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The CAP and the EU budget
Do the ex-ante data tell the true?

Franco Sotte

Department of Economics, Università Politecnica delle Marche, Ancona, Italy

f.sotte@univpm.it

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Abstract

The aim of this paper is to suggest the adoption of a fully informed approach in the analysis of CAP expenditure. The debate on CAP expenditure is generally based on ex-ante images of the budget as presented in the Multiannual Financial Framework and, before each financial year, on the budget appropriations for commitments. But this differs significantly from the actual payments as recorded ex-post in the Financial Reports. These differences are mainly concentrated on structural policies (such as regional and rural development policy), while they do not exist, or are minimal, in the mere transfer policies (such as in Pillar 1 of the CAP). Based as it is on a partial and distorted image of the expenditure, the analysis and discussion on the CAP reform is distorted as well.

Keywords: CAP expenditure, financial reports, evidence based approach, CAP reform

JEL classification: H5, F5.

En fait, tout fonctionne comme si le fait d'avoir conçu des mesures d'intervention à partir de relations théoriques de causalité était considéré comme suffisant pour garantir l'effet de ces mesures. Ces constats et les débats qui les accompagnent invitent au renouvellement des approches de l'évaluation pour évaluer l'impact effectif de l'intervention publique indépendamment des schémas de causalité qui la sous-tendent.

Laurent C., Baudry J., et al (2009), Pourquoi s'intéresser à la notion d'«evidence-based policy»? , Revue Tiers Monde , n° 200 - Oct-Déc 2009. Published in Italian with the title: Perché interessarsi alla nozione di «evidence-based policy»? , Agriregionieuropa, n.23, Dec. 2010, www.agriregionieuropa.it.

This paper is dedicated to the memory of Daniel Perraud

1. INTRODUCTION

The objective of this work is to contribute to the analysis of agricultural policies and in particular of the CAP, through expenditure.

It is an exercise that is central to economic policy analysis since the majority of policies are implemented through the expenditure. And the analysis of the expenditure, actually, provides a great opportunity for researchers and policy evaluators at all stages of the evaluation process: ex-ante, in itinere and ex-post. The opportunity stems from the fact that the expenditure is expressed in monetary units. Thus the analysis and comparison can take place on a quantitative basis. This allows the calculation of very simple indicators (i.e. percentages, index numbers, unitary values of expenditure per beneficiary, per hectare, etc.). Graphical as well as map representations are very easy to draw, understand and interpret by non-experts too.

These benefits, however, are exposed to several risks. To avoid them it is particularly recommended to adopt an “evidence based” approach to evaluation.

These risks are the following:

1. The risk of forgetting that, in evaluating the efficiency and effectiveness of a policy, the expenditure is an instrument used to pursue the objective and is not an objective in itself (as is often misunderstood). In its role, the expenditure is to be classified as an input and not an output, and still less as an outcome. It is therefore not a numerator but a denominator in the calculation of any policy performance indicator. The risk here mentioned increases if, as often happens, the reason for spending public funds is sacrificed on the altar of speed, i.e. the quality of expenditure to its quantity. All this happens especially when the policy makers and the public administrators are pressed by the urgency to spend all available funds by their deadlines (e.g. because of the n+2 principle) for the de-commitment. This condition leads frequently to prefer easy and non selective policies to more targeted and tailored ones. For their discriminatory nature and fine tuned definition, the latter are inevitably more complex to implement and manage.

2. Another risk is to neglect the often profound differences, both quantitative and temporal, between expenditure allocation and actual payments, and therefore the actual impact on the reality to which the relative funds are addressed. For obvious reasons, the attention is attracted more by future spending (presently the debate is on the post-2013 Multiannual Financial Framework), than by the past or present payments and achievements. But this means that the attention is focused more on the promises than on the real results and that not sufficient attention is paid to the evolutionary process that make the latter diverge from the former. The result is that the research conclusions, as well as political debate, are systematically distorted as far as they are based on indicators, proportions between a policy and another, distribution of funds at both territorial and sectoral levels, completely different from reality.

3. A third risk is to assume that any policy mobilizes its resources, develops its implementative channels, and pursues directly and exclusively its objectives independently of all other policies offered at the same time. This brings about an underevaluation of the interplay between policies and their combined effects, as well as the coherence or incoherence between policies with respect to the same objectives. This aspect is relevant not only when a policy is implemented, it is also crucial when a policy is designed and financed. The policy choices, in fact, are often taken by offsetting the interests and the convenience of each participant in dealing with those of any other. This is especially true when, as in the EU, more Member States with diverse objectives need to converge under the pressure of a diversified range of lobbies. It is therefore very important to put any policy in the context of the actual interests and expectations of each of the multiple actors in the real policy game.

4. Last but not least, while the debate on the cost of a policy usually concentrates on the direct expenditure associated to it, insufficient attention is paid to indirect costs which are connected. These indirect costs are both public and private, and are required to allow the access to the policy of potential beneficiaries, to select the most deserving of them, to ensure that the policy is targeted to its objectives, and tailored, in such a way as to limit its cost to the necessary minimum. Evaluating the policies only for the amount of money directly committed and paid, risks missing a recognition of the extension of the overcompensation and the waste of funds paid for compensating costs never incurred. The risk is that, neglecting these issues, and under the pressure for simplification and a reduction in administrative costs, the objectives of efficiency and effectiveness are under-evaluated, as well as, that of minimizing the deadweight effects.

With this background, the second paragraph presents what can be considered the ex-ante image of the CAP expenditure in Europe. The principal data taken from two fundamental documents are reported here: the Multiannual Financial Framework (MFF) and the Budget drawn before the beginning of each Financial year. This image of the CAP expenditure is generally adopted in the political debate on the present and future of the policy. The third paragraph is dedicated to a presentation of the ex-post image of the CAP expenditure which appears to be quite different from the previous one. This evidence suggests that the current debate on

the CAP is based on (at least partially) wrong assumptions. A short insight into the Italian case, presented in paragraph 4, suggests further investigation at a more detailed level. The last paragraph presents some final remarks on the necessity to integrate the two images of the CAP expenditure and suggests concentrating more effort on policy evaluation and monitoring.

2. THE CAP AND THE BUDGET: THE EX-ANTE IMAGE

The table showing the MFF for the current programming period (2007-2013) is the image of EU spending for agricultural policy more generally known and routinely quoted in the current debate on the CAP. The one shown here in table 1 is the updated version to the current prices of 2009.

