-751
United Kingdom	-4,195	-4,513	-4,098	-4,155	-3,739	-4,762	-4,347	-5,035	-4,620
Czech Republic	350	442	323	527	409	354	235	407	288
Estonia	140	188	147	298	257	233	192	356	316
Cyprus	3	6	-4	-1	-11	11	1	142	132
Latvia	237	307	257	538	487	411	361	529	478
Lithuania	483	575	495	870	790	679	598	780	700
Hungary	1,304	1,410	1,206	1,527	1,322	1,319	1,115	1,362	1,158
Malta	-9	-3	-10	-5	-12	0	-7	26	20
Poland	3,076	3,742	3,149	4,586	3,993	4,007	3,414	3,932	3,339
Slovenia	89	147	98	136	87	138	89	358	310
Slovakia	310	422	309	540	427	433	320	593	480
Bulgaria	712	856	712	1,141	997	970	825	1,040	895
Romania	1,489	2,025	1,799	3,001	2,775	2,815	2,589	2,890	2,664
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.8.: Partial Net Balance "NR" for the EU-27 by allocation criteria. CAP Decline – Light versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 3.a The Cap Decline - Light							
		A	B	C	D	E	F	G	H
Belgium	-883	-808	-798	-1,018	-1,008	-802	-792	-830	-820
Denmark	157	89	118	-116	-87	4	33	-7	22
Germany	-4,582	-4,243	-4,174	-4,969	-4,899	-4,533	-4,464	-4,834	-4,764
Greece	1,789	1,556	1,556	1,186	1,186	1,010	1,010	1,066	1,066
Spain	1,759	1,473	1,553	1,497	1,578	1,468	1,549	1,165	1,245
France	261	-222	-38	-1,080	-895	-783	-599	-1,297	-1,112
Ireland	898	776	793	779	797	548	566	629	647
Italy	-1,410	-1,274	-1,301	-2,374	-2,401	-1,351	-1,378	-1,502	-1,529
Luxembourg	-139	-122	-120	-122	-120	-122	-120	-46	-44
Netherlands	-1,616	-1,486	-1,457	-1,864	-1,835	-914	-885	-927	-898
Austria	13	97	57	146	106	129	89	216	176
Portugal	487	543	504	724	685	727	688	855	816
Finland	50	78	64	156	142	91	77	207	193
Sweden	-773	-676	-673	-565	-562	-696	-693	-691	-688
United Kingdom	-4,195	-3,845	-3,741	-3,487	-3,383	-4,094	-3,990	-4,367	-4,263
Czech Republic	350	341	312	427	397	254	224	306	276
Estonia	140	145	134	254	244	189	179	313	303
Cyprus	3	0	-2	-6	-9	5	3	136	134
Latvia	237	242	229	472	460	346	333	463	451
Lithuania	483	465	445	760	740	569	549	670	650
Hungary	1,304	1,191	1,140	1,308	1,257	1,100	1,049	1,143	1,092
Malta	-9	-5	-7	-8	-9	-2	-4	24	22
Poland	3,076	2,993	2,845	3,838	3,690	3,259	3,110	3,184	3,035
Slovenia	89	102	90	91	79	93	81	313	301
Slovakia	310	318	289	436	408	329	301	489	460
Bulgaria	712	704	668	989	953	818	782	888	852
Romania	1,489	1,570	1,513	2,546	2,490	2,360	2,304	2,435	2,379
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.9.: Partial Net Balance "NR" for the EU-27 by allocation criteria. CAP Decline – Deep versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 3.b The Cap Decline - Deep							
		A	B	C	D	E	F	G	H
Belgium	-883	-756	-700	-967	-910	-750	-694	-779	-722
Denmark	157	121	286	-85	80	35	200	24	189
Germany	-4,582	-3,998	-3,604	-4,724	-4,330	-4,288	-3,894	-4,589	-4,195
Greece	1,789	1,510	1,510	1,140	1,140	964	964	1,019	1,019
Spain	1,759	1,473	1,929	1,498	1,953	1,469	1,924	1,165	1,620
France	261	-31	1,016	-889	158	-592	455	-1,106	-58
Ireland	898	752	852	755	855	524	624	605	705
Italy	-1,410	-1,203	-1,355	-2,302	-2,455	-1,280	-1,432	-1,431	-1,583
Luxembourg	-139	-117	-105	-117	-106	-117	-105	-41	-30
Netherlands	-1,616	-1,400	-1,235	-1,777	-1,612	-828	-663	-840	-675
Austria	13	57	-171	106	-121	89	-138	175	-52
Portugal	487	481	260	662	442	665	445	793	572
Finland	50	63	-17	140	60	75	-5	191	111
Sweden	-773	-649	-632	-537	-521	-668	-652	-663	-647
United Kingdom	-4,195	-3,656	-3,067	-3,297	-2,709	-3,905	-3,316	-4,178	-3,589
Czech Republic	350	313	144	398	230	225	57	277	109
Estonia	140	131	74	241	183	176	118	300	242
Cyprus	3	5	-9	-1	-16	10	-4	141	127
Latvia	237	222	150	452	381	326	254	443	372
Lithuania	483	430	316	725	611	534	420	636	521
Hungary	1,304	1,125	835	1,241	951	1,033	744	1,077	787
Malta	-9	-6	-15	-8	-17	-3	-12	23	14
Poland	3,076	2,767	1,926	3,611	2,771	3,032	2,191	2,957	2,117
Slovenia	89	88	20	77	9	79	11	300	231
Slovakia	310	286	126	405	244	298	137	457	297
Bulgaria	712	628	424	913	708	742	537	812	607
Romania	1,489	1,364	1,044	2,340	2,020	2,155	1,834	2,229	1,909
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.10.: Partial Net Balance "NR" for the EU-27 by allocation criteria. EU's Project Decline versus Status Quo

