Paper presented at the IAMO Forum 2004
"The role of agriculture in Central and Eastern European rural development: Engine of change or social buffer?"
4 – 6 November 2004, Halle (Saale), Germany

The second pillar of the CAP between reform and EU enlargement

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DRAFT

ABSTRACT

The paper focuses on the process of CAP reform and the reinforcement of the so-called "second pillar", that is policies for rural development. Such focus is framed within the wider issue of the financial constraints of the CAP and it takes into the picture also the recent EU enlargement. More in details, the paper deals with the following aspects: the distribution of resources coming from the modulation of direct payments, that provides the second pillar with additional resources; the financial perspectives for Rural Development policies, in the light of the proposal of a single fund that include both Guarantee and Guidance sections of the EAGGF; the new distribution of resources for Rural Development Plans as it comes out of the "objective criteria" coming from the European Commission. The proposal of a single fund will change the geography and the distribution of resources for the second pillar quite consistently. It would also affect the equity of the objective criteria on which national envelops for rural development policies are based, that would probably will be debated and eventually revised.

1 INTRODUCTION

The CAP reform in 2003 almost coincided with the largest enlargement of the EU (2004) and also with a new programming period for Rural Development (RD) policies that is paving the way to major changes in the funding process. The new financial perspective of the CAP (2007-2013) embodies such major changes and also the growing conflicts among old and new Member States about budgetary issues of the CAP.

The reform was a necessary step in order to design a new CAP to address the needs of 25 partners. The enlargement will have a significant impact on the resource distribution for both pillars of the CAP support: market policies and direct payments (DP) on one side, and RD policies on the other.

The CAP reform moves along the path from unconditional support to selective instruments, explicitly related to the behaviour of farmers and to the local dimension of RD, following the pattern traced by the Mac Sharry reform in 1992 and by Agenda 2000 in 1999 (Council of the EC, 2003). Agenda 2000 stressed

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the importance of RD policies that must be reinforced in order to become the "second pillar" of the CAP to sustain agriculture together with the market policies (first pillar).

With specific refer to the second pillar of the CAP, a great emphasis has been put on its financial reinforcement since Agenda 2000. However, looking at the financial outlook of the European Commission, the status quo between first and second pillar in terms of financial resources is basically kept.

Currently (and also in the next future), the only active measure that diverts resources from the first to the second pillar is the modulation of DP (Henke, Sardone, 2003). Generally speaking, modulation marked a new approach in agricultural policies of the EU, not only in terms of reorienting support from market policies to RD policies, but also in terms of managerial, administrative and institutional aspects. However, it is worth noting that what is considered one of the most innovative instrument among the tools of the EU has gone through deep changes in its shape, objectives and effects, in a relatively short amount of time (between 1999 and 2003), so that it is almost impossible to see what its real effects on distribution of direct aids and reinforcement of the second pillar are.

The paper deals with these aspects, focusing on the announced reinforcement of the second pillar. More in details, three elements will be analysed:

- the shift of resources form pillar 1 to pillar 2 realised with the modulation of DP, both in the EU-15 and in the NMS (starting in 2010);
- the financial perspectives drawn by the European Commission, that launch into the arena the hypothesis of a single fund financing all the RD measures on the whole EU territory;
- the "objective" criteria introduced by the European Commission for the distribution of resources available for RD measures (included those coming from modulation).

About the implementation of modulation, it will start in 2005 in the current Member States (MS), but it will not start before 2010 in the New Member States (NMS) according to the agreement of Copenhagen (when the new partners will enjoy 100% of total DP, national top-ups included). In the paper the effects of modulation implemented in the new Member States and resources diverted from the first to the second pillar of the CAP will be analysed.

As for the financial perspectives and the objective criteria, the paper will focus on the new budget allocation for RD regulation taking into consideration both the hypotheses of a single fund and the current "objective criteria" for resource distribution. In the picture of the new allocation, modulation will be taken into account. The paper also deals with the problem of the current mismatching of the new financial support for RD and the objective criteria for distribution announced by the Commission. Finally, the paper will compare resources for the EU-25 RD policies available for the 2007-2013 planning period and the ongoing

2000-2006 planned budget, highlighting the need to revise the current distribution criteria introducing more stringent convergence and cohesion factors, awarding mechanisms of financial management and some territorial and environmental indicators.

2 FINANCIAL ISSUES IN THE CAP AND STRUCTURAL FUNDS

The three underlying elements of the financial perspectives launched by the Commission for the 2007-2013 period are the following: a dynamic economy based on knowledge; a sustainable economic growth; a larger social cohesion (European Commission, 2004). With regards to the planned resources, they are below the constraints of 1.24% of the GDP and are actually within the threshold of 1.15% invoked by President Prodi[2]. The new financial perspectives have been articulated in 5 main headings. The second heading refers to the preservation and management of natural resources and it includes the CAP expenditure (first and second pillar).

