THE PERFECT STORM

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THE POLITICAL ECONOMY OF THE FISCHLER REFORMS OF THE COMMON AGRICULTURAL POLICY

JOHAN F.M. SWINNEN (EDITOR)

CENTRE FOR EUROPEAN POLICY STUDIES
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It was 'the perfect storm' – a tempest that may happen only once in a century – a nor'easter created by so rare a combination of factors that it could not possibly have been worse.

Sebastian Junger
The Perfect Storm: A True Story of Men Against the Sea
Glasgow: HarperCollins Publishers (1999)

PREFACE & ACKNOWLEDGEMENTS

This book has a long intellectual history and a short production period. The intellectual history goes back to my early work, jointly with many colleagues, on the political economy of agricultural and food policies in the late 1980s and early 1990s. It continues through my later work on the reforms of the common agricultural policy (CAP) in the late 1990s and early 2000s, both within and outside the European Commission, again benefiting from the exchange of views and insights with many colleagues.

The history of the book itself is much shorter. It is a direct result of a workshop I organised at the Centre for European Policy Studies (CEPS) on the political economy of the mid-term review (MTR) of the CAP in the spring of 2007. The workshop brought together a relatively small group of those involved in the policy-making process surrounding the MTR and outsiders, from both the academic world and the policy world. The exchange of views provided such a rich set of arguments and hypotheses that many participants encouraged me to pursue the idea of publishing a book on the topic, including some of the main contributions to the workshop. The book is unusual and unique in its effort to bring together contributions from academics and policy-makers, and from different disciplines.

The organisation of the workshop and the publication of the book were financially supported by CEPS, the LICOS Centre for Institutions and Economic Performance of the University of Leuven and the European Commission. Eleni Kaditi, as always, ensured impeccable organisation and administration.

Kathleen King and Els Van den Broeck at CEPS did a wonderful job in copy-editing the book and designing the page lay-out. I would also like to thank Anne Harrington for her continuous encouragement and patient guidance throughout the book publishing process.

Allan Buckwell, Jorge Núñez Ferrer, Ewa Rabinowicz and Alessandro Sorrentino made important contributions during the workshop (and in the many years before) by sharing their many insights and critical comments, which are very much appreciated. Jan Falkowski and Robin Smith of LICOS assisted with the processing of the discussions from the workshop.

Finally, I also want to thank several colleagues at the European Commission for their time, discussions and insights on these issues, including in particular Franz Fischler, John Bendsen-Smith, Tassos Haniotis, Wolfgang Münch, Martin Scheele and Rainer Wichern. Needless to say, none of these persons is responsible for the arguments and conclusions of the book, which are the sole responsibility of the respective authors of the chapters.

Jo Swinnen
Brussels, September 2008

1. INTRODUCTION

JOHAN F.M. SWINNEN

Franz Fischler est l'architecte de la réforme la plus profonde de la Politique Agricole Commune

Henri Nallet
Former French Minister of Agriculture
(September 2007)

In 1995 when Austria joined the European Union, Franz Fischler, a then largely unknown Austrian politician, obtained the post of European Commissioner for Agriculture. Previously, Fischler had been Minister of Agriculture in Austria and had led the Austrian accession negotiations. There was some surprise that a new member state had been given the powerful agricultural Commission chair, but no major expectations surrounded his arrival in Brussels.

A decade and two tenures later, Fischler leaves behind a common agricultural policy (CAP) that is dramatically changed from the one he inherited and he is recognised by friend and foe as the architect of the most radical reforms of the CAP.

The Fischler reforms

First, let us define 'the Fischler reforms'. There were several reforms prepared and implemented over the two terms that Franz Fischler was Commissioner for Agriculture and Rural Development of the EU, which spanned almost a decade (1996–04). Some of the reforms, such as the Agenda 2000 package, were very important. Still, his name is most closely associated with the reforms of 2003, which at the time were generally referred to as the 'mid-term review' (MTR), a term that in hindsight does not do justice to the extent and substance of the reform package that was decided in 2003. These reforms are assessed by many experts as the most radical reforms of the CAP since its creation.

The essence of the Fischler reforms is well summarised in various publications, including those by the European Commission and in several chapters in this book, and reference is made to these chapters and some Commission publications for details. The 2003 Fischler reforms contain the following main elements (see Tables A1.1-A1.3 in the appendix to this introduction for a more detailed summary):

1. The key innovation of the Fischler reforms was the introduction of the single farm payment (SFP) on the basis of historical entitlements (although with some flexibility of application), decoupling a large share of CAP support from production.
2. Two new instruments, 'cross-compliance' and 'modulation', were introduced. Cross-compliance requirements ensure that the SFP is only paid to farmers who abide by a series of regulations relating to the environment, animal welfare, plant protection and food safety. Modulation refers to the shift of funds to rural development policies (i.e. from pillar I to pillar II) by reducing transfers to the larger farms.
3. The reforms introduced changes in several market organisations, especially in the dairy and rice sectors, by increasing dairy quotas and reducing rice support prices, replacing them with direct support to be integrated in the SFP.
4. Financial discipline was another element.

Yet, as will become clear from the chapters in this book, the 2003 MTR cannot be seen in isolation from other reforms and policy decisions. This point not only relates to Agenda 2000, but also to several decisions on the EU budget of which the CAP budget takes a very large share – and is thus a major aspect in the negotiations for the budget decisions.

In particular, the budgetary decisions in autumn 2002, at the European Council summits in Brussels and Copenhagen, are considered by Fischler himself to be major achievements. The 2000–06 financial framework was decided at the Berlin meeting of 1999, where also the Agenda 2000 CAP reforms were agreed. In the following years, however, there was strong pressure to dramatically cut the CAP budget in order to finance and to reduce the costs of enlargement among other things.

The European Council's decisions in autumn 2002 not only enabled the fitting of enlargement into the 2000–06 financial framework, importantly by imposing the gradual introduction of direct payments in the new member states. At the Brussels summit of October 2002, it was also decided that the CAP would continue to receive very generous funding from the EU budget. More specifically, for 2007–13 the total budget for expenditures on market interventions and direct payments was fixed at the 2006 level in real terms. In nominal terms, these expenditures could increase by 1% per year. In addition, rural development spending was not constrained by these maxima. While some judged these decisions as putting a maximum on future CAP spending, Fischler and his colleagues saw this as a major political achievement: the CAP budget was not just saved for the current financial framework, but even up to 2013 – and the cuts were much less than what had been demanded at the start of the Prodi cabinet in 2000.

Such an outcome is hard to assess as a 'reform' of the CAP – rather quite the contrary. Fischler and his colleagues nonetheless argue that without real reforms of the CAP (such as in the 2003 MTR) this budgetary outcome would not have been possible – and possibly vice versa, as we discuss further.

Focus of this book

The Fischler reforms were obviously not the first reforms of the CAP. In fact, the CAP has been under fire since its creation in 1958 at the Stresa conference and its introduction in the 1960s. Nevertheless, it has long been considered by foes, rightly or wrongly, as a policy impossible to reform substantially, because of staunch opposition to reform from powerful farm and agribusiness lobbies and because of European politics, in particular the successful defence of France and its allies on the CAP.

The question this book tries to answer is this: What made the radical reforms of the CAP under Commissioner Fischler possible? Answering this question implies addressing several sub-questions: Did Fischler want to reform the CAP, or was he forced to accept it against his own judgment by a coalition of proponents of reforms or because external factors made it impossible not to reform? If the former, why did Fischler (and his allies) want such a radical reform of the CAP? How did Fischler (and his allies) succeed in getting their proposals through despite strong opposition by farm lobbies and by political opponents to reform of the CAP? These are only a few of the questions that are addressed in this book.

The book is organised in three parts. The first part of the book has three theoretical and conceptual papers. The first by Jan Pokrivcak, Christophe Crombez and Johan F.W. Swinnen (chapter 2) provides a theoretical framework for understanding how external changes and the voting procedures influence agricultural policy changes in the EU and what power the European Commission has in this institutional setting. In chapter 3, Christophe Crombez analyses the impact of institutional reforms that have taken place in the EU in the past decades, such as the introduction of qualified majority voting, on agricultural policy reform. The third theoretical contribution is by Christian H.C.A. Henning. In chapter 4, he analyses how EU enlargement has affected CAP reform – and how it will do so in the future.

The second part includes a series of empirical contributions, by both academics and former Commission officials closely involved in some of the CAP reforms. In chapter 5, Tim Josling gives a historical perspective on the evolution of the CAP and factors that have shaped the policy. He evaluates how changes in external factors (such as international trade negotiations, world market evolutions and exchange rate developments) have affected the CAP since the 1960s. In chapter 6, Rolf Moehler gives his perspective on which internal and external forces drove CAP reforms in the past. Alessandro Olper focuses on the 2003 reforms and discusses how various factors influenced them, or not, from the viewpoint of an outside analyst in chapter 7. In chapter 8, Corrado Pirzio-Biroli, who was Chef de Cabinet at the time of the 2003 reforms, gives an insider's perspective on them. In chapter 9, Barbara Syrrakos analyses the decision-making processes and examines the role of the farm unions in the 2003 reforms.

The last part of the book draws conclusions and implications. Chapter 10 (by this author) is the concluding chapter, which attempts to present an integrated view and to answer the basic question about the cause of the radical reforms under the Fischler regime. In the last chapter, Wyn Grant draws on all the previous chapters and insights and discusses implications for future reforms.

Finally, it should be emphasised that the title of the concluding chapter 10, which is also the title of the book, reflects this author's personal view and not necessarily that of the other authors who contributed chapters to this book.

APPENDIX

Table A1.1 Agenda 2000 reforms of the CAP

Market support	Reductions are to be made in market support prices of 15% for cereals, 15% for milk and milk products from 2005 and 20% for beef and veal. The reduction in institutional prices will be phased in gradually and the lower prices will be partly offset by an increase in direct aid payments. Direct payments in the beef and dairy sectors will be paid to member states in the form of national financial allocations.
Environmental	• Two pillars are introduced to the CAP: market and income policy ('first pillar'), and the sustainable development of rural areas ('second pillar'). • Agri-environmental measures are the compulsory component of the member states' rural development programmes. • The principle of cross-compliance is introduced: the optional use of reductions of the direct payments for enforcing statutory environmental legislation and the so-called 'specific environmental requirement'. Cross-compliance is compulsory under the Disadvantaged Area Scheme.
Enlargement	Under the SAPARD scheme, €520 million per year is set aside for structural and rural development programmes. Priorities include investing in farms, developing processing and marketing structures, improving veterinary and plant health controls, and encouraging economic diversification in rural areas.
Modulation	Optional modulation of the direct payments is made to farmers under the CAP based on criteria that can include the workforce on the holding, the overall prosperity of the holding or the total amounts of payments granted under support schemes (up to 20% of the direct payments); the money remains in the member state to be spent on accompanying measures.
Financial	For the period 2000–06, the Council decided on a financial framework of an average level of €40.5 billion plus €14 billion over the period 2000–06 for rural development as well as veterinary and plant health measures. Finally, each year €520 million is made available for the SAPARD programme.

Sources: European Commission, "Europe's Agenda 2000 Strengthening and widening the European Union", Brussels (1999) (http://www.ec.europa.eu/agenda2000/public_en.pdf); European Commission, *Agenda 2000 – A cap for the future*, Brussels (2003) (http://ec.europa.eu/agriculture/publi/review99/08_09_en.pdf); European Council, Presidency Conclusions of the Berlin European Council, 24–25 March 1999, SN 100/1/99, Brussels (1999) (http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/ACFB2.html).

Table A1.2 Mid-term review reforms of the CAP

Decoupling	A single farm payment is introduced for EU farmers, independent of production. Limited coupled elements may be maintained to avoid abandonment of production (Single Payment Scheme). Aid is decoupled for cereals, oilseeds, protein crops, flax, hemp, linseed, durum wheat supplement, starch potatoes (40%), grain legumes, rice, seeds, dried fodder, beef and veal, sheep and goats, milk (from 2006–07). There are optional derogations at the level of the member state.
Market support	Revisions made to the market policy of the CAP include • asymmetric price cuts in the milk sector – the intervention price for butter will be reduced by 25% over four years, which is an additional price cut of 10% compared with Agenda 2000; for skimmed milk powder, a 15% reduction over three years (as agreed in Agenda 2000) is retained; • reduction of the monthly increments in the cereals sector by half, while the current intervention price will be maintained; and • reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors.
Environmental	• Decoupled payments are linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition (cross-compliance). • Rural development policy is strengthened with more EU money and with new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005.
Modulation	Direct payments are reduced (modulation) for the larger farms (direct payments ≥ €5,000) to finance the new rural development policy: by 3% in 2005, by 4% in 2006 and remaining at 5% from 2007 onwards.
Farm advisory system	Advice on farm management processes, notably in relation to the environment, food safety and animal welfare, is available for farmers on a voluntary basis; in 2010 the European Commission will decide whether it will be made compulsory.
Financial	A mechanism is created for financial discipline to ensure that the farm budget fixed until 2013 is not overshot: direct aid will be adjusted when forecasts indicate that spending in the relevant areas of the CAP (market expenditure and direct payments) will exceed established ceilings, reduced by a safety margin of €300 million.

Sources: European Commission, "CAP reform summary", *Newsletter Special Edition*, Brussels, (July 2003) (http://ec.europa.eu/agriculture/publi/newsletter/capreform/special_en.pdf); European Commission, "CAP Reform – A Comparison of Current Situation, MTR Communication (July 2002), Legal Proposals (January 2003) and Council Compromise (June 2003)", Brussels (2003) (http://ec.europa.eu/agriculture/mtr/avap_en.pdf); European Council, Regulation No. 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy, OJ L 270/1, 21.10.2003 (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:270:0001:0069:EN:PDF).

Table A1.3 EU financial agreements and the CAP

Berlin European Council, 1999

Financial framework 2000–06 and SAPARD programme for the new member states (NMS)

The financial framework sets an average level of €40.5 billion + €14 billion of expenditures over the period for rural development as well as veterinary and plant health measures. This framework should allow agricultural expenditures to stabilise over the period. The Council decided on the amounts in heading 1 in the table below. During the Copenhagen summit, the Council decided on the adaptation of the financial perspective for an EU of 25 countries, which raised the amounts provided for this heading in 1999.

Table A1.3a Financial framework 2000–06 (€ million, 1999 prices)

	Heading 1	CAP expenditure (excl. rural development and accompanying measures)	Rural development and accompanying measures
2000	40,920	36,620	4,300
2001	42,800	38,480	4,320
2002	43,900	39,570	4,330
2003	43,770	39,430	4,340
2004	42,760	38,410	4,350
2005	41,930	37,570	4,360
2006	41,660	37,290	4,370

Source: (See below).

The applicant countries were facing major difficulties in adapting to a rather complex Community and completing the institutional process of privatisation and transformation of agricultural structures. Concentrating on the particular needs for agriculture, the Council made available €520 million of pre-accession support each year for the SAPARD programme.

Brussels European Council, 2002

Introduction of the direct payments in the NMS

Direct payments are to be introduced in the NMS in accordance with the following schedule of increments expressed as a percentage of the level of such payments in the Union:

2004, 25%
2005, 30%
2006, 35%
2007, 40%

and thereafter in 10% increments so as to ensure that the NMS reach in 2013 the support level then applicable in the current EU.

Table A1.3 cont'd

Brussels European Council, 2002	The total annual expenditure for market-related expenditure and direct payments in a Union of 25 cannot exceed the amount in real terms of the ceiling of category 1.A for 2006 agreed in Berlin for the EU-15 and the proposed corresponding expenditure ceiling for the NMS for the year 2006. The overall expenditure in nominal terms for market-related expenditure and direct payments for each year in the period 2007–13 shall be kept below this 2006 figure increased by 1% per year.
Copenhagen European Council, 2002	**Budget 2004–06 for the NMS** The budget for agriculture in the years 2004–06 is increased with extra money for the 10 NMS. These amounts are given in the table below.

Table A1.3b Agricultural budget 2004–06 for the NMS (€ million, 1999 prices)

	Heading 1	CAP expenditure (excl. rural development and accompanying measures)	Rural develop-ment and accompanying measures
2004	1,897	327	1,570
2005	3,747	2,032	1,715
2006	4,147	2,322	1,825

Source: (See below).

Sources: European Council, Presidency Conclusions of the Berlin European Council, 24–25 March 1999, SN 100/1/99, Brussels (1999) (http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/ACFB2.html); European Council, Presidency Conclusions of the Brussels European Council, 24–25 October, SN 14702/02, Brussels, 26 November (2002) (http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/72968.pdf); European Council, Presidency Conclusions of the Copenhagen European Council, 12–13 December, SN 1591/02, Brussels, 29 January (2003) (http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/73842.pdf).

2. IMPACT OF EXTERNAL CHANGES AND THE EUROPEAN COMMISSION ON CAP REFORMS: INSIGHTS FROM THEORY

JAN POKRIVCAK, CHRISTOPHE CROMBEZ & JOHAN F.W. SWINNEN

This chapter presents some key findings from recent theory on the impact of external changes on reform of the EU's common agricultural policy and on the influence of the European Commission. Theory predicts that the voting and amendment rules in the Council, the number of policy instruments and external changes have important effects on the occurrence and extent of CAP reform and on the influence of the Commission. External changes that are more significant result in more reform and more Commission influence.

2.1 Introduction

The political economy of the common agricultural policy (CAP) has been discussed widely with a view to understanding the large EU budget expenditures on the CAP and the distortions within the EU and on world markets.[1] The decision-making

[1] There is a rich body of literature on the political economy of the CAP, mostly using either reduced form empirical models, relating indicators of policy distortions to a set of political indicator variables, or more descriptive methods to analyse the historical development of the CAP and its context, as well as motives behind certain decisions (e.g. Tracy, 1984; Neville-Rolfe, 1984; Harvey, 1982; Fearne 1991; Josling & Moyer, 1991; Moyer & Josling, 1990; Ackrill, 2000; Olper, 1998; Pearce, 1983; Wallace, 1983). Yet, these approaches lack detailed modelling of the decision-making process and its effect on policy outcomes. While there have been studies discussing how the decision-making structure of the EU has affected agricultural subsidies (e.g. Runge & von Witzke, 1987; Mahé & Roe, 1996; Pappi & Henning, 1999; Pokrivcak et al., 2001; Henning, 2004), there has been no formal analysis of how the EU decision-making process affects CAP reforms.

process on the CAP is an institutionally complex procedure, in which the member state governments, the European Commission (Commission), and the Council of the European Union (Council) all play an important role. While the Council ultimately takes the decisions, the Commission has the sole right of proposal. The Council cannot formally consider any proposal that has not come from the Commission. If a qualified majority in the Council does not approve the proposal, the Commission (in cooperation with the Council) drafts a new proposal until a final compromise is reached. This seems to put the Commission in a privileged and influential position in the decision-making process.[2]

In recent reforms, the Commission does indeed appear to have played an important role. More specifically, the reform proposals launched by Commissioner Franz Fischler in the summer of 2002 for the mid-term review led member states to accuse the Commissioner of going beyond the mandate given by the Council. These developments and their impact on global trade negotiations motivate our study of what causes (the lack of) changes in the CAP.

The objective of this chapter is therefore to summarise insights from recent theoretical work on CAP decision-making in the EU, how the EU decision-making process affects the likelihood of CAP reforms, what the Commission's influence is and under what conditions external changes can trigger CAP reforms. More specifically, this chapter presents some key insights from the theory on CAP decision-making, drawing on our theory presented more formally in Pokrivcak, Crombez & Swinnen (2006).

The public choice literature includes more theoretical work on the institutional framework affecting decision-making in the EU. One type of study is based on Shapley & Banzhaf indices (Winkler, 1998; Widgren, 1994; Hosli, 1996; Bindseil & Hantke, 1997 and others). But these studies typically assume that any coalition of member states supporting a motion is equally probable, which makes them less appropriate for analysing CAP decision-making wherein the preferences of member states are crucial.

Spatial models of EU decision-making provide more insight into the EU's legislative process, because they consider the players' preferences, as shown by Tsebelis & Garrett (1996). In particular, the spatial models of EU decision-making developed by Crombez (1996, 1997 and 2000), Steunenberg (1994), Tsebelis (1994) and others are of interest. The first applications of spatial models for analysing the CAP are by de Gorter et al. (1998) and Pokrivcak et al. (2001) (on the impact of member state preferences on EU policy-making), and Henning & Latacz-Lohmann (2004) (on the effects of EU enlargement on CAP decision-making).

[2] Studies differ, however, in their assessment of the Commission's use of its agenda-setting powers. For example, Coleman & Tangermann (1999) view the Commission as an independent body that pursues its own interests. On the other hand, Moravcsik (1994) argues that the Commission merely decreases the transaction costs of inter-country bargaining.

The chapter is organised as follows: section 2.2 presents a model of the CAP decision-making process, which is used in section 2.3 to analyse the Commission's influence and the status quo bias. The final sections discuss empirical issues, implications and conclusions.

2.2 A model of the CAP decision-making process

CAP subsidy decisions used to be made annually.[3] The MacSharry reforms and Agenda 2000 changed this to multi-year period decision-making. During these periods, external changes (such as developments in agricultural markets or international trade issues) may occur that affect the Commission's and member states' preferences regarding agricultural policy. Moreover, different parties may be in power in the member states and the composition of the Commission may alter. Such changes may provide opportunities for policy reform. Our model studies how agricultural policy is set for a given period (which could be one season or several years), and what determines whether policy reform occurs at the beginning of the next period.

A simple consultation procedure applies to most policy issues within the framework of the CAP. Under this procedure, the Commission makes a proposal and the Council decides on the proposal, after receiving the opinion of the European Parliament. Since the Parliament's opinion is non-binding, the Commission and the member states can ignore it. For this reason, we do not consider the Parliament's role in the process. Formally, we present a model with complete and perfect information, in which the Commission and the member states know each other's preferences and the consequences of different policies. Since the Parliament has no private information and its opinion is of no importance to the Commission or the member states, including it in the model would be inconsequential.

We assume that the Commission has Euclidean preferences over policies, with ideal policy $P_C^{\#}$. The Commission's preferences, for example, may reflect the personal preferences of commissioners or its concern for economic efficiency or for the welfare of some interest groups.

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[3] The CAP was first implemented in the 1960s. The main instrument was an intervention price for commodities, including cereals, sugar, beef and milk, combined with trade instruments (variable import levies and export refunds). After several reforms, the CAP is now more complex, including single farm payments, tariffs, quotas, payments per hectare/animal, agri-environmental support, price support and various commodity-specific measures.

Decision-making in the Council proceeds by a qualified majority vote.[4] To be accepted by qualified majority, a proposal must obtain 232 out of a total of 321 votes in the EU-25 and 255 out of 345 votes in the EU-27 including Romania and Bulgaria. Furthermore, a qualified majority requires the support of at least half the member states, representing at least 62% of the EU population.[5] Initially, unanimity was required, but this has long been abandoned for minor CAP decisions, and more recently for major decisions. The 1999 CAP reforms were a watershed: for the first time, a large country was outvoted with respect to a major policy reform. We refer to the country with the median vote, the 161st, as the 'median country' with ideal subsidy $P_M^{\#}$.

Each member state can propose an amendment to the Commission's proposal, and there can be a vote on this amendment. An amendment is adopted if it is accepted unanimously. Still, while the Commission can stick to its proposal and wait for a vote on amendments, it tends to adjust its proposal in the discussions leading up to the vote to improve the political acceptability of its proposal by the Council (Fearne, 1991). It is important to take into consideration that the Commission has the right to amend or withdraw its proposal as long as the Council has not taken a decision.[6] Empirical studies confirm considerable changes in Commission proposals during the decision-making process in the Council.[7] What matters for this study is that a member state can successfully propose an amendment if it obtains the support of the Commission *and* a qualified majority. There are thus two ways for a member state to get an amendment approved: by a unanimous Council, and by the Commission and a qualified majority in the Council.[8]

The process of setting EU agricultural policy for a multi-annual period is formally modelled as follows. First, the Commission formulates a proposal for an EU subsidy. Then, each member state j=1,…, k is given an opportunity to propose an amendment,

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[4] The vote distribution is 29 votes for Germany, France, Italy and the UK; 27 for Spain and Poland; 14 for Romania; 13 for the Netherlands; 12 for the Czech Republic, Belgium, Greece, Hungary and Portugal; 10 for Sweden, Austria and Bulgaria; 7 for Slovakia, Denmark, Finland, Ireland and Lithuania; 4 for Latvia, Estonia, Slovenia, Cyprus and Luxembourg; and finally, 3 for Malta.

[5] We ignore these two extra requirements in the remainder of the chapter, because they are usually fulfilled if the first requirement is met. More importantly, including them would not alter our conclusions.

[6] Crombez et al. (2006) consider that the Commission's right to alter and withdraw its proposals almost amounts to an *ex post* veto right.

[7] See Tracy (1996), Ackrill (2000), Fearne (1991), Núñez Ferrer (2001), Katranidis & Vakrou (2002).

[8] The Commission considers amendments prior to the Council vote. Here we assume for simplicity that the Commission and the Council consider amendments simultaneously. This assumption does not affect our conclusions.

according to a given order.[9] If a member state does not propose an amendment, the next member state is given the opportunity to do so. If a member state does propose an amendment, there is a vote on the amendment. The amendment succeeds if it is approved either by all member states or by a qualified majority plus the Commission. Then, the next member state has the opportunity to propose an amendment. When all member states have been given the opportunity to propose amendments, a vote takes place on the (amended) Commission proposal. It is adopted if it obtains the support of a qualified majority. If the proposal is adopted, it becomes EU policy for the duration of the multi-annual period. If it is rejected, the status quo subsidy P_{EU}^{0} prevails, and an unreformed CAP remains in place for the duration of the period. Reform is defined as the adoption of a new policy $P_{EU}^{N} \neq P_{EU}^{0}$. Whether or not there is policy reform, the policy that emerges from this process is the equilibrium subsidy P_{EU}^{*} for the duration of the period. The process is repeated at the beginning of each period. The equilibrium concept is subgame perfect Nash.

We use backward induction to derive the equilibrium subsidy. We first look at the last step in the process, and then work our way back through the different steps of the process, until we reach the first step.

Consider the last step of the process. In that step, the member states vote on the (amended) proposal. Each member state votes in favour of the proposal if the proposed subsidy P_{EU}^{N} is closer to its optimum than the current subsidy P_{EU}^{0} (or if it is the same). The proposal is accepted if it receives more than the qualified majority *level*.

Assume the following order of the politically optimal subsidies, $P_j^{\#}$, of member states: country 1 has the lowest politically optimal subsidy $P_1^{\#}$, country k has the highest politically optimal subsidy $P_k^{\#}$, and $P_1^{\#} < P_2^{\#} <\ldots < P_k^{\#}$.

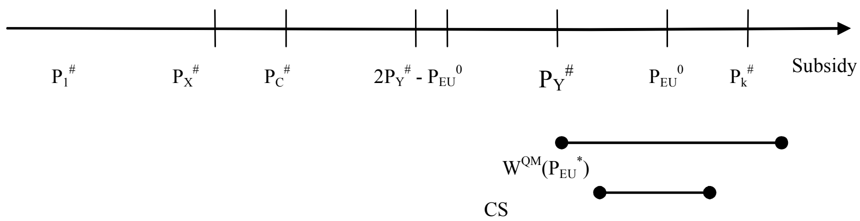
Define country X as crucial for those who want a high EU subsidy level. Countries with higher preferred optimal subsidies than the optimal subsidy of country X ($P_X^{\#}$) cannot collectively obtain *enough* votes, while country X together with all countries with higher optimal subsidies can obtain the qualified majority. By analogy, define country Y as crucial for those wanting a lower EU subsidy level. Countries with lower optimal subsidies than that of country Y ($P_Y^{\#}$) cannot collectively obtain a qualified majority, while country Y together with all countries with lower optimal subsidies can obtain sufficient votes.

Countries X and Y are the pivotal member states under qualified majority rule. From this one can show that there is a so-called 'qualified majority win set'

[9] The specific order in which countries are recognised does not affect our conclusions, nor does the assumption that there is a given order for member states to formulate amendments. What matters is that each member state has a chance to formulate an amendment. Alternative models that yield similar results include, for example, Baron–Ferejohn models in which member states are selected with given probabilities and they can then choose whether to propose an amendment or terminate the amendment process (Baron & Ferejohn, 1989).

$W^{QM}(P_{EU}^{0}) = [2P_Y^{\#}-P_{EU}^{0},\ P_{EU}^{0}]$, which includes all proposals that are preferred by country Y over the existing subsidy (this win set is indicated in Figure 2.1). The argument for $P_{EU}^{0} < P_X^{\#}$ is analogous.

Figure 2.1 The win set of the pivotal member state



Consider now the amendment process for a proposal that belongs to the win set. Proposals that belong to the support $[P_1^{\#}, P_k^{\#}]$ of the member states' ideal subsidies cannot be amended by a unanimous Council, because not all member states want to move in the same direction. Proposals that are to the left (right) of $P_1^{\#}$ ($P_k^{\#}$) can be amended by a unanimous Council, because all member states want to move to the right (left). Similarly, policies that belong to the set $[\min(P_C^{\#},P_X^{\#}), \max(P_C^{\#},P_Y^{\#})]$ cannot be successfully amended by a qualified majority plus the Commission. Therefore, proposals that belong to the set $[P_1^{\#}, P_k^{\#}] \cap [\min(P_C^{\#},P_X^{\#}), \max(P_C^{\#},P_Y^{\#})]$ cannot be amended.

This yields the set CS. This is the set of policies that are preferred to the status quo by a qualified majority in the Council, and cannot be amended by a unanimous Council or by the Commission plus a qualified majority. The set CS is then equal to the set $[2P_Y^{\#}-P_{EU}^{0}, P_Y^{\#}]$.

Proposals that are not in the set CS will successfully be amended. If such a proposal belongs to the win set, it will be amended because either all of the member states or a qualified majority plus the Commission want to move in the same direction. If such a proposal does not belong to the win set, that is, if it does not defeat the status quo in the last step of the process, the member states and the Commission consider it a status quo proposal during the amendment process. An amendment is then proposed and approved that does belong to the win set.[10] The successful amendment is in the set CS, because it would also be amended if it were not in CS. As a result, the equilibrium subsidy will always be in the set CS.

Consider now the Commission's position in the decision-making process. The Commission knows that the equilibrium policy will be in the set CS, whether or not it

[10] If no policy is preferred to the status quo by all member states or by a qualified majority plus the Commission, the status quo prevails. The status quo belongs to the win set.

proposes a policy in that set. Moreover, it knows that a proposal in CS will be adopted. The size of the set CS can thus be considered an indication of the Commission's influence, as we discuss below. In equilibrium, the Commission then proposes the policy in CS that it prefers most. The proposal is not amended, because there is no policy that is preferred to it by unanimity or by a qualified majority plus the Commission. The proposal is approved by a qualified majority and it becomes EU policy. In the preference distribution as illustrated by Figure 2.1, the Commission would successfully propose the policy $2P_Y^{\#}\text{-}P_{EU}^{0}$.

In reality, Commission proposals are not always approved unamended. With perfect information, the Commission can anticipate amendments and make proposals that will not be amended. If one assumes that perfect information on the member states' ideal subsidies and on the impact of policies is not available when the Commission formulates its proposal, but that such information becomes available during the process, the member state that is able to propose an amendment after the information becomes available may in some cases succeed in doing so.[11] This amendment would belong to the set CS, because the amendment needs the approval of a qualified majority and because the member state would choose to propose an amendment that cannot be amended by another member state.

These findings have important implications for policy reform, in particular regarding the impact of exogenous changes and the influence of the Commission on reform of the CAP.

2.3 Status quo bias and the influence of the Commission

2.3.1 Status quo bias: The importance of external changes for policy reform

A change in external conditions during a (multi-)annual period can alter the preferences of the member states. As a result, the EU may opt for policy reform at the start of the next period.[12] The idea that external events may help to overcome the status quo bias and lead to changes in the CAP is not new and has been discussed by many economists and political scientists,[13] most recently in the framework of the impact of eastern enlargement on the CAP (e.g. Swinnen, 2001; Henning & Latacz-Lohmann, 2004).

An important conclusion from the preceding analysis is that a subsidy within the $(P_X^{\#},P_Y^{\#})$ interval cannot be defeated. This conclusion has implications at the start of a multi-annual period. As long as there are no changes in the external conditions, all preferences are the same as at the start of the previous multi-annual period, and no

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[11] See Tsebelis (1994), in which the model of the cooperation procedure focuses on the Parliament's role at the amendment stage.

[12] External change could also trigger the introduction of a policy or its removal. In terms of our model, one could consider this a special case with $P_{EU}^{0} = 0$ (either before or after).

[13] See for example, Coleman & Tangermann (1999), Neville-Rolfe (1984), Moyer & Josling (1990) and Olper (1998).

proposal for policy reform is accepted. Moreover, the change in external conditions needs to reach a critical magnitude in order to trigger a change in policy. Hence, the decision-making rules lead to an inherent bias towards the status quo.

This leads to a fundamental result of the theory, which is the status quo bias: policy reform requires a critical change in external conditions.

Suppose that the previous period's equilibrium subsidy was the subsidy preferred by the median country, but that changed external conditions have shifted member state preferences towards lower subsidies. In Figure 2.1, this involves a shift of P_{EU}^{0} to the right.[14] Whether this exogenous change triggers a change in the EU subsidy level depends on the voting rule. Under the simple majority rule, there would be a change in the EU subsidy policy. With the qualified majority rule, however, there will not be enough votes for policy reform as long as $P_X^{\#} < P_{EU}^{0} < P_Y^{\#}$, despite the change in preferences. Hence, there will be no policy reform. Policy reform can only be induced by a change in external conditions that shifts preferences so that P_{EU}^{0} is outside the $P_X^{\#}$ - $P_Y^{\#}$ interval.

It is easy to show that the critical change in external conditions required for policy reform is larger for larger majority rules. With the simple majority rule, any change prompts policy reform. The status quo bias is strongest with the unanimous voting rule. As long as the existing subsidy is located between the two extreme politically optimal subsidies of member states, there is no unanimous agreement on a change of the existing subsidy and no policy reform. Thus, there is an extreme propensity to favour the maintenance of the status quo under the unanimity rule. Unless dramatic changes occur, the probability that the EU subsidy of the previous period is within the $P_1^{\#}$ - $P_k^{\#}$ range is high, and higher the more diversified the countries are.

In summary, the likelihood of retaining the status quo (or the extent of the status quo bias) is determined by the combination of the qualified majority rule and the magnitude of the external change. With a greater change in external conditions and a given majority rule, it is less likely that the status quo is maintained. Inversely, for a given change in external conditions, policy reform is more likely with a lower majority rule.

2.3.2 The influence of the Commission

As mentioned above, the size of the set CS (within which the Commission can propose a subsidy that will be adopted) indicates the (potential) influence of the Commission. The size of the set CS depends on the voting rules and the exogenous changes.

The influence of the Commission increases as the external change is more significant, as a smaller majority is required for the approval of proposals and as a larger majority is needed for the amendment of proposals.

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[14] This is a simplified representation of the change. We could keep the subsidy P_{EU}^{0} line fixed and move the $P_1^{\#}$- $P_k^{\#}$. Moving P_{EU}^{0} rather than the $P_1^{\#}$- P_k line is entirely consistent and less complex.

The set CS increases in size as the qualified majority win set $W^{QM}(P_{EU}^{0})$ increases. That is, the Commission's influence rises as more policies defeat the status quo under the qualified majority rule. The Commission thus becomes more influential as the share of the vote required for a qualified majority decreases.

Furthermore, the set CS increases as the support $[P_1^{\#}, P_k^{\#}]$ of the member states' ideal policies increases. That is, the Commission's influence rises as the ideal policies of the member states that are pivotal under the amendment rule are farther apart. The Commission thus gains influence if a higher share of the vote is required for approval of amendments. Requiring unanimity for amendments grants the Commission maximum influence, whereas the simple majority rule results in minimal influence. If unanimity is needed, as is currently the case, no proposal between the ideal policies of the two extreme member states can be amended (provided it is in the win set $W^{QM}(P_{EU}^{0})$). No policy in the win set can be amended by unanimity, whatever the qualified majority rule for the adoption of proposals.

Importantly, the size of the set CS also depends on the extent of the external change. The larger the change, that is, the farther away the status quo subsidy is from the median country's ideal subsidy, the larger is the win set $W^{QM}(P_{EU}^{0})$ of policies that defeat the status quo under qualified majority.

2.3.3 Reform bias and the optimal reform context

One could define the external change required to trigger a policy change as the *status quo bias* of a voting rule.

To analyse this further, we need to be more precise about the Commission's preferences. Assume first that the Commission favours economic efficiency and low distortions, and hence prefers reducing subsidies.[15] In this case, the Commission will introduce a proposal for subsidies that are the lowest that will be approved given the exogenous change.

To see what this implies in terms of reform bias, we define reform bias as the difference between the equilibrium policy chosen under the EU decision-making rules and what would be chosen by the median voter, assuming that we start from the same subsidy level, i.e. the median voter preference of the previous round.

Figure 2.2 shows the reform bias under qualified majority rules. The bold line indicates the size of the policy reforms (subsidy reductions) implemented by a Commission that prefers low distortions. There is a strong anti-reform bias when a large majority is needed for adoption under the qualified majority rules: beyond the qualified majority γ_2 there is no policy reform and the reform bias is maximal. The dashed line in Figure 2.2 indicates the reform bias when the Commission prefers higher subsidies. In this case, it will use its influence as an agenda-setter to minimise the reforms and there will always be an anti-reform bias.

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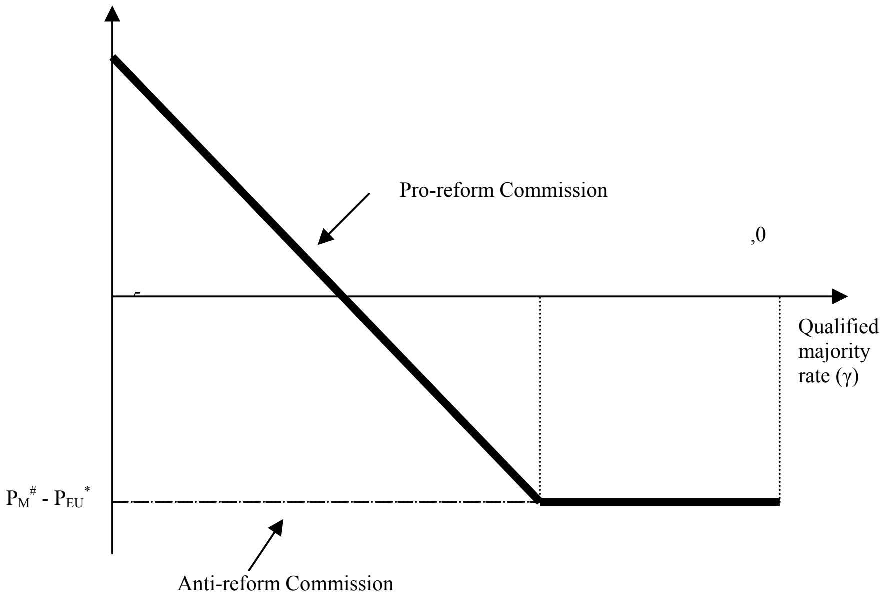
[15] In this context, preferring lower subsidies means 'pro-reform'. For the general definition of reform we used earlier, this was not necessarily the case.

Figure 2.2 Policy reform and preferences of the Commission



As Figure 2.2 indicates, there can also be a pro-reform bias. This is the case when the Commission is pro-reform and the majority needed under the voting rule is less than the qualified majority γ_3. This is a paradoxical result: once external change is large enough to create a sufficiently wide interval for reform proposals, the Commission can use its agenda-setting powers to make a proposal that is lower than the subsidy preferred by the median voter. This pro-reform bias can only emerge if the external change is sufficiently large for a given majority rule.

Hence, this yields another key result, which we refer to as the 'optimal reform context': the combination of an external change that moves preferences in a pro-reform direction and is sufficiently large and a pro-reform Commission will lead to a pro-reform bias. In all other cases, there will be an anti-reform bias.

2.4 Package deals

So far, we have assumed that there is only one policy instrument involved in the decision-making. This does not allow for a trade-off between policy instruments as part of so-called 'package deals'. Ackrill (2000), Katranidis & Vakrou (2002), Núñez Ferrer (2001) and others describe how the final decision-making on Agenda 2000 during the European Council summit in Berlin in 1999 involved changes in various policy instruments as part of the process of reaching an agreement.

By using package deals, the Commission can make it more likely that a proposal is approved. By including another policy in the policy package that benefits the crucial country, it becomes more likely that this country will vote for the reform.

Still, there are limits to this process of changing countries' subsidy preferences through package deals. First, there are no free lunches here, meaning that the benefits given to one country through the other policy instrument will affect other countries. Because of this, the subsidy preferences of the countries that are hurt by the other policy change will increase.

A second constraint on changing the subsidy preferences of the crucial countries is the availability of compensating policy instruments. As the preferred policy of country *k* changes, another country will have the critical votes and will have to be compensated, while avoiding hurting other countries such that they start opposing the package. This process will gradually become more complex and will require increasingly subtle policy instruments to fine-tune the package. Finally, transaction costs and deadweight costs would reinforce the problems of compensating and fine-tuning. It is plain that there is a limit to reducing the subsidy preferences of the highest-preference country.

The principle is clear and important, however: by creating policy packages that benefit the crucial countries, the Commission can change their subsidy preferences and thus shift the critical vote.

These package deals affect the Commission's influence and the likelihood of a status quo. The Commission can assemble a package deal to create a winning coalition that can overcome the status quo bias in some cases. If the Commission prefers to decrease subsidies, it can try to assemble package deals to create a winning coalition. Package deals may allow the Commission to break the status quo and to organise a coalition that decreases the subsidy (and vice versa if the Commission likes higher subsidies). Consequently, package deals reduce the likelihood of the status quo, and more so when the majority requirements are less.

These results suggest that the influence of the Commission increases significantly with package deals. This is true under the current amendment rules, which require approval by a unanimous Council or by a qualified majority plus the Commission.[16]

2.5 Discussion

Our analysis suggests that a decisive issue is whether countries can table amendments to the Commission's proposal. Empirical studies indicate that adjustments are made to the Commission's proposals in Council meetings in order to reach an agreement, but that these adjustments are limited. During the decision-making on Agenda 2000, a series of adjustments were made to the original proposal to facilitate a conclusion. Núñez Ferrer (2001) identified a set of relatively minor changes compared with the original proposal, such as a mostly cosmetic reduction in structural and cohesion funds, technical adjustments to the financing of the UK

[16] Nevertheless, the Commission's influence does not necessarily increase when package deals are possible. If countries can approve amendments by simple majority, then there may not be a stable equilibrium to this decision-making problem and the power of the Commission may be reduced to zero.

rebate and the reintroduction of optional ceilings on direct payments. With respect to specific commodities, Katranidis & Vakrou (2002) identified various concessions that were made at the Berlin summit. This evidence suggests that package deals have enabled the Commission to break the status quo while limiting its loss of influence.

Realising the importance of the agenda-setting role, Nugent (2003) argues that in practice the Council has tried, if not to circumvent the Commission, at least to take on a significant policy-initiating role. Article 208 of the EC Treaty is useful in this respect: "The Council may request the Commission to undertake any studies the Council considers desirable for the attainment of the common objectives, and to submit to it any appropriate proposals." According to many observers, the use made of this article, and the very specific instructions that have sometimes been issued to the Commission under its aegis are against its intended spirit. As a result, the Council has encroached on the Commission's policy-initiating function (Nugent, 2003).

Yet, overall empirical evidence on CAP decision-making is sparse. In fact, a major problem in this research field is the lack of empirical evidence and even basic information on the stylised facts. There is little information on decision-making since only the final decisions of the Council are available. Moreover, assessments of member states' positions and preferences can only be based on statements, but these are often merely initial positions that can be biased intentionally for strategic purposes (Núñez Ferrer, 2001). Hence, there is a strong need for better empirical information and much scope for useful empirical research in this field.

2.6 Conclusions

This chapter summarises a formal model of decision-making in the EU and analyses how it affects the likelihood of a CAP reform. We show that under various assumptions, the institutional structure of decision-making has an impact on the choice of the CAP subsidy.

Decision-making procedures in the EU allow the Commission to influence policy decisions. In a one-dimensional framework, the Commission becomes less influential as a higher share of the vote is required in the Council for the adoption of proposals and a lower share is needed for the approval of amendments.

Changes in external conditions are crucial for triggering CAP reforms; however, the change needs to be sufficiently large to induce reform because of the status quo bias inherent in EU decision-making. The larger the external change, the more likely the status quo bias will be overcome for a given voting rule.

The greatest status quo bias occurs when unanimous agreement is needed in the Council for the adoption of proposals. *Ceteris paribus*, the larger the majority needed for adoption, the larger the status quo bias is and the less likely is reform.

Somewhat paradoxically, certain conditions may result in a pro-reform bias. A combination of a pro-reform Commission and a sufficiently large external change may create the opportunity for a major reform (greater than would be preferred by the median voter).

The impact of package deals can be very substantial, but is also complex. While the availability of additional policy instruments may allow the Commission to overcome the status quo bias by compensating potential opponents, the option of proposing amendments to package deals could yield multiple equilibria and reduce the Commission's influence, if amendments do not require the approval of all the member states or the Commission.

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3. INSTITUTIONAL REFORM AND AGRICULTURAL POLICY REFORM IN THE EU

CHRISTOPHE CROMBEZ

This chapter looks at the changes to the procedures for appointing the European Commission and to the legislative processes in the European Union, and their impact on agricultural policy reform. It presents a game-theoretical analysis of the appointment and legislative processes, and studies how the developments they have undergone as a result of the major treaties of the past 25 years have influenced EU policy in general and agricultural policy in particular. It finds that the introduction of qualified majority voting by the Single European Act and the introduction of co-decision by the Maastricht Treaty have altered the legislative process in such a way that it has provided more opportunities for agricultural policy reform. The modifications to the Commission appointment procedures by the Nice Treaty are also found to have enhanced policy reform.

3.1 Introduction

Policy reform can be the result of various developments: changes in the preferences of the politicians who set policy, the replacement of office holders by other politicians with different preferences and developments in the political environment. Institutional developments may also lead to policy reform.

In this respect, agricultural policy in the EU is no different from any other policy in any other political entity. Other contributions to this volume focus on the effects of political developments, both within and outside the EU, on the preferences of the political actors and on agricultural policy. This chapter concentrates on the effects of institutional changes on agricultural policy reform in the EU.

The chapter is structured as follows. Section 3.2 presents a brief overview of the principal alterations to the Commission appointment and legislative processes. Section 3.3 introduces the game-theoretical spatial model that is used to analyse these processes and their developments. Section 3.4 studies the changes to the legislative process and their implications for policy reform. Section 3.5 analyses the modifications to the Commission appointment procedures and the impact these have on policy reform. Section 3.6 presents the conclusions.

