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## The CAP Reform and the EU Budget: *what is going to change after the Lisbon Treaty*

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# EU Budget: Features and Tasks

The EU Budget is strictly constrained by the its availability of resources (Equilibrium Principle art. 268 TCE)

- NO way for *deficit spending* and borrowing (EU public debt – No Eurobonds)
- Payment appropriations related to revenue (“own resources”)



## Very small in size:

- ~ 1% of EU GNI (up to 1.2 in 1993)
- ~ 2% of public expenditure in EU countries



## Limited tasks:

- Instrument for funding only circumscribed Common actions
- Restricted room (financial and political) for redistributive policies
- Not suitable for stabilization macropolicies

# Structure of the EU budget - Revenues (1)

## Decision on the system of own resources (CE 70/243):

Since 1970 The EU budget is funded almost entirely by Own Resources (unanimous decision of the Council ratified by the national parliaments)

### TOR - Traditional Own Resources (≈15%):

- Trade duties (tariffs, levies etc) accrued by the Custom Union

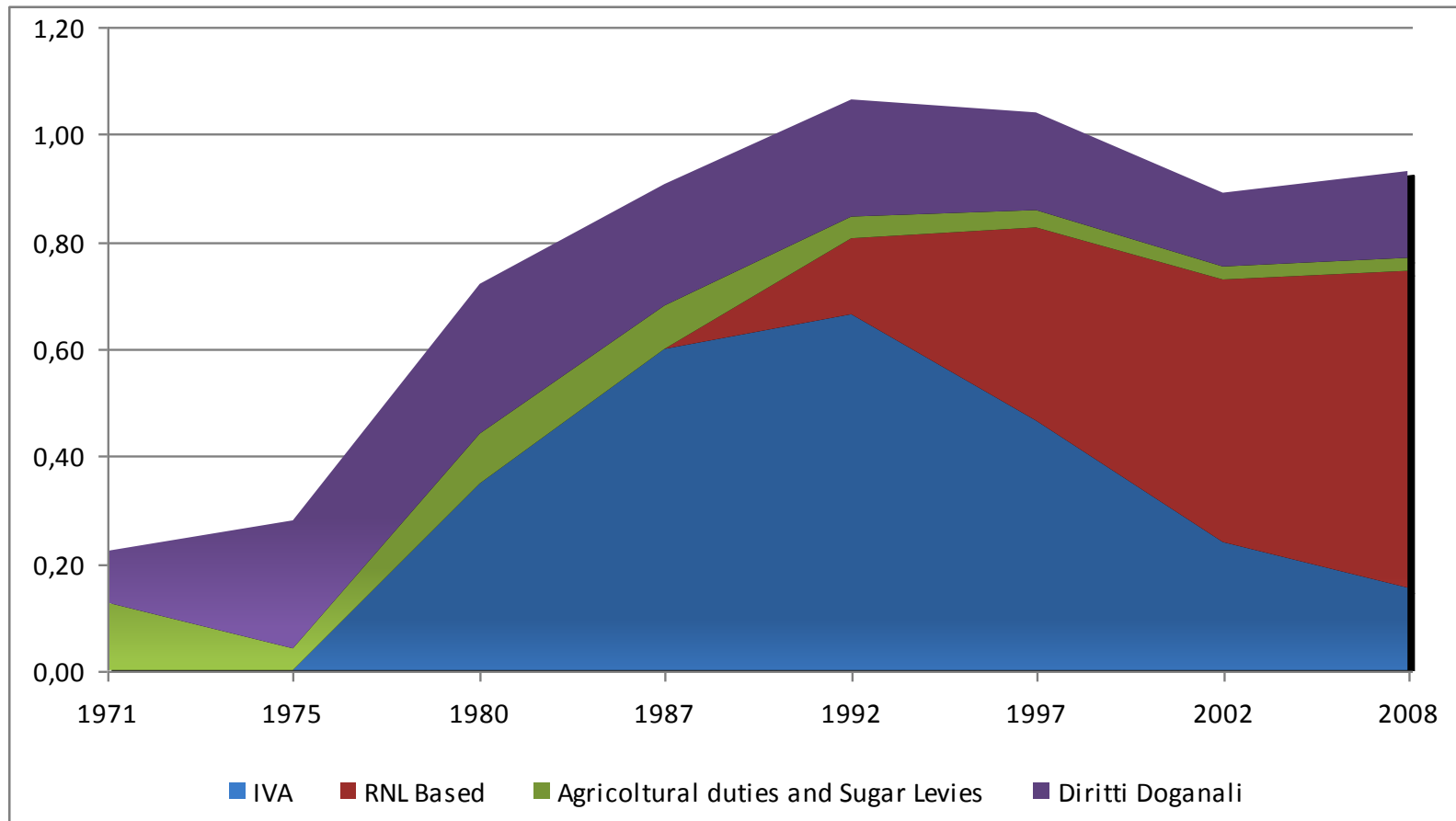
### Resources from value added tax (≈15%):

