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The Common Agricultural Policy

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Chapter Contents

Reader's Guide

This chapter examines one of the first European policies, the Common Agricultural Policy (CAP). It does so by focusing on the policy's objectives, instruments, actors, and debates. It looks at the way in which the CAP has evolved since the 1960s, and attempts to explain this evolution by asking and answering a number of important questions: why has the CAP been so problematic for European policy-makers? Why has it proven so resistant to change? And, given the constraints identified, how has reform come about? This chapter also looks at some of the challenges facing agricultural policy, as new debates emerge among citizens on the place and the functions performed by agriculture. The chapter gives a particular attention to rural development, and environmental, transparency, and equity issues.

Introduction

The Common Agricultural Policy (CAP) has long been of symbolic importance to the European integration process and has been subject to calls for reform since the 1960s. This chapter begins with a brief introduction to the principles ... CAP and then provides an explana... taken (or is taking) so long to re... the following section, attention tu... form process that has taken plac... 1992. Understanding the origin...

progressively changed over time helps us to understand better contemporary debates on the CAP, as explained in the last section of this chapter.

The early days of the Common Agricultural Policy and the issue of CAP reform

This section presents the main principles and instruments of the early Common Agricultural Policy, and provides an overview of the CAP's brake mechanisms at national and European levels.

The early days of the policy

The objectives of the CAP, which came into force from 1962, were laid down in the **Treaty of Rome** in 1957 (Article 39) and subsequently at the **Stresa Conference** in July 1958. Three general principles underpinned the policy: **market unity**; **Community preference**; and **financial solidarity**. The initial move in establishing a European agricultural market (applying the so-called market unity principle) was the setting up of **common market organizations (CMOs)** for all agricultural products, most notably for wheat, barley, rye, corn, rice, sugar, dairy products, beef, pork, lamb, wine, and some fruits and vegetables. The idea was to allow free trade internally within the Community, but also to erect barriers to the outside world, to protect the income of European farmers.

The CMOs usually operated on the basis of three complementary policy tools: a guaranteed price; a public intervention system; and some **variable levies** at the Community's border. First, the notion of a guaranteed price is crucial to understanding how the CAP operated. The idea was that the specificities of the farming sector (dependence on climatic conditions and vulnerability to natural disasters) and the consequent structural instabilities of agricultural markets made some public intervention necessary to guarantee decent living conditions for farmers. This is why, instead of allowing the market to determine price levels, the prices that farmers received for their produce were administrative prices—that is, they were fixed centrally by Community civil servants and politicians. Such a system had the objective of both supporting farmers' incomes and boosting agricultural production: the more farmers produced, the more money they earned. Indeed, with the food shortages of the post-1945 period and the security concerns of the Cold War in mind, the aim of self-sufficiency in foodstuffs was presented as one of the major objectives of the policy. In practice, the level of guaranteed prices was initially set on the basis of a political compromise between France and Germany. In the early 1960s, the Germans had a very inefficient cereal sector, but numerous politically powerful farmers, and asked for a high level of support for cereals. Although the French were more efficient and had a lower national price for cereals, they did not mind setting guaranteed prices higher under the CAP, as long as they did not have to pay for them. It is for this reason that Germany has ended up as the primary contributor to the CAP since 1962, while France has always been among the main financial beneficiaries.

Second, if the price began to fall due, for example, to an excessive internal supply, which would have had the effect of depressing farmers' incomes, intervention agencies would step in when the price reached a certain level (the **intervention price**) to buy up the surplus and store it until the market was balanced again, thus keeping prices high.

Third, if the price fixed inside the Community was to be high enough to support farmers' incomes, it was imperative to prevent cheap imports from flooding the **common market**. Therefore, to achieve the second CAP principle (community preference), a system of variable levies was set up for each product. Produce could generally only enter the common market if it was priced at or above the internal price; if not, the importer had to pay a tariff equalling the difference to the European Budget and thus had to sell their product at the European price. Moreover, a system of 're-imbursements' (refunds), similar to export subsidies, was also put in place, enabling European producers to sell their products on the world market at world prices without losing income. These subsidies covered the difference in cost between the world and the higher European prices.

Finally, to promote the principle of financial solidarity, a common fund was set up to cover the financing of the CAP. This fund, the **European Agricultural Guidance and Guarantee Fund (EAGGF)**, comprised two parts: guidance and guarantee. While the guarantee section covered costs attached to the operation of the market system, such as the costs of intervention and export refunds, the much smaller guidance section was responsible for funding **structural policies**. The EAGGF originally comprised almost the entire EC Budget.

Problems arising and the first incremental reforms

Initially, this policy was very successful, in that it very quickly met its initial objectives of increasing productivity, supporting farmers' revenues, and achieving European self-sufficiency. However, by the 1970s, *over*-production had become a political issue, with the first surpluses having appeared in the form of the famous 'butter mountains' and 'wine lakes' of this period. These problems of overproduction, caused when the supply of agricultural produce outstrips demand, increased throughout the 1980s. As an ever-increasing volume of products surplus to internal requirements was being paid for at the guaranteed price, stored at high cost, and exported out of the Community, and with support from the agricultural budget compensating for lower prices on the world market, the CAP was becoming ever more costly to operate. It is far from surprising, therefore, that the CAP was frequently criticized during this time for being too expensive and for taking up too many EC resources, thereby preventing the development of other potentially important political priorities. As a consequence, agricultural policy began to be a major concern for European policy-makers and the issue of CAP reform appeared on the European political agenda.

The policy has proven very resistant to change, however. Some reforms took place from the late 1970s to the end of the 1980s, but these were marginal and incremental. The economic policy tools that were used during this first period of reform were mainly directed towards controlling the supply of produce by imposing quantitative restrictions on production. These took the form of 'guaranteed ceilings' for crops in 1981, milk quotas in 1984, and a **regime** imposing maximum guaranteed quantities (MGQs) for cereals in 1987–88, generalized to other commodities in 1988–89. Despite these changes, the principle of guaranteed prices for agricultural products remained the core element of the CAP.

Why is it so difficult to reform the CAP?

