

A SMALLER UNION, A LARGER BUDGET PER MEMBER STATE

Maria NICA¹, Ionut Laurentiu PETRE²

¹ PhD Student, The Bucharest University of Economic Studies,
email: nicamaria93@yahoo.com

² PhD Student, The Bucharest University of Economic Studies,
email: laurpetre15@gmail.com

Abstract

This article aims to determine one of the many effects that can occur at EU level, but especially at the level of the member states by withdrawing the United Kingdom. This effect is the first and easiest to anticipate, namely the effect on the EU budget, directly and indirectly on the budget of each state. With the UK withdrawal, the EU budget will fall. During this time, the new form of the Common Agricultural Policy (2021-2027) is not established. Thus, together with the assumption that each Member State will want at least to maintain the same budget in the future CAP, the withdrawal of the UK will increase the contribution of each Member State to supporting the new CAP budget. To determine this increase for each Member State, the budgets of each of the two CAP pillars will be analyzed in the current programming period and the additional contribution of each State will be determined to equal the CAP budget in the future without UK support.

Keywords: European Union, Brexit, CAP, Budget.

Introduction

In the present study, it is desired to determine one of the effects that Brexit may have. The easiest to anticipate effect is on the budget of the European Union, but also of each Member State.

This research starts from a very controversial decision, both politically and socially, namely the withdrawal of the UK from the European Union. On 23 June 2016, the Brexit referendum was held and the result was very tight, with 51.9% of the participants opting for Britain's exit from the EU, and 48.1% chose to remain in the union. (Hunt-BBC, 2018) In addition to this, as we have already said, there are other issues that present discrepancies about this decision, namely: differences of opinion between the regions of Great Britain, England and Wales voting for leaving the European Union, and Scotland and Ireland the North opting to remain in the European Union. In addition to these issues, there are also differences of opinion with age, so young people (18-24 years old) vote for Britain to remain in the European Union, and the elderly (65+) voting for leaving the European Union. (Olteanu, 2016).

With all these aspects of disagreements between opinions and controversies on this issue, it was decided that the UK's exit from the European Union would take place on March 29, 2019. Thus, since then, there will be certain effects and consequences, both for the European Union and its states, as well as for the UK. Even if the reference is made to this date, this is not the exact moment when Britain will conclude all agreements with the European Union, with a transition period between March 29, 2019 and December 31, 2020. Thus, the official moment when Britain will be able to develop its own rules will be from 2021 onwards.

This moment overlaps with the start of the new Common Agricultural Policy (2021-2027), so these two issues are discussed together whenever there is debate. According to the Council

of the European Union, the future CAP policy (after 2020) would be based on simplification, flexibility, subsidiarity, and the most discussed topics is budget cuts.

Therefore, the research question is formed, "How does Britain's withdrawal from the European Union affect its budget, but especially the Common Agricultural Policy?"

1. Literature review

According to Davies (2018), Britain's decision to leave the European Union has implications for the social, political and economic situation. According to the same sources in the first two days after the election, global markets lost 2.8 billion dollars and the first companies in London lost 7% of the value.

Regarding trade in products and services, Lawless et al. (2016) estimates that, at country level, trade with the United Kingdom will be reduced in different weights in view of the new tariffs and price elasticity. Thus, according to the source, the cutback margin is very high, starting with 5% in Finland and reaching the exchange rate between the UK and Bulgaria down to 43%. However, the author says that in terms of trade in agri-food products is reduced by up to 90%.

As concluded by Dhingra et al. (2016) in his study, the economic consequences of the withdrawal of Britain will depend on the policy adopted in the coming period. And its estimates of trade effects and of the contribution to the EU budget will be equivalent to a decrease in income between 1.3% and 2.6% per household.

According to Felbermayr et al. (2017), it is expected that the European Union will cut spending exactly to the amount the UK would have so far disbursed and also share its contribution to the EU budget to the other Member States, assuming that they would increase their budget.

