

**THE DISTRIBUTION OF CAP BENEFITS AMONG MEMBER STATES AND THE
IMPACT OF A PARTIAL RE-NATIONALISATION**

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Introduction

The principles on which the creation of the Common Agricultural Policy (CAP) was based have led to a divergence between benefits and costs born by different member states, regions and groups of individuals. As a result, the CAP has important re-distributive effects. These effects are relatively large given the share of the Agricultural Fund (FEOGA) in the European Union (EU) budget and the large transfers from consumers to producers of agricultural products via the price wedge which is maintained between domestic and international prices.

The 'allocation' of benefits and costs is associated with the measures used to support different commodities, which are produced in different proportions by different states, regions and individuals, and the expenditure side of the EU budget since the revenue side becomes more and more equitable as the GNP based resources of the budget become more important.

The distribution of benefits and costs arising from the operation of the CAP, and especially those associated with the uneven distribution of EU spending, acquire growing importance in the case of distribution among member states because of the greater fiscal discipline required by member states for attaining the European Monetary Union (EMU) entry criteria and strengthening the common currency. In addition, there is a need to save financial resources which will be used to combat the unemployment problem persisting in most EU member

states. The result of this economic consolidation is the re-emergence of the idea of a partial re-nationalisation of the CAP which finds an increasing number of supporters. At the same time, the distribution of the benefits and costs has changed in recent years because of the CAP reform and it will change further because of the new reform which was recently decided with a view to enabling the eastward enlargement of the EU and accommodating a possible agreement under the new WTO round of negotiations.

The distributive side of the CAP acquires greater importance also because of the commitment, introduced with the Maastricht Treaty, to economic and social cohesion as one of the fundamental principles the EU seeks to respect. This new principle makes the EU much more sensitive to the distribution impact of its policies.

Given the above framework, this paper attempts, first, an estimation of the distribution of the CAP benefits and costs among member states during the last ten years, which include both post and pre reform periods and, second, the simulation of the impact of a partial re-nationalisation of the CAP on the distribution of benefits and costs. Furthermore, given the direction of the CAP towards reducing support through prices and increasing the direct payment component, the scenario of fully decoupling price support is implemented and the re-nationalisation simulation is implemented against this scenario also. An important by-product of the analysis is the estimation of the impact of the 1992 reform of the CAP on the distribution of benefits and costs among member states.

The methodology

In a partial equilibrium case, the public intervention into the EU agricultural sector involves three domestic parties: the producers, the consumers and the taxpayers. The support mechanism of the CAP involves **transfers among these three groups** and, in particular,

transfers take place from the last two parties to the producers of agricultural products. Consumers are transferring resources to the producers via the price wedge which is maintained between domestic and international prices. This price wedge is maintained in the case of surplus production through budgetary spending in the form of export refunds, storage costs etc. Agricultural levies are also collected into the budget from third country imports but these are relatively limited since most products in the EU are in surplus production attained through the price support and productivity increases. Direct budgetary outlays to the producers also exist in the form of direct payments which are lately becoming more and more important.

Transfers among member states take place through the EU budget and trade. With respect to the latter, the consumers of each member state subsidise the producers of other member states when importing from them. The opposite happens in the case of exports. The net position of the consumers in each member state depends on its net internal trade position. Consumer resources are also transferred to the EU budget when importing from third countries equal to the agricultural levies collected.

Transactions of each member state with the EU budget involve also transfers under the CAP. On the budget revenue side, each member state contributes to the budget customs collected, a percentage of VAT collected and GNP based resources. A proportion of these resources is devoted to the operation of the CAP. On the spending side of the CAP, each member state receives direct payments for its producers under the CAP. Also exports refunds and other intervention costs required to maintain the price wedge are paid from the EU budget.

The sum of the transfers to the producers and from the consumers and taxpayers of each member state constitute the total transfers among member states under the CAP. These can be represented by the following equation for each member state (i):

$$NetTransfer_i = \left[\sum_j \left(Q_{ij} \frac{P_j - P_{wj}}{P_j} + DP_{ij} \right) \right] - \left[\sum_j (Q_{ij} + II_{ij} + IT_{ij} - XI_{ij} - XT_{ij}) \frac{P_j - P_{wj}}{P_j} \right] - [BC_i] \quad (1)$$

where: j refers to the individual commodities;

Q = domestic production;

P = domestic price;

P_w = international price;

DP = direct payment to producers;

II = imports from another member state;

IT = imports from third countries;

XI = exports to another member state;

XT = exports to third countries;

BC = budgetary contribution of member state (multiplied by the share of

FEOGA Guarantee Section in the general EU budget);

$(P - P_w)/P$ = the nominal protection rate expressed in terms of domestic rather than world prices¹.

The above equation (1) gives the net transfer of resources to the each member state and it is derived by subtracting the losses to the domestic consumers and taxpayers from the gains to the producers. Thus, the first square bracket gives the gain to the producers which arises from

¹ This variation of the nominal protection rate was used because the values of the magnitudes involved in equation (1) are expressed in domestic prices.

the higher domestic prices ($P-P_w$) and the direct payments from the budget (DP). The second bracket gives the loss to the consumers which arises from paying the higher domestic price ($P-P_w$) for the quantities consumed from each product (approached here with apparent consumption). Taxpayers contribute for CAP purposes to the EU budget an amount equal to BC (third square bracket).