This modest change can be explained by institutional factors rooted in the workings of CAP decision-making. Beyond the formal rules of the process (see Box 22.1), decision-taking in this policy area is based on what might be termed an 'inflationist bargaining dynamic'. Because the CAP is a **redistributive** policy, each member state's minister of agriculture is under pressure to bring home the maximum that he or she can get from that part of the EU Budget dedicated

BOX 22.1 THE FORMAL CAP DECISION-MAKING PROCESS

For much of the CAP's history, the main actors in the CAP decision-making process have been the European Commission, responsible for drafting legislation, and the Agricultural Council, responsible for taking decisions. The European Parliament (EP) has had only a very limited consultative role. CAP decision-making usually began with a proposal from the Commission, which might be made either on the basis of a broadly defined request from the **European Council**, or on a voluntary basis by the Commission. Once formulated, the Commission's proposal was then submitted to the EP for **consultation** and the Agricultural Council for decision. It was also transmitted to the Committee of Professional Agricultural Organizations (COPA), the main **interest group** representing European farmers, and to other institutions as appropriate, such as the **Committee of the Regions (CoR)**. The Agricultural Council might reject the Commission's proposal or ask for modifications. Alternatively, it might begin to negotiate on the basis of what the Commission had proposed, resulting ultimately in a decision. Although the formal rule was **qualified majority voting (QMV)** within the Agricultural Council, more often than not a consensus was sought across all member states. This meant de facto that each member could veto any decision. Decision rules such as these have had important consequences for the CAP, especially with regard to the pace of reforms and their incremental nature.

However, in the past decade, two major changes have taken place with regard to CAP decision-making. First, after the [illegible] **Treaty** came into force in 2003, the Agricultural Council began to take decisions as a matter of course using the qualified majority rule. Second, since 2009, the EP has used the ordinary legislative procedure (OLP) in agricultural policy-making under the **Lisbon Treaty**. Although the former has certainly fostered a more vigorous reform process, the consequences of the latter are still uncertain.

agriculture. As a consequence of the number of member states involved in the negotiations (all of them trying to increase their CAP budgetary return), the range of products involved, and the rules that have long governed the CAP, there is an inbuilt inflationary tendency. For example, each minister in the Council would agree to price increases in his or her neighbour's favoured products in order to get the increases that he or she wants himself or herself. As a consequence, decisions that would lead to a reduction in agricultural prices, or that would change the redistributive effects of the policy, are more than likely to be rejected by the Agricultural Council. This makes it very difficult for a body such as the Commission to propose reforms that cut costs. The CAP is also an excellent example of what happens when there is no real link between the EU authorities and the EU's citizens. In such circumstances, it is easy for governments to use the European Commission as a scapegoat for decisions that they really do not want to take. The Commission is restricted in what it can do when this happens and often ends up taking the blame for a policy that it would like to see reformed.

Second, the incremental character of CAP reform can also be explained by national political pressures, which are exported to the EC level through the agriculture ministers of each member state in the Agricultural Council. Owing to their ability to mobilize support in many European countries, farmers' organizations are able to exert pressure on governments to support their line on the CAP. Political influence of this kind was particularly intense in France and Germany in the 1970s, 1980s, and 1990s (and it is still quite important despite the ever decreasing number of farmers). In both countries, farmers were important in electoral terms; this was because public opinion, influenced by a deep-rooted affinity for rural life, viewed farmers' interests favourably. In the French case, close links were established from the late 1950s between the government and the main farmers' representative organizations, the *Fédération Nationale des Syndicats d'Exploitants Agricoles* (FNSEA, or 'National Federation of Farmers' Unions') and the *Centre National des Jeunes Agriculteurs* (CNJA, or 'Young Farmers' Association'). Thanks to their expertise and capacity for collective action, these organizations were able to impose their views on both right-wing governments (their traditional allies) and, after 1981, on successive socialist incumbents. Although the left-supporting farmers did manage to get organized during the 1980s with the establishment of the farming union *Confédération Paysanne* in 1987, which had a rather different position, they were still too weak to challenge the power of the right-leaning FNSEA. Consequently, despite an increased pluralism in the representation of farmers since the 1980s, the French position on the CAP still remains very close to that of the FNSEA.

Farmers' opposition to CAP reform is usually explained simply with reference to their economic interests. However, the conservatism of farmers' associations has also had much to do with deep-rooted symbolic issues linked to the identity of the farming community. In the French case, for example, the FNSEA has vehemently refused to replace the guaranteed price system with direct payments, even if the latter were calculated to provide a higher income than the former for farmers. Such a position can be explained by certain ethical and professional values that have been inherited by CNJA and FNSEA leaders, arising out of their early experiences in the 1950s with the *Jeunesse Agricole Chrétienne* (JAC, or 'Young Christian Movement'). Farmers were considered to be individual entrepreneurs, actively working the land and selling the products that they had grown in order to earn their living. It is for this reason that they could not tolerate the idea of living and supporting their families on the back of direct income payments, which were viewed either as salaries or, even worse, as a form of social security / welfare payment. Another explanation relates directly to the nature of CAP instruments at that time. In upholding the idea that all farmers should get the same rewards, guaranteed prices have been feeding the myth of farmer unity. This is something of a paradox, because in practice they provided very different levels of support across the EU, across farmers, and across products. For example, the bigger a farmer, the more financial support available. In fact, guaranteed prices have always been used as a political tool by farming elites. In France, for example, they were fundamental to the FNSEA's monopoly in representing farmers and they were also instrumental in consolidating crop growers' power and influence within the FNSEA: by mobilizing collective action to defend and promote the level of agricultural prices (and later on, the level of direct aids), crop growers were able to consolidate their own dominant position within the organization and, more broadly, within the farming community.

KEY POINTS

- The Common Agricultural Policy was based on three fundamental principles: market unity; Community preference; and financial solidarity.
- The original CAP comprised the administrative guaranteed price, a public intervention system, and variable levies at EU borders.
- The CAP began to pose problems in the 1970s: agricultural surpluses began to accumulate and the cost of the CAP increased dramatically, but an inflationary bias in decision-making prevented major reform.
- Farmers' reluctance to change is not only rooted in economic interests, but also reflects identity and symbolic dimensions.

