THE REFORM OF THE CAP POST-2013: ALLOCATION CRITERIA IN THE SECOND PILLAR

JEL classification: Q18

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Abstract. *The Commission launched an ambitious process of modification of the basis for the budget allocation (hereafter referred to as the "allocation system"), proposing a menu of objective criteria for the distribution of resources in the next programming period. Such a process raised a series of questions on which a political agreement is needed, i.e. what criteria – linked to political objectives and priorities – should be adopted to define the distribution; how to turn them into indicators; how concretely to combine them; if appropriate, how to take into consideration the historical allocation. The modification of the allocation system has represented an important factor in the reform process of the CAP, both for the impact it would have among Member States and for its effects on national contexts. The achievement of political objectives and priorities depends on it.*

However, the political deal on the Multiannual Financial Framework 2014-2020, reached by the 27 Member States during the European Council (8th February 2013), seems to have settled on an allocation system endorsing the current distribution of resources, which largely reflects the past spending framework, and disregarding the use of objective criteria proposed by the Commission.

The paper, aims to provide a critical analysis on the approaches linked to formula driven distribution, allocation criteria and indicators. After introducing the contents of the agreement on the MFF and citing the contributions existing in literature and examples of political, implementation, the paper investigates the use of objective criteria and indicators focusing in particular on those proposed by the European Commission for the reform post-2013, highlighting those weaknesses which still exist in these approaches, which, in turn, lead to a marginal use of objective criteria.

Keywords: *multiannual financial framework 2014-2020, budget allocation, CAP, rural development, objective criteria*

1. Introduction

On the occasion of the proposal for the Multiannual Financial Framework (MFF) for 2014-2020 the European Commission set the budgetary framework[1] and the main orientations for the Common Agricultural Policy (CAP) and later submitted a set of regulations concerning the legislative framework for the post-2013 period. As a result, a complex negotiation was started on the community budget and the CAP[2].

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[1] A Budget For Europe 2020 - Part I - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (COM(2011)500def.).

[2] COM(2011)625def., COM(2011)626def., COM(2011)627def., COM(2011)628def., COM(2011)629def.

The current reform involves both pillars of the CAP; it seeks to achieve important changes in direct payments oriented more towards the provision of public goods, in rural development through a reinforced strategic approach, further integration with Cohesion policy, and in the modification of the allocation system.

The latter represents an issue of crucial importance within the reform and a difficult task.

Setting new allocation criteria turns out to be a sensitive issue as the distribution of funds in the next programming period for each Member State depends on it and it affects Member States' ability to achieve targeted objectives and priorities.

In the Commission proposals, a single redistribution criterion was adopted for Pillar I, aiming at making the value of direct payments per hectare “converge” in all Member States. As regards Pillar II, the proposal identified a set of objective criteria and indicators to be applied for the redistribution of resources (Impact Assessment - European Commission, 2011e). According to our estimates and analysis on Commission data (2013), the political deal on the MFF 2014-2020 neglected the Commission approach (2011e). On the other hand, it should be remembered that the implementation of objective criteria is not new in the agricultural context: a few attempts already exist. However, most of the time, the objective criteria plays only a marginal role, highlighting the difficulty of implementing an allocation system based on indicators. This is due to the difficulties connected with the choice of appropriate variables and to the need to take into account a balanced distribution among countries.

In the first section, the paper provides a summary of the figures foreseen in the agreement on the MFF. In the second part, some examples for implementing and introducing new additional criteria in the allocation of resources are introduced. The Commission proposal is then presented in the third section. Finally a critical analysis of the Commission approach is provided.

2. The political agreement on the financial prospective 2014-2020: the effect on the second pillar

The deal reached at the European Council (7-8th February 2013) has concluded a further step in defining the financial and regulatory framework for the next programming period. The 27 Member States of the EU have reached the political agreement on the MFF for 2014-2020. It limits the maximum possible expenditure for a European Union of 28 Member States[3] to €959.99 billion in commitments, corresponding to 1.0% of Gross National Income (GNI) of the EU. This means that the overall ceiling has been reduced by -3.4% in real terms, compared with the current MFF (2007-2013), with a cut of € -34 billion in commitment appropriations (2011 prices). This is the first time that the overall expenditure limit of a MFF has been reduced as compared with the previous one. The ceiling for overall payments has been set at € 908.40 billion, corresponding to 0.95% of the GNI.

