

**The Political Economy
of the 2014-2020
Common Agricultural Policy
An Imperfect Storm**

This book is dedicated to our colleague and friend Giovanni Anania, who sadly died on 15 July 2015, just days before this book went into print. We were fortunate to have his valuable contributions and insights to this volume as well as other projects at CEPS. We want to express our sincere condolences to his wife, family, friends and colleagues at the University of Calabria.

The Political Economy of the 2014-2020 Common Agricultural Policy An Imperfect Storm

**Edited by
Johan Swinnen**

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Centre for European Policy Studies (CEPS), Brussels
Rowman and Littlefield International, London

Published by Rowman & Littlefield International, Ltd.
Unit A, Whitacre Mews, 26-34 Stannary Street, London SE11 4AB
www.rowmaninternational.com

Rowman & Littlefield International Ltd. is an affiliate of Rowman & Littlefield
4501 Forbes Boulevard, Suite 200, Lanham, Maryland 20706, USA
With additional offices in Boulder, New York, Toronto (Canada), and Plymouth (UK)
www.rowman.com

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British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-78348-484-3

™ The paper used in this publication meets the minimum requirements of American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI/NISO Z39.48-1992.

Printed in the United States of America

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LIST OF ABBREVIATIONS

| | |
|---------|---|
| AMS | Aggregate Measurement of Support |
| ANC | Areas with Natural Constraints |
| AoA | Agreement on Agriculture |
| ARC | Agricultural and Rural Convention |
| BEPA | Bureau of European Policy Advisors |
| BPS | Basic Payment Scheme |
| CAP | Common Agricultural Policy |
| CBD | Convention on Biological Diversity (United Nations) |
| CEEC | Central and Eastern European country |
| CEMA | European Agricultural Machinery |
| CETA | EU-Canada Comprehensive Economic and Trade Agreement |
| CMO | Common Market Organisation |
| COMAGRI | Committee for Agriculture and Rural Development |
| CONT | Committee on Budgetary Control |
| COP | Conference of the Parties |
| CSE | Consumer Support Estimate |
| CSF | Common Strategic Framework |
| DDR | Doha Development Round |
| Defra | Department for Environment, Food and Rural Affairs (UK) |
| DP | direct payment |
| DSB | Dispute Settlement Body |
| EAFRD | European Agricultural Fund for Rural Development |
| EBA | Everything but Arms |
| ECOFIN | Economic and Financial Affairs Council |
| ECPA | European Crop Protection Association |

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| EEB | European Environmental Bureau |
| EFA | Ecological Focus Area |
| EGAF | European Globalisation Adjustment Fund |
| EIP | European Innovation Partnership |
| ELO | European Landowners' Organisation |
| EMFF | European Maritime and Fisheries Fund |
| ENVI | Committee on the Environment, Public Health and Food Safety |
| EOs | environmental organisations |
| EPG | European Party Group |
| ESA | European Seed Association |
| ESA | European Society for Agronomy |
| ESF | European Social Fund |
| ESI | European Structural and Investment funds |
| FEFAC | European Feed Manufacturers' Federation |
| FO | farmer organisation |
| FTA | Free-Trade Area |
| G20 | Group of 20 |
| GAC | General Affairs Council |
| GATT | General Agreement on Trade and Tariffs |
| GEAC | Good Agricultural and Environmental Conditions |
| GVA | gross value added |
| IBO | Inter-Branch Organisation |
| IEEP | Institute for European Environmental Policy |
| IFOAM | International Federation of Organic Agriculture Movements |
| IIA | Inter-Institutional Agreement |
| LDC | Least developing country |
| MDG | Millennium Development Goals |
| MFF | Multiannual Financial Framework |
| MFN | Most-Favoured Nation |
| MS | Member State |
| MTR | mid-term review |

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| NMS | New Member State |
| NSF | National Strategic Framework (for the Structural Funds) |
| NSP | National Strategic Plan |
| ODA | Official Development Aid |
| OECD | Organisation for Economic Co-operation and Development |
| OMS | old member states |
| PA | Partnership Agreement |
| PDO | Protected Designation of Origin |
| PGI | Protected Geographical Indication |
| PO | Producer Organisation |
| PSE | Producer Support Estimate |
| QMV | Qualified Majority Vote |
| RCV | Roll-Call Vote |
| SAPS | Single Area Payment Scheme |
| SCF | structural and cohesion fund |
| SCMO | Single Common Market Organisation |
| SPS | Single Payment Scheme |
| TRQ | Tariff Rate Quota |
| TTIP | Transatlantic Trade and Investment Partnership |
| UAA | Utilised agricultural area |
| UKIP | United Kingdom Independence Party |
| UNCSD | United Nations Conference for Sustainable Development |
| UNFCCC | United Nations Framework Convention on Climate Change |
| WTO | World Trade Organisation |
| WWF | World Wildlife Fund |

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PREFACE & ACKNOWLEDGEMENTS

The political economy of agricultural and food policies remains a fascinating and important topic. This holds in general with many poor countries in the world taxing their farmers while many rich countries subsidise agriculture. It also holds for the European Union. Since the start of the Common Agricultural Policy (CAP), the EU has spent a large share of its budget on supporting European agriculture. In 2013, it was decided to spend more than €400 billion over the remainder of the decade on the CAP. The 2013 decision ended years of discussion and negotiations on the future of the EU's agricultural policies. It not only had major implications for the EU's budget and farmers' incomes, but also for Europe's environment, its contribution to global climate change and to food security in the EU and elsewhere in the world.

This book discusses the outcome of the decision-making and the factors that influenced the policy choices and decisions. It brings together contributions from academics and policy-makers, and from different disciplines.

The precursor to this volume was our 2008 book, entitled *The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Programmes*, to which several of the authors in the present book also contributed. Since then several workshops and seminars have been organised on what was typically referred to as the '2013 CAP reform'. One workshop was organised in Zurich at the 2011 Congress of the European Association of Agricultural Economists (EAAE) and others in Brussels at the Centre for European Policy Studies (CEPS) and in Ljubljana at the 2014 EAAE Congress. Many contributors to this book participated in numerous other discussions and panels on the CAP. Part of the chapters in this book are based on background analyses carried out for a study for the European Parliament entitled "The first CAP reform under the ordinary legislative procedure: A political economy perspective".

The book is organised in several parts. The first part presents the key outcomes of the decision-making process and the CAP for 2014-2020 and offers an assessment of the policy outcomes by leading academic analysts. The second part has perspectives from the European institutions, written by key participants in the process and negotiations from the European Commission and the European Parliament.

The third part includes chapters that discuss key elements of the CAP reform negotiations and its political economy components, including the link with the budgetary negotiations, the negotiations on greening and the role of the WTO. The fourth part focuses specifically on how co-decision and the European Parliament influenced the CAP decision-making. The final part concludes and looks at the future, with several chapters discussing the likelihood and need for the next CAP reform.

We include an Appendix at the end of the book that summarises the positions taken by the European institutions during the negotiations on specific CAP issues and the final regulations, which we hope will be a useful tool for reference purposes and further research.

Many people and organisations contributed to the production of this book. The organisation of the workshops and the publication of the book were financially supported by CEPS and the LICOS Centre for Institutions and Economic Performance of the University of Leuven. Louise Knops, Maria Garrone and Kristine Van Herck provided invaluable support, both in terms of the actual analysis and research, and as organisers of various activities that preceded the book. Lee Gillette and Els Van den Broeck at CEPS did a wonderful job in copy-editing the book and on the lay-out.

My final words of thanks go to Anne Harrington, CEPS Editor, who, as always, was a source of enthusiastic support and continuous encouragement, and a patient guide throughout the book publishing process.

Johan Swinnen
Brussels, June 2015

1. THE POLITICAL ECONOMY OF THE 2014-2020 COMMON AGRICULTURAL POLICY: INTRODUCTION AND KEY CONCLUSIONS

*JOHAN SWINNEN**

After an elaborate process, a decision on the Common Agricultural Policy (CAP) for the 2014-2020 period was reached in 2013. The process involved the main European institutions: the European Commission (Commission), the Council of the European Union (Council), the European Council¹ and the European Parliament (EP). It involved consultations with European

* I thank Giovanni Anania, Emil Erjavec, Imre Fertő, Maria Garrone, Louise Knops, Attila Kovacs, Alan Matthews, Alessandro Olper and Alan Swinbank for excellent comments on an earlier version of this chapter. All remaining errors and expressed opinions in this chapter are my responsibility.

¹ The European Council is the Council of the Heads of State and Government, whereas the Council of the European Union (sometimes called the Council of Ministers) is the institution representing the member states' governments. Also known informally as the EU Council, the latter is where national ministers from each EU member state meet in different configurations to adopt laws and coordinate policies. In the context of this book, these gatherings are called Agriculture and Fisheries Councils, which we shorten to Agriculture Council (see www.consilium.europa.eu/en/council-eu/configurations/agrifish/). Although both Councils played an important role in the 2013 reform of the CAP, the European Council is not part of the CAP decision-making process according to the legislative rules. It nevertheless had an important impact, as we will explain later.

citizens and ‘stakeholders’ and intense lobbying activities on the part of various interest groups. The process started informally as early as 2008 and more formally in April 2010, when the Commission launched a public debate on the CAP’s future. In June 2013, a political agreement was reached between the Commission, the EP and the Council under the Irish Presidency.² In the last months of 2013, the regulations were formally adopted by the Council and the EP. Delegated Acts to clarify technical implementation details were approved in April 2014. Afterwards member states went to work on how they would implement various policy areas where they had flexibility in implementing the regulations.

The length and complexity of the process are not indicative of the reform outcome. Bureau & Mahé (ch. 3) even argue that comparing, for example, the 2003 CAP reforms with the recent CAP decisions, there appears an inverse correlation between the length of the process and the significance of the policy reforms. Many authors in this book share the opinion that the outcome of the decision-making process was disappointing. In fact, nobody seems to be very enthusiastic about the outcome – albeit not always for the same reasons.

The subtitle of the book, and part of the title of my political economy analysis in chapter 17, “An Imperfect Storm”, refers to the contrast with the 2003 reforms where many different factors (economic, political, institutional, etc.) combined to create a ‘perfect storm’ triggering a radical reform of the CAP (see Swinnen, 2008a). In contrast, the factors that induced the policy discussions in 2008-13 and that influenced the decision-making did not reinforce each other. On the contrary, they sometimes counteracted one another, yielding an ‘imperfect storm’ as it were, which was reflected in much less dramatic changes in the CAP and much more emphasis placed on the status quo in several important policy elements.

² There were important intermediate events between April 2010 and June 2013, such as the publication of the Commission’s proposals in 2011 and the MFF (multiannual financial framework) agreement in early 2013. Knops & Swinnen (2014) provide a detailed timeline and explanation of the various steps and procedures.

The CAP is a complex policy involving many different components and issues. Accordingly, the contributors to this book are recognised experts on their particular topics. I will therefore refrain from going into too much detail in this chapter and refer the reader to the specific chapters that deal with specific analyses and more details. Hence, my key conclusions here will be a rather brief summary, focused on what I thought were common themes and findings.

Arguably the main common theme is the discussions and decisions on ‘greening’ of the CAP, i.e. reforms of the CAP to enhance its impact on the environment and climate change. It was a major element in the public debate, in the Commission’s proposals, in the ensuing negotiations on the future EU budget in the European Council, among and within the member states, and in the EP. It was the subject of intense lobbying by interest groups and of severe ex-post critiques.

Other common themes include the new role played by the European Parliament, the complex relationship between the CAP and the overall budget negotiations under the multi-annual financial framework (MFF), the impact of the Eastern enlargement and of the food price spikes on global markets, etc. In this chapter I attempt to present a set of conclusions from the many chapters and identify where there is consensus and where not.

At the same time, this chapter is an attempt to guide the reader to the other chapters where more detailed arguments can be found. For the reader’s reference, I include a series of tables in Annex to the book (Kovacs et al.), which summarise the positions taken by the European institutions on specific reform elements, as well as the final decisions on the CAP for 2014-2020.³ I refer to chapters 2 and 3 for a detailed analysis and discussion of the 2013 CAP decisions.

³ For complementary information and an excellent guide and review of the CAP process and its future, the reader is referred to the series of blogs and comments on www.capreform.eu by leading European experts including Alan Matthews, J.C. Bureau and Emil Erjavec, all of whom are authors in this book. The website also has a most useful archive of commentaries since before the start of the 2010-2013 CAP reform process.

1. A CAP ‘reform’?

“Reform”
(Oxford Dictionaries Online 2015)

Verb:

“Make changes in (something, especially an institution or practice) in order to improve it.”

Noun:

“The action or process of reforming an institution or practice.”

In the conclusions of my edited volume on the 2003 CAP reform (Swinnen, 2008a), I addressed the question: Were the Fischler reforms radical reforms? (And the general consensus was that in several ways they were radical reforms.)⁴ The question with the 2013 CAP decisions is not so much whether they are radical reforms (the consensus on this is “no”), but whether they are captured appropriately by the term ‘reforms’ at all.

In answering this question, it is important to consider two sub-questions: How large are the (policy) changes? In what direction do the (policy) changes go? Reform means change, but change is, in itself, an ambivalent term because it hinges on the direction of the change. Many authors in this book struggle implicitly with this issue when they are trying to evaluate the policy decisions. Alan Matthews (ch. 19) acknowledges that “the discussion can get very confused” because people have very different interpretations of what they mean by ‘reform’. Some of the difficulties in interpretation and evaluation are also reflected in the categorisation of Anania & Pupo D’Andrea (ch. 2) of member states along a “more or less conservative” dimension and in the discussion in Erjavec et al. (ch. 9) discussion of “conservative member states” and the different discourses surrounding the policy measures.

Anania & Pupo D’Andrea (ch. 2) as well as Bureau & Mahé (ch. 3) conclude that a general evaluation of the CAP decisions is “difficult” and arrive at a mixed evaluation, which differs for specific elements of the decision. Haniotis (ch. 5) summarises his view on how the targets set at the beginning of the process were

⁴ See Chapter 10.2 in Swinnen (2008b).

achieved as follows: “Fairer? Yes. Simpler? Definitely not. Greener? Still unclear.”

The general assessments in this book seem to be that: a) there have been some policy changes (obviously); b) some of the policy changes are ‘new’ (e.g. it is the first CAP reform with explicit⁵ redistribution of budgets between member states); c) that the policy changes are relatively minor; and d) the policy changes are not always coherent in terms of the perspective on the objectives of the CAP that they serve (e.g. some are consistent with the long run ‘reform process’ of less market interventions; others are inconsistent with this).

Bureau & Mahé (ch. 3) conclude that from many perspectives the process has been “a lost opportunity”, and Anania & Pupo D’Andrea (ch. 2) that “those who hoped the financial resources would not be severely cut ... and for the reformed CAP to bring as few changes as possible, are probably quite satisfied by the result”. As I already pointed out, some of the main critical evaluations relate to the ‘greening’ aspects of the CAP, which leads Erjavec et al. (ch. 9) to conclude that “the reform was an empty shell” – an assessment shared by many others in this book (see further). Perhaps illustrative of the overall assessment is that several authors consider one of the main ‘achievements’ of the reform the status quo outcome in the area of market orientation of the CAP (e.g. Bureau & Mahé (ch. 4) and Swinbank (ch. 8)).⁶

In summary, this brief introductory review should make it clear that the 2013 decisions on the CAP for the 2014-2020 period are not very accurately summarised by the concept of ‘reform’. In fact, some observers object to the concept for the 2013 decision, arguing that it gives the outcome (and the process) too much credit – and would prefer to use ‘repackaging’ or ‘recalibration’. That said,

⁵ One should distinguish between “budget redistribution” and “redistribution” in general because decision-making on intervention prices, tariffs and quotas under the old CAP had important implications for rent distribution across member states.

⁶ Obviously these evaluations depend on the perspectives of the authors and those who favoured more regulated markets see this as a negative element of the reform – or something to address in the future (see the discussion in De Castro & Di Mambo, ch. 5).

almost all authors in this book use the term ‘CAP reform’, as do many people who are not contributors to this book, mostly as a term of convenience rather than a value judgement.

2. Public funds for public goods? Greening of the CAP?

A factor that received a lot of attention both from economists and ecologists was the need to link the CAP payments much more strongly to ‘environmental’ or ‘public good’ objectives. Ecologists had long been arguing to use the payments to reduce the negative impact of EU agriculture on climate change, to enhance biodiversity, etc. (see chs 6, 10 and 20 by Potočnik, Hart and Buckwell, respectively). Economists saw this as the next step in the long-term reform path of farm support: from distortive interventions in the 1970s and 1980s to less distortive payments in the 1990s (after MacSharry), to decoupled payments in the 2000s (after Fischler), to (more?) targeted payments in the 2010s, as e.g. reflected in an early report by Bureau & Mahé (2008) and the statement of a group of ‘leading agricultural economists’ (Anania et al., 2010). These objectives were summarised in the ‘public funds for public goods’ statement.

However, farm organisations were mostly opposed to these arguments as they saw them as posing additional constraints and increasing their production costs. Opponents of specific greening measures also claimed that they would increase bureaucracy and would be costly to monitor and to implement.

The 2013 decision on this part of the CAP is the one that has received the most critiques. Many authors in this book see this as a major weakness or failure of the reform – maybe best captured by the judgement of “greenwash instead of greening” by Erjavec et al. (ch. 9). Hart (ch. 10) refers to others who, despite the Commission’s claim that greening is now a permanent element of the CAP, even argue that the 2013 decisions take a step backwards instead of forward for the integration of environmental concerns in the CAP.

A different perspective is presented by De Castro & Di Mambo (ch. 5) who argue that the “greening of the first pillar can be viewed as a reinforcement of the environmental cross-compliance ... and is ... necessary to strengthen the contribution of the sector to

the correct management of environmental resources". They explain the position, which dominated the EP's Committee for Agriculture and Rural Development (COMAGRI), that the Commission proposals did not sufficiently take into account the implementation problems for the farmers and the problems of compliance and payment controls, and measurements of environmental impacts of farmers' obligations. This perspective (or the unofficial purposes that it served) was very influential in the end, not just in the EP but also in the Council.

The explanations offered in several chapters why the requirements on 'greening' in the final agreement were so weak is a combination of several elements. The first is that the reform proposals presented by Commissioner Dacian Cioloş (2010-14) were not very ambitious to begin with. This lack of ambition is explained, among other reasons, by a limited commitment to greening and the relative inexperience of the Commissioner and his cabinet. Anticipating opposition in the Council and the EP, they seemed to have wanted to minimise conflicts by proposing a compromise in the first proposal (Erjavec et al., ch. 9). Yet, despite this 'weak' proposal, Hart (ch. 10) explains that the reactions to the Commission's greening proposals "*were almost universally negative*". Farming organisations criticised the obligation to set aside land; environmental organisations were disappointed with the limited ambition; economists criticised it for proposing inefficient instruments; the Council claimed the proposals would lead to more bureaucracy; etc.

Another factor is the role of the European Parliament where the COMAGRI was able to control much of the decision-making, with farm interests having more influence than environmental organisations (Roederer-Rynning, ch. 13; Hart, ch. 10; Knops & Garrone, ch. 16). At the same time, much of the positions of the EP were shared by the Council of Ministers, which joined the EP on many aspects that weakened the greening requirements (Bureau & Mahé, ch. 3; Fertó & Kovacs, ch. 15). Erjavec et al. (ch. 9) argue that the most important and effective opposition came from the member states in the Council. Sahrbacher et al. (ch. 11) also argue that on the issue of capping and degressivity it was the Council's position that was dominant in the decision-making.

Yet another factor is the fact that the MFF negotiations were separated from the decisions on the greening details, and the farmers-environmental organisation coalition (see further) fell apart after the budget decision was made. This resulted in a no-holds-barred, and successful attack on the greening conditions after the MFF budget was agreed (Matthews, ch. 8) without a strong and committed Commissioner to keep the coalition together and an institutional process that made sustaining coalitions more complex (Swinnen, ch. 17). The collapse of the coalition seems to have taken environment groups by surprise. Maybe they expected the same process as in 2002-03 and this time the surprise was on the 'pro-reform' side, while in 2003 the surprise was on the 'anti-reform' side (Swinnen, ch. 17) or they overestimated their capacity to overturn the COMAGRI amendments in the plenary vote (Roederer-Rynning, ch. 13).

A final element is that the increase in food prices induced much interest and concern for global food security and gave ammunition to the political arguments that environmental regulations that would restrict agricultural production would lead to higher food prices and undermine EU and global food security (Guariso et al., 2014; Haniotis, ch. 4; and Swinnen, ch. 17).

3. The multi-annual financial framework (MFF) and CAP reform

Several authors point to the importance of the link between the MFF negotiations and the CAP negotiations. There are several elements.

As Swinbank (ch. 12) explains, in 2005: "The British Government pressed for a new CAP reform debate, [...], and in the European Council meeting of December 2005 secured a commitment for the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008-09." While Swinbank goes on to argue that the impact of the UK government on the 2013 CAP decision has been very limited, it is an interesting hypothesis that, if it had not been for Blair and the UK government in 2005, there may not have been a substantial discussion and negotiation about a 'CAP Reform' as we have witnessed in 2009-13 (although there would have been negotiations on the 2014-10 MFF).

The pressure to reduce CAP spending in the 2014-2020 MFF was reinforced by global events after 2008. The financial and economic crisis caused major economic and consequently budgetary problems for governments in all member states. It put pressure on budgets as tax revenues declined and demands for social spending (including unemployment benefits) increased (Haniotis, ch. 4; Swinnen et al., 2014).

Several authors, in particular Alan Matthews in ch. 7, explain how the parallel negotiations of the MFF and the CAP were important. He identifies three linkages: 1) the need to create a narrative to legitimise and defend the share of the CAP budget in the 2014-2020 MFF (reflected in the ‘public funds for public goods’ argument and coalition); 2) the compression of the time to conclude the CAP negotiations as the EP and the Council delayed their approval of their CAP mandates until the budget figures were decided; and 3) the inclusion of particular CAP elements by the European Council in the MFF (in the so-called ‘negotiation box’), which influenced the later CAP decision-making as EP voting on the MFF involved different procedures (the EP could only vote on the whole package without the possibility of amendments) while several key CAP elements were in the ‘negotiation box’ of the Council MFF. This particular process reduced the influence of the EP and enhanced the influence of the member states (through the European Council) on the final CAP decision.

Matthews also argues that the second element (the shortening of the final negotiation phase) strengthened the hand of those arguing for minimal changes in the negotiations: *“The insistence of the EP that no serious CAP negotiations should begin until the budget numbers are known worked to strongly favour those holding a status-quo oriented position on the reform proposals (for example, farm groups) while disadvantaging those who sought a more radical change in the orientation of the CAP (for example, environmental groups seeking a greater focus on environmental public goods).”*

A key element emphasised by several authors is that the months after the MFF agreement (in March 2013) were crucial in the CAP decision, as many of the details of the CAP, including greening conditions, were decided (“further watered down” as Erjavec et al. and Hart describe it) in these months, after the MFF was decided and the budget was sealed. In those months ‘public funds for public

goods' was no longer as relevant for securing political support as the CAP budget had already been agreed.

What is intriguing, however, from an historical perspective is that the timing and the approach at first sight were not so different from the 2003 CAP reform decision-making. Also then the EU budget decision preceded the CAP decision by several months.⁷ Ciolos, like Fischler in 2003, established a coalition within the Commission that supported CAP funding if key reforms would be implemented. As Matthews (ch. 7) and Hart (ch. 10) explain, Commissioner Ciolos gained the support of the Commissioners for Environment and Climate Change and ultimately the College of Commissioners to maintain the CAP budget provided that the CAP would be reformed to put more emphasis on the environment and climate change.

Yet the coalition between those who wanted a large CAP budget and those who insisted that the budget should be used in different ways survived during the months after the budget agreement in 2003 but not in 2013. Why not? Several factors seem to have been fundamentally different between those (months of) negotiations. One was the personality of the Commissioner of Agriculture and Rural Development and another was co-decision and how it changed the influence of both the EP and the Council.

While Commissioner Fischler is widely recognised as having played a dominant and strategic role in the 2003 reforms, Commissioner Ciolos appears to have been less committed, less

⁷ The Fischler 2003 MTR (mid-term review) reforms need to be seen in tandem with the 2002 EU budgetary agreement. The 2003 reform (proposals) allowed Fischler 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. (Other Commissioners and Ministers of Finance targeted a 30% budget cut of the CAP.) By proposing reforms that reduced the negative effects of the CAP on the environment, on market distortions and on the WTO negotiations, and that enabled the CAP to fit within a concept of sustainable rural development, Fischler and his team created a new "legitimacy" for the CAP and a new support base which would reduce the ammunition of those demanding large budget cuts. In this way they were able to convince the Commission to table a proposal (which was later approved) with much more limited cuts for the next financial period (up to 2013) than many desired (Swinnen, 2008b).

experienced or less politically skilled at the European level to keep the coalition and the reform compromise together until the end. Support for this conclusion also comes from Knops & Swinnen's (2014) study where interviews with a series of key participants in the CAP negotiations pointed primarily at the crucial roles played by Simon Coveney, the Irish Agricultural Minister who presided over the negotiations during the Irish Presidency in the spring of 2013, and by Paolo De Castro, the COMAGRI Chair, as well as some of the COMAGRI Rapporteurs. The more limited role played by Commissioner Ciolos and his cabinet is also reflected in the lack of association to the 'reforms' and his name. In the past, the 'MacSharry reforms' and the 'Fischler reforms' (referring both to Agenda 2000 and the 2003 mid-term review policy decisions) are generally associated with the Commissioner for Agriculture and Rural Development. For the 2013 reform there is no such consensus. In fact only one chapter in this book (Anania & Pupo D'Andrea, ch. 2) refers consistently to 'Ciolos' reforms'. For most, Ciolos, who joined the Commission after the process had already begun, was not the driver of the reforms, but more a reluctant participant.

To be fair to the Commissioner, however, one should emphasise that another factor was very different than in 2003: the changed institutional procedure. Co-decision would have reduced the influence of any Commissioner and given more influence to the EP and the Council. In these institutions, the 'budget-for-reforms' coalition was never so strong to begin with. Hence, it is an intriguing question whether the Fischler approach of 2003 would have been equally successful in the institutional environment of 2013.

4. Does more democracy lead to a better CAP? Co-decision and the European Parliament

Amongst the political economy factors that shaped the 2013 CAP reform decision-making, the application of co-decision rules to agriculture certainly stands out as an important one. For the first time in the long-standing history of the CAP, and following the coming into force of the Lisbon Treaty in 2009, the European Parliament took full part in the decision-making of the CAP. As Haniotis (ch. 4) writes, "*it now takes three to tango!*"

Ex ante there were many hypotheses on how co-decision would influence CAP decision-making, based on theoretical analyses and empirical insights from other policies where co-decision already applied. There were three key issues, all related: the impact on the power distribution among the European institutions, the impact on the ability to come to a decision (avoid gridlock), and the impact on the 'reform' of the CAP.

Theory predicted that co-decision would imply a transfer of institutional powers from the European Commission to the EP and the member states inside the Council, but this could be mitigated by factors such as an unequal distribution of analytical resources (Crombez et al. (2012); Greer & Hind (2012)).⁸ Moreover, as mentioned above, theory and evidence from other sectors suggested that increased gridlock (inability to come to a political decision) could increase (Crombez & Hix 2014). In fact, both the likelihood either of gridlock or of more reform (or more status quo) crucially depends on the interaction of the political preferences of key decision-makers and the specifics of the institutional process (legislative rules).⁹ Crombez & Swinnen (2011) suggested that the extent to which co-decision would influence the outcome of the 2013 CAP reform depended crucially on the structure of relative preferences for reform. In other words, the introduction of co-decision could reduce the prospects for CAP reform if the EP was less pro-reform than the Commission or if it would influence the

⁸ Greer & Hind (2012) proposed four scenarios to describe the new inter-institutional balance achieved with co-decision: 1) the conventional scenario, where the EP acquires more influence at the expense of the other institutions but is constrained by limited resources; 2) the Council-EP axis, where the Council fills the void created by the lack of EP resources; 3) the Commission-centric model, where the Commission manages to extend its influence; and finally 4) the status quo scenario, where the changes in decision-making rules produced stasis, a more protracted decision-making process that made reform more difficult by reinforcing the status quo.

⁹ Crombez & Hix (2014) find empirical support that gridlock intervals are smaller and more legislative activity occurs under co-decision (consultation) when the pivotal member states and the European Parliament (Commission) are closer to each other. They also observe more activity under qualified majority voting (QMV) in the Council than under unanimity.

proposals put forward by the Commission. It could also lead to gridlock (no policy decision) if the EP would not agree with a qualified majority in the Council (Crombez et al., 2012).

Several chapters in this volume discuss the effective impact of the EP in detail. For example, Roederer-Rynning (ch. 13) and Knops & Garrone (ch. 16) analyse the EP internal dynamics; Fertó & Kovacs (ch. 15) and Olper & Pacca (ch. 14) analyse the importance of the amendments introduced by the EP in the decision-making process, while Knops & Swinnen (2014) discuss the overall impact of the co-decision procedure on the CAP outcome. I refer the reader to these studies for details. Here I limit myself to summarise a few conclusions from these analyses.

First, given the importance of the ‘political preferences’, it is crucial who was involved in the main debates and decisions inside the EP. Interestingly, the predicted impact of a broader EP interest in CAP issues and on the composition of COMAGRI did not emerge in reality. Greer & Hind (2012) suggested that co-decision could encourage reform by broadening the agricultural policy agenda and Roederer-Rynning (2003, 2010) predicted that the new rules could bring new people into the EP’s COMAGRI, which would affect the power of vested interests and could make the CAP accountable to a wider constituency. As Roederer-Rynning (ch. 13) explains, it was expected that “ideological cleavages might become more salient as increased EP powers in this area compelled the chamber as a whole and EP political groups to compete over a broad range of decisions, ranging from COMAGRI assignments to report allocation, through the institutional parameters of intra-institutional (between COMAGRI and other EP fora) and inter-institutional (between EP and other EU institutions) cooperation”.

However, this effect seems not to have occurred in reality. Roederer-Rynning (ch. 13) concludes from her analysis of COMAGRI compositions that the COMAGRI in 2010-2014 legislature also had close connections to the farming world: “Its centre of gravity lay, politically, around centre-to-right farmer-friendly parties, and, geographically, around a group of countries traditionally favouring an interventionist interpretation of the CAP.”

Second, regarding the nature of the EP influence, most authors (including those personally involved) confirm the

differences in preferences between the Commission and the EP. Appendix 1 summarises the positions of the Commission, the EP and the Council on specific issues (see also Fertő & Kovacs, ch. 15). For example, Bureau & Mahé (ch. 3) and Hart (ch. 10) argue that the EP (and the Council) have been a greater constraint on reforms than the Commission (“however prudent” the Commissioner already was). However, the evaluation of ‘status-quo’ versus ‘reform’ preferences depends strongly on the terminology used – as I already discussed in the first section on what ‘reform’ means. For example, there is a consensus (also confirmed by various authors in this book) that the preferences of the EP were closer to the status-quo in terms of environmental requirements (greening) than the Commission, but wanted to go further than the Commission in terms of (re-) introducing market regulations.

Third, it should be emphasised that not just the EP but also the Council had different preferences than the Commission, and that on several issues the EP and the Council found common ground to change the Commission proposals (see the chapters by Bureau & Mahé, Hart, and Fertő & Kovacs, and Appendix 1)

Fourth, Fertő & Kovacs show that the EP (often in coalition with the Council) had a significant influence on the final outcome. It played a pivotal role in the negotiations and managed to get almost half of its negotiating mandate into the final texts.

Fifth, several participants in the negotiations also emphasise that while co-decision obviously increased the EP’s power, the institutional details of the new decision-making process with the final trilogue negotiations where no longer were all member states present, also significantly affected the Council’s strategy in the negotiations. With the Council now being ‘represented’, much of the member states’ lobbying occurred in a somewhat different, and more ‘chaotic’ way, than in the past, where member states themselves were part of the final decision-making.

Sixth, co-decision did not apply equally to all issues. De Castro & Di Mambro (ch. 5) in particular stress the reduced influence of the EP on the MFF. They suggest that this may have been a factor in the reduction in the CAP budget, although it is somewhat hard to imagine how a larger CAP budget could have resulted. Matthews (ch. 7) explains how farm groups were

‘surprised and delighted’ with the original Commission proposal to keep the CAP budget in nominal terms.

As explained above, there were also other effects of the MFF on the CAP decision through the so-called ‘negotiation box’ or ‘MFF-related issues’. The Irish Presidency gave privileged status to the conclusions by the Heads of States and Governments (the European Council) on these issues, arguing that they were non-negotiable. Although the EP eventually gained some concessions, its role as co-legislator was certainly diminished on these issues (Matthews, ch. 7).

Seventh, regarding the potential for ‘gridlock’, Knops & Marrone (ch. 16) suggest that the most obvious answer is that, ultimately, “co-decision worked”; an agreement was reached and a new CAP entered into force. The findings of Knops & Swinnen (2014) also reveal a relatively high ‘mark’ given by institutional actors and observers of the 2013 CAP reform to describe the EP’s performance to come to an agreement. In the words of De Castro & Di Mambro (ch. 5) it is expressed as: “Done is better than perfect.”

Finally, as discussed in Swinnen’s (ch. 17) comparison with the 2003 CAP reforms, a “secrecy-based type of strategy” as Fischler used in 2002-2003 would have been much more difficult under the co-decision procedures where the involvement of the EP at various steps made full transparency of various proposals a requirement.

5. Eastern enlargement: Decision-making with 27 member states¹⁰

Eastern enlargement brought several new aspects to CAP decision-making: it significantly increased the number of decision-makers, it increased the heterogeneity of Europe and its agricultural and food systems, it introduced a set of different policy preferences into the political negotiations and it changed the relative political weights of all member states.

One of the obvious policy areas was the demand from the new member states (NMS) for a more equal distribution of direct payments across member states (the so-called ‘external convergence’ of payments). Existing differences in direct payments

¹⁰ Croatia became the 28th EU member state on 1 July 2013.

(DPs) could be partly justified by differences in incomes and (historical) productivity (as they had been during the accession negotiations) but were obviously also due to the fact that the NMS were not at the table when the key budgetary and DP decisions were made in 2002 and 2003. Clearly, now that the NMS were part of the EU and part of the CAP decision-making process where the future DPs were to be decided, the demand for external DP convergence was a key demand. However, an intriguing issue is how it seems to have played less of a role in the debates than one would have expected.

There are several hypotheses to explain this (Swinnen, ch. 17). The first is that the old member states (OMS) realised that the distribution of 2003 was unfair for the NMS and indefensible, and it was more of an issue of “how much” than “if”. The second argument is that with the pressure to reduce the overall reduction of the DPs, several of the NMS were more focused on lobbying for the maintenance of the overall DP budget. Several NMS would be close to a new EU average under a reduced DP budget and were more worried that they would actually experience a reduction in their DPs because of the overall budget cut, rather than a gain from redistribution. The countries that were most disadvantaged in DPs were the Baltic states – and they lobbied intensely for a redistribution. The ultimate reallocation benefited them most.

Another argument is that several NMS governments were under pressure from their farm lobbies to fight against capping. This applied in particular to those with a large share of (very) large farms, such as Slovakia and the Czech Republic. Hence, these governments spent their political capital more on lobbying for maintaining the amount of DPs and for avoiding capping (see e.g. ch. 11 by Sahrbacher et al. and Sahrbacher et al. (2014)).

A fourth argument is that, while the NMS were receiving relatively lower DPs under the agricultural policy, if one compared the DP share to their share in gross value added (GVA) in agriculture, the gap had reduced significantly and the share of DPs in GVA for the NMS was close to that in the OMS. Moreover, NMS were increasingly benefiting from large EU transfers under the CAP Pillar II and structural and cohesion fund (SCF) support. Hence, from an overall budgetary support perspective, their position was quite different than when considering the DPs alone. Total EU

support under the CAP and SCF was equivalent to around 0.6% of GDP in the OMS, but had risen from 1.7% in 2008 to 4% in 2013 in the NMS (see Figure 2 in Swinnen, ch. 17).

Hence, obviously, all these elements of the EU support were taken into account when discussing the political priorities, and when trade-offs needed to be made in the final political negotiations. At the end, countries such as Bulgaria, Estonia, Latvia, Lithuania and Romania saw their national DP ceilings increase significantly, while the other NMS either had no significant change or a small decline (see also Anania & Pupo D'Andrea, ch. 2).

6. Flexibility

One of the areas where there is consensus among all authors is the significantly increased flexibility at the member-state level on the implementation of the CAP. While the 2003 Fischler reforms gave the EU-15 member states the possibility to decide how to implement the SPS (using a national or regional model, and a flat, historical or hybrid approach) and on some implementation issues of partially decoupled support, the new CAP provides an “unprecedented amount of national flexibility for MS” as Matthews (ch. 19) states it.¹¹ More specifically, as Anania & Pupo d'Andrea explain, the 2013 decision “allowed member states to decide which of the voluntary direct payments to activate, the distribution of the overall amount of financial resources across the different direct payments (with the exception of those to be devoted to the ‘green’ payment), the criteria to be satisfied for a farm to have access to them, important elements of the implementation of the ‘green’ payment, the extent and the modalities of the redistribution of support between the farms within the country (as a result of their decisions regarding ‘internal convergence’, ‘degressivity and capping’ and the redistributive payment), and the distribution between the two pillars of the overall financial resources allocated to the country”, which leads to “significantly different agricultural policies at the national level.”

¹¹ In some countries the decision is shifted to the regions: in the United Kingdom independent decisions were taken in England, Wales, Northern Ireland and Scotland; similarly, in Belgium, separate decisions were taken by Flanders and Wallonia.

This 'flexibility' contributed to important uncertainties at the end of the EU-level negotiations about the actual outcome of the decision-making. Key issues in the flexibility were the amount of recoupling which will result (as a result of the provisions on voluntary recoupling at the MS level); how much 'greening' will result (as a result of the provisions on environmental conditionalities at the MS level); and how much shifting between Pillar I and Pillar II would take place. Many authors point at these complexities, and the fact that the flexibility has major implications for assessing the outcome of the CAP decisions.

Conceptually a potential benefit of flexibility is that it allows the implementation of general rules to be better adapted to an increasingly heterogeneous EU agriculture, a heterogeneity that has increased by Eastern enlargement (Buckwell, ch. 20). Bureau & Mahé (ch. 3) agree that, from a fiscal federalism perspective, this could (in principle) allow a better application of general principles to local needs and conditions. However, the disadvantage, which is often emphasised, is that it allows member states to make choices that undermine (or water down) the general principle of the regulations. This concern is raised on the one hand, particularly in relation to greening and decoupling, by those who are concerned about the growth of re-coupling and the minimal impact of greening requirements. Conversely, farmers are worried about the uneven playing field and that their administration may be 'gold-plating' the regulations by imposing higher standards on them than on their competitors.

In general, the judgment on whether flexibility is good or bad seems to depend on what people think member states will do with it; in other words whether they trust or distrust the national decision-makers to choose the type of implementation that they prefer. A more general concern is whether increased flexibility and national or regional policy fragmentation may undermine the single market.

In Chapter 2 Anania & Pupo d'Andrea (see their Table 4) and in Chapter 11 Sahrbacher et al. (ch. 11) try to make a first assessment of the member states' choices on flexibility in financial allocations and on capping and degressivity, respectively. Both find significant heterogeneity in how the new CAP will be implemented in the member states by 2019. They conclude that some countries have

used the flexibility fully in order to regionalise payment levels, transfer funds between pillars, couple support to production, and impose capping, while other member states have not.

A key question is why the decision was taken to provide so much flexibility in the CAP implementation. There are several interpretations/explanations. The first is that with significant diversity in the nature of the agricultural and land systems in the EU, which increased even further with the eastern and central European enlargement, there is a need for flexibility in the implementation of the policies. The 2014-2020 CAP addresses this by allowing “tailor-made alterations” to make the CAP better fit the characteristics of the different agricultural systems (Anania & Pupo d’Andrea, ch. 2; Buckwell, ch. 20). A second interpretation is that the increased complexity of the decision-making process, both in terms of the number of member states involved (27 compared to 15 during the 2003 reform decision) and the participation of more institutions (in particular the EP), required these flexible elements to come to a political agreement (Haniotis, ch. 4).

Both explanations need not be exclusive or conflicting. It is well known from the political science literature that decision-making with more and more heterogeneous partners may lead to the failure of decision-makers to come to an agreement (see e.g. Crombez & Hix, 2014), which led Crombez et al. (2013) to suggest that gridlock in CAP decisions could become a real possibility in the new circumstances (i.e. with 27 countries and EP co-decision). Hence flexibility may have been a rational choice made by the decision-makers to reach an agreement. This conclusion is consistent with the findings of Olper & Pacca (ch. 14) who find that voting by members of the EP (MEPs) on the CAP amendments is more likely to be along preferences of member state than along party lines.

If so, this may have important implications for future CAP decision-making and reforms. Flexibility may become a permanent part of the CAP, caused by the need to come to political decisions in an increasingly heterogeneous EU. However, if the complexity and unfamiliarity with the new decision-procedures was a key factor, experience with the co-decision process may reduce the need for flexibility in the implementation.

7. **Agricultural and food price changes and the CAP**

Several chapters (including by Haniotis (ch. 4), and De Castro & Di Mambo (ch. 5)) emphasise the role that the food price increases played in the debate. It is well known in the political economy literature that changes in commodity prices and market revenues influence agricultural and food policies (Anderson et al., 2013; Swinnen, 1994). Such economic changes alter the political incentives for interest groups and for political decision-makers. More specifically, agricultural and food policies shift as prices move since the incentives to lobby governments, and the incentives for governments to respond, change when economic conditions change. In other words, when prices increase, producers turn to the market to increase their incomes and when prices fall, producers turn to governments to assist them, and vice versa for consumers. This has been documented in many countries and historical periods (e.g. Olper, 1998; Swinnen, 2009), and the recent period of price spikes was no exception: in many countries of the world, the food price changes triggered policy reactions with food exporters imposing export taxes or outright bans (Anderson & Martin, 2010; Pieters & Swinnen, 2014).

The changes in food prices have affected various interest groups in the EU, including producers and consumers, and this has resulted in policy reactions through the political process. While there were significant differences between commodities (e.g. dairy and livestock farmers suffered from higher feed prices), average farm incomes in 2011-2012 were 20-30% higher compared to 2008-2009 (Swinnen, ch. 17). Several authors argue that the food price changes influenced the political equilibrium on the CAP decision-making on different aspects: the budget; the environmental conditions on farm support, i.e. greening, and the nature of the farm support, i.e. market regulation or decoupled payments. These issues are obviously interrelated to some extent.

In terms of the budget, theoretical arguments and empirical evidence suggest that there would be a shift towards less support for farmers as prices for their products and their market incomes increase. While this is consistent with the reduction in the CAP budget, the reduction in the budget is relatively limited. One reason

for this, as already explained above, is most likely the link with the proposed greening reforms that still existed (albeit in a limited form) going into the MFF negotiations. Another reason is probably the fact that, while average farm incomes increased, some farm groups (in particular dairy and livestock farmers) suffered from the increase in grain and feed prices. Their incomes fell significantly over the 2007-2012 period. CAP support was argued to be an important safety net for those sectors with declining incomes.

The impact on environmental regulations is a combination of several partial effects (Swinnen, ch. 17). The first effect is that as farmers earn more for their production with higher prices the impact of increased regulations on their welfare is smaller and therefore they may reduce their opposition to increased regulations. However, this partial effect is more than offset by two other effects. One is that with increasing prices for their products, farmers have more to lose from regulations that restrict their supply. This will induce them to oppose such regulations more strongly. The third effect is that the argument of environmental regulations as threatening food security through restrictions on the supply of agricultural production becomes more credible and creates a coalition of producers and food consumers, already hurt by high prices. In this way the food price increases contributed to the weakening of the greening requirements.

8. A return to market interventions?

Food price shocks also affected the debate on market regulations. There was significant pressure to re-introduce market regulations, in particular with increased price volatility. For example, COPA-COGECA (2011), the coalition of the main EU farmers' organisations, argued that, despite high prices, farmers are losers because of volatility, high input prices and "food chain imbalances". They and other interest groups asked for a return to interventionism, moving away from the long-term liberalisation strategy for the CAP - an argument that found support in the EP (see De Castro & Di Mambro, ch. 5). In contrast, the European Commission used price volatility as a motivation for the long-run market-oriented strategy in the CAP reform proposals, in particular to maintain the decoupled CAP payments as a safety net to protect farmers against price volatility. These different perspectives on

what was the best policy strategy were visible at various moments (e.g. during the discussions on the sugar quota and on the document “A Better Functioning Food Supply Chain in Europe”, regarding relationships between the CAP and competition policy rules – see Swinnen, ch. 17).

By the end of the legislative process, the Commission proposals in this area had been significantly amended but nonetheless substantially adopted (Matthews, 2014). Anania & Pupo d’Andrea (ch. 4) conclude that an evaluation of the CAP from the perspective of a further market orientation shows mixed results: the elimination of the sugar and milk quota was confirmed, but on the other hand the liberalisation of vine planting was reversed, there was an increased amount of coupled support, and competition laws had been waived to allow some producer actions to constrain supply. Bureau & Mahé (ch. 3) conclude: “The Commission managed to resist most of the bad ideas floating around ... some of which could have been particularly damaging, in particular regarding market management and price support.” Swinbank (ch. 8) concludes: “What is perhaps more surprising – given that the [WTO] Doha agreement has not yet locked-in past CAP reforms -- is that the EU did not significantly reverse its policy decisions of the last decades.”

While the WTO was not (or not often) mentioned in this debate, one could hypothesise that the WTO played an important role in the background. Alan Swinbank (ch. 8) documents that in the Commission’s 2010 Communication “The CAP towards 2020”, in the EP’s response to that document, and in the Commission’s 2011 Impact Assessment, which accompanied the 2011 CAP proposals, WTO constraints and green box compatibility were raised at several places to motivate certain proposals (see Swinbank, ch. 8 for details).

In summary, during the price spikes, the EU has a) mostly reaffirmed the engagement of the EU towards an open trade policy – also by underlining the harm done by the restrictive export policies implemented by some countries in response to price volatility – and b) stayed mostly on course with its reform proposals in specific sectors such as dairy and sugar (phasing out the quota regime), despite a slight change in argumentation, i.e. by also linking the motivation to price volatility. That said, there is a significant amount of recoupling allowed, which is to be

determined at the member-state level (member states' choice of decoupling vary between 0% and 21% -- see Table 4 of Anania & Pupo D'Andrea). Moreover, not all sectors stayed on course to liberalisation. A return to regulation is obvious in the EU's wine policy, where the 2008 decision to liberalise the vineyard planting rights system was overturned and a new set of regulations on planting rights introduced before the liberalisation was implemented (Deconinck & Swinnen, 2013; Meloni & Swinnen, 2015).¹²

9. A perfect storm in the economy but an imperfect storm in the politics of the CAP

In 2000-03, institutional, economic and political factors came together to create a 'perfect storm', which resulted in the radical Mid-Term Review or 'Fischler reforms' (Swinnen, 2008). The factors included the institutional introduction of qualified majority voting, large external changes that moved policy preferences in a pro-reform direction and a pro-reform agenda-setter, the European Commission (Cunha & Swinbank, 2011).¹³ In addition, key internal changes in the EU and its institutions had given the chance for reform a boost and the Commission itself was strongly in favour of significant reforms.

The 2008-13 period was characterised by something like a perfect storm in international markets and the economy. From 2008 onwards, prices of agricultural and energy commodities peaked, followed soon thereafter by financial and economic turmoil, which created major upheavals in commodity markets, government budgets and the world's economies, also inside the EU. However, this did not translate into reinforced pressures for reforms. While these economic developments had a significant impact on the CAP debate, they did not necessarily reinforce the existing pressures;

¹² There is a 'return to regulation' in terms of policy decisions, but less for farmers or consumers since the decision to liberalise was not yet implemented before the reversal of the decision was made.

¹³ See Pokrivcak et al. (2006) for the conditions for a 'pro-reform bias' in the EU under qualified majority voting.

sometimes the opposite happened. In addition, a series of institutional changes politically mitigated the pressures.

As explained earlier in this chapter, decision-makers faced several pressures and constraints. Those included pressure to reduce the budget for farm payments because of fiscal pressures and the need to fund other EU policies, and high agricultural prices; a demand from NMS (and particularly the Baltics, where payments were lowest) for more equal distribution of direct payments; pressure for a return to market intervention and regulation in response to increased agricultural price volatility; 'productionist' arguments not to impose (environmental) constraints on agricultural production with high food prices; and (future) WTO agreements that constrained market interventions.¹⁴

Overall these pressures and constraints were a complex mixture - not unlike the situation in the early 2000s (Swinnen, 2001, 2008b), albeit with different ingredients. However, the 2003 set of complex pressures turned into a significant reform path, with a clear strategic vision on the part of the agenda-setters of where to go, a well thought-out tactic of how to get there and an institutional process that was conducive to such outcome. This was different in the 2009-2013 CAP discussions. While, like in 2002-03, an attempt was made to create a coalition between keeping payments for farmers (farm organisations) in exchange for better targeting (economists) and more environmental benefits (ecologists), the attempt was not successful. While there is a reduction in real terms, the budget for the CAP was largely saved, but without significant new greening requirements. As explained above, the environmental requirements are generally assessed as minimal.

There were probably several reasons for the failure: a less committed and less strategic Commission, the reduced influence of the Commission with co-decision and better preparation and lobbying strategies by those who opposed further reforms. The opposition by farm organisations received extra ammunition as commodity price increases gave strength to the 'productionist' argument that the food supply should not be constrained by extra regulations - an argument that found much support in the Council

¹⁴ See Josling (ch. 18) for an explanation of why the ongoing TTIP negotiations had little impact on the CAP.

and the EP's COMAGRI and that had a decisive impact on the final decision.

Regarding market regulations, the increased price volatility induced demands for more regulation, including the maintenance of supply controls in dairy and sugar. However, DG-AGRI and the Commission motivated their support for DPs as a safety net approach – an insurance against volatility, and one in line with the decades-long strategy towards liberalisation – consistent with the WTO constraints and possible future accords. Here, despite some re-coupling, the status quo was seen as a possible achievement by those favouring the CAP's market orientation.

Eastern enlargement enhanced the influence of the NMS and led to a reduction of the gap in direct payments per hectare, particularly in the Baltics (where DPs were the lowest). However, the redistribution was limited because the NMS already benefited strongly from various other transfers such as Pillar II payments and structural and cohesion funds – in particular in relation to their contribution to value added and GDP.

There were some changes in other CAP elements. Importantly, the new CAP offers considerably more flexibility for member states in the implementation of several regulations, including that related to coupling of direct payments, greening conditions, the allocation of funds between Pillar I and II and in capping and degressivity.

In summary, the 2013 CAP decision included a budget cut, some realignment of DPs from west to east, increased flexibility in the implementation of the policies and the allocation of funds, and relatively minor changes in environmental and market regulations. However, the overall assessment is closer to a status-quo evaluation than a significant reform. The different pressures and institutional changes had partially offset instead of reinforced each other. In other words, the perfect storm in international markets resulted in an 'imperfect storm' in the political economy of the CAP, and relatively small changes in the CAP.

10. The next CAP reform

Several chapters in this volume already address the next CAP changes. Allan Buckwell (ch. 20) argues that "it isn't too early to

start thinking about the next reform”, despite the fact that the full implementation of the new CAP only commenced in 2015 and runs until the end of 2020 and new Rural Development Programmes may not commence until well into 2016. Also Potočnik (ch. 6), Erjavec et al. (ch. 9), Matthews (ch. 19) and Moehler (ch. 21) already discuss the next CAP reform negotiations. They mention several reasons why they may start earlier rather than later: a) with co-decision it takes a long time to prepare and negotiate; b) a genuine reform requires a broad, shared understanding of the purpose and direction of a new policy; c) implementation problems with the new CAP will ask for adjustments of the rules which cannot wait until 2020; d) the new CAP does not address the challenges that the EU faces; and e) the mid-term review of the multiannual financial framework during 2016 and the mandated reviews of ecological focus areas, the fruit and vegetable regime and geographical indications will raise questions central to the CAP in the next few years.

The arguments put forward by e.g. Buckwell, Erjavec, Moehler, Matthews and Potočnik on how the next reforms of the CAP should look like are similar to the ones that were voiced in the 2009-2013 discussions. In fact, the ideas for the future CAP that they put forward are remarkably similar to those on the table in the past reform discussions. In a way one could argue that they want to start the next CAP reforms to address all the issues that they feel the 2013 decision failed to address and to solve.

From a political economy perspective, however, this of course raises the question why should these arguments be more influential in the coming years than they were in the past. It is obvious to most observers that climate change, sustainability, biodiversity, etc. are crucial issues and that the CAP has an important role to play. But the question is: Why would public goods like climate change, biodiversity and sustainability be more relevant/important in 2017 than they were (or should have been) in 2013?

The contributors to this volume offer some reasons why things may be different in the coming years. One factor is that there is a different Commission. Not only has Mr Ciolos been replaced by Mr Hogan as Agriculture and Rural Development Commissioner, but there is a new overall Commission charged with pursuing a new vision. One illustration of this is that Commission President Jean-

Claude Juncker gave a mandate to Hogan¹⁵ to simplify the CAP, although this is easier said than done. Moehler (ch. 21) notes that simplification was already the objective of Cioloş, and the CAP has definitely not become simpler (Haniotis, ch. 4). Matthews also quotes Hogan: “Simplification is anything but simple.” That said, Hogan has already raised the possibility of a mid-term review (Matthews, ch. 19), although the need for this has been rejected by some member states and by the farm organisations.

Another factor may be what happens in global agricultural markets, an issue that is difficult to predict. Prices are much lower in 2015 than during the peaks in 2008 and 2010, but it is hard to predict where they will be in the coming years. At the broader international level, there are geopolitical threats in particular in North Africa, the Middle East and Ukraine. Also here it is unclear how they will evolve and what they will imply for the CAP.

It seems important to take the political economy constraints seriously. One illustration of this is that those who have different perspectives and policy preferences from the authors listed above may also see the next CAP debate as an opportunity to “correct some imperfections”. It is quite clear from the contributions in this volume that while many expect a mid-term review to happen in the coming years, not everybody agrees what direction it should take. It is intriguing to see the differences in perspective by e.g. Buckwell, Matthews and Potočnik on the one hand – who see it as a chance to move forward in the “public money for public goods” perspective – and that of De Castro & Di Mambro (ch. 5), on the other, who argue that the “reform designed in 2011 and amended in 2013 needs further adjustments to be considered a valid attempt to meet the challenges posed by the changes occurring in agricultural and food sector at European and global level”. Their analysis suggests that these further adjustments would be to have more supply management and regulation of markets. Moehler (ch. 21) anticipates these different perspectives and concludes: “There is no apparent need for a mid-term review. Launching such review could be counterproductive if the movement is seized by those who push for a less market oriented CAP.”

¹⁵ European Commission (2014).

Moehler (ch. 21) concludes that there is no obvious need for a mid-term review of the 2014-2020 CAP, but the Commission has to submit its ideas on a post-2020 CAP when making its proposal on the MFF 2021-27 in 2017. He argues that “to win over public opinion again, further greening of the CAP will be crucial” – an argument that sounds very familiar.

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PART I

THE CAP FOR 2014-2020

2. THE 2013 REFORM OF THE COMMON AGRICULTURAL POLICY

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1. Introduction

The common agricultural policy (CAP) of the European Union (EU) has been undergoing continuous reform since the early 1980s. Hence, before getting into the changes which have been introduced in 2013, it would be useful to place the recent CAP reform in a long-term perspective.

After a series of sector-specific policy adjustments (including the introduction of production quotas for sugar and milk, voluntary set aside and 'automatic stabilisers' aimed at keeping budget expenditure in each sector within predetermined limits), which have often been decided under strong contingent budgetary pressure, the first structural change in the CAP occurred in 1992 with the MacSharry reform, named after the commissioner for agriculture at the time. This reform, among other things, significantly reduced price support for meats and arable crops and introduced partially decoupled 'compensatory' payments, linking a significant portion of CAP support to land allocation, rather than production, to 'what', rather than to 'how much' a farm produced.

The 1999 Agenda 2000 reform moved the changes introduced with the MacSharry reform one step ahead by further decreasing price support for beef and arable crops, increasing partially

* We wish to thank Jean-Christophe Bureau, Louis-Pascal Mahé, Alan Matthews and Jo Swinnen for their helpful comments on an earlier version of the chapter. Senior authorship is equally shared.

decoupled 'compensatory' payments, increasing milk quotas and reducing price support for dairy products. When the Agenda 2000 reform was introduced, a decision was made to conduct a 'mid-term review' of its effectiveness. At the time nobody anticipated that this mid-term review could become the most important step ever in the reform process of the CAP: the June 2003 Fischler reform. The main element of the Fischler reform was the introduction of the Single Payment Scheme (SPS). In simple terms, every farm was to receive a yearly payment equal to the average yearly direct payments for arable crops and meats it had received in the 2000-02 reference period (plus, subsequently, those decided, but not immediately implemented, for milk). This 'single payment' was independent not only from 'how much' the farm produced, but also from 'what' it produced, so long as the land used each year to claim the single payment was either farmed to produce anything apart from fruit, vegetables and permanent crops or was left idle (subject to 'cross-compliance', i.e. conditional on the farm complying with the minimum environmental, food safety and animal welfare standards mandated by a number of regulations already in force, and to maintaining the land in good agricultural and environmental condition).

EU-15 member states were given the option, often referred to as 'regionalisation', of distributing the overall amount of support by paying all farmers in a given 'region' the same flat per hectare amount.¹ Where the option to have the single payment based on farm-specific historical payments was chosen instead, the effect was a 'freeze' of the historical distribution of support at the farm level; where the 'regionalisation' option was used, a redistribution of support among farms in any given 'region' took place. The UK, Finland and Germany decided to progressively adopt the 'regionalisation' option, while Denmark and Sweden opted for a hybrid system (part of the single payment was based on farm-specific historical entitlements, part was a flat per hectare payment). In the 10 member states which entered the EU in 2004 the Single

¹ It might be worth recalling that the 'regionalisation' option was not part of the proposal put forward by Commissioner Fischler (who actually opposed it, on the grounds that introducing both decoupling and a redistribution of support at once was too much of a change for farmers), but it was eventually included under the pressure of certain member states.

Area Payment Scheme (SAPS) was to be applied, with a flat per hectare payment to all farmers.

Between 2003 and 2008 the Common Market Organisations (CMOs) for olive oil, tobacco, cotton, sugar, fruit and vegetables, and bananas were reformed, extending to these sectors the principles introduced under the 2003 Fischler reform; existing direct payments were 'decoupled' and included in the single payment.

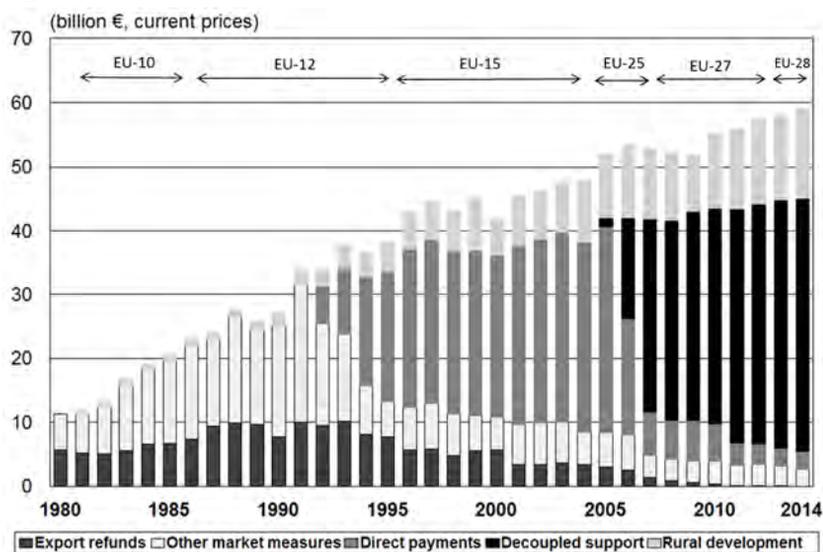
At this point, many thought that the CAP reform process would be put on hold for some time, while the Fischler reforms were being fully implemented (for dairy this was to occur in 2008-09) so as to leave enough time for them to show their effects. Yet, based on a number of 'review clauses' which were included in the final agreement in 2003 as well as in other subsequent reforms since then, in 2007 Commissioner Mariann Fischer Boel launched an initiative to perform a CAP 'Health Check' (European Commission, 2007). The initiative led to the November 2008 decision to further reform the CAP; it is fair to say that the Health Check essentially completed the Fischler reform process by: decoupling virtually all direct payments still in place; progressively expanding milk quotas, with the aim of making them no longer binding by 2015 (and a view to eliminating them at that point); eliminating mandatory set aside; doubling the percentage of 'modulation', i.e. the transfer of financial resources from direct payments to farms to rural development policies; eliminating - or further limiting, depending on the commodity - minimum price support provided through market withdrawals ('intervention'); and giving member states, once more, the possibility to regionalise direct payments.

This long series of policy changes was by no means marginal, either in terms of the reduction in support, or in terms of the reduction of the distortionary effects of the CAP. By decoupling CAP support they induced a market reorientation of domestic prices and production decisions by EU farmers and, as a result, a marked reduction in the domestic and world market distortions caused by the CAP. They also helped reduce the pressure of agricultural production in the EU on the environment and increased the efficiency of farm income support, by linking it to the carrying out of 'farming and land management activities'.