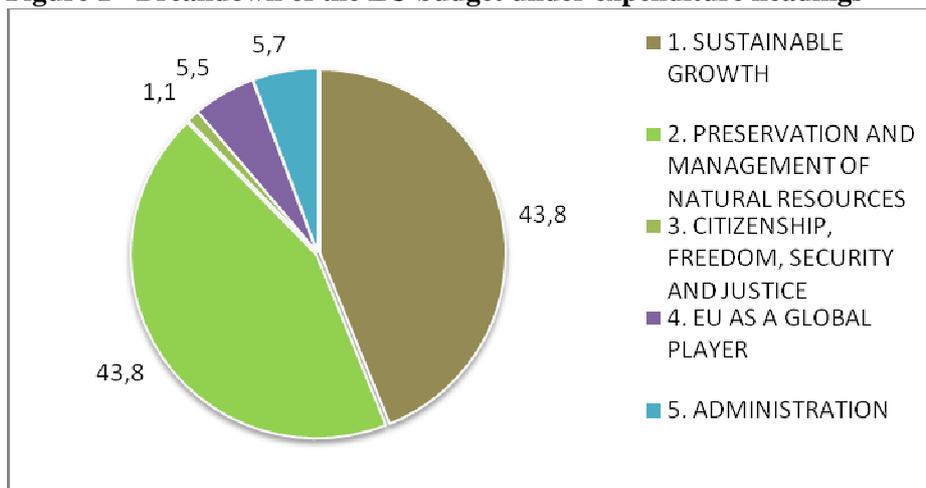
Table 1 - Multiannual financial framework at current prices (2009)

Appropriations for commitments	Financial years							Total 2007-13
	2007	2008	2009	2010	2011	2012	2013	
1. Sustainable growth	53979	57653	59700	61782	63638	66628	69621	433001
Competitiveness for growth and employment	8918	10386	11272	12388	12987	14203	15433	85587
Cohesion for growth and employment	45061	47267	48428	49394	50651	52425	54188	347414
2. Preservation and management of natural resources	55143	59193	59639	60113	60338	60810	61289	416525
<i>Market related expenditure and direct payments</i>	45759	46217	46679	47146	47617	48093	48574	330085
3. Citizenship, freedom, security and justice	1273	1362	1523	1693	1889	2105	2376	12221
Freedom, security and justice	637	747	872	1025	1206	1406	1661	7554
Citizenship	636	615	651	668	683	699	715	4667
4. EU as a global player	6578	7002	7440	7893	8430	8997	9595	55935
5. Administration	7039	7380	7699	8008	8334	8670	9095	56225
6. Compensation	445	207	210					862
Total	124457	132797	136211	139489	142629	147210	151976	974769

Source: http://ec.europa.eu/budget/library/publications/budget_in_fig/syntchif_2009_en.pdf

Heading 2 "Preservation and management of natural resources" is where the CAP is included (together with fishery policy, Life+, and some other minor environmental policies). As noted in figure 1 it weighs a total of 43.8 per cent of the total budget (42.7 per cent throughout the period of seven years). On the basis of decisions already taken, the weight of the headline where the CAP is included is likely to decline over time up to 40.2 per cent at the end of the period, in 2013. The image of the "cake", in which the weight of the heading where the CAP is contained stands at 43 per cent, is widely represented in the current debate on the future of agricultural policy in Europe. It is considered a given. To be picky, in the calculation of the percentage one should subtract the Administration costs from the total, which would increase the weight of the heading to 46,4 per cent.

Figure 1 - Breakdown of the EU budget under expenditure headings



Source: http://ec.europa.eu/budget/library/publications/budget_in_fig/syntchif_2009_en.pdf

Referring to the budget, many politicians, lobbyists and researchers develop their own analyses, recommendations and proposals on the CAP reform taking this as a common reference. Others take as a reference the annual budgets. In Table 2 the annual budget for the 2008 and 2009 financial years is reported). There are two items listed: Appropriations for Commitments (the legal obligations authorized in the financial year) and Appropriations for Payments (the authorized payments for commitments entered into during the current or previous financial years). Looking at the Appropriations for Commitments for the year 2009, the incidence of the CAP on the EU budget was a total of 40.7 percent (split into 30.5 and 10.2 percent respectively between Pillar 1 and 2). A similar figure, 41.3 percent (31.1 and 10.2 per cent between Pillar 1 and 2) was recorded in 2008.

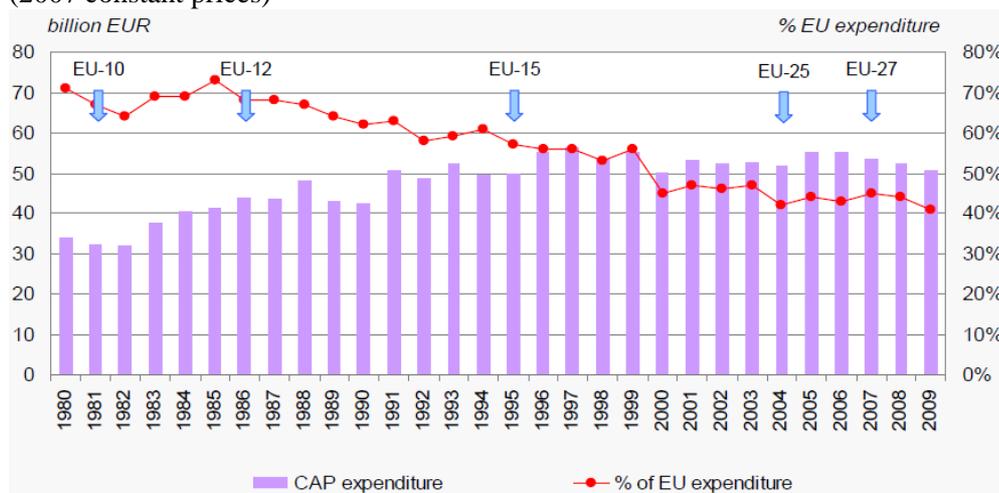
Table 2 – The EU budget by financial framework headings (billion euro)

	Budget 2008		Budget 2009	
	Appr Comm	Appr Pay	Appr Comm	Appr Pay
CAP 1st Pillar	40.562	40.568	40.781	40.781
CAP 2nd Pillar	13.303	11.383	13.652	10.229
CAP total	53.865	51.951	54.433	51.010
Other Preserv & mngmt natural res	1.694	1.266	1.689	1.556
Sustainable growth	58.338	45.732	60.196	46.000
Citizenship freedom etc.	1.635	1.489	1.515	1.296
EU global payer	7.551	7.847	8.104	8.324
Administration	7.279	7.280	7.701	7.701
Total	130.363	115.565	133.637	115.887

Source: http://ec.europa.eu/budget/library/publications/budget_in_fig/syntchif_2009_en.pdf

The site of DG AGRI, for example, in its pages discussing the theme: "The Common Agricultural Policy after 2013" refers exactly to the above data where, in the "CAP post-2013: key graphs and figures" the first graph is that reproduced in figure 2. Looking at the solid line, the incidence of CAP expenditure on the overall EU budget in the financial years 2008 and 2009, approximately corresponds to the percentages mentioned: the CAP lies just above 40 percent.

