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A GUIDE TO CAP REFORM POLITICS: ISSUES, POSITIONS AND DYNAMICS

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ABSTRACT

CAP REFORM IS the major bone of contention in the negotiations of the next long-term EU budget beyond 2013. This paper reviews the political landscape so as to make it more legible to the public. First, it summarizes the arguments concerning key reform issues: What should be the size of the CAP budget and who should finance agricultural policies? What should happen with direct income support and how to deal with price fluctuations and food security? Which public goods should the CAP pursue and how to promote environmental public goods, in particular? Second, it examines the formal positions as well as the less visible interests and internal conflicts of the main policy actors: DG Agri, the Commission College, the European Parliament, the member states, farmers and landowners, other civil society stakeholders, and academics. Finally, the paper discusses the prospects for the reform process, such as a change in the CAP narrative towards competitiveness and innovation or the increasing influence of financial considerations and broader EU affairs on CAP reform.



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INTRODUCTION¹

2011 WILL BE decisive for the reform of the EU's Common Agricultural Policy (CAP). The European Commission will submit its legislative proposals for the post-2013 CAP in June/July 2011, thus largely circumscribing the scope of reform. Furthermore, the member states and the European Parliament (EP) will move from their initial positions that largely reflect the opinions of the agricultural policy-making community to more representative stances that are coordinated with policy-makers in charge of the environment, the economy and public finances. Although agreement between the Council and the EP cannot be expected before 2012, the positioning during 2011 will be crucial.

Until present, the two most significant changes to the CAP took place at a roughly 10-year interval. In 1992, price intervention began to be transformed into production subsidies, while the decoupling of these subsidies from production to the benefit of direct income support (the so-called Single Farm Payment or SFP) was initiated in 2003. A further decade later, the next stage will be the targeting of subsidies at the provision of public goods, such as biodiversity preservation and climate change mitigation. Broadly speaking, the CAP has moved from harmful to wasteful subsidies, and the remaining challenge is to make these subsidies useful.

Improvements to the CAP are also essential for reform of the long-term EU budget. If the CAP, which absorbs more than 40% of the EU budget, remains stuck in the past, chances are slim that courageous reform will be undertaken in other spending areas or on the financing side of the EU budget. For this, and other reasons, CAP reform is essential to the success of European integration.²

All this drives up public attention towards the CAP, and many stakeholders show a new (or renewed) interest in the debate. This paper can serve as a guide to the intricate world of CAP politics. It is written from a reform-oriented angle, but its purpose is not to criticize current policies or propose better ones. Rather, it reviews the political landscape so as to make it more legible to the public and to help reform promoters in finding their way through the maze of interested parties, positions and procedures.

The paper frequently refers to the web page reformthecap.eu, which provides more extensive discussions and summaries of studies. Other excellent sites that follow the CAP debate are capreform.eu, cap2020.ieep.eu and Wyn Grant's commonagpolicy.blogspot.com.³

Section 2 takes stock of the major reform issues. Section 3 looks at past landmarks of the reform process. Section 4 delves into the positions of the main policy actors. Section 5 assesses the prospects for the reform process. Section 6 concludes.

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2. REFORM ISSUES

The CAP reform debate can be structured around six questions:

- What should be the size of the CAP budget?
- Who should finance agricultural policies?
- What should happen with direct income support?
- How to deal with price fluctuations and food security?
- Which public goods should the CAP pursue?
- How to promote environmental public goods?

2.1 WHAT SHOULD BE THE SIZE OF THE CAP BUDGET?

ANY SUBSTANTIAL INCREASE in the long-term EU budget for 2013-2020 is improbable. More likely are very moderate increases in line with expected inflation – as proposed by the heads of state from France, Germany, the UK, the Netherlands and Finland in a joint letter in December 2010. The clash between a UK-led coalition of member states and the EP over the 2011 budget gives a taste of the political resolve to limit EU spending. This corresponds to member states reluctance towards further expansion of the EU budget during the last decades. The EU budget reached 1% of community GNI for the first time in 1984, increased slightly during the 90s, moving up to 1.2%, and then declined again to around 1% during the last decade.⁴ At the same time, strong demands have been voiced to expand spending in several areas which promise high European value added. This prepares the stage for particularly rough funding competition between policy areas.

CAP defenders usually argue that the CAP has to shoulder new environmental tasks and therefore needs more money than in the past. This view implicitly assumes that the CAP has pursued the right objectives and has done so efficiently. If one believes, by contrast, that the societal value of the Single Farm Payment is marginal and that some subsidies do more harm than good, cost savings could be achieved that far exceed fully justifiable CAP expenditures: during the 2007-2013 period, less than 10% of the CAP budget is being invested in clearly ‘green subsidies’ (e.g. organic farming and agri-environmental schemes).

Some bottom-up calculations of financial needs have been undertaken. The total costs for agriculture-related environmental and land management in the UK are estimated to range between £1-3 billion.⁵ Various studies of the financial needs for sustainable agriculture in Germany result in figures between €0.6 billion and €1.3 billion.⁶ What these estimates have in common is that they are far below the roughly €50-300 per hectare of EU funds spent under the CAP alone on average within the EU (without counting member states’ co-financing and top-up expenditures).

It must be noted that such estimates are subject to great precaution. First, the objectives of the CAP are ambiguous. The main dividing line is whether the CAP should exclusively promote public goods or whether it should also include farm income. Furthermore, the scope of public goods to be pursued by agricultural policies is contested. This pertains notably to the issue of rural development/vitality.

Second, target levels must be established for each objective. The intuitive approach is to look at officially endorsed targets, such as biodiversity. The difficulty is that these targets are only vaguely defined, especially outside the strictly environmental realm. The Treaty of Rome stipulates that the CAP should ‘ensure a fair standard of living for the agricultural Community’. The meaning

of this ominous objective – one which arguably stands behind the SFP and thus the largest CAP expenditure – has never been spelled out.

As a consequence, it becomes inevitable for researchers to assume reasonable targets based on quantitative valuation of public goods. However, even the valuation of a single site of high scenic, recreation and tourism value poses great difficulty.⁷ The results become still less reliable if they are scaled up to the entire territory and if more diffuse external effects of agriculture, such as water pollution, are included.

Third, it is unclear which changes in farming practices are most cost-effective to attain a set of policy objectives. A multitude of practices is available, each with its individual profile of benefits and costs.⁸ The extent of these benefits can be difficult to evaluate, and even the costs can be difficult to measure – especially if administration and monitoring is included. Furthermore, some practices that are desirable to promote certain objectives can produce undesirable side-effects. For instance, extensive grazing creates biodiversity and landscape benefits but appears to have a problematic greenhouse balance.

The complexities increase further if one considers that advantages, disadvantages and costs of each practice depend on the set of other farming practices implemented at farm level. Some practices create synergies, others are substitutes, while others are hardly compatible. Finally, farming practices must be responsive to the local context, such as agronomical conditions, biodiversity, water quality and availability, and labor costs.

Fourth, the legal baseline, which differs starkly across member states and whose future development is hard to foresee, will influence how much subsidies will be needed. Regulation and resource pricing/taxes are especially suitable to reduce the negative externalities of agriculture. The price of water can reflect scarcity and thus make subsidies for water-saving farming practices redundant. Taxes on fertilizer or excess nitrogen in the farm accounting balance mitigate the need for agri-environmental payments.

Fifth, the price the CAP will have to pay for changing farming practices is uncertain. This depends, for instance, on governments' willingness and ability to tailor payments to the necessary minimum for the delivery of the desired quantity and quality of public goods. It also depends on farmers' readiness to supply public goods. Many parameters that shape the attractiveness of supplying public goods will change: market prices (especially if tariffs are reduced), direct income support, the image of targeted payments, the availability and orientation of advice, and administrative costs for farmers.

Sixth, the required CAP budget will vary significantly with the share of the costs which implementing member states will have to contribute themselves – an issue dealt with in the following section.

2.2 WHO SHOULD FINANCE AGRICULTURAL POLICIES?

WHILE THE FIRST pillar is fully financed by the EU, second pillar expenditures are divided between the EU and the member states.⁹ The current rates of EU co-financing are differentiated according to programs and regions, ranging from 50% to 90% for measures that tackle 'new challenges' in convergence regions. A little more than one third of the second pillar expenditures, which constitute about a fourth of the CAP budget, are directly paid for by the member states. As a result, little more than one tenth of the CAP subsidies stems from co-financing.

Abolishing the exclusive EU funding of the first pillar would bring the CAP in line with the gen-

eral practice of the EU budget – and offer several advantages. First, their financial contribution creates an incentive for the implementing member states to use EU funds responsibly to fulfill genuine needs (up to the point where marginal public costs equal marginal public benefits). Second, member states can be expected to administer public funds more efficiently, attaining a greater impact for a given amount of money, if they participate in the costs. Third, co-financing provides the EU with higher leverage for its limited funds, so that it can more comprehensively shape policies in line with a European agenda. Fourth, the expansion of co-financing is desirable if one wishes to shift money away from farm income support to strengthen other objectives within or outside the CAP. If the principle of co-financing all EU expenditure is accepted, member states that currently defend farm income support (because they expect that their subsidy receipts from the EU budget will outweigh their corresponding contributions to the EU budget) will lose much of their interest in such policies.

