Does the CAP fit?

Budget reform, the common agricultural policy, and the conflicting views of EU member states

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February 2010

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Farmsubsidy.org is a project of EU Transparency, a non-profit based in the UK. The aim is to obtain detailed data relating to payments and recipients of farm subsidies in every EU member state and make this data available in a way that is useful to European citizens. The project has brought together journalists, analysts and campaigners in more than twelve EU countries.

The European Union's budget may represent a tiny fraction of the total public expenditure of the bloc's 27 member states, yet it has a knack of provoking major quarrels among them. Like a large group of diners at a restaurant, the debates about what to order are matched only by disputes over how to split the bill.

Reaching agreement on the first seven-year financial framework following the enlargement of the EU in 2004 proved particularly difficult and, as part of the final package agreed in December 2005, member states agreed to conduct a "fundamental" review of the EU budget – both the expenditure and the revenue side. The "full and wide-ranging" budget review, which would take place in 2008-09, helped solve the impasse between France and the UK over the future of the Common Agricultural Policy and the United Kingdom's budget rebate. According to European Commission President José Manuel Barroso, the review was to be wholesale and unrestricted. "What we need to be doing is to have an overall revision of our entire budget, looking at it without restrictions or taboos", he said. The review would include examination of "the Common Agricultural Policy, of course, and the British rebate certainly."

The European Commission concluded the consultation phase of the review in June 2008, having received almost 300 official contributions, including one from each member state. In addition, over 2,000 people in 20 countries debated budget reform in events organised by the commission. The commission had intended to publish its final proposal for the 2008-09 budget review before the end of 2009. Yet in late October 2009 a draft version of its proposal was leaked to the media. It received harsh criticism in some quarters, from some member states and even from within the commission itself. The document paints a detailed picture of what the commission is thinking. We take a closer look at the proposal towards the end of this dossier, and discuss how it tallies with the member states' responses to the consultation process.

This dossier is based primarily on the responses submitted by member states, as well as other intelligence from EU budget-watchers. It begins with some general observations about the responses. It then summarises the main conclusions of the commission's consultation and identifies the policy areas and challenges most frequently raised by member states in their responses. Finally, the dossier examines the major differences among the positions taken by member states on a number of aspects of the budget, such as compensatory mechanisms and corrections, own resources, and national co-financing.

It is worth bearing in mind that what member states say in their official responses doesn't necessarily correspond with what they really think. Doubtless many are keeping their cards close to their chest, ready to declare their hand at a later stage. Others are talking out of both sides of their mouth. In their official response they may sound more "European" – more accommodating to other states' positions – than domestic political interest in practice allows. For example, many states say they oppose *juste retour*. But how many mean it?

Conversely, some states may have taken positions designed to appease certain domestic audiences, such as their powerful farming lobbies (for example, by stating opposition to co-financing the CAP, when in fact they may be willing to accept it in order to preserve the CAP). In other words, many states may yet change their position and compromise for the greater good once the political heat is off. Even so, the member states' responses are a good proxy for their views and illuminate the fissures that are likely to influence the future look of the EU budget.

Chief among them is the ongoing debate about the CAP. It is nearly impossible to make significant changes to the budget without changing the CAP. The CAP is the biggest single item in the EU budget (accounting for 45 percent), and it is the biggest cause of politically contentious "budget imbalances" among member states. This explains why it was the most divisive aspect of the consultation. Below we examine the member states' positions on the future of the CAP, based mainly on their responses to the consultation process, as opposed to the "health check" which preceded the consultation. (For some member states we have also included analysis published on the CAP2020 website – http:cap2020.ieep.eu/)

We have devised a "rough guide" to the position that each member state is likely to take on the future of the EU budget, and have grouped the states accordingly. In particular, we tried to locate each member state along two axes – one measuring their preference for simplifying or modernising the budget (e.g. by opposing *juste retour* and scrapping all corrections and compensatory mechanisms); the other measuring their relative thriftiness (e.g. by advocating budget discipline, shrinking the CAP, or introducing national co-financing).

The focus of this paper is on the views of the member states, because their views, expressed through the European Council, are by far the most important consideration in determining the future of the EU budget. The commission tailors its proposals on the budget with a view to achieving a consensus on the European Council. The EU's budget process, and particularly the setting of seven-year multi-annual financial frameworks, is strongly inter-governmental. The European Parliament has little influence. It does have the power to refuse to approve the entire budget, but this is something of a blunt instrument. The budget endgame is played out in the council and this is why the positions of member states are much more important than any views the parliament may hold. It is argued that the inter-governmental nature of the EU budget (and the accompanying politics of *juste retour*) will persist as long as the revenue side is dominated by national contributions rather than "own resources" such as an EU-wide tax.

Main conclusions

One thing is perfectly clear: the majority of states say they want to reform the EU budget and tackle Europe's daunting array of challenges. For example, there is overwhelming desire for a shift to greater support for competitiveness, research, innovation, the environment, and investments aimed at achieving energy security. Similarly, most states see climate change as Europe's biggest challenge.

Other significant challenges include the EU's competitiveness in the global economy; the security of Europe's energy supply; external factors such as migration and the future role of the Common Foreign and Security Policy; and socio-economic inequality. These concerns are reflected in the policy areas that most member states want to see developed in the future budget: climate change, energy, and EU competitiveness, including further support for R&D and innovation.

Member states share the same gripes, too. Most oppose *juste retour* – the principle that member states should get out of the budget more or less what they put in and thus minimise any net contribution or "imbalance". *Juste retour* is a historical stumbling block, of course, with discussions about the aim of budget reform quickly shifting to one about budget rebates. Again, how many member states really want to scrap it, and how many secretly cleave to the principle?

In addition, most member states say they want to scrap all corrections or compensatory mechanisms. Several states specifically cite the UK's budget rebate as an anomaly. The UK's silence on the matter in its official response suggests an acceptance that it too has more important battles to fight. Finally, most states agree that "European added value" should be a core criterion for spending money at the EU level – but what this actually means is hotly contested, with some member states advocating a much wider definition than others.

Divided Europe

Member states clearly dispute how to raise money for the budget. Many want to simplify the process by scrapping the VAT-based resource and basing EU resources on GNI alone: 14 states favour this approach. Yet five want to keep either traditional own resources or VAT-based resources (Finland, Greece, Hungary, Poland, and Portugal). Only Italy favours switching solely to VAT-based resources.