The analysis concludes that the consecutive adjustments to the legislative and Commission appointment processes have provided opportunities for more policy reform. There have been three main treaties that have contributed to this evolution: the Single European Act (SEA), the Treaty of Maastricht and the Treaty of Nice.[1] More specifically, prospects for more policy reform have arisen from the changes to the legislative process in the SEA and the Maastricht Treaty, and from those to the Commission appointment procedures in the Treaty of Nice.

3.2 Reform of the Commission appointment and legislative processes

3.2.1 Commission appointment procedures

The Commission appointment procedures have been altered on two main occasions: 1) by the Treaty of Maastricht, which was ratified in 1993; and 2) by the Treaty of Nice in 2003. As a result of these reforms, the Parliament has seen its role increase, whereas the Council has moved towards majority voting.

Prior to the ratification of the Maastricht Treaty, the Commission was appointed by common accord of the member states. Unanimity in the Council was thus required. The heads of state and government first unanimously decided on a Commission president and subsequently appointed the entire Commission by unanimity. In practice, each member state chose its own commissioner(s). The larger states each picked two commissioners and the smaller states one each.

The Maastricht Treaty gave the European Parliament a role in the Commission appointment procedures. It needed to be consulted on the selection of the Commission president and its approval was required for the appointment of the entire Commission. The Parliament could not veto individual commissioners; it could only veto the Commission as a body.[2] Another Maastricht reform was that Commission terms would closely match those of the Parliament. The appointment of a new Commission would occur after the election of a new European Parliament. This

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[1] There have been four major treaty reforms since the 1980s: 1) the SEA, which was agreed in December 1985, signed in February 1986 and which entered into force in July 1987; 2) the Maastricht Treaty, which was agreed in December 1991, signed in February 1992 and which entered into force in November 1993; 3) the Amsterdam Treaty, which was agreed in June 1997, signed in October 1997 and which entered into force in May 1999; and 4) the Nice Treaty, which was agreed in December 2000, signed in February 2001 and which entered into force in February 2003. The Amsterdam Treaty is not of major importance for explaining policy reforms, and for that reason is it not given much attention in this chapter. In October 2007, the European Council reached agreement on a Treaty of Lisbon. If it is ratified, it will be the fifth major treaty since the 1980s.

[2] It is worth noting that the Parliament managed to force the Council to withdraw the nomination of two individual commissioners during the most recent appointment of the Commission in 2004 by threatening to veto the entire Commission.

change opened the way for a move towards a parliamentary system of government, in which the composition of the Commission would reflect the results of the parliamentary elections.[3] The Santer Commission (1994–99) was the only Commission appointed under the Maastricht rules.

In 1997, the member states signed the Amsterdam Treaty. This Treaty contained minor adjustments to the Commission appointment procedures. In particular, it gave the Parliament the right to veto the selection of the Commission president. The Commission president could in turn veto the appointment of the other commissioners. The Prodi Commission (1999–2004) was the only Commission appointed under the Amsterdam rules. In the remainder of this chapter, the Amsterdam changes are disregarded. The focus here is on the appointment of the entire Commission rather than the Commission president, because the Commission acts as a body in the legislative process. The composition of the Commission is thus more important than the individual policy preferences of its president. Consequently, the appointment of the entire Commission is more significant than the appointment of the Commission president. From that perspective, the Amsterdam changes were minor.

The Nice Treaty represents the second major reform of the Commission appointment procedures. Since its ratification, the appointments of the Commission president and the Commission as a whole no longer require a unanimous Council. A qualified majority now suffices. Moreover, each member state now has no more than one commissioner, with the maximum set at 27. The Barroso Commission was the first Commission to be appointed under the Nice procedures. It may be the only one if the EU manages to ratify the Treaty of Lisbon in time for the appointment of the next Commission in 2009, which is the EU's intention.

The Treaty of Lisbon does not significantly alter the appointment procedures, however. It specifies that the Council should take into account the European parliamentary elections when it appoints the Commission president, and that the Parliament needs to approve the appointment of the president by a majority of its members rather than by a majority of the votes cast. Furthermore, it states that the Commission to be appointed in 2009 will consist of one commissioner per member state, whereas the number of commissioners in subsequent Commissions will be equal to two-thirds the number of member states.

Figure 3.1 illustrates the reform of the Commission appointment procedures. It shows clearly that the modifications are characterised by two main features: 1) greater involvement by the European Parliament (since Maastricht), and 2) a move towards majority voting in the Council (since the Treaty of Nice).

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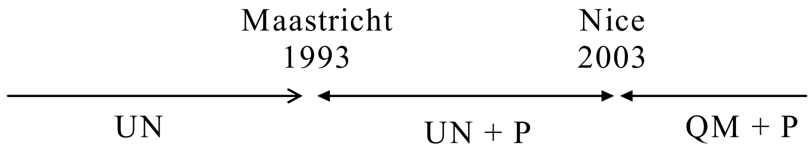
[3] In 2004, the largest group in the Parliament, the European People's Party, successfully demanded that the Council appoint a Commission president from its ranks.

Figure 3.1 Reform of the Commission appointment procedures



UN = a unanimous Council
QM = a qualified majority in the Council
P = the Parliament

3.2.2 The legislative process

The legislative process has gone through two major reforms: 1) the SEA in 1987, and 2) the Maastricht Treaty in 1993. Prior to the ratification of the SEA, the consultation process was the only legislative process in the EU. Under consultation, the Commission makes policy proposals that are subject to the Council's approval for adoption. Prior to the SEA, the unanimity rule was used for the adoption of proposals.[4] The Parliament did not have veto rights. It was merely consulted, and its advice could be ignored by the other institutions.

After the ratification of the SEA, the Council started using the qualified majority voting (QMV) rule in most policy areas.[5] Under the QMV rule, each member state has a number of votes based on population, with the largest states currently having 29 votes and the smallest having 3, for a total of 345. A qualified majority then requires: i) 255 votes and ii) a majority of the member states iii) that represent at least 62% of the EU population. In this chapter, it is assumed for simplicity that the last two conditions are implied by the first. The definition of the qualified majority rule has changed over time, and the Treaty of Lisbon is set to replace the current rule by the following requirements: i) 15 member states, ii) 55% of the member states iii) that represent at least 65% of the EU population, with iv) a blocking minority consisting of at least 4 member states.

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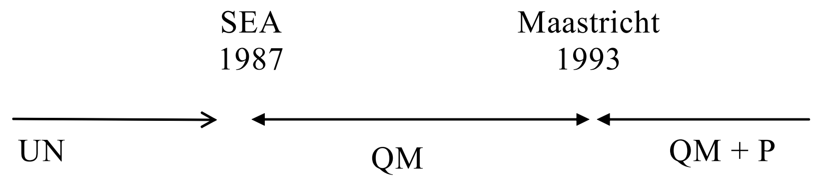
[4] The Council could also amend proposals by unanimity. Unanimous Council amendments are disregarded in the remainder of this chapter, however, because it is unlikely that the Commission would be unable to find the support of one single member state on an important piece of legislation when facing an amendment proposed by another member state.

[5] The SEA also introduced a new legislative procedure, cooperation, in which the Parliament acquired veto rights. This procedure was only used extensively during the six-year period prior to the ratification of the Maastricht Treaty and the introduction of co-decision. Most experts agree that the introduction of co-decision represents the principal surge in the Parliament's powers; for these reasons, the cooperation procedure is disregarded in this chapter.

The Maastricht Treaty represents the second main alteration of the legislative process. It introduced the co-decision procedure. Under co-decision, the Parliament and a qualified majority in the Council are needed to approve legislation, and together they can also amend Commission proposals. The Amsterdam and Nice Treaties extended the use of co-decision and reduced the Commission's role in it. The Treaty of Lisbon is set to extend the use of co-decision further.

Figure 3.2 illustrates the reforms of the legislative process. The figure shows that the changes represent a move towards majority voting and an increase in the Parliament's powers. The developments in the legislative process are thus characterised by the same two main features as the adjustments in the Commission appointment procedures. The Maastricht Treaty brought about the principle increase in the Parliament's powers in both the Commission appointment procedures and in policy-making. QMV was introduced in policy-making by the SEA, but was not introduced in the Commission appointment procedures until the Nice Treaty.

Figure 3.2 Reform of the legislative process



3.3 A model of Commission appointment procedures and policy-making

To study the implications of these reforms for EU policy we use spatial models that have been developed in the literature and extensions thereof. In spatial models, alternative EU policies are represented by points in an *n*-dimensional policy space. Each dimension corresponds to a specific policy issue that arises during a Commission's term. EU policy-making can then be thought of as choosing a point in the policy space. Spatial models have become a standard approach to studying the EU legislative process. Crombez (1996, 1997a and 2001), Moser (1997), Steunenberg (1994) and Tsebelis (1994) among others present spatial models of EU policy-making. We follow Crombez's approach. Pokrivcak, Crombez & Swinnen (2006) apply this approach to agricultural policy-making. Henning, in chapter 4 of this book, uses a similar model to analyse the impact of enlargement on reform.

Political actors are considered to have Euclidean preferences. That is, they have ideal policies and prefer policies that are closer to rather than farther away from their ideal policies. Thus, they can also be represented by points in the policy space.

The member states and members of the European Parliament (MEPs) first appoint a Commission and then set EU policies on the *n* policy issues together with the Commission. We assume that the EU considers the *n* policy issues it is facing sequentially, and refer to an n-dimensional policy as a legislative programme.[6] Since the member states, the MEPs and the commissioners have Euclidean preferences, their preferences over a policy issue are independent of the EU policies on other issues. Member state k's utility, for example, decreases as the EU policy on dimension i moves farther away from its ideal policy on dimension i, whatever the EU policies are on the other dimensions. As a result, EU policy-making on dimension i can be studied as if it were the only relevant dimension.

The Parliament and the Commission use simple majority voting and there are no restrictions on amendments.[7] As a result, the analysis of policy-making on dimension i can be simplified by focusing on the ideal policies of the median commissioner and the median MEP on dimension i.[8] In the legislative process, the Commission and the Parliament can thus be treated as unitary actors with ideal policies equal to their medians' ideal policies on dimension i.

The Council is not represented as a unitary actor because it uses QMV in the adoption of legislation. Nonetheless, the analysis of policy-making on dimension i can be simplified by focusing on the member states that are pivotal under the qualified majority rule.

The member state a^i that is pivotal for a rightward move on dimension i thus has an ideal policy to the left of the member state with the median vote. In particular, member state a^i is the member state with the 91st vote (from the left). Member state a^i and the member states to its right then have at least 255 votes, and the member

[6] The EU uses strict germaneness rules and adopts no omnibus legislation. As a result, legislative proposals in the EU involve fewer issues than in the US. We recognise that even then vote-trading over different policy issues is possible, but do not consider it in this model. For logrolling models of EU policy-making, see Bueno de Mesquita & Stokman (1994), Crombez (2000) and König (2002).

[7] Formally, under the co-decision procedure, the Parliament can accept legislation proposed by the Commission by a simple majority, propose amendments to legislation in the first reading by a simple majority, propose amendments in the second reading by an 'absolute majority of component members' (in other words, 393 of the 785 MEPs) and adopt a joint text (from the Conciliation Committee) in the third reading by a simple majority. Empirical research shows that voting behaviour and coalition formation in the Parliament is not systematically different under the simple majority and absolute majority rules. See Hix (2001).

[8] Suppose the status quo is to the right (left) of the median commissioner's ideal policy on dimension i. The median commissioner and all commissioners on his/her left (right) then want a move to the left (right). As a result, any policy is defeated in the Commission by policies that are closer to the median commissioner's ideal policy. In other words, Black's median voter theorem applies (see Black, 1958). A similar reasoning applies to the Parliament.

states to its right do not constitute a qualified majority without member state a^i. Similarly, the member state b^i that is pivotal for a move to the left is the member state with the 255th vote.

The appointment procedures have received only scant attention in the theoretical literature. To our knowledge, Crombez (1997b) presents the only formal model of the Commission's appointment. Hug (2003) finds empirical support for the conclusions of the model. According to Crombez (1997b), what matters in the appointment procedures is the selection of the median commissioner on each dimension, because in the legislative process the Commission acts as if its ideal policy on an issue were equal to the median commissioner's ideal policy on that issue. We use a simplified version of the Crombez model. A member state is selected to propose a dimension-by-dimension Commission median, which then requires the approval of the Council and, since 1993, the Parliament. The dimension-by-dimension median may or may not be the president.[9]

After the appointment of a new Commission, the Parliament, the Council and the newly appointed Commission set EU policies on the *n* issues sequentially. On each issue, the Commission proposes a policy, which needs the approval of the Council and, since 1993, the Parliament. Also, since 1993, the Council and the Parliament can together amend Commission proposals.

The model incorporates complete and perfect information. We use the subgame perfect Nash equilibrium concept.

3.4 Reform of the legislative process and its policy implications

When proposing a policy on a specific policy issue, the Commission looks ahead and assesses what proposals it can get through the legislative process. Prior to the SEA, the Commission needed the approval of all member states for the adoption of its proposals. Thus, the Commission proposed the policy it preferred most from among those policies the most status quo-minded member state preferred to the status quo.

To illustrate policy-making under the different institutional arrangements, the configuration of ideal policies shown in Figure 3.3 is used. For illustrative purposes, the 15 'old' member states are roughly located according to the per capita spending of the common agricultural policy (CAP) in the respective member states.[10] The

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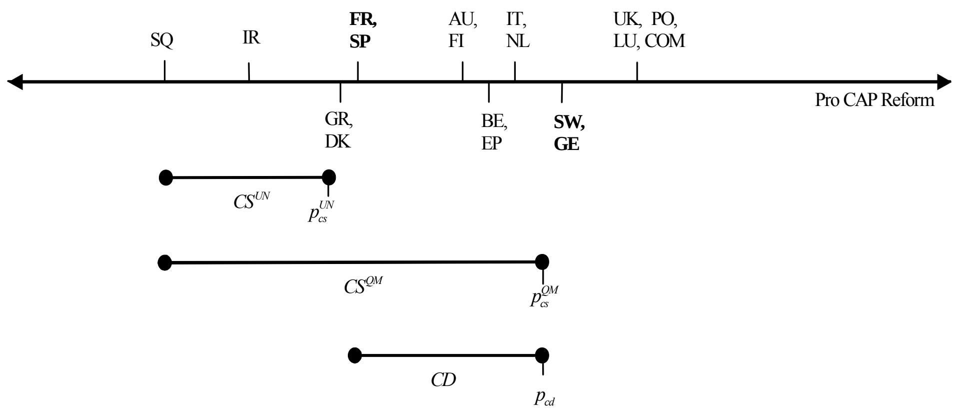
[9] The president could use his increasingly important role in the appointment procedures to compose a Commission that closely reflects his preferences, to make sure that he is the median commissioner on each dimension. Obviously, the president, the MEPs and the member states do not have perfect information on the potential commissioners' preferences. Furthermore, in reality the president may not have as much power in the appointment procedures as the treaties suggest. For these reasons, the Commission's median on a dimension may divert from the president's position.

[10] The figure depicts an EU of 15 member states, but the analysis applies to an EU with a different number of member states as well.

member states with high CAP spending (Ireland (IR), Greece (GR), Denmark (DK), France (FR) and Spain (SP)) are located on the left, as is the status quo (SQ). While opposition to or support for reforms depends on a variety of factors, as is well documented in various chapters in this book – and these factors may or may not be consistent with the ranking used here – it is assumed in Figure 3.3 for the sake of argument that the member states with high CAP spending are the most reluctant to accept agricultural policy reform. The member states with low per capita spending (the UK, Portugal (PO) and Luxembourg (LU)) are located on the right, as is the Commission (COM). It is assumed that they want substantial policy reform. The Parliament (EP) and the other member states are assumed to have locations that are more central. The accuracy of the locations of the member states and institutions in Figure 3.3 can be debated, but the precise locations are for illustrative purposes only and do not affect the conclusions of this discussion.

Figure 3.3 Policy-making in the EU



Prior to the SEA, the Commission needed the approval of the most status quo-minded member state for adoption of its proposal. In Figure 3.3, that member state is Ireland. The Commission then proposed the policy p_{cs}^{UN} it preferred most in the set of policies CS^{UN} that Ireland preferred to the status quo, i.e. the set of policies that were closer to Ireland's ideal policy than was the status quo. Only limited policy reform was therefore possible prior to the SEA. If Ireland's ideal policy had been to the left of the status quo in Figure 3.3, no policy reform would have been possible at all, because Ireland would have disagreed with the other member states about the direction of change and no unanimity could have been reached.

Prior to the SEA, the preferences of the most status quo-minded member state on an issue determined EU policies on that issue. The Commission's ability to move EU policy towards its own ideal policy by formulating policy proposals was restricted. Only status quo-minded Commissions could obtain approval for their ideal policies. Policy reform was therefore minimal.

After the SEA's introduction of QMV, the Commission no longer needed the support of all member states for the adoption of its proposals. For any policy issue the Commission could focus on the member states that were pivotal for a qualified majority. Proposals needed their approval for adoption. The Commission hence considered the policies the pivotal member states preferred to the status quo and proposed the policy it preferred most from among those policies. Since the set of policies preferred to the status quo by a qualified majority is a superset of the set of policies preferred to the status quo by all member states, more significant policy reform became possible after the SEA.

In Figure 3.3, France and Spain are pivotal for moves to the right. Together with the member states on their right, they have the 62 votes required for a qualified majority in the EU-15, but the member states on their right do not have a qualified majority without them. The Commission then proposed the policy p_{cs}^{QM} it preferred most in the set of policies CS^{QM} that France and Spain preferred to the status quo. More significant policy reform consequently became possible after the ratification of the SEA.

The SEA increased the set of policies that the Commission could successfully propose. It could continue to propose the same policies it would have proposed before the SEA, because policies preferred by all were obviously preferred by a qualified majority. Commissions that favoured more reform than the most status quo-minded member state was willing to accept, however, could obtain policies that were closer to their ideal than they could before the SEA. For all possible configurations of preferences, EU policy was at least as close to the Commission's ideal policy after the SEA than it was before.

The Maastricht Treaty introduced co-decision. Under co-decision, Commission proposals require the Parliament's approval in addition to approval by a qualified majority in the Council. If the Parliament is more status quo-minded than the pivotal member state, the introduction of co-decision reduces the set of policies the Commission can successfully propose on a policy issue and decreases the potential for policy reform. If the Parliament is more reform-minded, however, as is often assumed, its veto right does not affect policy or the potential for policy reform. In Figure 3.3, the Parliament is more reform-minded than are France and Spain. So, its veto right does not affect policy.

Co-decision also gives the Parliament and the Council the right together to amend Commission proposals. This right reduces the set of policies the Commission can successfully propose. Commissions that are more status quo (reform)-minded than the Parliament and the more status quo (reform)-minded pivotal member states cannot obtain their own ideal policy, because the Parliament and a qualified majority would agree on a more reform (status quo)-minded policy.

In Figure 3.3, the Commission cannot obtain policies to the left of the pivotal member states France and Spain as a result of the amendment to the right. Such policies would successfully be amended. Since the Commission is to the right of France and Spain, the amendment to the right does not affect its policy proposal. A status quo-minded Commission with an ideal policy left of France and Spain, however, would need to propose a more reform-oriented proposal than it would under consultation in order for the proposal to be approved under co-decision.

Under co-decision, the Commission proposes the policy p_{cd} it prefers most in the set of policies *CD* that can be adopted under co-decision. This is the set of policies that the Parliament and a qualified majority in the Council prefer to the status quo, which cannot be amended by the Parliament and a qualified majority in the Council. Compared with consultation, co-decision imposes extra requirements for the adoption of proposals.

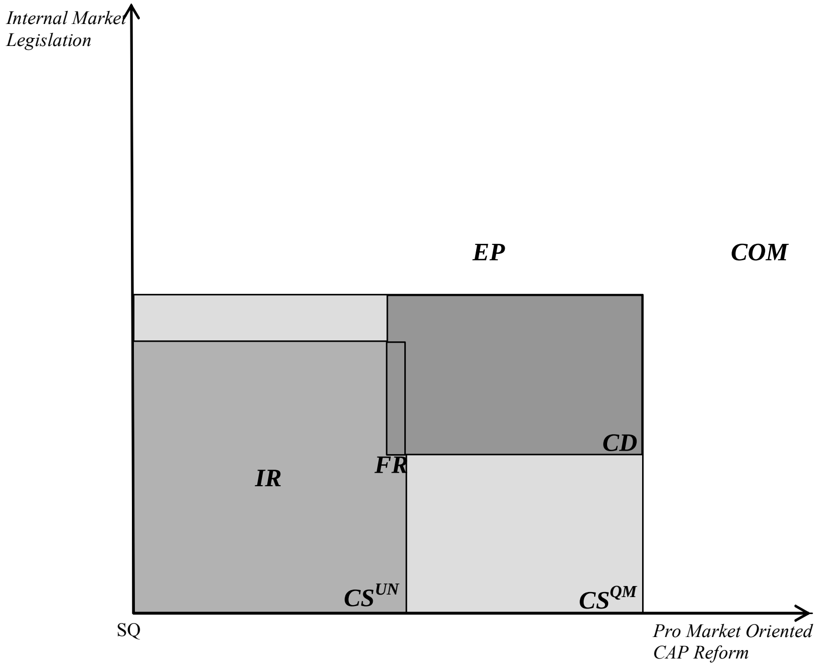
Whatever the configuration of ideal policies, the Commission thus cannot obtain a policy closer to its ideal after the Maastricht Treaty than it did before. At best, it can obtain the same policy. As a result, the introduction of co-decision does not give a reform-minded Commission the opportunity to achieve more policy reform than it could under consultation. Co-decision can lead to more reform, however, if the Commission is status quo-minded. Proposals for minor reform can be amended if the Parliament and a qualified majority want more. Under co-decision, the Commission cannot constrain reform more than the Parliament and a qualified majority want.

In Figure 3.3, the Commission obtains the same policy as it did under the consultation procedure with QMV. It is more reform-minded than the Parliament and the pivotal member states France and Spain. So, the amendment to the right does not limit its policy choice. As under consultation, the most reform it can push through is the maximum reform that France and Spain are willing to accept.

The effects of the reform of policy-making on the Commission's legislative programme, that is, the series of proposals it formulates on the *n* issues it deals with during its term in office, are similar to its effects on a single proposal. The SEA therefore allowed for more policy reform, whereas the introduction of co-decision did not allow the Commission to achieve more policy reform but restricted its ability to keep reform limited.

This outcome is illustrated in Figure 3.4. In Figure 3.4, preferences concerning the CAP are represented on the X-axis, whereas the Y-axis represents preferences on another issue, say, internal market legislation. For simplicity, it is assumed without loss of generality that the same member states are pivotal on both issues. That means that under the unanimity rule, Ireland is pivotal on both issues. Under the qualified majority rule, France is pivotal on both issues. The shaded set CS^{UN} close to the status quo then represents the policy reform that was possible prior to the SEA. The SEA extended it to the more lightly shaded set CS^{QM}. The introduction of co-decision no longer allowed the Commission to stay close to the status quo if it wanted to. It could only obtain policies in the more darkly shaded set *CD*. The figure illustrates that the introduction of the qualified majority rule increased the potential for policy reform, whereas co-decision did not increase it, but restricted the Commission's ability to keep reform limited.

Figure 3.4 Legislative reform and its implications for policy reform



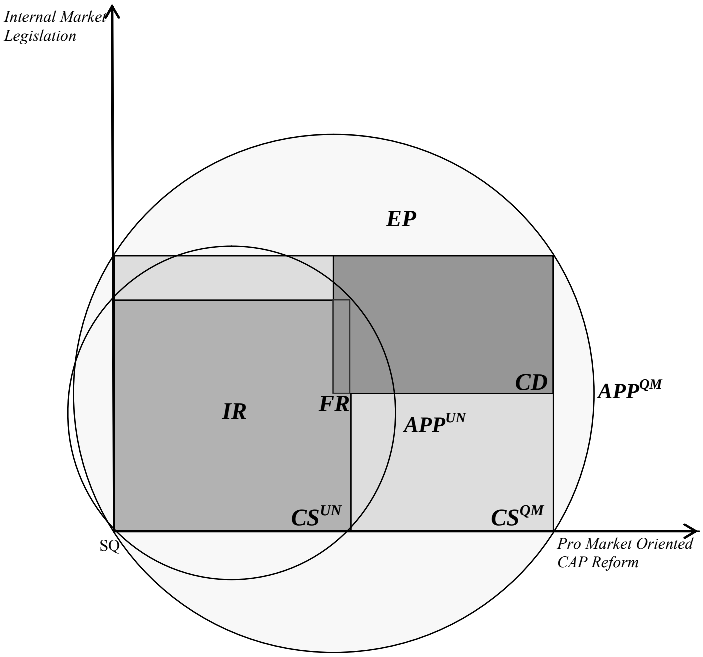
3.5 Reforms of Commission appointment procedures and their policy implications

Prior to Maastricht, the appointment of a Commission required unanimity in the Council. Since member states cared about policies, they looked ahead when appointing a Commission and considered the legislative programme the Commission would seek. Only Commissions seeking to realise legislative programmes preferred to the status quo by all member states could gain appointment.

Figure 3.5 illustrates the changes to the Commission appointment procedures and their impact on policy reform. Following the logic of the model, only Commissions likely to implement policies in the set APP^{UN} of legislative programmes preferred to the status quo by all member states could become appointed.[11] This set of policies represents those that are preferred to the status quo by the most status quo-minded member state, Ireland.

[11] The focus here is on Commissions that want internal market legislation and market-oriented CAP reforms. Other Commissions, with ideal policies below the X-axis or right of the Y-axis, cannot be appointed, because all the member states are located above the X-axis and right of the Y-axis.

Figure 3.5 Changes to Commission appointment procedures and their implications for policy reform



Whatever Commission was appointed, before the SEA it could successfully propose legislative programmes close to the status quo only during the legislative process. The programmes had to be preferred to the status quo on each issue by all member states. Before the SEA, any Commission would thus implement a programme that was preferred to the status quo on each issue by all member states. *A fortiori*, the overall programme was also preferred to the status quo by all member states. Therefore, prior to the SEA, any Commission could be appointed, but the potential for policy reform was limited.

In Figure 3.5, for example, any Commission could successfully propose policies in the set CS^{UN} only prior to the SEA. These policies also belonged to the set APP^{UN}. Hence, any Commission could be appointed, but reform was limited to the policies in the set CS^{UN}.

After the SEA, Commissions could successfully propose more reform-oriented legislative programmes because of the move to QMV in the legislative process. More reform-minded Commissions could then successfully propose their ideal policies. Status quo-minded member states could still limit policy reform, however, because the appointment of the Commission required unanimity. They could veto the appointment of Commissions that would implement programmes they did not prefer to the status quo. Deprived of their veto in the legislative process they could use their veto in the appointment procedures to constrain policy reform. Nonetheless, more policy reform became possible after the SEA, because legislative programmes no longer needed all member states' approval on each issue separately during the legislative process.

In Figure 3.5, the Commission could successfully propose any policy in the set CS^{QM} during the legislative process after the SEA. Yet, status quo-minded member states could still limit reform, because they preserved their veto right during the Commission appointment procedures. As a result, not all Commissions in the set CS^{QM} could become appointed and successfully propose their own ideal policies. Only Commissions in the set APP^{UN} could do so. Still, there was more room for policy reform, because Commissions with ideal policies outside the set CS^{UN} but in the sets CS^{QM} and APP^{UN} could be appointed and successfully propose their own ideal policies.

By requiring parliamentary approval for the appointment of the Commission, the Maastricht Treaty restricted the set of Commissions that could gain appointment. Only Commissions that would successfully propose programmes that were preferred to the status quo by all member states and a majority of the MEPs could be appointed. Still, even if the majority of MEPs are more reform-minded than are the most status quo-minded member states, as is often assumed, this extra restriction has no impact on the preferences and legislative programme of the Commission.

In Figure 3.5, it is assumed for simplicity that a majority of the MEPs have the same ideal policy, located at *EP*. Requiring the Parliament's approval for the appointment of the Commission then does not affect the set of Commissions that can be appointed. Only Commissions that would implement programmes in the set APP^{UN} could be appointed, as was the case prior to the Maastricht Treaty.

The introduction of co-decision by the Maastricht Treaty could lead to more reform-oriented legislative programmes. It did not allow the Commission to implement more reform than it could before Maastricht, but it reduced the Commission's ability to limit reform. The Commission could no longer hold back reform more than the Parliament and a qualified majority wanted, because the Parliament and a qualified majority could now successfully amend the Commission's proposals. The Commission's diminished ability to limit reform in turn restricted the status quo-minded member states' ability to hold back reform through the appointment procedures. They could no longer appoint Commissions that would limit reform more than the Parliament and a qualified majority wanted. The Maastricht Treaty was therefore the second treaty that provided opportunities for more policy reform.[12]

In Figure 3.5, the Commission can successfully propose policies in the set *CD* only under co-decision. Consequently, only Commissions with ideal policies in the sets *CD* and APP^{UN} could be appointed and get their ideal policies adopted in the

[12] The Parliament and a qualified majority in the Council could also use their increased powers under co-decision as leverage to obtain policies they liked more in policy areas where consultation still applied.

legislative process.[13] The Council could no longer appoint Commissions that would implement more limited reform programmes that are in the set APP^{UN} but not in the set *CD*.

Since the ratification of the Nice Treaty, unanimity is no longer required in the Council for the appointment of a Commission. Any Commission that proposes programmes preferred to the status quo by a qualified majority in the Council and a majority of MEPs can now be appointed. The Nice Treaty is thus the third important treaty that increases opportunities for policy reform, because it can lead to the appointment of Commissions that implement more reform-oriented programmes. Status quo-minded member states can no longer use their veto in the appointment procedures to limit reform.

In Figure 3.5, any Commission in the set APP^{QM} of programmes preferred to the status quo by a qualified majority of the member states can now be appointed.[14] Status quo-minded member states can no longer limit reform to policies in the set APP^{UN}. The Commission can successfully propose any policy in the set *CD*. Any Commission with an ideal policy in the sets *CD* and APP^{QM} can therefore be appointed and it can get its ideal policy adopted in the legislative process.

3.6 Conclusions

The course of agricultural policy reform in the EU can be explained by several developments, both within and outside the EU. Many of these developments are discussed in other chapters in this volume. This chapter has focused on one particular development in the EU, institutional reform, and its impact on agricultural policy reform.

Three major treaties ratified by the EU member states in the past 25 years have been found to have increased opportunities for policy reform: the SEA and the Treaties of Maastricht and Nice. The SEA and the Maastricht Treaty altered the legislative process in ways that had a major impact on policy. The SEA introduced the QMV rule for legislation, thus preventing the most status quo-minded member states from blocking reform. The Maastricht Treaty gave the Parliament and a qualified majority in the Council the opportunity to amend the Commission’s proposals. As a result, status quo-minded member states could no longer use their veto in the Commission appointment procedures to appoint Commissions that would restrict reform more than the Parliament and a qualified majority wanted.

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[13] In some cases, the intersection of the sets *CD* and APP^{UN} could be empty. This could happen if the most status quo-oriented member states were located very close to the status quo. The Maastricht Treaty thus increases the possibility that member states cannot agree on the appointment of a Commission.

[14] In Figure 3.5, it is assumed that France and the member states located to the right and above it have a qualified majority.

The Nice Treaty changed the appointment procedures and introduced QMV into that process. This change further diminished the ability of status quo-minded member states to limit policy reform.

It is worth pointing out that even though other developments have no doubt influenced the timing and nature of agricultural policy reforms in the EU, the two major reforms – the MacSharry and Fischler reforms – occurred after the aforementioned treaties had introduced major institutional changes. The MacSharry reforms took place within a few years after the introduction of QMV by the SEA. The Fischler reforms happened after the introduction of co-decision by the Maastricht Treaty and the extension of its use by the Amsterdam Treaty. While co-decision is not used for agricultural policy, its use does have an impact, because it allows reform-minded member states and institutions to use their new powers as leverage. The changes of the Nice Treaty to the Commission appointment procedures created opportunities for more agricultural policy reforms in the coming years.

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4. EU ENLARGEMENT: DRIVER OF OR OBSTACLE TO FUTURE CAP REFORMS?

CHRISTIAN H.C.A. HENNING

4.1 Introduction

Since its inception in the 1960s, the common agricultural policy (CAP) has been criticised for being inefficient and ineffective. In spite of this criticism and the numerous reform proposals that were put forward in the 1970s (e.g. Koester & Tangermann, 1977), a process of fundamental reform was not initiated until the MacSharry reforms in the early 1990s and was only completed with the establishment of fully decoupled payments in the most recent mid-term review (MTR) reforms. In this context, the role of EU enlargement as a driver of or obstacle to CAP reforms is the subject of much debate in the literature. While some authors highlight enlargement as the major impetus for CAP reforms, e.g. Ackrill & Kay (2004), others argue that the most recent eastern enlargement shall in particular gridlock future CAP reforms, e.g. Henning & Latacz-Lohmann (2004).

In this chapter, we provide a simple legislative bargaining model that analyses the role enlargement plays in CAP reforms. In particular, we demonstrate that owing to the specific nature of the logic of policy formulation in the CAP system, enlargement in fact has diverse effects. On the one hand, it pushes the policy preferences of old member states towards less farm protection, which triggers demand for future policy reforms, while on the other hand enlargements also shift institutional power to the new member states, which might oppose or support the induced new reform positions of the old member states. Thus, the net effect crucially depends on a) the policy preferences of the new member states, b) the institutional power shift in favour of new member states, and c) the induced shift in the policy preferences of the old member states. As a result, depending on the extent of the various effects, enlargement can both i) trigger new reforms and ii) gridlock future CAP reforms. Furthermore, old member states anticipating the effects of enlargement might prefer to reform the CAP *ex ante* enlargement to establish a new status quo policy that is commonly preferred by the old member states and is stable in the new enlarged EU, i.e. one that cannot be changed *ex post*. Accordingly, enlargement might be a driver of CAP reforms *ex ante* the EU's expansion, while it is an obstacle to future reforms *ex post*. Finally, applying our theory to the most recent eastern enlargement, we argue that i) the MTR reforms can be understood as *ex ante* reforms triggered by the anticipated enlargement and ii) the MTR reforms are stable *ex post*, i.e. as at least in the short term further reforms in the EU-27 are gridlocked. Moreover, we also show that beyond enlargement, other economic and political factors determine CAP reforms. Future World Trade Organisation (WTO) restrictions, as well as significantly higher world market prices would additionally prompt further CAP reforms, even in an enlarged EU.

4.2 The logic of CAP legislative decision-making

EU agricultural policies generate heterogeneous costs and benefits across member states and thus heterogeneous preferences among legislators seeking electoral support in their member states. Therefore, the logic of CAP decision-making can best be understood from the perspective of a bargaining situation, where gains derived from politics are distributed among legislators who have differing and often conflicting preferences.

In particular, the European CAP is in principle conceived in terms of subsidy payments in favour of farmers at the expense of the general public, i.e. the consumer and taxpayer. Since subsides are paid for specific agricultural commodities, such as milk, cereals or beef, and according to the principle of financial solidarity commonly financed by all EU member states, agricultural subsidy payments are also a redistribution tool among member states. Moreover, because each member state is specialised in at least some agricultural commodities, and ministries of agriculture are usually more interested in receiving support for products for which they are net beneficiaries as opposed to restraining support for products for which they are net contributors, in an extreme case commodity-based subsidies can be understood as local public goods. Still, the production structures of EU member states are partly correlated, e.g. with animal production in the north and crop production in the south, implying that commodity-based subsidies can be better understood as club goods, shared by member states with similar agricultural production structures.[1]

There are many different approaches in the literature modelling legislative bargaining (see for example the literature overview by Baron & Ferejohn, 1989). The non-cooperative legislative bargaining model of Baron & Ferejohn (1989) has become a workhorse model in political economics. Yet, especially within the specific EU context, the original Baron & Ferejohn model has a couple of shortcomings that restrict its empirical application in explaining CAP outcomes. Primarily, it is easy to demonstrate that non-cooperative legislative bargaining very often implies policy outcomes that are extremely inefficient from the viewpoint of individual legislators. Accordingly, legislators have a strong incentive to adopt cooperative bargaining

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[1] Nowadays, the CAP increasingly also includes the provision of global public goods, i.e. rural development or agricultural environmental policies. But, as Baron (1995) clearly demonstrates, even the provision of global public goods implies heterogeneous costs and benefits across constituencies, which in the European context are the member states.

procedures that lead to outcomes that are more efficient. Still, these cooperative bargaining procedures are only self-enforcing if legislators have sufficiently large discount factors that allow the legislators to credibly commit to cooperation to secure future bargaining advantages. In contrast to legislative decision-making in the US legislature, characterised by a large set of individual legislators with a relatively low rate of survival, legislative decision-making in the EU system involves a comparatively small set of member states, which can be considered corporate actors with an infinite time horizon. As such, the shadow of the future triggers cooperation even in otherwise non-cooperative settings. This means that legislators have very strong incentives to adopt informal decision-making procedures that guarantee outcomes that are more efficient.[2]

Technically, such cooperative legislative decision-making procedures correspond to Weingast's concept of legislative norms, which at least from the standpoint of legislators, promotes the collective efficiency of legislative decision-making (Weingast, 1979). In this framework, Henning (2007b) suggests different legislative norms, which reflect diverse levels of cooperation among member states ranging from granting mutual agenda-setting in the Council to granting agenda-setting power to supranational institutions, i.e. the European Commission.

Since the focus of this chapter is to demonstrate the impact of enlargement on CAP outcomes, in the following sections we apply a relatively simple legislative bargaining model assuming that the CAP corresponds to a unidimensional policy space. Therefore, we shall not derive a complete model here, but rather explain the general idea of legislative bargaining in EU agricultural policy through an intuitive graphical presentation of a simplified model. For a more detailed formal derivation, we refer to Henning (2007b).

Supranational formulation of the CAP has its own logic because of the specific institutional setup of the EU's political system: financial solidarity on the one hand and the agenda-setting power of the Commission under the qualified majority (QM) rule on the other. There is already a large body of literature in agricultural economics that tackles the specific roles of agenda-setting power and financial solidarity in CAP legislative decision-making. A good overview of this literature is provided by de Gorter & Swinnen (2002). For an early treatment of this topic, see Runge & von Witzke (1987). More recently, Pokrivcak et al. (2006) provide an interesting formal analysis of CAP decision-making, which also highlights the agenda-setting power of the European Commission and the role this plays.

These two points are considered separately below.

The principle of financial solidarity means that the budgetary costs of agricultural policy are shared among all member states, each contributing a predetermined, fixed amount to the EU's budget. Countries with large agricultural sectors thus tend to

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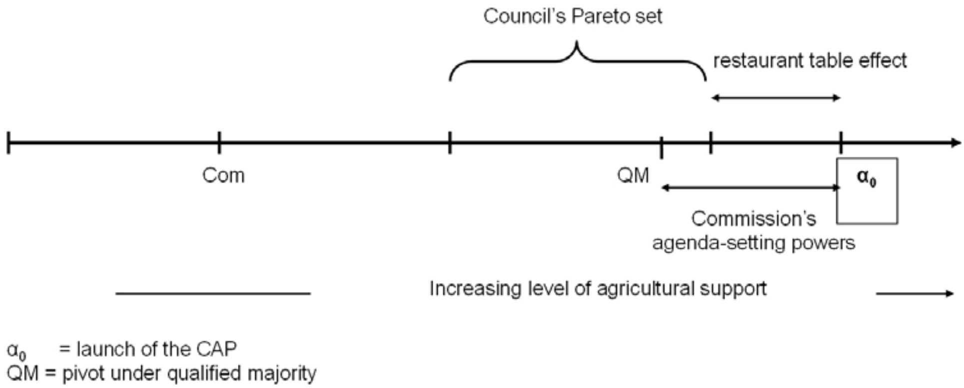
[2] In another paper, we deal in greater detail with these shortcomings and derive different alternative legislative bargaining models that better fit the specific framework conditions of CAP decision-making (see Henning, 2007b).

profit from financial solidarity in that they disproportionately gain from income support while bearing only a relatively small share of the budget costs. In a system of supranational policy formulation with financial solidarity, net beneficiaries tend to prefer higher levels of support than they would in a system of national policy formulation – the often-cited 'restaurant table' effect (see Runge & von Witzke, 1987; de Gorter et al., 1998; and also Pokrivcak et al., 2001). Conversely, net contributors tend to prefer lower levels of protection. Nonetheless, every single member state is a net beneficiary for at least some agricultural commodities and ministries of agriculture are usually more interested in receiving support for products for which they are net beneficiaries than in restraining support for products for which they are net contributors. This circumstance often results in package deals, whereby each member state receives the support for which they apply. The resultant level of overall farm support can be 'Pareto-inferior' to the extent that all member states would have preferred less overall support. And worse still is that because decisions are made sequentially, commodity by commodity, Council members find themselves in a kind of 'prisoners' dilemma', and thus cannot easily avoid this unsatisfactory outcome. Obviously, the dilemma deepens when a larger number of members share the bill (see Weingast et al., 1981, for a theoretical proof). In this regard, enlargement could be expected to exacerbate the restaurant table effect.

Yet, as we argued in another paper involving the European Commission, in legislative bargaining national Council members can prevent Pareto-inferior outcomes (Henning & Latacz-Lohmann, 2004). Under the consultation procedure, the Commission has agenda-setting power in that it submits policy proposals to the Council. The Council can either accept the proposals by qualified majority or change them with unanimity. Qualified majority in the EU-15 meant that at least 62 of the 87 votes had to be in favour of the Commission's proposal. In the EU-25, qualified majority entails at least 232 of the 321 votes in the Council. Historically, Commission proposals have involved levels of agricultural support clearly below that which the average Council member would have liked to receive (Figure 4.1).

Figure 4.1 A graphical illustration of CAP decision-making



This can be explained by the different incentive structure that exists for the Commission: in contrast to the member states, the Commission, in formulating policy proposals, must take into account the full budgetary implications. This perspective, combined with the qualified majority rule in the Council, results in proposals that limit farm support to levels within the Council's so-called 'Pareto set', implying that the restaurant table effect is avoided (Figure 4.1).

4.3 EU enlargement: Driver of or obstacle to CAP reforms?

In this section, we systematically analyse the impact of enlargement on CAP outcomes. In particular, we are interested in the conditions under which enlargement induces CAP reform – those that according to Coleman et al. (1997) can be considered a policy retrenchment, i.e. a reduction of agricultural subsidy payments.

To this end, we first show that in general enlargement has an impact on CAP outcomes through direct and indirect mechanisms. Directly, enlargement changes the set of relevant legislators who decide on the CAP. Hence, the introduction of new legislators into the legislative bargaining game naturally implies a change of the game and thus induces CAP changes. Apart from this direct effect, there is also an indirect effect caused by enlargement, given that enlargement provokes a shift in the policy preferences of old EU member states in the Council.

We demonstrate in detail that the overall impact of enlargement crucially depends on the agricultural production structure of the new in comparison with the old member states. We also show that direct and indirect effects are both influenced by this relative agricultural production structure of new and old member states, but interestingly, in the opposite direction, i.e. direct and indirect effects *ceteris paribus* oppose each other. The overall effect of enlargement significantly depends on the timing of CAP reforms, more specifically whether the reforms were decided by the old EU *ex ante* enlargement or in the new enlarged EU *ex post* enlargement. Moreover, the impact of enlargement on the final CAP outcome depends on concrete decision-making procedures applied in the EU. Here, we generally argue that legislative bargaining follows the procedures as described above, in that the Commission is actually involved while the Council operates de facto under qualified majority. Empirically speaking, this has been true for the CAP, at least since the mid-1980s, and before that time the CAP was decided in effect according to the so-called 'Luxembourg compromise', that is, the Council unanimously determined CAP policy leaving out the European Commission. To keep the analysis simple in this chapter we focus on analysing the impact of enlargement assuming that the Commission is involved in legislative decision-making.[3]

[3] A more general analysis of the impact of enlargement on CAP outcomes under different formal and informal CAP decision-making procedures is provided in another paper by Henning (2007a).

To enable us to analyse the direct and indirect effects of enlargement on CAP outcomes systematically, we elaborate our simple model of CAP decision-making. Moreover, we explicitly derive legislators' spatial policy preferences from political support maximisation.

4.3.1 A simplified model of CAP decision-making

To illustrate our main points we consider a simple EU system comprising 10 national Council members and the Commission. Let $k = 1,...,10$ denote the index of Council members, where $k = 0$ denotes the index of the Commission.

Furthermore, we assume that each member state has exactly 1 vote and a qualified majority means 7 or more of the 10 members.

The CAP outcome corresponds to the decision on the subsidy levels for agricultural commodities, α, where we assume legislators have the following spatial preferences:

$$U_k(\alpha) = -\beta(Y_k - \alpha)^2 \tag{4.1}$$

where Y_k denotes legislators' ideal points corresponding to the policy implying maximal support. Next, we explicitly derive legislators' policy preferences from political support maximisation.

4.3.2 Deriving endogenous policy preferences

Legislators' policy preferences can be represented by the net gain in their member state k:

$$U_k(\alpha) = S_k(\alpha) - \omega_k \sum_j K_j(\alpha) \tag{4.2}$$

where $S_k(\alpha)$ denotes the political support received from agricultural subsidies, $k_j(\alpha)$ denotes the costs of agricultural subsidies paid to member state j and ω_k denotes the cost share of the constituency of legislator k, which for a national Council member corresponds to the EU budget share of its national member state, which in turn (according to the financial rules of the CAP) corresponds to the share of national GDP in the total GDP of all the EU member states. For simplicity, we assume the following support and cost functions for each member state:

$$S_k(\alpha) = t_k \delta_k \alpha^\sigma \qquad \sigma \leq 1 \tag{4.3}$$

$$K_k(\alpha) = t_k \alpha^\eta \qquad \eta > 1 \tag{4.4}$$

where t_k denotes the size of the agricultural production sector of country k, e.g. t_k could correspond to total agricultural land or total agricultural income, respectively. δ_k covers specific characteristics of member states that also have an impact on the generation of political support. For example, these characteristics include the institutional settings of the electoral system, average national farm size, and the organisation of farm and non-farm interests. A detailed theoretical and empirical analysis of economic and institutional factors determining political support of the rural and urban population is provided by, for example, Beghin & Kherallah (1994), Olper (2001) or more recently by Henning & Struve (2007).

In contrast to national Council members, the relevant constituency of a supranational institution, i.e. the European Commission, corresponds to all EU member states. Accordingly, the policy preferences of a supranational legislator, $k = 0$, are represented as follows:

$$U_0(\alpha) = \sum_k t_k \delta_k \alpha^\sigma - \sum_k t_k \alpha^\eta \qquad (4.5)$$

Hence, we assume that a supranational legislator obtains political support from all member states, i.e. owing to any subsidies paid to national farmers, but also bears the total cost of subsidisation, i.e. supranational legislators observe a cost share of 1.

