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Agricultural Situation

Debate on future EU budget could impact on EU agricultural subsidies

2004

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Report Highlights:
The European Commission has tabled proposals for the EU budget from 2007 to 2013. These foresee up to EUR 158 bn in the EU budget by 2013, around 1.15% of EU GDP, of which EUR 55 bn, or 38% is for agriculture.
Already, the main net contributors to the EU budget have called for an overall reduction in the size of the EU budget. One of the key tasks in the first year for the incoming Commission President Barroso will be to ensure that Member States remain committed to the EU budget. Should the budget be reduced, then agricultural support, and rural development in particular, could be seen by many as an easy area to make cuts.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

Financial Perspectives

The European Commission has proposed its budget plans for the period 2007-2013. More formally, the proposals are known as the "financial perspectives" and set out revenue and expenditure ceilings. The proposals would see the total EU budget averaging out at 1.14% of EU GDP over the six year period. The EU budget is limited to a maximum of 1.24% of EU GDP and cannot run a deficit.

The Commission published its proposals in February 2004. The legislation must be in place by the end of 2005 at the latest, and requires approval from the European Parliament and Council. It is likely that political debate over the future EU budget will pick up at the December European Council and continue to be actively debated well into the first half of 2005.

The Financial Perspectives are based on the EU expanding to 27 countries, with Romania and Bulgaria joining in 2007. Other assumptions include using 2004 prices and a 2% inflation rate. (Earlier Commission projections of CAP expenditure were based on 1% inflation, which is why the CAP market expenditure line falls slightly in the below table, in practice, spending is being held constant in real terms).

In addition to the €55 bn set for agriculture, or 38% of the EU budget, a further €700 million is allocated for fisheries expenditure annually. (See GAIN Report E34041[1] for more details). It should be noted that during the period 2007 to 2013, the New Member States and eventually Romania and Bulgaria will also be receiving an increasing slice of this amount, so in practice the total expenditure benefiting EU-15 farmers will be falling. GAIN report E34004[2], 'Enlargement of the Common Agricultural Policy' details how the ten new member States who joined the EU in 2004 will see their allocation of direct payments, the main component of CAP budgetary expenditure, rise from 35% of the EU-15 level in 2006 to 100% by 2013[3].

Proposed EU Budget Commitments for 2007-2013

Bn EUR	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
EU budget	120.7	133.6	138.7	143.1	146.7	150.2	154.3	158.5
As a % of GNI	1.09	1.15	1.23	1.12	1.08	1.11	1.14	1.15
CAP	54.3	55.3	55.9	56.1	55.9	55.7	55.6	55.5
- Agri Markets	43.7	43.5	43.7	43.4	43.0	42.7	42.5	42.3
- Rural Development	10.5	11.8	12.2	12.7	12.8	13.0	13.0	13.2

Source: European Commission
Notes: GNI – Gross national income, similar to GDP.

[1] http://www.fas.usda.gov/gainfiles/200408/146107034.doc
[2] http://www.fas.usda.gov/gainfiles/200404/146106177.doc
[3] Romania and Bulgaria will have a similar phase in of direct payments delayed by several years compared to the NMS-10. This is detailed in GAIN Report E34028. http://www.fas.usda.gov/gainfiles/200406/146106691.doc

Political Debate on the size of the EU budget

The proposals for the 2007-2013 financial perspectives will be the subject of much political debate. In December 2003, the leaders of the six main net contributors to the EU budget (Austria, France, Germany, the Netherlands, Sweden and the UK) sent a letter to the Commission calling for the size of the EU budget to be limited to 1% of EU GDP (as opposed to the current limit of 1.24%), with the current EU budget to be reduced. The net contributors would probably prefer to allocate resources to domestic policy rather than see the money spent at the European level where they would receive a much smaller slice of the cake.

The UK's situation is further complicated by the budget rebate mechanism which acts to return some of the net contributions that the UK makes to the EU budget. However, it also encourages the UK to make less use of EU spending[4]. The other Member States will likely wish to debate the future of the UK's budget rebate during the financial perspectives debate.

The Commission has rejected the approach of a reduced budget and argued that it would be unable to finance its policies and certainly not be able to expand its role to include areas such as justice and home affairs or external relations.

The incoming Commission President, Jose Barroso, has already reaffirmed his determination to maintain the higher level of spending proposed by the Commission earlier this year. The outgoing Budgets Commissioner, Michaele Schreyer, in a recent interview, warned those Member States calling for a reduction of the EU budget that they would have to tell the Commission which policies should "be given up" if spending were to be reduced.

It is expected that the Dutch Presidency will present alternatives to the Commission proposals during Fall 2004, which will outline how money could be reduced from the budget, with regional aid seen as one of the likeliest target for cuts.

The market expenditure component of the CAP is seen as being fairly safe from cuts, as Member States agreed to limit expenditure in this area in a December 2002 agreement. However, rural development spending was not included in this agreement, so could easily be vulnerable to cuts, and at a proposed level of €13bn might be seen as an area where cuts could easily be made.

[4] The mechanism means in practice that the UK government has the choice between one Euro spent in the UK from the EU budget or €0.66 spent by the govt. on domestic policy. It frequently prefers the latter, viewing domestic policy as much more efficient in achieving policy objectives. For example, the UK only receives 3.5% of current EU rural development expenditure, despite having some 12% of (EU-15) land area.

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