About CAP, three aspects need to be underlined: resources available for pillar 1; resources available for pillar 2; the relevant changes in the distribution criteria of RD resources. About the first point, it is quite evident a relevant reduction of resources devoted to agricultural markets, included DP, certainly fixed at a much lower level than the agreement reached during the Council of Brussels in 2002 (Agra Europe, 2004; Council of the EU, 2002). In 2013 programmed resources for pillar 1 amount to 42.3 billion euro, against 48.5 billion agreed on in 2002 (Swinnen, 2003). The Brussels agreement and the new financial perspectives included also the CAP expenditure for the NMS. As it is well known, DP will be granted to the NMS according to a progressive *phasing in* process, starting at 25% of EU-15 DP in 2004 and raising up to 100% in 2013. However, NMS were allowed to “top-up” payments from national budget or using part of the SAPARD pre-accession funds. That will let them reach the level of EU-15 DP earlier than planned, in 2010 instead of 2013 (INEA, 2002).

The second relevant aspect within the second heading is the proposal of a single fund financing RD. That means resources previously split between Guarantee and Guidance sections of the EAGGF will join in a single fund that will finance RD both in Objective 1 and non Objective 1 regions. The total amount of resources planned for pillar 2 amount to 11.8 billion euro in 2007, up to 13.2 billion in 2013. It is worth keeping in mind that at the moment resources for RD and other structural policies for agriculture come from the section “guidance” of EAGGF (about 6 million euro, 4,35 billion euro for EU-15 and the rest for NMS) and from Structural Funds (about 4 million euro). Altogether, resources

[2] This has to be considered the outcome of a compromise reached with some countries (France, Germany, Austria, the Netherlands, United Kingdom) that required a ceiling of the public expenditure fixed at 1% of the EU GDP.

available for RD amount currently to about 10 billion euro and should stay at this level up to 2006.

Given the proposal of a single fund and the increasing number of measures within pillar 2 – from 22 to 26 – and considering that NMS will take large advantage of the available resources in pillar 2, for the structural conditions of their agricultural sector and rural areas, the total amount of resources for RD, in spite of their increase, will most probably unfit the growing demand from old and new MS. However, additional resources for RD should be made available with the modulation of DP.

The third aspect to be considered here is the distribution of resources according to the so-called "objective criteria" for the allocation of RD resources to both old and new MS and also for resources shifted from pillar 1 to pillar 2 for modulation. Allocation of funds for RD policies in the current programming period (2000-2006) is based on the following criteria: the level of spending under the previous planning period (1994-1999), that is the efficacy of spending; the commitments made in 1994-1999 and carried over to 2000-2006; the level of implementation of rural diversification measures (Art. 33) (Mantino, 2003a). The new criteria launched by the Commission are based on the share of utilised agricultural area (UAA), that accounts for 65% of the total weight; the share of agricultural employment, that accounts for 35% of the total weight; the GDP per capita as a correction factor of the first two criteria. All in all, such criteria take into account structural variables adjusted by per capita GDP, which is a broad cohesion indicator. It is worth underlining that no refer is made to rural indicators as well as to environmental variables. Moreover, these criteria seem not to be fully compatible with the realistic proposal of the single Fund launched by the Commission. In fact, given that funds for Objective 1 regions would be included in the single fund, cohesion and convergence elements should be taken more into account in the process of resource distribution.

In table 1 current and future allocation, according to the new criteria, are reported, with regards to the EU-15 and the NMS. The combination of the new criteria and the enlargement has a relevant impact on such distribution: the current 15 MS will enjoy only 54% of the total Funds, while the 10 NMS will enjoy the 46%; among the NMS, Poland alone will account for 28% of the total new allocation. Among the current MS, Germany's share decreases from 16% to 6.5%, France's from 17.5 to 10.5%, Italy's from 12.9% to 6.5%. Austria's from 9.7% to 1.9%; at the same time, UK's share increases from 3.5% to 5.1%, Spain's from 10.6% to 11.1%, Greece's from 3% to 3.7%[3].

Tab. 1: Distribution of RDR Funds according to the current and the new criteria (%)

	Current Allocation	New allocation EU-15	New allocation EU-25
Belgium	1,2	1,0	0,5
Denmark	1,1	1,7	0,8

3 In the table the EU-15 distribution according to the new criteria is reported, not only as an element of comparison, but also because that distribution will be used for modulation resources from 2006 till 2010, when NMS will be involved into the modulation process, as it will be pointed out later in the paper.