Ferrer & Rinaldi (2016) consider that Brexit's impact on the EU budget is manageable, but the latter should not rely on a false sense of security, ignoring the risks that the EU budget is currently facing. The same authors believe that migration, the economic crisis and debt have stretched the EU budget to the full, exhausting the elements of flexibility. However, the authors conclude that there is no reason to reassess the structure of the budget.

Thus, following the analysis of the above-mentioned specialized works, and beyond, it can be said that the opinions are not unitary in terms of the impact dimension, in the sense that some consider a shock impact and other authors consider a "manageable", but we can say that there is a consensus in the sense that the unanimous view is that the economic impact on the European Union budget following the withdrawal of Great Britain is a negative one.

2. Material and Method

This paper will analyze the effect of Britain's withdrawal from the EU on the budgets of each Member State on the Common Agricultural Policy. Thus, data from the European Statistical Database (Eurostat), referring to the financial allocations through the CAP for each state, but also with reference to their expenditure, will analyze in quantitative terms the contribution of each state.

After determining the weight of each country, the United Kingdom's allocations and funding will be disregarded and the additional weights for each state will be calculated for the CAP budget to remain unchanged, this being the working hypothesis for this research, given the

budget cut overall, it is assumed that each Member State wishes to maintain the budget of the previous programming period.

3. Results and discussions

In order to determine the impact that the European Union's budget will have on the withdrawal of the UK, the expenditure of each Member State and the European Union allocations to them will be further analyzed by sections. Thus, on the assumption that each Member State wishes to maintain its current budget for the Common Agricultural Policy, the UK allocations and expenditure will be abolished and distributed among the other Member States.

3.1 Estimate of the budget of the CAP after Brexit on the basis of expenditure

With the help of Eurostat data on the national contributions of each Member State, each country's spending on the Common Agricultural Policy, broken down for its two pillars and the two European funds, was analyzed.

Table 1 The expenditure of each Member State for the CAP pillars

EURO	2014	2015		2016	
	(EAFRD) Expend.	(EAGF) Expend.	(EAFRD) Expend.	(EAGF) Expend.	(EAFRD) Expend.
Belgium	23,012,726	511,765,160	87,509,506	473,204,692	67,515,068
Bulgaria	393,754,078	674,683,073	415,399,424	743,274,946	257,851,512
Czech Republic	283,254,953	897,393,979	233,752,796	860,673,229	343,949,492
Denmark	89,261,014	925,614,319	64,556,300	872,655,459	118,118,905
Germany	933,566,334	5,247,935,473	723,307,404	5,121,195,990	1,142,157,392
Estonia	62,142,387	119,725,418	47,526,042	122,554,165	131,625,874
Ireland	129	1,223,992,635	381,906,408	1,225,926,189	398,969,879
Greece	550,698,342	2,195,936,886	509,918,443	2,145,474,661	763,529,468
Spain	964,329,240	5,488,057,946	1,083,625,207	5,243,854,215	881,485,466
France	798,146,777	8,129,472,537	820,333,103	6,612,881,258	702,585,782
Croatia	2,735	155,929,186	94,871,235	141,195,792	151,311,809
Italy	1,203,302,479	4,065,667,216	1,295,323,797	4,052,344,430	980,825,579
Cyprus	22,898,351	58,579,244	20,775,706	57,851,141	16,639,624
Latvia	58,794,697	167,933,496	74,860,908	189,276,500	172,108,987
Lithuania	232,386,994	414,678,462	106,904,424	440,631,639	276,173,619
Luxembourg	2,073,634	36,052,039	15,104,559	37,851,183	14,937,697
Hungary	550,360,374	1,333,219,545	450,714,259	1,319,761,619	342,925,793
Malta	11,413,913	4,802,684	9,785,508	5,616,206	6,090,778
Netherlands	111,031,187	843,904,414	50,432,955	767,900,093	73,165,623
Austria	284,782,174	711,197,515	421,858,166	719,036,410	636,383,553
Poland	1,707,917,562	3,545,252,845	1,362,524,231	3,595,149,988	1,097,889,922
Portugal	736,854,640	736,260,451	304,332,752	755,964,658	655,056,507
Romania	822,846,785	1,462,321,272	1,501,472,306	1,568,918,943	1,140,778,629
Slovenia	118,098,410	138,122,855	46,706,662	147,103,321	128,343,140
Slovakia	148,350,896	439,734,823	122,545,967	435,594,552	127,383,060
Finland	80,544,216	531,211,797	406,561,609	537,971,477	425,220,284

