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COMMON AGRICULTURAL POLICY PATH FOR OLD AND NEW MEMBERS

Abstract. The European Union is not able to maintain CAP in its current form any more: radical reform is unavoidable. The recent past review of the CAP (Health Check) may help to reach a healthier CAP, but the proposed changes are not enough to overcome the difficulties. The future CAP meeting certain criteria – such as providing European added value, maintaining sustainability in economic, social and environmental terms – should be based on completely new principles. While defining these new principles and cornerstones of the policy it has to be taken into account that there is an ongoing paradigm change: there is a shift from the agricultural policy aiming at food self sufficiency and income parity towards a sustainable rural policy with spatial focus. The shift, itself is considered a continuous challenge, too.

As an option could be considered a switch from direct payments to a flat rate payment based on public goods and fully decoupled plus complementary subsidies on regional base that is considered indeed to be targeted support for the provision of public goods. Another tool should be aimed at promoting and strengthening the viability of rural economy and society. It would serve on the one hand structural adjustment and new integrated risk and crisis management. On the other hand its objective would be the developing, strengthening of rural communities (improvement in the quality of rural life, support for local communities, maintenance of landscape are of higher importance).

In order to create new effective policy tools – and justify that the abovementioned could be the future of CAP – and be able to attain the new objectives the following question definitely has to be asked: Do the past results, the future interest, the challenges and most of all financial possibilities – support from the EU and the national budget – of the old and new MSs differ or are these more or less similar?

The paper is mainly aimed at analysing past and present agricultural expenditure originating in the EU and the national budget compared to the total EU expenditure, GNI, and GDP by means of quantitative methods. Furthermore it intends to study the trends of agricultural payments in the MSs and figure out whether the financial support is to be justified in the future.

Key words: agricultural expenditure, EU budget.

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1. INTRODUCTION

Socio-economic and environmental importance of the sector: agriculture

In our rapidly changing world characterized by supranational integration and globalization production processes are shaped not only in terms of economic aspects but environmental and social ones as well. *The exclusiveness of rationale production-orientation belongs to the past.* Although the same applies also to agriculture this sector still plays an important role in the economic development of rural regions.

European agriculture plays an important role in the economy, in the utilization of natural resources, in shaping the environment and furthermore in the social structure. The socio economic role of agriculture in the EU is shown more precisely by the ratio between the cultivated land and forest land (see table 1) than its weight in GDP production or as a major employer¹. In the majority of the EU member states the ratio is around 80 percent, i.e. the majority of the land surface is cultivated by “agriculture” both in the old and new MSs with the exception of Malta and Cyprus. At the same time more than half of the population of the EU-25 lives in rural areas comprising 90 percent of the area.

The two forms of land use – agriculture and forestry have an important role as a basis for social structure and economic viability and from the point of view of managing natural resources and protecting the environment (OECD, 1997; OECD, 2001b).

Table 1. Rate of agricultural territory and forests in the EU and in individual MSs

Year 2005	EU-15			Year 2005	EU-12		
	agricultural area (utilized arable area)	forest land	total		agricultural area (utilized arable area)	forest land	total
1	2	3	4	5	6	7	8
BE	45	22	67	BG	47	33	79
DK	63	12	74	CZ	45	34	79
DE	47	31	78	EE	17	51	67
IE	61	10	71	CY	18	19	37
EL	25	28	53	LV	29	46	74
ES	50	35	86	LT	43	32	75
FR	54	28	82	HU	62	21	84
IT	49	33	82	MT	32	0	32

¹ Most of the farms are small scale, usually family owned and operated. They are important employers in many rural areas and they are part of the rural way of life. These farmers play an important role in the maintenance of rural areas and the environment while working for a secure and profitable future for themselves and their families. Farmers do not work alone. They are the first ones in the food chain and some of them process their own produce but mostly they sell them to others for processing. The processed food industry products then can be bought by the consumers.

Table 1 (cont.)

1	2	3	4	5	6	7	8
LU	50	34	84	PL	51	29	80
NL	51	10	61	RO	59	27	86
AT	39	46	85	SL	24	62	87
PT	41	41	82	SK	40	39	79
FI	7	67	73				
SE	7	61	68				
UK	69	12	80				

Source: DG Agri

In the EU-countries (with high population density and contributing significantly to the survival of small settlements) the goal of agricultural production is not merely to produce the final product but to maintain the landscape, to maintain viable rural communities and to produce environmental goods, i.e. to provide extra services. This way multifunctionality (OECD, 2001a; OECD, 2003) – with the following key elements 1. multiple product and non-product output produced jointly in the agriculture (joint output); 2. creating non-product output with characteristics of externalities or public goods (Durand – van Huylenbroeck, 2003) – is considered as the *central factor of the European agricultural model that is of ever growing importance.* One of the important features of the production of the public goods is, however, the fact that it is impossible to produce them based merely on the functioning of the market, state or EU support is necessary in deed.