Compared with 2007-2013 and focusing attention on the second pillar of the CAP, the EU leaders agreed on a substantial decrease in the financial support for rural development policy. Indeed, it shows a reduction of -11%: the ceiling for commitments has been set at €84.9 billion for the EU-28 in 2014-2020, compared with €95.7 billion[4] for the EU-27 in the MFF 2007-2013 (2011 prices).

[3] Croatia is expected to join the EU on 1 July 2013.

[4] The ceiling is adjusted taking into account the UK voluntary modulation and unspent amounts (art. 136 R. 73/2009).

Tab. 1 - MFF 2014-2020						
(Mio euro; 2011 prices)	2007-2013		2014-2020 "deal" 8 feb. 2013		Diff. 2014-2020 cf. 2007-2013	
	Mio euro	%	Mio euro	%	Mio euro	%
Smart and Inclusive Growth	446.310	44,9	450.763	47,0	4.453	1,0
Competitiveness for Growth and Jobs	*91.495*	*9,2*	*125.614*	*13,1*	*34.119*	*37,3*
Economic, social and territorial cohesion	*354.815*	*37,7*	*325.149*	*33,9*	*–29.666*	*–8,4*
Sustainable growth: Natural Resources	420.682	42,3	373.179	38,9	–47.503	–11,3
Direct aids and market-related expenditure (1)	*316.825*	*31,9*	*277.851*	*28,9*	*–38.974*	*–12,3*
Rural development (2)	*95.745*	*9,6*	*84.936*	*8,8*	*–10.809*	*–11,3*
Security and Citizenship	12.366	1,2	15.686	1,6	3.320	26,8
Global Europe	56.815	5,7	58.704	6,1	1.889	3,3
Administration	57.082	5,7	61.629	6,4	4.547	8,0
Compensations	920	0,1	27	0,0	–893	–97,1
Total commitment appropriations	**994.176**	**100,0**	**959.988**	**100,0**	**–34.188**	**–3,4**
as a percentage of GNI	*1,06%*		*1,00%*			
Total payment appropriations	**942.778**		**908.400**		**–34.378**	**–3,6**
as a percentage of GNI	*1,06%*		*0,95%*			

(1) Ceilings adjusted taking into account transfers to EAFRD and other Headings (estimates).
(2) Ceilings adjusted taking into account voluntary modulation and unspent amount art. 136 R. 73/2009.
Source: our estimates on data European Council Conclusions (2013)[5].

The analysis by financial year clearly shows that, according to the political agreement, rural development represents a decreasing share of the budget (from 9.3% in 2014 to 7.9% in 2020); on average, during the two programming periods 2007-2013 and 2014-2020, the second pillar drops from 9.6% to 8.6%.

It is evident that the negotiation within the European Council had a wider impact on the EAFRD reduction than the freeze of the amounts in nominal terms at the 2013 level, as planned by the European Commission in its proposal on the EU budget[6]. Indeed, the latter Commission proposal fixed the rural development ceiling for EU-27 at €89 billion. Such a reduction ended the rising trend in the budget for the second pillar, observed from Agenda 2000 onwards (De Filippis, Frascarelli, 2012); furthermore, the deal halts the expansion of the second pillar at the expense of the first one.

Concerning the allocation systems, the European Council's conclusions do not provide information on the criteria applied; the guidelines for the distribution still remains vague and the allocation "*will be based on objective criteria and past performance*" without any specific indication on their weights. According to our estimates and analysis on Commission data (2013), however, the distribution of resources among Member States seems to have discarded the use of objective criteria proposed by the European Commission (Impact Assessment – Annex IV), in favor of the historical allocation during the current programming period 2007-2013. This issue emerges clearly when the extra assignments obtained by some countries during the negotiations are not

[5] For further estimates on data of European Council Conclusions (2013) for the whole CAP see also Pierangeli F. (2013).

[6] COM(2011)500def.

considered. Indeed, additional specific assignments for a total of €5.6 billion were decided during the negotiations. The latter amount, allocated to sixteen Member States is blandly justified due to "*particular structural challenges in their agricultural sector or which have invested heavily in an effective delivery framework for Pillar 2 expenditure*"[7]. Such an allocation criteria, if confirmed, freezes the current allocation system, and refers to the historic distribution in the 2007-2013 period, except for additional assignments which mainly counterbalance the redistributive effect of the first pillar (Table 4). The main beneficiaries of the political agreement appear to be a large number of the old Member States, in particular France, Italy, Belgium, Finland, Denmark, the United Kingdom, Luxembourg and the Netherlands, at the "expense" of Poland, the Czech Republic, Hungary as well as Germany, Ireland and Sweden.