One main argument against co-financing is that member states cannot afford it. However, the contributions to the EU budget could be reduced accordingly, or the EU could use the freed-up funds in other areas on which member states could then reduce their national expenditures. Moreover, total expenditure for agriculture is likely to decline as market interventions are removed and farm income support is scaled back. This will make the financing of agricultural subsidies – whether through European or national channels – easier. Member states could lower their financial burden further by primarily using those instruments for which national co-financing rates are low (currently those that respond to the ‘new challenges’). A special obstacle arises in federal states where the co-financing obligations affect lower-level entities (especially the German Länder), so that arrangements would have to be found to pass down cost savings at the national level.

Another argument against co-financing is that this would lead to the ‘re-nationalization’ of agricultural policies, with grave consequences for the internal market. Undistorted competition is indeed an important objective. It is not only a matter of fairness among farmers but also of economic efficiency: differences in agricultural support can result in production patterns that contradict member states’ comparative advantage.

Yet, it is the current system that twists competition. The Single Farm Payment is distributed highly unevenly across member states. A farmer in Greece gets more than €00 per hectare, whereas his colleague in Latvia receives less than €00 per hectare. Although these payments are not formally coupled to production, they tend to influence production and thus distort competition through their sheer size. Also, member states have the right to use some of their CAP entitlements for subsidies that are coupled to the production of certain agricultural goods. For instance, arable crops receive support in France but not on the other side of the Rhine in Germany.

Similarly, the benefits farmers obtain from rural development programs differ across the EU. Member states receive very different amounts of second pillar payments under the CAP, ranging from less than €0 per hectare in Denmark and the UK to about €00 per hectare in Finland, Greece and Portugal. Also, some governments are more generous with national subsidies to top up the EU subsidies for the second pillar. More importantly, member states run their rural development policies differently. Only some countries focus on helping farmers to become more competitive, such as Belgium, which decided to spend 50% of its second pillar payments for the 2007-2013 programming period on this objective. Ireland, in contrast, spends only 10% to enhance farm competitiveness, but 80% to improve the environment.

A more level and efficient internal market could thus be achieved despite an expansion of co-financing if strongly distorting subsidies are removed and all spending be cross-checked more strictly by the European Commission.

2.3 WHAT SHOULD HAPPEN WITH DIRECT INCOME SUPPORT?

THE SFP HAS been criticized on five grounds.¹⁰ First, social policies should minimize poverty, without bias in favor of any occupational group. Second, singling out farmers as a preferential group that obtains income support across-the-board is especially ineffective for reducing poverty. In some countries, farmers have above-average incomes, and many farmers are asset-rich: they own machinery, farm buildings, and above all, land.¹¹ Third, poor farm households benefit little – 20% of recipients reap roughly 80% of the SFP.¹² Tenant farmers have to pass on a share of their SFP receipts to landowners in the form of higher rents.¹³ Fourth, social policy is a national responsibility and should not be paid for by the EU. Fifth, the SFP re-distributes money between member states in ways that are neither transparent nor reasonable.¹⁴

According to one justification, the SFP is a legitimate compensation for past pro-market reforms. Yet, these reforms date 10 to 20 years back. No transitional payment to soften policy-induced structural change (and to buy out powerful reform opponents) should continue forever. Moreover, comparative research shows that the agricultural sector frequently adapts better to liberalization than expected. Market forces lead to different product specializations, greater production efficiency and higher product quality.¹⁵

Another rationalization is that the SFP is necessary for maintaining European agriculture. Without it, the EU would experience massive land abandonment, undermining the provision of public goods and food security. Scientific studies contradict this view.¹⁶ Regardless of the CAP, EU agriculture is predicted to continue producing roughly similar amounts on similar acreage, albeit with fewer farms and farmers. Moreover, any specific public good tied to agriculture could be supported more efficiently through targeted measures than through the largely free SFP handout.

Last but not least, the SFP is interpreted as a compensation to EU farmers for high production standards. However, several considerations speak against leakage of production to foreign countries with less demanding standards. First, imported food must in any case meet many of the EU's legal minimum standards, notably those on human, animal, and plant health. Second, an ever increasing share of food is sold by brands and retailers that impose their own, more demanding standards. Third, when EU producers have to comply with stricter standards than their foreign competitors, it is not solely to their detriment. High standards increase consumer confidence in the safety and ethical quality of EU products. Fourth, high hygiene standards furthermore improve animal and plant health, and traceability requirements enable more targeted intervention in the case of pest and disease outbreaks. Farmers therefore incur fewer losses. Fifth, the costs EU farmers incur by complying with legal minimum standards that do not apply to foreign farmers appear generally moderate.¹⁷

If some agricultural production is transferred in response to high EU standards, this is not inevitably undesirable. Even where a global public good is concerned, such as biodiversity or the climate, it is not clear whether a country with higher standards does indeed have a better environmental performance. European farmers may employ relatively polluting production techniques despite the high environmental standards in the EU. For instance, land may be scarcer in Europe, while agro-chemicals and machines may be more available, than in other countries. Or the cold winters in many European member states may require using energy to keep animals in stables, whereas animals can graze freely in other countries throughout the year. A transfer of production to countries with lower standards is not necessarily harmful to the global environmental commons.¹⁸

Regardless of these considerations, a reduced, and possibly greened, SFP is likely to be a main component of the post-2013 CAP. This leads to the question of how it should be distributed across member states. Member states that feel disadvantaged by current arrangements vehemently urge

for a thorough redistribution, while beneficiaries, such as France and Germany, resolutely hold on to their privileges. Several considerations suggest that the repartition of national envelopes will indeed be overhauled. First, current national envelopes are largely determined by past payment patterns. As the reference periods date further and further back, they become ever harder to justify. Second, the current distribution is shaped by the EU enlargement process. After 2013, a genuinely European approach that removes the old/new member state divide is due. Third, the overall direction of the next CAP reform will be to target subsidies at the provision of public goods. The coming paradigm of agricultural policy as a transparent contract between farmers and society will be reflected not only in a change in CAP objectives and policy instruments, but also by the use of more rational criteria to allocate funds to member states.

The political discussion has not advanced much. It is clear that a simple EU-wide flat rate would be unfair, given the differences in the cost of living and in GDP across member states, and that the resulting excessively high payments in the new member states would provoke economic distortions.¹⁹ Any link to agricultural labor is strongly contested as it would imply significant redistribution. It would also create measurement problems and run counter to the idea that payments should be, in principle, linked to public good outcomes (even if a blanket approach is adopted) rather than production inputs. Several studies have examined more rational allocation criterion for the SFP and beyond.²⁰ They reveal the difficulties that lie in developing indicators that are based on robust data, allocating money where it offers the highest payoff and rewarding governments that promote good environmental stewardship in their legislation.

The distributional question also arises at the farm level. One aspect is the severing of the historical link between current entitlements and subsidy receipts dating back 10 to 20 years. More attention is being paid to the introduction of a new link, namely to agricultural labor. Proponents feel that rewards should be paid directly as a function of agricultural labor input or that primarily land-based payments should at least be capped/made degressive, so that smaller/more labor intensive farms benefit more. This is countered by the warning that farm size can be manipulated by splitting up large farms into several legal entities and by the objection that farm size is not a good approximation for the provision of public goods. Most importantly, any direct reward for agricultural labor would cause severe distortions and be incompatible with the principles of a free-market economy.

2.4 HOW TO DEAL WITH PRICE FLUCTUATIONS AND FOOD SECURITY?

AS FOOD PRICES surged in 2007/08, food security suddenly became the most pervasive and powerful argument of those calling for the protection of EU agriculture – despite all evidence showing that food security is not endangered in the EU for the foreseeable future.²¹ For more than five decades, the EU has produced more than enough food to nourish its citizens in every single year. In the future, the European food production potential is likely to grow further, thanks to technological progress and improved farming methods, while EU population growth will be negligible. If the need arises, farmers can easily expand cultivated areas, use more intensive farming methods and shift production patterns to increase yields. In particular, curbing meat, milk, and biofuels production could free up capacity for growing basic grains. Moreover, throwing away less food is a guaranteed way to have more on our plates if food should ever become scarce. Finally, the EU has sufficient purchasing power to fulfill its needs even on a high-price world market.

The real food security challenge affects the poor in developing countries. The EU should respond to this challenge by promoting an open and stable trade regime for agricultural products, so that world markets can handle geographically dispersed fluctuations in production and structural im-

balances across world regions. A major step would be the removal of its own agricultural tariffs and all subsidies that are not efficiently targeted at clearly defined public goods. This should be accompanied by additional support for enhancing agricultural productivity in developing countries.

Regardless of food security, one may be concerned with agricultural price volatility for social reasons. Luckily, farmers themselves have a variety of tools at their disposal in order to cope with risks. They can diversify their income by producing different crops and livestock and by engaging in off-farm work or non-agricultural on-farm activities, such as tourism. They can share risks along the agricultural market chain through contractual long-term arrangements, with supermarkets for instance. Furthermore, they can rely on risk-pooling in producer cooperatives, on insurance and hedging on options/futures markets, and on capital and debt management.