2. FINANCING AGRICULTURE

The supranational system of agricultural policy in the EU has so far generated a high rate of agricultural expenditure (though this rate is getting lower. It has to be added, however, that the rate of agricultural expenditure is insignificant in the national budgets.

The rate of agricultural expenditure differs country by country and it is not uniform – not even as regards the group of old and the group of new Member States (see table 2). The rate of agricultural expenditure calculated as percentage of total EU expenditure – analysing the EU-15 – reached the highest value in France (74% – 81%) and Denmark (75% – 84%) and the lowest value besides Luxemburg (3% – 4%) in Belgium (15% – 24%) and Portugal (25% – 35%) over the period 2000–2007. In the new Member States there is a different situation as the period taken into account is shorter it runs from 2004 to 2007. The highest percentages have been measured in Lithuania (37% – 50%), Hungary (36% – 61%), Poland (40% – 56%) and Slovakia (35% – 57%). But not even the highest numbers approached the highest ones of France and Denmark.

Table 2. Rate of agricultural expenditure as percentage of total EU expenditure by MSs (%)

	2000	2001	2002	2003	2004	2005	2006	2007
EU-15								
BE	24	24	22	23	21	19	17	15
DK	81	84	83	82	77	79	78	75
DE	64	61	63	60	56	57	58	55
EL	50	50	65	65	57	59	52	43
ES	54	50	44	46	44	50	59	51
FR	75	80	81	79	74	74	75	74
IE	66	69	67	74	66	73	71	81
IT	56	68	75	56	54	57	55	51
EL	50	50	65	65	57	59	52	43
LU	3	4	4	4	3	4	4	4
NL	66	68	72	69	60	61	56	61
AT	79	76	71	73	72	70	71	70
PT	31	33	29	25	26	32	35	32
FI	67	82	72	68	66	70	67	67
SE	71	73	68	61	60	63	60	65
UK	53	69	60	66	57	49	53	56
EU12								
BG								0
CZ					25	48	45	41
EE					29	39	38	29
CY					15	27	21	45
LV					46	44	49	25
LT					37	50	49	46
HU					36	61	52	39
MT					12	8	8	8
PL					42	56	48	40
RO								1
SL					32	37	38	46
SK					57	51	53	35

Note: total expenditure = expenditure of each MSs – (earmarked, other, non-EU)

Source: own calculation based on European Commission data

The amount of agricultural expenditure and its rate calculated as percentage of the total expenditure originating in the EU budget is only one side of the coin. From the point of view of the common budget the revenue side or rather the net contribution country by country has to be focused on, too.

If the net contribution (net contribution = total own resources – total expenditure, and total own resources = traditional own resources (75%) = (agricultural duties + sugar levies + customs duties) – amounts (25%) related as TOR collection costs, see table 3) of the member states are compared it is to be stated that the net contributors are France (0,16% in 2007) Denmark (0.33% in 2007), Ger-

many (0.38% in 2007), Italy (0.18% in 2007), Austria (0.23% in 2007), Netherlands (0.77% in 2007), Sweden (0.37% in 2007), and UK (0.30% in 2007).

Table 3. The rate of net contribution as percentage of the GNI (%)