Equally contentious is the issue of adopting a new "own resources" system, such as an EU tax. Eight member states welcome the idea of an EU tax (Austria, Finland, France, Hungary, Italy, Poland, Portugal, and Romania). But 10 reckon the idea is a non-starter (Bulgaria, the Czech Republic, Denmark, Ireland, Lithuania, Malta, the Netherlands, Slovakia, Sweden, and the UK).

By contrast, the majority of states agree that the EU's revenue system needs to be simplified. To this end, they want to scrap the existing system of corrections and compensatory mechanisms. Only three states oppose this – Cyprus, Germany, and Malta – while a fourth, the UK, is silent on the issue. Meanwhile, a handful of member states float the idea of a general corrective mechanism. But the force of opinion is against them: 15 states say the current system, with its emphasis on achieving *juste retour* producing an ever more complicated and opaque system of correction mechanisms, is unjustifiable. The way the EU raises its revenue must, they say, become simpler and more transparent.

TABLE 1: COST AND BENEFIT OF BUDGET CORRECTION MECHANISMS BY MEMBER STATE

COUNTRY	TOTAL VALUE OF BUDGET CORRECTIONS MILLION EURO (+/-)
United Kingdom	+3428
Netherlands	+597.0
Sweden	+101.6
Malta	-2.8
Estonia	-6.6
Latvia	-9.1
Cyprus	-9.3
Luxembourg	-14.6
Lithuania	-16.3
Bulgaria	-18.4
Slovenia	-19.3
Slovakia	-26.1
Austria	-42
Czech Republic	-55.4

COUNTRY	TOTAL VALUE OF BUDGET CORRECTIONS MILLION EURO (+/-)
Hungary	-56.9
Romania	-58.4
Portugal	-90.5
Ireland	-97.3
Finland	-100.2
Denmark	-125.4
Greece	-125.7
Poland	-148.8
Belgium	-185.7
Germany	-378.9
Spain	-568.9
Italy	-865.9
France	-1104.1

Source: Jorge Núñez Ferrer, "The EU Budget: The UK Rebate and the CAP – Phasing them both out?", Centre for European Policy Studies, CEPS Task Force Report, Brussels, December 2007.

Member states also quarrel about how EU money should be spent on specific regions. Though EU governments support social, political, and territorial cohesion, they query the criteria for deciding which regions should receive funding under the cohesion policy. Several member states – Cyprus, Greece, Italy, Malta, Romania, and Slovakia – want money to be directed to remote or "peripheral" regions such as islands. But Denmark and Germany say geographic factors are irrelevant and that only socio-economic factors should be considered.

Budget discipline

At least half the member states say "budget discipline" and "strong financial management" should be guiding principles. As tempting as it is to say "we're all budget disciplinarians now", remember that thanks to the global recession most states now have a severe budget deficit. Harsh reality, rather than economic principle, is probably what's driving the sudden appeal of budget discipline.

TABLE 2: NATIONAL BUDGET DEFICITS

MEMBER STATE	PROJECTED BUDGET DEFICIT AS % OF GDP – 2009	PROJECTED BUDGET DEFICIT AS % OF GDP – 2010
Austria	4.3	5.5
Belgium	5.9	5.8
Bulgaria	0.8	1.2
Cyprus	3.5	5.7
Czech Republic	6.6	5.5
Denmark	2.0	4.8
Estonia	3.0	3.2
Finland	2.8	4.5
France	8.3	8.2
Germany	3.4	5.0

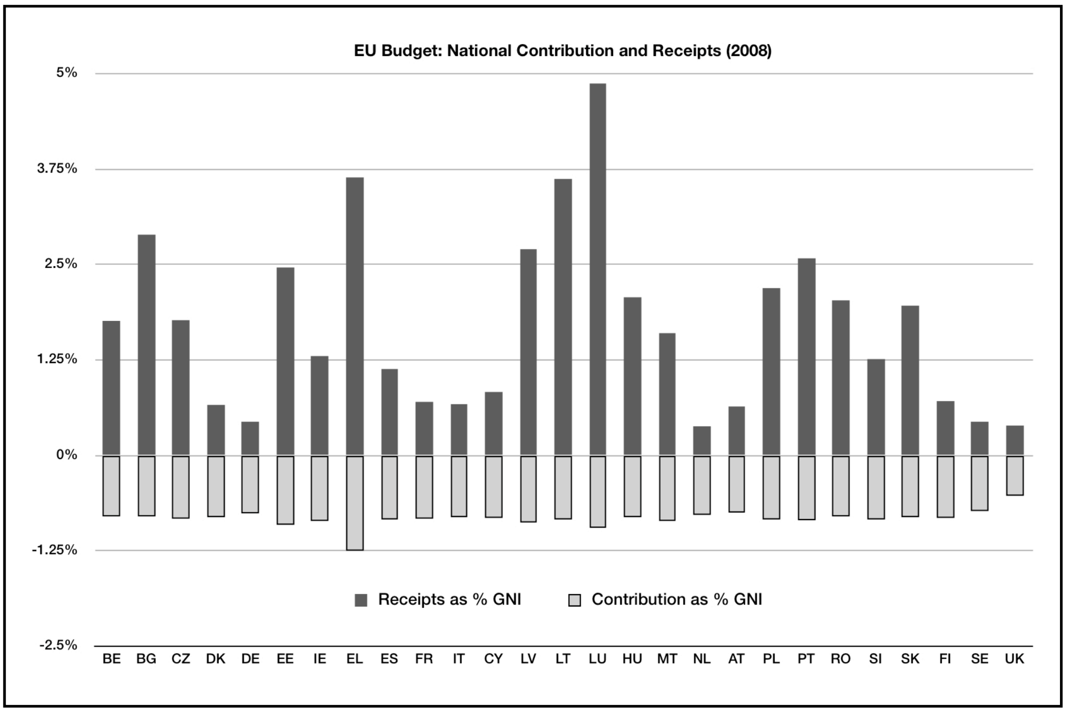
MEMBER STATE	PROJECTED BUDGET DEFICIT AS % OF GDP – 2009	PROJECTED BUDGET DEFICIT AS % OF GDP – 2010
Greece	12.7	12.2
Hungary	4.1	4.2
Ireland	12.5	14.7
Italy	5.3	5.3
Latvia	9.0	12.3
Lithuania	9.8	9.2
Luxembourg	2.2	4.2
Malta	4.5	4.4
Netherlands	4.7	6.1
Poland	6.4	7.5
Portugal	8.0	8.0
Romania	7.8	6.8
Slovakia	6.3	7.0
Slovenia	6.3	6.0
Spain	11.2	10.1
Sweden	2.1	3.3
United Kingdom	12.1	12.9
EU 27	7.5	6.9

Source: European Commission – European Economic Forecast (Autumn 2009)

Consider also that the budget ceiling which some states have previously said they support – 1.14 percent of GNI – doesn't include off-budget public expenditure that's a direct consequence of EU policies. In other words, EU policies create financial obligations for member states that don't show up in the budget, the clearest example being the requirement that a particular policy be co-financed. Furthermore, any future agreement on climate change mitigation would necessarily be EU-wide and off-budget.