Tab. 2 - EAFRD allocation for 2014-2020*

(Mio euro; 2011 prices)	2007-2013		2014-2020		Diff. 2014-2020 cf. 2007-2013	
	Mio euro	UE-27=100	Mio euro	UE-27=100	Mio euro	% change
Austria	4.118	4,3	3.498,4	4,2	−619,2	−15,0
Belgium	496	0,5	490,3	0,6	−5,8	−1,2
Bulgaria	2.687	2,8	2.078,6	2,5	−608,0	−22,6
Cyprus	168	0,2	117,5	0,1	−51,0	−30,3
Denmark	585	0,6	559,4	0,7	−26,1	−4,5
Estonia	737	0,8	645,1	0,8	−92,0	−12,5
Finland	2.204	2,3	2.114,6	2,6	−89,1	−4,0
France	7.705	8,1	8.804,6	10,7	1.099,2	14,3
Germany (1)	9.117	9,5	7.303,8	8,8	−1.812,8	−19,9
Greece	3.963	4,1	3.729,1	4,5	−233,7	−5,9
Ireland	2.548	2,7	1.946,2	2,4	−601,6	−23,6
Italy	**9.138,5**	**9,6**	**9.266,9**	**11,2**	**128,4**	**1,4**
Latvia	1.076	1,1	861,1	1,0	−215,2	−20,0
Lithuania	1.803	1,9	1.433,5	1,7	−369,4	−20,5
Luxembourg	97	0,1	89,4	0,1	−7,6	−7,9
Malta	79	0,1	87,9	0,1	8,5	10,7
Netherlands	602	0,6	539,8	0,7	−62,5	−10,4
Poland	13.691	14,3	9.724,2	11,8	−3.967,1	−29,0
Portugal	4.141	4,3	3.605,6	4,4	−535,1	−12,9
United Kingdom (2)	2.426	2,5	2.293,4	2,8	−132,2	−5,5
Czech Republic	2.915	3,1	1.929,4	2,3	−985,1	−33,8
Romania	8.204	8,6	7.124,1	8,6	−1.079,7	−13,2

[7] Austria (EUR700 million), France (EUR 1000 million), Ireland (EUR 100 million), Italy (EUR 1 500 million), Luxembourg (EUR 20 million), Malta (EUR 32 million), Lithuania (EUR100 million), Latvia (EUR 67 million), Estonia (EUR 50 million), Sweden (EUR 150 million), Portugal (EUR 500 million), Cyprus (EUR 7 million), Spain (EUR 500 million), Belgium (EUR 80 million), Slovenia (EUR 150 million) and Finland (EUR 600 million). http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/135344.pdf

(Mio euro; 2011 prices)	2007-2013		2014-2020		Diff. 2014-2020 cf. 2007-2013	
	Mio euro	UE-27=100	Mio euro	UE-27=100	Mio euro	% change
Slovenia	938	1,0	744,4	0,9	−194,0	−20,7
Spain	8.162	8,5	7.368,3	8,9	−793,5	−9,7
Sweden (1)	1.968	2,1	1.550,9	1,9	−417,1	−21,2
Hungary	3.938	4,1	3.071,0	3,7	−867,2	−22,0
EU-27 (a)	**95.545**	**100,0**	**82.657,5**	**100,0**	**−12.887,4**	**−13,5**
Croatia			2.066,3	2,4		
EU-28 (b)			**84.723,8**	**100,0**	**−10.821,1**	**−11,3**

* Point 71 of the February European Council conclusions (2013) on the MFF state that the overall amount of support for rural development is EUR 84.936 million.
(a) Amounts for Technical Assistance (0.25% of total envelope amounting to € 212.3 million) and Croatia excluded.
(b) Amounts for Technical Assistance excluded (0.25% of total envelope amounting to € 212.3 million).
(1) Ceilings 2007-2013 adjusted taking into account unspent amounts art. 136 R. 73/2009
(2) Ceilings adjusted taking into account voluntary modulation
Source: our calculations on data from European Commission (2013) and European Council Conclusions (2013)

3. Objective criteria: from theory to practice

The agreement achieved on the allocation between Member States disregarded the wider recourse to objective criteria proposed by the European Commission in the context of rural development policy, with the exception of extra specific assignments allocated according to specific national needs, for which only vague criteria have been quoted.