Figure 2.1 shows the changes in the amount and composition of CAP expenditure (in nominal terms) by its main policy measures

between 1980 and 2014. From 1980 to 1992 CAP expenditure, which at the time was largely used to generate fully coupled support, increased rapidly; the MacSharry reform in 1992 and Agenda 2000 in 1999 introduced, and then increased, 'partially decoupled' direct payments and severely reduced the use of policy instruments providing market price support; as a consequence of the reduction in market price support, export subsidy expenditure declined as well. Over the same years there was a gradual expansion of the financial resources devoted to rural development policies. With the Fischler reform most of the direct payments were replaced by decoupled ones; the further market reorientation of domestic prices, in turn, induced a further reduction in expenditure for market intervention policy instruments and export subsidies. The overall expenditure for the CAP in nominal terms increased over time, albeit at a declining rate (since the early 1990s it had been falling as a percentage of EU GNI); however, in assessing the growth of CAP expenditure one should not forget that, over the same period, the EU expanded from 10 members to 12 (1986), 15 (1995), 25 (2004), 27 (2007) and 28 (2013).

Figure 2.1 Evolution of CAP expenditure between 1980 and 2014



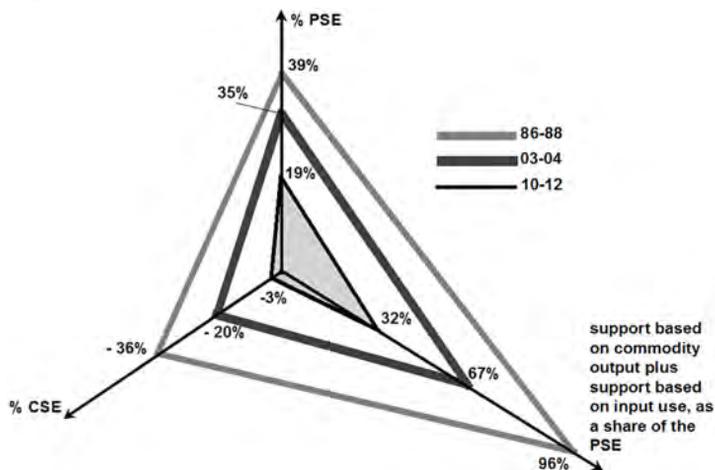
Source: DG Agriculture and Rural Development, European Commission.

Figure 2.2 shows changes in CAP support in the almost 25 years between 1986-88 and 2010-12 – from before the MacSharry reform of 1992 to before the 2013 Cioloş reform – using three indicators calculated annually by OECD (OECD, various years): the per cent Producer Support Estimate (%PSE); the per cent Consumer Support Estimate (%CSE); and the sum of the most production- and trade-distorting forms of support as a share of the PSE.² The figure clearly shows the effects of the successive reforms of the CAP in the period considered. These resulted in a reduction of the support provided to farmers (from 39% of gross farm receipts to 19%),³ in a large reduction of the implicit taxation of consumers, as a result of the reorientation away from market price support policy instruments (for every euro EU consumers spent on food, calculated at farm gate prices, the implicit taxation due to agricultural policies dropped from 36 to 3 cents), and in a reduction of the distortionary effect of the CAP on production and trade, as a result of its re-instrumentation (the share of the support linked to the most distortionary policy instruments declined from 96% to 32%). Clearly, changes in the CAP were relatively more pronounced in terms of the reduction of its distortionary effects and of the implicit taxation of consumers, than in terms of the reduction in farm support, although the latter was certainly significant.

² The %PSE is “the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures that support agriculture” as a share of gross farm receipts. The %CSE is “the annual monetary value of gross transfers to (from) consumers of agricultural commodities, measured at the farm gate level, arising from policy measures that support agriculture” as a share of consumer expenditure on agricultural commodities (at farm gate prices); “if negative, the CSE measures the implicit tax placed on consumers by agricultural price policies”. “Most production- and trade-distorting forms of support” are given here by “support based on commodity output” and “payments based on input use”, as defined by the OECD.

³ In more recent years this is also the result of the sharp rise in world market prices.

Figure 2.2 Evolution of EU CAP support between 1986-88 and 2010-12



Source: OECD (various years).

The reform process of the CAP, from the early 1980s up to the decisions taken in 2013, shows a series of consistent steps in the same direction: a reduction in the support provided to farmers, a market reorientation of agricultural prices and the significant reduction of the use of policy instruments diverting farm decisions away from market signals. In the CAP before the Ciolos reform a large portion of expenditure was absorbed by decoupled direct payments, which accounted for 70% of the budget for the CAP and 30% of the overall budget of the EU. The payment received by each farm had no link either with its income or with the income of the farm household, i.e. had no relation with a farmer's need for being supported. If the CAP was meant to be an income support policy, an equitable and effective policy would have made direct payments inversely proportional to farm (or household) income and would have limited them only to those in need. The direct payment a farm received was linked neither to the amount of public goods it produced nor to the cost of producing them. If the goal was to promote the production by farms of public goods, such as environmental goods or the preservation and management of valuable rural landscapes, then direct payments should have been part of a contractual commitment by the farm to deliver specific services, or goods, carrying public value or, less effectively, they should have been determined on a flat per hectare basis in exchange for compliance with demanding standards, applied to all farms,

related to sustainable resource management and the provision of public goods. Nor did direct payments bear any relation with the contribution of the farm to the socio-economic viability of the area it was located in, given that they were not linked, for example, to the amount of labour the farm employed or the quality of its products.⁴

The truth is that the CAP prior to the 2013 Cioloş reform was much better than the CAP of the past, but it still distributed an extremely large amount of financial resources without a clear, coherent set of goals. At the outset and in the early stages of the debate on the new reform of the CAP many believed the challenge this time was to design a public policy for agriculture and rural development in the EU which effectively addressed the concerns of both the sector itself and the society at large (Bureau & Mahé, 2008; Bureau & Witzke, 2010; Cooper et al., 2009; Hofreither et al., 2009; Swinnen, 2009).

The decisions made in the 2013 reform of the CAP took place under rules which were radically different from those of the past. While previous CAP reform decisions had been taken by the Council of Agricultural Ministers, the Lisbon Treaty⁵ made them subject to a fairly complicated co-decision process, involving both the Council and the European Parliament, with the Commission being assigned the role of producing the initial proposal and then acting as a facilitator for the required convergence of the other two institutions on a common text. While the Parliament, for the decisions on the CAP, now has the power to propose amendments to the texts being discussed, in the case of the co-decision by the Parliament and the European Council regarding the multiannual financial framework (MFF) the Parliament can only approve or reject the proposal as a whole, without the possibility to propose changes. This means that the two procedures not only involve different rules, but also different political processes. In the case of the MFF the process is simpler, the European Council is given more power and the negotiation on the details are kept away from the

⁴ Analyses of the CAP in place before the 2013 reform and of its past reform process are provided in OECD (2011) and Sorrentino et al. (2011).

⁵ The Lisbon Treaty was signed in December 2007 and entered into force on 1 December 2009, after being ratified by all member states.

arenas where sectorial interests are likely to be more influential (the preparatory work is conducted within the Council of General Affairs (Ministers of Foreign or European Affairs), while the final decision is for the European Council (heads of state or government)). The new co-decision rules for the CAP and those in place for the MFF resulted, as expected, in a crucial shaping of the 2013 decisions on the new EU policies for agriculture and rural development (Matthews, 2015). As will be discussed in the next section, the decisions regarding the MFF included not only the financial allocation to the CAP for the 2014-20 period, but also many important elements of the policies themselves, in an attempt to keep some of the decisions to be made in the hands of actors less subject to the political pressure of the most powerful among the stakeholders involved.

The decision process turned out to be quite long, longer than in previous reforms, from the launch by the Commission in April 2010 of a 'public debate' on the new CAP, to the formal adoption by the Council of the four basic Regulations introducing the reformed CAP on 16 December 2013, following their approval by the European Parliament in November.

2. The 2014-20 MFF

After more than two years of negotiations, on 2 December 2013, the Council adopted the Regulation laying down the MFF,⁶ i.e. the annual ceilings for the financial resources allocated to the 'political priorities' of the European Union for the period 2014-20.

Total financial resources allocated in the MFF for the EU-28 equal just under €960 billion (at 2011 prices), corresponding to 1% of its gross national income (GNI) (Table 2.1). In real terms this allocation is 3.5% lower than that in the 2007-13 MFF, when the member states numbered 27. If the comparison between the two financial allocations takes into account the change in the composition of the EU, i.e. excludes from the allocation of the 2014-20 MFF the sums to be spent in Croatia, then the reduction for the EU-27 member states is by 4.8%. This is the first time an EU financial framework includes less financial resources than the previous one.

⁶ Regulation 1311/2013.

| | | | | | | | | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|-------------|
| Resources outside the MFF | | | | | | | | | | | | | |
| Emergency Aid Reserve | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 280 | 1,960 | 1,697 | 15.5 |
| European Globalisation Adjustment Fund | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 1,050 | 1,050 | 3,573 | -70.6 |
| Solidarity Fund | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 3,500 | 3,500 | 7,146 | -51.0 |
| Flexibility Instrument | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 471 | 3,297 | 3,297 | 1,429 | 130.7 |
| EDF | 2,951 | 3,868 | 3,911 | 3,963 | 4,024 | 4,093 | 4,174 | 4,268 | 4,352 | 26,984 | 26,984 | 26,826 | 0.6 |
| Total resources outside the MFF | 4,352 | 5,269 | 5,312 | 5,364 | 5,425 | 5,494 | 5,575 | 5,656 | 5,737 | 36,791 | 36,791 | 40,670 | -9.5 |
| <i>as a percentage of GNI</i> | 0.03% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.04% | 0.05% | |
| Total MFF + resources outside the MFF | 138,670 | 140,597 | 141,368 | 142,464 | 143,291 | 144,572 | 145,817 | 147,062 | 148,307 | 996,779 | 996,779 | 1,035,031 | -3.7 |
| <i>as a percentage of GNI</i> | 1.06% | 1.06% | 1.04% | 1.04% | 1.03% | 1.02% | 1.02% | 1.02% | 1.02% | 1.04% | 1.04% | 1.17% | |

Source: For 2014-20 MFF, EU Reg. 1311/2013; for 2007-13 MFF, Council of the European Union, 2013.

Two headings alone, headings 1 ('Smart and inclusive growth') and 2 ('Sustainable growth: natural resources'), absorb almost 86% of the financial resources in the 2014-20 MFF. Heading 1, which includes actions to promote 'Competitiveness for growth and jobs' and 'Economic, social and territorial cohesion', has been allocated 47% of the total resources, 1% more than in the previous MFF; however, a significant redistribution of resources occurred under the heading, with those allocated to the 'competitiveness' subheading expanding by 37.3% and those allocated to 'cohesion' contracting by 8.4%.

Heading 2 – under which, by and large, fall the financial resources for the CAP – sees a contraction of its share of the total allocation for the MFF – from 42.3% in the previous MFF to 38.9% – and a significant reduction of financial resources in real terms (-11.3%). In particular, policy measures in Pillar I ('Market related expenditure and direct payments') are assigned just over €277.85 billion, 28.9% of the entire MFF (it was 32.1% in the 2007-13 MFF), and those in Pillar II ('Rural development policies') nearly €85 billion, 8.8% of the total (compared to 9.6% previously). With respect to the previous MFF, resources to finance 'Market-related expenditure and direct payments' are reduced by 12.9% in real terms, and those for rural development by 11.1%.¹

In order to have the full picture of the resources available for policies directly relevant to agriculture one should also consider the portion of the European Globalisation Adjustment Fund² (EGAF) to be spent within the sector. The EGAF is a fund outside the MFF providing temporary support to workers (including those in agriculture) who have lost their jobs as a result of 'major changes' in trade patterns, due to disruptive effects of the globalisation process on a specific sector in a member state. Resources allocated to the EGAF for the 2014-20 period equal €1.05 billion (in 2011 prices) (Table 2.1).

Negotiations over the new MFF proceeded hand-in-hand with those over the new CAP. As already mentioned, the MFF included not only decisions on the amount of financial resources

¹ Financial resources allocated to rural development policies are from European Parliament (2013, Table 10, p. 39).

² Regulation 1309/2013.

allocated to the CAP in the 2014-20 period, but also decisions on important elements of the policy itself.

The initial Communication by the Commission on the new MFF (European Commission, 2011) included proposals (a) to maintain a two-pillar structure for the CAP, (b) to link 30% of direct support to farmers to environmental and climate action objectives, (c) to achieve a 'fairer and more equitable' distribution of the support by making direct support per hectare converge across member states, and (d) to limit support provided to large agricultural holdings by introducing 'a cap' (a maximum) for the support each farm can receive, using the 'savings' this would generate to increase the resources allocated in the same country to rural development policies. These are key elements for the design of the new CAP which clearly go well beyond those which could be justified by the need to decide financial allocations.

The two parallel, and somewhat interlinked, negotiations – the one on the MFF and that on the CAP – were both concluded in 2013. The agreement on the new MFF included decisions on the following elements of the new CAP which were not part of the June 2013 'political agreement' on the reform:

- *'External convergence'* of direct payments: Member states with average direct payments per hectare above the EU average will see their allocation progressively reduced in order to finance the increase in those member states with an average direct payment below 90% of the EU average; in these member states the difference with 90% of the EU average will have to be reduced in six years by one-third. In those member states with an average direct payment per hectare above the EU average, the reduction of the financial envelope will be proportional to the distance from the EU average. In 2020, in those member states where the envelope has been reduced, the average direct payment per hectare cannot be lower than the EU average, and in no member state can it be lower than €196/ha in nominal prices (this corresponds to about €164/ha in 2011 prices).
- *Degressivity and capping*: The progressive reduction of large direct payments will be mandatory in all member states, while 'capping' remains a voluntary measure.

- *Greening*: 30% of the national envelope for direct payments is to be devoted to payments linked to the production of environmental benefits by farms. Decisions regarding the constraints to be satisfied in order for a farm to be entitled to receive the 'green' payment were left to be agreed in the negotiations on the CAP reform, leaving however the possibility for member states to identify agricultural practices to be considered equivalent to the conditions to be eligible for 'green' direct payments decided at the EU level.
- *Flexibility between pillars*: All member states have the possibility to transfer up to 15% of financial resources from direct payments (Pillar I) to rural development policy measures (Pillar II), and *vice versa*. Member states with an average direct payment per hectare below 90% of the EU average are allowed to transfer to direct payments an additional 10% of resources from their allocation in the European Agricultural Fund for Rural Development (EAFRD).
- *Financial discipline*: Existing rules were confirmed.³ In Bulgaria and Romania the financial discipline mechanism will come into play in 2016, in Croatia in 2022.
- *Rural development*: The allocation of rural development funds among member states was decided. Sixteen countries will also receive *ad hoc* allocations for the initial three years,⁴ subject to a co-financing rate of 100%; the financial resources involved, just over €5.5 billion in total, are from the overall EU allocation to rural development policies. The resulting allocation of rural development funds to member states is

³ Rules on financial discipline guarantee that the financial allocation for the sub-heading "Market related expenditure and direct payments" set in Regulation 1311/2013 is abided by. If this is not going to be the case, then direct payments exceeding €2,000 are reduced as needed to make the expenditure for the sub-heading remain within the allocation.

⁴ Austria (€700 million), France (€1 billion), Ireland (€100 million), Italy (€1.5 billion), Luxembourg (€20 million), Malta (€32 million), Lithuania (€100 million), Latvia (€67 million), Estonia (€50 million), Sweden (€150 million), Portugal (€500 million), Cyprus (€7 million), Spain (€500 million), Belgium (€80 million), Slovenia (€150 million) and Finland (€600 million).

provided in Regulation 1305/2013; however, further modifications, if needed, are possible. The percentages of co-financing have also been decided.⁵

- *Reserve for crises in the agricultural sector:* Within heading 2 of the MFF, a reserve was created to provide support in case of a crisis affecting the sector. The reserve is allocated €2.8 billion and resources come from a reduction of direct payments exceeding €2,000; if, in a specific year, the allocation is not used, financial resources are returned to farmers the following year through increased direct payments.

Through the reallocation of funds between member states implied by 'external convergence' and the decisions taken regarding the allocation of rural development funds, the 2013 reform brought a significant country redistribution of the financial resources for the CAP, for an unprecedented extent, mostly from those countries that had traditionally received a relatively larger share of resources for direct payments, to those which in the past had been relatively penalised.

Tables 2.2 and 2.3 provide a comparison of the country distribution of the resources for direct payments and rural development at the end of the new programming period (when 'external convergence' will be fully implemented) and that in 2013. The direction of the redistribution implied by the two allocations is quite different, with the decisions regarding the allocation of the resources for rural development, agreed later, providing partial compensation to some of the countries which suffered the largest cuts in their national ceilings for direct payments.⁶

⁵ The maximum EAFRD financing rate will be 85% in less developed regions, outermost regions and smaller Aegean islands; 75% in all regions whose GDP per capita in the 2007-13 period was less than 75% of the average for the EU-25 but above 75% of the average for the EU-27; 63% for the transition regions other than those referred to before; 53% in the other regions. Financing will equal 75% for operations contributing to the objectives of environment and climate change mitigation and adaptation. Finally, sums transferred from Pillar I to Pillar II will be used benefitting from a 100% financing from the EAFRD.

⁶ Funds for direct payments are more than three times those for rural development.

Table 2.2 A comparison of national ceilings for direct payments in 2013 and 2019 (original allocations and allocations resulting from national implementation decisions) (current prices)

| | 2013 ^a (1) | | 2019 ^b (original allocations) (2) | | 2019 (allocations after national implementation decisions) (3) | | (2) - (1) | | (3) - (2) | |
|----------------|--------------------------|------|--|------|--|------|------------|----------|-----------|----------|
| | 000 EUR | % | 000 EUR | % | 000 EUR | % | 000 EUR | % change | 000 EUR | % change |
| Belgium | 614,855 | 1.4 | 505,266 | 1.2 | 481,857 | 1.2 | -109,589 | -17.8 | -23,409 | -4.6 |
| Bulgaria | 580,087 | 1.3 | 796,292 | 1.9 | 796,292 | 1.9 | 216,205 | 37.3 | 0 | 0.0 |
| Czech Republic | 909,313 | 2.0 | 872,809 | 2.1 | 861,698 | 2.1 | -36,504 | -4.0 | -11,111 | -1.3 |
| Denmark | 1,049,002 | 2.3 | 880,384 | 2.1 | 818,757 | 2.0 | -168,618 | -16.1 | -61,627 | -7.0 |
| Germany | 5,852,908 | 13.0 | 5,018,395 | 11.9 | 4,792,567 | 11.5 | -834,513 | -14.3 | -225,828 | -4.5 |
| Estonia | 101,165 | 0.2 | 169,366 | 0.4 | 143,966 | 0.3 | 68,201 | 67.4 | -25,400 | -15.0 |
| Ireland | 1,340,869 | 3.0 | 1,211,066 | 2.9 | 1,211,066 | 2.9 | -129,803 | -9.7 | 0 | 0.0 |
| Greece | 2,216,533 | 4.9 | 1,947,177 | 4.6 | 1,834,618 | 4.4 | -269,356 | -12.2 | -112,559 | -5.8 |
| Spain | 5,139,444 | 11.4 | 4,893,433 | 11.6 | 4,893,433 | 11.8 | -246,011 | -4.8 | 0 | 0.0 |
| France | 8,521,236 | 18.9 | 7,437,200 | 17.6 | 7,189,541 | 17.3 | -1,084,036 | -12.7 | -247,659 | -3.3 |
| Croatia | | 0.0 | 298,400 | 0.7 | 316,245 | 0.8 | 298,400 | - | 17,845 | 6.0 |
| Italy | 4,370,024 | 9.7 | 3,704,337 | 8.8 | 3,704,337 | 8.9 | -665,687 | -15.2 | 0 | 0.0 |

| | | | | | | | | | | |
|-----------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|-------------|-----------------|-------------|
| Cyprus | 53,499 | 0.1 | 48,643 | 0.1 | 48,643 | 0.1 | -4,856 | -9.1 | 0 | 0.0 |
| Latvia | 146,479 | 0.3 | 302,754 | 0.7 | 280,154 | 0.7 | 156,275 | 106.7 | -22,600 | -7.5 |
| Lithuania | 380,109 | 0.8 | 517,028 | 1.2 | 517,028 | 1.2 | 136,919 | 36.0 | 0 | 0.0 |
| Luxembourg | 37,084 | 0.1 | 33,431 | 0.1 | 33,432 | 0.1 | -3,653 | -9.9 | 1 | 0.0 |
| Hungary | 1,318,975 | 2.9 | 1,269,158 | 3.0 | 1,342,867 | 3.2 | -49,817 | -3.8 | 73,709 | 5.8 |
| Malta | 5,102 | 0.0 | 4,689 | 0.0 | 5,244 | 0.0 | -413 | -8.1 | 555 | 11.8 |
| Netherlands | 897,751 | 2.0 | 732,370 | 1.7 | 700,870 | 1.7 | -165,381 | -18.4 | -31,500 | -4.3 |
| Austria | 751,606 | 1.7 | 691,738 | 1.6 | 691,738 | 1.7 | -59,868 | -8.0 | 0 | 0.0 |
| Poland | 3,044,518 | 6.8 | 3,061,518 | 7.2 | 3,450,512 | 8.3 | 17,000 | 0.6 | 388,994 | 12.7 |
| Portugal | 605,962 | 1.3 | 599,355 | 1.4 | 599,355 | 1.4 | -6,607 | -1.1 | 0 | 0.0 |
| Romania | 1,264,472 | 2.8 | 1,903,195 | 4.5 | 1,903,195 | 4.6 | 638,723 | 50.5 | 0 | 0.0 |
| Slovenia | 144,236 | 0.3 | 134,278 | 0.3 | 134,278 | 0.3 | -9,958 | -6.9 | 0 | 0.0 |
| Slovakia | 388,176 | 0.9 | 394,385 | 0.9 | 451,659 | 1.1 | 6,209 | 1.6 | 57,274 | 14.5 |
| Finland | 570,548 | 1.3 | 524,631 | 1.2 | 524,631 | 1.3 | -45,917 | -8.0 | 0 | 0.0 |
| Sweden | 770,906 | 1.7 | 699,768 | 1.7 | 699,768 | 1.7 | -71,138 | -9.2 | 0 | 0.0 |
| United Kingdom | 3,987,922 | 8.8 | 3,591,683 | 8.5 | 3,205,243 | 7.7 | -396,239 | -9.9 | -386,440 | -10.8 |
| Total EU | 45,062,781 | 100.0 | 42,242,749 | 100.0 | 41,632,994 | 100.0 | -2,820,032 | -6.3 | -609,755 | -1.4 |

^a Bulgaria and Romania were still phasing-in.

^b Croatia will be still phasing-in. Excluding the mine clearance reserve for Croatia (Annex VII, Regulation 1307/2013) and supplementary payments in Croatia, Bulgaria and Romania (Annex V and VI, Regulation 1307/2013).

Sources: Regulations 73/2009 and 1307/2013; Annex II of Regulation 1378/2014.

Table 2.3 A comparison of country allocations of European Union support for Rural Development in the 2007-13 and 2014-20 programming periods (for 2014-20 original allocations and allocations resulting from national implementation decisions) (current prices)

| | 2007-13 (1) | | 2014-20 (original allocations) (2) | | 2014-20 (allocations after national implementation decisions) (3) | | (2) - (1) | | (3) - (2) | |
|----------------|----------------|-----|---|------|--|------|-----------|----------|-----------|----------|
| | 000 EUR | % | 000 EUR | % | 000 EUR | % | 000 EUR | % change | 000 EUR | % change |
| Belgium | 487,484 | 0.5 | 551,791 | 0.6 | 647,798 | 0.7 | 64,306 | 13.2 | 96,007 | 17.4 |
| Bulgaria | 2,642,249 | 2.7 | 2,338,784 | 2.5 | 2,366,717 | 2.4 | -303,465 | -11.5 | 27,933 | 1.2 |
| Czech Republic | 2,857,506 | 3.0 | 2,170,334 | 2.3 | 2,305,674 | 2.3 | -687,172 | -24.0 | 135,340 | 6.2 |
| Denmark | 577,919 | 0.6 | 629,401 | 0.7 | 918,804 | 0.9 | 51,482 | 8.9 | 289,403 | 46.0 |
| Germany | 9,079,695 | 9.4 | 8,217,851 | 8.6 | 9,445,920 | 9.5 | -861,844 | -9.5 | 1,228,069 | 14.9 |
| Estonia | 723,737 | 0.8 | 725,887 | 0.8 | 823,342 | 0.8 | 2,150 | 0.3 | 97,455 | 13.4 |
| Ireland | 2,494,541 | 2.6 | 2,189,985 | 2.3 | 2,190,592 | 2.2 | -304,555 | -12.2 | 607 | 0.0 |
| Greece | 3,906,228 | 4.1 | 4,195,961 | 4.4 | 4,718,292 | 4.7 | 289,732 | 7.4 | 522,331 | 12.4 |
| Spain | 8,053,078 | 8.4 | 8,290,829 | 8.7 | 8,297,389 | 8.4 | 237,751 | 3.0 | 6,560 | 0.1 |
| France | 7,584,497 | 7.9 | 9,909,731 | 10.4 | 11,384,844 | 11.5 | 2,325,234 | 30.7 | 1,475,113 | 14.9 |
| Croatia | | | 2,325,173 | 2.4 | 2,026,223 | 2.0 | 2,325,173 | - | -298,950 | -12.9 |
| Italy | 8,985,782 | 9.3 | 10,429,711 | 10.9 | 10,444,381 | 10.5 | 1,443,929 | 16.1 | 14,670 | 0.1 |

| | | | | | | | | | | |
|-----------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|-----------------|-------------|------------------|------------|
| Cyprus | 164,564 | 0.2 | 132,214 | 0.1 | 132,244 | 0.1 | -32,349 | -19.7 | 30 | 0.0 |
| Latvia | 1,054,374 | 1.1 | 968,982 | 1.0 | 1,075,604 | 1.1 | -85,392 | -8.1 | 106,622 | 11.0 |
| Lithuania | 1,765,794 | 1.8 | 1,613,088 | 1.7 | 1,613,088 | 1.6 | -152,706 | -8.6 | 0 | 0.0 |
| Luxembourg | 94,958 | 0.1 | 100,575 | 0.1 | 100,575 | 0.1 | 5,617 | 5.9 | 0 | 0.0 |
| Hungary | 3,860,091 | 4.0 | 3,455,336 | 3.6 | 3,430,664 | 3.5 | -404,755 | -10.5 | -24,672 | -0.7 |
| Malta | 77,653 | 0.1 | 99,001 | 0.1 | 97,327 | 0.1 | 21,348 | 27.5 | -1,674 | -1.7 |
| Netherlands | 593,197 | 0.6 | 607,305 | 0.6 | 765,285 | 0.8 | 14,108 | 2.4 | 157,980 | 26.0 |
| Austria | 4,025,576 | 4.2 | 3,937,552 | 4.1 | 3,937,552 | 4.0 | -88,024 | -2.2 | 0 | 0.0 |
| Poland | 13,398,928 | 13.9 | 10,941,202 | 11.5 | 8,697,557 | 8.8 | -2,457,726 | -18.3 | -2,243,645 | -20.5 |
| Portugal | 4,059,023 | 4.2 | 4,057,788 | 4.3 | 4,058,460 | 4.1 | -1,235 | 0.0 | 672 | 0.0 |
| Romania | 8,124,199 | 8.4 | 8,015,663 | 8.4 | 8,127,996 | 8.2 | -108,535 | -1.3 | 112,333 | 1.4 |
| Slovenia | 915,993 | 1.0 | 837,850 | 0.9 | 837,850 | 0.8 | -78,143 | -8.5 | 0 | 0.0 |
| Slovakia | 1,996,908 | 2.1 | 1,890,235 | 2.0 | 1,559,692 | 1.6 | -106,673 | -5.3 | -330,543 | -17.5 |
| Finland | 2,155,019 | 2.2 | 2,380,408 | 2.5 | 2,380,408 | 2.4 | 225,389 | 10.5 | 0 | 0.0 |
| Sweden | 1,953,062 | 2.0 | 1,745,315 | 1.8 | 1,763,565 | 1.8 | -207,747 | -10.6 | 18,250 | 1.0 |
| United Kingdom | 4,612,120 | 4.8 | 2,580,157 | 2.7 | 5,199,666 | 5.2 | -2,031,963 | -44.1 | 2,619,509 | 101.5 |
| Total EU | 96,244,175 | 100.0 | 95,338,109 | 100.0 | 99,347,509 | 100.0 | -906,065 | -0.9 | 4,009,400 | 4.2 |

Source: European Commission (2013), Table 95; Regulation 1305/2013, Annex I; Regulation 1378/2014, Annex I.

The reduction of total funds, in current prices, allocated to direct payments in 2020 (without considering the effects of national implementation decisions) with respect to those in 2013 equals -6.3% (in real terms the per cent reduction is twice as large).

However, as a result of the provisions for 'external convergence', the member states that entered the EU since 2004, with the exception of Cyprus, Malta and Slovenia, will all see an increase in their national ceilings, or a decline by a percentage smaller than that observed for the overall funds. Conversely, original allocations to national ceilings for direct payments will be lower by a higher percentage than that observed on average, in all EU-15 member states, with the exception of Spain and Portugal (where they will decline by -4.8% and -1.1%, respectively). Increases above 10% will occur in Bulgaria (+37.3%), Estonia (+67.4%), Latvia (+106.7%), Lithuania (+36%) and Romania (+50.5); conversely, the countries which will suffer the most pronounced cuts, above 15%, in their allocations for direct payments are Belgium (-17.8%), Denmark (-16.1%), Italy (-15.2%) and the Netherlands (-18.4%) (Table 2.2).

If rural development funds for 2014-20 are compared with those in 2007-13 (Table 2.3) – again, without considering the effects of national implementation decisions which modify the allocation of financial resources between the two pillars – several of the countries which experienced a significant reduction in their original ceilings for direct payments now see an increase in their allocations. This is the case, for example, for Belgium (+13.2%, against a decline by -0.9% of the EU funds allocated, overall, to rural development policies), Denmark (+8.9), Italy (+16.1%), France (+30.7%, its national ceiling for direct payments in 2020 will be 12.7% lower than in 2013), Greece (+7.4%, -12.2%), Malta (+27.5%, -8.1%) and Finland (+10.5%, -8%). On the contrary, Bulgaria will see its funds for rural development decline by -11.5%, Latvia by -8.1%, and Lithuania by -8.6%. In fact, only 7 out of 28 countries had their allocations for both direct payments and rural development cut by a percentage larger than those observed for the total EU allocations, i.e. they do not partially compensate the relative cut in one allocation with the resources they have been assigned in the other; these are Germany, Ireland, Cyprus, Austria, Slovenia, Sweden and the UK, while

Estonia, Portugal and Spain are the only countries which did better than average in both allocations.

3. The new system of direct payments

The most important changes introduced with the new CAP are probably those related to the new system of direct payments which on 1 January 2015 replaced the SPS (and the SAPS in new member states) introduced by the 2003 Fischler reform.

The SPS thus gives way to a new and more complex system of direct payments known as the Basic Payment Scheme (BPS). The 'basic payment' component of the new system is meant (at least implicitly) as an income support measure. With respect to the previous regime it is downscaled and more evenly distributed in terms of per hectare support, both across member states and, within each member state, across farms. The other components of the new system of direct payments are meant either to remunerate specific farm behaviours (such as, in the case of the 'green' payment, agricultural practices beneficial for the climate and the environment) or a specific status (such as being a young farmer, or farming in an area with natural constraints). The introduction of a 'green' component in the direct payments represents the first explicit attempt to link part of them to the remuneration of public goods and services produced by the farm, a goal advocated by many in the debate preceding the start of the reform process.

A stated objective of the reform has been the introduction of more selective forms of support, with payments better targeted and more equitably distributed between farms, sectors and regions. In this respect, in addition to 'degressivity' and 'external convergence', the reform introduces a more uniform distribution of the per hectare basic farm payments ('internal convergence'), payments for young farmers, a 'redistributive payment' shifting support from larger farms to smaller ones and payments for farms located in areas with natural constraints.

However, in the new system, only some of the components of direct payments are mandatory, while for others the decision to implement them is left to the individual member state. Mandatory components are: the basic payment, the payment for agricultural practices beneficial to the climate and the environment, or 'green

payment', and the payment for young farmers. Voluntary components are: the redistributive payment, the payment to farms located in areas facing natural constraints, the payments coupled to production and the small farms scheme. Also for the mandatory components of the direct payments member states have been left some room for manoeuvre in terms of how they are implemented (such as how per unit payments are calculated, or the possibility to use more restrictive criteria to identify the beneficiaries of the specific payment, as is the case for the payment for young farmers). Each component of the direct payments is financed with a portion of each country's national ceiling for direct payments; these are set out in Annex II of Regulation 1307/2013.

The 'active farmer'

One of the stated objectives of the reform was to remove historical rents, created by the progressive decoupling of CAP support, and to concentrate support on persons, natural or legal, for which the agricultural activity is not marginal (the so-called 'active farmers').

The decoupling of support started with the MacSharry reform and was completed by the successive changes introduced in the CAP since then, which linked support to land ownership and to maintaining it in good condition by performing minimal agronomical practices. This meant that beneficiaries of financial support did not have to farm their land any more in order to receive it, and this was not an unintended implication of decoupling. However, it led to many questioning large payments made to 'non-farmers' at a time when financial resources devoted to the CAP were being progressively reduced and farmers were dealing with difficult market conditions, often causing severe financial stress.

Already at the time of the Health Check, in 2008, member states were given the possibility to introduce 'objective and non-discriminatory criteria' to identify active farmers entitled to receive the direct payments. The reform introduced mandatory conditions in order to be able to claim direct payments, leaving the possibility for member states to make them more restrictive if they wished. The way this matter is dealt with is not by defining who is an 'active farmer', but rather by defining who is not. Considered not 'active' – and, as a result, not entitled to receive any direct payment – is the farmer (natural or legal person) whose farm lies in areas naturally

kept in a state suitable for grazing or cultivation and who does not carry out on those areas the minimum activity defined by the member state. The Ciolos reform actually goes further and defines a 'black list' of entities who cannot be considered 'active farmers'; this includes those operating airports, railway services, waterworks, real estate services, permanent sport and recreational grounds. All these are non-active farmers by definition and member states may decide to extend this list. However, the scope of the black list is significantly reduced by the provision that even those included in this list can receive direct payments if they are able to prove that the annual amount of the latter is at least 5% of the annual total receipts they obtain from non-agricultural activities; or their agricultural activities are not insignificant; or their principal company objective consists of exercising an agricultural activity. In addition, even potential beneficiaries who do not qualify as 'active farmers' are nevertheless entitled to receive direct payments if these do not exceed €5,000 (member states are left the possibility to lower this threshold).

Minimum requirements

As hitherto, member states decide the minimum threshold for claiming a direct payment in terms either of its total amount in a given calendar year, or of the eligible area of the holding for which it is claimed (the financial and physical thresholds are set at €100 and one hectare, respectively, but member states can modify these depending on the characteristics of their agriculture).

The basic payment and 'internal convergence'

The basic payment is nothing other than a scaled down version of what was the single payment in the pre-2015 CAP. Member states using the Single Area Payment Scheme (SAPS) are allowed to continue using it until the end of 2020, at the latest.

It is important to recognise that the financial resources allocated in each member state to the basic payment (or to the SAPS) are not set in advance, but are determined as residual, after deducting from the national ceiling for direct payments the sums needed to finance the other (mandatory and voluntary) components of the direct payments. In fact, depending on the decisions taken at the member state level, the share of the national ceiling devoted to

the basic payment may lie, in theory, anywhere between 0% and slightly less than 70%.¹

With the reform, the set of the farmers entitled to receive direct payments has been expanded to include virtually all active farmers. In fact, beneficiaries of direct payments will now also include farms producing fruits, vegetables, ware potatoes, seed potatoes, ornamental plants and grapes² (in member states where the SPS was in place), and farms whose agricultural land in June 2003 was not in good agricultural condition (in member states where the SAPS was in place).

‘Internal convergence’ provisions are meant to eliminate by 2019, or reduce, differences in the per hectare basic payment (and this component of direct payments only³) received by farmers in those member states where the SPS was used. Convergence is pursued either with reference to the country as a whole, or with respect to individual regions; these had to be defined by the member state and did not need to coincide with existing administrative units. The reform did foresee three different options for ‘internal convergence’:

- *Full convergence in 2015*: In 2015, the first year of implementation of the new CAP, the same value of per hectare basic payment (in more precise terms, ‘the same unit value of the payment entitlement’) was applied in the entire member state, or in each ‘region’ within the member state;
- *Full convergence in 2019, at the latest*: In the entire member state, or in each ‘region’ within the member state, the same value of the per hectare basic payment will be applied by 2019, at the latest; and

¹ Actual allocations are provided in Table 2.4, discussed in section 6.

² This means new payment entitlements have been allocated. Member states were also given the option to allocate new payment entitlements to farms which had received them in 2014 from the national reserve, and to those who had never held, owned or leased-in payment entitlements but were able to submit evidence that, on a certain date, they were actually exercising an agricultural activity (production, rearing and cultivation).

³ However, in those countries which opted to calculate the ‘green payment’ on an individual farm basis as a percentage of its basic payment, ‘internal convergence’ will indirectly affect this payment as well.

- *Partial convergence*: Differences between the values of the per hectare basic payment received by farmers in the member state as a whole, or in each 'region' within the member state, will be reduced, but will still exist in 2019.

Under the 'full convergence in 2015' option, the uniform per hectare value is calculated (in 2015, and in each year thereafter) by dividing the allocation of the national (or regional, if 'internal convergence' is implemented at the regional level) ceiling to the basic payment by the number of payment entitlements. In this case, in any given year, the per hectare value of the basic payment is the same in all farms within the member state, or within the 'region'; however, this amount will vary from year to year as a result of changes in the national ceiling, including those resulting from the progressive implementation of 'external convergence', of the financial resources allocated to the different components of the direct payments, and of financial discipline provisions.

Under the 'full convergence in 2019, at the latest' option, the uniform unit value of the basic payment will be introduced progressively and will be in place by 2019, at the latest.

Finally, under the 'partial convergence' option, in 2019 basic payments will have to be such that no payment per hectare (unit value of payment entitlement) will be lower than 60% of the national, or regional, average. Under this option member states will use a convergence criterion analogous to the one used for the 'external convergence'. Payment entitlements with a pre-convergence unit value⁴ lower than 90% of the national (regional) average would, by 2019 at the latest, be increased by at least one-third of the difference between their pre-convergence value and 90% of the national (regional) average in 2019. This percentage can be set above 90%, but it cannot exceed 100%. The increase of the payments per hectare below the average will be covered by the reduction of the value of the payments per hectare above the average. For the latter, the difference between their initial pre-

⁴ This 'initial' unit value is calculated using the number of payment entitlements assigned to each farm in 2015 and the value of the total payments received in 2014 within the SPS, adjusted by the share of the national ceiling which will be devoted to finance the basic payments under the new regime.

convergence unit value and the national (regional) unit value to be reached in 2019 will be progressively reduced, in equal steps starting in 2015, based on objective and non-discriminatory criteria established by the member state. Member states may also decide that the unit value of a farm's entitlements cannot be reduced by more than 30% with respect to their initial pre-convergence value. However, it could happen that these two constraints cannot be jointly satisfied. If satisfying the constraint of no farm receiving in 2019 a per hectare direct payment below 60% of the national (regional) average would imply a reduction of those above the average by more than 30%, the first constraint would be the one not to be satisfied, i.e. farms would still exist in 2019 receiving an average per hectare direct payment which is less than 60% of the national, or regional, average.

'Green' payments

Thirty per cent of the national ceiling for direct payments is allocated to 'green' payments. The green payment takes the form of an annual payment per hectare, calculated by dividing the financial resources allocated to these payments by the number of eligible hectares. However, in order to limit the extent of the redistribution of direct payments across farms with respect to the pre-2015 scenario, member states who opted for the 'full convergence in 2019, at the latest' or the 'partial convergence' option in applying 'internal convergence' were given the possibility to calculate the 'green' payment at the farm level as a percentage of the basic payment.

Access to the 'green' payment is restricted to farmers entitled to receive the basic payment. In order to receive the green payment a farm must satisfy three requirements in terms of agricultural practices beneficial for the climate and the environment; these have to do with (a) crop diversification, (b) maintaining existing permanent grassland, and (c) devoting part of the land to so-called 'ecological focus areas' (EFAs).

The crop diversification requirement applies only to farms of more than 10 hectares of arable land. In its general formulation (exceptions exist), the condition to be satisfied is to grow at least two crops (if arable land does not exceed 30 hectares), or three (if arable land exceeds 30 hectares), with the main crop not exceeding 75% of arable land and the two main ones not exceeding 95%. The ratio of

areas covered by permanent grassland to total agricultural area cannot be lower by more than 5% with respect to a fixed historical reference ratio. Member states may decide to satisfy this constraint at the national (or regional) level, rather than by the individual farm. Finally, the constraint on the EFA aims at maintaining, and possibly increase, biodiversity; it applies only to farms with arable land exceeding 15 hectares. In this case, farmers are required to ensure that an area corresponding to at least 5% of the arable land of the holding is an EFA. The choice of what should be considered an EFA within a list of options has been left to member states; this list is provided in Article 46 of Regulation 1307/2013 and includes: land lying fallow, terraces, landscape features, buffer strips, agro-forestry surfaces which received support under rural development policy measures, strips along forest edges, afforested areas, and areas with nitrogen-fixing crops.

Land devoted to organic agriculture is by default assumed to fulfil the conditions to receive the 'green' payment. Member states may choose to identify agricultural practices which are considered, by definition, able to generate benefits for the climate and the environment at least equivalent to those generated by these three conditions. Equivalent practices are listed in Annex IX to Regulation 1307/2013 and are given by commitments undertaken within rural development measures, or national, or regional, environmental certification schemes which go beyond relevant mandatory standards established by cross-compliance. To avoid a 'double payment' for the provision of the same public good, when equivalent practices are used to justify green payments they become the *baseline* for triggering payments under environmental measures in Pillar II, i.e. Pillar II payments may occur only if the farm generates a volume of environmental or climate benefits above this level.

In assessing the efficiency and the equity of this new component of the direct payments as a policy tool whose aim is to generate benefits for the climate and the environment, it is important to recognise that the 'green' payment has no relation either with increased benefits generated by the farm, if any, or with the costs of satisfying the set requirements, if any.

In the worst case scenario, a farm not satisfying the requirements for the 'green' payment not only will not receive any

but will incur an administrative penalty. This will be gradually implemented: no sanction will be imposed in 2015 and 2016, while the maximum penalty will equal 20% of the 'green' payment in 2017 and 25% from 2018.⁵ This means that not satisfying 'green' payment requirements will imply that, in the worst case scenario, in the first two years of the new regime the farm will lose only the 'green' payment, while from 2017 onwards it will also suffer a reduction in the other direct payments. This makes the 'green' payment similar to a voluntary measure (where farms are to decide whether it is profitable for them to enter a programme or not) in 2015 and 2016, while its requirements become, *de facto*, mandatory from 2017. However, the financial sanctions in the case of non-compliance being relatively innocuous, it cannot be assumed that all farms will find it convenient to satisfy the requirements.

Payment for young farmers

Direct payments for young farmers are mandatory payments that complement the start-up aid which may be granted to young farmers as part of Pillar II. These payments are financed by up to 2% of the national ceiling for direct payments and are granted annually to young farmers entitled to receive the basic payment. A 'young farmer' is defined as a natural person who (a) becomes for the first time the head of an agricultural holding, or who has become the head of a holding during the five years preceding the first submission of an application to receive the basic payment, and (b) is no more than 40 years of age in the year of the submission. Member states may introduce additional criteria to be satisfied in terms of appropriate skills and/or training requirements. The payment is granted for a maximum period of five years (less than that if the farmer had become head of the holding before the application to receive the payment for young farmers).⁶

Member states may decide to calculate the actual payment on an individual basis or as a set payment; it should correspond either

⁵ Article 77.6 of Regulation 1306/2013 and Articles 23-28 of Regulation 640/2014.

⁶ If this is the case the period is reduced by the number of years elapsed between the setting up of the holding as a head and the submission of the application for the specific payment.

to 25% of the average value of the basic payment entitlements owned or leased by the young farmer, or to 25% of the national average value of basic payment entitlements, multiplied by the number of entitlements the farmer has activated. However, the payment must be limited to a number of hectares which cannot be less than 25 and cannot exceed 90 and, if introduced as an annual lump sum payment, it cannot exceed the basic payment received by the farm.

Redistributive payment

This is a voluntary component of direct payments. It aims at redistributing financial support within a member state from large farms to smaller ones. By 1 August of every year member states may decide to introduce, from the following year, a redistributive payment to farmers entitled to receive the basic payment. Member states may devote to these payments up to 30% of the national ceiling for direct payments. Each farmer cannot receive a redistributive payment in excess of 65% of the national (regional) average direct payment per hectare in 2015, multiplied by the number of the farm's entitlements, which cannot be more than 30 hectares, or the average farm size in the member state, if this exceeds 30 hectares. As long as these upper limits are satisfied, member states are free to decide the amount of the per hectare payment. If 'internal convergence' for the basic payment is implemented at the regional level, then the amount of the redistributive payment can also be set at this level.

If a member state finances redistributive payments with more than 5% of the national ceiling for direct payments, then it is free to decide not to impose a degressive reduction on direct payments exceeding €150,000 (see below). Both instruments aim at redistributing resources: in the case of degressivity/capping, from those farms receiving a large amount of support to rural development policy measures; in the case of the redistributive payment, from large farms to small ones.

Payment for areas with natural constraints

Farmers are entitled to receive this component of the direct payments if their holdings are, fully or partly, located in 'areas with natural constraints', as designated by the member state in

accordance with its rural development rules. Direct payments to farms located in areas with natural constraints are a voluntary component of the direct payments justified by the goal of guaranteeing the presence of farmers and farming in these areas by providing support which is additional to that foreseen in rural development policies. This means that this component of the direct payments does not replace, but rather complements, the analogous payments disbursed in the same areas under Pillar II.

Member states may allocate to payments to farms located in areas with natural constraints up to 5% of the national ceiling for direct payments.

Only farmers entitled to receive the basic payment can be eligible for this payment. The amount of the annual payment for eligible hectare is calculated by dividing the portion of the national ceiling committed to this payment by the number of eligible hectares in the areas with natural constraints for which the member state has decided to activate the payment. Member states can introduce this payment in all areas with natural constraints (as defined for rural development policy purposes), or limit it to only a part, in this case based on objective and non-discriminatory criteria. Furthermore, member states may opt for a payment set at the regional level, i.e. to differentiate the per hectare payment by region, and to limit the payment to a maximum number of hectares per farm.

Coupled support

In specific sectors and products⁷ member states may decide to grant farmers support coupled to production. Coupled support may only be granted to those sectors and regions of the member state where specific types of farming, or specific agricultural sectors, play a particularly important economic, social or environmental role; it may only be granted to create an incentive to maintain current levels

⁷ These are all sectors and products which have been granted coupled support in the past: cereals, oilseeds, protein crops, grain legumes, flax, hemp, rice, nuts, starch potatoes, milk and milk products, seeds, sheep meat and goat meat, beef and veal, olive oil, silkworms, dried fodder, hops, sugar beets, cane and chicory, fruit and vegetables and short rotation coppice.

of production in the sectors or regions concerned. In this case, support may also be granted to farmers who do not have eligible hectares entitling them to receive the basic payment.

The payment takes the form of an annual payment per hectare – or per head, in the case of livestock; because the aim is to maintain the level of production, i.e. the support provided should not result in increased production, payments are limited to a maximum number of hectares and heads. Member states can use up to 8% of the national ceiling to finance coupled support payments. This percentage can be raised up to 13% if during at least one year in the period 2010-14 the member state had allocated more than 5% of its national ceiling for direct payments to coupled ones. If this share exceeds 10%, then the member state may decide to finance coupled support payments by using even more than 13% of its national ceiling (in this case an explicit authorisation by the Commission is needed). The percentage of the national ceiling allocated to coupled payments can be increased by an additional 2% in the case of support provided to protein crops.

Crop-specific payment for cotton

Notwithstanding the extensive decoupling of support induced by the previous reform of the CAP, significant coupled support has remained in place in the cotton sector. This will continue in the 2014-20 period as well; in four member states only (Bulgaria, Greece, Spain and Portugal) direct payments will include a specific payment per eligible hectare of cotton, subject to specific area limitations. The payment per hectare of eligible area will differ across the four countries.

'Degressivity' and 'capping'

In order to generate a more equitable distribution of direct payments, the reform introduced a mandatory reduction, by at least 5%, of basic payments for the part exceeding €150,000. Member states could increase this percentage up to 100%, in this case making *de facto* the €150,000 threshold for degressivity a 'cap' on basic payments. Member states were also given the option to apply the reduction after deducting from the basic payment labour costs in the previous year, i.e. salaries to employees, but also taxes paid and social welfare contributions. 'Savings' deriving from reduced

payments as a result of degressivity are to be added to the resources available for the country within the EAFRD, and their use will not need co-financing by the member state.

A member state is exempted from the obligation to apply degressivity if it has decided to implement the voluntary redistributive payments and these absorb more than 5% of its ceiling for direct payments.

Cross-compliance

All direct payments remain subject to cross-compliance requirements also in the reformed CAP, but their number has been reduced.⁸ As previously, cross-compliance requirements consist of statutory management requirements under EU law and standards for good agricultural and environmental land conditions defined at the national level. As far as statutory management requirements, the number of regulations and directives whose obligations must be fulfilled in order to have access to the full amount of direct payments a farm is entitled to has been reduced from 18 to 13, while mandatory norms in terms of good agricultural and environmental land conditions to be complied with have been reduced by one, from 8 to 7, and a few obligations modified.

As in the pre-2015 CAP, if cross-compliance requirements are not fulfilled an administrative penalty is imposed. This takes the form of a percentage of the total amount of direct payments in the specific year when the requirements had not been satisfied and its amount depends on the severity, extent, duration and reoccurrence of the non-compliance. The penalty is applied only when non-compliance is the result of an act or omission directly attributable to the beneficiary.

Small farms scheme

The small farms scheme is a simplified scheme whose aim is to reduce the bureaucratic burden, for both the beneficiaries and the public sector, when small payments are involved.

This is a voluntary scheme for the member states; when implemented, participation by individual farmers is also on a

⁸ They are listed in Annex II to Regulation 1308/2013.

voluntary basis. Farmers willing to enter the simplified scheme will have to apply by a deadline set by the member state (this cannot be later than 15 October 2015); farmers who have not applied by the deadline will no longer be entitled to participate in the scheme.

The payment disbursed within the simplified scheme replaces the basic payment, 'green' payment, payment for young farmers, redistributive payment, coupled support and the crop-specific payment for cotton, where relevant, or the payment under the SAPS. Farmers entering the scheme are exempted from both 'green' payment requirements and cross-compliance conditions. The payment for those choosing the simplified scheme can be calculated in different ways. It can be an annual lump sum payment set at the national level, or it can be farm-specific. If the payment is introduced as a flat sum for all farms entering the scheme, then the annual disbursement cannot be less than €500 and cannot exceed €1,250; if the payment is farm-specific the lower bound does not apply.

Unless the member state decides that the payment is farm-specific, with each farm receiving what it would receive without the scheme in place, the maximum share of the national ceiling for direct payments which a member state can allocate to the simplified scheme for small farms is 10%. If the flat lump payment is adopted and the total amount of the payments under the scheme turns out to exceed this upper bound, then all payments will have to be reduced by the same percentage, as needed.

4. The second pillar

Limited changes have been introduced to Pillar II of the CAP; this can be explained by the consideration that the approach used in the 2007-13 programming period proved effective and that the long-term objective of strengthening rural development to foster the competitiveness of agriculture and to promote the sustainable management of natural resources, climate action and a balanced territorial development of rural areas, should be confirmed. Nevertheless, several changes have been introduced, mostly related to the programming of rural development policy measures (Mantino, 2013).

Probably the main change is the integration of the European Agricultural Fund for Rural Development with the funds dealing with cohesion policies – the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund – and with the European Maritime and Fisheries Fund (EMFF). These funds now operate under a common framework – the European Structural and Investment (ESI) Funds.⁹ Rural development policies for 2014-20 have become part of a Common Strategic Framework (CSF) whose aim is to facilitate the territorial and sectorial coordination of all actions put in place within the framework of the ESI Funds by providing strategic direction to the programming processes at the level of member states and regions. As a result, each member state was required to produce a single programming document, the Partnership Agreement (PA), consistent with the strategy indicated in the CSF, in which it had to define the national strategy pursued, identifying common goals and rules for all funds, facilitating the realisation of integrated projects, i.e. projects financed by more than one fund. The PA replaces the two documents used in the 2007-13 programming period, the National Strategic Framework (NSF) for the Structural Funds, and the National Strategic Plan (NSP) for the EAFRD. Nevertheless, despite the redesigned common framework, rural development policies maintain their own ‘identity’ spelled out in Regulations 1305/2013 and 1306/2013. The PA, having been given the role of defining a single national strategy across the five funds, is expected to be particularly useful in increasing the coherence and effectiveness in the use of financial resources in those countries where programming documents at the regional level exist. These had to be drawn up in coherence with the principles and strategic goals indicated in the national PA. While for the 2007-13 programming period a member state could have for the EAFRD either a single national programme or individual programmes for each of its regions, it can now have a national programme as well as the individual regional programmes.

In order to contribute to the implementation of the EU strategy for a ‘smart, sustainable and inclusive growth’, each of the ESI Funds has to contribute to the achievement of 11 common

⁹ Regulation 1303/2013.

thematic objectives.¹⁰ For each of them the PA of each member state specifies the strategy adopted and the financial resources it has been allocated.

The programming of rural development policies within the PA had to address six 'priorities'¹¹ and, at a finer level, 18 'focus areas'.

Member states have had to indicate in their PA how they intend to address each of the priorities and focus areas, or to provide a justification if they decided otherwise. With respect to the previous programming period member states have been given significantly more flexibility from the point of view of the measures they could use. However, they now have had to allocate at least 30% of their total EAFRD to a group of specific environmental measures.¹²

¹⁰ The 11 common objectives are: strengthening research, technological development and innovation; enhancing access to, and use and quality of, ICT; enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF); supporting the shift towards a low-carbon economy in all sectors; promoting climate change adaptation, risk prevention and management; preserving and protecting the environment and promoting resource efficiency; promoting sustainable transport and removing bottlenecks in key network infrastructures; promoting sustainable and quality employment and supporting labour mobility; promoting social inclusion, combating poverty and discrimination; investing in education, training and vocational training for skills and lifelong learning; and enhancing institutional capacity of public authorities and stakeholders and efficient public administration.

¹¹ The six priorities are: fostering knowledge transfer in agriculture, forestry and rural areas; enhancing the competitiveness of all types of agriculture and enhancing farm viability; promoting food chain organisation and risk management in agriculture; restoring, preserving and enhancing ecosystems dependent on agriculture and forestry; promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in agriculture, food and forestry sectors; and promoting social inclusion, poverty reduction and economic development in rural areas.

¹² These are described in Articles 17, 21, 28, 29, 30, 31, 32 and 34 of Regulation 1305/2013 (investments in physical assets related to climate and environment; investments in forest area development and

Another important innovation introduced with the reform has to do with the local development strategy adopted. The bottom-up ‘Leader approach’ proved to be effective in promoting local development in rural areas and has now been extended to all funds and areas. The Leader approach, which is now referred to as Community-Led Local Development, is mandatory for the EAFRD, while it can be adopted on a voluntary basis for the other funds.

One of the main innovations has to do with the governance of rural development policies, with the aim of strengthening their effectiveness as well as their efficiency. To facilitate the achievement of the set goals, a ‘performance review’ procedure has been introduced which includes a system of incentives and penalties. Six per cent of each of the ESI Funds¹³ is set aside in a performance reserve. Member states were required to define a framework to monitor their progress towards the set objectives and targets. Targets had to be defined on the basis of financial indicators, tangible output indicators and, where appropriate, result indicators; in the case of rural development programmes they had to be identified at the level of focus area. The performance reserve shall be allocated only to programmes and priorities which have achieved their targets. When this is not the case, not only will the member state be denied access to the performance reserve, but, in the case of a serious breach, the Commission may decide to suspend all or part of the payments for the specific priority of the programme.

The reform of Pillar II of the CAP has also involved the introduction of new measures and the strengthening of existing ones. The reform moved from Pillar I to Pillar II measures to help risk management. In fact, Regulation 1305/2013 now includes some

improvement of the viability of forests; agri-environment-climate measures; organic farming; ‘Natura 2000’ payments; payments to areas facing natural or other specific constraints; and forest environmental and climate services and forest conservation measures).

¹³ In the case of the EAFRD this does not apply to financial resources transferred from Pillar I as a result of the flexibility given to member states in the reallocation of financial resources between the two pillars (Article 14.1 of Regulation 1307/2013) and to financial resources resulting from capping and modulation of direct payments (Article 11 of Regulation 1307/2014).

of the measures which were included in Article 68 of Regulation 73/2009 (such as financial contributions against insurance premiums to reduce economic losses caused by adverse climatic events, animal or plant diseases, pest infestation, or an environmental accident, and financial contributions to mutual funds intervening to support farmers under the same circumstances). Pillar II now also includes a new income stabilisation tool, in the form of a financial contribution to mutual funds which provide compensation to a farm when a drop in income occurs which exceeds 30% of its average annual income. The shift of some of the risk management policy instruments from Pillar I to Pillar II¹⁴ raises concerns from two points of view: that of the stretch of the focus of the policies aimed at fostering rural development to make them include income stabilisation measures, and that of the implication of this shift for the financial allocation to (truly) rural development policies, which, as a result, suffered a further reduction with respect to the already significant one observed for the overall budget allocated to Pillar II (-11.1% in real terms).

Another innovation introduced with the reform is given by the European Innovation Partnership (EIP) for agricultural productivity and sustainability, an instrument intended to build a bridge between research, on the one hand, and farmers and advisory services, on the other, to promote and speed-up the process of the production, transfer and adoption of innovations.

5. Decisions regarding other elements of the CAP

Within Pillar I of the CAP, next to Regulation 1307/2013, which pertains to direct payments, stands Regulation 1308/2013, which concerns the Single Common Market Organisation (SCMO). This Regulation confirms many of the elements governing the SCMO before 2015 (Regulation 1234/2007) and certain decisions which have been taken as part of the milk and quality ‘packages’. It also modifies the conditions under which export subsidies can be used and includes new important measures aiming at modifying in

¹⁴ Certain sector specific risk management tools, i.e. those for the wine and fruit and vegetable sectors, were not moved from the Single Common Market Organisation.

favour of farmers the distribution of market power within food chains and at simplifying intervention, with the goal to make it a truly safety net policy instrument (rather than a price support mechanism). Regulation 1308/2013 also confirmed the end of the milk and sugar quota regimes on 31 March 2015 and 30 September 2017, respectively, and the termination of the prohibition to expand planting of vines on 31 December 2015.

The most important innovation intended to increase farmers' market power in food chains is probably the extension of producer organisations (POs) and inter-branch organisations to all sectors (until 2015 they were foreseen in the fruit and vegetable sector only). Financial resources to support start-up activities of these organisations are provided within rural development policies. POs in the olive oil, arable crop and beef sectors are given the power to engage in collective bargaining on behalf of their members.

Confirming a decision which had been taken as part of the 'milk package', member states are given the opportunity to make mandatory the drawing up of written contracts for the delivery of raw milk by farmers to processors. POs are given the power to represent their members in the negotiation for the definition of the contracts. Waiving provisions of existing competition law, POs are allowed to negotiate the price of raw milk, as long as the quantity involved does not exceed 3.5% of EU total production and 33% of that of the member state. The Regulation also stipulates the elements that the contracts must include, such as the price to be paid for the delivery, the volume of raw milk which may, or must, be delivered, and the duration of the contract. Moreover, upon request of a PO, an inter-branch organisation or a group of operators, member states may establish, for a limited period of time, binding rules to limit the supply of cheeses which have been granted a Protected Designation of Origin (PDO) or a Protected Geographical Indication (PGI). This may be done for a three-year period (but this interval can be extended), subject to an agreement of operators representing at least 50% of the production of the specific PDO or PGI product. The agreement cannot involve the price at which the cheese is sold on the market. The possibility to put in place a concerted collective action to limit production, by relaxing the provisions of existing competition law (under which such practice would be illegal), is extended also to PDO and PGI for hams. Finally,

following a request by a PO (or an association of POs or an inter-branch organisation) 'representative' of the production, trade or processing of a specific product, a member state may decide that certain decisions taken within that organisation, for a limited period of time, are also binding for operators who do not belong to that organisation. A PO (or an association of POs or an inter-branch organisation) is considered to be 'representative' when it accounts for at least 60% of the volume produced, traded or processed of the specific product in the case of fruit and vegetable, or for at least two-thirds in the case of other products.

In the wine sector the reform cancelled the prohibition on planting vines, a 'transitional' measure which had been introduced in 1997 and systematically extended, always on a 'temporary' basis, since then. The last extension occurred in 2008 (Regulation 479/2008) when the decision was taken to end the prohibition after 31 December 2015 (with the possibility to maintain the prohibition in the member states wishing to do so until the end of 2018 at the latest). The 2013 reform confirmed the removal of the prohibition to expand vine plantings, but, at the same time, reverted the decision to fully liberalise plantings. Rather it introduced a system of authorisations to progressively expand vine plantings between 2016 and 2030; such authorisations will ensure that maximum a 1% annual increase of the area covered by vines in each member state may occur. This means that in the wine sector, differently from what happened with the milk and sugar quotas, the reform brought a reversal of the decision which had already been taken to remove supply controls and liberalise production decisions.