	SCENARIO 1 The Status Quo	SCENARIO 4 The EU's Project Decline							
		A	B	C	D	E	F	G	H
Belgium	-883	-756	-700	-967	-910	-750	-694	-779	-722
Denmark	157	121	286	-85	80	35	200	24	189
Germany	-4,582	-3,998	-3,604	-4,724	-4,330	-4,288	-3,894	-4,589	-4,195
Greece	1,789	1,510	1,510	1,140	1,140	964	964	1,019	1,019
Spain	1,759	1,473	1,929	1,498	1,953	1,469	1,924	1,165	1,620
France	261	-31	1,016	-889	158	-592	455	-1,106	-58
Ireland	898	752	852	755	855	524	624	605	705
Italy	-1,410	-1,203	-1,355	-2,302	-2,455	-1,280	-1,432	-1,431	-1,583
Luxembourg	-139	-117	-105	-117	-106	-117	-105	-41	-30
Netherlands	-1,616	-1,400	-1,235	-1,777	-1,612	-828	-663	-840	-675
Austria	13	57	-171	106	-121	89	-138	175	-52
Portugal	487	481	260	662	442	665	445	793	572
Finland	50	63	-17	140	60	75	-5	191	111
Sweden	-773	-649	-632	-537	-521	-668	-652	-663	-647
United Kingdom	-4,195	-3,656	-3,067	-3,297	-2,709	-3,905	-3,316	-4,178	-3,589
Czech Republic	350	313	144	398	230	225	57	277	109
Estonia	140	131	74	241	183	176	118	300	242
Cyprus	3	5	-9	-1	-16	10	-4	141	127
Latvia	237	222	150	452	381	326	254	443	372
Lithuania	483	430	316	725	611	534	420	636	521
Hungary	1,304	1,125	835	1,241	951	1,033	744	1,077	787
Malta	-9	-6	-15	-8	-17	-3	-12	23	14
Poland	3,076	2,767	1,926	3,611	2,771	3,032	2,191	2,957	2,117
Slovenia	89	88	20	77	9	79	11	300	231
Slovakia	310	286	126	405	244	298	137	457	297
Bulgaria	712	628	424	913	708	742	537	812	607
Romania	1,489	1,364	1,044	2,340	2,020	2,155	1,834	2,229	1,909
EU-27	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.11.: Partial Net Balance "Cohesion" for the EU-27 by Scenario