The historical expenditure pattern represents the foremost allocation criterion applied. As described by Mantino (2003) the original allocation of Pillar II resources had been determined by a number of factors including the Member States' efficiency in spending; previous spending levels; multi-annual commitments made in 1994-1999; and the importance given to rural diversification measures[8]. Furthermore, the distribution made under Agenda 2000 for the EU-15 were based on rural development payments and commitments in the period 1994-1999 (Zahrnt, 2009a).

The historical pattern has been routinely accompanied by *ad hoc* adjustments and corrections, which for the most part remain vaguely defined.

According to the Council Regulation 1257/1999 the Commission should have made initial allocations using objective criteria, taking into account *particular situations, needs, and efforts to be undertaken especially for the environment, job creation and maintenance of the landscape*. Apart from this bland statement, it was not clear which indicators were related to the criteria and their individual weights in the distribution.

The current allocation (2007-2013) itself largely reflects Member States' 2000-2006 payments and partial, *ad hoc* adjustments to EU enlargement and policy reforms (Zahrnt, 2009b). Indeed, pursuant to art. 69 of Council Regulation 1698/2005 the EAFRD budget allocation considers: past performance (allocations under the 2000-2006), amounts reserved for regions

[8] *"These allocation criteria gave undue weight to past activities, and that the focus on efficiency of spending had led countries to focus on 'easy' and 'traditional' measures"* (Mantino, 2003).

eligible under the Convergence Objective and additional amounts relating to specific situations and needs based on objective criteria. Also in this case the objective criteria remained undefined (Art. 69 Reg. (CE) n. 1698/2005).

However, the use of clear objective criteria is not new: precedents for this exist. It is the case of compulsory modulation (Art. 7 Reg. 73/2009, *ex* Art.10 Reg. 1782/2003) and of the payments under the Special Accession Programme for Agriculture and Rural Development (Sapard) received by new Member States until 2006. In the first case, a share amounting to 20% of the whole amount[9] made available through modulation of direct payments was transferred to Pillar II and allocated among Member States by means of a defined algorithm based on agricultural area (65%), agricultural employment (35%) and GDP per capita in purchasing power parities, as a factor of correction for cohesion purposes: "the lower the GDP in the MS, the higher the MS envelope". In the second case, the Regulation provided for an allocation based on the following objective criteria: farming population, agricultural area, gross domestic product (GDP) per capita in purchasing power parity and specific territorial situation[10]; however in this instance the weight attached to each of them was not clear.

Thus some allocations appear formula-driven while others are more discretionary, due to the implementation of undefined criteria and correction factors (Begg, 2009)[11]. It is actually the case of the additional specific assignments as foreseen in the European Council conclusion: *Member States facing particular structural challenges in their agriculture sector or which have invested heavily in an effective delivery framework for Pillar II expenditure* (pag. 29 EUCO 37/13).

On one hand, there is widespread interest in moving away from the current system which is based on historic payment, towards a distribution that has a more justifiable basis (Zahrnt, 2009). It is due to the problem of equitable distribution between the beneficiaries of the policy, as highlighted by Tarditi and Zanias (2001) and Velazquez (2008), concerning the Pillar I support; the anti-cohesion impact of CAP spending, revealed by ESPON study (2004) and Shucksmith *et* al. (2005). According to Dax (2005)[12] a source of regional and national disparities is the uneven allocation of EU rural development funds (based on historical spending), as the incidence of Pillar II support favours the more economically viable and growing areas of the EU. Crescenzi *et* al. (2011) evaluate the level of persistence over time of the policy [Pillar I, Pillar II and Structural funds] in the distribution of its resources at a territorial level, even though rural development showed a relatively higher level of dynamism over time. Furthermore, as reported in the Summary Report of Public debate on the Common Agricultural Policy after 2013 (EC, 2010b), a considerable number of stakeholders would like to see a more balanced distribution of support money among farmers, both within and between member states. The think tanks, research institutes and others also point out that there is a need to redirect CAP spending to target those areas, systems and practices which provide public goods, and this requires changes to the allocation criteria for the distribution of the budget between Member States, and in the eligibility criteria for support payments, resulting in a fundamental redistribution of support.