As a local approximation, legislators' preferences can be equivalently expressed by the spatial utility function introduced above in Equation 4.1, where Y_k denotes legislators' ideal points corresponding to the policy implying maximal support, i.e.

$$Y_k = \left[\frac{\sigma}{\eta} \delta_k \frac{s_k}{\omega_k} \right]^{\frac{1}{\eta - \sigma}} \qquad (4.6)$$

In Equation 4.6, s_k is the share of constituency k in total agricultural production. Obviously, legislator k's preferred agricultural subsidy level is higher in accordance with the higher the agricultural production share s_k and the lower the cost share of his/her constituency k, ω_k.

Thus, if a country is specialised in agricultural production, *ceteris paribus* that country prefers high agricultural subsidy payments. It should additionally be noted that for the Commission, both cost and production shares equal 1. Therefore, the Commission takes a central position between the high subsidy level preferred by member states specialised in agriculture and member states not specialised in agriculture.

Hence, even within the Council some heterogeneity results, insofar as the relative national share of the agricultural sector varies among member states. We assume that within the Council heterogeneity is low when compared with heterogeneity between the Council and the Commission.[4]

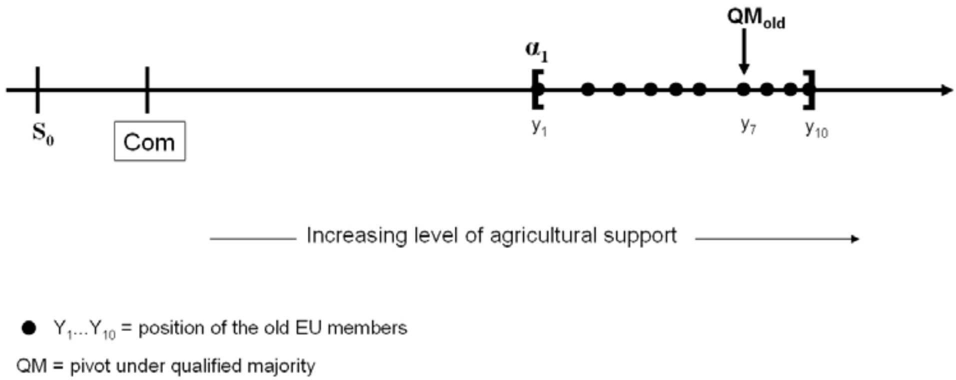
[4] Empirically, this is also what has been observed (Henning, 2000).

For notational convenience we let Y_k, k = 1,...,10, denote the ideal points of Council members, where we assume that ideal points increase from Council member 1 to 10.

4.3.3 CAP outcomes before enlargement

To understand CAP outcomes resulting from legislative bargaining in our simple EU system, we use a graphical representation of legislators' policy preferences in Figure 4.2.

Figure 4.2 CAP outcomes in the EU system



Assuming legislators' ideal points and policy preferences, as indicated in Figure 4.2 and assuming the original status quo policy is zero, i.e. $S_0 = 0$, it follows quite clearly that the outcome of the consultation procedure will just be Y_1.

This outcome results from the fact that the best the Commission can do, under the consultation procedure, is to suggest the lowest subsidy level preferred by a Council member – that is Y_1. This subsidy level is preferred by a qualified majority in the Council (actually it is unanimously preferred) and there is no other subsidy level that is unanimously preferred by all Council members to Y_1. Thus, the Commission's proposal, Y_1, will be the stable outcome of legislative bargaining, α_1.

4.3.4 The impact of enlargement on CAP reforms

Next, we want to analyse how EU enlargement influences CAP outcomes. Obviously, any enlargement implies that both the budget and the agricultural production shares of old EU member states decrease. Moreover, it follows directly from Equation 4.6 that a reduced relation of the budget and the agricultural production share induces an increase of legislators' ideal points and conversely, an increase of this relation induces a decrease of ideal points.

Thus, enlargement stimulates a shift in the ideal points of old EU member states. In contrast to national member states, the relevant budget and production shares of the Commission by definition always equal 1. Therefore, the policy preferences of the Commission are not influenced by enlargement, in other words, the Commission's ideal point remains constant.

Overall, the direction and intensity of the induced shifts of ideal points are determined by the economic structure of the new when compared with the old member states. To illustrate this point, we consider two ideal typical cases. We analyse the impact of an enlargement in which the set of countries acceding to the EU are on average more (less) specialised in agriculture than the average of existing EU member states. In particular, new member states are on average characterised by a higher (lower) GDP share in total agriculture, respectively, when compared with the average of old EU member states. The accession of the UK, Denmark and Ireland in 1973 is a case in point for the second type in parentheses, while the most recent Eastern European enlargement is an example of the first type of enlargement. Furthermore, the final impact of enlargement also depends crucially on the number and size of the new member states in relation to the old EU member states. For simplicity, we assume that five new member states enter the EU, which we denote by $k = 11$ to $k = 15$. Although it can be assumed that new member states are on average more (less) specialised in agriculture in comparison with the old ones, we also assume some heterogeneity among the new member states. For notational convenience we assume that the national share of agriculture increases from new members $k = 11$ to $k = 15$, i.e. new member $k = 11$ is less and new member $k = 15$ is most specialised in agriculture. Finally, we assume that in the new enlarged EU, a qualified majority is defined by a vote of 11 or more member states.

We first consider the case in which on average a higher GDP share of agriculture can be observed in the new member states.

Under this assumption it can be formally shown that the relation of the agricultural production share and the cost share of the old EU member states shifts by a factor of $\Omega<1$, that is, the ideal points of old member states are commonly reduced owing to enlargement.[5]

Intuitively, this results from the fact that the financial solidarity budget shares of old member states, which are defined according to national GDP shares, decrease less than the total costs of subsidisation in the enlarged EU, where the latter are proportional to the total size of the agricultural sector. Therefore, all the old member states prefer lower subsidy levels in an enlarged EU when compared with the old EU.

Thus, under this assumption, enlargement potentially triggers a policy retrenchment, i.e. a CAP reform. But, by the same logic, new member states *ceteris paribus* prefer comparatively higher subsidy levels when compared with the old member states. Of course, depending on concrete national agricultural production structures as well as the national electoral biases, δ_k, individual new member states

[5] A formal proof is available from the author upon request.

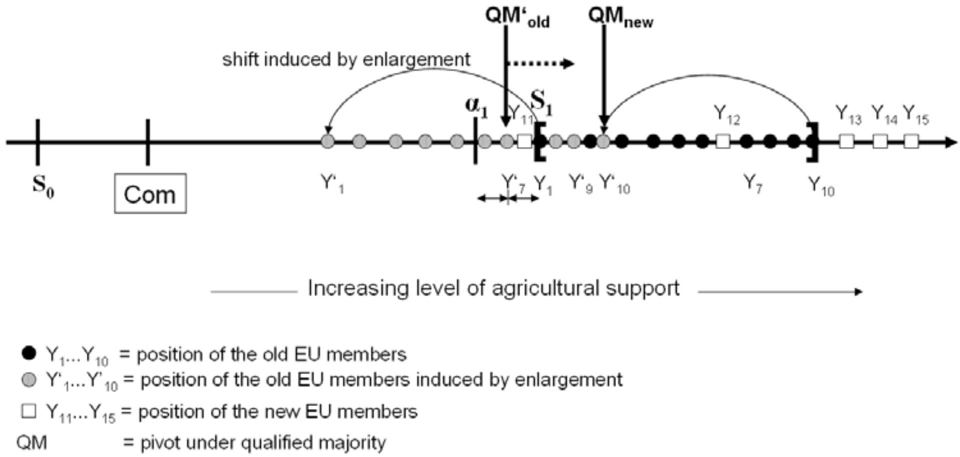
differ in their ideal points. It should be noted that the preferred subsidy levels of new member states are *ceteris paribus* higher within the EU framework when compared with the preferred subsidy levels derived under pure national policy formulation prior to EU accession. This follows directly from Equation 4.6, since under national policy formulation the relation of the production and cost share equals 1, while in the EU context it is larger than 1 for countries that are more specialised in agriculture than the average of the EU member states.

Finally, it should also be noted that by assumption the ideal point of the Commission does not change with enlargement.

Next, we analyse the impact of enlargement on the final CAP outcome of political decision-making. Obviously, the impact of enlargement on CAP outcomes differs when decision-making in the old EU or the new enlarged EU is considered.

First, we analyse the CAP changes triggered in the old EU. To this end, we once again use a graphical illustration, presented in Figure 4.3. As Figure 4.3 shows, enlargement induces a decrease of the preferred subsidy levels for all Council members. Therefore, we assume that the induced preference shift is sufficiently strong, such that at least the pivotal Council members, i.e. in our example $k = 7$, prefer an overall subsidy level that is lower than the status quo level, $Y'_7 < S_1 = Y_1$.

Figure 4.3 CAP changes induced by enlargement: Case 1



In this case, the Commission proposes a new subsidy level, $Y'_7 -|Y_1-S_1|$, which will be approved by a qualified majority in the Council. Yet, if the policy shifts provoked by enlargement are not sufficiently strong, i.e. $Y'_7 < S_1 = Y_1$, the pivotal Council member under qualified majority will not prefer a lower subsidy level to the status quo and hence, the best the Commission can do is to propose the status quo policy, which leads to gridlock.

Next, we analyse the induced CAP policy outcomes in the new enlarged EU. Accordingly, we have to analyse the win set of the status quo resulting in the new enlarged EU comprising 14 member states. Obviously, in an enlarged EU the Commission's proposal needs the support of at least 11 Council members, thus instead of $k = 7$ a Council member with a higher preferred subsidy level becomes the new pivot. In Figure 4.3, this is member state $k = 10$. Again, if the new pivot does not prefer a lower subsidy level than the status quo S_1, a gridlock results, since neither can the Commission find a qualified majority in the Council supporting a reduction of the subsidy level nor does the Council unanimously support an increase of agricultural subsidies.

Overall, based on our assumption, we can conclude that for any shift of ideal points induced by enlargements, it holds that whenever CAP reform is gridlocked in the old EU, it is also gridlocked in the new enlarged EU, but not vice versa. Hence, the probability of a gridlock is *ceteris paribus* higher for the new enlarged EU compared with the old EU. As such, enlargement is an obstacle to CAP reform. Still, one should not jump to conclusions too quickly. It should be recalled that enlargement induced preference shifts in the old EU that triggered demand for CAP reform in the old EU in the first place.

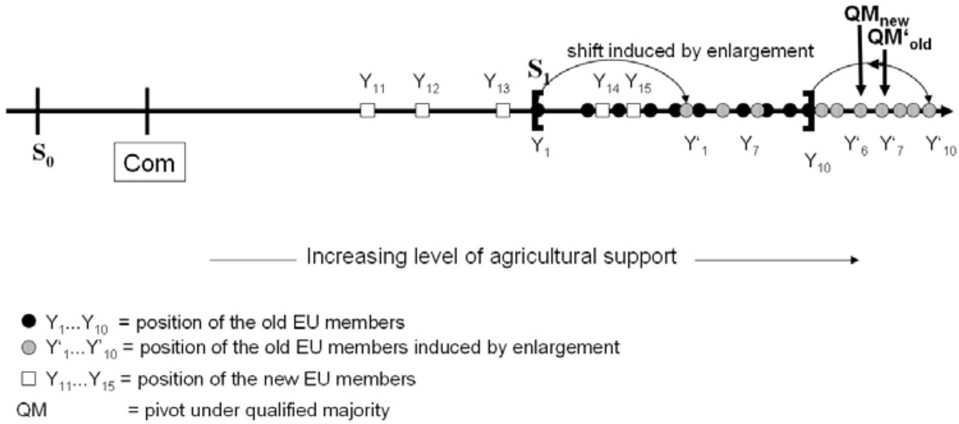
Moreover, as long as the qualified majority of the old EU that prefers CAP reform corresponds at least to a blocking minority in the enlarged EU, it might approve a CAP reform *ex ante* enlargement, i.e. shift the CAP outcome from S_1 to $Y'_7 - |Y_1 - S_1|$, which then becomes the new status quo policy S_2 of an enlarged EU. This status quo policy remains stable in the new enlarged EU as long as the qualified majority of the old EU corresponds to a blocking minority in the new enlarged EU. As we underline empirically in the next section, this is exactly how we interpret the most recent MTR reform in 2003, which was approved by the EU-15 just before the eastern enlargement to the EU-25.

Next, we consider the case in which new member states are on average less specialised in agriculture than the old member states are.

Basically, doing this delivers corresponding results, whereby enlargement induces an increase of ideal points of old EU member states triggering *ceteris paribus* an increase of subsidy levels (Figure 4.4).

But compared with the former case, where new member states are relatively more specialised in agriculture than are the old EU member states, in the opposite case some differences are worth mentioning. First, in contrast to the former case gridlock generally cannot occur in the old EU. This follows from the fact that the status quo policy S_1 corresponds to the ideal point of the Council member with the lowest preferred subsidy level, Y_1. Since in this case enlargement stimulates an increase of the ideal points of all Council members, the Council unanimously prefers an increase of the subsidy level anticipating the effect of enlargement. Second, in an enlarged EU, there is always gridlock associated with the CAP. The latter conclusion follows from the fact that under the assumption made in the new enlarged EU, a gridlock already results if there is at least one new member state that prefers a lower subsidy level than the status quo, which by assumption will always be the case.

Figure 4.4 CAP changes induced by enlargement: Case 2



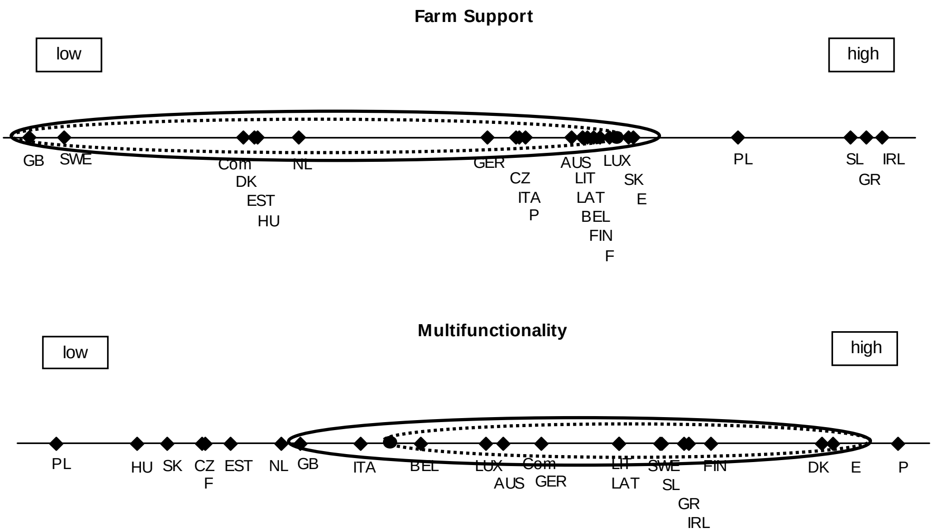
Therefore, within our simple model the old member states can only shift subsidies to the desired level *ex ante* enlargement. Of course, we do not take into consideration any further side payments or special package deals that member states agree upon during accession negotiations.

4.4 Some empirical evidence and concluding remarks on enlargement and further CAP reforms

We have so far analysed how enlargement directly triggers or impedes CAP reforms. Yet finally, one might also ask the question of whether CAP reforms brought about by changed economic or political framework conditions, e.g. changed world market prices or new WTO restrictions, are more or less likely in an enlarged EU. Formally, a change in economic and political framework conditions corresponds to a shift of the δ parameters in our simple model. Therefore, our question is basically reframed in the query of whether any externally changed framework conditions imply CAP reforms in a larger or smaller EU.

The enlarged Council of the EU-25 is more heterogeneous in terms of the political interests that are represented. Figure 4.5 illustrates the broadening range of positions taken on two dimensions of the CAP: farm support and multifunctionality. The analysis is based on an earlier empirical study of agricultural policy preferences (Henning et al., 2006). It is clear from the figure that a number of accession countries take extreme positions on these two issues: Poland and Slovenia are ‘preference outliers’ with respect to farm support, favouring support clearly above the level provided by the current CAP. Hungary, Estonia, Slovakia and the Czech Republic are ‘preference outliers’ with respect to multifunctionality, i.e. they strongly prefer a productivist approach to agricultural policy. The ellipses in Figure 4.5 indicate the qualified majorities (QM) in the Council of the EU-15 (dotted ellipsis) and the EU-25 (full ellipses), respectively. Current policy is determined by pivotal countries based on the qualified majority rule (highlighted as a bold dot in Figure 4.5). In our empirical analysis, France emerges as the pivotal country in the EU-15 with respect to farm support: i.e. among the countries forming the QM in the Council, France demands the highest level of support. Similarly, Belgium, being the country within the QM that places the least emphasis on multifunctionality, turns out to be pivotal in determining the importance of multifunctionality to EU policy.

Figure 4.5 CAP gridlock in the enlarged EU



It is clear from Figure 4.5 that the QM in the enlarged EU will shift towards higher levels of agricultural support and less emphasis on multifunctionality. Nevertheless, this does not mean that policy will adjust accordingly. We argue that the political decision-making process will be gridlocked to the extent that there will be no QM to move the status quo in any direction. This can be shown with reference to Figure 4.5. The majority of member states and the Commission prefer a reduction of support from the status quo. As such, there will be no QM for higher support. But neither will there be a QM for less support because there are three countries (Luxembourg, Slovakia and Spain) among those forming the QM that would prefer an increase in support compared with the status quo. As long as these countries do not shift their preferred farm support levels to the left of the status quo (the bold dot in Figure 4.5), there will be gridlock in the Council impeding further reform. The equivalent argument applies to the issue of multifunctionality and indeed to many other aspects of the CAP. This is not good news for the CAP: gridlock would serve to make the CAP less responsive to changing needs and demands. But this is not the end of the story. We argue that external shocks such as further WTO restrictions can break the gridlock. Such shocks may serve to mitigate 'extreme' positions held by countries within the QM in the Council – positions that have caused the gridlock in the first place. If, for example, an external shock serves to move the positions of Luxembourg, Slovakia and Spain on agricultural support below the status quo, a qualified majority for further reforms can be established. External shocks may thus be crucial to bringing about further reform in the EU-25.

Predicting the CAP's trajectory, we see future CAP developments being shaped by two intertwined factors: further WTO negotiations and commitments (serving as external shocks to the system) and, as a consequence, the further decoupling of farm support. The latter has the potential to change the farm support game fundamentally. Decoupling weakens the coalition of farmers by making the inequalities of transfers to the farming industry transparent. Increased transparency in turn casts doubts on the legitimacy of payments to large farms and wealthy farmers.[6] We therefore predict that decoupled payments to large farms will be phased out gradually through modulation and that they will be abolished altogether in the long-term political equilibrium. In this way, decoupling may become instrumental in bringing about further shifts in the rationale of the CAP – from income support to multifunctionality – as a way of legitimising farm support through agriculture's provision of public-good kinds of benefits. It is nonetheless difficult to predict the extent to which this new rationale will be accepted in political terms. Moreover, these developments depend crucially upon the occurrence of external shocks to the system, in the form of WTO negotiations, to break the gridlock in the Council.[7] We believe that the Commission in particular will harness future WTO negotiations to force the Agriculture Council to accept further reforms – a new version of the mechanism leading to the MacSharry reforms in the early 1990s. The CAP's trajectory in the EU-27 hence seems likely to continue along the lines of the pre-accession reform process. The process will be driven by the Commission, and WTO commitments will serve as scapegoats for pushing through tough reforms in the Agriculture Council (see also Henning & Latacz-Lohmann, 2004). Following this logic, enlargement, even in the long run, does indeed pose a further obstacle to reforms, but it will not be able to halt the process of making the CAP a more effective, more efficient and more equitable policy.

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[6] In our formal model, more transparency would reduce the parameter δk for all member states.

[7] In our formal model, WTO restrictions would imply external upper limits to feasible subsidy levels.

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5. EXTERNAL INFLUENCES ON CAP REFORMS: AN HISTORICAL PERSPECTIVE

TIM JOSLING

5.1 Introduction

The common agricultural policy (CAP) of the European Union (EU) has had an important influence on world agricultural markets and the development of the trade system for agricultural products over the past 40 years.[1] As a consequence, the attempts at reform of that policy have attracted considerable attention overseas. Less noticed has been the impact of external factors on the nature and pace of reforms to the CAP. The CAP, like the agricultural policies of other industrial countries, reflects a mixture of internal and external forces that make up the political, social and economic environment in which decisions are taken. In the case of the CAP, the internal forces have included the drive towards integration and the need to maintain the semblance of a common policy. These forces have complicated the task of designing a policy for a rapidly changing agricultural sector. The tensions that this has created within the EU, where the agricultural interests of individual member states diverge strikingly, has been the backdrop for 40 years of internal debate over the CAP. Yet, this internal debate has seemed at times like an argument among the crew on board a ship, when the vessel itself is being buffeted by wind and waves out of their control. The resolution of intra-EU problems has been important, but this process needs to be seen within the broader economic context in which the CAP operates.

Dramatic changes have taken place in the CAP that can only be explained by taking into account the interplay of internal and external factors. The most significant of these external influences on the CAP in the 1960s were of a macroeconomic nature, reflecting the instability of the international monetary system at that time and the consequent exchange rate realignments. The attempt to develop a common policy

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[1] For convenience, the term EU is used in this paper to include its predecessor institutions, the European Economic Community and the European Community.

was made more difficult by these exchange rate changes, which played a major role in the policy debate in that period. In the 1970s, the driver of instability was the state of commodity markets along with the differential rates of inflation in the member states. The attempts at reform were essentially thwarted by the rise of commodity prices and farm input costs: when prices fell, they left behind a high-cost agricultural sector. This in turn led in the 1980s to a different type of external influence, as the high levels of protection of farm products became a major issue in trade negotiations. The CAP became a major burden to the EU, and eventually it was found necessary to subjugate it to the requirements of general trade policy. Since the 1990s, many of these pressures have been internalised into decision-making in the EU, so that it is now difficult to separate the internal from the external influences. The CAP, or at least those elements of it that are of most interest to overseas producers, is now essentially circumscribed by international agreements. The remainder of this chapter elaborates on the changing nature of these external influences on the process of policy reform.

5.2 Periods of external pressure

From the perspective of the external events as they impinged on the process of CAP reform, it is useful to separate the past 40 years into three periods. The first period stretched from the establishment of common prices under the CAP in 1967, when signs of weakness in the post-war monetary system began to emerge, to the end of the 1970s, when the macroeconomic paradigm began to shift towards tight control of the money supply and the use of high interest rates to drive out inflationary expectations. The second period lasted from 1980, when discussion about CAP reform began to be taken seriously, to 1994, when the agreement in the General Agreement on Trade and Tariffs (GATT) Uruguay round set up the World Trade Organisation (WTO) and incorporated an Agreement on Agriculture that fixed many of the shortcomings of the GATT with respect to agricultural trade policy (Josling, Tangermann & Warley, 1996; Barton et al., 2006). The third period, from 1994 to 2007, has been the period during which the CAP has been reformulated in the context of international negotiations and the imposition of new trade rules. The pace of reform has increased recently in part as a reaction to these trade policy demands.

5.3 1967–79: The CAP and macroeconomic instability

The late 1960s were characterised by significant macroeconomic shocks, particularly through exchange rate changes. In the 1970s, this instability was exacerbated by a spurt of inflation in most countries in Europe and by commodity market shocks, including the steep rise in oil prices in 1973 and 1975. This time of macroeconomic instability coincided with the arrival of the newly-minted CAP. The transition period to common policies and prices itself, from 1962–67, went reasonably smoothly, and in 1967, for a few brief months, the policy prices established under the CAP were common to all parts of the EU. Prices were set in 'units of account' made equal to a

US dollar. These prices were translated into the (five) national currencies of the members at the prevailing rate of exchange, with the fixed parities maintained under the Bretton Woods system.[2] Thus, the political support for the 'pillar' of common prices under the CAP was premised on a stable exchange rate system. Indeed, it was sometimes imagined that exchange rate changes within the EU would no longer be possible.

5.3.1 Exchange rate changes and the CAP

The first major shock to the newly unified CAP came not from outside the EU but within Europe. The pound sterling was devalued in November 1967, from $2.80 to $2.40. This event was both a symptom of underlying tensions in the monetary system and a reflection of the inflexibility of the exchange rate mechanism. The pound had held a position second only to the dollar as a reserve currency and an anchor for the system. Its fall led to speculative pressures on other currencies: if sterling could be devalued then other exchange rates might also be changed. From the viewpoint of the CAP, one effect was to add to existing pressures for franc and D-mark adjustments. The exchange rates of the EU countries had not changed since 1962. But the German economy had been growing at a rapid rate, based on buoyant exports. Appreciation would translate the export success into higher real incomes rather than a growth in reserves. Speculation on a D-mark appreciation mounted, as the attraction of a 'one-way' bet became apparent in 1968. In France, inflationary pressures had led to speculation that the franc might be devalued. The May–June riots in that country had pitted students and workers against the establishment: inflationary wage increases were the price of peace. But the French administration resisted the call for an exchange rate change, fearing further inflationary pressures, again pitting the private sector flows of funds among currencies against the reluctance of governments to adjust rates. One effect showed up in the cereals market. Grain from France had flooded into Germany to be taken into intervention, causing serious storage problems. The CAP had set up a form of arbitrage, as the relative intervention prices for wheat were different from the relative values of the D-mark and the franc on forward exchange markets (Josling, 1970).

The floodgates finally opened in the summer of 1969. The revaluation of the German D-mark in October (by 9.3%) and the devaluation of the French franc in August of the same year (by 12.5%) caused havoc in the operation of the CAP. The translation of the annual prices in units of account would have led to a reduction in the German prices (in D-mark) and an increase in French prices (in francs). Neither was politically possible, and so the administration of the CAP had to change.

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[2] The Bretton Woods exchange-rate arrangement has been called a 'jumping peg' system, with discrete changes in the official rates with respect to the US dollar being notified and sanctioned by the International Monetary Fund. The dollar in turn had a fixed price in terms of gold, which therefore underpinned the system.

The first reaction was somewhat ad hoc. Compensation for what would have been price declines in Germany was granted by some ad hoc tax relief for German farmers, and a system of border taxes and subsidies was introduced to offset the exchange rate changes. This led in turn to a more durable system: the introduction of artificial 'green' exchange rates for the conversion of administered prices decided in Brussels by the Council of Ministers into local currencies (Josling, 1970; Josling & Harris, 1976). The notion was to delay the impact of exchange rate changes on farm policy prices in domestic currency until ministers could agree to devaluations or revaluations of the green rates. In practice, this meant that the annual price increases had to be such as to compensate the farmers in the strong currency countries for the exchange rate movements. The system of 'monetary compensatory amounts' (MCAs) applied at the border became an integral part of the intra-EU trade. The effect was to undermine the central concept of free trade within the European Economic Community (EEC), and in essence give some control over price levels back to the individual member states through their control over the green rate adjustments (Heidhues et al., 1978).

The events of 1968 were but the start of the CAP's problem with exchange rates. The Bretton Woods system was under increasing pressure, as confidence in the US dollar as the anchor was eroded by domestic inflation and budget deficits.[3] In 1971, President Richard Nixon formally closed the 'golden window' that had obligated the Federal Reserve Bank to buy gold at $35 per ounce (although convertibility into gold had been suspended since 1968). Without the link to gold, foreign governments and institutions were less willing to hold their reserves in dollars. The Smithsonian Agreement of December 1971 replaced fixed rates with 'central rates' that allowed some flexibility: the D-mark was set at 3.22 to the US dollar, up 13.6% from 1969. Speculative pressures continued, however, and the dollar itself was devalued by 10% in February 1973, and the D-mark was allowed to float, settling at 2.66 to the dollar. The Bretton Woods monetary system of fixed parities was abandoned, and the D-mark itself became the key currency in a 'snake' of European currencies maintaining closer limits of fluctuation within a wider 'tunnel' of rates against the dollar. The level of CAP prices was now largely a reflection of the strength of the D-mark.

The opportunity to build a zone of monetary stability in Europe was attractive. Plans for monetary union by 1980 were discussed and agreed. The Werner Plan aimed at taming exchange rate variations within the EU and introducing monetary union by 1980. The link with agricultural prices was not forgotten. Much of the support for the Werner Plan came from those wanting a firm foundation for the CAP.

Monetary union in the EU was not as easy as it seemed. The floating of the European currencies had revealed essential differences in monetary policy among member countries. The impact was to stimulate further dispersion of exchange rates. The D-mark was considered the strongest currency, along with the Dutch florin,

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[3] In effect, the involvement of the US in Vietnam was being funded by monetary expansion rather than higher taxes or reductions in other spending. Domestic spending on the 'Great Society' also contributed to the lack of fiscal discipline.

because of the strict anti-inflation stance of the Bundesbank. The UK joined the snake in 1973 (upon entry into the EU) but had to leave as its own inflation picked up. France withdrew in 1974, re-entered in 1975 and promptly withdrew again. So the stability of exchange rates within the EU was elusive even with a strong currency anchor in the D-mark. The balance of the CAP suffered significantly, as the common prices ratcheted up to compensate German farmers from the price cuts that would otherwise have been imposed by the buoyant export sector (and by speculators). Many of the later problems can be traced to the first few years of the CAP's existence in a volatile foreign exchange market.

5.3.2 The oil price shock

In addition to experiencing exchange rate changes, the 1970s was a period of commodity price instability. The increase in the price of crude oil in October 1973 was the harbinger of things to come. The first oil price shock led to price increases (including for agricultural inputs) in most European countries, particularly those heavily dependent on Middle Eastern oil. Countries differed in the extent to which the governments allowed the adverse terms of trade shift to be masked by inflation. The exchange rate trends in the EU in the 1970s reflected these diverse policy reactions, and put increasing strain on the internal operation of the CAP. Significant levels of MCAs made the single support price of 1967 a distant dream.[4] And the creep upwards of the support price levels from the attempts to reduce the MCAs added to the general tendency of these prices to rise with increased farm costs.

The price increases were not confined to the oil market. The 'world food crisis' sent cereal and sugar prices to record high levels in 1973–75. These world prices even exceeded those of the internal market, leading to export taxes and import subsidies to insulate the market somewhat from the impact of these world prices. The concerns about long-term scarcity of foodstuffs, as well as other raw materials, had an effect on the political debate about the CAP. It was difficult to argue for price reductions as a way of reducing the inefficiency of the CAP at a time when the world seemed to need all the agricultural output that Europe could provide.

The main problem that this inflationary period posed for the CAP was the difficulty faced by the Commission in proposing annual prices that would both avoid overproduction and be acceptable to the Council of (Agricultural) Ministers. The use of an 'objective method' of fixing annual prices, by calculating cost increases and then subtracting a nominal amount for productivity gains did not help. Rather than adjusting prices to external market conditions, EU agriculture became progressively

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[4] In February 1979, a 'common price' of 100 ecus by the Council of Ministers would have translated into the equivalent of 110.8 ecus in Germany and 71.8 ecus in the UK. Thus, support prices were maintained in Germany at a level that was 54% higher than that in the UK. Only Denmark eschewed the political convenience of masking exchange rates by the use of fictional green rates (Josling, 2007).

less competitive over this period. By the time of the second oil price shock in 1979, the situation had become out of hand. Reform was needed that had to go further than trying to keep a lid on internal prices.

The UK became a member of the EU in 1973 and it might have been expected to assert a moderating influence on agricultural policy. The UK was expected to bring a new look at trade policy based on its history of international openness. Some countries welcomed this (such as the Netherlands), while others were prepared to resist (notably France but also Germany). Indeed, much of the opposition to UK accession assumed that the UK would come in with its tradition of low market prices and high payments from the exchequer and demand the same stance in the CAP.

But these fears proved unfounded. The coincidence of the oil price hikes and the accession of the UK to the EEC effectively hid the underlying tensions in the CAP. The period of inflation and currency movements that followed in the 1970s overwhelmed the design of policy improvements. The UK found a convenient way of keeping its own prices down through the medium of the 'green money' system, and turned its attention to limiting the budget cost of membership through a budget rebate. The UK reluctantly accepted the CAP so long as the budget cost to the UK was constrained and so long as it controlled the pace of adjustment of the green rate of exchange. This compromise lasted through the run up to monetary union, when policy prices in the EU became 'common' again.

5.3.3 Trade policy influences on the CAP

The influence of trade policy on the CAP was not immediately obvious in the 1960s and 1970s. Indeed, one could make the case that the development of the trade system for agricultural products had to wait until the CAP had been completed, and then had little room for manoeuvre. European negotiators tried in vain to persuade trading partners to set up commodity agreements that would complement the CAP by stabilising world prices, and hence make it easier to administer. If those stabilised world prices were not too far below the CAP prices, the problem of defending high levels of protection would also be alleviated. Other traders had different ideas, emphasising that agricultural trade should be brought closer in line with that in manufactured products.

One trade agreement that left a significant chink in the armour of the CAP was that stemming from the Dillon round in 1961–63, which had begun as negotiations to compensate countries that had suffered reduced market access when the EU adopted the common external tariff. An outcome of that otherwise unremarkable round was that the EU bound at zero or low levels the tariff on imported oilseeds and oilmeals, including starch root products such as cassava (manioc). For 30 years thereafter, the EU attempted to plug the 'leak' in the CAP, as soybeans, soybean oil, cassava chips and corn-gluten feed flowed in to be made into animal feed, displacing the higherpriced wheat and barley from domestic sources.[5] An attempt to stimulate domestic production of oilseeds ran into opposition from the US and eventually led to a GATT dispute (see below).

Following on the heels of the Dillon round was a major attempt to improve the multilateral trade system, including that for agricultural products. The Kennedy round (1963–68) lowered protection significantly on non-agricultural goods, although it was not so successful in the area of farm trade.[6] In agriculture, the EU and the US were at loggerheads. The EU approach was both driven by and constrained by the CAP. With the ink still wet on the market regulations at the start of the trade talks, the political balance that had led to the CAP would have been upset by yielding to the demands of overseas suppliers. So the insistence on international commodity agreements was understandable (Tracy, 1989). But to deflect criticism of overproduction, the EU offered to mutually bind 'levels of support'. The US was not convinced that this would have cut back EU production and rejected the idea. The result was to let the CAP off the hook for the next 20 years.

What emerged from the Kennedy round concerning agricultural trade was an ineffective international grains agreement that failed in its attempt to prevent exporters from undercutting each other. The EU was emerging as a major exporter of wheat and needed to be able to move the product off the domestic market in order to avoid the build-up of stocks. The use of export subsidies was the obvious way to clear the surpluses and an international agreement that failed to limit these actions was of little use. Supply control in other countries, such as the US, was indirectly helpful to the EU but there was no mechanism within the CAP itself to enable the EU to take part in global market management.

If the Kennedy round had failed to tackle the problems posed for international trade by the CAP, the Tokyo round that was initiated in 1973 proved no more successful. Coming at a time when commodity prices were high, the emphasis was on the stability of markets rather than their openness. Once again, the negotiation of international commodity agreements was a central focus of the talks. To a revised cereals agreement (now limited to wheat) was added commodity agreements for dairy and beef. Although lacking any significant economic provisions, the dairy agreement did keep prices high for a few years as a result of the build-up of stocks and in effect saved the EU budget over $1 billion. Both the dairy and beef agreements survived until the end of the Uruguay round.

5.3.4 Reform of the CAP 1967–79

Reform of the CAP over this period was essentially undermined by the instability of exchange rates and the fluctuations of commodity prices. The first serious reform

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[5] Some parts of the market for olive oil and butter were also displaced by oilseed-based products.

[6] This outcome incidentally increased the distortion caused by agricultural policies (Josling, 2007).

plan came from Sicco Mansholt in 1968, the year following the entry into operation of the common price and policy regime. The Mansholt Plan was to modernise holdings, by establishing modern economic units, to withdraw land from production where not productive and to ease the transition of labour off the farm. Behind this initiative was the notion that it would allow for a reduction of prices, rebalancing spending between the guidance and guarantee funds. The debate around the Plan led to demonstrations against the Commission in 1971 and the ideas lost political support. What was left were three directives, passed in 1972, that mandated countries to institute some structural programmes, but this aspect of the CAP remained a poor relation to the price support component.

The issue of CAP reform took a back seat after the failure of the Mansholt initiative. It was left to 'outsiders' to continue the criticism of the CAP: those within the EU who advocated 'reform' were considered to be watering down the policy in advance of UK membership or acting as a stalking horse for US export interests. Ultimately, the CAP had proved unable to adjust to the need to modernise the EU agricultural sector. Some help for the administration of the policy came in 1979, when the European currency unit (ecu) was introduced in the form of a basket of EU currencies, making CAP price-setting somewhat easier. Even this proved a mixed blessing, however, as the ecu was pulled up by the strength of the D-mark, and left EU prices even further above those on world markets.

5.4 1980–94: The CAP and trade tensions

Some semblance of macroeconomic discipline returned in the 1980s. The election of Ronald Reagan in 1980 (and the earlier appointment of Paul Volker to chair the Federal Reserve Board in 1979) set off a chain of events that had significant implications for the CAP. The Fed launched a campaign to raise interest rates in an attempt to tackle inflation and in particular to break inflationary expectations. This led to an extraordinary appreciation of the dollar against the European currencies over the period 1980–84. As a consequence, world commodity prices expressed in European currencies rose sharply.

The period of the strong dollar did not last. A devaluation of the dollar was agreed as a part of the Plaza Accord (1985), which established a pattern of central bank cooperation in managing the relative value of the major currencies. This agreement was followed by the Louvre Accord in 1987, which helped to halt the decline of the dollar.

Over this period, the EU emerged as a net exporter of grain and domestic prices weakened to intervention levels as a result. The level of EU intervention stocks became a measure of the difficulties of the CAP, although the relative price levels with respect to overseas competitors would have made a better benchmark. The strong dollar helped EU export expansion from 1980 to 1984, and US farm exports declined from their peak in 1981. This situation should have lowered the cost of CAP, but the opportunity to cut support was squandered over this period.

The Plaza Accord hit EU agricultural exports, as the dollar was devalued by international agreement, and intervention stock increased. This ushered in a period of low world prices, particularly in 1986–87, which had a major impact on CAP costs and protection levels, as well as on the perception of the policy both at home and abroad.

5.4.1 Trade policy

The issue of agriculture as a major stumbling block in the restructuring of the international trade system began to be on the agenda in 1982. At the GATT ministerial that had been called that year by the US to initiate a new round of trade talks, the Europeans were lukewarm to the suggestion that agriculture should be a major focus of such talks. The question of the centrality of agriculture in the talks delayed the approval of the round for four more years. In the end, a coalition of smaller countries persuaded the EU to agree to negotiate on agriculture, in the context of a similar agreement by the US. The EU eventually agreed to include agricultural disciplines, including those pertaining to domestic programmes.

By the mid-1980s, the CAP had become a central topic of concern in the multilateral trade system. The twin reasons were the high levels of border protection that had been retained to give a broad umbrella of protection against the overseas competition under which the market orders could continue, and the increasing surpluses of cereals, meat, dairy products and sugar, all of which other OECD countries produced for export. As a result, the CAP came under criticism abroad as a major cause of low world prices and at home for high support costs and (at least in the UK) for high consumer prices (Tyers & Anderson, 1992). The CAP was the target in many GATT cases, although with the exception of the oilseeds case these had little impact on policy.

In 1984, GATT discussions began on the reform of the trade system for agricultural products and the OECD started to measure the extent of the distortions generated by domestic policy and by border instruments. Both initiatives were in recognition of the fact that for several markets the impact of domestic policies spilled over to the world market in a way that caused a reaction by other countries, either to subsidise exports or to add protection against imports. So a common solution seemed to be the answer. If all domestic policies could be brought under some form of control, and if the nature of border measures could be disciplined, then the situation would be ameliorated. The CAP was singled out as the policy that needed to change the most, so it was firmly on the international agenda.

The Uruguay round of trade talks under the GATT began in 1986, designed in part to head off a full-scale US–EU trade war in agricultural products. The EU found itself under constant attack from trade partners during the Uruguay round. The US was thought to be aiming its sights on the elimination of the CAP.[7] The Cairns

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[7] In particular, EU officials believed that Carla Hills, chief US trade negotiator at the start of the round, had the destruction of the CAP as a prime objective.

Group, although disliking the US farm policies as well as those of the EU, also tended to focus its attention on constraining or transforming the CAP. With the exception of Japan, no major trading nation seemed to have sympathy for the agricultural problems faced in the EU. The notion that it had already 'reformed' the CAP, with dairy quotas in 1984 and a budget ceiling in 1988, was not convincing to its partners.[8]

The Uruguay round negotiations, much like the Doha round 15 years later, missed its deadlines and generated more recriminations than constructive dialog. It was not until November 1992, at Blair House, that the US and the EU were able to settle their differences enough to chart the course for an eventual agreement. By that time the MacSharry reforms had been approved (in June 1992) and that gave the EU negotiators enough room to agree on curbs to export and domestic subsidy levels. The accord at Blair House became the 'deal' that tied together CAP reform and the Uruguay round outcome. The blue box was created as a way of avoiding the need to reduce the MacSharry compensation payments, while the 'Peace Clause' was intended to shelter the payments under the new CAP from challenge and the green box was defined in such a way that other aspects of the CAP were not subject to control.

This is not to say that the coming into force of the Uruguay Round Agreement on Agriculture (URAA) in 1995 did not bring with it significant changes to the instrumentalities of the CAP. First, it obliged the EU to remove the variable levy and convert it into a fixed tariff. Thus the threshold price, from which the variable levy was calculated, ceased to be the central determinant of protection levels. The URAA further obliged the EU to reduce tariffs, although as a result of 'dirty tariffication' and the convenience of using an unweighted average for tariff reductions, the impact on the price levels of sensitive goods, such as sugar, beef and dairy products, was not great. For cereals, the creation of a blue box meant that reductions were not required to the new MacSharry payments. Moreover, a remnant of the 'variable levy' was retained (at the insistence of the US) as the new tariff-inclusive import price was not allowed to rise above 150% of the intervention price.

5.4.2 Reform of the CAP 1980–94

The combination of surpluses and high budget costs as the 1980s unfolded led to a number of papers from the Commission discussing options for the redirection of the CAP. These included a 1980 "Reflections" document that correctly identified high prices as the root cause of the CAP's problems, a 1981 report on the mandate that had come from the Council to suggest solutions, the 1983 proposals that argued for more focused price cuts and a 1985 "Perspectives" paper that discussed ways of achieving this, attempting to craft a logical path back to price responsibility. Although these papers were not in themselves radical, the Commission was unable to

[8] For a full discussion of the Uruguay round negotiations see Josling, Tangermann & Warley (1996).

translate them into meaningful policy changes that would gain approval by the Council of Ministers. The reluctance to act exacerbated the imbalances in the markets within Europe and the distortions to resource allocation that were the true cost of the CAP.

In place of a clear change of direction, the 1980s was primarily a period of piecemeal reform of the CAP, as a reaction to budget and trade issues arising from surpluses. In 1982, the introduction of 'guarantee thresholds' was intended to automatically reduce prices when products were in surplus (exceeding their thresholds), but the price reductions were inadequate and could in any case be offset by more generous awards in the following year. In 1984, milk quotas were introduced when the price cut implied by the formula was too high to be palatable. Two years later, the principle and practice of co-responsibility levies were introduced, as a way of recouping funds and dampening incentives when surpluses persisted.

Action finally was taken when a crisis hit in 1986, sparked by exceptionally low world prices. This led to the introduction of budget stabilisers in 1988, effectively cutting support when budgetary targets were exceeded. This was a somewhat timid reform, but at least made price increases for CAP products less easy. Still, the pressures on the CAP from outside continued, as the Uruguay round remained focused on the high degree of distortion in international agricultural markets.

By the end of the decade the CAP, along with other aspects of EU policy, was overwhelmed by other changes of a far more profound nature. The fall of the Berlin Wall in 1989 distracted attention from the CAP, making the dream of German unification possible and the eventual accession of the countries of Central and Eastern Europe appear on the horizon. The Maastricht Treaty of 1992 and the movement towards economic and monetary union provided political cohesion and purpose to the EU: the CAP was no longer the 'only' common policy.

In December 1990, as the Uruguay round ground to a halt at the Heysel ministerial, a draft of a new approach for the CAP began circulating from the Commission. Commissioner for Agriculture Ray MacSharry had become concerned about losing the CAP altogether, and wanted to reduce its budget and trade profile. He proposed a series of compensated price cuts that would bring EU support levels for cereals and oilseeds closer to those on the world market (Moyer & Josling, 2003).

The pace and the content of the 1992 MacSharry CAP reforms were clearly influenced by the negotiations in the Uruguay round. The package cleared the Council of Ministers barely two years after the first Commission document had been circulated. The EU was able to sign a deal that reduced export subsidies and converted variable levies to tariffs. The long-running oilseeds dispute was also resolved. In effect, the MacSharry reforms rescued both the CAP and the Uruguay round. External pressures had forced change and set up a framework for monitoring and locking in that change. The winds of reform had come from outside, although internal acquiescence was essential to their implementation at home.

5.5 1995–2007: The CAP as a part of trade policy

The balance between trade policy and macroeconomic instability as forces pushing the CAP changed further in subsequent years. Macroeconomic instability in the period since the mid-1990s has been much less of an internal administrative problem for the CAP. With the exception of the UK, which has stayed outside the exchange rate mechanism of the European monetary union, countries have avoided the problems associated with currency fluctuations on farm price levels. The euro was introduced in 1999 in financial markets (although notes and coins were not put into circulation until 2002). Farm prices were set in euros and hence needed no translation for the countries that were part of the eurozone: for those remaining outside a modified system of monetary adjustments was developed.

Exchange rate movements between the eurozone and its trading partners did not disappear, however. The euro was introduced at a rate of \$1.18 but promptly fell to \$0.83 by 2001. It later strengthened against the dollar to reach \$1.37 in 2004 and remained at approximately that level for the next three years. Thus, the level of protection afforded the EU agricultural sector is still dependent on the external environment even if the policy itself appears to be on an even keel at present.

The budget allocation for agriculture was also pegged in this period, with multi-year funding commitments being the main focus for distributing EU funds. The switch to direct payments for cereals and oilseeds, and later for other products, also contributed to the stability of agricultural spending. Nevertheless, the CAP became even more driven by trade policy. The impacts of the WTO commitments, the bilateral and other trade agreements, and the outcome of some key WTO cases have continued to put pressure on the CAP.