Germany	16,1	12,9	6,5
Greece	3,0	7,1	3,7
Spain	10,6	18,5	11,1
France	17,5	19,8	10,5
Ireland	7,3	2,7	1,3
Italy	13,7	12,9	6,5
Luxemburg	0,3	0,1	0,0
Netherlands	1,3	2,2	1,0
Austria	9,7	4,2	1,9
Portugal	4,6	4,9	3,1
Finland	6,7	1,8	0,9
Sweden	3,4	2,0	1,1
United Kingdom	3,5	9,8	5,1
EU-15	**100,0**	**100,0**	**54,0**
Cyprus	-	-	0,1
Czech Republic	-	-	2,7
Estonia	-	-	0,9
Hungary	-	-	4,1
Latvia	-	-	3,2
Lithuania	-	-	4,6
Malta	-	-	0,0
Poland	-	-	28,1
Slovakia	-	-	1,9
Slovenia	-	-	0,5
NMS	**-**	**-**	**46,1**
EU-25	**-**	**-**	**100,0**

Source: Elaboration on European Commission and EUROSTAT data

3 MODULATION OF DIRECT PAYMENTS

Modulation cuts DP granted to each farm and provides RD policies with additional resources. In other words, modulation is the only current instrument in the CAP that reinforces pillar 2 at the expenses of pillar 1. Modulation affects all common market organisations (CMOs) providing DP, including the "new" DP approved with the Fischler Reform, and it involves DP independently from the de-coupling process.

Modulation is mandatory and it is based on a cut from 3 to 5% in 3 years, with a franchise for the first 5.000 euro of DP per each farm, whose rationale is the exclusion of little farmers from modulation[4].

The shift of resources from market policies to RD policies implies a process of financial redistribution. The Commission established that only a minor part of the cut (20% in 2007) will remain in each MS where it was realised, with the prevailing rest (80%) returning to the EU to be redistributed according the "objective criteria". However, the redistributive power of modulation is partly offset by a threshold of 80% of the total cut that must return to each MS

4 Regulation n. 1782/2003 talks about a "supplementary aid" to farmers, calculated as a "restitution" to farmers after the modulation cut and tied to the threshold of DP under 5.000 euro. Nonetheless, it could be easily turned into a simple "franchise", with no big effect on the quantity of resources modulated per each farm.

(through the franchise, the MS share of 1 percent point and the return according to the objective criteria).

With regards to modulation in NMS, it will be fully implemented when the level of DP in the new partners will reach that of the EU-15 (2010). For this reason, the analysis of modulation will be divided into two parts: in the first part (section 3.1) the focus will be on the 15 current EU partners, since modulation will hit only their DP; in the second part (section 3.2) the analysis will include also NMS.

3.1 Modulation in the EU-15 (2005-2009)

Data in table 2 give an idea of the distribution of direct payments in EU-15. Data refer to the projection of the EU Commission for 2007, adjusted on the basis of the recent approved reform. They show that, generally speaking, Mediterranean Countries feature the highest level of farms enjoying less than 5.000 euro of DP.

Tab. 2: EU 15 - Direct Payments per Member State (2007)

	Total	< 5.000 euro	> 5.000 euro	< 5.000/ Tot.
	(Meuro)	(Meuro)	(Meuro)	(%)
Belgium	531,5	144,5	387,0	27,2
Denmark	1.034,1	258,1	776,0	25,0
Germany	5.613,1	1.345,8	4.267,3	24,0
Greece	1.942,0	1.363,0	579,0	70,2
Spain	4.855,5	1.883,7	2.971,8	38,8
France	8.556,4	1.760,2	6.796,2	20,6
Ireland	1.299,5	504,8	794,7	38,8
Italy	3.993,3	2.051,6	1.941,7	51,4
Luxemburg	31,7	6,7	25,0	21,1
Netherlands	797,8	230,1	567,7	28,8
Austria	719,4	404,8	314,6	56,3
Portugal	597,5	366,7	230,8	61,4
Finland	548,5	271,1	277,4	49,4
Sweden	745,5	218,8	526,7	29,3
United Kingdom	3.877,2	579,3	3.297,9	14,9
EU-15	**35.143,1**	**11.389,1**	**23.754,0**	**32,4**

Source: Council Working Party, 2003

This is due to either the relatively small dimension of farms in these countries and the structure of production, less oriented to products whose support is granted through direct payments. On the other extreme, UK, France and Germany feature the lowest rate of payments under 5.000 euro.
Starting from 2007, a 5% cut of total DP will be implemented, for a total amount of 1.8 billion euro. Considering the distribution of the DP within MS, the "restitution" will amount to 570 million euro (32.4%). The difference between the total cut and the restitution is the actual amount of resources available for RD policies. The reinforcement of Pillar 2 is accomplished through two different mechanism: 20% of resources will be kept in the MS where they have been cut;

the rest will return to the EU and will be redistributed to MS according to the "objective criteria" indicated by the Commission. In 2007 (up to 2009), net revenues from modulation should amount to slightly less than 1.200 million euro, of which about 228 million will be kept by Member States and the rest (round 913 million euro) will return to the EU and redistributed according to the objective criteria. The actual rate of modulation will be, on average, 3.4%, but it will change according to the distribution of DP, the lowest being in Greece (1.5%) and the highest in United Kingdom (4.3%).