Sweden	221,282,730	699,847,946	175,656,013	684,883,951	248,156,091
United Kingdom	689,398,050	3,101,161,496	619,101,313	3,084,697,614	705,717,097
Total EU-28	11,100,505,808	43,860,454,712	11,447,367,003	41,963,444,320	12,006,896,630

Source: own processing based on Eurostat data.

As can be seen in Table 1, the level of each country's own contributions is presented in the statistical bases up to the level of 2016, so that in order to determine the changes made to the budget by withdrawing the UK, an average for the new CAP period will be achieved.

Thus, with regard to the first pillar of the Common Agricultural Policy and the market measures implemented through the European Agricultural Guarantee Fund (EAGF), averaging between two years, the UK contributes to it by some EUR 3.1 billion annually, positioning itself in the top 6 Member States, with an average share of 7.21% of the total of this fund. This value and weight will be distributed to all other Member States.

Concerning the second pillar of the CAP, the one for rural development, it is implemented through the European Agricultural Fund for Rural Development (EAFRD). In order to determine UK's annual weight, the average of the current programming period was reached, but by 2016, given the availability of statistical data. Therefore, over the period 2014-2016, the United Kingdom contributed to this fund by about 671.4 million euros annually, with a share in the total fund of 5.83%. And it will be distributed to the other Member States.

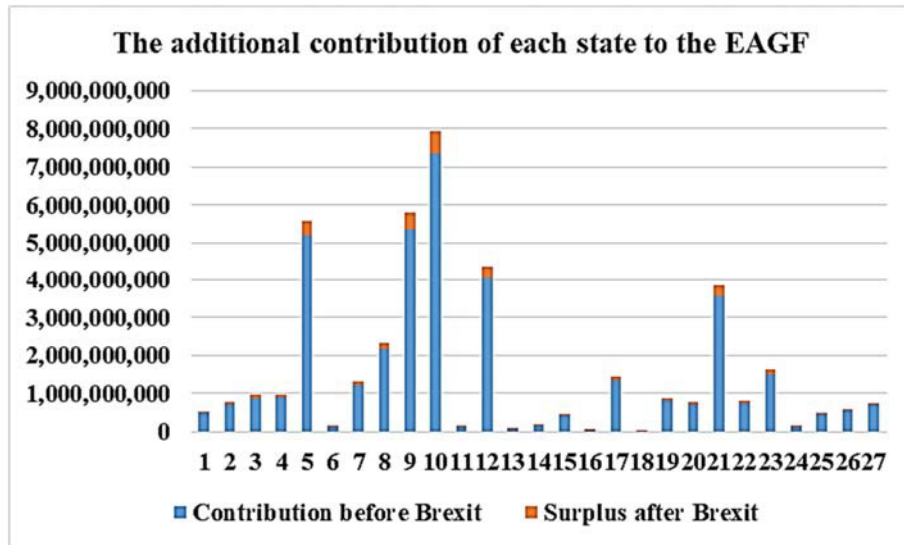
Table 2. Distribution of expenses after Brexit

