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The CAP after 2013: what criteria for resources allocation?

[DRAFT VERSION]

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Abstract

The aim of the paper is to assess the impact of the CAP reform on the resources allocation by Member State and evaluate whether the new distribution actually fits better the agricultural policy objectives and equity criteria.

The modification of the allocation systems is a particularly sensitive issue and it has been raising great attention during the negotiations. At a first glance, it seem that the European Commission, addressing the CAP post *2013, had to choose among different scenarios and it bent (at least partially) the theoretical framework of the proposal to the pragmatic matter of availability and robustness of data related to the criteria selected for the reallocations of financial resources.*

The paper analyses the effects on the national envelopes of the "convergence" criteria for direct payments (first pillar) combined with the scenarios (currently) most supported by the Commission for the distribution of the rural development resources (second pillar).

Keywords: EU budget review, CAP reform, CAP pillars, funds allocation

JEL classification: Q180

1. INTRODUCTION

The current reforms, differently from the previous one, has been proceeding simultaneously to the more general debate on the future EU Multiannual Financial Framework, for the programming period 2014-2020. In this context, it is clear that the negotiation comes up to be guided by the principle "*nothing is agreed until everything is agreed*". Thus, there are some old and new issues to be taken into account in the debate on the next programming period, which sees involved the discussion on the allocation system: the well-known argument among net beneficiaries and net contributors to the European balance about the "*juste retour*"; the conclusion of the EU10 "*phasing in*" - no later than 2013 - and the new co-decision procedure among the European Parliament and the Council, to name just a few.

The modification of the allocation systems both for the first and second pillar of the CAP is a particularly sensitive issue and it has been raising great attention during the negotiations. Such a revision plays a central role within the reform process and represents a tough undertaking for all the bodies involved at the European, national and even regional level.

The aim of the paper is to assess the impact of the new CAP reform on the resources allocation by Member State (MS) and evaluate whether the new distribution may potentially fit better the agricultural policy objectives and equity criteria.

At a first glance, it seems that the European Commission, addressing the CAP post 2013, chose among different scenarios and bent (at least partially) the theoretical framework of the proposal to the pragmatic matter of availability and robustness of data associated to the criteria selected for the reallocations of financial resources. Indeed, the criteria apparently chosen by the Commission, to define the MS share of resources, seem to give far more importance to physical endowments (i.e. UAA) rather than focusing either on policy commitments or on structural gaps.

The paper is structured in four parts; in the first one, the Commission proposal concerning the allocation of financial resources among MSs is presented, both for the first and for second pillar of the CAP; in the second part the proposal is assessed highlighting the extent to which the reform would affect MSs financial endowment for agricultural policy; furthermore, the coherence of the new allocation with an equity criteria is proposed. In the third part, the new distribution is tested against general policy objectives of CAP, gathered into three main components (competitiveness and income, environment and territorial development) defined accordingly to the strategy Europe 2020. Finally, in the fourth part, capitalizing the evidences raised from the previous sections, a different process of resources allocation for the future CAP is provided with the aim to stress the internal coherence of the redistribution process.

2. THE COMMISSION PROPOSAL ON CAP REFORM: WHAT CRITERIA FOR RESOURCES ALLOCATION

In the starting phase of the reform process of the CAP, the European Commission traced the edges within which outline the proposals, afterwards presented in October 2011. In its communication "*The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future*" (European Commission, 2010a), the Commission outlined three broad policy options (*Adjustment*, *Integration*, *Refocus* scenario) in order to address to the future challenges for agriculture and rural areas and to meet the objectives set for the CAP. Among those three alternative policy options, the Impact Assessment (European Commission, 2011b)[1] acknowledged the *Integration* scenario as the most balanced one and able to progressively align the CAP with the EU's strategic objectives. In the aim of the Commission, this option would allow to address EU economic, environmental and social challenges and strengthen the contribution of agriculture and rural areas to the objectives of Europe 2020 of Smart, Sustainable and Inclusive growth (European Commission, 2010b).

Under the general strategy, three main objectives for the future CAP has been identified (European Commission, 2010a, p. 7):

- *a viable food production* (mainly contributing to farm incomes and improving the competitiveness of the agricultural sector);
- *a sustainable management of natural resources and climate action* (enhancing the provision of environmental public goods; fostering green growth through innovation and pursuing climate change mitigation and adaptation actions);

[1] It is the Commission staff working paper (SEC(2011) 1153) which accompanies the Regulation proposal analyzing the potential impacts of the different policy options for the future CAP.

- *a balanced territorial development* (supporting rural employment, promoting diversification and allowing for structural diversity in the farming systems, improve the conditions for small farms and develop local markets).

Compared to the last reforms occurred, the current one has been proceeding simultaneously to the more general debate on the future EU Multiannual Financial Framework 2014-2020, where the endowment allocated to the CAP for the next programming period is to be decided. Furthermore, preserving the current structure of the CAP in two pillars, it was stressed the opportunity to improve the "*redistribution, redesign and better targeting of support, to add value and quality in spending*" and to reach an equitable distribution of the direct payments for the first pillar. While, regarding the rural development policy, it was emphasized that the second pillar should be distributed between MSs on the basis of policy objectives better aligned with the Europe 2020 strategy.