On the other hand, however, the modification of the allocation criteria is a sensitive issue and a complex task, both for methodological issues and for political implications. Suitable

[9] A share equal to 80% of resources (90% for Germany) made available by modulation of direct payments remains in the MS within which the funds were generated (LEI, IEEP, 2009).

[10] Article 7 of the Council Regulation (EC) No 1268/1999 of 21 June 1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of central and eastern Europe in the pre-accession period.

[11] http://eprints.lse.ac.uk/23811/2/Fiscal_federalism_subsidiarity_and_the_EU_budget_review.pdf

[12] http://mpra.ub.uni-muenchen.de/750/1/MPRA_paper_750.pdf

indicators are not always available to quantify faithfully a criterion and, above all, the related objectives. As highlighted by Cao *et al*. (2010), few indicators are likely to satisfy all of the necessary criteria (data availability, fairness, static and dynamic effectiveness, to name just a few) and hence the choices made will inevitably reflect a compromise. Yet the use of a new allocation key may still shift budget allocations towards a more justifiable distribution and it is quite possibly the direction of travel rather than achievement of an optimal distribution per se, which is the underlying purpose of the exercise at European level (Cao *et al*. 2010).

In literature there are quite a few attempts to add further dimensions in order to link real needs with resource allocation. Most of the time these attempts are related to environmental issues[13]. Mantino (2003) examined potential alternative economic and environmental criteria, such as the extent of protected areas as a percentage of land area, the percentage of total land area covered by Natura 2000 sites or the percentage of the utilised agricultural area (UAA) organically farmed. He proposed that the best criteria would be simple, based on official documents that are already used at European level, and result in an acceptable compromise among Member States. Cao *et al*. (2003) selected eight suitable indicators: Utilised Agricultural Area (UAA); Farm Woodland; Permanent Grassland; Natura2000 (N2K); Organic Farmland Area (OFA); Less Favoured Area (LFA); Agricultural Labour; and Extensive Agriculture. Per capita GDP (Gross Domestic Product) was also adopted, but as a scaling factor rather than an indicator per se. Other indicators were considered but rejected, including some that could be used in future if data availability issues could be overcome (ie. greenhouse gas emissions).

Identifying and deploying alternative allocation keys is a task that needs to be guided not just by consideration of the desirable characteristics of these keys (individual indicators) but also the impact on budgetary distributions (Cao *et al*. 2010). Furthermore, within the current structure of the EU budget, the attention devoted to the *juste retour* – in monetary terms – is notable[14].

The Barca Report (2009)[15], instead, adopts a more “*conservative view on territorial allocation*” on the basis of the lack of valid alternatives, the high political “costs” of negotiations on these issues, and on the evidence that embarking on a complex revision of parameters would once again focus the policy debate on financial issues, distracting from the pressing issue of how the funds are used[16].

4. The Commission proposal on the rural development framework: objective criteria *versus* compromise

Although the agreement reached seems largely based on past performance, the Commission, in its proposal (COM(2011)627def.), started an ambitious process of revising the allocation system in the light of the stronger relationship between Cohesion policy and rural development policy for the next programming period. This process raises a series of questions on which a common political agreement is needed i.e. what criteria should be adopted to define the distribution,

[13] An IEEP Report (2007) highlighted the limits still existing for those criteria http://ec.europa.eu/agriculture/analysis/external/evaluation/report.pdf

[14] Concerning *juste retour*, Begg (2009) identifies two distinct meanings of the word *‘juste’* in French: one is a sense of fairness which would imply that a juste retour is not one that necessarily means money back; the second interpretation of ‘juste’ connotes exactness and can be taken to imply that there is a figure that has to be reached, fair or not.

[15] http://www.eu-territorial-agenda.eu/Related%20Documents/report_barca_v0605.pdf

[16] *The more the financial compromise is preserved, the more room there will be for a high-level political compromise over “worthy objectives”.*

how to turn them into indicators, how to combine them, following which formula, how to take into consideration the historical factor if appropriate.

The Commission developed three different reform scenarios of the CAP: *Adjustment*, *Integration* and *Refocus* scenarios. They differed from each other by the emphasis placed on objectives and political priorities, by the endowment of available measures and by the different management system (European Commission, 2011e). With the exception of the *Adjustment* option, the other two scenarios took into consideration a different "menu" of objective criteria to fix a distribution of funds. Furthermore, the Impact Assessment envisaged the possibility of mitigating the impact of redistribution taking into consideration the current allocation (Table 3).