- Ranging between 1% and 0,3% levied on the harmonised VAT base of each EU country but always  $\leq 55\%$  GNI

### Resource based on Gross National Income (GNI) (≈65 %):

- Complementary contribution levied on the GNI of each EU country up to 1,24% of GNI

## Structure of the EU budget - Revenues (2)



Source: European commission, DG Budget

# Structure of the EU budget - Expenditures (1)

## Two main categories (until 2010)

### Compulsory (about 40%)

- ▶ From commitments in treaties and related legislation (automatic)
- ▶ EU Council has the last word in the decision making
- ▶ Mainly related to the I pillar of the CAP (farm direct subsidies)

### Non-compulsory (about 60%)

- ▶ Appropriations require specific legal acts (EU regulations, etc)
- ▶ EU Parliament (EP) has the last word

# Structure of the EU budget - Expenditures (2)

## Main Headings (average 2007-13)

### **Natural Resources - Agriculture (43%)**

I pillar CAP (32%); II pillar CAP and fishery (11%)

### **Cohesion for growth (Structural funds) (36%)**

ERDF; ESF; Cohesion fund

### **Competitiveness for growth & Internal actions (9%)**

Research and innovation; trans-European network;  
Educational system

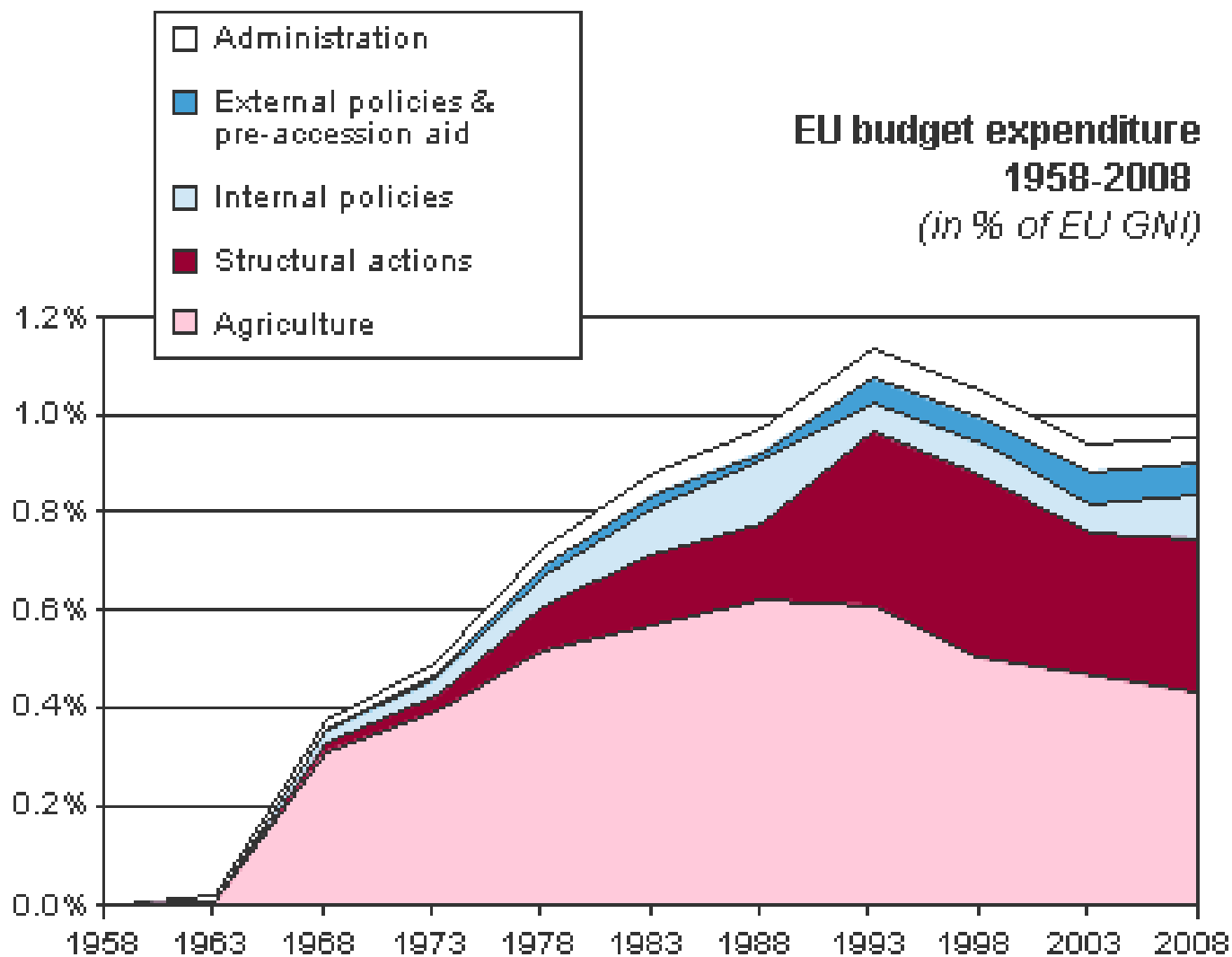
### **EU global partner- External actions (6%)**