The distribution effects of modulation in the EU-15 depend on both the distribution of DP and the allocation of resources to MS according to the objective criteria. In table 4 winners and losers of the redistribution process of modulation among the MS are displayed. Among winners: Portugal (+37.4 million euro, 504% of the actual cut), Greece (+44.3 million euro, 291%), Austria (+27 million euro, 317%), Italy (+44.9 million euro, 157.8%); main losers are France (-83.7 million euro, 69%), Germany (-48 million euro, 72%), UK (-38.8 million euro, 70.6%) and Denmark (-15 million euro, 52%).

3.2 Modulation in the EU-25 (2010-2013)

Starting from 2010, modulation will affect also DP in the NMS. NMS will contribute to the total amount of resources available to reinforce Pillar 2 policies, but they will be full beneficiaries of such resources.

Given the agricultural structure of the NMS, the distribution of DP will differ significantly among them and between them and the actual MS. Moreover, they will all be net beneficiaries of the financial resources coming from modulation. Table 3 shows DP for NMS[5]. Most of DP are concentrated into three NMS: Poland (46%), Hungary (21%) and Czech Republic (14.5%). Given both the dimensional structure of farms in the NMS and the similarities with the distribution of DP in the current MS, an hypothesis of distribution under and above the 5.000 threshold has been supplied (the fourth column in table 5). The Baltic Countries were given the highest percentage of direct payments below the threshold (65%); The Czech Republic was given a percentage of 25%; the rest of NMS was given a share of 45%[6].

The total amount of resources modulated in NMS will amount to 279.7 million euro, that is 16% of resources modulated in the EU-15. Slightly less than 90% come from the three "big": Poland (45.4%), Hungary (20.5%) and Czech Republic (19.4%). The total supplementary aid amounts to 123.4 million euro, so that the actual modulated resources available for RD are 156.3 million euro: 31.3 million euro will be kept into the NMS, and 125 million will return to the

[5] Data for Malta are not available, so the exercise will be run on 9 out of 10 NMS.
[6] Such percentages were attributed on the basis of the average dimension of farms in NMS: in the case of Czech Republic, large farms and co-operatives are relevant in farm typology; in Baltic Countries, small subsistence farms are a large share of total farms; in the other NMS family farms medium size represent the highest share of total farms (INEA, 2002).

EU and redistributed according to the objective criteria. The actual rate of modulation would be, for the whole NMS, 2.8%.

Tab. 3: NMS - Direct Payments (2010)

	Total DP Meuro	Total DP %	DP <5000 Meuro	DP <5000 %	DP >5000 Meuro
Cyprus	20,9	0,4	9,4	45,0	11,5
Czech Republic	809,7	14,5	202,4	25,0	607,3
Estonia	93,8	1,7	61,0	65,0	32,8
Hungary	1.168,0	20,9	525,6	45,0	642,4
Latvia	127,1	2,3	82,6	65,0	44,5
Lithuania	341,0	6,1	221,7	65,0	119,4
Poland	2.579,2	46,1	1.160,7	45,0	1.418,6
Slovakia	338,7	6,1	152,4	45,0	186,3
Slovenia	115,6	2,1	52,0	45,0	63,6
NMS	**5.594,1**	**100,0**	**2.467,8**	**44,1**	**3.126,3**

Source: INEA elaboration on EU data

In table 4 modulation implemented in the EU-15 between 2007 and 2009 and the EU-25 scenario starting from 2010 are dispalyed. NMS are net beneficiaries of modulation, for a total amount of 370.6 million euro; Poland alone gains about 245 million euro. Net losers are France, Germany, United Kingdom and also most of the partners that were gainers up to 2009: Italy, the Netherlands, Finland. Among the Fifteen, the only net beneficiaries after enlargement are Greece, Portugal and Austria.