After 1992: the long reform process

Despite the existence of a number of brake mechanisms, a first radical reform of the Common Agricultural Policy took place in 1992 as a reaction to international pressure. This opened the way for a long reform process, which is still ongoing.

External pressures and the MacSharry reform of 1992

World agricultural markets in the early 1980s were affected by massive instabilities. In 1982, member countries invited the **Organisation for Economic Co-operation and Development (OECD)** Secretariat-General to undertake a review of agricultural policies to analyse their effects on international trade. With the help of academic economists working in the field of welfare economics, the officials in charge constructed an economic model and tools that enabled estimates to be made of the impact of domestic policies on world prices and trade. These studies were initially used to classify the trade-distorting effects of national policies, and later to rank policies, demonstrating which of them were in most serious need of reform. This process engendered a learning process within the international agricultural policy community and induced a profound change in the way in which agricultural policy issues were defined. Most notably, it was concluded that, to be less distorting, instruments used within an agricultural policy had to be 'decoupled' from agricultural production so that they would have no direct impact on the type and quantity of commodity produced by the farmer. This conclusion spoke directly to the CAP's **price support** system.

A very important concrete decision followed this international ideational shift. This was the end of the so-called 'agricultural exception' in international trade negotiations. In 1986, the **Uruguay Round** of the **General Agreement on Tariffs and Trade (GATT)** opened. For the first time, the negotiations included agriculture. As is often the case in GATT Rounds, the main players were the USA and its allies, the Cairns Group (a group of 14 net exporters of agricultural produce, notably including Argentina, Australia, New Zealand, Uruguay, and Thailand). This group was on the offensive from the start, arguing strongly for a radical liberalization of international agricultural markets. The USA denounced the CAP as a system that allowed European farmers to eschew competition with the rest of the world, thereby generating trade distortions for producers in third (or non-EU) countries. They called for an end to all trade-distorting domestic subsidies and tariff barriers on agricultural products. The EU, with traditionally more protectionist countries such as Norway and Japan, found itself on the defensive.

At the Heysel Ministerial Conference in December 1990, the USA and EU positions were still at odds, leading to a stalemate in the negotiations and threatening the entire process. To put additional pressure on the Europeans, the Americans and their allies took the decision not to negotiate on any other aspect of the Round until the agricultural issue was resolved. Such a crisis in the GATT arena provided a window of opportunity for European reformers. A radical CAP reform was seen as the only solution. At this point, the Commission decided to launch a project that it had been preparing secretly for some months. Using its right of initiative (for the first time in the history of the CAP), the Commission delivered its radical CAP reform proposal to the Agricultural Council in February 1991. The spirit of the reform was in line with international requirements, in that it would partly replace the system of agricultural price support with a system of **individual direct payments** to farmers aimed at compensating their loss of income.

The political decision to implement such a radical shift in policy instruments, agreed by the Council in May 1992, was taken initially by Helmut Kohl and François Mitterrand, the then leaders of Germany and France. Both were very keen to conclude the Uruguay

Germany had important interests in the non-agricultural part of the negotiations and the German agricultural policy community put intense pressure on the German government to resolve the impasse. In France, the pressures came—secretly—from the bigger cereal growers, who had a direct interest in the reform. Thanks to the agreed price decreases, they would be able to gain an upper hand in the European animal food market over US cereal substitutes. Such **free riding** behaviour by the—very powerful—cereal lobby explains why the reform was immediately accepted by the French government, against the advice of the *Fédération Nationale des Syndicats d'Exploitants Agricoles* (FNSEA), which was totally opposed to it. In addition, in order to benefit from the reform at two levels, cereal growers (together with large landowners) lobbied actively for a full compensation of the price decreases for all (contrary to the Commission proposal of a sliding scale compensatory scheme dependent on the size of the farm). The negotiations on the Commission's proposal took place in the Agricultural Council over a period of 18 months, resulting in the rewriting of the Commission's original proposal. At the end of this process, the outcome of the 1992 reform was not quite as innovative as it might have been. The deal that was finally concluded on 21 May 1992 (known as the 'MacSharry reform', deriving from the name of the agriculture commissioner at that time) was still regarded, however, as historic (see *Financial Times*, 22 May 1992).

An ongoing reform process

The MacSharry reform marked the point of departure of a much deeper CAP reform process. Even so, the reforms that followed that of 1992 were subject to similar budget-related concerns and pressures, interlinked international trade bargains and interests, free-riding strategies by specialized farmers' organizations, and brake mechanisms in the Agricultural Council.

The first post-MacSharry reform was agreed in March 1999 at the Berlin European Council and was incorporated into the Commission's **Agenda 2000** plans. It was prepared and issued in the broader context of the Eastern **enlargement** of the EU (see Box 22.2). On the basis of this document, ten new **regulations** were adopted, which were to come into force from 2000. Alongside a number of **subsidiarity**/decentralization initiatives, the 1999 reform was remarkable in that it placed a new emphasis on the environment. Three possible options were presented to the member states. However, these were to be implemented on a voluntary basis. This was also the case for a proposal allowing the setting of maximum levels of direct aid received by farmers. Owing to national difficulties and conservative pressures, however, these optional measures were rarely implemented.

The Agenda 2000 reform also endorsed two important innovations that affected the policy discourse. First, the term '**multifunctionality**' was introduced, to signal that agriculture is not only about production, but also incorporated 'non-production' aspects of farming—that is, its social, cultural, territorial, and environmental dimensions. With this concept, European policy-makers were not only seeking new ways in which to legitimize the CAP within the EU, but also had the forthcoming **World Trade Organization (WTO)** Round in mind. When the Uruguay Round was concluded in 1994, the Agreement on Agriculture (AoA) defined three 'boxes' used to distinguish between support for agricultural policy programmes that directly stimulated production and consequently distorted trade, and those that were considered to have no **direct effect** on production and trade.