Development assistance and international cooperation;  
pre-adhesion funds ecc.

### **Administration (6%)**

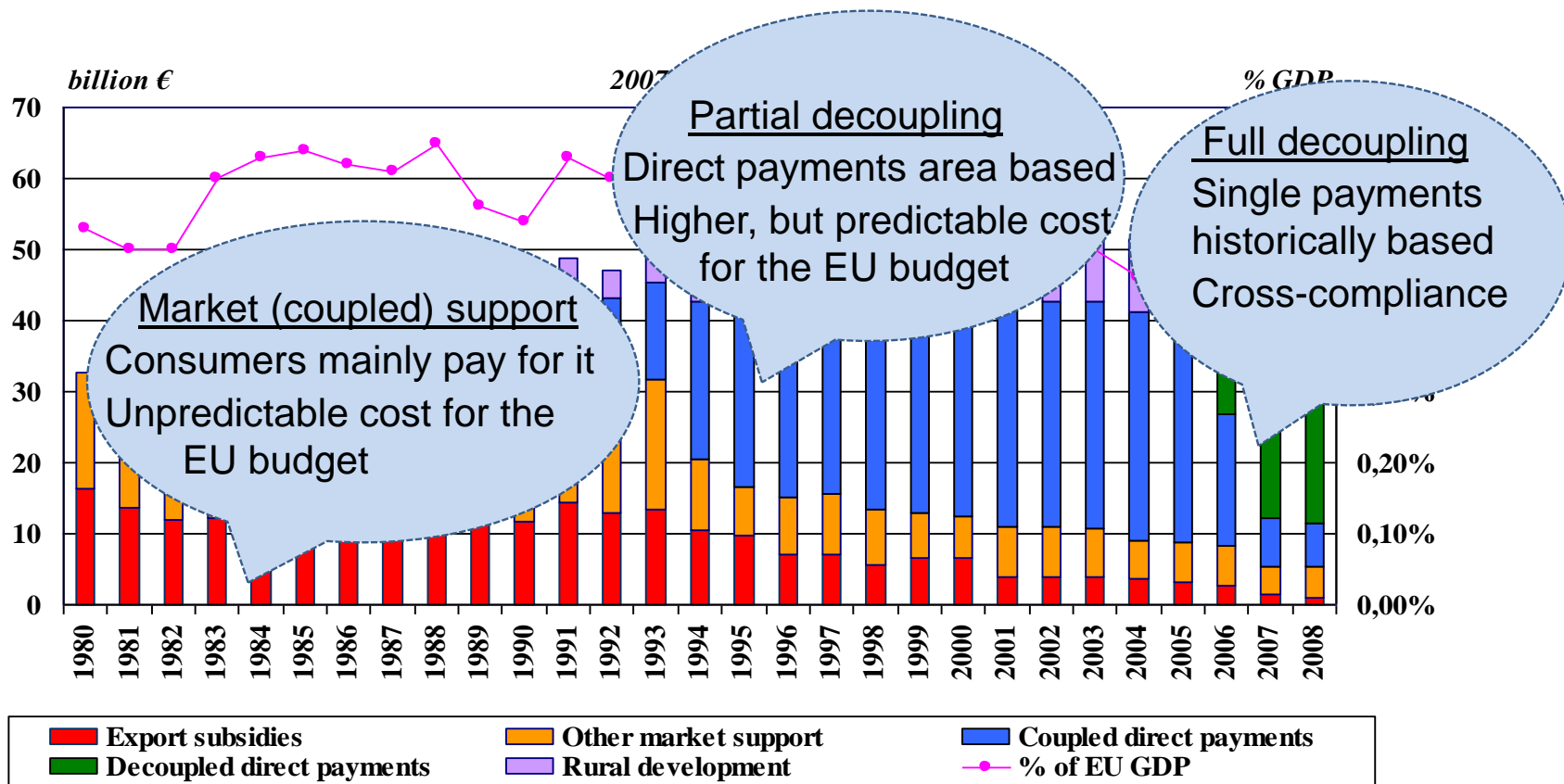
EU institutions functioning

## Structure of the EU budget - Expenditures (3)



Source: European Commission, DG Budget

# CAP expenditure and CAP reform path



Source: European Commission, DG Agri

# It's time for a further CAP reform

## Weaknesses of the current CAP

### Social and Political unsustainability of the historical Direct Payments

Direct payments based on the average 2000 – 02

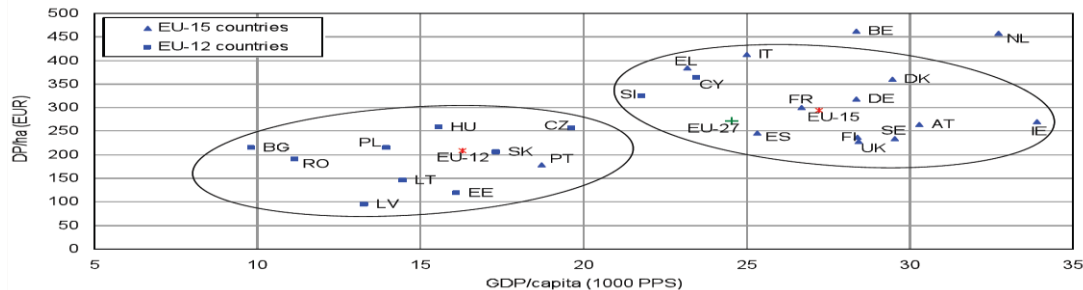
Questionable requirements to be eligible for the payments

Potential market distortions due to residual and optional coupled payments

### Unfair distributional impact among farmers and countries

Distribution skewed towards larger units (80% of DP to 20% of the farms)

Distribution skewed towards higher income MSs (EU-15)



### General claim for an agricultural support aimed at providing “public goods”

Poor effectiveness of cross-compliance (safety, environment and animal welfare)

Lack of proportionality between direct payment and public goods provision

Regulatory competition and race to the bottom strategies among MSs

# Decision making and budgetary powers (1) (until 2010)

## Own Resources Decision (ORD)

Defines the nature and amount of the own resources. It stays in place until a new decision is made

- ▶ Commission proposal
- ▶ Council adoption (requires unanimity)
- ▶ National parliaments ratification

## Annual Budgetary Procedure

- ▶ Draft Budget by Commission
- ▶ Adoption from Council and Parliament (2 readings)
  - ▶ Council has the last word on compulsory expenditures
  - ▶ Parliament has the last word on not compulsory expenditures
- ▶ Parliament may reject the Budget (2/3 votes)

# Financial Perspectives (since 1988) - 1

## Budget crisis in the eighties

- ▶ Inter-Institutional conflict on budget (EP vs Council)
- ▶ New expenditure policies following the Single Market
- ▶ Need to introduce a ceiling for CAP expenditures



**Inter-Institutional agreement aimed to a multi-year financial planning (7 yrs) establishing maximum amounts (ceilings) for the whole budget and for each single heading**

- ▶ Respect budget discipline
- ▶ Room for non-compulsory expenditures
- ▶ Financial perspectives consistent with new policies' goals and priorities

## Financial Perspectives ( 1988-2010) - 2

The Financial Perspectives (FP) were just a *political agreement*, not mentioned in the EU Treaties (pre-Lisbon). Actually FP didn't represent a legal act binding the EU Institutions.

### Who decides:

- ▶ Commission proposal
- ▶ Parliament advice (binding !?)
- ▶ Council reaches a “political agreement” (unanimity)
- ▶ Transposition in an “inter-institutional agreement”