Tab. 4: Modulation of direct payments, EU-25

	2007-2009				2010			
	Obj. Cr. EU-15 (%)	EU Cut Meuro	Restit. Meuro	Diff. Meuro	Obj. Cr. EU-25 (%)	EU Cut Meuro	Restit. Meuro	Diff. Meuro
Belgium	1,0	15,5	9,5	-6,0	0,5	15,5	5,4	-10,1
Denmark	1,7	31,0	16,2	-14,9	0,8	31,0	8,6	-22,4
Germany	12,9	170,7	122,6	-48,1	6,5	170,7	69,9	-100,8
Greece	7,1	23,2	67,5	44,3	3,7	23,2	39,8	16,6
Spain	18,5	118,9	175,8	56,9	11,1	118,9	119,3	0,5
France	19,8	271,8	188,1	-83,7	10,5	271,8	112,9	-159,0
Ireland	2,7	31,8	25,7	-6,1	1,3	31,8	14,0	-17,8
Italy	12,9	77,7	122,6	44,9	6,5	77,7	69,9	-7,8
Luxemburg	0,1	1,0	1,0	0,0	0,0	1,0	0,0	-1,0
Netherlands	2,2	22,7	20,9	-1,8	1,0	22,7	10,8	-12,0
Austria	4,2	12,6	39,9	27,3	1,9	12,6	20,4	7,8
Portugal	4,9	9,2	46,6	37,3	3,1	9,2	33,3	24,1
Finland	1,8	11,1	17,1	6,0	0,9	11,1	9,7	-1,4
Sweden	2,0	21,1	19,0	-2,1	1,1	21,1	11,8	-9,2
United Kingdom	9,8	131,9	93,1	-38,8	5,1	131,9	54,8	-77,1
EU-15	**100,0**	**950,2**	**950,2**	**0,0**	**53,9**	**950,2**	**579,5**	**-370,6**
Cyprus					0,1	0,5	1,1	0,6
Czech Republic					2,7	24,3	29,0	4,7

Estonia	0,9	1,3	9,7	8,4
Hungary	4,1	25,7	44,1	18,4
Latvia	3,2	1,8	34,4	32,6
Lithuania	4,6	4,8	49,5	44,7
Poland	28,1	56,7	302,1	245,4
Slovakia	1,9	7,5	20,4	13,0
Slovenia	0,5	2,5	5,4	2,8
NMS	**46,1**	**125,1**	**495,7**	**370,6**
EU-25	**100,0**	**1.075,2**	**1.075,2**	**0,0**

Source: elaboration on EU data.

3.3 The reinforcement of Pillar 2

Looking at the programming period 2000-2006, and considering only the effects on the EU-15, modulation adds resources to the RD funds for about 26% of the total programmed resources. However, the EU average hides quite a differentiated level of contribution among partners: from 6.3% in the case of Finland up to 75% in the case of United Kingdom (Henke, Sardone, 2003).

The situation changes significantly if one looks at the planning period 2007-2013 and considers enlargement. In this case, current MS will be granted 54% of the total RD funds, while NMS will receive the remaining 46% (table 5). In order to quantify the weight of additional resources coming from modulation in favour of pillar 2, we refer to the recent proposal of the "single fund" (that is, guarantee and guidance section of EAGGF for RDR) that allots around 13.000 million euro to RD)[7].

Tab. 5: Modulation and Rural Development (2010-2013)

	Obj. Criteria	Modulation	Ip. RDR Funds = 13.000 Meuro	
			RDR Funds	Mod./RD
	(%)	(Meuro)	(Meuro)	(%)
Belgium	0,5	9,2	65,0	14,2
Denmark	0,8	16,4	104,0	15,7
Germany	6,5	112,6	845,0	13,3
Greece	3,7	45,6	481,0	9,5
Spain	11,1	149,1		10,3
France	10,5	180,9		13,2
Ireland	1,3	21,9	1.443,0	13,0
Italy	6,5	89,3	1.365,0	10,6
Luxemburg	0,0	0,3	0,0	-
Netherlands	1,0	16,4	130,0	12,6
Austria	1,9	23,6	247,0	9,5
Portugal	3,1	35,6	403,0	8,8
Finland	0,9	12,5	117,0	10,6
Sweden	1,1	17,1	143,0	12,0
United Kingdom	5,1	87,8	663,0	13,2
EU-15	**53,9**	**817,1**	**7.007,0**	**11,7**
Cyprus	0,1	1,2	13,0	9,2
Czech Republic	2,7	35,1	351,0	10,0

[7] As it is stressed later in the paper, with the single fund objective criteria should be revised given that they would redistribute resources coming from Guidance section of EAGGF to all member States, independently from the number of regions under Objective 1 in each Member State. This point will be deepen later in the paper.

Estonia	0,9	10,0	117,0	8,6
Hungary	4,1	50,5	533,0	9,5
Latvia	3,2	34,9	416,0	8,4
Lithuania	4,6	50,7	598,0	8,5
Poland	28,1	316,3	3.653,0	8,7
Slovakia	1,9	22,3	247,0	9,0
Slovenia	0,5	6,0	65,0	9,2
NMS	**46,1**	**526,9**	**5.993,0**	**8,8**
EU-25	**100,0**	**1.344,0**	**13.000,0**	**10,3**

Source: INEA elaboration on EU data

In this scenario, resources available for RD will amount to 7.000 million euro for the EU-15 and to about 6.000 million euro for NMS. Accordingly, modulation ratio to RD funds will be 11.7% in the previous case and 8.8% in the latter. Altogether, resources coming from modulation are the 10% of RD funds in an enlarged EU. It is also quite evident that, to the extent that a larger amount of resources will be available for RD policies, modulation will represent a smaller portion of additional resources.