In order to address these issues, the Commission is oriented to target CAP payments only on active farmers[2] (European Commission, 2011a), namely farmers genuinely engaged in agricultural activities, and proposed to replace the current Single Payment Scheme and Single Area Payment Scheme with: a basic payment, an additional payment (30% of annual national ceiling) for farmers following agricultural practices beneficial for the climate and the environment (greening), a voluntary additional payment (up to 5% of annual national ceiling) for farmers in areas facing specific natural constraints, an additional payment (up to 2% of annual national ceiling) for young farmers, a simplified scheme for small farmers (up to 10% of annual national ceiling) and a voluntary coupled support scheme (up to 5% of annual national ceiling) for specific types of farming; in order to improve the distribution of payments between farmers the support level is subject to capping. Furthermore, the purpose of the new direct payments is to better exploit synergies with the second pillar, which is in turn placed under a Common Strategic Framework – to better coordinate with other EU shared management funds – and strengthen in its strategic approach.

Hence, the requirement for a more targeted and a better distribution of support, both among States and within them, emerged noticeably as a common theme throughout the reform process, facing the need to promote resource efficiency, to make payments more understandable to the taxpayer and more linked to policy objectives.

Thus, resources allocation is particularly sensitive and it has been raising great attention during the negotiation so far. The same reform process demanded for a better distribution of support among and within MSs, in order to make the *CAP support equitable and balanced* [...] *by reducing disparities between Member States* [...] (European Commission, 2010, p. 6).

The review of the allocation system plays a central role within the reform and represents a tough undertaking for all the bodies concerned at the European, national and – in some cases – at the regional level. Indeed, it entails noteworthy political implications, due to the

[2] Art. 9 in COM(2011)625fin.

redistribution of resources among MSs and, within each country, among regions and beneficiaries (Mantino, 2003; Adinolfi *et* al., 2010).

Since, the current negotiations are guided by the principle that "*nothing is agreed until everything is agreed*", the new allocation system ought to encompass the needs raising from the wide diversity of agricultural sectors and rural areas throughout a Union of twenty seven countries. The issues of the allocation system review implies:

- the selection of suitable criteria and their combination consistently with policy objectives and priorities, to figure out the national breakdown;
- the political consensus on the criteria, which ultimately represents the consensus on the impact of transition from the previous distribution of financial resources to the new one.

Fairly, the wider is the modification proposed on the allocation system the harder may be to reach a political agreement. However, it should be highlighted that few indicators are likely to satisfy some essential conditions (i.e. availability, robustness, official character, fairness, providing incentives and/or satisfying effective allocation) and the choices might inevitably reflect a methodological and political compromise. Not dwelling on the assessment of criteria proposed by the Commission so far, which goes beyond the purposes of this paper, hereinafter an analysis of the implications arising from the CAP reform is provided, in order to evaluate whether the new distribution may potentially fit better the agricultural policy objectives and equity criteria.

Indeed, some relevant issues ought to be further investigated: what is the impact of the redistribution among MSs by each pillar and by the CAP as a whole? Does the new distribution result to be more equitable compared to the current one (i.e. in terms of balance between old and NMS)? Are the criteria and indicators chosen by the Commission going to improve the consistency and coherence among resources allocation and CAP reform objectives? And what is the share of resources associated to each objective of the CAP by component (i.e. competitiveness and income, environment, balanced territorial development) and are these political weights consistent with the challenges?

3. THE NEW ALLOCATION CRITERIA AMONG MEMBER STATES

Thus, the question the Commission proposal tries to give an answer was how to reach an equitable distribution which reflects, in a pragmatic, economically and politically feasible manner, the declared objectives of this support, avoiding – at the same time – disruptive changes which could have far reaching economic and social consequences in some regions and/or production systems.

In the first pillar, due to the successive integration of various sectors into the Single Payment Scheme and the different implementation carried out by MSs, it has become increasingly difficult to justify the presence of noteworthy individual differences in the level of support per hectare resulting from the use of historical references. Therefore, the Commission's proposal foresees to pave the way for convergence of the level of support within and across

MSs: those MSs with direct payments below the level of 90% of the average should close one third of the gap between their current level and this level. This convergence should be financed proportionally by all MSs with direct payments above the Union average[3]. This redistribution involves around 780Meuro per year (1.8% of total direct payments).

In the second pillar, in order to strengthen the strategic approach, the distribution of rural development support should be based on objective criteria linked to the policy objectives, taking into account the current distribution (European Commission, 2011c)[4]. As it is the case today, less developed regions should continue to benefit from higher co-financing rates, which will also apply to certain measures such as knowledge transfer, producer groups, cooperation and Leader[5].

The framework set out in the MFF proposal foresees that the CAP should preserve the budget for each pillar maintained in nominal terms at its 2013 level. Thus, in current prices, it is proposed that the CAP should focus on its core activities with EUR 317.2 billion allocated to first pillar and EUR 101.2 billion to second pillar over the 2014-2020 period. However, it should be highlighted that the "*nominal freeze*" implies actually a reduction of resources over time, expressed in constant prices; furthermore, it is notable that by means of the freezing of both the CAP pillars it is halted the progressive increase of the second pillar experienced afterwards Agenda 2000 (De Filippis *et* al., 2012).

4. ASSESSMENT IN TERMS OF DISTRIBUTION EQUITY AMONG MEMBER STATES

A first step of the analysis aims to assess the CAP reform in terms of redistribution among MSs by each pillar and for the CAP as a whole. We analyses the effects on the national envelopes of both the "convergence" criteria for direct payments (first pillar) combined with the scenarios (currently) more supported by the European Commission for the distribution of the rural development resources (second pillar), to understand how and to what extent the new distribution of resources results equitable and coherent with the EU objectives.