Several studies warn that governmental intervention may weaken farmers' incentive to lower their income variability and cause considerable deadweight losses.²² Instead, governments should concentrate their attention on enabling farmers to use existing risk management tools and making risk markets more efficient, for instance by providing data for regional index insurance.

2.5 WHICH PUBLIC GOODS SHOULD THE CAP PURSUE?

THE SERVICES FROM agriculture that are valued by society though not sufficiently remunerated on the market can be divided into three, partly overlapping groups: rural development/vitality; environmental/landscape protection; and food quality/safety.²³

While helping poorer regions seems fair and reasonable at first sight, strong criticism has been levied against current CAP practice.²⁴ If one is concerned with the unequal distribution of wealth, one should support poor households and not poor regions where rich and medium-income households live as well. Another objection against using agricultural policies for rural development support is that they are not targeted at the areas with the greatest needs. Income and employment levels differ significantly across rural areas – and many rural areas are much better off than de-industrializing cities. Similarly, birth, death, and migration rates vary across rural areas – and many regions have seen their population grow. In any case, rural development should not be promoted through agricultural policies but through growth policies that are not biased in favor of any sector. Such non-discriminatory approaches include investment into infrastructure and education. A final argument is that the objectives at stake are national and do not warrant EU money.

Another question is whether rural development should be part of the CAP or be merged into the structural and cohesion funds run by DG Regio. Those who prefer to maintain the current separation argue that, in the hands of DG Regio, rural development would lose its focus on farmers, rural areas and small-scale projects, and that the knowledge and social capital built up in particular through the grassroots program LEADER would be wasted. Supporters of a more unified approach to territorial governments point to enhanced policy coherence and reduced administration costs.²⁵

A broad consensus exists that environmental objectives in the largest sense should be a priority of the CAP. Disagreement surfaces when it comes to defining specific public goods. One dividing line is to what extent the CAP should concentrate on public goods that spill across borders. The expert declaration 'A Common Agricultural Policy for European Public Goods', for instance, singles out the fight against climate change, the protection of biodiversity, and water management (avoiding pollution, scarcity and floods) as genuinely European challenges. By contrast, 'most benefits of a diverse, traditional, well-kept landscape will be reaped within the country – by direct

enjoyment, as an advantage to attract qualified human resources or through tourism. These are primarily national, not European, public goods. But Europeans also enjoy the landscapes of other member states, possibly justifying some collective intervention by the EU.' Proponents of more generous EU-financing tend to define the European interest more broadly (e.g. the existence value of landscapes) and fear that, while the principle of subsidiarity is desirable, its application would diminish environmental expenditures in practice.

Another point of disagreement is in which cases efficiency and fairness considerations speak in favor of paying subsidies and when other instruments in line with the polluter-pays principle are preferable.²⁶ To combat climate change, taxes on fertilizer or nitrogen could be applied throughout the EU at a level in line with the external costs of farms' excess nitrogen. The nitrogen that is not transformed into biomass turns into nitrous oxides that are a powerful greenhouse gas (or it is washed into water courses or trickles down into the groundwater). Regulation of farming practices could furthermore be tightened. For instance, farmers could be obliged to observe stricter standards in their handling of manure, which produces methane, another potent greenhouse gas. Finally, a long-term solution may be to introduce emission trading to agriculture. The provision of other public goods appears to depend more strongly on subsidies, especially regarding positive measures to enhance biodiversity and landscape beauty.

It is often insinuated that Europeans eat tastier and healthier food thanks to the CAP. Such references cast food as an expression of the European way of life and juxtapose health-conscious Europeans and obese Americans: without the CAP we would be eating nothing but hotdogs, popcorn, and ice cream. At the other extreme, the CAP is bedeviled for boosting intensive monoculture production of food that contains few vitamins and minerals but a lot of pesticide residues and artificial flavors.

More detached analysis suggests that the CAP has minor effects on the kind and quality of food we eat. The CAP mainly increases farm income but this neither inclines farmers to produce better food nor does it convince consumers to change their eating habits. This is not a fault of the CAP: binding regulation, establishing notably maximum residue levels for hazardous substances, is the preferred policy instrument. In addition, labeling can reveal food characteristics to consumers who can then make healthy and tasty choices.

2.6 HOW TO PROMOTE ENVIRONMENTAL PUBLIC GOODS?

THE ISSUE OF how to design efficient policy instruments centers mostly on environmental public goods. These questions are more technically involved and experts agree more strongly about the right approaches. Fortunately, relatively extensive discretion can be given to each member state to answer these questions when implementing the future CAP, and approaches can be modified significantly before 2020. The questions include:

- How efficient are current payments from an environmental perspective?²⁷
- How should the different policy instruments – farm subsidies, regulation, taxes, emission trading, information/training, research and development – be best combined, and how can the power of private interests and markets be best harnessed within the legal framework?²⁸
- How can the implementation cost of targeted payments be reduced, and at which point do the additional implementation costs of further targeting offset the benefits?²⁹
- What should be supported: entire farming systems (e.g. organic farming or extensive

grazing), specific activities (e.g. crop rotation or nitrogen management plans) or outcomes (e.g. rare flowers or improvements in the nitrogen balance)?³⁰ And should small farms receive preferential treatment?

- What is the right price for the delivery of public goods? Considerations are fairness to farmers, take-up of and compliance with agri-environmental schemes by farmers, as well as the stability of agri-environmental contracts over time and especially during periods of high agricultural prices.
- How can the reputation of agri-environmental payments be improved? A crucial challenge is to move away from farmers' perception that they are entitled to subsidies and that any conditionality means undue bureaucracy and humiliating sanctions – and towards an understanding where farmers are entrepreneurs who compete for public service contracts.
- What should be the geographical distribution of support? Should the focus be to preserve and expand extensive agriculture or should significant funds be dedicated to improve the ecological performance of intensive agriculture? To what extent should high nature value areas be spread out or contiguous? Should payments be concentrated in member states where the greatest environmental gains per euro can be attained?

3. PAST LANDMARKS OF THE REFORM PROCESS

THE POST-2013 CAP debate was seriously kicked off in late 2008. The Commission held a conference, 'Reforming the Budget, Changing Europe', where 300 contributions from stakeholders and 3 scientific studies on the budget review were presented – mostly expressing strong criticism of the CAP. The conference was held at a time when agriculture enjoyed unusual attention, mostly due to the 2007/08 food price peaks and partly in the context of the Health Check, a minor CAP reform passed at the end of 2008. The Health Check legislation mentioned the post-2013 reform as the opportunity to redistribute subsidy entitlements across member states. Furthermore, the French EU Presidency initiated an exchange of views on the long run of the CAP at an informal meeting of ministers of agriculture. Subsequently, agricultural politics was dominated by protesting milk farmers and the release of individualized data of farm subsidy recipients.

One year later, in November 2009, the CAP community was briefly caught up by more systemic, long-term considerations. The leaked Commission conclusions on the budget review called for significant cuts in the CAP budget. The draft was condemned by defenders of the CAP, including Mariann Fischer-Boel, then-Commissioner for Agriculture, and disappeared into the round archive (alias: the bin).³¹

In December 2009, 22 member states reined in reform ambitions in their Paris Declaration that insists pompously on a strong CAP. The Warsaw Declaration from February 2010 showed a fault line in the camp of CAP defenders. The new member states stressed one reform aspect: the redistribution of direct income support to their benefit. The joint position paper by the French and German ministers of agriculture, released in September 2010, is conservative throughout and rules out significant redistribution of CAP subsidies.

In the meantime, the European Parliament had issued its first own-initiative report on the post-2013 CAP in June which reconfirmed the reputation of the Committee on Agriculture and Rural Development (Comagri) as a bastion of the farm lobby. One month later, a major stakeholder conference in Brussels (re-)produced a jumble of well-known positions (though moderators' summaries largely advocated the public goods paradigm). The event can be understood best as a

smart PR move by the Directorate-General for Agriculture and Rural Development (DG Agri) which can subsequently legitimize whatever opinion it picks up as a response to public demands.

In the last quarter of 2010, the CAP debate shifted into a higher gear. First, the communication on CAP reform from DG Agriculture was leaked – and shocked many observers by being even more conservative than expected.³² The official communication that was released some weeks later stuck closely to the draft. In the meantime, the Commission conclusions on the budget review had finally appeared – with a CAP section that might almost have been written by DG Agri. This release stimulated the internal debate within member states' governments as they formulated official reactions to the conclusions.³³

Worth mentioning is also a ricochet in November that had been on no official agenda: the French Ministry of the Environment broke ranks with the Ministry of Agriculture by publishing its own vision 'For a sustainable agricultural policy in 2013'.

4. POSITIONS ON THE POST-2013 CAP

THE FOLLOWING SECTION looks at the formal positions, the less visible interests and some internal conflicts of the main policy actors: DG Agri, the Commission college, the European Parliament, the member states, farmers and landowners, other civil society stakeholders, and think tanks and academics.³⁴

4.1 DG AGRICULTURE

DG AGRICULTURE HAS a history of promoting reform: it has championed the transformation of subsidies coupled to production into direct income support ('decoupling'); the strengthening of the rural development budget ('modulation'); and the concentration on environmental public goods within rural development ('new challenges').