Finally, Regulation 1308/2013 limits the possibility to subsidise exports only when serious 'threats of market disturbance' exist. Over the years the EU has been unilaterally progressively giving up the use export subsidies (Figure 2.1); hence, the decision to limit their use only under extraordinary market conditions should be seen as a constraint on the possibility to reverse this choice in the future.

6. The national decisions on the new CAP

Significant flexibility in the implementation of the CAP by the member states has existed since the 2003 Fischler reform, when they were given the possibility to decide how to implement the SPS

(using a national or regional model, and a flat, historical or hybrid approach), to maintain a part of the existing support in a partially decoupled form (this was the case for tobacco, olive oil, fruit and vegetables, sugar, and sheep and goat premiums) and to make use of the opportunities given by Article 69 of Regulation 1782/2003 – and, later, Article 68 of Regulation 73/2009 – to provide support to specific ‘types of farming’ and ‘quality production’. However, the extent of the decisions left to member states with the 2013 Ciolos reform to introduce tailor-made alterations to make the CAP better fit the characteristics of their agriculture, as well as to satisfy prevailing domestic political preferences, appear much wider. In fact, the reform has allowed member states to decide which of the voluntary direct payments to activate, the distribution of the overall amount of financial resources across the different direct payments (with the exception of those to be devoted to the ‘green’ payment), the criteria to be satisfied for a farm to have access to them, important elements of the implementation of the ‘green’ payment, the extent and the modalities of the redistribution of support between the farms within the country (as a result of their decisions regarding ‘internal convergence’, ‘degressivity and capping’ and the redistributive payment), and the distribution between the two pillars of the overall financial resources allocated to the country.

Member states had to notify the Commission by 1 August 2014 about their decisions regarding the national implementation of the new CAP. Table 2.4 offers a synthetic view of how in 2019 the new CAP will be implemented in the member states. In the United Kingdom and in Belgium decisions were taken at a sub-national level: in England, Wales, Northern Ireland and Scotland, and in the Flanders and Wallonia, respectively.

Flexibility between pillars

The possibility to shift financial resources between pillars has been used by 16 member states.¹⁵ Five of them (Croatia, Hungary, Malta, Poland and Slovakia) have decided to transfer resources from Pillar II to Pillar I; in 2019 the amount transferred will vary between 3.8%

¹⁵ France, Croatia, Latvia, Poland, Slovakia and the UK had already started transferring funds in 2014, using the possibility given by Regulation 1310/2013.

(Malta) and 25%, the maximum percentage allowed (Poland). On the contrary, 11 member states (Belgium (in Flanders), Czech Republic, Denmark, Estonia, France, Germany, Greece, Latvia, the Netherlands, Romania, and the UK (in England, Wales and Scotland)) will transfer resources in the opposite direction; resources transferred will vary from 1.3% (Czech Republic) to 15%, the maximum allowed (Estonia and Wales). In some of these countries the magnitude of the transfer changes over time; it will increase in Belgium, Denmark, Estonia, France, Malta and the Netherlands, while the opposite will occur in the Czech Republic and Romania (in the latter it will become zero in 2018). Tables 2.2 and 2.3 provide information on the implications of national decisions, including those related to the possibility to shift resources between the two pillars, for the financial allocations to direct payments and rural development policies in each country.

Internal convergence

Of the 18 member states where the SAPS is not used, only six have implemented the basic payment at the regional level (Finland, France, Germany, Greece, Spain and the UK).¹⁶ In eight countries a national, or regional, flat per hectare payment will be used, in 2015 (France (in Corsica), Germany,¹⁷ Malta and the UK (in England)), by 2019 (Austria, Finland, the Netherlands, and the UK (in Scotland and Wales)), or 2020 (Sweden). Among the eight member states which decided for a flat rate payment, Austria, Malta, the Netherlands, Sweden and Germany, at different points in time, will be using a single rate over the entire country. The other three countries opted for a flat payment at the regional level. The 10 member states that currently apply the SAPS will continue to do so until 2020;¹⁸ under the SAPS the same per hectare payment is used

¹⁶ In Belgium both Flanders and Wallonia opted for the single region (national) model. In England, three of the four countries (England, Wales and Scotland) opted for the regional model.

¹⁷ Germany opted for the regional model and a flat per hectare payment already in 2015. However, by 2019 it will have a single flat per hectare payment in place for the whole country.

¹⁸ They are Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

in the entire country. Finally, of the 12 member states which opted for a partial convergence of the per hectare payment, eight (Belgium, Croatia, France (except in Corsica), Greece, Italy, Portugal, Slovenia and Spain) have decided for the reduction in the above average per unit value of a farm's entitlements, as a result of 'internal convergence', not to exceed 30% (European Commission, 2015).

Share of national ceilings for direct payments allocated to the basic payment, or to the SAPS

Member state decisions regarding the three voluntary direct payments (payments to farms located in areas facing natural constraints, coupled payments, and the redistributive payment) show very different patterns. No country has chosen to implement all three voluntary payments, or not to implement any. The share of the national ceiling for direct payments allocated to the 'basic payment' or to the SAPS (including the small farms scheme, if implemented) derives from the decisions taken by each member state regarding the voluntary payments to implement and the amount of financial resources it allocated to them as well as to the mandatory payment for young farmers. At least in theory, it may assume any value strictly smaller than 70%, given that 30% of the ceiling must be allocated to 'green' payments and the financial allocation for the mandatory payments to young farmers must be greater than zero, with no minimum having been set. In fact, decisions by member states generated a wide spectrum of shares of financial resources being allocated to the 'basic payment' and to the SAPS.

Seven member states allocated at least 65% of their ceiling for direct payments to the 'basic payment' or to the SAPS (Austria, Denmark, Estonia, Ireland, Luxembourg, the Netherlands, and the UK¹⁹). In Ireland, Luxembourg and the Netherlands 'basic payments' will absorb a share of the ceiling very close to 68%, as they all decided not to introduce the payment for farms located in areas facing natural constraints and the redistributive payment, and used less than 1% of the ceiling for coupled payments.²⁰ Twelve

¹⁹ In the UK as a whole this percentage is 67% (Commission, 2015).

²⁰ The same is true for England, Northern Ireland and Wales in the UK.

member states ended up devoting to the 'basic payment', or to the SAPS, a percentage between 50% and 65% of their ceiling (Cyprus, Czech Republic, Germany, Greece, Hungary, Italy, Latvia, Romania, Slovakia, Slovenia, Spain and Sweden), six between 50% and 40% (Belgium (42%, resulting from 57% in the Flanders and 30% in Wallonia), Bulgaria, Croatia, Finland, Poland and Portugal) and three less than 40% (France, Lithuania and Malta). In Malta only 13% of the national ceiling will be used for the 'basic payments', as a result of the choice to devote 57% of the ceiling to finance coupled support payments and 1% to payments to young farmers. It has been estimated that 55% of the overall EU-28 financial resources for direct payments will be used for the basic payment and the SAPS (European Commission, 2015).

Coupled support

The possibility to maintain part of the support coupled, and its magnitude, has been one of the most controversial issues in the negotiations. Denmark, the Netherlands, Sweden and the United Kingdom were strongly against it, while countries which had been using coupled payments more extensively took the opposite view. Coupled support payments turned out, by and large, to be the most popular voluntary component of direct payments; they have been implemented by all member states but Germany. In five member states (Austria, Denmark, Ireland, Luxembourg, the Netherlands) coupled payments will absorb a share of the national ceiling for direct payments which remains below 3%, while, at the opposite end, in four countries (Belgium (Wallonia), Finland, Malta and Portugal) it will exceed 15%.

Payments for areas with natural constraints

If coupled support has turned out to be a popular voluntary measure, only Denmark decided to activate the payment for farms in areas with natural constraints, and allocated to it less than 1% of its overall ceiling (the maximum allowed was 5%).

Redistributive payment

The redistributive payment has been introduced in eight member states²¹ (Belgium (Wallonia), Bulgaria, Croatia, France, Germany, Lithuania, Poland and Romania), with a financial allocation which varies between 5% (Romania) and 20% (Wallonia and France²²).

Degressivity and capping

Only two of the member states which introduced the redistributive payment will also have degressivity (Bulgaria and Poland), although they could have chosen otherwise, while Belgium (both Flanders and Wallonia), Croatia, France, Germany, Lithuania and Romania used the opportunity not to apply it. Fifteen out of the 22 member states where degressivity will be implemented²³ decided to apply the minimum possible percentage cut and to impose no cap, i.e. they will only apply a 5% cut on basic payments exceeding €150,000, while the others opted for higher percentage cuts. Nine countries decided to put a cap on direct payments. Finally, nine member states will apply degressivity to basic payments after having deducted salaries (not surprisingly, five of them are among those which opted to apply the minimum possible degressivity cut). The European Commission estimated that in the 2015-19 period degressivity and capping will result in a mere €112 million being transferred yearly from direct payments to rural development policies (European Commission, 2015), less than 0.3% of the financial resources allocated to direct payments in the 28 member states.

Small farms scheme

Finally, 15 member states decided to implement the small farms scheme, and only two (Latvia and Portugal) opted for a flat payment equal for all farms entering the scheme.

²¹ The decision to activate this payment can be modified every year.

²² In France the allocation will progressively increase from 5% in 2015 to 20% in 2018.

²³ These are Cyprus, Czech Republic, Denmark, Estonia, Finland, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain, Sweden and the UK (England).

Ranking national decisions based on their relative degree of 'conservatism'

The information provided in Table 2.4 suggests a possible ranking of member states with respect to their revealed preferences in terms of the degree of 'conservatism' for their agriculture and rural development policies emerging from their use of the given room for manoeuvre.²⁴ Two groups of EU-15 countries can be identified at the opposite ends of the hypothetical spectrum. Those relatively more inclined to introduce changes, although limited, in their agricultural policies, i.e. relatively 'less conservative', appear to be Germany, the Netherlands and, in the UK, England and Wales; in fact, they decided for a flat, national or regional, basic payment in 2019 at the latest, to strengthen rural development policies by transferring financial resources from Pillar I to Pillar II and not to support their farms with payments coupled to production (in the Netherlands coupled payments involve a mere 0.5% of the national ceiling for direct payments).

At the other extreme, one can identify a group of member states which used the flexibilities associated with the decisions to be taken at the national level to change the CAP (as implemented at home) as little as possible, i.e. the relatively 'most conservative' ones; this group includes Italy, Portugal, Slovenia and Spain, which opted not to implement a flat basic payment (at neither the national nor the regional level), not to transfer resources from one pillar to the other, to allocate more than 10% of their national ceiling for direct payments to coupled support, and not to implement the remaining two voluntary components of direct payments, by doing so further limiting the redistributive effects of the reform for their farmers. Between these two extreme groups one can possibly identify two intermediate ones, countries which are relatively 'moderately conservative' and 'conservative' with respect to their agricultural policies.

²⁴ In classifying the countries based on their preference for relatively more or less policy conservation we considered only national decisions regarding the implementation of the reform; the results obtained seem to largely confirm negotiation stances, but in few cases a somehow different behaviour emerges once the reform has been decided.

Table 2.4 Financial transfers between the two pillars and direct payments. Implementation and financial allocation decisions by member state (2019)

| | Flexibility between 'pillars' | Internal convergence | | Basic payments/SAPs ^{a,b} | Payment for young farmers ^b | Redistributive payment ^b | Degressivity and capping | Payment for areas with natural constraints ^b | Coupled support ^b | Small farms scheme |
|----------------|-------------------------------|----------------------|--------------------------------|------------------------------------|--|-------------------------------------|--|---|------------------------------|--------------------|
| | | Convergence model | National/regional model | | | | | | | |
| Austria | NO | Flat payment by 2019 | National model (single region) | 65.9% | 2% | NO | YES (cap at 150,000€) | NO | YES, 2.1% | YES |
| Belgium | YES from I to II, 10% | Partial convergence | National model (single region) | 56.75% | 2% | NO | YES (cap at 150,000€) | NO | YES, 11.25% | NO |
| | NO | Partial convergence | National model (single region) | 29.9% | 1.8% | YES, 17% | NO | NO | YES, 21.3% | NO |
| Bulgaria | NO | | SAPS | 47% | less than 1% | YES, 7% | YES (cut of 5% above 150,000 €, cap at 300,000€) | NO | YES, 15% | YES |
| Croatia | YES from II to I, 15% | Partial convergence | National model (single region) | 43% | 2% | YES, 10% | NO | NO | YES, 15% | YES |
| Cyprus | NO | | SAPS | 61.1% | 1% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 7.9% | NO |
| Czech Republic | YES from I to II, 1.30% | | SAPS | 54.8% | 0.2% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 15% | NO |
| Denmark | YES from I to II, 7% | Partial convergence | National model (single region) | 65% | 2% | NO | YES (cut of 5% above 150,000 €) | YES, < 1% | YES, 2.8% | NO |
| Estonia | YES from I to II, 15% | | SAPS | 65.3% | 0.5% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 4.2% | YES |
| Finland | NO | Flat payment by 2019 | Regional model | 49% | 1% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 20% | NO |

| | | | | | | | | | | |
|-------------|--|--------------------------------|--------|-------|-----------------------|--|----|-----------|-----|--|
| | Partial convergence (except Corsica, flat in 2015) | | | | | | | | | |
| France | YES from I to II, 3.3% | Regional model | 34% | 1% | YES, 20% ^c | NO | NO | YES, 15% | NO | |
| Germany | YES from I to II, 4.5% | Regional model | 62.1% | 1% | YES, 6.9% | NO | NO | NO | YES | |
| Greece | YES from I to II, 5% | Regional model | 60% | 2% | NO | YES (cap at 150,000€) | NO | YES, 8% | YES | |
| Hungary | YES from II to I, 15% | SAPS | 54.8% | 0.2% | NO | YES (cut of 5% above 150,000 €; cap at 176,000 €) | NO | YES, 15% | YES | |
| Ireland | NO | National model (single region) | 67.8% | 2% | NO | YES (cap at 150,000€) | NO | YES, 0.2% | NO | |
| Italy | NO | National model (single region) | 58% | 1% | NO | YES (cut of 50% above 150,000 €; cap at 500,000 €) | NO | YES, 11% | YES | |
| Latvia | YES from I to II, 7.5% | SAPS | 55.1% | 0.9% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 14% | YES | |
| Lithuania | NO | SAPS | 38.25% | 1.75% | YES, 15% | NO | NO | YES, 15% | NO | |
| Luxembourg | NO | National model (single region) | 68% | 1.5% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 0.5% | NO | |
| Malta | YES from II to I, 3.8% | National model (single region) | 12.6% | 0.4% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 57% | YES | |
| Netherlands | YES from I to II, 4.3% | National model (single region) | 67.5% | 2% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 0.5% | NO | |
| Poland | YES from II to I, 25% | SAPS | 46% | 1% | YES, 8% | YES (cap at 150,000€) | NO | YES, 15% | YES | |
| Portugal | NO | National model (single region) | 47% | 2% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 21% | YES | |

| | | | | | | | | | |
|---------------------|--|-------------------------|-----------------------------------|--------|---------|------------------------------------|---|----------|-----|
| Romania | YES from I to II, 0% in 2019 ^e | SAPS | 51% | 2% | YES, 5% | NO | NO | YES, 12% | YES |
| Slovakia | YES from II to I, 21.3% | SAPS | 56.4% | 0.6% | NO | YES (cut of 5% above 150,000 €) | NO | YES, 13% | NO |
| Slovenia | NO | Partial convergence | National model (single region) | 54% | 1% | NO | YES (cut of 5% above 150,000 €) | YES, 15% | YES |
| Spain | NO | Partial convergence | Regional model | 56% | 2% | NO | YES (cut of 5% above 150,000 €) | YES, 12% | YES |
| Sweden | NO | Flat payment in 2020 | National model (single region) | 55.4% | 1.6% | NO | YES (cut of 5% above 150,000 €) | YES, 13% | NO |
| England | YES from I to II, 12% | Flat payment in 2015 | Regional model | 68% | 2% | NO | YES (cut of 5% above 150,000 €) | NO | NO |
| Northern Ireland | NO | Partial convergence | National model (single region) | 68% | 2% | NO | YES (cap at 150,000€) | NO | NO |
| United Kingdom | YES from I to II, 15% | Flat payment by 2019 | Regional model | 68% | 2% | NO | YES (cut of 15% above 150,000 €, progressively increasing becoming a cap at 300,000 €) | NO | NO |
| Scotland | YES from I to II, 9.5% | Flat payment by 2019 | Regional model | 61.75% | 0.25% | NO | YES (cut of 5% above 150,000 €, cap at 500,000 €) | YES, 8% | NO |

^a The percentage of the national financial allocation for the basic and SAPS payments includes resources for the implementation of the 'small farms scheme'.

^b Percentages are relative to the national ceiling for direct payments.

^c It will equal 5% in 2015 to progressively reach 20% in 2018.

^d In 2019 Germany will use a single flat payment for the whole country.

^e Romania will transfer 1.8% of its financial allocation from Pillar I to Pillar II in 2015, 2.3% in 2016 and 2.2% in 2017.

Sources: European Commission (2014, 2015); COPA-COGECA (2015).

The first group may include Austria, Finland, France, Greece, Sweden, and, in the UK, Northern Ireland and Scotland; within the second group one could place the Flanders and Wallonia, and Ireland.

A wide variability emerges also in the implementation decisions of EU-13 member states. For example, three of the countries which will continue using the SAPS (Hungary, Poland and Slovakia) will transfer a significant amount of funds (between 15% and 25%) from Pillar II to Pillar I, but Estonia decided to transfer 15% of its funds in the opposite direction, from Pillar I to Pillar II. If Bulgaria, Croatia, Lithuania, Poland and Romania decided to implement, in addition to coupled support payments, the redistributive one, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Malta, Slovenia and Slovakia opted to introduce only the latter. Nine of the EU-13 decided to introduce the small farms scheme, but Cyprus, Czech Republic, Lithuania and Slovakia decided not to do so.

Our conclusion is that, compared with previous ones, the 2013 Ciolos reform yielded significantly different agricultural policies at the national level. Choosing partial or full convergence, at regional or national level, the decision to implement, or not to do so, the redistributive payment, the use of degressivity or capping of the basic payment, and the extent of coupled support payments make what in principle is still a common policy across the whole EU generate very different distributions of support within each member state. Many of the innovations contained in the reform which have been indicated as the most important ones have been introduced in the CAP as voluntary measures; some countries decided to use the new opportunities, while others have simply ignored them.

7. Conclusions

Compared with previous reforms of the CAP, the Ciolos reform is more difficult to assess. The difficulty arises from the many changes it involves, which, we believe, may be given evaluation marks signalling positive and negative judgments.

What is new in the reformed CAP?

As discussed in the previous section, one of the most important innovations in the new CAP is the unprecedented degree of flexibility regarding a large number of voluntary measures and implementation decisions left to member states. Although this flexibility has had to be exerted within a given set of constraints, it was wide enough to yield quite different national realisations of the CAP, making one wonder how 'common' the policies for agriculture and rural development implemented in the 28 individual member states are. The 2013 reform was the first one to bring a significant redistribution of support between member states (through the combined effect of the 'external convergence' of direct payments and the changes in the distribution of national allocations for rural development policies), and between farms within a member state (through the extension of direct payments to virtually all farms, 'internal convergence', 'capping', 'degressivity', the redistributive payment and the payment to young farmers). The redistribution benefitted member states and farmers who had enjoyed relatively less support from the CAP in the past, at the expense of those who did better previously.

A positive innovation is the small farms scheme, a voluntary measure which was adopted by 15 member states, which significantly simplifies CAP support to small farms, with evident benefits for the beneficiaries as well as in terms of the administrative burden for the public sector.

Another positive element of the reformed CAP is the significantly increased amount of resources devoted to research and development activities.

The 'green' payment has been claimed to constitute a significant innovation, a step forward linking farm support to the production of public goods. We share the opinion of those who believe that the conditions to be satisfied in order to have access to this component of the direct payments are for most farms not very demanding and, as a result, it will generate marginal environmental benefits overall (Bureau & Mahé, 2015: chapter 3, this volume; Erjavec et al., 2015: chapter 9, this volume); Hart, 2015: chapter 10, this volume; Matthews, 2013; Potočnik, 2015: chapter 6, this volume). If this is the case, it has not introduced any significant change in the CAP, as it is, *de facto*, no different from the basic

payment. The two together will reproduce, on a somehow downsized scale, the single payment of the pre-2015 CAP, i.e. an income support measure with no linkage with the need of a farm to receive financial support, to the amount of socially valuable goods it produces, or with the additional costs it has to bear in order to generate a set volume of public goods. In terms of the implications of the reformed CAP for the environment, relevant provisions to be considered are also the relaxation of some of the cross-compliance requirements and, on the other hand, the constraint imposed on rural development programmes to assign a sizeable amount of resources to environment- and climate-related measures.

As with previous reforms, the new CAP has been allocated a significantly reduced, in real terms, amount of financial resources, although these remain conspicuous.

Is the new CAP more targeted?

In the eight countries where it has been implemented, the redistributive payment will bring a significant redistribution of support in favour of small farms. The direct payment for young farmers, a mandatory measure which, however, can involve only a relatively small portion of financial resources, also introduces a new element in Pillar I which goes in the direction of better targeting direct support. Coupled payments provide targeted support in specific sectors and areas. On the contrary, the voluntary payment to farms located in areas facing natural constraints has been a flop; it was introduced by Denmark only and was allocated less than 1% of the country's ceiling for direct payments. The decision to restrict the set of the beneficiaries of direct payments to 'active farmers' only will also be likely to have no tangible results. That said, the net effect of these measures is a new CAP more targeted than in the past towards young farmers and smaller farms.

Is the new CAP less market distorting?

The score card of the reform from the point of view of bringing a further market reorientation of the CAP shows mixed results. On the one hand, the elimination of sugar and milk quotas was confirmed; on the other, the decision to liberalise vine planting was reverted by limiting new plantings, an increased amount of financial resources will be used for coupled support (Bureau &

Mahé, 2015: chapter 3, this volume) and existing competition law waived to allow concerted actions to restrict supply by producers of PDO and PGI cheeses and hams. The reform has also brought new measures specifically meant to help farms face increased market competition: new risk management support measures; modified and significantly scaled up actions to promote the effective production, dissemination and adoption of innovations in agriculture; and the extension of POs from fruit and vegetable to all sectors.

Is the new CAP more equitable?

‘External’ and ‘internal convergence’ will significantly reduce differences in EU per hectare direct payments to farmers. However, a more uniform distribution of support does not automatically translate into a more equitable one. Equity can only be assessed with respect to a criterion, a principle to be pursued. If direct payments are assumed to support farmers as such – irrespective of their incomes, of the public goods they produce, of the contribution they make to the viability of their local area – then more uniform per hectare direct payments are probably more equitable. Also the redistribution of support from larger to smaller farms as a result of the redistributive payment, and the effects of capping and degressivity do not necessarily mean a more equitable distribution of support. If we assume smaller farms generate smaller incomes (and we decide to ignore household income generated by non-farm activities), providing more support to smaller farms improves the equity of direct payments as an income support measure.

It should be clear by now why an overall assessment of the reformed CAP remains difficult. The Cioloş reform brought positive innovations in the CAP as well as innovations which have brought the robust, consistent path outlined by the previous reforms since 1992 to a grinding halt. Those who hoped for a significant step forward along the same path, with the reform identifying a clear set of consistent strategic goals pursued by the CAP, a more targeted distribution of support and a significant portion of the financial resources devoted to increasing the market competitiveness of farms and promoting the production of public goods, probably have good reasons for being disappointed. Those who hoped the financial resources allocated to EU policies for agriculture and rural

development would not be severely cut (as feared at the beginning of the decision process), and for the reformed CAP to bring as few changes as possible, are probably quite satisfied by the final result.

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3. WAS THE CAP REFORM A SUCCESS?*

*JEAN-CHRISTOPHE BUREAU
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1. Introduction

The 2013 CAP reform has been a long process involving many more actors, the European Parliament in particular, than in the previous reform undertakings. The early stages of the journey envisaged rather bold changes in response to the well identified failures of the CAP as pointed out by many stakeholders, analysts and think tanks. The distribution of direct payments and the impact of agriculture on the environment were prominent issues. This chapter takes stock of the actual outcome of the political process after the Council and the Parliament amended the Commission proposals in which ambitions for change had already been curtailed by the influence of farmer organisations and national administrations.

Did the long process behind the new CAP reform deliver changes as expected and desired by the general public? To conclude whether this reform has been a success or a failure, one would like to ponder the final decisions in regards to a clear set of objectives or at least to an agreed vision for the future of European agriculture. However, no such thing can be found. Indeed, due to the lack of a consensus on what should be the objectives of the CAP, the Lisbon Treaty mostly did a cut and paste of the 1957 objectives of the Rome Treaty, even though many Council decisions and *exposé des motifs* in

* This chapter benefitted from precise comments from Allan Buckwell, Alan Swinbank, Alan Matthews, Jo Swinnen and Cathie Laroche-Dupraz.

the Commission's regulations had shown how outdated these objectives had become.¹

We try to use as a benchmark for gauging success the distance between the June 2013 decisions and the new CAP objectives introduced by successive summits into the European Union official literature, particularly concerning the environment and the efficient use of public expenditures. We also use as a yardstick the guidelines of a needed reform identified by economists and prominent think tanks to evaluate to what extent adopted measures are indeed solutions to the remaining CAP problems.

In this chapter we argue that the adopted regulations materialised only a fraction of the initial hopes for making the CAP more in line with the challenges of the 21st century. By and large the new payment has kept the deficiencies of the single payment. However, in spite of the many limitations of the new regulations and the loopholes introduced by the amendments of both the Council and the Parliament, some of the provisions can nevertheless be seen as positive. The wide latitude left to member states in the application of the reform suggests that they will now largely drive its impact. Whether this will be a positive outcome is still unclear: the national adaptations of the common legislation reveal great heterogeneity across Europe in ways of addressing some of the historical failures of the CAP, in particular its inability to promote public goods and deliver value for money.

After a brief history of events, we focus on the new architecture of the direct payments, which exhibits more continuity than changes in spite of a renewed vocabulary and an attractive list of intentions. The effectiveness of the greening of the CAP is covered in section 4. Rural development, which was not the main subject of contentious debates, is briefly covered in section 5. Adjustments brought into market policies, safety nets, risk

¹ This is particularly the case of the repeatedly stated objectives on environmental quality and rural development; see the conclusions of the 2001 Göteborg European Council as an illustration. To be precise, note that the Lisbon Treaty does not fully replicate the wording of the 1957 Treaty since Article 44 was removed after a ruling of the European Court of Justice in 1994, stating that Community preference was not a principle of Community law (*Greece v. Council*, Case C-353/92); and Article 44 of the 1957 Treaty was repealed by the 1997 Amsterdam Treaty.

management devices and measures to induce a better balance of market power in the food chain are dealt with in section 6. Section 7 comes back to the issue of direct payments and rural public goods in a supranational context such as the CAP. It discusses the right sharing of powers and financing rules according to the spatial scope of the public goods at stake. Section 8 summarises our main conclusions.

2. After the ‘Health Check’: A promising start

When discussions on the future common agricultural policy (CAP) began, soon after the ‘Health Check’, many expected a major CAP reform in 2013. The previous multiannual financial framework (MFF) in 2005 had been the result of tense bargaining on agriculture and structural funds as well as on rebates. This outcome was then seen as buying time for the CAP, but surely, 2013 was the ideal time for a major reform. The CAP had been singled out as an obsolete policy, as its large budget was deemed to reinforce the past rather than to build Europe’s future (Sapir, 2003). The legitimacy of the massive amount of direct payments granted to farmers as compensation for the dated price cuts of the 1990s and early 2000s was fading. The EU had engaged in the ‘Europe 2020 strategy’, a broad scheme for growth requiring a new design for EU policies. After 2008, the financial crisis was viewed as an additional reason to trim down and refocus CAP expenditures.

Between 2007 and 2010, a vibrant debate on the future of the CAP took place across many segments of civil society.² A considerable number of opinion papers, proposals and programmes showed that European society took agriculture and rural development seriously. Most of the main farmer organisations and several member states had a conservative vision. Basically, they

² The formal online consultation organised by Commissioner Ciolos between April and June 2010 was itself deceptive, as submissions reflected identical ‘cut and paste’ versions of farmers unions’ prose coexisting with romantic suggestions for a policy to be friendlier to the environment and to animal welfare. However, a much deeper debate took place, fuelled by numerous contributions from member states, farm’ organisations, think tanks, environmental groups, academics, consumers and a heterogeneous set of organisations, from the UK Eurosceptics to the Church of Sweden.

defended the existing CAP, and in particular, its budget, along with a ‘simplification’ of the regulations which in mundane terms were hidden demands for less environmental constraints. By contrast, most of the other stakeholders highlighted the flaws of the current CAP, namely the inefficiency in transferring wealth, environmental damages, and the lack of ethical justification to Pillar I payments.³ That budgets devoted to traditional CAP payments should be reduced and emphasis placed on research and public goods delivery was a view shared by many think tanks, academics and green groups. Expectations for a major reform were fairly high for a while.

The surge in food prices in 2008 changed the image of agriculture. It was suddenly presented by agrarian circles as a strategic industry in times when food and energy could become scarce. Political forces with a more conservative agenda built on this fear to advocate maintaining the agricultural budget. Then, farm organisations put to good use the sudden drop in farm income in 2009, confirming that one should “never miss the opportunity of a good crisis”. Top administrators in charge of agriculture in member states benefiting the most from the CAP budget increasingly came into play. Their prevailing view was that most EU farms, and even the most efficient ones, still needed the direct support in place to avoid a gloomy fate. A wide support for keeping a large budget for agriculture emerged in the inner circles of European and most national administrations. This support was clearly not unanimous, but the member states most opposed to it were much less vociferous than usual during the key phases of the negotiation process. The energetic demand from the new member states, academic circles included, for an alignment of hectare payments rates across old and new member states contributed to securing a large agricultural budget.

³ A survey of the different positions and proposals at the time can be found in a report commissioned to a large group of European academics, coordinated by Bureau & Witzke (2010). Section 2 of this report reveals a wide spectrum of ‘visions’ for future EU agriculture, but also large areas of convergence between academics, think tanks, environmental and socially concerned organisations as well as some member states.

Downgrading expectations

Since the early 1990s, the Commission has traditionally appeared as the driver of reforms for the common interest, while, within the Council, the positions of member states on the CAP often followed some national interest, such as maximising net budgetary returns. In 1992 and 2003, commissioners deftly managed to design a true reform and worked with supporting member states to have some or most of it passed through the Council. This time, things were different due to the new institutional framework. Even before the entry into force of the Lisbon Treaty, the Commission had to develop its proposals while keeping in mind the possible veto of the Parliament. Hence, the proposals had to be more ‘co-constructed’ with the European Parliament’s Committee for Agriculture and Rural Development (COMAGRI). Further complications came up as budget and agricultural negotiations were intimately linked, given the weight of the CAP in the whole budget. There was no clear vision shared by member states regarding the sort of agriculture they wanted in the longer term on which the Commission could build.⁴ The Commission found inspiration in the Europe 2020 strategy, to define some general principles, i.e. the CAP should be contributing to a more competitive and balanced food chain, including through promoting innovation, taking the diversity of EU farming systems into account to a greater degree, and addressing environmental degradation.

The Commission was aware of the increasing necessity to respond to new challenges for the farm sector, particularly regarding the environment, efficient use of public funds, and international competition. The Commission nevertheless relied on studies that justified the vision that any significant departure from the current system of direct payments would result in a large number of farms going bankrupt. The Commission proposals, drafted in October 2010 and November 2011, reflected both prudence and movement. They implied a cleaning and grooming of the past while preserving existing expenditures, using efficiency,

⁴ The lack of shared objectives for the future reform was apparent in the 2008 debates on the future orientation of EU agriculture under the French presidency. It failed to meet a consensus on an innocuous declaration, eventually published as a conclusion of the presidency (not the Council).

competitiveness and sustainability as arguments to do so.⁵ In spite of some innovative content, the contemplated reform could be seen as a set of adaptations of the previous system rather than an in-depth reorientation of the CAP.

The global architecture of the reform proposed by the Commission was largely maintained throughout the negotiation process between the Parliament and the Council, even though in the last stage the political role of the Commission within the new institutional framework proved to dwindle. Both Council and Parliament amendments changed many important details that reduced the environmental ambitions of the proposals, thus acceding to demands from European farmers. Indeed, COMAGRI was shown to be largely under the influence of farm interests, perhaps because it attracts members with close connections to farming, and because CAP technicalities put off other MEPs.⁶ Debates within the Parliament were dominated by MEPs taking stances in favour of the farm sector, basically arguing for the status quo and for the upgrading of payment rates per hectare in the new member states. The joint decisions of the Parliament and the Council first settled the farm budget and then the detailed regulations in June 2013.⁷

Much needed reforms

During the debates over the reform, the dominant impression was the convergence of a large group of stakeholders (called the 'reformers' here) on important issues, and their real contribution to pave the way for designing a desirable reform. They included some member states, academics, think tanks and environmental

⁵ The Commission did envisage the bolder 'option 3' for the reform in its Communication to the Council and the Parliament but this scenario received little support (European Commission, 2010b). Many saw this option as not seriously defended by the Commission, but rather as a way to bracket their actual proposal by two radical scenarios.

⁶ An illuminating historical account of the roles and influences of each of the three European institutions (Commission, Parliament & Council) in the process leading to final decisions is given by Knops & Swinnen (2015).

⁷ Official Journal of 20 December 2013, http://ec.europa.eu/agriculture/cap-post-2013/legislation/index_en.htm.

organisations. A typical illustration of the proposals that were put forward remains the excellent analysis conducted by the Dutch Social and Economic Council (SER, 2008). These stakeholders proposed to reduce the single payment and to refocus budgets on the delivery of green and 'blue', i.e. water, services as well as on research and innovation. This mirrored many of the ideas put forward by think tanks (Bureau & Mahé, 2008; LUPG, 2009; Cooper, Hart & Baldock, 2010); academics, e.g. Anania et al., 2008; Bureau & Witzke, 2010. The proposals tabled by some member states, e.g. The Netherlands, the UK, also shared many of these recommendations. On some particular aspects, reformist farmers' and other organisations (such as the UK Country Land and Business Association and, to some extent, the European Landowners Organisation) also shared views such as the need to protect renewable resources such as soil, water and biodiversity. On other issues, major divergences appeared among the reformers, in particular regarding the role of government intervention and the need to support and stabilise markets and transfer income to farmers.

A point of convergence for the reformers was the diagnosis of the flaws of the current CAP. They considered that the considerable amounts of direct payments currently in place lacked justification, being proportional to eligible land area and mostly the 'grandchildren' of the 'compensatory payments' for price cuts that took place in 1993, 1999 and later; that they tended to increase 'natural' income disparities across member states and across individual farmers; that the bulk of payments was provided to beneficiaries who were, on average, wealthier than the taxpayer bearing their cost; that a significant share of these transfers were prone to leakages and benefited unintended recipients due to pass-through to primary factors (land and farm equity owners, in particular⁸); that they made more costly the entry of newcomers and

⁸ This process has now been going on for a long time and the additional contributions of aids to explain land prices is hard to detect statistically and depends on lease regulations. Other sources of farming profitability are key factors of land prices. As regards farm equity, its additional value due to subsidies is hidden in the grey clouds of farm capital evaluation that an incoming farmer has to pay – officially or not – to the retiree when he takes over a farm.

hence countervailed the young farmer subsidy programmes; that these payments led risk-averse farmers to specialise more, favouring simpler rotations and monoculture, with adverse environmental effects; that the whole payment scheme was no longer in accordance with some urgent problems such as the dramatic erosion of biodiversity in agricultural areas, water pollution and greenhouse gas emissions, etc.; and that cross-compliance, supposedly linking good farm practices to payment eligibility, had not been enforced by member states but was still invoked in spite of a missing relation between payment rates and compliance costs.⁹

Another point of convergence was that the reform was a unique opportunity to redirect public expenditure towards the recommendations of economic analysis. This included granting incentives to positive externalities and public goods, sheltering the long-term fate of natural resources from market short-sightedness, and providing economic conditions for growth and innovation, in particular through infrastructure, information, research and development. As a whole, the reformers adopted the ‘public money for public goods’ stance. In the inner circles of the CAP decision system, however, the concept of ‘public goods’ tended to be interpreted in a broader sense than what economic theory refers to (see the “Summary of the Institutional Positions in the CAP Negotiations” in the tables in the Appendix).

3. Direct payments

Embedding entitlements into the CAP

Direct payments have long become the major budgetary item in the CAP. The pressure to maintain a high level of expenditures arose from farm organisations. They have never been fond of the conditions and the programming imposed in order to receive Pillar II payments, and cherish entitlements and payments ‘rights’, a designation which was most unfortunate for a down payment that

⁹ ECA (2011) supplies anecdotes of the unsuppressed vagaries of the Single Payment System. Although the arguments essentially refer to European law and have little economic content, the report obviates a faulty system of tradable entitlements.

was supposed to offset a once and for all support price cut. The pressure also arose from member states anxious to maintain net budgetary returns. MEPs followed suit. Such pressure has been surprisingly successful: while the Commission seemed open to significant budget reallocations, the Pillar I budget remained practically untouched, neutering any major reform along the 'public money for public goods' line.

The choice of the Commission itself was to stick to the concept of entitlements to direct payments instead of embarking on the contractual approach. It was also to dodge planning a gradual reduction of the Pillar I payments, which have barely any connection with public goods and are still a tool for income support. A reason why the Commission fell short of planning the phasing out of the single payments, but maintained a significant flat 'basic' payment, is that farm incomes depend greatly on direct payments. Static simulations using the Farm Accountancy Data Network and more sophisticated studies such as "Scenar 2020" (Nowicki et al., 2010) were used to back the idea that any sharp decrease in the direct payment budget would result in a large number of farms going bankrupt. This outcome was foreseen not only in member states where farm structures are lagging, but also in the ones where farms are highly modernised but also heavily indebted, such as Denmark and the Netherlands. The Commission's impact assessment stressed this point and warned against the risk of "unbalanced territorial development", should direct payments be reduced. Whether this assessment reflects economic reality is debatable. Clearly, direct payments account for a major share of net farm incomes. In the livestock sector and in several countries, these payments account for a large part of apparent added value, and an even larger part of net income (Matthews, 2014). However, farms depending most on direct payments, e.g. the extensive livestock sector, would easily qualify for forms of support other than basic payments, such as Pillar II measures more targeted towards public goods. Provided that the valuation of such environmental and territorial services by society is high enough to justify payments suitable to make a living, marginal areas can avoid further loss of farm population. In large arable crop farms, many international examples show that a gradual adjustment to a well-planned and announced reform involves large cost reductions, in particular

through the cost of primary factors (New Zealand and Canadian agriculture have successfully phased out large subsidies).

The fact that large farms, otherwise technically efficient, seemed to be on the brink of failure without the Single Payment Scheme (SPS) is about much more than the widely perceived distribution issue; it is also a problem of resource allocation and inefficiency of the agricultural system as a whole. It is a vexing paradox that the CAP payments have generated a modernised and capitalised farm sub-sector, assisted under the argument of improving competitiveness, which at first glance would be unable to thrive without huge amounts of public funds. Such farms should be viable after dynamic adjustments are allowed to occur. Policy-makers should be more aware of the long-term implications of buying time and short-term peace from the lobbies through granting rents that capitalise on farm equity and become 'drawing rights' on the EU budget, becoming so entrenched that they undermine much needed reforms.

A better architecture for Pillar I, but weakened by loopholes

The Commission proposal for a new architecture of direct payments survived the negotiation process with the Council and the Parliament. The multiple layer payments may appear in line with similar proposals from some think tanks (for examples, see SER, 2008; Bureau & Mahé, 2008). However, a number of key characteristics of think tank proposals were dropped along the way. So were the ideas of gradually phasing out the basic payment; of making payments contractual and not transferable; and of attaching a new set of green payments to designated public goods rather than submitting current payments to extra cross-compliance. In the end, the cost-effectiveness of the payments to deliver public goods has been curtailed, at least in comparison with a more focused scheme.¹⁰

¹⁰ To illustrate the point, taking a crop farm of 100 ha with a gross margin of €400/ha and assuming the worst case of 5% EFA condition requiring to set aside arable land, focused 'green' payments would cost €2,000 while 30% of the entitlements to direct payments (assume €25,000) amount to €7,500. On these aspects, see the analyses of Mahé (2012), Matthews (2013b), and Hart (2015) in chapter 10 of this volume.

The link between payments and the opportunity cost of effective upgraded practices was abandoned.

The misuse of public funds was exacerbated by relaxing the requirements for counterparts for the green payments. Furthermore, in widespread situations where the conditions for green payments require no or minimal adjustment of practices and land use, the cost of compliance will be null or nearly so and the green payments clearly a windfall gain – in which case ‘greenwashing’ is an appropriate qualification. It is a paradox that Article 28 of the Direct Payment Regulation requires that, in the context of transmission of entitlements, any windfall gain due to an increase of the value of entitlements “is to revert to the national reserve” and that the pervasive likelihood of windfall gain due to ‘green’ payments is overlooked.

One conspicuous diversion of the previous SPS, pointed out by the European Court of Auditors, was the *de facto* admitted eligibility of non-farm entities. The new regulations call for efforts to narrow down the ‘active farmer’ condition for receiving payments. Designated non-farm activities such as recreational activities are now explicitly excluded. No payment should be given to areas “naturally kept apt to grazing or cultivation” (Art. 9, R1307) even though the exclusion criteria as written in the delegated acts seem rather lax.¹¹ Eventually, the primary objective of the ‘active farmer’ provision is to allow exclusion of the most publicised leakages, e.g. payments to airports and golf courses. In spite of potential loopholes that make¹² this objective conditional on the national implementation of the measure, the active farmer argument is perhaps a double-edged sword, since it enshrines the notion that only farmers should be paid for the delivery of environmental services on agricultural land, while the debate on this issue deserves to be open since the economic and legal bases for

¹¹ Exclusion from payments would result if more than 50% of the declared area is natural. It will be tempting to adjust the claims so that the threshold is not passed.

¹² These exclusions can be easily nullified due to an explicit exception when direct payments are at least 5% of the non-agricultural receipts, which is not a dire demand (see item 2(a) of Art. 9 R1307). Again, member states’ adaptation of the regulation will prove determinant.

this privileged right granted to farmers are questionable. This measure, with its weakness and judicial complexity, is the result of the choice to stick to cross-compliance and entitlements instead of deploying contractual payments focused on services in which compensation and cost of services could be made more equal. Were green payments adjusted to the costs suffered by economic agents, this issue and many other perverse effects of direct payments would vanish.

Overall, the new architecture of direct payments states legitimate objectives but the maintained status of 'entitlement *cum* cross-compliance' suffers from three weaknesses: 1) it is far from a targeted measure either on environmental services or on any other public good; 2) it does not respond to the major criticism that, in many member states, those who benefit more from these transfers are often wealthier than the average taxpayer who funds them; and 3) tradability of entitlements and rent capitalisation feeds the political demand for perpetuation of the basic payments.

Capping, redistribution and convergence

The capping of payments initially proposed by the Commission was modest, but that which results from the regulation's final adoption will, in practice, be almost completely ineffective, particularly for the largest beneficiaries in member states choosing the 5% reduction of the basic payments. The topping up of payment ceilings by the outlays of hired labour costs for the larger farm units, already in the proposals, is a strange way to foster employment in rural areas, as was argued for. The wage rate being overwhelmingly set by the national labour market, this allowance is a biased transfer in favour of capital and land rather than labour, contrary to what is alleged. It had been suggested that such an exception for capping would be restricted to farm cooperatives or similar arrangements where farm income is shared by workers, but high stakes for the few large beneficiaries and national biases have managed to influence the decision process. The first evaluation by the Commission of the product of the reduction of payments mechanism for the period 2015-19 is €558 million or €110 million per year, which translates

into only 0.2% of the Pillar I budget.¹³ It appears that the impact of capping and degressivity is unlikely to match the redistribution that took place under the former modulation schemes.

However, the possibility left to member states to implement redistributive payments, i.e. to provide higher per hectare payments for the first hectares (up to 65% of the average payments on the first 30 ha or the average farm size) can have significant distributional consequences. Eight member states took this option and accordingly most of them chose not to apply the reduction mechanism. This means, as for capping, that the largest beneficiaries will not be particularly penalised. In the case of France, the main promoter of this provision, this measure is such that the degree of progressivity of CAP payments involves redistributions going much further than the previous ones. While this measure has a compelling social legitimacy, it raises the question of its longer-term impact on maintaining small structures in place. The smaller size of EU farms is a significant explanation of the limited competitiveness of the EU beef and sheep production compared to third-country producers. This privileged treatment of smaller farmers would be even more justifiable if the top-ups were conditioned on verifiable upgraded practices regarding the environment or on territorial objectives, i.e. on joint public goods provision.

Convergence of payment rates was widely accepted in the name of equity. However, convergence of the level of payment per hectare hardly makes the overall distribution of payments more equal due to the farm size effect. The redistributive payments have the merit of alleviating the inequality bias built into the system, since basic payments are proportional to area and entail small compliance costs. One more feature of uncapped payments has been overlooked. Being unlimited, the payments boost the net income of farmers whose acreage is large and hence saving propensity high enough to buy additional land or to invest in even larger farms, either in EU-15 or in new member states, or in both, or in residential

¹³ Nine member states have declared their intention to cap basic payments at maximum amounts ranging from €150,000 to €600,000. Ten member states opted for applying only the minimum reduction of 5% on amounts of basic payments above €150,000. Eight member states plan on subtracting the salaries actually paid by farmers from the payments before applying the reduction of payments' mechanism (European Commission, 2014).

properties. Moreover, owners of largest farms benefiting primarily from CAP payments reach higher tranches of income tax rates, which make the use of marginal purchased inputs cheaper than their marginal products, a mechanism which further exacerbates intensification.

The compulsory shift towards a more uniform payment per hectare can be seen as progress, in the sense that such payments should be less directed towards the most productive areas than the historical entitlements based on compensations for old price cuts. However, the rationale for a uniform payment rate is weak, since a single rate per hectare is a poor indicator that this payment is 'fair', especially when the public goods supplied and their production costs are heterogeneous. As simulations for the Parliament had pointed out, the impact of such a shift in terms of global inequality (as measured by Gini coefficients) is limited, unless this redistribution is conditioned on a capping of payments per capita (Bureau & Witzke, 2010). In addition, the compulsory shift to a uniform rate per hectare is hardly a revolution: member states already had the possibility to get away from the historical individual references under the previous Regulation 2009/73, and many of them had done so. The innovation is that this shift to a per hectare basic payment symbolically closes a period where direct payments had the legitimacy of the 'compensatory payments'. Whether this lifts a major psychological obstacle to designing a genuinely new CAP in the future remains to be seen.

While the flexibility left to the member states keen to make different choices between pursuing social objectives and boosting production capacity has proved useful to avoiding endless negotiations, the embodiment of a permanent entitlement to the basic payment per hectare remains at the core of the economic and political problems of the CAP and precludes the emergence of a policy based on public sector economics. A crucial clause remains missing in EU texts, which is that no individual should receive EU payments above what can be considered the minimum wage in his/her country, unless these payments are laden with obligations to deliver public goods or services and require specific costs. This issue was not even discussed, even though Farm Accountancy Data Network figures show that the average transfer to a farmer reaches

a very high level in some member states.¹⁴ Ten member states (often with a high proportion of large farms) are not going to apply a real capping but will use the flat 5% reduction of basic payments instead, even though they are now assured to keep the proceeds in the country. As most member states using redistributive payments did not go as far as also applying the payment reduction mechanism, the general picture is of the reluctance to implement an effective capping of support. This fact reveals that 'national preferences' for (non-) redistribution of support, or national politics rather, are a key explanation for why capping was so hard and contentious to phase in. It also suggests that diverging national interests¹⁵ and the heterogeneous proportions of large farms across member states were not enough to explain the aborted attempts to cap large payments in 1993.

Full harmonisation of the per hectare payments throughout the EU is clearly not achieved, but this criterion made little sense if strictly enforced: the per hectare payment is not a particularly legitimate indicator; and homogenisation of a per hectare payment does not ensure that equity is achieved when structures, economic and regulatory conditions differ. Were the convergence conducted more swiftly than GNP/capita, further rents would be generated in new member states, making later reforms more painful and primary factor market adjustments toward efficiency slower. Demands for more convergence from new member states were often a smokescreen for plain bargaining on a larger share of the EU budget. On this issue the Commission proposal was reasonable and the reform probably went as far as it was politically possible.

Payments to young farmers and for natural constraints, simplification

The new CAP gives member states latitude for subsidies to young farmers entering the profession (programmes already existed at the member state level as well as under rural development funding). However, the mere fact that such policies are seen as necessary to

¹⁴ According to these data, the average farmer in Luxembourg receives €63,000 from the taxpayer, see Matthews (2014).

¹⁵ In the initial attempts to reduce the largest payments by a levy, the proceeds were not to be kept by member states.

make it possible for newcomers to enter the sector illustrates the barriers caused by the pass-through of payments to asset and equity prices.¹⁶ From that point of view, the young farmer payment can be seen as a patch to alleviate a problem created by the CAP in the first place. As it is neither targeted to identified public goods nor restricted to designated areas stricken by rural decay or dereliction, and granted in areas where farming has too many candidates, it thus inflates the various hidden payments to retiring farmers or fuels the bidding up of land prices.

The reform makes it possible for member states to provide larger amounts of aid to farmers in areas with natural constraints (ANC). The experience with past programmes of Pillar II suggests that they address some important objectives and do so at a limited cost. The Commission also successfully introduced a definition of these areas based on agronomic and biophysical characteristics, rather than the former (absurd) definition which led some very fertile land to be classified as less-favoured. This voluntary measure did not succeed since only one country decided to use it. Applying a flatter rate to direct payments, which favours less privileged areas, and the simultaneous availability of measures with similar purposes in Pillar II, without merging the two schemes, may be the explanation.

One drawback of extended targeting of Pillar I payments is that the new measures contribute to the blurring of the distinction between Pillar I and Pillar II and the coordination of different measures having the same objectives.¹⁷ This hardly contributes to making the CAP simpler. The regime for small farmers makes good sense and even more so for the new possibility of replacing annual calculation of payments by a lump-sum annual amount.¹⁸ This

¹⁶ The capitalisation of payments into land prices is a controversial issue that needs to be explored further. Swinnen et al. (2013) noticed that the capitalisation mechanism is observed in many empirical studies but with variable intensity. It should be stressed that extensive capitalisation does not mean that direct payments are the essential explanatory factor of land prices.

¹⁷ It is also the case for the young farmer payment that supplements Pillar II programmes and also for green payments.

¹⁸ A similar possibility exists for the young farmer payments.

clause was introduced by the Commission proposals and the regulation extends this possibility to the young farmer payment. But the concept could have been carried further, by offering a once and for all payment to small farmers (particularly older ones) so as to facilitate farm restructuring, another idea floated by economists advocating the bond scheme (e.g. Swinbank & Tangermann, 2004).

Recoupling

Another concern with the reform is the degree of recoupling of direct payments. While coupled payments amounted to 7% of the total Pillar I direct payments in 2013, i.e. €2.85 billion, the new regulation allows coupled support to reach 13% of the national ceiling, plus potentially 2% for those member states that support protein seeds, i.e. up to €6.3 billion in 2019, and potentially more with authorisation under Article 53.3 of Regulation 1307/2013. However, not all member states opted for voluntary coupled support at the maximum level. According to member state notifications to the Commission in 2014, the budget devoted to voluntary coupled support should reach 10% of the Pillar I payments envelope.¹⁹ This is a significant increase compared to the situation before the reform.

The possibility of recoupling also goes beyond what was previously possible at least in terms of product coverage. This can be seen in some limited cases as a shift back to distorting forms of support in order to boost lack of competitiveness and in others as a manner to maintain products and techniques with associated positive externalities. Given the poor record of past ambitious schemes of coupled payments, the extension of coupling to protein crops, an option that seems to be chosen by 10 member states, is hardly convincing.²⁰ However, there are genuine cases of joint

¹⁹ Source: i.e. €4.1 billion in 2019, based on ceilings provided in Annex II of Regulation 1307/2013 and the member states notification in European Commission (2015).

²⁰ Current enthusiasm for supporting proteins ignores that payments for oilseeds and protein seeds were implemented in the 1980s. They rapidly became the largest expenditure in the EU budget, without ensuring that a competitive sector would emerge, and with a limited impact on the self-sufficiency of proteins at the time. When the measure is used to foster

public goods that are only delivered together with production. Article 68 of the previous regulation already provided some flexibility to member states in this area, which was used, for example, to support extensive livestock production. On this issue, the outcome of the reform is less satisfactory than the initial proposals by the Commission, which were more restrictive in terms of production systems eligible for support, but the flexibility left to member states makes it consistent with the need to foster joint externalities in a particular region.

The notifications of member states bring some light on the motivations behind the high rate of adoption of this voluntary measure. The main beneficiaries are beef (42%), milk (20%), sheep and goats (12%) and protein crops (10%). Although the linkages with territorial and environmental objectives are not explicit at this stage, the presumption is that the component of 'jointness' with rural public goods is present in the motivations of member states, at least for livestock. Less convincing is the choice to maintain coupled support for beet crops (4%) by 10 member states which include a rare combination of Mediterranean and Nordic countries trying to escape comparative (dis)advantage. The cost-benefit ratio of these measures needs to be verified through a procedure of evaluation such as the one in the rural development programmes and the lessons of past experiences should be fully drawn.

Overall, to summarise, the reform is clearly disappointing as far as direct payments are concerned, although the reshaping of the direct payments architecture clearly stresses long-run motivations to reach more defensible policy objectives and by doing so could pave the way for a more targeted, pro-public goods system in the future. In the absence of a commitment to review the regulation before 2020, the 2013 reform clearly missed a major opportunity to address fundamental problems of the CAP such as the leakages of payments, indirect incentives to intensification and specialisation, or the lack of rationale for granting such a high level of payments to a single individual.

To place the multiple weaknesses of the new payment system that we pointed out in a long-run perspective, it is worth stressing

production of lucerne and alfalfa, it may nevertheless provide environmental benefits.

that our critical comments essentially originate in the dual nature of the bulk of the new hectare payments, i.e. the combination of the basic and the green components in a single rather than two separate instruments. For the most part our critiques relate to the first component, and only to the green payment as long as in the majority cases it is a top-up without further compliance cost. As a so-called 'income support scheme', the basic payment suffers from the same perverse effects as the previous single payment: leakages, rent-creating and rent-seeking, regressive distribution, inequity of heterogeneity of payment rates per hectare, inequity of income distribution due to farm size concentration, unintended beneficiaries, etc. Hence the measures introduced in the reform to mitigate the perverse effects: convergence of rates within and between member states, capping receipts per farm, redistributive payments, etc. Because the green component is attached and often proportional to the basic payment, it suffers from similar deficiencies and perverse effects.

The two major defects of the new green payment is that it is based neither on the value of ecological services expected from eligibility conditions nor on the cost of providing these services. If these costs are at most equal to the value of the public goods under scrutiny, public support is justified. But if payment is close to the cost incurred – and accordingly provides earning opportunities to farm labour – the dire questions of capping, degressivity, convergence, unintended beneficiaries, proportionality to acreage, etc., would no longer be relevant since windfall gains would be insignificant. Moreover, green payments could vary across Europe according to the nature value of the areas and to the local cost of procurement.

Of course, available information on rural public goods value is still inadequate, but information on costs is easier to uncover and although the task is immense, the new system does not include any progress in that direction. It mainly gives an official status to the principle of relating direct payments to environmental and territorial public goods in the rural space of Europe, but only in a broad sense without approaching equalisation of payments, values and costs. There is a long way to go, both from a political and economic point of view, before such sound economic foundations are established in the CAP principles in the same way as, for

example, the ‘polluter pays’ principle was established in European environmental policy.²¹

4. Greening ‘à la carte’

The so-called ‘green’ payment is sometimes presented by the Commission as the first compulsory payment that compels member states to act in favour of the environment, and is therefore considered an important step. While this cannot be ignored, the conditions under which this was achieved suggest that the CAP is still far away from the public goods orientation.

The Commission proposal was moderately ambitious as regards the greening of payments, but the first draft, which designed the ecological focus areas (EFAs), was a breakthrough in terms of the much needed protection of biodiversity (see Bureau, 2013; Kleijn, 2014). COMAGRI played a significant role in relaxing the green payment conditionality, but many of the amendments that *de facto* removed any teeth from the green payment conditions (at least in member states willing to do so) came from the Council (Hart, 2015: chapter 10, this volume). Eventually, the greening conditions on Pillar I payments were watered down either by the Parliament, e.g. relaxing penalties for compliances, or by the Council, e.g. weakening requirements for EFAs and conditions for permanent grassland, and in many cases by both, e.g. expanding

²¹ Defining such optimal green payments would need further rules regarding how the roles and financing burdens are shared between the EU and of national governments according to the scope of public goods (section 6). If green and basic payments were separated as suggested above, the cost incurred and income foregone for green payment eligibility would be made heavier due to both the persistence and the size of the basic payment itself. As the latter would provide a reward for doing nothing for the environment, the green incentive would be more costly as second-best theory shows. In situations where the services are due to the efforts of past generations and cost nothing to the current one, the choice between setting legal obligations to maintain the flow of services without reward and granting aids for not degrading existing services is, as in the case of pollution, a political decision regarding property rights or a trade-off between implementation costs of different schemes addressing the same purpose.

land eligibility as an EFA, adding to exemptions from requirements, granting the 'green by definition' status, etc.²²

In the aftermath of the reform, any member state unwilling to 'green' its direct payments has many possible options. It can reduce dramatically the Pillar II budget, including measures devoted to public goods (five member states have chosen to transfer funds from Pillar II to Pillar I against 10 the other way around). It can also implement a basic payment subject to fewer statutory management requirements than the former single payment. A member state can also use a number of options to minimise the constraints on the green payment (Hart & Menadue, 2013). We can quote the national certifications of equivalence, options to define EFAs, exemptions for large categories of farmers, ways of counting the different crops and defining 'diversification', bundling of the permanent pasture constraint at a regional level, etc. Eventually, a member state can manage to have almost any of its farmers eligible for the green

²² An example is the proposal to extend the initial list of conditions for a hectare to be eligible to counting as EFA. The idea was first to include land covering fodder such as lucerne or alfalfa in addition to fallow, terraces, traditional orchards, etc., which were listed as eligible for EFA status in the Commission proposal. Lucerne was rapidly expanded to 'nitrogen fixing plants' subject to a 'no fertilizer and no pesticide condition'. However, the latter condition was softened as a 'no fertilizer or no pesticide condition', before being dropped altogether. At the end, intensive soybean production with glyphosate could potentially be counted as EFA if a member state were willing to do so. That 27 member states included nitrogen fixing crops in their EFAs is not reassuring, although the most popular crop species notified by member states seem to be rather extensive ones. Similar examples could be found with the crop rotation constraint (winter wheat and soft wheat can be considered as two different crops; temporary crops between two successive harvests of corn can be considered as diversification, etc.); with equivalent practices, and with the possibility of counting short rotation coppice, possibly grown out of the farm perimeter as EFAs. Another illustrating case is the options chosen in France for the ratio of permanent pastures: no sensitive pastures were defined outside of those under the environmental regulations (*habitats...*) and, when arable land is converted into pasture, it is granted permanent pasture status as soon as the first year, thus creating a discrepancy between actual and legal permanent pastures.

payments without changing any of its environmentally unfriendly practices.

By contrast, those member states willing to be serious with greening now have greater flexibility to do so. Signs of a serious reorientation of Pillar I payments towards environmental services are apparent in the local implementation of the regulation proposed in the UK, for example, with an increased transfer rate of 15% from Pillar I to Pillar II, i.e. higher than the previous modulation scheme, to fund the New Environmental Land Management Scheme, more ambitious than the previous Environmental Stewardship Scheme. The fact that 20 member states did not opt for equivalence schemes suggests that only a minority will use all options to relax environment cross-compliance requirements on Pillar I payments, even if a majority chose rather extensive definitions for land uses eligible for EFAs and lax interpretations of the crop rotation obligation.

The EFA may be enforced for half of the required 5% rate at a wider spatial grid than the farm to pursue the protection of corridors of biodiversity. This pooling of commitments might be used by farmers to focus the EFAs on less productive areas. This way to minimise the economic cost of the requirement may nevertheless lead to positive effects on biodiversity, as envisaged by analysts of the reform proposals²³ who advocated for such flexibility. The reference grid has to make sense regarding natural conditions and the regulation (delegated acts) requires clear rules to be established for participating farmers, including financial compensation between those who set aside more land than average and those who do less. The Commission also deserves credit for

²³ In order to promote connectivity of EFAs, Matthews (2012: 44) proposed topping up payments of Pillar II for farmers who deliberately associated their EFAs with landscape scale plans. Mahé (2012: 13) proposed defining the EFAs on a spatial grid or network and organising an exchange of obligations between farmers, so as to combine individual obligations and ecological corridors. The Committee of the Regions, in its Opinion on the Commission's CAP proposals (OJEU 27 7 2012, item 26), also explicitly called for "conferring on local and regional authorities the power to initiate and manage targeted environmental measures and allowing them to introduce territorial contracts which are signed jointly with farmers or their representatives."

displaying firm resistance to repeated demands from the farmer organisations to have the EFAs applied at regional level without any individual responsibility, which would have led to condoning all individual practices contrary to greening.

The eligibility conditions for green payments in the initial Commission proposals were seen to be already satisfied in most farming areas (in France, for example, see CGDD, 2012). The extension and relaxation of eligibility conditions in the final acts strongly suggest that most farms in the EU will receive the 30% greening premium with barely any cost. Another windfall gain is then inserted into the CAP. The essential contribution of the reform boils down to granting an official status to environmental objectives of the CAP, providing room for manoeuvre to member states where green preferences are better conveyed by policy-makers, and possibly facilitating a next step when evidence becomes strong enough to make compulsory the currently voluntary best options adopted by early bird member states.