5.5.1 Trade policy: The Doha round

The conclusion of the Uruguay round temporarily took some of the pressure off the CAP. The Peace Clause appeared to have sheltered the CAP from challenge under the newly strengthened dispute settlement mechanism of the WTO. But it soon became clear that although the 1992 CAP reform had allowed the EU to agree to the URAA, the process would need to be continued if the WTO constraints were to be respected. The time horizon of the URAA reductions was from 1995 through 2000, and an obligation to negotiate a continuation of the reform of the agricultural trade system after that date was included in the URAA itself. This gave notice that constraints on the CAP from the WTO were likely to be further tightened. The continuation of the agricultural trade reform was incorporated as a major part of the Doha round launched in November 2001, and exporters as well as developing countries made clear their intention to place further limits on the CAP and other developed country farm programmes.

The European Commission, along with several of the member states, drew some strong conclusions from the experience of the Uruguay round for the strategy of the new negotiations on agriculture. Above all, the Commission wanted to develop a positive agenda rather than be compelled to be on the defensive. The development of a positive agenda implied the identification of elements in the policies of other countries that were counter to the interests of the EU. This clearly included the series of 'disaster' payments that the US had rained upon its farmers in the years 1998–2001. Yet the Commission also was aware that its own productivity increases, set against a limited domestic market and the WTO constraints on export subsidies, implied that the EU needed overseas outlets for agricultural exports that could serve without the aid of subsidies. The prospect of enlargement of the EU and the likelihood that the agricultural output from those new member states would not be absorbed on the domestic market made the search for markets more urgent. High tariffs in Asia and in developing countries clearly were an impediment to an expansion of agricultural exports from Europe. Parastatal marketing organisations in competing exporters and in import markets could also hamper EU export expansion. And the growth in the production of European-style foods and beverages in other countries seemed to add to the constraints facing EU exporters. This less defensive posture ironically led to a strong convergence of the US and the EU positions on agricultural trade. Pressure on others to open up markets in exchange for further reductions in domestic and export subsidies was a common theme on both sides of the Atlantic.

The reaction to the convergence of the US and EU policy positions in the Doha round was dramatic. A joint EU–US paper was circulated in August 2003 and adopted by the chairman of the committee drafting a text for the Cancun ministerial. Brazil, India and China established the G-20 in September to prevent a US–EU agreement from forming the basis for discussion at Cancun. From that point, the developing countries became the main *demandeurs* of domestic policy constraints. The framework for the talks, agreed in August 2004, called for substantial cuts in domestic support and a move towards elimination of export subsidies. As the EU was by far the greatest user of explicit export subsidies, the target was clear. At the Hong Kong ministerial in 2005, the EU made a conditional offer to eliminate export subsidies by 2013.

At the time of writing, the Doha round is still searching for the 'modalities' that would allow the submission of offers to be built into the final agreement. But even if the EU is let off the hook again, by a long suspension of the Doha round, the expectation has been established that the EU will soon be out of the business of subsidising exports.

5.5.2 Trade policy: Preferential agreements

Just as the influence of external trade pressures on the CAP has grown over time so too has the impact of bilateral and regional preference agreements. In the 1960s and 1970s, one could reasonably argue that the agreements that proliferated with former colonies, Mediterranean neighbours and European Free Trade Area countries were careful to avoid any impact on the CAP. They either omitted any improved access to the EU market or circumscribed such access with quantitative restrictions. Only in the case of sugar could one argue that the CAP had specifically incorporated the interests of overseas suppliers, by granting access for a fixed amount of imports at internal market prices.

The balance between foreign policy and agricultural policy objectives in overseas preferential arrangements has always been delicate. The EU has generally held that the granting of preferences and development assistance to former colonies is an intrinsic part of a 'deal' by which the countries receiving such preferences remain part of a political family. Recently, however, the EU has become disillusioned with the effectiveness of preferential access to EU markets as a development tool for developing countries, in particular for commodities such as bananas, sugar and rice. The feeling has been that commodity preferences lock an exporter's agriculture into supplying specific commodities, and delay adjustments and diversification. Hence, the renewal of the Lomé Agreement (renamed the Cotonou Agreement) in 2000 included a mandate for the negotiation of Economic Partnership Agreements (EPAs) by 2008. These would entail fully reciprocal free trade areas between the EU and groups of developing countries, and be compatible with the WTO.

Although the CAP might have been able to avoid major changes by careful negotiation of access under the EPAs, no such prospect was possible for the Everything but Arms (EBA) Agreement that the EU adopted in 2002. This initiative assured the 48 least-developed countries (LDCs), many of which were African members of the African, Caribbean and Pacific (ACP) country group, of tariff- and quota-free access to the EU market. Some delays were agreed for sugar, rice and bananas, but these products will all be freely imported in the next year or so.

The CAP regimes for these commodities thus were under pressure from the EBA and less directly from the EPAs. Far from being granted grudging limited access to EU markets, to avoid competition with EU farmers the trade and development policy was now premised on the creation of reciprocal free trade areas for the ACP countries and non-reciprocal free trade agreements for the LDCs. A similar development was pursued in the 'modernisation' of the Mediterranean agreements to include reciprocal access. The market for agricultural products, while still protected by tariffs, was to be open to all with ties to the EU or special development needs. Agriculture had become an active part in the development policy of the EU rather than an embarrassment.

5.5.3 Trade policy: Litigation

External pressures can come through the enforcement of existing rules as well as through negotiating new policy constraints. The EU has been the respondent on many of the agricultural cases that have been introduced since the formation of the WTO, just as they were in the 1980s, when disputes were settled under the GATT dispute settlement regime (Josling & Tangermann, 2003). The above-mentioned oilseeds case was settled by the EU offering oilseed subsidies in the form of compensation for producers and integrating this in with the reformed cereal regime. Thus, the first successful challenge of a CAP regime forced a policy change to the satisfaction of the competing exporters.

One of the commodities of interest to the ACP countries and the LDCs is bananas. A successful trade in this fruit from the Caribbean and Africa developed, largely at the expense of countries in Central and South America. The mechanisms used to ensure these preferences were found to be inconsistent with the WTO and the

EU eventually moved to a tariff-only preference system that avoided the problems of discriminatory allocation of licenses. Although residual disagreements still exist (such as the height of the tariff for non-ACP suppliers) the problem is largely resolved. But once again, the CAP regime for bananas had to adjust to the pressures from trade policy.

Other aspects of the EU food system have also been challenged in the WTO by trading partners. These cases have tended to assume prominence as the conflicts over subsidies and market access have declined. One such case was over the EU's scheme for registering geographical indications (GIs). The US challenged the EU's elaborate GI system, which had encouraged several hundred local groups to register their unique products. Foreign producers had a more difficult task. They had to go through their own national governments, several of whom (the US, Canada and Australia for example) were less than enthusiastic about the whole issue of GIs, preferring trademark protection for firms or groups that had established a reputation. The ruling confirmed the WTO compatibility of the EU's GI system but not the discriminatory way in which it was administered.

In another case with significant implications for the 'new' CAP was the challenge by the US and other exporters to the EU's approval system for biotech products. While the EU had authorised the importation of several transgenic products, mainly corn and soybeans engineered to resist disease and facilitate weed management, the general distaste in Europe for 'genetically modified foods' was causing a backlog of approval applications. Several member states developed their own regulations and also held up EU approval. The WTO panel ruled that the national systems were not consistent with the EU's obligation for timely approval of applications, and that the EU itself had in effect been operating an embargo. Even so, before the ruling was released, applications began to be approved, leaving the issue of the invalid national bans to be dealt with by the EU institutions.

A challenge with an even more direct impact on internal policy came from Brazil, which complained that the EU was subsidising sugar exports above the amounts declared in its Uruguay round schedule. The case rested on two questions. First, did a footnote to the EU schedule that alluded to the re-export of sugar entering the EU from the ACP countries constitute an agreement by other countries that this sugar was not to be counted against the EU export subsidy entitlement? The panel found that this footnote was inadequate to relieve the EU of its obligation to limit export subsidies. Second, did the marketing of sugar in excess of quotas (so-called 'C' sugar) also constitute an unreported export subsidy, in effect cross-subsidised by support of domestic sugar (the A and B quotas)? In this regard, the panel used the logic of the Canadian dairy case, which had held that high domestic prices could indeed enable farmers to sell additional production at less than full production cost.

The sugar case was significant in that it provided yet another example of the forcefulness of a strict legal interpretation of the URAA. The legal aspect of the WTO has been on the ascendancy as the political aspect has been waning. Panels have not shied away from rulings with which countries would have difficulty to comply. If anyone had doubted the willingness of exporting countries to pursue through the dispute settlement process their legal rights under the WTO, the EU sugar case and the US cotton case made the point clearly.[9]

5.5.4 Policy response: More reform

In 1995, Franz Fischler took over as Commissioner for Agriculture and articulated a vision of an agricultural sector that was competitive and market-oriented, while at the same time being environmentally sustainable and socially acceptable. The chosen route was to continue down the path of the MacSharry reforms, by reducing support prices and substituting direct payments tied to 'cross-compliance' obligations related to environmental goals. The Commission's proposals for agricultural reform were included in the Agenda 2000 document, which also dealt with the budget and regional policy challenges facing the EU (Moyer & Josling, 2002). The primary focus was on the enlargement of the EU to include the Central and Eastern European countries. Ten of these countries had already negotiated 'Europe agreements' that were to lead to bilateral free trade (encompassing most of the agricultural sector) over a period ten years. The pressure was mounting to fulfil the political pledge to allow for the reuniting of Eastern and Western Europe, but concern about the impact on both agricultural markets in the EU and the financial cost of extending the CAP to the new member states was also rising. Agenda 2000 was the Commission's suggestion as to how the budget and agricultural challenges could be met.

The agricultural reform component of Agenda 2000 was presented to the Council of (Agriculture) Ministers in 1997, and eventually endorsed with much of the Commission's ideas intact in 1999. Even though the agreement among the agriculture ministers was subsequently modified by the European Council (of heads of state or government), the Agenda 2000 agreement was a major step in the evolution of the CAP.

One important concession that was won by those who favoured more reform of the CAP was that there would be a 'mid-term review' of the effectiveness of the Agenda 2000 reforms in 2003 (at the halfway stage of the 2000–06 fiscal horizon). Fischler was able to convert what could have been a routine review of progress into a further step along the path set by the MacSharry and Agenda 2000 reforms, by shepherding through the Council of Ministers a proposal for consolidating the direct payments associated with the compensation for price decreases in particular crops into a 'single farm payment' that was even more remote from farmers' production decisions and market prices. This 2003 reform package also began to tackle the difficult issue of reform of the dairy sector.

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[9] Yet, the beef hormone case, left over from the 1986 ban on imports of beef treated with certain hormones, may seem to be an exception. The EU has apparently decided that the political cost of complying with the ruling is too great, not because of the strength of the beef lobby in the EU but because it would seem to undercut the emphasis on safe food in the 'new' CAP. The sanctions allowed under the ruling are seen to be tolerable, owing to the small amount of trade involved.

Following on the heels of the 2003 reforms the Commission proposed changes in the regimes for the Mediterranean crops, specifically for cotton, tobacco, rice and hops. The thrust of the reforms in these products was to blend them with the single farm payment system, while reducing distortions in the market. New proposals for wine and sugar were introduced in 2005 and the sugar reform was agreed in 2006. This new regime sought to eliminate the production quota system, paying for compensation to those adversely affected – producers, crushers and refiners, and overseas producers that rely on sales to the EU market – and cutting support prices. The wine reforms are still under discussion.

The Fischler reforms have in effect steered the CAP towards domestic and international acceptability. A successful end to the Doha round would further increase the pressure to change, particularly by reducing tariffs for agricultural products imported into the EU. More WTO cases could add to these pressures, particularly if the single farm payment is found to be incompatible with the green box criteria (Oxfam, 2005; McMahon, 2007). The CAP has plenty of room to manoeuvre so long as it is in the direction of more decoupling of subsidies from production, does not use export subsidies and takes place under a lower level of protection from imports.

5.6 Conclusion

In the 1970s, the CAP was substantially disrupted by macroeconomic instability, and longer-term reform took a back seat to the task of making the elaborate system of setting common policy price levels operational. Mansholt's attempt to focus on structural adjustment was the only major reform initiative, and it floundered in the economic environment of the day. UK accession may have saved the CAP for some years, bringing new markets and additional finances, although in political terms it gave those who had wanted a more liberal policy some hope. During the 1980s, the CAP staggered under the weight of surpluses of grain, milk, beef, wine and several other products, and the attempt to unload these onto world markets led to a series of budget crises. Piecemeal reform was tried, but proved largely unsuccessful. Low world prices and high domestic prices, along with a lack of effective supply control, drew the attention of other exporters. But for much of the period, external pressures were not effective in changing the CAP.

The breakthrough came in the early 1990s, with the MacSharry reforms leading to the success of the Uruguay round and the establishment of a framework under which domestic policy is constrained. The CAP had been reformed as an aspect of the EU's trade relations as well as for domestic reasons. External pressures on the CAP are now institutionalised through the URAA and litigated in the WTO. In the past five years, the EU has continued commodity market reforms and significantly reduced the conflicts between the agricultural and trade policy stances of the EU. The CAP has become less dependent on export subsidies and on trade-distorting domestic programmes. This policy convergence has allowed the EU considerable room to bargain for benefits in the Doha round, and to expand the horizon of its bilateral trade agreements.

External pressures come increasingly from a different direction than the desire of exporters to curb the impact of high support prices in the EU. These pressures relate to the establishment of standards and the response to food safety concerns. The CAP is in the process of establishing for itself a new identity, based on improvements in the quality of foods, compensation for claimed social and environmental benefits from the preservation of particular types of farming enterprises and the contribution of the sector to rural development. This new emphasis can also become a trade issue, if others believe that the motivation is in part to protect EU producers. But skilful policy-making in the area of food safety and quality assurance can still head off major conflicts in this area.

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6. THE INTERNAL AND EXTERNAL FORCES DRIVING CAP REFORMS

ROLF MOEHLER

6.1 Introduction

The process of agricultural policy reform in the EU is an interaction of internal and external factors. As the first substantial reform of the common agricultural policy (CAP), the coinciding of the MacSharry reforms of 1992 with the conclusion of the Uruguay round trade negotiations makes it tempting to emphasise external influences. Yet, reform of the CAP was not solely the product of external pressures (mainly from the US); it was more the result of the domestic dynamics of the CAP and the internal reactions it triggered. Unlimited support for agricultural production, which was the hallmark of the early CAP, was to hit the budgetary buffer sooner or later. Budgetary constraints were the result of public perceptions that the CAP was overshooting its objective of providing food security by producing surpluses that could only be disposed of with still more money. Budgetary constraints are still with us, albeit in a different way as in the 1980s. Still, the expectations of the public have not remained focused on the agricultural budget alone. Over the years, environmental concerns, food safety and animal welfare have replaced food security, which was the main preoccupation as the CAP began in 1962. When market price support decreased, the issue of the competitiveness of the European agricultural sector came into view. The CAP had to respond and it did so by supporting structural adjustment and rural development. All of these internal forces shaping the CAP over the years must of course be seen in the context of external factors, with the multilateral trade negotiations in the Uruguay and Doha rounds and EU enlargement being the most important ones.

6.2 Budget constraints

The budget was the central theme of the 1988 reforms that, in today’s assessment of the history of the CAP, are overshadowed by the MacSharry reforms. Even so, the reforms of 1988 were fundamental in laying the foundation for financing the CAP and they remain relevant today even after the adjustments made in 1999. What happened? The 1970s and the 1980s were a period of exploding expenditure on the CAP. In 1968, Sicco Mansholt still held out the hope that without price increases for products in structural surplus, 750 million ecus would be sufficient to finance the market price support of the CAP in 1980. But he failed to persuade the Council to follow his advice and in 1980, expenditure reached more than 11.5 billion ecus. In 1985, more than 17.7 billion ecus were spent and by 1987, this figure had risen to almost 23 billion ecus. Expenditure had doubled in seven years. The European Community simply ran out of money in 1988. The reforms agreed at the European Council in February 1988 in Bonn covered three aspects: the budget, agricultural support and structural policy.

On the budget it was agreed to enlarge the financial basis of the Community by establishing an additional own resource, a contribution by member states of up to 1% of their GDP. Furthermore, the Community budget must not exceed 1.3% of the combined Community GDP. More important for the CAP was the agricultural budget guideline that limited the increase of expenditure on market price support to 74% of GDP growth. The benchmark for the guideline was 27.5 billion ecus. Hence, the percentage of the market price support that had reached more than 60% was to decrease gradually. The agricultural guideline did not apply to structural aid.

In order to bring spending on market price support under control, quantitative limits were set on production for most products; when exceeded, these led to a reduction of price support, the so-called 'stabilisers'. This reduction of price support was compulsory and had to be implemented by the Commission. It was no longer left, as before, to the discretion of the Council. The Commission came under pressure when implementing it, however. Best known is the stabiliser on cereals, which came into play when the maximum guaranteed quantity of 160 million tonnes was exceeded. In this case, the intervention price was reduced by 3% and a 3% co-responsibility levy had to be paid on the producer price. A similar measure applied to oilseeds. For dairy products, the co-responsibility levy for exceeding the quotas was increased and on beef, the intervention price was eventually reduced by 15%.

By 1990, it had already become obvious that these measures were insufficient to bring expenditure in line with the budget discipline agreed in 1988. In 1991, expenditure rose to 31.4 billion ecus from 26.4 billion ecus a year earlier. In 1992, expenditure was expected to rise to 34.8 billion. Intervention stocks for cereals stood at 18.7 million tonnes, for beef meat at 750,000 tonnes and for butter and skim milk powder at almost 1 million tonnes. Agricultural Commissioner Ray MacSharry realised that even with the stabilisers, production and by consequence the budget could not be brought under control without reducing market price support to a level that made Community production more competitive. The cut in intervention prices for cereals by almost 30% not only gave cereals the competitive edge over imported feed again but also put poultry and pig production on a new track.

Still, this was not the only concern that drove the MacSharry reforms. He was aware that despite all the money that had been spent, it had not improved the income of the great majority of farmers. He did not promise a reduction of expenditure. He simply wanted the money spent to arrive at the farmer's door and not to land in the pockets of exporters, traders, storage holders and other intermediaries. Thus, farmers could be persuaded to accept direct income support instead of market price support.

Budget concerns were also present in the Agenda 2000 reforms. Although the market balance had significantly improved since the 1992 reforms, the Commission was concerned that after 2000 surplus production would re-emerge owing to the constraints that the Uruguay round commitments put on exports with export subsidies, which had to be fully implemented by 2000. This concern was heightened by the prospect of eastern enlargement. Yet, the agricultural budget was not open-ended any more. It came under a ceiling fixed by the Berlin European Council in 1999 at 40.5 billion ecus in 1999 prices until 2006. The emphasis had changed too. The concern was not so much about the size of the agricultural budget but about its acceptance in terms of meeting society's expectations in view of other pressing needs to invest in education, research, innovation and adjustment in other sectors.

The debate on enlargement reopened the budget issue again. When setting the financial framework in 1999 for the period 2000–06, the European Council made allowances for additional expenditure for six new member states from 2002 onwards. Eventually, 10 new member states joined in 2004 without a further increase in the budgetary ceiling. Again, in the budgetary framework for 2007–13 agreed by the European Council in December 2005, no allowance was made for the entry of Romania and Bulgaria, although these two countries added another 3.8 million to the farming population of the EU and 20 million hectares of agricultural area. Postponing the implementation of dairy reform, which opened the dairy sector to direct payments, and the gradual introduction of direct payments in the new member states made it possible to remain within the budget ceiling without cutting into the direct payments of the EU-15. But despite high producer prices, it is more likely now than in the past that such cuts will be necessary. Therefore, enlargement has increased budget pressure again but this time the pressure is born by farmers and not by the European taxpayer.

6.3 Expectations of society

Support for agriculture provided on the scale of the CAP is not sustainable without acceptance by the public. Among the concerns to which society expects a contribution from agriculture, the protection of the environment – including preservation of the landscape – takes a prominent place. This aspect had already appeared in the MacSharry reforms and was to become a central plank in the Agenda 2000 reforms. More specifically, the new focus on protecting the environment through providing significant support to agricultural activity respectful of the environment was a response to the criticism levelled by the green movement about the pernicious effects of intensive agriculture, which was widely seen as a by-product of high levels of support linked to production. In an effort to win the support of this movement, which had been lost in the 1970s and 1980s, MacSharry put much emphasis on the role of farmers as stewards of the landscape and the environment as well as on their essential contribution to a vivid rural society. It was he who changed the title of the European Commission's DG for Agriculture by adding 'rural development' and MacSharry also insisted on his full title being Commissioner for Agriculture and Rural Development. Thus, he gave multifunctionality a place within the CAP. Even so, incentives to make agricultural production more protective of the environment were still an 'accompanying measure' in 1992.

The CAP has been responsive to the environmental challenge in three ways. The first one has been through encouraging extensive agriculture, which started in 1988 but received much more attention in the 1992 reforms. Direct payments instead of price support reduced the incentive that high levels of price support had provided to intensive farming. The decoupling of support from production in the 2003 reforms alleviated this pressure even more. The set-aside policy, which had first been voluntary in 1988 and then obligatory in 1992, is also part of the move towards less intensive agriculture. The second approach has been the so-called 'agri-environmental programme', which rewards farmers for actions going beyond good agricultural practices. Spending has increased ever since it was introduced in the MacSharry reforms, in particular since the Agenda 2000 reforms of 1999. Finally, cross-compliance with statutory requirements on protecting the environment, e.g. the EU directives relating to nitrate or waste disposal, was introduced in 2003. Lack of compliance will lead to a reduction of direct payments for the farmer concerned.

Until the 1990s, food safety was considered mainly a member state responsibility despite the veterinary directives of the Community. This view changed with the BSE crisis of 1996. Food safety became a major Community concern. The European Commission published a *White Paper on Food Safety* in 1997 and started a major legislative programme that led to the Basic Food Law Regulation of 2002 and a recast of the veterinary rules of the Community. In the Fischler reforms of 2003, compliance with food safety rules became part of the cross-compliance obligations of farmers in the same way as environmental regulations.

Community animal welfare regulations go back to the 1970s. In the 1990s, the interest of the public in animal welfare grew. The Amsterdam Treaty of 1997 includes a Protocol on Animal Welfare. In the more recent past, the transport of animals and the welfare of laying hens and broiler chickens became the focus of public attention. Thus, compliance with animal welfare rules also became part of the cross-compliance obligations of farmers in 2003.

Addressing food safety and animal welfare concerns requires a regulatory response in the first place. But the CAP is also providing support for compliance with these requirements in its second pillar of rural development.

6.4 The European model of agriculture

In the run-up to the Agenda 2000 reforms, the European model of agriculture was born. It came up in the Council discussions on the Commission proposals and provided a framework for the new combination of reductions to market price support and the promotion of rural development. It entrusts the agricultural sector with protection of the environment and the landscape while stressing competitiveness. For critics inside and outside the Community, it was a step backwards. They did not realise that the focus on competitiveness implied further reductions of market price support and that its rural and environmental policy component helped structural adjustment and paved the way for further shifts of market prices and income support to rural development.

The commitments made in the Uruguay round on market access and export subsidies, together with the ceiling on expenditure for market price and income support in 2000, brought to the forefront the question of how the competitiveness of European agriculture could be maintained (or restored). As early as in 1985, the so-called 'efficiency regulation' provided support for investments by farmers to increase the productivity of their farms. In the reforms of 1992, the competitiveness of cereals with substitutes such as corn gluten feed was an issue. It became a concern across the board in the Agenda 2000 and the Fischler reforms of 2003. Support for investment and the setting-up of young farmers became part of the rural development support measures in 1999. European agriculture now looks back at 50 years of structural adjustment that has increased its competitiveness significantly. In 1968, farm employment in the six countries of the European Community was 12% of overall employment and agriculture's contribution to GDP stood at 6.3%. In the EU-15, the corresponding figures were 5.2% and 1.6% in 2003. The CAP has helped and accompanied this process although not always at the speed that may have been required.

6.5 External pressures on the CAP

In the run-up to the Uruguay round, external pressures came mainly from the US and to a lesser extent from the Cairns Group of agricultural exporters, led by Australia. Still, it is worth recalling that until the mid-1980s, overall the transatlantic relationship was not confrontational. The US had accepted the CAP in the Dillon round of 1962 in exchange for a zero tariff on oilseeds. From the 'chicken war' in 1962, both sides had learned to find a mutual accommodation of interests. It worked during the Kennedy and Tokyo rounds. The situation changed when in the early 1980s production and expenses got out of control on both sides of the Atlantic. In 1985, the US introduced the Export Enhancement Programme.

It is therefore not surprising that the US did not play a major role in Sicco Mansholt's Plan, although in one sentence it refers to unspecified trade policy problems. These were not at the forefront of the 1988 reforms either. Although in February 1988, we were one year and five months into the Uruguay round, seven months after the submission of the US proposal in Geneva to eliminate all farm subsidies and ten months before the mid-term review of the Uruguay round in Montreal, trade policy did not play a significant role in the discussion. The overriding concern was to save the CAP from the budget crisis; even so, the 1988 reforms helped to achieve a post-Montreal agreement in April 1989.

It is also notable that Commissioner MacSharry did not mention the Uruguay round in his memorandum of 1991. He only referred to the Community's responsibilities as a leading world importer and exporter and the resulting need to keep Community producers competitive on the world markets. MacSharry always denied that his reforms had anything to do with the Uruguay round. This assertion was not only an astute political manoeuvre – there was a lot of truth to it. There was an interactive relationship between the CAP and the Uruguay round. The CAP reforms shaped the results of the Uruguay round in such a way that enabled the reformed CAP to fit in with the WTO. The first step in this process was to take out a page from the US Farm Bill of 1985 (with a loan rate reduction, a set-aside of more than 20%, the use of reference periods, a freezing of the target price and an acreage base). The next step was to wait for the submission of his memorandum on reforms after the failure of the Heysel conference in December 1990, which was supposed to complete the Uruguay round. The third step was the creation of the 'blue box' as the permanent home of the new payments. MacSharry was adamant that the blue box should be permanent so as to assure farmers that these payments were there to stay. The fourth step was the creation of the 'green box' to cover the structural and rural development programmes of the Community. What was not foreshadowed by the 1992 reforms and what the Uruguay round added was tariffication and the reduction of export subsidies. Yet the reforms also helped in these areas. Nevertheless, it is without doubt that the Uruguay round negotiations helped the reforms to pass in the Council. Germany, which had traditionally almost been as reticent to embrace reforms as France and Ireland, was interested in concluding the Uruguay round to collect its benefits in industrial tariff reductions, intellectual property rights and services.

In June 1988, the US launched a dispute settlement procedure against the support system of the European Community on oilseeds. The panel published its report in January 1990 and concluded that the Community regime was discriminatory with respect to imports, which were excluded from the aid and constituted nullification and impairment of the zero-tariff binding of the Community. The dispute was settled in the Uruguay round but it brought home to the Community that its support system was vulnerable under the GATT rules. The need to fix it by moving to area payments endorsed in the Uruguay round became more obvious.

In the Agenda 2000 reforms, explicit reference was made to the forthcoming WTO negotiations on agriculture. Afterwards, one of the declared goals of the 2003 reforms was the ongoing Doha round negotiations. The actual debate in the Council on whether in the negotiations the Commission had gone beyond its mandate based on the 2003 reforms recalls the discussion in the Council in December 1994, when at the request of the Council the Commission submitted a report detailing that the 1992 reforms were a sufficient basis to implement the results of the Uruguay round.

6.6 The impact of enlargement

Until Agenda 2000, enlargement had not been a driver of CAP reforms. To the contrary, the accession of the UK, Denmark and Ireland saved the CAP from early reforms, as the UK was a net importer of agricultural products. Neither Greece, nor Spain nor Portugal was an exporter of cereals or livestock products. Austria, Finland and Sweden were in the same position. Because of their wealth, these countries were able to shoulder some of the financial burden of the CAP. The situation changed in the run-up to eastern enlargement, however, and was very much in everybody's mind when Agenda 2000 was discussed. There was widespread concern that high levels of market price support and direct payments in the new member states would lead to an explosion of production and again trigger a financial crisis, the more so as the contribution of the new member states to the budget was rather limited. The reduction of market price support for cereals and for beef was also motivated by this fear. Today we know the doomsayers were wrong. They were also wrong in their prediction that the new member states would put a brake on further reforms because of the relatively high percentage of agriculture in their GDP and employment. Of course, the 2003 reforms were decided by the EU-15 but the new member states were involved in the preparation. The main reason for the acceptance by the new member states was the fact that EU price support and the direct payments – even reduced by Agenda 2000 and the Fischler reforms – were sufficiently generous for farmers to silence any opposition. But the sugar reform decided in 2005 showed that the new member states accepted the drive of the CAP towards more competitiveness. The arrival of Romania and Bulgaria is unlikely to change the picture.

6.7 Conclusion

In the process of CAP reform, internal and external forces have been at work. The unlimited support price guarantees of the 1960s and 1970s led inevitably to budget problems that threatened to ruin popular support for the CAP. The 1988 budget reforms saved the CAP from bankruptcy but the breakthrough to a more market-oriented CAP only came with the MacSharry reforms of 1992. The MacSharry reforms responded to society’s concerns by eliminating surplus production, by putting emphasis on rural development and by promoting protection of the environment. The reforms shaped the result of the Uruguay round and in turn the Uruguay round marked the CAP. The Agenda 2000 reforms sought to retain public support by stressing protection of the environment within the second pillar of the CAP dedicated to rural development. Yet, here too the looming resumption of agricultural negotiations in Geneva and enlargement had to be taken into account. The Fischler reforms of 2003 sought to free farmers to produce what the market wanted and to make the CAP fit for the Doha round. Internal and external factors once again joined to enable a great leap forward in the CAP.

7. CONSTRAINTS AND CAUSES OF THE 2003 EU AGRICULTURAL POLICY REFORMS

ALESSANDRO OLPER

7.1 Introduction

The Fischler reforms of the EU's common agricultural policy (CAP) can be defined as among of the most radical since its inception. The strong shift to decoupled farm support, the introduction of cross-compliance and the strengthening of rural development through modulation have to be viewed as substantial innovations of the CAP, introducing significant constraints on future policy choices. From a political economy perspective, however, the main questions are the following: How were such radical reforms possible? Has the long-standing status quo bias in the CAP decision-making process changed?

During the 1980s, the CAP underwent several reforms, which continued with rapid acceleration during the 1990s. Yet, apart from the major innovation of the 1992 MacSharry reforms of introducing direct compensatory payments, this 20-year period is mostly remembered as one of slow policy reform characterised by, above all, short-term adjustments and not by the real redirection of the many inconsistencies and inefficiencies of the CAP. The difficulties encountered in implementing organic and consistent reforms, the strong link with contingent budget constraints and their sector-specific nature, all explain the status quo bias in the decision-making process for the CAP until the 2003 reforms. Thus, a look at the main causes and constraints of the 2003 Fischler reforms could highlight features of the economic and political forces shaping the present-day CAP and its future.

The general conclusion we draw in this chapter is that the Fischler reforms were approved as a consequence of two key issues: first, the ability of Agricultural Commissioner Franz Fischler to take advantage of a very complex political environment, in which budget pressures and enlargement mattered; second, the low redistributive power of the reform package, which only marginally affects the pre-reform political economy equilibrium.

This chapter is organised as follows. First, some general considerations concerning the CAP decision-making process are outlined. Then, the Fischler reforms are summarised. The central part discusses the main constraints and driving forces of the Fischler reforms. Finally, attention is given to the highly likely future constraints on further CAP reforms along with an overview of the determinants of the common external tariff.

7.2 Pressures on CAP reform and the decision-making process[1]

Pressures on CAP reform traditionally come from considerations and constraints that can be categorised under two broad headings: factors *internal* and *external* to the EU. Typical internal factors derive primarily from interests and preferences expressed by member states, farm lobbies, food industry lobbies and other lobbies such as consumer and environmental groups, and finally yet importantly, EU budget constraints. External factors stem from macroeconomic conditions, such as commodity prices and exchange rate shocks, and from problems that result from major trading partners being affected by the trade protection of the CAP. After the 1994 Uruguay Round Agreement on Agriculture (URAA), this last pressure was institutionalised into the World Trade Organisation (WTO) rules.

Apart from these CAP reform drivers and constraints, it is important to note that, especially after the implementation of the 1992 MacSharry reforms, other endogenous forces can be found within the CAP institutional structure itself. Indeed, past policy choices that introduced change into the institutional nature of the CAP restricted the potential spectrum of future policy choices, by defining a narrower trajectory through the so-called ‘path dependency’ mechanism (see Ackrill & Kay, 2004; Iagatti & Sorrentino, 2007).

To understand how these different pressures have interacted and affected the Fischler reforms, a good starting point is to take some lessons from previous policy choices, focusing especially on the peculiarity of the CAP decision-making process.

The EU decision-making process can be seen as a game played on two levels: the national and the supranational (interstate) bargaining levels.2 At the supranational level, crucial factors are the division of power between the Commission and the Council of Ministers (the two key decision-making institutions), and the Council voting rules. The European Commission in Brussels plays the important role of policy initiator and mediator of national interests. As such, the Commission is often the natural European target of the major agricultural lobbies (Senior Nello, 1984). On the other hand, since the main CAP decision-making institution is the Council of Ministers, the lobby influence has repercussions at the member state level (Harvey, 1982; Olper, 1998; Moyer & Josling, 2002). Moreover, national governments and

[1] This section is based on Olper (1998).

[2] For an extensive description of the CAP decision-making process from a political economy perspective, see van der Zee (1997) and Moyer & Josling (2002). For a formal analysis of the CAP decision-making process, see Pokrivcak et al. (2007).

political parties, as well as the bureaucratic behaviour of the Commission's apparatus (the DG for Agriculture and Rural Development), all play some role in conditioning the Commission's position, thus cutting that institution's supranational aims down to size.

More important in the shaping of the CAP has been the custom of taking 'unanimous' decisions at Council meetings.[3] Generally speaking, this practice has favoured a 'fair' distribution of the benefits, in the sense that the requirements of the member states have usually been satisfied (Runge & von Witzke, 1987). Accordingly, countries have often been able to pursue their own agricultural policy objectives despite the existence of a supranational policy. In addition, the same principle of financial solidarity, together with the weight of agriculture as an item of the Community's budget, has favoured a kind of coincidence between the agricultural interests and the economic interests of member states (Koester, 1977).

At the supranational level, the agricultural policy preferences of governments, which differ as a result of structural and income differences in their farming sectors, have long been favoured through the weakening of the single price principle by the 'green monetary system' and monetary compensatory amounts (MCAs) (Ritson & Tangermann, 1979; Harvey, 1982; Runge & von Witzke, l987). At the national level, qualitative and quantitative differences in national agricultural policies have given countries some freedom to pursue their own agricultural policies. It is important to note that national agricultural policies, in spite of the 'apparently' rigid control imposed by Brussels, especially in the past have played a significant part in supporting agriculture at the member state level.

Over time, many events have progressively introduced new constraints on the CAP decision-making process. For example, in 1973 an important change emerged from the first enlargement of the EU to include the UK, Ireland and Denmark. Briefly, the accession of the UK into the EU encouraged each member state to look more closely at the budgetary transfers, and the notion of *juste retour* became a key argument for CAP reform (Fearne, 1997). Yet, it was only in 1984 that the Commission was able to undertake the first real CAP reforms, with the introduction of a quota system in the dairy sector, a partial dismantling of the MCAs (switch-over mechanism) and the extension of the producer co-responsibility principle to new products. In 1988, after a budget crisis, EU decision-makers introduced budgetary

[3] Recourse to the unanimity rule was a result of the 'Luxembourg compromise' (1966), which enabled each member state to exercise its veto whenever it felt its national interests to be threatened. In 1987, with the ratification of the Single European Act a number of institutional reforms were introduced – by the consultation and cooperation procedure – that conferred new powers on the Parliament and the Commission, thus favouring an increased use of the vote by a qualified majority. In 1991, with the Treaty of Maastricht and the creation of the EU, the qualified majority rule was extended to new areas (e.g. budgetary policies).

stabilisers and a guideline for CAP expenditure.[4] These two arrangements have de facto reduced the power of agricultural ministers in the CAP decision-making process since 1989–90. Furthermore, as a result of the development of the EU status from a Community of countries (the European Economic Community) towards deeper economic and political integration – a process starting with the 1987 Single European Act (SEA) and culminating in the 1992 Maastricht Treaty – the competition for EU money between the CAP and other EU policies has strongly increased, introducing new budget constraints on the development of CAP expenditure.

Until the 1980s, the external pressures on the CAP decision-making process were quite low, and were especially related to prices and exchange rate shocks. In 1986, however, the US and the EU, after years of agricultural trade war, agreed for the first time on agricultural protection issues for the GATT Uruguay round, progressively introducing new and strong external pressures in the CAP decision-making process.

Generally speaking, under these new budget constraints and Uruguay round external pressures it became possible to shift about 30% of farm support from a distorting price policy towards less distorting direct income support, which was carried out under the 1992 MacSharry reforms. The significance of this change is crucial to understanding the recent evolution of the CAP and the Fischler reforms in particular. Indeed, in the story of the CAP, the MacSharry reforms were the first real structural changes after more than 30 years of a substantial status quo bias in the CAP decision-making process. They also represented a fundamental step for successive CAP reforms. Indeed, by shifting the burden of farm support from consumers to taxpayers they increased the visibility of the CAP transfer, adding political sensitivity to distributive issues and reinforcing the link between successive CAP reforms and the EU budget.[5]

7.3 The Fischler reforms of the CAP

The Fischler reforms were born a day after the 1999 Berlin agreement on Agenda 2000, which was implemented primarily to give financial sustainability to the enlargement process. Yet, the partial failure of the Agenda 2000 reforms called for the decision to undertake a mid-term review (MTR), with the initial objective being to monitor, at the halfway period, the effectiveness of the reforms. The result was that after only three years the Commission was able to implement the most radical reforms since the inception of the CAP.

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[4] Specifically, 1988 saw the introduction of the so-called ‘agricultural budget guideline’, which fixed the increase in CAP expenditure to no more than 74% of GDP growth.

[5] In other words, the MacSharry reforms introduced new constraints to the set of possible future choices, increasing the *path dependency* of the reform process (see Iagatti & Sorrentino, 2007).

The Fischler reforms were approved at the Luxembourg Council meeting on 26 June 2003. They are based on the following key elements. First, farm support was decoupled through the introduction of a single farm payment (SFP) on the basis of historical entitlement, applied at the country level with some degree of flexibility.[6] Second, two new instruments were introduced, *cross-compliance* and *modulation*, aimed at taking good account of consumer and environmental concerns, and reinforcing pillar II of the CAP (rural development policy). Third, market policies were revised in sectors such as milk, rice, cereals and durum wheat. Finally, a mechanism for *financial discipline* was established to ensure that the farm budget fixed until 2013 is not overshot.

Clearly, the key innovation of the Fischler reforms was the introduction of the decoupled SFP.[7] The SFP had to be implemented starting from 2005, with a possible delay up to 2007. Every eligible farmer – who had received direct payments in the period 2000–02 – receives the SFP irrespective of what is produced, the only limitations being the production of fruit and vegetables and, in the case of no production at all, the obligation of maintaining the soil in good agronomical conditions. In order to receive the SFP the farmer has to abide by the existing and new regulations related to the environment, animal welfare, plant protection and food safety through cross-compliance – the method for explicitly linking externalities and public goods produced by farm activity to farm payments. Moreover, the reforms shift money from the CAP's pillar I to pillar II through modulation, namely a 5% reduction in direct payments affecting those farmers who receive more than €5,000 in direct transfers.

The reforms have introduced changes in several market organisations, with such changes being particularly strong in the dairy and rice sectors. For the dairy sector, the Council decided to extend the quota system until 2015, increasing the quota volume and reducing the intervention price of butter and skimmed milk powder by 25% and 15% respectively, partially compensated for by direct payments that will become an integral part of the SFP in 2007. For rice, the intervention price was cut by 50% and compensated for by a substantial increase in direct aid (from €52/tonne to €177/tonne), which will become part of the SFP. Finally, the duties scheme based on the *ceiling price* was revisited.

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[6] Specifically, the degree of national freedom in the implementation of the SFP is related to the possibility of maintaining a percentage of direct payments coupled to production, and to choosing the way in which the national SFP amount is allocated among farmers. This latter aspect includes the option of freezing historical payments, of using a regionalisation process whereby the national amount is divided among all the farmers irrespective of their pre-reform status, and finally a mix of the two options.

[7] The SFP initially involved payments related to arable crops and meat, and subsequently included decoupled payments from the dairy sector, as well as those related to later reforms in the olive oil, sugar, tobacco and cotton sectors.

Overall, the Fischler reforms have contributed to a strong redirection of the CAP towards the marketplace, by reducing the gap between internal and world prices. In addition, by decoupling farm support the reforms increase the efficiency of supporting farm income, linking the farmers' production decisions to market signals. These changes, which shift the CAP burden from the consumer to the taxpayer, enhance the economic rationale for supporting farm income; by strengthening rural development policy, they contribute to a partial redirection of farm support towards more politically defensible measures.

Nevertheless, there are important areas in which the reforms contribute very little or do not contribute at all. First, total farm support is only marginally affected by the reforms, basically remaining at the same level as before. Second, its contribution to a better allocation of farm money across countries and among farmers by simply fixing existing privileges and positions is inadequate. At the same time, there is only a marginal change in the balance between pillar I and pillar II, and what is more, rural development policies are still largely concentrated on farmers. Finally, the reform has no affect whatsoever on EU border protection as the internal price reduction, with the exception of rice, is not followed by a parallel reduction in external tariffs.

Recognition of all these limitations of the reform process is central to a better understanding of the political economy forces and constraints underlying the Fischler reforms. Indeed, whereas several of the changes introduced will restrict future policy choices, it is important to note that the *redistributive* power of the reform is very low, leaving the money distribution largely unchanged. From this perspective, there emerges the ability of the Commission staff and, especially of its head, Franz Fischler, to set down a *radical* reform that gives something to everyone and generally avoids taking anything away from anyone, at least not until 2013.

7.4 What are the key drivers of the reforms?

For the external observer, understanding the *true* key drivers and constraints that have led EU institutions to implement the Fischler reforms is not a simple task. Indeed, the previous CAP reforms had been achieved under complex and interlinked circumstances, where several new internal and external pressures played a not-marginal role in shaping the final results.

A good starting point for fixing some ideas is to look at how much the final results met the objectives and constraints put forward by the Commission – an exercise that should permit the clarification of what can be called 'political rhetoric', differentiating it from what has been labelled 'political reality'.

Basically, the discussion can be cantered around four key drivers: pressures arising from new actors, such as consumers, environmentalists, animalists and more generally society at large; pressures linked to budget constraints; pressures stemming from eastern enlargement; and finally, external pressures coming from the WTO and the Doha Development Agenda (DDA).

7.4.1 New players in the area of CAP reform

As discussed in section 7.2, CAP reform decisions traditionally have been a question for the Commission, agriculture ministers representing national agri-food interests and those representing external pressures that come from the major trading partners (as are now internalised in the WTO). In the story of the CAP, it is rare for other major interest groups to be represented in the decision-making process, and this is especially true for consumer groups. Still, several events in the late 1990s changed the situation dramatically.

Following food scares, such as the BSE crisis, dioxin cases in Belgium and foot and mouth disease, consumer demand for higher standards of food safety and quality increased substantially, as did concerns for CAP effects on the environment and animal welfare. Generally speaking, these concerns have escalated naturally along with the level of income. Nonetheless, before the reform process, these concerns grew significantly as the result of the above-mentioned food scares, and they are still a top priority of EU citizens. Regardless of what the CAP really had to do with these food scares, the political reaction was to put these problems at the top of the agenda. As a consequence, during the last decade in countries such as Germany and Italy, the leaders of the Green Party have taken up the appointments of agricultural ministers, contributing to the push for a rethinking of the CAP (Swinnen, 2001).

These events provided fodder for the pro-reform Commissioner Fischler, leading to the mobilisation of outside supporters for a radical reform project, aimed at reorienting the CAP towards rural development measures and at finding new justification for pillar I money. Moving from political rhetoric to political reality, however, the effective contribution of the Fischler reforms towards rural development policy appears rather low. Indeed, if future reforms do not change the picture, the amount of resources shifted to pillar II from 2008 to 2013 will be less than 3% (European Commission, 2006) – too poor a contribution to consider this element of the reforms a radical change. At the same time, the cut in the agricultural budget introduced by the agreement for the 2007–13 financial perspective will only affect the pillar II expenditures, not those of pillar I, also because of the 2002 European Council agreement in Brussels that fixed market-related expenditure and direct payments.

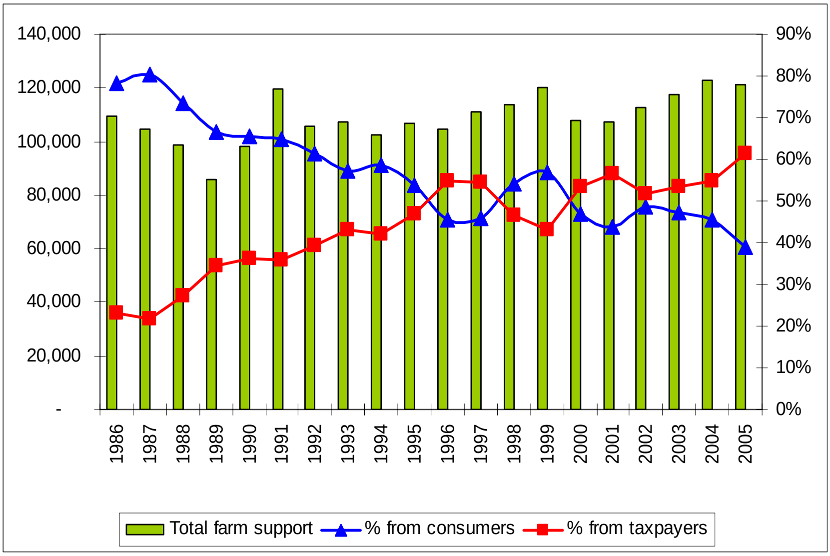
Furthermore, whereas cross-compliance appears logically justifiable from a political point of view, its economic rationale is not always so clear. The problem is whether the attachment of new requirements to existing income support payments is an efficient policy instrument. While this problem is beyond the scope of our analysis, let us consider the effectiveness of cross-compliance. For example, Osterburg & Nitsch (2004), like Webster & Williams (2001), highlight that direct payments are allocated according to agricultural policy objectives, not according to environmental goals, thus linking the two results in conflict, with a lack of targeting from the standpoint of environmental policies. Indeed, the farms that are the most dependent on direct payments must not coincide with those causing major environmental damage. Other problems can arise from the high transaction costs needed to implement this kind of policy (see Rorstad et al., 2007).