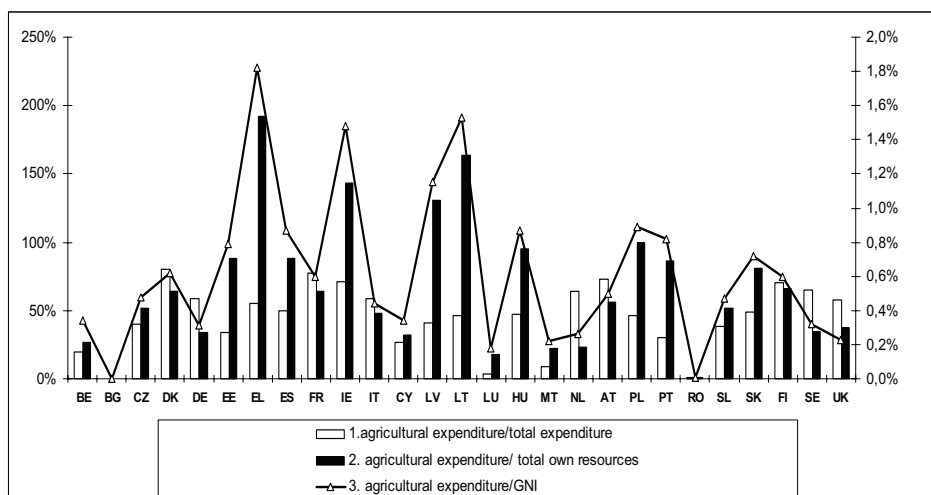
	2000	2001	2002	2003	2004	2005	2006	2007
EU-15								
BE	-0.33	-0.17	-0.49	-0.36	-0.45	-0.51	-0.46	-0.39
DK	0.02	0.24	0.12	0.15	0.18	0.21	0.31	0.33
DE	0.56	0.45	0.28	0.40	0.38	0.35	0.35	0.38
EL	-3.03	-2.99	-2.13	-1.96	-2.22	-1.95	-2.38	-2.42
ES	-0.70	-1.04	-1.21	-1.09	-0.96	-0.60	-0.32	-0.29
FR	0.15	0.18	0.13	0.11	0.18	0.19	0.17	0.16
IE	-1.71	-1.11	-1.46	-1.31	-1.23	-0.76	-0.65	-0.37
IT	0.02	0.24	0.24	0.09	0.25	0.20	0.17	0.18
LU	-3.64	-3.15	-3.87	-4.57	-3.78	-3.52	-3.42	-3.40
NL	0.76	0.85	0.61	0.61	0.63	0.75	0.73	0.77
AT	0.34	0.33	0.11	0.16	0.18	0.15	0.15	0.23
PT	-1.64	-1.32	-2.02	-2.54	-2.17	-1.61	-1.50	-1.56
FI	-0.13	0.15	-0.02	-0.01	0.04	0.07	0.17	0.11
SE	0.54	0.50	0.32	0.38	0.43	0.37	0.35	0.37
UK	0.38	0.12	0.23	0.23	0.26	0.19	0.21	0.30
EU-12								
BG	-0.67	-1.07	-0.84	-0.98	-1.45	-1.29	-1.44	-1.05
CZ	-0.17	-0.15	-0.33	-0.29	-0.30	-0.09	-0.27	-0.47
EE	-0.76	-0.50	-0.58	-0.92	-1.61	-1.38	-1.35	-1.36
CY	-0.05	-0.08	-0.16	-0.15	-0.43	-0.49	-0.61	0.29
LV	-0.60	-0.61	-0.55	-0.80	-1.83	-1.99	-1.59	-2.48
LT	-0.40	-5.25	-0.67	-1.92	-2.08	-2.26	-2.44	-2.87
HU	-0.32	-0.35	-0.21	-0.27	-0.23	-0.63	-1.27	-1.67
MT	-0.06	-0.12	-0.31	-0.24	-1.04	-1.88	-2.23	-0.62
PL	-0.13	-0.16	-0.26	-0.36	-0.72	-0.72	-1.09	-1.69
RO	-0.40	-0.55	-0.50	-0.59	-0.98	-0.82	-0.73	-0.44
SL	-0.16	-0.25	-0.28	-0.23	-0.42	-0.33	-0.42	-0.09
SK	-0.28	-0.29	-0.47	-0.37	-0.21	-0.67	-0.68	-1.06

Source: own calculation based on European Commission data.

Among these MSs the highest rate of net contribution as percentage of their GNI can be measured in Sweden and Germany. But France (0.66% – 0.54% in 2000–2007) and Denmark (0.78% – 0.47% in 2000–2007) are those countries which get the highest agricultural support compared to their GNI (the shares have been declining since 2004). At the same time all of the new MSs are net beneficiaries of the system and the rate of net contribution as percentage of the GNI has been increasing since 2004. As regards the year 2007 the highest rate was calculated for Lithuania (1.77 %) and Poland (1.06%).

Also another aspect of analysis – averaging the rate of agricultural expenditure (EU-15: 2000-2007 and EU-12: 2004-2007) compared to the total expenditure, the total own resources and the GNI – indicates how big the differences among countries are (see figure 1).

While analysing (cautiously) the average rate of agricultural expenditure compared to the GNI the highest values can be calculated for Greece, Italy – net beneficiaries in the old MSs, and Latvia and Lithuania – net beneficiaries in the new MSs. Figure 2, 3 and table 3 indicates also the national agricultural expenditure as percentage of the GNI. The results show that the rate of the national agricultural expenditure compared to the GNI is generally higher in the new member states than in the old ones. (The reason is explained later on.)