	SCENARIO 1 The Status Quo	SCENARIO 2.a The Inertial Decline	SCENARIO 2.b The Pillars Rebalancing	SCENARIO 3.a The Cap Decline Light	SCENARIO 3.b The Cap Decline Deep	SCENARIO 4 The EU's Project Decline
Belgium	-1,110	-1,110	-1,110	-1,140	-1,151	-1,110
Denmark	-884	-884	-884	-919	-930	-884
Germany	-6,207	-6,207	-6,207	-6,385	-6,444	-6,207
Greece	2,143	2,143	2,143	2,174	2,185	2,143
Spain	1,036	1,036	1,036	1,076	1,090	1,036
France	-5,816	-5,816	-5,816	-6,001	-6,063	-5,816
Ireland	-523	-523	-523	-532	-535	-523
Italy	-1,939	-1,939	-1,939	-1,909	-1,899	-1,939
Luxembourg	-162	-162	-162	-171	-174	-162
Netherlands	-2,017	-2,017	-2,017	-2,092	-2,117	-2,017
Austria	-898	-898	-898	-928	-939	-898
Portugal	2,514	2,514	2,514	2,548	2,560	2,514
Finland	-466	-466	-466	-486	-493	-466
Sweden	-1,329	-1,329	-1,329	-1,390	-1,410	-1,329
United Kingdom	-6,145	-6,145	-6,145	-6,252	-6,288	-6,145
Czech Republic	3,153	3,153	3,153	3,143	3,139	3,153
Estonia	445	445	445	450	451	445
Cyprus	19	19	19	19	19	19
Latvia	604	604	604	622	629	604
Lithuania	894	894	894	915	922	894
Hungary	3,286	3,286	3,286	3,342	3,361	3,286
Malta	101	101	101	101	102	101
Poland	8,367	8,367	8,367	8,562	8,627	8,367
Slovenia	461	461	461	461	461	461
Slovakia	1,426	1,426	1,426	1,437	1,441	1,426
Bulgaria	847	847	847	937	967	847
Romania	2,201	2,201	2,201	2,417	2,489	2,201
EU-27	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.12.: Partial Net Balance "Competitiveness" for the EU-27 by Scenario

	SCENARIO 1 The Status Quo	SCENARIO 2.a The Inertial Decline	SCENARIO 2.b The Pillars Rebalancing	SCENARIO 3.a The Cap Decline Light	SCENARIO 3.b The Cap Decline Deep	SCENARIO 4 The EU's Project Decline
Belgium	1,138	1,138	1,138	1,392	1,477	1,138
Denmark	-12	-12	-12	-15	-16	-12
Germany	-549	-549	-549	-671	-712	-549
Greece	130	130	130	158	168	130
Spain	-146	-146	-146	-178	-189	-146
France	-246	-246	-246	-301	-319	-246
Ireland	6	6	6	8	8	6
Italy	-306	-306	-306	-374	-397	-306
Luxembourg	132	132	132	161	171	132
Netherlands	182	182	182	223	236	182
Austria	88	88	88	108	114	88
Portugal	49	49	49	61	64	49
Finland	144	144	144	176	187	144
Sweden	8	8	8	9	10	8
United Kingdom	-419	-419	-419	-512	-543	-419
Czech Republic	-115	-115	-115	-141	-150	-115
Estonia	16	16	16	20	21	16
Cyprus	5	5	5	6	6	5
Latvia	8	8	8	10	10	8
Lithuania	178	178	178	218	231	178
Hungary	3	3	3	3	4	3
Malta	5	5	5	6	7	5
Poland	-212	-212	-212	-259	-275	-212
Slovenia	19	19	19	23	24	19
Slovakia	-3	-3	-3	-4	-4	-3
Bulgaria	21	21	21	25	27	21
Romania	-123	-123	-123	-151	-160	-123
EU-27	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.13.: Partial Net Balance "Other Headings" for the EU-27 by Scenario

	SCENARIO 1 The Status Quo	SCENARIO 2.a The Inertial Decline	SCENARIO 2.b The Pillars Rebalancing	SCENARIO 3.a The Cap Decline Light	SCENARIO 3.b The Cap Decline Deep	SCENARIO 4 The EU's Project Decline
Belgium	133	133	133	133	133	133
Denmark	-172	-172	-172	-172	-172	-172
Germany	-1,691	-1,691	-1,691	-1,691	-1,691	-1,691
Greece	38	38	38	38	38	38
Spain	-684	-684	-684	-684	-684	-684
France	-1,152	-1,152	-1,152	-1,152	-1,152	-1,152
Ireland	-109	-109	-109	-109	-109	-109
Italy	-237	-237	-237	-237	-237	-237
Luxembourg	5	5	5	5	5	5
Netherlands	-312	-312	-312	-312	-312	-312
Austria	-123	-123	-123	-123	-123	-123
Portugal	-45	-45	-45	-45	-45	-45
Finland	-103	-103	-103	-103	-103	-103
Sweden	-120	-120	-120	-120	-120	-120
United Kingdom	-1,262	-1,262	-1,262	-1,262	-1,262	-1,262
Czech Republic	-79	-79	-79	-79	-79	-79
Estonia	39	39	39	39	39	39
Cyprus	36	36	36	36	36	36
Latvia	54	54	54	54	54	54
Lithuania	153	153	153	153	153	153
Hungary	128	128	128	128	128	128
Malta	54	54	54	54	54	54
Poland	530	530	530	530	530	530
Slovenia	51	51	51	51	51	51
Slovakia	41	41	41	41	41	41
Bulgaria	1,263	1,263	1,263	1,263	1,263	1,263
Romania	3,564	3,564	3,564	3,564	3,564	3,564
EU-27	**0**	**0**	**0**	**0**	**0**	**0**