Figure 2 - CAP expenditure in the total EU expenditure according to the DG AGRI web site (2007 constant prices)

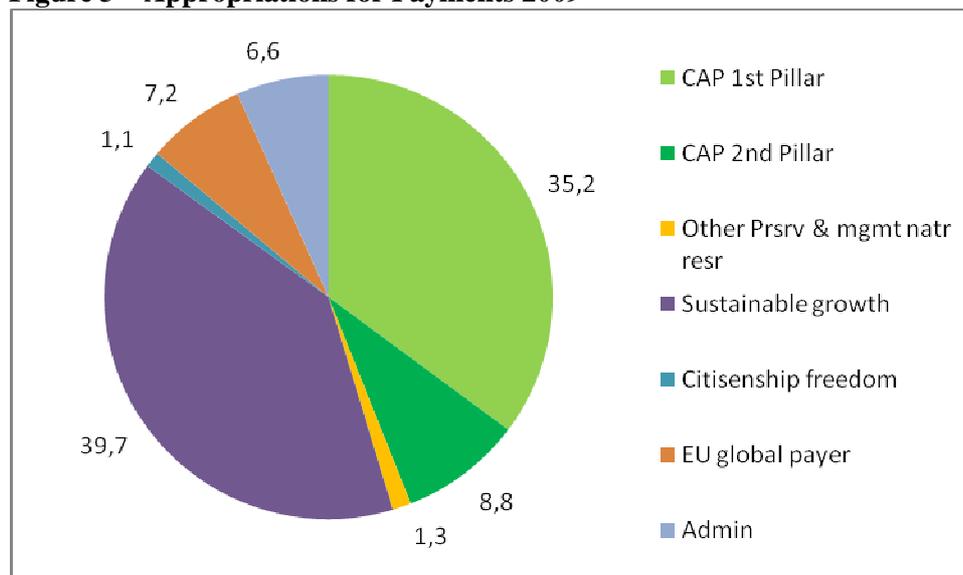


Source : CAP post-2013: Key graphs and figures, November 2010, http://ec.europa.eu/agriculture/cap-post-2013/graphs/graph1_en.pdf

In short, in the current debate on the present and future of the CAP, an assumption generally accepted on the weight of this policy on the overall budget is that its incidence lies just above 40 per cent, and that the ratio between Pillar 1 and 2 is more or less 3:1. Is this a legitimate assumption? Does the evidence of the amount of money received by its recipients endorse this postulate?

The comparison in the budget between Appropriations for Commitments and Appropriations for Payments suggests caution or at least some additional considerations. In fact, the weight of the total CAP expenditure on the overall EU budget, in terms of Appropriations for Payments (figure 3) rises significantly: 44.0 percent in 2009, and 45.0 percent in 2008.

Figure 3 – Appropriations for Payments 2009



Source: http://ec.europa.eu/budget/library/publications/budget_in_fig/syntchif_2009_en.pdf

This is the result of a surge of about 5 points (from 30.5 to 35.2 per cent) of the relative weight of pillar 1 and a decrease of pillar 2 (from 10.2 to 8.8 per cent). The ratio between Pillar 1 and 2 drops, consequently, from 3:1 to 4:1. The reason is obvious. It regards the nature of the CAP in relation to other EU

policies and, within the CAP, the different nature between Pillar 1 and 2. Pillar 1 contains, in fact, essentially transfer measures based on status (personal) attributes of the beneficiary. The amount of money is pre-defined once and for all, it is automatically paid by the Paying Agencies and reimbursed soon after by the EU. The Single Farm Payment in particular, which represents 74 percent of the total amount of funds directed to Pillar 1, has these characteristics.

On the other hand, the spending process under Pillar 2 of the CAP, as well as under several other major EU policies (e.g. regional policy or research policy), have a multi-annual nature, as projects and programs require time for execution and, even before the execution, from an administrative standpoint, the following steps (design, definition and emission of tenders, collection of applications, applications appraisal, selection, approval of the ranking, commitment, etc.) take time. In Table 2, in fact, the heading "Sustainable growth", which typically includes the regional policy for research, presents the maximum deviation between Appropriations for Commitments and Appropriations for Payments (the latter are lower than the first, respectively, by 23.6 percent in 2009 and 21.6 percent in 2008). This means that sometimes the payment could not follow the commitment and the funds be disengaged and return available for other uses, and also that the payments, when they occur, are made in depreciated money, as budgeted in nominal values of the financial year when the commitment was signed..

3. THE CAP AND THE BUDGET: THE EX-POST IMAGE

The total volume of CAP expenditure and its distribution between Pillar 1 and 2 show therefore significant differences in terms of Appropriations moving from the MFF to the annual budgets and, in the latter, shifting from the appropriations for Commitments to those for Payments. But a more striking picture of CAP expenditure emerges from the Financial Reports (France) which report the payments actually paid during the financial year.

Table 3 shows the results of the annual payments reported for the financial year 2009. For the reasons mentioned above, the CAP expenditure is here compared with the total expenditure, net of the administrative costs (which in payments are equivalent to 6.4 percent of the EU total). The weight of the CAP appears to be much higher than that registered so far. Of the 110.7 billion euro of net total payments, 54.8 billion euro is paid for the CAP which rises to the level of 49.5 per cent (41.6 per cent due to Pillar 1 and 7.9 per cent to Pillar 2). The ratio between the two pillars in terms of payments, therefore, falls to around 5:1.