Thus, equation (1) gives the net transfers to each member state as the summation of the benefits and losses of each social group involved. However, a better idea about the way the transfers take place can be obtained by rewriting equation (1) in the following form:

$$NetTransfer_i = \left[\sum_j DP_j - BC_i \right] + \left[\sum_j (XI_j - II_j) \frac{P_j - P_{wj}}{P_j} \right] + \left[\sum_j (XT_j - IT_j) \frac{P_j - P_{wj}}{P_j} \right] \quad (2)$$

The three square brackets of equation (2) give the Net Transfer to each member state as the sum of the three ways in which resources are transferred from the operation of the CAP. Thus, the first square bracket gives the net direct budgetary transactions of each member state resulting from the operation of the CAP. The second square bracket measures the resources transferred among member states through intra-EU trade and the last square bracket gives the benefit (in the case of a net exporting member state) from trading at higher than world prices with third countries or the loss (in the case of a net importing member state)².

² Exports at higher than world prices are made possible through the export refunds paid from the EU budget and imports at higher than world prices involve the collection of agricultural levies which are deposited to the EU budget. For this reason, and in order to avoid double counting of benefits and costs, the export refunds and the agricultural levies are not included in the transactions of each member state with the EU budget. The same applies to other budgetary items also like market intervention expenditure, storage costs, promotion measures and other minor items which are used to maintain the higher domestic prices and the benefits and costs associated with them are included here in the nominal protection rate.

Data inputs

The quantitative analysis covers the period 1988-1997. All information but the price data were obtained from EU sources³. The price data used in the calculation of the nominal protection rates were taken from the PSE database of OECD for the commodities covered by this database. The Mediterranean products olive oil, wine, fruits and vegetables, cotton and tobacco were added to this list because of their importance for the Southern EU member states. Although the bulk of the support for these products is given in the form of direct payments, border protection also exists (except for cotton and tobacco after 1995). Because of the difficulties in obtaining domestic and international representative prices to be used in the calculation of the nominal protection rates in these cases, an indirect approach was used. Thus, protection rates were obtained as the ratio of the expenditure for export refunds for each one of these products and the value of exports of each product to third countries. In this way, protection rates for all products covered by the CAP were calculated and they are presented in table 1 in the appendix.

Net transfers among member states

The net transfers among member states during the period 1988-1997 calculated using either of equations (1) and (2) are given in table 1. According to the latest year of the results (1997), five member states gain from the operation of the CAP and the rest are losing. The five 'gainers' include three of the four 'cohesion' member states (Greece, Spain, Ireland) as well France and Denmark. Expressing the benefits as a proportion of Gross Value Added

³ Trade data were obtained from the COMMEXT database of Eurostat. EU budget expenditure data from the Financial Report of the Guarantee Section of FEOGA. EU budget national contributions from CEC (1098), other data from the Agricultural Situation in the European Union.

(GVA) of agriculture, Ireland turns up to be the leading beneficiary followed by Greece and Denmark. On the 'losers' side, Germany is by far the largest 'loser' followed from a distance by the Netherlands and the United Kingdom but also Belgium and Italy. When expressing the loss in terms of GVA of agriculture it is the United Kingdom, Sweden and Germany which are losing most.

The above ranking has not remained the same throughout the last decade. Two member states (Spain and the Netherlands) have changed 'sides' because of the 1992 reform of the CAP. The reform seems also to have made things better for Greece, France, Ireland, Italy, Portugal and the United Kingdom and worse for Germany and Belgium-Luxembourg.

Also, as expected, the EU suffers a net loss from intervening into the agricultural markets. This loss becomes smaller after the implementation of the 1992 reform as part of the burden of support moved from the consumers to the taxpayers which implies a lower intervention into the markets.

This distribution of benefits and costs has some implications for cohesion among member states. Thus, the CAP seems, on average, to promote cohesion since it benefits three out of the four 'cohesion' member states. Also the 1992 reform is strengthening the cohesion impact of the CAP since it has favoured all 'cohesion' member states.

An anatomy of net transfers

A deeper analysis into the nature of the benefits and costs under the CAP can be obtained with the help of tables 2 and 3 (a larger version of which appears in the appendix as table 2). The first of these tables produces a breakdown of benefits and costs by social group

Table 2. Distribution of CAP benefits/costs by social group and by member state

<i>Member State</i>	<i>1988, 1989 average</i>				<i>1996, 1997 average</i>			
	PT	CT	BT	CT/BT	PT	CT	BT	BT/CT
B/L	2170,3	1805,8	1076,2	1,68	2273,1	1570,1	1617,7	0,97
DK	2463,7	1523,8	548,8	2,78	2911,6	1841,9	779,8	2,36
D	10670,2	9180,5	6801,3	1,35	14544,5	10139,2	11935,7	0,89
GR	2879,4	2030,5	289,2	7,02	4547,6	2157,2	598,1	3,61
ESP	6719,6	5492,5	1798,0	3,05	9803,0	6037,3	2678,1	2,25
F	15493,0	10893,2	5343,9	2,04	20678,6	12353,9	7140,5	1,73
IRL	2206,7	1250,7	210,9	5,93	2892,5	1308,1	376,8	3,47
I	11043,7	9754,2	3745,5	2,60	12319,4	8437,1	4989,4	1,69
NL	4517,3	2684,2	1607,6	1,67	4138,4	3103,8	2382,1	1,30
P	1032,7	1065,4	233,1	4,57	1630,4	1216,6	548,8	2,22
UK	7721,0	7243,5	3468,0	2,09	9721,7	6988,0	4489,6	1,56
A	-	-	-	-	2015,8	1082,4	1139,7	0,95
SWE	-	-	-	-	1769,9	1252,5	1129,5	1,11
FIN	-	-	-	-	1230,9	750,5	611,8	1,23
EU	66917,6	52924,3	25122,5	2,11	90477,4	58238,6	40417,4	1,44