Still, what is more relevant to our discussion is the decision on how to allocate the savings brought about by direct payments, more specifically stemming from non-compliance by farmers. Indeed, because member states may retain only 25% of the money collected through the application of cross-compliance, the incentive to implement an efficient control mechanism at the country level appears quite low. Once again, quite a divergence emerges between political rhetoric and political reality, suggesting that the pressures and concerns brought to the fore by these 'new' players have not been decisive in the reform process, even though they represented an important ally in pursuing the Commission's reform objectives.

7.4.2 The budget

The link between the CAP and its budgetary costs has traditionally been considered one of the main driving forces behind CAP reforms (Matthews, 1996), although a look at what happened in the MacSharry and Agenda 2000 reforms, as well as in the Fischler reforms, shows this to be a very complex link (Swinnen, 2003). Indeed, budget costs increased, not decreased, under these reforms. That being stated, it could be important to remember that the increase in the CAP budget deriving from these reforms is the result of the changing nature of the CAP instruments, which shift the CAP burden from consumers to taxpayers (see Figure 7.1). Therefore, while it is true that the CAP budgetary costs have risen, it is also true that there is a more rational redistribution of the overall CAP costs.

Figure 7.1 Estimate of taxpayers' and consumers' share of total EU farm support



Source: PSE/CSE database, OECD (2006).

Moreover, one of the reasons for the partial failure of Agenda 2000 is normally attributable to budget constraints. Indeed, the lower price reduction the European Council achieved in 1999 through the Agenda 2000 agreement, compared with the decision of the agricultural ministers, was dictated by considerations linked to the excessive budgetary costs of direct payments needed to compensate for the price reduction.[8]

At the same time, the redirection of CAP support from a price policy to direct payments has important implications for our discussion. Indeed, as put forward in section 7.2, shifting the CAP burden from consumers to taxpayers increases the visibility of the CAP transfers, adding political sensitivity to redistributive issues and inducing the member states to look closely at the budgetary implications of CAP reforms. For example, the modulation approved in the final agreement, whereby only 20% of the reduction payments are redistributed through the CAP budget, appears a clear example of the difficulty encountered in attempting to change pre-existing CAP benefits. Hence, it is not surprising that many of the countries that formed part of the so-called 'pro-reform coalition' – like the Netherlands, the UK, Sweden and to some extent Germany – are also net contributors to the EU budget while net-beneficiary countries like France and Spain formed part of the anti-reform coalition (see Swinnen, 2001; Ackrill & Kay, 2004).

Two other considerations pertain to the role of budget constraints. First, regardless of whether there is not really a decrease in the budget with the Fischler reforms, this does not mean that the budget constraints were not important in the reforms, at least in terms of the timing of the reform process. In fact, before and during the reform process we were aware of a growing dissatisfaction with respect to CAP money, especially from actors normally outside the CAP decision-making process, such as finance ministers, trade commissioners and industrial sectors, but also from traditional supporters of the CAP such as Germany, the biggest contributor to the EU budget. Thus, if one of the objectives of Commissioner Fischler was also to defend agriculture in the EU budget, then reforming the CAP and fixing the agricultural budget *before* the discussion on the 2007–13 financial framework was probably the right strategy.

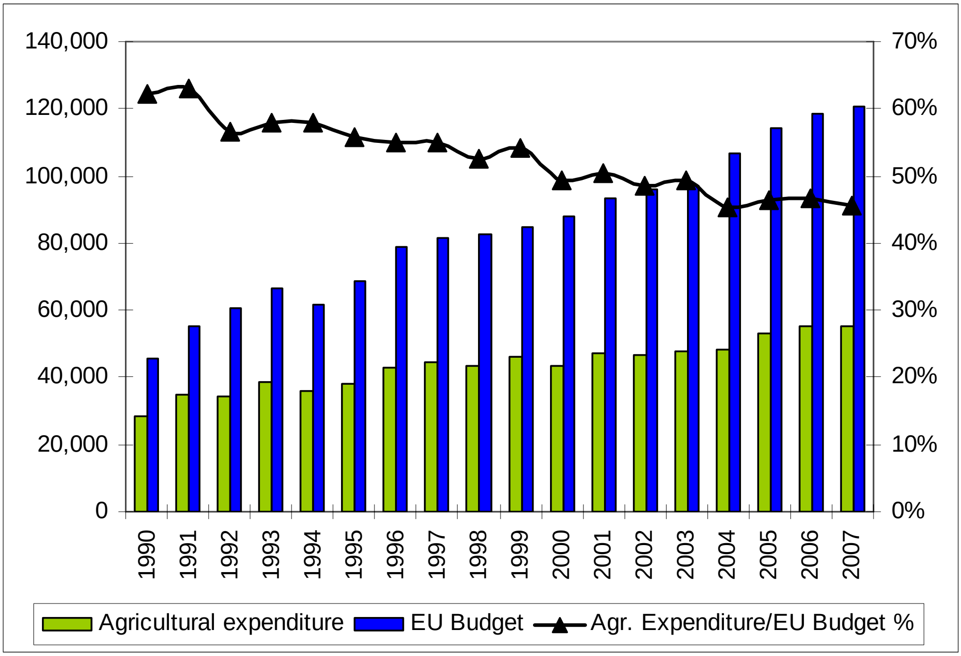
Finally, an analysis of the recent trend in agricultural budget expenditure leads to a further consideration (Figure 7.2). In the 1992 to 2004 period, under the MacSharry and Agenda 2000 reforms, the growth rate in nominal terms was equal to about 2% per annum.[9] As an outcome of the 2002 European Council summit in Brussels, pillar I expenditure in the 2007–13 period cannot increase in nominal terms by more than 1% per year of the 2006 ceiling. Under these financial constraints, the growth effect of the Fischler reforms appears quite low and pillar II expenditures in particular (which are for several reasons politically more sustainable) will have an effect on

[8] Basically, during the 1999 Berlin European Council the orientation was that the budgetary imbalances should be resolved by introducing a 'correction' to the expenditure side of the budget, namely the expenditure of the European Agricultural Guidance and Guarantee Fund. These constraints translated into a price cut of only 15% for arable crops (instead of 20%), a cut of 20% in the beef price (instead of 30%) and finally, the delay of the dairy regime reform until 2005–06, owing to its very high budget costs.

[9] Note, however, that this growth rate also takes into account the pillar II expenditures.

some extent of the enlargement pressures (see below). Nevertheless, the question that arises is thus: Is this scenario credible without further CAP reforms? To answer this question, we need to account for the problems stemming from enlargement.

Figure 7.2 Evolution of the EU budget and CAP expenditures



Source: European Commission, *Agriculture in the European Union* (various issues).

7.4.3 Enlargement

The pressures from enlargement come from the effects of extending the CAP to the new member states (NMS). At the beginning of the new century, the agricultural situation of the Central and Eastern European countries (CEECs) was still quite far from that of the EU. For example, agricultural employment in the CEECs made up about 26% of total employment compared with 6% in the EU, the CEECs had significantly lower commodity prices and productivity levels, and overall protection of no more than 55% of the EU level.

Therefore, one problem was to estimate the potential effects on production, trade and the EU budget of extending the CAP to the CEECs. Several analyses were performed on this subject.[10] Some common messages from this literature are as follows. The impact on the CEECs could be relevant especially in the dairy, sugar

[10] See for example Fuller et al. (1999), Buckwell & Tangermann (1999), Swinnen (2002), Ackrill (2003), Schrader (2002) and Fabiosa et al. (2005).

and corn markets as a consequence of price changes. In sectors with supply control (dairy and sugar), there could be a contraction in supply and a price increase. In addition, the prices of grain could rise substantially with an impact on the costs of meat production. The ramifications for the EU-15 agricultural sector have been estimated at moderate levels for most crops. The trade effects of enlargement within the EU, however, appear significant and they are especially related to changes in consumption and production effects, rather than to changes in the protection structure (Fabiosa et al., 2005). Yet, some authors (see Swinnen, 2002) have stressed that the impact of enlargement is going to be less dramatic than predicted by several studies. With respect to direct payments, the analyses tend to concur that the goal of granting to the NMS the same level of EU-15 direct income support will require further changes or increasing the ceiling of the spending limit of the Agenda 2000 reforms, or a reduction in the value of direct payments (e.g. Swinnen, 2002; Ackrill, 2003).

The final agreement on enlargement was the result of the Brussels and Copenhagen Council compromises in October and December 2002. Farmers in the NMS have received direct payments from the first years of EU membership (2004), although not at the full rate, but gradually phased in, starting with 25% of the EU-15 level and reaching the full rate in 2013. The NMS are entitled, however, to top up these payments to 55% in the first year, increasing to 100% by 2010, with complementary national payments and parts of their rural development funds.[11]

The key element of this result was that the enlargement process was realised within the 2000–06 budget guideline of Agenda 2000, but added new budget pressures on the incoming MTR reforms. Indeed, as documented by Swinnen (2003), the estimates of the CAP budget costs of these arrangements call for deeper reforms of pillar I expenditures, through a reduction of direct payments. So, what happened in the MTR negotiations?

Aware of this budget constraint, in their January 2003 final MTR proposal the Commission introduced ‘degressivity‘: a cut in direct payments from 1% in 2007 to 12.5% or 19% in 2013, depending on the farm size, to account for new pillar I expenditures (e.g. dairy reform), a new rural development fund (modulation) and implicitly for the enlargement. As described in section 7.3, however, in the final MTR agreement this proposal changed substantially (particularly owing to French pressure) and only 5% modulation of pillar I expenditures survived.

The financial sustainability of the final MTR agreement was based on ‘financial discipline’, a mechanism applied in order to keep CAP spending in line with the budget ceiling of the 2002 European Council agreement in Brussels. Generally, it means that direct aids will be adjusted when forecasts indicate that CAP expenditure will exceed the budget ceiling. Because the budget problem of the enlargement will

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[11] Moreover, concerning direct payments, all the NMS except Slovenia and Malta have chosen to apply transitionally the simplified Single Area Payment Scheme, with a uniform amount of direct payments per hectare of agricultural land. Finally, the other instruments of the CAP, such as market measures, common tariffs, export subsidies and so on, were fully transposed in the first year of enlargement.

come especially at the end of the transition period, there is a high probability that before 2009 a new cut of pillar I expenditure will be needed to stay within the ceiling: just what is currently taking place.[12] In other words, in order to reach an agreement on the MTR, the Commission, under country pressures against redistribution, has simply postponed the problem.

In the end, because the enlargement problem took place within the Agenda 2000 guideline, one can argue that enlargement per se was not a key driver of the Fischler reforms. In our view, this conclusion is wrong, for at least two reasons. First, as emerges from the above discussion, the timing of enlargement and the MTR went hand in hand: any decision on either side had repercussions on the other. Second and most importantly, the difficulty of reforming the CAP in a Community of 27 countries, with the NMS highly interested in agricultural matters, has played a major role in pushing the MTR reforms to take place prior to the end of 2003, before the NMS could directly participate in the reform process.

7.4.4 What about pressures from the WTO?

The Fischler reforms, by decoupling direct payments and shifting a large amount of farm support from the blue boxes to the green box, certainly put the EU in a more cooperative position with respect to the WTO negotiations on the DDA.[13] In fact, the Council of Ministers considers the 2003 compromise on the CAP to be the main input into the DDA, stating that "[t]he CAP reform is Europe's important contribution to the Doha Development Agenda, and constitutes the limits for the European Commission's negotiating brief in the WTO round" (Council of the European Union, 2003).

While it is true that the position of the EU takes tangible advantage of the Fischler reforms with respect to its trading partners, the extent to which the DDA per se has been a fundamental driver of CAP reform is not so clear. Two main reasons lie behind this assertion: the timing problem of the Fischler reforms in relation to the development of the negotiations and the fact that the 2003 CAP reforms did not address the market access issues that are at the core of the DDA negotiations.

The timing problem comes from the fact that the Fischler reforms and other trade initiatives such as the 2001 Everything but Arms (EBA) Agreement[14] were both

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[12] The first draft proposal of the Commission related to the CAP 'health check' goes exactly in that direction. Indeed, among other things, the Commission proposed to reduce the pillar I expenditure of the EU-15, by capping the expenditure for large farms and increasing the modulation rate to 13% (*Agra Europe*, 28 September 2007).

[13] Note, however, that the compatibility of the SFP with the green box is questioned by some authors (see, e.g. Swinbank & Tranter, 2005).

[14] The 2001 EBA initiative provides large concessions to the exports of the 49 least-developed countries. Basically, it offers duty- and quota-free access to the EU market, but not for all agri-food products, e.g. free access on rice, sugar and bananas has been delayed.

scheduled and approved by the European Council well before the final EU offer in the DDA round (see Anania, 2007). This approach was just the opposite of the strategy that the EU had followed during the negotiations of the Uruguay round. Indeed, the MacSharry reforms of the CAP were approved by the European Council during the final stages of the Uruguay round, representing the 'last concession' needed to reach an agreement. This consideration suggests that the Fischler reforms, as well as the EBA initiative, were largely motivated by other internal and external concerns. Put differently, if the need to reach an agreement in the DDA was a key driving force of the 2003 CAP reforms, then certainly the EU should have used these reforms not at the start but at the end of the negotiation process (Anania, 2007).

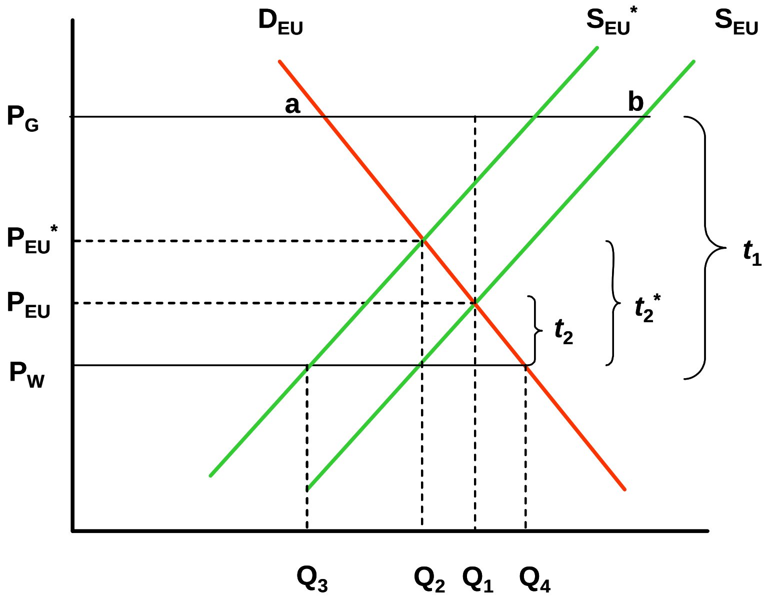
The second point highlighted to support our argument is related to the nil effect of the 2003 CAP reforms on market access issues. Here it is important to note that from a political economy point of view, what matters for the support for and opposition to policy reforms are not only concerns related to the efficiency of monetary distribution – an instrument choice problem – but also who gains and loses from the reform process and the redistributive power of the reform. As argued in the previous section and recognised by the European Commission (2003), the Fischler reforms will neither produce major income changes for agricultural producers nor result in significant redistribution across the EU member states. By contrast, a change in the EU tariff structure, needed to achieve significant improvements in the DDA round, will affect both farm income and the distributive gain from CAP protection across different EU member states.[15]

Going a step further, one can argue that not only do the 2003 Fischler reforms not address market access issues, they also even call for more border protection. This is because under the SFP scheme we can expect greater exposure of farm income to international price shocks. Furthermore, other elements of the reform package, namely cross-compliance, if anything tend to increase and not decrease the need for tariff protection.

To clarify this last argument, Figure 7.3 summarises the implied effect of the Fischler reforms under a (very) simplified partial equilibrium framework (see van Dijck & Faber, 2003). In the graph, D_{EU} and S_{EU} are respectively the EU demand and supply functions of a representative agricultural product. P_G and P_W are the internal and world prices, the latter assumed constant under the small country hypothesis. The internal price was put at a relatively high level, just to mimic the situation before the MacSharry reforms when the old CAP price policy, through the guaranteed price P_G, de facto imposed a prohibitive tariff, t_1, equal to P_GP_W.

[15] The reason is that different EU member states have different preferences about the EU external tariff level and structure, owing to variations in the production mix, sector comparative advantage and so on.

Figure 7.3 Partial equilibrium effect of the SFP with cross-compliance



Source: Adapted from van Dijck & Faber (2003).

Suppose that after the MacSharry reforms and the Agenda 2000 agreement the new intervention price, P_{EU}, was settled to clear the internal market. The price reduction was compensated by direct income payments, partially coupled to production, equal to the new amount of production (OQ_1), multiplied by the per unit of direct payments ($P_G P_{EU}$). This situation is assumed to broadly represent the EU agricultural market before the DDA and the Fischler reforms.

The 2003 CAP reforms induced a further reduction in the intervention price towards the world price and changed the nature of direct payments, introducing decoupled income support based on historical entitlement and cross-compliance obligations. The latter aspect is represented by production standards of a different nature, with a potential effect on production costs.[16] The cross-compliance cost effect

[16] A potential shortcoming of this reasoning is that a large share of the 'standards' related to cross-compliance are not truly new, but represent existing legislation. From this perspective, the additional costs supported by the farmers are not strictly because of cross-compliance per se, but are those needed to be met in order to comply with existing legislation (Farmer, 2007). Thus, the cost effect of cross-compliance will be linked to the level of transposition and enforcement of the legislation by the member states. Nevertheless, because the level of transposition traditionally has been heterogeneous across member states, under the hypothesis that the link between existing legislation and cross-compliance strengthens farmers' implementation of these standards, then some impact on the cost structure will be inevitable.

is depicted in the figure by a shift of the EU supply curve to S_{EU}^*. Under the assumption that the amount of direct payments remains the same, the new internal equilibrium price increases to P_{EU}^* and the supply decreases to OQ_2. The net income effect for farmers is uncertain *a priori*, being given by a surplus reduction owing to the shift in the supply curve (costs increase) and a surplus increase generated by the rise in market price.[17]

Now, focusing solely on market access issues, the key point is that after the implementation of the Fischler reforms, the EU needs an external tariff equal to t_2^* to protect a loss in farm income that is higher than a situation without them, when a tariff equal to t_2 should be sufficient. This consideration tends to feed the understanding of the defensive position of the EU in market access issues. Indeed, if as an effect of the DDA the external tariff is left out, this will induce the EU internal price to collapse towards P_W. In this hypothetical scenario, EU production will decrease to Q_3, with an increase in the consumer surplus but a negative effect on farm income – a result that contrasts with the objective of the Fischler reforms of not producing major changes for agricultural producers.

Summing up, the main message from the above analysis suggests that the implementation of the Fischler reforms not only leaves the EU market access level unchanged, but also potentially introduces new restrictions in the EU's negotiating position related to these issues. From this perspective, while the pressures imposed by the WTO on the Fischler reforms appear evident (e.g. decoupling), for all the considerations above we believe that the DDA has been only one (and potentially not the most important) of the major causes of the Fischler reforms.

7.5 Looking ahead: What determines the EU's external tariff?

The previous section argues that the Fischler reforms, if anything, have introduced potential new constraints to the EU's market access position in the DDA negotiations, simply because farm income is now more sensitive to border protection. To some extent, this situation is recognised by the Commission. Indeed, the EU negotiates in the DDA under the limits imposed by a specific mandate defined by the member states. In the case of agriculture, the mandate says that a potential agreement must be 'compatible' with the actual shape of the CAP as emerged after the Fischler reforms. But a strict interpretation of this mandate could mean that the DDA agreement should maintain farm income substantially unchanged (Anania, 2007) – an objective totally incompatible with a strong reduction in border protection.

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[17] Note that consumer welfare will be negatively affected by the rise in internal prices, but social welfare could increase as a consequence of cross-compliance. Accordingly, the net welfare effect will be linked to the nature of cross-compliance and the net effect on farm income.

To gain some insight into how far the EU could go in terms of market access concessions, the remainder of this section looks at the political economy forces behind the EU's external tariff formation, an issue only recently tackled by a limited number of papers.

Specifically, two key questions are central to our discussion: Are the EU's external tariffs well explained by EU interests, as an effect of a process of deeper integration? Or put differently, do national country interests still matter?

Since the 1987 SEA, the EU has moved towards deeper economic and political integration. For example, the SEA extended EU sovereignty to new areas such as social, environmental, and research and technology policy. Hence, the problem is to understand whether this integration process also has implications for how collective decisions are made on issues related to trade policies.

Recent empirical work by Tavares (2005) contrasts the hypothesis of shallow EU integration – namely that the observed tariff will reflect the preferences of a pivotal national government – versus the hypothesis of deeper EU integration, whereby the tariff structure reflects Union-wide preferences more. In the analysis, the different hypotheses indicate the degree of European integration, modelling the lobbying activity as being more biased towards the EU level as the policy-making process moves more towards the closed situation of a unitary state. The results support the deep integration hypothesis: the 1987 SEA led to a more centralised tariff formation process, meaning that *specific* national interests do not play a role in explaining the external tariff structure, which is instead well explained by EU-level industry characteristics.

Using a different approach, however, both Balaoing & Francois (2006) and Belloc & Guerrieri (2006) reach the opposite conclusion: specifically that national preferences still matter in explaining the structure of EU external tariffs. Why are the results so different?

A potential explanation of this conflicting evidence could be the data used. Indeed, a close inspection of the data and especially the industry sample used in the empirical exercise highlights fundamental differences. Indeed, in order to understand the structure of external tariffs, Tavares (2005) used a sample of about 81 manufacturing industries, of which only 10 are processed foods, thus totally disregarding the agricultural tariff structure. By contrast, Balaoing & Francois (2006) as well as Belloc & Guerrieri (2006) used 41 industry samples taken from the GTAP database, where more than half of the sectors belong to agriculture or processed foods.

This consideration tends to highlight that, at least in the agri-food industries, the determination of the EU external tariffs is still dominated by interests and preferences that are largely national in nature, a conclusion that fits quite well with the EU's 'defensive' position in the DDA on market access issues. Therefore, on returning to the key question of this section – how far can the Commission go in terms of market access concessions – the point is that several studies have shown that the potential liberalisation effect of the DDA, especially on the part of developing countries, will strongly depend on the level of tariff cuts accepted by developed countries and especially by the EU (see Anderson & Martin, 2006; Antimiani et al., 2006).[18] This means that the CAP is not actually compatible with an agreement in which market access issues are central, and if the WTO agreement wants to achieve success in opening the EU market, then further reforms with more redistributive implications are needed.

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[18] More specifically, after the 2004 July Framework Agreement, the EU problems on market access issues have partially shifted from the level of the tariff cut and reduction formula (tiers), to the problem of sensitive products, namely the percentage of the tariff line at which the tariff cut should be more flexible.

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8. An Inside Perspective on the Political Economy of the Fischler Reforms

Corrado Pirzio-Biroli

The Fischler reforms of 2003–04 – which were actually Commissioner Franz Fischler's second set of CAP reforms after Agenda 2000 in 1999 – are a test case of the potential as well as the process of injecting growing sustainability and competitiveness into a policy that had been unsustainable and uncompetitive.

In this context, in the early part of this century, the main dilemma facing the European Commission was how to respond to two sorts of pressures: domestic, for smaller public budgets and a better environment, and international, for more open markets and the abolition of the CAP. Fischler sought a compromise, making Europe's agricultural sector more competitive on expanding markets on the one hand, while reducing its trade-distortion effects and simultaneously promoting greater respect of the highest environmental, quality and animal welfare standards, on the other. He succeeded beyond public expectations and against all odds, and could not possibly have gone further than he did.

As successor to Commissioner Ray MacSharry, and a long-serving agriculture minister and accession negotiator of Austria with the reputation of a reformer, Fischler was not starting from a *tabula rasa.*

But he was fully aware of massive opposition to reform by the farming world, of the strong survival instinct of national ministers for agriculture and of the scepticism in Mediterranean countries as to his understanding of or support for Mediterranean products. At the same time, he was impressed by the quality of the DG for Agriculture and the agricultural policy instrument, compared with the one he had left behind in Vienna, and quickly learned to appreciate and admire it.

Above all, he was convinced about the absolute necessity of reforming agricultural policy before the start of the discussions on the new financial perspectives for 2007–13. The CAP had been steadily losing support within the Commission as well as within society, and agriculture ministers had become a weak link within member state governments, whereas finance ministers had become the key decision-makers and they hated the CAP, which they did not understand.

Speed was of the essence, not just because of the pending discussions on the financial framework, but also because of an external factor – the Doha development round. In the Doha round, Europe's most dynamic economic sectors such as services and manufacturing were pushing to open markets regardless of the price paid in terms of additional access to the EU agricultural market, which would presumably have to be borne by their fellow farmers.

That the CAP had become unpopular and risked budget cuts was related to a number of factors, such as

a) farmers had become a tiny minority, and farm organisations had lost dynamism and clout;
b) the widening of the EU and the proliferation of its policies against growing EU budget stringency had increased the competition for funds within both the Commission and the Council, as well as within the European Parliament;
c) the image of the farmer, large and small, had become that of a polluter, although this was not directly because of the CAP, but because of the industrialisation of agriculture, which the CAP had entertained; and
d) the CAP no longer had the votes to continue the status quo.

At the DG for Agriculture, several of us concluded that if we wanted to preserve the CAP, we needed to change it; if we wanted to succeed in changing it substantially, we needed to just about guarantee the historical support levels to European farmers and avoid a negative impact on their revenues. Yet, a reform package leaving the CAP budget unaffected (except for enlargement) had no chance of acceptance in the College of Commissioners unless we adopted a new approach, and took it by surprise.

Fischler knew that our chosen approach involved a big risk of failure in the Council, with loss of face for the commissioner and the Commission. Without innovation and ingenuity, however, he would face failure in the Commission before then, risk merging the agricultural reform talks with the preparation of the next financial perspectives and have to start the WTO round (of which he was the chief EU agricultural negotiator) without a defendable EU position. The difficulties in Geneva were enhanced by the absence of agricultural ministers there except among the representatives for Japan, as trade ministers had different priorities.

Preservation and change of the CAP required a certain rapprochement of different European interest groups such as farmers, environmentalists, the agri-food industry and consumers, transforming traditional antagonism into an understanding of the needs of farmers and the challenges of the countryside.

To that effect, it was necessary to try to change the image of the European agricultural sector as a major polluter jeopardising long-term sustainability, into that of a conservationist emphasising quality, health and sustainability. To do so was not a problem as far as quality and health were concerned. But it was with regard to sustainability, because ministers tend to have a short-term view related to the likely duration of their office and therefore seek to minimise difficulties for their constituencies in order to enhance their staying power and hand over the hottest potatoes to their successors. CAP reform proposals traditionally lead EU farm ministers to paint catastrophic effects for the relevant farmers, which may not and mostly do not take place (for example, a drastic reduction in Italy's hard wheat production, which has not happened).

Sustainability was not a credible objective without introducing a form of the *polluter-pays principle*, even if in the more limited structure of a loss of public support whenever the farmer fails to respect the *cross-compliance* rules. Public opinion would no longer tolerate the view that CAP rules were sacrosanct, when environmental rules were respected only in the breach.

Apart from cross-compliance, the Fischler reforms introduced a few other radical new ideas such as the *decoupling* of CAP support from production with a *single farm payment*, the *capping* of direct aids, *modulation* and *financial discipline,* stressing the function of farm families as suppliers of services to society, all of which appeared helpful to subdue CAP opponents. Even so, the biggest challenge became that of bringing on board the CAP supporters at the same time. Here reference is not just made to EU farm organisations and farmers, for whom the proposal represented a sort of Molotov cocktail, but also, at least in one respect, to the DG for Agriculture itself, which initially believed *decoupling* to be inappropriate owing to its complexity and to scepticism regarding Council acceptance.

While most CAP advocates adopted, as they still do, the politics of denial, CAP opponents seemed at times ready to scrap the CAP, which means throwing out the baby with the bath water. Scrapping the CAP is not an option. European treasuries that may still dream of it should think twice before opting for short-term gimmicks. Their simplistic and narrow budgetary view was fought by Fischler's more systemic approach seeking internal compromises among, and corresponding mentality changes by, the various stakeholders.

Fischler sought to find new allies in support of both the conservation and renewal of the countryside by proposing a three-pronged compromise approach to agricultural policy:

- first, simplifying it and enhancing quality, environmental and animal welfare standards;
- second, making Europe's agricultural sector more competitive on expanding world markets; and
- third, reducing its trade-distortion effects and notably, progressively moving the CAP further from market to rural support.

This compromise approach was expected to make the policy more acceptable internally as well as internationally, in particular to farmers (through simplification and by re-establishing a certain confidence in their future), rural people and society at large.

Nevertheless, Fischler advocated a tectonic shift in CAP support over time. The first pillar needed to be increasingly concentrated on those farmers who needed it most, at least as long as they could not compete without it. As to the most competitive EU farmers, they could expect lower financial support over time, allowing for further modulation of aid towards rural development.

The Fischler reforms aimed at helping the CAP and its farmers reconcile the needs of modernisation and restructuring with the acknowledgement of their community function and the recognition of the positive externalities generated by agriculture, rural activities and spaces. Aware that all countries in the world had agricultural policies, which they (often wrongly) considered appropriate to their internal and external interests, Fischler acted in the conviction that the EU needed to keep a strong agricultural policy, but periodically update it so as to adapt it to new realities.

The best way to introduce radical ideas is often by surprise – notably in order to avoid early leaks, which enable CAP critics to regroup their opposition around new arguments. While Fischler's speeches were used to give some hints about what was to come, they became clearer only late in the reform process. Speeches and interviews were Fischler's main instrument to prepare public opinion in stages. He was his own best spokesman.

There was surprise about the Fischler proposal among the DG for Agriculture staff, because the most interesting parts of the reforms had been discussed within a tightly-run group of five (later six) persons, including Fischler, this author as his chief of staff and Tassos Haniotis, the relevant cabinet member. It worked: there were no leaks.

There was a certain surprise also among the chefs de cabinet, most of whom were expected to support the proposal intellectually. But several of this author's colleagues conveyed in private that the proposal was "a trick in order to preserve the whole CAP budget". In reality, it was too innovative for them to reject it, and a budget cut would have made these reforms and probably any alternative reforms impossible.

Finally, there was surprise within the Commission, whose members had been partly informed through their directorate-generals only since the interservice consultation, except of course for President Romano Prodi, who had been brought on board beforehand.

Unlike in the past – when agricultural commissioners could steer through the Commission almost any proposal concerning the CAP, even when it involved substantial additional expenditures – Fischler had only two fully supportive allies left within the College: Vice President Loyola de Palacio from Spain and Commissioner Michel Barnier from France. Although Pascal Lamy could be expected to come on board as well, their combined support was still too little to obtain agreement within the Commission.

It was Fischler personally who decided eventually to include *decoupling* in order to clear the way for Commission agreement. After gaining the support of President Prodi, the Commission interservice consultation began, and as had become customary, the document was immediately leaked to government leaders in the capitals, some of whom started reacting in a worrisome way, in particular President Jacques Chirac.

Although most member states' agriculture ministers were opposed to the proposal, they did not have the time to regroup before the Commission supported it with a near unanimous vote, despite the lack of cuts in the CAP budget. Sadly, for

Fischler, the only commissioners voting against his reform proposal were the biggest friends of the CAP within the College, Michel Barnier and Loyola de Palacio.

In early 2003, the College was already gearing up for battle on the new financial perspectives; its president was known to favour a 30% cut in CAP expenditures and several commissioners had set their sights on CAP budget reductions in order to increase budget lines in their own portfolios. Even so, the acceptance of the Fischler proposal by the Commission was facilitated by three factors:

- first, the high personal credibility Fischler enjoyed within the College as an agricultural expert and as a reformer;
- second, the fact that no ground work on future financing had as yet been laid; and
- third, the agreement of the Brussels European Council of October 2002, engineered by President Chirac with the support of Chancellor Gerhard Schröder, to the effect that the budget for pillar I (agricultural market support) would not be cut before 2013.

These factors disarmed the Commissioner for Financial Programming and the Budget, Michaele Schreyer.

Things became more difficult in the Council, where the Commission had to overcome the stubborn opposition of 10 ministers out of 15, who raised problems of substance or timing (or both), aware as they were that all of Europe's agricultural organisations opposed the reforms, except the Coldiretti (one of Italy's three) and the European Landowners Organisation. Reforms actually appeared for a time unachievable after Chirac – the 'absentee agriculture negotiator of France' – succeeded in establishing within the Agriculture Council a blocking minority together with Germany, Spain, Portugal and Ireland, repeatedly trying with ups and downs but eventually failing to get Italy on board as well. If Chirac succeeded in getting Schröder to join his anti-reform coalition despite the pro-reform stance of the German Minister of Agriculture Renate Künast, it was not only on account of Franco–German solidarity. The German chancellor owed it to Chirac to be rescued out of the corner he had got himself into by opposing the Iraq invasion. Schröder's promise to follow the French on CAP reforms, whatever their motives and tactics, was made easier by the fact that German farmers did not vote socialist. The Chirac–Schröder deal prevented German Minister Künast from the Green Party, who supported the Fischler reforms, from playing a positive role in the discussions so long as the French refused to participate. The strong, early pro-reform stance of the UK turned out to be counterproductive in relation to other EU agriculture ministers, because the UK government was known to favour scrapping the CAP. The UK actually accepted Fischler's recommendation to dampen its reform advocacy.

Despite repeated efforts and help from Joseph Daul, European Parliament Agricultural Committee Chairman – whose foresight and sense of realism had led him to support the reforms – Chirac refused even to discuss it with Fischler, preferring to build a coalition to defeat him. It can be guessed that he was convinced he could still stop the reform train in its tracks. It was as if the matter had become personal for the president, who had reportedly tried to hinder the commissioner's reappointment for a second mandate, and was believed still to want Fischler out. The commissioner knew that this could lead to the failure of his proposal in the Council. But he did not hesitate to play poker, which requires both ability and luck, in an attempt to modernise the CAP and give it a better image, strengthen rural development, provide more stability for farmers and help turn them all into entrepreneurs as opposed to premium hunters. He actually had no other alternative to avoid defeat, because a lukewarm reform package would not have even made it through the Commission.

How could victory be snatched from the jaws of defeat? No agreement was possible without breaking the French-led blocking minority. Our target to that effect became the weakest link: Agriculture Minister Miguel Arias Cañete from Spain, who was believed to have joined the French more in order to gain some breathing space than because he was opposed to the whole reform approach. The best way to change the Spanish position was to take advantage of the solidarity that linked the EU leaders that had supported the Iraq invasion despite domestic criticism. Hence, Fischler paid a visit to Prime Minister Tony Blair in London with a request to ask Spanish Prime Minister José Maria Aznar to instruct his minister for agriculture to withdraw from the minority coalition that had been blocking the reforms. Blair agreed, asking the commissioner to drop the capping of direct payments in exchange. As soon as Spain moved in favour of the reforms, French Minister Hervé Gaymard read the tea leaves and started negotiating at the last hour in order to grab at least some concessions in exchange for his positive vote. German Minister Künast took advantage of the French change of tactics by taking back her freedom, and giving her full support to reforms she had regarded with favour from the very beginning. Although Italy, which had been hesitating all along as to whether to join the French blockade, made a number of unacceptable requests at the last minute (all of which were rejected), the reforms finally obtained unanimous support except for Portugal, which had still wanted a larger milk quota for the Azores. Thus, what until then quite a few had thought might have been a wrong bet by the commissioner, became a success. Guy Legras, former DG for Agriculture Director-General, acknowledged his surprise about the Council's acceptance of the Fischler reforms, which he said he had frankly not anticipated.

On the 26th of June 2003, during the last night of negotiations in Luxembourg, the commissioner refused any suggestion of a further postponement, because he feared the creation of a new blocking minority (for example, with Italy replacing Spain). Even taking into account Spain's change of position, the new reform-supporting majority in the Council remained precarious, notably because of likely, unacceptable aspirations for more milk quotas by Portugal, Italy and the Greek presidency.

This uncertainty had to be tackled with exceptional measures. During the last night 'finish', all experts were asked to leave the negotiating room, while ministers were asked to stay there without interruption, and it was made clear that no more written compromise papers would be tabled by the Greek presidency and Commission until an agreement was in sight. This allowed Fischler to submit his personal compromise proposals on all outstanding issues orally, such that they could not be leaked to capitals, and to ask for oral ministerial reactions on the spot: 'yes or no, and if no, why not'.

Throughout all of the reform talks, Council reluctance had been addressed by Fischler and a 'green team' with one spokesman for each member state drawn from the cabinet and the DG for Agriculture informing the relevant stakeholders and public opinion. Fischler and his staff went on the offensive, participating in literally hundreds of conferences and in interviews by all sorts of national and regional media, as well as through contacts with non-governmental organisations. The aim was to let reluctant ministers realise that society at large demanded a less bureaucratic and more environmentally-friendly agricultural policy, and a shift from market-distorting support towards rural conservation and renewal.

No reform step is perfect and each requires further adjustments. As Karl Popper maintained, any solution creates its own problems that call in turn for new solutions and so forth. But, as the French saying goes, *à chaque jour sa peine*. The reforms led to a significant number of hardship cases, mostly related to the change towards a single farm payment. They failed to introduce capping. They resulted in less simplification than planned. And they failed to stop WTO members from attacking the CAP, although it has become far less trade-distortive than US or even Indian agricultural policies still are. The fact is that the continuing focus on the CAP in Geneva has become an excuse for many members not to move on manufacturing and above all services, whose importance for the international trade system is strikingly greater than that of agriculture.

Nevertheless, Fischler's achievement was still remarkable because more than 90% of the original proposal made it into law.

Moreover, one could expect the exemptions from total decoupling obtained by France, Italy and others progressively to wither away, further regulatory simplifications later on, a new attempt at capping direct payments and the abolition of export restitutions. Fischler's successor, Mariann Fischer Boel, has confirmed this in talking about the 'health check' on the CAP in 2008–09 in the framework of the planned review of the financial perspectives for 2007–13.

The farm organisations in Europe today admit that the Fischler reforms saved the CAP for the time being, and recognise that if Fischler had given in to Chirac's request to postpone reforms until after the WTO round, this could have meant the end of the CAP as we know it. Without reforms, not only would the EU have lacked a solid, credible base in order to actively participate in the Doha development round talks, but also the Brussels European Council agreement of 2002 would not have held up against the pressures of the 'one percenters' in connection with the 2007–13 financial perspectives.

CAP reforms are of course part of a process. Commissioner Fischler orchestrated two sets of them at short intervals, those of February 1999 and those of 2003–04 with the intention, among other things, of avoiding more serious disruptions for EU farm enterprises in 2007 (in the new financial perspectives) as well as thereafter (through the WTO round) and of ensuring a certain stability of the rules until 2014.

These reasons were tactical. Yet the design of the Fischler reforms, as part of a process, was based on strategic motives. It is primarily these motives that underpin the political economy of his reforms. These motives are rooted in his assessment of

Europe's and the world's main environmental problems and related prospects of world demand and supply of food in the first half of this century, and in the absolute requirement to save the countryside as well as Europe's agricultural capacity for the world's sake. To these points we now turn.

8.1 Environmental problems

Perhaps the best way to summarise the environmental problems affecting our lives is to turn to Jared Diamond's recent, remarkable and persuasive book *Collapse*,[1] on how societies choose to fail or succeed. He proves that this depends on how they solve their environmental problems and identifies twelve serious ones, four of which involve ceilings on natural resources, which have become serious only recently: fossil fuels, a phytosynthetic ceiling on sunlight supply, toxic chemicals (insecticides, pesticides and herbicides) and gases such as carbon dioxide and methane.

The other eight most serious environmental problems are not new. Four of them consist of the destruction of natural resources:

- habitats, forests, wetlands and coral reefs;
- declining fisheries aggravated by the effects of aquaculture;
- biodiversity losses; and
- net loss of soils due to water and wind erosion.

The remaining four are fresh water, alien species, a growing human population and its impact on the environment.

Diamond stresses that these twelve problems for sustainability have been endemic to humanity, but their frequency has increased with environmental degradation, population pressure and its effects on the environment, rising living standards and immigration from low-impact countries.

These phenomena are interlinked time bombs with fuses of less than 50 years, and any of them alone could do great harm, but all of them will have to be solved in one way or another within the next generation. They can be solved in either pleasant ways of our choice or unpleasant ways not of our choice, such as poverty, political instability, warfare, genocide, starvation, disease epidemics or collapses of societies. Diamond believes it is doubtful that the First World could retain its separate lifestyle in the face of desperate waves of immigrants fleeing from collapsing Third World countries.

If one reviews the twelve most serious environmental problems, it is easy to note that all of them are directly and often heavily or at least indirectly linked to agricultural and rural development policies. Adopting a one-size-fits-all policy across the world would be madness. But the historical record shows that all agricultural

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[1] See Jared Diamond, *Collapse: How Societies Choose to Fail or Succeed*, London: Penguin Press Science, 2005.

policies are in need of reform and action, and that measures should be taken that are suitable to each case and a realistic assessment should be made about foreign competition. Let us consider one example. We often say that European farmers cannot compete with countries with more space and lower costs of production such as Australia. Let us take this example as a test case, drawing from Jared Diamond's already cited book, *Collapse.*

Diamond shows us a different, not to say dismal picture of Australia as a continent about to become an agricultural and environmental basket case. He considers it the most unproductive continent: much of it is useless for any form of agriculture and pastoralism, and much of the rest has soils with on average the lowest nutrient levels, the lowest plant growth rates and the lowest productivity in the First World. Salt content is high and rising due to sea breezes, periodic sea inundations and freshwater lake evaporation. Rainfall is mostly insufficient to raise crops to maturity, and unreliable to do so more than half the time (and often far less). Agro-forestry suffers from slow tree growth rates owing to poor soils. When its crops do not mature, the soil is exposed to erosion. Its renewable resources are overexploited and declining. Australia is the continent with the least amount of fresh water (80% of which is dedicated to agriculture contributing to 3% of GDP), with proportionately the smallest area covered by forests (20%). It is the only continent that has cleared as much as 90% of its original vegetation, and its biodiversity is the worst of all continents because of the importation of alien species (rabbits, foxes, plant weeds, insects and carps), which have caused the extermination of local animals and plants.

With this background, to say that Australian farmers are privileged over time compared with their European counterparts is a fallacy. As a result of extra expenses for agricultural production stemming from disproportionately high fertilizer and fuel costs, Australian farmers selling to local markets often cannot even compete against overseas growers except in specialised niches. About 80% of Australia's agricultural profits are derived from less than 0.8% of its agricultural land. Most of Australia's remaining agriculture is in effect a mining operation destroying the land, expensive for the consumer and uneconomic to the individual farmer. If one counts among the farmer's expenses not only cash expenditures, but also the value of his/her labour, two-thirds of Australia's agricultural land (mostly with sheep and cattle) operates at a net loss to the farmer. In addition, Australia's productive or settled areas are few and scattered with resulting high transportation costs; medium-sized towns are disappearing and small villages have lost basic services. If one adds that Australia's existing farming is overall a money-losing proposition, that land is overcapitalised and pushing farmers towards overexploitation, overstocking and overgrazing, and also that the population is twice as large as its sustainability level at present living standards, one can understand why Australian land use has gone through many cycles of land clearance, investment, bankruptcy and abandonment. Some economists think the country should do away with much of its agriculture and could become a net agricultural importer. Diamond's analysis is a hard one – some may charge him with being opinionated and contest some of his figures, and even hold that sustainability is rising there, but the general picture and trends are rather gloomy.

Diamond's conclusion is that, according to the most realistic scenario, Australians are doomed to a declining standard of living in a steadily deteriorating environment. Although Australia would be among the losers of global climate change, he believes the rest of the First World to have the same prospects, with the sole difference being that Australia will get there sooner.

8.2 Prospects in world demand and supply of food

The second strategic reason that underlies the political economy of the Fischler reforms is the prospect of a policy of food scarcity, as notably illustrated by the Earth Institute.

Food supply is tightening mainly because falling water tables and diversion of irrigated water towards the cities cause water shortages, which translate into food shortages.

Cities and towns in America's Bible Belt and California have been buying irrigation water rights from farmers for urban consumption, affecting in some cases one-third of the surrounding farmland. For water rights, they offer farmers much more than the latter can get from growing crops. According to the Earth Institute,

> Countries facing water shortages divert water from irrigation to satisfy the growing demand in cities, and then import grain to offset the loss of farm output. The reason for this is simple: since it takes a thousand tons of water to produce 1 ton of grain, the most efficient way to import water is as grain. …In China, a thousand tons of water can be used to produce 1 ton of wheat, worth at most $200, or it can be used to expand industrial output by $14,000 – 70 times as much. …Agriculture is thus becoming a residual claimant on the world's increasingly scarce supply of water.[2]

Still, water is not the only key factor of food supply. Other factors conspire to worsen the picture such as continuing over-ploughing and overgrazing, a growing shift towards grain-based meat production in poorer countries and shrinking harvests with rising temperatures, not to mention the threat that the spread of HIV/AIDS in Africa poses to food security at the loss of able-bodied field-workers.

This outlook is not just a presumption. Grain demand has been expanding beyond supply, notably in China, India (including its Punjab breadbasket), the US (in particular in the southern Great Plains and the south-west), Australia and a number of other countries like Kazakhstan. This trend cannot be compensated by an increase in Brazil's grain land, apart from the consequences such an increase would have for the environment (domestic soil sustainability and rainfall recycling in Brazil, and biodiversity and climate effects worldwide).

Deserts are expanding at the expense of mostly cropland and grassland with an annual loss of 350,000 hectares in Nigeria alone, and a similar annual amount in

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[2] Derived from L.R. Brown, *Outgrowing the Earth: The Food Security Challenge in an Age of Falling Water Tables and Rising Temperatures*, New York, NY: W.W. Norton, 2004.

China, where 24,000 villages have been abandoned or partly depopulated in the north and west. Cropland is also being lost to urbanisation.

Technology can of course help, but up to a point. Low-till or no-till farming techniques help retain water, raise soil carbon content, reduce the energy needed for cultivation, as well as wind and water erosion, but cannot do more than slow the negative trends. New technologies capable of raising land productivity are shrinking and they will be of diminishing help as yields of wheat, rice and corn press against the ceiling ultimately imposed by the limits of photosynthetic efficiency.

8.3 The EU's changing role: Revitalising its countryside and helping to feed the world

With 3 billion people expected to be added to the world by 2050 (two-thirds of whom in Asia and Africa) and eight countries alone accounting then for 4.7 billion people, most of whom have neither the climate nor the soil or other conditions necessary to feed themselves in the future, the political economy of agriculture in Europe cannot ignore the negative trends regarding the *global commons*. Nor can the rest of the world ignore the key role that Europe is called to play in the forthcoming period of food scarcity. Future world demand of food requires that EU farmers continue to take part in feeding the world. Without them world prices would badly impact on the net-importing countries.