Note: the average values are calculated from 2000 to 2007 in the EU-15 and from 2004 to 2007 in the EU-12

Figure 1. Rate of average agricultural expenditure compared to the average total expenditure, average total own resources and the average GNI

Source: own calculation based on European Commission data.

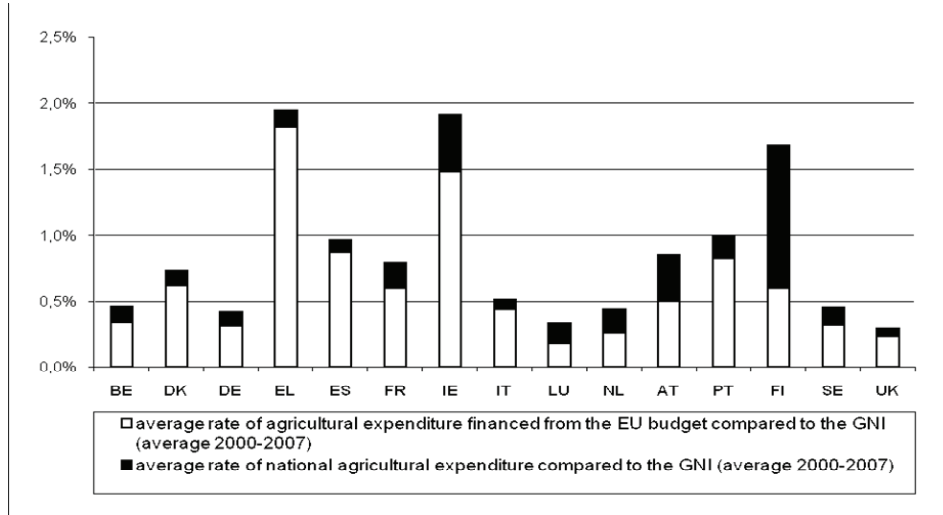


Figure 2. Average rate of agricultural expenditure compared to the GNI (average 2000-2007) – EU-15
 Source: own calculation based on European Commission data.

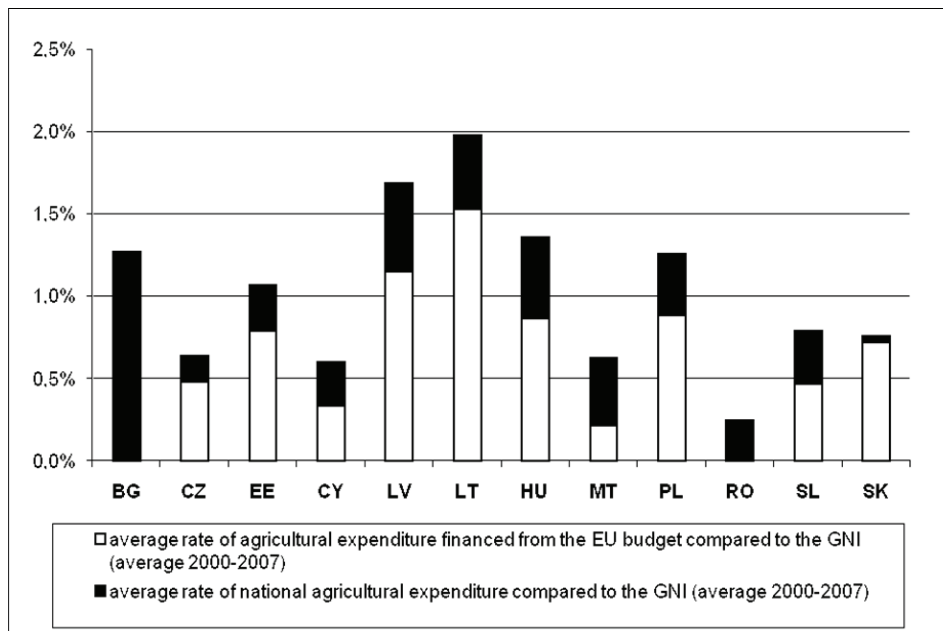


Figure 3. Average rate of agricultural expenditure compared to the GNI (average 2004-2007) – EU-10

Source: own calculation based on European Commission data.

Of course the averages don't show e.g. the trends. That is why it is worth analysing each member states also year by year (Table 4).