Even so, where do member states currently think the budget ceiling should be (for instance, at 1 or 1.5 percent of GNI)? Their responses provide few clues. Indeed, it remains unclear what level either the "budget disciplinarians" – Austria, Denmark, Germany, the Netherlands, Sweden, and the UK – or the poorer states and other major net contributors, such as France and Italy, prefer.

FIGURE 1: NATIONAL CONTRIBUTIONS AND RECEIPTS FROM THE EU BUDGET



Source: European Commission, Financial Report 2008, own calculations.

The CAP

The most contentious aspect of the European Commission's consultation process was the Common Agricultural Policy. No wonder, really. The CAP claims the biggest slice of the EU pie. Little surprise, too, about what most member states think: that the CAP should be maintained but reformed. Change is therefore inevitable; it's the speed and direction that's at issue.

A few member states want to hit the reset button: Denmark, Malta, the Netherlands, Sweden, and the UK all argue that the CAP should be significantly reformed. In particular, Sweden and the UK want to slash spending on the CAP. But other states are reluctant to reboot a system from which they do relatively well. Morever, few states will be willing to countenance the political consequences of a significant reduction in farm aid or a major reorientation of the policy towards new objectives, with all that this entails in terms of redistribution of aid.

In addition, some member states root their opposition to reforming the CAP in philosophical differences over the organisation of food production. They argue that both the drastic rise in food prices in 2008 and subsequent price volatility and the global financial crisis provide a powerful refutation of the view that liberalised markets are the best way to organise global food production or to guarantee an adequate food supply for Europe's population and a fair standard of living for its farmers.

Recent events have given a new set of arguments to those who seek to preserve the current distribution of farm aids. Net beneficiary countries may find it convenient to couch their opposition to CAP reform as fundamental philosophical differences, when the reality is more prosaic: they see the CAP as a net budgetary benefit to their country. Reform-minded states may yet challenge these arguments by pointing out that the CAP is unpopular among the EU's trading partners, including developing countries, and that a rapid supply-side response helped abate the food crisis of 2008.

Turning to specific issues, according to their responses member states indicated that the following are likely to feature highly in future discussions about CAP reform: (i) the future of direct payments; (ii) rural development; (iii) co-financing; and (iv) budgetary flow.

Direct payments

About half the member states argue that expenditure on direct payments under pillar 1 of the CAP should be reduced. Denmark, Sweden, and the UK want them to be phased out completely. Yet several other member states, such as Austria, Belgium, Greece, Hungary, Ireland, and Romania, want to stick with direct payments.

Sweden and the UK argue that resources saved from pillar 1 should be spent on other priorities, such as tackling climate change. Other member states, such as Denmark, Estonia, and Portugal, contend that the resources saved from pillar 1 should be directed to pillar 2. Meanwhile, about a dozen member states argue that the budget for pillar 2 should be increased. Of course, what they don't say is where the money should come from.

Among the most contentious issues for the member states that joined the EU since 2004 is the relatively low rates of direct payments their farmers receive. This is because the average payments per hectare are based indirectly on yields over a base period, which strongly disadvantages the new member states.

Rural development and conservation

Most countries agree with the idea of strengthening pillar 2 of the CAP, which aims to support rural economic development and conservation. A handful of member states – the Czech Republic, Denmark, and Sweden – propose forging greater links between EU rural development programmes and EU cohesion policy.

Co-financing

Just as member states disagree over the size and allocation of the CAP, they disagree on the question of co-financing (the extent to which EU funding must be matched by national expenditure). Co-financing has the effect of reducing budgetary imbalances and introducing a new element of budget discipline. Countries that put more into the CAP than they get out of it typically favour co-financing because it serves to reduce the amount they must contribute towards CAP expenditure in other countries. In their responses to the commission's consultation, a small number of member states – Cyprus, Estonia, Italy, Lithuania, and the Netherlands – argue explicitly for the application of co-financing, which is already in place for other parts of the EU budget and for rural development, to the CAP.

Six states – the Czech Republic, Denmark, Greece, Hungary, Poland, and Romania – argue that the CAP should remain wholly EU-funded rather than be co-financed. According to them, any move towards "renationalisation" would threaten the common market. They fear that a national free-for-all in providing aid to farmers would trigger a vicious cycle of escalating domestic aid policies, with farmers in the EU's poorer member states left to fall further behind those in the richer ones.

Others still, such as the UK, argue that national co-financing could lead to a higher overall level of expenditure because co-financed expenditure would simply be new expenditure on top of the existing level of EU spending. Instead of returning it to net contributor countries, the EU would find other uses for any monies saved by co-financing the CAP. Again, of course, the question would arise: which policy areas and why?

France's position on co-financing is particularly interesting. After years of opposition, Paris has started to hint at a willingness to accept some form of co-financing. This is seen by some as an attempt by France to protect its budgetary position while retaining a well-funded CAP. Thanks to EU enlargement, and the growing demands of new member states on the CAP, the policy will soon cost France more than it receives. National co-financing would reduce this burden. It's possible, therefore, to see the emergence of a majority position in support of co-financing, with France as the "dealmaker". At the very least, the French position will remain an important piece of the puzzle.