Country	Average share with UK		Average share without UK		Differences (percentage points)	
	EAGF	EAFRD	EAGF	EAFRD	EAGF	EAFRD
Belgium	1.15%	0.51%	1.24%	0.54%	0.03 pp	0.09 pp
Bulgaria	1.65%	3.11%	1.78%	3.30%	0.19 pp	0.13 pp
Czech Republic	2.05%	2.49%	2.21%	2.64%	0.15 pp	0.16 pp
Denmark	2.09%	0.78%	2.26%	0.83%	0.05 pp	0.16 pp
Germany	12.08%	8.08%	13.02%	8.58%	0.50 pp	0.94 pp
Estonia	0.28%	0.69%	0.30%	0.73%	0.04 pp	0.02 pp
Ireland	2.86%	2.22%	3.08%	2.35%	0.13 pp	0.22 pp
Greece	5.06%	5.26%	5.45%	5.58%	0.33 pp	0.39 pp
Spain	12.50%	8.50%	13.48%	9.02%	0.52 pp	0.97 pp
France	17.15%	6.74%	18.48%	7.15%	0.42 pp	1.33 pp
Croatia	0.35%	0.70%	0.37%	0.74%	0.04 pp	0.03 pp
Italy	9.46%	10.11%	10.20%	10.73%	0.62 pp	0.74 pp
Cyprus	0.14%	0.18%	0.15%	0.19%	0.01 pp	0.01 pp
Latvia	0.42%	0.87%	0.45%	0.93%	0.05 pp	0.03 pp
Lithuania	1.00%	1.78%	1.08%	1.89%	0.11 pp	0.08 pp
Luxembourg	0.09%	0.09%	0.09%	0.10%	0.01 pp	0.01 pp
Hungary	3.09%	3.92%	3.33%	4.16%	0.24 pp	0.24 pp
Malta	0.01%	0.08%	0.01%	0.08%	0.00 pp	0.00 pp
Netherlands	1.88%	0.68%	2.02%	0.73%	0.04 pp	0.15 pp
Austria	1.67%	3.85%	1.80%	4.09%	0.24 pp	0.13 pp
Poland	8.33%	12.14%	8.97%	12.90%	0.76 pp	0.65 pp
Portugal	1.74%	4.92%	1.88%	5.23%	0.31 pp	0.14 pp
Romania	3.54%	10.01%	3.81%	10.62%	0.61 pp	0.28 pp
Slovenia	0.33%	0.85%	0.36%	0.90%	0.05 pp	0.03 pp
Slovakia	1.02%	1.16%	1.10%	1.23%	0.07 pp	0.08 pp
Finland	1.25%	2.61%	1.34%	2.76%	0.16 pp	0.10 pp
Sweden	1.61%	1.86%	1.74%	1.98%	0.12 pp	0.13 pp
United Kingdom	7.21%	5.83%	x	x	x	x

Source: own calculation.

As mentioned above, given the hypothesis of this research, Britain's share will be shared with other countries, given the previous weightings. As a result of these redistributions, for the first pillar of the CAP, it can be noticed that the most insignificant contribution is recorded for Malta, for which only 0.005 percentage points are added and Poland is the biggest difference, it will have to increase the contribution by 0.76 percentage points.

As regards the rural development component of the Common Agricultural Policy, respectively the European Agricultural Fund for Rural Development, the additional contribution, measured as weight, is also the lowest for Malta, and the largest additional contribution to the share of this fund rests France, which has an increase in the share of 1.33 percentage points, to increase its contribution by 0.76 percentage points.



1-Belgium; 2-Bulgaria; 3-Czech Republic; 4-Danmark; 5-Germany; 6-Estonia; 7-Ireland; 8-Greece; 9-Spain; 10-France; 11-Croatia; 12-Italy; 13-Cyprus; 14-Latvia; 15-Lithuania; 16-Luxembourg; 17- Hungary; 18-Malta; 19-Netherlands; 20-Austria; 21-Poland; 22-Portugal; 23-Romania; 24-Slovenia; 25-Slovakia; 26-Finland; 27-Sweden.