The new CAP is designed to avoid food surpluses. Yet to the extent that world overproduction is replaced by food scarcity, we can expect less competition among the producers of staple food for access to food markets, and more likely competition among net food-importing countries for access to supplies. We will then see import barriers in this connection replaced by export limits, and if Europe or other countries producing bulk farm products experience periods of excess domestic demand, they will tend to repeat what several other countries have already done in such a situation, particularly recently: impose export limits. After being accused of dumping its food surpluses on world markets, one could well see the EU accused of withholding supplies from hungry people.

The tables may well be turned in the near future and Europe may be expected to produce more food for export in order to satisfy growing world demand, not only in the tropics. It should be able to do so without production support. Its challenge will be to do it in a sustainable way as well, for otherwise Europe could go the way Australia is going, with negative effects on its own food production and exports.

The Fischler reforms have addressed that challenge by reforming both the first and the second pillars accordingly. Further measures will be required down the line. But it will already be difficult to apply all those that are part of the Fischler reforms. This notably requires resorting to the foreseen sanctions in case of failure to respect cross-compliance provisions, and actually strengthening the second pillar. The Council has missed doing the latter. Although Europeans are admired, in particular in the US, for their urban zoning leading to a more land-efficient and energy-efficient approach, they can and must do much better and notably stem the depopulation and desertification of growing parts of their countryside. This requires money.

If other countries refuse to reform their own agricultural and rural development policies and their urban zonings, this should be no excuse for Europe to stop its own reforms. Its actions should not depend on parallel actions by others, unless Europe is prepared to risk the eventual collapse of its own environment, not to say of its own society or world collapse. Some stakeholders may complain about loss of (short-term) competitiveness, but that did not stop the Kyoto process and should therefore not stop the CAP reform process either. EU rural policy as well as agricultural policy proper must from now on be conducted and adapted taking into account the contribution that the EU can make to tackling the world's, and incidentally also Europe's, most serious environmental problems in the interest of its own people.

In the light of the general landscape of world agricultural resources outlined earlier, Fischler was convinced that while the agricultural reform process had to continue in Europe (and hopefully also take place in the US and elsewhere including developing countries), the CAP was and would remain a necessary, permanent feature not only for the EU, but also for balancing world food supply with demand.

He was therefore worried about any further reduction in public support for such a policy unless agricultural prices were to rise substantially (as one could expect over time), farm aid was capped for the largest farmers and modulation from the first to the second pillar of the CAP was significantly increased.

He did not reckon that it was too much to devote 1% of total public expenditures (by the EU plus member states) to farm and rural support, considering that farmers alone represented some 6% of the EU population, and predominantly rural regions covered 47% of the EU-15 territory and contained 10% of the EU-15 population. If one added significantly rural regions, more than 80% of the EU-15 area was classified as rural and about 40% of the total population lived in rural areas. These percentages were of course higher in the newly enlarged EU.

8.4 Conclusions

Fischler's strategic reasons for reform simply reflected his firm conviction that his main reform concepts were not only the most likely to save the CAP, but also the most appropriate in the overall European and world context. He hoped that the reform process would help make people more aware of the linkages existing between agriculture, rural development, commerce, tourism, the food industry, infrastructural costs and overall employment, and tried to emphasise this (with limited effect) in the discussions on the updating of the failing Lisbon process.

He regretted that the Lisbon debate ignored the possible consequences of weakening, let alone abolishing CAP support, such as

- the risk of member states introducing contradictory agricultural policies that may hamper the Single Market;
- the consequences of land abandonment in terms of nature (which needs caring for) and accelerated urbanisation (which involves infrastructural, environmental and other costs); and
- the effects of diminishing aid on production intensification and pollution, and the wider implications of reduced farm output.

What, for instance, would be the budgetary costs of catering for the additional urban or suburban dwellers produced by accelerated rural desertification? Would an end of the CAP result, would it not, in contradictory policies by the member states possibly causing the collapse of the internal market? Or would it reduce European farm production to such an extent as to have a major impact on (higher) world prices with serious humanitarian, economic and political consequences, in particular for food-importing developing countries? And could reduced production of European food end up benefiting mainly the '*latifundistas*' (large land-owners) of Latin America and elsewhere, who invest their profits on Wall Street? The CAP scrappers did not seem to care about the answers.

Governmental responses to CAP reform decisions enhancing rural development were negative. The European Council overturned by means of selected budget cuts the whole reform philosophy regarding the place of rural development within the CAP. This was an unfortunate development, because the Council thereby ignored that the overexploitation of natural resources, urbanisation and economic globalisation had together become the most serious challenge ever to the physical integrity of the countryside and its way of life. This situation was made worse by two aggravating factors: first, rural actors were increasingly marginalised from the public decision-making process, and second, public budgets for rural development were expected to be reduced further after 2013.

These are the reasons why, as far back as 2002, fearing that EU public support was on the way down and believing that rural depopulation and decline in many areas could not be kept in check – let alone reversed without complementary private initiatives, local motivation and adequate private financing – we felt the need to act, although the difficulties of the pending CAP reforms led us to postpone further action.

Epilogue

Having left the Commission together in 2005, we undertook to create a new financing instrument, the Rural Investment Support for Europe or RISE Foundation. Its president is none other than Franz Fischler and its vice presidents are Daniel Janssen and Alex Schaub. Members include Michel Barnier and Paolo De Castro. RISE obtained its public utility status by Belgian royal decree and had its first board meeting last autumn. It received initial support from the BNP Paribas and it is starting a capital campaign.

RISE is a unique multidisciplinary instrument for the promotion of rural conservation and renewal, and cooperation between landowners and rural communities. It is a self-supporting philanthropic venture fostering bottom-up private investment in rural areas, mostly in Europe. It is the only Europe-wide independent foundation devoted to rural development.

9. AN UNCOMMON POLICY: THEORETICAL AND EMPIRICAL NOTES ON ELITE DECISION-MAKING DURING THE 2003 CAP REFORMS

BARBARA SYRRAKOS[*]

9.1 Introduction: Participation and the 2003 CAP reforms

The theme of this chapter is the European Union's common agricultural policy (CAP) reforms of 2003 and the various agents participating in their genesis and development. The main focus of the chapter is to explain the involvement of farmers, the Commission and the Council in the making of the policy reforms, which emphasised decoupling subsidies from production, imposing measures friendly to the environment and the growth of rural development. A second, interlocking theme of the chapter is an analysis of motivations for the reforms, which were multivariate, with elite agents stressing various motives at different times. These included WTO pressures to diminish trade-distorting subsidies, meeting the objectives of earlier reforms, taxpayer grievances against the high cost of maintaining the CAP and simplifying the administrative procedures for farmers who subscribed to aid.

The chapter begins with a brief historical discussion about the roles farmers and consumers have played in influencing the content of agricultural policy. It then builds from the premise of the Commission's right to initiate and therefore set the

[*] The author would like to express appreciation to Johan F.W. Swinnen for the invitation to contribute to this book; to the Fulbright Programme, under whose auspices this research was carried out during 2006 and 2007; and to its Belgium and Luxembourg Director, Margaret Nicholson. The author would also like to thank David Plotke and the anonymous reviewer of an earlier version of this chapter. Additional thanks go to the staff of the Library of the DG for Agriculture and Rural Development. This research would not have been possible without the spirited participation of the many persons interviewed in Brussels and elsewhere within the EU; the author hopes to have done their work justice, and if not, looks forward to being set straight.

agenda for the reforms, a result of high-level consultations primarily within Agriculture Commissioner Franz Fischler's own cabinet and members of the DG for Agriculture and Rural Development. While farmers and other interest groups were consulted by the Commission, farmers are not shown to have made demands for decoupling, the most controversial measure in the reforms, nor are they seen to have been involved partners at the crucial time of reform genesis. Once the Communication on the Commission's intentions was made public in July 2002, many farm unions then mobilised to influence the content of the reforms. That put farmers in an unsure position of influence during the negotiations, both formal and informal, over the ensuing year.

Where farmers once had significant influence over the CAP, their latter influence seems to be waning. Likewise, where larger member states have in the past also flexed their considerable muscle to influence the overall aims of the CAP, there is far limited evidence of this in the reforms of 2003. Based on observations of these phenomena, which have been evolving, there are three conclusions to be drawn about participation: i) the timing of farmers' involvement made them less proactive than reactive; ii) farmers' influence on legislation through their domestic organisations, agriculture ministers and transnational farmers' organisations in Brussels was highly variable and uneven; iii) meanwhile, many agriculture ministers in the Council had to balance political, societal and farm sector pressures in their deal-making to get the policy passed. This last element rendered the CAP reforms less the result of domination by any single interest, such as farmers, or by any single member state, and more a reflection of multilateral agreement to accept broad change with variation within the pre-established parameters set by the Commission.

9.2 Data

This chapter reflects findings of research conducted chiefly in Brussels between October 2006 and August 2007 and rests on evidence culled from interviews as well as written documentation. Seventy-eight in-depth, semi-structured interviews were conducted with elite decision-makers, policy-makers, negotiators and stakeholders in CAP reforms. Interviews ranged in length from 45 minutes to 3 hours. Subjects were selected based on the saliency of their professional mandates primarily during the crucial period of early 2002 through 2003, during which time the reforms were conceived, written in proposal form, presented to stakeholders and politicians, negotiated, decided upon in the Council and written into legislation. Many subjects were identified based on recommendations from prior subjects. Thirty-four interviews were conducted at the Commission level, chiefly among the elite professional civil service, or bureaucracy, of the DG for Agriculture and Rural Development but also at the cabinet level, past and present, within the College of Commissioners. Twelve interviews were conducted with member states' permanent representations to the EU from among the EU-15. Eighteen were conducted among farm unions and cooperatives selected from among the EU-15, and an additional fourteen interviews were conducted with academics, farmers and others.

9.3 The CAP and civil society

The CAP is one of the oldest policy sectors of the EU, provided for under the Treaty of Rome in 1957, to protect farmers and farm prices and reduce internal tariffs, a policy with both consumer and producer objectives (Ritson, 1991, p. 122). The CAP has been unique in that it has protected one economic sector over many others within the primarily free-trade logic of the EU (Rieger, 2000, p. 185; Chari & Kritzinger, 2006, p. 129, p. 131; Gillingham, 2003, p. 121). It is a redistributive policy that over the years has dominated the budget, authorising remuneration to a select segment of society while drawing from a common purse financed by the public, making it subject to scrutiny by society at large.

The decade leading up to the recent reforms saw two precursors. The MacSharry reforms of 1992 initiated by Commissioner Ray MacSharry attempted to amend price policy towards efficiency in agricultural markets with the logic that direct income payments would help improve the incomes of farmers. The GATT Uruguay Round Agreement on Agriculture (1994) provided not only one of the drivers of the MacSharry reforms but also gave them an international ratification.[1] Since the Agenda 2000 reforms, market intervention prices have generally dropped, and a special budgetary mechanism for rural development (pillar II) has been established. The most recent reforms, adopted 26 June 2003 and legalised 29 September 2003, aimed at further decoupling payments from production and provided more funding to promote the environment, animal and plant welfare and food safety through cross-compliance measures. If a farmer violates the standards, the farmer risks sanctions in the form of reduced subsidies (European Commission, 2003a).

The CAP has a long history of farmer participation, and indeed its very inclusion in the Treaty of Rome was to secure France's support, an original signatory state with high degree of farmer involvement in domestic policy (Gillingham, 2003, pp. 121–22). Farmer influence was strong throughout the era of Agriculture Commissioner Sicco Mansholt, particularly after 1968 when he proposed an efficiency plan that would have greatly reduced the number of persons engaged in farm activity (Mansholt, 1968). That plan was met by the objections of governments that voiced the interests of their farmers (Pinder, 1991, p. 84). The addition of member states throughout subsequent periods of integration increased the potential for disagreement over the CAP, state by state and sector by sector. By the time of the MacSharry reforms, Chari & Kritzinger (2006) argue, "large farmers" more than small farmers were influential on agriculture ministers in the Council by lobbying their own governments through their own associations. Meanwhile, they argue, the

[1] Folmer et al. (1995) write that MacSharry "greatly facilitated the GATT negotiations" (p. 179), while Rieger (2000) calls GATT a "major factor" in the reform (p. 180). See also Swinbank & Daugbjerg (2006) for a concise literature review of the debates about the influences on the MacSharry reforms, particularly pp. 48–50.

transnational farmers' association based in Brussels, COPA-COGECA,[2] became so factionalised that settling on a European position seemed elusive. COPA-COGECA's generally critical response to the proposals meant the "Commission paid scant attention to the negative reaction of agrarian interests at the European level" (Chari & Kritzinger, 2006, p. 137; pp. 133–37).

The era of Commissioner Fischler saw both increased consultation with farmers and other stakeholders, but limited substantive deliberation, especially in the early development stages of agriculture policy. There was also overall greater disparity between the expressed interests of agriculture ministers and their national farm lobbies. This has resulted in a fragmented voice for farmers, who have been progressively less able to rely on agriculture ministers to champion their interests. A COPA-COGECA policy coordinator brought the idea to its essence with the comment that "governments are not the same as farmers".[3] This disparity was particularly evident with respect to the 2003 reforms in Portugal, Spain and Germany[4] and for a time in Ireland, until after much consultation among the

[2] COPA stands for the Committee of Professional Agricultural Organisations and COGECA refers to the General Confederation of Agricultural Cooperatives in the EU.

[3] Derived from an interview in Brussels, 8 December 2006.

[4] This divergence was confirmed by an official from the Confederacao dos Agricoltures de Portugal (interview, Brussels, 29 May 2007), who said, "the [Portuguese] permanent representation thinks not with a farmer['s] head, but with [that of] the state in general". He reported that one of the main bones of contention between the Portuguese agriculture minister and the farm organisation was rural development. The farmers wanted to maintain subsidies under pillar I rather than sacrificing them to rural development. A representative with the Asociacion Agraria-Jovenes Agricultores (ASAJA), Spain's largest farmers' organisation, said the Spanish agriculture minister "had all the unions against him" because he relied on his "own ideas" rather than theirs, and in the Council made concessions because he saw "that it would be very difficult to stop [the reform]". ASAJA was particularly against "any kind of modulation" because rural development is a "broad instrument" and a "political instrument that needs its own resources not coming from the CAP". This is also reported in *Agra Facts* (2002g). The official further reported that there was pressure from Prime Minister José Maria Aznar to find an agreement on the CAP, who was himself contacted by Prime Minister Tony Blair in June 2003 at the instigation of the Commission. The argument was that since Blair and Aznar were then allies in the Iraqi war that Blair could make the case to Aznar to avoid blocking the reform on diplomatic grounds (interview with a representative of Asociacion Agraria-Jovenes Agricultores, Brussels, 31 May 2007). The Blair story has been confirmed in an interview by two high-level European Commission officials (in Brussels, 25 April and 13 March 2007). An official with Deutscher Bauernverband e.V. (DBV) reported that the German agriculture minister "did not have the support of the DBV", adding, "it's not our job to help the Commission weaken the sector". Germany had opted for the flat-rate (regional) payment, which farmers challenged because it would lead to a readjustment of the direct payments already received and "as a farmer organisation you get lost with the

leadership of the Irish Farmers' Association, rank-and-file farmers and the agriculture minister, there was broad agreement to accept the Commission's proposals. This acceptance included the most contentious element, decoupling (telephone interview with J. Walsh, 30 May 2007; interview with Irish farm official, Brussels, 1 December 2006). Generally, agriculture ministers in the Council have therefore grown more independent of their farmers than in the past. COPA-COGECA also had a diminished role in the 2003 CAP reforms. It opposed decoupling, which in turn reduced its legitimacy in constructive dialogue with the Commission, a regret expressed by a COPA-COGECA official: "If we had said 'yes' to decoupling, we would have influenced the way it was implemented. Where we were influential was on the margins" (interview, Brussels, 26 January 2007).

The consumer and taxpayer appear to be playing a larger role in policy development. Chronic polling by Eurobarometer and roundtable meetings conducted with the public in each member state during Fischler's tenure (Fischler, 2001) gave greater prominence to the voice of the people. As a consequence, farmers became more so one voice among many.[5] Although there is tension between societal and sectoral privilege in weighing in on the CAP, for most of the history of the policy the voice of the consumer has been "weak" and "poorly articulated" (Ritson, 1991, p. 119). This appears to have reversed somewhat by the time of the 2003 reforms.

Extending the dialogue within civil society is positive for the legitimacy of the CAP, yet it remains a policy directly affecting the livelihoods of farmers, with secondary and diffuse effects on the common weal.[6] Gillingham put it thus: "To dismiss the CAP as merely a regrettable diversion from the constructive purposes of integration – or to write it off as just a boondoggle – would be to overlook its destructive influence on the evolution of Community institutions" (Gillingham, 2003, p. 123). Similar views, which one can hear expressed by professionals and laypersons alike, do nothing to enhance the credibility of the farmer as a rational interlocutor.

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redistribution". The official added, "but today, we like it, and farmers are free to decide what they want to grow" (interview, Brussels, 8 June 2007).

[5] Isabelle Garzon, a principal administrator in the European Commission, similarly argues in her 2006 book that "[n]ever before had the competition between farmers' organizations and other stakeholders been so intense" (Garzon, 2006, p. 111). Garzon's evidence suggesting a weakening in the farming lobby relies primarily on citing COPA-COGECA's official position. Garzon also argues that "[c]onsumer organizations were more active at European level than in the past", citing the umbrella organisation of the Bureau Europeen des Unions de Consommateurs as her source, which advocated a 'radical reform' in the areas of the environment, food protection and trade (ibid., p. 113).

[6] An official with COPA-COGECA, expressing his personal views on the matter, called the CAP a policy for "all European citizens, regarding safety and the landscape" (interview, Brussels, 8 December 2006).

9.4 Formulating the reforms

The conception and drafting of the initial Commission announcement of intentions to reform the CAP, released publicly on 10 July 2002 in the Communication on the Mid-Term Review of the Common Agricultural Policy[7] was kept confidential within a small coterie around Commissioner Fischler. It was protected from most of the bureaucracy supporting the commissioner in the DG for Agriculture (interview with a European Commission official, Brussels, 9 February 2007). Once it was brought to interservice consultation with other directorates-general, it would have been exposed to others internal to the Commission. The document went through numerous drafts across about two months and a small group reviewed it – including some members of Fischler's cabinet and a few from the DG for Agriculture. Commission officials have reported that it was not leaked.

Six months later, on 23 January 2003, the Commission submitted to the Council a package of seven legislative proposals for the reform of the CAP, based on Articles 36 and 37 of the EC Treaty, and making formal the ideas expressed in the first announcement. By February, the Special Committee on Agriculture, the group of experts from the permanent representations of the member states, had been studying the reports from the first reading of certain parts of the proposals by the working parties, anticipated to be completed by the end of February at the technical level (Council of the European Union, 2003a). Although elements of the reforms were already in place (decoupling and the rural development pillar), the initiative under the two-term Commissioner Franz Fischler accelerated the pace and intensity of the reforms, giving an internal shock to the system of farmer support by advancing decoupling for most sectors.

As Princen (2007) reminds us, the European Commission is the only institution that can submit proposals under the EU's first pillar and is therefore the first pillar's formal agenda-setter. But, he writes, "it would be a misconception…solely to equate agenda-setting in the EU with the activities of the Commission. ...[T]he impetus for a proposal may lie outside of the Commission" with interest groups, the Council, European Parliament, etc. And furthermore, "[i]t is generally impossible to identify an ultimate source of an idea". The reforms were the product of elite decision-making not only because the policy was initiated by the commissioner and was therefore in the purview of an elite mandate, but also because the policy's genesis was borne less of robust and substantive deliberative consultation with stakeholders than of a small group of civil servants around the commissioner's cabinet and the DG for Agriculture. A member of Commissioner Fischler's cabinet characterised the policy-formation process this way: "The experience from within is that the conflicts of interests in the EU are so diverse that they counterbalance each other." And therefore, the official continued, the Commission "rises above the interests" (interview, Brussels, 7 March 2007). It is possible – even likely – that views in

[7] See European Commission, Communication on the Mid-Term Review of the Common Agricultural Policy, COM(2002), 394 final, Brussels, 10 July 2002.

favour of decoupling, or producing what one wishes to produce, may have been expressed in the many formal and informal conversations that no doubt occurred between farmers and Commission officials through the DG for Agriculture's open-door policy, but there is no record made available to confirm one way or the other.

We can also exclude the genesis of the reforms deriving from a Commission presidency initiative. The reforms, unlike the MacSharry package, were not directed by the Commission president, in this case Romano Prodi. The Prodi leadership in agriculture was minor, as he devolved agenda-setting for agriculture to his agriculture commissioner, unlike the earlier Commission President Jacques Delors, under whose aegis the MacSharry policy was launched. It is agreed by some of Prodi's advisers that he had no firm ideas one way or the other about agriculture and issued no directive to Fischler about how or whether to reform, although he was "fully supportive" of Fischler and defended Fischler's ideas when he presented them to the College of Commissioners (interviews, Brussels, 18, 24 and 25 April 2007). A review of Romano Prodi's speeches while he was Commission president bears this interpretation out. There is no public record that Prodi's hand directed the reforms. It would seem that Prodi's light touch enabled the reforms by his not challenging the initiatives of the agriculture commissioner.

It is clear that the reforms would not have had the contours they did without the leadership of Commissioner Fischler, who, with a nod to his political momentousness in the historical life of the CAP, characterised himself in a farewell toast as "an agent of change" (Fischler, 2004).[8] It would be difficult to disagree with Fischler's self-assessment. The big question as the mid-term review period approached was what to do with the review clause included in Agenda 2000. The deputy director of the DG for Agriculture during the Fischler years said there were two key players at this time – himself and a director within the DG for Agriculture who had been involved in CAP reforms since 1988 – who pushed Fischler to reform and not simply review, but it was Fischler's own personal decision to advance decoupling. The deputy director said there were three reasons to push for reforms:

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[8] Both a member of Fischler's cabinet and a high-level official at the DG for Agriculture have said this explicitly. Although both figures worked closely with Fischler and clearly admired him, even Fischler's detractors could not disagree with their assessment of him, which stresses his intellectual abilities rather than the decisions he made or the methods he used to bring his vision to bear. The cabinet member said Fischler had gained "enormous respect and knowledge" of the technical aspects in agriculture. Without Fischler, he said, the mid-term review would have involved mild tinkering, and that "things don't happen mechanically and there is a role individuals play". The DG for Agriculture official said Fischler had a "brilliant mind" and he was "not frightened by politics". He also said the timing was right, as Fischler was in his second term as commissioner and he understood the political risks involved, but "had the qualities to do the job" (interviews, op cit., 18 and 24 April 2007). See also Grant (1997, pp. 147–82) for an excellent historical analysis of decision-making in the CAP, including the argument that the "[c]ommissioner makes a difference".

the finalisation of the negotiations for enlargement by 10 new member states, a fear that the financial perspective for 2007–13 would yield a budget cut for the CAP, and finally the continuation of the Doha negotiations of the World Trade Organisation (WTO).

The DG for Agriculture director, who had been involved in CAP reforms since 1988, remembers it slightly differently. He said that an economist who had become a member of Fischler's cabinet suggested decoupling as a strategy to save the CAP. But regardless of who planted the germ of the idea to decouple at the time it was proposed, *as a partial solution to problems facing the CAP*, what is most important is that none recalls pressure from farmers to do so, and although decoupling was certainly not a new economic approach to farm subsidies, the decision to propose it within the context of the mid-term review lay within the civil service. The irony of the Fischler reform process, procedurally transparent but substantively opaque in the early planning stages, and largely criticised, is that some of the staunchest critics with the most resounding punches have agreed in retrospect to its right and correct vision. According to the independent journal *Rural Europe* (No. 5, April 2007), the wider public also supports the CAP reforms. A face-to-face survey of 1,000 persons in each of the (then) 25 member states showed that "over 80% agreed with the principle of linking full EU payments for farmers to good environmental, health and animal welfare standards, while 49% supported decoupling of single farm payments".

9.5 Deliberative participation?

What appears at first to be a baroque arrangement of consultation meetings whose existences are unknown to the outsider and protected by tight-lipped participants is in fact a simple procedure legislated under Commission Decision 2004/391/EC on the Advisory Groups Dealing with Matters Covered by the Common Agricultural Policy (OJ L 120/50 24.4.2004). This legislation is a reform of the 1998 legislation 98/235/EC of 11 March 1998 (OJ L 88/59 24.3.1998). There are scores of consultation meetings a year with the Commission, with many categories of stakeholders represented by a certain number of seats, including farmers' groups, consumer groups, environmental groups and industry representatives.

When the Commission consults with stakeholders, the process is usually not deliberative.[9] It has been described as the commissioner or unit head of the DG for

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[9] See Schmalz-Bruns (2007) for a discussion on the normative elements of deliberative democracy, and also Papadopoulos & Warin (2007) on deliberative procedures in policy-making. See also Follesdal & Hix (2006, p. 555) who take up the matter of democratic deficit within and among EU institutions. They write,

> We agree that it is difficult, if not impossible, to determine the 'general good' within a heterogeneous population, even with contestation. And there seems to be a trade-off between citizen effectiveness in smaller units and system capacity, which sometimes favours larger units. Surely, the relationship and division of functions between units in a complex polity requires careful and theoretically informed decisions.

Agriculture sitting and listening, perhaps gathering information for use later on, with little on-the-spot hashing out of information. Describing the mid-term review process, one farm union leader said there was “no initiative from the Commission” to reach out to stakeholders (interview, Brussels, 1 June 2007). He said there was an advisory committee specifically for the CAP and the meeting was short, maybe half a day, during which the “[c]ommissioner spoke and after him there were maybe 60 people in the room, all stakeholders, trying to speak or make a comment” although “there was no real return” from Fischler. The union leader said that although the “Commission leaves its doors quite open…there is no real consultation…[and] for the process, the Commission should make active consultation” with separate meetings for separate stakeholders, to enable a fuller consultation. The formality of the consultations may also be a hindrance to a comfortable, natural flow and ease of rolling up the shirt sleeves and getting down to the business of good-faith discussion with guards down and humour intact.

It is easy to speculate that such on-the-spot genuine engagement and consensus building during the consultation process is a complicated objective. No doubt, the Commission must protect itself from making promises to groups that it cannot keep, as one group’s win might be another group’s loss. Nonetheless, one can envisage that a less contestatory and hierarchical environment may yield a process that is friendlier to the psychology of stakeholders as actually existing co-creators of policy. In the absence of a democratic pillar of direct elections of commissioners, the advantage of a Commission that is not beholden to an electorate and which therefore has institutional durability, is that it can, as one senior official in the Commission put it, take the long view versus the political short view on matters and do the right thing for the common good, all factors considered. In any event, many farm groups among the member states were initially against the plan.[10] Many complained that the radical degree of the reforms was unanticipated, despite the fact that some elements, such as partial decoupling, had been expected to some extent because of an acute and professional awareness of WTO pressures.[11] COGECA argued in one of its position papers that “decoupling direct aids could pose a very radical change to the current CAP” and would have “repercussions on the quantities produced by cooperatives” by leaving farmers with a “significantly weakened incentive to continue production”.[12]

[10] This includes, as discussed in interviews, the Austrian Chamber of Agriculture, the German DBV, the Spanish ASAJA, the Portuguese Confederacao dos Agricoltures de Portugal (CAP), the Irish Farmers’ Association (IFA), the French Federation Nationale des Syndicats d’Exploitants Agricoles (FNSEA) and the Coordination Paysanne Europeene (CPE), among others.

[11] Among those who reported in interviews that they expected some measure of decoupling were the Danish Agricultural Council, the Greek Confederation Panhellenique des Unions Des Cooperatives Agricoles (PASEGES) and the European Landowners Organisation (ELO).

[12] See COGECA (2002) and also COPA-COGECA (2001, 2003a and 2003b).

There are two conflicting readings of the confidentiality aspect of the reform Communication. On the one hand, clues about the intentions of the mid-term review had been swirling in the public domain for some time. On the other hand, the drafting of the document itself was developed under fortress-like conditions. A disconnect between these varying degrees of knowledge and ignorance might be levelled in the more general sense among some stakeholders in that they were not explicitly clued in by the Commission and therefore something drastic was in the works. This raised expectations and worries. *Agra Facts* (2002c), the independent periodical published in Brussels and widely read within the industry, reported a break-in at the DG for Agriculture building, including Commissioner Fischler's office, in early March 2002, although there was no evidence of computers or documents taken. Said one DG for Agriculture official, people "clearly overestimate what we are intending to do in the mid-term review".

And yet, there were early hints to the public from Commissioner Fischler about the terms of an impending reform. As early as February 2000, in a speech in London on the "Next Steps in Agenda 2000", Fischler announced that "European farmers have to adapt more and more to earning their income from a 'real' and not a 'virtual' market. However," he continued, "it is an open question whether the price reductions finally adopted in Berlin will be sufficient to achieve the market balance envisaged in the original proposal" (Fischler, 2000). It was clear that the shortcomings of Agenda 2000 were already targets of redress, and he cautioned that "certain reports or mid-term reviews are foreseen by the Berlin summit decisions within the next five years which will give us an opportunity to assess whether or not some fine tuning is necessary". Fischler gave reassurance of his emphasis on "fine tuning" in the mid-term review in a speech in Belfast in September 2001, where he stressed the validity of the objectives of Agenda 2000 and the impending mid-term review, which, he said, "is not going to be another reform". He added, "[a] reform would be if we wanted to change our objectives and the financial framework" (Fischler, 2001). It is interesting to note the technicality of his interpretation of what reform meant – changing the objectives of Agenda 2000 rather than intensifying the instruments employed to achieve those ends, which indeed was what happened. Yet as the review period neared, intentions became more evident even if still not entirely fixed. *Agra Facts* (2002d) reported "rumours" of the content once the Communication made the Commission interservice rounds in early June 2002, speculating that "[t]he other radical element in the concept is the apparent move towards decoupling aid payments as much as possible. Details remain vague."

Farmers were at a loss for information they could trust. This led to information gathering through not entirely transparent means. Representatives of three farm unions from three member states have reported that they received information on the decoupling plan before it was officially made public by Commissioner Fischler on 10 July 2002. One union's representative reported that a draft document had been leaked to the union from a fellow national working in one of the Commission directorates-general in May, approximately two months before the report was officially introduced. A second union representative reported that the union had "collected" covertly, through its own contacts in the Commission, some details of the

Communication, including the plan to decouple. A third union reported that it had known some months earlier some details of the Communication (interviews, Brussels, 30 and 31 May 2007).

If three unions reported covert acquisition of ‘secret’ information from the Commission, the likelihood is that others also had early information, from one source or another. Conversely, even if there were hypothetically no other leaks to other stakeholders, the confidentiality is enough to conclude that the document would be somewhat explosive to the expectations of stakeholders. Nonetheless, the need to keep things quiet on the part of the Commission and the covert acquisition of details of the Communication by unions would appear to indicate that the contents of the Communication were not the result of consultation with farm interests. By and large, farmers simply did not know what to expect, and there is a near absolute concurrence of informants among member state representatives and union representatives that the extent to which decoupling was proposed came as a surprise.

9.6 Motives for reform

Directly linked to the policy’s development are the motivations behind it. An analysis of statements made by key players has yielded a grocery list of rationales. It appears that rhetoric has shaped the universe, and subjectivity on the matter seems to overshadow the isolation of any objective rationale, which in the end is challenging to determine. Why something happens can be the result of multiple causation and speculation as to the ordering of that causation. Yet, Swinbank & Daugbjerg (2006) have made a strong case that the CAP reforms “accommodat[ed] WTO pressures”. They argue that since the Uruguay round and the MacSharry reforms, “the evolution of the CAP entered a new developmental path in which EU agricultural policy makers had to take into consideration WTO rules and developments”. They write, “CAP reform is no longer a purely intra-EU phenomenon” (p. 50). They rule out other potential key drivers, such as enlargement (because CAP reform did not precede enlargement, although the Single Area Payment Scheme for new member states was based on the 2001 Small Farmers’ Scheme for partial decoupling, both of which served as a premise for the Single Payment Scheme advanced under the 2003 reforms). They also rule out widespread public concern over the contents of the CAP (rejected because these concerns dated back to the mid-1980s and were therefore not new) and a push for rural development (also rejected as a main driver because funding was modest under the Agenda 2000 and the 2003 reforms). All are fair assessments, although it could be argued that consideration of differently paced trajectories of agendas and policies could, at least, allow the researcher to observe ongoing policy development as an indicator of motives for change even if initial attempts were tempered for whatever reasons, political, budgetary or otherwise.

If one turns an ear to the reform participants themselves, to a more explicitly subjective interpretation of events, a different picture emerges. *Agra Facts* (2002e) reported in June 2002 that the “principal motivation” behind the reforms was to improve the “justification to the taxpayer of the spending levels on EU agriculture policy”. *Agra Facts* had conducted its own interview with Fischler earlier that week, who added that reducing the administrative burden on farmers and freeing them to produce to meet market forces were also strong motivations. The article goes on to say:

> Seeking to explain the political justification behind the radical reform concept…the Commissioner also conceded that the concept will facilitate the forthcoming WTO talks and the EU Enlargement negotiations…but insisted that these were positive side-effects rather than a central motivation. He strongly denied the link between reform and Enlargement.

Pascal Lamy, the European Commissioner for Trade at the time of the 2003 reforms, "strongly supported" the new proposal and "trusted" Fischler and his team in its policy development. Matters of EU trade were widely consulted upon among the directorates within the Commission, with agricultural trade policy led by the agriculture directorate under Fischler. Lamy's deputy suggested that Fischler sold the WTO idea to the public as a means to gather public opinion in favour of decoupling, but it was not the most important rationale for the reforms (interview, Brussels, 2 May 2007). We see evidence of this in Lamy's speeches leading up to the reforms and WTO ministerial discussions in Cancun in September 2003. Just as the Council was beginning deliberations on Fischler's official proposal in January 2003, Lamy argued to an EU Commonwealth Roundtable at the London School of Economics that it was not essential to the Cancun negotiations. "Even better", he said, "if the member states agree to Franz Fischler's cleverly worked package for more reform in agriculture, of course, but we do not need this to put forward a strong, balanced, pro-reform, pro-development, proposal. *It would be the icing on the cake*" (Lamy, 2003, emphasis added).

9.7 An unloved reform package is embraced

"The Council held a public debate – shown to the public on closed-circuit television – on the mid-term review." So notes the public record, reflecting quietly and matter-of-factly the Council's first response, on 15 July 2002, to the Commission's Communication on the CAP reforms. Just shy of 12 months later, Council minutes reflected the conclusive results of arduous and complex negotiations: "Following its proceedings, the Council reached a political agreement by a qualified majority, with the Portuguese delegation announcing its intention to vote against, on the Presidency's overall compromise solution, which the Commission supported", with *compromise* being the key qualifier.[13] There is no question that what transpired during that year resulted in a dual message to the Commission and to farmers. The first message was that the Fischler agenda for reform of the subsidy regime would remain intact, and farmers would have to settle into a new era of adjustment that would define their lives for at least the next seven years and most likely into the foreseeable future. The second message, perhaps more revelatory of the political

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[13] See Council of the European Union, Draft minutes of the 2516th meeting of the Council of the European Union (Agriculture and Fisheries) in Luxembourg on 11–26 June, Brussels, 4 November 2003(c).

leverage member state agriculture ministers had in the aggregate, was that the reform agenda would have to be permeable – universal in objective, but specific and variable in application. A broad, metaphysical principle hovered, if only as a template for its imperfect realisation by the political animals who lay in wait.

Commissioner Fischler had crossed his own Rubicon. With a highly competent and disarming infantry of technocrats behind him, his job was to rationalise for the public, with firm conviction and intelligent discourse, the long-term value of decoupling and its attendant programmes of cross-compliance and rural development. For the Council members' part, their job was to protect their peoples' interests (at best, fragmented; at worst, contentious) but also employ a forward-looking *corps d'esprit*, a progressive sensibility as viewed through a wide lens. Compromise, clearly, was the only possible outcome this side of failure and it would be foolhardy not to believe that most parties anticipated it and, quite possibly, expected to capitalise on it.

Aside from the fact that Fischler has been portrayed by both supporters and detractors as admirably indefatigable, persuasive and possessing a mind that understood every technical detail while forgetting nothing, sheer lasting power (while in this case seemingly necessary) was certainly not sufficient to get the measure passed in the Council by a qualified majority. That required one-on-one deal-making between individual ministers and Fischler, and with the president of the Council, in small caucuses (the 'bilaterals'). The great, fatiguing contents of those discussions – some civil servants who sat at the table during the late-night last rounds in Luxembourg reported, legendarily, having blankets along to catch some shut-eye – are buried in participants' memories or kept close to the chest, but some clues came out during the interview process at hand and upon review of the Council minutes entered into the official record. Two stand-out cases among the 15 member states going into negotiations over the CAP in summer 2002 may help to illuminate the kinds of political and tactical strategies in play as the Council and Commission went to work.

One such case is the German one. The position of Germany's Federal Minister for Consumer Protection, Food and Agriculture, Renate Künast, going into the reform negotiations was favourable (*Agra Facts*, 2002f). Commissioner Fischler knew he had an ally in Künast. Germany's support for the Fischler plan was crucial – as a leader for rousing other states and as a possible counterforce against the French-led bloc, which was sure to be against decoupling (as proved to be the case). A high-level German agriculture officer suggested that Künast's positive position on the reforms was "key" for Commissioner Fischler to propose decoupling (interview, Brussels, 20 February 2007). The officer diplomatically and understatedly reported that Künast knew beforehand the key contents of the reform package. This interpretation is seconded by Commissioner Fischler's former spokesperson and cabinet member, who said the Commissioner "knew he had a supporter in Mrs Künast" before 2002, by "floating a trial balloon", the details of which remain nonetheless vague (interview, Brussels, 27 February 2007). By contrast, an Austrian official reported that many Austrian politicians were "disappointed" by Fischler's failure to inform them of the contents of the reform package ahead of its official launching in summer 2002 (interview, Brussels, 19 February 2007). Undoubtedly, Fischler did not want to appear to be favourably prejudicing the interests of his own countrymen. Furthermore, more strategically, Austria's vote in the Council was far less than Germany's.

Künast's logic of favouring decoupling subsidies from production and cross-compliance measures, which guarantee protection of the land, was not so surprising given the *raison d'être* of the Green Party she represented, which is to advocate along environmental lines. Künast's early comments on the CAP, beginning in 2001, suggested that she would be predisposed to support the policy reforms anyway, indicating that Germany would be introducing some form of modulation and "stricter rules in cross-compliance". Künast also expressed the intention to move German agriculture away from "quantity and cheap prices towards quality and sustainability" (*Agra Facts*, 2001a). Later that year, the German Federal Ministry for Consumer Protection, Food and Agriculture made public a paper in which it suggested a "single premium per hectare of utilised agriculture area as compensation for the higher welfare, environmental and other standards applied in the EU and for maintaining the countryside" (*Agra Facts*, 2001b). In an early 2002 German memorandum on the mid-term review, discussion turned towards the "ultimate long-term aim of introducing a single, flat-rate area payment covering all sectors linked to specific economic and socio-economic criteria", which was similar to what the Commission was already proposing for the incoming candidate countries (*Agra Facts*, 2002a).

Michaela Schreyer, the then EU Budget Commissioner, a peer of Commissioner Fischler's and like Künast a German Green Party member, said there was "a lot of consensus with Fischler on environmental issues", including cross-compliance and rural development. She said that as Green Party politicians, "we felt this was good", inasmuch as the budget would designate payouts for the specific purpose of cross-compliance (land maintenance) and the farmer "must do it". From a public goods perspective, such allocation made good fiscal and environmental sense, as did liberalisation of the market under decoupling measures, with which the Green Party had no ideological quarrel (interview, Berlin, 10 April 2007).

Germany's generally agreeable position on the CAP reforms would help to buoy Fischler as he undertook the risky business of wading into otherwise rip-tide waters. It would be certain that the French would have serious reservations along with the Spanish and Portuguese, which they did. The northern states of the UK, Denmark, Sweden and the Netherlands would be expected generally to find a way to agreement, which they did. Luxembourg would not be crucial one way or the other (*Agra Facts,* 2002f).

Ireland could be deemed an excellent second test case. Ireland's position, like that of France and Spain, was initially against the decoupling package, with its minister arguing that altering the subsidy structure would have serious consequences for employment in the agricultural sector (ibid.). The Irish Agriculture Minister Joe Walsh said in February 2002 – five months before the release of the reform Communication – that he favoured a minimal approach on the grounds that the effects of Agenda 2000 had not yet been felt and furthermore that the policy was intended to last until 2006. His argument also rested on the potential for an increase in rural development funds to end up putting those countries without rural development plans at a disadvantage (*Agra Facts*, 2002b).

Walsh and the Brussels director of the Irish Farmers' Association (IFA), the largest farm union in Ireland, were both experienced politico-diplomats and straight talkers, who could, and did, eventually make the case to their constituents back home that full and early decoupling would be good for the countryside. The sense was anyway that enough farmers were willing to rise to the challenge to produce for the market and fairly welcomed decoupling. There seemed to have been a magic moment of coalescence in Ireland, after consultation with the leadership of the IFA and rank-and-file farmers, with Ireland's social partnership model providing the impetus for consensus (Walsh interview, op cit.). "[W]e got attractive payment systems [as a result of ministerial negotiations with Fischler]…in other words, the rate of the single farm payment was going to be attractive and substantial", Walsh said. Surely, the story is much richer, but the result is uncomplicated. Ireland stands out as a member state to reverse its position completely and opt for early decoupling effective in 2005, with no sectors remaining coupled. This last aspect – no sectors remaining coupled – was not the case for the other member states except Luxembourg and most of the UK, where Scotland retained some coupling in the bovine sector.[14]

During the final stages of the Agriculture Council negotiations in Luxembourg under the Greek presidency, discussions became more intensive among Commissioner Fischler, the presidency representative Georgios Drys, and member state ministers and advisers, or more privately without the advisers. It took three sets of interlocking Luxembourg meetings – 11–12 June, 17–19 June and 25–26 June 2003 – to reach agreement. By the end of the middle session, two presidency compromises had been presented in the Council, and in the afternoon of the 19th, Drys "announced that the discussions had led him to the conclusion that for the time being the necessary elements for an agreement were not in place. Therefore, the Council should meet again the following Wednesday afternoon [25 June]."[15] The final presidency compromise, which the ministers discussed with Fischler in the last session, stuck (Council of the European Union, 2003b).

Between the middle session and the final session on 25–26 June, the European Council was convened in Thessaloniki, Greece's second city, for its planned summit. Its host was Socialist Greek Prime Minister Costas Simitis, whose agriculture minister had been presiding over the Agriculture Council meetings. An official in DG for Agriculture (interview, Brussels, 18 December 2006), who was then part of the Greek delegation advising Drys and present during the Luxembourg meetings,

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[14] See European Commission (2007).

[15] See the European Commission Secretariat-General's Note for the Attention of Members of the Commission on the 2516th session of the Agriculture/Fisheries Council, Luxembourg, 17–19 June, No. SI(2003) 702/3, Brussels, 23 June 2003(b). This document spells out in detail the position of each member state on each point of the proposal and is essential reading for those who wish to understand those details going into the last Council meeting.

said there was expectation that French President Jacques Chirac would try to block any CAP compromise among his peers at the Thessaloniki summit, but the subject never came up. The official said the delegation advised Simitis to avoid the CAP altogether at this high-level meeting since a compromise agreement in the Agriculture Council was so near. There is no mention in the official record of Simitis addressing the CAP in Thessaloniki. Politically, the official reported, Thessaloniki was “important” because it gave the “green light” to the Council to “go forward”. There were other more pressing items on the summit agenda, anyway – terrorism, immigration, weapons of mass destruction and the presentation of the draft Constitutional Treaty by Valery Giscard d’Estaing.[16]

9.8 Conclusion

The Council agreement, reached at that third session in June and put into legislation three months later, is not an unmitigated feat. “[P]olicy has been vertically integrated through national and Community mechanisms, limiting the autonomy of the Commission and retaining key functions in the Council”, Rieger (2000, p. 189) has written. This is certainly true in this case, although it bears repeating that ministerial, government and farm interests are not synonymous. A majority of member states – 11 of them – retained payments based on production in some sectors, some at 100%, meaning that decoupling in those sectors was postponed for the time being (European Commission, 2007). These are marquee compromises, and just one sort of example of many, small and large, that were made to get the package passed in the Council. At the end of the day, policies may be short but agendas are long, and Fischler accomplished what he set out to do, which was to reform the CAP and to save it from retrenchment.

Where certain democratic elements may be missing from the multivariate equation laid out in these pages, particularly in the way such vast numbers of people are steered by so few (some elected and some not), there are shining moments of responsibility and good governance – and foresight. It is certainly arguable that retrenchment of the CAP loomed, and enhancing rural development measures and monies through modulation was one way to circumvent it, which happened on Commissioner Fischler’s watch. It is also arguable that the primary beneficiaries of agricultural policy – farmers themselves – were less subjects than objects of policy formation. And yet, the fair adaptability of farmers to policy reform, combined with the different ways the policy has been implemented in the member states, has yielded an era of newfangled transformation and adjustment in the countryside. And the debate continues on this front, which is healthy for the aims of democratic objectives in the Union. But in the absence of fuller and more satisfactory formal democratic participation in this sector, the imperatives are heightened for open cooperation between civil society and a visionary, committed and pragmatic civil service. This can be achieved within an environment of ongoing trust, in part facilitated by deliberations without veil.

[16] See European Council (2003).

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10. The Political Economy of the Fischler Reforms of the EU's Common Agricultural Policy: The Perfect Storm?

Johan F.M. Swinnen

10.1 Introduction

C'est quoi ça? Le mid-term review?
Jacques Chirac (2002)

Between 1996 and 2004, Franz Fischler was Commissioner for Agriculture and Rural Development of the EU. During his tenure, Fischler introduced several reforms of the common agricultural policy (CAP). He is recognised as the architect of the most radical reforms of the CAP – the reforms of 2003 – which at the time were generally referred to as the 'mid-term review' (MTR), a term that in hindsight does not do justice to the extent and substance of the reform package.[1]

The chapters in this book have presented a series of perspectives on what determined and what made the Fischler reforms possible. In this chapter, the insights presented in the previous chapters are drawn upon, along with other material, to analyse how various factors contributed to the political outcome, or in other words, what determined the political economic equilibrium on agricultural and rural development policy in the EU in the first years of the 21st century.

This chapter is organised as follows. It first reviews what made the Fischler reforms radical – and what did not. Then a conceptual framework is presented, which is used to interpret how various factors affected the political outcome. In the next sections, these influencing factors are discussed in greater (empirical) detail. The final section concludes.

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[1] The essence of the Fischler reforms is summarised in several chapters in this book – see also the introductory chapter.