TABLE 3: NET BUDGET BALANCE FROM THE CAP AND FROM DIRECT AIDS, 2008

COUNTRY	NET BUDGET BALANCE FROM THE CAP	NET BUDGET BALANCE FROM THE CAP / PER CITIZEN	NET BUDGET BALANCE FROM DIRECT AIDS	NET BUDGET BALANCE FROM DIRECT AIDS / PER CAPITA
	EUR millions	*EUR*	EUR millions	*EUR*
Belgium	-1489	-141	-972.10	-91.84
Bulgaria	241	31	46.09	6.00
Czech Republic	-33	-3	-81.32	-7.91
Denmark	41	8	208.59	38.29
Germany	-4306	-52	-1,857.64	-22.57
Estonia	17	12	-12.47	-9.29
Ireland	900	209	749.98	173.91
Greece	2253	202	1,620.44	145.05
Spain	2033	46	1,520.40	34.19
France	1108	17	2,110.03	33.29
Italy	-2101	-36	-1,516.80	-25.65
Cyprus	-37	-48	-40.13	-51.53
Latvia	83	36	-9.53	-4.18
Lithuania	88	26	49.54	14.64
Luxembourg	-78	-163	-51.33	-107.80
Hungary	212	21	229.51	22.80
Malta	-19	-47	-19.85	-48.66
Netherlands	-2315	-142	-1,437.87	-87.90
Austria	138	17	-17.20	-2.07
Poland	844	22	99.01	2.60
Portugal	617	58	53.90	5.09
Romania	445	21	19.54	0.91
Slovenia	-60	-30	-93.98	-46.75
Slovakia	63	12	-40.77	-7.56
Finland	-5	-1	-22.21	-4.21
Sweden	-632	-69	-349.24	-38.32
UK	-1201	-20	-184.59	-3.04

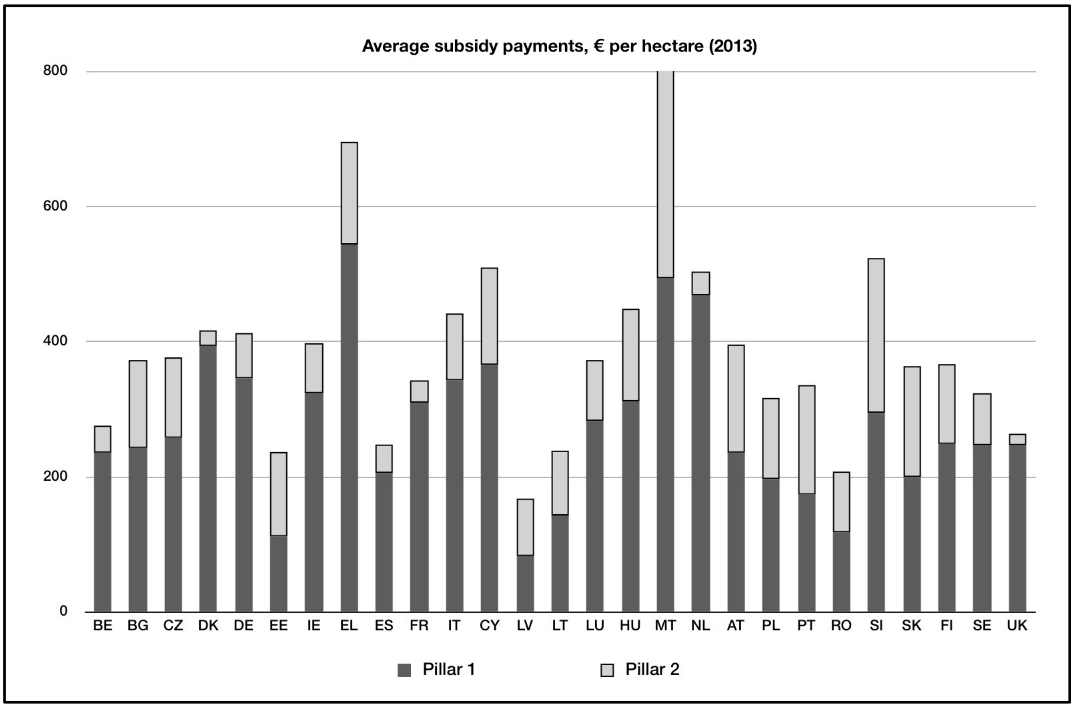
Source: European Commission – Financial Report 2008, own calculations

Budgetary flow

A key element of a member state's position on CAP reform is whether it is a net contributor or a net beneficiary of the EU budget – and with it the budgetary flow returned to it in the form of CAP payments. Most net beneficiaries because of the CAP – Bulgaria, France, Greece, Hungary, Ireland, and Poland – argue in favour of maintaining the CAP.

A final consideration is that significant reform of the CAP is anticipated in the next two years, setting the framework for the policy from 2014 onwards. The commission is expected to make its first proposals in the summer of 2010. The future of direct aids to farmers is in the balance and the inequality in direct aid levels within but especially among countries is a source of grievance. As Figure 2 shows, average per hectare direct aid rates vary considerably among member states. Member states in central and eastern Europe, which fare relatively badly under the current distribution, are already pressing the case for parity.

FIGURE 2: AVERAGE CAP PAYMENTS BY HECTARE



Source: European Commission, own calculations.

Looking ahead

The European Commission had planned to publish its concluding communication in the budget review process in November 2009. A few weeks before, however, a draft was leaked to the media. The draft argues that Europe needs "a more efficient budget" which will require root-and-branch reform. The current system, it says, is too rigid and "suffers from an inbuilt inertia".

This conclusion mirrors what the majority of member states said in their official response to the commission's consultation. The commission's draft proposal is to shift spending away from the CAP to other policies that address challenges such as economic growth, employment, climate change, and foreign relations. This certainly chimes with what the majority of member states say they want.

Likewise, the commission's draft communication wants to see more fairness in the EU budget, with member states that benefit most from redistributive policies contributing more to it. Similarly, the draft proposes rebalancing regional funding to take into account internal differences within countries.

Moreover, the draft argues that the idea of "European added value" should be at the heart of the budget. In that respect, it says a consensus on EU spending should rest on three axes: sustainable growth and jobs – "accelerating change towards a knowledge-based low-carbon economy" and "enhancing competitiveness through innovation"; climate and energy – "leveraging the technological revolution needed in terms of energy efficiency and supply"; and a global Europe – "promoting security, prosperity and solidarity throughout the world with a focus on fighting poverty, migration management and strengthening cooperation with the European neighbourhood".

As we have examined, there was overwhelming support among the member states for a shift to supporting competitiveness, research, innovation, the environment, and energy security. Similarly, most states see climate change as Europe's biggest challenge. Increases in spending on these policies would be funded by a reduction in the share of the EU budget devoted to Europe's agricultural policy.