Table 3 – The CAP payments in the Financial Report – Financial year 2009

a) Absolute values

	Pillar1	Pillar 2	Total CAP	Net Total UE Expenditure (- Admin)
	M€	M€	M€	M€
EU-15	36563	5241	41804	71295
<i>North-15</i>	6295	1041	7336	11348
<i>Centre-15</i>	16447	2394	18841	30207
<i>South-15</i>	13821	1806	15627	29740
EU-12	4468	3498	7966	24818
EU-27	41031	8739	49770	96113
Out MS	5062	0	5063	14633
Total EU	46093	8740	54833	110746

b) Percentages

	Pillar1 / Total CAP	Pillar2 / Total CAP	Pillar1 / Net total	Pillar2 / Net total	Total CAP/ Net total EU
	%	%	%	%	%
EU-15	87,5	12,5	51,3	7,4	58,6
<i>North-15</i>	85,8	14,2	55,5	9,2	64,6
<i>Centre-15</i>	87,3	12,7	54,4	7,9	62,4
<i>South-15</i>	88,4	11,6	46,5	6,1	52,5
EU-12	56,1	43,9	18,0	14,1	32,1
EU-27	82,4	17,6	42,7	9,1	51,8
Out MS	100,0	0,0	34,6	0,0	34,6
Total EU	84,1	15,9	41,6	7,9	49,5

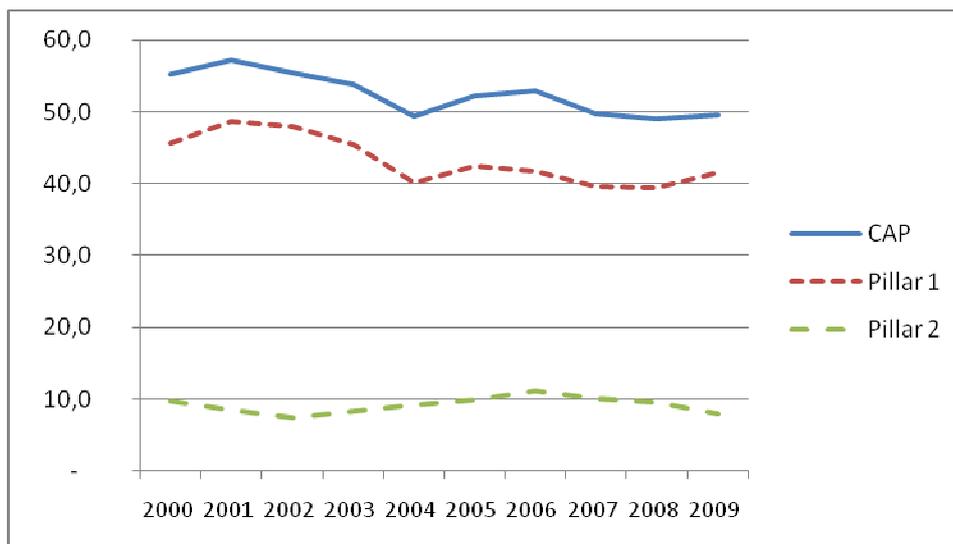
Source: Financial Reports Year 2009

There are several reasons to explain the difference between ex ante programmed expenditure and ex-post actually disbursed payments in the structural policies (cohesion and Pillar 2 of the CAP). Some of them are set out in the Financial Report of the Commission for the EAFRD expenditure in 2009 (European Commission 2010): " "the economic crisis which had an effect on the Member States ability to provide the national co-financing but also might have caused beneficiaries to hesitate to enter into any commitments, the late approval of certain programmes as well as a lack of sufficient previous experience of some Member States in the implementation of Rural Development programmes". However, there are still other reasons behind the gap between appropriations for commitments and actual payments. One of these is the withdrawal of recipients with the consequent cancellation of the commitment. This can occur for many reasons: refusal of banks to allow credit, changes in the farm business plan, the discovery of better funding opportunities in competing policies, death of the beneficiary or other changes in family decisions for health or other reasons, etc. It should not be forgotten even that the Commission's ex post controls may lead to the discovery of irregularities which would justify the refusal of payment or reimbursement to the MS and the cancellation of the commitment.

Finally, we must also consider the inflationary effect which differentiates the real value of the public expenditure when time passes between the appropriations for commitments allocation and the actual disbursement of payments. This is a phenomenon that does not affect the transfer payments such as those of

the first pillar because the appropriations for commitments are in this case immediately followed by the disbursement of money. It is interesting to understand how much the spread between appropriations for commitments and actual payments is affected by conjunctural and short term reasons or by structural ones. An in-depth analysis on a multi-year basis shows that what has been revealed for 2009 is not an exception. As one can verify in figure 4, the weight of the CAP on the EU Financial Reports in terms of payments have slightly decreased since the beginning of the decade 2000 from about 55 percent to about 50 percent. The CAP has been placed at this level since the Fischler Reform was introduced. With regard to the ratio between Pillar 1 and 2, one could argue that the low incidence of Pillar 2 in 2009 could be attributed to conjunctural reasons, namely the delay in the take off of the new rural development programs. This appears to be partially confirmed, in fact, in the period 2007-2009, as well as that of 2000-2002 at the beginning of the Agenda 2000 programming period, there has been a slight slowing down of payments for Pillar 2. The decline is likely to be followed by a correspondent recovery in the final years of the current financial perspective, as it has happened in the period 2000-2006. Besides that, however, the frequently stated objective of a re-balancing of the CAP funding between the two pillars through modulation has not been significantly observed on the basis of the Financial Reports.

Figure 4 - The Cap weight on the overall EU payments (net from administrative)
Percentage values



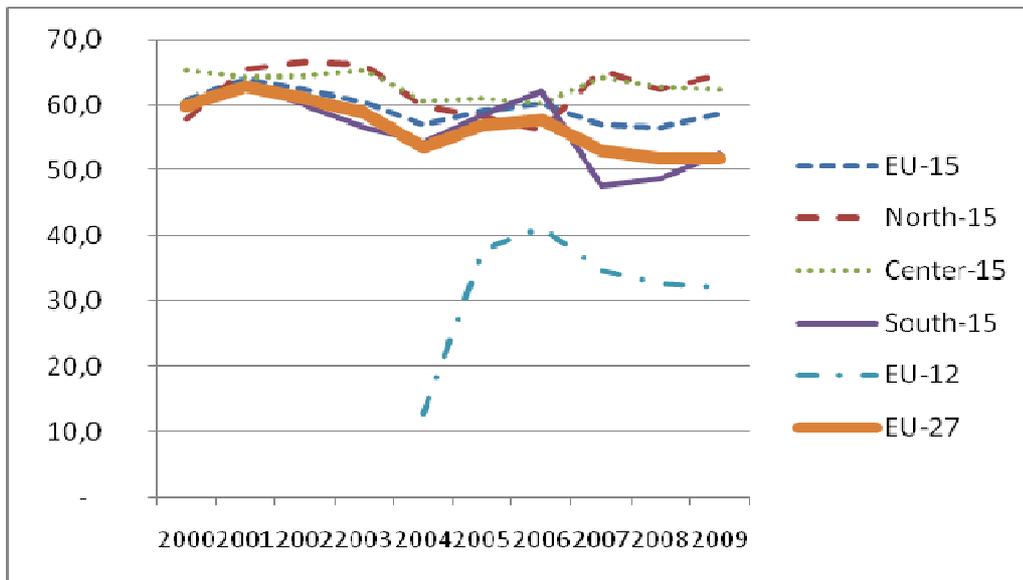
Source: Financial Reports Years 2007, 2008, 2009