- Domestic measures with a direct effect on production were placed in the 'amber box': they had to be cut.
- Measures considered to be 'decoupled from production', with no linkage between the amount of payment and the production process, agricultural prices, or factors of production, were placed in the 'green box' and could be freely used.
- Payments linked to programmes aiming at limiting production went into the 'blue box' and did not need to be reduced, as long as certain conditions were met.

In the AoA, the post-1992 CAP compensatory payments were classified in the blue box—but, in view of the forthcoming WTO negotiations, their future was seen as uncertain. In that context, the strategy decided by the Agricultural Council in October 1999 involved 'securing' CAP payments in the blue box by arguing that the CAP could not be challenged because it pursued multifunctionality, meaning non-production, as well as production, goals.

The second discursive innovation of the Agenda 2000 reform was to distinguish between two '**pillars**' of the CAP (not to be confused with the three EU pillars established by the Maastricht Treaty). In

BOX 22.2 EASTERN ENLARGEMENT AND THE CAP

A first crucial issue regarding EU enlargement and agriculture at the end of the 1990s was the extent to which the CAP was to be applied to the ten member states that were to join the EU in 2004, and whether the CAP instruments would have to be adapted. This raised questions about the economic consequences of applying CAP to the new members in respect of the general structure of farming. In addition, there were serious concerns about how the CAP would be financed in the future.

The European Commission presented its strategy for dealing with these questions at the beginning of 2002. Its proposal involved offering direct payments to farmers and introducing production quotas for new member countries after they joined. To ease transitional problems in rural areas and to encourage the restructuring of agricultural sectors, the Commission also proposed complementing its financial support with an enhanced **rural development policy**. Given that the immediate introduction of 100 per cent direct payments would have frozen existing structures and hampered modernization (not to mention bankrupted the EU), the Commission favoured its gradual introduction over a transition period of ten years, covering 25 per cent in 2004, 30 per cent in 2005, and 35 per cent in 2006, ultimately reaching 100 per cent in 2013.

For existing member states, the northern Europeans argued that the proposal was too costly, and that there should be no direct aid to the Central and East European (CEE) countries in the first few years after **accession**. The Dutch government pointed out that no direct aid for new members was assumed in the Agenda 2000 agreement in 1997. The Swedes argued that direct aid for the new member states would actually discourage much-needed agricultural restructuring. Germany was more concerned about predictions that its net contribution to the agricultural budget would grow after enlargement and that, as a result, its budgetary returns would decrease. France, always concerned to keep its own budgetary returns on CAP as high as possible, also expressed concern about the cost of the Commission's strategy, but firmly opposed the suggestion by some members that a more profound reform of the CAP was needed before enlargement.

For their part, most of the **candidate countries** reacted by saying that the Commission's proposal did not offer them enough and that they needed 100 per cent of direct aid paid from year one. This was not only for sectoral, but also for political, reasons in order to convince their publics to agree to EU membership in the first place.

At the Brussels European Council on 25 October 2002, the EU heads of government and state finally adopted the main lines of the Commission's proposal on CAP and enlargement. In order to address some national concerns (from Germany in particular), they placed their decision in a framework of financial stability from 2007 to 2013. This meant that total annual expenditure on CAP direct payments and market-related expenditure for a Union of—at that time—25 members would not exceed the corresponding combined ceilings for 2006.

One important aspect of the 'CAP and EU enlargement' debate was the concern that CEE countries would not have the capacity to implement CAP legislation and control expenditures. Bulgaria and Romania were at the core of especially important debates in this respect in the years before their accession in 2007. In addition to more general concerns about their judicial systems and high-level corruption, the control of agricultural funds and food safety issues (animal disease control and bovine spongiform encephalopathy, or BSE, regulations, in particular) were seen as major areas of concern.

addition to a first pillar dedicated to market support, rural development became the 'second pillar' of the CAP. This was presented as a way of enhancing the 'multifunctionality' of European agriculture in line with a subsidiarity-based approach. However, Agenda 2000 was, in fact, only one small step in this direction, with a small percentage of total CAP expenditure allocated to the second pillar. Fifteen years later, actors involved in the policy still talk about the 'two pillars' of the CAP (see Figure 22.1); however, the concept of multifunctionality has almost disappeared from their discourse, to be replaced progressively by the concept of 'public good'.

A new CAP reform plan was issued by the European Commission in July 2002, one year after the opening of a new WTO Round, the so-called '**Doha Development Round**' (see Box 22.3). This plan was largely driven by the new WTO negotiations, within which the fate of the blue box became more and more uncertain, making it clear that the EU could secure CAP payments to European farmers only by transferring them to the green box, meaning their further '**decoupling**' from production. While initially supported by the UK, Germany, and other 'northern' governments, the new CAP reform proposal faced very strong French opposition. The French government refused to see the support to its larger cereal growers reduced and wanted the reform to be postponed until 2006. The Agricultural Council finally reached a compromise in June 2003. The 2003 'mid-term review'

BOX 22.3 THE CAP AND DEVELOPING COUNTRIES

Since the 1980s, the CAP has often been criticized for its effects on developing countries. Through its system of export refunds (payments given to the exporter to compensate for the difference between the European guaranteed price and the much lower world price), the EU was exporting agricultural products at prices much below their costs of production, contributing to the ruin of producers in the global south. For example, cans of Italian concentrated tomatoes, and millions of tons of frozen chicken and wheat from Northern Europe, regularly arrive on African markets at very low prices and cause local production to collapse.

Step by step, the various CAP reforms have reduced the level of internal prices and consequently phased out most export refunds (which now represent only one per cent of the CAP budget). This has reduced trade distortions considerably. However, although they are quantitatively much less important, some actors claim that the CAP continues to produce negative effects on developing countries. Although most CAP payments have been shifted to the 'green' box of the WTO, many development non-governmental organizations (NGOs) argue that European products are highly subsidized and are thus exported below their costs of production. As such, they continue to compete unfairly with domestic products in less-developed countries. Others argue, however, that, under the present circumstances, the problem is not whether to support European agriculture or not, but whether to support less-developed countries' agriculture (through developing countries' national budgets or through cooperation policies, or even through tariffs that protect internal markets).