Finally, it is worth underlining that compulsory modulation aims at reinforcing the whole menu of measures in the RDP (including the new ones). However, only Non Objective 1 Regions plan the whole set of policies into the RDP, while Regions in Objective 1 put into their RDP only accompanying measures and allowances for disadvantaged areas (the rest being programmed in the Regional Operational Programmes). Such difference will disappear with the application of a single fund for RD policies.

4 RD POLICIES: BUDGETARY PERSPECTIVES AND RESOURCE DISTRIBUTION

The Second European Conference on Rural Development, held in Salzburg, was meant "to assess the implementation of EU rural development policy since Agenda 2000 and to look ahead to future needs" (Commission of the EC, 2003). The Conference wound up with a document listing the principles that shall guide the future of RD regulation and the essential elements of the planning activity to be followed by the EU in the next years. The emphasis was placed on the need to invest in the broader rural economy and rural communities, in order to increase the attractiveness of rural areas, to promote sustainable growth and to generate new employment and, finally, to encourage multifunctional agriculture. Emphasis was also placed on the competitiveness of the farming sector (to be addressed through diversification, innovation and high added value products), that is key for the role of agriculture in the development of rural areas.

The Conference introduced also important issues for the next programming period regarding the definition of applicability, programming and

implementation procedures and delivery mechanism of RD policy. Future RD regulation must apply in all rural areas of the enlarged Europe, becoming "horizontal" and distinct from regional policies that seek to redress territorial imbalance by the concentration of interventions in priority areas. Moreover, its delivery shall be based on a single programming, financing and control system and on a single Fund. That is, RD will be delivered, out of the cohesion policies, through *ad hoc* regional and/or national programmes.

Meanwhile, a new EU document was launched by the Commission, discussing three possible options for the evolution of RD policies (European Commission, 2004). The three scenarios are different in targeting territorial issues and in concentrating financial resources. All of them consider crucial for the success of RD in an enlarged EU the mainstreaming of the LEADER approach, a more effective concentration of resources on targeted tasks and a major focus on territorial issues. However, one scenario considers the extended status quo; one is based on the assumption three strategic axes setting EU priorities (human and physical resources for *competitiveness*; agro-environmental measures and allowances for areas with restrictions or handicaps for *land management and environment*; local development, economic diversification and LEADER-like measures for *rural development*); the third scenario emphasises the territorial approach, setting territorial tasks in each strategic axis and farther concentrating resources on specific groups of measures.

The framework of cohesion policies for the new programming period, according to the Commission proposal, will bring several innovations. The new Objective 1 will still mainly focused on the less developed MS and regions in the enlarged Union, the so called convergence regions. The EU enlargement will reduce average GDP per capita in the EU and, according to present estimates, 17 regions which at present have an Objective 1 status will be phased out (Commission of the EC, 2004a). However, the new Objective 1 should also include those regions that would no longer be eligible to assistance because of the so-called "statistical effect".

As already pointed out, RD regulation are no more integrated in the Structural Funds programmes. This implies a transfer of resources from Structural Funds to the new RD budget. According to the new financial framework for the enlarged EU resources available for RD (expressed in commitment appropriations) are estimated to amount to 88,753 billion euro for the period 2007-2013, while the annual budget will rise from 10,544 billion of euro in 2006, to 13,205 billion in 2013(Commission of the EC, 2004b).

The factors influencing the future distribution of RD resources among MS, and more specifically between old and new MS, can be identified as following: the need to concentrate resources on convergence regions; the objective criteria for the resource distribution set by the Commission; the opportunity to introduce award mechanisms to strengthen the conditionality attached to RD policies to

achieve the expected objectives, including the improvement of financial management.

The first point might imply that a given financial share of the resources available for RD could be devoted to “convergence” regions. In the current programming period 69,7% of the Structural Funds was allocated in favour of Objective 1 Regions. For the future this concern might have relevance in the case of RD, considering the potential of such policies in contributing to economic cohesion. Nevertheless it is not clear through which mechanism it will be taken into account and how it will impact on the budgetary allocation among countries in the enlarged Union. There are at least two possible modalities to ensure concentration of the resources: 1) to reserve a quote of the overall budget to convergence regions (which are mainly concentrated in NMS), similarly to what happens for Structural Funds; 2) to use, among the others, a “prosperity” criteria (such as GDP per capita[8]) for the allocation of funds to different regions.

The first solution, considering that convergence regions are mainly concentrated in NMS, will probably lead to a more substantial reduction in the share of the old ones.