# Net balances and budgetary choices (1)

## Revenues structure

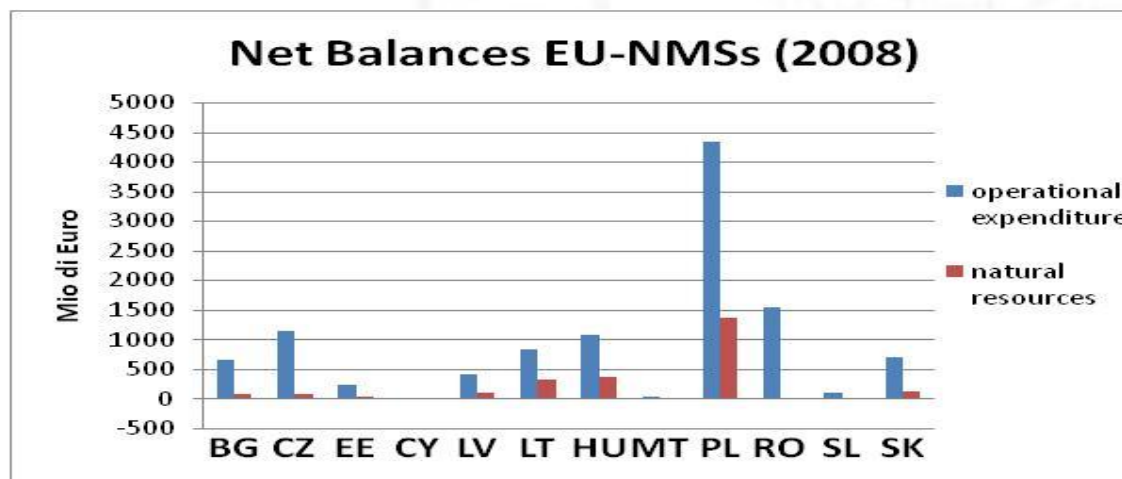
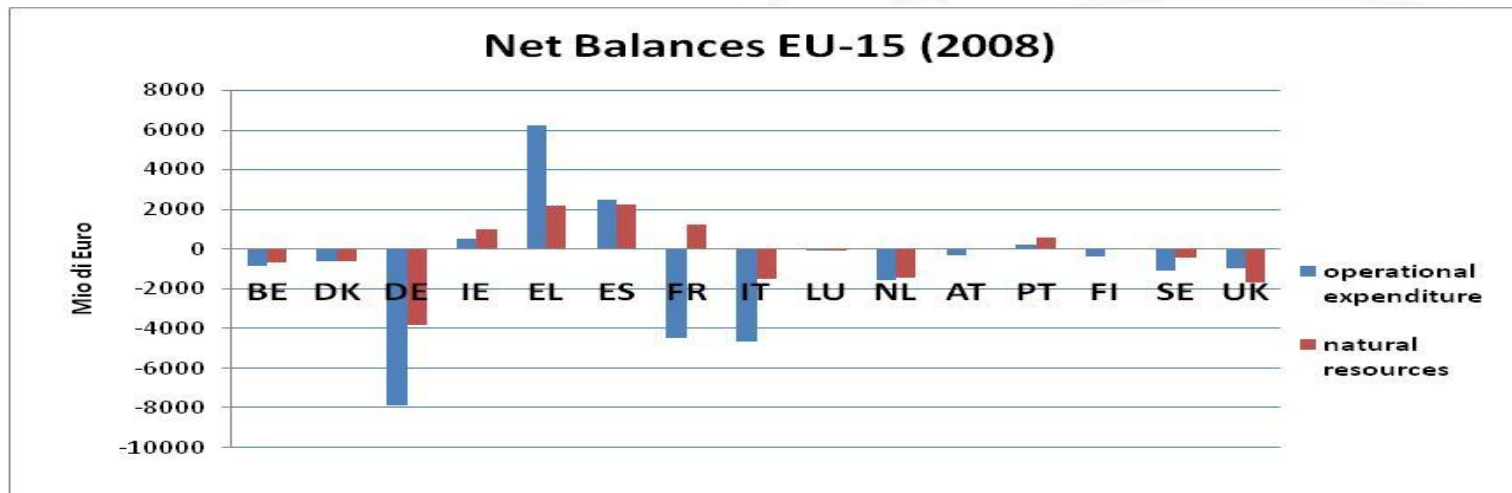
- ▶ Increased share of “national contributions” vs. TOR
- ▶ Financing solidarity principle (CAP)

## Distributional effects of expenditure policies

- ▶ Regional and cohesion policies (explicit effects)
- ▶ CAP (“implicit” effects)

# Net balances and budget choices(2)

## Significant burdens in net balances



Source: European commission, DG Budget

## Net balances and budget choices (3)

### Fontainebleau Agreement on the “*juste retour*” principle (1984):

*“.... any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time.”*

(Conclusions of the Presidency Council EC 1984)

Introduces the “*British rebate*”: special refund equal to 66% of UK negative net balance funded by other Member States depending on their GNI

### Centrality of intergovernmental negotiations (Council) in budget choices

*“From the negotiations experience in last 20 yrs it emerges that net balances are the key principle in making budget decisions”*

(Study commissioned by the DG-Budget, 2008)

# Net balances and budget choices (4)

## Implications

### ► For the Budget:

- Ad-hoc adjustments to the own resources mechanism following the “*British rebate*”: further minor adjustments for some MSs net contributors (Germany, the Netherlands, Sweden and Austria)