Table A.2.14.: The effects on the endowment of CAP pillars by allocation criteria - SCENARIO 2.a Inertial Decline

	SCENARIO1 The Status Quo		SCENARIO 2.a The Inertial Decline					
	Pillar 1	Pillar 2	Pillar 1				Pillar 2	
	Current Ceiling 2013	*Financial Framework 2007-2013*	*Current Ceiling 2013*	*100% UAA*	*50% UAA; 50% VFO*	*40% UAA ; 40% VFO; 10% N2000; 10% rural pop*	*Financial Framework 2007-2013*	*65%UAA; 35% agr labour + pcGDP(PPP)*
Belgium	589	57	559	310	567	533	66	76
Denmark	1,005	61	954	710	853	840	71	100
Germany	5,605	1,105	5,325	4,463	4,980	4,623	1,287	1,356
Greece	2,123	505	2,017	1,577	1,369	1,435	588	588
Spain	4,932	966	4,685	4,714	4,679	4,319	1,141	1,221
France	8,162	878	7,754	6,736	7,088	6,478	1,022	1,206
Ireland	1,284	319	1,220	1,224	950	1,046	371	389
Italy	4,188	1,125	3,979	2,673	3,887	3,708	1,314	1,287
Luxembourg	36	12	34	33	34	123	14	16
Netherlands	860	66	817	368	1,496	1,481	77	106
Austria	720	533	684	742	722	825	620	580
Portugal	581	534	552	767	771	922	623	584
Finland	546	284	519	611	534	672	330	316
Sweden	738	249	701	834	679	684	290	292
United Kingdom	3,819	585	3,628	4,054	3,332	3,008	722	826
Czech Republic	871	384	827	929	723	785	447	417
Estonia	97	97	92	222	145	292	113	103
Cyprus	51	29	49	41	54	210	27	24
Latvia	140	142	133	407	257	397	165	153
Lithuania	364	237	346	696	469	589	276	256
Hungary	1,263	519	1,200	1,338	1,091	1,143	604	552
Malta	5	10	5	2	8	40	12	11
Poland	2,915	1,803	2,770	3,773	3,085	2,996	2,098	1,950
Slovenia	138	123	131	118	120	382	143	131
Slovakia	372	268	353	494	367	556	312	284
Bulgaria	556	326	528	866	662	745	409	372
Romania	1,211	1,025	1,150	2,310	2,089	2,178	1,260	1,204
EU-27	**43,169**	**12,243**	**41,011**	**41,011**	**41,011**	**41,011**	**14,402**	**14,402**

Table A.2.15.: The effects on the endowment of CAP pillars by allocation criteria - SCENARIO 2.b Rebalancing Pillars