The Commission was oriented towards the *Integration* scenario and its corresponding formula (Table 3), whose objective criteria are meant to match the three political objectives set by the Regulation proposal for rural development (art. 4):

– *Competitiveness of agriculture*, to which three indicators correspond (from 1st to 3rd);
– *Sustainable management of natural resources and climate action*, to which 4 indicators correspond (from 4th to 7th);
– *Balanced development of the territory*, to which a single indicator corresponds (8th)

To these the GDP per capita inverse index is added (9th indicator).

Tab. 3 - Objective criteria and formulae in the Commission proposal; historical criterion hypothesis

	Objective criteria	Formula
Modulation formula	1. Utilised Agricultural Area 2. Agricultural Labour (AWU) 3. GDP per capita Inverse Index	(0,65 UAA $_{eligible}$ + 0,35 Labour $_{Agriculture}$) x GDP $_{Inverse\ index}$
Integration formula	1. Utilised Agricultural Area 2. Agricultural Labour (AWU) 3. Agricultural labour productivity inverse index 4. UAA in areas with Disadvantaged Areas 5. UAA in Natura 2000 areas 6. Forest area 7. Permanent grassland 8. Rural population 9. GDP per capita Inverse Index	{[1/3 [(1/2 UAA $_{eligible}$ + 1/2 Labour $_{Agriculture}$) x Labour productivity $_{Inverse\ Index}$] + 1/3 (1/3 UAA $_{Disadv.Area}$ + 1/3 UAA $_{Natura2000}$ + 1/6 Forest area + 1/6 Permanent grassland) + 1/3 Rural population} x GDP $_{Inverse\ Index}$
Refocus formula	1. Utilised Agricultural Area 2. UAA in Natura 2000 3. Forest area 4. Permanent grassland 5. GDP per capita Inverse Index	(1/3 UAA $_{eligible}$ + 1/3 UAA $_{Natura2000}$ + 1/6 Forest area + 1/6 Permanent grassland) x GDP $_{Inverse\ Index}$

Historical criteria	Description
Criterion 50-50	The historical criterion accounts for 50% in determining the allocation
Criterion 90/110	No Member State undergoing a reduction in resources loses more than 10% of the present allocation; no Member State that benefits from an increase in the resources receives more than 10% of the present allocation
Transitional period	The burden of the historical criterion is gradually reduced within the space of the 2014-2020 programming period

Source: SEC(2011)1153 Impact Assessment. Common Agricultural Policy towards 2020 – Annex IV.

The achievement of a new allocation system undoubtedly represents a hard task for the institutions involved both at the Community level and at national (regional) level. As a matter of fact, a radical change of the criteria to define the fund-sharing entails a significant modification of the fund-distribution which is difficult to accept from a political point of view[17].

The modification of the allocation system presents some elements on which the debate is still open; indeed the redistribution of funds based on objective criteria requires:

– an agreement on the methods to be used to break the political objectives and priorities into criteria and the latter into indicators - considering that each indicator can cause remarkable variations in the distribution of resources between Member States
– the selection of suitable indicators, as few indicators are likely to satisfy all the necessary criteria
– their weights and combination into an algorithm
– the political agreement on the modification of the national endowment.

As far as the Commission proposal (*Integration*) is concerned, some comments can be made on the allocation mechanism. The remarks regard the structure of the formula, the link between the formula itself and the policy targets, the general principle it is supposed to follow, and the territory level of reference.

The political targets should be broken down from general into more specific objectives and priorities in order to facilitate the subsequent transformation into criteria and indicators. This approach, in turn, would allow a more coherent match with political needs. The Commission formula has grouped nine indicators into three areas corresponding with the rural development objectives. The structure is essentially that of the Axes in the current programming period, although the Commission has translated the general objectives into six priorities in line with Europe 2020 strategy. The proposal has thus failed to take into consideration the deeper specification of objectives into priorities. The formula indeed omits indicators related to important priorities, such as knowledge transfer and innovation, farm viability, risk management, food supply chain organization and the passage to a low carbon economy, all of which have no direct reference in the algorithm although they represent priorities targeted in the future programming period.