Focusing on the redistribution matter among MSs and taking into account the nominal freeze claimed by the European Commission (see section 3), the analysis provides the financial resources expressed in current prices as to catch the "*allocation effect*" only, excluding in this way the "*scenario effect*", represented by the cut of the heading(s) and observable when expressed in real terms.

[3] In addition, all payment entitlements activated in 2019 in a Member State or in a region should have a uniform unit value following a convergence towards this value that should take place during the transition period in linear steps. (European Commission, 2011a, pag. 15).

[4] Criteria for the redistribution of support in the Integration scenario: [1/3 [(½ Area + ½ Labour) x labour productivity inverse index] + 1/3 (1/3 NHA area + 1/3 Natura 2000 + 1/6 Forest + 1/6 Permanent pasture) + 1/3 Rural population] x GDP inverse index.

[5] Finally, some flexibility for transfers between pillars is introduced (up to 5% of direct payments): from Pillar I to Pillar II to allow Member States to reinforce their rural development policy, and from Pillar II to Pillar I for those Member States where the level of direct payments remains below 90% of the EU average.

The status quo represents the shift to 2017 of the current CAP, in the case of no reform would occurred. The new distribution is calculated on the basis of the EU Communication for direct payments (European Commission, 2011a)[6], while for the second pillar we applied the Integration formula proposed by European Commission in the Impact Assessment (European Commission, 2011b)[7]. All the figures in Table 1 are annual averages expressed in current price.

The analysis shows that with the application of new criteria for the allocation of resources very different situations arise between MSs and we can find “winners” and “losers” both in the first pillar and in the second pillar. In the first pillar, consistently with the target of reallocation of resources between old and new MSs (8 winners and 10 losers), the winners can be found mainly in the latter group. Obviously, we can identify a group of “indifferent” countries (9 MSs which earn or lose less than 2% of annual resources). Looking at the results, this financial reallocation appears to be sustainable and in line with the stated “convergence” aim of the reform, without considering the relative position of MSs and their political weight. Nevertheless, we have to highlight how the adopted criteria (admissible utilized agricultural area) and the redistribution of payments across MSs could enhance equity, but on the other side it is not directly linked to the new first pillar challenges (see section 5).

Looking at the second pillar, the variety of indicators used in the integration formula creates a wide differentiated impact, with much larger variations than those recorded in the first pillar. The result of the reallocation of these resources seems currently less sustainable from a political perspective, with few MSs “indifferent” (3) and large variations between winners (8) and losers (16). Furthermore, the new allocation is not oriented to a rebalance target between MSs as seen for the first pillar. In this way, we should also consider that, the rural development policy – as the second pillar of the CAP – ought to provide an accompanying role to the actions implemented in the first pillar. Therefore, it would be more sustainable, not only politically in this case, that the cuts of the national envelope for the first pillar would be accompanied by an increasing in the national budget for rural development, not in an offsetting approach but in order to give further support to the sectoral impacts occurred with the CAP reform.

Thus, it is expected that in the negotiating box[8] the “losers (Member States)” aim to find suitable mechanism compensating the reduction of their own budget. Fairly, such a compensation may occurred not only on the same headings or (sub)headings but on different items, too; in this way, it could be possible that some Member States may not be interested in increasing (or preserving) their CAP endowment and would rather an increase in other financial headings able to facilitate economic adjustment not just agricultural change. Those cases, even though add interesting elements of complexity in the negotiation and emphasize the

[6] *Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy*, COM(2011)625final.

[7] See footnote n. 4.

[8] It is a complex compromise document currently worked by the Danish presidency in order to achieve a political agreement on a large part (the whole) issues that must be addressed in the negotiation on the EU common policies, CAP included.

aforementioned principle ("*nothing is agreed until everything is agreed*"), are beyond the aim of this paper, focused on the Common Agricultural Policy.

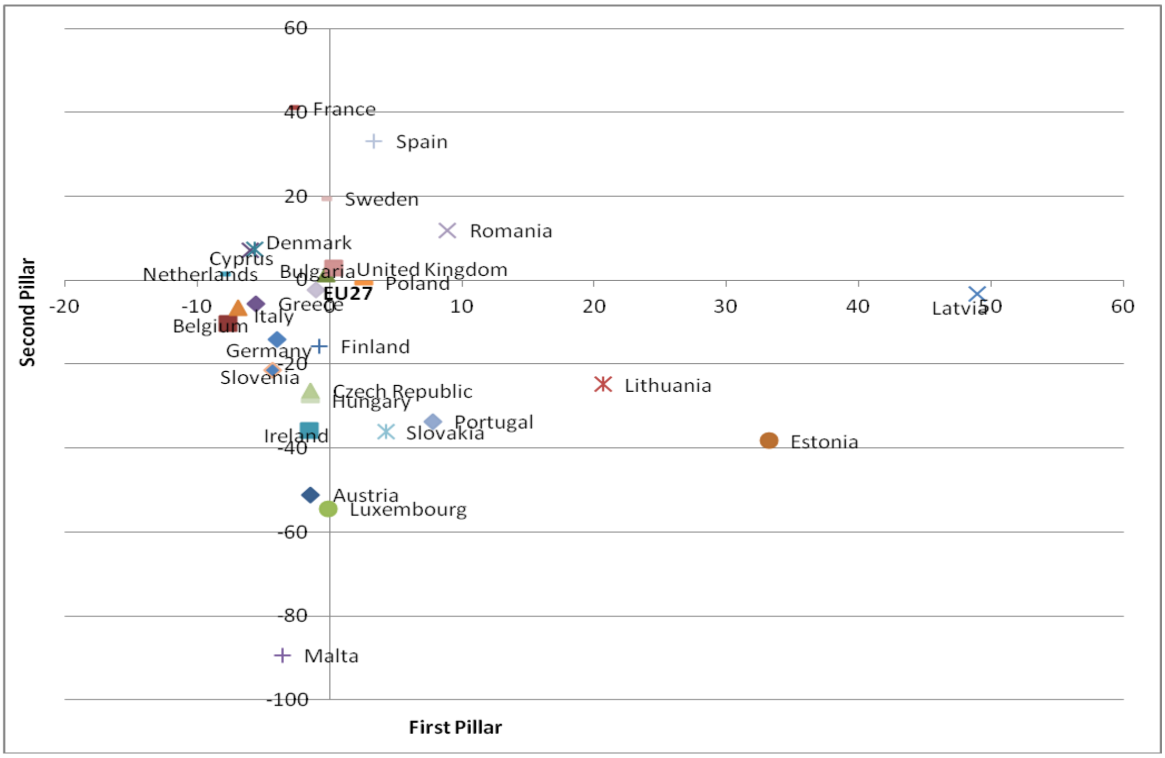
Table 1: Allocation of CAP resources in 2013 and 2014-2020 by Member State (Meuro; current price)