Note: PT=Producer transfers (benefit); CT=Consumer transfers (loss); BT=Budgetary transfers (loss);

(producers, consumers, taxpayers) for the EU and each member state. A number of interesting points can be derived from this breakdown. First, during the period covered, an increase in the benefits to the producers has taken place and has been accommodated mainly by higher budgetary contributions. Second, throughout the period covered, the consumers bear a larger proportion of the burden of operating the CAP. In the late 1980s there was a more than a two to one ratio of the CAP burden against the consumers. This has eroded in the second half of the 1990s with the consumers bearing less than 60 percent of this burden. This, of course, is mainly related to the shift in the emphasis attained by the 1992 reform of the CAP away from maintaining a large wedge between domestic and international prices and towards larger direct payments to the producers out of the budget. The rise in world prices of the 1990s compared to the 1980s also helped in this direction.

The relative burden born by consumers and taxpayers in supporting agriculture varies among member states. Thus, at the end of the 1980s, Greece leads the league of the countries by incurring a sevenfold greater burden on its consumers from the operation of the CAP. This is explained by the low contribution to the budget since this is the lowest income member state. For the same reason the other 'cohesion' member states follow in the next three positions of this league. Rich countries like Germany, the Netherlands and Belgium/Luxembourg present consumer to taxpayer CAP cost ratios lower the EU average. Similar is the situation in 1996-1997 with the three new member states (Austria, Sweden and Finland) having lower such ratios than the average of the EU.

Interesting conclusions about the 'anatomy' of the net transfers among member states can be drawn from table 3 where the sources of the transfers are identified and results are given for two periods (1988-1989 and 1996-1997). For each period the first three columns of the table correspond to the three right-hand-side terms of equation (2) and the last term to the net transfers which is the sum of the first three columns. During the first of these periods, it only Greece which has a positive budgetary balance with the EU. This is mainly due to the fact that two of the most important agricultural products of Greece (cotton and tobacco) are supported through the budget and to a lesser extent to its low GNP. Other 'cohesion' member states suffer relatively small losses in their transactions with the EU budget because of the low GNP effect.

This pattern changes when coming to the transfers through trade. The Southern EU countries Greece, Italy and Portugal as well as the United Kingdom, loose from both their intra and extra EU trade transactions. In the former case this is due to the lower price protection with which the Mediterranean products are associated with and in the latter case with the negative

Table 3. Net transfers among member states by transfer mechanism.

<i>Member State</i>	<i>1988, 1989 average</i>				<i>1996, 1997 average</i>			
	B	IT	TT	NT	B	IT	TT	NT
B/L	-802,7	187,7	-96,8	-711,7	-1329,3	33,5	384,9	-911,1
DK	-355,0	298,4	447,7	391,1	-36,1	19,4	306,5	289,9
D	-5723,9	-48,6	460,9	-5311,7	-7870,5	176,4	163,9	-7530,3
GR	840,0	-243,5	-36,8	559,7	2008,2	-209,1	-6,8	1792,4
ESP	-744,1	116,0	57,3	-570,9	938,3	28,0	121,4	1087,7
F	-3603,2	1346,8	1512,4	-744,0	-322,5	613,2	893,7	1184,3
IRL	-34,4	356,1	423,5	745,2	506,9	301,3	399,4	1207,5
I	-818,6	-1451,3	-186,1	-2455,9	-559,1	-573,3	25,4	-1107,1
NL	-1246,3	-170,9	1642,9	225,6	-2173,0	321,6	504,0	-1347,5
P	-87,4	-67,9	-110,7	-265,9	-46,5	-71,6	-17,0	-135,0
UK	-2497,8	-147,1	-345,6	-2990,5	-1502,1	-267,8	14,1	-1755,9
A	-	-	-	-	-255,8	21,8	27,7	-206,3
SWE	-	-	-	-	--561,2	-40,5	-10,5	-612,1
FIN	-	-	-	-	-142,1	-18,2	28,9	-131,4

trade balance of the United Kingdom. The rest of the member states collect gains from agricultural trade for reasons opposite to the above. With the exception of Italy, Portugal and the United Kingdom, the total trade effect in the rest of the cases has an opposite sign than the budget effect thus mitigating the impact of the latter. In the cases of Denmark, Ireland and The Netherlands the positive trade effect turns the negative budget effect into a positive net transfer.

The evolution of the CAP and most notably its 1992 reform has changed the relative importance of the budget and trade effects strengthening the former and leading to some changes in the net transfer positions which were discussed earlier. This change in emphasis is mainly due to the partial shift of the CAP burden from the consumers to the taxpayers under the 1992 reform. The partial shift in the philosophy of CAP support has led to some very

large changes in the budget and trade effects with the most notable probably being the dramatic improvement in the negative budget position of France. As to the new member states, their negative net transfers are due either to both the budget and trade effects (Sweden, Finland) or to the budget effect alone.