10.2 Were the Fischler reforms radical reforms?

Goodbye Agenda 2000, Hello Agenda 2003
Núñez Ferrer & Emerson (2000)

Several experts define the Fischler reforms as the most radical reforms since the beginning of the CAP (see e.g. the respective chapters by Olper and Pirzio-Biroli in this book). This assessment primarily refers to the content of the MTR but to some extent also refers to the timing and the approach of the reforms. These aspects are discussed in sequence.

10.2.1 Contents

There is a general consensus that the decision to decouple farm support from production was a very radical change in the CAP. In addition, the policy shift from quantity and the public regulation of markets and prices to a policy focused on quality, market-based initiatives and rural development is also an important and in some sense dramatic change from a strategic view of what the CAP should accomplish. Some of these elements, in particular that of rural development, had already been initiated in Agenda 2000.

Yet, there are also significant elements of the Fischler reforms that were decidedly less than 'radical'. Some of these arose from the political compromises that were needed to get the overall reforms through – they were, one might say, aspects of the 'reform package'. The modesty of other achievements can be attributed to other reasons.

First, a key fact is that total farm support has only marginally been affected by the reforms and remains essentially the same as before. Moreover, there is very little change in the distribution of CAP benefits across countries and farms.

Second, as Olper points out in his chapter, the reforms had no effect on EU border protection (except for the rice sector). While this fact is less discussed, it remains a very important one, in particular in the perspective of the Doha round and in view of the claims that the CAP is now much less intervening in markets.

Third, the much emphasised shift to a rural development policy should be judged not just on the base of the wording but also on the base of the funding reallocation between pillar I and pillar II. Judging on these bases, the reforms are much more modest than the official statements. Moreover, during the budgetary negotiations following the Fischler reforms, when it was necessary to cut some of the CAP budget, it was the budget for pillar II that was reduced, not that of pillar I payments. In fact, it is a remarkable observation that, despite all of Fischler's emphasis on rural development, the budget for pillar II was lower at the end of his tenure than it was before the 2003 MTR.

Fourth, a considerable compromise came by giving in to British demands to discard the ceiling on payments to farms – which would disproportionately affect the

UK with its large farms and landowners. Another compromise came by giving in to German demands to implement the decoupled payments on a regional basis instead of on a historical basis.

10.2.2 Timing and approach of the reforms

An aspect of the MTR that, it can be argued, is a notable change from the past is the decision to anticipate rather than react to problems stemming from external changes. Unlike in the past, when CAP reforms reacted to problems related to oversupply (e.g. the introduction of dairy and sugar quotas in the 1980s) or to trade conflicts (e.g. the MacSharry reforms in the 1990s) the MTR and Agenda 2000 were reforms that to a considerable extent anticipated necessary changes. This was an important development.

Possibly the most radical features of the reforms were their timing and the audacity of the European Commission in proposing them. Immediately after the Berlin meeting of the Council of Ministers in 1999, where the final decisions on the Agenda 2000 reforms of the CAP were made, commentators suggested that the discussion on the next reform package could start, as the Berlin reform agreements were insufficient to address the problems facing the CAP in the next decade.[2]

Yet, for many involved (outside a core group at the Commission), the MTR was considered exactly what the term said: a review to check halfway through the Agenda 2000 implementation period (2000–06) whether any (minor) adjustments were needed to guide the CAP through the process of enlarging the EU with 10 new member states.

When Fischler announced his plans in the summer of 2002, the opponents of the reforms (which at that time were most of the member states) were dumbfounded and the reactions were generally of shock and dismay – Pirzio-Biroli in his chapter refers to farmers' organisations considering the proposal a "sort of Molotov cocktail". The farm unions and the member state governments were confronted with a series of reform proposals that went way beyond what they considered a 'review' or 'minor adjustments'. The Commission was accused of going beyond its mandate.

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[2] Several commentators evaluated the final Agenda 2000 decisions as being insufficient to address the problems facing the CAP and almost certainly to lead to problems in the near future (e.g. Brenton & Núñez Ferrer, 2000; Burrell, 2000; Núñez Ferrer & Emerson, 2000; Buckwell & Tangermann, 1999). For instance, Burrell (2000) argued that

> [t]hese changes are probably inadequate for enabling the EU to keep within its WTO bindings in the coming years. For example, when the cereal price cuts are complete in 2002, it will still be impossible to export without subsidies unless world (dollar) prices are particularly buoyant, or the euro weakens further against the dollar, and so stocks of wheat and coarse grains are expected to rise unless the rate of mandatory set-aside is increased significantly.…[Moreover,] it is widely considered that the EU has not managed to develop a forward-looking strategy for agriculture in the next WTO round and will, once again, be forced to adopt a defensive position.

In summary, one can conclude that there is wide agreement that some key elements of the Fischler reforms were indeed very radical. Other elements of the 2003 reforms were certainly much more modest reform achievements. Nevertheless, the radical elements make the Fischler reforms unique.

10.3 The Perfect Storm: A conceptual framework

What made these radical reforms possible? To understand this, use is made of insights from theory. More specifically, a conceptual framework is used for this analysis, based on the models of Pokrivcak, Crombez & Swinnen (2006), and those of Crombez and Henning respectively, the key features of which are summarised in their chapters in this book. (For an interesting alternative approach, reference is made to the structure–agency–context framework used by Grant in the final chapter.)

In particular, it is argued here that three (sets of) factors that in theory have been shown to be important for enabling successful reforms came together in the period around 2002. The three factors were i) the effect of institutional reforms, ii) the optimal conditions for reform within a given institutional framework, and iii) changes in the number and quality of the political actors.

10.3.1 Voting rules and agenda-setting

In his chapter in this book, Crombez derives the impact of the institutional changes that have been decided over the past decades, including those brought by the Single European Act (SEA) and the Treaties of Maastricht and Nice. Most relevant for our analysis are the changes in voting rules initiated by the SEA, as these introduced qualified majority voting for decision-making in EU policy where the unanimity rule had been used before.

While in reality, qualified majority voting was increasingly being used for minor CAP decisions, major CAP decisions were often still decided by unanimity throughout the 1990s. In this respect, the 1999 CAP reforms (Agenda 2000) were a watershed: for the first time a major country (France) was outvoted in relation to a major CAP reform.

For the MTR, the voting rules played a very important role. As we explain later, Fischler and his team spent a lot of effort trying to put together a winning coalition and breaking a blocking minority coalition.

10.3.2 The optimal reform context

The optimal reform context, as defined by Pokrivcak, Crombez & Swinnen (2006), is the combination of a) an external change that moves policy preferences in a pro-reform direction, b) that is sufficiently large, and c) a pro-reform Commission. Such a combination leads to a 'pro-reform bias' in their theory.

The intuition is the following. *Ceteris paribus*, an external change that alters the political preferences of the member states will lead to a demand for policy adjustments. Still, effective policy adjustments will only occur if the change is large enough, because of the decision-making procedures in the EU that induce a 'status quo bias'. Under the unanimity rule, those most opposed to reform hold an as-if veto over the reform decision. Under a qualified majority rule, an external change needs to be sufficiently large for a minimum coalition of countries (those required to form a qualified majority) to be better off with a policy change than with current policies. In their chapter, Pokrivcak, Crombez & Swinnen show that if an external change is sufficiently large, the final outcome will depend on the preferences of the Commission – which sets the agenda. The Commission can make a proposal within a certain policy range, which will ultimately be approved. Hence, if the Commission has strong pro-reform preferences, it can pick the strongest reform option that is possible within the policy range that can be approved. This leads to what Pokrivcak and his colleagues call the 'pro-reform bias'.

10.3.3 The number and quality of political actors

The analysis above says nothing about changes in the experience or in the political and social capital of various agents in the model. These factors may obviously also play a role. Furthermore, the number of decision-makers (and with it the distribution of preferences) has not stayed constant over the years. In particular, consecutive enlargements of the EU have affected the number of member states, and with it the heterogeneity of preferences of member state governments. Introducing such changes in the models (as e.g. Henning does in his analysis of the impact of enlargement) will affect the outcomes.

In the next sections, we discuss the empirical evidence on the importance of external changes, preferences, the experience of the Commission, the political coalitions, etc. We then use this evidence to analyse to the extent to which these conditions have affected the Fischler reforms. We start with the external changes.

10.4 External changes and pressures for CAP reform[3]

[In the past,] the drivers of CAP reform were the budget and the Americans.

Moehler (2008)

In their respective chapters, Josling, Moehler and Olper review the importance of external changes for CAP reforms, both historically and regarding the Fischler reforms. Josling argues that historically the main external pressures on the CAP were macroeconomic factors. Later, in the 1980s, Josling and Moehler agree that budgetary and trade relations ("the Americans") came to play a prominent role in

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[3] In a review of the history and challenges of CAP reforms, Ahner & Scheele (2000) list five motives for the Agenda 2000 reforms: market developments (including food safety), growing environmental concerns, the need for rural development, increasing trade liberalisation and smoothing the way for enlargement. What is interesting is that the current pressures for reform are essentially the same. Clearly, the recent food crises and their political repercussions have given food safety and environmental concerns more prominence on the list than before, but otherwise the major factors have not changed.

causing CAP changes. There is also a consensus that the enlargement with 10 Central and Eastern European countries (CEECs) was the main factor behind the Agenda 2000 reforms.

In the analysis below, the focus is on the main external pressures affecting the 2003 Fischler reforms. The pressures for reform can be summarised under the following headings: eastern enlargement of the EU, the World Trade Organisation (WTO) and other trade negotiations, the budget, and food safety and environmental concerns.

10.4.1 Eastern enlargement

A number of CEECs were to become members of the EU – through the eastern enlargement – in the years after the MTR. Agriculture was a central component of this process for several reasons. Much has been written on the agricultural implications of accession.[4] It is clear that the Agenda 2000 proposal was the Commission's view about how to deal with enlargement in the CAP, but the final Agenda 2000 outcome was less than proposed.

The relevant question is whether a reform of the CAP post-Agenda 2000 was still needed to accommodate the eastern enlargement of the EU. Swinnen (2001) explains why accession was, by 2001, less likely to create a conflict with WTO commitments than initially feared – although several factors such as the evolution of CEEC productivity, world markets and exchange rates remained uncertain. Yet, what was also obvious was that deeper reforms in Agenda 2000 would have made a considerable difference in the sense of reducing incentives for further reforms owing to the enlargement process.[5]

Still, the likelihood of a WTO conflict was expected to depend more on the outcome of the upcoming negotiations in the WTO millennium round. If, as a result

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[4] First, unlike in most sectors, where trade restrictions have been removed already, accession implies the removal of important barriers to agricultural and food trade between the CEECs and the EU. Second, accession implies the imposition of a complex set of policies and rules under the CAP, budgetary and WTO constraints, veterinary and phytosanitary rules, and commercial policies, all of which provoke politically sensitive accession issues. Third, agriculture makes up a large share of employment in the CEECs, especially in the two largest countries, Poland and Romania, which combined have almost as many 'farmers' as the EU-15. Low productivity and hidden unemployment indicate potentially serious social and economic problems with accession. See Swinnen (2001), Hartell & Swinnen (2000) and Tangermann & Banse (2000) for more details.

[5] Given the expected agricultural production impacts of enlargement and their trade implications, the budgetary effects of extra intervention purchases and export subsidies are expected to be relatively minor. The main budgetary effects come when/if direct payments are made available for CEEC farms (as discussed further in this chapter).

of a new WTO agreement, the EU needed to significantly reduce export subsidies or change the implementation of the direct payments, the CAP would have to be reformed, irrespective of enlargement.

10.4.2 The WTO

Since the conclusion of the Uruguay Round Agreement on Agriculture (URAA), EU subsidies to agricultural production and exports have been constrained by WTO rules. Among others, there are restrictions on the total support to agriculture and on both the amount of export subsidies and the volume of exports that can be subsidised. Several observers argue that the implementation of the WTO induced relatively little effective trade and policy liberalisation in most developed countries, including the EU (Tangermann, 1998). Still, they agree that the URAA is an important factor for the CAP for several reasons: the URAA brought the link between the domestic policy aspects of the CAP and its international trade implications to the top of the policy agenda; it provided the key incentives for the 1992 MacSharry reforms; it established a set of rules for agricultural trade policy; and it created a framework for future negotiations. In addition, a continuation of the reductions to the subsidies under the next negotiation round could entail much more serious implications for the CAP.

Although no one expected the next round on agriculture to be easy in the late 1990s, initially it looked as if it could be a rather straightforward exercise, at least in concept. The previous round had resulted, if not in much effective liberalisation, at least in a framework to build on in the next round. Specifically, three major areas of negotiation had been identified and measures of progress had been agreed upon and used in the negotiations (indicators on 'market access', 'aggregate measure of support' and volumes and total amount of export subsidies). An optimistic negotiation scenario was that negotiators would merely focus on these areas and negotiate further reductions in these indicators.

By 2000, however, it had become clear that this was way too optimistic. The growing discontent of the developing countries with the WTO introduced them as a major and new factor in the negotiations. Not only did this complicate the negotiations, it also brought much uncertainty, since the developing countries are a heterogeneous group themselves and do not all have the same interests and preferences.

10.4.3 Other trade negotiations

The WTO was not the only trade arrangement affecting EU agricultural and food markets and the CAP. Many developing countries had preferential access to the EU market under special agreements, such as the former Lomé, now Cotonou Agreement.[6] The Seattle conference had reinforced the position of the developing

[6] To illustrate the extent of this factor, among the 141 participants in the WTO, many of them developing countries, the EU has special trading agreements with almost 100.

countries in the international trade negotiations. While they often complain about the negative impact of EU agricultural policies and standards on them, as noted earlier they are a heterogeneous group. In highly regulated EU markets, such as the sugar and banana markets, preferential trading agreements yield major advantages to some of the developing countries that benefit from this access, such as the African, Caribbean and Pacific countries. Therefore, developing countries have quite diverging preferences on reforms of the CAP commodity policies and trading regimes.

Pascal Lamy, while still Commissioner for Trade, undertook several trade initiatives to stimulate both multilateral and regional trading agreements. Among the latter were initiatives for liberalising trade between the EU and Mercosur. Another Lamy initiative, the Everything but Arms (EBA) trade proposal, was to allow all imports of the 48 poorest countries without restrictions into the EU market. The EBA proposal was heavily opposed by interest groups from the rice, sugar and banana sectors. These strong lobby efforts resulted in some revisions of the EBA proposal before it was adopted by the Council. Yet, while these revisions postponed the impact, they had considerable implications for reforms in some sectors such as sugar.[7] These trade initiatives further raised awareness of the international effects of the CAP and contributed to the sense of a need to reform the CAP.

10.4.4 Food safety and environmental concerns

With rising incomes, consumer demands for food quality and safety have increased over the past decades. This general trend was powerfully reinforced by several food safety crises in the years before the MTR. These crises put food safety, animal welfare and environmental concerns on top of the agricultural policy agenda. Both the BSE crisis and foot and mouth disease (FMD), which started in the UK and spread to the Continent afterwards, and the dioxin crisis, which started in Belgium, had EU-wide effects through trade restrictions imposed by other countries. Probably even more importantly, the extension of media coverage provoked strong reactions not only from consumer and environmental groups, but also from the general public.

The strong reactions of consumers and the general public on this issue contrasted sharply with their rather passive attitude vis-à-vis traditional agricultural policy issues in the past decades. Following these crises, there were strident calls for the overhaul of the EU's agricultural policy. Consumer groups, environmental organisations and government officials emphasised that large government subsidies for farming practices that did not adhere to appropriate food safety, environmental and animal welfare standards were unacceptable.

There were considerable political impacts. In Germany, the minister of agriculture and the minister of health affairs had to resign in the wake of the discovery of BSE in

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[7] Liberalisation was phased in for the three sensitive products. For example, for sugar, tariff quotas gradually increased from 2001 onwards, but tariff cuts only began in 2006 and full liberalisation will occur in 2009.

the country. The German ruling coalition appointed Renate Künast, a senior member of the Green Party, as the new Minister of Consumer Protection, Food and Agriculture in 2000. She called for a fundamental rethinking of the EU's agricultural policy, including a large shift to organic farming. In the UK, the Department of Agriculture was replaced by the Department of Environment, Food and Rural Affairs, giving a clear signal of the change in policy priorities. In Belgium, two ministers, including the minister of agriculture, had to resign following the discovery of dioxin in the food chain and the dioxin scandal contributed to a major electoral defeat of the governing parties. The EU budget was also affected by significant additional expenditures because of both increased intervention purchases and additional policy measures to contain BSE and FMD.

10.4.5 A loss of legitimacy

These various elements, some traditional and others new, combined to increase pressure for change in the EU. Franz Fischler himself summarised these important developments as that the CAP had lost its legitimacy among the EU public. In particular, the fact that the CAP was increasingly seen as at the same time hurting EU trade interests, having negative effects on the environment and unable to address the food safety concerns of EU consumers was turning into a major call for reform.

10.4.6 Calls for reform and budget cuts

These elements also affected the budgetary discussions taking place in around 2000. They compounded the call for radical changes in the CAP at a time when ministers of finance and other members of the European Commission, searching for budget cuts or reallocations within the EU budget, were already demanding significant budget cuts for the CAP. These were vital issues on the verge of eastern enlargement, a process that was expected to greatly increase the CAP budget if the CAP was not reformed to contain the costs and which entailed the need for extra budgetary means for the structural funds, with the new member states having much lower incomes than the EU-15 average. Hence, at the start of the Prodi Commission there was a view among many that the CAP budget should be cut, and a reduction target of 30% was mentioned. This view was reinforced by the Sapir report, which looked at the future and argued that EU expenditures on agriculture should be drastically reduced.

10.5 Changes in the political actors

There were not only important external changes, in terms of both the institutional reforms and pressures as we have outlined above, but also those involved in the decision-making and reform proposal preparations had changed.

10.5.1 Enlargement

Two enlargement processes played a role: the previous enlargement of 1995 in terms of EU member state preferences, and the eastern enlargement in terms of an expected change in future preferences and more difficult decision-making.

First, the enlargement of the EU in the previous decades had affected both the aggregate preferences and the distribution of the votes in the EU. In particular, the accession of Sweden, Finland and Austria to the EU are said to have made a difference.[8] Yet, the effect on agricultural policy appears nuanced. While this enlargement certainly affected the camps of defenders and opponents of the CAP as it existed, it did not do so in a simple, linear way.

The pro-reform camp was reinforced with a vocal partner by the arrival of Sweden, which had gone through a process of radical liberalisation of its agricultural policy in the early 1990s, and which was forced to re-introduce government regulations and subsidies under the CAP with its accession to the EU. Sweden has consistently been a strong critic of the CAP and a voice for reform.

The two other countries however, Finland and Austria, had a protectionist agricultural stance before joining, as their many small farms in disadvantaged areas depended on subsidies to survive in a competitive market. After accession, they continued to support farm subsidies.

Nevertheless, as high-income countries with small-scale agriculture, Finland and Austria were more sympathetic to supporting strategies for rural development, agri-environmental policies and multifunctionality of their rural areas, rather than large subsidies for quantity production – which mainly benefited the larger producers of the main crops.

By definition, enlargement also reduced the share of votes of the established players in the EU. In addition, for cultural reasons, none of these three countries were 'natural allies' of France, a country that has traditionally played a very important role in CAP debates, which some argue has affected the policy discussions.

Second, the anticipation of eastern enlargement played a role as well. With 10 Eastern European countries joining, some of which have large agricultural sectors and an even larger farm population, the Commission realised that reform would not become easier after enlargement.[9] Therefore, the expected eastern enlargement gave a sense of urgency to the reform proposals: they had to be decided before enlargement took place.

10.5.2 Commission preferences

A large share of the commissioners wanted reform of the CAP, although not all in the same direction. Commission President Romano Prodi and several of the other commissioners wanted the share of the CAP in the EU budget to be reduced, and substantially so. Commissioner for Trade Pascal Lamy wanted the CAP to be reformed in order to allow the EU to take the initiative in the Doha round and not

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[8] See Olper (1998) on the determinants of EU member states positions in agricultural policy.

[9] See the chapter by Henning and also the paper by Henning & Latacz-Lohmann (2004) for a formal analysis of this issue.

always be on the defensive. And, of course, the commissioners were increasingly reflecting consumer and environmental concerns in pressuring for change.

As Commissioner for Agriculture and Rural Development, Fischler was keen to leave a legacy in terms of having reformed the CAP towards a course that he considers sustainable and consistent with his view of European agriculture – an Austrian perspective one could argue. A CAP that is more in line with broad rural development, the environment, the production of quality and safe food, etc., differs from the old CAP, which was focused on quantity, output and prices. This view is reflected in Pirzio-Biroli's statement in his chapter:

> The old realities led to what we can call the 'old CAP' and the new realities led to the 'new CAP', which results from Agenda 2000…Agriculture is not just the production of food…but also the preservation of the rural environment and landscape, animal welfare and agriculture's contribution to the viability of rural areas. It is our intention to meet these objectives by policy measures…in the least trade-distorting ways.

After the Agenda 2000 reforms, Fischler was strongly motivated to use the MTR of 2003 to propose significant reforms of the CAP. In a rather unexpected way, the food safety and environmental crises of 1999–2001 had reinforced this agenda. The sense of urgency surrounding a major rethinking of the CAP contributed to pushing the general political agenda closer to his personal preferences.

Another important factor, which we explain in more detail later, is experience. *Ceteris paribus*, every commissioner in his/her second term has gained experience and hence tends to be more effective in pursuing policies than in the first term.

Probably because of these factors, his reform attitude and experience, President Jacques Chirac of France personally intervened with Prodi in 2000 at the start of the latter's tenure not to reappoint Fischler as the commissioner for agriculture. Prodi himself, however, wanted CAP reform and he wanted someone who could deliver it. He denied Chirac's request and chose Fischler to continue in his position – and in this way made an important contribution to CAP reforms, although Prodi later never intervened in the actual CAP discussions.

10.5.3 Pressure groups

The 2003 MTR discussions and political tactics also transformed the politics-as-usual in the CAP. Traditionally, the main pressure group involved in the CAP negotiations had been the farm unions. They put pressure on their agriculture ministers and on the Commission and tried to obtain as much as the other ministers would allow. But the MTR negotiations brought consumer groups and environmental groups to the political table in a much stronger way than had happened before.

In fact, Fischler reached out very purposefully to these groups in selling his MTR proposals. He saw them as his main audience in re-establishing public support for a reformed CAP. He deliberately designed a media strategy and a series of presentations to communicate with these groups and to win their support for his reforms. His strategy was that, even in countries that were not in favour of CAP reforms per se, the public was still very much in favour of policies that improved the rural environment, enhanced animal welfare, ensured food safety and food security, etc.

10.5.4 The administration

Finally, an important potential source of opposition against the reforms was within the Commission itself: the traditional DG for Agriculture thinking of the administrators. The preparation of the reforms was kept within a tight circle of six top officials (of the cabinet and of the administration). A group of administrators concerned with policy analysis within the DG for Agriculture were asked to assess the effects of some of the proposals, but without being fully informed. Once the reform proposals were finalised, an essential mission (confirmed by interviews with some of those in the inner circle) was to convince the rest of the DG for Agriculture that this was a good strategy.

In this respect, a number of changes may have contributed as well. The administrative reforms introduced some years before in the European Commission removed the hold of France on the top job in the DG for Agriculture. In addition, many of the old-style DG for Agriculture officials, whose careers had developed in the early years of the CAP, had left and younger persons had joined in the past decade, such that thinking within the DG for Agriculture was much more open to, for example, environmental and economic arguments.[10]

10.6 A complex reform puzzle

10.6.1 Were the Fischler reforms a certain outcome?

As outlined in the previous sections, first, there were strong pressures to reform because of external factors and second, there were important internal changes that had given the chance for reform a boost. The theoretical models would predict that the principal developments that had occurred made it thus more likely that substantial CAP reforms could be possible. Even so, that did not mean that radical reforms were a certainty – quite the contrary in the minds of many observers.

A model such as that we used here has a deterministic and linear logic, albeit with interdependent effects. Although the model has tried to look at key variables that influence the decision-making, by definition a model does not include all the variables. Reality, of course, is always more complex than theoretical models.

In fact, almost all the participants in the reform debate and most outside observers argue that the success of Fischler in pushing through the reforms was far from certain at the outset. Although there is no exact evidence on this, one could argue that most thought that the chances were slim *ex ante*. For example, in his chapter Pirzio-Biroli claims that one of the most experienced experts on CAP reforms, the well-known

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[10] See also Moehler on this point in his chapter.

former Commissioner for Agriculture Guy Legras, thought that Fischler would never succeed in getting his proposal approved. Another senior Commission official illustrated the general scepticism with the story that three months before the Fischler reforms were approved, the minister of agriculture of his home country bet him a bottle of champagne that the proposals would never make it through the political process.

Before going into the political tactics that were used in the negotiations, first the complexity of the discussions are considered. The reform process was very complex because of both the timing and the interaction, and sometimes contradiction, of the various elements.

10.6.2 Reform + reform = More or less reform?

Interestingly, the various demands for reform were not all consistent and in some sense appeared to weaken rather than reinforce one another. For example, the food safety crisis significantly contributed to the demand for reform of the CAP, and probably more than anything else put CAP reform on the political agenda and raised public awareness about agricultural policy. Yet, the reform ideas coming out of this agenda tended to go in the direction of more regulation rather than less, and of more subsidisation (albeit redirected) rather than less. For example, few of the environmental groups and parties who pressured for a radical rethinking of agricultural policy in the EU considered trade liberalisation and WTO negotiations a positive development.

Their stance contrasted with the more traditional pressure for CAP reform mostly from economists and some politicians arguing for less regulation and lower subsidies, and favouring more liberalised trade and markets. For example, while 'old reformers' tended to look rather sceptically upon the concept of 'multifunctionality', which the EU was pushing in the WTO negotiations as an argument to maintain a large part of its agricultural support system, 'new reformers' tended to appreciate this concept as it is consistent with their desire to subsidise and protect a certain farming system and rural way of life.

The contrast between these two views is captured by the following quote from Stefan Tangermann (2001, p. 54):

> The BSE crisis had absolutely nothing to do with agricultural policy. [It is a puzzle] why organic farming is now so widely seen as the most appropriate response to the BSE crisis, and to Foot and Mouth Disease. …When it comes to economic measures, everything that economists have long preached remains valid, and now even more so. To argue that Europe's farmers were driven to adopt cost-saving dangerous practices because they were under constant price pressure is simply wrong; as is the suggestion that structural change towards larger farms endangers the environment, animal welfare, and consumer protection. Price support cannot do anything good for any of these concerns. Indiscriminate direct payments substituting for past price support help neither the environment, nor animals, nor consumer health.

> At a time when surplus beef is destroyed to save the market from complete collapse, who can understand why beef premia are still paid on a per animal basis, providing incentives for farmers to produce more than the market price would suggest?

While Tangermann points at complexities, he also points at the heart of the problem, because the interactions between environmental and food safety concerns and subsidies were especially strong in the livestock sector where BSE caused many problems, while at the same time CAP subsidies stimulated overproduction and exports were subsidised.

In conclusion, the pressure to reform the CAP had plainly increased by 2001, but it did not contribute to a more focused picture on what direction the reforms would take. Clearly, there was reinforcement in the sense that 'something needs to be done', but there was much less common ground on what. In fact, some of the reform ideas pointed in opposing directions.

Nonetheless, in Fischler's mind and team things were coming together. In hindsight, it appears that Tangermann's statement that the "BSE crisis had absolutely nothing to do with agricultural policy" may have been true from an economic perspective, but not from a political one. In fact, in the type of political strategy that Fischler and his team had in mind, they fitted very well together.

10.6.3 Timing: Finding the right reform moment

The timing was also complex. Several major developments, all of which affected each other, overlapped: the WTO negotiations, the enlargement negotiations, the enlargement process itself, the Agenda 2000 implementation, the mid-term reviews, etc.

To see the complexity, we should put ourselves back in the situation in 2001 (for a review of the issues and complexities in 2001, see Swinnen, 2001). Box 10.1 summarises some key time schedules and deadlines that were important for the reform process, as they looked in the summer of 2001. The implementation of Agenda 2000 was ongoing, but the full impact would not be realised until 2006. The budgetary guidelines had been decided up to 2006. The mid-term reviews were scheduled to take place in 2002 and 2003. If the Agenda 2000 decisions were not changed, the dairy quotas would remain unchanged until 2006 and would continue in some form until 2008.

The upcoming elections in the member states, and in particular in France and Germany, complicated the proposal and the decision-making process on further CAP reforms. No difficult decisions could be taken regarding the reform of the CAP before the French elections in the spring of 2002. Furthermore, some crucial decisions needed to take account of the German elections in autumn 2002. Germany played a prominent role in the discussions given the sensitivity surrounding both the budgetary implications and the environmental issues. On the other hand, the German government was pro-consumer and pro-environment – and wanted to show some results before the elections.

Box 10.1. Key timing elements as perceived in 2001

Agenda 2000	
Mid-term reviews	2002–03
Full implementation	2006
Internal EU politics	
French elections	May and June 2002 (parliament & president)
German elections	September 2002
Prodi Commission	Until January 2005
Fischler as a commissioner	Until January 2005
EU presidencies	
Belgium	Autumn 2001
Spain	Spring 2002
Denmark	Autumn 2002
Greece	Spring 2003
Enlargement	
CEECs' participation in elections for EU parliament	June 2004
First accession wave	Uncertain (2004?)
WTO	
Seattle conference	November/December 1999
Sessions on agriculture	Since January 2000
Qatar conference	November 2001
Peace Clause	Until December 2003

In 2001, despite much pressure from the CEECs, there was not yet an agreement on a time schedule for the enlargement. Negotiations of the accession chapters were continuing with the CEECs. The most important remaining issues were the allocation of direct payments and quotas to CEEC farms and the CEECs' request for an exception for foreigners to purchase agricultural land during a transition period after accession. But since the Prodi Commission had made accession one of its top priorities, it wanted some CEECs to accede during its tenure, which ran out in January 2005.

The WTO millennium round was, already then, behind schedule, with little progress being made since the Seattle meeting. While negotiations on agriculture had continued with the submission of negotiation positions by the various partners, clearly much more was needed in order to make substantive progress. The WTO discussions were gaining some momentum in 2001 with the arrival of the Bush administration and Trade Representative Robert Zoellick on the US side. It was unclear then whether and, if so when, the Bush administration would obtain fast-track negotiation authority from the US Congress – further complicated by the loss of the Republican majority in the US Senate owing to the defection of a senator from the Republican party. In press interviews, Zoellick had suggested that, in the best of worlds, it would take until the end of the year to obtain such authority from Congress. The EU also faced the end of the Peace Clause, which was scheduled to run out in 2003.

Another major issue in 2001 was how EU accession was possible within the financial framework for 2000–06. CEEC governments were insisting on obtaining full payments from the CAP and the structural funds, while those losing out (net contributors and current beneficiaries of the structural funds) opposed this.

It is clear that the interaction between enlargement, WTO negotiations, the EU budget negotiations and CAP reform was complex in terms of both content and timing (see Box 10.2 for an illustration). In summary, even with substantial pressures for reforms and institutional changes making it easier, the reforms were highly complicated. In hindsight, it probably required an experienced and committed captain to steer the reform ship through the rough waters. But the second term of Commissioner Fischler ran out in January 2005. With all this in mind, 2002–03 must have looked like the best – or the only possible – timing for the next CAP reform, also since accession was not likely to occur before 2004.

Box 10.2 Enlargement, the WTO, EU budget negotiations and the dairy reforms

The implications for reforms to the dairy sector well illustrate the complexity of the interaction between enlargement, WTO negotiations, the EU budget negotiations and CAP reform. According to the 2001 legislation, the quota system would remain in place until 2008. Yet, the Berlin European Council summit of 1999 had decided that the milk regime would have to be reconsidered in the MTR in 2003, "with a view to eliminat[ing] quotas after 2006". This meant that accession negotiations between the EU and the CEECs, which included discussions on dairy quota allocations and direct payments, were happening at the same time as the EU was reviewing these policies and discussing reforms. Furthermore, accession negotiations were expected to be completed for some CEECs in 2002. Hence, with mid-term reviews to be published at the end of 2002 and the beginning of 2003, and with French elections in 2002, serious discussions could not start until after that time, which raised several intricate issues of ratification and re-negotiation.

Finally, even if the EU had decided to liberalise the dairy regime, either for internal political reasons or as a result of the WTO millennium round, a complete removal of dairy quotas was unlikely to take place before the first CEECs acceded. Consequently, even with substantial dairy reforms, either the EU had to implement quotas in the CEECs or it had to manage, at least temporarily, a quota regime in the EU-15 alongside a non-quota regime in the CEECs, presumably within a single market. In addition, policy-makers had to address the issue of compensation payments to CEEC dairy farms. These difficult policy decisions stemmed from the failure of the 1999 Berlin Council meeting to agree on further and earlier reforms in Agenda 2000, particularly for the dairy sector.

10.7 Franz Fischler: Strategist and tactician

Everybody inside the Commission with whom this author has spoken discusses Franz Fischler's role in the 2002–03 reforms in quasi-heroic terms. Some argue that what really made the reforms succeed was the combination of Fischler's strategic vision and political tactics and the Commission officials' effort and preparation. They argue that Fischler not only had a clear and firm strategic view on where he wanted the reforms to go, he also used masterful political tactics in getting there.

In preparing the reforms and guiding them through the political process, experience mattered as well. The general experience of a second-term commissioner and specific experience with the Agenda 2000 reforms made Fischler better prepared for the reform battle. He was a stronger player for those who opposed his reform proposals. In general, a second-term commissioner has more experience in how deals and decisions in the EU are made and can(not) be achieved. Probably even more importantly, his experience with Agenda 2000 and in particular Chirac's unusual intervention at the Berlin European Council meeting in 1999 (as discussed below) made it apparent to Fischler that he had to anticipate any potential political obstacle and strategy in order to avoid the fate of the Agenda 2000 reforms.

10.7.1 Preparation of the reforms

Fischler had learned from his own earlier reforms and from the experiences of earlier commissioners that if specific proposals come out early, vested interest groups, such as the commodity groups, will mobilise quickly and reform efforts may be undermined and blocked before they are even launched. Therefore, Fischler put together a small inner circle of six officials to prepare the entire reform package. As is well documented in the respective chapters by Pirzio-Biroli and Syrrakos, a small group of senior Commission officials, drawing on a substantial amount of study and analysis by experts within the Commission administration, were preparing the details of the proposals and calculating potential effects. The six were high-level Commission staff, partly from his cabinet and partly from the DG for Agriculture. Everybody else was kept in the dark – or probably more accurately, on a need-to-know basis. Commission services were asked to do preparatory analyses and impact studies without being informed of the entire picture.[11]

While hints about the reforms were given to the public in 2001 (as discussed below), there was a complete communication stop by the Commission in the spring of 2002. This was the time of the campaigns for the French elections, which took place in May and June of 2002. During this period, Commission officials were forbidden to speak in public on CAP reforms.[12]

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[11] There are some notable stories surrounding the secrecy of the reform preparations, including the distribution of proposals on specially marked paper. Syrrakos in her chapter even refers to a break-in at the Commission offices.

[12] This author was organising a Task Force on the CAP Reform at CEPS over the 2001–02 period. Interestingly, while in 2001 Commission officials were willing to come and participate in the meetings, they commented on US agricultural policy and the Doha round rather than on the CAP; by the spring of 2002, there was full communication and participation from the Commission side.

Fischler announced his plans in the summer of 2002. The opponents of the reforms (which at that time were most of the member states) publicly expressed shock and dismay. The member states were confronted with a series of reform proposals that went way beyond what they considered a 'review' and 'minor adjustments'. The Commission was accused of going beyond its mandate.

What is interesting when observing these reactions of surprise and dismay is that the proposals actually contained very little that had not yet been announced by Fischler in various speeches in 2001. In fact, different public speeches, which were made publicly available through the media and through the Commission's website, contained much of what was formally proposed by Fischler in the summer of 2002. For example, Fischler's address "The road ahead for EU agricultural and rural policy" to the CDU congress in Berlin on 7 May 2001 and his Opinion Article in the *Financial Times* of 9 May 2001 contain the major ingredients of the Fischler reform proposals of a year later, more specifically to

- tighten environmental/animal welfare requirements for CAP support by increasing cross-compliance or by introducing a 'good farming practice' requirement (or both);
- address food safety and quality requirements through closer monitoring and a supply-chain approach, and stimulate market-based solutions including brand-building;
- make modulation (which had already existed up to 20% for those member states that wanted to use it) compulsory at 20%;
- transfer this 20% (€5 billion) to rural development;
- shift all compensation/aid for environmental/landscape contributions to rural development;
- simplify and decouple support for small holdings by providing 'lump-sum payments' based solely on proof of environmentally-friendly maintenance of production capacity; and
- allow the funding of rural development activities outside agriculture.

Fischler and Pirzio-Biroli explained later that his public addresses and writings were used to test the waters of the various ideas that the Commission intended to include in the proposals.

It appears with hindsight that opponents, and in particular France, did not really take Fischler's presentations and public expressions of his thoughts seriously, either because they underestimated his determination to see through these reforms or they overestimated their own political and diplomatic strength and capacity to block them (as discussed further below). In a personal interview, Fischler later confirmed that this was also roughly his interpretation of the facts.

A final element of Fischler's strategy was a communication plan to build support for the reforms from a non-traditional political coalition across the member states. Instead of focusing on the farm unions, Fischler went out of his way by giving presentations, interviews to the media, participating in conferences and so forth to secure support for his reforms from environmental organisations and consumer groups. When the reform proposals were announced, the traditional negative reactions emerged from farm unions. Nevertheless, while in the past they had dominated the political discussions on the CAP, now other organisations, such as consumer groups and environmental organisations joined the debate and they presented a very different view. As a result, the discussions in the member states were much more balanced than in previous reform efforts.

10.7.2 Getting the Commission to approve

While many other commissioners in the Prodi Commission had demanded budget cuts for the CAP and substantial reforms, Fischler managed to gain approval for his reform proposals from the European Commission. As Pirzio-Biroli explains in detail in his chapter, overcoming the scepticism in the Commission was not easy. But Fischler managed because of his reputation as a reformer based on his first term and because he managed to tackle some of the key concerns of the public, by focusing on and addressing concerns related to food safety, the quality of food, environmental issues and the CAP's negative effect on the trade negotiations. What certainly played a central role in the background was the fact that the budget for the CAP had been fixed separately by a deal between Chirac and Chancellor Gerhard Schröder at the Brussels European Council summit in 2002.

Finally, the Commission voted in favour of the reform proposals, with just two commissioners opposing: Michel Barnier of France and Loyola de Palacio of Spain, both reflecting their home country's opposition.

This support from the Commission was very helpful not just at the European level, but also to affect the positions of the member states. Commissioners have influence in their home capitals. Especially the support of Pascal Lamy, as Commissioner of Trade, was very helpful given that Lamy was the lead negotiator of the EU in the Doha round and his position was considered important by many member states that were worried about the impact of the CAP on the Doha round. Paradoxically, Lamy's support may have helped the least in his own country, France, where Chirac did not appreciate Lamy in general because Lamy had been appointed by the Socialist government earlier. Hence, Lamy's views may have been counterproductive in France, but they were influential (in a pro-reform way) in other member states.

10.7.3 Counting the votes: The role of the Iraq war

As explained earlier, qualified majority voting had become the rule for CAP reform decisions. When the MTR proposal was announced, only a few member states supported the proposal. The UK and Sweden, the member states customarily in favour of CAP reforms, immediately supported the proposal. Yet, most other member states were sceptical at best, pointing to specific problems, or they were clearly opposed to the reforms.

After some time, three groups emerged:

- the pro-reform group, which in addition to the UK and Sweden also included the Netherlands and Denmark;

- a 'middle group' that included Greece, Belgium, Luxembourg, Finland, Austria and Italy; and finally,
- the anti-reform group with France, Spain, Germany, Portugal and Ireland.

The middle group contained a set of countries that were not completely opposed but all had specific problems with the reforms. Based on experience, the Commission thought it could win the support of most of the countries in this group since it was predominately made up of small countries, and by providing concessions in specific areas they could be convinced – or bought in a more cynical perspective – to support the reforms.[13]

In contrast, with three large countries (France, Spain and Germany) the anti-reform group was strong and it easily controlled a blocking minority. The anti-reform group was not a natural coalition, however. In particular, Germany played a special role. Since her appointment, Renate Künast, the politician from the Green Party who had been appointed the German minister responsible for the CAP, had been a vocal advocate of CAP reform towards a more environmentally friendly CAP – and should have been a natural ally of Fischler. Although this was indeed the case initially, when the reform ideas were being discussed and during the early reform preparation, political alliances that were more influential later interfered with the Fischler reforms and with the Künast alliance in particular.

Traditionally, Germany and France had been strong allies in the history of the EU, and a joint Franco–German position on any issue was sufficient to make it a de facto EU decision. This political axis had continued to work very well under the regimes of Chancellor Helmut Kohl and President François Mitterrand. Although both had opposing political views (Kohl as a German Christian-Democrat and Mitterrand a French Socialist), they had managed to overcome their differences in personal perspectives to form a very powerful and successful European force. As an insider recounts it, Germany and France had a deal that on EU issues they would always try to find a common position between themselves before talking to others. If that were not possible, they would agree not to change or announce their position before talking to the other partner. This proved a hugely successful strategy. As the insider recounts it, "once we [France and Germany] came to a common position we stuck to the agreement and that was it. The Commission got at times very frustrated over it, but for us it was a very successful strategy" (Feiter, 2007).

When Gerhard Schröder came to power in Germany, however, there was no chemistry between the leaders of France and Germany. Schröder and Chirac disliked one another and did not manage to form a bond or a strong Franco–German coalition. But then important international events would change this.

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[13] The middle group was not considered a major problem also because it included Luxembourg, which has few votes, Greece, which held the presidency and wanted a successful conclusion and summit, and Belgium, which did not have a unified voice with three ministers of agriculture.

The Iraq war, launched in 2001, split the large countries of the EU down the middle. The governments of Spain under Prime Minister José Maria Aznar, Italy under Prime Minister Silvio Berlusconi and the UK under Prime Minister Tony Blair joined US President George Bush in what Bush referred to as "the coalition of the willing". Both France and Germany strongly opposed the Iraq war. Hence, somewhat unexpectedly, Chirac and Schröder found themselves as allies in opposing the Iraq war.

Furthermore, on the eastern enlargement of the EU, France and Germany had opposing views but managed to come to an agreement. Germany was a strong proponent of eastern enlargement while France was not enthusiastic. In the end, a deal was made. As one Commission official summarised it, "the French agreed with the enlargement if the Germans agreed to pay the bill" – which included future CAP financing for the EU-15. This was cemented in the 2002 Brussels Council meeting where, among other things, CAP pillar I payments were fixed until 2013 to ensure French farmers and politicians that CAP benefits would continue to come long after enlargement.

All this mattered for the CAP reform proposals of Fischler. France was strongly opposed. For Schröder, who was in some international isolation with this strong anti-Iraq war stance, maintaining the general Franco–German international political coalition because of the Iraq war and enlargement was more important than the preferences of the German government (and especially those of his Green Party coalition partner) on CAP reforms. Hence, in some way one could argue that the German opposition to the CAP reforms was artificial.

Facing this strong opposition coalition against his reforms, Fischler then decided to use the Iraq war for his own purposes. As Chirac was using the war coalition to keep Schröder on his side in the CAP debate, Fischler went out to seek support for his reforms from the opposite side, more specifically from the Blair–Aznar camp. Fischler went to Blair to ask him to approach Aznar and convince him to switch sides and support the CAP reforms. Blair, who had supported the CAP reforms all along, agreed on one condition: the Commission had to drop the capping of support to large farms – which would hurt the large UK farms and landowners disproportionately – from the package of reform proposals. Fischler agreed, and the rest is (so far undocumented) history: Blair approached Aznar and Fischler went on a nightly mission to Madrid to seal the deal. Spain switched camps in the CAP reform debate and left the opposing coalition severely weakened.

In the days following these political changes, Künast, who was herself in favour of the basic reform proposals, managed to re-take the initiative in Germany on the CAP reforms and to change the German stance in the reform debate. But, like Blair, she asked for a change in the proposals in exchange for her support.

Künast liked the idea of cross-compliance, but wanted to implement the decoupled payment system not based on what the farms had received in the past (which became known as the 'historical model' for implementing the decoupled payments) but instead pay farms in the same region the same payment, independent of what they had received in the past (later termed the 'regional model').

Fischler opposed this idea. An important reason for Fischler's opposition was not so much the economic effects, but rather the political ones. He feared that the redistribution of subsidies among farms, which was implicit in the regional model, could increase the opposition to the CAP reforms on the part of farm interests. In his chapter in this book, Olper particularly highlights the lack of redistribution of support by the Fischler reforms as a key element of the reform proposals. His view is that by limiting the redistribution and emphasising the more efficient instrument of decoupling for enhancing farm incomes, Fischler had avoided a lot of potential opposition.

Nonetheless, Künast was adamant on this issue because she wanted to use the new subsidy system to support more extensive and organic farming systems, which traditionally had not been receiving as much support as the intensive, conventional production systems.[14] Fischler ultimately gave in to Künast's demands in order to obtain the German votes. In the final proposal, Germany was allowed to introduce the regional model. In fact, other countries also took the opportunity to use the regional model – and some other variations such as the hybrid model (see Ciaian, Kancs & Swinnen, 2008 for an overview).

Finally, Ireland also switched positions, but for an entirely different reason. Irish farm unions strongly opposed the reforms. Farmers themselves, however, had a different perspective. They were convinced that the reforms could be good for them as they provided them with direct income support and at the same time allowed them more freedom in their decisions. The Irish position switched, despite farm union opposition, as the Irish minister sided with the preferences of the grassroots farmers.

In the end, France found itself isolated in its opposition. And even within France, the opposition was not unanimous. Fischler argues that towards the end of the negotiations the French were also split, even within the FNSEA – the main French farm union. French grain farmers started to change their minds and increasingly liked the idea because they feared that if such reforms did not pass, the alternative would be worse, meaning lower payments. Apparently, Chirac, when confronted with some of the FNSEA leaders arguing in favour of the reforms, referred to this as the "Fischlerisation of France"…

Facing a loss in qualified majority voting, France then tried to join the winning camp and to extract compensations and adjustments from the Commission reform proposals. But they were in a weak negotiating position and finally ended up with little.

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[14] Interestingly, the introduction of the regional model in Germany had the opposite effect of Künast's intentions as she (and her advisers) had underestimated (or ignored) the impact of the subsidies on the land market. With subsidies given across the region, the value of farm land went up and extensive farm systems were no longer profitable with high land prices; a switch had to be made to more intensive production systems.