Another issue is formulated in terms of 'market access'. Some actors criticize the European Union for being too protectionist owing to its 'non-trade barriers' (such as EU environmental rules, animal welfare standards, and labelling legislation). However, these arguments tend to come from the minority of countries with large producers that export, or who would like to export, their products to the EU with fewer constraints.

By contrast, EU agriculture is highly dependent upon a number of imports from the global South. This is the case for soya, a major input used in industrial animal production processes. Due to the implementation of a zero import tariff on soy since 1967, the EU's production of poultry and pig meat, milk, and eggs has developed based on massive imports of soya from the USA and, more recently, Brazil, Argentina, and Uruguay. In these regions, the intensive industrial production of soya causes major social and environmental damage. In order to decrease this problematic dependency, many actors have called on the Commission to support actively the production of protein crops in the EU. Other actors are organizations opposing cruelty to animals and/or defending animal welfare, as well as actors warning against the role of livestock in global warming and climate change, and advocating lower meat consumption levels and less intensive animal production methods.

(MTR) of the CAP (so-called because it was foreseen in the 1999 Berlin Agreement as a simple reviewing exercise) is considered by some commentators as a second revolution in CAP reform (after the 'historic' 1992 reform). It introduced a new element, the **Single Farm Payment (SFP)**, a unique CAP direct payment aimed at achieving a complete decoupling of support from production. Under this system, even a farmer who decides to grow nothing is eligible to receive the SFP, as long as he or she complies with EU environmental, food safety, animal welfare, and occupational safety standards. Finally, another important measure called '**modulation**' was set up to transfer funds from the first CAP pillar (market support) to the second (rural development).

With no direct international pressure this time, a further reform (the so-called '**health check**') was approved in November 2008. This was primarily concerned with budgets and **efficiency**. As usual, the Commission made ambitious initial proposals, which were considerably eroded in the negotiation process. For example, in the field of modulation, in order to increase both fairness in the distribution of CAP support among farmers and available budgets for rural development, the Commission had proposed a basic rate of 13 per cent transfer from the first to the second pillar by 2013, rising to 23 per cent on individual payments over €100,000, 38 per cent above €200,000, and 58 per cent above €300,000. Owing to (among others) German pressure in the Council—since reunification, Germany has had some very big farms—the final agreement included a much lower modulation scheme, with a basic rate of ten per cent in 2013 and only an additional four per cent for individual payments above €300,000.

The most recent global CAP reform was adopted in June 2013. The reform process was launched by the Romanian Agriculture Commissioner, Dacian Ciolos, in April 2010 with a wide-ranging public consultation aimed at assessing the opinions of European citizens and stakeholders regarding the CAP. The result showed a clear desire by the public for a fairer and a greener CAP (European Commission, 2010a). The year before, environmentalists and landowners' representatives had already engaged in discussions about reform, issuing a common position paper, which asked for a 'new contract' between society and farmers drawing on a land-based approach: 'appropriate land management is crucial for the conservation of a range of ecosystem services, a critical one of which is food production for the human population and underpinning this, the long term capacity of land for food production' (Birdlife International/European Landowners' Association, 2010). They proposed that the CAP should limit its responsibilities to market failures by ensuring that 'all payments [...] be based on a clear contract between the contractor and society, spelling out the public goods that the contractor is expected to deliver in exchange for the payments'. To a large extent echoing these views, the Commission presented its first formal reform proposal in November 2011, with the aim of building 'a new partnership between the CAP and the society and achieving three long-term goals: viable food production, sustainable management of natural resources and climate action, and balanced territorial development (Ciolos, 2011). The proposal maintained the two pillars of the CAP, but also proposed the introduction of a new architecture of direct payments based on a green payment scheme: at least 30 per cent of each national direct payment envelope should reward good environmental practice by farmers. The Commission also suggested the removal of all production constraints (remaining quotas in wine for example) and the introduction of new market mechanisms (that is, an enhanced safety net), as well as some measures aimed at strengthening rural development.

Farmers' organizations were unhappy with this proposal for different reasons. COPA-COGEGA (The Committee of Professional Agricultural Organizations–General Committee for Agricultural Cooperation in the European Union), who represent mainly conventional farming and large and/or specialized agricultural enterprises, called for a 'reinforcing [of] the economic role of farmers and their cooperatives and making European agriculture a dynamic, innovative and more profitable sector' (COPA–COGECA, 2011). They also rejected the proposal's overemphasis on the environment, which would 'undermine the ability of the agrifood sector to be competitive, efficient, and to achieve sustainable growth' (COPA–COGECA, 2011). European Coordination Via Campesina, the organization which represents small agriculture and 'family farming' (formerly European Rural Coordination), whose main priorities are fair farm prices, the right of people in the global south to adequate food, and the preservation of natural resources, had a different stance. They argued that 'the measures [would] not meet the environmental and social challenges faced by the CAP and they [would] not give enough legitimacy to EU subsidies for agriculture. The lack of regulation of markets and production [would] push the agricultural sector into even more serious crises, and intensify the current crisis of food prices' (FoodSovCAP, 2012).

Once again, the initial Commission proposal was significantly diluted in the three years of intense negotiations involving the Commission, Council, and Parliament. The **co-decision** procedure, which included the European Parliament (EP) as a co-legislator in a large agricultural policy reform for the first time, seems to have weakened the Commission and favoured the Council, which traditionally voices dominant agricultural interests. The EP and the Council's positions converged on many issues and particularly on the core issue of direct payments. Consequently, and to a certain extent paradoxically, despite a more democratic decision-process, the outcome of the 2013 CAP reform did not match up to public expectations as expressed in the initial public consultation (European Commission, 2010).

Despite changes in the discourse ('public goods', 'ecosystem services', and 'greening' are key words in the new CAP), the policy has scarcely changed. The new direct payment system mainly melds old instruments (for example, the young farmer scheme, support for areas of natural constraint, coupled support) within a new regulatory framework, broadly retaining the same distributive policy effects. By setting very low criteria for its design, and introducing important degrees of flexibility for member states in its implementation, many commentators have judged the green payment scheme—the main innovation in the initial reform proposal—a complete failure (see Institute for European Environmental Policy, 2013). Furthermore, the rural development budget has been reduced and the new modulation measures, which allow member states not only to transfer money from pillar one to pillar two (as was the case previously as a way to strengthen rural development policies), but also from pillar two to pillar one (see Figure 22.1), may further weaken the reformed policy.