In terms of raising money, the commission's draft argues for abolishing VAT-based contributions and replacing them with "a new, policy-driven own resource" (but it does not elaborate as to what this might be). It says a new own resource would help avoid the dominance of *juste retour* in budget debates, in accordance with the view of a majority of member states which agree that this is a problem. The own resources proposal will likely displease the six states that want to keep VAT-based contributions either as the sole method of raising money (Italy) or as an alternative to traditional own resources (Finland, Greece, Hungary, Poland, and Portugal).

Elsewhere, the commission says that fairness and European added value imply "the gradual phasing out of all correction mechanisms", including the UK rebate – a position taken by the vast majority of member states, with the exception of Cyprus, Malta, Germany, and (we can safely say) the UK.

In terms of the CAP, as we have said, the commission draft proposes shifting some of the money to other policy challenges. To achieve this, it considers two options: giving greater responsibility for allocating spending to the member states or introducing national co-financing to the CAP's pillar 1 – in other words, partially renationalising the financing of direct aid to farmers.

National co-financing, it adds, is a "very effective tool" for, among other things, increasing national ownership and accountability for EU policies and their implementation. But, the commission says, when setting co-financing rates, consideration must be given to "the extraordinary strain that the financial crisis has put on national budgets and the need of member states to return to their mid-term budgetary objectives as soon as possible".

In terms of CAP reform, the commission's draft proposal is vague – perhaps deliberately so. "For the future, further reform and modernisation of agricultural spending is required to bring it fully into line with the principles of European value added, concentration of priorities and fairness," the draft proposal says. "While it is too early to define the detailed contours or the exact intensity of the future reform of the CAP, it is clear that it should be driven by two objectives." These are modernising the CAP and further reducing the overall share of the EU budget devoted to agriculture, to free up spending for new EU priorities.

It will be interesting to see how member states respond should the commission's eventual budget review communication retain these elements from the leaked draft – in particular their readiness to reduce CAP spending. At one end of the spectrum are Sweden and the UK, which want to slash CAP spending, and Denmark, Malta, and the Netherlands, which want to significantly reform the CAP. And at the other end are the various member states that favour leaving the CAP essentially the way it is and even expanding its tools for market intervention.

The consequences of the leak are unclear, too. That the commission has tipped its hand means opponents of its proposals have more time to prepare their responses. When the commission publishes its final proposal – expected in spring 2010 – the member states will get to have their say. The odds are that they will water down any proposal. It's just a question of how much.

In this respect, the reaction of French MEP Alain Lamassoure was telling. The chairman of the European Parliament's budget committee said the draft proposal came "close to provocation" and that "changing the budgetary and therefore the political priorities between agriculture and research is not something that relates to business as usual." Similarly, an unnamed European diplomat warned that although the commission may be tempted to end farm spending, "at the end of the day, it is the member states that hold the purse." Opposition to the commission's leaked draft also came from within its own ranks. Mariann Fischer Boel, the outgoing Agriculture Commissioner, told the European Parliament that the draft was "in the bin". It's no understatement to say that the whole budget review process lost a great deal of its momentum with the early departure of the Budget Commissioner Dalia Grybauskaitė to stand for election as President of Lithuania, an contest she won overwhelmingly. Commissioner, voted "Commissioner of the Year" in 2005, had been a dynamic advocate for budget reform and the process of the budget review suffered greatly without her at the helm. It remains at the time of writing unclear how President Barroso's new commission will take forward the budget review process or what priority will be attached to it.

Looking even further ahead, it will be interesting to see whether future EU presidencies prioritise budgetary issues. For example, Poland, a supporter of the CAP, may try to use its presidency in 2011 to agree a reform of the CAP which safeguards the policy for the period 2014-2020, pre-empting debate over the financial framework. As this was the tactic used by France and Germany in 2002 to set the CAP budget through to 2013, it is unlikely that reform-minded member states will fall for the same trick twice. Much will depend on the appetite of Dacian Cioloș, the new Agriculture Commissioner, to get stuck in to a major reform of the policy.

A "rough guide" to the member states' overall positions

Based on the analysis above, we've put the member states into groups that describe their overall position on the future of the EU budget. As discussed above, our typology is based on each member state's position along two axes. One axis measures a member state's preference for simplifying or modernising the budget (e.g. by its opposition to *juste retour* and its desire to scrap all corrections and compensatory mechanisms). The other axis measures a member state's relative thriftiness (e.g. by its advocacy of budget discipline, shrinking the CAP, or introducing national co-financing).

Our typology is clearly a subjective judgment, rather than a precise gauge of how a member state would vote on a specific aspect of the budget. To a degree, the member states' responses should be taken with a pinch of salt. First, they submitted them over a year ago, before the most turbulent phase of the global financial crisis, including the delivery of fiscal stimulus packages and the bail-out of several major European banks. Second, they were submitted with the knowledge that they would form part of a negotiation process with the European Commission. It's unlikely that they represent each member state's full and frank position on budget reform. In the months ahead we may expect further pleas from member states and stakeholders to "green the economy", such as investing in R&D, energy infrastructure, and "smart" electricity grids.

In addition, there are some things that every member state agrees with, which cease to have much analytical power. For example, the majority of states say they want to simplify the budget, such as by ensuring that "European added value" remains a key principle and by opposing the principle of *juste retour* and all compensatory mechanisms. Creating a group solely for these states makes no sense. Instead, this factor has been combined with others, such as the extent to which a member state advocates cutting expenditure, in particular for the CAP; its position on co-financing; and its support for budget discipline and strong financial management. Even so, we can draw conclusions about the strength of a member state's support for a particular notion. Some mean what they say; others appear only to pay lip service to it.