5. Rural development

The reform has changed the rural development programme in the area of strategic programming, in the content of the measures eligible for funding, and in linking the programme to broader 'strategic' EU policies, in particular regarding innovation.

The better integration of the rural development fund with other common funds, through the Common Strategic Framework, should ensure more consistency and a faster implementation of the measures after the 2013 CAP reform. It is nevertheless too early to assess whether this will be successful in practice. The reform created changes that have so far required adjustments and generated delays as well as under-approval.

The change from three axes to six priorities is hardly a recipe for efficiency. These priorities are so general and ambitious that one wonders how a reduced Pillar II budget could seriously make a difference in areas such as climate change, innovation, job creation and competitiveness. The European Innovation Partnership is presented by the Commission as a way to foster innovation while bridging the gap between researchers and users. Transferring public money away from farm payments to research and innovation

has long been a recommendation by think tanks. However, sceptics argue that the record of the EU research programme is questionable in terms of bureaucratic administration. The compulsory involvement of the private sector in these ‘partnerships’ is no guarantee of efficiency compared to the funding of more fundamental and potentially cumulative research.

The new objectives introduced in the rural development policy are certainly respectable. However, funding a risk management toolkit, subsidising low carbon agriculture or devoting money to a low ‘European Innovation Partnership’, while Pillar II experienced greater budget cuts than did Pillar I, is likely to result in much less resources for agri-environmental schemes. Countries reluctant to act in favour of the environment could considerably limit their commitments to agri-environmental payments, especially given that the attempts of some MEPs to impose a minimum threshold were rejected.

Overall, the changes brought about by the CAP reform regarding the issues of rural development are limited. The reform has maintained the two-pillar structure but the two now tend to overlap; the programming of the national plans should, on paper, be more consistent and efficient, but it is unclear whether this will materialise. The multiplication of ambitious objectives under the small and decreasing funding of Pillar II is likely to result in budget dilution.

6. Price policy, risk management and market organisation

In the impact assessment documents, the Commission rightly pointed to the necessity to improve the functioning of agricultural markets in a context of a CAP devoted to increased market orientation. Prices being the results of market forces which are prone to failures regarding risk coverage and fair competition, three main challenges are to be addressed: combining old and new instruments to face exceptional market situations, facilitating the mitigation of the adverse effects of price volatility on farm returns, and restoring a better balance of market power along the food chain.

Market policy scaled down to a safety net to face crises

Several aspects of the 2013 package show a continuation of the CAP reforms since 1992. Typically, the end of supply control in the sugar sector and the limitations to the intervention purchases in most crop sectors continue a historical trend. Most of the credit for the progress in consistency of the EU policy must be attributed to the Commission. In sectors where the Council and the Parliament have reversed some of the Commission proposals the reform achievements are less compelling. The wine example is an illustration of the tedious but largely unsuccessful attempts by the EU institutions to move toward a modern market policy focused on identified market failures and to be less captive to the farmer organisations.

Some achievements are worth pointing out. While farm pressure groups argued for going back to guaranteed prices and public purchases, they have been resisted. The Commission also resisted demands for making direct payments 'countercyclical'. The latter proposal made some apparent sense (direct payments to cereal growers were provided even in periods of high prices when this industry was already very profitable). However, countercyclical payments would have entailed undesirable consequences: they may have required going back to commodity-specific support, against the historical evolution of the CAP; they would have led to replacing the savings of fixed payments so as to smooth incomes across years, which farmers do naturally by some bureaucratic procedures; they might have resulted in very large budgetary outlays in particular years, hardly compatible with the fixed annual budget framework.

Pressures for more public market management came from the large price variations over the period. The attempts of some farm organisations to reinstall floor prices and market support did not succeed. Rather, the Commission introduced a crisis management system, which built on the combination of instruments developed to cope with the 2009 dairy crisis.

Most of the price policy instruments of the traditional CAP are still there but have been put on the back burner. The changes in the wording of the Market Organisation Regulation reveal a new approach: market instruments are still in place but intended to address specific circumstances and problems. Intervention and aid

for storage are kept alive for many products and can be triggered by the Commission after consultation with the Committee for the Common Market Organisations (Art. 229) which decides according to qualified majority (save for beef and veal). The Commission may also adopt delegated acts with the same procedure and take exceptional measures for addressing or preventing market disturbances or resolving specific problems (Art. 219). The more intrusive market management for fruit and vegetable is maintained, with strong powers to producer organisations, such as resorting to market withdrawals through operational funds, which can be subsidised by up to 4.7% of production value in cases of crisis management. Given the particularly high price volatility in this sector, good economic arguments justify stronger instruments than in sectors where storage is feasible and natural fluctuations of output less dramatic.

Such an argument cannot apply to the wine sector, where the continuation (and even worsening) of a form of supply control through a license system and continued distillation are hardly defensible. Wine is typically a good that does not meet the criteria for which public intervention is needed (it is not subject to extreme yield fluctuations, it can be stored, there is a growing demand worldwide). The 'reform' in this sector is clearly a step back. The new supply control system ends up introducing major rigidity and bureaucracy compared to the former system of (then tradable) planting rights (Deconinck & Swinnen, 2014). It is likely that the new arrangements will delay further the necessary adjustments at times when new competitors increase their world market shares.

Border measures are still in place, under the obvious constraints of the World Trade Organization (WTO) commitments. Additional import duties can be implemented by the Commission in the context of safeguard clauses, but cannot be imposed "where imports are unlikely to disturb the Union market" (Art. 182). Export subsidies are still potentially active, naturally within the WTO limits, but important changes were made to the policy of using export subsidies. They are triggered only when the conditions on the internal market are seen as requiring exceptional measures (Art. 219). For example, Article 196 of Regulation 1308/2013 states, "[W]ithout prejudice to the application of exceptional measures, the

refund available should be zero". This change can have far-reaching economic consequences, as pointed by Matthews (2013a).

Another tool is introduced according to the Commission proposals: the reserve for crises.²⁴ This reserve fund is "intended to provide additional support in case of major crises". The wording of Articles 25 and 26 is, however, worrying as regards the possibility to implement an effective siphoning of the basic payments into a significant reserve to cope with crises. If the funds levied in a year are not used before October 16, they must be reimbursed. Hence the reserve cannot really build up to the €2.8 billion ceiling as announced, and the war chest available any year amounts to a modest €400 million, which is insufficient in case of major crises. Moreover, the Commission's lack of independence from political pressures in the management of crises makes the prospect for a self-financed fund from direct payments unlikely, as the saga of addressing the Russian embargo has shown.²⁵

These developments illustrate the weaknesses of the current institutional framework regarding market crisis management. Such weaknesses were pointed out by think tanks in the preparatory stages of the 2013 reform, which led to the proposal that crises be

²⁴ Articles 226 of Regulation 1308/2013 and 25 and 26 of Regulation 1306/2013. The total amount is €2.8 billion for the period 2014-20, with equal instalments of €400 million, established by applying at the beginning of each year a reduction of direct payments. In the Horizontal Regulation preamble of the Commission proposals, the possibility to use resources from the European Globalisation Adjustment Fund was explicit. The use of the limited resources (€150 million per year) of this fund (R1309/2013) is targeted towards workers and self-employed and small and medium-sized enterprises but rather restrictive.

²⁵ Farmer organisations, the Agriculture Council and COMAGRI opposed the Commission's will to use the reserve and resisted the allocation of unused agricultural funds to other needs. One argument was that the origin of the crisis was political. The ECOFIN Council confirmed that the reserve should be used for "crisis affecting agricultural production or distribution". Eventually, the reserve for 2014 will be reimbursed and the levies for 2015 untouched. For an instructive record of the events, see Matthews (2015).

managed by an independent agency with a written mandate.²⁶ A basic element of such a mandate would be an objective definition of ‘exceptional market disturbances’, which would dictate the use of the reserve in a predictable manner in order that agents in the food chain can make informed decisions and that mutual funds for income stabilisation could integrate the safety net management into their schemes. It was pointed out that if the decision to act on markets is sensitive to political pressures from the farm lobbies and their stakeholders, these pressures will always push in the same direction: against price falls and in favour of hikes. The procedure, as described in Article 229 where Committees (and farm lobbies indirectly) intervene, is vulnerable to political failure, all the more so since the origin of the reserve funds is a levy from the direct payments – incidentally, 100%-financed by the common EU budget. There is no doubt this will be resisted by member state delegates, and in dire market circumstances funds will be brought from outside the agricultural budget.

Overall, the changes in the use of price and market instruments are appropriate to providing a safety net for facing dire circumstances in spite of remaining structural weaknesses which will prevent the efficient use of European fiscal resources. In many cases the Commission has made progress, but it has stopped halfway short of the desired goals, and the two other institutions have even undermined the reform stance.

Support to risk management schemes

The issues regarding risk management are clearly more akin to market policies than to rural development. Still, instruments eligible for support are defined mainly in the Rural Development Regulation 1305/2013: 1) insurance covering losses due to climatic, disease-related or environmental incidents; 2) mutual funds

²⁶ Bureau & Mahé (2008) advocated a mandate along the principles of the European Central Bank. Some would argue that this may also in itself be a problem, but the principle is that such a mandate ought to be decided and revised with large majorities of citizens and countries to ensure virtuous rules to prevail instead of the outcome of lobbies’ interference in daily monitoring processes.

covering similar incidents; and 3) income stabilisation tools.²⁷ The general rate of subsidisation is 65%. However, rules for the fruit and vegetable sector are exposed in the Single Common Market Organisation (Single CMO) Regulation, which states that harvest insurance can be part of operational programmes (up to one-third of the programme expenditure) and that producer organisations can manage mutual funds.²⁸ In the Single CMO Regulation the wine sector can benefit from support for setting up costs of mutual funds and from up to 80% of subsidies of the harvest insurance premiums in case of natural disasters.

The support for regulation of risk management tools raises a number of issues related to market and government failures. Strictly private schemes seem unlikely to emerge at a satisfactory level of risk coverage for agricultural products (there seems to be a 'missing market' problem). Still, is the generous taxpayer contribution to insurance and mutual funds as envisaged in the schemes easy to justify? How will market instruments and risk management mitigate adverse effects of natural and economic shocks? Would an overly zealous collective risk management system not face moral hazard by inducing farmers to adopt risky strategies such as extreme specialisation?

Government intervention in risk mitigation systems for agriculture is extensive in many countries. For a private insurance market to emerge individual risks should be independent and unlikely to reach the catastrophic levels that can lead to the failure of insurance companies.²⁹ Some agricultural natural risks can be independent, such as moderate irregularities of weather or local pest damages. Insurance companies can provide such coverage and at a cost decreasing with participation. But voluntary subscriptions might first attract farmers with higher risks and jeopardise the viability of insurance providers, leading to under-procurement of insurance by the private sector. Because of these two failures,

²⁷ Except for the latter, the instruments were already defined in similar terms in the Single CMO Regulation 73/ 2009.

²⁸ Regarding fruits and vegetables the two risk management tools were in R1182/ 2007 but not in R2200/96.

²⁹ See e.g. Henriët & Rochet (1991); Cafiero et al. (2005); Bureau & Thoyer (2014), p. 54.

government subsidises premiums or makes subscription mandatory, or both. Climatic shocks to agriculture can also reach catastrophic levels, thus requiring the state to be an actor of last resort. Other risks affect all or many individuals at the same time (systemic), such as epizootic, natural or economic shocks that affect prices. The law of large numbers theorem does not then apply to these risks and the definition of an insurance premium is unfeasible. Mitigation of such risks can rely on reserve funds sourced by member contributions and public support.

The US experience in subsidising farm insurance is a long one and has been often criticised for revealing itself *ex post* to be a costly and regressive way to transfer income from the taxpayer to farmers. In his review of research evidence Wright (2014) points out that US farmers received a ‘profitable’ return on their premiums (\$1.90 compensation for every \$1 in premium, on average) and that the cost to taxpayers was ‘high’ (\$1.10 for every \$0.90 in compensation). He also points out that insurance companies have benefited a lot from the system and strengthened the farm lobby. Babcock (2012) estimates that between 2001 and 2011, the US crop insurance programme cost taxpayers about \$50 billion, but only half – \$25 billion – found its way into farmers’ pockets, while the other half was spent to cover management costs and commissions paid to insurance agents and companies, so that eventually the programme cost \$2 to deliver \$1 of benefits. One may wonder whether the seemingly generous rate of subsidy in the EU schemes (65% of premiums for insurance and 65% of compensation and set-up costs for mutual funds) is likely to add a source of inefficient expenditure into the CAP. A very rough calculation³⁰ suggests that the transfer efficiency in the EU programme may not be so bad in comparison

³⁰ A very tentative use of the 65% subsidy rate to the schemes (assuming that on average premium + subsidy = compensation + administration costs net of financial returns, and that the latter is about 20% of compensation, a rough estimate derived from data on general insurance provided in Henriët & Rochet (1991)) leads to orders of magnitude for apparently high expected compensation/premium ratios: expected compensation of €1.40 for €1 premium, for insurance, and €1.80 for €1 of contribution in the case of mutual funds. The ratio of taxpayer costs to expected compensation is 0.47 for insurance and 0.65 + instalment subsidy for mutual funds, ignoring possible leakages such as those mentioned in the US experience.

to other farm programmes. In the case of rural development plans, the administration and transaction costs are in the range of 20% to 50% of the transfer, and sometimes more. Hence €1 of benefit costs the taxpayer between €1.20 and €1.50.

In the case of risk management, compensation occurs only in the case of losses whose disruptive consequences lead to lower welfare. Mutual funds should be attractive with the subsidy rate of 65% of the compensation and instalment costs since the expected return to €1 of contribution could be around €1.80. In the case of the US programme, many analysts claim that the very large degree of its subsidisation makes insurance very attractive to farmers, while a large share of the money is wasted in the process. It is not written in advance that such a course of events will occur in Europe since the magnitude of natural risks is smaller and the proposed Income Stabilisation Tool is a mutual fund limited by its own resources. Experience will show whether implementation aggravates the public burden of the schemes, but at this stage the odds do not seem poor, as long as the new schemes do not resort to new financial resources instead of Pillar I basic payments.

Two weaknesses of the schemes are worth mentioning. The first weakness is in the need for further clarification of the rationale for setting public support rates. The current flat rate and the level of support do not seem to be in proportion to the expected welfare gains to society from a more efficient farm sector resulting from less volatile farm returns. Cordier (2015) has estimated the value at risk (threshold of low returns with a 5% probability) for selected farm orientations and found that it differs considerably across farming sectors, e.g. €14,000 in fruit and vegetable crops and €16,900 in main crops. Whereas risk exposure and the availability of private strategies (futures markets, storage and diversification) vary a lot across sub-sectors, incentives to participate in coverage systems should be stronger and, hence, support rates higher for sectors with greater risks. Instead of the flat rate of 65%, a modulation of subsidy rates across sectors could improve the system of risk coverage.³¹

An issue related to moral hazard is the impact of a generous system of insurance on individual behaviour regarding risk

³¹ Operational funds for the fruit and vegetable sector do provide stronger tools to cope with volatile prices.

exposures. A very protective *ex-post* system will trigger strategies of risk exposure such as higher specialisation to increase expected returns. As price guarantees have demonstrated in the past, quasi-monoculture has developed with adverse consequences on both demand for further protection and on the environment. Experience is necessary to design and regulate an efficient system that would not ride astray, as the US evidence suggests it to be likely.

The second weakness is related to the consistency of market instruments with one of the decentralised risk management instruments: the Income Stabilisation Tool. The design of mutual funds for income stabilisation is contingent on the expectations that fund managers will be able to have for the Commission response to unusual market disturbances, regarding prices and the use of the reserve for crises and possibly other funds out of the MFF. As already pointed out, the various committees involved being under political influence, their behaviour is unpredictable. The Income Stabilisation Tool (IST) is based on mutual funds and therefore can only dispatch *ex-post* the funds in reserve. The IST is supposed to cope with income drops. In doing so its margin of action will depend greatly on what is being done by the Commission's use of market tools and the reserve for crises. Hence tensions are bound to develop between decentralised tools and central decisions made by the Commission under the pressures of market-exceptional disturbances and special interest representations.

As a whole, the risk management system launched by the reform appears to be promising regarding the coverage of natural hazards. The system should better take into account the differences in risk exposures and private coverage possibilities among farm sub-sectors. As regards price and income stabilisation the use of market instruments will depend on the ability to reallocate financial means from Pillar I to the reserve for crises and on the wisdom of the decision process (Commission and *ad hoc* committees) when crises occur, which is hard to predict. Mutual funds as income stabilisation tools should be developing as the incentive to contribute is rather strong, but the technical development of such tools based on observable and objective data is only beginning.

The balance of market power in the food chain

The CAP has a long history of conflicting with competition policy. Exemptions from Article 101 of the Treaty are possible under some conditions, one being the satisfaction of (all) the CAP objectives of Article 39, but this condition is hardly feasible in practice since “increasing individual [farm] earnings” and reasonable consumer prices cannot easily be made compatible. The atomistic structure of the farm sector makes it prone to being crushed by the pressure of upstream and downstream oligopolies and forces it to absorb most of the price adjustments. This resulted in measures intended to strengthen the bargaining power of producers through legal protection and support for producer organisations. The 2009 dairy crisis and the phasing out of the quotas led to clauses in the regulation which would allow farmers to organise and negotiate with collectors contracts whereby written conditions include prices.

The Commission proposals let the member states decide whether contracts would in general be required, but the article regarding dairy was more demanding.³² In the final decisions, the mandatory recognition proposals are upheld for dairy and fruit and vegetables. The farmers’ possibility to regroup to negotiate contracts also extends to many other sectors. Recognition of producer organisations and inter-branch organisations, however, is not mandatory for sectors other than milk, olives, olive oil and fruit and vegetables, silk and hops. When recognised, such producer organisations may negotiate contracts (live beef and most arable crops). Recognised producer and inter-branch organisations are also declared compatible with competition rules, provided that no obligation exists to charge a single price and that competition is not excluded. The Commission may require renegotiation if

³² In the dairy sector, contracts, if decided by member states, were supposed to include conditions defined at EU level (Art. 104, proposals). Moreover, it foresaw that in the dairy sector POs “may negotiate” such contracts on behalf of members, as long as their market share is under a threshold (33% of national production). It required recognition by member states of POs and inter-branch organisations to be compulsory in general, but nothing was defined regarding contractual relations for sectors other than milk. This would have left to the initiative of member states to extend or not to other sectors the ability for POs to negotiate contracts on behalf of their members.

competition is curtailed. The Commission rightly resisted the requests from some farmer organisations to grant inter-branch organisations powers to establish a sort of reference price. Such a possibility would have ruined the role of prices as a means to channel upstream the differences in collectors' efficiency to transform and market the raw material. The possibility for inter-branch organisations to act as mediators is worth mentioning as it might help improve the situation of smaller organisations or individuals, but the powers of inter-branch organisations to monitor and dissuade unfair commercial practices regarding large retail companies or collectors remain quite elusive. The thresholds of market share for producer organisations to negotiate without coming under fire from competition authorities are set in fixed numbers, which are different across sectors. They may be plausible and easy to monitor, but their logic is still obscure and a better alternative could be to refer to absence of dominant position in the relevant market, with the caveat that competition authorities badly need to upgrade their effectiveness in monitoring such situations and unfair practices as well.

The rhetoric on the virtues of contracts to strengthen on their own the bargaining power of an individual farmer was only wishful thinking, since the ability of the farmer acting alone to sue the dominant purchaser is void given the dissuasive cost-benefit ratio of any legal action and the threat of retaliation. On the other hand, when farmers associate just to negotiate prices with little or no contribution to food chain efficiency, as appears to be the case for milk deliveries to a private collector, the line between a cartel and sales grouping can be slim. The power granted by the new regulation to producer organisations to negotiate delivery contracts, including on pricing rules, without falling under the scrutiny of competition national and European authorities, changes the odds. This should have positive consequences for agricultural producers in some sectors, particularly where collectors hold a large share in the relevant market.

The powers given to producer organisations in most farm products have raised concerns that abuse of dominant position by the farmer side could also occur. Besides the clauses targeting products under geographical indication, the Commission has issued guidelines for implementation making explicit that dominant

position, price fixing, and entry deterrence shall be avoided and that producer organisations providing services for efficiency gains in the food chain are less likely to conflict with competition rules.³³

However, the significant strengthening of the farm sector's bargaining powers can hardly replace the much needed effectiveness of competition policy in the food chain and in particular in the retail sector, which has become increasingly concentrated over time. With the current focus on making the farm sector stronger, the risk of double marginalisation with the ensuing costs for consumers should not be dismissed. The competition authorities may show some efficiency in using legal arguments to break cartels and limit mergers, but they do not carry a lot of clout to prove and discipline abuse of dominant position and excessive market power by the concentrated retail sector. And this is in sharp contrast with the numerous anecdotes of small suppliers forced to accept dire conditions under threat of being banned from further purchases. Another neglected area needing scrutiny is the concentrated farm input industry where the suspicion of unbalanced market power is clear. The Commission and the competition authorities need to improve their toolbox to prove excess profit margins and dominant position with a more solid legal basis and to be more cautious in letting mergers happen both in the farm input industries and the retail sectors. Moreover, preoccupation with consumers should not lead competition authorities to neglect scrutiny of buyer group practices which are frequent in the retail sector (Carstensen, 2010).

Overall, in the area of market management, the reform has not fundamentally changed the CAP. This in itself is a considerable success given the risk of developing costly and rent-generating policies, as was done at the same time on the other side of the Atlantic. The efficiency of the new crisis management instruments remains to be tested, but as regards market management, the reform is by no means a failure.

³³ The Commission has launched a consultation on these matters and issued guidelines to implement Articles 169, 170, 171 (http://ec.europa.eu/competition/consultations/2015_cmo_regulation/index_en.html).

7. Flexibility, subsidiarity, pillars and lessons from fiscal federalism

In the process of addressing flaws in the CAP, the three core institutions of the trilogue have proved both opportunistic and creative, with some merits, but at the cost of losing coherence and facing likely deviations from policy purposes at the member state level. Furthermore, the consistency between co-financing rules, degrees of subsidiarity and territorial scope of the public goods has become confusing. Supranational governance has drifted further away from even the most broadly defined fiscal federalism principles.

The position of the Parliament to not enter into negotiations over amendments before the budget had been settled and the accession of the other two EU bodies to this demand were first a clever trick to avoid polluting negotiations with national interests, familiar vetoes and marathon debates. This outcome made it possible to avoid opening the Pandora's Box of a discussion on the net budgetary returns, with domino effects on other components of the EU budget, which could have triggered a major institutional crisis. However, this tactical move clearly reflects a built-in weakness of governance at this stage of the EU construction. When EU policies generate private rents but draw on common pool EU public funds, a degree of government failure is undermining the system. Most direct payments of the CAP are illustrative examples.

A large amount of flexibility has been conceded to member states in the implementation of the measures in the new CAP regulations, including the possibility to move large sections of the budget into or out of Pillar II. This flexibility is the deepening of a trend introduced in the 2003 reform and in the Health Check regarding the end of historical entitlements (regionalisation) and maintaining member states' latitude in recoupling, modulation and rural development measures *stricto sensu*.

An optimistic view is that flexibility is a relevant approach to ensure that better information and local initiatives respond to the wide heterogeneity of agricultural challenges across Europe regarding structures and environmental impacts. Flexibility can also be viewed as a learning process for the member states in which governments are excessively influenced by lobbies and defend

status quo interests, and which gradually come to accept a policy change after experimentation in other countries. Regionalisation and convergence of payment rates per hectare within member states are cases in point.

The main concern is the record of national and local governments in implementing the CAP, on two grounds in particular: lack of parsimony in public spending and failed enforcement of environmental conditions. When the money from the EU budget is deemed appropriated, national governments have shown a tendency to be lax in eligibility conditions and complacent in imposing penalties or suing unintended beneficiaries and, worse, corrupt users of public money (see, e.g. ECA, 2011; anecdotes of fines imposed on member states for misspending CAP funds are rife). On the environment front, the sweetening of conditions for green payments eligibility, the removal from the Commission proposals of the Water Framework Directive from cross-compliance and its banishment to a vague declaration in an annex do not bode well for the expectation that member states will be firm when proposing measures ensuring a reversal of environmental damage.³⁴ As has happened in the context of pollution, a race to the bottom, or at least downwards, is to be feared.³⁵ Flexibility granted to member states to design detailed practices and equivalence rules under the supervision of the Commission could make sense if the Commission were in a position to keep firm on the principles. But this would no doubt be at the cost of more 'Brussels bashing' from lobbies and Eurosceptics.

³⁴ In the Commission proposals Article 93 of the Horizontal Regulation, Directive 2000/60 (water), was supposed to be integrated into the list of GAEC conditions Annex II. In Regulation 1306 it is only mentioned as a topic for advisory agencies and as a declaration of intention postponed at the end.

³⁵ An example of such national decisions is illustrated by the option in France, first, not to declare any sensitive permanent pastures outside of Natura 2000 zones while the possibility exists and, second, to allow a compensation between surfaces of converted old permanent pastures by newly created ones which will be defined as permanent, *subito sancto*, one may say, as soon as the first year, thus inducing a decrease of genuine permanent pastures, but giving an illusion that the total of 'labelled' ones is kept constant.

Co-financing of Pillar I measures by national fiscal resources did not receive any support in spite of the quest for a new legitimacy for the direct payments. Still, new measures were to be financed and hence allocated to the two pillars of the EU budget. The end result is that some Pillar II issues, traditionally devoted to rural development and environmental protection, are also covered by Pillar I. Member states can also move funds from Pillar I to Pillar II. With the greening of Pillar I, measures for the environment, for areas with natural constraints and for young farmers are now in both pillars: the reform blurs even further the line between rural development and income support. Support to producer organisations and to risk management schemes are now in Pillar II but funds for market support in case of emergency are in Pillar I, the traditional toolbox for price policy. Also in Pillar I is the new reserve fund for crises.³⁶ In practice, what characterises a rural development programme tends to be limited to co-financing,³⁷ and to the specific management procedures. Overlapping also introduces possible inconsistencies between pillars. The economic logic of the distinction between the two pillars should be addressed properly by a full reorganisation of pillars at the next reform opportunity, since their initial distinction has drifted away from their initial economic and political rationales (Mahé, 2012; Dupraz et al., 2014).

It comes as an apparent paradox that the pervasive reference to public goods provision as justification for CAP expenditures did not transpose into a political debate on the correct level of government to organise and finance this procurement.³⁸ The supranational institutions of the EU did not want to open up this issue yet, but some day they will have to face it. The classical views of Musgrave on fiscal federalism are still widely considered, whereby the distribution and stability functions of government are best carried at the central level while, regarding the design and fund-sourcing of allocation policies, governance level and scope of public goods should match. Pure public goods for which exclusion is impossible and rivalry absent are to be provided for and funded

³⁶ Articles 25 and 26 of Regulation 1306/3013 – ‘Horizontal’.

³⁷ With the exception of those shifted from Pillar I to Pillar II.

³⁸ The Commission document “The added value of the EU budget” is, however, a starting point (EC, 2011).

by the central government and, therefore, as regards agriculture and the CAP, by the EU institutions and budget, because they are mostly transboundary in nature.

Agriculture is able to provide a number of environmental services, most of which are public goods. Cooper et al. (2010) have proposed a relevant list of these services, which includes: agricultural landscapes, farmland biodiversity, water quality, water availability, soil functionality, climate stability, air quality and resilience to flooding and to fire. They also include other public goods labelled 'social' such as food security, safety and rural vitality, which could rather be labelled 'statehood' public goods, or considered political goals to keep the public good concept narrow enough to be operational.

Climate stabilisation (carbon storage and reducing greenhouse gas emissions) and, to a large extent, general biodiversity whose non-use value is recognised, are typical pure public goods and their scope is global. Hence there is a strong argument to have the relevant policies designed and financed at the supranational level and totally financed by the EU budget, as is the case with Pillar I.³⁹ Most of the other environmental services regarding water, soil and air, save for cases where transboundary effects occur, are more local in use and some degree of exclusion is possible at least through the travel cost of access. Hence local governments should be better equipped in information to tailor their supply and more parsimonious in local taxes to finance them at the appropriate level than EU institutions would be. This is the expected virtue of subsidiarity, where the financial responsibility of local institutions is expected to respond to both social demand for local public goods and taxpayers' desire that the financial burden be just enough for efficient procurement. Several agri-environmental measures of Pillar II, where co-decision and co-

³⁹ In Article 59 of Regulation 1305/2013 (Rural Development) the issue raised here is implicitly recognised by applying different rates of EU co-financing which reflect assumptions on the different scopes of the public goods targeted. Climate mitigation and adaptation actions can benefit from up to 100% EU financing, which amounts to moving these measures to Pillar I, except for granted flexibility in local management. This approach is an alternative to pillar reshuffling. But it does not solve the odd treatment of the basic payments inherited from the past.

financing of rural development programmes prevail, fit well in the fiscal federalism framework.

On the other hand, flexibility with EU full coverage of expenses such as direct payments of Pillar I tends to fuel opportunism and insatiable drawing on common pool tax resources, as amply shown by member states' attitudes regarding the basic payments of Pillar I.⁴⁰ Moreover, while a doctrinal view of federalism would prescribe that only local government should be in charge of local public goods, a more pragmatic conception (e.g. Begg, 2009) takes into account possible cases where paucity of political resources and weak legal institutions at the local level lead to government failures, or even to corruption. The EU construction does reveal such concerns, as it requires member states to abide by democratic principles and to ensure that the rule of law prevails, thus reflecting values embodied in the Treaty. The EU interference in setting management rules and targets for environmental quality indicators, such as water quality and availability, which are mostly local by nature, reflects a concern for avoiding local government failures. Except in Eurosceptic circles this is widely accepted, hence joint competence and co-financing for agri-environmental measures of Pillar II would appear as an appropriate framework if administrative and transaction costs were trimmed off.

Beside environmental public goods, the CAP tries to target 'statehood public goods' provided by agriculture. Cohesion goals regarding rural regions under stress is part of the distributive function of government and is best conducted by the central level of government, i.e. the EU. The special support for portions of the territories under stress can benefit from the EU budget either fully, such as the ANC payments which belong to the first pillar, or partially, such as the Pillar II programmes for areas with natural handicap. However, the coexistence of two schemes with the same purpose is likely to entail excessive administration costs. As regards the basic payments of Pillar I, they cannot be justified by social cohesion or distributive arguments because they are regressive, in spite of the small levy on the largest beneficiaries. They are a poor

⁴⁰ A similar risk exists with the 100% EU-financed but locally managed Pillar II measures for climate change mitigation, unless they are properly monitored by the Commission.

tool for financing the delivery of environmental protection through cross-compliance. The argument for their belonging to Pillar I is elusive and they should be phased out for the most part in order to build up resources better targeted to crisis management.

Market stability and risk mitigation are social goals addressed by several tools scattered in Pillar I and II. Market and price policy tools are still in Pillar I. The reserve for crises is also established in Pillar I from temporary levies on the basic payments. But Article 26 of Regulation 1306 lays down restrictions on the process. In Pillar II, member states are encouraged to help create and subsidise risk management funds. This combination of tools raises three problems. The annual periodicity of the reserve for crises makes its management by the Commission particularly irksome, as crises are not easy to forecast almost a year in advance. The obligation to reimburse the unused levies from the basic payment is odd and reflects political concession rather economic logic. Why not build a reserve for the whole duration of the MFF and delay the allocation of the unused funds to the end of period? The second issue is the coordination of the tools of two pillars managed by two-stage governments, national and EU. The third is the likely heterogeneity of the national systems of risk management, which may contradict market unity. As market crises encompass all Europe there is a case for collecting all the tools of stabilisation and risk management in a third pillar which could resort to pluriannual funds, as is the case for the (small) European Globalisation Adjustment Fund.⁴¹

The CAP reform has missed an opportunity to condition EU policies to a real European added value. This may prove fatal in the long term, with the development of Eurosceptic forces, and the increasing reluctance of pooling budget resources without clear justification. In the long run, a CAP more focused on the supply of truly European public goods would have paved a safer way to preserving what the EU agricultural policy has in common. One

⁴¹ Arguments from some Commission administrators that the annual nature of the budget precludes the building of a pluri-annual fund seem contradicted by the regulation laying down the European Globalisation Adjustment Fund. Item (3) of R1309/2013 reads, "Given its purpose, which is to provide support in situations of urgency and unexpected circumstances, the EGF [European Globalization Fund] should remain outside the Multiannual Financial Framework".

should not forget that co-financing responds to a very crucial need: making member states as well as local authorities responsible for good management of the EU's money, rather than simply giving them the rights to draw from a common pool budget to maximise their net returns with questionable and poorly managed initiatives. By granting so much flexibility to member states with so little national co-financing, the CAP remains, to paraphrase Bastiat's definition of the state, the great fiction where everyone tries to live at the expense of the other.

8. Conclusion: The 2013 CAP reform, bloom and gloom

At an early stage of the reform process a real change in direct payments was expected. Reformist organisations felt short-changed by the 2010 and 2011 Commission proposals, and even more by the final regulation published in December 2013. They could find little of the work they had done to make reform proposals implementable in the Commission's texts. One reason, according to former Commissioner Ciolos, was the impossibility to sell a reform moving away from income support and towards rewarding the delivery of public goods to the European Parliament. The demand by the latter to have the budget decided before entering negotiations did not bode well for an ambitious reform. At this stage, the 2013 reform leaned toward limited adjustments of the existing policy, denting a few major flaws of the CAP only at the margin.

Overall, the 2013 reform has been a lost opportunity for making the CAP more targeted on public goods procurement, more equitable, and less permissive to excessive rents inducing leakages, capital deepening and addiction to subsidies. Targeting and greening did not really come through. In 2015 on average across the 28 member states, 55% of the direct payments are basic payments, i.e. 'income' or 'production capacity' support. The green payments were supposed to require additional efforts to protect resources and put an end to biodiversity losses and the Commission had tabled interesting proposals, in particular regarding EFAs, pastures and diversification. But the provisions were largely watered down by both the Council and the Parliament. Eventually, few farms will have to make costly changes to their practices to be eligible for the green payments; and only farms in the areas most specialised in

monoculture will have to implement some conservation measures, a limited change for which the reform can be credited.

No progress toward equity was made and capping the largest payments did not happen, in spite of the possibility for member states to keep the proceeds of reductions in their own national basket. As many as 21 member states apply only a flat 5% reduction of payments above €15,000, or none at all. Payments reductions will account for less than 0.2% of the Pillar I envelope. An extensive exercise in transparency regarding the eventual destination of subsidies of the large beneficiaries in relation with their own wealth is necessary if EU institutions are seriously concerned about the existing margin for adjustment, reform and efficient use of common funds.

Only a new set of contractual, targeted, cost-based and pluriannual but non-transferable payments would have helped solve the problem of capitalisation of support and its leakage to unintended beneficiaries. In reality, it did not happen.

However, viewing the 2013 reform as a straight failure ignores several important achievements of the negotiation. First, the Commission managed to resist most of the 'bad ideas' floated around, not the least by MEPs or member states. Some of them could have been particularly damaging, in particular regarding market management and price support. This accomplishment should not be underestimated. From this point of view, the composition of the new European Parliament suggests that a future 'reform' could drive the CAP back to old policy instruments. Second, the reform leaves a considerable degree of latitude to member states, a device to instil needed changes as a sort of experimentation. Member states truly willing to implement a genuine reform have the possibility to do so, including the use of significant latitude to adapt the green payment conditions if other measures provide similar results. This flexibility may be viewed as a learning process whereby some member states take the lead as early adopters of voluntary measures and are followed by others at the next wave of reform.

Overall, the reform has struck a decent balance between market signals and the possibility to support products with some public good aspects. Market policy tools are still in place and could be triggered in case of major crises and the principles that they

would serve only as safety nets and not be diverted into misuse of taxpayer money are officially recognised. Measures to launch risk management schemes in member states are a good starter, needing calibration, tuning and experimentation. The reserve for crises is a welcome initial step but its use should be better protected from special interest interference and be redesigned to build a respectable amount of funds to face dire circumstances. The recommendation to convey the management of this reserve to an independent agency with clear but adjustable behavioural rules should be considered again.

The new architecture for Pillar I also sends the message to all member states that direct payments should be justified by environmentally friendly management practices. Even though at this point it is more subject to rather lax constraints, this puts a final point to the idea that these payments were 'compensatory', and therefore a right for farmers. The pervasive use of the word 'entitlement' and the lack of recognition of windfall gains is, however, regrettable, as it blurs the message to the farming community. A major characteristic of the reform is the flexibility left for national adaptation. Member states that are truly willing to implement a genuine reform have the possibility to do so. Overall, more than €6 billion were transferred from Pillar I to Pillar II and only €3.4 billion in the reverse direction over the whole financial period. A net transfer to rural development programmes of €3 billion is not much in relative terms, but it is progress.

On the Commission's agenda in the next few years should be reflecting on the pillar structures, the rules of co-financing, and the power-sharing between the EU institutions and national governments. Lessons from fiscal federalism should be taken on board at some stage. In particular, the scope of public goods, be they local, global or mixed, and the level of government and financing, should coincide better. Together with the rigid annual constraint for selected expenditures which are random by nature, such as the safety net, these reasons motivate a reshuffling where one pillar would address global public goods with EU tools and pooled money, another one such as Pillar II would address more local public goods, and a third one, outside the MFF and funded by the basic payments, would be available for stabilisation and risk management.

The respective roles of the three institutions in the trilogue reveal that the Commission, however prudent, has generally been more pro-reform than its counterparts. This was to be expected from the Council, as the historical experience of price-setting in the old CAP clearly shows. But the main contribution of the Parliament as a force blocking change and arguing for blanket irrigation of the farm sector with EU funds, came as a disappointment. The organisation of the EU Parliament committees raises a serious question regarding their ability to reflect a true concern for the public good. Committees should be organised around wider issues than they are currently, to address social trade-offs and avoid delaying coordination to plenary sessions where in-depth examination of alternatives is not possible. It is a paradox that on several levels, NGOs have expressed and channelled social and public concerns that the democratic process proved unable to address, because institutions are not robust enough to rent-seeking and lobbying influences.

Finally, a striking paradox appears between the scopes of the last two major reforms. The 2003 reform was supposed to be limited and did not mobilise significant and long consultations and expert work, yet it has proved to be a major reform. The 2013 CAP reform, in contrast, although long, well-prepared and based on an enlarged consultation thanks to the Commission, did not change much regarding the rules of distribution of taxpayer money. The process produced a reform of intentions rather than a reform of actions. Let us hope that the legal literature in the new regulations, which is rich in well-thought-out and new directions, will one day be followed by acts and facts.

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PART II

PERSPECTIVES FROM INSIDE THE EUROPEAN INSTITUTIONS

4. ACHIEVEMENTS AND CONSTRAINTS OF THE 2013 CAP REFORM

TASSOS HANIOTIS

1. Introduction

The political economy underlying the reform of any public policy involves a rather delicate balance between institutional realities and declared policy objectives. The Common Agricultural Policy (CAP) is not exempt from this reality. If anything, this balance seems to be even more complex in the CAP and its reforms. Member states' interests often diverge, reflecting different political priorities stemming from the very diverse structures of their primary sector, thus adding an additional layer of interplay between actors to the habitual one of farmers versus taxpayers or consumers.

Often, different theoretical approaches are applied to analyse how this balance evolves over time by assessing the interaction of opposing interests, and the impact this has on arriving at, or in upsetting, this balance among institutional actors. In my intervention here, however, I do not intend to apply any analytical framework to assess whether the 2013 CAP reform confirms either approach. Rather, my starting point is different.

My focus is on how three different parameters - the economics, the politics and the policies of the recent CAP reform - influenced the final outcome of a reform that, for the first time in the 50-year history of the CAP, took place with the European Parliament acting as co-legislator. It is my hope that this different angle could provide some useful input that would allow testing various analytical hypotheses on the political economy of the recent CAP reform.

2. The economics of CAP reform

The first aspect that influenced the debate on the 2013 CAP reform was the significant change in the economics that characterised agricultural markets. The debate over agricultural policy reform, both globally but also especially in the EU, habitually had as its starting point the need to bridge the price gap between the EU and world markets of agricultural commodities with the long-term downward trend of agricultural prices as the underlying assumption. In the aftermath of the financial crisis of 2008, serious doubts were raised on the validity of this assumption, which significantly changed in the public policy debate, and market developments altered significantly the manner by which the various policy actors positioned themselves towards the reform.

Enter the 'price' story, i.e. the significant increase in price volatility in the aftermath of the financial crisis, the co-movement of commodity prices, and the significant increase in the level of agricultural prices. The literature on the characteristics of this period of excessive price volatility in the aftermath of the financial crisis is both extensive and inconclusive, but in the policy debate the impact was immediate.

Those focusing on the negative impacts of excessive price volatility put the blame on previous reforms of the CAP that allegedly lowered the safety net (implying in general the decrease of intervention prices and omitting the significant income support layer from decoupled payments). Those focusing on commodity price co-movement identified speculation as the culprit, demanding that public intervention addresses (in unidentified ways) this problem. Finally, those stressing the fact that agricultural prices almost doubled in real terms within the span of less than a decade considered this to be the proof for which they had searched for quite some time – no need for income support when market returns, i.e. market receipts, are that high.

The policy dilemma at the early stages of the CAP reform debate was therefore linked to the prospects of prices remaining volatile and/or high, as these prospects were expected to be driven both by a demand pull and by supply constraints.

After a significant period of market turbulence, price volatility and price co-movement seem to have settled to levels that

market fundamentals can explain. The major change, however, concerns the price level at which agricultural prices seemed to have settled after this turmoil. Even after the summer of 2014, when record harvests characterised the cereal market, the level at which wheat and maize prices reached their post-harvest bottom exceeds what was considered a price ceiling less than a decade ago.

The reasons for this are linked to the second market development that affected the CAP reform debate, the 'cost' story of agriculture, and more specifically its energy link. That direct and indirect links of agricultural markets with the energy markets exist was not new. Such links were well established in the literature, but what was now new was the significant breakdown of traditional price relationships in the energy markets, which has affected the competitiveness of agriculture around the world. And although the effect of crude oil prices, direct or indirect, on cereals through the biofuel market subsided recently as the growth of biofuels faltered, significant changes in the natural gas markets have implications in the fertiliser market. For the EU especially, and its reliance on nitrogen-based fertilisers, this development is of major importance for the long term.

The above brought to the forefront the third major economic development that influenced the CAP reform, the debate on 'food security'. Seen as a problem for net importers and an opportunity for net exporters, with proposed solutions covering a wide spectrum of issues from research and innovation to food waste, nutrition and health, the food security debate has assumed different dimensions and been seen from different angles depending on the position and interest of the various actors. But in the CAP reform debate, it has assumed a distinctively European dimension, both in terms of a newly reinforced background concern that could justify the continuation of public support of EU agriculture, including with respect to the identification of the need to search for policy measures aimed at 'greening' the CAP in order to jointly deliver private and public goods.

3. The politics of CAP reform

Within the context of the above three economic challenges, CAP reform actors, both institutional and, more broadly, stakeholders, had to adjust to the real novelty of this reform, the introduction of

co-decision following the Lisbon Treaty. Co-decision brought a major change in the manner by which CAP reforms are decided, affecting the balance of power between all three institutions involved.

The Commission kept its naturally strong position stemming from its right to initiate reform proposals; in fact, the rules on public consultation and impact assessments made these proposals more transparent and evidence-based than ever before. Given that the other two decision-making institutions, the Council and European Parliament, lack the resources that are necessary to support with evidence their positions, the Commission continues to have the natural advantage of capturing the mainstream of public thinking.

However, as the process of negotiations proceeds, the role of the Commission becomes weaker. The real dilemma facing the Commission is whether to defend its proposal in a pretty strict way, forcing a potential conflict with the Council and Parliament and leading negotiations to the second reading of its proposal, or to seek a necessary compromise for a synthesis during the first reading. The first option strengthens the public image of the Commission but weakens its prospects for success. The second option encourages a more pragmatic solution but at the risk of it being too remote from the initial proposal.

The role of the new player, the European Parliament, in this new process initially made the prospects of a compromise appear very remote, as over 8,000 amendments were tabled. In the end, the Parliament managed to group together the various and varying positions of its members and to arrive at amendments that in most cases were not that far away from the logic of the reform. However, the real complicating factor has been the fact that the Parliament feels quite uneasy about allowing the inevitable details of the reform process to be clarified in implementing acts. Its role in this process is weak, as it lacks the necessary technical services that would monitor developments. It developed therefore the tendency to add too many details to the basic act, or to the delegated acts, where its role is stronger. This has been the unintended contribution of the Parliament to the complexity of the final reform decision.

The arrival of a newcomer in the process led the traditional player, the Council, to implement a major change in its negotiating practices. When in the past the Council had to negotiate only with

the Commission, it was natural that, as the final stages of negotiations advanced, member states narrowed down their desired changes in the proposal to their real 'red lines'. With co-decision the major change is introduced by the fact that member states have to negotiate their positions via the member state holding the presidency. It is the presidency that will negotiate with the Commission and the European Parliament, and the member states feel uncomfortable with this fact.

As a result, instead of narrowing down and limiting their proposals for compromise, they showed a tendency to complicate the process by adding too many details in their negotiating desiderata. With 28 member states in the process, the natural result is a synthesis of conflicting interests that can only become an acceptable compromise if a significant layer of complexity is added (often under the pretext of subsidiarity).

4. The policies of CAP reform

The three words that exemplified the targets of this particular CAP reform were 'fairer', 'simpler' and 'greener'. The outcome of the reform can be summarised as: fairer, yes; simpler, definitely not; greener, still unclear.

The CAP is clearly fairer after its recent reform. Maybe this is not to the extent some would have desired, including the Commission, if one compares the initial proposal to the outcome, but the distribution of support will have an impact. The allocation among member states will redistribute support from those with a higher level of support to those coming from a very low base. Within member states, their regionalisation choices could also limit extreme cases of uneven distribution as payments are gradually harmonised. Putting these together will imply that compared to its previous state, the new CAP will be fairer with respect to the declared objective of the reform to improve the distributional impact of direct payments.

When it comes to the objective of making it simpler, the new CAP has definitively fallen short. The outcome of a new and also more democratic process of decision-making, this result will necessitate that all three institutions learn the necessary lessons from this first-ever experience to avoid the same mistakes in the

future. From their starting point proposals have to be simpler, compromise proposals narrower in focus and limited to the essential interest of member states and the balance between the various layers of legislation (basic act, delegated act, implementing act) should more accurately reflect the degree of detail that is essential at each legislative layer.

Finally, on greening, which will be the real test of the success of this reform, the jury is still out. The CAP reform introduced a major shift in policy paradigm. Land became the reference for support (as all direct payments are redistributed based on recipients' area, and not on past subsidies), land use became the condition for support (with the 30% green payment expanding the role of good cross-compliance) and land use change became the long-term objective of the policy, with an attempt to use the virtuous cycle of research, innovation and farm advice to bridge the gap between what is requested by farmers and how this can be achieved. How member states will implement in practice what in theory seemed desirable will be the big test of this reform. But the result would have to be assessed globally, taking also into account the interaction between direct payments and agri-environmental measures.

5. Some conclusions

Among the various aspects that are relevant in assessing the political economy of the recent CAP reform, three, in my view, merit greater focus if the outcome of future reforms were to be improved – timing, analysis and communication.

Under normal conditions, the time gap between the proposal of a reform and its agreement among all three institutions is roughly three years. In the turbulent world of agriculture, this implies that an initial proposal could be made in an environment of, say, high prices, and a decision could be taken during a period when prices are pretty low. In theory, an evidence-based proposal should be able to resist short-term pressures, especially when the impact assessment process is supposed to test exactly the coherence of the policy proposal and its ability to anticipate future challenges. But the gap between theory and practice in the political world is very often revealed by decisions that undermine initial intentions.

This gap is clearly demonstrated in the continuous debate over what some perceive as the need to increase intervention prices to address market price volatility (the inspiration often being US 'countercyclical' policies). Significant structural differences between US and EU farm policies (EU policies cover a much broader spectrum of products than US policies, and focus more on enhancing value added along the food chain than supporting bulk commodities) should explain why such comparisons are irrelevant. In addition, while countercyclical measures in the overall macroeconomy reflect the need to target some basic economic variables (the inflation rate, the unemployment rate, or a relationship between both) in a situation where both supply and demand are continuous, the fundamental difference of the agricultural sector is the discontinuity in the supply side. Although the failure to address this market reality lies behind the long history of policy failures of countercyclical measures in agriculture, this policy failure is often ignored in the final stages of negotiations, because it is often the price level of the moment rather than price prospects in the long run that influences the debate.

This shows once more the neglected role that analysis plays in policy decision-making. In essence, political choices are choices among policy options. The more solidly based on evidence these options are, the more coherent political decisions are going to be. The debate of regionalisation, or rather the absence of a real debate on regionalisation, demonstrates this point strongly. In theory, but also in the design of the policy concept of this reform, regionalisation is a common underlying feature of direct payments, cross-compliance, and agri-environmental measures, which could be driven in a rational way by defining common agronomic and economic conditions. That the political choice made by member states left this policy option aside in their final decisions explains to a large extent several inconsistencies that are evident in the final compromise.

Although the above are prerequisites for success, communication is the means by which policy coherence is maintained. However, in the actual process of negotiations, communication can be the first victim, and very often the link between a certain proposal and the reasons for which it was developed disappears. The EU's ecological focus area (EFA)

measure is a perfect example of what happens in the absence of communication during a negotiation process. The EFA reflects a marginal land conservation measure, as the real additional impact does not exceed 1-2% of total arable land area. Yet judging by reactions to the reform, one would tend to believe that this marginal element of the policy would to a large extent determine the judgment of its success or failure; and all that in the absence of any reference relating to the main objective of this measure – protection of biodiversity.

Yet the above observations, significant as they may be in explaining limitations of the 2013 CAP reform, remain marginal with respect to its most important element and identifying characteristic: it is the first such reform to bring to the forefront all facets of co-decision. This is what the EU's democratic process was meant to be, after all – a synthesis of the contributions of all three institutions, with its advantages, its challenges and its contradictions. Thus the underlying lesson to be learned on how to make the CAP reform process more efficient in the future is: it now takes three to tango!

5. PERSPECTIVE FROM THE EUROPEAN PARLIAMENT

*PAOLO DE CASTRO
AND ANGELO DI MAMBRO*

1. The context

Four main factors should be kept in mind in order to understand the circumstances in which the latest CAP reform process was finalised. Three of these factors are endogenous, i.e. attributable to the internal dynamics of the EU policy- and decision-making process. The fourth factor is exogenous, i.e. related to changes in global food supply over the last 10 to 15 years, which became more severe beginning in 2007-08 and beg crucial questions regarding the design of agricultural policies all over the world.

The first endogenous factor is the role of the European Parliament. The 2013 CAP reform is the first overhaul of EU agricultural policy approved with the full participation of the European Parliament in all stages of the decision-making process. This feature marked the reform process since the beginning. The fact that the 2010 ‘kick off’ of the debate on the reform was delivered through an online public consultation is an acknowledgment of the need for wider participation and a ‘new start’ after years during which the legitimacy of CAP expenditure had been widely questioned.

The political message of such an initiative was that the new CAP had to be meaningful for both EU agriculture and society, representing a new alliance between farmers and citizens of the Union. The public debate focused firstly on the contribution of European agriculture to the management of environmental resources, and secondly on the competitiveness of farms. The emphasis on environmental public goods delivery, in fact, followed

the insight of the previous major reform of the CAP, delivered in 2000-03.

The second endogenous factor is that the 2014-20 CAP reform is the first one to target 28 member states. Thus there were great expectations about the CAP's ability to fully embrace specificities of an enlarged Europe, in which the differences in socio-economic conditions and in the characteristics of agricultural sectors and rural areas are more marked.

The third endogenous factor relates to financial constraints. The whole debate was conditioned by the negotiations over the 2014-20 EU multiannual financial framework (MFF). Unlike the first element above, this is not an absolute novelty in CAP reform history. This time, however, the mediation on the MFF proved to be remarkably difficult and prolonged because of the impact of the global economic crisis on the EU. Due to this circumstance, European heads of state reached a final political agreement on the MFF only in February 2013. The outcome was a reduced overall budget compared with the preceding one (2007-13), despite the additional tasks requested of the EU in a phase of intense economic crisis. Specifically, the total amount of appropriations is €34 billion less, i.e. about -3.5% for both commitment and payment appropriations. This is the first time in the EU's history that such a decrease has occurred.¹ Keep in mind that the Lisbon Treaty gives the Parliament powers in the negotiations over the annual budget, but the procedure is not the same for the MFF: the Parliament can adopt or reject the whole package, with no possibility of amendments.

Besides these endogenous factors, new elements emerged in the global food supply and demand scenario while the CAP reform process developed. In 2009, for instance, the EU milk crisis already highlighted the impact on EU agriculture of phenomena such as the extreme volatility of prices at global level. The 'rollercoaster' of prices concerns both the main agricultural commodities and the raw materials, which are essential to the production of inputs such as animal feed or fertilisers.

¹ European Parliament (2013), Directorate General for Internal Policies, Policy Department B, European Council Conclusions on the Multiannual Financial Framework 2014-2020 and the CAP.

The endogenous factors affected the reform process both in terms of legislative procedure and policy. Unfortunately, the exogenous factor – changes in global food supply and demand dynamics – influenced the debate on the policy only marginally, or at least not as much as it should have done. Maybe this is natural, but in the whole debate the ‘internal’ issues, namely the impact of the reform on farm competitiveness and the impact of the ‘green measures’ on farms, were the attracting poles of the discussion. What was happening outside the EU seemed to be irrelevant. Since European agriculture is no longer protected from global markets and the consequences of extreme price volatility, the debate should have instead focused more on the new scenario and the reform proposal itself should have provided more targeted tools to cope with the new situation.

Given these circumstances, did the final result of the reform process match the expectations of farmers and citizens? And how does the new CAP respond to the challenges of the new situation?

2. The legislative proposals

After the 2010 public consultation, at the end of the same year, the Commission published the Communication “The CAP towards 2020”. In 2011, the Commission tabled four legislative proposals respectively on direct payments, rural development, the Single Common Market Organisation (so-called ‘Single CMO’) and ‘horizontal aspects’ of the CAP.

From the very first it appeared clear that, in structural terms, the proposed reform was in substantial continuity with the revisions of the past. Notably, there were adjustments in the rural development pillar and the unification of the CAP Common Market Organisations into a single one. On the latter the draft regulation did not contain significant changes in terms of policy.

The reinforcement of the support of risk management tools in the rural development pillar (introduced with the ‘Health Check’ of 2008) appeared relevant but lacked ambition. The more remarkable idea in the same draft regulation was the launch of the European Innovation Partnership (EIP) on “Agricultural Productivity and Sustainability”, to be developed as local clusters of innovation targeting farmers’ needs.

The main and most controversial changes occurred in the direct payment pillar. Among the proposed modifications, the legislative draft contained mechanisms for a fairer distribution of CAP financial resources among member states (so-called 'external convergence') and among farmers ('internal convergence'). These adjustments aimed to ensure a more equitable share of EU funds, with a definitive dismantling of the regime based on historical reference and transition to a minimum national average direct payment per hectare for the distribution of aid to farmers. Regarding external convergence, negotiations among member states in the Council led to a compromise at the heads of states and governments level between the EU-12 and the EU-15, i.e. 'new' and 'old' member states, which 'softened' the convergence but ensured the triggering of the process that shall be completed after 2020. The same happened with the internal convergence process, which will be slower and less traumatic for farms. The Parliament played a greater role in achieving this result.

The main novelty proposed in the structure of the new CAP, however, was the introduction in the first pillar of three 'greening' agricultural practices, accounting for the 30% of the national envelope for direct payments. Broadly, 'greening' refers to CAP efforts to promote environmental sustainability and combat climate change. The first pillar's three practices – crop diversification, maintaining permanent grassland and establishing on every farm ecological focus areas (EFAs) – are still part of the final agreement. They are mandatory for farmers and compliance with greening requirements is a pre-condition to gaining access to CAP support. The greening is part of a 'multilayer' direct payment scheme, which aims to increase the modularity and adaptability of the regime vis-à-vis national and territorial needs.

Looking at the long cycle of CAP reforms that began in 1992, the first pillar's greening practices can be viewed as a reinforcement of environmental cross-compliance, already introduced in the former overhaul of agricultural policy in 2000-03. In the 2013 reform, this move is considered to be necessary to strengthen the contribution of the sector to the correct management of environmental resources *at EU level*. The legislator is thus demanding that the agricultural sector enhance its environmental

performance beyond the good will initiatives of states, regions and farmers in the context of rural development plans.

Greening is a decisive element for comprehending the 2013 reform from a genuinely political perspective. It should seal the 'new deal' between EU farmers and citizens on European agricultural policy. In the pristine mind of the legislator, greening was the commitment that could provide CAP expenditure with renewed legitimacy in the eyes of taxpayers. In more practical terms, greening represents the trade-off between the intensification of farmers' commitments in the delivery of environmental public goods on the one hand, and the strong public backing of taxpayers on the other.

In this regard, a first shortcoming of the reform is that the level of public support for the CAP has actually decreased. Comparing the final year expenditure of the last two MFFs (thus 2013 and 2020 respectively) using constant 2011 prices, the CAP budget is down 13% for direct payments and market measures and 18% for rural development.² The completion of the phase-in by new member states in the CAP financial and legal framework increased the number of beneficiaries of CAP support. Thus it appears clear that the increase in the number of European farmers supported by CAP measures has not been matched by an expansion in the available budget.

In addition to this, from the side of farmers and national public administrations the greening proved very difficult to implement. In particular, the dispositions on EFAs are burdensome to control. In this perspective, greening could become a major source of payment errors. At least this is the fear of many national authorities.

Given that since 2010 the debate between EU institutions, farmer organisations and civil society focused mainly on the contribution of European agriculture to the management of environmental resources, it is worth discussing the potential and real benefits for the environment of greening agricultural practices. The problem is that CAP greening assumes the features of new obligations for farmers, but says nothing about measurability and verifiability of the effects of the new rules on the environment. In

² Ibid.

doing so, the reform exposes itself to the widespread criticism of imposing additional constraints and costs on farmers without producing major environmental gains.

But even if MEPs or member states had wanted to amend the Commission proposal and add this kind of change to the reform, it would have not been possible. The lack of benchmarks, indicators and shared parameters at farm level to measure the real benefits of agro-environmental practices means the debate about sustainability in European agriculture cannot be resolved at present. How can farmers be efficient land managers if they cannot rely on shared indicators on soil and water quality, resource efficiency and biodiversity levels to effectively manage the environment?

In addition to the reform elements that seemed ill-designed from the beginning, others indicated a lack of global vision in setting the Commission proposal's priorities. In the four years between 2007 and 2012 agricultural global markets were in turmoil. The price of raw materials, including agricultural ones, experienced unexpected short-term rises and falls that exacerbated the normal levels of volatility of agricultural markets. The extreme volatility in the short term went along with a trend of increasing prices in the medium term (2001-12).³ The issue of food security was so urgent that it topped the agenda of the 2011 G20 Summit.

The turmoil seems to have passed, but most of the drivers that triggered the food price spikes of 2008, 2010 and 2012 are still at work. Demographic trends at global level, with wider prosperity and consequent change in food consumption patterns in emerging economies, are expanding the demand for food, fibre and fuels from agriculture, intensifying pressure on environmental systems. Further, this is happening in a multipolar world,⁴ i.e. in a system of international and trade relations that are much more complicated than in the past. In this context, global markets give unprecedented opportunities for the growth of the European farm and food industry, but they also leave farmers more exposed than in the past

³ P. De Castro et al. (2012), *The Politics of Land and Food Scarcity*, Alingdon: Earthscan.

⁴ C.A. Kupchan (2012), *No One's World: The West, the Rising Rest, and the Coming Global Turn*, Oxford: Oxford University Press.

to the market risk that can come from trade tensions, food-borne outbreaks or extreme climate phenomena on a global scale.

All these factors increase the uncertainty and pose unavoidable questions regarding modern agricultural policies, which nowadays have to shift their focus from market regulation to risk management tools.

All this appears to be overlooked in the CAP reform. Some say the CAP's best risk management tool is the income support of the first pillar, claiming it is a source of stable revenue for the farmers. This appears to be a false argument, since income support is a feature of normality that is overwhelmed by extraordinary events, which we define as 'crisis': an event that breaks the norms, i.e. something unexpected, unpredictable, sudden and harsh in its impact on economic activities. Moreover, to consider income support a risk management tool does not make sense in the long run, given the declining trend of public funds supporting agriculture. As already stated, the budget of the first pillar is shrinking and the number of farmers has increased. Also, from the perspective of structural consolidation, in which the number of farms will decrease in new member states, as has already happened in the old ones, income support is already irrelevant to many farmers for coping with price crises and risks related to markets and climate conditions and that are much greater than in the past.

While the CAP reform gives new legal powers to the Commission to react in the event of a sudden crisis, the draft regulations do not give priority to the challenge of setting up effective permanent risk management tools.

The symbol of this failure is the 'crisis reserve'. The first drafts of the regulations on the MFF and the CAP provided a 'crisis reserve' for farmers, to be activated in case of sudden market disruptions and placed outside the EU budget, so that it could have been used as an extraordinary source of financing and could cumulate year after year. The 2013 agreement of the heads of state and governments on the MFF instead moved it into Heading 2, i.e. into the CAP budget. Following this decision, the crisis reserve must be financed every year with a linear cut of roughly 1.3% of all direct payments above €2,000. If the reserve is not used the money is refunded the following year with no possibility of cumulation.