10.7.4 Getting the decision through the Council

The final Council meetings still dragged on (see the respective chapters by Pirzio-Biroli and Syrrakos for details). Then Fischler made another institutional intervention. He insisted on having the final negotiations in the Agriculture Council solely with the ministers. From the extensive discussions in the autumn of 2002, he had learned that in the opposing countries, such as France, the civil servants were often more opposed to the reforms than the politicians were. The civil servants frequently had strong links to vested interests and farm unions. By removing the civil servants from the final negotiations in the Council, Fischler wanted to reduce whatever opposition was left in the final Council meeting. The meeting lasted for six hours. At the end of it, the revised Fischler reform proposal was approved.

Still, Fischler had learned from experience with the Agenda 2000 reforms that securing the votes was not sufficient. One had to make sure the voting positions were actually fully carried through and that the vote by the ministers of agriculture was not subsequently overruled by the heads of state, as had happened with Chirac's intervention in Berlin in 1999. To avoid a last-minute intervention by Chirac in the meeting with the heads of state, Fischler made arrangements with Greek Prime Minister Costas Simitis, who was to chair the Council meeting. Simitis was interested mainly in having a successful summit during the Greek presidency, and wanted to avoid any problem that could undermine such an outcome. Together they ensured that Chirac would not have the opportunity to repeat what he did in Berlin in re-opening the decision by the ministers of agriculture.

10.8 The paradoxical impact of Jacques Chirac

President Chirac played a very important role in the Fischler reforms, but in many ways differently from how he had intended.

To understand his influence we have to go back to 1999. During the Agenda 2000 reform discussions, France had opposed some of the main reform proposals and voted against them in 1999. Yet, French opposition had been insufficient to stop the reforms. In the vote in the Agriculture Council in February 1999, there was a qualified majority of votes in favour of a reform package, which was close to the Commission's proposals.

To the complete surprise of many, Chirac managed not only to bring up the issue during a meeting of the European Council in Berlin in March 1999, but also to re-open the compromise decision. In the final negotiations, and despite Fischler's opposition, he succeeded in convincing the other heads of state to approve a weakened version of the reforms.[15]

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[15] Instead of 30% as proposed by the Commission, the Council decided to cut the beef support price only by 20%; instead of a proposed cut of 20% for cereal support prices, it was decided at 15%; and finally, the dairy reforms were postponed to 2005, instead of starting in 2000 as proposed by the Commission.

At the conclusion of the Berlin meeting, however, Fischler managed to obtain – what looked at the time like – a small compromise. To anticipate problems from cutting down on the reforms, a number of mid-term reviews would be undertaken around 2002–03, re-examining market developments as well as the situation of the agricultural budget, as a clearer perspective emerged on enlargement, WTO negotiations, etc.[16]

By his masterful political act, Chirac had achieved what he considered a major political victory, protecting French farmers from an overzealous reform-minded Commission. As explained above, later he also personally intervened with Prodi in an attempt to prevent Fischler from remaining in his post for a second term. However, Prodi stood up to Chirac and reappointed Fischler.

These battles set the stage for another battle during Fischler's second term, but this time some things were different.

First, Chirac's intervention in Berlin had allowed a review of agricultural policies in 2003 – something that otherwise would not have been the case. The next major policy review would have been at the end of 2006, and the decisions may have been taken after Fischler had left office. Now Fischler had the opportunity to introduce another set of reforms.

Second, as explained above, Chirac's unusual intervention in Berlin made it clear to Fischler that he had to anticipate any potential political obstacle and strategy in order to avoid the fate of the Agenda 2000 reforms. In the event that Chirac were to try the same tactics at the Greek European Council meeting in 2003, Fischler – and the Greek presidency – were prepared.

Third, although this is hard to judge, it is difficult to imagine that the way Chirac had played the game (first by re-opening the decision above the heads of the ministers of agriculture, and later by trying to block Fischler's reappointment) did not have a psychological effect on Fischler. It would be understandable if it made the reform battle personal to him, and if not, it seems likely that it at least strengthened Fischler's resolve to push forward with the reforms.

Fourth, his successes with Agenda 2000 (and in many previous CAP discussions) may have blinded Chirac to both the determination of Fischler in preparing reforms that were even more radical and their chances of success. It probably also led Chirac to underestimate his political opponents during the MTR debate and may have caused him to be complacent.

In summary, one could make a strong case that Chirac's dramatic political intervention in Berlin in 1999, in which he weakened the Agenda 2000 reforms, served to make the most radical reforms of the CAP possible by allowing an evaluation of the CAP in 2003, which otherwise would not have been possible. In addition, it even made the success of the Fischler reforms more likely, by reinforcing

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[16] The Council also asked the Commission to prepare a review report on the sugar regime by early 2003, as part of its recent (May 2001) decision to prolong the current regime for another five years (with some changes).

the determination of his opponent, by giving warning to avoid all possible political and diplomatic booby-traps, and by convincing the other side to prepare better for the debate and the decision-making.

10.9 Where were the farm unions?

Arguably, the EU farm unions had less impact on both the debates and the outcomes of the Fischler reforms than on any previous CAP policy decision. In fact, the former Portuguese Minister of Agriculture Arlindo Cunha, who had played a very important role in earlier CAP reforms, argued recently that the position of farmers and their unions has changed dramatically over the past decade and a half. He asserted that there had been huge farm opposition to the MacSharry reforms in 1992, much less opposition to the Agenda 2000 reforms in 1999 and hardly any effective opposition to the MTR in 2003.

Why was this? Although a conclusion on this development certainly merits further analysis than is undertaken here, several factors may have been pertinent. First, many member-state farm unions were taken by surprise by the Fischler proposals and were unprepared for the debate on the decoupling of farm support – as explained earlier.

Second, they may have been unprepared for the new political environment in which other non-governmental organisations and groups, such as environmental and consumer groups, increasingly take a vocal part, and moreover, that these groups were being taken seriously by political leaders. The latter argument reflects the fact that, with a declining number of farmers in the EU-15 and with growing citizens' awareness and concerns about environmental and animal welfare issues, farm unions may have become less 'powerful' on issues of the CAP, in terms of both setting the agenda and influencing its outcome.

A third potential factor is the gradual move towards less coupled support, from traditional price interventions and border protection in the 1980s to direct payments in the 1990s and to decoupled payments in the 2000s. Decoupled payments are – as economists have always argued – a more effective instrument in transferring income to farmers, and farmers have come to realise this.

10.10 The power of ideas and analysis

Although both insiders and outsiders are sometimes sceptical about the impact of sound ideas and careful analysis on political decisions, it appeared that a series of studies and analyses had a considerable impact on the CAP reform process.

First, Fischler himself referred to the importance of an OECD study on decoupling. In particular, the fact that the OECD study demonstrated that with a decoupled support system twice as much of it remains with the farmer ('ends up in the pocket of the farmer') than with the existing support system was a very influential idea. Fischler and his colleagues saw the salience of the argument not only from an economic perspective, but also and to an even greater degree from a political one. If the CAP was using half the EU budget, they considered it essential to convince the EU taxpayer that this money was well spent and was effectively used. The analysis by the OECD reinforced the argument in favour of decoupling.

In this respect, it is worth analysing Fischler's motives to push for decoupling and compare these with those of economists who had long argued in favour of less distortionary instruments. Economists, based on their focus on efficiency and reducing distortions, had long preferred non-distortionary (lump sum) transfers, of which the type of decoupled payments that Fischler proposed were a welcome improvement.

While the standard economic arguments were never convincing for Fischler, he came to similar conclusions in favour of decoupling from a more political reasoning.[17] Fischler looked at the reforms much more from the standpoint of how he could save the support for European agriculture in the 21st century with new demands and new constraints being imposed on European farmers and with new opportunities. Decoupling in this way was an attractive choice for several reasons. It was an improvement in terms of the efficient use of EU funds, given taxpayer pressures on the budget, and an improvement in terms of reducing trade distortions, with pressure from inside and outside the EU to remove the CAP as an obstacle to a WTO agreement. Also, it was an improvement from an environmental perspective as it reduced incentives to use land intensively and the introduction of cross-compliance further enhanced the environmental benefits. Fischler and his team emphasised that while the WTO negotiations were not an initial motive for considering decoupling, obviously, once they started thinking about the option, they saw it could be very useful for the Doha negotiations as well.[18]

A second set of studies that were very useful in the CAP reforms were the in-house analyses prepared by the DG for Agriculture under the guidance of Dirk Ahner, the Deputy Director-General who had led substantial analytical work in preparing for Agenda 2000 and the EU enlargement process. Several Commission officials interviewed by this author highlighted the importance of this work both in anticipation of but even more during the months leading up to the Council vote. The extensive in-house discussions and analyses that took place without informing the outside world enabled the DG for Agriculture to be very well prepared when the discussions came out into the open. Since nobody outside a small Commission circle had expected Fischler to propose full decoupling, the opponents had little preparation and little analysis. In contrast, the DG for Agriculture team was ready to address any critique and comment on their proposals with careful analysis and counterarguments, all of which had been prepared in the previous years and months.

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[17] In a sense, one could interpret Fischler's logic as an example of Becker's (1983) argument that politicians will choose (economically) efficient policy instruments as this enhances their political objectives.

[18] In his chapter, Olper argues that the WTO cannot have been the main factor behind the MTR reforms because the MTR reforms do nothing for the main constraint in these discussions, the tariffs.

The assessment by many Commission officials involved was that because of the lack of preparation, the country positions were often inconsistent and the DG for Agriculture, which was much better prepared, was able to point out the inconsistencies and thereby weaken the opposition. The crucial point was that decoupling was a good reform, and their analysis showed it.

10.11 Franz Fischler: Killer or saviour of the CAP?

The previous discussion depicts the Fischler team at the Commission as one to introduce major changes to the CAP. The acrimonious reactions following the launch of the proposals involved accusations of the Commission siding with opponents who wanted to 'scrap the CAP'.

Yet, Fischler and his team had a very different take on their proposals. They saw their proposals not as an instrument to kill the EU's agricultural policy, but instead as a way of saving it. In his chapter, Pirzio-Biroli puts it thus:

> Scrapping the CAP [was] not an option.…The Fischler reform was aimed at helping the CAP and its farmers reconcile the needs of modernisation and restructuring with the acknowledgement of their community function, and the recognition of the positive externalities generated by agriculture, and rural activities and spaces.…Fischler acted in the conviction that the EU needed to keep a strong agricultural policy, but periodically update it in order to adapt it to new realities.

From this viewpoint, it is interesting to note that according to Fischler himself, the concept of decoupling was not chosen for the reasons most often mentioned by economists, i.e. to reduce distortions (see above), but because it was the best thing to do to save the CAP.[19]

Furthermore, while discussions on the importance of the reforms focus mostly on the 2003 MTR (and to some extent on the Agenda 2000 reforms) Fischler himself sees the achievements of the 2003 reforms much more in tandem with the 2002 budgetary agreement. In his view, the 2003 reform (proposals) allowed him to convince those most opposed to the CAP within the European Commission to agree to a much smaller budget cut than they had asked for.

Fischler argues that Prodi himself (and with him many commissioners and ministers of finance) had targeted a 30% budget cut of the CAP when the Prodi Commission took office. By proposing a series of bold reforms that reduce the negative effects of the CAP on the environment, on market distortions and on the WTO negotiations, and that enable the CAP to fit within a concept of sustainable rural development, Fischler and his team would in turn reduce the ammunition of those demanding large budget cuts and create a new support base for the CAP. Only in this way was he able to convince the Commission to table a proposal (which was

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[19] Notice, of course, that both perspectives are closely related. Transfer efficiency is high, exactly because distortions are low; also, the WTO may allow decoupled payments precisely because they do not (or minimally) distort international markets and trade.

later approved) with much more limited cuts for the next financial period (i.e. up to 2013). Fischler saw this as a major achievement of the reforms. From this perspective, they 'saved the CAP' as opposed to scrapping it.

10.12 Conclusions: The Perfect Storm

This chapter has argued that three (sets of) factors that in theory have been shown to be important for allowing successful reforms came together in the period around 2002. They created the 'perfect storm' to overcome the opposition to such reforms. The three factors were i) the effect of institutional reforms, ii) the optimal conditions for reform within a given institutional framework, and iii) changes in the number and quality of the political actors.

Besides enlargement, the most critical institutional changes were the changes in voting rules brought by the Single European Act, which introduced qualified majority voting for decision-making in EU policy where the unanimity rule had been used before. For the MTR, the voting rules played a very important role. Fischler and his team spent a lot of effort trying to put together a winning coalition and breaking a blocking minority one.

The optimal reform context, as defined by Pokrivcak, Crombez & Swinnen (2006), is the combination of a) an external change that moves policy preferences in a pro-reform direction, b) that is sufficiently large, and c) a pro-reform Commission. In 2002, there was strong pressure to reform because of external factors and key internal changes had given the chance for reform a boost.

The main pressures affecting the 2003 Fischler reforms were the WTO and other trade negotiations, the budget, food safety and environmental concerns and to a much lesser extent eastern enlargement. These various elements, some traditional and others new, combined to increase pressure for change in the EU. Franz Fischler himself summarised these important developments as that the CAP had lost its legitimacy among the EU public. In particular, the fact that the CAP was increasingly seen as at the same time hurting EU trade interests, having negative effects on the environment and unable to address the food safety concerns of EU consumers was turning into a major call for reform.

These developments compounded calls for radical changes to the CAP at a time when ministers of finance and other members of the European Commission were searching for budget cuts or reallocations within the EU budget. These were vital issues on the verge of eastern enlargement, a process that was expected to greatly increase the CAP budget if the CAP was not reformed to contain the costs and which entailed the need for extra budgetary means for the structural funds, with the new member states having much lower incomes than the EU-15 average.

There were not only external changes, institutional reforms and pressures as we have outlined above, but also those involved in the decision-making and reform proposal preparations had changed. Two enlargement processes played a role: the previous enlargement of 1995 with respect to EU member state preferences, and the eastern enlargement in view of an expected change in future preferences and more difficult decision-making.

By definition, the enlargement also reduced the share of the votes of the established players in the EU. In addition, for cultural reasons, none of the three new member states of the 1995 enlargement were 'natural allies' of France, a country that has traditionally played a very important role in CAP debates, which some argued affected the policy discussions. Still, only one of the new member states, Sweden, was a strong voice in favour of CAP reforms.

The anticipation of eastern enlargement gave a sense of urgency to the reform process. With 10 Eastern European countries joining, some of which have large agricultural sectors and even larger farm populations, the Commission realised that reforms would not become easier after enlargement.

Several commissioners wanted CAP reforms, although not all in the same direction. Commission President Romano Prodi and several of the other commissioners wanted the share of the CAP in the EU budget to be reduced, and substantially so. Trade Commissioner Pascal Lamy wanted the CAP to be reformed in order to enable the EU to take the initiative in the Doha round and not always be on the defensive. And, of course, the commissioners were increasingly reflecting consumer and environmental concerns in pressuring for change. Fischler himself was strongly motivated to use the MTR of 2003 to propose significant reforms of the CAP. In a rather unexpected way, the food safety and environmental crises of 1999–2001 had reinforced this agenda. The sense of urgency for a significant rethinking of the CAP had contributed considerably to pushing the general political agenda closer to his personal preferences.

The 2003 MTR discussions and political tactics also transformed the politics-as-usual of the CAP. Traditionally, the main pressure group involved in the CAP negotiations had been the farm unions. They put pressure on their agriculture ministers and on the Commission and tried to obtain as much as the other ministers would allow. The MTR negotiations, however, brought consumer groups and environmental groups to the political table in a much stronger way than had happened before.

Finally, a potential source of opposition against the reforms was within the Commission itself: the traditional DG for Agriculture thinking among the administrators. An essential mission was to convince the DG for Agriculture that this was a good strategy. In this respect, administrative reforms and generational changes helped, as many of the old-style DG for Agriculture officials, whose careers had developed in the early years of the CAP, had left and younger persons had joined in the past decade, such that thinking within the DG for Agriculture was much more open to environmental and economic arguments.

The pressure to reform the CAP had clearly increased by 2001, but the reform puzzle was complex. In fact, some of the reform ideas pointed in opposing directions. The timing was also complex. Several major developments, all of which affected each other, overlapped: the WTO negotiations, the enlargement negotiations, the enlargement process, the Agenda 2000 implementation, budget discussions, the mid-term reviews, etc.

The combination of Fischler's experience, his strategic vision, his political tactics and the Commission officials' effort and preparation appear to have played a vital part. The reforms were prepared in relative secrecy by a small inner circle of officials while experts within the Commission administration were calculating the potential effects of the reforms. During the campaigns for the French elections in the spring of 2002, there was a communication stop. An element of Fischler's strategy was to secure support for his reforms by environmental organisations and consumer groups. As a result, the discussions in the member states were much more balanced than in previous reform efforts when farm unions had dominated the debate.

Although Fischler had hinted at his reforms in several public speeches, when Fischler actually announced his plans in the summer of 2002, the opponents of the reforms publicly expressed shock and dismay. The Commission was accused of going beyond its mandate. Opponents appeared to have underestimated his determination to see through these reforms or overestimated their own political and diplomatic strength and capacity to block them.

The proposals initially faced a strong anti-reform group, which easily controlled a blocking minority with three large countries (France, Spain and Germany). Unexpectedly, the Iraq war played a decisive role. It made allies out of Chirac and Schröder in the opposition to the reforms – despite the fact that Germany had earlier favoured reforms. But Fischler used the Iraq alliances to manoeuvre Spain out of the anti-reform group through Blair's links with Aznar, for which Fischler paid a price in having to drop the capping of the subsidies (in order to convince Aznar through Blair) and by allowing regional instead of historically-based payments (to secure the German votes later).

During the final Council meetings, Fischler's experience and tactics again proved important, first to get the votes through the Agriculture Council and later to prevent Chirac from re-opening the decision by the ministers of agriculture.

President Chirac played a very important role in the Fischler reforms, but in many ways differently from how he had intended. First, Chirac's intervention at the 1999 Council in Berlin initially looked like a major political victory, but ultimately allowed a review of agricultural policies in 2003 – something that otherwise would not have been the case. Second, it made Fischler anticipate any potential political obstacle and strategy in order to avoid the fate of the Agenda 2000 reforms. Third, it seems likely that it reinforced Fischler's resolve to push forward with the reforms. Fourth, his successes in Agenda 2000 (and in many previous CAP discussions) may have blinded Chirac to both the determination of Fischler in preparing even more radical reforms, and their chances of success, and may have caused him to be complacent.

Arguably, the EU farm unions had less impact on both the debates and the outcomes of the Fischler reforms than on any previous CAP policy decision. While a conclusion on this certainly merits further analysis than is undertaken here, several factors may have come into play. First, farm unions were taken by surprise by the Fischler proposals and were unprepared. Second, they faced a new political environment in which environmental groups, consumer groups, etc., were being taken seriously by political leaders. A third factor is that as instruments, decoupled payments are more effective in transferring income to farmers, and farmers realise this.

A series of studies and analyses had an impact on the CAP reform process. An OECD study demonstrating that a decoupled support system would be a much more efficient transfer system was very influential. Fischler and his colleagues saw the political relevance of the argument. If the CAP was using half the EU budget, they considered it essential to convince the EU taxpayer that this money was well spent and was effectively used. In addition, in-house analyses prepared by DG for Agriculture officials were used to address critiques with careful analysis and counterarguments that had been prepared earlier.

Finally, it is worth emphasising that Fischler and his team saw their proposals not as an instrument to reduce the importance of the EU's agricultural policy, but instead as a way of saving it. By proposing a series of bold reforms that reduce the negative effects of the CAP on the environment, on market distortions and on the WTO negotiations, and that enable the CAP to fit within a concept of sustainable rural development, Fischler and his team would in turn reduce the ammunition of those demanding large budget cuts and create a new support base for the CAP. Only in this way was he able to convince the Commission to table a proposal (which was later approved) with much more limited cuts for the next financial period (i.e. up to 2013). Fischler saw this as a major achievement of the reforms. From this perspective, the Fischler reforms 'saved the CAP'.

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11. IMPLICATIONS FOR FUTURE REFORMS

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A number of valuable lessons for the design and implementation of future reforms can be derived from the other chapters in this volume. Before examining these lessons, however, attention needs to be drawn to three major uncertainties that could affect the reform process. Two of these are relatively short term: the chances of a successful conclusion to the Doha development round (DDR) and the outcome of the US presidential election in November 2008. The first of these is of particularly consequence, as a number of chapters in the book, in particular that by Pokrivcak, Crombez & Swinnen, draw attention to the effects of a substantial external shock in relation to breaking the status quo bias of the common agricultural policy (CAP). In the most significant reforms, although other drivers have been important, not least enlargement as highlighted by Henning, trade rounds have been the most critical instigator of real change in the CAP. The longer-term uncertainty is the increasing pressure on global food supplies, as emphasised by Pirzio-Biroli in his chapter with climate change likely to exacerbate problems such as water scarcity and the associated revival of a food security discourse. These issues are considered in more depth later in the chapter.

11.1 Structure, agency and context

The other chapters contain a wealth of information and insights about the Fischler reforms. In considering the process of reform, as distinct from the substance, one way of clustering some of the variables involved is to think in terms of *structure, agency* and *context.* Structure includes the decision-making processes of the EU in relation to the CAP, but also the structure of the CAP itself and the way in which that has created an element of path determinism in its development. Agency includes the role of Franz Fischler in particular as Commissioner for Agriculture and Rural Development, the DG for Agriculture and the rest of the Commission, but also the member states. The European Parliament was not a significant actor in the period considered here, although it may well become so in the future with the extension of co-decision to the CAP. Some of the other stakeholders such as the farm organisations appear mostly as bystanders or marginal participants, in large part because they failed to appreciate how the terms of the debate were changing and sought to defend an increasingly indefensible status quo rather than help to shape new policies to protect their members' interests (Jones & Clark, 2001, pp. 87–8). Context refers to contingent factors that were present at one period but not at another, creating what political scientists call 'policy windows' (Kingdon, 1984), which can create opportunities for change that can be seized by policy entrepreneurs.

11.1.1 Structure

In terms of understanding the structure of decision-making for the CAP, an immediate challenge is that as Pokrivcak, Crombez & Swinnen note, "overall empirical evidence on CAP decision-making is sparse. In fact, a major problem in this research field is the lack of empirical evidence and even basic information on the stylised facts." They develop a model that contains a number of valuable insights, for example about the conditions under which the Commission's influence rises, but more particularly, they provide a fundamental analysis of the status quo bias of the CAP and the conditions under which this can be overturned. They observe, "[c]hanges in external conditions are crucial for triggering CAP reforms; however, the change needs to be sufficiently large to trigger reform, because of the status quo bias inherent in EU decision-making". Quite how one might specify or quantify the size of an external change is an issue that requires further reflection, but the argument developed later in the chapter is that even if an agreement is reached in the Doha development round (DDR), it is unlikely to provide a sufficient stimulus to drive radical reform.

This concern is reinforced by Henning's analysis of the institutional consequences of enlargement. As he points out, the enlarged Council of the EU-25 (now 27) is more heterogeneous in terms of the political interests represented. Moreover, some accession states take relatively extreme positions on key issues. Thus, Poland and Slovenia are 'preference outliers' with respect to farm support while four other accession countries are preference outliers in relation to multifunctionality, preferring a productivist approach to agricultural policy that would be regarded as outdated in most EU-15 countries. Hence, Henning forecasts that there will be gridlock in the decision-making process to the extent that there will be no qualified majority to move the decision-making process forward. Once again, the DDR is invoked as the *deus ex machina* that can break the gridlock.

11.1.2 Agency

Any discussion on agency must focus on the political skills of Franz Fischler. He combined an unusual mix of a strategic vision of how the CAP needed to change, in terms of what Swinnen characterises as an "Austrian perspective", and a sense of tactics that would persuade member states, not least France, to accept the initially unacceptable. This was in part achieved, as Pirzio-Biroli's chapter shows, by drafting reform proposals through a small and tightly knit group within the DG for Agriculture that maintained considerable secrecy. Fischler and his acolytes gradually made their intentions known through a series of speeches and interviews. Any close observer of the CAP would have realised that something was afoot, but they may not have grasped the magnitude or scope of what was proposed. As Swinnen observes in his concluding chapter, what was radical about the reforms was that they anticipated needs rather than reacted to them and this involved the deployment of new policy instruments. Nevertheless, the decision-making problem was very complex and many of the decisions interacted with each other. This implies political management skills of a very high order. Fischler understood the often arcane technical details, but he never lost sight of the big picture.

In particular, as Josling points out, “Fischler was able to convert what could have been a routine review of progress into a further step along the path set by the MacSharry and Agenda 2000 reforms”. In this respect, he was more ambitious than his successor, Mariann Fischer Boel, who has been at pains to confine the ‘health check’ to largely a review of progress and a tidying-up exercise. This should not surprise us, however. Reforming commissioners are often succeeded by consolidators who can soothe the troubled nerves of unsettled stakeholders. The reforming Commissioner Ray MacSharry was followed by René Steichen, a French-educated lawyer from Luxembourg. Seen as a French Trojan horse by his critics and a patient caretaker by others, “[h]is defenders claimed that his more emollient personality compared with the more abrasive Mr MacSharry made him more suitable to make reform work” (Grant, 1997, p. 153). Interestingly, Fischler was successful in being both emollient and forceful. In part, this was achieved by a successful manipulation of image, for example by playing up his role as a small Alpine farmer, although in effect much of his career had been as an employee in a farm bureaucracy. Indeed, one picture on his website portrayed him leaning on a stick surrounded by goats with high mountains in the background.

Constructing a winning coalition of member states in the Council of Ministers was not easy and was sometimes complicated by the preferences of agriculture ministers being overridden by considerations of high politics pursued by heads of government as in the case of Germany. In his chapter, Olper points out that the redistributive power of the reforms was very low, leaving the distribution of money basically unchanged and hence only marginally affecting the *ex ante* political economy equilibrium. As Pirzio-Biroli’s chapter shows, the majority of the reform-supporting coalition remained precarious. Spain was won over by Prime Minister Tony Blair exerting pressure on their prime minister at Fischler’s request, but there was always a risk that Italy would defect. Ultimately, it was only Portugal and its concern for the dairy farmers of the Azores and their milk quota that stood in the way of unanimity.

11.1.3 Context

There were also contingent factors that were important. Path dependency can sometimes lead us to make assumptions that are too determinist and MacSharry was able to point the CAP in a new direction by starting to dismantle the link between production and subsidy in his reforms. He started a process that meant that farmers would not have to create structural surpluses that would then be difficult and expensive to dispose of in order to claim their subsidies and Fischler was able to build on this new direction. As Pokrivcak, Crombez & Swinnen point out earlier in the book, “[t]he 1999 CAP reform was a watershed: for the first time a large country was outvoted with respect to a major policy reform”. A factor that encouraged reform and created a window of opportunity for it in 2003 was that, as Henning discusses, it took place just before the enlargement to the EU-25, which would have made reform much more difficult and complicated to achieve. Fischler was also helped by the political space he was given to operate in by the College of Commissioners. As Syrrakos puts it, the then Commission President, Romano Prodi, had no firm ideas one way or the other about agriculture but offered consistent support to Fischler in his reform efforts.

It is also essential to note the limits of the reforms. They did not convert the CAP into the common rural policy that many analysts had hoped for. As Olper comments, the contribution of the Fischler reforms towards a rural development policy appears rather low. He calculates that, assuming there are no further reforms, the amount of resources shifted to pillar II from 2008 to 2013 will be less than 3%, "too poor a contribution to consider this element of the reforms a radical change". He also draws attention to some of the shortcomings of cross-compliance as a policy instrument where "some of the rhetoric may outdistance the political reality". Josling in his chapter reminds us of the effective failure of the modernising strategy of the Mansholt Plan and notes that structural programmes have remained a poor relation to the price support component of the CAP.

There is a paradoxical risk that the success of the Fischler reforms may have undermined the pressure for further radical reforms by making the CAP more respectable. Josling notes that "[t]he Fischler reforms have in effect steered the CAP towards domestic and international acceptability". In a series of speeches over the last two years, Commissioner Fischer Boel has sought to argue that the reformed CAP has changed fundamentally, emphasising that it is no longer generating unwanted surpluses but responding to demands for better quality food, improved animal welfare and higher environmental standards. Josling is more sceptical, arguing, "[u]ltimately, the CAP has proved unable to adjust to the need to modernise EU agriculture".

11.2 The areas of uncertainty

Henning predicts (but other chapters make the same point less explicitly) that "the Commission will harness future WTO negotiations to force the Agriculture Council to accept further reforms – a new version of the mechanism leading to the MacSharry reforms in the early 1990s". If this prediction is falsified, the prospects for reform in the medium term are bleak, although budgetary considerations may assume a new salience in the run-up to the 2013 financial settlement, given the need to release funds for other EU policy objectives. Yet, settlements of budgetary questions can always be fudged in a way that protects existing policies to a greater extent than is initially apparent.

This is not the place to consider in detail the obstacles that have prevented a settlement of agricultural trade issues in the DDR (Grant, 2007). The major problems have arisen over market access issues as far as the EU is concerned, but Olper points out that the defensive position of the EU on these questions is understandable, given that substantial tariff reductions could lead to a fall in farm income with intervention purchases providing a limited safety net that is close to the world market price level.

Hence, he concludes that "the implementation of the Fischler reforms…potentially introduces new restrictions in the EU's negotiating position". Not only would a change in the EU tariff structure affect farm income, but also it would influence the distributive gains made by different member states, always a politically explosive issue and something that the Fischler reforms avoided.

As Josling notes, at the time of writing the DDR was still searching for the "modalities" that would allow the submission of offers to be built into the final agreement. In practical terms, there is unlikely to be any progress until at least spring 2009 when the new US president is in office. If an agreement is reached, it may be a 'cosmetic' agreement that allows the participants to claim that progress has been made, even if the progress has been much more limited than hoped. In that case, it is unlikely to provide a sufficiently strong exogenous push for further reforms of the CAP. Of course, as Josling points out, whatever the nature of the agreement the EU is expected to adhere to its pledge to stop subsidising agricultural exports after 2013. That will get rid of a policy instrument that has had particularly distorting effects on world trade, not least in the Global South, and in that sense, it is a welcome step forward. Still, it is unlikely of itself to bring about radical change in the CAP.

Whether there is any significant progress in the DDR, or indeed whether the talks are revived at all, is highly dependent on the outcome of the 2008 presidential election in the US. It is likely that US trade policy would take a more protectionist turn if a Democratic candidate were elected. This would have particularly applied to either John Edwards or Hillary Clinton but Barack Obama has also made protectionist statements, although his stance might be modified in office. The political coalition of support for liberalising agricultural trade that existed in the US in the 1990s and lent considerable support to movement in the Uruguay round is no longer in place.

A number of factors are combining to bring food supply in a tighter relationship with demand and one consequence has been higher prices, which is what one would expect in a normally functioning market. There are a number of drivers of this situation and there has been some controversy over the increasing amount of land used for biofuels production, particularly in the US. A more immediate driver, however, is economic growth, especially in Asia. What a report published by the International Food Policy Research Institute (IFPRI) (von Braun, 2007) characterised as 'diet globalisation' is a major long-term factor changing demand. More affluent, city-dwelling Asian consumers are increasingly seeking non-traditional foods. This is leading to reduced rice consumption and increased consumption of wheat and wheat-based products, temperate-zone vegetables and dairy products – and increases in demand for animal feeds for the livestock producing many of these foods. The report also points out that while overall world economic growth is likely to remain in the average range of 4% a year, growth in the developing countries with expanding food demand is expected to average 6% a year well into the next decade. The IFPRI report highlights that of the world's most food-insecure countries, which have the greatest propensity to import food, 22 had average annual growth rates ranging from 5% to 16% between 2004 and 2006.

Such developments can provide new markets for EU food processors. The EU should also be in a strong position with its purchasing power to access supplies from world markets and thus the losers from any food scarcity, as at present, are likely to be the globally least well off. In the longer run, global climate change may increase food scarcity. A report from the UK Cabinet Office (2008) suggests that 50% of the world's arable land may be unusable by 2050 because of soil degradation. What such trends require is a more effective integration of environmental considerations in the CAP than has hitherto been achieved.

A downside risk is that the food security discourses that played a prominent part in shaping and justifying the old style CAP in a cold war context may be revived, leading to a productionist turn in policy. Certainly, a number of agricultural stakeholders have seen food security as the most promising discourse likely to lead to a continuation of subsidies into the future. A number of producer interests would like to revive food security as a major driver of agricultural policy. Organisations like the Commercial Farmers Group (CFG) in the UK, a small grouping of leading producers, argue that new threats are present in the form of population growth, pandemic diseases, climate change, terrorist actions and increased demand for renewable fuels. They want to change the balance between the environmental and food safety concerns that have been driving agricultural policy in recent years and return to more traditional productionist priorities. Hence, the National Farmers' Union (NFU) in England argues, "[f]ood security concerns…need to play a role in the design of any future agricultural policy" (House of Commons, 2007, p. 103). Similarly, the Country Land and Business Association (CLA) argue, "that security of food supplies should be a strategic priority" (House of Commons, 2007, p. 2). The CLA's chief economist, Allan Buckwell, has been trailing the idea of a European Food and Environment Security Policy, which would seek the 'socially optimal' production of high quality food, energy, biodiversity and landscape. This is undoubtedly an ingenious way of placing old ideas in a new wrapper.

The CFG takes the view that "80% of the food consumed nationally should be from the UK". This revival of old-style economic planning targets is too much for the NFU, which has stressed, in line with government thinking, "that food security was not the same as self-sufficiency and the union did not want to see the government set strict targets on food production or intervene in the market" (*Farmers Weekly,* 6 July 2007). What the NFU envisages is an "early warning system" in which indicators such as the UK's share of EU production in different sectors would be used. When that fell by a given amount, there would be an investigation by a joint industry/government panel. David Richardson sees this as an equivalent of the Bank of England Monetary Policy Committee (*Farmers Weekly,* 13 July 2007), although the members of that committee do not have a substantial and direct personal interest in the outcome as farmers and their allies would. This situation would then presumably trigger measures to "safeguard the productive capacity of UK farming" (ibid.), although how this would be compatible with the EU's state aids policy or WTO rules remains unexplained.

Productionist lobbyists have tried to borrow discourses about energy security, claiming that if governments can pay attention to energy security they can also move food security up the political agenda. Yet, oil and gas supplies are more reliant on a small number of potentially unstable countries than food supplies are. This argument also overlooks the increasingly global integration of food production. Nevertheless, the food security discourse is a powerful one, which may progressively exert more influence on the future course of the reform debate.

11.3 The health check

Since the Fischler reforms, further progress has been made on the reform of commodity regimes not covered by the 2003 reforms such as sugar and wine, in the former case provoking a switch out of sugar beet production by farmers, in the latter the reform package being somewhat diluted compared with the Commission's original intentions. Pressure exerted by France and Italy means that fewer vineyards will be scrapped than was planned and the surplus of low quality wine will continue to be distilled for industrial use over a four-year period. Other sectors such as cotton are still under discussion.

The Commission has never seen its health check on the 2003 reforms as an opportunity to conduct an equivalent of the mid-term review. As Commissioner Fischer Boel has stated (2007, p. A/2), "[a] Health Check does not mean necessarily that the patient is sick. So this will not be a fundamental reform, but rather a look at how we can make things work better and more simply." The summary of the proposals given below draws on the Commission's related Communication[1] but also on Fischer Boel's statement to the Agriculture Committee of the European Parliament and subsequent media conferences.

11.3.1 Single farm payment

The Commission seeks to simplify the various single farm payment (SFP) models by moving away from a historical model towards a flatter-rate payment with the long-term aim being to shift to a flat-rate payment per hectare on a regional or national basis. The Commission has always sought to move to completely decoupled payments to farmers and has seen coupled or partially coupled payments, such as the option of a 25% coupled payment in the arable sector as a transitional arrangement. Hence, these payments would be decoupled, but there might be a limited retention of coupled support for economic or environmental reasons on a regional basis. France will be particularly affected by these moves as it has retained a complex range of various forms of coupling, e.g. suckler cow, 100%; beef slaughter – adult, 40% and calf, 100%; tobacco, 60%; and potato starch, 60%.

One of the most controversial proposals will undoubtedly be that to cap the single farm payments made to large-scale farmers. This was originally proposed in the 2003 reforms, but encountered strong resistance from Britain and Germany. As Pirzio-Biroli shows in his chapter, it was dropped by Fischler in exchange for Blair's

[1] See European Commission, Communication on Preparing for the "Health Check" of the CAP Reform, COM(2007) 722 final, Brussels, 20 November 2007(a).

undertaking to bring Spain into the reform camp. The Communication does not make precise proposals for reductions, but an 'illustrative footnote' gives as an example a 10% reduction in payments over €100,000, 25% for payments over €200,000 and 45% for payments over €300,000. Based on these figures, around 23,500 holdings would be affected. It is interesting that the final text was revised to take account of the problem of farms being split to circumvent the measures. "However, when asked by MEPs and the media, [Fischer Boel] was not able to be any more concrete about what this might mean."[2] In practice, given the complex ownership and management structures of many farms, often for perfectly legitimate business reasons, it could be a legal and implementation minefield.

Figures produced by farmsubsidy.org[3] suggest that some former Communist states with large units based on collective farms could be hit particularly hard, notably in the Czech Republic (2.9%) and Slovakia (1.4%). This would also apply to Germany, where 1.6% of farms would be affected, largely in the east. The UK has the largest number (6,100) and percentage (3.7%) of affected farms, but 3,560 farms would also be affected in France (0.8% of all farms).

One of the drawbacks with the SFP has been the transaction costs of making large numbers of payments to small-scale farmers. Indeed, many of them are 'hobby farmers', the stereotypical example being the teacher with a goat in his/her back garden. Others are running equine enterprises. It is proposed to establish a minimum SFP area or a larger minimum area than the current 0.3 of a hectare, all savings to remain with the member states. In her remarks, Fischer Boel hinted that 1.0 hectare could be considered a lower limit and that perhaps the element of revenue from farming could be taken into account. That approach, however, raises the issue of what constitutes farming. Is having a pasture where horses from a livery stable graze farming?

11.3.2 Intervention purchasing

Export refunds will not be extended beyond 2013. Intervention would be maintained for just one grain type, bread-making wheat, to provide safety-net support. All other cereals would find their natural price level. The Commission is evidently seeking to apply the 'maize' model to barley and sorghum, i.e. a ceiling on intervention buying of 0 tonnes, which could be raised in the event of oversupply. The abolition of set aside forms part of the moves towards a more market-oriented CAP. The health check will re-examine other supply controls and production-linked payments, e.g. for dried fodder, flax and hemp and potato starch with the apparent intention being to phase out the remaining quotas and coupled payments by 2013. The Communication does not mention the sugar sector, which is the one other production area apart from dairy where quotas are still in place, but this will be looked at again once the 2005 reforms have been fully implemented.

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[2] Derived from *Agra Europe,* 30 March 2006, p. EP/1.

[3] For further information, see the website www.farmsubsidy.org.

11.3.3 Dairy quotas

Three measures are proposed to try to secure a 'soft landing' for the end of dairy quotas on 31 March 2015. Quotas would be increased; other policy instruments might also be changed, e.g. the level of the super levy for exceeding quotas could be reduced and there could be accompanying measures to help specific regions such as mountainous areas. In December 2007, the Commission proposed a 2% increase in milk quotas from 1 April 2008 to apply on an equal basis to the 27 member states. The proposal was accompanied by a market outlook report, which argued that the expected positive growth in demand for dairy products on both the EU and world markets offered ample opportunities to absorb a 2% quota increase.

The key factor in a buoyant world market has been increased demand from the emerging economies. As people become more affluent, they consume more products that make use of milk. The increased demand for milk powders, for so long the sump of the industry, illustrates the fact that the major force underlying the price boom is greater demand for processed food ingredients. Moreover, as demand has expanded particularly in fast-growing Asian economies, exportable supplies have been limited by drought in Australia and strong domestic consumption in the US and EU.

Can the price boom last? The OECD is relatively optimistic. Even though current exceptionally high prices are unlikely to be sustained, it is confident in its 2007 *Agricultural Outlook* that milk powder and dairy product prices are likely to stay at relatively high levels at least until the middle of the next decade. Over the 2007–16 period, it expects prices to remain at about $50–100 per 100 kg (milk equivalent) higher as compared with the previous decade.

Yet, in many respects, the EU has largely failed to respond to a booming global dairy market. Milk deliveries actually fell by 1.5% in 2006 despite an increase in quotas. All sorts of explanations have been produced such as the threat of high super-levy penalties and even the expiry of the transitional period in the 10 EU accession countries of 2004 (this allowed for domestic marketing not to comply fully with EU criteria). An alternative explanation is that the quota regime has ossified the structure of the dairy industry in the EU, holding back the more efficient and protecting the more marginal farmers (which indeed was one of its intentions). Quotas can be transferred in some countries (the rules differ), but despite the existence of an internal market, they cannot be transferred across national borders. The consequence is that the EU's dairy processing industry has been handicapped in responding to new opportunities on the world market. It should be noted that EU butter prices remain about 30% above world market levels and the December proposals contained no quid pro quo for increased quotas in terms of a further reduction in butter intervention prices, which would reinforce signals to farmers to be more market-oriented.

11.3.4 Modulation and cross-compliance

The Communication specifically calls for a 2% increase in the rate of compulsory modulation from 2010 to 2013, i.e. rising from 5% in 2007 to 13% by 2013. New member states would continue to be exempt from this requirement until direct aids have been phased in fully. Member states applying voluntary modulation (Portugal and the UK) would need to reduce the rate as compulsory modulation increases.

The Commission proposes to review the cross-compliance rules with a view to excluding provisions that are not directly relevant but perhaps including new points such as climate change and water management. Cross-compliance is seen as a central policy instrument of the reformed CAP in terms of both promoting sustainability and making the SFP more acceptable to consumers and taxpayers. In particular,

> Cross-compliance creates a link between the full payment of support, and compliance with certain rules relating to agricultural land in the areas of the environment, public and plant health, animal welfare and good agricultural and environmental condition. The link is expressed in concrete terms in the possibility, if the rules are not respected, of full or partial reductions of certain EU agricultural payments. (European Commission, 2007b, p. 2)

The Commission admits that "[c]ross-compliance may indeed represent a challenge as it often results in a rather bulky set of rules which were previously implemented independently of each other" (European Commission, 2007b, p. 2). Of course, many of these rules cover what should be followed as best farming practices in any case. They may be divided into two categories: statutory management requirements, a set of fairly basic standards that are in force throughout the EU and good agricultural and environmental condition requirements, where member states are permitted to define minimum requirements based on a European framework.

Whether cross-compliance is an effective policy instrument is open to question. The Institute for European Environmental Policy notes, "some difficulties have been experienced by member states in defining standards that are meaningful to farmers and can be checked during a control visit. The scope and ambition of the standards, as implemented, also varies across the Member States." On the other hand, "[a] key advantage of cross-compliance is the leverage it has over the vast majority of EU farmland and farmers. A smaller pillar I budget could lead to the loss of this leverage over the most competitive farms."[4] There needs to be consideration of the relationship between the cross-compliance under pillar I and the agri-environmental payments provided by pillar II.

The more general issue here, identified by Swinnen in his chapter, is that various reform demands do not always reinforce each other. In particular, 'green' and 'market' reformers do not always agree on the need for market liberalisation and the role of multifunctionality. Indeed, more fundamentally, they generally do not agree on their relative importance.

[4] Derived from *Agra Europe,* 30 March 2006, p. EP/1. See also the article "Cross Compliance: At crossed purposes?" (retrieved from http://caphealthcheck.eu/2007/12/10/cross-compliance-at-crossed-purposes/, accessed 7 January 2008).

11.4 One vision, two steps

Commissioner Fischer Boel has been insistent on the idea of 'one vision, two steps' for the future of EU agriculture, admitting that "the reflections on the CAP after 2013 could be more fundamental than the 'Health Check' would be – as it would be accompanied by a review of the EU's budgetary structure".[5] Commissioner Fischer Boel's view has been that she will not accept budget cuts to the CAP as part of the general EU budget review in 2009, but admitted that the same guarantees could not be made after 2013. She also believes that the Single Payment Scheme "will be with us for a long time to come" (ibid).

Advocates of CAP reform have long argued that there is no continuing case for a general subsidy to farming as a commercial activity through the SFP, but rather that subsidies should be focused on the provision of public goods and positive externalities by agriculture such as environmental benefits or cherished landscapes. It is acknowledged that farming as a business has been conditioned by the receipt of subsidies over several decades; hence, there is a case for converting them into a bond that could generate a stream of income for a defined period or sold as an asset to generate capital for reinvestment in the farm or used for farm diversification (Swinbank & Tranter, 2004). Commissioner Fischer Boel has taken the view that a bond scheme would lead to the demise of cross-compliance. Even so, the bond is intended to replace and phase out single farm payments. Separate payments could still be made for public good provision by farmers linked to cross-compliance.

Many farm organisations seem to believe that the SFP will disappear after 2013. Yet, political support for its continuation could be strong and it may continue in some form, although almost certainly at a reduced rate and with capping. It might be confined to less favoured areas, for example.

To borrow Swinnen's terminology, the health check is not a "perfect storm" for reform. It is more in the nature of a minor squall that will not disturb the course that has been set. Will a window of opportunity for further fundamental reforms be created in the run up to 2013? Budgetary considerations, in particular the opportunity cost of the CAP and the need to release funds for other EU objectives, will no doubt play a part. Still, endogenous pressures of this kind do not produce the kind of shock provided by trade negotiations and can lead to fudged and anaemic compromises.

In the future, trade negotiations are unlikely to provide the kind of stimulus that helped to make the Fischler reforms possible. Some sort of conclusion will eventually be reached to the DDR, but it is unlikely to be as far reaching as was initially hoped. There has already been pressure in the past for ditching trade rounds and the DDR could well be the last. This would adversely affect the prospects for further radical reforms of the CAP.

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[5] See *Agra Europe,* 30 March 2006, p. EP/1.

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GLOSSARY

ACP	African, Caribbean and Pacific (countries)
BSE	Bovine spongiform encephalopathy
CAP	Common Agricultural Policy
CEEC	Central and Eastern European Country
CFG	Commercial Farmers Group (UK)
CLA	Country Land and Business Association (UK)
COPA	Committee of Professional Agricultural Organisations (EU)
COGECA	General Confederation of Agricultural Cooperatives (EU)
DDA	Doha Development Agenda
DDR	Doha development round
EC	European Community
EEC	European Economic Community
EPA	Economic Partnership Agreement
FMD	Foot and mouth disease
GATT	General Agreement on Tariffs and Trade
GIs	Geographical indications
LDC	Least-developed country
MCA	Monetary compensatory amount
MEP	Member of the European Parliament
MTR	Mid-term review of the common agricultural policy
NFU	National Farmers' Union (UK)
NMS	New member states
QM	Qualified majority
QMV	Qualified majority voting
SEA	Single European Act (1986)
SFP	Single farm payment
URAA	Uruguay Round Agreement on Agriculture (1994)
WTO	World Trade Organisation

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