KEY POINTS

- The inclusion of agriculture in the Uruguay Round of the GATT in 1986 placed an important political constraint on European governments, which led to a radical CAP reform in 1992.
- Successive reforms took place: in 1999 in light of forthcoming enlargements; in 2003 to avoid a clash within the WTO; and in 2008 for budgetary reasons.
- In addition to the progressive replacement of administrative prices by direct payments to farmers ('decoupling'), these successive reforms have introduced various instrumental and discursive innovations, such as the two pillars of the CAP, the direct payment system, the modulation tool, and the concepts of ecosystemic services and public good.
- The latest reform in 2013 was aimed at responding to public demands for a fairer and a greener CAP but the decision-making process led only to a slight improvement.

Past and present debates on the CAP and EU agriculture

For decades the debate has been focused mainly on the budgetary, economic, and trade distortive effects of Common Agricultural Policy instruments conducive to a radical shift of the policy. However, although they have not been the main engine for change, other important issues have emerged and have progressively found their way into the discussions; rural development, environment protection, and equity fall into this category.

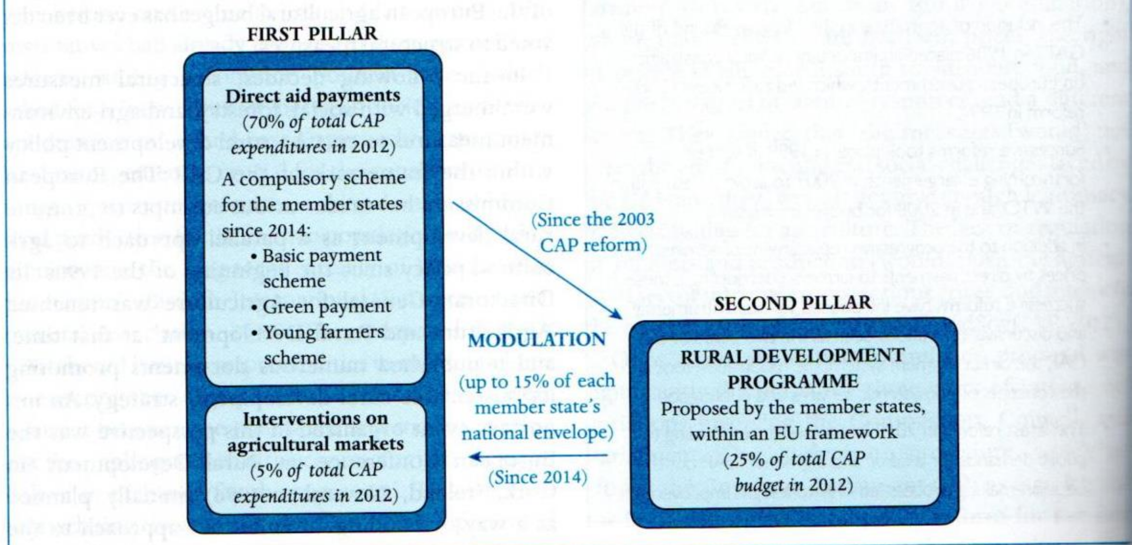
The long road to rural development

Since the early years of the CAP, the European Commission has tried to introduce a socio-economic dimension into the policy. The very first attempt of this kind was made by Dutch Agricultural Commissioner, Sicco Mansholt, in the late 1960s (European Economic Community, 1969). He proposed a radical revision of the CAP's market measures, together with an active structural agricultural policy. Strongly rejected by the Council, the proposal gave birth to a very timid **structural policy** in 1972, providing funds for such things as new techniques and equipment as means to foster the modernization of the farms. Differing from other CAP measures, these structural measures were co-financed by member states through fixed, multi-annual budgetary 'envelopes'. Despite an increase in allocations since the mid-1980s, only an extremely small part of the European agricultural budget has ever been devoted to structural measures.

In the following decades, structural measures were merged with social, forestry, and agri-environment measures to create a rural development policy within the framework of the CAP. The European Commission has made various attempts to promote rural development as a parallel approach to agricultural policy since the beginning of the 1990s. Its Directorate-General for Agriculture was renamed 'Agriculture and Rural Development' at that time, and it published numerous documents promoting its 'sustainable rural development' strategy. An important event organized in this perspective was the European Conference on Rural Development (in Cork, Ireland, November 1996), initially planned as a way of building an ambitious approach to the countryside within the CAP. The Cork Declaration invited European policy-makers to switch their public support from financing market measures to assisting rural development programmes (including agro-environmental measures). Again, however, the member states were very reluctant to adopt such an approach. Consequently the Commission decided to separate the issue of rural development policy from the overall reform of the CAP, which is how the second pillar of the CAP was born in 1999.

At that time, rural development policy attracted two sets of critics. First, for many, this new 'pillar' remained marginal from a budgetary point of view (see Figure 22.1). Second, rural development policy was criticized as being too 'farming'-orientated. While agriculture is no longer the sole engine for rural development, it still consumes almost all available funds, with rural development actors outside the farming sector benefiting from only very scarce resources. In order to address this issue better, commentators have argued for a shift in rural development from the CAP to regional policy, a proposal strongly resisted by the agricultural policy community. In response, the 'modulation' measure was decided in 2003 and reinforced in 2008. A new regulatory framework was adopted for the period 2007–13 with competitiveness, environment, and quality of life in the countryside as its main targets, as well as the reinforcement of innovative policy tools such as so-called LEADER programmes (highly specific projects designed and implemented through local partnerships).