The anatomy of the net transfer positions of the individual member states attempted here using quantitative information identifies also the future beneficiaries of the CAP the shape of which was fixed for the near future (and probably for the time being) by the latest (1999) changes in the CAP which in fact deepen the 1992 reform. The chosen evolution of the CAP certainly favours consumers and 'punishes' the taxpayers. Since the current structure of EU own resources favours the poorer and smaller member states against the richer and larger, it is the taxpayers of the latter which have to 'pay the extra bill' of maintaining support for the farmers. As mentioned at the beginning, this development comes at a time of fiscal consolidation in the EU which strengthens the position of the CAP re-nationalisation supporters. If such a position is adopted in the future in the EU, the existing distribution of CAP benefits and losses will certainly change. The direction and magnitude of these changes are considered next. However, before turning to estimating the impact of a partial re-nationalisation of the CAP on the distribution of benefits/costs among the EU member states, the impact of fully decoupling CAP is first estimated for two reasons. First, in order to study the distribution of the benefits/costs 'at the limit' as the shift of the burden of support under the CAP, which started with the 1992 reform and continued with 1999 changes, is fully transferred to the taxpayers. Second, because the recent changes in the CAP will further upset in the near future balance between the share of the cost of CAP support born by consumers and taxpayers against the latter and, on the other hand, the current ideas about a partial re-

nationalisation of the CAP (CEC, 1998) 'punish' the member states whose farmers benefit from direct budgetary payments rather than transfers through prices.

Net transfers under CAP decoupling

The gradual shift of the burden of support under the CAP from the consumers to the taxpayers affects, as already seen, the distribution of benefits and costs among the different member states. In this section, the impact of fully transferring the burden of support from consumers to taxpayers (decoupling) on the distribution of benefits/costs is calculated. The results of this exercise will help, since the CAP seems to be moving in the direction of full or near full decoupling, to identify the magnitude of benefits and losses in the future. It will also be helpful in the calculation of the future impact of the partial re-nationalisation of the CAP which is attempted next.

The decoupling exercise assumes that the producers will continue receiving the same transfers which are shown in table 2. However, the cost to the consumers is now fully undertaken by the taxpayers which means that the budgetary resources allocated to the CAP have to increase. The extra resources required are apportioned to the member states according to their GNP.

The results of this exercise, which appear in table 4, show that: the losses of Germany, Belgium-Luxembourg, United Kingdom, Austria and Sweden increase; the losses of The Netherlands decrease; the gains of Greece, Spain, France, Denmark, Ireland (which are the current beneficiaries also) increase; the losses of Portugal and Finland turn into gains; there are no countries who turn from gainers to losers under full decoupling. Therefore everybody is better off except for the five member states whose losses are more than before.

Table 4. The Impact of CAP Decoupling (1996,1997 average)

<i>Member State</i>	<i>Actual Benefit/Loss</i>	<i>Benefit/Loss After Decoupling</i>	<i>Extra Budgetary Resources Required</i>	
			<i>MECUs</i>	<i>%of Own Resource Contributions</i>
B/L	- 911,1	-1021,1	1676,6	84
DK	+ 289,9	+1156,1	957,7	84
D	-7530,3	-10750,9	13359,8	76
GR	+1792,4	+3223,3	726,3	74
ESP	+1087,7	+3771,8	3353,2	77
F	+1184,3	+4755,8	8782,4	78
IRL	+1207,5	+2139,8	375,9	80
I	-1106,9	+246,2	7083,9	91
NL	-1347,5	-545,6	2301,9	78
P	-135,0	+480,9	600,7	73
UK	-1755,9	-2188,2	7420,4	130
A	-206,3	-450,1	1326,2	77
SWE	-612,1	-735,8	1376,2	78
FIN	-131,4	+262,6	700,8	81

The extra resources required from the budget under full decoupling are also shown in table 4. On average, the EU budget own resources national contributions⁴ have to increase by 84 percent. All member states have to increase their contributions by similar percentages⁵. As shown in table 4, most of the member states will be more than compensated from the increase in their national contributions for purposes of full decoupling, since their net position under the CAP will become better off. According to the results of this section, five member states (Germany, Belgium-Luxembourg, United Kingdom, Austria and Sweden) have a great disincentive to pursue such a policy because they worsen their already disadvantageous position unless they are compensated otherwise within the process of European integration.

⁴ In 1996-1997 the national contributions to the EU budget accounted for 81 percent of total own resources and the rest (19 percent) was accounted for by the traditional own resources (customs duties, agricultural duties and sugar levies after deduction of the collection fees).

For this reason, the process to fully decoupling the CAP has contributed to the arguments in favour of a partial renationalisation of the CAP but also to arguments in favour of a partial compensation of the producers for losses incurred under price reductions (CEC, 1997) which has so far accompanied the shift of support under the CAP from the consumers to the taxpayers. The impact of the partial re-nationalisation is tackled in the next section.