	SCENARIO1 The Status Quo		SCENARIO 2.b The Pillar rebalancing					
	Pillar 1	Pillar 2	Pillar 1				Pillar 2	
	Current Ceiling 2013	*Financial Framework 2007-2013*	*Current Ceiling 2013*	*100% UAA*	*50% UAA; 50% VFO*	*40% UAA ; 40% VFO; 10% N2000; 10% rural pop*	*Financial Framework 2007-2013*	*65%UAA; 35% agr labour + pcGDP(PPP)*
Belgium	589	57	471	261	477	449	97	136
Denmark	1,005	61	804	598	718	707	103	219
Germany	5,605	1,105	4,484	3,758	4,194	3,893	1,871	2,149
Greece	2,123	505	1,698	1,328	1,153	1,208	855	855
Spain	4,932	966	3,945	3,970	3,941	3,637	1,652	1,973
France	8,162	878	6,530	5,672	5,969	5,456	1,486	2,224
Ireland	1,284	319	1,027	1,031	800	881	540	611
Italy	4,188	1,125	3,351	2,251	3,273	3,122	1,909	1,801
Luxembourg	36	12	28	28	29	104	21	29
Netherlands	860	66	688	310	1,259	1,247	112	228
Austria	720	533	576	625	608	695	902	742
Portugal	581	534	464	646	649	777	905	750
Finland	546	284	437	514	450	566	480	424
Sweden	738	249	591	702	571	576	421	433
United Kingdom	3,819	585	3,055	3,414	2,806	2,533	1,032	1,447
Czech Republic	871	384	697	782	609	661	650	531
Estonia	97	97	78	187	122	246	165	124
Cyprus	51	29	41	34	46	177	42	32
Latvia	140	142	112	343	216	334	240	190
Lithuania	364	237	291	586	395	496	402	321
Hungary	1,263	519	1,010	1,127	919	962	878	674
Malta	5	10	4	2	7	33	18	11
Poland	2,915	1,803	2,332	3,177	2,598	2,523	3,052	2,459
Slovenia	138	123	110	99	101	322	208	159
Slovakia	372	268	297	416	309	468	454	341
Bulgaria	556	326	444	729	558	628	581	437
Romania	1,211	1,025	969	1,945	1,759	1,834	1,803	1,577
EU-27	**43,169**	**12,243**	**34,536**	**34,536**	**34,536**	**34,536**	**20,877**	**20,877**

Table A.2.16.: The effects on the endowment of CAP pillars by allocation criteria - SCENARIO 3.a CAP Decline – Light

	SCENARIO1 The Status Quo		SCENARIO 3.a The Cap Decline - Light					
	Pillar 1	Pillar 2	Pillar 1				Pillar 2	
	Current Ceiling 2013	*Financial Framework 2007-2013*	*Current Ceiling 2013*	*100% UAA*	*50% UAA; 50% VFO*	*40% UAA ; 40% VFO; 10% N2000; 10% rural pop*	*Financial Framework 2007-2013*	*65%UAA; 35% agr labour + pcGDP(PPP)*
Belgium	589	57	471	261	477	449	66	76
Denmark	1,005	61	804	598	718	707	71	100
Germany	5,605	1,105	4,484	3,758	4,194	3,893	1,287	1,356
Greece	2,123	505	1,698	1,328	1,153	1,208	588	588
Spain	4,932	966	3,945	3,970	3,941	3,637	1,141	1,221
France	8,162	878	6,530	5,672	5,969	5,456	1,022	1,206
Ireland	1,284	319	1,027	1,031	800	881	371	389
Italy	4,188	1,125	3,351	2,251	3,273	3,122	1,314	1,287
Luxembourg	36	12	28	28	29	104	14	16
Netherlands	860	66	688	310	1,259	1,247	77	106
Austria	720	533	576	625	608	695	620	580
Portugal	581	534	464	646	649	777	623	584
Finland	546	284	437	514	450	566	330	316
Sweden	738	249	591	702	571	576	290	292
United Kingdom	3,819	585	3,055	3,414	2,806	2,533	722	826
Czech Republic	871	384	697	782	609	661	447	417
Estonia	97	97	78	187	122	246	113	103
Cyprus	51	29	41	34	46	177	27	24
Latvia	140	142	112	343	216	334	165	153
Lithuania	364	237	291	586	395	496	276	256
Hungary	1,263	519	1,010	1,127	919	962	604	552
Malta	5	10	4	2	7	33	12	11
Poland	2,915	1,803	2,332	3,177	2,598	2,523	2,098	1,950
Slovenia	138	123	110	99	101	322	143	131
Slovakia	372	268	297	416	309	468	312	284
Bulgaria	556	326	444	729	558	628	409	372
Romania	1,211	1,025	969	1,945	1,759	1,834	1,260	1,204
EU-27	**43,169**	**12,243**	**34,536**	**34,536**	**34,536**	**34,536**	**14,402**	**14,402**

Table A.2.17.: The effects on the endowment of CAP pillars by allocation criteria - SCENARIO 3.b CAP Decline – Deep