Here, then, are the five groups (with the total number of votes in the European Council, a useful proxy for the relative size and influence of each group):

"**Modernisers"** – Like the Misers (see below), they are economic spendthrifts who want to shrink the CAP, simplify the budget, and support national co-financing. However, they also want to scrap all corrective mechanisms, including the UK's rebate – the Czech Republic, Denmark, the Netherlands, and Sweden (total number of Council votes – 42)

"Misers" – Like the Modernisers, they support budget discipline, shrinking the CAP, and introducing national co-financing. Yet they also want compensation for net balance deficits, and support corrective mechanisms such as budget rebates – making them "old school" fans of *juste retour* – Germany, Malta, and the UK (total number of votes – 61)

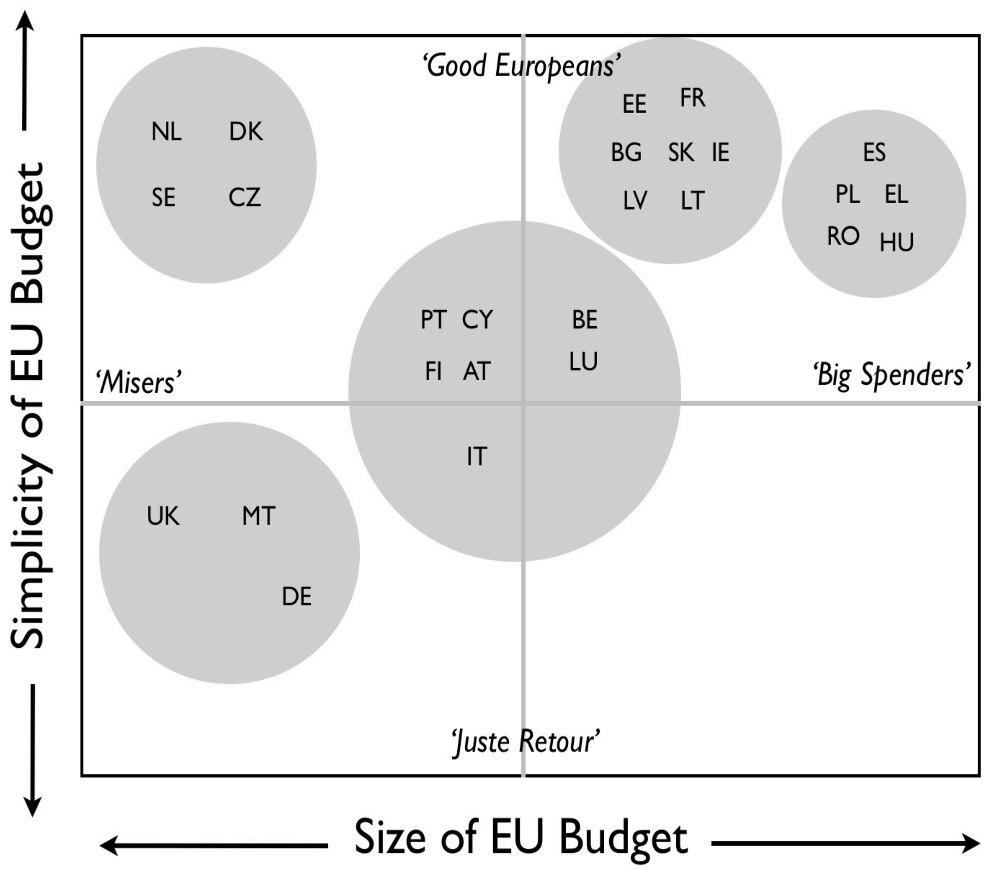
"Fence Sitters" – These states have a comparatively centrist position. On the one hand, they pay lip service to the idea of reform and budgetary discipline; on the other, they want to maintain CAP spending. Some are open to corrective mechanisms; others support national co-financing – Austria, Belgium, Cyprus, Finland, Italy, Luxembourg, and Portugal (total number of votes – 78)

"Big Spenders" – Like the Gold Diggers (see below), these states see a big role for the EU budget and want to maintain current CAP funding. However, they pay lip service to the idea of gradual reform and budget discipline. Some states, such as France, support co-financing as a way of minimising their own future net contribution – Bulgaria, Estonia, France, Ireland, Latvia, Lithuania, and Slovakia (total number of votes – 68)

"Gold Diggers" – Like the Big Spenders, these states want to maintain CAP spending levels and oppose cutbacks. But they are happy to reap the benefits and let other states pick up the tab: the Gold Diggers oppose co-financing and don't even pay lip service to budget discipline – Greece, Hungary, Poland, Romania, and Spain (total number of votes – 92).

Figure 3 (over) is an illustration of where each member state falls on the two axes. An annex to this report contains a more detailed analysis of where member states stand on various key issues in the debate over the future of the CAP and the EU budget.

FIGURE 3: A TYPOLOGY OF MEMBER STATE APPROACHES TO THE EU BUDGET



ABOUT THE AUTHORS

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Annex: Member State positions, as set out in budget review consultation responses
*from **Does the CAP fit?** by James Clasper and Jack Thurston* - farmsubsidy.org

MEMBER STATE	CAP REFORM	CO-FINANCING	FINANCING / OWN RESOURCES	CORRECTIONS	SPENDING ISSUES / BUDGET DISCIPLINE
Austria	Maintain CAP: will contribute to the further development of both pillars of CAP Support current pillar 1 spending; increase support for pillar 2 and align with sustainable development and traditional farming methods	To avoid additional burdens on national budgets, among other reasons, there should be no further modulation with national co-financing	Advocates examining the feasibility of an EU-wide source of revenue, in particular the taxation of financial transactions, environment taxes and transport taxes	The principle of budget discipline that applies to national budgets must also be applied to the EU budget The level of expenses should continue to follow the long-term trend at around 1% of the EU GNI Cut red tape, improve transparency of fund allocations and fiscal governance; make admin costs more transparent	Advocates simplifying the correction system.
Belgium	Maintain but reform CAP Increase funding for 2nd pillar but not via increased modulation	Maintain 1st pillar measures. Against co-financing			
Cyprus	Maintain CAP: it is way of safeguarding EU agriculture and guaranteeing conservation and development of rural world Efforts needed to enhance efficiency and effectiveness of implementing CAP			Increase support for rural development, and target disadvantages in terms of geographical characteristics	Current compensatory or correction mechanisms should be abolished If correction is introduced, it should be general and apply equally to all member states, and reduce excessive burden of net contributors
Czech Republic	Maintain but shrink CAP: aim of budget review should be gradual reduction of CAP expenditures for CAP, particularly for 1st pillar Czech Republic will only support genuine reform of CAP	Will be strictly against introduction of national co-financing of direct payments, which would lead to transfer of financial burden to member states	VAT-based resource should be ended Against introducing a new tax resource.	Sound financial management is key EU administrative costs must be kept at reasonable level and proper control of the effectiveness of all EU spending must be ensured	All corrections should be abolished and no new ones introduced