This decision is a call for greater public spending discipline, but it leaves narrow margins for the EU to cope with the unexpected and creates a strange situation in which there is a crisis reserve but it is almost impossible to use it. All the stakeholders and the EU institutions, in fact, tend to be exceptionally prudent when it comes to deciding whether to use the reserve, adding an element of incertitude for the farms experiencing the crisis.

Moreover, this decision does not take into account the very nature of the modern market crisis, which can be heavily influenced by geopolitical factors. The farming sector is not always directly responsible for the crisis. This was the case of the embargo of EU agricultural and food products by Russia in August 2014 in retaliation for EU sanctions on Russia for its actions in Ukraine. It took a long time and exhausting negotiations to secure the crisis reserve and to find alternative funds to finance the extraordinary measures required by the situation.

The main lesson of the 2008-12 crises is that the focus on the CAP as an economic and environmental policy no longer fits the global scenario. This does not mean that the nexus between agriculture and the environment should be ruled out, rather much to the contrary: it is *not enough*. Not only should agricultural policies have a more intense connection with environmental ones but also with other policies, such as: trade, research, energy and climate action policy, food and health and even social policies. This is not to mention development policies, which have an already established linkage with agriculture, even though the CAP policy-makers started to consider this element only recently.

All the efforts in the CAP reforms from the 1990s to 2008 aimed for the emancipation of EU agricultural policy from the isolation in which it developed, as a 'sector' policy. These overhauls strived to affirm the full acknowledgment that in developed countries 'agriculture and food' are no longer exclusively a matter of agricultural production and involve many other aspects. One of these is environmental public goods delivery. The 2008-12 crisis reinforced this awareness that there are many other aspects to be considered 'out there', above all trade, and that we should broaden the network of policies dealing with agriculture and food.

3. The role of the Parliament: “Done is better than perfect”

The February 2013 MFF agreement enabled EU ministers of agriculture and the Parliament to accelerate the CAP reform. In fact, the MFF 2014-20 adoption had been a huge procedural obstacle to the finalisation of a compromise on the legal texts of the reform proposed by the Commission almost one and half years earlier. The timetable to have the reform definitively approved in time for implementation in member states at the beginning of 2014, however, proved to be tight. It was already made clear, for instance, that the entry into force of the regulation on direct payments, which required the most intense effort of adaptation by national public administrations, had to be postponed an entire year to January 2015. In March 2014, the Parliament, the Council and the Commission had reached their own positions on the reform, but a big question mark concerned whether they were able to find a compromise on thousands of pages of legal texts by June 2014, i.e. in just four months.

At the time, Agriculture Committee MEPs had to make the most important decision in the entire legislature. There were many obstacles on the path to finalising agreement on the reform. As clarified in the preceding paragraph, the distance from the Commission view on some crucial issues was significant and many doubts concerning core elements of the legislative proposal had already emerged. Given the complexity of the legal texts, the delay in the adoption of the MFF and the consequent tight timetable made a first reading agreement difficult to reach.

Despite all these concerns and the option of rejecting the Commission proposal, the Parliament decided to accept the challenge to finalise the reform. Why? Because sometimes “[d]one is better than perfect”.⁵ This was the case of the previous CAP reform process, which in the 2003 so-called ‘mid-term review’ provided changes much more radical than those of 1999-2000.

The Parliament decided to assume its responsibility and seize the opportunity to adapt the CAP to the new times, striving to

⁵ This widespread motto is generally attributed to S. Sanders (2013), *Lean In: Women, Work and the Will to Lead*, New York, NY: Knopf.

improve the reform in the direction of farm competitiveness and risk management, while maintaining the principles of the Commission proposal on enhancing environmental sustainability. Thus the MEPs focused on two aspects: policy modularity and increasing support for the organisational features of farming.

Policy modularity referred to the ability of CAP to fit different agricultural contexts. The Parliament backed the proposal to give more flexibility to member states when they decide on the share of funds to transfer between pillars and on coupled support. Regarding the 'multilayer' direct payments scheme, the MEPs worked for the introduction of a 'redistributive payment' for the first hectares, to provide more targeted support for small and medium-sized farms. This scheme is voluntary for member states.

In contrast with the Council position, the MEPs battled to maintain compulsory support for young farmers in the first pillar and to rule out 'double funding' on green direct payment. The greening element, however, was amended to be more suitable to different kinds of agriculture, thanks to the introduction of practices equivalent to the three envisaged by the Commission proposal. Despite the Parliament commitment on progressive 'capping', i.e. the reduction of payments beyond a certain threshold, this was approved as voluntary for the states.

As for strengthening support for the organisational features of farming, the MEPs saw in the Single CMO Regulation the potential to bridge the gap left by the Commission's proposal on the competitiveness of farms and their ability to manage risk. After a challenging internal debate, the Agriculture Committee chose to focus on two distinct elements: incentivising bottom-up organisation of agri-food chain actors, and improving the 'safety net' in terms of extraordinary market measures in order to cope with possible imbalances in the transmission of price changes at different stages of the food chain. The two elements are inseparable, i.e. the management of measures that can go beyond the normal EU competition rules is attributed exclusively to producer groups and inter-branch (inter-professional) organisations. This has to be intended as an incentive for actors across the agri-food chains to organise themselves from the bottom-up, taking responsibility and triggering forms of agri-food chain 'self-management'.

The low level of organisation is still one of the main obstacles to the farm sector obtaining adequate remuneration from the market. This is why it is of major relevance to incentivise aggregation in the supply stage of the agri-food chain. The rationale for this approach can also be viewed as the strengthening of the role of producers in light of the positive experience built with the fruit and vegetable sector legislation. The revised Single CMO allows for the recognition of producers' organisations, associations and inter-branch organisations not just in the fruit and vegetable sector, but for all agricultural sectors, except for milk and sugar, on which specific sectorial rules apply.

More significant, producer groups and inter-branch organisations can be exempted – through an implementing act by the Commission – from EU competition rules in case of crisis or 'temporary market disruptions', directly managing measures that previously were an exclusive prerogative of national and EU public authorities. These measures concern the market withdrawal or free distribution of products, private storage, joint purchasing of inputs necessary to combat the spread of pests and diseases or to address the effects of natural disasters, and financing communication programmes to restore consumer confidence after food-borne outbreaks. As regards to geographical indication on products, the Parliament obtained the possibility for consortia to carry out strategies for the management of supply.

This is a relevant shift in comparison with the past. In the former legal framework, only the Commission and member states could finance the withdrawal of surpluses during a period of market disruption. The CAP reform transfers, under determined conditions, this power to producer groups and inter-branch organisations.

This set of amendments should be seen as a clear attempt to overcome the limited financial resources in the market crisis reserve. The new prerogatives of the organisations pose a major challenge for the agricultural sector as well. Nobody can say whether these provisions will work, but the MEPs preferred to aim for a more active role for farmers in the agri-food chain and adjusting other elements of the reform in the coming years.

The CAP reform undergoing a mid-term review in 2017, as foreseen in the 'whereas' part of the new regulations, cannot be

taken for granted. However, it appears clear that the reform designed in 2011 and amended in 2013 needs further adjustments to be considered a valid attempt to meet the challenges posed by changes in the agricultural and food sector at European and global level.

6. THE PERSPECTIVE OF THE (FORMER) EUROPEAN COMMISSIONER FOR ENVIRONMENT *JANEZ POTOČNIK**

1. The facts

The basic facts with which common agricultural policy grapples are more or less known but worth repeating, as they have been considered in recent years in attempts to make the CAP greener, and they will have to be considered even more in the future.

The first fact: agriculture, along with forestry, is hugely important for the environment. The reason for this is quite simple: combined, farmers and foresters in Europe manage 75% of our land use.

Second, agriculture and the environment are heavily interdependent. First of all, agriculture needs the environment: farmers depend on good environmental conditions, fertile soil, the availability of unpolluted water, pollination and other aspects of biodiversity such as the natural predators of crop pests. Many farmers also depend on keeping climate change under control so as to avoid large-scale desertification, floods or other extreme weather events. And beyond the direct impact of the environment on agriculture, farmers in many regions can benefit from an environmentally healthy and beautiful landscape by diversifying their activities to include tourism on the farm.

* I would like to thank also my former member of the cabinet Vesna Valant for her valuable contribution.

Third, the environment also needs agriculture. This need is particularly clear in situations where traditional farming systems have evolved along with wildlife species, high nature value farming being one such example. If these farming systems are abandoned or production methods are intensified in certain ways, then the precious biodiversity is lost.

And fourth, globally, and in many regions including Europe, food production is exceeding environmental limits or is close to doing so. Agriculture, including fisheries, is the single largest driver of biodiversity loss. In Europe, agriculture is the predominant land use in about half of its area, and the intensification of farming since the mid-20th century has led to a number of serious environmental problems such as water pollution, loss of biodiversity, soil erosion and loss of soil organic matter, air pollution from ammonia, and loss of valuable cultural landscapes. It is also estimated that 50% of all species in Europe depend on agricultural habitats, which are much less healthy than other habitats.

2. Where to begin? With what we already have: the CAP

It is not that we have to start from the scratch. For more than 20 years, the CAP has increasingly incorporated environmental considerations, and a series of CAP reforms has moved in the right direction for the environment, first by decoupling CAP payments from production, i.e. reducing the incentive to intensify production, then by developing policy on, and gradually increasing funding for environmental measures under, rural development programmes. In 2003, rules on cross-compliance were introduced as a condition for farmers to receive first-pillar payments, which helped to underpin effective implementation of relevant environmental legislation on farms.

The Commission's 2011 CAP reform proposals went one step further, attaching specific greening requirements to farmers' direct payments. The underpinning principle was 'public money for public goods', with agriculture having an important role in producing public goods, many of which are highly valued by society but not rewarded by the market. The most significant of these public goods are environmental. At the same time, through

the CAP, farmers are directly supported by the EU budget, thus by European taxpayers. As a condition of this support, and for the CAP to gain credibility in the eyes of stakeholders other than farmers, the link between direct payments and respecting environmental legislation and environmental practice was introduced. The three greening elements put forward in the Commission's proposal were crop diversification, the protection of permanent grassland, and the requirement for farms to designate 7% of their arable land as an unfarmed ecological focus area (EFA). They were proportionate in terms of the burden imposed, and were supported by the impact assessment.

These proposals were greatly watered down by the Council and Parliament, excluding many farmers from the scope of rules on crop diversification and permanent grassland, reducing the EFA to 5% and in general introducing a very large degree of flexibility for member states. This makes it difficult to predict the actual benefits for the environment.

Nonetheless, when deciding how to implement the latest CAP reform, member states would do well to bear in mind the reality of the simple equation that the more they do through implementation of EU environmental regulation, the less they have to pay with public money; and that if they fail to make the right choices in terms of regulating environmentally damaging practices, there will be a high budgetary price to pay, as the only alternative will be to pay farmers to remedy the damage already done.

At a time of economic hardship and related budgetary constraints, it would be odd for an administration not to look very closely at where to draw the line between mandatory requirements and incentive payments. Many member states, if they examine this question with an open mind, will ask themselves how long they can afford to go on paying for things which are essentially no more than good practice in terms of land management.

3. The big picture

When looking at the future challenges one should not underestimate the influence of major global developments, firstly those that began at the United Nations Conference for Sustainable Development (UNCSD) in 2012 in Rio de Janeiro. Many, including

myself, were not happy with the outcome or its level of ambition, but the commitment to develop so-called sustainable development goals proved to be greater than expected. The 'post-2015 process' of intergovernmental negotiations that is currently taking place in New York under the leadership of the United Nations is indeed very promising. The essence of this process is seeking agreement on a global commitment to a transformative agenda for sustainable development. This agenda does not target only developing nations, as does the Millennium Development Goals (MDGs), but all nations around the globe. In a way, it is even more challenging for the developed world, which is very much addicted to unsustainable ways of production and consumption. The European Union is, of course, an important part of that process and our leadership role needs to be maintained. We should be careful that we do not shy away from being the driver and instead become a follower.

For the transformative agenda to be efficient some conditions need to be met. Transformation requires changing the development and growth model. This means that we have to fully engage in the private sector and existing business investment capacity, including that of the financial sector. Domestic policies need to fit the purpose and domestic public financial resources should be channelled into building transformational capacity and transformation itself. We also have to use all the potential of international cooperation, from trade to science and research cooperation and from technology transfer to capacity building. The direct help provided through public financing in the form of Official Development Aid (ODA) should continue.

The 'post-2015 process' of intergovernmental negotiations should be concluded by autumn 2015. The UNCSO-mandated Open Working Group Proposal for Sustainable Goals, based on substantive contributions of all the countries and stakeholders, included 17 goals and for each goal a number of targets and indicators. The most important goals for the future of agriculture are: end hunger, achieve food security and improved nutrition and promote sustainable agriculture; ensure availability and sustainable management of water and sanitation for all; protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss.

Another major global development is connected to the United Nations Framework Convention on Climate Change (FCCC). After the failure of the 2009 Copenhagen Conference of the Parties (COP), the international community actively engaged and prepared for the summit next year in Paris. Signs in the international community are encouraging: one can clearly identify not only higher levels of awareness of the importance of addressing climate change more seriously, but also a readiness to actually do something about it.

Encouraging messages also emerged from the United Nations Convention on Biological Diversity (CBD), which reached some landmark decisions in 2010 in Nagoya. They included the “Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization to the Convention on Biological Diversity”, the “Strategic Plan for Biodiversity 2011-2020” and the “Aichi Biodiversity Targets” and the “Strategy for resource mobilization in support of the achievement of the Convention’s three objectives”. Means of implementation were further detailed in the 2012 Hyderabad and 2014 Pyeongchang COP meetings.

Despite the many past agreements and commitments that were not met in practice, it is of vital importance to understand that there is no real alternative to a sustainable future, that there are signs that the world is ready to more seriously engage in this process and that each one of us will have to play his part. Changes in existing agricultural practice will play a crucial role in this global transformation process.

4. Europe’s economic hardship and what it means for the CAP

Another factor that will greatly influence future developments in agricultural policy is the economic reality in the European Union, now and in the future. In recent years we have concentrated our attention on addressing the financial and economic crises and on solving the high level of indebtedness of some of our economies. But mere sound macroeconomic policy is not enough to improve European competitiveness vis-à-vis new and emerging global players. There are clear signs that this task is still ahead of us and one can realistically expect that the future economic situation in

Europe will remain challenging. This will likely limit to an even greater degree public financing possibilities, and the reasons for eligibility will have to be really convincing. Using public money for delivering public goods is a strong argument, and it will have to be exploited more assiduously in the context of future common agriculture policy. Preventing disease or pollution is much better than curing an illness or cleaning polluted land or water. The reason is obvious – prevention is much cheaper than the cure.

The latest CAP reform came into effect on 1 January 2015. It is early to say what its impact on the environment will be, although it may well fall short of expectations. Unless member states opt for an ambitious implementation, we may well be faced with the conclusion that CAP reform has not delivered much improvement for the environment.

What should be done in future very much depends on deliverables of the reform. There may be positive elements on which it will be possible to build; if not, the policy approach will have to be reconsidered. Further reflection could take place on using more results-based environmental payments, instead of the current, rather prescriptive approach. There could be questioning of the current – and more and more difficult to justify – balance between the first and second pillars (and the actual concept of pillars itself), and there may be future consideration of alternative ways to support environmental objectives on farms and in forestry areas (including the option of having a separate environmental fund). Another consideration could also be whether a prescriptive approach with very detailed requirements and many derogations and exemptions on implementation of greening measures is viable, and, in the context of new legislative rules for the CAP (ordinary legislative procedure with much more involvement of the European Parliament), whether such an approach still fits the purpose. A more outcome-oriented policy based on defining principles and priorities for the environment in the CAP while leaving detailed implementation to national and regional authorities could be an alternative to the current complex set of rules.

5. No way around it: We're in this together

It may be early for such speculation, but one thing is sure: the problems related to the major impact of agriculture on the

environment will remain – globally, in Europe, and on every single farm. The issue of how to reach a step-by-step reduction in the negative environmental impact of agriculture and how to make the agriculture truly sustainable in all respects (economic, social and environmental) will not disappear from global or EU agendas. We of course need a viable and vibrant farming sector in Europe – but it is also crucial that we find a way to do it while avoiding further pollution and damage to the environment and human health.

The transformation of our societies, of the way we produce and consume, the way we live, is inevitable. Laws of physics are also valid in our economies. For the first time, we humans are, with our activity, seriously affecting the balance of our planet, and our responsibility, individual and collective, for our common future is incomparable to the responsibility of those sharing the very same planet a couple of generations ago.

It bears repeating: our countryside, 75% of our land in Europe, is managed by farmers and foresters. While they may own their land, how they treat it affects the rest of us. In that sense, they are guardians of our environment. No one can play that role in place of them, but neither can they do it alone. They need help and can continue to get it via future – but properly reformed – common agricultural policy.

PART III

**POLITICAL ECONOMY
PERSPECTIVES**

7. THE MULTI-ANNUAL FINANCIAL FRAMEWORK AND THE 2013 CAP REFORM

*ALAN MATTHEWS**

1. Introduction

The 2013 reform of the EU's common agricultural policy (CAP), the first under the ordinary legislative procedure, took place at the same time as the negotiations on the EU's multiannual financial framework (MFF) for the period 2014-20. This coincidence in timing had important implications for the outcome of the 2013 CAP reform, which are explored in this chapter.

Three linkages are highlighted in the discussion. First, the direction taken by the 2013 CAP reform was shaped, in part, by the need to create a narrative to legitimise and defend the share of the CAP budget in the 2014-20 MFF. Of course, the environment for EU farming had also changed markedly since the completion of the Health Check reform in 2008. Addressing the fallout from the global food price spike and increased price volatility, the growing attention to environmental and climate change challenges, and the need to maintain territorial balance in rural areas, particularly in the new member states, would have been sufficient to motivate a further reform of the CAP. However, there was an urgency to adapt the CAP to take these changes into account given the fact that the

* This chapter is based on a working paper prepared as part of the European Parliament project "The First CAP Reform under the Ordinary Legislative Procedure: A Political Economy Perspective" led by Louise Knops and Johann Swinnen of the Centre for European Policy Studies, Brussels. I am grateful to the editors and to Alan Swinbank for helpful comments on earlier versions.

CAP budget was also up for discussion in the context of the MFF negotiations.

The fact that the CAP budget share could not be taken for granted had been underlined by a leaked draft of an earlier Commission response to the budget review mandated as part of the 2007-13 MFF, which suggested, “[Future reform of the CAP] must stimulate a further significant reduction in the overall share of the EU budget devoted to agriculture, freeing up spending for new EU priorities” (CEC, 2009: 17).¹ Given the dominant role of the CAP budget in overall EU spending, it has always been a factor in MFF negotiations. What made the 2014-20 MFF negotiations different was the clear articulation of an alternative set of spending priorities (the Europe 2020 strategy) combined with wide-ranging fiscal austerity in Europe, which strengthened the resolve of the net contributor countries to limit the increase in EU budget ceilings and even to obtain a reduction relative to the 2007-13 period. Thus the option in previous MFFs to increase spending in other areas while also allowing an increase in CAP spending by raising the overall MFF ceiling was not an option on this occasion.

In seeking to defend the share of CAP spending in the next MFF, Commissioner for Agriculture and Rural Development Dacian Cioloș needed allies around the Commission table. He gained the support of the environment and climate change commissioners and, ultimately, the College of Commissioners, to maintain the CAP budget provided that the reformed CAP placed greater emphasis on delivering results for the environment and climate change. Arguably, the CAP proposals would have moved in this direction in any case given that there was some support for focusing CAP expenditure more on public goods in the public consultation held to gather ideas for the CAP reform (CEC, 2010), but the need to win support around the Commission cabinet table confirmed this momentum.² The result was that the Commission

¹ The draft can be downloaded from the website of Le Groupe PAC 2013, www.pouruneautrepac.eu/wp-content/uploads/2009/11/draft-document-reforming-the-budget-oct-2009.pdf-0.

² Euractiv (2011) proposed a further explanation for the Commission’s decision to leave support for farmers largely unchanged. It points to a Franco-German understanding whereby Germany agreed to keep the

MFF proposal, when it appeared, contained a ceiling for CAP expenditure which surprised and delighted farm groups. At this stage, the linkage with the MFF played an important agenda-setting role for the CAP reform proposals.

A second linkage was created in the negotiation phase of the CAP reform. In principle, once the CAP reform proposals had been published by the Commission in October 2011, the CAP negotiations could have continued independently of the MFF negotiations. The agricultural negotiators could have discussed the structure and design of direct payments, market management mechanisms, rural development programmes and horizontal management and financing issues in isolation from the budget talks. One could envisage the Agriculture Council³ and Parliament approving the CAP regulations even in advance of the conclusion of the MFF negotiations.⁴

Politically and practically, however, this was never likely to be the case. Already in October 2011, the Parliament secretariat had noted that the general adoption of the CAP legislative proposals by the co-decision procedure would probably not be possible before the inter-institutional agreement (IIA) on the financial perspectives 2014-20 (Adinolfi et al., 2011). In its formal response to the Commission's proposed MFF in June 2012, the Parliament made clear that it would adhere to the principle that 'nothing is agreed

current CAP budget unchanged in exchange for the introduction of 'transition regions' in the bloc's cohesion policy. See www.euractiv.com/specialreport-budget/cap-budget-news-506285.

³ Formally, it is the Agriculture and Fisheries Council, but this shortened form is used throughout this chapter.

⁴ The MFF sets the ceilings for expenditure on Heading 2 "sustainable growth and natural resources" and the sub-heading for "market-related expenditure and direct payments". Direct payment ceilings are set in the CAP regulation on direct payments. While the practice is to adapt the direct payment ceilings to the budgetary resources available in the regulation, this does not have to be the case. The financial discipline mechanism exists to ensure that, in any budget year, the appropriations for direct payments do not exceed the financial resources available. If the CAP negotiators overestimated the allocation to the CAP when the MFF was eventually agreed, this mechanism could be used to ensure CAP expenditure stayed under the MFF ceiling.

until everything is agreed' as an appropriate working method (European Parliament, 2012a).⁵ A number of stakeholder groups/member states/MEPs argued that their agreement on the scope of the greening measures in Pillar I was dependent on the scale of the 'compensation' available from the Pillar I budget.⁶ The fact that both the Council and Parliament deferred their approval of their respective mandates on the CAP reform dossier until March 2013, when the budget figures for the CAP were known, delayed the start of the informal trilogues on CAP reform. Thus a consequence of this scheduling linkage was to compress the time available to conclude the CAP negotiations given the preference by all sides that an agreement had to be reached before the end of the Irish presidency in June 2013. I argue that it also strengthened the hand of those arguing for minimal changes in the CAP regulations in the negotiations.

Third, the MFF and CAP negotiations were not only linked by the volume of resources to be made available for agricultural policy in the period 2014-20. On this occasion, the General Affairs Council presidency in its initial draft of the 'negotiating box'⁷ (which eventually evolved into the European Council's conclusions on the

⁵ The Council may have adopted a somewhat different working method. In deciding how to advance the MFF dossier in July 2012 following the Danish presidency's first presentation of the negotiating box, the Cyprus presidency proposed that "a strict demarcation will be kept between the financial and non-financial issues. Detailed examination of the Commission's sectoral legislative proposals will continue actively in the relevant working parties, leaving aside the financial and horizontal aspects" (Council of the European Union, 2012a).

⁶ For example, COMAGRI in its opinion on the MFF adopted on 18 September 2012 stressed "that the transition to a regional model and to further greening of the CAP in the next multiannual period will have a severe impact on farmers, and that extra cuts in the overall CAP budget would consequently put even more pressure on the position of individual farmers".

⁷ The 'negotiating box' is a document prepared by the Council presidency and discussed in the General Affairs Council, setting out the allocations, methodological provisions and options on all MFF elements. The document evolves over time as the negotiations progress and the views of member states are taken into account, and provides the basis for the eventual agreement at the European Council.

MFF in February 2013) explicitly introduced a number of elements that the Parliament held should be decided under the ordinary legislative procedure (Council of the European Union, 2012b). This inclusion of particular CAP elements in the MFF agreement created a specific dynamic around the inter-institutional negotiations on these issues. For example, when a political agreement between the institutions was reached in June 2013 under the Irish presidency, these MFF-related issues were left to be negotiated later, in September 2013, under the Lithuanian presidency. Although the Parliament eventually gained some small concessions in the final settlement, its role as co-legislator on these issues was certainly diminished by virtue of their inclusion in the European Council MFF conclusions.

The chapter proceeds as follows. Section 2 briefly reviews the outcome of the MFF negotiations for the size of the CAP budget. Section 3 assesses how the sequencing of the MFF and CAP negotiations affected the outcome of the latter. Section 4 discusses the controversy around the CAP legislative issues included in the MFF dossier and how these were resolved. Section 5 presents the conclusions.

2. The size of the CAP budget

The Commission published its proposal for the new MFF regulation for the period 2014-20 in June 2011 (CEC, 2011a). It proposed a financial framework with 1.05% of gross national income in commitments, translating into 1% in payments from the EU budget. A further 0.02% in potential expenditure outside the MFF and 0.04% in expenditure outside the budget would bring the total figure to 1.11%.⁸

In absolute terms, the Commission proposed an MFF expenditure ceiling of €1,025 billion for the 2014-20 period compared to €994 billion in the 2007-13 period (all in constant 2011 prices). This represented a modest 3% increase in real terms over the seven years. However, if expenditure outside the MFF and outside

⁸ MFF commitments represent a ceiling for the annual budget headings and actual commitment appropriations are often lower, except for cohesion spending where the MFF ceilings are carried over automatically into the annual budgets.

the budget is included, the 2014-20 total amounted to €1,083 billion, which is a 9% increase on the previous period (Little et al., 2013).

The initial Commission proposal for agriculture in the MFF surprised many because it maintained the level of CAP spending in nominal terms. Indeed, Commissioner Ciolos even claimed that agriculture spending had been maintained in real terms once elements related to agriculture but not included in the CAP budget were taken into account, using the data in Table 7.1. The Commission proposal for the CAP was based on freezing the MFF 2014-20 ceilings at the level of the 2013 ceilings in nominal terms. No allowance was made for expenditure on public intervention or other crisis expenditure in this MFF total, but a crisis reserve allocation was placed outside the formal MFF as an additional item.

Table 7.1 The Commission's proposed budget for agriculture in the 2014-20 MFF (constant 2011 prices)

| | |
|---|---------------|
| Total proposed budget 2014-20 | €386.9 bn |
| Of which: | |
| Pillar I - direct payments and market expenditure | €281.8 bn |
| Pillar II - rural development | €89.9 bn |
| Food safety | €2.2 bn |
| Most deprived persons | €2.5 bn |
| Reserve for crisis in the agricultural sector | €3.5 bn |
| European Globalisation Fund | Up to €2.5 bn |
| Research and innovation on food security, the bio-economy and sustainable agriculture (in the common strategic framework for research and innovation) | €4.5 bn |

Source: CEC (2011c).

The Parliament set down an early marker on the size of the CAP budget it wanted to see in the coming MFF period. In adopting its resolution in May 2011 responding to the Commission's Communication on the CAP towards 2020 (rapporteur A. Dess), it called for the EU agricultural budget in the next financing period "to be maintained at least at the same level as the 2013 agricultural budget." The following month, in adopting its resolution on the report of its special committee on the policy challenges and

budgetary resources for a sustainable European Union after 2013 (the SURE committee), the Parliament reaffirmed that “the amounts allocated to the CAP in the budget year 2013 should be at least maintained during the next financial programming period”.

An ambiguity remained, however, in that the Parliament’s resolutions did not specify whether the CAP budget should be held constant at the 2013 level in real or nominal terms. In responding to the Commission’s formal legislative proposal on the MFF published in June 2011, Parliament’s Agriculture and Rural Development Committee (COMAGRI) in its opinion on the Budgets Committee resolution (rapporteur P. De Castro) adopted a hard line. COMAGRI called for the cuts proposed by the Commission to be rejected and for Parliament to call for an amount corresponding to the ceilings for the current programming period. Specifically, COMAGRI interpreted “the maintenance of CAP spending at least at the same level” as referring to expenditure in real terms. It wanted the Council to increase Heading 2 of the MFF dealing with sustainable growth and natural resources and the sub-heading for CAP direct payments and market-related expenditure to €420.7 billion and €336.7 billion respectively, corresponding to a freeze in real terms.

It took the European Council four attempts based on proposals from the Council President Herman Van Rompuy (two leading up and during its November 2012 meeting, and two leading up to and during its February 2013 meeting) to finally agree on MFF conclusions. Van Rompuy’s first proposal would have seen significant reductions in both Pillar I and Pillar II allocations compared to the Commission’s proposal, but the Pillar I reductions were partly reinstated in his second proposal.⁹ By the end of the February 2013 European Council meeting, an additional amount had also been added to the CAP Pillar II allocation (Table 7.2).

⁹ For details, see <http://capreform.eu/no-decision-on-mff-budget-at-first-attempt/>.

Table 7.2 CAP allocations in the 2014-10 MFF, € billion (2011 prices)

| | MFF 2007-13 | Commission July 2012 proposal | European Council President's first proposal 13 Nov 2012 | European Council President's second proposal 22 Nov 2012 | European Council final MFF conclusions 8 Feb 2013 |
|-------------------------------------|-------------|-------------------------------|---|--|---|
| MFF total commitment appropriations | 993.6 | 1,033.2 | 973.2 | 972 | 960 |
| Heading 2 | 420.7 | 386.5 | 364.5 | 372.2 | 373.2 |
| Of which: | | | | | |
| CAP Pillar I | 336.7* | 283.1 | 269.9 | 277.9 | 277.9 |
| CAP Pillar II | 95.5 | 89.9 | 83.7 | 83.7 | 84.9 |

Note: *Before modulation and other direct transfers to rural development.

Sources: Little et al. (2013); European Council Draft Conclusions SN37/12 dated 13 November and 22 November 2012, respectively.

In its response to the European Council conclusions, the Parliament decided not to challenge the overall level and distribution by heading of the proposed MFF, accepting the particularly difficult economic and financial context at the time of this decision. Instead, it focused on improving the implementation of the MFF by introducing greater flexibility to allow the ceilings to be used to the fullest possible extent, new arrangements relating to the MFF revision and the unity and transparency of the budget, as well as a further engagement in reforming the financing of the EU budget. However, the Parliament has insisted that this should not be perceived as a precedent and it has reiterated its position that the MFF figures, and every other part of the European Council's relevant political agreement, are subject to negotiations with the Parliament (European Parliament, 2014). Thus the European Council MFF conclusions on the size of the CAP budget provided the backdrop against which the negotiations on the new CAP regulations took place.

3. Sequencing of the budget and CAP negotiations

From the outset, the COMAGRI negotiators adopted the position that Parliament would only adopt its final position on CAP reform once the MFF ceilings had been decided.¹⁰ There is a view that this linkage between the MFF and CAP negotiations delayed the start of negotiations on the CAP and, given the general acceptance of the need to conclude negotiations by the end of the Irish presidency's term if the new reforms were to enter into force on time in 2014, this may have compressed the time available for CAP negotiations, possibly weakening the Parliament's position in the co-decision process.

Indeed, the linkage with the MFF negotiations probably did shorten the time for the negotiations on the CAP regulations. If the European Council had agreed on their MFF conclusions in November 2012 as was the original intention, it is likely that the Council's general position could have been agreed before March 2013. Whether the Parliament's negotiators would have been ready to start informal trilogues before March 2013 is less clear. The COMAGRI rapporteurs pressed ahead and prepared their draft opinions by May 2012, which were then open for amendment that summer. Given the volume of amendments to the rapporteurs' draft opinions and the need to consolidate these amendments and then to vote on them, it is possible that this process could not have proceeded more rapidly than it did. On balance, however, it seems probable that the CAP trilogues could have begun a little earlier if the MFF negotiations were not taking place in parallel.

However, even if the informal trilogues had started earlier in 2013, it is not clear whether that would have altered the balance of concessions in the final outcome. Interviewees asked about the impact of the compressed time for negotiations on the outcome gave mixed responses (Knops & Swinnen, 2014). Some felt that the very intense negotiating period between April and September 2013 helped to concentrate minds on reaching an agreement, while others noted that it also rushed the drafting phases and could have put

¹⁰ COMAGRI meeting on 20 March 2012 with the Parliament's Budget Committee rapporteurs on the MFF regulations.

either player in a 'take it or leave it' position. However, there is no clear evidence that a longer negotiating period would have changed the outcome or led to a different agreement, with either the Council or the Parliament succeeding in achieving more of their original goals.

What is clearer is that the insistence of the Parliament that no serious CAP negotiations should begin until the budget numbers were known worked to strongly favour those holding to a status quo position on the reform proposals (for example, farm groups) while disadvantaging those who sought a more radical change in the orientation of the CAP (for example, environmental groups seeking a greater focus on environmental public goods). In the agenda-setting phase of CAP reform (which took place largely between Commissioners) the size of the budget proposed for the CAP in the MFF could be made contingent on the scale of the reorientation of the CAP promised by the agriculture commissioner.

But once the MFF was adopted by the European Council and its overall size and ceilings accepted by the Parliament in early 2013, the threat of a budget cut no longer played a role in determining the outcome. Farm groups and status quo-minded member states and MEPs could work to weaken the ambition of the greening proposals without having to worry that this could lead to a further reduction in the CAP budget (Matthews, 2013). Environmental groups and reform-minded member states and MEPs, on the other hand, had to argue their position without being able to wield the threat that the budget could be reduced if their proposals were not accepted. In fact, status quo-minded actors attempted to turn the argument around to suggest that the scale of the greening required justified an even larger CAP budget. This contrasts with the argument within the Commission in the agenda-setting phase that the CAP budget would only be maintained provided an ambitious greening strategy was pursued.

4. CAP-related issues in the MFF

A contentious issue in this CAP reform process was the inclusion in the MFF negotiating box (under the responsibility of the General Affairs Council) of issues which would ultimately be incorporated into the new CAP regulations (to be decided by co-decision between the Parliament and the Council in its formation as the Agriculture

Council). The MFF Regulation is adopted by the General Affairs Council by unanimity after having obtained the consent of the Parliament (the Parliament may approve or reject the Council's position but not adopt amendments). The sector-specific legal acts are subject to the ordinary legislative procedure (co-decision), which means that the Council and the Parliament decide together and that the Council decides by qualified majority.

The point is not that the various CAP-related issues included in the MFF negotiating box risked being decided using the MFF decision rules (which would have severely limited the potential input and involvement of the Parliament). The role of the MFF Regulation is solely to establish the ceilings for the main categories of expenditure (known as 'headings') for the annual EU budgets as a whole and for the main 'sub-headings'.¹¹ All other CAP-related issues were ultimately included as provisions in the revised CAP regulations that were subjected to the co-decision process. However, the issues on which the European Council had pronounced in its MFF conclusions were given a privileged status by the Agriculture Council negotiators in the trilogue discussions. Initially, the Council's position seems to have been that the European Council's MFF conclusions on CAP issues were non-negotiable. The Council moved very slightly from this position in the last days of the Irish presidency, but when a political agreement was reached on the revised CAP regulations on 26 June 2013, all of the issues included in the MFF conclusions were in square brackets and there was agreement that these would be addressed later. By late August 2013 the Parliament's CAP regulation rapporteurs had identified their priorities among the outstanding issues (distinguishing between those issues on which they wanted to insist on changes in the Agriculture Council's position, and those issues on which they were prepared to accept the Council's position provided concessions were made on their priority areas). On this basis, a political agreement including the MFF-related CAP issues was finally reached between the institutional negotiators at the informal trilogue meeting on 24 September 2013.

¹¹ Article 312(3) of TFEU: "The financial framework shall determine the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations."

Some historical perspective is gained by looking at how CAP issues were addressed in the 2007-13 European Council MFF conclusions when the consent procedure was still in place. These conclusions set out the ceilings for commitment appropriations for Heading 2 “preservation and management of natural resources”, the sub-heading for market-related expenditure and direct payments, and the Rural Development Regulation. They also addressed the issue of voluntary modulation of funds from Pillar I to Pillar II and specified that modulated funds would not be subject to national co-financing and minimum spending per axis rules set out in the Rural Development Regulation. While the Commission was invited to allocate rural development expenditure between the member states (in the case of the EU-15, subject to a key to be agreed by the Council), the European Council set down some markers in terms of minimum allocations and also allocated specific amounts to individual member states on rather unclear criteria. The individual member state allocations were not formally announced until the Commission approved in September 2006 a decision fixing the total rural development budget for the period 2007-13 (which also took into account the accession of Bulgaria and Romania as well as cotton and tobacco transfers) and including a subdivision in budget allocations by year and by member state (CEC, 2006).

It seems, however, that individual member states had a good idea following the European Council meeting of their individual rural development allocations even if these were not finally confirmed until the Commission’s decision the following September.¹² These CAP issues in the European Council’s MFF conclusions were in nature broadly financial but did not otherwise touch on the content of the CAP policy.

In the preparations for the 2014-20 MFF, there was a more extensive discussion of CAP-related issues in the MFF dossier. These began at an early stage. The progress report of the Polish presidency in December 2011 mentions that a number of CAP issues were being discussed in the General Affairs Council’s MFF working

¹² For example, Irish Prime Minister Bertie Ahern was able to report the Irish rural development allocation in a newspaper article the day after the European Council meeting concluded. See “Totting up the many benefits for Ireland and EU of new budget deal”, *Irish Times*, 19 December 2005.

group (Council of the European Union, 2011). They included the overall volume of resources for the CAP budget, the pace and ambition of internal and external convergence, whether to pursue greening in Pillar I or Pillar II, the size of any potential green payment in Pillar I, the role of the crisis reserve and the rural development allocations by member state. Thus, from an early stage, the Council's MFF working group was discussing both the MFF ceilings as well as the future shape of the CAP.

The General Affairs Council had its first opportunity to debate the ceiling for Heading 2 in the MFF at its April 2012 meeting. The Danish presidency circulated a draft text for that section of the MFF negotiating box, which covered the following issues (Council of the European Union, 2012c):

- the overall level of commitment appropriations for Heading 2, as well as the ceiling for the sub-heading for market-related expenditure and direct payments (no figures were included at this stage);
- level and model for redistribution of direct support – details of the possible convergence model across member states;
- capping of support for large farms;
- the method for financial discipline;
- other elements relating to Pillar I (an apparent reference to possible linear reductions in direct payments);
- greening (of direct payments);
- flexibility between pillars;
- principles for distribution of rural development support;
- co-financing rates for rural development support.

In addition, under common provisions relevant for all of the structural funds, including the European Agricultural Fund for Rural Development, it was proposed to bring them together under a common strategic framework to maximise their effectiveness. Further, it was proposed that all the structural funds would be subject to macroeconomic conditionality. The Commission would be empowered to request a member state to amend its partnership contract and the relevant programmes to support the implementation of Council recommendations under the EU's economic governance arrangements. Where a member state failed to comply with the request, the Commission would be empowered

to suspend some or all of the payments to the programme concerned.

At the end of the Danish presidency's term in June 2012, the presidency presented for the first time a draft version of the full MFF negotiating box, including text on Heading 2 (Council of the European Union, 2012b). The CAP-related issues just enumerated remained part of the text in this and successive drafts of the negotiating box up to and including the European Council conclusions on the MFF in February 2013. The positions of the Council and the Parliament on these issues are reviewed in detail in Matthews (2014).

The inclusion in the Council's MFF negotiating box and ultimately in the European Council's MFF conclusions of issues covered by the legislative proposals on the CAP was clearly a problematic element in concluding the 2013 CAP reform. In its comprehensive resolution of 23 October 2012 outlining its views on the MFF, the Parliament noted (European Parliament, 2012b):

78. ...that any political agreement reached at European Council level constitutes no more than a negotiating mandate for the Council; insists that after the European Council has reached a political agreement, fully-fledged negotiations between Parliament and the Council need to take place before the Council formally submits for Parliament's consent its proposals on the MFF regulation;

79. Reiterates that, according to the TFEU, Parliament and the Council are the legislative bodies and the European Council does not have the role of legislator; stresses that the negotiations on the legislative proposals relating to the multiannual programmes will be pursued under the ordinary legislative procedure.

Three questions can be framed to better understand this problem. First, what is the distinction between the budgetary and the legislative aspects of the MFF agreement? Second, should the European Council (and the General Affairs Council in its preparation of draft MFF conclusions in the negotiating box) be discouraged from pronouncing on legislative issues in their MFF deliberations? Third, if the European Council does address legislative issues in its MFF conclusions, what is the status of these

conclusions on legislative aspects when the relevant Council formation and Parliament negotiate on the final legislation?

At a formal level, the distinction between MFF budgetary and legislative aspects is clear. Article 312 TFEU provides that the Council, acting in accordance with a special legislative procedure, shall adopt a regulation laying down the MFF. The purpose of the MFF is to ensure that Union expenditure develops in an orderly manner and within the limits of its own resources. Specifically, the MFF determines the amounts of the annual ceilings on commitment appropriations by category of expenditure and of the annual ceiling on payment appropriations. Thus the budgetary aspects of the MFF are very limited, confined to setting annual ceilings at the EU level for the MFF as a whole and for its major headings. The MFF regulation must be adopted unanimously by the Council after obtaining the consent of the Parliament. All other matters belong formally to legislation adopted under the ordinary legislative procedure where the Parliament has equal status as co-legislator with the Council.

The European Council has the responsibility to provide the Union with the necessary impetus for its development and shall define the general political directions and priorities thereof. However, it cannot exercise legislative functions (Article 15, TEU); legislative and budgetary functions are exercised by the Council jointly with the Parliament (Article 16, TEU). In practice, it has become the norm that the actual decision on the MFF ceilings is taken by the European Council and later confirmed by the General Affairs Council. In negotiating the 2014-20 MFF, the MFF negotiating box was developed by successive Council presidencies but the final agreement was reached at the European Council on the basis of successive drafts prepared under the responsibility of the European Council President Van Rompuy, who assumed control of the process in October 2012 (Kölling & Serrano Leal, 2014).

It seems appropriate that the MFF negotiations should also focus on legislative matters given that the MFF is intended to reflect the political priorities of the Union. It is neither possible nor sensible to restrict or prevent the Council nor the European Council from drawing conclusions on legislative issues when discussing the MFF

regulation.¹³ Instead, it seems more useful to focus on the third question: the status of these conclusions in the subsequent negotiations between Council and Parliament.

The Parliament addressed this question in its resolution on the lessons to be learned from the 2014-20 MFF negotiations and the way forward (European Parliament, 2014). The resolution stated that Parliament:

[d]eplores the fact that, despite Parliament's strong objections, all successive 'negotiating boxes' presented by different Council presidencies and, ultimately, the European Council MFF agreement of 8 February 2013 contained a significant number of legislative elements that should have been decided under the ordinary legislative procedure; stresses that the legally required unanimity in the Council on the MFF Regulation could only be achieved by pre-empting certain major policy changes in EU sectoral policies, thereby hindering, in clear contradiction with the Treaties, Parliament's prerogatives under co-decision, and in particular its right to amend on an equal footing with the Council...

¹³ Nonetheless, the Parliament wants to be fully involved in these discussions and felt that its views were not heard in the current round. Expressing its dissatisfaction in its resolution of 3 July 2013 on the MFF (European Parliament, 2013), the Parliament stated that it: "[15.] [v]iews as deeply regrettable the procedure that led to this agreement on the MFF 2014-2020, which in reality has had the effect of depriving Parliament of its true budgetary powers as provided for in the TFEU; considers that the numerous meetings held over the past few years between its delegation and the successive Council presidencies on the margins of the relevant General Affairs Council meetings, as well as its participation in informal Council meetings dealing with the MFF, served no clear purpose, as they had no impact on the spirit, calendar or content of the negotiations or on the Council's position, including the need to distinguish the legislative from the budgetary aspects of the MFF agreement; [16.] [c]alls, therefore, on its Committee on Budgets, in cooperation with its Committee on Constitutional Affairs, to draw the necessary conclusions and to come forward with new proposals on the modalities of such negotiations, in order to ensure the democratic and transparent nature of the whole budgetary procedure."

In response, it called for a standard formula recalling the provisions of Article 15(1) TFEU to be included in the conclusions of the European Council.

In assessing the Parliament's ability to fully exercise its role as co-legislator, a distinction might be drawn between legislative measures that directly influence the net payment position of each member to the overall budget and other legislative measures. The budgetary aspect of the MFF relates to the setting of overall ceilings for Union expenditure in total and on individual MFF headings. However, in reaching unanimous agreement in the European Council on these figures, individual member states' negotiating positions are very influenced by the impact of these figures on their net payment position. Politically, in the absence of a transparent mechanism to achieve an agreed redistributive outcome, it is hardly conceivable that member states will agree to the overall ceilings without knowing the specific allocations they will receive under directly allocated programmes (cohesion and CAP Pillar I and Pillar II spending).

The Parliament has on many occasions deplored this *juste retour* approach to the MFF negotiations.¹⁴ It has based much of its justification for the reform of the EU's own resources regime on the

¹⁴ In its resolution drawing lessons from the experience of the 2014-20 MFF negotiations, the Parliament noted its deep concern over "...the fact that budgetary debates in the Council have been for many years poisoned by the logic of 'fair returns' instead of being driven by the logic of the European added-value...", and stated its belief "that this logic also prevailed in the way the MFF agreement was struck by the European Council on 8 February 2013; considers it regrettable that this was reflected in the fact that the national allocations, especially from the two biggest areas of expenditure in the EU budget, agriculture and cohesion policy, were determined at that moment; criticises, in particular, the increased number of special allocations and 'gifts' granted in the course of negotiations between Heads of State and Government, which are not based on objective and verifiable criteria, but rather reflect the bargaining power of Member States, trying to secure their national interests and maximise their net returns; denounces the lack of transparency in striking this agreement and the reluctance of the Council and the Commission to provide Parliament with all relevant documents; highlights that the European added value should prevail over national interests" (European Parliament, 2014).

argument that it will reduce the influence of this way of thinking on the final MFF outcome. But even under a reformed EU own resources system member states will still remain focused on their expected gross receipts from EU spending programmes. The ability to adjust these gross receipts is an important instrument in the hands of the European Council presidency in seeking unanimous agreement on the MFF ceilings (in the case of the CAP, both allocations under Pillar I and Pillar II are involved). Until the European Union moves towards an explicit recognition of the EU budget's redistributive role, the Parliament will find it very difficult to secure a change in these allocations in the trilogue process, given the balancing role that these financial allocations play in securing this unanimous agreement. This is confirmed by the recent experience where the European Council's conclusions on the allocation of Pillar I and Pillar II were confirmed in the final agreement. Thus, while formally part of the co-decision process, it is hard to see how the Parliament will get to exercise its role as co-legislator on these issues until a financial mechanism to achieve acceptable net positions is introduced to explicitly acknowledge the redistributive role of the EU budget.

As regards the remaining legislative issues that might be discussed in the Council's MFF negotiating box and the European Council's MFF conclusions, where the Council and Parliament hold different views, there is no reason why the Parliament's role as co-legislator should not be fully respected. In practice, on this occasion, the Irish presidency was more reluctant to move away from its mandate on these issues than on other issues. It was only in the closing stages of the informal trilogues that it made an offer to accept a minimum level of mandatory degressivity on large payments, in return for the Parliament's agreement to take all other MFF issues off the table. In the event, the MFF issues were shelved until finally concluded under the Lithuanian presidency after the Council adopted a new mandate with concessions to the Parliament's position on the issues of degressivity of large payments, the legislative treatment of the rural development allocations by member state and co-financing rates for less developed regions, outermost regions and smaller Aegean islands (Matthews, 2014). As the COMAGRI press release welcoming the agreement noted: "For Parliament, the key issue in this final

negotiating phase was to ensure that policy content which should be legislated under co-decision is not determined solely by heads of state" (COMAGRI, 2013).

This is obviously an important marker for future negotiations. The presidency logic may be that, because the MFF conclusions are adopted by unanimity by the European Council, they deserve to be 'privileged' in trilogue discussions. If this were the case, there would be an incentive for those member states that fear they may be outvoted on an issue in the regular Council to raise the issue at the level of the European Council where adoption by unanimity could help to strengthen their negotiating position on that issue. Arguably, this might explain the inclusion of some very specific directions on CAP issues in the February 2013 European Council conclusions.

5. Conclusions

The 2013 CAP reform was not only the first to be concluded under the co-decision procedure between the Council and the Parliament, but it was also complicated by the parallel negotiations on the MFF for the period 2014-20. In this chapter, I argue that there were three elements that linked the MFF negotiations to the CAP negotiations and influenced the overall outcome of the latter.

The first linkage was in the agenda-setting phase of the CAP reform. Given the economic and fiscal situation in the EU after the 2008 crisis, there was a very limited prospect of increased resources for the EU budget while the Europe 2020 agenda had prioritised spending on growth priorities such as innovation, the digital economy, employment, youth, industrial policy, poverty, and resource efficiency. It thus seemed eminently likely that the CAP budget would need to be cut significantly to free up resources for new spending priorities. In the event, there was no dramatic cut to CAP spending; the long-term steady decline in the share of the CAP in the total EU budget continues, but this is largely due to the impact of inflation rather than to any significant discretionary reductions in CAP expenditure. While this CAP reform might have moved in the direction of greater targeting on environmental public goods in any event, the emphasis put on greening the CAP seems to have been part of a Commission agreement to protect the CAP budget provided that a significant share was redirected to supporting

measures favourable to the environment and climate action. The 2013 CAP reform might have been a 'green' reform anyway, but the timing of the MFF negotiations accelerated the move in that direction.

The second linkage arose as a result of the particular scheduling of the MFF and CAP negotiations. From an early stage, the Parliament made it clear that it was not prepared to negotiate on the proposed new CAP regulations until the budget allocations for the CAP were known. This meant that the CAP trilogues could not begin until after the MFF headline numbers had been agreed. Given the complexity of the CAP reform dossier, it is a moot point whether either the Council or the Parliament would have been in a position to start the CAP trilogues earlier if, say, the European Council had agreed on its MFF conclusions at its November 2012 meeting as had been originally planned, rather than at its February 2013 meeting as turned out to be the case. There is also no evidence to suggest that a longer period of negotiation would have led to a different outcome, or to a better outcome. However, what is clear is that the insistence of the Parliament that no serious CAP negotiations should begin until the budget numbers were known worked to strongly favour those holding to a status quo position on the reform proposals (for example, farm groups) while disadvantaging those who sought a more radical change in the orientation of the CAP (for example, environmental groups seeking a greater focus on environmental public goods). Farm groups and status quo-minded member states and MEPs could work to weaken the ambition of the greening proposals without having to worry that this could lead to a further reduction in the CAP budget. Environmental groups and reform-minded member states and MEPS, on the other hand, had to argue their position without being able to wield the threat that the budget could be reduced if their proposals were not accepted.

The third linkage was the inclusion of a number of CAP-related issues in the European Council's MFF conclusions, which were later given a privileged position by the Council presidency in the trilogue negotiations with the Parliament. The Council presidency was unwilling to show any flexibility in its negotiations on these issues until the last minute, and it was only some months after a political agreement had been reached on the CAP reform that agreement was reached also on these MFF-related CAP issues. One

might speculate that the outcome of the negotiations on these issues would have been different if the Council presidency had viewed them as subject to the usual co-decision bargaining. The MFF-related issues include CAP legislative decisions that directly affect the net flows from the EU budget to member states (e.g. the external convergence formula, the distribution of Pillar II funds) and all other legislative issues that might be addressed in the European Council conclusions. On practical and political grounds, this chapter argues that the Parliament will always find it virtually impossible to change the unanimous agreement of heads of state and government on the direct allocation of resources unless and until a financial mechanism to achieve acceptable net positions is introduced to explicitly acknowledge the redistributive role of the EU budget. If the Parliament is to have influence on these issues, then it must exercise that influence prior to the European Council conclusions being reached. On the other hand, all other issues should be fully open in the trilogue negotiations between the two institutions.

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8. THE WTO: NO LONGER RELEVANT FOR CAP REFORM?

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This chapter explores the role the World Trade Organization (WTO) played or, rather, did not play in the 2013 ‘recalibration’ of the CAP. In their detailed study of the European Parliament and the role of co-decision in determining the post-2013 CAP, Knops & Swinnen (2014: 20) mention the WTO only once. In a footnote they comment: “We draw the reader’s attention here to the absence of the WTO in the list of external actors, as international trade negotiations played a marginal role in the 2013 CAP reform, compared to previous reform rounds where WTO agreements could be seen as the main driver of reform.”

Many analysts have indeed argued that international trade negotiations and WTO rules have been an important determinant of changes to the CAP (see, for example, my own work in Daugbjerg & Swinbank, 2009, 2011). So why this apparent difference between the series of CAP reforms from 1992 to 2008, and that experienced in 2013? In an attempt to address this overarching question this chapter is organised as follows: first, a brief review of policy changes from 1992 to 2008 and their (apparent) conformability with evolving WTO rules; second, a re-examination of the relevance of the Agreement on Agriculture (AoA) in the mid-2010s; and, third, a short account of how WTO constraints were addressed by the European Commission and the European Parliament in the 2013 CAP reform debate.

* I am grateful to Rolf Moehler and Tim Josling for helpful comments on an earlier draft, but retain full responsibility for the contents of the present text.

1. Past CAP reforms and the WTO

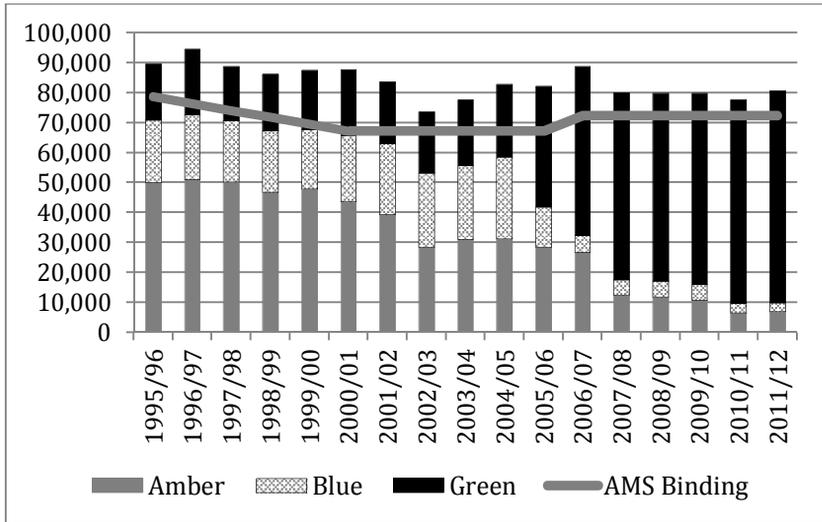
Two decades on, the MacSharry reform of 1992 are still viewed as a watershed in the evolution of the CAP. Prior to 1992 the main mechanism for farm income support was a managed – highly priced – market, involving restrictive import barriers, intervention buying, and export subsidies, which led to considerable distortions in world trade. The reform began a process of decoupling support: in particular the support prices for cereals and beef were reduced and, to compensate for the implied revenue loss, farmers became entitled to area payments on cereals grown, and headage payments on particular categories of beef animals kept. There were other pressures, most notably the cost to the EU's budget (Moehler, 2008: 77), but many analysts have concluded that pressure from the EU's trading partners in pushing for a conclusion to the Uruguay Round of trade negotiations that had begun in 1986, was a decisive factor in delivering the reform package in May 1992. Kenyon & Lee (2006: 267), for example, claim that the “turning point in the [trade] negotiations came when...the EC signalled its readiness to reform the CAP”, and that “the dynamics of the Uruguay Round negotiations, especially the determination of the Cairns Group and the United States to insist on agriculture reforms, were...important drivers behind the 1992 CAP reforms”.

Significantly, the CAP reform negotiations and those with the US negotiators over the status of decoupled payments in the evolving AoA proceeded in parallel (Cunha & Swinbank, 2011: 83-5). Thus the MacSharry reform switched some support from the so-called ‘amber box’ of trade-distorting support to the ‘blue box’ of partially decoupled payments, and enabled the EU to sign up to the Uruguay Round agreements in Marrakesh in 1994, including the AoA. Although some saw this as a cynical exercise in box shifting, the EU's periodic notifications to the WTO of its domestic support never led to a dispute in the WTO or to serious challenge in much of the academic literature.¹ The 1992 reform predated the implementation of the AoA, thus in Figure 8.1 – showing the EU's periodic notifications of amber, blue and green box support –

¹ Jacques Berthelot of Solidarité has been a persistent critic: <http://solidarite.asso.fr/-Jacques-Berthelot-Publications->.

expenditure on the blue-boxed area and headage payments already appears in the first data set for 1995-96.

Figure 8.1 EU's notifications of domestic farm support, € million



Notes: The amber box – not terminology found in the AoA – measures the value of trade-distorting support “in favour of agricultural producers”, which was capped and then subject to a 20% reduction. In this chapter, amber box and aggregate measurement of support (AMS) – a term which is found in the AoA – are used interchangeably. The blue box, uncapped, refers to expenditure on “direct payments under production-limiting programmes” (Article 5(a) of the AoA), whilst the green box is expenditure that has “no, or at most minimal, trade-distorting effects or effects on production” and meets a set of “policy-specific criteria and conditions” set out in Annex 2 to the agreement. For a definitive treatment, see Brink (2011).

Source: EU submissions to the WTO in the G/AG/N/EEC/ (later G/AG/N/EU/) document series.

In the Marrakesh settlement the EU-15 committed itself to a 20% reduction in the maximum amount of trade-distorting support – its bound total aggregate measurement of support (AMS) – that it could grant to its farm sector, from just under €79 billion in the first year of the agreement, down to just over €67 billion in 2000-01 and thereafter (see line labelled “AMS Binding” in Figure 8.1).² As can

² The AMS binding was later increased to accommodate the 2004 and 2007 enlargements of the EU (Josling & Swinbank, 2011: 79). Inflation has taken

be seen in Figure 8.1, had expenditure on area and headage payments been declared as amber rather than blue box support, the EU would have been very close to its AMS binding in 2000-01.

The Agenda 2000 CAP reform in 1999 was in part driven by the need to prepare for the accession of several new states from Central and Eastern Europe, but external pressure was also important. In particular, concerns were being expressed about EU cereal production that threatened to generate surpluses larger than the volume of subsidised exports permitted under the AoA; and the EU believed it would have to make further cuts to farm support in the new trade round (provisionally referred to as the Millennium Round) that the Seattle WTO Ministerial was expected to inaugurate later that year (Schwaag Serger, 2001: 32-3). In Agenda 2000 there was a further cut in support prices for cereals and beef, partially compensated by an increase in the area and headage payments first introduced in the MacSharry reform. Over a number of years these changes switched more amber box support to the blue box, as can be seen in Figure 8.1.

At the time, and through the opening phases of the Doha Round launched in 2001, the EU was keen to defend its European Model of Agriculture – involving the multifunctionality of European farming – whilst reluctant to commit to more than token reductions in the three elements of support enunciated in the AoA: market access, domestic support, and export competition.³ But Franz Fischler, the Commissioner for Agriculture and Rural Development, already had plans for a mid-term review of his Agenda 2000 reform.

What became known as the Fischler reform of 2003 resulted in a further decoupling of support. The area and headage payments introduced in the 1992 and 1999 reforms (and the compensation for

its toll. Between January 1995 and June 2014 the European Central Bank's index of consumer prices for the euro area had risen by 45%, before flattening off, implying that the EU's AMS binding had decreased by about 30% in real terms compared to when initially set (http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=122.ICP.M.U2.N.000000.4.INX).

³ See, for example, its Comprehensive Negotiating Proposal of December 2000 (WTO, 2000a; Daugbjerg & Swinbank, 2009: 160-1).

milk producers that had been agreed in 1999) were bundled into the Single Payment Scheme (SPS). Fischler's preferred format was that an individual farm's area and headage payments would simply be replaced by the SPS, but without any requirement to grow crops or keep animals.⁴ The payment was, however, linked to land at the farm's disposal, which had to be kept up to the standards of 'good agricultural and environmental conditions' (GAEC), and cross-compliance meant that a series of environmental and animal welfare conditions had to be met. Although some doubts have been expressed (see, for example, Swinbank & Tranter, 2005), the EU declared the SPS to be a decoupled payment in conformity with Annex 2 of the AoA: in Figure 8.1, this switched blue box expenditure to the green box. Fischler's Mediterranean package of 2004 turned a series of amber box supports into green box payments, as did the sugar and other reforms undertaken by his successor, Mariann Fischer Boel, including the Health Check of 2008 (Daugbjerg & Swinbank, 2011). Thus by 2012 the bulk of support for EU farmers took the form of green box payments, and amber box support was substantially below the EU's AMS binding.

There is, however, a slight discontinuity in the data series that cannot readily be reconciled with substantive changes in EU farm policy. The larger part of the EU's AMS has always been a desk-top calculation of market price support: "the gap between a fixed external reference price and the applied administered price multiplied by the quantity of production eligible to receive the applied administered price" (AoA, paragraph 8, Annex 3). The 'fixed external reference price', based on the years 1986 to 1988, is itself rather an anomaly – it can result in a sizeable AMS even when current world market prices are above the 'applied administered price', for example – but it is fixed, whereas the other two elements of the calculation vary according to circumstances. WTO members have shown some ingenuity in calculating their AMSs.

⁴ But there were two significant variants to this. First, member states could apply the scheme on a regionalised basis, pooling the SPS allocation for a region and paying a flat rate per hectare. Second, member states could opt to link part of the payment to farming activities: 25% of the arable payment could remain linked to growing the crop, for example (known as 'partial decoupling') (Swinbank & Daugbjerg, 2006). In most of the new member states a rather different form of area payment applied.