### ► For the EU policies:

- Intergovernmental Institution (Council) keeps control on budget planning
- Spending policies (CAP) shaped by the need of main net contributors
  - “... *The current budget is more the expression of different deals and attempts by governments to claw back in receipts as much of their contribution as possible than a coherent set of measures. ...*” (The Sapir Report 2004)
  - “... *like a large group of diners at a restaurant, where the debate about what to order are matched only by disputes over how to split the bill*” (Clasper and Thurston 2010).
- Conservative (*Status quo*) and reductionist choices

# Net Balances and CAP reform (1)

**In an historical perspective, the EU budget evolution have been affected by an entanglement between intergovernmental (net balances) and interinstitutional (Council-Parliament on budget powers) negotiations**

- ▶ Defense of the Council's budgetary powers through the conjunction of: consultation legislative procedure for CAP; distinction between compulsory/non compulsory expenditures, high level of CAP appropriations
- ▶ Vicious circle between the net balances focus and the primacy of intergovernmental negotiations
- ▶ Net balances as a very binding constraint to substantially CAP reform

## Net balances and CAP reform(2)

### Hypothetical scenarios of CAP reform

	Direct payments	Environment	Disadvant. Areas	Modernisation	UAA
Conservative	0,7	0,2			0,1
Environmental	0,2	0,5			0,3
Territorial	0,2	0,3	0,3		0,2
Sector oriented	0,2	0,1		0,5	0,2
Public goods		0,4	0,3		0,3

Source: Henke 2010

## Net balances and CAP reform(3)

### Change of MSs appropriations from CAP reform (%)

	Conservative	Environmental	Territorial	Sector	Public goods
Germany	-0,6	-14,1	-20,3	-32,8	-25,7
Greece	-11,4	-37,2	-40,8	-22,5	-51,2
Spain	-0,6	-11,1	-24,1	1,9	-26,7
France	-2,8	-32,4	-20,6	-23,2	-31,1
Italy	0,9	-1,1	-15,6	20,5	-17,1
Un. Kingdom	20,5	35,5	10,4	-18,0	15,6
EU-15	4,5	0,9	-0,6	-10,2	-2,2

	Conservative	Environmental	Territorial	Sector	Public goods
Bulgaria	-19,2	-14,1	-17,9	27,5	-15,1
Czech Rep.	-1,3	12,9	21,3	-17,7	26,0
Latvia	-14,5	24,8	23,5	106,1	41,3
Hungary	-7,0	-5,1	-31,2	44,2	-31,1
Poland	-18,5	-14,2	-1,5	42,6	0,8
Romania	-20,3	4,0	7,1	19,3	19,4
EU-12	-14,8	-3,1	1,9	33,3	7,1

	Conservative	Environmental	Territorial	Sector	Public goods
Votes against	<b>219</b>	<b>229</b>	<b>207</b>	138	180
Votes in favour	126	116	138	<b>207</b>	<b>165</b>

Source: Henke 2010

# Which changes after the Lisbon Treaty

## ▶ In Annual Budget Procedure

- ▶ Compulsory expenditures eliminated
- ▶ Special procedure: one reading in Council and Parliament and Conciliation Committee if necessary
- ▶ CAP in ordinary legislative procedure (codecision)

## ▶ In multiannual financial planning:

- ▶ From a political agreement to a legally binding act (Regulation stated by the Treaty)
- ▶ From Financial Perspectives (7 years) to Multiannual Financial Framework (MFF) ( $\geq 5$  yrs)
- ▶ Unanimous adoption by Council following Commission proposal and EP consent
- ▶ Possible shift from unanimity to qualified majority in the Council adoption if unanimously decided

# Implications for CAP reform (1)

## **The Lisbon treaty confirms the compromise between Council and Parliament which emerges from an historical analysis**

- ▶ Council and MSs consolidate their full control on the Multiannual Financial Framework (adopting unanimously the ceilings on commitment appropriations by category of expenditure and the annual ceiling for all payment appropriations).
- ▶ In the Annual Budgetary Procedure the Parliament extends its “power parity” with Council over all budget appropriations and spending policies (CAP)

## Implications for CAP reform (2)

*An high CAP expenditure cannot help anymore to maintain budgetary powers within intergovernmental negotiation (Council)*

- ▶ Political equilibria on net balances can be affected by the Council only through the Decision on the Own resources and the Multiannual Financial Framework setting.