Table 4. EU and national expenditures for agriculture as percentage of GNI (%)

	2000		2001		2002		2003		2004		2005		2006		2007	
	N	EU	N	EU	N	EU	N	EU	N	EU	N	EU	N	EU	N	EU
EU-15																
BE	0.16	0.39	0.15	0.36	0.15	0.35	0.15	0.37	0.09	0.37	0.09	0.34	0.10	0.30	0.04	0.25
DK	0.18	0.78	0.13	0.64	0.14	0.67	0.14	0.65	0.14	0.62	0.07	0.58	0.06	0.52	0.05	0.47
DE	0.09	0.32	0.08	0.30	0.09	0.35	0.09	0.30	0.09	0.29	0.22	0.31	0.17	0.30	0.08	0.28
EL	0.18	1.99	0.19	1.97	0.18	1.94	0.12	1.87	0.07	1.80	0.04	1.68	0.10	1.70	0.07	1.61
ES	0.14	0.93	0.12	1.02	0.11	0.94	0.10	0.95	0.09	0.87	0.04	0.82	0.09	0.79	0.07	0.64
FR	0.24	0.63	0.23	0.62	0.23	0.64	0.22	0.66	0.14	0.57	0.16	0.58	0.13	0.56	0.13	0.54
IE	0.51	1.92	0.56	1.61	0.49	1.62	0.44	1.66	0.44	1.46	0.42	1.33	0.31	1.16	0.28	1.10
IT	0.08	0.51	0.09	0.47	0.09	0.48	0.09	0.45	0.08	0.40	0.04	0.43	0.08	0.41	0.05	0.38
LU	0.20	0.14	0.18	0.17	0.19	0.19	0.18	0.22	0.15	0.16	0.00	0.18	0.23	0.16	0.09	0.18
NL	0.30	0.35	0.22	0.25	0.22	0.24	0.21	0.28	0.16	0.25	0.12	0.25	0.08	0.23	0.14	0.20
AT	0.47	0.54	0.43	0.50	0.43	0.51	0.41	0.51	0.39	0.50	0.31	0.52	0.29	0.51	0.07	0.42
PT	0.30	0.83	0.27	0.76	0.28	0.83	0.26	0.88	0.25	0.81	0.01	0.84	0.01	0.85	0.01	0.79
FI	1.06	0.72	1.17	0.60	1.09	0.61	1.11	0.63	1.08	0.59	1.30	0.60	1.11	0.51	0.76	0.53
SE	0.18	0.32	0.14	0.32	0.16	0.32	0.15	0.32	0.11	0.30	0.11	0.33	0.14	0.30	0.05	0.32
UK	0.08	0.27	0.07	0.25	0.07	0.22	0.06	0.25	0.05	0.23	0.05	0.23	0.05	0.23	0.03	0.21
EU-12																
BG															1.27	0.0
CZ									0.20	0.25	0.15	0.54	0.15	0.55	0.14	0.60
EE									0.29	0.65	0.32	0.89	0.34	0.90	0.16	0.75
CY									0.43	0.18	0.17	0.45	0.27	0.36	0.17	0.38
LV									0.24	1.13	0.35	1.33	1.24	1.25	0.32	0.78
LT									0.55	1.02	0.46	1.64	0.32	1.70	0.46	1.77
HU									0.41	0.33	0.67	0.98	0.57	1.15	0.31	1.02
MT									0.39	0.21	0.47	0.25	0.46	0.27	0.35	0.14
PL									0.46	0.59	0.40	0.95	0.41	0.97	0.20	1.06
RO															0.94	0.01
SL									0.43	0.34	0.27	0.48	0.36	0.51	0.22	0.54
SK									0.02	0.50	0.02	0.82	0.06	0.86	0.05	0.71

Source: own calculation based on European Commission data.

Comparing the rate of agricultural expenditure as percentage of the GDP for EU-15 and EU-10 in the period 2001–2007 and 2004–2007 it is obvious that there is falling trend in the group of old MSs and a growing trend in the group of the new MSs as regards the rate of agricultural expenditure paid from the common budget as percentage of the GDP (Figure 4, Table 4).