In its 1988 submission, for example, Japan eliminated its AMS for rice, sharply reducing its overall amber box declaration. Godo & Takahashi (2011: 176-7) report that various policy changes, including a new policy guideline in 1988, had weakened the concept of an applied administrative price, but that “the overwhelming majority of Japanese agricultural policy researchers are sceptical of whether [Japan’s] new rice policy guideline of 1988 had any practical meaning...[A]bandoning the administered price did not reduce economic protection for rice”.

For 2007-08, figures for which were reported in January 2011, the EU managed to more than halve its AMS from the year before. A large part of this reduction stemmed from the virtual elimination of the declared level of amber box support for fresh fruit and vegetables. Whilst it is not easy to see why the EU had declared such a high level of amber box support for fruit and vegetables prior to 2007-08, it was equally difficult to discern what policy change justified the revised practice (Swinbank, 2011). In response to questions in the Committee on Agriculture, the EU explained that its “price gap calculation resulted from the existence of an, albeit rudimentary, price support instrument in which the entry prices [applicable to imports] only served as a proxy for the applied administered price...This price support instrument was abandoned in the 2007 reform” (WTO, 2012a: 20). The response to a follow-up question from Australia elicited no further information (WTO, 2012b: 40), although the EU did agree to undertake bilateral discussions with Australia and respond more fully at a later date (p. 42).

As a result of the various CAP reforms undertaken in the 2000s, including its rather contentious ‘reform’ of the fruit and vegetables regime, the EU’s ability to sign up to a Doha agreement involving sharp reductions in trade-distorting support had been radically enhanced. Basically agreed back in 2008⁵ was a proposal to reduce its AMS binding by 70% (to €21.7 billion for EU-27), together with an 80% reduction in a wider measure of overall trade distorting support (OTDS). Josling & Swinbank’s (2011: 90)

⁵ WTO members had come close to a Doha agreement in 2008. The December text of the *Revised Draft Modalities for Agriculture* (WTO, 2008) is still the blueprint for any future agreement.

calculation was that the EU's OTDS binding would be €23.8 billion. In November-December 2012, during the CAP reform debate, the level of support the EU declared for 2009-10 – *before the decoupling effects of the 2008 Health Check had fed through*, as can be seen from subsequent notifications reported in Figure 8.1 – was a current AMS of €8.8 billion (which would have been €10.2 billion had the *de minimis* allowance been set at zero), and blue box expenditure of €5.3 billion, less than 2% of the overall level of the value of production (WTO, 2012c). Assuming the EU's green box payments had been correctly declared – or, if not, that they went unchallenged – then not only did the domestic support commitments of the existing AoA pose no problems for the EU, but a Doha agreement as foreshadowed in 2008 would not do so either. What a Doha agreement would do is lock in past reforms.

Although legislation pertaining to export refunds (aka subsidies) still remains on the statute books, with the current CAP and world market prices export subsidies are largely unused, and it is not difficult to believe that the EU would agree to remove this example of agricultural exceptionalism from the WTO in the context of a Doha agreement, aligning agriculture with all other economic sectors with a prohibition on the use of export subsidies. In the Committee on Agriculture, however, Australia and others continue to query the EU over its sugar exports – more on this anon.

On the third pillar of the AoA, market access, the EU farm lobby has probably been more concerned in the recent past about the opening of the EU market through a rash of regional trade agreements, agreed or in negotiation: tariff rate quotas (TRQs), on beef and cheese, for example, in the EU-Canada Comprehensive Economic and Trade Agreement (CETA) (*Agra Facts*, No. 55-14, 23 July 2014); or the Transatlantic Trade and Investment Partnership (TTIP) agreement with the US, discussed by Josling (2015: chapter 18, this volume). Buoyant world market prices, and a succession of CAP reforms unmatched by tariff reductions, have left scope for sizeable cuts in a number of the EU's most-favoured nation (MFN) tariffs. The MFN tariff on white sugar, for example, is still at its post-Marrakesh level of €419 per tonne, with the continuing possibility to invoke the AoA's Special Safeguard Provisions, whilst the 2006 reforms have reduced the support price from €631.9 to €404.4 per tonne (Noble, 2012: 12-3).

In January 2009 DG Agriculture's then Director-General Jean-Luc Demarty (2009: 17, 14) told the Oxford Farming Conference that "the Doha Round remains a top priority for the EU". But he had earlier pointed out:

Our major contribution is and remains our 2003 CAP reform. It has been and it remains in our interest to make the best use of this negotiating capital: thanks to our past reforms, and as part of an overall package deal, we can accept a steep reduction in the ceiling on our trade-distorting subsidies, the elimination of our export subsidies and a significant reduction of our border protection.

There was now no need for further CAP reform, even had a successful conclusion to the Doha Round been achieved, and in any event there seemed to be little prospect of a Doha settlement.

2. The Agreement on Agriculture: Still relevant in the mid-2010s?

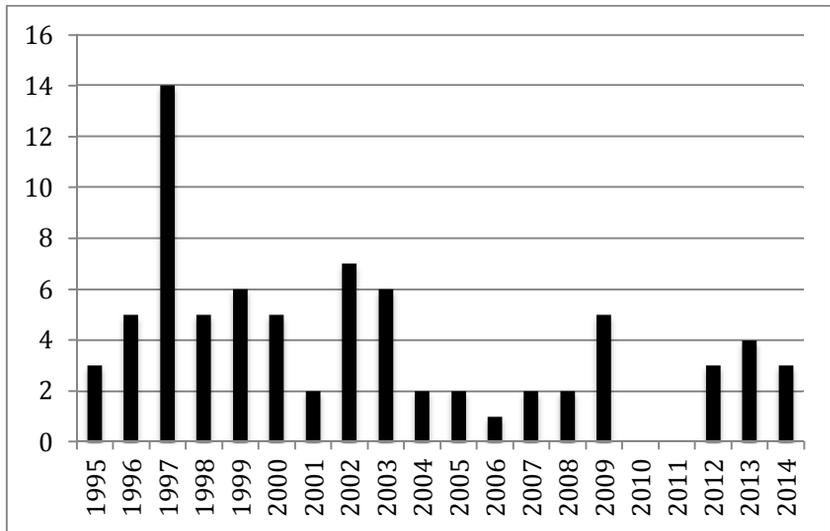
WTO commitments are monitored in its committees (for example, its Committee on Agriculture), and can be challenged through its dispute settlement process. Consequently, farm policies can come under pressure, leading to reform, both as a result of trade negotiations (leading to tighter constraints on support) or through litigation. WTO members contest their interpretations of WTO agreements before the Dispute Settlement Body (DSB) and, as is the case in most judicial systems, there seems to have been an evolution of the rules (see, for example, Goldstein & Steinberg, 2008). Two such cases, relevant to the present discussion, concern the EU's past use of export subsidies on sugar, and US support for upland cotton, both of which we comment upon in a more general appraisal of the relevance of the AoA in the mid-2010s.

According to the WTO Secretariat, by December 2014 some 488 disputes had been recorded.⁶ Of these, 77 cases had cited infringements of the AoA (see Figure 8.2), compared to 105 citing the Agreement on Subsidies and Countervailing Measures, for example, and 42 citing the Agreement on the Application of

⁶ www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm.

Sanitary and Phytosanitary Measures. It should be noted that these numbers have limited meaning: any particular case might cite more than one WTO agreement; two or more cases might address essentially the same complaint brought by two or more WTO members; and a case is registered following a request for consultations, not all of which will lead to the establishment of a panel or a ruling of the DSB. Moreover, their economic, political and legal significance is ignored. A hotly contested case can be litigated through several stages: panel, Appellate Body, and arbitration on the remedies to be applied.

Figure 8.2 Timing of the 77 AoA cases (to December 2014)



Source: derived from www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm.

In the early years of the WTO there was a flurry of cases citing the AoA, some (such as beef hormones and bananas) unresolved leftovers from pre-1995, but by the late-2000s and early 2010s, apart from an upsurge in 2009, the pressure of AoA cases seemed to be abating. More recently, WTO members have been making renewed use of the AoA in their requests for consultations, but five of the latest nine cases are focussed on Indonesia's import arrangements for agricultural products.

Table 8.1 Disputes citing the Agreement on Agriculture against the EU

| Case number | Name | Year |
|----------------------|---|--------|
| DS26 & DS48 | <i>Measures Concerning Meat and Meat Products (Hormones)</i> (Complainants: United States, Canada) | 1996 |
| DS27 | <i>Regime for the Importation, Sale and Distribution of Bananas</i> (Complainants: Ecuador, Guatemala, Honduras, Mexico, United States) | 1996 |
| DS69 | <i>Measures Affecting Importation of Certain Poultry Products</i> (Complainant: Brazil) | 1997 |
| DS104 | <i>Measures Affecting the Exportation of Processed Cheese</i> (Complainant: United States) | 1997 |
| DS134 | <i>Restrictions on Certain Import Duties on Rice</i> (Complainant: India) | 1998 |
| DS210 | <i>Belgium – Administration of Measures Establishing Customs Duties for Rice</i> (Complainant: United States) | 2000 |
| DS265, DS266 & DS283 | <i>Export Subsidies on Sugar</i> (Complainants: Australia, Brazil, Thailand) | 2002/3 |
| DS291, DS292 & DS293 | <i>Measures Affecting the Approval and Marketing of Biotech Products</i> (Complainants: United States, Canada, Argentina) | 2003 |
| DS389 | <i>Certain Measures Affecting Poultry Meat and Poultry Meat Products from the United States</i> (Complainant: United States) | 2009 |
| DS400 & DS401 | <i>Measures Prohibiting the Importation and Marketing of Seal Products</i> (Complainants: Canada, Norway) | 2009 |

Source: www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm.

Of the 77 AoA cases, 16 involved complaints against the EU (or a member state),⁷ although as collated in Table 8.1 below they could be said to involve only 10 substantive cases. The list includes important instances where WTO law, and EU practice, were

⁷ In addition several involved European states that later became members of the EU.

stringently tested, but several big cases – beef hormones, the approval and marketing of biotech products, and seal products – do not touch upon the CAP as understood in this chapter. Bananas was a complex case. Although it involved EU support for its own banana producers, the thrust of the case was much more to do with the EU’s relationship with its preferential suppliers in the ACP (African, Caribbean and Pacific states). The really important CAP case in Table 8.1 is export subsidies on sugar.

Once the legal battles had been fought and lost, it is Poletti & De Bièvre’s (2014: 1191) view that “compliance was forthcoming surprisingly quickly”. Indeed, they continue, “the EU adopted an extensive reform of its sugar regime, substantially complying with the far-reaching requirements of the WTO ruling”. Ackrill & Kay (2011: 86) reach a more nuanced conclusion: they write that their analysis had shown that while the WTO ruling “was not sufficient, by itself, to explain fully the reform implemented”, it was “a key factor” that, with the opening up of the European market through the Everything but Arms (EBA) initiative, “and sugar’s exceptionalism, led finally to reform of the last major unreformed sector under the CAP”. Whilst it is difficult to describe the 2006 sugar reform as a success (Noble, 2012: 14-5), and WTO members continue to question whether the EU’s sugar exports infringe its WTO obligations,⁸ it remains my view that it was the EU’s commitment to the WTO system as a “single undertaking” (“nothing is agreed until everything is agreed”) that strengthened the reformists’ hand in procuring the EU sugar reform (Swinbank, 2009: 618). But whilst the quota system endures, which the 2013 recalibration of the CAP extended to 2017 despite the European Commission’s attempt to end quotas in 2015, suspicions will persist that out-of-quota sugar exported to world markets is, in effect, subsidised.

Of the 77 cases citing the AoA, 57 referred to the articles on market access, 15 to export competition, and only 5 to the disciplines on domestic support. The five were:

8 For example, both Australia and Brazil queried the EU on whether it had “exceeded its WTO commitment levels for sugar exports with export subsidies in the 2011/2012 marketing year” at the Committee on Agriculture in November 2012 (WTO, 2013: 7).

- DS161 & DS169, Republic of Korea - *Measures Affecting Imports of Fresh, Chilled and Frozen Beef* - complainants the United States and Australia;
- DS267, United States - *Subsidies on Upland Cotton* - complainant Brazil;
- DS357, United States - *Subsidies and other Domestic Support for Corn and Other Agricultural Products* - complainant Canada; and
- DS365, United States - *Domestic Support and Export Credit Guarantees for Agricultural Products* - complainant Brazil.

The two *Korean Beef* cases were dealt with jointly, and led to a lengthy review of the AoA's domestic support provisions, but a somewhat inconclusive outcome. The Appellate Body upheld the conclusion of the WTO panel established to rule on the case that South Korea had incorrectly calculated its domestic support for beef for 1997 and 1998, but rejected the panel's own calculation "as the Panel used, for these recalculations, a methodology inconsistent with...the *Agreement on Agriculture*". Lacking the relevant information, the Appellate Body was then unable "to complete the legal analysis of: (i) whether Korea's domestic support for beef exceeds the *de minimis* level contrary to Article 6 of the *Agreement on Agriculture*; (ii) whether the failure to include Current AMS for beef in Korea's Current Total AMS was contrary to Article 7.2(a) of that Agreement; and (iii) whether Korea's total domestic support for 1997 and 1998 exceeded Korea's commitment levels contrary to Article 3.2 of the *Agreement on Agriculture*" (WTO, 2000b: 57; see also Brink, 2011: 37).

Upland Cotton was a long drawn-out and complex case that began with a request for consultations from Brazil in September 2002, and has, perhaps, been resolved with the passage of the 2014 Farm Bill (Schnepf, 2014). It was not just the AoA's domestic support provisions that were at stake: the export subsidy commitments of the AoA, and the provisions of the Agreement on Subsidies and Countervailing Measures were also cited, and proved to be more serious breaches of US obligations. *Inter alia*, marketing (so-called 'Step 2 payments') made to domestic users of US grown cotton were found to be prohibited subsidies contingent on the use of domestic over imported goods, whilst Step 2 payments paid on

exported cotton were found to be export subsidies within the meaning of the AoA, and inconsistent with US export subsidy commitments (as were the export credit guarantee programmes). Various payment schemes were deemed to be actionable subsidies within the meaning of the Agreement on Subsidies and Countervailing Measures that led to significant price suppression on world markets. The US was told to eliminate its prohibited subsidies, and take steps to remove the adverse effects of actionable subsidies by 2005.

As Schnepf (2014: 5) wryly notes: “Because the price and income support programs contained in omnibus farm bills could only be modified or removed by an act of Congress – and such changes generally only occur within the context of a new farm bill – the Administration had been limited in its ability to respond to the WTO panel recommendations.” However, the Step 2 programme was eliminated in 2006, and the export credit guarantee programmes either modified or eliminated. The 2008 Farm Bill, nonetheless, failed to satisfy Brazil’s remaining grievances; the dispute went back to the WTO, and Brazil was granted authority to take retaliatory action. But then, to avoid retaliation, in 2010 the two parties agreed to continue negotiations pending adoption of the 2014 Farm Bill, whilst meanwhile the US would pay Brazil \$12.275 million a month, for “technical assistance and capacity-building for Brazil’s cotton sector” (Schnepf, 2014: 3). The US stopped these compensation payments in October 2013, with the dispute unresolved. The 2014 Farm Bill, however, “resulted in cotton being singled out and treated differently from all other U.S. program crops. U.S. cotton no longer has access to the price and income support programs offered for other program crops, but instead will rely on a within-year, market-based insurance guarantee as its primary support measure” (Schnepf, 2014: 7). As noted earlier, however, whether this will finally bring the dispute to a close remains to be seen. WTO pressures do seem to have influenced, eventually, US cotton policy, but *not* the support programmes for other crops. As de Gorter & Kropp (2014) note: “While the cotton policy reforms may help to resolve the U.S-Brazil cotton case, in an ironic twist, Congress has put in place subsidy programs for other crops that invite more trade disputes.” Indeed, Smith (2014: 1) has expressed the view that “all of the major new subsidy programs are

unambiguously amber box programs...While these new programs are unlikely to cause problems for the US in meeting its current WTO Aggregate Measure of Support (AMS) commitments, they may make it more difficult for the US to agree to future reductions in allowable caps on AMS expenditures and related *de minimis* AMS exclusion provisions in a new WTO agreement.”

An important step in the legal process that led to the DSB’s ruling was that “two challenged measures (production flexibility contract and direct payments) are related to the type of production undertaken after the base period and thus are not green box measures conforming fully to paragraph 6(b) of Annex 2 to the Agreement on Agriculture”.⁹ This realisation, that it might not be easy to satisfy the requirements of the green box, led Swinbank & Tranter (2005: 57) to suggest that the EU’s newly enacted SPS might not qualify for the green box either. If not green, the US’s disputed subsidies should presumably have been allocated to the amber, or possibly the blue box. But in *Upland Cotton* Brazil had not alleged the US had breached its amber box ceiling – although Sumner (2005: 1) suggests it probably had – and so the issue was not arbitrated. In DS357, however, in January 2007, Canada claimed that “through the improper exclusion of domestic support, the United States provides support in favour of domestic producers in excess of [its] commitment levels”; and in DS365 in July 2007, in a follow-up to *Upland Cotton*, Brazil expressed similar concerns. Neither of these cases has progressed.¹⁰

So the record to date is mixed. The US amended its cotton policy a decade after the *Upland Cotton* case was initiated, but it appears to have been unperturbed by WTO constraints on domestic support in elaborating other commodity programmes in the 2014 Farm Bill. No dispute has shown WTO members to be in breach of their amber box AMS bindings. And although the Appellate Body in March 2005 issued clear guidelines on how the policy specific criteria for green box payments should be read, no dispute has revisited the topic. In the 2000s EU policy-makers might legitimately have worried about how the CAP’s domestic support

⁹ www.wto.org/english/tratop_e/dispu_e/cases_e/ds267_e.htm.

¹⁰ www.wto.org/english/tratop_e/dispu_e/cases_e/ds357_e.htm and www.wto.org/english/tratop_e/dispu_e/cases_e/ds365_e.htm.

measures might be interpreted if its policy was challenged, but by the 2010s – particularly with no Doha outcome in sight – this earlier concern had less validity. Why worry about something that might happen in the distant future, following a Doha outcome, particularly when the US had demonstrated that a major power can put off abiding by a DSB ruling for a decade or so?

3. The post-2013 CAP and the WTO

Although neither the desultory progress of the Doha Round, nor the constraints of existing WTO agreements as developed by the dispute settlement process, posed any immediate threat to the CAP in 2013, WTO concerns were not entirely forgotten – mainly with respect to the domestic support commitments of the AoA.

The European Commission's November 2010 Communication, "The CAP towards 2020", made only passing reference to the WTO: it referred to the need to respect "EU commitments in international trade", and claimed that its proposal for an income stabilisation tool would be "WTO green box compatible" (European Commission, 2010: 4, 11). The European Parliament's response to this missive paid rather more heed to the WTO (European Parliament, 2011). It too stressed the need for risk management tools to be WTO-compatible (paras 56 and 57). It considered that decoupling had "essentially proved its worth, allowing greater autonomy in decision-making on the part of farmers, ensuring that farmers respond to market signals and placing the vast bulk of the CAP in the WTO green box"; but went on to suggest that member states should "have the option of allowing part of the direct payments to remain wholly or partially coupled within WTO limits" (a measure later referred to as 'voluntary coupled support') (para 23 and 24). Finally, it drew attention to the "commitment given by the WTO members during the 2005 Hong Kong Ministerial Conference to achieving the elimination of all forms of export subsidies in full parallelism with the imposition of discipline on all export measures..." (para. 64).

The European Commission's impact assessment, accompanying its formal proposals of October 2011, acknowledged WTO constraints in a number of places. It claimed:

[T]he positive EU trade performance in the last decade took place while respecting the WTO disciplines

introduced by the Uruguay Agreement on Agriculture in terms of domestic support, export subsidies and market access. The EU often went further with its reduction commitments as a result of CAP reforms and trade policy changes:

- Domestic support: past CAP reforms have moved support away from price support towards decoupled income support. Today more than 90% of direct payments are decoupled and qualify for WTO green box (with no or limited trade distorting effects).

- Export refunds: as a result of domestic reform towards more market orientation the use of export refunds has been strongly declining...

- Market access: the EU has been pursuing increased market access especially for least developing countries, and thanks to the Everything But Arms and European Partnership Agreements the EU is by far the largest importer of agricultural products from developing countries... (European Commission, 2011: 32-3).

It dismissed linking intervention prices “to the development of production costs in Europe”, or the “introduction of a countercyclical payment that would link direct support back to agricultural prices”, in part because “direct payments linked to price developments could not be classified in the ‘green box’ of the WTO, thus undermining the EU’s trade negotiating position at the WTO” (p. 39). Moreover, the definition of an ‘active farmer’ – one deemed eligible for income support – “would need to respect WTO green box criteria (in particular they cannot imply an obligation to produce)”. Furthermore, “[t]o retain the WTO green box nature of Pillar I payments, the ‘greening’ component will need to be a decoupled, fixed payment applying to all farmers in a specific area (Member State or region); in this respect, care should be exercised in rewarding specific types of production e.g. through a grassland premium, and certainly not production per se” (p. 72).

How much recoupling has taken place as a result of the provisions on voluntary coupled support will only become fully apparent once the member states have introduced their national schemes. Whether the EU has successfully ensured that its ‘active farmer’ measures, and its greening provisions, do not infringe the

green box criteria will continue to be debated in the literature, and may one day be tested in a dispute settlement case. It remains my view that the greening provisions are neither decoupled income support under paragraph 6 of Annex 2 (for example, they appear to infringe the provision: "The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the base period"), nor valid payments under environmental programmes as defined by paragraph 12 (Swinbank, 2012: 52). The latter for example specifies: "The amount of payment shall be limited to the extra costs or loss of income involved in complying with the government programme" - and yet the payment is quite arbitrarily set at 30% of the direct payments budget available in any particular member state. But does it matter?

In the post-2013 CAP, the annual budgetary provision for direct payments is just under €42 billion (National Ceilings, Annex II of Regulation (EU) No 1307/2013). If by some chance it was suddenly decided that all of these were not green box payments after all and should be declared in the amber box, then on the basis of the EU's amber and blue box notifications of €6.9 billion and €3 billion, respectively, in 2011-12 (see Figure 8.1), the maximum likely amber box notification would seem to be of the order of €52 billion, well below the EU's current AMS binding of €72 billion. Other WTO members might question the green box status of the EU's greening payments, particularly in the Committee on Agriculture, but without a Doha settlement there would be little point in escalating their concerns into a dispute settlement case.

In Oxford in 2009 Jean-Luc Demarty (2009: 14) had claimed that the EU's trade partners recognised the EU negotiated in 'good faith'. We do not yet know how the EU intends to declare its greening payments to the WTO, although the expectation is that they will be declared as green box support. But if the EU insists that they are green box payments, whilst the international perception grows that they are not, the EU's position as a leading proponent of a rules-based system of international trade could be seriously eroded, together with the authority of the WTO itself.

4. Concluding comments

In Swinnen's (2008) graphic metaphor, leading up to 2003 there had been a perfect storm of circumstances that led to a radical outcome. By contrast, a decade later, the CAP was becalmed. The need to agree a new multiannual financial framework (MFF) for 2014-20, and the largely forgotten agreement of the European Council of December 2005 to "undertake a full, wide-ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the United Kingdom rebate", meant that a recalibration of the CAP had to be undertaken. But new Commissioner Dacian Cioloş and the European Parliament's newly empowered Committee on Agriculture and Rural Development (COMAGRI), following ratification of the Treaty of Lisbon, strongly favoured the status quo. The United Kingdom's coalition government had so marginalised itself in EU affairs that it was no longer capable of taking a leadership role (Swinbank, 2015: chapter 12, this volume). Despite the rhetoric of 'greening' - to make the CAP more environmentally aware and face the challenges of climate change - as Hart (2015: chapter 10, this volume) demonstrates the outcome was profoundly disappointing when measured against environmental NGOs' aspirations. Moreover, with the Doha Round stalled, and much of the heat taken out of the WTO's dispute settlement process, there was no pressing need to make further changes to the CAP for the foreseeable future. What is perhaps more surprising - given that a Doha agreement has not yet locked in past CAP reforms - is that the EU did not significantly reverse its policy decisions of the last two decades (Daugbjerg & Swinbank, in preparation). In this author's opinion, the WTO had been a major, if not the major, driver of CAP reform from 1992 to 2008. In 2013 that force for change was muted. What circumstances will prevail for the 2020 CAP 'reform' remains to be seen!

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9. FROM 'GREENING' TO 'GREENWASH': DRIVERS AND DISCOURSES OF THE CAP 2020 'REFORM'

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1. Introduction: Watered-down reform

This chapter argues that the changes in institutional frameworks act as drivers of the reform of European Union (EU) common agricultural policy (CAP) towards 2020 in terms of bringing the central supports mechanism closer to the environmental objectives by making it conditional on new environmental actions. The idea became known as the 'greening of CAP' (Hart et al., 2011; Matthews, 2012), after the European Commission (2010) used 'greening' in its proposal of new CAP legislation as a shift in paradigm and an introduction of other important changes in both CAP objectives and instruments. The essence of the new definition of CAP was to find a new justification for and mechanisms of agricultural policy.

During the negotiation process, the reform faced unfavourable circumstances that resulted in a watering down of the environmental components. Firstly, the reform was considered parallel to negotiations on the EU multiannual financial framework (MFF). Since a decision on the latter required a unanimous vote, the status quo bias of the procedure was strong, allowing member states whose preferences were closer to the status quo to use legislative powers to influence CAP reform, as it was part of the package. Secondly, the Lisbon Treaty (2009) enabled the European Parliament to (equally to Council) amend CAP reform legislation and to veto budget agreement (Crombez et al., 2012). Since

Parliament's preferences were close to the status quo, it was able to hinder the reform by threatening to block it.

The CAP is not only about institutional change but also about sets of ideas, known as discourses, which are used to make certain policy choices more acceptable. Three discourses emerged during the reforms: 'productivist' discourse, arguing that the EU should protect domestic production; 'neoliberal' discourse, arguing that the state should refrain from interfering with markets; and 'multifunctional' discourse, arguing that various functions performed by agriculture should be supported by state (Potter & Tilzey, 2005; Erjavec & Erjavec, 2009). Even though the three discourses are competing, they are also incorporating each other's elements (Erjavec & Erjavec 2015).

The purpose of this chapter is to discuss the conceptual context of the new CAP and the decision-making process behind it from the political perspectives. The articulation and incidence of the recognised and potential new CAP drivers and discourses are elaborated through the emphasis on paradigmatic changes. The key focus of analysis is on 'greening' as the key term of this policy reform. The main thesis is that the dominant role of productivist political setting and discourse was to turn greening into a 'greenwash' strategy.

This chapter proceeds as follows: first, in section 2, drivers and discourses of the CAP reform are elaborated. Methods employed (overview of outcomes of the reform process; critical discourse analysis of the key documents that played a central role in the process) are presented in section 3, followed by the research results in section 4. In the last section the role of research outcomes in explaining and understanding CAP reforms is discussed.

2. Framework for the analysis

2.1 Changes in institutional frameworks

CAP reforms since the 1980s were influenced by changes in several institutional frameworks and settings that, although interrelated, played independent roles in the reforms (Moyer & Josling, 2002; Garzon, 2006; Swinnen, 2008). The literature identifies three main institutional frameworks that influence the CAP: multilateral trade

negotiations (Coleman & Tangermann, 1999; Daugbjerg & Swinbank, 2007; 2008); budget negotiations; changes in the policy paradigm (Garzon, 2006). In addition, there are four particular institutions of representation and decision-making that influence the reform: change in policy network (Daugbjerg, 1999); path dependency; change in decision-making procedures; change in agency quality (Pokrivcak & Swinnen, 2004; Pokrivcak et al., 2006). In a hypothetical-deductive manner, this section explains how greening corresponded to the developments in the above-mentioned institutional settings.

Multilateral trade, long-term budget and paradigm change

The role of multilateral trade negotiations, which were considered to be the most important driver of CAP reform, has weakened (see Swinbank, 2015: chapter 8, this volume). There are several reasons why that happened: most of the trade distorting price and production supports has been phased out during the past reforms; the WTO Doha Round of multilateral negotiations stalled; some of the EU's main trade partners reintroduced income supports (Bureau, 2012).

The second main driver of CAP reform is the scope and distribution of the budget related to agricultural policy instruments and negotiated as part of the MFF. Fiscal pressures faced by member states due to the eurozone crisis strengthened demands to curb the CAP budget. Simultaneously, since direct payments to farmers in new member states (NMS) were only being phased in, the CAP budget towards 2020 had to be increased in order for the already established rights to be implemented.

The important factor about negotiations on the MFF is that agreement requires a unanimous vote, which puts member states whose preferences are closer to the status quo into a strong negotiating position (because if no agreement is reached, the preceding MFF applies). Furthermore, since MFF negotiations took place parallel to negotiations on CAP reform, member states with more status quo-oriented preferences regarding budget procedure were able to use their legislative powers to influence CAP reforms in the MFF package. Net contributors to the budget are typically in favour of curbing it, such as the UK, the Netherlands and Germany. Some of them, known as CAP 'reformists', favour phasing out

traditional supports such as price and production supports and historical direct supports (Pillar I), and reorienting the CAP towards environmental supports and rural development programmes (Pillar II).

Major net recipients of the CAP budget such as France, Italy, Ireland and Spain are known as ‘conservatives’ for being in favour of traditional types of supports (Lovec & Erjavec, 2013).¹ Since in the MFF negotiations the interests of CAP conservatives were closer to the status quo, they were able to influence CAP reform by only agreeing to a small reduction in the CAP budget in return for a more conservative reform. Those who were in the weakest negotiating position were NMS, which due to the phasing in of direct payments and the lower production intensity and level of usable resources, had significantly lower past allocations to hold on to compared with the other member states.

The third main driver of the reform is the change in policy objectives, principles and mechanisms, known collectively as paradigm change. According to Garzon (2006:62-3), the objectives of the early CAP were modernisation of agriculture, fair incomes for farmers, price stability and availability of food at affordable prices; its principles were a preference for domestic production, a common market and financial solidarity; and it employed price and production supports. Since the early CAP was based on protecting domestic producers from world market pressures, it corresponded to a ‘productivist paradigm’. Objectives of the reformed CAP between 1992 and 2008 were competitiveness, multifunctional and sustainable agriculture, realising a European model of agriculture and rural development; its principles were gradual openness to global markets and sustainable development; and its mechanisms were changes in direct supports and rural development programmes. This new CAP, which was more based on market forces and some new policy challenges, corresponded to a ‘liberal-multifunctional paradigm’.

Before the CAP 2020 negotiation process, there were already pressures to continue to reform CAP down the line of paradigm

¹ The differentiation of reformists and conservatives is not so straightforward. See for example Lovec & Erjavec (2013) for typology of member state preferences during the 2008 “Health Check” reform.

change (Declaration by Agricultural Economists, 2010). A majority of the supports consisted of direct payments, which were still mostly allocated on a historical basis (in terms of compensation for reduction of price supports during past reforms for specific, more protected production activities). This created unequal conditions generally for the farmers and regions (mainly NMS, but also Portugal and some other regions in the EU-15), with fewer historical payment rights as well for young farmers trying to enter the business (which gave rise to political pressures from the NMS). Furthermore, direct supports were concentrated: as much as 80% of direct payments went to 20% of beneficiaries.² One of the central ideas before the reform process began was to abolish or replace historical payments with per area supports conditional upon new environmental actions (public goods arguments), thus making CAP 'greener'.

The co-decision procedure

CAP reforms were facilitated by changes in particular institutions of representation and decision-making, which worked in combination with changes in the above-mentioned institutional frameworks. Firstly, diversity of interest groups involved in the process increased. New actors included small farmer organisations, environmental NGOs and development NGOs (Daugbjerg, 1999; Garzon, 2006: 90, 96). Secondly, there was institutional pressure to continue on the established path of the reforms regardless of the further contextual change. Thirdly, after the unanimity rule in decision-making on the CAP was replaced with qualified majority vote (QMV), the possibility of reform increased. Changes in Commission nomination procedure strengthened the opportunity for a nomination of more pro-reform-oriented commissioners (Pokrivcak & Swinnen, 2004; Pokrivcak et al., 2006; Swinnen, 2008).

² During past reforms these problems were partly addressed through the introduction of the mechanism of cross-compliance, which made direct supports conditional on certain production standards, the ability of member states to allocate direct supports on a regional basis, the mechanism of modulation, which transferred 10% of the direct payments over €5,000 to Pillar II, and the mechanism of degressive capping, which transferred an additional 4% of individual payments over €300,000 to Pillar II.

The Lisbon Treaty (2009) introduced two important changes that could reduce the possibility of reform. Firstly, the co-decision procedure, renamed ‘ordinary legislation procedure’, was applied to the CAP, meaning that the European Parliament became co-legislator at the Council’s side. With this the Parliament is able to block and amend the CAP reform legislation. If its preferences were more status quo-oriented than those of the qualified majority in the Council – meaning that it preferred no reform over proposed reform – it could use its legislative powers to influence the outcome of the policy process (Crombez et al., 2012). Secondly, the Parliament would be able to veto the MFF agreement. Since the number of veto players involved in budget negotiations already consisted of all the member states, this novelty was important only if its preferences were closer to the status quo than those of the other decision-makers holding veto rights (Lovec & Erjavec, 2015: 52-3).

2.2 Changes in dominant discourses and CAP reforms

Discourse – “language use seen as a type of social practice” (Fairclough, 1989: 26) – does not simply reflect reality but contains ideas that, within certain social and political contexts, legitimise policy. These ideas are created by certain political actors who try to pursue their particular interests by disguising them as general interests (Fairclough, 2003).

Three dominant discourses influenced CAP reform. In other words, by describing three sets of central ideas (also paradigms/concepts) of the CAP, three different ‘languages’ have been used. First, ‘productivist’ (also ‘protectionist’ or ‘mercantilist’) discourse is characterised by the central idea that domestic producers and production are endangered by world markets, which is why the state should intervene to support them. Keywords typical of productivist discourse are food (in)security, sufficient supply, price fluctuations, stable prices, need for fair and comparable income, market pressures, weak role in supply chain and market concentration. The productivist discourse was dominant during the early CAP.

Second, ‘neoliberal’ discourse is characterised by the central idea that markets provide for optimal allocation of resources and

maximise overall welfare, which is why the state should refrain from interfering with markets. Keywords typically used within this discourse are trade distortions, welfare losses, fiscal burden, competitiveness, simplification, efficiency and effectiveness. This discourse emerged in the 1980s, especially in the context of world trade pressures, and has grown stronger since then.

Third, 'multifunctional' discourse is characterised by the central idea that agriculture performs certain quality-intensive functions that should be supported by the state. Keywords typical of this discourse include sustainable management of the environment, biodiversity, food quality, supply of local and traditional foods, animal welfare, development of rural areas, landscape conservation, etc. Multifunctional discourse emerged during the reform process (Potter & Tilzey, 2005; Erjavec & Erjavec, 2009: 220-4) (see Table 9.1).

Even though the three discourses can be considered rival, they tend to transgress each other's boundaries and to incorporate each other's elements (Erjavec & Erjavec, 2015). For example, productivist discourse incorporated elements of the multifunctional discourse such as environmental concerns by arguing that continuous support for production in the EU is needed because of threats to supply due to climate change and soil degradation around the world.

2.3 *Empirical research*

Existing research has demonstrated that CAP reforms are highly complex and that their outcomes are not completely predictable (Moyer & Josling, 2002; Garzon, 2006; Swinnen, 2008). The first line of research aims at establishing drivers and outcomes of the CAP 2020 reform. It is divided into four stages. At each of the stages main issues, the role of procedures and outcomes for individual actors such as EU institutions, member states and interest groups are identified based on analysis of the primary documents and reports. These four stages are defined as follows:

- i. *Spring 2010 – June 2011*: Setting of the new policy agenda with publication of the report on the public debate that was launched by the European Commission in spring 2010 (European Commission, 2010a) and with the publication of

- the Commission strategy paper on the CAP towards 2020 in November 2010 (European Commission, 2010b);
- ii. *June – October 2011*: Publication of a proposal for the 2014-20 MFF by the European Commission in June 2011 (2011e) and of the new CAP regulations on market measures, direct supports, rural development and horizontal issues in October 2011 (European Commission, 2011a; 2011b; 2011c; 2011d);
 - iii. *End of 2011 – March 2013*: Negotiations between member states within the European Council and the Council of Agricultural Ministers, which entered the final stage in the second half of the 2012 and were concluded with the February 2013 European Council agreement and March 2013 Agriculture Council agreement on common positions on the MFF and CAP reform (European Council, 2013; Council of the EU, 2013); and negotiations within the European Parliament, which were concluded with the adoption of a joint position amending the Commission’s proposal by the Committee on Agriculture and Rural Development (COMAGRI) in early 2013, which was then modified by the plenary in March 2013 (European Parliament, 2013);
 - iv. *May – September 2013*: Negotiations between the European Commission, Council of the EU and European Parliament, also known as ‘trilogues’, which were launched in May 2013 and ended with June agreement on non-financial issues (European Commission, 2013a) and September agreement on financial provisions (European Commission, 2013b).

The second line of research engages in critical discourse analysis, which is a more in-depth and interpretative approach compared to mere content analysis (Fairclough, 2002). The fundamental feature of discursive analysis is a systematic description of sets of ideas that – in their particular political and social contexts – serve particular interests. On a macro-textual level, we analysed the main meanings of the key text of the 2014-20 CAP reform and identified the discourses. On a micro-textual level, we also analysed the choice of keywords, since analyses of keywords are typically used to identify discourses (Fairclough, 2003). The European Commission’s Communication “The CAP towards 2020” (European Commission, 2010b) serves as basic document defining the conceptual framework of the whole reform, as the goals set in

this document have not been subject to change in the subsequent reform stages. The document is based on the outcome of the public debate (European Commission, 2010a) and opened the Council and European Parliament negotiation process on the CAP reform. We also applied critical discursive analysis to the Commission proposal for four basic regulations of the CAP, which describe the CAP mechanisms, with detailed explanations of measures (European Commission, 2011a; 2011b; 2011c; 2011d) and final political agreement on the reform reached on the 26 June 2013 (European Commission, 2013). This document details the agreed upon modifications to individual politically controversial elements of the CAP reform according to its individual measures.

3. Results of the research

3.1 Analysis of the process of the 2020 CAP reform

First stage: Pre-negotiation settings

In spring 2010, a public debate on the future of the CAP was launched by the European Commission. In accordance with the summary report, three groups of issues emerged: growing demand for food and volatility of prices; environmental concerns such as loss of biodiversity, soil degradation and climate change; and various distributional concerns (European Commission, 2010a). Most of the participants in the debate were professionally engaged in agriculture and demonstrated specific knowledge of the CAP.

In November, the European Commission published a 15-page strategic document titled “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future” (European Commission, 2010b). The Commission’s vision of the reform was based on the introduction of per area payments that would be conditional on a set of “new, simple, generalized, non-contractual environmental actions”. The vision of the Commission was named ‘greening of the CAP’.

In general, member states supported the approach. However, in a 2010 joint paper Germany and France argued that the reform should bring “no disadvantages to member states or farmers” and, more explicitly, that “full convergence of payments was not an option”. They specifically pointed out the importance of the

agreement on the new MFF. Farmer organisations argued against the reduction of CAP funds and for CAP having ‘stronger teeth’. Environmental organisations were satisfied with the ‘green’ rhetoric but were careful due to lack of detail (Euractiv, 2010). In mid-2011 the European Parliament passed a resolution on the future of CAP, calling for “sufficient resources in order to be able to meet the new challenges”.

Second stage: A concrete proposal

In June 2011, the European Commission (2011e) published the 2014-20 MFF proposal. In real terms, the funds available for agriculture corresponded to existing obligations. Additional funds were set outside the budget for mechanisms such as crisis mechanism and accommodation to future trade agreements.

In October 2011, the European Commission published a proposal reforming the main CAP regulations. The key elements of the Commission proposal are presented in Table 9.1.

In distributional terms the Commission’s proposal was relatively conservative. Introduction of single per area payments was expected to redistribute some of the supports from more intensive to more extensive production systems; actual income effects depended on several factors such as average size of the holdings, land ownership, production structure, intensity, etc. (European Commission, 2011d). The external convergence formula did not bring much more than an increase of payments in the Baltic States. The total financial effect of the capping (after total labour costs were deducted) was limited. Nevertheless, in countries such as the United Kingdom, Germany, Slovakia, Czech Republic and Hungary where the number of big beneficiaries was substantial, the effect was still notable (for detailed analysis see Sahrbacher et al., 2015: ch. 11, this volume).

The overall distributional effects of the proposal were smaller than those produced by modulation of direct payments to Pillar II during the previous reforms. Following the Commission proposal, modulation was no longer obligatory.

Table 9.1 Commission proposal of regulations reforming CAP

| Group of measures | Type of proposed changes |
|--------------------------|---|
| Market measures | <ul style="list-style-type: none"> - Further limitations and simplification of intervention measures - Sugar quotas and vine planting ban expire in 2015 - Strengthening of the producer organisations, support for private intervention - Crisis mechanism for the case of major market disturbances |
| Direct payments | <ul style="list-style-type: none"> - 'Regionalisation': introduction of basic per area regional payment (min 60% of direct support) - 'External convergence': in member states with payments currently below 90% of the EU average, 30% of this gap to be closed - Progressive capping minus total labour costs - 5% (10%)* of direct payments could remain coupled with production - 'Greening': preservation of permanent grasslands, crop diversification and introduction of ecological focus areas (EFAs) on at least 7% of the area (30% of direct support). Obligatory, except for farms <3 ha and organic farms. - Rest of the funds used to top up payments for young farmers, for those farming in areas facing natural constraints and for small farmers (simplified scheme) - New cross compliance requirements (water framework directive, etc.) |
| Rural development | <ul style="list-style-type: none"> - Member states allowed switching 10% of Pillar I to Pillar II; member states where direct payments were below 90% of the EU average allowed to switch 5% of Pillar II to Pillar I |

* Higher percentage of payments allowed to be coupled applied to countries where this share was currently higher.

Source: European Commission, 2011a; 2011b; 2011c.

The biggest innovation in the Commission proposal was the greening element. In accordance with official estimates, costs incurred due to new requirements accounted for approximately one-third of the green payment. Ecological focus areas (EFAs), which were considered to be the most important measure, were already in place on around 3% of the farm areas (European Commission, 2011d; Bureau, 2012: 318, 320; Matthews, 2012: 327-328).

Third stage: position of member states and European Parliament

One of the initial focuses of the negotiations was on the CAP budget.³ Net contributors such as Germany and the UK wanted to see the CAP budget significantly curbed. Germany and the UK also opposed capping. Conservative member states such as France, Italy and Spain were strongly against any reduction in the CAP budget. Member states that traditionally received larger amounts of rural development supports, such as Austria, were worried that Pillar II would be sacrificed during the negotiations. NMS were worried that their payment levels would be further reduced (Euractiv, 2012).

By the end of 2012 the decision on the CAP budget took its final shape. The proposed budget was decreased by approximately 10% in real terms, with a greater reduction of Pillar II. A nominal minimal floor for direct payments was set at €196 (75% of the average payment in per area terms). There was to be no obligatory capping. Flexibility to switch funds between Pillars 1 and 2 was increased to 15% and now applied in both directions. NMS were granted additional flexibility of 10%. Member states traditionally receiving large amounts of rural development supports were granted discrete allocations of these funds. Furthermore, the framework agreement included reference to CAP reform issues, namely the 'regionalisation' (introduction of per area supports) and 'greening' (new obligatory environmental actions). In order to make financial agreement acceptable, conservative member states demanded the Commission relax its position on these two issues and become more realistic (Council of the EU, 2012; *Agra Focus*,

³ The main issues of the budgetary negotiations were the overall level of EU budget, cohesion and CAP funding as well as the UK rebate.

December 2012: 7-10).⁴ Commenting on the EFAs, even German Agriculture Minister Ilse Aigner said that “in times of increasing global demand for food, it would be absurd to leave 7% of land fallow” (Euractiv, 2013a). After some minor corrections were made, an agreement was found in the European Council on 8 February 2013. Based on the estimation, member states losing the least (compared with existing allocations, direct payments being fully phased-in) were France, Italy and Spain, and those losing the most were NMS (with the exception of the Baltic States) (*Agra Focus*, March 2013: 9, 17).

The agricultural ministers addressed most of the remaining national concerns at the March 2013 Council. Due to pressures from conservative member states regionalisation of payments was substantially relaxed due to the mechanism of ‘internal convergence’ proposed by the Irish delegation in the Council (which also held the presidency). Firstly, the internal convergence target was set at 60% (minimum level of average regional payment given to the individual beneficiary), and secondly, member states were allowed to top up supports on first hectares (so-called ‘inversed degressivity’, proposed by France). The argument of conservatives for these changes to the Commission proposal was that “if production was to be maintained, supports should not be redistributed from more towards less productive farmers”.

The second ‘victim’ of the compromise agreement was greening: a number of farmers, such as smaller farmers, were exempted from the requirements, environmental requirements were relaxed (EFAs were now required on 5% of the area) and ‘equivalent measures’ defined by member states were allowed. Other changes to the Commission’s proposal included delayed phasing-out of supply controls in the sugar sector, reintroduction of supply controls in the wine sector,⁵ allowing a higher share of

⁴ The framework agreement was based on the proposal by European Council President Herman Van Rompuy.

⁵ The Council’s position reintroduced planting rights in the wine sector. Furthermore, these could no longer be traded but were under full authority of national governments. Thus, liberalisation of the wine sector agreed in 2007 was effectively reversed (Deconinck & Swinnen, 2013; Meloni & Swinnen, 2014).

payments to be coupled with production and extending the Simple Area Payment Scheme to be applied by a majority of NMS (Euractiv, 2013a; *Agra Focus*, April 2013: 2-3; Hart & Menadue, 2013).

The European Parliament decided to reject the budget position of member states since it involved too many provisions referring to CAP reform (European Parliament, 2013). Apart from that the COMAGRI drafted the position of the Parliament on CAP reform in March 2013. In most matters the position was close to the Council final agreement, which was also defended by conservative member states. In comparison to the compromise position of the Council, extension of supply controls was greater, share of payments coupled with production was larger, and external convergence was slightly weaker. However, there were also some progressive elements in the position of the Parliament: support for obligatory capping, higher co-financing rates for Pillar II programmes and rejection of 'double funding' resulting from financing 'equivalent greening measures' from Pillar II. This last issue was added by the plenary, after the COMAGRI failed to avoid the plenary vote (Euractiv, 2013b; *Agra Focus*, January 2013: 13-5).

Fourth and final stage

In May 2013, the trilogues between the Parliament, Council and Commission were launched in order for the legislative process to be concluded as a first reading agreement. Due to the delays in the process, the implementation of a CAP reform was already postponed for a year (*Agra Focus*, April 2013: 9, 11-2; May 2013: 5). By June, they were able to settle the non-financial issues. The agreement on these issues was close to the Council's position with the exception of supply controls and minimum internal convergence rate, where it was somewhere between the positions of the Council and the Parliament, and double funding, where the position of the Parliament and the Commission was followed (*Agra Focus*, July 2013; see Fertő & Kovacs, 2015: chapter 15, this volume). During the summer, an agreement on financial issues was reached. Germany finally agreed on capping 5% of payments over €150,000 (in case no equivalent redistributive payment was applied). Furthermore, there was no longer any requirement for the co-financing of voluntary modulated funds and the co-financing rates for rural development were increased (European Commission,

2013b; *Agra Focus*, September 2013: 2). In spite of these corrections in favour of Pillar II programmes, their reduction was still expected to be substantial.

COPA-COGECA, which was strongly against regionalisation and greening, was satisfied with the outcome. But environmental NGOs such as BirdLife International, which considered that greening had been weakened and rural development programmes better targeted towards new objectives sacrificed, argued that the reform was actually a step back and that such 'greening' was in fact 'greenwash' (*Agra Focus*, March 2013: 15). According to IEEP (2013): "The reform has done little to stop questions about the rationale for providing large scale support for agriculture in Europe." The most dissatisfied with the reform process were the NGOs concerned with development, such as Oxfam, which thought that the interests of developing countries were being ignored throughout the process.

3.2 Analysis of the discourses

We will now apply the discourse analysis as explained in section 2.2 to the CAP strategic aims summarised in Table 9.2 and the measures summarised in Table 9.3.

Strategic aims of the CAP

The discourses analysis of the conceptual framework of CAP reform, which may be interpreted as a justification of the policy, has shown that the first strategic aim of the CAP defined by the Commission is to preserve the food production potential in order to "guarantee long-term food security" for European citizens and "to contribute to growing world food demand" in the light of market instabilities often attributed to climate change (European Commission, 2010b). It is a productivist discourse, evident by its emphasis on 'food production' to 'guarantee food security'. The first aim therefore considers the contribution to growing world food demand due to the increase in the global population (European Commission, 2010b). The European Commission implicitly gives the European Union responsibility for meeting rising global food demand. The central aim related to guaranteeing food security is justified by market instabilities caused by climate change while other factors influencing fluctuations in price and production are not examined. The European Commission also tried to justify the

CAP with the environmental element, which is as a key demand of environmental NGOs but also popular with the broader public (European Commission, 2010a; Bureau, 2011).

The second strategic aim emphasises the CAP as supporting farming communities that provide European citizens with quality, value and diversity of food produced sustainably (European Commission, 2010b). This aim is formulated within a traditional multifunctional discourse, evident in its advocacy of support for farming communities, environmental concerns and maintaining the rural landscape, and by the use of keywords such as ‘sustainability’, ‘quality, value and diversity of food’, preserving ‘biodiversity’ and the ‘rural landscape’. Also in this aim, the European Commission has made extensive use of the term ‘adaptation to climate change’, indicating the importance of this popular environmental element in justifying the CAP. The preservation of ‘public goods’, considering the demands by CAP critics that it be made a key aim of the CAP (Declaration of Agricultural Economists, 2010; Hart et al., 2011), is not mentioned in this second aim but is instead listed among the objectives of the CAP. This could be interpreted as the European Commission not having wanted to disturb the balance between the three discourses by incorporating the concept of the preservation of public goods called for by important CAP critics, mainly scholars and environmental NGOs (Declaration of Agricultural Economists, 2010; Hart et al., 2011).

Central to the third strategic aim is that the CAP should promote employment in rural communities from which several economic, social and environmental benefits derive (European Commission, 2010b). This could also be viewed as an example of the hybrid discourse: while stressing the importance of agriculture and the preservation of local production, typical of the productivist discourse, the emphasis on ‘multiple benefits’ is more characteristic of the multifunctional discourse, one of its keywords. An environmental element is also evident, i.e. the reduction of greenhouse gases, further emphasising the important role of the CAP in the mitigation of climate change as a justification for its *raison d’être*.

Table 9.2 Discourses of three strategic aims of the 2014-20 reform (European Commission, 2010b)

| Discourse | Strategic aims | Keywords |
|------------------------|---|---|
| Productivist | To guarantee food security and contribute to meeting growing world food demand in the light of market instabilities caused by climate change. To maintain local production | Guarantee food security, growing world food demand, climate change, local employment |
| Multifunctional | To support farming communities that provide European citizens with quality, value and diversity of food produced sustainably | Sustainability, quality, value and diversity of food, preserving biodiversity and the rural landscape, adaptation to climate change, multiple economic, social, environmental and territorial benefits, reduction of greenhouse gases |
| Neoliberal | To promote greater competitiveness, efficient use of taxpayer resources and effective public policy | Competitiveness, efficient use, effective policy |

To summarise, the document intimidates in the sense of telling stakeholders that if they fail to introduce the presented productivist CAP reform, the consequences would be tragic: “The significant cut back in European farming activities would in turn generate important economic, environmental social consequences” (European Commission, 2010b). After having presented the drastic consequences of not adopting CAP reform, a demand for such reform is only natural: “The reform of the CAP must continue to promote greater competitiveness, efficient use of taxpayer resources

and effective public policy returns European citizens expect, with regard to food security, the environment, climate change and social and territorial balance” (European Commission, 2010b). This is an illustration of the document’s subscription to the neoliberal discourse (‘competitiveness’, ‘efficient use’ and ‘effective policy’), reinforced by productivist (‘food security’) and multifunctional (‘environment’, ‘climate change’ and ‘social and territorial balance’) elements. The neoliberal discourse does not begin until the second part of the document, which could be interpreted as an attempt to somewhat conceal its use. This makes sense insofar as the neoliberal discourse, with its advocacy for ceasing all public transfers into agriculture, may be considered the antithesis of the multifunctional and productivist discourses since both call for a strong state presence and market regulation. The neoliberal discourse was incorporated into the justification of the strategic aims since it encompasses part of the measures, especially those concerning market management mechanisms, e.g. abolition of the production quota system. Thus adaptation to climate change was incorporated into all three strategic aims by the European Commission. Climate change has thus become a key element for preserving the CAP. This ‘greening’ element may be seen as a kind of meta-element of all the discourses employed in the actual CAP reform.

Measures of the 2014-20 reform

Further, the discourse analysis of documents detailing and regulating CAP measures (European Commission, 2011a; 2011b; 2011c; 2011d) has shown that the productivist discourse predominates in direct payments (accompanied by the multifunctional discourse in the green payments measure), the neoliberal (supplemented with productivist) discourse predominates in the market management mechanisms, and the multifunctional (with elements of productivist) discourse predominates in the rural development regulations.

Table 9.3 Discourses of the measures of the 2014-20 reform (European Commission, 2011a; 2011b; 2011c; 2011d)

| Measures | Discourse | Keywords |
|--|---|--|
| 1. Direct payments | | |
| Basic Payment Scheme | Productivist | Contribute to food security and farm income, internal and external convergence, redistributive payment |
| Coupled payment | Productivist | To address the reform impacts on specific sectors |
| Young farmers | Productivist | Additional payment for young farmers |
| Small farmers | Hybrid: productivist and multi-functional | Vital food production, maintain social balance in rural areas |
| Areas with natural constraints | Multifunctional | Natural constraints, rural development |
| Greening direct payments | Multifunctional | Greening, organic, crop diversification, ecological area |
| Active farmers | Productivist | Favouring active farmers |
| 2. Market measures | | |
| Sugar quota abolition | Neoliberal | Improved competitiveness on market |
| Wine planting rights system | Productivist | Reinstate wine planting rights |
| Market interventions | Hybrid: neoliberal and productivist | Increased competition on market, provide safety net for farmers |
| School Fruit and Milk Schemes | Productivist | Increased budget for Fruit and Milk Schemes |
| Rules for producer organisations | Productivist | Better organisation of farmers, regulation |
| 3. Rural development policy | | |
| Fostering knowledge transfer and innovation | Hybrid: productivist and multifunctional | Transfer knowledge and innovation, ensure sustainable development |

| | | |
|---|--|---|
| Enhancing competitiveness of agriculture and farm viability | Hybrid: productivist and neoliberal | Farm viability, competitiveness |
| Promoting food chain and risk management in agriculture | Hybrid: productivist and multifunctional | Food chain organisation, risk management |
| Restoring, preserving and enhancing ecosystems | Multifunctional | Restoring, preserving and enhancing ecosystems |
| Promoting resource efficiency, low carbon, climate resilient economy | Multifunctional | Low carbon and climate resilient economy |
| Social inclusion, poverty reduction, economic development in rural areas | Multifunctional | Social inclusion, poverty reduction and economic development in rural areas |

As the productivist discourse was most widely employed, the CAP's redistributive role was strongly emphasised, an observation corroborated by the CAP budget distribution (Erjavec & Erjavec, 2015). Comparing the individual discourses by budget share, it could be very roughly estimated that the prevalent two discourses, i.e. productivist (with more than 60% from total funds for the CAP) and multifunctional (more than 30%), have a budget ratio of 2:1, while the neoliberal discourse's share is almost insignificant. 'Greening', the foundation of multifunctional discourse, seems to have an especially large share if compared to the previous budget distributions.

However, this finding should be discussed in a broader context. Considering the amount of financial means designated for direct payments, the last CAP reform (dated 2002) with the introduction of the cross-compliance rules for direct payments already started some environmental connotation of the policy. The last CAP reform has made the 'greening' element arbitrary by assigning it more than 30% of the total direct payment budget, equal

to slightly less than 25% of the total CAP budget. The European Commission had thus designated certain measures of the last CAP reform as ‘greening’ and granted them almost a quarter of the total CAP budget, but the question remains whether these measures are multifunctional, as they were presented in the discourses.

Namely, in the process of adopting CAP reform and defining measures more explicitly, the multifunctional discourse, with its strong greening element that was prevalent in the CAP reform aims and objectives, has been weakened through the reform negotiation process. The rules for EFAs were significantly watered down in the last stage of political negotiations in the Council and later agreed with the European Parliament. Several exemptions, such as for small farms, forest and permanent grassland regions, protein plants on the list of eligible areas, were introduced (*Agra Focus*, 2013a; 2013b). In addition, the ‘greening’ crop diversity requirement will only affect a very small share of the farm land according to the Commission’s own published impact assessment. Many different actors argue that the environmental elements were restricted in the new measures (IEEP, 2013). Thus the ‘greening’ element that was used primarily only for justification of a specific policy was not proportionately integrated into measures and the budget distribution, i.e. ‘greening’ was in fact ‘green light’ or even a ‘greenwash’ strategy.

4. Discussion and conclusion: Is CAP moving backwards?

4.1 Change in drivers implies new drivers for change

External trade was not an important driver of the most recent reform, in contrast to some of the previous reforms. The share of supports that were allowed to be coupled with production remained high, and since green payment exceeds official estimates of costs, it cannot be categorised as an environmental payment (‘green box’ subcategory by WTO typology). Furthermore, greening elements imply certain production activities on the eligible land (Daugbjerg, 2014). On the other hand, the reformed CAP stays in the framework of multilateral trade negotiations, which is demonstrated by phasing out some of the remaining market measures.

In the absence of external pressures, negotiations on the MFF (see A. Matthews, 2015: chapter 7, this volume) and paradigm change were the most important drivers of the recent reform. The fact that the Commission's proposal for CAP reform was conservative in distributional terms and even allowed for switching of part of the funds from Pillar II to Pillar I, which was against the trend of the past reforms, demonstrated that the Commission was well aware of the limitations of the possible budget agreement imposed by the unanimity rule. Thus the Commission tried to hide the expected reduction of Pillar II programmes behind the flexibility mechanism and to focus attention of the reform on the greening of the Pillar I. The point it was trying to make was made explicitly by Matthews (2012: 327-8), who argued that compared with the pre-reform CAP, when only a third of rural development supports were spent on environmental measures, 30% of direct payments was now allocated for environmental actions. However, conservatives, whose budget preferences were closer to the status quo, were able to take advantage of their legislative powers to negotiate a modest reduction in the budget for substantial relaxation of regionalisation and greening in a package deal.⁶ The legislative powers of the conservatives were demonstrated by estimates of the financial effects of the budget agreement, showing that they lost the least (*Agra Focus*, March 2013: 9, 17).

According to former Commissioner for Agriculture and Rural Development Dacian Cioloş, the reform "more than anything noted the paradigmatic change of CAP" (*Agra Focus*, July 2013). However, after regionalisation and greening were reduced (target and requirements were relaxed, a substantial number of farmers was exempted, equivalent measures were allowed, see IEEP, 2013), paradigm change was no more than an (half) empty shell. It could be said that the main hidden aim of the latest CAP policy changes for the conservative block was to extend the re-distributional logic of the CAP within a still comprehensive budget while implementing as few paradigmatic changes as possible.

⁶ Since direct payments are nominal, they will not be affected by reduction of CAP budget in real terms.

4.2 *Institutional changes hindered policy change*

There was strong path dependency in the reform process demonstrated by several facts. The CAP structure of two pillars remained, and direct aid took on some new connotation but are still the key CAP mechanism and distributional tool. On the other side, the Commission tried, with the environmental paradigm, to improve public acceptance of the still expensive CAP and further liberalise the market mechanism to be accommodated with the new global trade drivers (no longer in the frame of WTO trade negotiations, but more in the growing bilateral trade agreement pressures). In this way the proposed reform brings the CAP closer to the new liberal-multifunctional paradigm, in spite of the lack of direct external pressure.

The ‘co-decision procedure’ introduced by the Lisbon Treaty hindered policy change. Since the preferences of the European Parliament on CAP reform were more status quo-oriented than those of the qualified majority in the Council (demonstrated by their respective positions on the new budget and CAP reform, see Euractiv, 2013b; 2013c), the Parliament was able to use its legislative powers to relax regionalisation and greening as the key characteristics of the reform. Furthermore, the Agriculture Committee’s conservative position might have influenced the position of the Council in the first place since it strengthened the conservative voices in the Council (Lovec & Erjavec, 2015). Additional factors influencing the Council’s position were that the final agreements were made during the Irish presidency, which supported the conservative vision of the CAP, and that Germany was defending a relatively conservative position.

The COMAGRI, which played an important role in drafting the Parliament’s position, tried to avoid a plenary vote and to directly enter the trilogue since this would enable it to present the result of the trilogue negotiations to the plenary as a *fait accompli*. However, it failed to do so and the plenary rejected double funding, which turned out to be one of the progressive elements defended by the Parliament. Two other progressive elements were capping and higher co-financing rates. In order to introduce these elements, the Parliament threatened to veto the MFF.

The result of the CAP policy change process is a political compromise, in which the agricultural ministers in the Council have managed to keep reform at a bare minimum. The Parliament, which contributed to a small extent to the substance of the final policy change, was mainly busy playing its new role of co-legislator in the field of agricultural policy and drawing attention to itself. Anyone who has closely monitored the process cannot escape the impression that by the end of the negotiations the Commission was prepared to accept any kind of reform. The co-decision procedure, as well as the loss of real power due to the economic crisis in the larger member states, has weakened the Commission position substantially in the CAP reform process.