In table 3 one can observe another interesting phenomenon. The weight of the CAP on the total EU payments (net of administrative expenses) is distributed very unevenly among the various regions of the European Union. A first huge difference divides the old from the new Member States: the CAP in 2009 weighs as much as 58.6 percent of total payments in the former, but only 32.1 percent in the latter. Besides, within the EU-15, significant differences appear between the 64.6 per cent of North-15 (United Kingdom, Ireland, Denmark, Sweden, Finland), 62.4 percent of the Centre-15 (France, Germany, Belgium, The Netherlands, Luxembourg, Austria) and 52.5 percent of the South-15 (Portugal, Spain, Italy, Greece).

As one can observe in figure 5, the weight of the CAP on net payments for aggregates of EU Member States has a consolidated feature. The gap between old and new Member States, however, appears to grow rather than diminish, while, in recent years, the progressive consolidation of the Single Area Payment Scheme would rather have been justified, as well as the foreseeable initial difficulties with the new cohesion (and rural development) policy. So even within the EU-15 the figure shows a polarization, where North-15

and Centre-15 retain the positions (in both cases, the CAP is between 60 and 65 per cent of all payments), South-15 presents a net drop and the CAP in the middle of the last decade, ran at around 50% of net payments.

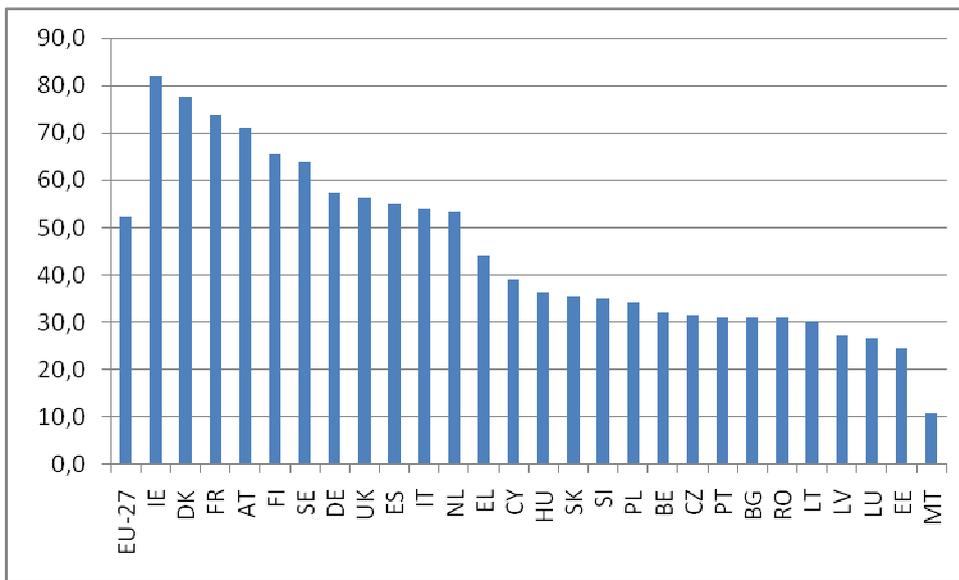
Figure 5 - The Cap weight on the overall EU net payments by Groups of Member States
Percentage values



Source: Financial Reports Years 2007. 2008. 2009

The CAP expenditure distribution between Member States is particularly relevant to understand how different the interest and commitment of each of them is with respect to the CAP compared to all other EU policies and how, during the negotiations, counterweights can be retrieved to reach an agreement. The issue is even more evident looking at figure 6 where it is clear that, for some individual Member States, the CAP is of crucial interest (at least from the standpoint of the financial benefits obtained) fundamental in motivating their membership and commitment to the EU. This is particularly evident in the case of Ireland, to which the CAP represents 81.9 percent of all payments received from the EU in the three years from 2007 to 2009. But also for Denmark, France and Austria the CAP is by far the largest heading of EU payments received, respectively 77.8, 73.7 and 71.1 percent. The situation in the new Member States in general completely different is, and especially in certain Mediterranean countries (like Portugal and Greece), as well as in Belgium and Luxembourg for which the CAP weighs only 30 per cent, or even less in some cases, of the total EU payments of which they are beneficiaries.

Figure 6 - The CAP weight on the Net Total EU expenditure (- Admin) per Member State
 Weighted average percentage - years 2007-2008-2009

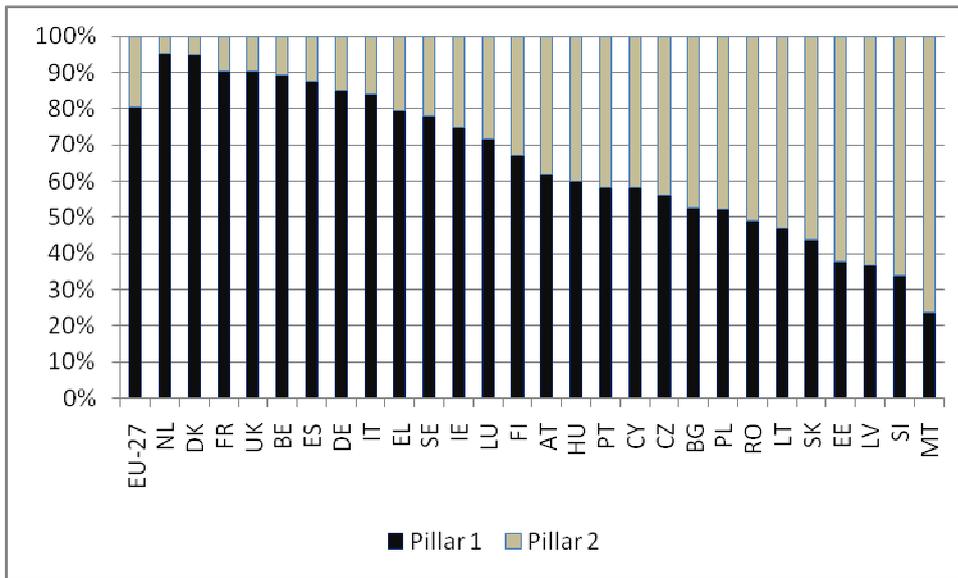


Source: Financial Reports Years 2007, 2008, 2009

As a result of the transition from the MFF appropriations, to the budget appropriations, to the ex post reported financial payments, even the same ratio between Pillar 1 and 2, as we have already noted, has substantially changed. From an ambitious 74.9 : 25.1 percent in appropriations for commitments for 2009, the ratio changed to 84.1 : 15.9 percent, as shown in Table 3b, as the Financial Report stated.