*CAP cannot be used anymore autonomously by the Council as a policy aimed at equilibrating net balances among MSs*

- ▶ Decreased interest of the Council in maintaining high CAP spending
- ▶ More room of maneuver for a CAP reform affecting net balances and distribution among MSs

*The main issue regards the European Parliament attitude towards the feature and the size of the future CAP*

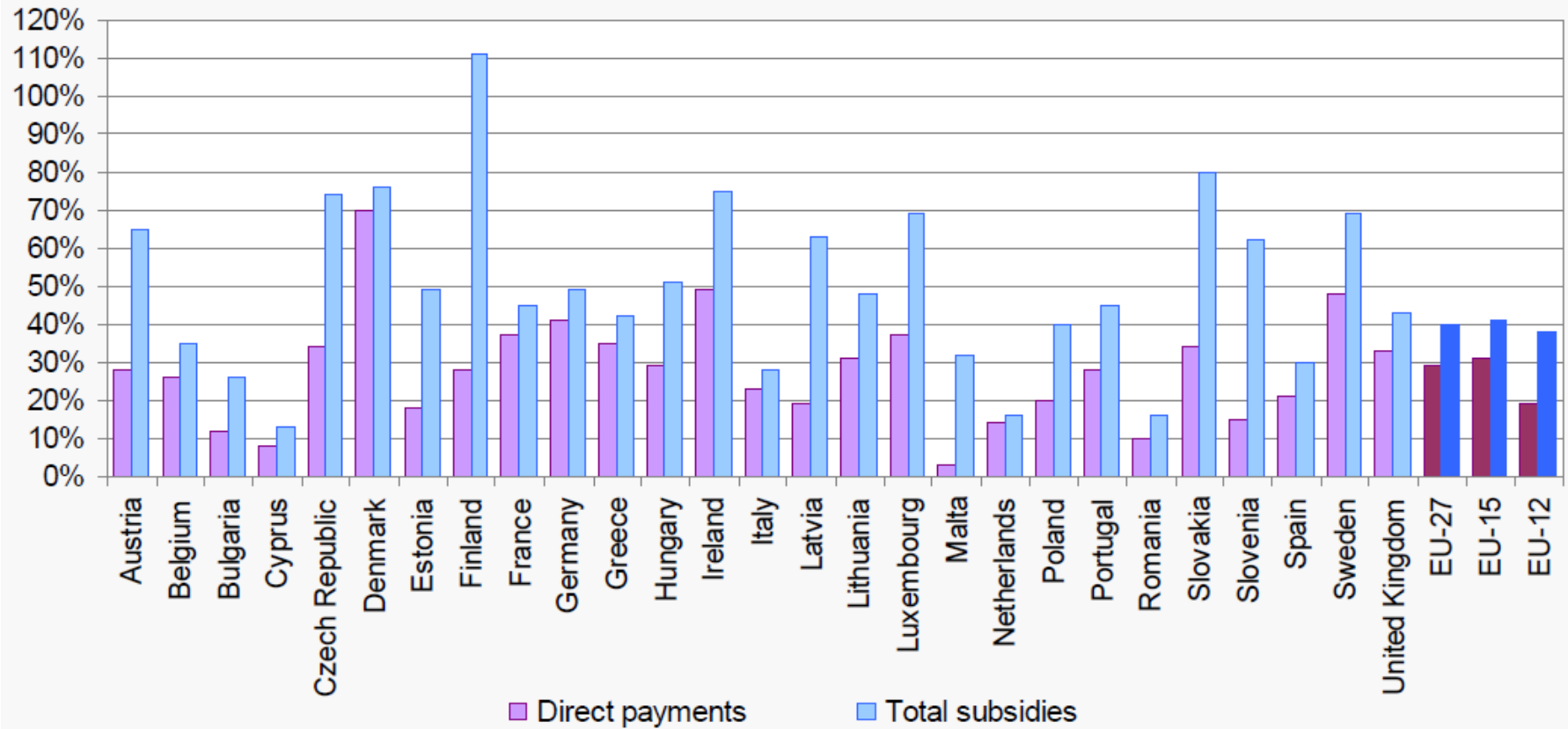
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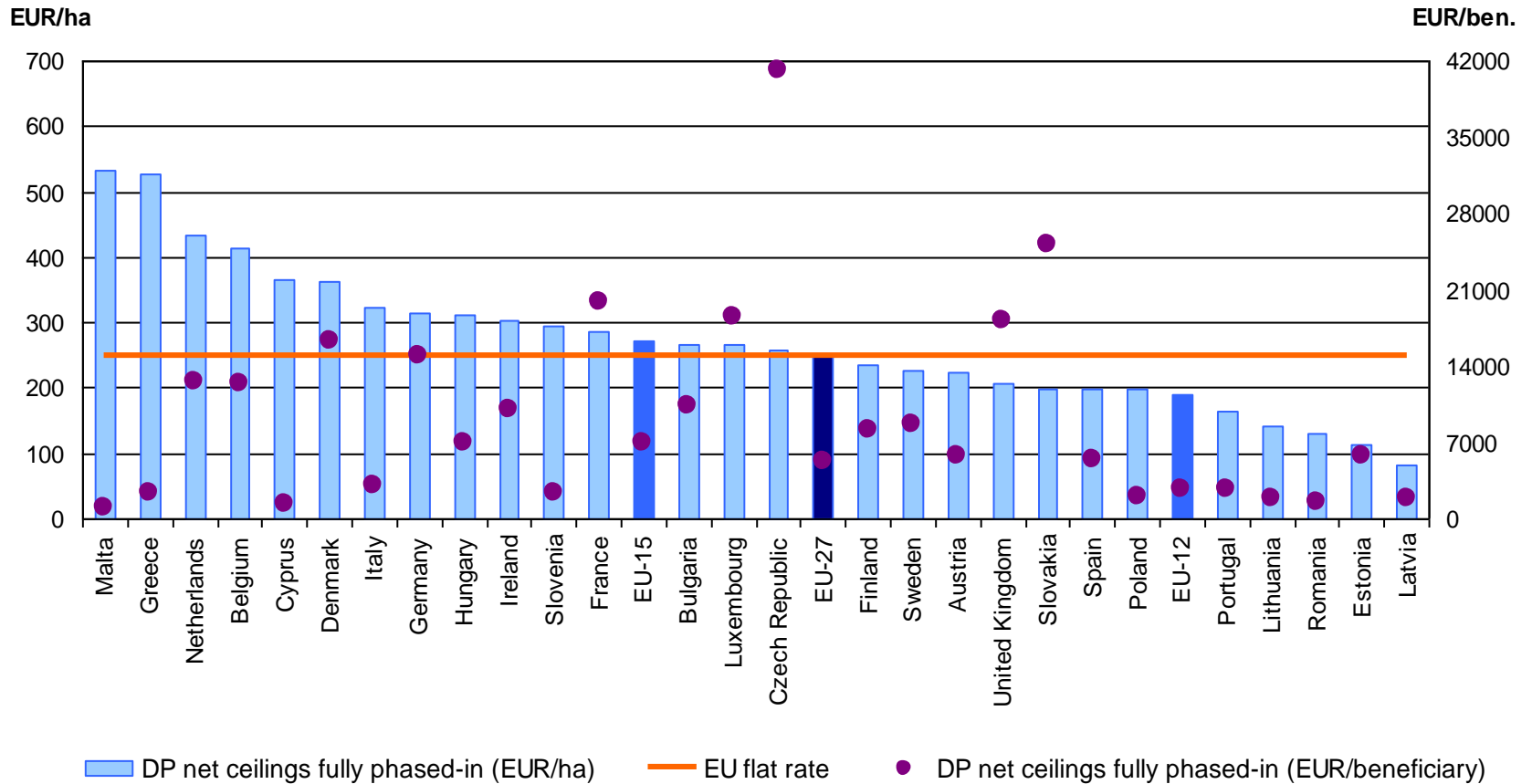