	Status quo		New distribution		New distribution vs Status quo		
	I Pillar[(a)] DP	II Pillar[(b)] (2013)	I Pillar[(c)] (full impl.)	II Pillar[(d)] (avg. 2014-2020)	I Pillar	II Pillar	Total CAP
	(Meuro)	(Meuro)	(Meuro)	(Meuro)	(var. %)	(var. %)	(var. %)
Austria	715.7	533	705.5	261	-1.4	-51.1	-22.6
Belgium	569.0	78	525.2	70	-7.7	-10.4	-8.0
Bulgaria	814.3	396	812.1	402	-0.3	1.6	0.3
Cyprus	53.5	21	50.3	23	-6.0	7.1	-2.3
Denmark	964.3	106	909.4	114	-5.7	7.3	-4.4
Estonia	101.2	113	134.7	70	33.2	-38.3	-4.6
Finland	539.2	289	535.1	243	-0.8	-15.7	-6.0
France	7,853.1	1,279	7,619.5	1,804	-3.0	41.0	3.2
Germany	5,372.2	1,430	5,157.0	1,229	-4.0	-14.0	-6.1
Greece	2,134.2	672	2,014.8	634	-5.6	-5.6	-5.6
Ireland	1,255.5	352	1,235.8	226	-1.6	-35.8	-9.1
Italy	4,127.8	1,441	3,841.6	1,346	-6.9	-6.6	-6.9
Latvia	146.4	151	218.2	146	49.0	-3.2	22.5
Lithuania	379.8	254	458.3	191	20.7	-24.8	2.4
Luxembourg	34.2	13	34.1	6	-0.1	-54.4	-15.2
Malta	5.1	11	4.9	1	-3.6	-89.4	-61.7
Netherlands	830.6	103	762.5	104	-8.2	1.5	-7.1
Poland	3,043.4	1,851	3,121.5	1,840	2.6	-0.6	1.4
Portugal	566.4	590	610.8	391	7.8	-33.7	-13.4
United Kingdom	3,649.9	749	3,662.8	770	0.4	2.8	0.8
Czech Republic	903.0	424	890.2	312	-1.4	-26.4	-9.4
Romania	1,780.4	1,356	1,939.4	1,518	8.9	11.9	10.2
Slovakia	385.7	320	402.1	204	4.2	-36.1	-14.1
Slovenia	144.3	113	138.1	89	-4.3	-21.5	-11.8
Spain	4,825.4	1,284	4,988.4	1,710	3.4	33.1	9.6
Sweden	717.5	276	713.7	329	-0.5	19.5	5.0
Hungary	1,313.1	585	1,294.5	417	-1.4	-28.7	-9.8
EU27	**43,225.1**	**14,789**	**42,780.3**	**14,451**	**-1.0**	**-2.3**	**-1.3**

Source: own elaboration
(a) *existing legislation 2017* – Annex VIII of Council Regulation 73/2009 for claim year 2016. NB: The amounts for POSEI, SAI, cotton and the transfers made from the wine envelopes are not included. The resulting amounts are reduced by the modulation amounts as per budget year 2013 (12734/11).
(b) 2010/236: Commission Decision of 27 April 2010 amending Decision 2006/636/EC fixing the annual breakdown by Member State of the amount for Community support to rural development for the period from 1 January 2007 to 31 December 2013 (notified under document C(2010) 2517). The amount related to Regulation (EC) 378/2007 and the amounts related to Article 136 of Regulation (EC) No 73/2009 are not included.
(c) COM(2011)625def. (Annex II)
(d) Integration formula by Impact Assessment – Annex IV (proxi)

Finally, as shown in the last column of Table 1 only few cases show an accompanying approach between pillars. Such an effect is, however, more clearly visible in Figure 1, where in each quadrant it can be observed the situations of different MSs, in terms of variation of resources on the first and second pillar compared to the current allocation. It's clear that the worst situation concern those MSs located in the third quadrant, which lose resources on both the pillars. Even MSs in the second quadrant are in an unsatisfactory situation: the positive changes in the second pillar envelope are not enough to match the reductions in the first pillar.