Greening controversy

In order to retain a 'strong' CAP and the current distribution of financial resources, the Commission, Parliament and Council used greening to justify it and productivist discourse as a major component for determining CAP measures. Decision-makers in the Council and Parliament have put forward a modernised productivist discourse, which has increased its foothold in the latest reform compared to previous reform efforts, all in a conscious effort to preserve the CAP as an important public policy and to maintain its budget distribution scheme. The popular environmental element was included in all discourses, but it was not proportionately integrated into measures and the budget distribution. By predominately using the productivist discourse and only apparently using 'greening' strategy, the key EU decision-makers turned 'greening' into 'greenwash'.

The fact that the greening element was weakened acted against the communication strategy of the Commission, since environmental NGOs were increasingly pointing out that the CAP was in fact being greenwashed. Thus, by the time reform process was over, key actors themselves stopped using the term 'greening' as a reference for the CAP 2020 reform.

Most important, the latest 'greening' policy changes have been a failure. The use of exceptions, especially those that allow conventional farming of protein-rich crops in ecologically sensitive areas, deals quite a blow to the Commission's initial logic. It could be argued that the original concept was poorly planned and quite

unrealistically developed. The environmental paradigmatic twist has thus definitely failed, especially seeing how the reform is now being implemented in member states. Evidently, in most member states agriculture and agricultural policy are still too immature for such a redirection.

The discussion about the future CAP is already open

At this very moment, before the most recent reform has even begun to exert an effect, the CAP is already in need of new reform. A brief review of the key actors' opinions shows that nobody is satisfied with this new CAP – neither the farmers, nor the policy-makers, nor the administrators, environmental organisations nor academia. We are still faced with a morass of decisions, regulations and varying financial means, with no exact concept of how to sculpt it into a coherent whole. This policy framework, which may indeed be successful in persuading the naïve of its makers' good intentions, has brought about neither more environmental benefit nor development, elements of which European agriculture is in dire need.

One could argue the EU needs a new, lucid consideration of what it wants its CAP to achieve. Given the current constellation of political power and interests, this consideration seems unlikely; it is not unreasonable to be sceptical about any possibility of change after 2020. The only certainty is another round of prolonged, strenuous negotiations, of which the fundamental question will be: Why do we have the CAP anyway?

The main requirement would be to introduce the strict logic of the policy cycle, which is to have policy address real questions and challenge. In addition, member states face very different problems, generally unconnected to the distribution of Pillar I funds. The two-pillar CAP logic should be abolished and an integrated concept established, perhaps even towards renationalisation in a form of more targeted policy – at least for the wealthier member states. For most member states, agro-food development is the main challenge in need of considerably more attention.

Finally, modern agricultural politics must distance itself from the particularity of interest politics and assume the responsibility of creating a better, more efficient policy, and not only the setting of

high-flying goals. All this sounds very utopian and naïve, of course, yet the level of absurdity that the CAP has reached today calls for impossible demands and the opening of a new discussion regarding the new CAP reform.

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10. THE FATE OF GREEN DIRECT PAYMENTS IN THE CAP REFORM NEGOTIATIONS

KALEY HART

1. Introduction and context

A key issue for the CAP reform process in 2010 was to strengthen significantly its capability for the delivery of environmental public goods to address the environmental challenges facing the EU. This was considered vital to legitimise the CAP (Hart et al., 2011; Matthews, 2012). The Commission's proposed means to achieve this was to change the architecture of Pillar I direct payments, by introducing three compulsory 'greening' measures for farmers to which member states would allocate 30% of their direct payments budget (approximately €12 billion/year). On the face of it, this proposal represented an opportunity to provide a basic level of environmental management across all farms receiving CAP support in Europe. It had the potential to mark a turning point for the CAP and set a trajectory for future reforms.

However, the proposal to green Pillar I proved to be highly contentious. Fiercely debated, even before the detailed proposals were announced, greening direct payments soon became a symbol of Agriculture Commissioner Dacian Cioloş' reform and a major political battleground. Indeed, the battles have continued beyond the formal CAP agreement, into the discussions on the content of the delegated acts, into implementation and subsequently into the new commissioner's brief to investigate simplification.

The greening proposals were criticised by the majority of actors from the outset. Environmentalists were sceptical that the mechanisms of greening Pillar I could satisfactorily reward environmental public goods provision. Others saw them as

undermining Europe's ability to contribute to ensuring food security, for example, by requiring land to be taken out of production (ecological focus areas - EFAs), threatening farming income and thereby livelihoods, as well as increasing the complexity of the CAP (Hart & Baldock, 2011; Matthews, 2012). For most environmental organisations, the proposal to green Pillar I was already a second-best option. They would have preferred to see a continued shift of funding towards rural development policy, following the trajectories of previous reforms (see, for example, BirdLife International, 2008). However, given the economic climate, it was considered unlikely that there would be appetite for increasing the rural development budget to fund an increase in environmental activity, rather that this part of the CAP budget would be at risk of cuts (Allen & Hart, 2013; BirdLife International & European Landowners' Organization, 2010).

As the first CAP reform subject to co-decision between the Agriculture Council and the European Parliament, this chapter considers the interplay between both institution and their respective roles in watering down proposals for a meaningful greening of the CAP. It examines how calls for increased national flexibility, both by those who wanted to strengthen the ability of greening measures to achieve environmental benefits and by those who saw it as a way of minimising their impact, led to the content of the measures being successively diluted and a long list of exemptions introduced. By the end of the formal negotiation process some even suggested that this reform process had been a step backwards for the integration of environmental concerns into the CAP (Brunner, 2013; Bureau, 2013a; IEEP, 2013).

The influence brought to bear by the Parliament and the Agriculture Council has to be set within the context of the overall dynamics and politics of the reform debate as it developed over time. A chronological perspective is taken. The reform orientation and scene setting started in 2010, with the publication of an own initiative report by MEP George Lyon of the Alliance of Liberals and Democrats for Europe (ALDE) and orientation debates within the Agriculture Council. This was followed by the Commission's Communication in November 2010, for which the Parliament's response was a report by MEP Albert Dess of the European People's Party (EPP). From the Council, Presidency Conclusions (rather than

Council Conclusions) emerged in June 2011, under the Hungarian presidency,¹ in which moderate support was expressed for the concept of greening the CAP, if not the structure for doing so. The Commission's legislative proposals were published in late 2011. The following 18 months, to May 2013, were occupied by the development of negotiating mandates by the Parliament and Council. The final phase of trilogues and political agreement took another nine months, with formal agreement in December 2013.

The debate and subsequent changes to the proposals centred on five key areas:

- the content and architecture of the measures themselves;
- the definition of who might already be deemed to be compliant with the measures and therefore exempt from their requirements, i.e. 'green by definition';
- acceptable alternative ways of meeting the requirements, i.e. 'equivalence';
- whether the greening measures should provide a baseline for Pillar II agri-environment-climate payments; and
- whether the penalties for non-compliance with the greening measures should extend beyond 30% through reductions in basic payments.

These issues appear as recurring themes through the chronological sections and are brought together at the end.

2. Setting the scene

By the time of the publication of the Commission's Communication in late 2010, the debate on the objectives, architecture and budget of a future CAP had been active already for many months. Providing support for securing environmental outcomes via a future CAP - 'public goods for public money' - increasingly was seen as a means of legitimising CAP expenditure. However, there were divergent opinions over the most appropriate system of payments to secure these goods and services - should there be a gradual shift from

¹ Seven member states did not sign up to the document, largely due to continued disagreements on the distribution of direct payments to EU farmers in the *post-2013* period.

income support payments to more targeted payments for environmental goods and services, or should income support payments be maintained, and if so, should these target all eligible farmers, those who are economically marginal, or those who are providing the greatest additional benefits to society and who would be the winners and losers of such changes?

Initial thinking from the Parliament was contained within George Lyon's report, adopted by the Parliament plenary on 8 July 2010 (European Parliament, 2010a). This suggested that a future CAP should ensure sustainable production, environmental protection and a fair income for farmers. It proposed contractual top-ups to the single payment to provide member states with the flexibility to make greening payments focused on climate change, measures to improve production efficiency and grassland payments. However, the process of adopting the report exposed divisions over the extent to which the environment should feature as a focus for the future CAP. Views on which public goods the CAP should support proved particularly sensitive. An amendment, tabled by the EPP between the Committee on Agriculture and Rural Development (COMAGRI) and plenary votes, which was subsequently agreed,² set the tone for later negotiations. This defined food security and food safety as 'first generation' public goods that should provide a core rationale for the CAP, alongside the environment (defined as 'second generation') (European Parliament, 2010b). This provided an early signal that the Parliament would resist any CAP restructuring it considered to reduce support for farming activity.

In the Agriculture Council, a number of orientation debates took place, under the French presidency in the second half of 2009 and under the Spanish presidency in the first half of 2010. In December 2009, the Paris Declaration was signed by 22 member states³ which argued against a major overhaul of the policy, outlining the importance of the CAP in supporting the European

² The motion for this amendment passed through the Parliament with a vote of 356 for, 219 against and 18 abstentions, with the majority of opposition coming from the S&D and Greens/EFA parties.

³ With the exception of the UK, Denmark, Malta, the Netherlands and Sweden.

food model and calling for a budget commensurate to the scale of ambition. This was followed in February 2010 by the Warsaw Declaration on the future of the CAP beyond 2013, which was signed by nine new member states and called for a departure from the current funding allocation criteria, greater equity in payment levels and a respect for the principle of financial solidarity. Environmental priorities did not feature in either of these statements, rather the focus remained predominantly on issues surrounding the potential redistribution of direct payment envelopes between member states.

The Commission's Communication on the future CAP appeared in November 2010 and included the proposal to introduce a series of three simple green measures in Pillar I, which farmers would be required to implement in return for 30% of their direct payments (see De Castro & Di Mambro, 2015: ch. 6, this volume). The Parliament's response was drafted by MEP Albert Dess (EPP). Controversially, his report rejected the proposal to have 'greening measures' under Pillar I, suggesting instead that direct payments should be conditional upon farmers undertaking a number of simple environmental measures that go beyond cross-compliance requirements situated as agreements in Pillar II. This plan was presented as intending to encourage member states to build on existing agri-environment schemes and to avoid the introduction of "new, bureaucratic environmental conditions into the first Pillar" (European Parliament, 2011).

The Dess report was not well received within COMAGRI or by other stakeholders, even those who might have preferred a Pillar II approach for greening. His ideas had not been developed in a collaborative manner, involving other political groups and stakeholders, which led to his report not being well presented or understood. Some felt his greening proposals were overcomplicated and would not lead to environmental additionality and others mistrusted his motives, thinking that this was simply a way of, at best, rewarding the status quo and, at worst, removing or significantly reducing any additional environmental requirements on farmers, given that the Pillar II budget was likely to come under significant pressure during discussions on the multiannual financial framework (MFF). In part his report sought to demonstrate that the Parliament was an equal partner in the reform process by proposing

a radical departure from the Commission's proposals on greening. If the Parliament had supported the Dess greening proposals, it would have signalled a clear divide between itself and the Commission on an issue that was becoming increasingly symbolic of the reform. Given that the timing of his report coincided with the more general positioning of the Parliament on both the CAP and the MFF, in the event, the EP did not take this risk. The greening part of the Dess report was amended significantly⁴ and the agreed final text was sufficiently ambiguous that it could be interpreted as both supporting the essence of the Commission's proposals for greening Pillar I and leaving open the door for an alternative Pillar II approach.

This ambiguity thus allowed the impression that Lyon, Dess and the Commission were broadly heading in a similar direction. In hindsight, the Dess report represents perhaps a missed opportunity to steer and shape the Commission's legislative proposals and cement the Parliament's position on the back of the earlier Lyon report. Rather than providing a major contribution into the debate, and a strong position on greening around which the Parliament could orient itself, it instead served to expose political differences, widen the fault lines between political parties, and allowed Commissioner Ciolos to feel that he had the endorsement he needed to proceed with his legislative proposals.⁵

3. Publication of the Commission's proposals and the development of negotiating mandates

The Commission's legislative proposals for the 2014-20 CAP were launched on 12 October 2011, and were presented as providing "a new partnership between Europe and its farmers in order to meet the challenges of food security, sustainable use of natural resources and growth". Although the greening proposals signalled a

⁴ Through 61 compromise amendments, whittled down from the 1,200 amendments proposed (Anon, 2011a; European Parliament Committee on Agriculture and Rural Development, 2011).

⁵ Commissioner Dacian Ciolos, comments following the EP plenary adoption of the Dess report on the CAP after 2013 (http://ec.europa.eu/commission_2010-2014/ciolos/headlines/speeches/2011/06/20110624b_en.htm).

significant change to the structure of Pillar I, it should be remembered that these were part of a much broader restructuring of Pillar I direct support to farmers. The redistribution and targeting of support both between and within member states were also extremely politically contentious.

The greening proposals involved the requirement of all member states to allocate 30% of their direct payments envelope to three agricultural practices beneficial to the climate and the environment (greening practices) that were to be compulsory for all farms. Organic farms were considered 'green by definition' and therefore would automatically receive the 'green' payment, and farmers within Natura 2000 areas – a network of nature protection areas in the EU territory – would have to comply with the greening measures unless they were incompatible with the practices required on the particular site.

The three measures proposed are set out in Box 10.1.

Box 10.1 The proposed agricultural practices beneficial to climate and the environment

- **Crop diversification:** three different crops to be grown on arable land over three hectares, with none of the three covering less than 5% of the arable land and the main one not exceeding 70%.
- **Permanent grassland:** maintenance of 95% of the area of permanent grassland on the holding as declared in 2014.
- **Ecological focus areas (EFAs):** 7% of the holding (excluding permanent grassland) to be managed as EFAs, with an EFA to comprise one or more of the following elements: land left fallow; terraces; landscape features, e.g. hedges; ponds; ditches; trees in a line, in a group or isolated; field margins; buffer strips – with no production on them; areas afforested with funding from the European Agricultural Fund for Rural Development (EAFRD).

The proposals provided no detail on how these measures might work in practice and the impact assessment that accompanied the proposals (European Commission, 2011b) also contained scant information on their likely environmental impacts. In terms of the content of the measures, the Commission retained the power to define the detail through delegated acts, which raised many

questions about precisely what would be required under the greening measures and how they would operate.

Reactions to the greening proposals were almost universally negative (Anon, 2011b). Farmer organisations criticised the obligation to 'set aside' 7% of arable land for ecological purposes, arguing that it would imperil food security, require farmers to find ways of increasing production on remaining land and damage the ability of farmers to respond to market signals (COPA-COGECA, 2011). On the other hand, environmental organisations expressed disappointment with the proposals, questioning whether the 'green' element of the direct payment would deliver any more than was already delivered through cross compliance. A BirdLife press release stated: "[I]f the CAP of the future was to be the one proposed by the Commission...people might be excused for wondering whether the product is worth the price tag" (BirdLife International, 2011). Some economists also criticised the proposals as being an inefficient means of providing environmental public goods (see, for example, Koester, 2011).

Criticisms in the Agriculture Council suggested the proposals would not only lead to more red tape and bureaucracy for farmers and administrators but were insufficient to meet the future challenges facing Europe and the agricultural sector, in particular food security and climate change. The proposal to retain 7% of cropped land as an ecological focus area was considered 'unwise' at a time when demand for food was increasing. In addition, there was criticism that the measures were too rigid, with calls for greater flexibility to allow them to be tailored to local conditions and the proportion of the Pillar I envelope to be allocated to these green payments was considered by some to be too high (Anon, 2011c; Antoine, 2011).

The Parliament's reactions were broadly similar. At a public debate in November 2011, a common concern voiced among MEPs was the lack of simplification in the proposed regulations and the suggested conflict of the EFA measure with food security objectives. The implied simplistic, production-focused view of European food security was never really challenged, and environmental counterarguments were voiced but failed to gain much purchase.

As the discussions progressed, the divide widened between those seeking to improve the environmental benefits that could be

achieved through the measures and a larger group who wanted to maintain the status quo and minimise the degree to which the measures impinged on productive farm activities. Both sides sought to propose changes to the Commission's proposals. There was a fundamental difference between supporters of 'greening' who saw it as an opportunity to deliver genuine environmental improvement and those who saw it as a means of rewarding different farm types on the basis of their perceived environmental worth, e.g. permanent crops, or making minor adjustments to the allocation of funding within a largely unchanged CAP. Both sides of the argument, however, suffered from a lack of evidence on potential impacts of the greening proposals.⁶ The Parliament commissioned two pieces of work to inform the development of their negotiating position (Hart et al., 2011; Matthews, 2012). However, alternatives for delivering environmental public goods that were in keeping with the ethos of the Commission's proposals to green Pillar I were few and far between (Hart & Little, 2012), so the Commission ploughed on with their evidence-free proposals!

Within the Parliament and the Agriculture Council, three key concerns on greening measures came to the forefront:

- member states wanted more flexibility to tailor measures to their own situations;
- greening measure should not impinge upon production; and
- it was vital to minimise any increase in bureaucracy and administrative requirements.

Improving the environmental outcomes for the measures was only a concern amongst a minority of MEPs and member states.

Another important element in the discussion in both the Council and the Parliament was uncertainty over the total budget for the CAP. Willingness to accept genuine greening measures was, for many, conditional on avoiding a sharp reduction in the level of the budget. Defending a reduction in funding *and* a new requirement on farmers would have been difficult for many political

⁶ The legislative proposals differed from those in the 2010 Communication on which the original impact assessment had been undertaken, but despite updated analysis being carried out, this was never put into the public domain.

parties across the EU. In those member states particularly affected by redistribution of direct payments, this problem was exacerbated. Indeed, it has been argued that “by proposing greening as a way of legitimising the existing flow of untargeted Pillar I payments to farmers, the Commission framed the issue in a way that it was bound to lose” because the way in which the proposals were drafted provided no means of reducing the direct payments budget if less ambitious greening measures were adopted. Therefore, there was no incentive on the Council or the Parliament to maintain the environmental ambition of the green measures (Matthews, 2013a).

The Commission defended their proposals by explaining that they *were* simple and applied to all farmers. They also pointed out that on average farmers already had about 3.5% of land that would count towards the EFA target (European Commission, 2011b; Forstner et al., 2012). Increasingly, the Commission’s line was backed by environmental NGOs that feared the unrelenting criticisms risked a significant weakening of the greening proposals. The importance of the greening measures and the belief that they should be mandatory for all beneficiaries of direct payments in order to “have a wide application across the EU territory” was reaffirmed in a letter co-signed by the Commissioners for Agriculture, the Environment, and Climate Action in March 2012.

The Parliament’s rapporteur on direct payments, and thus the greening proposals, was MEP Luis Miguel Capoulas Santos of the Socialists & Democrats (S&D). His challenge was to navigate the different views within his own party and between political parties and among stakeholders to develop the Parliament’s position on the Commission’s proposals. Three ideas emerged during this process. First, the idea of a menu approach to greening measures gained traction. This extended the list of greening options, allowing member states or farmers to choose which to apply. Second were calls for a much wider group of farmers to be considered as ‘green by definition’ and therefore automatically eligible to receive the green payment. Third, it was suggested that penalties for non-compliance with greening should not impinge on the basic payment, thereby reducing the incentive to comply.

Capoulas Santos found that there were quite different views within his own party on the menu idea. The S&D group included an informal sub-coalition of reform-minded MEPs, which became

known as the 'Viking Group', who were keen not to see the environmental aspirations of greening disappear. They rejected the menu idea as a weakening of the greening concept and feared it would risk killing off the greening proposals altogether.

In contrast, the menu approach was strongly favoured by the Council. A series of alternative proposals for greening the CAP were set out in a discussion document in April 2012, which became known as the Luxembourg paper (Council of the European Union, 2012). This paper had originated as a more ambitious paper by the Stockholm group of member states that had sought to increase the environmental additionality of the proposals. However, the document that was eventually published⁷ proposed a series of three very different options (from moving the measures to cross-compliance to permitting a proportion of Pillar I payments to fund agri-environment type activities). The middle option was an embellished version of the Commission's proposals and advocated an extended list of options for greening, as well as increasing the types of farms that would be 'green by definition'. Indeed, the degree of flexibility proposed would have allowed member states to implement greening in a way that simply maintained the status quo. This was heavily criticised by environmental NGOs.

The Commission's response to these calls for greater flexibility was a 'concept paper'⁸ published in May 2012. This introduced the concept of 'equivalence'. This meant that beneficiaries of agri-environment-climate measures and participants in environmental certification schemes could be considered as fulfilling one (or several) of the greening measures provided the coverage of the farm by these measures was the same as the greening measures and the environmental ambition of the actions was greater than the ambition of the greening measures. Other ideas in the concept paper included changes to the definition of permanent grassland and a suggested increase in the threshold

⁷ Council of the European Union (2012), "Greening Instruments - menu for Member States within the EU framework", Working Paper 9283/12, 26 April.

⁸ European Commission (2012), "Greening - Concept paper", May (http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/concept-paper-on-greening_en.pdf).

for crop diversification from 3 to 10 hectares. Initially this paper caused confusion. Its status was unclear, although it quickly became viewed as a quasi-official paper. But it was completely unclear how these revised proposals would work in practice, leading to considerable uncertainty, including within the Commission services. The confusion provided space for the Parliament and Council to elaborate their own interpretations of what was intended. In particular, by conceding exemptions and increasing the thresholds for crop diversification, the Commission had signalled that these were areas where additional flexibility could be found, and it encouraged hopes that similar options might be possible for the EFA measure.

The development of the Parliament's final negotiating position for the CAP was a long, drawn out process. The amendments proposed by Capoulas Santos involved a considerable weakening of the Commission's proposals in the name of simplification and reducing bureaucracy. In keeping with the concept paper, they broadened the categories of farmers deemed to be 'green by definition' to include farms which were 'environmentally certified' or those which were in agri-environment schemes. A new measure for permanent crops was proposed, and the threshold that should apply to the EFA measure was proposed to increase to 20 hectares. The thresholds for crop diversification for three crops was to be raised to 20 hectares; farms between 5 and 20 hectares were only required to have two crops. Furthermore, farms with more than 80% of the holding under permanent grassland or permanent crops and an arable area under 50 hectares should be exempt from the measure altogether.

Capoulas Santos supported an idea put forward by the Netherlands and Denmark that EFAs could be implemented regionally, suggesting that farms working together to create 'continuous, adjacent EFAs' need only allocate 5% of their cropped area as an EFA. He proposed breaking the link between compliance with the green direct payments and receipt of the basic payment, essentially making greening voluntary. Any resulting unspent funds transferred to the agri-environment-climate measure under Pillar II. More positively, he was clear that double funding should not be permitted and that Pillar II environment payments should clearly be additional to those received for Pillar I greening.

There followed a period of intense activity within the Parliament, with political parties tabling thousands of amendments and compromise amendments developed to put to the debate and vote within COMAGRI in January 2013.

In this vote, a further weakening of the greening measures took place as the following amendments were approved:

- The breaking of the link between the greening payment and the basic payment.
- For farmers considered to be ‘green by definition’, the entirety of the holding would be exempt from the greening requirements, not just the area under an agri-environment agreement, farmed organically or designated as Natura 2000.
- Double funding would be permitted, i.e. payments for the same activities could be received under Pillar I and Pillar II.
- Farmers on holdings where more than 75% of their land is permanent grassland and the remaining land does not exceed 50 hectares would be exempt from the crop diversification and EFA measures.
- Farmers with holdings certified under national or regional environmental certification schemes that have “at least an equivalent impact as the relevant practices [as greening]” would be deemed to be compliant with the greening measures. The measures considered to be equivalent would include on-farm plans for nutrient management, energy efficiency, biodiversity action, water management plan; soil cover measures; and integrated pest management.⁹
- EFAs would only be required on arable areas over 10 hectares¹⁰ and not on land with permanent crops.
- New elements would count towards EFA, included nitrogen fixing crops. Production would be allowed on EFAs, e.g. on buffer strips, provided no fertilisers or pesticides are used.

⁹ The equivalence between these measures and the Commission’s greening measures was not at all clear.

¹⁰ This was more demanding than the 20 hectares originally proposed by Capoulas Santos but weaker than the Commission’s proposal which had no threshold.

- The EFA percent required would be reduced to 3% for the first year, and 5% thereafter.
- The required EFA percentage could be reduced by 3% if implemented at the regional level to achieve 'adjacent ecological areas'.
- Crop diversification would not apply to arable land under 10 hectares, and only two crops would be required between 10 and 30 hectares with the main crop not covering more than 80%.
- For permanent grassland member states would be given flexibility to apply the requirement at the national, regional or sub regional level.
- One environmentally positive proposal (tabled by the Greens) would introduce a ban on the ploughing of carbon-rich soils, wetlands and semi-natural grassland and pastures.

This COMAGRI vote, particularly the proposal to permit double funding, caused uproar amongst environmental stakeholders. It led to a concerted campaign to highlight not just the inefficiency of the proposal but that it would contravene a fundamental principle underpinning rules for public expenditure in the EU, namely that no costs for the same activity be funded twice from the EU budget.¹¹ Negative press coverage, particularly in the UK, ensued and a letter-writing campaign to MEPs was mobilised to try and ensure that this amendment was overturned in plenary.

The plenary vote to authorise the Parliament negotiating mandate took place in March 2013. This focused primarily on the two contentious issues of double funding and the extent of the 'green by definition' exemption. A roll call vote was held on both issues. The amendment to prevent double funding¹² was approved by a significant majority (379 in favour, 285 against and 7

¹¹ See Article 111 of Council Regulation (EC, Euratom) No. 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002).

¹² The rule was set within rural development regulation and the amendment stated very clearly that payments for actions funded under the agri-environment-climate measure must go beyond those under both cross-compliance and the green direct payment.

abstentions). On the 'green by definition' issue a large number of amendments were tabled, but the intensely political nature of the debate led to political parties voting against one another with the result that none of the amendments were passed. As a result the Parliament's position relating to all elements of the article in question (Article 29) reverted to the original Commission proposal. This meant that proposals to exempt certain types of farms from greening, e.g. those that were predominantly grassland, were rejected. However, in a rather peculiar procedural mix-up, in the voting on the recitals referring to the same issue, the original amendment proposed by Capoulas Santos was approved,¹³ which caused confusion over the Parliament's final negotiating position on this particular issue. The COMAGRI amendments to the greening measures remained unchanged, as did the separation of the penalty for non-compliance with the greening requirements from the basic payment. As a result the final negotiating mandate agreed by the Parliament was closer to the Commission's proposals than had been intended, but the content of the three greening measures was considerably weakened.

A week after the Parliament plenary vote, agriculture ministers agreed their negotiating mandate, known as the 'General Approach'. In most cases the amendments proposed served to dilute the Commission's proposal further than those tabled by the Parliament so as to reduce even further their potential environmental impact, but in a few notable cases the Council proposed a stronger line (see below). Alongside the three greening measures, which were substantially altered in content, the Council also proposed that member states, as an alternative to or in conjunction with the greening measures, could identify and use 'equivalent' measures carried out under agri-environment agreements or in compliance with national or regional environmental certification schemes, building on the Commission's concept paper. The possibility of developing a standalone certification scheme at the national or regional level that would operate instead of the greening measures was also put forward.

¹³ This stated that only land actually covered by an agri-environment agreement, registered as organic or designated as Natura 2000, should be considered 'green by definition'.

It should be noted that a month earlier, as part of the MFF negotiations, heads of state had controversially intervened in the details of the CAP. Originally, Germany, heavily pressured by the farm lobby, had proposed that the MFF agreement should stipulate a lower proportion of land to be managed as an EFA. This was not agreed but the following text was: “[T]he requirement to have an ecological focus area on each agricultural holding will be implemented in ways that do not require the land in question to be taken out of production...” This was to have serious ramifications for the eventual content of the EFA measure. It was frequently used as an argument for reducing yet further the environmental conditions (and eventually the weightings) placed on practices making up the EFA; a notable example was the argument that pesticides and fertilisers should be permitted on EFAs.

The Agriculture Council’s negotiating position on the standard greening measures varied in strength compared to the Parliament’s negotiating mandate.¹⁴ As the Parliament’s position had defaulted to the Commission proposals on the general requirements for greening, most of the Council’s amendments on greening were weaker environmentally, particularly by extending the list of types of farms exempt from greening. The Council also proposed that the greening measures should not form the baseline for payments under Pillar II, leaving the door open for double funding. The content of the EFA measure was weakened, as the threshold for the application of EFA was raised to 15 hectares,¹⁵ the list of elements for EFA was lengthened, and the list of exemptions from the measure was extended considerably. The last was also true for crop diversification. In addition, the Council suggested that weighting factors should be applied to different elements of the EFA to reflect their environmental benefit. This idea had its origins in the French weighting system applied to standards of ‘good agricultural and environmental condition’ (GAEC) under cross compliance. The idea was that the weighting factors would be taken into account

¹⁴ A full tabulation of the agreed mandates of the Parliament and Council compared to the Commission proposals is contained in Annex III of Knops & Swinnen (2014).

¹⁵ Although the eligible area was arable and permanent crops as per the Commission’s proposal, whereas the Parliament had removed permanent crops from the measure.

when calculating the total area required to reach the EFA commitment. It was proposed that these should be set out as an annex to the legislative text. The lack of details on what these weighting factors should be left their potential environmental impact uncertain and were widely considered to be a tactic to introduce yet another means of further watering down the EFA measure.

On the positive side, the Council proposed that the penalty for non-compliance with greening measures could reach 125% of the greening payment, giving farmers a much stronger impetus to comply. Whilst member states also proposed that the EFA percentage should be reduced, this was only to 5%, rather than the 3% for the first year as proposed by the Parliament.

In short, prior to the trilogue, the Council's position was rather weaker environmentally than that of the Parliament, certainly in terms of the content of the standard greening measures and in its position on permitting double funding. The two areas where the Parliament was weaker were in seeking to remove permanent crops from the EFA requirement and breaking the link between compliance and receipt of the basic payment, essentially making the greening requirements essentially voluntary.

4. The trilogues and political agreement - balance of influence between the Parliament and the Council in the final outcome

The trilogue discussions between the Parliament, the Council and the Commission started very quickly once negotiating mandates had been agreed. As anticipated, the greening articles proved particularly contentious, especially given how much weaker both Parliament and Council positions were compared with the Commission's original texts.

There was, arguably, a structural bias in the trilogue negotiations towards a further weakening of the proposals (see Box 10.2). The lack of belief (compounded by the absence of evidence) among environmental stakeholders and those member states or MEPs with a commitment to a 'greener' CAP that the Commission's original proposals would deliver genuine and significant environmental benefits meant there were few passionate defenders

of the original draft. In contrast, there were many who were concerned about the cost implications for farms (especially for the crop diversification three-crop rule) or administrations; and who were therefore more than willing to accede to amendments that reduced these costs, without attracting political ‘blame’.

Perhaps more significantly, the very presence of the greening proposals had already succeeded in helping protect the CAP budget from more serious cuts than had been feared in the MFF negotiations. In this view, once the CAP budget had been settled, the content of greening was far less important politically.

Box 10.2 Structural bias in the trilogue negotiations towards further weakening of the greening proposals

The trilogue negotiations can be conceptualised by considering the level of overlap in Council and Parliament positions in terms of their ambition or political direction, and the text.

Where there is a clear distinction between political direction there is likely to be a clear political debate, with (ideally) predictability on whether there is a likely landing zone, with the Commission well-placed to steer discussion in that direction. Where there is relatively similar political direction and not much distinction between texts, the trilogue process is likely to be even more straightforward. But where – as in the case of greening – the level of political ambition is not dissimilar (with both Council and Parliament having a wide spread of levels of ambition) and there is a significant divergence in text, the discussion is likely to be confused, with a lack of clarity on tactics on both sides. This allows opportunistic participants to agree to text in the opposing institution’s position, which helps their objectives without saddling them with any political downsides.

Arguably, the lack of a clear description from the Commission early in the process of the environmental benefits to be delivered by greening made it difficult for the Commission and others to clarify the extent to which successive dilutions of the text mattered for the delivery of outcomes. There were few participants – other than the Commission – that were genuinely convinced by the value of the original proposals.

Therefore, there was little incentive to defend the proposal, particularly given that it was difficult to point to specific damage particular changes to the text might have in relation to the scale of environmental ambition. Conversely, a number of participants had either strong political pressures (farming stakeholder concerns) or funding pressures (an interest in reducing complexity, or reducing the number of farms covered by greening in order to reduce administrative costs), which meant they were biased towards accepting amendments in the other institution's position that helped them in this regard.

Source: Personal communication, UK negotiator.

The scale of weakening of the greening measures is associated mainly with the outcomes in five key areas (see also Bureau, 2013a; Matthews, 2013b):

- i) the exemptions which reduce the number of farms and area of land that must adhere to the greening measures;
- ii) the content of the measures, particularly for EFA and the weighting factors;
- iii) the nature of the equivalent practices;
- iv) the extent to which the greening measures provide a baseline for area-based payments (such as agri-environment-climate payments) under Pillar II; and
- v) the link between penalties for non-compliance and receipt of the basic payment.

Each of these is examined to determine the extent to which the Parliament's negotiating mandate, marginally stronger from an environmental perspective, was reflected in the final agreement.

Exemptions and 'green by definition': Both the Parliament and the Council were responsible for the introduction of major exemptions to the greening measures, reducing significantly the proportion of farms and land required to adhere to the greening requirements.

There were minor differences over the size thresholds for farms, below which the crop diversification and EFA measures

would not apply;¹⁶ and the change in the requirement to maintain permanent grassland from farm to national/regional level. In areas of greater differences, both institutions won significant changes, which weakened yet further the original proposals. The Parliament advocated the removal of permanent crops from the EFA requirement, concerned that this would lead to the grubbing up of olives and other orchards in the Mediterranean region to avoid being caught by the new rules. This position would leave the permanent crop sector without any obligations to carry out greening measures in Pillar I but, in the absence of evidence on the scale of the impact and given the strong pressure from the Parliament, it was agreed. The Council argued for significant exemptions to the crop diversification and EFA measures for certain types of farms.¹⁷ Most of these were approved, although not for participants in agri-environment schemes, and a compromise was reached whereby the exemptions only applied if the arable land on the farm was under 30 hectares.

Measure content: The EFA measure was considered to have the greatest potential for delivering environmental benefits (Bureau, 2013b; Polakova et al., 2011). Responsibility for diluting its content lay perhaps more with the Council than the Parliament, although the latter certainly made considerable efforts in this direction! Both institutions extended the list of practices that could contribute to an EFA and tried to ensure that agricultural production was permitted on these areas. The Council produced the longer list: green cover, catch crops, short rotation coppice in addition to the nitrogen fixing crops proposed by the Parliament. Most of these were agreed in the final deal. The Parliament tried to hold the line that no fertilisers or pesticides should be permitted on EFAs, but this did not make it through to the final agreement. Both institutions wanted to reduce the proportion of the eligible area subject to an EFA from the Commission's proposed 7%. The outcome was 5%, proposed by the Council, with a possible increase to 7% from 2017. Significantly, the Parliament insisted this increase should be subject to co-decision.

¹⁶ The positions on the threshold for the EFA were: Parliament 10 hectares, Council 15 hectares. The final agreement reflected the Council's position.

¹⁷ E.g. farms with over 75% of land under grass, cultivated with crops under water, and in an agri-environment scheme.

The Parliament played an important role in averting an environmentally damaging intervention by the Council late in the negotiations, regarding the proposed weightings of actions eligible for EFA. The proposed weighting factors were eventually tabled by the Irish presidency during the final week of discussions on greening. The coefficients included some extravagant contributions of certain features that would have significantly undermined the area subject to an EFA and thereby their potential environmental impact.¹⁸ These figures were leaked and heavily criticised as yet another attempt by an Agriculture Council to reduce the environmental actions required of farmers (IEEP, 2013). The Parliament objected to the coefficients, arguing that these details were better suited for inclusion in the Commission's delegated acts given the time required to ensure they were systematically based on evidence. The outcome was an empty table added as an annex to the regulation, stipulating which of the EFA elements would be subject to weighting coefficients but leaving the coefficients to be determined by the Commission. Given the importance of the coefficients for the impact of the EFA requirement, this arguably goes beyond the legitimate scope of delegated acts. However, time constraints, given the late stage at which this idea was introduced, removed the option for any viable alternatives. It is interesting to note that the Parliament and member states were highly active in seeking to influence both the coefficients and other details of the EFA measure in the delegated act¹⁹ in order to minimise the impact of EFA measures on agricultural production. The Parliament continued to exert pressure on the Commission, once the delegated acts were published in March 2014, by threatening to reject them if certain concessions were not made in relation to the greening

¹⁸ For example, it proposed that a single tree could count as 200 m² towards a farmer's EFA requirement and that one metre of hedge would count as 25 m² or 50 m² if the farmer managed fields on both sides.

¹⁹ Annex II of Commission Delegated Regulation (EU) No. 639/2014 supplementing Regulation (EU) No. 1307/2013 of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and amending Annex X to that Regulation (http://eur-lex.europa.eu/legal-content/en/TXT/?uri=uriserv:OJ.L_.2014.181.01.0001.01.ENG).

measures. This pressure resulted in the commissioner announcing “that 1 hectare of a nitrogen-fixing crop such as alfalfa, clover or lupins can be equivalent to 0.7 hectare of EFA (rather than 0.3 hectare in the original text) in order to make the option more attractive”. A formal proposal to this effect was published in July 2014 and was cheered as a victory by COMAGRI Chairman Paolo De Castro (S&D). This stimulated strong objections from environmental NGOs.²⁰

The Parliament also made an important environmentally positive contribution in relation to the permanent grassland measure. In its negotiating mandate the Parliament had proposed that there should be a ban on ploughing carbon-rich soils, wetland and semi-natural grasslands and pastures in order to give them stronger protection. A similar requirement had been put forward by the Commission under cross-compliance but had been rejected by both institutions. The final agreement on this matter was much weaker than the original Parliament proposal²¹ and voluntary in nature, due to resistance from the Council (partly because of concerns from the presidency, amongst others, that it applied to carbon-rich soils already in arable production). Nonetheless, it provided the hook for a compromise proposal from the Commission for the voluntary protection of carbon-rich soils on permanent grassland outside of protected areas, which it could not otherwise have done. This was subsequently adopted.

Equivalent practices and the use of national certification schemes: A third area that was perceived as having the potential to weaken the environmental credentials of the green measures was the proposal that member states could use national certification schemes to achieve the same (or greater) environmental outcomes as the standard three greening measures. The idea, first mentioned

²⁰ Open letter from BirdLife and the European Environmental Bureau to Commissioner Ciolos (www.birdlife.org/sites/default/files/attachments/Open%20letter%20Ciolos%20Delegated%20Acts%20-final%20pdf%20version.pdf).

²¹ Member states were given the option of designating additional areas to those protected under the habitats and birds directives which were considered environmentally sensitive and in which no ploughing of permanent grassland could take place, including permanent grassland on carbon-rich soils.

in the Commission's concept paper, was extended by the Council to suggest allowing a national certification scheme to meet the greening requirements. This was claimed to allow the measures to be better tailored to local circumstances and increase environmental benefits of greening. However, it aroused deep suspicions that it would do the opposite, providing a loophole for member states to avoid demanding greening requirements.

There were linked discussions about which practices could be considered 'equivalent' to the greening measures, within national certification schemes as well as agri-environment-climate agreements. A list of approved practices was produced by the Commission, which became Annex IX of the basic act. This reduced the flexibility and the potential loopholes of using national certification schemes and in so doing also appeared to relax initial Commission reticence over allowing such schemes to form the sole route to meeting a farmer's greening requirement. However, this approach has also appeared to limit the extent to which member states are likely to choose this option.²² The Parliament played little part in this debate.

Greening baseline and double funding: This issue occupied a great deal of lobbying activity and press coverage. The Parliament eventually voted against permitting double funding, but the Council rejected the Commission's proposal that agri-environment activities funded via Pillar II should build on Pillar I greening as the environmental baseline. The alignment of Parliament and Commission on this issue meant that the Council was unlikely to win the argument, as this would have represented poor value for money and risked undermining trust from wider society, thus causing reputational damage. Added to this, there would have been a risk of challenge in the WTO, as it was counter to the EU Treaty²³

²² Only five member states have chosen to use equivalent means of implementing the greening measures in 2015. The UK, for example, reached the view that the additional environmental benefit of a newly designed national certification scheme was not worth the complexity of control arrangements in the first year of implementing a new CAP regime, when paying agencies would already be under considerable pressure.

²³ See Article 111 of Council Regulation (EC, Euratom) No. 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002).

and there were member states that could have been driven out of the qualified majority for the reform package if this were included. In the event, double funding was rejected and the final agreement made it clear that area-based environmental actions paid for under Pillar II agri-environment schemes must go beyond the greening actions under Pillar I.

Penalties for non-compliance: In the trilogue the Parliament continued to try and reduce the penalties for non-compliance with the greening payments within Pillar I, by removing the link between non-compliance and receipt of the basic payment. The Commission stood firm against this proposal and, with the Council's support, the Parliament approach failed. However, as part of the compromise, it was agreed that the maximum penalties for non-compliance would be scaled up over time, with no deductions from a farmer's basic payments for the first two years.

Pulling these outcomes together, the estimated combined effect of these decisions is: the exemption of 48% of arable land and 88% of arable farms from the EFA measure; slightly smaller numbers from the crop diversification measure; and the permanent grassland measure only applies at the national or regional level (Brunner, 2013; Hart & Baldock, 2013; Pe'er et al., 2014). For the 12% of arable farms that are still required to take action, the EFA measure offers a much longer list of options from which member states can choose to meet the 5% requirement, some of which permit continued production, including with the use of fertilisers and pesticides in some cases. Furthermore, the exclusion of permanent crops from the greening requirements further reduces the reach of the green direct payments. Thus the original principle of greening that actions should apply across all types of farmland has been completely lost.

Sadly, the only real environmentally positive outcomes of the negotiations are limited to the prevention of perverse amendments going through rather than any positive improvements to the proposals. It is remarkable that so much effort had to be deployed to remove features that so obviously offended basic principles of good public expenditure - such as the double payments for the same actions. This could, perhaps, have been a conscious diversionary tactic.

Naturally, both the Parliament and the Council voiced satisfaction with the outcome. Reactions from individual MEPs varied, with differences mirroring political interests. Overall, there was a general sense that they had been able to “improve the proposals while defending the Parliament’s mandate” (Spence, 2013). Council President Simon Coveney stated that he had supported the Commission’s desire to “imbue the direct payments system with a stronger environmental character, and welcomed the balance struck between Member States, the EP and the Commission on the practical implementation of the three proposed greening criteria” (Anon, 2013b).

5. Discussion and conclusions

The principal conclusion of this chapter is that the likely environmental benefits of the Commission’s Pillar I greening proposals were drastically weakened in the political negotiation. The detailed analysis of the process suggests that the responsibility for this is shared between the Parliament and the Council. However, a lack of clarity and evidence from the Commission on the environmental benefits of their proposals made it difficult in practice to defend them rigorously. BirdLife International portrayed the outcome as a betrayal by both the Parliament and member states (Brunner, 2013). A more detached analysis of the negotiating mandates of the two institutions and the outcome of the final agreement suggests more Council amendments to weaken greening were adopted than were those of the Parliament, although the Parliament amendments also led to some fundamental weakening, particularly the exclusion of permanent crops from the greening requirements.

Comparing negotiating mandates with the final outcome does not give the full picture. Given that the trilogues took place behind closed doors, it is difficult to ascertain how hard each institution negotiated on each point; it is likely that the process described above, of opportunistic support of amendments in the other side’s position, will have played a role. In addition, the procedural mix-up that led to the unclear Parliament negotiating mandate on the greening measures meant that the Parliament was likely to be sympathetic to the Council’s position in this area.

Working in concert with the Commission, both the Council and the Parliament managed to constrain some of each other's amendments that would have weakened the greening measures even further. This was especially important in the rejection of double funding.²⁴ The Commission managed, with half-hearted Council support, to retain the compulsory nature of the green measures by maintaining some link between non-compliance and receipt of basic payment; although in practice the limits on penalties, and the delays in their application, make it unlikely that many farms will suffer significant losses of their basic payment. More positively, regarding permanent pasture, the Parliament prepared the ground to allow member states to designate environmentally sensitive areas on which no ploughing should take place. However, this outcome is still considerably weaker than the cross-compliance GAEC standard proposed by the Commission to protect carbon-rich soils, which was rejected by both the Parliament and the Council.

The Commission's share of responsibility arose in three ways. First, apart from the EFAs, the greening measures in the legislative proposals were already weaker from an environmental perspective than those suggested in the original Communication²⁵ (European Commission, 2010). Second, proposing that organic farmers should be considered 'green by definition' in the legislative proposals paved the way for arguments to include other types of land or farming systems under this principle. Third, the publication of the concept paper relatively early in the process demonstrated that the Commission was prepared to make concessions long before the negotiating mandates of the Parliament and the Council had been agreed. This opened the door for the Parliament and Council to push for greater changes than might otherwise have been the case.

²⁴ Although, ironically, perhaps the January COMAGRI vote in favour of double funding had emboldened the Council to adopt the position in favour of double funding in the first place.

²⁵ The Commission's 2010 Communication had suggested a crop rotation measure instead of the more limited crop diversification measure as well as a green cover measure on soils to avoid bare soil, particularly over the winter months.

In retrospect, perhaps it was premature to give so much ground so early in the negotiations.

Various lessons can be drawn from this process. First, the very differing opinions between political parties in the Parliament and the ease of tabling amendments prolonged and complicated the process of developing the negotiating position. Thousands of amendments had to be reviewed, digested and consolidated into compromise amendments. Second, it was clear from the outset that supporters of strong greening of direct payments were in the minority, especially within COMAGRI, and therefore the environmental considerations that were the very purpose of the greening measures were drowned out by concerns about agricultural production effects. Where environmental interest groups made their presence felt, such as within the S&D group and the Greens, and via shadow rapporteurs from other Parliament committees, they helped resist some more extreme amendments. It was easiest to do this on issues – such as double funding – where there was a clear case that could be taken to a wider test of public opinion. However, they were less successful in other areas, such as reintroducing the green measures from the original 2010 Commission Communication for green cover and crop rotation.

It is interesting to conjecture if the outcome would have been different had the membership of COMAGRI been different²⁶ or if the other Parliament committees had been allowed to play a more central role in the greening debate and take part on the trilogue discussions. Arguably, the political importance attached to COMAGRI membership by political groups has not yet caught up with the application of co-decision to the CAP. Increased involvement of opinion-giving committees, such as the Environment Committee in this case, is likely to have ensured that environmental concerns were less easily sidelined. This is something to be considered for the future.

Third, with so much resistance to move away from the status quo coming from many MEPs, member states and a very effective farm lobby group, the introduction of strong greening measures within Pillar I was always going to be fraught with political

²⁶ Unsurprisingly, COMAGRI had a significant bias towards agricultural producer interests.

difficulties and inevitably watered down. It is an achievement that the Commission's original proposals for three green measures in Pillar I, funded using 30% of the direct payments budget, still stand, even if their content is far weaker than had been intended. Looking back at the history of innovation in the CAP, there is a pattern whereby a Commission proposal is often initially accepted in a very watered-down version only to be strengthened in later reforms. Perhaps greening will follow this path in the future. But, as Matthews (2013c) has commented: "[I]t could also be a fruitless path if there are real limitations to what can be achieved through greening direct payments in Pillar I."

More fundamentally, there were significant limitations to what could have been proposed for greening under Pillar I given the rules and controls that are associated with direct payments. This meant that the Commission's proposals for crop diversification and maintenance of permanent grassland were not ideal environmentally, making them difficult to defend. The resulting, and understandable, lack of strong support from environmental stakeholders demonstrated weak points in the proposals that were subsequently exploited. This meant that there were few environmental interests in Council or Parliament that saw much to be gained from a protracted defence of proposals whose environmental delivery looked likely to be disappointing. It also limited alternative options for inclusion within Pillar I that could fit the Pillar I rules and approach and offer significant environmental gain. Alternatives that were available were all more radical and not seen as politically feasible. Those compatible with the Pillar I approach that were suggested (crop rotation, protection of semi-natural grassland, for example) were rejected on a variety of technical and control grounds. In the end, the additional measures incorporated into greening, mainly within the EFA measure, nearly all weakened rather than strengthened the proposals.

This unhappy story leads back to the crucial question: What are feasible and effective means of achieving environmental outcomes on rural land through measures under the CAP? Throughout the debate, commentators reiterated that the regionally differentiated, programmed, multiannual approach of Pillar II, which allows measures to be tailored to local needs and priorities, is a far more effective and ultimately efficient means of delivering

environmental benefits (see, for example, Matthews, 2013a; Hart & Baldock, 2011). Having attempted to green Pillar I and seen the resistance from farmer organisations and the extremely weak final outcome, it will be important not only to assess the level of environmental additionality that has been achieved via this route but also to apply the lessons from this reform process to the debate on the structure of the post-2020 CAP and how this can best be designed to ensure the long-term socio-economic and environmental sustainability of the EU's rural areas.

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11. THE POLITICAL ECONOMY OF CAPPING DIRECT PAYMENTS: APPLICATIONS IN – AND IMPLICATIONS FOR – GERMANY

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This chapter investigates the positions and aims of those stakeholders involved in the decision to introduce a compulsory capping and degressivity of direct payments in the European agricultural sector. This measure brought the EU Parliament and EU Commission into opposition with the European Council. There, a small group of resolute opponents led by Germany faced a larger group of soft backers of compulsory capping who strategically supported capping in order to achieve concessions in other areas such as the external convergence of direct payments. A similar pattern was observed in Germany, where Eastern Federal States were determined to oppose any capping or degressivity of direct payments. Western Federal States supported this position as a counterpart to support greening. At first glance the final national implementation of a first hectare payment instead of capping and degressivity seemed more costly for Eastern Federal States. However, this was the price of maintaining political credibility and avoiding future possible increases in depression rates.

1. Introduction

On 24 September 2013, the EU Ministers of Agriculture (Council) and the European Parliament ratified the political agreement on the reform of the common agricultural policy (CAP) that was established in June 2013 for the financial period 2014 to 2020 (Council of the European Union, 2013b) and formalised in Regulation (EU) No. 1307/2013 on 17 December 2013 (EU, 2013). The agreement was the result of several years of negotiations on manifold levels. Not only had the number of member states increased in the previous 10 years, but the involvement of the Parliament through co-decision for many aspects of the CAP added another layer of complexity in the reform process.¹

One issue bitterly discussed during the negotiations was capping and degressivity of direct payments (DP) distributed within the first pillar of the CAP. The possibility of limiting direct payments ('capping') and/or decreasing payments from a certain level ('degressivity') was one of the bones of contention during the reform negotiations; countries and regions where large farms dominate the agricultural sector were the main opponents. Although capping was defined as optional in the agreement reached in the European Council on the multiannual financial framework (MFF) in February 2013, disagreements on modalities of implementation prevented a final compromise during the final trilogue meetings conducted between April and June 2013.² Debates before and during the processing and negotiating phases of the reform, not only at the European level, but at the national levels as well, revealed a wide array of positions regarding the most suitable way to redistribute payments after the removal of modulation in 2013.

Those positions or justifications for or against capping and degressivity might have been motivated by different purposes and interests specific to each player around the table because capping and degressivity were not the only issues at stake. Indeed, member

¹ Co-decision is now called "ordinary legislative procedure".

² Trilogue negotiations are defined as "Informal meetings attended by the European Parliament, Council and Commission. Their purpose is to get an agreement (on a package of amendments or on the wording of laws) acceptable to Council and Parliament" (European Parliament, 2014).

states' and Parliament's negotiators, national political parties, lobbies and non-governmental organisations (NGOs) embedded in the reform process considered the result of the negotiations as a whole. As other issues such as the external and internal convergence of direct payments, greening or the future of common market regulations also had to be discussed, capping might be used as a bargaining chip.

The objective of this chapter is to explore why compulsory capping and degressivity, still called for by European civil societies and advocated by European Commission's legislative proposal in 2011, has finally been turned into voluntary capping and the possibility to either introduce a redistributive payment for small farms or degressivity for large farms. Thus we review arguments and positions defended by the main actors on the specific issue of capping at the European level on the one hand, and at the national level in Germany (a key actor against capping) on the other hand. We implement an amendment analysis to understand which positions were defended in the Parliament within and between parties during the reform process. In the Council, several countries vehemently opposed the implementation of this measure. For example, Germany led the opposition to capping and degressivity during the reform process. However, strong structural differences between Eastern and Western Federal States provided ground for additional internal disagreements. An economic and political analysis provides elements to help the reader understand Germany's position during the reform process, as well as the implications of the final national implementation of the Direct Payment Regulation.

The first part of the chapter provides information on the political and institutional background of capping and degressivity. In the second part, the opinions and positions of different actors and coalitions are presented. The chapter concludes with a short overview of the final decisions and some reflections about the divisive debates on this issue.

2. Some facts on capping direct payments

The uneven distribution of direct payments between farms has long led to discussions between and within member states. Indeed, attempts to limit payments to large farms have been brought up in

all previous CAP reform rounds since the MacSharry reform (Agra Europe, 1991; European Commission, 1997; Hill, 2000). Since the Commission stated that 80% of its support was captured by 20% of its recipients, it introduced a proposal to gradually reduce compensatory payments for large farms (European Commission, 1991); this proposal was eventually dropped by the Council (Swinbank, 2004). After repeated attempts to limit payments to large farms since then, a compulsory payment reduction of 5% for all farms receiving more than €5,000 was finally implemented from 2005 onwards (modulation) in order to transfer funds from the first pillar of the CAP to benefit rural development policy (second pillar). The Commission proposed additional cuts for large farms to be included in the CAP's 2008 'Health Check' (European Commission, 2007), but the idea was immediately fought by a coalition of countries led by Germany and including Great Britain, Sweden, Czech Republic, Hungary, Romania and Slovakia. This coalition's objective was to keep modulation rates at the level of 5% until 2013 for all farms. Finally, as a compromise, from 2009 onwards modulation rates were stepwise increased to 10% until 2012, and set 4% higher for large farms (progressive modulation), in the belief that modulation would no longer be an issue in the next CAP reform. However, initiatives proposing a 'fairer' redistribution of direct payments did not vanish and capping and degressivity appeared in the discussions about the new reform.

2.1 Wide public support to limit direct payments

Between April and June 2010 the Commission organised a public debate about the future CAP (European Commission, 2010a). One of the conclusions was that the EU should "implement a fairer CAP – fairer to small farmers, to less-favoured regions, to new member states", while bearing in mind that "the correct payment to farmers for the delivery of public goods and services will be a key element in a reformed CAP". Whereas research institutes and think tanks advocated a phasing out of the first pillar of the CAP, some stakeholders favoured "putting a limit on CAP support that can be paid to farmers in any one year", per hectare, labour unit or farm. The general public's idea about payments for farmers was more

radical on this issue.³ Both limits on aids to large farmers as well as support towards mid-sized, small farms and disadvantaged hill and mountain regions had to be implemented. At the same time, the denunciation of ‘industrial farming’ emerged from respondents of a wide range of member states. In their opinion, “large agro-industry groups and large farms/large landowners were excessively benefiting from the CAP”, and capping direct payments would be a solution limiting these benefits.

In its conclusions on the debates and discussions around the future CAP, the Commission proposed dividing direct payments into a basic decoupled direct payment and a mandatory ‘greening’ component. The basic payment should provide “a uniform level of obligatory support to all farmers in a Member state (or in a region)”, but would be limited. Actually, an “upper ceiling for direct payments received by large individual farms (‘capping’) should be considered to improve the distribution of payments between farmers”, but in order not to penalise farms with high employment levels, salaries and social security payments would have to be deducted from the basic payment before being capped (European Commission, 2010b).

2.2 Predicted impact of capping

In the Commission’s legislative proposal published in October 2011, the article on capping was formulated as follows:

Article 11

Progressive reduction and capping of the payment

1. The amount of direct payments to be granted to a farmer under this Regulation in a given calendar year shall be reduced as follows:

- by 20% for the tranche of more than EUR 150 000 and up to EUR 200 000;
- by 40% for the tranche of more than EUR 200 000 and up to EUR 250 000;
- by 70% for the tranche of more than EUR 250 000 and up to EUR 300 000;
- by 100% for the tranche of more than EUR 300 000.

³ Private persons voluntarily participating in the debate organised online by the Commission.

2. The amount referred to in paragraph 1 shall be calculated by subtracting the salaries effectively paid and declared by the farmer in the previous year, including taxes and social contributions related to employment, from the total amount of direct payments initially due to the farmer without taking into account the payments to be granted pursuant to Chapter 2 of Title III of this Regulation.

3. Member States shall ensure that no payment is made to farmers for whom it is established that, as from the date of publication of the Commission proposal for this Regulation, they artificially created the conditions to avoid the effects of this Article (European Commission 2011a).

Accompanying the regulation proposal, an impact assessment estimated the consequences of different CAP scenarios on European agriculture (European Commission, 2011b). In the case of scenario 'MFF distribution key 1a', capping as described above would release 1.3% of the total amount of direct payments at the EU level, equivalent to around €590 million.⁴ This was much less than the amount resulting from modulation (around €3 billion in 2013).

Consequences for member states would be heterogeneous, though moderate (Table 11.1). Whereas most countries would be hardly affected, amounts capped in Bulgaria and the United Kingdom would be non-negligible (9.8% and 5.2%, respectively) and their impacts on farm incomes limited but not neutral. Some member states would not be affected at all, namely Belgium, Cyprus, Ireland, Luxembourg, Malta, Austria, Finland, Slovenia and France, while others such as Italy, Poland and Portugal would be only marginally affected.

⁴ With the attempt to apply a more equitable distribution of decoupled payments among member states, this scenario includes a proposal for redistribution where "Member States that currently have direct payments below the level of 90% of the average will close 1/3 of the gap between their current level and the 90% level" (European Commission, 2011c).

Table 11.1 Consequences of capping and degressivity on EU member states ('scenario MFF distribution key 1a')

| | Share of amounts capped in total first pillar payments | Percentage change of 2020 income compared with a no capping situation |
|---|--|---|
| Bulgaria | 9.8% | -3.8% |
| United Kingdom | 5.2% | -2.0% |
| Greece | 4.0% | -1.1% |
| Slovakia | 3.1% | -1.6% |
| Romania | 2.9% | -0.9% |
| Hungary | 2.6% | -1.0% |
| Spain | 1.5% | -0.3% |
| Czech Republic, Lithuania | 0.4% | -0.2% |
| Germany | 0.2% | -0.1% |
| Denmark | 0.2% | 0.0% |
| Italy, Poland, Portugal | 0.1% | 0.0% |
| Belgium, Cyprus, France, Estonia, Ireland, Luxembourg, Latvia, Malta, Netherlands, Austria, Finland, Sweden, Slovenia | 0.0% | 0.0% |
| EU-27 | 1.3% | -0.4% |

Source: European Commission, 2011b.

The various impacts of capping and degressivity would be caused by the differing farming structures and labour costs of the member states. For instance, in some Central and Eastern European countries (CEECs), the farm structures inherited from the socialist era are dominated by large scale units.⁵ However, as salaries and wage levels are relatively low, these countries would have been the most affected by capping and degressivity, assuming the Commission's impact assessment is correct.

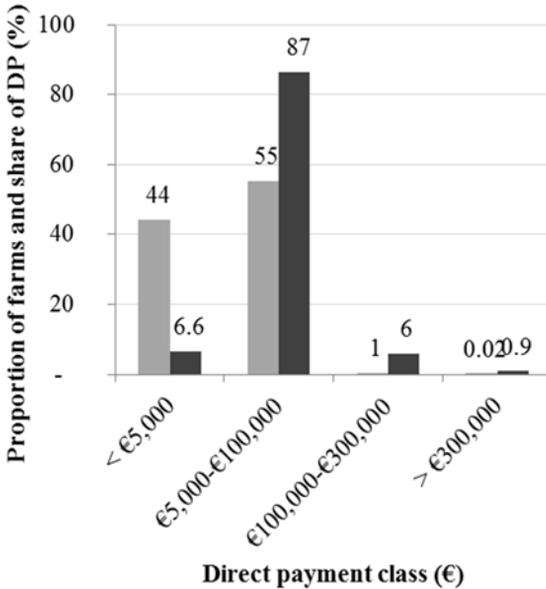
⁵ CEECs are member states that entered the EU in 2004, and include Poland, Czech Republic, Slovakia, Hungary, Slovenia, Lithuania, Estonia, Latvia, Cyprus and Malta, plus Romania and Bulgaria (entry in the EU: 2007).

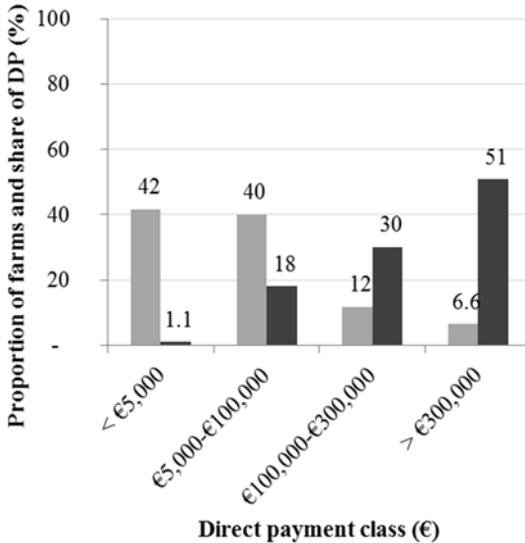
2.3 *Expected impacts in Germany*

Largely inherited from the former socialist era, eastern German regions are dominated by large farms, which is in contrast to western regions. In 2012, 70% of all German farms were smaller than 50 ha and farmed some 22% of the utilised agricultural area. This share was much lower in eastern German regions, where 53% of the farms were smaller than 50 ha and farmed only 4% of the utilised agricultural area (UAA); farms operating on the remaining 96% of the agricultural land comprised, on average, 467 ha. These structural differences obviously have an impact on the distribution of direct payments, as shown in Figure 11.1.