Figure 22.1 Distribution of the budget between the two pillars of the CAP



Contrasting with this progressive reinforcement trend, the most recent CAP reform has led to the redesign of this framework for the 2014–20 period, with some potentially paradoxical effects. In the new frame, member states (or their regions) have to define their rural development programme based upon at least four of the six common following objectives: 'fostering knowledge transfer and innovation in agriculture, forestry, and in rural areas'; 'enhancing farm viability and competitiveness in all regions'; 'promoting food chain organization'; 'restoring, preserving, and enhancing ecosystems related to agriculture and forestry'; 'promoting resource efficiency and supporting the shift towards low carbon and climate resilience in agriculture, food, and forestry sectors'; and 'promoting social inclusion, poverty reduction, and economic development in rural areas' (European Commission, 2013b). From a budgetary perspective, the weakness of the second pillar remains, and perhaps even increases. Due to pressure by the Council in the negotiation process, rural development has suffered significant cuts (by 7.6 per cent for pillar two compared to 1.8 per cent for pillar one). In addition, a new modulation mechanism has been adopted which enables national governments to transfer up to 15 per cent of their CAP envelope between the two pillars. Depending on national (and regional) priorities, the rural development budget may thus be considerably weakened. At the time of writing, national (and regional) rural development programmes for the coming period are still under examination by the Commission.

The environment as a core issue

The environment and, more broadly, issues of **sustainable development** have progressively found their way into the agricultural policy debate since the 1980s. The negative effects of modern farming were initially denounced by environmental groups. Problems identified included soil degradation in areas of intensive crop production, pollution by pesticides, water pollution caused by nitrate fertilizers in areas of intensive livestock production, and the homogenization of the rural landscape. Until the 1990s, however, due to the opacity of the guaranteed price mechanism, it was not easy to explain to the public how the CAP affected the environment in rural areas by prompting farmers to intensify their practices, thereby exacerbating environmental degradation. With CAP support becoming gradually more transparent since 1992 the situation became clearer and environmentalists could enter the agricultural policy debate more directly.

Among the various environmental organizations in Brussels, one has gained an increasing influence in the debate in the last decades: Birdlife International. Since the early 1990s, this organization has emerged as the main representative of the 'CAP and the environment'. Strongly influenced by the Royal Society

... of Birds (RSPB) in the UK, Birdlife ... has diffused a market-orientated vision ... relationship between agriculture and the environment ... the CAP. They first called for the dismantling of traditional market regulations, seen as most ... for the environment. Second, insofar as market ... for agricultural products, they argued that CAP should limit its scope to market failures, that ... provision of environmental public goods by ... (Birdlife International, 2008). In order to ... their vision, they have built a large coalition of ... interest groups, including environmental ... and landowners. Drawing on (neo-classical) eco... allowed Birdlife International to use global ... economic trends for their own ends: by making references to international trade agreements and the eastern European enlargement, they were able ... a sense of inevitability around the changes they were recommending (see Birdlife International et al., 2009). This contrasts with the experience of organic farmers, for instance, whose organization (the European branch of the International Federation of Organic Agriculture Movement) completely failed to push their more holistic vision of agriculture and the environment within the CAP debate (Gibbon, 2008). However, although Birdlife can be seen as politically successful because they are now recognized as *the* agri-environment voice in Brussels, inspiring the content of the Commission's 2013 reform proposal, a lot remains to be done. As explained above, despite a new policy discourse based on the concept of public good and ecosystem services, the greening of the CAP is still at an early stage.

On budgets and equity: where does the money go?

The debate on CAP expenditure has always been very lively. Critics have traditionally pointed to the inequitable distribution of support across member states and, more recently, among types of farmers.

A first feature of the debate sets countries such as the UK, Sweden, and Denmark against countries such as France, Spain, and most of the Eastern member states. The former support cuts in CAP budgetary expenditure, if not the dismantling of the overall policy. The latter defend a significant CAP budget. The debate was very lively during the most recent CAP reform, with countries such as the UK claiming that the EU must secure more funds for 'growth' policies (research, education, innovation), rather than agricultural policy (seemingly viewed as a backward policy). Behind these arguments for and against the CAP is a debate among member states about 'budgetary return'—namely, the benefits gained by a given country from the CAP *less* the contribution of that country to the EU Budget. This issue, which recalls Margaret Thatcher's demands for a **budget rebate** for the UK back in 1984, continues to be present in all Agriculture Council negotiations. It came up again in the context of the Eastern enlargement. In 2002, the Agricultural Council decided that new member states would receive only 25 per cent of the total amount of the first pillar budget perceived by old member states (see Box 22.2). Consequently, since they have joined the EU, East Central and European member states continue to ask for a more equitable distribution of the CAP budget. In the debate on the CAP budget, these countries clearly support the allocation of more funds.

The distribution of support among types of farmers is a second feature of the CAP equity debate. This is an old issue, which as has been much less formally and publicly discussed than the latter, due to the reluctance of the most influential member states in the CAP decision-making. Since the 2013 reform, this issue has been re-qualified by the Commission in terms of 'internal' convergence issue (among farmers), as contrasting with the 'external' convergence issue (among member states) (Ciolos, 2011).

Since the early 1980s, 'small farmers', championed by European Coordination Via Campesina, were arguing for 'differentiated prices'—that is, a guaranteed price system based on both production and social parameters. With the direct payment system, CAP support became more transparent, as did its inherent inequities, and the debate opened to a larger public. Although data on individual payments were initially kept secret, some lists of the main beneficiaries of the CAP were published after 2004. It came as a surprise when citizens discovered that huge CAP payments were made to the late Queen Mother in the UK, to Prince Rainier of Monaco, to big companies and food industries, and political figures (including the Agriculture Commissioner, Mariann Fischer Boel). In France, there was a scandal when it was revealed (see *La Tribune*, 3 November 2005: 2–3) that the first beneficiary on the 2004 list was allocated more than €850,000 to produce rice in the south of France, and the second almost the same for 1,500 hectares of irrigated maize in south-west France (one of the less environmentally friendly crops in this area). Following an intense lobbying campaign by transparency activists (in particular those of farmsubsidy.org), the Council agreed in October 2007 to the full disclosure of all recipients of financial support under the CAP. However, since 2011, after farmers' organizations argued against it on privacy grounds, data on legal persons (individual farmers) are no longer published.