Figure 1. Allocation of CAP resources by Member State among first and second pillar (%variation)



Source: own calculations on European Commission data, 2011

In Tables 2 it is possible to further analyse the new distribution of resources in terms of support per hectare and to assess if the figures result to be – in some way – more equitable distributed compared to the current allocation. At this aim, the equity criteria proposed is to investigate the effect on the balance between old and new MSs, subsequent the Commission proposals. For direct payments the effect highlighted was expected as outcome of the convergence criteria: it looks effectively more equitable, as we can observe a slight reduction at EU27 level, determined by an increase for the new MSs, on one side, and a decrease for old MSs, on the other side[9].

The opposite trend concerned the second pillar, whose simulations highlight a reduction of the whole amount allocated to the new MSs. In this terms, the second pillar appears to be less equitable distributed according to the criteria proposed; furthermore, as already emphasized, it is

[9] This exercise is based on one single face of what can be considered "equitable" in the aim of this paper. However it's not the only one way to assess this multifaceted issue; some authors claim for example that it should be taken into account the actual income situation of recipients (Tangermann, 2011): "[…] in the absence of a distribution key related in some way to actual farm income, there is no reason to assume that any given distribution across Member States is fundamentally more equitable than any other distribution" (pag. 21).

not even designed to balance the impact experienced on the first pillar by means of the convergence criteria.

Finally, it should be underlined that, taking the whole CAP into account, only slight variations among new and old MSs are likely to occur so far. Thus, the proposal – entirely considered – is not able to move financial resources from one group of countries to another one, leading to redistributions within the same cluster.

Table 2 (a, b, c): Allocation of the first pillar, second pillar and the CAP as a whole among Old and New Member States; commitments in current price (Meuro; current price)

	DP	**Support/ha**	**Share of EU27**	**Var. vs Status quo**
	(Meuro)	(€/ha)	(%)	(%)
		Status quo - 2013		
Old Member States	34,155	290.40	80.2	-
New Member State	9,070	208.73	19.8	-
TOTAL EU27	43,225	268.37	100.0	-
		New distribution – 2014		
Old Member States	33,316	283.27	78.4	-2.5
New Member State	9,464	217.80	21.6	4.3
TOTAL EU27	42,780	265.61	100.0	-1.0

	RDP	**Support/ha**	**Share of UE27**	**Var. vs Status quo**
	(Meuro)	(€/ha)	(%)	(%)
		Status quo - 2013		
Old Member States	9,194	78.17	62.2	-
New Member State	5,595	128.75	37.8	-
TOTAL EU27	14,789	91.82	100.0	-
		New distribution – 2014 (Integration formula)		
Old Member States	9,238	78.55	64.1	0.5
New Member State	5,213	119.96	36.2	-6.8
TOTAL EU27	14,451	91.82	100.0	-2.3

	CAP	**Support/ha**	**Share of EU27**	**Var. vs Status quo**
	(Meuro)	(€/ha)	(%)	(%)
		Status quo - 2013		
Old Member States	43,349	368.57	74.7	-
New Member State	14,665	337.48	25.3	-
TOTAL EU27	58,014	360.19	100.0	-
		New distribution – 2014 (Integration formula)		
Old Member States	42,554	361.82	74.4	-1.8
New Member State	14,677	337.76	25.6	0.1
TOTAL EU27	57,231	355.33	100.0	-1.3

Source: elaboration on European Commission data, 2011

5. ASSESSMENT IN TERMS OF COHERENCE AND CONSISTENCY BY TOPICS AND OBJECTIVES

5.1 New distribution tested summing up resources by topic

A further step in our analysis is that of assessing the CAP reform in terms of consistency of resources allocation by main objectives of the common policy. In other words, we investigate how and to what extent the share of resources devoted to each main objective of the CAP change by time and how each pillar contributes to that. To this end, we have built two scenarios that differ for the implementation of the first pillar reform as a part of the whole CAP reform (Table 4). The status quo, as in the previous tables, represents the shift to 2017 of the current CAP (Council of the European Union, 2011b). Scenario 1 is the bottom line of the CAP reform proposal, according which no voluntary measures are implemented and the direct payments are articulated as follows: 70% to the basic payment and 30% to the green payment. Scenario 2, on the other hand, is based on the rather extreme assumption that all the MSs implement the voluntary components of the direct payments for the whole ceilings.

Following the definition of the three scenarios, the total expenditure has been split into three main categories that, somehow, represent the main topics of public intervention in agriculture: Competitiveness and Income support; Environment, Territorial Development (§ par. 2). These three categories have been highly emphasized by the European Institutions as the (new) challenges of public support and both pillars are supposed to contribute to their realization.

Past studies have shown how the two pillars contribute to the objectives of the CAP to different extents that do not necessarily reflect the importance of the pillar and its specific objectives (De Filippis, Henke, 2010). Looking at the past resources, expenditure for competitiveness has clearly improved from 2000 till 2008 (from 8% till 17.5%) and such contribution comes specifically from the second pillar (structural and human capital measures of Axis 1), while environmental resources has decreased (from 11.7% till 9.5%) and measures to improve life standards to population in agricultural areas has increased thanks to direct payments.