Another factor capable of impacting on budget breakdown relates to the so called “objective criteria”. For the time being, as underlined earlier in this paper, a set of cohesion criteria has already been identified by the Commission and they could be applied to all RD funds, Union wide, starting from the next programming period. The point is that they do not include any indicator related to the rural areas or to the relevance of protected areas. The debate, at the European level, on the concept of rurality could result in a rethinking of the “objective criteria”, to include rural indicators as well as environmental ones. A revision of the criteria in this direction would probably have a differentiated effect on different MS, depending on the geography of rural areas, on their socio-economic characteristics and level of institutional support to the definition of protected areas.

As for the third question to be addressed, we recalled the opportunity to introduce some sort of award mechanism to strengthen the capability of the policy instruments to achieve the expected results. It should be noticed that within the Structural Fund framework for the current programming period was established that 4% (performance reserve) of the available funds would have been distributed according to given performance criteria, linked among the other things to the financial performance. The adoption of such a mechanism would be desirable and, if adequate criteria were adopted, could be used as an incentive to improve the overall management of programmes, contributing to the institutional building in NMS countries. On the other hand, it would most likely

[8] At the moment the GDP criteria works as a correction factor of the objective criteria (UAA and the share of agricultural employment) which have been established by the Commission as the base for the allocation of Funds under SAPARD and later on adopted for the distribution among countries of the additional funds raised from modulation.

work in favour of the Fifteen, were institutions are more experienced in managing EU policies.

Finally it could be considered the need to adopt for the current MS, which will probably see their allocation decreasing, a sort of "safety net" by fixing the maximum reduction in the budget allocated compared to the budget set out for the present programming period. For instance, it could be established that such reduction should not exceed one third compared to the past situation.

Summing up, at the moment it is not yet clear if and to what extent new hypotheses will be adopted and if, in general, there will be significant changes in the process of resource allocation. Nevertheless, it is still possible to try a rough estimate of the financial distribution of RD resources in the next programming period, applying the "objective criteria" used for modulation to allocate resources for RD, according to the new financial framework for the period 2007-2013 (see table 6). To estimate the total amount of resources for the period 2007-2013, we considered the 88,7 billion euro available for the period 2007-2013 together with resources coming yearly from modulation at the 5% level[9].

Tab. 6: Distribution of RD resources 2007-2013 and annual average variation on 2000-20006

	Obj. Criteria	RDR Funds 2007-2013 13.000 Meuro + modulation		RDR Funds 2000-2006 EAGGF + Modulation		Variation ann. average
		ann. avarage	Total	ann. avarage	Total	('07-'13/'00-'06)
	(%)	(Meuro)		(Meuro)		%
Belgium	0,5	74,4	520,9	62,9	440,4	18,3
Denmark	0,8	121,0	847,2	54,9	384,6	120,3
Germany	6,5	959,3	6.714,9	1.284,2	8.989,4	-25,3
Greece	3,7	526,6	3.685,9	411,3	2.879,3	28
Spain	11,1	1.580,6	11.064,3	1.254,5	8.781,3	26
France	10,5	1.544,4	10.810,8	972,9	6.810,6	58,7
Ireland	1,3	191,8	1.342,3	374,1	2.618,9	-48,7
Italy	6,5	936,0	6.552,1	1.098,1	7.687,0	-14,8
Luxemburg	0,0	0,7	4,6	13,2	92,7	-95
Netherlands	1,0	147,6	1.033,0	66,5	465,5	121,9
Austria	1,9	272,8	1.909,8	472,2	3.305,4	-42,2
Portugal	3,1	434,4	3.040,5	528,1	3.696,9	-17,8
Finland	0,9	129,7	908,2	346,2	2.423,4	-62,5
Sweden	1,1	159,6	1.117,5	182,3	1.276,0	-12,4
United Kingdom	5,1	750,8	5.255,9	241,2	1.688,4	211,3
EU-15	**53,9**	**7.809,9**	**54.669,2**	**7.362,8**	**51.539,7**	**6,1**
Cyprus	0,1	14,0	94,0	25,0	74,9	-44
Czech Republic	2,7	383,5	2.561,0	232,4	789,8	65
Estonia	0,9	124,4	840,1	70,7	263,0	76,1
Hungary	4,1	576,8	3.866,6	294,4	1.042,9	95,9
Latvia	3,2	441,0	2.981,3	158,2	566,3	178,8

[9] This level will be reached only in 2010 by NMS, and therefore we determined total amount coming from modulation, for these States, by considering only the years going from 2010 to 2013. In the annual average calculation the total amount was than divided by the total number of years in the next programming period, but we assumed that the percentage of modulation might be increased as the PAC reform process goes on. In other words, modulation for the period 2007-2010 will be lower than the amount we considered in our application, but it will most likely be higher for the following years (2011-2013).