The sudden visibility of these inequalities has not only raised concerns among citizens, but it has also created some tensions within traditional farmers' unions, notably between the different kinds of producers—for example, intensive crop growers versus extensive cattle growers. However, these changes in public debates have rarely been converted into policy decisions. Consequently, the distribution of CAP support is still very unequally spread. For example, in 2012 in the UK, 42.38 per cent of the UK farmers were sharing 4.32 per cent of total UK CAP payments (and were paid less than €5,000 each), while 8.34 per cent of them (paid between €50,000 and €200,000 each) were sharing 37.89 per cent of the total amount of CAP payments allocated to the UK. Differences are even bigger in a country like the Czech Republic where, in the same year, 61.66 per cent of the farmers were paid less than €5,000 each corresponding to 3.74 per cent of the amount of the CAP budget allocated to their country, while 3.8 per cent of the Czech farmers shared among themselves 57.48 per cent of the country's CAP budget and were paid more than 200,000 euros each (see http://ec.europa.eu/agriculture/fin/directaid/2012/annex1_en.pdf).

In the 2013 CAP reform, some progress was made to temper some of the inequalities: in line with 'external' convergence principles, the level of direct payments per hectare will be progressively adjusted in accordance with a minimum national average direct payment per hectare across member states (European Commission, 2013). And in line with 'internal' convergence measures, payments based on 'historic' references should come to an end and be replaced by flat-rate payments per hectare at national (or regional) levels (European Commission, 2013b). However, the influence of large-scale conventional farmers and landowners in most of the member states might slow this process down and may also foster social conflicts, as in 2014, when French farmers from the *Confédération Paysanne* went on hunger strike after the Agriculture Minister, Stéphane Le Foll, decided that breeders with fewer than ten cows would no longer be allowed to benefit from CAP payments.

KEY POINTS

- Although arising early in the Common Agricultural Policy debate, the issue of rural development has experienced a number of difficulties. The second pillar of the CAP now makes rural development policy within the CAP more legitimate, but the budget allocated to it remains small.
- The environmental issue is becoming more important in the CAP debate. The main argument is that direct payments should be more strictly linked to environmental performance.
- With the shift to direct payments, the distribution of CAP support suddenly became more visible. This turned transparency into core elements of the debate.
- However, more transparency does not mean more equity and social justice in the distribution of CAP support among different type of farmers; huge disparities still remain.

Conclusion

Originally intended to make Western Europe self-sufficient in food, the Common Agricultural Policy was equipped with 'productivist' instruments that led to an overproduction of agricultural produce and serious budgetary problems for the European Community. In the 1980s, the first reforms introduced supply control measures, such as quotas. At the beginning of the 1990s, as a consequence of international developments, new policy beliefs inspired the 'decoupling' of farm support from production. This provoked a radical reform of the CAP, launched in 1992, which shifted policy instruments from market or price support to direct income support. This process continued in subsequent CAP reforms during the 1990 and 2000s, with further 'decoupling' and increasing attention paid to new dimensions of the policy. However, changes were very slow to be implemented, and although these items have been under discussion for decades, the CAP still suffers from major environmental gaps, poor links to rural development, and unequal distribution of support among farmers.

The evolution of the CAP since its beginnings provides a very good illustration of the role of ideas public policy-making. It is not only interests that matter in explaining both policy changes and the reluctance to change. While farmers were influential in the shaping the CAP and in lowering down the pace and extent of the reforms, academic agricultural economists were instrumental in proposing ideas aimed at avoiding trade-distorting effects and liberalizing the CAP. Similarly, the influence of certain environmental groups was later important in the elaboration of a new 'greener' policy discourse, with the introduction of the concepts of ecosystemic services and public good.

The evolution of the CAP also is an excellent illustration of the complexity of the links that exist between national, European, and international political arenas. Inter-sectoral deals that are not easily understood at national level become even more complicated when various governments, coalitions of interests, and European and international institutions enter the game. Caught in the crossfire between national interests and international bargains, the EU's political system is complex, intricate, and competitive. The only way in which to deconstruct this complexity is to examine the actors involved in the policy process, the visions of agriculture and agricultural policy that they support, the nature of the political exchanges that take place among them, and the resources that they are able to invest to defend their position.

This complexity has taken a new form since the 1990s, with member states, and local governments within them, allowed a growing room for manoeuvre in the implementation of the policy. This can be explained by the Commission's desire to distance itself from the 'scapegoat syndrome' it has been suffering since the beginning of the CAP. For many commentators, this suggests a future re-nationalization of the CAP. Some denounce the dismantling of the policy and argue that the divergent policies that result will impede fair competition among European producers. Others argue that this is simply a differentiation process, which allows national and regional authorities to design agricultural policies better fitting to local circumstances. What is certain is that the CAP is no longer a matter of European politics alone, but is increasingly characterized by national, regional, and even local political struggles.

QUESTIONS

1. Why did the Common Agricultural Policy originally seek to maintain high prices for agricultural produce?
2. What were the negative consequences of the CAP's price support mechanism?
3. Why did the 1992 reform take place?
4. What do the 1992, 1999, 2003, 2008, and 2013 CAP reforms have in common?
5. Which new issues entered the agricultural policy debate from the late 1990s and why?
6. Why do some actors consider that the greening of the CAP has been a failure?
7. To what extent are developing countries affected by the CAP?
8. How will local governments be implicated in the implementation of the CAP in the future?

GUIDE TO FURTHER READING

Cunha, A. and Swinbank, A. (2011) *An Inside View of the CAP Reform Process: Explaining the MacSharry, Agenda 2000, and Fischler Reforms* (Oxford: Oxford University Press) The main interest of this book is that it draws extensively on Arlindo Cunha's experience as a high-level decision-maker in the CAP process.

Greer, A. (2005) *Agricultural Policy in Europe* (Manchester: Manchester University Press) This book provides a unique comparative analysis of agricultural policies, and shows that, despite the existence of the CAP, substantial agricultural policy variation exists across the EU.

Hill, B. and Davidova, S. (2011) *Understanding the Common Agricultural Policy* (London: Taylor and Francis, Earthscan). In this book the authors try to understand the CAP and its evolution using economics as a basis for their exploration.