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	Increase support for rural development. Seek greater synergy between rural development and cohesion policy				
Denmark	Maintain but shrink CAP: it is single most important reason for continued attention given to "juste retour" Phasing out of market expenditure and direct aids should begin in 2014 at latest Rural development funds targeting poorer areas should be shifted to cohesion policy	It is of utmost importance to preserve CAP but this should not result in renationalisation of CAP National co-financing should be reduced, in particular regarding modulation	TOR are natural part of EU's revenue as they stem directly from EU legislation and are collected on behalf of the entire community TOR should be kept as funding source for EU budget but make up a decreasing part of EU revenue in parallel with continued liberalisation and phasing out CAP EU tax not an acceptable new source of revenue: as matter of principle only MS should have the right to collect taxes	Management of EU funds must continually be improved EU's administrative expenditure should be kept constant Member states should assume responsibility for EU funds they manage	The net-position approach fundamentally undermines necessary starting point for discussions on EU expenditure, which should be the creation of added value for the community as a whole Special rebates are not reasonable
Estonia	Maintain but reform CAP: is important to guarantee sufficient levels of financing for CAP Resources saved within 1st pillar should be used to increase funding of 2nd pillar Supports harmonisation of distribution of direct payments	CAP has to remain strictly a common policy – Estonia does not support national co-financing of CAP (But co-financing of Europe-wide R&D should be increased; it is important to co-finance substantial energy projects)	Supports abolition of VAT-based resource, so that own resources would consist of GNI-based resource and TOR		All corrections, including the UK rebate, should be abolished

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	CAP could contribute to tackling climate change and energy policies				
Finland	Maintain but reform CAP : "health check" will increase market orientation. Strong Pillar 1 and strenthened Pillar 2 needed. Gradual move towards flat rate direct payments. Minimum and maximum caps ion could be set for direct payment in order to channel support to active family farms		The VAT resource should be abolished Financing should be based on the GNI resource TOR should be preserved Opportunities to create a new financial instrument for EU budget should be explored	Not all challenges require funding from the EU budget or expansion of the budget. CAP budget should be maintained. Budgetary discipline, sound financial management and solid preparation are key principles for entire review process.	All corrections on the revenue side should be abolished
France	Maintain strong CAP, but adjust it to meet four goals: ensuring the food security of EU consumers, helping fight climate change, preserving balance of territories, and contributing to global food balance. Strong Pillar 1 needed, also new measures to stabilise prices.	Strong opposition to renationalisation and extension of co-financing.	EU must maintain funding based at least partly on own resources linked to common policies. In this respect, TOR suffice The principle of resource based on GNI should be kept. In any case, budget must include "balancing" resource that can equalise funding need, regardless of EU budget structure Seriously addressing new mechanisms for EU own funding is advisable		It is essential to abandon the current course of rebates and corrections
Germany	Maintain but reform CAP: EU will		No need for a new own resource.	Principle of budgetary discipline applies	To gain long-term acceptance of tax payers and

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	continue to need it to maintain diverse agricultural sector Attempt should be made to simplify and harmonise CAP's instruments Elimination of traditional elements such as price support and production quota must continue		Composition of own resources should be further simplified to minimise costs and bureaucracy needed to levy them Favours revenue system largely based on one single GNI own resource and complemented by a preferably systematic correction mechanism for reducing excessive burden on net contributors	Rejects idea of including purely geographical factors without socio-economic reference [in the cohesion policy]	contributors, need to ensure that excessive net contributionss are avoided in future EU financial systems. How excessive net balances can be reliably prevented on a long-term basis must be made an urgent priority in the reform process. As long as there are unwanted distributive effects and distortions on spending side, and excessively high burden for member states cannot be ruled out, an adequate and effective corrective mechanism on revenue side is necessary Should probably be a general corrective mechanism
Greece	Maintain CAP: socio-economic importance of agriculture and agro-food industry is crucial at EU level, especially in countries and regions where the agricultural sector represents major activity and secures employment for significant part of labour force Expenditure for CAP should remain at current levels, at least until 2013 In favour of reinforcing (in terms of additional financial means) 2nd pillar. Any strengthening should take place by using extra community funding from the budget and not by simply using transfers from 1st pillar	Inequalities due to the excessive funding of large-scale agricultural undertakings should be mitigated without need for new funding methods (such as co-funding) which would lead directly or indirectly to renationalisation of CAP	EU's own resources system should be based mainly on TOR and GNI resource, and exclude any rebate or correction mechanism	Own-resources ceiling of 1.24% of EU GNI is permanently stable EU must have sufficient resources to fulfil objectives and priorities. But needs and targets cannot be reached by proposing 'cutbacks' Keen to promote territorial dimension of cohesion policy, mostly because of geographical character (ie, large number of islands)	Not convinced by rationale of budgetary corrections

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Hungary	Maintain CAP: it contributes to raising average standard of living in EU Agricultural policy should remain exclusive EU competence Rural development policy improves conditions of economic development, increases standard of living	Firmly opposes possibility of renationalising CAP National co-financing would most probably lead to competition in subsidies among member states and distortions	Own-resources system is too complex; is correct to assign revenues arising from policies linked to TOR to EU budget VAT-based resource is highly complicated, lacks transparency; GNI-based resource is sufficient, stable revenue source Could support new own-resources system that includes genuine EU own resource	Effectiveness and efficiency of budget delivery can be improved by making policies more performance-based and increasing accountability of implementation	Net-balance approach is principal cause of difficulties; budget should be policy-driven Existing correction mechanisms are burdensome and should be abolished
Ireland	Maintain CAP, and need for continued food security and safety warrants only gradual changes Committed to maintaining strong and effective CAP CAP and rural development policy contribute to sustainability objectives, protect rural environment		Financing budget should continue to be based mainly on GNI EU-wide tax unacceptable	Overall size of EU budget as percentage of EU GNI should be determined at conclusion of review process and reflect agreed policy priorities	Consideration should be given to gradual phasing out of rebates, consistent with concerns of major net contributors Little merit in alternative approaches such as general corrective mechanism
Italy	Maintain CAP Continue process of gradually transferring financial resources from 1st to 2nd pillar	Co-financing should be mandatory, to avoid distortions between member states	Consider introducing new "own resources". Devolving share of revenues of national tax to EU would make it possible to reduce intergovernmental component of funding for EU budget, while ensuring direct link with citizens in more transparent framework Idea of abolishing VAT resource	A number of principles must guide budget review, including sound financial management and budgetary discipline	"Net balances" rationale is questionable; present system of ad hoc corrections is neither equitable nor sustainable in long term Generalised correction mechanism would institutionalise rationale of net balances, but option has to be kept under scrutiny because it could bring issue of net balances into clear and well-defined framework