The preceding Commissioners for agriculture, Franz Fischler and Mariann Fischer-Boel, were convinced that their reform efforts served not only the public but also the CAP and the farmers. Their reforms legitimized the CAP and thus ensured that money would continue to flow. Indeed, farmers are better off getting direct income support and being free to farm whatever and as much as they want, rather than receiving coupled support, which forces them to produce in greater quantities, or to produce other products, than would be optimal under free market conditions.

The post-2013 CAP reform will probably be different on both counts by shrinking the CAP budget and obliging farmers to deliver more public goods, and thus incur costs, in exchange for the subsidies. This is less to the liking of DG Agriculture, which has grown used to its powerful position within the Commission, based on its outstanding financial resources, and which tends to perceive its role as that of the defender of farm and rural interests. Moreover, the new Commissioner for agriculture, Dacian Cioloș, upholds rather traditional views on the CAP.³⁵

This has been reflected in the communication 'The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future'.³⁶ The communication lists three sets of objectives for the CAP: European and global food security/viable food production/farm incomes; environment and climate change; and territorial balance. The policy instruments and the two pillar structure shall be kept with some modifications. Fully EU-financed direct income support should be maintained and slightly greened (by lowering the existing cross-compliance requirements and introducing a second layer of eco-conditionality). Its distribution across member states and farmers should be reconsidered, 'avoiding major disruptive changes', and possibly rewarding

agricultural labor. Market intervention should be scaled back to become a safety net in case of crisis. Part of the less favored area payments could move from the co-financed second pillar into the fully EU-financed first pillar.

Among the three reform options it set up, the Commission clearly rejects the third, ambitious scenario, which it disparaged in its leaked draft. Prof. Berkeley Hill even argues: ‘It is hard to read the Commission’s ‘options’ for the CAP after 2013 without a feeling that there is something rigged about it. The Commission must well know that some of its proposals are non-starters. This concerns especially option 2, the moderate reform scenario. In the leaked version of the communication, the Commission has severely criticized option 3, making clear that this is just a straw man. This implies that the most likely outcome is option 1: to broadly continue the status quo but with some of the details tweaked.’³⁷

The Commission communication does not address financial issues. However, its commitments to direct income support, full EU-financing of major policy instruments (which apparently continues to be the principle of the expanded first pillar) and territorial balance (a policy objective that is distinctively more pronounced in the communication than in previous official documents) has major implications: the overall CAP budget would have to be large to finance this blueprint, and a relatively modest share could be spent on targeted environmental schemes.

4.2 THE COMMISSION COLLEGE

THE REMAINING DGs are less supportive of the current CAP but have different interests. DG Environment and DG Climate Action encourage the greening of the CAP – but they also appreciate a large CAP budget that can potentially be used for environmental objectives. DG Regional Development would like to absorb the rural development aspects of the CAP that are not directly linked to land-use. DG Trade is traditionally opposed to the trade- and competition-distorting effects of the CAP. DG Budget is in favor of shifting money away from the CAP. But the glorious days of Dalia Grybauskait as outspoken Budget Commissioner are gone. The prime concern of her successor, Janusz Lewandowski, appears to be to achieve agreement on new financial perspectives in time for January 1, 2014 – especially after the derailment of the budgeting process for 2011. Similarly, many other DGs are not directly concerned with the CAP but would be happy to redirect some CAP funds to other uses.

Yet, DG Agri has so far carried the day within the Commission. The Commission conclusions on the budget review, released with much delay in October 2010, only briefly touch on the CAP and are similar to the DG Agri communication. They mention the greening of direct aids, the development of insurance schemes, rural development that serves a panoply of objectives, and three reform options of different intensity.

These conclusions compare poorly to the draft document that leaked one year earlier. The October 2009 budget review draft (p. 17-19) still said ‘it is clear that it should be driven by two objectives. First, it should resolutely pursue the modernisation of the CAP, enabling it to respond to new challenges and concentrating spending where it adds most value. Second, it must stimulate a further significant reduction in the overall shape of the EU Budget devoted to agriculture, freeing up spending for new EU Priorities.’ Furthermore, it stated that ‘a larger responsibility of current CAP spending could be assigned to the member states, or direct aids could be co-financed by national contributions’ and that ‘financing should be provided at a level where it creates real EU added value and the EU budget should be primarily targeted to the provision of public goods.’

4.3 EUROPEAN PARLIAMENT

THE COMMITTEE ON Agriculture and Rural Development (Comagri) is overwhelmingly in the hands of members close to farm interests.³⁸ All but two of its members voted in favor of the first, status-quo and farmer friendly, own-initiative report by the European Parliament on the post-2013 CAP, published in June 2010.³⁹ Other EP reports point in the same direction: ComAgri expressed strong concerns about farm income and endorses subsidies to promote the European food and agriculture model (e.g. less favored areas, food quality and small farms).⁴⁰ The committee demonstrated comparable openness to change when looking at climate – but again, its proposals were strongly driven by a pro-farmer agenda: it perceived the need for additional subsidies for climate change mitigation and adaptation, rather than calling for regulation to fight climate change and leaving adaptation primarily to the market.⁴¹

Members of the committees on the budget, the environment, development, and industry, research and energy tend to be interested in CAP reform, but they have not yet picked a fight with their colleagues from Comagri. In the past, the Land Use and Food Policy Intergroup (LUFPIG) played a role in coordinating Comagri and non-Comagri MEPs with an interest in CAP reform – but the new chair, Mairead McGuinness from Ireland, has driven down the reform ambition and political importance of this circle.⁴²

The EPP has formalized its position in a paper of September 2010.⁴³ The document can be summarized in a few lines as it exceeds even the standards of DG-Agri's CAP orthodoxy. To fulfill the requirements of the future CAP is only possible 'if the level of the budget for agriculture stays as it is now.' and the first pillar 'will be 100% financed by the EU, mainly to support farmers with direct payments.' The treatment of food security is equally hard-lined: 'The European Union, which already has a high level of energy dependency, cannot afford an increasing dependency on food import as well.' It should also be noted that the EPP repeatedly condemned the Socialists for betraying European farmers, for instance in dealing with the Doha trade negotiations and the milk fund.

The group of Socialists and Democrats published a surprisingly reform-oriented position paper in March 2010 (which was not followed-up by subsequent statements and voting).⁴⁴ It says that the 'one step at a time while maintaining the original philosophy' approach of the 1992, 2000, 2003 and 2008/09 reforms has been 'overly timid'. Explaining that progressives are those who anticipate and guide ambitious reform processes, whereas conservatives only tackle the issues when forced to do so by the emergence of crises or external constraints, they go on to conclude that, 'the reform of the CAP over the last 15 years has generally followed this second path.'

The socialists give two reasons a 'New Start' (yes, in capital letters, just like the 'New Deal' they are calling for) is imperative. The first is the environmental public goods rationality (climate change, water management, renewable energy, biodiversity and soil erosion). The second is a combination of social concerns: reducing regional disparities, redirecting subsidies from the most competitive to more needy farm holdings, and creating employment ('the granting of aid must absolutely be linked to job creation in rural areas in order to maintain, bring to life and develop the agricultural area in all regions of Europe').

Concerns about employment and vitality in rural regions seem to point towards the strengthening of the non-agricultural component in rural development (Axes 3 of Pillar 2). But the document takes a most interesting turn in the opposite direction: the 'hotchpotch' of Pillar 2 should be cleared up, all CAP subsidies should be merged into one pillar, and all current CAP instruments that no longer fit should be transferred to the regional and cohesion policy.

The level of change envisioned is remarkable: ‘instruments must be better focused on objectives; priority must be given to expenditure that is more socially useful, such as financing of public goods made available to society; and handouts (direct subsidies) must be replaced with measures encouraging those involved to take account of the new requirements (new contractual approaches). Public subsidies should be given to farmers in return for their provision of environmental services and landscape management.’

The Liberals (ALDE) have not taken a strong stance; they tend to drift with the flock while resisting measures that would disadvantage large farms. However, their position paper on the post-2013 EU budget observes the need to modernize the CAP and to align it more closely with the goals of the Europe 2020 strategy. It states that ‘limited and precise cuts in the CAP may become possible’ and calls for ‘cutting provisions for programmes for which the initial need has expired and for dubious programmes such as support for tobacco production in the EU.’⁴⁵

The Greens, who are closely connected to small and organic farmers, strongly endorse drastic changes that would improve the environmental performance of the CAP, but are skeptical of market orientation and structural change.

MEMBER STATES

THE FOLLOWING DISCUSSION looks at individual member states and groups with similar interests.⁴⁶

France

FRANCE HAS NOT yet delivered a comprehensive position paper of its own, but the Ministry of Agriculture has expressed the French position at various occasions.⁴⁷ Priorities are: the preservation of a large CAP budget, of a large, fully EU-financed first pillar, and of current distribution keys for subsidy allocation across member states; the continuation of market management and the introduction of new subsidies for risk management; support to ailing sectors, especially livestock; enhancing production as a means to ensure European and global food security; preference for EU products through tariffs and labels; maintenance of agriculture across the entire territory; and the promotion of territorial balance/rural through agriculture.