There are also substantial differences in the distribution of funds at single Member State level between the two pillars. In particular, the weight of the rural development policy differs between the old and the new Member States. In the EU-12 the ratio between pillar 1 and 2 is 56.1: 43.9 percent, while it is 87.2 to only 12.5 per cent in the EU-15. There are still serious differences also between Member States within the two areas. In particular, as one can observe in figure 7, while the weight of rural development policy is minimal (below 5%) in The Netherlands and Denmark and below 10% in France and the United Kingdom, it grows to a level close to or above 40% in Finland, Austria and Portugal.

Figure 7 - The distribution of CAP payments between pillars per Member State
 average percentage - years 2007-2008-2009



Source: Financial Reports Years 2007, 2008, 2009

The present study should be completed with further analysis by aggregates of Countries and by individual Member States in relation to the main variables used in measuring the size of agriculture: employment (AWU), agricultural land (UAA) and economic weight (Agricultural Value Added). Table 4 provides an initial comparative quantification. Already at this level of aggregation it is evident that with both agricultural area and, more importantly, employment how much the new EU-12 Member States are consistently penalized. The CAP payments per AWU in North-15 is 12 times higher (10 times in the Centre-15) than in EU-12. But even within the EU-15 there are significant differences in terms of expenditure per AWU between North-15 and Centre-15 on one side and the Mediterranean countries on the other. Per AWU the first ones take about twice as much as the latter. If we consider the agricultural area as an indicator of the weight of agriculture of course the differences are reduced significantly, even though there is still a ratio of almost 3:1 per hectare between EU-15 and EU-12.

Within the EU-15 the advantage is reversed in relation to soil quality and climatic limitations that prevent the North-15 Member States with labor intensive systems of production compared to the Centre-15 MSs and especially to those of South-15. Compared to the last one, the first receives slightly lower payments per hectare. This condition would enable them to take advantage (of course together with the CEECs) of a distribution of the CAP in relation to the surface (especially if a generalized flat Single Farm Payment would be applied to the whole of the EU). A more balanced outcome between groups of Countries and single MSs would be obtained if distribution of CAP expenditure were related to the agricultural value added, compared to the other denominators. The difference between the EU-15 and EU-12 is minimal (8 percent points), while in the EU-15 there remains an imbalance in favor of the North-15 to the detriment of the South-15.

Table 4 - Cap expenditure per unit of labor (AWU), land (UAA), and agricultural Value added

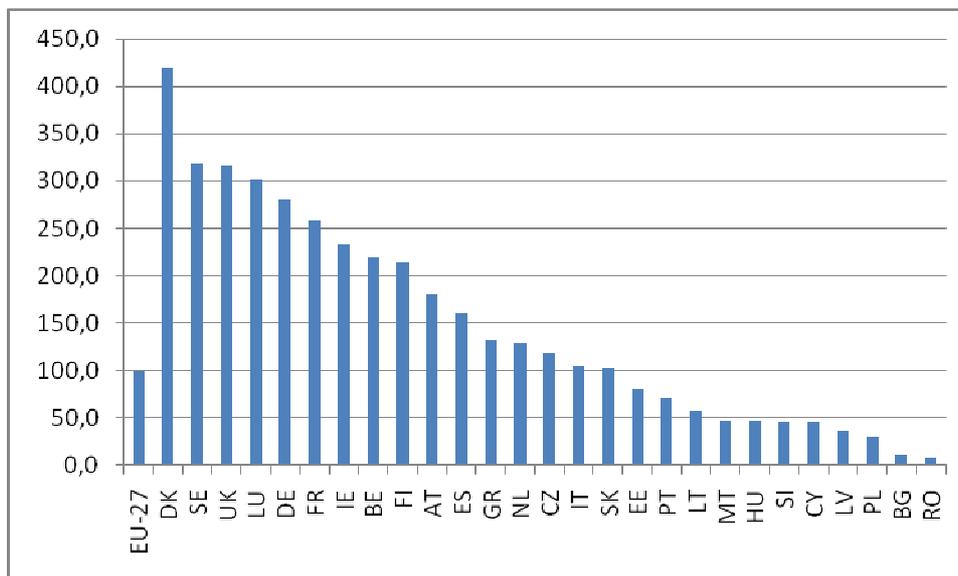
	CAP / AWU		CAP / UAA		CAP Ag Val add	
	euro	index EU=100	euro	index EU=100	euro	index EU=100
EU-15	7630,4	182,5	348,4	121,8	35,2	101,2
<i>North-15</i>	12232,4	292,6	299,5	104,7	58,7	168,7
<i>Centre-15</i>	10208,5	244,2	368,4	128,8	35,9	103,1
<i>South-15</i>	5140,1	123,0	354,7	124,0	28,8	82,9
EU-12	1063,8	25,4	132,4	46,3	32,4	93,0
EU-27	4180,4	100,0	286,0	100,0	34,8	100,0

Source: Financial Reports Years 2007, 2008, 2009

What has so far been shown by large aggregates can be seen even more clearly in the following figures at individual Member State level. In figure 8 the distribution of CAP payments per AWU is presented. The gap is huge: (a) the payment per worker in Denmark (17 519 € / AWU) is well over 57 times that in Romania (309 € / AWU), (b) the discrimination between old and new Member States is evident: the last 9 on the list are all CEECs, while all the 12 new Member States are among the last 14 of the list, (c) the gap is particularly evident even within the EU-15 since in Portugal (2974 € / AWU), the EU spends almost six times less than in Denmark, (d) the North-15 has a clear advantage (Denmark, Sweden and United Kingdom are the top three), followed by the Centre-15 (Germany and France are in 5th and 6th positions).