The question regarding the general principle on which the formula is based seems to be quite a complex issue, too. It is important to decide whether a Member State should receive funds according to its physical agricultural dimension in the *status quo*, or according to the trend recorded (following a dynamic approach), or, additionally, in accordance with the deviation from the average (maximizing the effectiveness of the allocation). The indicators selected by the Commission remunerate mainly according to the physical size (hectares of UAA eligible, forest area, permanent pastures, etc.). This is a peculiarity of rural development policy rather than the Cohesion policy where the method seems more able to focus the support in those regions where disadvantages are wider. This effect is due to the indicators selected in the Cohesion policy that measure the gap between each region and the reference average, so that the resources allocated would be proportional to the width of the gap; on the other hand the EU ceiling for less-developed regions is determined *a priori* as a specific plafond and is allocated to these regions only. In the rural development formula, two inverse indexes (Labour productivity and GDP per capita) take into consideration the gap between the different national farming systems and economies. Nevertheless, being fixed at NUTS0 level, the two indices reflect the general economic condi-

[17] Besides being simple, robust, available, official, and comparable, indicators should also represent an acceptable compromise between all Member States which, within the EU27, show large differences from the socio-economic, structural (agricultural) and environmental points of view.

tions and not the specific needs of rural areas. It would have been useful to define a territorial reference level consistent with the objective criteria and the indicators chosen.

The Commission proposal is ambitious: its formula however, appears to be a halfway solution between the criteria based on the area, inspired by Pillar I where entitlements are linked to eligible UAA, and the criteria focused on the existing *delta* deriving from Structural Funds.

A second set of observations concerns the choice of single indicators. The use of the agricultural area as a reference parameter relating to "competitiveness" does not coincide with the rural development vision. In particular the use of UAA in terms of eligible hectares as well as in the Pillar I (1° indicator) neglects large share of farm land potentially eligible for interventions by the RDPs. For example, the contribution of forestry to competitiveness in the primary sector as recorded in the Communication from the Commission on EU budget should also be considered (European Commission, 2011a)[18]. The use of the UAA referring to disadvantaged areas does not seem fully acceptable in the light of the ongoing reform on *Natural Handicap Area*. In this case the indicators applied in the future classification of these areas (i.e. soil erosion, if periodically available) might be implemented in a reallocation mechanism. Moreover, even the rural population indicator is unable to measure the comparative disadvantage existing in a specific area, no matter how successful it could be in detecting all the potential beneficiaries of the funds from the RDPs. It is our opinion that disadvantaged areas to be supported should be detected by a specific allocation fixed *a priori*, as has occurred within the Cohesion policy.

Finally, the historical criterion (Table 3), i.e. the present distribution of resources, is introduced as a correction factor in order to smooth the transition to a new allocation. The previous distribution is a sensitive issue of debate: it should not be forgotten that the current allocation between Member States is influenced by the strategic decisions the MSs themselves made during previous negotiation rounds. EU countries that have always counted on rural development policy, are now benefiting from a relatively higher share of the allocation (*path dependence*).

Another relevant aspect of the matter concerns the context of the negotiation process on Pillar I. The table following the Commission proposal demonstrated that the overall trend of the reform in the first and second pillar and in the entire CAP[19] was not taken into consideration. In accordance with the accompanying role of Pillar II, a cut in a Member State's resources, in terms of direct payments and market policies, might require the activation of adjustments by means of Pillar II in order to cope with the restructuring of the sectors. The European Council agreement achieved a slightly more balanced allocation among countries considering both pillars together. It was accomplished at the expense of new Member States which experienced a general reduction of rural development funds. Indeed, the number of countries facing a general reduction of CAP resources decreased, if compared to the proposal of October 2011, whilst the number of NMS facing a drop in Pillar II financial allocation increased. Thus it is evident that Pillar II, and the additional assignments in particular, mainly acted as counterbalancing the redistributive effect undergone in Pillar I, where allocation criteria, based on eligible UAA only, has remained unchanged since the Commission proposal.

[18] In the Communication itself improvement of competitiveness in agriculture and forestry is confirmed among the objectives of the second pillar of the CAP (pg. 3).

[19] Adjustments and compensations in other categories in favor of non-agricultural funds and policies represent a further element of complexity typical of a negotiation process. However, this goes beyond the purposes of this work.