In the same stream of reasoning, we distributed the new envelopes of financial resources (2014-2020, full implementation) in the three scenarios according to the scheme in Table 4. With regards to the first pillar, resources have been allocated among the main objectives following the implementation of the first pillar reform. As for the second pillar, the allocation follows the rules of the integration formula, so that the actual distribution is a consequence of the importance of the indicators in the formula. This implies that the distribution does not follow the simple rule of a third of resources for competitiveness, environment and territorial development, but it depends on the weight of the indicators per each MS.

Table 4: Criteria used to gather together resources of the first and second pillar of the CAP by topics

	Competitiveness and income	**Environment**	**Balanced territorial development**	**Notes**
		Status quo		
First Pillar	100%	(cross compliance)	-	*Difficulties to quantify cross compliance*
Second Pillar	Axis I (33,6%)	Axis II (44,5%)	Axis III-IV (19,3%)	*Axes allocation (EAFRD). Technical assistance and Complements to direct payments for BG and RO excluded*
		scenario 1		
First Pillar	70% basic payment	30% greening (cross compliance)	-	*Allocation by scenario* *Difficulties to quantify cross compliance*
Second Pillar	weight of competitiveness indicators	weight of environmental indicators	weight of territorial indicators	*Allocation related to the weight of indicators by single component on the Integration formula. Technical assistance excluded*
		scenario 2		
First Pillar	43% basic payment + 2% young farmers + 10% coupled payments	30% greening + 5% NHA (cross compliance)	10% small farmers	*Allocation by scenario* *Difficulties to quantify cross compliance*
Second Pillar	weight of competitiveness indicators	weight of environmental indicators	weight of territorial indicators	*Allocation related to the weight of indicators by single component on the Integration formula. Technical assistance excluded*

In Table 5 results of this exercise are shown and are quite surprising. Moving from the status quo Scenario to the ones simulating different implementations of the reform, the total share of resources for competitiveness and income decreases significantly[10]. At the same time, the share of resources devoted to environmental objectives grows from 11.4 to 30.5% in Scenario 1 and to 35% in Scenario 2, while the share devoted to territorial development increase from 4.9% to 7.9% (Scenario 1) and to 15.5% (Scenario 2). That is mainly due to the different hypotheses lying under the first pillar resources distribution[11].

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[10] It is important to keep in mind that the status quo is not directly comparable to the scenarios since it represents the actual allocation of Member States in the different items, while the scenarios are built on the allocations "suggested" by the Commission. They represent, in a way, the desired allocation of resources given the main objectives of the CAP and the possible implementation of the first pillar.

[11] It has to be reminded that the "actual" situation would be between those extremes, considering that each Member State has quite some flexibility about whether and to what extent applying the voluntary schemes of direct payments.

Table 5: EU27's CAP distribution of resources by topics; commitments in current price (Meuro; current price)

	Competitiveness and income	**Environment**	**Balanced territorial development**	**TOTAL EU27**
		Status quo		
First Pillar *	43,225.1	-	-	43,225.1
share %	*100*	-	-	*100*
Second Pillar [(a)]	4,974.6	6,574.6	2,851.5	14,400.8
share %	*34.5*	*45.7*	*19.8*	*100*
TOTAL EU27	**48,199.7**	**6,574.6**	**2,851.5**	**57,625.9**
share %	*83.6*	*11.4*	*4.9*	*100*
		scenario 1		
First Pillar **	29,946.2	12,834.1	-	42,780.3
share %	*70.0*	*30.0*	-	*100*
Second Pillar [(a)]	5,118.5	4,521.0	4,522.5	14,162.0
share %	*36.1*	*31.9*	*31.9*	*100*
TOTAL EU27	**35,064.7**	**17,355.0**	**4,522.5**	**56,942.3**
share %	*61.6*	*30.5*	*7.9*	*100*
		scenario 2		
First Pillar ***	23,502.2	14,955.9	4,273.1	42,780.3
share %	*55.0*	*35.0*	*10.0*	*100*
Second Pillar [(a)]	5,118.5	4,521.0	4,522.5	14,162.0
share %	*36.1*	*31.9*	*31.9*	*100*
TOTAL EU27	**28,647.6**	**19,494.1**	**8,800.6**	**56,942.3**
share %	*50.3*	*34.2*	*15.5*	*100*

Source: elaboration on European Commission data, 2011

* 100% basic payment
** 70% basic payment + 30% greening
*** 43% basic payment + 30% greening+5%NHA+2%young farmers +10% coupled payment+10% small farmers
[(a)] Technical assistance excluded

However, the exercise shows also a wide reallocation of resources under the second pillar among the three objectives: a slight increase in the case of income and competitiveness (around 3%), a substantial reduction in the case of environment (-31%) and a relevant increase in the case of the territorial development (59%). If one accepts the underlying idea that the reformed first pillar is really able to meet the environmental and the territorial objectives[12], then one could conclude that in both case the contribution of the first pillar to these ends become absolutely relevant.

Reproducing the same exercise by MS, it becomes quite clear how resources devoted to income and competitiveness would shrink following the Commission proposal, especially under Scenario 2, with an evident increase of the other components of the allocation (environment and territorial development). However, this reallocation is much more evident for some MSs compared to the EU27 average allocation (Table 6).

[12] For a deeper exploration of these issues see Mahé (2012) and Tangermann (2011).

