

Baltic republics could be among the main winners of the next CAP reform

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As a new European Parliament has been elected and the European Commission is to change, it is time to look ahead to the major challenges these policymakers will face during their term of office. Reform of the Common Agricultural Policy (CAP) is certainly a key task. Greater market orientation in agriculture would stimulate economic growth in Europe and benefit poor farmers abroad that suffer from unfair European competition. The CAP could also address environmental concerns, such as climate change and biodiversity, much more effectively. But there is another reason why the Baltic republics should care about CAP reform: a new study by the European Centre for International Political Economy (ECIPE) shows that they could drastically increase their share in the CAP subsidies. Lithuania could gain € 150 million per year, Estonia € 240 million, and Latvia as much as € 390 million.

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

Table 1 shows the disparity of first pillar subsidies. The numbers generally reflect 2013 entitlements when almost all member states receive their full payments (the exception is Bulgaria and Romania, whose payments are introduced more slowly and for whom 2015 entitlements are shown). At the top comes Greece with an astonishing € 544 per hectare; at the bottom is Latvia with a meager € 83. The average in the new member states (€ 185) is much lower than in the old member states (€ 295). It is easy to see why the Czech Republic put this imbalance front and centre of its presidency and selected it for discussion at the informal meeting of agriculture ministers in Brno in early June. In her speech at the meeting, Mariann Fischer Boel, the Commissioner for Agriculture and Rural Development, admitted the need to address the issue (<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/09/279&format=HTML&aged=0&language=EN&guiLanguage=en>).

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

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

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

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

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

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

The results (in tables 2 to 4) show that the Baltic republics can expect to significantly increase their share in the CAP payments. In the conservative scenario, Estonia/Latvia/Lithuania would raise their share by 37%/48%/12% respectively. Even more enticing is the more reform-minded multifunctional scenario where Estonia/Latvia/Lithuania would raise their share by 119%/138%/22% respectively. With a CAP budget of € 55 billion, this amounts to a gain of € 240/390/130 million per year respectively (only Lithuania does better under the area-focused scenario where it gains € 150 million per year).

One reason for these results is that the Baltic republics are being treated especially badly under the current CAP – even worse than most other new member states. Besides, Estonia's and Latvia's share in Europe's forest area greatly exceed their share in the CAP subsidies. So if forests finally receive some of the support they merit, this will benefit Estonia and Latvia. The Baltic republics would also benefit from compensation for Natura 2000 and organic farming areas. Dr. Valentin Zahrt, the author of the study, says that 'a bold reform that strengthens the environmental benefits of the CAP would be not only ecologically responsible but also financially profitable for the Baltic republics.'

Other countries that would gain from reform are – surprisingly – defenders of the status quo and against reforms. This is especially striking in the case of Spain, which would see its payments increased under any reform scenario and would reap the greatest absolute gains of all member states. Finland would

get the third highest relative increase under all scenarios just after Sweden and Latvia. For both countries, the benefits would be greater, the bolder the reform. To a lesser extent, this also applies to reform-averse Portugal and Austria.

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

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

Bulgaria and Romania: 2015 entitlements

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

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

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

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

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

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