The impact of partial CAP re-nationalisation

The distribution of CAP benefits/costs, the increasing role of direct payments in supporting farmers and the need to raise funds for other EU activities have given a new stimulus to the debate on the re-nationalisation of the CAP. The debate intensified in the run-up to the March 1999 EU summit which decided on the further reforms to the CAP. A partial re-nationalisation was avoided at this stage but the forces behind this development are very much alive. The European Commission (CEC, 1998) had even made calculations on the implications of a partial re-nationalisation. These calculations relate to the changes that will take place in the transactions of each member state with the European budget. This section simulates the implications of such an action on the distribution of benefits and costs under the CAP among member states. The impact of re-nationalisation on these benefits/costs largely determines the attitude of the different member states towards this issue.

The 'thoughts' of the Commission see partial re-nationalisation as a partial reimbursement of CAP direct aids to the farmers. So far, a full reimbursement applies. The main argument seems to be that, unlike market expenditure which is allocative in nature, direct payments to the farmers constitute intrinsically a redistributive policy transferring income from taxpayers to farmers. Invoking the subsidiarity principle, it is argued that interpersonal redistribution

⁵ The United Kingdom appears to have to increase its contribution by an exceptional percentage but if its budget rebate is added to its current contribution, then the increase in its national contribution to accommodate full

Table 5. The proportion of Direct Payments in the Producer Transfers (%)

Country	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
B/L	13.5	11.7	14,9	14,8	11,7	5,8	8,3	10,2	12,0	13,0
DK	8.1	7.6	9,5	7,7	6,7	7,3	16,1	21,3	24,7	26,1
D	11.0	9.2	12,0	11,7	10,4	11,1	18,6	24,1	27,7	26,8
GR	38.2	40.0	45,8	45,5	48,6	54,7	53,5	53,8	57,5	56,5
ESP	14.5	16.8	18,3	29,3	28,5	43,4	40,6	43,7	35,7	36,7
F	11.7	10.8	12,5	11,9	11,1	15,2	26,3	29,9	33,2	31,9
IRL	7.7	8.3	14,5	10,8	13,4	15,0	20,4	24,3	27,0	29,4
I	25.4	27.5	26,4	28,4	26,8	28,2	29,7	35,3	33,7	36,0
NL	8.8	7.3	9,5	8,3	7,0	3,9	2,8	3,7	4,6	5,2
P	14.0	14.2	16,5	20,2	22,6	20,1	31,6	38,5	29,3	28,6
UK	13.3	11.9	11,8	11,9	12,8	14,2	24,0	25,6	27,6	33,2
A	-	-	-	-	-	-	-	2,5	47,3	29,8
SWE	-	-	-	-	-	-	-	1,9	30,1	30,9
FIN	-	-	-	-	-	-	-	1,0	41,2	25,6

Source: Own calculations

Note: The figures include the EU contribution for accompanying measures.

policies are better implemented at the member state level. If these principles are adopted, the operation of the CAP direct payment will resemble that of the structural funds⁶.

This section proceeds assuming that a quarter of the direct payments to the farmers will be paid by the national governments. First of all, such a case seems to 'punish' the member states whose agricultural sectors are supported more heavily *via* direct subsidies to the farmers and less via border protection. As table 5 shows, for most member states direct payments account for about one-third of the total transfers to the producers under the CAP. It is also clear that this proportion increased considerable after the 1992 reform of the CAP. For two member states (The Netherlands and Belgium-Luxembourg) the proportion of direct

decoupling is limited to 88 percent.

⁶ Under the structural funds, it is the national governments which propose plans they are willing to partly finance and the EU approves or not. According to the 'thoughts' of the Commission, the direct payments will be decided at the EU level and will be obligatory for the member states who will have to pay part of the bill. A big

Table 6. Impact of Partial CAP Re-nationalisation on Benefits/Losses (1996, 1997 average)

<i>Member State</i>	<i>Benefit/Loss (MECUs)</i>	<i>Change in Benefit/Loss</i>				
		<i>MECUs</i>	<i>% of Benefit/Loss</i>	<i>% of GVA</i>	<i>% of GNP</i>	<i>% of Government Expenditure</i>
B/L	-911,1	+156,3	+17,2	+6,4	+0,06	+0,11
DK	+289,9	-51,4	-17,7	-1,5	-0,04	-0,07
D	-7530,3	+861,4	+11,4	+2,9	+0,02	+0,04
GR	+1792,4	-537,6	-30,0	-8,5	-0,53	-1,24
ESP	+1087,7	-409,2	-37,6	-2,6	-0,09	-0,21
F	+1184,3	-461,1	-38,9	-2,0	-0,04	-0,07
IRL	+1207,5	-132,5	-11,0	-5,9	-0,26	-0,78
I	-1106,9	-87,4	-7,9	-0,3	-0,009	-0,02
NL	-1347,5	+262,1	+19,4	+3,1	+0,08	+0,16
P	-135,0	-22,6	-16,7	-0,9	-0,03	-0,07
UK	-1755,9	+270,9	+15,4	+3,6	+0,03	+0,07
A	-206,3	+57,7	+27,9	+3,4	+0,03	+0,06
SWE	-612,1	+62,1	+10,1	+7,1	+0,03	+0,05
FIN	-131,4	+31,4	+23,9	+4,2	+0,03	+0,06

Table 7. Impact of Partial CAP Re-nationalisation on Benefits/Losses (1996, 1997 average)