Nicolas Sarkozy, the French president, is backing this stance. Especially until the difficult elections in spring 2012, he will (have to) vie for the farm vote. But Jean-Louis Borloo, then French Minister for the Environment, spectacularly broke ranks in November 2010 (and left the government the same month).⁴⁸ His vision ‘For a sustainable agricultural policy in 2013’ was quickly withdrawn from the Ministry webpage – but remains available online. In a smart move, the Ministry proposes to keep the current €0 billion CAP budget for France – thus making the proposals more appealing to its domestic audience – and it uses the budget issue as a stick/carrot: a large budget can only be justified for a green CAP.

The money is allocated to several instruments (doing away with the traditional two-pillar structure):

€ billion for direct income support, available to all farmers in the EU at an equal level, without any historic base. National governments could have the possibility to top up these payments. A flexible component could be introduced to soften fluctuation in prices and regional yields. The eco-conditionality (respect of good agricultural and environmental conditions) shall be tightened.

€ billion for environmental services, notably the protection of the climate, biodiversity and water. One part of these payments is available to all preferable farming systems (organic, high nature value, leguminous plants, foraging, low input). Another part is limited to special areas (less advantaged areas, Natura 2000 etc).

€ billion to boost the transition towards more sustainable farming. This covers the conversion to preferable farming systems, green investments, innovation and collective responses to local challenges.

€ 5 billion for food policy. The objective is to promote high-quality, responsible and local consumption through labeling, consumer education, food stamps and investments, for instance in local markets.

€ 5 billion for security nets and market intervention. Interestingly, the Ministry warns against blanket subsidies for insurances as this can push farmers towards high-risk, high-intensity farming. Only insurances that reward sound environment stewardship should be subsidized.

Germany

THE OFFICIAL GERMAN position, as outlined by the Ministry of Agriculture and the Länder ministries in a paper from March 2010, is highly conservative.⁴⁹ The two-pillar system with a strong first pillar, centered on direct income support, should be maintained, together with the current distribution of subsidies across member states. The CAP should be further simplified and remaining market interventions be reduced to a safety net. Socio-economic objectives should remain central.

Whereas its CAP position has so far been determined by the farm ministry, most decision-makers in Germany would prefer a package deal that combines ambitious CAP reform, limits on the expansion of the overall EU budget and an overhaul of the financing side of the EU budget. The dislike of the CAP among the German elite is partly motivated by material interests as Germany is the major net contributor to the EU budget, while also being strongly dependent on a liberal world trading system that is undermined by agricultural protectionism. This is, in part, due to environmental priorities, as well as the deep-rooted ideals of a social market economy where the state does not intervene with an active industrial/sectoral policy ('Ordnungspolitik'). Accordingly, ministries for the economy, finance, the environment, foreign affairs (which co-ordinates the German position on the next EU financial perspectives) and the Chancellery all disagree with the current CAP.

More influential than the rejection of the CAP, however, appear to be German concerns with its net payer position. With a redistribution of CAP and cohesion funds to the new member states written on the wall, many fear a significant deterioration in the German net position.⁵⁰

Germany can be expected to pursue its interests with greater conviction than in the past – growing from the junior into the senior role in the Franco-German 'motor'. While the French president is weak and domestic reform efforts failed over strikes and protest marches, Germany's economy is growing strongly. This comes at a time when elderly policy-makers being able to remember the Second World War has come to an end and the Cold War dependence of a disunited Germany is fading into history. Instead, the country begins to have a more natural, less historically shaped perspective of its position as the largest economy at the center of the EU. It must also be remembered that the Schröder-Chirac deal of 2002, which guaranteed the CAP budget until

2013, originated in the Eastern Enlargement. This time, Germany will probably not feel obliged by a historic mission about which the French feel less enthusiastic and which requires concessions on the CAP in exchange.

A particular feature of the German debate is the expert criticism levied against the CAP. The 15 professors in the German scientific advisory board of the Ministry of Agriculture and the German Advisory Council on the Environment (SRU) have called for very far-reaching CAP reform. Also, the Federal Agency for Nature Conservation plays an active role in collecting and presenting evidence for a green CAP.

UK, Sweden, Denmark, The Netherlands and Malta

THE GANG OF four (or five) is led by the UK, not only the largest economy among them but also the one most willing to pick a fight (the others appear more hesitant to stick to their true positions for fear of alienating other member states whom they may win over to support more moderate proposals). The newly elected conservative British government must stand firm in Brussels after having committed all sorts of sacrileges at home to rein in public deficits. David Cameron, the British Prime Minister, also feels the heat of Tory eurosceptics and the UK Independence Party. After 13 years of opposition, many Tories press for the repatriation of competencies from Brussels, while the UK has to accept new EU powers in the wake of the financial and economic crisis.

The UK negotiating position is also shaped by the rebate on UK contributions to the EU budget, worth € billion. The rebate is being largely justified by the relatively modest UK receipts of farm subsidies and UK disagreement with the CAP. It could be tempting for the UK to protest against, but not to truly resist, the preservation of the CAP status quo – both to maintain the public justification of the UK rebate and to obtain support for the UK rebate through house trading with CAP-friendly member states. Cynics propose that the Tory government even welcomes a CAP that keeps the EU bogged down in the past.

The risk that the UK will consider the CAP as a bargaining chip is intensified by the perception that the UK has little leverage over the EU budget and that clinging to the rebate is the only realistic policy: past UK efforts to reform the CAP were blocked and the EU budget review, which Tony Blair obtained in exchange for his consent to the 2006-2013 financial perspectives, was gradually turned into a mockery.

The UK has not yet published a full-blown position on the post-2013 CAP (comparable to its notorious CAP vision from December 2005). The reform narrative under the conservative-liberal government accentuates more the competitiveness of EU agriculture: the distortions arising from current interventions; the need for investments in research, development and extension; and reductions in the regulatory burden on farmers.⁵¹ The main issue, however, will not be which position the UK will adopt precisely – it will be at the reformist fringe of member states in any case – but the priority attributed to CAP reform in comparison to other European affairs objectives.

Support for CAP reform from the other ‘gang members’ can be expected to be firm. In Denmark, the Prime Minister is Lars Løkke Rasmussen, a liberal previously in charge of the Ministry of Finance. The Danish position on the post-2013 CAP, released in April 2010, argues for further market liberalization and stringent targeting of the first and the second pillar on (primarily environmental) public goods.⁵² In the Netherlands, a liberal-conservative coalition government that depends on the support of the Euro-skeptic Freedom Party has taken office. In Sweden, a conservative government has just been re-confirmed in office, whilst the country also has to cope

with the historic break-through of the far right. These constellations bode harsh conflict over the size of the EU and the CAP budget.

France, Germany, the UK, the Netherlands and Finland

ON 18 DECEMBER 2010, in a public letter addressed to José Barroso, heads of state from France, Germany, the UK, the Netherlands and Finland insisted on budget discipline. In particular, they wrote that ‘payment appropriations should increase, at most, by no more than inflation over the next financial perspectives’ and that ‘commitment appropriations over the next multiannual financial framework should not exceed the 2013 level with a growth rate below the rate of inflation’.

It is said that this letter draws on an informal agreement between the three big countries along these lines: for France, CAP expenditures are frozen in nominal terms. It avoids nominal cuts, while the UK achieves decreasing CAP expenditures in real terms and relative to GDP. Furthermore, the UK can keep its rebate (to a significant extent). Germany avoids real increases in the EU budget of which it would have to finance roughly 20%. It can also expect support for keeping cohesion funds for Eastern Germany. Such an agreement would, by extension, imply that Germany and France in tandem could fend off demands for redistributing CAP payments across member states (with the UK unlikely to take a strong position on this issue as it would gain little financially and would not want to endanger its mutual understanding with France and Germany).

A crucial question is whether these three member states will also agree on the design of the future CAP – and on what terms. If France has sold its agreement to the real budget freezing and the maintenance of the UK rebate for nothing but the nominal freezing of the CAP budget, it will have little leverage to resist subsequent moves towards market orientation and public-goods targeting preferred by the UK and (probably) Germany.

Poland and the new member states

THE EASTERN EUROPEAN mainstream credo consists in a large CAP budget with a strong EU-financed income support component, redistribution of subsidies to the benefits of the new member states, centralized spending with as little co-financing and national top-ups as possible, and investments in rural development and agricultural productivity.⁵³

Poland has assumed a leadership role among the new member states, for instance through the Visegrad Group (a common platform with the Czech Republic, Hungary and Slovakia), the Warsaw Declaration,⁵⁴ and the declaration of 12 December 2010, delivered by 11 member states mostly from Eastern Europe (Bulgaria, Cyprus, Czech Republic, Estonia, Latvia, Lithuania, Poland, Portugal, Romania, Slovak Republic, Sweden – with Hungary abstaining due to their upcoming Council presidency).