	SCENARIO1 The Status Quo		SCENARIO 3.b The Cap Decline - Deep					
	Pillar 1	Pillar 2	Pillar 1				Pillar 2	
	Current Ceiling 2013	*Financial Framework 2007-2013*	*Current Ceiling 2013*	*100% UAA*	*50% UAA; 50% VFO*	*40% UAA ; 40% VFO; 10% N2000; 10% rural pop*	*Financial Framework 2007-2013*	*65%UAA; 35% agr labour + pcGDP(PPP)*
Belgium	589	57	471	261	477	449	57	114
Denmark	1,005	61	804	598	718	707	61	226
Germany	5,605	1,105	4,484	3,758	4,194	3,893	1,105	1,499
Greece	2,123	505	1,698	1,328	1,153	1,208	505	505
Spain	4,932	966	3,945	3,970	3,941	3,637	966	1,422
France	8,162	878	6,530	5,672	5,969	5,456	878	1,925
Ireland	1,284	319	1,027	1,031	800	881	319	419
Italy	4,188	1,125	3,351	2,251	3,273	3,122	1,125	972
Luxembourg	36	12	28	28	29	104	12	24
Netherlands	860	66	688	310	1,259	1,247	66	231
Austria	720	533	576	625	608	695	533	306
Portugal	581	534	464	646	649	777	534	313
Finland	546	284	437	514	450	566	284	204
Sweden	738	249	591	702	571	576	249	265
United Kingdom	3,819	585	3,055	3,414	2,806	2,533	585	1,174
Czech Republic	871	384	697	782	609	661	384	216
Estonia	97	97	78	187	122	246	97	40
Cyprus	51	29	41	34	46	177	29	15
Latvia	140	142	112	343	216	334	142	71
Lithuania	364	237	291	586	395	496	237	123
Hungary	1,263	519	1,010	1,127	919	962	519	229
Malta	5	10	4	2	7	33	10	1
Poland	2,915	1,803	2,332	3,177	2,598	2,523	1,803	962
Slovenia	138	123	110	99	101	322	123	54
Slovakia	372	268	297	416	309	468	268	108
Bulgaria	556	326	444	729	558	628	326	121
Romania	1,211	1,025	969	1,945	1,759	1,834	1,025	705
EU-27	**43,169**	**12,243**	**34,536**	**34,536**	**34,536**	**34,536**	**12,243**	**12,243**

Table A.2.18.: The effects on the endowment of CAP pillars by allocation criteria - SCENARIO 4 EU's Project Decline

	SCENARIO1 The Status Quo		SCENARIO 4 The EU's Project Decline					
	Pillar 1	Pillar 2	Pillar 1				Pillar 2	
	Current Ceiling 2013	*Financial Framework 2007-2013*	*Current Ceiling 2013*	*100% UAA*	*50% UAA; 50% VFO*	*40% UAA ; 40% VFO; 10% N2000; 10% rural pop*	*Financial Framework 2007-2013*	*65%UAA; 35% agr labour + pcGDP(PPP)*
Belgium	589	57	471	261	477	449	57	114
Denmark	1,005	61	804	598	718	707	61	226
Germany	5,605	1,105	4,484	3,758	4,194	3,893	1,105	1,499
Greece	2,123	505	1,698	1,328	1,153	1,208	505	505
Spain	4,932	966	3,945	3,970	3,941	3,637	966	1,422
France	8,162	878	6,530	5,672	5,969	5,456	878	1,925
Ireland	1,284	319	1,027	1,031	800	881	319	419
Italy	4,188	1,125	3,351	2,251	3,273	3,122	1,125	972
Luxembourg	36	12	28	28	29	104	12	24
Netherlands	860	66	688	310	1,259	1,247	66	231
Austria	720	533	576	625	608	695	533	306
Portugal	581	534	464	646	649	777	534	313
Finland	546	284	437	514	450	566	284	204
Sweden	738	249	591	702	571	576	249	265
United Kingdom	3,819	585	3,055	3,414	2,806	2,533	585	1,174
Czech Republic	871	384	697	782	609	661	384	216
Estonia	97	97	78	187	122	246	97	40
Cyprus	51	29	41	34	46	177	29	15
Latvia	140	142	112	343	216	334	142	71
Lithuania	364	237	291	586	395	496	237	123
Hungary	1,263	519	1,010	1,127	919	962	519	229
Malta	5	10	4	2	7	33	10	1
Poland	2,915	1,803	2,332	3,177	2,598	2,523	1,803	962
Slovenia	138	123	110	99	101	322	123	54
Slovakia	372	268	297	416	309	468	268	108
Bulgaria	556	326	444	729	558	628	326	121
Romania	1,211	1,025	969	1,945	1,759	1,834	1,025	705
EU-27	**43,169**	**12,243**	**34,536**	**34,536**	**34,536**	**34,536**	**12,243**	**12,243**

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