Figure 8 - Cap payments per AWU - Index EU=100

Average payments, years 2007-2008-2009

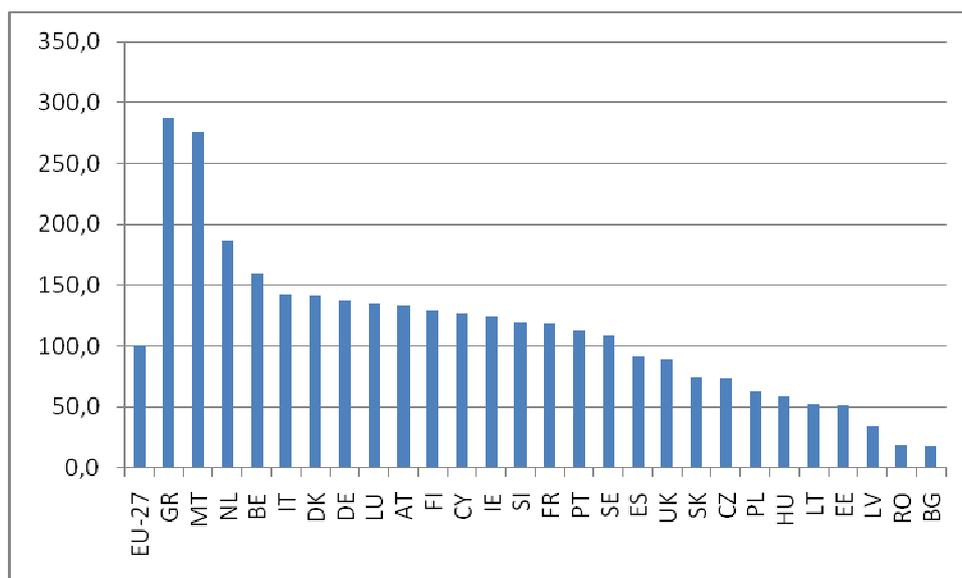


Source: Financial Reports Years 2007, 2008, 2009

Figure 9 presents the CAP expenditure per hectare of UAA. The distribution is more even. Apart from the cases of Greece and Malta (respectively 822 and 789 € / ha), and immediately after The Netherlands and Belgium, most of the EU-15 is included in a range between 300 and 400 € / ha. A long list of EU-12 closes the series with payments per hectare in the range of under 200 € and, at the bottom, lie Romania and Bulgaria with around 50 € / ha.

Figure 9 - Cap payments per UAA - Index EU=100

Average payments, years 2007-2008-2009

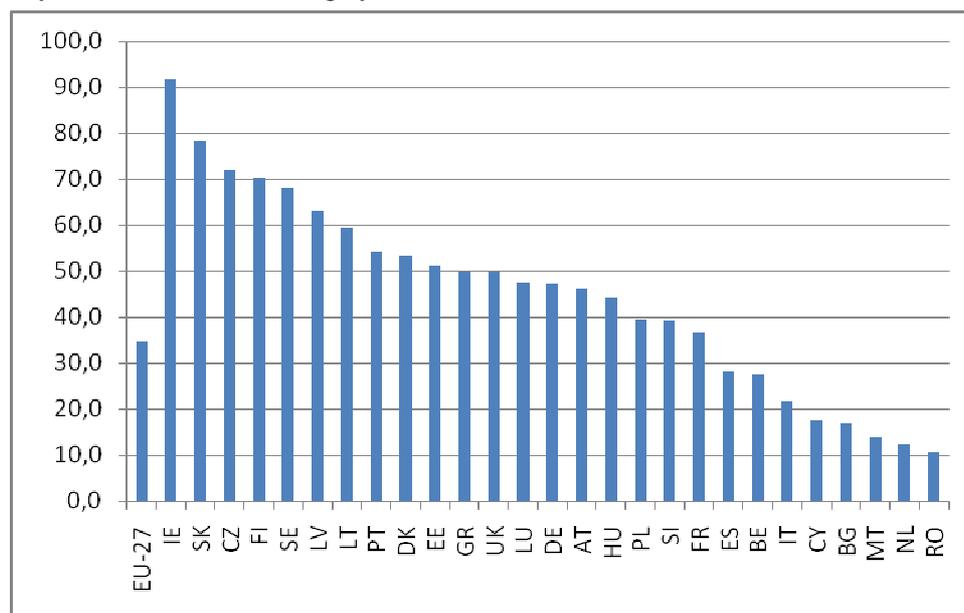


Source: Financial Reports Years 2007, 2008, 2009

Figure 10 shows the percentage weight of CAP payments on the agricultural gross value added of individual MSs. As expected, in this case the sequence between Member States with the highest percentage (Ireland: 91.2%) to the lowest (Romania: 10.8%) is less regular in the sense that Member States belonging to the same geographical area may take quite different positions. This is the case, for example, of Slovakia and the Czech Republic (over 70%) compared with Bulgaria, Romania and Malta (between 10 and 20%). So even in Mediterranean countries, while in Portugal the CAP payments cover over 50% of the Agricultural value added, in Italy the same ratio lies just above 20%.

Figure 10 - Cap payments per Agricultural Value added

Payments/AVA % - Average years 2007-2008-2009



Source: Financial Reports Years 2007, 2008, 2009

The comparison between the results presented in table 4 and in figures 8, 9, 10, relating to the expenditure per agricultural worker, agricultural area and economic importance of agriculture leads to a twofold conclusion which is adequately supported by the evidence of data: (a) First, there is a significant imbalance in the distribution of CAP payments among the Member States especially to the detriment of the CEECs. This is clear evidence of incomplete integration still. A gap does exist even between the EU-15 at the expense of Mediterranean agriculture. This could be attributed to two factors: - the imbalance in the past between (strong) market policies and (weak) structural policies as well as today between the ever strong Pillar 1 and the ever weak Pillar 2; - the historical disadvantage in terms of price support, which has been incorporated in the Single Farm Payment, between Mediterranean products (wine, fruit and vegetables, etc.) and continental (cereals, industrial crops, meat and milk). (b) The expenditure of the CAP, overall, tends primarily to correlate positively with the capacity of a MS to produce agricultural value added: one could also synthesize that the richer the agriculture, the higher the CAP support. Besides that, the CAP payments flow mostly to the benefit of the MSs with more extensive farming systems (those with a high ratio UAA / AWU).

4. SOME FURTHER LINES OF RESEARCH

The analysis carried out, as in our case, at aggregate Member State level, only partially reveals the gap between intentional and actual CAP expenditure. More than one aspect encourages the use of an evidence-based approach down within individual Member States. A very promising line of research has been recently initiated on CAP spending in Italy, based on 2009 payments reported by the national CAP paying authority.