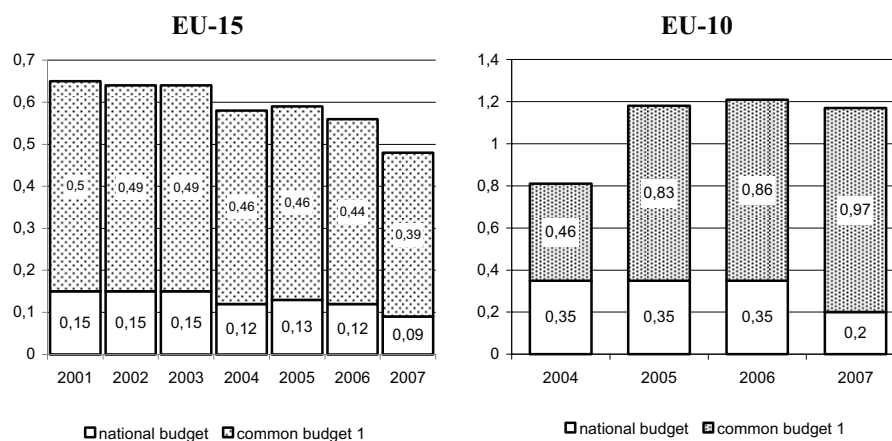


Figure 4. Rate of agricultural expenditure (as percentage of the GDP) – EU-15/EU-10
Source: own calculation based on European Commission data.

Table 5. Rate of agricultural expenditure (as percentage of the GDP) – EU-25

EU-25	2001	2002	2003	2004	2005	2006	2007
1 common budget				0,46 ¹	0,48 ¹	0,47 ^{1,2}	0,47 ^{1,2}
2 national budget				0,13	0,15	0,14	0,09
total (1+2)				0,59	0,63	0,61	0,52

Note: 1. EAGGF Guarantee and Guidance expenditure, 2. Total agricultural expenditure (Policy area 0.5)

Source: own calculation based on European Commission data.

In the case of the EU-12 the rate of agricultural expenditure as percentage of the GDP is higher as the GDP itself is lower and the contribution of the agriculture to the GDP is higher. The rate of the agricultural expenditure financed from the common budget is even growing until 2013 due to the phasing in of the direct payments. Besides, the high rate of the national agricultural expenditure can be explained through the top up that is also part of the phasing in system.

While dividing the agricultural expenditure financed from the common budget into Guarantee and Guidance expenditure and analysing both categories the falling trend for the old members and the growing trend for the new members becomes obvious for the period 2002–2006. The year 2007 (and the years afterwards) has to be studied a bit differently as in the new financial perspective (2007–2013) Guarantee expenditure does not cover the accompanying measures any longer. (Pillar 1 and Pillar 2 measures and their financing are completely separated). (see table 6) The trends are, however, the same also for the period

2007–2013. It means that the net beneficiary position of the NMSs – as regards the CAP – keeps strengthening until 2013.

It has to be stressed that despite the negative direction of the trend in the old MSs Community agricultural support is expected to remain a decisive factor not only in the NMSs but also in the old ones as regards the financing of the sector. The reasons – explaining this statement – are listed in the following part.

Table 6. Rate of agricultural expenditure and Guidance expenditure compared to the GDP of the Member States (%)

	Rate of Guarantee expenditure compared to the GDP of MSs (%) (1)						Rate of Guidance expenditure compared to the GDP of MSs (%) (2)					
	2002	2003	2004	2005	2006	2007	2002	2003	2004	2005	2006	2007
BE	0.35	0.37	0.37	0.34	0.30	0.23	0.00	0.37	0.00	0.00	0.00	0.01
BG						0.00						0
CZ			0.19	0.46	0.45	0.28			0.04	0.05	0.06	0.28
DK	0.66	0.65	0.62	0.59	0.53	0.48	0.00	0.64	0.00	0.00	0.00	0.00
DE	0.32	0.27	0.27	0.29	0.28	0.23	0.02	0.27	0.02	0.02	0.02	0.04
EE			0.48	0.69	0.66	0.25			0.13	0.16	0.18	0.46
IE	1.31	1.40	1.23	1.12	0.99	0.69	0.02	1.39	0.01	0.01	0.01	0.22
EL	1.67	1.61	1.50	1.39	1.43	1.18	0.26	1.60	0.27	0.26	0.23	0.39
ES	0.81	0.82	0.75	0.71	0.68	0.56	0.11	0.82	0.10	0.10	0.09	0.06
FR	0.63	0.65	0.57	0.58	0.56	0.49	0.00	0.65	0.00	0.00	0.00	0.05
IT	0.44	0.40	0.36	0.39	0.37	0.31	0.03	0.40	0.04	0.04	0.03	0.06
CY			0.18	0.43	0.35	0.18			0	0	0	0.18
LV			0.88	1.06	1.00	0.28			0.21	0.25	0.21	0.56
LT			0.82	1.41	1.46	0.59			0.17	0.20	0.20	1.08
LU	0.15	0.17	0.14	0.15	0.13	0.10	0.00	0.16	0.00	0.00	0.00	0.04
HU			0.22	0.81	0.92	0.47			0.08	0.11	0.15	0.47
MT			0.18	0.21	0.22	0.04			0.02	0.02	0.03	0.09
NL	0.24	0.29	0.26	0.25	0.23	0.20	0.00	0.28	0.00	0.00	0.00	0.00
AT	0.49	0.50	0.48	0.50	0.49	0.28	0.00	0.49	0.00	0.00	0.00	0.13
PL			0.43	0.75	0.75	0.39			0.13	0.16	0.18	0.61
PT	0.56	0.61	0.57	0.60	0.61	0.43	0.26	0.61	0.23	0.22	0.21	0.32
RO						0.01						0
SL			0.32	0.45	0.47	0.14			0.02	0.02	0.03	0.37
SK			0.36	0.01	0.66	0.29			0.12	0.00	0.17	0.39
FI	0.58	0.60	0.57	0.57	0.49	0.33	0.02	0.59	0.02	0.02	0.02	0.20
SE	0.31	0.31	0.30	0.32	0.29	0.23	0.00	0.31	0.00	0.00	0.00	0.09
UK	0.22	0.25	0.23	0.23	0.22	0.19	0.00	0.24	0.00	0.00	0.00	0.01

