The French interest in 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. Negotiating a new long-term budget for the EU and reforming the budget's heavyweight, the Common Agricultural Policy (CAP), is certainly a key task. This means changing not only EU policies but also the distribution of EU money. A new study by the European Centre for International Political Economy (ECIPE) shows that France is likely to see its share in CAP payments shrink by up to 19%. With a CAP budget of € 55 billion, this would amount to a loss of € 1.7 billion a year. These figures must not mislead France into resisting change. A fundamental reform of the CAP is in France's best interest.

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 France can expect to lose shares in the CAP payments. In the conservative scenario, its share will decrease by 6%, in the area-focused scenario by 7%, and in the multifunctional scenario by 19%.

France should nonetheless support CAP reform. Dr. Valentin Zahrnt, the author of the study, says: 'What really counts is not whether France gains or loses some percentage of CAP payments but that the money is used judiciously all over Europe. This would be a great step forward in the fight against climate change and for the preservation of biodiversity. It would also help to give the EU new momentum. Citizens would see that the EU promotes public goods with public money rather than wasting it.'

Here are four good reasons for reform. First, the current CAP fails to deliver in the environmental realm. Agricultural production can preserve open spaces, enhance scenic variety, and maintain traditional landscape characteristics that carry cultural significance. Similarly, agriculture can promote biodiversity, for instance by offering a habitat to species that depend on (traditional) farming. But agriculture can also lead to water, air, and soil pollution; release of greenhouse gases; water and soil depletion; and the loss of biological diversity as a result of environmental degradation and monoculture. For instance, agriculture is responsible for 9.2% of the EU's greenhouse gas emissions. In the future, CAP subsidies should reward farmers that provide environmental benefits to society and minimize ecological harm.

Second, farmers are asset-rich – they own machinery, farm buildings, and above all land. It is difficult to justify why people who own a lot should receive public money – even if they have low incomes yet do not wish to sell any of their property. Do the working poor of other sectors not have a better claim to public support as they are both income- and asset-poor? And what about all those who have lost their jobs in the economic crisis? What makes things worse is that the subsidies are not even targeted at poor farmers. Dr. Valentin Zahrnt is critical: '20% of SFP recipients reap roughly 80% of the SFP. In the Czech Republic, the average beneficiary receives almost € 50,000. And hundreds of recipients get more than € 1 million of CAP subsidies per year.'

Third, the CAP is a burden on European integration. It absorbs more than 40% of the EU budget, depriving the EU of the renewed momentum it could gain if it became more relevant for attaining the priorities of the future. And it is at the core of the unworthy haggling over net budget contributions that damages European solidarity. The CAP redistributes wealth without sound criteria that would direct the money to poor individuals, regions, or member states. As a result, every member state tries to grab the biggest share possible from the pie or to secure exceptions when it comes to contributing to the EU budget.

Fourth, EU agricultural policy is routinely lambasted as hypocritical by developing countries. It discredits the free-trade argument and serves as a pretext for maintaining barriers to trade in all kinds of goods and services. Dr. Valentin Zahrnt says, 'If the EU takes the lead and dismantles its protectionism in agriculture, this will lend lasting support to free-traders around the world. This is an openly overlooked benefit of CAP reform.'

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

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

Bulgaria and Romania: 2015 entitlements

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

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

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

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

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

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

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

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

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