(After Full Decoupling)

<i>Member State</i>	<i>Benefit/Loss (MECUs)</i>	<i>Change in Benefit/Loss</i>				
		<i>MECUs</i>	<i>% of Benefit/Loss</i>	<i>% of GVA</i>	<i>% of GNP</i>	<i>% of Government Expenditure</i>
<i>B/L</i>	-1021,1	+192,5	+18,8	+7,9	+0,08	+0,16
DK	+1156,1	-289,8	-25,1	-8,7	-0,22	-0,38
D	-10750,9	+2448,2	+22,8	+16,4	+0,13	+0,29
GR	+3223,3	-797,1	-24,7	-12,5	-0,79	-1,95
ESP	+3771,8	-918,5	-24,4	-5,8	-0,20	-0,50
F	+4755,8	-1171,4	-24,6	-5,0	-0,10	-0,19
IRL	+2139,8	-537,7	-25,1	-24,0	-1,05	-3,30
I	+246,2	+133,6	+54,3	+0,52	+0,01	+0,02
NL	-545,6	+7,3	+1,3	+0,09	+0,002	+0,004
P	+480,9	-122,3	-25,4	-5,0	-0,14	-0,35
UK	-2188,2	+933,7	+42,7	+12,3	+0,009	+0,02
A	-450,1	+367,2	+81,6	+4,9	+0,20	+0,41
SWE	-735,8	+406,1	+55,2	+42,1	+0,21	+0,34
FIN	+262,6	-172,5	-65,7	-22,8	-0,17	-0,33

question remains as to whether the national governments can be forced to such an action or that the whole idea will end up with the national contribution be given only by the rich member states.

payments is well below the EU average while in the case of Greece the majority of transfers to the producers comes from the budget. These variations become important if re-nationalisation is restricted to the direct payments alone. On the other hand, because the trend favours a greater role for the direct payments, a future scenario has also to be considered in which direct payments are more important. Thus, two scenarios on the impact of partial CAP re-nationalisation on the benefits/losses of each member state have been implemented. The first relates to the current situation (1996-1997 average) and the second to the full decoupling case. The results of these two exercises appear in tables 6 and 7 respectively.

The partial re-nationalisation exercise incurs an extra cost and an extra benefit for each member state. The extra cost is equal to the national contribution given to the direct payments received by the farmers of each member state (assumed equal to 25 percent). The extra benefit is associated with the reduction in the national contribution of each member state to the EU budget since its expenditure side will be reduced by an amount equal to the sum of the national contributions to the direct payments. In the simulations of this section the reduction in the EU budgetary spending is channeled to member states in proportion to their GNP.

According to the results appearing in table 5, the net result of this simulation is positive for about half of the member states (Germany, Belgium-Luxembourg, The Netherlands, United Kingdom, Austria, Sweden and Finland). None of the cohesion countries benefits from this exercise. The greatest beneficiary in absolute terms is Germany (the greatest contributor to the EU budget), which explains the German position on the issue of re-nationalisation and the greatest loser is Greece (the lowest income member state with the largest proportion of direct payments in total producer transfers). Table 5 presents also the benefit/loss from the partial re-nationalisation in four different relative ways. Thus, the greatest erosion of the pre-

renationalisation benefit is incurred on France, Spain and Greece. In terms of gross value added of agriculture, Greece is by far the greatest loser followed by Ireland. At the other end, it is Sweden and Belgium-Luxembourg who gain most. In terms of the GNP or the national government expenditure, the gains or losses correspond to very small percentages with the exception of Greece and Ireland. Greece is the only member state which requires a greater than 1% national government expenditure to accommodate its contribution to the direct payments of its farmers.

The magnitudes of table 6 are considerably different from those of table 5 and may be realised sometime in the new decade. The results of this table assume that all transfers to the producers come from the taxpayers which means that countries like Greece with a large proportion of direct payments currently are no longer at a comparatively disadvantageous position. Furthermore, both the national contributions to the direct payments and the reduction in EU budgetary spending involve much larger amounts. Cohesion member states are again all losing. This time a sizeable change in the previous benefits/losses has occurred with the greatest loser being Ireland since this is the greatest beneficiary of the CAP which heavily relies on price support but now all has been converted to direct payments. What is also very interesting is that, under this scenario, three member states (Italy, the Netherlands and the United Kingdom-the rebate is still assumed to apply) are almost indifferent to the partial renationalisation of the CAP under full decoupling.

Concluding Remarks

When the CAP was created, it was serving a number of important objectives at a relatively low financial cost. Since the previous decade, the situation has been reversed with the dominant, and probably sole objective, being the support of the income from farming while

the financial cost of operating the CAP has surged to multiple levels. This surge in the budgetary cost of the CAP is partly due to the shift of emphasis from price support to direct subsidies to the farmers paid out of the EU budget. As a result, the taxpayers bear a higher proportion of the CAP burden than before which means that the large contributors to the EU budget find themselves at a more disadvantageous position than before. At the same time, the cost of the CAP becomes more transparent and the question on who bears the costs and benefits from the most important single policy of the EU becomes more acute.

The thorough analysis of the distribution of benefits and costs among the EU member states which is reported in this paper covers all situations: the past, the present and the future of the CAP. If there is a group of member states which can claim that the CAP was created for them, then this group includes: Ireland, Greece, Denmark, France and Spain. The analysis in the paper shows that these countries benefit from the operation of the CAP almost under any shape of the CAP since the 1980s, including the full decoupling case.