Note: (1) 2002–2006: EAGGF Guarantee expenditure compared to the GDP, 2007: share of market expenditure (direct payments + export refund + intervention+ other) compared to the GDP

(2) 2002–2006: EAGGF Guidance expenditure compared to the GDP; 2007: share of rural development support compared to the GDP

Source: own calculation based on DG Budget and Eurostat data.

3. ARGUMENTS FOR COMMUNITY FINANCING

As it was earlier described the maintenance of multifunctionality – maintaining the landscape, preventing erosion, planting the land, eliminating allergenic and other weeds, complying with various environmental regulations, and preserving the cultural heritage in the rural areas – contributes to the sustainability of agriculture and rural development. The promotion and maintenance of multifunctional characters – *positive externalities, public goods* –, however, requires adequate policy instruments among them the use of financial tools. *To what extent can be justified the financing of the provision of public goods from the EU and the national budgets?*

As there is usually no private market for certain welfare increasing or decreasing joint outputs or actually the non-product outputs of agriculture – which should, however, meet the needs of the society as regards their quantity, composition and quality – there is a need for *political action* for the internalisation of externalities. Of course the characteristics of the affected activity will have an impact on planning and the application of the corrective measures – measures at national or Community level.

The adequate policy environment requires good political practice by which the multiple goals of producing food and non-food are achieved in the most cost-efficient way, taking into account the direct and indirect costs of the international spill-over effect.” (OECD (2001) p. 10) The good political practice includes also adequate co-ordination and knowledge pooling. *Policy instruments need to be* designed with targeted approach, to be simple, transparent, tailored, flexible and fulfilling legitimacy requirements:

- *financial resources*
 - *financial transfers* are (and will be) required (also in the future) in order to produce public goods, (however, these will be allocated in a much stricter and even more specific manner) European society will need multifunctional services further on; promoting these will require setting and enforcing much stricter agri-environmental, water purity, forestry, etc. rules than those of competitors. Offering these rural services represents implicit taxation for European agricultural producers, as well as a competitive disadvantage;
 - *public support of different kinds of income combinations*. Especially in the new MSs, it is essential to create additional income sources through: 1. small and medium enterprises in the form of agricultural and other co-operations, 2. direct sale and marketing of products, 3. service work for local authorities, 4. commuting and working in industrial centres and 5. well-organised rural tourism on well-adapted farms (see also Greif, F., 2004)
 - Furthermore one specific objective has to be attributed to one payment.

▪ *incentives to boost investment activities*, FDI flows (Investment activities are important in solving up environment problems, environment protection, re-establishing the ecologic balance. Additionally, policies regarding the regime of foreign investments have a very important role as they can block, hinder or encourage the FDI entries.

Moreover well-founded methodologies are required in order to assess and evaluate the impacts of measures.

The key question arises, however, on the EU level financing. Theoretical frameworks ensure the possibility of financing agriculture at EU-level. According to the *fiscal federalism* theory (Pelkmans, 2001, Baldwin-Wyplosz, 2004, El Agra, 2004) centralised (or Community level in this case) financing may be justified in case of significant, positive and negative *cross-border externalities* and spill-over effects² (see Table 7 in case of agriculture). The bottom line of the “decentralization theorem” that centralization is welfare superior when spill-overs are sufficiently high was proved e.g. by Koethenbuerger, 2007.