Poland’s attempt to forge an alliance with France and Germany has failed – and they were left out of the Franco-German position paper. Faced with the resistance of old member states against subsidy redistribution, Poland and other new member states are now shifting attention to the second pillar in which they have a much larger share (though they dislike the administrative demands it poses on the ministry and the farmers).⁵⁵

Another potential re-positioning might concern the size of the CAP budget. Clearly, the new member states will be much better off by shifting the money from the CAP to the EU’s cohesion funds. New member states receive a share of every € spent that is three times higher for cohesion

funds than for direct income support under the CAP. The ratio for Estonia is 5, for the Czech Republic, Latvia and Romania 4 or higher, and for Poland and Slovenia it is above 3⁵⁶This trade-off is becoming more pressing in light of the potential French-German-UK deal that would imply cuts to the cohesion funds.

4.5 FARMERS AND LAND OWNERS

THE EUROPEAN FARMER federation Copa-Cogeca takes a hard line.⁵⁷ It wishes to maintain, and in many cases strengthen, most elements of the CAP, including export subsidies (until trading partners agree to eliminate their own export support mechanisms) and intervention buying (with higher intervention prices and broader product coverage). Direct income support shall be limited to active farmers and rural development be refocused on agriculture.

Copa-Cogeca calls for ‘simplification’ of the CAP and criticizes that ‘the Commission’s main proposal is to require farmers to provide additional mandatory environmental services with no indication that additional funding will be available to cover the additional costs this will cause. The result will therefore simply be a further weakening of farmers’ competitive position vis-à-vis third country imports and on the world market.’ The provision of public goods shall be voluntary and be achieved through more attractive agri-environmental schemes. Furthermore, Copa-Cogeca demands ‘new tools to deal with increased market volatility and risk and to strengthen the competitive position of farmers (e.g. safety nets, market intelligence, futures, promotion, risk insurance)’.

The European Council of Young Farmers (CEJA) has adopted similar positions, albeit slightly more centered on market-based profitability and more open to changes that would increase the long-term viability of agricultural subsidies. Unsurprisingly, their core theme is the need for installation aids for young farmers. Other sub-groups include organic farmers (IFOAM), who want to strengthen organic farming schemes while maintaining across the board support for all farmers, and the entrepreneurial farmers of the Société des Agriculteurs de France (SAF), who wish to maintain proportionality between farm size and public goods provision, on the one hand, and subsidies on the other. These are mostly large farms that would be penalized by a cap of payments per farm or other social factors introduced to the determination of subsidy entitlements.

The European Landowners’ Organization (ELO), directed by Allan Buckwell, a veteran of CAP reform agenda-setting, has recognized that substantial concessions are necessary to re-legitimize the CAP. Maintaining the size of the CAP budget is more important to them than defending farm income support at the expense of public goods payments. Some of the public goods payments will still end up as profit for land owners, and these payments will improve the quality of rural life about which the ELO cares. It therefore invests significant sums (together with its sister/cover organization Rural Investment Support for Europe (RISE), and potent sponsors, notably Syngenta) to emphasize the financing needs for agriculture-related public goods, including food security. Furthermore, it proposes support mechanisms that are acceptable beyond the farming community while still being sufficiently generous to guarantee capitalization into land values. In particular, they recommend gradually developing direct income support away from historic entitlements towards a fully EU-financed base payment for public goods above the current cross compliance standards and agreed for several years.⁵⁹

4.6 OTHER CIVIL SOCIETY STAKEHOLDERS

ENVIRONMENTAL NGOs HAVE so far been the most active reform promoters, driven notably by BirdLife. This movement, which focuses on greening the CAP and avoids entanglement in

a host of other issues somehow related to agriculture, is epitomized in the joint proposal by BirdLife International, European Environmental Bureau, European Forum on Nature Conservation and Pastoralism, International Federation of Organic Agriculture Movements – EU Group, World Wide Fund for Nature.⁶⁰ They call for stricter environmental regulation as a baseline, a base payment available to all farmers that commit to meaningful best practices (e.g. 10% of farm area managed as environmental priority area, crop rotation, livestock density limits), an emphasis on more targeted schemes (HNV, Natura 2000 and Water Framework Directive compensation, organic farming, agri-environmental schemes), plus some additional measures for sustainable investments, management and community development.

Another strand consists of altermondialists à la Attac, European Coordination Via Campesina, non-mainstream farmers, more ‘radical’ environmentalists and animal rights activists.⁶¹ They tend to call for local production-consumption cycles, a quality-/slow-food culture with lesser meat consumption, GMO-free farming, animal welfare, social justice (to the benefit of small farmers and through rural development) and global measures (against trade and multinational companies that undermine livelihoods and the food sovereignty of developing countries).

Third-world/development activists are less involved than in the past.⁶² Partly, they recognize that the CAP harms farmers in developing countries less because subsidies have been decoupled from production and export subsidies have been drastically curtailed. Partly, they are disoriented by the experience that high food prices are also problematic for the global poor, whereas the traditional line of attack aimed at the world-price-depressing effects of the CAP.⁶³ And the old-style pro-development arguments that are still being brought forward do not get traction.

Those stakeholders that want to reduce wasteful CAP spending – the liberals, the business community, the tax payers, and all those who wish more EU money for their privileged causes – remain largely below the radar screen. An exception is the report ‘From CAP to Competitiveness’ commissioned by the Confederation of Swedish Enterprise, which calls for a shift from agricultural to innovation funding.

4.7 THINK TANKS AND ACADEMICS

AGRICULTURAL ECONOMISTS FROM ACROSS Europe have issued two declarations on the post-2013 CAP. The 2009 declaration on ‘A Common Agricultural Policy for European Public Goods’ provides a five-page blueprint for a better CAP. It concludes that ‘the future role of the CAP should be to give farmers appropriate incentives to deliver European public goods demanded by society, particularly in the environmental realm’ and that ‘a future CAP in line with these objectives would differ fundamentally from the current CAP. The first pillar should be progressively abolished and the Single Farm Payment phased out. Policies under the second pillar should be thoroughly reassessed. Only those policies that promote genuine European public goods, are efficiently targeted at their objectives, and avoid excessive payments, should be retained.’

In 2010, another declaration signed by over 40 professors, plus many other experts, called ‘For an Ambitious Reform of the Common Agricultural Policy’ and recommended five guiding principles:

‘Targeting on public goods: All subsidies should be closely linked to the provision of public goods. Any subsidy that is not differentiated according to farmers’ provision of public goods, such as the Single Farm Payment, should be progressively phased out. The alleviation of rural poverty should be a function of social and not agricultural policy.

Environmental focus: Sustainable land use should become the key objective of the CAP. This includes biodiversity protection, climate change mitigation and responsible water management.

Market orientation: Generally, well-functioning markets rather than state intervention are the best way to attain a demand-oriented, innovative and competitive farm sector. Great care should be taken that subsidies distort production and prices as little as possible. Export subsidies should be abolished.

Global food security: The EU should promote global food security through an open trading system, support for agricultural productivity in developing countries, climate change mitigation and the preservation of its own sustainable production capacity. To enhance productivity, more public investment in research and development should be undertaken.

Subsidiarity: The CAP should focus on objectives and policy instruments for which EU-wide coordination creates the greatest value added. It should be carefully examined where burden sharing between the member states and the EU, instead of full EU-financing, can be extended.'

Several governmental advisory bodies have produced similar proposals.⁶⁴ For instance, the Social and Economic Council in the Netherlands (2008) recommended 'a thorough reform of European and domestic agriculture policy. The point is to reward socially relevant performance by farmers where the market fails to do so. In that respect, the Council is proposing replacing the current European system of single farm payments by targeted forms of reward for socially desirable performance, in which context the member states should bear greater responsibility for co-financing.'

The most comprehensive think tank vision for the post-2013 CAP so far has been developed by Bureau and Mahé (2008).⁶⁵ They suggest that subsidies 'should be made more proportionate to the services provided by farmers', to convert all direct payments 'into a general contractual scheme in coherence with the recent experience of pillar II programs' and to 'extend the co-financing rule to all direct payments and to involve local governments, in order to increase accountability and legitimacy in the use of public funds.' To deal with price volatility, they 'propose to keep the intervention system and to reform it into a strict safety net for exceptional circumstances. An independent agency would be entrusted with the task according to rules based on world market trends and set in stone. To avoid political failure this might take its cues from the Central Bank or the European Food Safety Agency. Such a rules-based system would encourage the private sector to offer risk-management contracts to farmers. New market-based instruments of risk management are now available and, except in selected well-defined circumstances, the EU should avoid involving large-budget resources.'

While the OECD is careful in its opinions on the agricultural policies of individual members, it has produced a large stock of studies pointing in a similar direction, towards market orientation plus targeted subsidies.⁶⁶

Key studies that consider the entire EU budget opt for a significantly smaller CAP budget targeted at the promotion of European public goods.⁶⁷

However, there are also agricultural economists who believe in the virtues of substantial market intervention to raise/stabilize prices or of income support payments to maintain farming across Europe competitive.⁶⁸

5. PROSPECTS FOR THE REFORM PROCESS

5.1 CHANGES IN THE CAP NARRATIVE

SEVERAL DEVELOPMENTS UNDERMINE the farm-income rationale of the CAP. In December 2010, the FAO world food price index exceeded the 2008 peak. Forecasts predict high prices for the coming months and years, compared to the average of the last decade. Furthermore, the much-publicized disclosure of farm subsidy recipients as well as spending cuts for social welfare, retirement benefits and health services make the present system of across-the-board hand-outs for farmers and land owners harder to sustain. Finally, the advocacy efforts of academics and campaigners appear to bear their fruits: the commonsense idea that public money should be given only in exchange for the provision of reasonably specific public goods is becoming common knowledge.