<table>
<tr><th colspan="7">Tab. 4 - Qualitative analysis of changes in the ceiling per Member State: criteria versus bargaining*</th></tr>
<tr><th rowspan="2">Member State</th><th colspan="2">I pillar</th><th colspan="2">II pillar</th><th colspan="2">CAP</th></tr>
<tr><th>before deal (1)</th><th>after deal (2)</th><th>before deal (1)</th><th>after deal (2)</th><th>before deal (1)</th><th>after deal (2)</th></tr>
<tr><td>Spain</td><td rowspan="3">+</td><td rowspan="3">+</td><td>+</td><td>+</td><td>+</td><td rowspan="3">+</td></tr>
<tr><td>Romania
Estonia, Portugal</td><td>+
–</td><td>0</td><td>+
–</td></tr>
<tr><td>Latvia, Lithuania</td><td>–</td><td>–</td><td>+</td></tr>
<tr><td>Finland
Malta</td><td>0
–</td><td rowspan="2">–</td><td>–</td><td rowspan="2">+</td><td>–</td><td>+</td></tr>
<tr><td>Luxembourg
France</td><td>0
–</td><td>–
+</td><td>–
+</td><td>0</td></tr>
<tr><td>Slovakia</td><td>+</td><td>+</td><td>–</td><td>–</td><td>–</td><td>0</td></tr>
<tr><td>UK
Greece</td><td>0
–</td><td>0</td><td>+
–</td><td>+</td><td>0
–</td><td>0</td></tr>
<tr><td>Italy, Belgium
Netherland
Denmark</td><td>–</td><td>–</td><td>–
0
+</td><td>+</td><td>–</td><td>–</td></tr>
<tr><td>Austria</td><td>0</td><td>–</td><td>–</td><td>0</td><td>–</td><td>–</td></tr>
<tr><td>Poland
Bulgaria</td><td>+
0</td><td>0</td><td>0</td><td>–</td><td>0</td><td>–</td></tr>
<tr><td>Sweden</td><td>0</td><td>–</td><td>+</td><td>–</td><td>+</td><td>–</td></tr>
<tr><td>Cyprus</td><td>–</td><td>–</td><td>+</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Ireland, Czech Republic,
Hungary</td><td>0</td><td>–</td><td>–</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Germany, Slovenia</td><td>–</td><td>–</td><td>–</td><td>–</td><td>–</td><td>–</td></tr>
</table>

* 0 indicates percentage changes between -2 and +2% compared to the current period
+ indicates percentage changes above +2% compared to the current period
– indicates percentage changes more significant than -2% compared to the current period
Source: our processing of European Commission data (2011 e 2013) and European Council Conclusions (2013).

5. Conclusions

The revision of the allocation system of financial resources plays a key role inside the reform and represents a difficult task from both the political and methodological points of view. The Commission started an ambitious process, aiming at revising the allocation system of the financial resources both in Pillar I and Pillar II. The Commission proposal represents an attempt to introduce a set of variables into the whole CAP in order to achieve an more equitable allocation and improve the link between resource distribution and needs. Several weaknesses however, – i.e. in the selection of indicators, in the structure of the formula and in taking into account the effects on both the pillars at the same time – left a larger room for bargaining. This is particularly true in the field of Pillar II where the approach proposed by the Commission was dumped.

The political deal achieved on the MFF 2014-2020 largely neglected the use of objective criteria in the allocation of rural development resources, focusing mainly on historical payments.

The European Council conclusions do not provide information on distribution: the guidelines remain vague and the allocation "*will be based on objective criteria and past performance*" without any specific indication on their weights; while the allocation of the specific additional assignment is blandly justified for "*particular structural challenges in [Member States'] agriculture sector or which have invested heavily in an effective delivery framework for Pillar 2 expenditure*".

The modification of the allocation system presents some elements on which the debate is still open, concerning the methods for breaking down the political objectives and priorities into criteria and the latter into suitable indicators; the weights and combination of the latter into an allocation algorithm; the political agreement on the modification of the national endowment. Indeed, beyond the selection of criteria and indicators, the revision of resource-distribution entails an acceptable deal among Member States. In this sense the agreement reached by MS during the European Council seems to address the need for a more balanced compromise improving on the Commission proposal.

Finally, it should be considered that, once an agreement is reached, the discussion on the allocation system of the resources for every Member State and the inevitable revision of its criteria will pave the way for a similar debate on what criteria must be applied at national level. This issue is already ongoing for direct payments.

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