The shift of the cost of support from the consumers to the taxpayers turns up to be beneficial for more member states. These are: Italy and Portugal. This means that the whole of southern EU benefits from the way the CAP evolves (towards more direct subsidies) which is not strange since these member states have relatively larger agricultural sectors while most rich member states, which bear more of the budgetary cost of supporting the CAP, are located in the north. The rest of the member states are losing from the operation of the CAP either always or variably during the various stages the CAP is going through.

The current 'losers' and mainly those who predict to lose more under near full decoupling of the CAP are raising voices supporting its partial re-nationalisation. According to the results

reported here, the re-nationalisation of the CAP in its present form benefits mainly today's 'losers'. Naturally, those member states would support a move towards re-nationalisation. However, the results of the re-nationalisation simulation under a situation of full decoupling, produces somewhat different results with three member states (Italy, the Netherlands and the United Kingdom) being almost indifferent, in terms of benefits and costs, on the question of re-nationalisation. If Germany but also Belgium, Sweden and Austria who are to gain from re-nationalisation under full decoupling were to be compensated somehow else within the European integration process, then promoting full decoupling and avoiding partial CAP renationalisation would promote cohesion within the EU since all cohesion member states benefit from transferring the cost of the CAP from the consumers to the taxpayers.

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Table 1. Nominal Protection Rates in EU Agriculture (1988-1997)

<i>Product</i>	<i>Protection Rates (percent)</i>											
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997		
Common Wheat	83,6	25,1	52,9	131,5	65,2	51,2	43,1	11,2	-11,0	3,5		
Durum Wheat	56,8	62,2	97,9	102,9	62,5	37,8	-15,0	-2,8	0,8	-8,5		
Maize	69,9	55,1	105,5	118,8	101,7	68,4	44,5	39,7	3,6	14,3		
Barley	82,5	43,5	93,7	124,2	103,8	109,2	100,5	40,4	1,2	9,1		
Rice	98,1	98,2	122,4	93,6	104,0	131,2	103,6	88,8	43,2	29,0		
Soybeans	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0		
Rapeseed	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0		
Sunflower	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0		
White Sugar	185,3	85,9	99,5	170,1	191,1	152,1	91,3	77,8	95,9	107,9		
Oliveoil	26,5	33,5	39,0	34,3	11,4	18,0	12,1	7,4	8,3	6,1		
Wine	2,3	2,1	2,6	2,7	3,7	4,6	3,4	1,6	1,6	1,8		
Fruits & Vegetables	3,1	3,7	3,6	3,6	4,6	6,8	6,9	9,0	3,1	2,5		
Milk	115,0	100,9	181,7	158,9	151,1	137,0	125,2	108,3	89,8	85,7		
Beef and Veal	102,7	94,8	90,1	86,4	98,8	113,0	110,6	106,3	101,6	93,2		
Pigmeat	32,4	13,4	24,9	35,6	24,6	29,7	24,4	10,5	-1,3	2,4		
Poultrymeat	60,4	41,5	58,1	36,7	44,7	40,2	42,0	53,9	31,7	25,4		
Sheepmeat	214,5	166,5	153,5	127,8	112,8	37,8	54,4	55,6	28,3	9,9		
Eggs	20,3	27,9	11,6	12,4	14,6	10,2	0,5	11,5	5,4	-1,3		
Tobacco	23,8	29,7	23,3	19,4	15,3	9,9	13,3	10,5	0,6	-0,7		
Cotton	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0		

Source: Own calculations from OECD (PSE database) and EU data.

Table 2. The Distribution of CAP Benefits/Losses by Transfer Mechanism and by Member State in MECUs (1988-1997)

Year	Belgium-Luxembourg (B/L)			Denmark (DK)			Germany (D)			Greece (GR)					
	B	IT	NT	B	IT	NT	B	IT	TT	NT	B	IT	TT	NT	
1988	-819,3	111,9	-99,8	-383,0	344,0	523,8	484,8	-5895,2	-7,4	592,1	-5310,5	718,5	-319,1	-43,1	356,3
1989	-786,0	263,4	-93,8	-327,0	252,7	371,6	297,3	-5552,6	-89,7	329,6	-5312,8	961,4	-167,8	-30,5	763,1
1990	-679,4	54,9	139,1	-485,4	357,1	610,0	757,3	-4642,1	-470,3	651,3	-4461,2	1206,1	-263,1	-33,9	909,1
1991	-948,8	-191,8	643,0	-497,6	431,8	710,4	736,3	-7644,3	-223,2	847,4	-7020,2	1360,1	-164,6	-12,2	1183,3
1992	-961,1	-184,1	804,2	-341,1	330,2	640,4	582,4	-7947,4	-260,9	830,8	-7377,5	1490,9	-235,9	-39,7	1215,3
1993	-1227,2	141,7	530,2	-555,4	460,6	670,0	511,0	-9120,5	-368,1	739,6	-8749,0	1743,9	-312,2	18,2	1449,0
1994	-1449,9	96,5	583,3	-770,0	301,3	642,6	660,1	-9498,2	-338,1	151,5	-9684,8	1761,6	-347,5	13,4	1427,6
1995	-1175,4	-113,2	562,9	-725,7	161,7	423,0	537,3	-7106,1	-392,4	34,3	-7464,1	1639,2	-316,4	3,7	1326,4
1996	-1345,6	113,5	338,7	-893,5	6,7	269,0	216,5	-8184,0	110,7	59,7	-8013,7	2019,3	-173,8	-8,7	1836,9
1997	-1313,0	-46,6	431,0	-928,6	32,1	344,0	363,3	-7557,0	242,0	268,0	-7046,9	1997,0	-244,3	-4,8	1747,9