It seems unlikely that the ‘rural vitality’ proposition – raised to the rank of one top priority among three by the European Commission – will gain much leverage. The issue has been around as a secondary objective for a long time and nothing has changed to explain why it should garner stronger support now. Farmers have little interest in the fact that an increasing share of a (at least in real terms) decreasing CAP budget is diverted to broader rural development schemes, while DG Regio, that braces for cuts in its budget, will not accept a stronger spatial, rather than sectoral, angle in the CAP.

It is harder to predict how the EU food security argument will fare. On the one hand, high prices, incidences of potentially climate-change related production shortfalls (such as the drought in Russia and the inundations in Australia) and protests by the hungry poor in developing countries are grist on the mills of CAP defenders. On the other hand, the evidence that food insecurity is a matter of developing countries, and not the EU, is sinking in.

Another thematic trend is that competitiveness and innovation are becoming more important as a reform narrative, in addition to – and potentially in conflict with – the public goods paradigm. It differs from the story that support for agriculture is needed to ensure EU food security and maintain production throughout the territory: the objective is productivity, exports and global food security, and the means are market-orientation, research, development and training.

One can thus expect that reform-oriented concepts will become even more predominant in public discourse and official documents. But the power of CAP-specific, evidence-based analysis and communication will decline as financial interests and high-ground EU affairs come to the fore. Still, 2011 will offer at least one excellent opportunity to draw attention to the evidence: the impact assessment for CAP reform conducted by DG Agri whose results will be published in the early summer of 2011.

5.2 CAP REFORM INCREASINGLY SUBJECT TO FINANCIAL CONSIDERATIONS AND BROADER EU AFFAIRS

THE FURTHER NEGOTIATIONS advance, the lower the influence of farm ministers on the financially sensitive CAP issues: the size of the CAP budget, its distribution between the two pillars and across member states, and new co-financing rules. While finance ministries generally welcome cuts in farm subsidies, they may be just as reluctant as many farm ministries to shift money to the second pillar which requires co-financing. This makes the strength of the pillar-one-greening espoused by DG Agri.

Furthermore, the CAP will be more closely interwoven with the overall debate on the EU budget and the future of the EU. These high-level disputes may concern the speed and design of European integration, the further differentiation of integration tracks with a core of member states moving ahead, the extent of financial solidarity and mechanisms for financial discipline (with ‘economic government’ possibly bringing much greater coordination of fiscal, social and labor market policies), and the governance structures of the EU (especially if the Lisbon Treaty is modified substantially for other reasons). Critical events may occur and trigger actions that would have appeared outlandish some years ago: Some members might go bankrupt and/or be excluded from the Euro group, the Euro might be abandoned or an avant-garde group with its own budget might develop on the premises of a (re-configured) Euro-area.

This can result in minimal CAP reform. Reform-oriented member states may sell out to CAP defenders in order to harness their support on other issues deemed to be of greater interest. They may also abstain from pushing issues such as CAP reform that would further rock the boat.

Alternatively, developments on the high grounds of EU affairs may enable fundamental CAP reform. The leading political actors in Brussels and the capitals may come to the conclusion that only radical renewal can save the EU from disintegration, and that CAP and EU budget reform are essential elements of this change. The threat of disintegration may also strengthen the net-contributing member states which tend to prefer a smaller, more market-oriented and greener CAP – and weaken the new member states that prefer fewer transfers over no transfers.

So, while the CAP-internal developments of 2010 have made CAP reform more predictable and diminished reform expectations, the broader developments in the EU have dominated, making minimal and maximal CAP reform outcomes more likely.

5.3 POSITIONS OF POLITICAL ACTORS

PARLIAMENTARY AND PRESIDENTIAL elections will be held in many EU member states in 2011 (Cyprus, Estonia, Finland, Belgium, Greece, Poland, Denmark, Ireland, Bulgaria and Portugal). This might shift positions either because different governments come into power or because governments vie less for the farm vote once elections are over. The main elections in France and Spain are due in 2012 – suggesting, in the meantime, that these two countries will stick to their tough defense of the CAP.

The European Parliament will publish its next own-initiative report on the CAP in spring 2011 as a response to the DG Agri communication. The Rapporteur is Albert Dess, who is EPP Group Spokesman on agricultural affairs and hails from rural and conservative Bavaria in Germany. It is thus unlikely that the next report will be more reform-minded than the previous, which was steered by George Lyon, a ‘liberal’ from the UK. Furthermore, the EP budget committee is anticipated to vote on the budget review report next March, with plenary vote expected in May.

The leniency of DG Budget (and José Barroso) with DG Agri in the budget review conclusions could have been motivated by tactical considerations: let them run against the wall (of the Council) rather than force them to produce a text that is more coherent with the overall flavor of the budget review conclusions. This would also have been a plausible manoeuvre because it allowed them to make the overall flavor very reformist without exposing themselves to strong criticism for being too hard on the CAP.

5.4 FORMAL STEPS IN THE DECISION-MAKING PROCESS

A COMMISSION COMMUNICATION on the long-term EU budget, which would update the communication on the budget review, may be ready by April 2011. By June/July 2011, the commission legislative proposals for the CAP and the EU long-term budget are expected.

Subsequently, the Council has to agree on legislative texts for the CAP (by qualified majority) and the entire EU long-term budget (by unanimity). It is unclear, but immensely important, which member state bodies will have what levels of influence on the different aspects of the future CAP: heads of states at the European Council, or the Council of finance ministers or the Council of agriculture ministers.

Member states will send their proposals to the Parliament, with the earliest realistic date being the December 2011 Council, still under the Polish Presidency. The text is adopted once Council and Parliament agree; the legislative undertaking has failed if they disagree three times. Agreement between the Council and the Parliament should be reached by the end of 2012 under Cypriot Presidency. Entry into effect of the new CAP and the EU long-term budget is foreseen for January 1, 2014. If no agreement on a new EU long-term budget can be obtained in time, the 2013 budget also applies to 2014.

6. CONCLUSION

IF RECENT CAP and EU history is any guide, the most likely outcome of CAP reform is something close to the status quo. And this is right what the agricultural community – DG Agri, Comagri, most farm ministries and the farmer and landowner federations – are trying: (slow) evolution rather than revolution. But the tectonic shifts in the EU polity provoked by the economic crisis are a big unknown in the reform equation: they may cement the CAP or tear it apart. While the preferences of the agricultural policy-making community have become reasonably clear, the final result seems more open than ever.

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ENDNOTES

1. I have greatly benefited from discussions with many academics and practitioners since the post-2013 CAP came on the agenda in late 2008. I would like to thank Jonathan Hepburn, Jorge Nunez-Ferrer, Jack Thurston and others for comments on drafts of the paper.
2. See <http://www.reformthecap.eu/issues/policy-objectives/european-integration>.
3. The European Network of Heads of Nature Conservation Agencies (<http://encanet.eu/home/index.php?id=suslaus>) provides useful summaries and discussions of scientific studies as well as position statements. Numerous studies can also be found at the web pages of the Land Use Policy Group (lupg.org.uk) and BirdLife (birdlife.org/eu/EU_policy/Agriculture/eu_agriculture8.html).
4. See European Commission (2009). Though the Commission had proposed €993 billion in total commitment appropriations for the 2007-2013 financial perspectives, the Council agreed on only €853 billion. The EP strove to raise the budget in the subsequent negotiations with the Council but obtained an increase of merely €11 billion.
5. See ADAS and SAC (2009).
6. See Güthler and Oppermann (2005), Hampicke (2009) and Schweppe-Kraft (2009).
7. See Jacobs (2008) for a systematic stocktaking of the effects agriculture exerts on society's well-being through non-market channels. See also Plankl et al. (2010) on valuation studies.
8. See Cooper, Hart, and Baldock (2009) for a rough assessment of a broad range of responsible farming practices.
9. See <http://www.reformthecap.eu/blog/co-financing-of-public-goods>.
10. For a more detailed discussion of the SFP, see Baldock et al. (2010) as well as <http://www.reformthecap.eu/blog/how-can-direct-payments-be-justified-after-2013> and <http://www.reformthecap.eu/issues/policy-objectives/farm-income>.
11. See Henry de Frahan et al. (2008) (also at <http://www.reformthecap.eu/blog/farm-household-incomes>).
12. See Velazquez (2008) and www.farmsubsidy.org.
13. See Swinnen, Ciaian, and Kancs (2010) (also at <http://www.reformthecap.eu/blog/land-markets>).
14. See <http://www.reformthecap.eu/blog/who-pays>.
15. See Kubota (2007) (also at <http://www.reformthecap.eu/blog/adjustment-options-and-strategies-in-the-context-of-agricultural-policy-reform>).
16. See Nowicki et al. (2009).