# Share of direct payments and total subsidies in agricultural factor income (2007-2009 average)



Source: European Commission, DG Agri

# Direct payments: distributional issue



Source: European Commission, DG Agri

# **The 2013 CAP reform in progress**

**April 2010 - Public debate on the CAP future**

**July 2010 - EU conference on the CAP post 2013**

**November 2010 - Commission communication “the CAP towards 2020”**

**June 2011 - EU Commission proposals for the MFF 2014-2020 (A)**

**October 2011 - Legal proposals for the CAP after 2013 (B)**

**2012 - Intertwined negotiations in the EU Council and Parliament on the Commission proposals**

**End 2012 - Agreement within and between Council and Parliament (codecision procedure) and approval of the legal texts on the new MFF and the CAP reform**

# EP empowerment in budgetary choices milestones

1970 Treaty of Luxembourg	→	• Own Resources and <b>Budget Procedure</b>
1978 European Council Decision	→	• Election of EP by <b>universal suffrage</b>
1988 SEA Single European Act	→	• Introduction of <b>Cooperation Procedure</b>
Interinstitutional Agreements on FP	→	• <b>guaranteed funds for EP</b> on non-compulsory expenditure
1993 Maastricht Treaty	→	• Introduction of <b>Codecision Procedure</b>
1999 - 2001 Amsterdam - Nice	→	• <b>Extension of Codecision Procedure</b>
2009 Lisbon Treaty	→	• <b>Extension of Codecision Procedure to CAP</b> • <b>Elimination of compulsory expenditures</b>

EU BUDGET