Table 5 shows the distribution of CAP expenditure in Italy per class total amount received by the recipient. The level of concentration is very high: 35 100 recipients, 2.7 per cent, receive more than half (50.9 per cent, 78,929 euro each) of all CAP spending, while, on the opposite side, one million 117 thousand beneficiaries, 85.1 per cent receive only 20 per cent (i.e. 81 euro per month, 6 per cent of an average salary). One can argue that both the cases are contradictory and there are good reasons for a radical change: probably, for the few richest farms, the CAP payments represents just an additional rent, while for the plethora of small farms, that in Italy have generally a subsidiary role in the family interests and income, it has a very minimal incidence.

Table 5 – The distribution of CAP expenditure in Italy per class of total amount received by the beneficiary

Payments €	CAP expenditure		CAP beneficiaries		Average payment Euro per beneficiary
	Absolute value in M€	%	Absolute value in 000	%	
Less than 1.000	301.8	5.5	765.1	58.3	394
>1 000. <=5 000	791.4	14.5	352.2	26.8	2247
>5 000. <=10 000	622.9	11.4	91.9	7.0	6780
>10 000. <=25 000	971.7	17.8	67.2	5.1	14456
>25 000. <=50 000	674.1	12.3	21.2	1.6	31861
>50 000. <=100 000	573.6	10.5	9.2	0.7	62350
More than 100 000	1538.5	28.1	4.9	0.4	314101
Total	5473.9	100.0	1311.6	100.0	4173

Source: Our elaboration on AGEA data

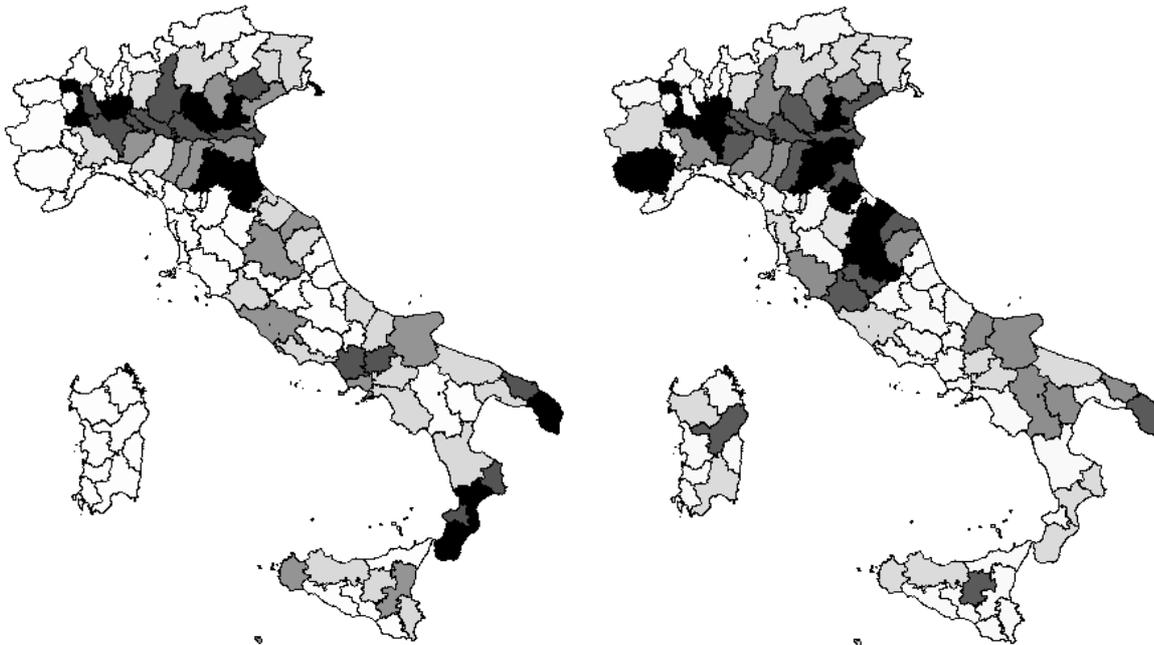
In figure 11 the total expenditure in Italy is presented per quintiles at NUTS3 level sorted by total payments per UAA (a) and total payments per AWU (b). The subsequent degrees of gray from the darkest to the brightest show in which NUTS3 the payments are concentrated, regardless of the variable used as a denominator. There is a clear concentration of CAP expenditure in the areas of the Po Valley, the so-called “pulp” of Italian agriculture: the richest, the most advanced in structural terms, with the largest farm size and the most updated technology. The NUTS3 of the rest of the Country, the so called “bone” of Italian agriculture, are unlikely to belong to the first quintiles. Only some NUTS3 with intensive agriculture and intensive olive plantations of Calabria and Apulia shade darker, when NUTS3 have been sorted on the basis of payments per hectare of UAA. Only a few NUTS3 of central Italy with labor saving agriculture and the oldest farmers of Italy were in the first quintiles when NUTS3 had been sorted by payments per AWU.

On the other hand, the whole arch of the Alpine NUTS3 as well as the Apennines NUTS3 located on the spine splitting the peninsula in two from North to South, which for climatic and physical constraints deserve the highest support, are generally in the last (white) quintile.

Figure 11 - Concentration of CAP payments in Italy in quintiles

a) sorted by CAP payments / UAA

b) sorted by CAP payments / AWU



Source: Our elaboration on AGEA data

Such strong concentration of the CAP expenditure in terms both of recipients, and more than that, of localization significantly reduces any alleged link between the present CAP expenditure and the provision of public goods through agriculture.

5. CONCLUSIVE REMARKS

The research conducted here should continue with more data and analysis. Even at the present stage, as a first conclusion it could be suggested that an evidence-based approach is particularly recommended in CAP expenditure analysis. Moving from the programs, as reflected in the MFF and budget, to the actual policy, registered ex-post in terms of payment and financial flows, the quantitative levels of spending change. The relative proportion between the CAP and the other EU policies changes as well. The same happens within the CAP between its components and, above all, between Pillars 1 and 2.

Looking at a multiannual span of time we have verified that these changes are prevalently due to systematic distortions, rather than to conjunctural fluctuations. If these systematic distortions are not taken into account, the image of the CAP expenditure discussed in political debate (which is one of the crucial issues of the reform process) is significantly distorted as well compared to the reality.

Recognizing this gap between the image and the reality of the CAP expenditure not only brings the discussion on the CAP and its reform process to a more objective ground, but also suggests making more of an effort to rationalize the implementation and the administrative procedures and attributing more importance to evaluation and monitoring..

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