17. See Brouwer, Fox, and Jongeneel (2010).
18. See Defra (2006) and <http://www.reformthecap.eu/issues/policy-objectives/production-standards>.
19. Increasing national SFP entitlements linearly with cost of living or GDP would not be adequate either, in particular, because the costs of capital inputs are much more homogeneous across the EU.
20. See Cao et al. (2010), University of Gloucestershire (2008) and Zahrt (2009).
21. See Defra (2009), UK Government (2010) and Zahrt (2011).
22. See Bielza et al. (2009), Meuwissen, van Asseldonk, and Huirne (2008), OECD (2009) and Schaffnit-Chatterjee (2010).
23. For detailed discussions of the public goods concept, see Cooper, Hart, and Baldock (2009).
24. See <http://www.reformthecap.eu/issues/policy-objectives/rural-development>.
25. For detailed analysis of rural development policy and its linkages to other policies, see the research project 'Assessing the impact of Rural Development policies' at www.rudi-europe.net.
26. The term 'pollution' is suspiciously absent from a debate coined in terms of public goods delivered by farming. However, the public 'bads' are substantial and their impact can be seen to approximately match the public yet. See Jacobs (2008) (also at <http://www.reformthecap.eu/blog/defra-environmental-accounts-for-agriculture>).
27. See BirdLife International (2009) (also at <http://www.reformthecap.eu/blog/could-do-better>), European Court of Auditors (2008) (also at <http://www.reformthecap.eu/blog/is-cross-compliance-an-effective-policy>) and University of Gloucestershire (2008).
28. See Ribaud et al. (2008) (also at <http://www.reformthecap.eu/blog/usda-environmental-stewardship-private-investment>).
29. See OECD (2007b) (also at <http://www.reformthecap.eu/blog/oecd-implementation-costs-of-ag-policies>).
30. This issue creates tensions among environmentalists. Cooper, Hart, and Baldock (2009), e.g., note: 'Comparisons of GHG emissions per kilogramme of meat or milk produced show that ruminants grazing semi-natural grassland at low stocking densities release larger quantities of methane per animal and therefore per kilogramme of product than livestock on intensively managed grasslands. This is because the semi-natural vegetation is grazed at a more mature stage when it contains higher concentrations of cellulose, the essential substrate for methane production.'
31. It seems that the draft was written and known only by a small group within DG Budget, while the top brass of the EU was still involved with assembling a new Commission.
32. Some suspect that it was DG Agri that leaked the document itself so as to pre-empt the subsequent budget review conclusions and avoid the impression that it is influenced by other DGs.
33. See, e.g., German Foreign Federal Office (2010).
34. See also Baldock et al. (2010) for a comprehensive overview, especially of formal stakeholder positions.
35. See his 2011 testimony to the UK Environment, Food and Rural Affairs Committee at <http://www.reformthecap.eu/blog/ciolos-uk-oral-evidence>.
36. See Adinolfi, Little, and Massot (2010) for a detailed examination of the communication. See also Jorge Nunez-Ferrer's assessment at <http://capreform.eu/the-circle-that-cannot-be-squared>. Some detail is added in the 'Consultation document for impact assessment' (see European Commission (2010) and Jack Thurston's appraisal at <http://capreform.eu/commission-home-truths>) and three new 'Agricultural Policy Perspectives Briefs' available at http://ec.europa.eu/agriculture/analysis/perspec/app-briefs/index_en.htm.
37. See <http://www.reformthecap.eu/blog/commission-communication-cap-appraisal-hill>.
38. E.g., the rapporteur of its first own-initiative report on the post-2013 CAP, George Lyon, is himself a farmer and a past President of the Scottish National Farmers Union. Ministers of agriculture are similarly close to farm interests, as described pointedly at <http://eutransparency.org/wp-uploads/2010/10/who-runs-the-cap.pdf>. Characteristic for the mindset within Comagri is also the following report in Agrafacts (14/01/2011): 'German MEP Albert Dess (CSU) & Socialist MEP Stéphane Le Foll both agreed that their

groups would fight hard for a strong farm budget, whilst recognising the need for future CAP spending to be distributed more fairly across Member States. For his part, Chair of the EP Agriculture Committee Paolo De Castro called on the EU for a “far-sighted response” to ensure food supply “in a new period where food could become a scarce resource”. Any notions of cuts to the CAP budget “cannot work”, he said.’

39. See <http://www.reformthecap.eu/sites/default/files/EP%20Lyon%20report.pdf> and <http://www.reformthecap.eu/farm-meps-farm-subsidies>.
40. See e.g. Committee on Agriculture and Rural Development (2010), European Parliament (2010b) and European Parliament (2010a).
41. See Committee on Agriculture and Rural Development (2009).
42. See <http://www.lufpig.eu/about.htm>.
43. See EEP (2010) (also at <http://www.reformthecap.eu/epp-position-paper>).
44. See Group of the Progressive Alliance of Socialists & Democrats in the European Parliament (2010).
45. See http://www.alde.eu/fileadmin/2010_site-docs/documents/publications/Budget/EU-Budget-January2011-EN-web.pdf.
46. See <http://www.followthemoney.eu/does-the-cap-fit/> and <http://cap2020.ieep.eu/member-states> for an overview of member states’ positions mostly from 2008/09, and Baldock et al. (2010) for a more recent appraisal.
47. See <http://www.reformthecap.eu/posts/paris-declaration> and <http://capreform.eu/franco-german-position-on-future-of-the-cap>.
48. See <http://www.reformthecap.eu/blog/french-env-ministry>.
49. See <http://www.reformthecap.eu/sites/default/files/German%20Position%20Paper%20BMELV%20March2010.pdf>
50. ‘The Federal Government fears that the German net contribution to the EU budget is going to rise in the next financial period by up to 50% to 12 billion euro a year. Without an active intervention, Germany’s position as net contributor is going to deteriorate significantly in 2014,’ an internal document says according to Euractiv. See <http://www.euractiv.com/en/priorities/cameron-rallies-troops-budget-battle-news-500736>.
51. See the Environment Secretary Caroline Spelman’s speech at the Oxford Farming Conference 2011 at <http://ww2.defra.gov.uk/news/2011/01/05/spelman-speech>, peppered with remarkably combative statements such as ‘We need to address the tendency to protectionism in other Member States which undercuts producers in developing countries, because this is morally wrong,’ ‘The Commission recently published its plans for CAP reform. Although they set out the challenges for the sector they did little to create a dynamic strategy that would usefully contribute to President Barroso’s 2020 vision.’ and ‘Rising global demand for food and rising food prices make it possible to reduce subsidies and plan for their abolition.’
52. See Danish Ministry of Food (2010).
53. Some countries are more liberal, notably the Czech Republic, Latvia and Estonia.
54. See <http://www.reformthecap.eu/sites/default/files/Warsaw%20declaration.pdf>.
55. See the December declaration and e.g. Marek Sawicki, Polish Minister of Agriculture, in <http://euobserver.com/9/31230/?rk=1>.
56. See <http://www.reformthecap.eu/blog/who-pays>.
57. However, Euractiv reports (<http://www.euractiv.com/en/priorities/cameron-rallies-troops-budget-battle-news-500736>) that ‘countries in that region lack unity. Lithuanian Foreign Affairs Minister Audronius Ažubalis recently told EurActiv that some cuts to the EU’s long-term budget “may be necessary given current financial realities”. Slovenia, the country with the highest living standards in the EU 10, is reportedly siding with the UK, and even Bulgaria, the EU’s poorest country, has reportedly told London that it would support a cap on the EU’s long-term budget.’
58. See Copa-Cogeca (2010).

59. See European Landowners' Organization (2010). See also European Landowners' Organization and BirdLife International (2010) and Rural Investment Support for Europe (RISE) (2009).
60. See BirdLife International et al. (2009).
61. See e.g. www.europeanfooddeclaration.org and <http://www.arc2020.eu/front/wp-content/uploads/2010/12/ARC-Communication-EN.pdf>.
62. The most important pro-development initiative was the UN Millennium Campaign's conference 'Give Development a Chance: Europe's Common Agricultural Policy Needs Urgent Reform'. See also their brochure http://www.endpoverty2015.org/files/Brochure%20_CAP.pdf. For a sober look at the link between CAP and development, see Matthews (2010).
63. See the presentation by Johan Swinnen at <http://eustrade.anu.edu.au/sites/default/files/SWINNEN%2C%20Jo%20Session%203.pdf>.
64. See German Advisory Council on the Environment (SRU) (2009), Land Use Policy Group (LUPG) (2009), Social and Economic Council in the Netherlands (2008). The European Network of Heads of Nature Conservation Agencies has also published several statements (see <http://encanet.eu>).
65. See also Brady et al. (2009).
66. See OECD (2009), OECD (2007a), OECD (2007b), OECD (2006), Van Tongeren (2008) and Vojtech (2010).
67. See Copenhagen Economics (2009), ECORYS Nederland BV, Netherlands Bureau for Economic Policy Analysis (CPB), and Institute for Economic Research (IFO) (2008) and Sapir (2004).
68. See e.g. <http://www2.dijon.inra.fr/esr/pagesperso/trouve/For%20a%20new%20European%20agriculture%20and%20food%20policy.pdf>.