Table 6: Breakdown by Member States of the CAP distribution of resources by topics; commitments in current price (%)

	Status quo (Real allocations)			**Scenario 1** (Theoretical allocation determined on indicators weight)			**Scenario 2** (Theoretical allocation determined on indicators weight)		
	Compet. and income	**Environ.**	**Territorial development**	**Compet. and income**	**Environ.**	**Territorial development**	**Compet. and income**	**Environ.**	**Territorial development**
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Austria	63.7	31.1	5.2	57.0	32.6	10.4	46.0	36.3	17.7
Belgium	93.5	4.9	1.6	63.9	29.9	6.2	50.6	34.3	15.0
Bulgaria	80.9	8.5	10.6	64.6	27.1	8.3	54.5	30.5	15.0
Cyprus	84.3	12.3	3.4	58.2	23.9	17.8	47.9	27.4	24.7
Denmark	92.6	5.6	1.8	65.2	28.3	6.5	51.9	32.7	15.4
Estonia	67.6	20.1	12.3	57.7	33.1	9.2	47.8	36.4	15.7
Finland	69.7	24.9	5.4	54.7	37.9	7.4	44.3	41.4	14.3
France	90.8	7.7	1.5	60.1	31.2	8.8	47.9	35.2	16.9
Germany	85.1	9.0	5.9	59.5	31.2	9.3	47.4	35.2	17.4
Greece	86.3	8.8	4.9	64.7	29.5	5.8	53.3	33.3	13.4
Ireland	80.7	17.2	2.1	66.4	31.3	2.3	53.7	35.5	10.8
Italy	84.4	11.2	4.5	58.5	30.1	11.5	47.4	33.8	18.9
Latvia	69.8	20.1	10.1	67.2	27.7	5.1	58.2	30.7	11.1
Lithuania	77.6	15.3	7.1	65.9	28.6	5.6	55.3	32.1	12.6
Luxembourg	81.4	15.3	3.3	60.8	30.1	9.1	48.0	34.3	17.6
Malta	57.0	18.0	25.0	70.8	29.2	0.0	58.6	33.3	8.1
Netherlands	92.9	3.3	3.7	64.4	29.5	6.1	51.2	33.9	14.9
Poland	78.7	12.1	9.2	68.3	24.6	7.1	58.9	27.8	13.4
Portugal	73.4	20.9	5.7	61.9	30.9	7.2	52.8	33.9	13.3
United Kingdom	85.4	12.1	2.6	60.9	32.2	6.9	48.5	36.3	15.2
Czech Republic	75.7	17.2	7.1	59.2	28.3	12.5	48.1	32.0	19.9
Romania	76.1	11.1	12.8	69.3	23.2	7.5	60.9	26.0	13.1
Slovakia	69.8	23.0	7.2	57.8	29.9	12.3	47.8	33.2	18.9
Slovenia	71.2	22.6	6.2	60.7	28.0	11.3	51.6	31.0	17.4
Spain	88.6	8.5	3.0	56.5	37.0	6.5	45.3	40.7	14.0
Sweden	77.6	18.2	4.2	51.8	37.4	10.8	41.6	40.8	17.6
Hungary	83.6	10.6	5.8	66.5	26.8	6.8	55.1	30.5	14.3
EU27	**83.6**	**11.4**	**4.9**	**64.3**	**29.0**	**6.7**	**53.2**	**32.9**	**14.4**

Source: elaboration on European Commission data, 2011

6. WHAT INDICATIONS FROM THIS ANALYSIS?

The allocation system review, both for the first and second pillar of the CAP, is a sensitive issue, especially in the current reform process, which sees the debate on the future Multiannual Financial Framework 2014-2020 simultaneously under negotiation. Thus the allocation system review can be considered a key element within the reform process and represents a demanding task to be addressed.

The paper provided a survey of the impact of CAP reform, focusing on resources reallocation and trying to evaluate whether the new distribution may potentially fit better the agricultural policy objectives and ends up being more equitable distributed, compared to the current period. However, as already pointed out, the consistency with policy objectives and allocation equity is difficult to assess globally and the analyses may even show conflicting outcomes, depending on the criteria proposed, on one side, and on the methodology applied, on the other[13]. Thus, it may be misleading to come up with general assumptions, as it must be taken into account that the distribution of financial resources is above all a political matter, while the selection of indicators and methods should be considered an accompanying tool for political debates. Rather than conclusions, we think it may be useful to draw, from our exercise, some more thinking about the process of resource allocation for the future CAP.

One evident issue from the analysis featured in the previous pages is the clear intent of the Commission to shift resources from "sector-based" objectives of the CAP to more specific and territorial ones, such as environment and balance territorial development. To this end, the Commission involved the first pillar in the realisation of these objectives, that has been considered so far issues addressed mainly by the second pillar[14]. Such life of reasoning has opened the way to pointing out whether and to what extent it is efficient to have both pillars addressing the same objectives by means of different measures. If, on one side, it aims at improving the integration of the two pillars and to exploit synergies and complementarities, on the other side it may end up with creating further trade-offs and overlapping, especially in the step of National programming and policy management. One could wonder if it wouldn't be more rational and efficient, given the process of integration and junction of objectives of the two pillars, to merge the resources allocation to agriculture into one single pillar logically divided by main objectives[15].

Another issue concerns with the relationship between agriculture and other items of the EU budget. The paper highlights how the classic role of the second pillar to accompanying and compensating the allocation of resources in the first pillar is basically over. The two pillars now seem to move together, not only sharing the same objectives but also following the same trend in the resources allocations in some cases. Does that open the way to others sources of compensation outside the primary sector? Is it feasible that some Member States might have considered more convenient to let portions of the agricultural budget go in order to bargain more resources on other items of the EU budget, maybe even with a more effective multiplicative effect on the whole economy (De Filippis et al., 2011)? It was not the case to investigate this issue in this paper, but it certainly is a very interesting direction to explore if one would like to deal more with the budget allocation by Member States in the EU.