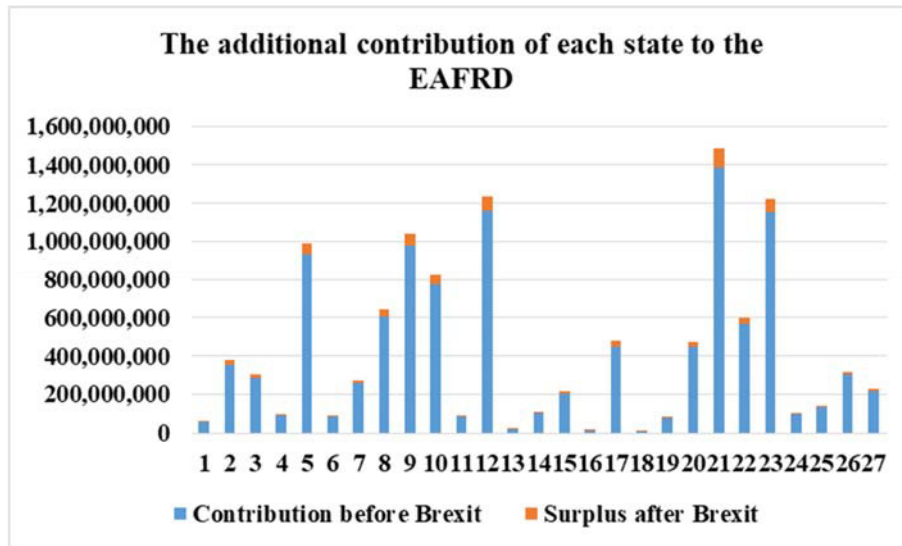
Source: own processing.

Figure 1. The contribution of each state to the EAGF and the increases after Brexit

As can be seen from Figure 1, the largest expenditure for the European Agricultural Guarantee Fund, which is the first pillar of the CAP, is made by France, Spain, Germany, Italy and Poland.

Analysing in terms of value, redistribution of UK spending to other Member States for this fund implies an increase in spending between 7.57% and 8.03%. The lowest growth is recorded in France, the country with the highest spending for this fund, and the country with the lowest spending (Malta), is the biggest increase, 8.03%.

As far as Romania is concerned, European Agricultural Guarantee Fund (EAGF) expenditure will increase by about 7.92% following the withdrawal of the UK from the European Union.



1-Belgium; 2-Bulgaria; 3-Czech Republic; 4-Danmark; 5-Germany; 6-Estonia; 7-Ireland; 8-Greece; 9-Spain; 10-France; 11-Croatia; 12-Italy; 13-Cyprus; 14-Latvia; 15-Lithuania; 16-Luxembourg; 17- Hungary; 18-Malta; 19-Netherlands; 20-Austria; 21-Poland; 22-Portugal; 23-Romania; 24-Slovenia; 25-Slovakia; 26-Finland; 27-Sweden.
 Source: own processing

Figure 2. The contribution of each state to the EAFRD and the increases for Brexit

Regarding the European Agricultural Fund for Rural Development, representing the second pillar of the CAP, one can notice that the countries that spend the most with this fund are Poland, Italy, Romania, Spain, Germany and France.

Thus, as shown in Figure 2, in terms of value, the increases in the expenditure that each Member State has to bear following the UK withdrawal rises between 3.64% and 7.16% for this fund. Again, Malta, which has the lowest share, given the low value, has the largest surplus of spending, it will have to increase its contribution by 7.16%. The easiest increase in spending, of 3.64%, is for Croatia.

Romania, which is ranked in the top three places according to the EAFRD contribution, will have to increase this contribution by 5.92%, following Brexit, in order to maintain the same level of benefit.

3.2 Effect of Brexit on EU allocations to Member States

By analyzing in a similar way the allocations received from the European Union by each state and removing the one attributed to the UK, estimations can be made on this support for the next programming period.