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			should be assessed with great cautiom; VAT resource is based on well harmonised and consolidated system		
Latvia	Maintain CAP but necessary to make more modern, comprehensible and manageable		GNI-based own resources system would be more comprehensible and easy to administer		Supports reevaluating usefulness of further application of correction or compensatory mechanisms to enhance transparency, effectiveness and added value of EU spending
Lithuania	Maintain but reform CAP Role of 2nd pillar of CAP should be strengthened. The financial allocations for 1st pillar will decrease under CAP "health check"	CAP should remain common EU policy, financed from EU budget, and not be renationalised	Elimination of VAT-based own resource would be step forward No additional EU taxes should be introduced		There should be no correction mechanisms
Luxembourg	Maintain but reform CAP	Against renationalisation			
Malta	Maintain but shrink CAP Rural development under 2nd pillar should be strengthened, given increasingly significant contribution This requires further CAP reform, starting with thorough review of current levels and use of financing from EU budget Quicker phasing out of direct		GNI-based resource is most equitable, fair and straightforward resource Introduction of 'Eurotax' not an option.	Strongly believes territorial dimension of th cohesion policy should be further reinforced, and that islands receive particular attention	Expects some form of correction mechanism on revenue side to compensate for distortion that CAP creates on expenditure side. In event that expenditure side is not sufficiently reformed, Malta would support retention of some form of correction mechanism

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	subsidies and consequent reduction of budget should be central element of reform Budgetary and market distortion of CAP through 1st pillar financing are not justifiable or sustainable in long term				
Netherlands	Maintain but shrink CAP: roadmap should be agreed for winding down remaining trade-distorting instruments and phasing out income support. Support confined to rewarding socially desirable values.	CAP should remain a European policy but with more national and regional tailoring. Some elements should be renationalised or, at least, co-financed.	GNI-based resources should be sole source of financing Current ceiling on own resources should not be raised Introduction of a 'Eurotax' not an option.	Total EU spending must remain constant as percentage of EU GNI Should be substantial cut in share of EU budget allocated to structural and cohesion funds Modern budget needs modern approach to auditing and management. Member states must be prepared to account for EU funds received CAP budget should be a 'residual' after deciding other EU spending priorities first.	
Poland	Maintain CAP, with large Pillar 2. Move towards flat rate payment across EU. Continue decoupling. CAP should play role in fighting climate change, food security, public health etc.	Strongly opposed to co-financing of direct payments to farmers from national budgets. Would be threat to EU "value added"	GNI-based resources lead to result contradictory to one intended – relative encumbrance with contributions to budget from less affluent states increasing, because an increase of contributions to EU budget based on GNI reinforces pressure on increasing total size of rebates granted to most affluent member states Existing VAT-based resource should be maintained until time of potential reform	Budgetary discipline should remain a design principle of EU budget.	

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			Consider decreasing amount of receipts from TOR. Eventually should aim at basing EU budget on EU own resources		
Portugal	Maintain but reform CAP: strengthening modulation is key element of CAP reform; would more than double current transfers from 1st to 2nd pillar CAP should play role fighting climate change, food security etc.		VAT-based resource should be abolished. EU should consider new own resources Financing system should mainly be based on TOR and GNI-based own resources	Net budgetary approach provides distorted picture	All mechanisms for corretion of budgetary imbalances should be abolished
Romania	Maintain CAP, but medium-term objective is to achieve convergence with average level of socio-economic development in EU Reform of CAP should reflect important role the agricultural sector plays in economies of new member states. Future CAP should ensure maintenance of direct support in real terms. Move towards EU flat rate.	Maintain direct aid Opposed to co-financing of 1st pillar. Would put significant pressure on national budgets and widen gap between developed and less developed member states	Not against eliminating VAT-based resource and replacing it with GNI-based resource Introducing EU tax could achieve greater visibility of EU budget	Budget should have a modern and flexible structure	Correction mechanisms go against EU budget principles such as transparency, equity and efficiency
Slovakia	Maintain but reform CAP Budgetary resources for 1st pillar of CAP should be directed at long-term		Budget could be simplified by abolishing VAT-based resource and using GNI-based resource		All correction and compensatory mechanisms should be removed

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	aim of improving agricultural competitiveness of EU countries Increase funding for rural development		Does not support introduction of EU taxes		
Spain	Maintain but reform CAP Any discussion about reforming CAP beyond "check-up" must be linked to UK rebate and other compensations review CAP should continue as strategic policy and be consolidated in framework of ongoing reform process of adaptation and modernisation Would be useful for commission to study cost of no CAP, to determine costs, benefits and risks resulting from any proposal to reform or change its orientation			Particular attention should be paid to regions with specific geographic handicaps which affect competitiveness, as in ultra-peripheral regions	Essential to think about moving towards more balanced system of contributions, which would involve scrapping current system of compensations and discounts
Sweden	Shrink CAP: substantial reforms needed, leading to substantially lower expenditure Lack of EU value added for 1st pillar; abolish market support and production constraints by 2013 and phase out direct support	Supplying cross-border goods through targeted measures, regardless of current pillar structure of CAP, will remain important objective and EU and member states, so justifies common funding	TOR will become less relevant source of financing Income system based on member state wealth, expressed in terms of GNI, would probably both be sustainable, transparent and legitimate Sweden opposes the introduction of	Budget should be modern and provide European added value, which will require reforms and reprioritisations of EU expenditure Budgetary restraint should be an overriding principle Cohesion policy should be reduced as a result of strengthened focus on convergence	Fair burden sharing between member states can only be achieved if accompanied by major reforms on expenditure side. Otherwise there is continuous need for rebates and corrections on income side

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			new tax-based own resources.	Cuts are prerequisite to accommodate spending in other areas	
United Kingdom	Shrink CAP; spending on 1st pillar should be phased out Against the backdrop of climate change, payments under reshaped 2nd pillar should be focused on delivering environmental benefits to society			Budget review should be based on principles of EU added value, proportionality and sound financial management, including highest standards of financial control and independent audit. Important to maintain budget discipline. Still significant redistribution of funds between prosperous countries of similar wealth, and even within regions; some structural funds cycle from a region, via national governments, to the EU budget, and back to the region incurring higher transaction costs Structural funds in richer member states should be phased out	