Finally, one more issue is the criterion of resources allocation in the CAP and between pillars. At the moment, the EU institutions have been working on two totally different criteria of reallocation: the eligible UAA for the first pillar and a very complicated formula that takes on board "objective criteria" for the second pillar (§ par. 4). On the other hand, the increasing overlapping of the CAP objectives would lead to think of similar criteria for resources

[13] The issue to make the CAP more consistent with general objectives of the European Union has been highlighted in several works (Kuokkanen & Vihinen, 2006).

[14] The magnitude of such a transfer will depend on the applications of voluntary components of direct payments by Member States (§ par. 5.1).

[15] Otherwise, a better tailored set of objectives may be defined for two pillars, emphasizing at the utmost the complementarity of the available tools.

allocation among Member States. We tried to follow this principle and reallocate resources devoted to the first pillar using a simplified version of the integration formula seen for the second pillar, based on objective criteria rather than the mere eligible area. Rather than giving the same weights to all the components in the formula (that is, 33%) we weighted them according to the allocation criteria of the first pillar in the two scenarios built earlier in Table 4 (70% for competitiveness and income component and 30% environmental one; in the other 55% for competitiveness, 35% for environment and 10% for territorial development).

Table 7: Member States reallocation of the first pillar by means of an integration formula (Meuro; current price)

	Status quo		**New distribution**			
	I Pillar[a] DP		I Pillar[1] (70%competitiveness + 30% environment)		I Pillar[2] (55%competitiveness + 35% environment + 10%territorial)	
	(Meuro)	(EU27=100)	(Meuro)	(%)	(Meuro)	(%)
Austria	715.7	1.7	756.6	1.8	808.6	1.9
Belgium	569.0	1.3	270.8	0.6	275.7	0.6
Bulgaria	814.3	1.9	1166.8	2.7	1119.6	2.6
Cyprus	53.5	0.1	53.7	0.1	57.7	0.1
Denmark	964.3	2.2	367.9	0.9	366.1	0.9
Estonia	101.2	0.2	195.7	0.5	199.4	0.5
Finland	539.2	1.2	746.6	1.7	806.2	1.9
France	7,853.1	18.2	5260.4	12.3	5452.0	12.7
Germany	5,372.2	12.4	3489.1	8.2	3742.5	8.7
Greece	2,134.2	4.9	1647.2	3.9	1552.1	3.6
Ireland	1,255.5	2.9	981.1	2.3	954.0	2.2
Italy	4,127.8	9.5	3355.1	7.8	3383.0	7.9
Latvia	146.4	0.3	420.4	1.0	412.2	1.0
Lithuania	379.8	0.9	597.2	1.4	566.4	1.3
Luxembourg	34.2	0.1	29.1	0.1	36.3	0.1
Malta	5.1	0.0	6.8	0.0	5.6	0.0
Netherlands	830.6	1.9	472.6	1.1	438.5	1.0
Poland	3,043.4	7.0	5405.6	12.6	5129.5	12.0
Portugal	566.4	1.3	1142.5	2.7	1128.7	2.6
United Kingdom	3,649.9	8.4	2768.4	6.5	2812.2	6.6
Czech Republic	903.0	2.1	709.0	1.7	777.3	1.8
Romania	1,780.4	4.1	4494.0	10.5	4127.3	9.6
Slovakia	385.7	0.9	468.0	1.1	508.1	1.2
Slovenia	144.3	0.3	226.2	0.5	237.0	0.6
Spain	4,825.4	11.2	5579.0	13.0	5647.9	13.2
Sweden	717.5	1.7	893.6	2.1	1013.0	2.4
Hungary	1,313.1	3.0	1267.3	3.0	1212.1	2.8
EU27	**43,225.1**	**100.0**	**42780.3**	**100.0**	**42780.3**	**100.0**

Source: own elaboration

[a] *existing legislation 2017* – Annex VIII of Council Regulation 73/2009 for claim year 2016. NB: The amounts for POSEI, SAI, cotton and the transfers made from the wine envelopes are not included. The resulting amounts are reduced by the modulation amounts as per budget year 2013 (12734/11).

[1] Formula {0.70* (1/2Area +1/2Labour) + 0.30* (1/3LFA+1/3Natura2000+ 1/6Forests + 1/6Permanent pasture) }

[2] Formula: {0.55* (1/2Area+1/2Labour) + 0.35* (1/3LFA+1/3Natura2000+ 1/6Forests + 1/6Permanent pasture) +0.10*Rural population }

Results, displayed in Table 7, are again quite surprising, clearly in favour of some eastern European Member States, particularly penalising for some large "old" Member States (especially France, Germany and UK), quite hard for others (i.e. Italy, Greece) and positive for Spain and Portugal. It seems, in other words, that such a menu of objective criteria would actually rebalance resources in favour of Member States (Easter Countries and Mediterranean Countries in some cases) that have been traditionally penalised by the EU resources allocation. Would that be a more effective way to approach a process of real convergence?

Clearly, the latter exercise wants to provide an extensive application of similar criteria to the pillars of the CAP, which both target the same objectives; furthermore, it highlights that the selection of indicators (which represent a demanding task) is not a neutral/impartial technical step accompanying the political debate. It involves actually profound transitions of financial resources that needs to be addressed into the political matter.

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