Table 3. Distribution of the weights of the support (income) after Brexit

Country	Total share with UK		Total share without UK		Differences (percentage points)	
	EAGF	EAFRD	EAGF	EAFRD	EAGF	EAFRD
Belgium	1.25%	0.58%	1.36%	0.59%	0.12 pp	0.02 pp
Bulgaria	1.80%	2.45%	1.97%	2.51%	0.17 pp	0.07 pp
Czech Republic	2.08%	2.27%	2.27%	2.33%	0.19 pp	0.06 pp
Denmark	2.15%	0.66%	2.35%	0.68%	0.20 pp	0.02 pp
Germany	12.12%	8.60%	13.25%	8.84%	1.12 pp	0.24 pp
Estonia	0.33%	0.76%	0.36%	0.78%	0.03 pp	0.02 pp
Ireland	2.89%	2.29%	3.15%	2.35%	0.27 pp	0.06 pp
Greece	4.76%	4.39%	5.20%	4.51%	0.44 pp	0.12 pp
Spain	11.56%	8.67%	12.64%	8.92%	1.07 pp	0.24 pp
France	17.86%	10.37%	19.52%	10.66%	1.66 pp	0.29 pp
Croatia	0.42%	2.43%	0.46%	2.50%	0.04 pp	0.07 pp
Italy	9.10%	10.91%	9.95%	11.22%	0.84 pp	0.30 pp
Cyprus	0.12%	0.14%	0.13%	0.14%	0.01 pp	0.00 pp
Latvia	0.56%	1.01%	0.61%	1.04%	0.05 pp	0.03 pp
Lithuania	1.08%	1.69%	1.18%	1.73%	0.10 pp	0.05 pp
Luxembourg	0.08%	0.11%	0.09%	0.11%	0.01 pp	0.00 pp
Hungary	3.02%	3.62%	3.30%	3.72%	0.28 pp	0.10 pp
Malta	0.01%	0.10%	0.01%	0.11%	0.00 pp	0.00 pp
Netherlands	1.81%	0.64%	1.98%	0.65%	0.17 pp	0.02 pp
Austria	1.65%	4.12%	1.80%	4.23%	0.15 pp	0.11 pp
Poland	7.17%	11.45%	7.84%	11.77%	0.67 pp	0.32 pp
Portugal	1.38%	4.25%	1.50%	4.36%	0.13 pp	0.12 pp
Romania	4.16%	8.39%	4.54%	8.62%	0.39 pp	0.23 pp
Slovenia	0.32%	0.88%	0.35%	0.90%	0.03 pp	0.02 pp
Slovakia	0.92%	1.98%	1.00%	2.03%	0.09 pp	0.05 pp
Finland	1.25%	2.49%	1.36%	2.56%	0.12 pp	0.07 pp
Sweden	1.66%	1.83%	1.81%	1.88%	0.15 pp	0.05 pp
United Kingdom	8.49%	2.70%	-	-	-	-

Source: own calculation.

Table 3 shows the share of support received by each country from the total budget of the European Union's Common Agricultural Policy. Following the withdrawal of Great Britain, as the redistributed efforts (expenditures) were distributed, the effects (benefits) were also distributed.

As a result of these redistributions, the increase in the European Union's allocations to each Member State can be seen, if the budget remains unchanged. Thus, the share of support in the EU total for the first pillar of the CAP is increased by 0.001-1.66 percentage points. Countries registering these extreme, minimum and maximum values remain the same as for Malta, and France.

Concerning the second pillar of the Common Agricultural Policy, increases in the share of EU support between 0.003 pp and 0.32 pp are registered. Malta has registered a less significant increase and the most significant increase is recorded by Poland. As regards Romania, there is an increase in the EAGF of 0.39 percentage points and an increase in the EAFRD of 0.23 percentage points of the total of these two funds at the level of the European Union.