As agricultural policies are able to create *European added value*³ EU financing in the agricultural sector cannot be totally eliminated. Agriculture does have such expenditure objectives for which spending by a supranational structure are more efficient than national expenditures.

Let’s name the environmental objectives. “Given the enormous priority of the environment for the future, it is rather unfortunate to see it having such little relevance. Because of the cross-border nature of pollution, environmental actions quintessentially need to be solved at the multinational level. Even admitting that convergence policies and R&D have some environmental aspects and that much of the EU’s action is regulatory, spending on the environment is surprisingly low. Given the challenges posed by climate change and the need for adaptive and mitigating practices, there are reasons for substantial budgetary allocation in this area.” (CEPS Tasks Force Report, 2007). It has to be highlighted that agriculture is not only a victim of climate change, but a prime catalyst of the process as well. Climate conditions (in particular precipitation, the runoff of river waters, sequestration of greenhouse gases, etc.) are strongly affected by agricultural activity.

² The question arises, however, how the difference in the utility of centralization and decentralization changes with respect to the level of spill-overs.

³ European value added is dependent on objectives having a greater impact by being implemented at the supranational level and not at other secondary decision levels.

In economic terms European value added means that the economic return to recipients after an investment by the EU should be higher than without the investment. For agricultural policies, however, value added is not bound to be quantifiable in economic terms, but substantial and important in political terms. (Danell-Östhol 2008).

Table 7. Certain public goods provided by agriculture

	Public goods	Spill-over effects
Environment friendly agricultural production practices	Protection and preservation of natural resources Stable ecosystem Biological diversity Protection of valuable natural areas Carbon sequestration Waste management	Local, regional, European Regional, European, global Local, regional, European, global Local, regional, European European, global Local, regional, European
Ethical agricultural production	Food safety Animal welfare	Local, regional, European Local, regional, European, global
Socially sustainable agriculture	Buffer function on the labour market Cultural diversity – maintenance of material and non-material cultural heritage Contribution to the catching up of rural areas	Local, regional, European Local, regional, European, global Local, regional, European
Land management	Stable ecosystem Biological diversity Carbon sequestration Water management + flood management (integrated approach - agriculture as a cause and a solution to flooding)	Regional, European, global Local, regional, European, global European, global Local, regional, European, global
Preventing deforestation	Forest biodiversity Stable ecosystem Wildlife Reduction of greenhouse gas Carbon sequestration	Local, regional, European, global Regional, European, global Local, regional, European, global Local, regional, European, global European, global
Combating desertification and drought	Carbon sequestration Watershed protection Biodiversity conservation in drylands	European, global Regional, European, global Local, regional, European, global
Sustainable mountain development	Stable ecosystem Hydrological stability Carbon sequestration	Regional, European, global Local, regional, European European, global

Source: Elekes-Halmai-Vásáry, 2008.

Let's mention the income support objective as well. Direct payments – as income support tool – could create a value added if low-income farmers benefited and the policy ensured that farming stays in areas where it is socially desirable. In economic terms the desired value added of the impact and the society's willingness to pay to preserve the benefits of agriculture, especially in areas in decline is in line with the cost of the policy. (Núñez Ferrer, J. – Kaditi, E. A., 2007).

4. CONCLUSIONS

Provision of public goods supposes public finance: either from the common or from the national budget or both of them. Among others it is to mention, that a relatively large share of environmentally sensitive areas is of international importance. Protection of these areas can not be exclusive liability of member states. It is a common interest to have the landscape in less developed countries and regions meet the requirements of the European model. *Provision of European public goods under common frames can provide compensation for uneven distribution of costs.*

The cancellation of financing the Common Agricultural Policy through the common budget or its radical reduction would aim at improving the position of net contributors rather than at a parallel increase of cohesion expenditure and would involve the possibility of decreasing the cohesion expenditure and also the common budget (for example, R. Baldwin says that the common budget could be reduced to 80 per cent of its previous volume, Baldwin, 2005)

Furthermore the deepening of the European integration is possible through the preservation of the *acquis communautaire* the preservation of common policies even if the reform process promoting sustainability is justified and highly required.

In order to achieve these goals, it is also necessary for the common budget to operate as an instrument of the effective implementation of common policies and objectives. If member states focus narrow-mindedly only on improving their net budgetary position, common policies would become of secondary importance and the process of the European integration would come to a halt after decades of development, or stagnate at the present level. The gap between the new and old member states could further deepen instead of decreasing.

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