Lithuania	4,6	635,1	4.290,0	191,4	699,5	231,8
Poland	28,1	3.893,3	26.261,6	1.363,2	4.797,8	185,6
Slovakia	1,9	265,1	1.782,9	139,3	494,8	90,2
Slovenia	0,5	70,0	470,4	148,2	471,2	-52,7
NMS	46,1	6.403,2	43.147,9	2.622,8	9.200,2	144,1
EU-25	**100,0**	**14.213,1**	**97.817,2**	**9.985,6**	**60.739,9**	**42,3**

Source: INEA elaboration on EU data

Moreover, 2000-2006 resources for NMS countries are estimated by summing the following figures: resources from EAGGF- guidance section committed for SAPARD programmes over the period 2000-2003; EAGGF-Guarantee section financial allocation for RDP for the period 2004-2006; an estimate of the EAGGF- Guidance section resources devoted to rural development measures within Objective 1 programmes 2004-2006. This last estimate is based on the indicative breakdown of commitments appropriations for RD under the Structural Funds in NMS for the period 2004-2006, given by the Commission in the third Cohesion Report.

For NMS the annual average 2000-2006 is an estimate based on the resources available for Rural Development in these countries for the period 2004-2006. 2000-2006 resources for EU-15 are obtained by summing RDP resources (including those coming form modulation) and funds coming from Objective 1 programmes. LEADER+ resources are not included.

Out of the not negligible increase, compared to current programming period, in the overall budget for RD, partly due to modulation, it should be noticed that the application of the “objective criteria” produces a strongly differentiated impact depending on the MS. In terms of annual average, while the budget of the EU-15 slightly increases, there are several countries with a quite marked decrease in the average budget. Strangely enough some of these (such as Portugal, Germany, Italy) are characterised by a relative importance, in terms of population, of Objective 1 regions. In MS where convergence regions are even more relevant (Greece, Spain), the total budget for RD increases. United Kingdom, Denmark, Netherlands and France are those who would gain more from the use of the considered allocation systems. On the other end, and this was to be expected, NMS, with the exception of Slovenia and Cyprus, increase consistently their annual budget compared to the period 2004-2006.

Further analysis would be required in order to assess if the resulting distribution is fair enough for old member states compared to their past situation and if it is respondent to the specific needs of the NMS. Nevertheless, additional work is advisable in order to improve the allocation criteria, by taking into account more directly structural gap between states, specific rural needs and the environmental dimension. The challenge here is to select adequate indicators, based on reliable data, capable of taking into account the complexity of environmental objectives and the diversity of rural areas.

5 CONCLUDING REMARKS

The emphasis on the reinforcement of the second pillar, announced with Agenda 2000 and gone on with the Fischler reform, is at the moment based only on the modulation of CAP direct payments. Such instrument does relocate a significant amount of resources, though quite differently among the current EU members according to their structural features of agriculture; however, the distribution effects of modulation change very much with the EU enlargement to 10 NMS. In fact, from 2010, when modulation will affect their direct payments, all the NMS will be net beneficiaries of modulation, gaining more support via the second pillar than their contribution to modulation.

Furthermore, with the new objective criteria of resource distribution for rural development support, modulation will embody a sort of paradox: given the reduction in the absolute amount of resources granted by each current Member State, resources coming form modulation will in turn become a meaningful share of the second pillar endowments, even if the cut realised on the first pillar endowments is quite limited (5% at its maximum). This will, of course, be amplified by the EU enlargement. Once again, we face a situation where the unbalance among pillars is far from being reduced and the only instrument that actively shifts resources from one pillar to the other is partially diminished in its impact on the relatively narrow budget for rural development.

Our analysis indicates that additional work is required in order to improve the actual allocation criteria, by taking into account more directly structural gap between states, specific rural needs and the environmental dimension trough adequate indicators.

In conclusion, both the CAP reform and the EU enlargement seem to underline the need for a deep rethinking of the whole system of the RD policies. The emphasis on pillar 2 is to be turned into a genuine and substantial financial support within the framework of the multifunctional approach to agriculture and in accordance with a revised model of European agriculture and rural areas. Moreover, the new Member States would probably enjoy specific measures of rural development that better fit their overpopulated and backward rural areas (Mantino, 2003b). It is hard to believe that what is good in rural areas where agriculture is only one of the many component of the social and economic system is also good for regions where agriculture still employs 30% of population, where self-consumption is still rather relevant and where any form of income diversification (within and out of agriculture) is extremely limited to scarce and under-remunerative activities.

Finally, the multi-funding financial support for rural development is still rather confusing and can represent an “access barrier” for New Member States where the institutional structure is relatively poor and not fully adapted to the EU rules

and *acquis*. A simpler and more flexible mechanism is, on one side, to be welcome, not only by the new Member States but the whole EU-25; on the other side, it can represent a step behind in the integration of human and financial resources and institutions for a effective, long-term development strategy for rural areas.

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