Conclusions

In this paper we wanted to determine the effect that Brexit has over the European Union budget, but rather on the budget of the Common Agricultural Policy. For this purpose, each country's own expenditure on the two CAP funds, the European Agricultural Guarantee Fund dealing with market measures (Pillar I) and the European Agricultural Fund for Rural Development, which are the second pillar of the CAP (rural development) were analysed.

Analysing literature, there are different views among authors, some claiming that the effect of Britain's withdrawal from the European Union may be one of shock, while others claim that this effect on the budget is controllable. However, there is a unanimous opinion that the effect of Brexit on the European Union budget is negative.

Starting from the premise that each Member State wishes to maintain the current level of funding along with Brexit and the start of the new CAP (2021), a redistribution of UK spending and benefits to the other 27 member states.

Analysing the share of UK spending out of the total, it was established that it participates with about 7.21% for the first pillar and 5.83% for rural development. As a result of the withdrawal of this state, this share will be redistributed, so the results of this study show an increase in the share for other states of 0.001-1.66 percentage points for market measures, and for rural development there is an increase in the upfront expenditures to 1.33 percentage points.

Among the main results of this research, we recall that in terms of value, each country's expenditure will increase by 7.6-8% for EAGF and 3.6-7.2% for EAFRD.

In addition to redeploying spending, UK benefits were also analysed and distributed, so 8.5% of support for market measures and 2.7% of support for rural development will have to be shared with other Member States. As a result, through this redistribution, the share of financial support will increase by up to 1.66 percentage points for the EAGF and up to 0.32 percentage points for the EAFRD.

As an example, in Romania it can be said that the effect of the withdrawal of Britain is negative on the budget, given that the level of spending will increase by 0.61 percentage points for market measures and 0.28 percentage points for rural development, and the level of funds allocated by the European Union, Romania, will only grow by 0.39 percentage points. For the first pillar and 0.23 pp for the second pillar.

References

1. Davies, R.B., Studnicka, Z. (2018). The heterogeneous impact of Brexit: Early indications from the FTSE. *European Economic Review*, 110, 1-17. <https://doi.org/10.1016/j.euroecorev.2018.08.003>.
2. Dhingra, S., Ottaviano, G., Sampson, T., van Reenen J. (2016). The Consequences of Brexit for UK Trade and Living Standards. *Centre for Economic Performance (CEP)*, 2.
3. Felbermayr, G., Fuest, C., Gröschl, J. and Stöhlker, D. (2017). Economic Effects of Brexit on the European Economy. *EconPol POLICY REPORT*, 01. https://www.cesifo-group.de/DocDL/EconPol_Policy_Report_04_2017_Brexit.pdf.
4. Ferrer, J. N., and Rinaldi, D. (2016). The Impact of Brexit on the EU Budget: A non-catastrophic event. CEPS Policy Brief, No. 347.

5. Hunt A. & Wheeler, B. (2018). Brexit: All you need to know about the UK leaving the EU. BBC NEWS, retrieved from <https://www.bbc.com/news/uk-politics-32810887>.
6. Lawless, M., Morgenroth, Edgar L. W. (2016). The product and sector level impact of a hard Brexit across the EU, ESRI Working Paper, No. 550, *The Economic and Social Research Institute* (ESRI), Dublin.
7. Olteanu, M. (2016). Ieșirea Marii Britanii din UE cu un vot strâns ar putea destrăma statul britanic. MEDIAFAX. Retrieved from <https://www.mediafax.ro/externe/iesirea-marii-britanii-din-ue-cu-un-vot-strans-ar-putea-destrama-statul-britanic-scotia-votul-aici-arata-clar-ca-oamenii-din-scotia-vad-viitorul-lor-ca-parte-a-uniunii-europene-15506085>.
8. European Commission – Eurostat, <https://ec.europa.eu/eurostat>.
9. European Council – CAP Future after 2020, <https://www.consilium.europa.eu/ro/policies/cap-future-2020/>