Year	Spain (ESP)			France (F)			Ireland (IRL)			Italy (I)				
	B	IT	NT	B	IT	TT	B	IT	TT	B	IT	TT	B	IT
1988	-580,5	126,7	129,2	-3809,4	1571,3	1800,6	-29,4	350,6	381,6	702,8	-453,1	-1479,4	-214,1	-2146,5
1989	-907,6	105,2	-14,6	-3396,9	1122,3	1224,2	-39,3	361,5	465,4	787,5	-1184,1	-1423,1	-158,1	-2765,3
1990	-732,9	144,9	-75,6	-2568,1	1704,1	1891,8	113,9	371,6	399,8	885,3	-443,0	-1639,6	-231,8	-2314,4
1991	-118,5	-44,9	44,0	-4133,5	1798,9	2364,4	-37,3	390,2	282,5	635,4	-1315,4	-2233,9	-235,6	-3784,8
1992	-154,0	-109,1	51,0	-3851,8	1774,9	2317,0	59,4	623,3	438,2	1121,0	-1229,1	-1688,4	-70,9	-2988,4
1993	331,0	-65,1	146,7	-3705,0	1683,8	2068,9	59,5	536,1	414,8	1010,4	-2601,3	-1265,2	-51,4	-3917,9
1994	922,0	-18,8	178,8	-2209,3	1199,9	1257,8	152,0	487,0	427,7	1066,8	-1153,5	-1091,1	-149,8	-2394,3
1995	1855,6	99,4	2,9	-421,6	1172,0	833,2	239,2	494,1	480,3	1213,6	-809,5	-841,3	-62,0	-1712,8
1996	869,1	55,0	155,2	-227,0	336,4	842,5	361,1	296,1	392,9	1050,0	-905,8	-469,5	-1,5	-1376,8
1997	1007,4	1,0	87,6	-418,0	889,9	944,9	652,7	306,5	405,8	1365,0	-212,4	-677,1	52,2	-837,3

Table 2 (continued)

Year	The Netherlands			Portugal (P)			United Kingdom			Austria					
	B	IT	TT	NT	B	IT	TT	NT	B	IT	TT	NT			
1988	-1285,8	-310,8	1711,2	114,6	-83,6	-65,5	-128,5	-277,6	-2136,6	-232,4	-453,2	-2822,2	-	-	-
1989	-1206,8	-31,0	1574,5	336,6	-91,1	-70,2	-92,9	-254,1	-2859,0	-61,8	-237,9	-3158,7	-	-	-
1990	-1036,3	127,9	1947,7	1039,3	-74,8	-91,1	-197,2	-363,2	-2810,2	-112,0	-86,2	-3008,4	-	-	-
1991	-1599,6	306,3	1089,4	-204,0	-114,4	-232,9	-39,4	-386,7	-1702,9	149,1	-188,8	-1742,7	-	-	-
1992	-1514,0	266,2	1195,7	-52,2	-132,7	-283,3	-37,4	-453,5	-2470,6	-46,5	-111,4	-2628,6	-	-	-
1993	-1957,0	444,8	1109,7	-402,4	-197,3	-271,1	-60,4	-528,7	-2883,9	-127,0	25,3	-2985,6	-	-	-
1994	-2191,7	474,3	660,7	-1056,7	-250,1	-259,1	-73,0	-582,1	-1407,0	41,1	-83,4	-1449,3	-	-	-
1995	-1904,0	279,1	746,2	-878,7	6,4	-186,4	-61,0	-240,9	-2379,3	70,5	-179,3	-2488,1	-931,9	28,2	-897,5
1996	-2144,0	328,0	482,4	-1333,6	-103,5	-49,2	-17,3	-169,9	-1869,4	-201,8	-106,0	-2177,3	-142,9	40,8	-80,6
1997	-2202,0	315,1	525,6	-1361,3	10,5	-94,0	-16,6	-100,1	-1134,8	-333,8	134,2	-1334,4	-368,7	22,1	-332,0

Year	Sweden (SWE)			Finland				
	B	IT	TT	NT	B	IT	TT	NT
1988	-	-	-	-	-	-	-	-
1989	-	-	-	-	-	-	-	-
1990	-	-	-	-	-	-	-	-
1991	-	-	-	-	-	-	-	-
1992	-	-	-	-	-	-	-	-
1993	-	-	-	-	-	-	-	-
1994	-	-	-	-	-	-	-	-
1995	-846,5	-49,2	-38,0	-933,7	-475,0	-26,0	12,0	-489,0
1996	-630,8	-56,5	-24,3	-711,6	-94,3	-17,1	21,1	-90,3
1997	-491,6	-24,4	3,4	-512,5	-189,9	-19,2	36,7	-172,5