Figure 11.1 Share of total direct payments paid in eastern or western regions by direct payment class and share of farms in each class in 2012 (in %)

Western regions



Eastern regions

Source: Nationale Umsetzung der Betriebsprämie, 2012.

In 2009, Germany began phasing in a regional flat-rate payment system that was fully implemented in 2013. Since then, the amount of direct payments per farm is no longer linked to previous production, but rather to the UAA. Due to the important structural differences between eastern and western regions, the calculation of the flat rate payment also implied important regional differences (Table 11.2).

Regarding the distribution of direct payments in 2012, it is important to note that:

- the highest share of direct payments in eastern regions was paid to farms receiving payments above €300,000; and
- in the western regions, almost 90% of direct payments were paid to farms receiving between €5,000 and €100,000.

This means that capping and degressivity was an issue only for eastern Germany. The measure would have mainly affected large corporate or family farms there. However, the impact would have been limited because capping would only have been applied on the basic payment after subtracting salaries, not to mention adjustment reactions to set the capping ceiling higher, like intensifying animal production and hiring more paid workers (Sahrbacher et al., 2012).

Table 11.2 Average payments per hectare and average farm size in Germany in 2012

| | Average payment per ha: | | Average farm size (ha) ² |
|-----------------|---------------------------|----------------------------|-------------------------------------|
| | First pillar ¹ | Second pillar ² | |
| Eastern regions | 338 | 61 | 216 |
| Western regions | 347 | 55 | 67 |
| Germany | 344 | 56 | 74 |

Note: Second pillar payments include payments to less favoured areas and agri-environmental measures.

Sources: ¹ Bundesanzeiger (BAnz), AT vom 11.09.2013,

² Buchführungsergebnisse der Testbetriebe 2012/13 (BMEL, 2013).

Beyond discriminating between eastern and western farms by their size, capping uncovered another issue. Balmann & Sahrbacher (2014b) showed that in 2012-13 family farms in Bavaria (south-west) disposed of much higher amounts of equity capital per farm and per hectare compared to Saxony-Anhalt (east). Therefore, on average these farms seemed quite wealthy and hardly financially constrained in a region where off-farm opportunities offered real alternatives to farming. However, despite their wealth, Bavarian family farms' profitability is quite low. On the other hand, large eastern family farms showed figures of high profitability of equity capital even though absolute equity levels were much lower than in Bavaria. This illustrates one of the core political issues implied by capping in a country where agriculture shows such distinctive economic features from east to west, namely, how to justify the removal of payments from relatively 'poor' farms located in economically weak regions? Consequently, how would an acceptable compromise look between 'east' and 'west', and at which economic and political price would it have to be defended at the European level?

3. Positions on capping and degressivity

Capping and degressivity were not the only CAP issues to raise discussions and debates in and between the Parliament and the Council. Indeed, negotiations on the MFF have played a major role on the future of the whole CAP package. As long as MFF figures

were not known, the Parliament had to negotiate based on negotiating mandates rather than a definitive position. Moreover, other important issues would have had impacts on the distribution of direct payments *before any capping was applied*. For instance, internal and external convergence between (especially between new Baltic member states receiving the least payment per ha and old member states) and within member states implied that an agreement had to be found on the distribution key of direct payments at the European level. Greening was disputed during the negotiations just as much on its extent as on its practical implementation. Finally, flexibility between pillars or support for young farmers rather concerned the national balance between the first and second pillar at the member state level, but any agreement would determine each pillar's funding at the European level. Therefore, there were trade-offs between capping and other issues, the interplays of which are investigated in other chapters of this book. In the following we review the positions of member states inside the Parliament as well as positions inside Germany on the divisive issue of capping and degressivity.

3.1 Positions of member states

On 7 March 2011, the six Ministers of Agriculture from Germany, Great Britain, Italy, Romania, Czech Republic and Slovakia signed a position paper in which they rejected any capping of direct payments (AgraEurope, 2011). In the signatories' opinion, capping would contradict the CAP's principles by discriminating between farms based on their size. Simplifying the CAP, as well as enhancing competitiveness and fairness would be incompatible with the introduction of capping. It was argued that there was no evidence that large farms would not be able to comply with high environmental requirements or provide fewer public goods than smaller farms. The introduction of such a ceiling would have had many disadvantages, for instance the differentiated treatment of farms by the CAP. Moreover, farms would have been either impelled to artificially split or prevented from merging in order to gain in competitiveness. Therefore, instead of providing support for agriculture or the protection of the environment, public money would be spent administrating the collateral consequences of capping.

This coalition could be extended to Sweden and the Netherlands.⁶ The Swedish opposition to capping is justified by a long tradition of “enhancing and endorsing structural change in agriculture” (CAP2020, 2008). Although Sweden would have been barely affected (Table 11.1), the country viewed capping as detrimental to structural development and advocated phasing out the DP. The ‘contra capping’ member state coalition therefore contained at least eight member states.

In opposition were Bulgaria, Austria and Poland. Bulgaria defended capping and degressivity by arguing that barely more than 4% of their farms would receive 80% of direct payments. This argument was supported by a study of the Institute for Market Economics in Sofia, which stated that since 2005, the average size of farms larger than 100 ha has increased from 538.5 ha to 672 ha. Such figures indicate a tremendous land concentration, especially in the Danube plain, which would enrich landlords by millions and would indicate a wise reason to introduce capping in Bulgaria (AgraEurope, 2013a).

Already favourable to modulation during the Health Check, Poland accepted the concept of determining upper and lower limits to direct payments at the farm level (CAP 2020, 2009). However, Poland’s objective was to defend a harmonisation of payment levels throughout the EU (Bureau & Witzke, 2010). Therefore, Poland’s efforts would rather concentrate on this issue, together with Baltic member states, which were the most disadvantaged member states in terms of DP per hectare.

Austria pleaded for the introduction of capping and degressivity even though the country would have barely been affected (Table 11.1); only some 46 of their agricultural concerns would see their DP capped above €300,000.⁷ Austrian Greens would even support a much lower capping ceiling of €35,000.⁸

Finally, France’s position was not strictly for or against capping. Other motives explain why its Minister of Agriculture proposed the introduction of the redistributive payment (also called

⁶ AgraEurope, Vol. 25/13, 17 June 2013, Länderberichte 35.

⁷ AgraEurope, Vol. 10/13, 4 March 2013, EU-Nachrichten 4.

⁸ AgraEurope, Vol. 08/13, 18 February 2013, EU-Nachrichten 2.

first hectare payment) in addition to capping and degressivity. Actually, France was still engaged in a historical scheme that perpetuated payment inequalities between farmers, thereby worsening gaps between field crops and animal husbandry, especially dairy farming. The French idea of a redistributive payment reflected a desire to compensate (small) French farmers orientated toward animal production for the expected losses in DP due to external convergence and the possible switch to a regional payment.⁹ In addition to this, France strongly supported maintaining market measures in the form of coupled payments to support those French animal-producing farms in need.¹⁰

To sum up, there was no well identified group of member states wishing to support capping and degressivity to counter the strong ‘contra capping’ coalition that would be declared in the processing phase of the reform. Moreover, compared to other issues mentioned in the next section, defending capping was often not the first priority for member states who were in favour. As a result, the Council adopted a negative position towards capping and degressivity, which the Commission and Parliament would try to counterbalance during the negotiations.

3.2 Positions and amendments in the European Parliament

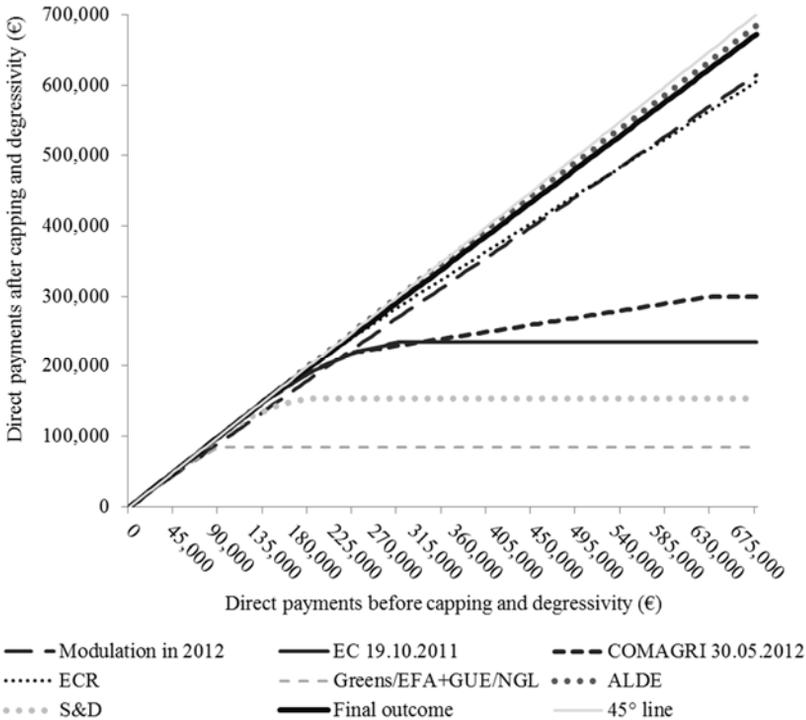
The Committee on Agriculture and Rural Development (COMAGRI) was designated as being responsible for the 2013 CAP reform package on 25 October 2011. The committee’s three rapporteurs drafted 700 amendments to the Commission’s legislative proposal of 30 May 2012, of which 110 amendments dealt with the Direct Payment Regulation (amendments 35 to 38 on capping, European Parliament, 2012a). Four amendments on capping advocated an increase up to 80% on the tranche of more than €250,000 in direct payments, with capping at €300,000 “after application of the reductions for each tranche”, which reveals a more conservative position compared to the Commission’s

⁹ AgraEurope, Vol. 03/13, 13 January 2013, Länderberichte 29.

¹⁰ AgraEurope, Vol. 11/13, 11 March 2013, Länderberichte 23.

proposal. Figure 11.2 provides an illustration of some proposals on capping and degressivity.

Figure 11.2 Overview of proposals with direct payments before (X-axis) and after (Y-axis) capping and degressivity (in €)



Source: EU (2013), European Parliament (2012a), European Parliament (2012b), European Commission (2011a).

The other members of the committee utilised their possibility to table additional amendments. By 19 July 2012, 2,292 amendments had been tabled on the Direct Payment Regulation, of which 102 concerned Article 11 (amendments 700 to 801, European Parliament 2012b).

The MEPs of the European Conservatives and Reformists Group (ECR) submitted the most amendments among the European groups. This group was rather divided, however, on the issue of capping, and the tabled amendments revealed the will to keep all options open. Actually, some MEPs considered that “the existing

system of degressive modulation [had] worked well and should be continued” and consequently rejected the article as a whole.¹¹ However, at the same time a weakened version of Article 11, similar to the former modulation but for large farms, was submitted. A voluntary degressivity and capping with payments reduced by 5%, 10%, 15% and 20% would be applied to the entire direct payment, i.e. including the greening component, without the possibility of subtracting salaries before capping.¹² The product was to be used in the member states to finance rural development policy (second pillar); the Commission proposal did not specify this issue.¹³

Amendments by the Greens/European Free Alliance (Greens/EFA) looked similar to those of the Confederal Group of the European United Left-Nordic Green Left group (GUE/NGL). Both groups proposed greater reductions on modified tranches, namely 10% for payments between €25,000 and €50,000, 20% between €50,000 and €75,000, 30% between €75,000 and €100,000 and 100% for payments above €100,000.¹⁴ The Greens/EFA argued that capping for farms receiving more than €100,000 or €300,000 could be done with low social costs.¹⁵ Both groups would apply reductions only on the basic payment after subtracting all salaries (Greens/EFA) or subtracting 50% of salaries (GUE/NGL).¹⁶

The three largest groups of the Parliament were internally split. In the Group of the European People’s Party (Christian Democrats, EPP), MEPs (most of them from Germany, but others were from Czech Republic, Romania, Italy and Latvia) rejected the entire article.¹⁷ Other MEPs suggested subtracting costs for farming

¹¹ Amendment 715.

¹² Amendments 709, 781, 788, 721, 737, 744, 747, 752, 755, 756, 757, 761, 762, 763, 772, 784.

¹³ Amendments 789, 790, 798.

¹⁴ Amendments 726, 727, 728, 734, 735, 740, 741, 746.

¹⁵ “In 2010, only 0.41% beneficiaries received more than EUR 100 000/year as direct payments, which made up 16.22% of the whole direct payment budget line. Only 0.11% beneficiaries received more than EUR 200 000/year as direct payments, which made up 8.40% of the whole direct payment budget line”, Amendment 734.

¹⁶ Amendments 741, 777.

¹⁷ Amendments 703, 704, 705, 706, 713, 773, 787.

contractors, family labour or “profits shared among members in the case of an agricultural cooperative” together with salaries, taxes and social contributions before applying capping.¹⁸ The number of co-owners of a farm should also be considered before applying reductions, as well as which product should stay in the member state and be used for financing measures of either the first or the second pillar.¹⁹

The MEPs of the Group of the Alliance of Liberals and Democrats for Europe (ALDE, MEPs of Germany and Denmark) rejected the article as a whole, saying that capping and degressivity would prevent “competitive structural development of the agricultural sector” and include an “additional administrative burden” as well.²⁰ If at all, degressivity rates no higher than 4% above €300,000 could be applied, otherwise it would “penalise farmers who have chosen efficient business models and who have often invested significant amounts to rationalise, expand or adapt their holdings to structural change and to market conditions in order to remain competitive”.²¹ Subtracting salaries and wages was considered discriminatory towards partnerships and cooperatives and therefore legal forms should be considered before capping.²² However, there were amendments in this group to cap payments from €250,000 (Ireland), or to keep the product of capping in the member state concerned (Spain).²³

The Group of the Progressive Alliance of Socialists and Democrats (S&D) was the most split. Whereas some MEPs (UK) rejected the entire article because capping and degressivity were considered barriers to competitiveness and enlargement, thus provoking administrative burden and contravening “the principle of equal treatment of beneficiaries”, other MEPs (France and Belgium) would apply capping and degressivity on the whole payment with same rates on smaller tranches from €100,000, with

¹⁸ Amendments 775, 779, 783.

¹⁹ Amendments 792, 793, 794, 795, 796, 800, 801, 802.

²⁰ Amendments 701, 712.

²¹ Amendments 722, 738, 749, 760.

²² Amendments 768, 770, 769, 778, 701.

²³ Amendments 759, 797.

capping above €200,000.²⁴ Spanish MEPs showed concern about the use of capping and degressivity funds as proposed by the Commission (subtracting not only salaries from the basic payment, but “profits shared among members in the case of an agricultural cooperative” as well).²⁵ According to these MEPs, funds shall be “made available as Union support” and be used either in the second pillar, or “under the first pillar, in the form of direct payments or coupled aid to sectors in difficulty.”²⁶

This overview of European parties’ positions helps one understand the main motives for divergences caused by capping and degressivity inside the Parliament. On 18 December 2012, COMAGRI drafted 38 compromise amendments on direct payments, among which were none on capping and degressivity; this means COMAGRI followed the Commission’s initial proposals on this issue (European Parliament, 2012c). Following their vote on 23-24 January 2013, MEPs of COMAGRI further endorsed the Commission’s proposals, albeit with some changes: capping was to be applied from €300,000 on the *cumulated* sum of reduced direct payments, capped money should be kept in the member states for use in the second pillar, cooperatives and groups of farmers were to be excluded, and costs for farming operations subtracted together with salaries. All other amendment proposals (further cuts, rejection) failed to win the support of a majority of MEPs in COMAGRI. Additionally, COMAGRI introduced the possibility for member states to grant a complementary payment for the first hectares, following the idea of the French Minister of Agriculture (amendments 15 and 61, European Parliament, 2013a).

On 6 March 2013 European parties or groups of MEPs tabled additional amendments to the 98 amendments already contained in COMAGRI’s mandate proposal for negotiation; they had to be voted in the plenary on 13 March 2013 (European Parliament, 2013a). Again, results of the roll-call votes regarding Article 11 revealed that those additional amendments (rejection, optional

²⁴ Amendments 700, 719, 730, 743, 751, 758.

²⁵ Amendment 782.

²⁶ Amendment 791.

capping and degressivity, further cuts) failed to get a majority.²⁷ Therefore, regarding capping and degressivity, COMAGRI entered the negotiation phase with a mandate adopted in the plenary that was similar to the proposal voted upon during the committee meeting in January (European Parliament, 2013b). Despite rather narrow room for manoeuvre due to past decisions of the European Council on the MFF, as well as ongoing parallel negotiations on its final figures (see next section), the Parliament tried to use COMAGRI to push capping and degressivity through the Council's blockade during the trilogue meetings.

3.3 Opinions and positions in Germany

During the CAP negotiations, as the German Federal Minister of Agriculture Aigner (CSU party, Bavarian Conservatives) was set to defend a common position at the EU level, she had to define and discuss a mandate with the Agricultural Ministers of Germany's 16 Federal States (diverse parties). On the other hand, the main national parties had their own position on capping/degressivity, greening and other issues; these are shortly presented below.

3.3.1 Overview of positions defended by main political parties

Between 2009 and September 2013, Conservatives (CDU/CSU) held a majority, with 38% of the seats in the German Lower House (Bundestag). They were followed by Social Democrats (SPD), Liberals (FDP), Leftists (Linke) and Greens (Bündnis 90/Die Grünen) with 23%, 15%, 12% and 11% of the chamber's seats, respectively. The Greens strongly supported the introduction of capping and degressivity as contributing to a fairer distribution of DP. The SPD was not unanimous or determined enough to bring this issue into the foreground, as the party supported the gradual abandonment of first pillar payments to the benefit of the second pillar. On the other hand, the FDP, who were in government together with the Conservatives, were firmly opposed to any capping or degressivity they judged as inefficient and bureaucratic, or as supporting the same services that agriculture brought to

²⁷ Amendments 105, 105rev, 130 142, 169, 198 tabled on European Parliament (2013a).

society. Leftists would not necessarily support capping and degressivity because it could penalise cooperatives, which are especially predominant in eastern German regions.

The following section shows that political parties did not always adopt a 'homogenous' stance, especially through their representatives in the Agricultural Ministries of Federal States.²⁸

3.3.2 A common position regarding capping and degressivity between federal states

Agricultural Ministers of Federal States generally meet twice a year in the framework of the *Agrarministerkonferenz* (AMK). After the AMK of 28 October 2011, which soon followed the Commission's regulation proposal, the Agricultural Ministers from the respective federal states explicitly indicated in a common statement that all farms, independent of their size, contributed to the provision of public services. Therefore, the proposal to decrease or even cap direct payments for large farms would contradict the principle of 'public money for public services', not to mention administrative costs (AMK, 2011).²⁹ In the same document, these ministers appealed for the abolition of modulation, as well as for the approval of greening.

However, this common position on direct payments did not exclude dissent. The minutes of the meeting reported some comments and statements made by individual or groups of federal states' ministries. For example, whereas Schleswig-Holstein (west) insisted on the benefits of greening, Saxony, Saxony-Anhalt and Thuringia (east) confirmed their strict rejection of capping and degressivity of direct payments. The Ministers of Baden-

²⁸ This rough picture of parties' positions does not reflect the wide range of dissent within some of them. For instance, Hans-Georg von der Marwitz of the CDU/CSU party was at least as determined to encourage capping and degressivity as the German government was to block it at the EU level. Elected in Brandenburg (east), von der Marwitz argued that the increasing renting/buying of land by non-local and non-agricultural investors would endanger rural areas' viability. In his opinion, capping and degressivity would slow if not even stop this trend and should therefore be implemented (Marwitz, 2013).

²⁹ Top 2, Point 15.

Württemberg, North Rhine-Westphalia and Rhineland-Palatinate (Greens, west) stipulated that they would support capping and degressivity (because they wanted to contribute to a “socially fair distribution of direct payments”) if direct payments would be further distributed without explicit requirements regarding the provision of environmental and social services.

The implicit agreement between the federal states’ agricultural ministers was therefore to reject capping and degressivity ‘in exchange’ for supporting greening. The ministers provided the German Federal Agricultural Minister Aigner with this mandate for negotiation in the Council.

3.3.3 Disagreements between federal states in the last steps of the reform process

However, as the MFF was defined on 8 February 2013, federal states were shown the actual reductions that German farmers would have to face in the next programming period. Even though those reductions were long expected, the German coalition based on ‘greening yes-capping no’ became somewhat unstable. Actually, federal states led by Green Ministers (Baden-Württemberg, North Rhine-Westphalia, Rhineland-Palatinate, Schleswig-Holstein and Lower Saxony, all western federal states) considered the opportunity to use flexibility to transfer (not co-financed) funds from the first pillar to the benefit of the second pillar. Thus capping and degressivity were put on the table again, with the argument that “the unfair distribution of direct payments shall be mitigated”.³⁰ Eastern federal states’ ministers opposed any return of capping and degressivity on the national negotiation table, as this issue was to be considered a foundation of the German negotiating position defined in October 2011. It was argued that western regions would already turn good profit out of the second pillar.

According to the minutes of the AMK on 12 April 2013, the consensus ‘greening yes-capping no’ again seemed to be well established, partially because of the possibility of introducing a redistributive payment as a last resort to capping and degressivity (AMK, 2013a). However, the flexibility issue again appeared on the

³⁰ Green Agricultural Minister Christian Meyer, Lower Saxony (*Agra-Europe*, Vol. 9/13, 25 February 2013, Länderberichte 35).

negotiation table. Green Ministers explicitly emphasised the shortfall expected in the second pillar, and therefore their wish to apply flexibility at a full rate (15%). On the contrary, CDU/CSU Ministers (Bavaria, Hesse and three eastern federal states), as well as an SPD Minister (Brandenburg) considered that the external and internal convergences of direct payments, as well as the introduction of the redistributive payment, were reasons enough not to further reduce the first pillar's resources. A weak consensus was again found.

At this point of the negotiations, the German rejection of capping and degressivity was admitted and further pushed through the negotiations at the EU level; this position was backed by the MFF agreement making capping optional in February 2013. However, the issue of flexibility from the first to the second pillar would still raise concern in Germany long after the last trilogue agreement on 24 September 2013. In any event, no definitive decision on the national implementation of the CAP was planned before the elections of the Lower House on 22 September 2013. Results of the election changed the political balance in favour of the Conservatives (CDU/CSU), who built a governing coalition together with the Social Democrats (SPD), whereas the Greens lost seats. At the national level capping was already long off the table; flexibility would soon follow.

In summary, federal states formed coalitions considering their respective agricultural structures with the objective of reducing the potential losses encountered by the final outcome of the CAP reform. The implications of the national implementation of the direct payment regulation in Germany will be discussed later in this chapter.

4. Final negotiations on degressivity and capping

4.1 A power struggle between the Council and the Parliament

The linkages between the negotiations on the 2013 CAP reform on the one hand and on the EU budget on the other hand determined CAP reform outcomes to a large extent, and are further discussed in this book (Matthews, 2015: chapters 7 and 19, this volume).

However, the European Council's political agreement on the MFF on 8 February 2013 certainly constituted a turning point for the CAP's 'square bracket issues', among which was capping and degressivity. Actually, in the MFF conclusions it was mentioned that "capping of the direct payments for large beneficiaries [would] be introduced by Member States on a voluntary basis" (European Council, 2013); at this point capping was politically solved. On 18 March 2013, the EU Agricultural Ministers reached agreement on the CAP reform regulations and the Council's negotiating position was confirmed. The Council would defend a voluntary degressivity of direct payments above €150,000 (Council of the European Union, 2013a).

Despite the reduced negotiation room imposed by the MFF and time pressure, the Parliament was determined to enforce further compromises during the trilogue meetings that started in April 2013.³¹ However, in spite of a political agreement on CAP regulations and the MFF on 26-27 June, the Council did not change its position regarding degressivity, and received the vehement support of a number of Ministers of Agriculture, including the German, British and those of a dozen other countries.³² As an alternative to degressivity, the Council included the possibility for member states to introduce a redistributive payment with at least a 5% national ceiling. On the contrary, the Parliament, supported by Commissioner Dacian Cioloş, still defended capping beyond €300,000, as well as higher degressivity rates.³³ Considering these incompatible positions on capping and degressivity (among other issues), discussions were postponed to September 2013.

On 11 September, COMAGRI's rapporteur Capoulas Santos proposed either degressivity of 15% above €150,000, 25% (up to 100%) above €300,000, or a redistributive payment with at least 15%

³¹ According to Matthews (2014), the Council adopted the view that it had no flexibility after MFF figures were defined. This made negotiations more difficult for the Parliament as co-legislator for CAP related issues in general, and capping and degressivity in particular.

³² *AgraEurope*, Vol. 30/13, 22 July 2013, EU-Nachrichten 1.

³³ Dacian Cioloş would strongly support degressivity of 14% above €150,000 (*AgraEurope*, Vol. 27/13, 1 July 2013, EU-Nachrichten 1; *AgraEurope*, Vol. 29/13, 15 July 2013, EU-Nachrichten 3).

of the national ceiling. Again the Council rejected the proposal, which incited Paolo De Castro (negotiating team leader) to heavily criticise the Council's refusal to comply with the funding principle of co-decision with the Parliament.³⁴ As a last resort, the Parliament was able to use the final adoption of the MFF as a dead pledge, as there were still other issues pending in the EU budget. On 17 September 2013, rapporteur Capoulas Santos submitted another compromise proposal with either degressivity of 5% above €150,000, at least 10% above €300,000, or a redistributive payment with at least 10% of the national ceiling. This proposal was also rejected.

The final trilogue agreement on 24 September did not contain much change regarding issues pending since June. As suggested by Matthews (2014), even though Parliament negotiators only managed to win small concessions from the Council on those square bracket issues, their objective was to ensure that "policy content which should be legislated under co-decision is not determined solely by heads of state" (European Parliament, 2013c). Regarding capping and degressivity, in spite of efforts to find a compromise, the final result was far from the Parliament's original proposals: either degressivity of 5% for direct payments above €150,000 after subtracting salaries (if wanted by the member states), or a redistributive payment with at least 5% of member states' national ceilings.

4.2 Germany: impacts and implementation of the redistributive payment instead of capping

As a strict opponent to capping and degressivity, Germany opted for a redistributive payment: €50 per ha for the first 30 ha, and €30 per ha for the next 16 ha (6.9% of the German national ceiling). Apart from this, 5% of resources of the first pillar were allocated to the second pillar, supplemented by €200 million per year to compensate for the general cuts decided in the MFF. However, the distribution of Pillar II resources remained unchanged between federal states (AMK, 2013b).

³⁴ *AgraEurope*, Vol. 38/13, 16 September 2013, EU-Nachrichten 11.

Although it is in line with the long-standing agreement between the agricultural ministers of federal states, this decision was surprising. Because salaries could be deducted before degressivity would be applied, degressivity would have redistributed only about 0.6% of DP, while redistributive payments would have affected 6.9% (AgraEurope, 2013b). Whereas eastern German regions would have 'only' lost €15 million per year with a degressivity rate of 5% for DP above €300,000, all other options involving the redistributive payment would have implied higher losses to the benefit of western federal states, particularly Bavaria, Baden-Württemberg and North Rhine-Westphalia.

Balmann & Sahrbacher (2014a) estimated that the redistributive payment implied losses for eastern German regions of about €15 per ha UAA (about €85 million annually), whereas farms in Bavaria and Baden-Württemberg would benefit from the redistributive payment by €10 per ha (€48 million annually). The reason is that in eastern Germany only some 13% of the UAA is eligible for redistributive payments compared to 70% in Bavaria. The undirected support of small farms would be to the benefit of (at least on average) relatively wealthy though not profitable farms located in wealthy and prospering regions at the expense of profitable farms located in economically weak regions where agriculture is one of the few job providers.

Therefore a mild degressivity would have been a good deal for eastern German regions compared to the redistributive payment. There are certainly at least two reasons why Germany did not change direction during the negotiations. On the one hand, the German position was long grounded on the rejection of capping and degressivity, combined with the acceptance of greening. Ministers arguing against capping or degressivity were embedded in this position. Suddenly arguing for degressivity would have implied completely reviewing a long-standing argumentation and rather explaining why degressivity would be a good compromise, indeed, at the risk of endangering future mandates in eastern federal states. On the other hand, the maintenance of a position against degressivity and capping could be interpreted as a strategic choice. Eastern German ministers were possibly worried about future reductions of DP in the case of compulsory capping and/or degressivity: once they would be introduced, rates could simply be

increased in future CAP reforms.³⁵ The price of the redistributive payment was seemingly not too high to pay in order to counter the possible eventuality of future payment reductions for large farms. These arguments are supported by the fact that even representatives of eastern German farmers did not oppose the redistributive payment.³⁶ One reason for this support could have been that eastern German farmers were less concerned about the level of direct payments than about discrimination towards farm structures.

5. Some lessons and conclusions

The final outcome on capping and degressivity opened a wide range of possible payment reductions and/or redistributive schemes. Of the eight countries applying the redistributive payment (Belgium, Bulgaria, Germany, France, Croatia, Lithuania, Poland and Romania), Poland chose to apply capping (above €150,000) and Bulgaria chose additional payment reductions following tranches and capping above €300,000 (CAP2020, 2015). Hungary, Wales (UK), Italy, and Scotland (UK) chose payment reductions following tranches plus capping for payments beyond €176,000, €300,000, €500,000 and €600,000, respectively. Belgium (Flanders), Ireland, Greece, Austria and Northern Ireland (UK) chose to cap payments at €150,000. The other 15 countries chose to apply only the minimum reduction of 5% on direct payments beyond €150,000. The estimated product of these reductions is estimated at €558 million (for the period 2015-19) and would stay in the originating member states to fund Pillar II measures (European Commission, 2015).

The commitment of MEPs to get the most possible benefits out of the negotiations considering the Council's constant opposition to capping and degressivity paid off in the sense that one was adopted at all. It was already an achievement for the Parliament, even though a modest one, to make degressivity compulsory. On the other hand, there was certainly more to expect from the negotiations considering European citizens' support for this measure. Therefore, this questions the actual ability of the Parliament to negotiate on equal footing with the Council on sensitive issues. Similarly, there were probably more resources

³⁵ Agrarmanager (November 2013), p. 4.

³⁶ Agrarmanager (November 2013), pp. 104-105.

spent at the Council defending national interests rather than building a policy based on a common vision of a future European agricultural sector.

Debates around capping and degressivity revealed political and strategic positions of groups or individuals who have expressed criticism of or support for these measures. Embedded in a complex, multileveled and multidimensional negotiation process, participants and stakeholders had to consider several important issues simultaneously and capping/degressivity was not a general priority. However, the measure was initially meant to improve the distribution of direct payments between farmers. Finally it is left to the member states' discretion to decide what measure is more capable of reaching a better distribution of direct payments. As the redistributive payment will possibly have much higher distributive impacts than degressivity in those member states that will apply it, this certainly opens interesting research questions regarding future structural developments in Europe (Matthews, 2013). However, this greater flexibility somehow leads to a further loss of common ground regarding the way direct payments are distributed in the EU. There is now an additional difference between two identical farms located in two member states beyond natural, market and national institutional conditions, and this difference is due to the national implementation of a common policy. Prior to the reform it was justifiable to question the legitimacy of direct payments, especially regarding their distribution. Unfortunately, the outcomes regarding degressivity and the lack of a common vision at the European level have not helped clarify why and to what extent direct payments should be paid for.

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12. CAP REFORM, 2005-14, AND THE MUTED ROLE OF THE DIS-UNITED KINGDOM

ALAN SWINBANK*

“We preserved the rebate, tied its demise to the CAP and agreed a break in the budget period when both could be reformed.”

UK Prime Minister Tony Blair writing in his memoirs about the outcome of the December 2005 meeting of the European Council
Blair, 2010: 542.

In 2003 the CAP underwent a significant reform (the so-called ‘Fischler reform’), which was extended in 2004 to cover cotton, tobacco, olive oil and hops. In 2005 these new provisions – particularly the Single Payment Scheme (SPS) – were being implemented. Moreover, under Franz Fischler’s successor Marianne Fischer Boel, political agreement on a reform of the sugar regime was reached in November 2005 (Cunha & Swinbank, 2011: 180). Despite this seemingly endless turmoil of CAP reform, the British government pressed for a new reform debate, published its “Vision for the Common Agricultural Policy” (HM Treasury & Defra, 2005), and in the European Council meeting of December 2005 secured a commitment for the Commission “to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9” (Council of the European Union, 2005: 32; 2006: 2).

* I am grateful to Jo Swinnen for encouraging me to write this chapter, and to Allan Buckwell, Wyn Grant, Martin Nesbit, and another, for helpful comments on an earlier draft. Only I can be blamed for its contents.

José Manuel Barroso's Bureau of European Policy Advisors (BEPA) responded to this invitation with enthusiasm, but the initiative petered out, and the CAP 'reform' package proposed in Barroso's second term (2010-14), and then adopted by the European Parliament and the Council of Ministers in 2013, fell well short of the UK's initial ambition. Moreover, when member states and regions published in 2014 their plans for implementing the revised direct payment provisions, the extent to which the UK's devolved administrations – Scotland in particular – did not share London's perception of the need for further CAP reform was made clear. This chapter attempts to explore the reasons leading to the UK's failed policy initiative.

1. Preparing the 2007-13 multiannual financial framework (MFF)

In February 2004 the European Commission had begun the debate on the financial perspectives for the 2007-13 planning period. It proposed an unchanged limit on own resources (at 1.24% of the EU's gross national income), and an average 'appropriation for payments' limit of 1.14% (European Commission, 2004: 29). Several member states thought this too large, and sought a reduction, and the debate spilled over into 2005 when Luxembourg took over the presidency of the Council of Ministers. Cuts were proposed, and it was suggested that the UK's infamous budget rebate should be capped.¹

The UK welcomed the suggested cuts, but balked at the suggestion its rebate should be capped. Hearl (2006: 54) reports that the British Prime Minister "attacked the common agricultural policy (CAP) as the basic reason for the 'distortion' in the budget which

¹ In an unpublished document the Commission later noted, "The UK correction was introduced when more than 70% of the EU budget was spent on agricultural market measures. At the time, the United Kingdom was one of the least prosperous Member States... Today the UK is one of the most prosperous Member States and the share of... agricultural expenditure in the EU budget has decreased significantly" (European Commission, 2009: 30). For a brief overview of a rebate system "now so full of special cases that it is increasingly bereft of underlying principles and lacking in transparency", see Begg (2009: 40).

had justified the rebate in the first place. Britain would veto any cut in the rebate unless farm subsidies were overhauled, something which French President Chirac predictably refused to contemplate ‘under any circumstances’’. One complicating factor was that back in October 2002, prompted by German Chancellor Gerhard Schroeder and French President Jacques Chirac, the European Council had already agreed a ceiling for CAP expenditure extending through 2013; and in France this had been viewed as a “guaranteed envelope for CAP expenditures up to 2013” (Mahé, Naudet & Roussillon-Montford, 2010: 94). Jean-Claude Juncker, Luxembourg’s Prime Minister, who in 2014 was to become president of the European Commission, took personal charge of the negotiations; but the June 2005 meeting of the European Council “broke up in bitterness and recrimination. Juncker openly blamed the UK for the failure of the EU summit and of Luxembourg’s EU presidency itself” (Hearl, 2006: 55). Moreover, the rejection of the “Treaty establishing a Constitution for Europe” by the electorates of France and The Netherlands, days before the European Council met, had done little to cheer Juncker.

The UK was about to take on the presidency, and Blair (2010: 535-6) believed he could secure a better deal on the rebate if he was “in charge of the negotiations”. However, he was reluctant to have the issue discussed at the informal summit at Hampton Court on 27 October (Blair, 2010: 540; Whitman, 2006: 61). Just prior to this meeting, Commission President Barroso suggested a five-point plan. This included the proposal that the 2002 agreement “on a budget for the Common Agricultural Policy until 2013, going hand in hand with a fundamental reform of agricultural policy, which is still being implemented...should be fully respected”; and, after commenting that there “is a broad consensus on the need for a fundamental review of the EU budget”, that “[t]he Union should commit itself to carrying out a comprehensive review of all aspects of the organisation of the EU budget - expenditure, revenue and structure - with a view to ensuring that the budget is equipped to respond to the challenges of the future” (European Commission, 2005).

The prime minister battled not just against the other member states, but within his own government too. Blair (2010: 542) reports that he “had the most frightful time” with Gordon Brown

(Chancellor of the Exchequer, and eventually Blair's successor as prime minister), who "was essentially insisting that France accept the demise of the CAP, and in public statements was asserting this in terms that enraged the French". But it was not just the French, of course, who were opposed to further fundamental reform of the CAP. In the event, the CAP was not reformed, and the British rebate (and those of other member states) was retained more-or-less intact.

The political importance of retaining the rebate, the 2002 commitment on the CAP budget for Pillar I through 2013, and the tight agreement for the 2007-13 MFF that emerged, resulted in the paradoxical outcome that the Pillar II spending on rural development was severely constrained, despite the UK government's alleged wish to see Pillar II encouraged at the expense of Pillar I. For historical reasons the UK's Pillar II allocation was low (House of Commons, 2007a: 21), and now widely perceived to be inadequate. Consequently, the UK asked to be allowed to transfer some of its Pillar I allocation to Pillar II (in a process known as 'voluntary modulation'), without the requirement for the government to match-fund the EU contribution. This was reluctantly agreed, to the displeasure of the Agriculture Commissioner, Mariann Fischer Boel, and the European Parliament's Agriculture Committee. The opposition of the latter meant that the rules for voluntary modulation were only agreed over a year later (House of Commons, 2007a: 21).

But what was also agreed (and subsequently endorsed by the European Parliament in the May 2006 inter-institutional agreement) was that the Commission was "invited to undertake a full, wide-ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the United Kingdom rebate, and to report in 2008/2009".²

As Blair (2010: 535) reflected, "[T]he British rebate had assumed a mythical, almost cult status...The rebate was untouchable. To question it was to betray the nation." It was a poisoned chalice that was passed from one prime minister to the

² Declaration 3 attached to the inter-institutional agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management, *Official Journal of the European Communities*, C139, 14 June 2006.

next, facing the periodic settlement of the EU's MFF. Blair thought he had broken the cycle with the promised budget review, but in fact the burden was passed on to David Cameron as he wrestled for a settlement for the 2014-20 MFF.

2. The UK's 'Vision'

Days before the December 2005 meeting of the European Council, the British government published its "Vision for the Common Agricultural Policy" (HM Treasury & Defra, 2005). For some critics it was far from obvious why the document was released when it was. The House of Commons Select Committee with responsibility for examining Defra's activities suggested: "The Government showed a naivety in believing its Vision document could be its catalyst to a reform agenda when it was introduced so near the end of its Presidency and without any programme in place to gain support for the British position...This approach was counterproductive and caused a negative reaction" (House of Commons, 2007a: 3). It was - suggested the Tenant Farmers Association - "hastily prepared in order to allow Ministers and in particular the Prime Minister to answer questions...on what the UK meant by further CAP reform particularly as the EU had just been through the most major CAP reform in its history" (House of Commons, 2007b: 113).

The Vision's executive summary reads that its aim was "to stimulate and help inform debate". It focused "on where we need to be in 10 to 15 years' time, and why"; but it did "not set out a route map for getting there. That must be the subject of debate across Europe and achieved through gradual and carefully managed change to give clear signals and time for farmers to adjust their businesses, not an overnight upheaval". But what attracted critics' comments were the statements that a 'sustainable CAP' would, *inter alia*, have "import tariffs for all farm sectors progressively aligned with the much lower level prevailing in other sectors of the economy; no price support, export refunds or other production or consumption subsidies; and EU spending on agriculture would be based on the current Pillar II and would support these objectives as appropriate, allowing a considerable reduction in total spending by the EU on agriculture and bringing this into line with other sectors" (HM Treasury & Defra, 2005: 3-4).

Within days of the Vision's publication, the House of Commons Select Committee announced its intention of examining it (House of Commons, 2007a: 6). It met for a private briefing with HM Treasury and Defra officials, and with three academics, in May 2006, and held its first public meeting in June. Evidence was taken from a number of individuals and organisations, including Mariann Fischer Boel in October 2006, but the committee's report was not published until May 2007. Farmers and various organisations from the farm and wider rural sectors, and various environmental NGOs, were well represented among those giving evidence to the committee but, apart from a few academics, the wider public interest was not particularly evident (House of Commons, 2007b).

One conclusion that the committee drew from the evidence it received was that the government had published a document that was "heavily criticised for its lack of rigour and up-to-date statistical data". Indeed, "The Government's lack of analysis to underpin its proposals was both a practical and intellectual failing" (House of Commons, 2007a: 14). Mariann Fischer Boel had been particularly critical: she told the committee that "there was a complete lack of analysis" underpinning the paper (House of Commons, 2007b: 87). The Organisation for Economic Co-operation and Development (OECD) had, however, told the committee in January 2006 that OECD work had been "reported clearly, accurately and to the point, with appropriate nuances", and overall found the "report very clear and well presented" (House of Commons, 2007b: 142-143). The committee did not draw the reader's attention to the OECD's comments.

Despite the "complete lack of analysis" underpinning the government's vision for the CAP, the Select Committee concluded: "The only long-term justification for future expenditure of taxpayers' money in the agricultural sector is the provision of public goods", and that "[f]urther reform of the CAP is very necessary" (House of Commons, 2007a: 46-7). And the online version of *Farmers Weekly* marked publication of the committee's report with the headline: "MPs conclude that Europe should scrap the CAP" (Clarke, 2007).

3. The budget review

Following the May 2006 inter-institutional agreement it was some time before the budget review began. In September 2007, however, a public consultation was launched that would “form an important basis for the Commission’s work on the review” (European Commission, 2007: 3). The document explained:

The budget review is a unique opportunity for a thorough assessment of the EU budget and its financing, free from the constraints of a negotiation on a financial framework. It will take a long time horizon, to see how the budget can already be shaped to serve EU policies and to meet the challenges of the decades ahead. It will therefore not propose a new multi-annual financial framework for the period from 2014 – this task will be for the next Commission – nor the overall size and detailed breakdown of the EU budget. It will rather set out the structure and direction of the Union’s future spending priorities, assessing what offers the best added value and most effective results (European Commission, 2007: 2).

Mariann Fischer Boel was quite clear that the ‘Heath Check’ she launched in November 2007 (Cunha & Swinbank, 2011: 188) was quite a separate exercise from the budget review. For example, in February 2007, she told a conference at Wageningen University that the Health Check would not be “about further fundamental reform. It will make sure that the reformed CAP is working as it should”. The Commission had, however, “begun some hard thinking about the future of the CAP as a whole”. With regard to this, she said, “I sometimes talk about having ‘one vision, two steps’. The first step is what I call the ‘CAP Health Check’, which relates to the CAP between now and 2013. The second is a look ahead to the CAP of after 2013, within a general review of the European Union budget” (Fischer Boel, 2007: 4).³

³ Thus I think Mahé, Naudet & Roussillon-Montfort (2010: 95) are mistaken when they write, “As requested in the Council decisions of 2005, the CAP of 2003 was re-examined over 2006 and 2007 in a process now called the Health Check”. As the European Commission (2005) had noted in October 2005, “There is already a built-in agenda of sectoral reviews pre-programmed for the coming years: for the operation of the CAP in 2008,

DG Budget (and its then Commissioner, Dalia Grybauskaitė) and the Bureau of European Policy Advisers (BEPA)⁴ then set about the budget review with enthusiasm. BEPA held a conference in April 2008, at which there was little enthusiasm for the CAP,⁵ followed by a series of specialist workshops including one devoted to “Reflections on the Common Agricultural Policy from a long-term perspective”.⁶ At another conference in November 2008, reporting on the findings of the public consultation, Grybauskaitė (2008: slide 6) referred to agriculture as one of the “hottest topics” of the consultation.

In June 2008 the UK’s Treasury published its “Global Europe: vision for a 21st century budget”. In the foreword, then Chancellor of the Exchequer Alistair Darling wrote: “The EU needs a radically reformed budget. The budget review must be a genuinely fundamental, strategic and ambitious exercise to achieve proper and effective reform. The UK looks forward to taking an active part in the debate.” Moreover, the “re-orientation of the budget...must be in the context of a shift away from agricultural support” (HM Treasury, 2008: 3).

But the effort petered out. Dalia Grybauskaitė resigned in February 2009 to become President of Lithuania; and the first Barroso Commission (2004-09) failed to report. Nonetheless, a draft report was leaked in October 2009. This leaked – but un-adopted – paper had some fairly robust comments to make about the need for CAP reform. It said, for example, that “the Commission considers that a root and branch reform of the EU budget is needed”. And later, “[F]urther reform and modernisation of agricultural spending is required to bring it fully into line with the principles of European

and for the Lisbon strategy in the same year. But a more over-arching review is also needed”.

⁴ According to its Mission Statement, BEPA’s mission is “to provide timely, informed, policy and political advice to the President and Commission Services on issues relevant to the President’s agenda and the future of policies in the Union” (http://ec.europa.eu/dgs/policy_advisers/mission_statement/index_en.htm).

⁵ For a record of the meeting see Larch (2008).

⁶ http://ec.europa.eu/dgs/policy_advisers/activities/conferences_workshops/budget_review_workshops_en.htm.

value added, concentration on priorities and fairness...[T]he future reform of the CAP...must stimulate a further significant reduction in the overall share of the EU budget devoted to agriculture, freeing up spending for new EU priorities" (European Commission, 2009: 5, 17). How much support this draft document had received from Commission President Barroso and others in the Commission is difficult to say, but it did contain a preface attributed to Barroso which said that it presented "the Commission's vision for the EU budget reform" and that it should "form the basis for further debate with the European Parliament and the Council, with a view to preparing the next multiannual financial framework to be presented in principle in the first half of 2011" (European Commission, 2009: 3). According to EurActiv (2009) Mariann Fischer Boel, the outgoing Commissioner for Agriculture, "denied ever having backed the draft communication, and referred to it as 'a non-paper which should have been thrown in the bin'".

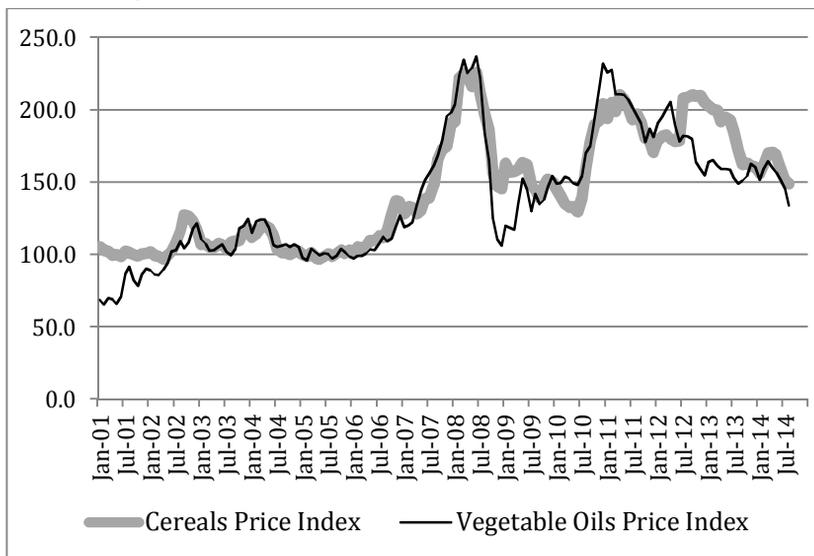
Thus it was left to the incoming College of Commissioners to put their stamp on the budget review, which was finally published in October 2010 (European Commission, 2010a), and to make their proposals for the 2014-20 MFF and post-2013 CAP. In practice, the Commission's initial ideas for the post-2013 CAP, in "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future" (European Commission, 2010b), were published soon after the budget review document, effectively conflating what the preface to the 2009 leaked paper had said would be a two-step process: first, the Commission's reflections on the budget review, to which member states, MEPs, and interested bodies could respond, and then preparations for the 2014-20 MFF. So much for Tony Blair's belief, as recorded in his 2010 memoirs, that he had "preserved the rebate, tied its demise to the CAP and agreed a break in the budget period when both could be reformed".

4. Changed circumstances: the commodity price spikes of the late 2000s

Circumstances changed after the December 2005 commitment to undertake a budget review. Two particular aspects of the evolving world scene are especially relevant in the present context. First, world commodity markets experienced a price boom in 2007-08, as illustrated in Figure 12.1 for cereals and vegetable oils, with a

number of countries imposing export taxes or bans on sensitive products such as rice. Although the price spikes (in real terms) were much less pronounced than those of the early 1970s (Piesse & Thirtle, 2009: 120), this ‘world food crisis’ fuelled concerns about food availability and the appropriate role of governments in ensuring food security for their citizens.

Figure 12.1 FAO monthly food price indices for cereals and vegetable oils, 2001-14 (deflated: 2005 = 100)



Note: For details of the composition of these two price indices, deflated by the World Bank Manufactures Unit Value Index (MUV), see the original source. The original data series had been deflated by the FAO so that 2002-04 = 100. I have rebased the series so that 2005 = 100.

Source: Excel data file at

www.fao.org/worldfoodsituation/foodpricesindex/en/.

In its 2010 reflections, for example, the European Commission (2010b: 5) commented that the CAP had to change to address new challenges, including “rising concerns regarding both EU and global food security”. Indeed, the European Parliament (2010: 18) had declared: “there should be a basic EU-funded direct area payment to all EU farmers in order to ensure the social and economic sustainability of the European agricultural production model, which [*inter alia*] should provide basic food security for

European consumers.” The author(s) of the leaked but un-adopted Commission text of 2009 had, however, taken a rather different position in opining, “Europe is well positioned to deal with these challenges, as its production capacity and purchasing power will continue to provide it with enough food at all times” (European Commission, 2009: 17-8).

Whatever the merits of these arguments (Swinbank, 2012: 30), as Grant (2012: 433) observed: “The revival of food security narratives has certainly provide[d] a rallying point for those who would like to see traditional productionist approaches to agriculture restored.” The Scottish agricultural minister – who we shall meet later – remarked in January 2009: “Some of us have never subscribed to the view that food production...is for the market alone to deal with. But even for those who did perhaps, the events of 2008 forced them to acknowledge that a responsible government can never take food production and food security for granted” (Lochhead, 2009; original punctuation). Defra, wishing to show it was part of a responsible government, was forced onto the defensive; and in response produced a series of papers addressing the UK’s food security, e.g. Defra, 2008.

Second, the potential unravelling and near collapse of the world’s financial system – particularly the failure of Lehman Brothers in 2008, and the near exit of a number of EU member states from the euro as a result of their sovereign debt crises – reinforced the concerns of many critics of the neoliberal belief that freely-operating markets were the most appropriate means to allocate resources.

5. Eurosceptics, and the government’s isolation in Brussels

In the UK’s May 2010 general election, the Conservative Party led by David Cameron won more seats in the House of Commons than any other party, but failed to achieve an overall majority. A coalition government, led by Cameron, was formed between the Conservatives and the Liberal Democrats, ousting Gordon Brown from 10 Downing Street. On the EU, the coalition partners had rather different perspectives. The Liberal Democrats, and particularly their leader (and now Deputy Prime Minister) Nick

Clegg, were decidedly pro-EU, whereas David Cameron led a divided party, with many of its members hostile to continued EU membership. Moreover, fears of voters defecting to the United Kingdom Independence Party (UKIP) were a constant worry. UKIP “believes in Britain becoming a democratic, self-governing country once again. This can only be achieved by getting our nation out of the European Union and reasserting the sovereignty of Parliament”.⁷ In the 2014 European Parliament elections, UKIP topped the vote in Great Britain, i.e. excluding Northern Ireland where a rather different electoral system applied, at 27.5% of votes cast, with Labour at 25.4%, and the Conservatives at 23.9%.⁸

The coalition agreement made no mention of the CAP, although it did say the new government believed “much more needs to be done to support the farming industry” (HM Government, 2010: 17). On the EU budget the coalition parties said they would “strongly defend the UK’s national interests in the forthcoming EU budget negotiations and agree that the EU budget should only focus on those areas where the EU can add value” (HM Government, 2010: 19).⁹ The government, nonetheless, was still pressing for CAP reform. In January 2011, for example, the government’s initial response to the Commission’s “The CAP towards 2020” (European Commission, 2010b) expressed concern about the Commission’s “lack of ambition”, and asserted:

There must...be a very substantial cut to the CAP Budget during the next Financial Framework. Remaining spending must be prioritised wisely to ensure that CAP provides best value for taxpayers’ money, targeting measures effectively to deliver tangible outcomes. The UK believes that farmers do not want to rely on subsidies in

⁷ “What We Stand For” (www.ukip.org/issues).

⁸ “UK European election results” (www.bbc.co.uk/news/events/vote2014/eu-uk-results).

⁹ In addition the coalition government did commit to “examine the balance of the EU’s existing competences” (HM Government, 2010: 19). Defra took the lead on Agriculture (largely the CAP), and reported in 2014, after the outlines of the post-2013 CAP had been agreed (HM Government, 2014). It was largely a factual report of the views of those consulted, and appeared to attract little attention on publication. Whether it will have any lasting impact on the UK’s policy stance remains to be seen.

perpetuity: Expenditure in a significantly smaller CAP Budget should tackle the key objectives of encouraging a competitive, sustainable EU agriculture sector, reducing reliance on subsidies and focusing resources on the provision of environmental public goods” (Defra, 2011: 102).

But could the coalition government count on support in the Commission or in the European Parliament? The British Commissioner was Catherine Ashton.¹⁰ As High Representative of the Union for Foreign Affairs and Security Policy she had a high-ranking position in the College of Commissioners, but unlike the commissioners responsible for the budget, trade, or the environment, her role did not lend itself to an involvement with the CAP (although in Barroso’s first commission she had briefly served as Commissioner for Trade following Peter Mandelson’s resignation from that post in 2008 (EurActiv, 2008)).

Following the 2009 election to the European Parliament, MEPs from the European People’s Party (EPP) and the Progressive Alliance of Socialists and Democrats (otherwise known as the Party of European Socialists: PES) formed the two largest components with effective control of the Parliament and its committees. Although the British Conservatives had historically been associated with the EPP, on David Cameron’s instructions they left the EPP to form (the larger) part of the Alliance of European Conservatives and Reformists (ECR). Consequently, the leading partner in the UK’s coalition government had little influence in the European Parliament.

British MEPs on the European Parliament’s Committee on Agriculture and Rural Development (COMAGRI) did, however, play a role. The one Liberal Democrat, for example, George Lyon, an MEP representing Scotland and a former President of the National Farmers Union of Scotland, was lead spokesperson for the Alliance of Liberals and Democrats for Europe in COMAGRI.¹¹ He was the rapporteur for COMAGRI’s own-initiative report of June 2010 on the “Future of the Common Agricultural Policy after 2013”, which argued in part that “since the CAP will have to confront

¹⁰ www.eeas.europa.eu/ashton/index_en.htm.

¹¹ [http://en.wikipedia.org/wiki/George_Lyon_\(Scottish_politician\)](http://en.wikipedia.org/wiki/George_Lyon_(Scottish_politician)).

many challenges and pursue broader objectives after 2013, it is essential that the budget the EU allocates to the CAP is at least maintained at current levels” (European Parliament, 2010: 7). This was rather at variance with the British government’s stance on the CAP as expressed by Defra.

Furthermore, David Cameron’s need to fend off his Eurosceptic critics led him to adopt policies that antagonised his European partners. For example, in December 2011 he was unable to commit the UK to a new treaty that the Eurozone countries, and most other member states, wished to conclude to combat the Eurozone crisis: a ‘fiscal compact’ on public sector spending. EurActiv (2011) suggested the UK’s “future as part of the EU [was] now put in question”. Then in January 2013, in the text of a speech circulated by 10 Downing Street, Cameron announced that – were the Conservatives to win an outright majority in the 2015 general election – he would seek to “negotiate a new settlement with our European partners....And when we have negotiated that new settlement, we will give the British people a referendum with a very simple in or out choice. To stay in the EU on these new terms; or come out altogether” (Cameron, 2013a). Quite what that would imply for British farm policy was, and remains, unclear (Swinbank, 2014).

David Cameron had little room for manoeuvre in the deliberations over the 2014-20 MFF. The Commission had certainly not proposed a CAP reform that reflected the UK’s repeated canvassing, and without the Commission’s support it would be fairly futile to persist in the face of opposition from many member states and MEPs. Instead, he had two priorities: to protect the rebate, and to secure some reduction in the overall budget. As he told the House of Commons on 11 February 2013 (following the meeting of the European Council on 7-8 February, which had set its imprint on the 2014-20 MFF (European Council, 2013)):

Together with allies, many of whom like Britain write the cheques, we achieved a proper look across all the areas where spending in the Commission proposal could be cut. While there are areas where we could and should go further, not least on reforming the common agricultural policy and reducing the bureaucratic costs of the European Commission, we agreed a real-terms cut in the

payment limit to €908 billion...I wanted to set the limit at a level that would deliver at worst a freeze and at best a cut in actual spending over the next seven years. That is what this deal delivers – a real-terms cut...The only two sensible things we could do to protect the British taxpayer in these negotiations were to get the overall budget down and to protect what is left of our rebate...As for the rebate that this Government inherited, it is now completely untouched. As ever, throughout the negotiations the rebate was attacked repeatedly, but I successfully rejected all the calls for change, and under this Government the British rebate is safe (Cameron, 2013b).

6. Defra and the devolved administrations

The House of Commons, made up of members of parliament (MPs) elected from all parts of the UK, is both the legislative chamber for the UK *and* for England, as England has neither a devolved administration nor a parliamentary assembly, whereas Scotland, Wales and Northern Ireland have both. Following the vote on Scottish independence on 18 September 2014, and the Scottish electorate's decision to remain within the UK, the question of whether MPs representing Scottish constituencies should have the right to vote on legislation that would apply only in England has risen high on the political agenda.

Another dimension of this issue is whether the offices of the UK state, located in Whitehall, such as the Department for Environment, Food and Rural Affairs (Defra), can effectively operate as both a UK *and* an English administration when devolved policy matters are at stake: agreeing on the details of CAP reform in Brussels, for example, when the devolved administrations have felt that these decisions impinged on their legitimate policy domain (Greer, 2005: 179).

Midgley & Renwick (2012: 135) claim: "The Scottish National Party's victory in the 2007 Scottish Parliamentary election...created a new dynamic in British politics and in the Scottish agricultural policy debate." Its attempts "to fight against the dominance of the UK approach to agricultural policy...served to emphasise the difference of Scottish agriculture and the need for a distinctive Scottish policy" (Midgley & Renwick, 2012: 142).

Thus when Scotland's farm minister addressed the Oxford Farming Conference in January 2009, he sought to distance himself from "the UK vision – commonly referred to as the DEFRA vision – for the Common Agricultural Policy", that "the whole of the First Pillar should be phased out in the next few years. This is not Scottish Government's vision...without ongoing direct support, farming in much of Scotland, and in many other marginal parts of Europe, will struggle simply to survive". Later he declared:

Agriculture may be devolved, but too often when DEFRA sneezes, Scotland catches a cold! And when the UK Treasury knock on DEFRA's door, agriculture in Scotland takes a hit! For devolution to work properly, Scotland needs to know that when the UK Government is negotiating in the EU it does so on behalf of the devolved administrations too (Lochhead, 2009).

Richard Lochhead retained his position as Cabinet Secretary for Rural Affairs and the Environment following the Scottish National Party's outright electoral success in the 2011 Scottish election, and so it was he who had to interact with Defra ministers during the post-2013 CAP negotiations in Brussels and London, in the run-up to the Scottish referendum on independence in September 2014. Announcing – to the Scottish Parliament in June 2014 – how Scotland intended to apply the post-2013 CAP, he remarked: "The new CAP is far from perfect...But at least it's far better than was originally feared." At the outset, he said, "[P]eople thought the CAP budget could be cut by as much as 30%", but that "didn't materialise". And then, his next comment: "Thankfully, the UK government failed to abolish or phase out direct payments, on which our industry relies" (Lochhead, 2014).

Clear differences emerged between the four parts of the United Kingdom as they announced their plans for implementing the new direct payments regime.¹² All four announced their intention to shift money from direct payments to Pillar II, although in the case of Northern Ireland a demarcation dispute between

¹² Material for this paragraph, and the remainder in this section, is drawn from Department of Agriculture and Rural Development (2014a & b), Defra (2013 & 2014), Lochhead (2014), Scottish Government (2014), Welsh Government (2014).

ministers meant they missed the EU's notification deadline, and as a result there would be no transfer of funds in the first instance (Agra Facts, 2014). England, Wales and Northern Ireland decided not to apply the Small Farmers Scheme.

England said it would not avail itself of the discretion to apply more restrictive rules to define 'active farmers', whereas Scotland planned to target support on "those who wear dirty wellies not comfy slippers", and to exclude "sporting estates, whose principal activities are not farming" (Lochhead, 2014). On capping, England would simply apply a 5% deduction on payments in excess of €150,000, whereas Northern Ireland planned to cap payments at €150,000, Wales at €300,000, and Scotland at €500,000.

England, Wales and Northern Ireland said they would not provide 'voluntary coupled support', although the last would review its decision before 1 August 2016. Scotland, whose agriculture minister "month after month...battled a UK Government that originally wanted zero coupled support..." (Lochhead, 2014), planned an 8% coupling rate on beef across Scotland, with double payments on the farm's first 10 calves, and a headage payment for sheep in the most disadvantaged regions.

7. Concluding comments

As illustrated by the preceding narrative, over the last decade successive British governments – if not the devolved administrations in Scotland, Northern Ireland and Wales – have championed further CAP reform, but without notable success. In December 2005 it did seem that Tony Blair had secured agreement for a fundamental review of the EU's budget spending (including the CAP) and revenues (including the infamous British rebate) that would be undertaken *before* the EU's institutions began their deliberations on the 2014-20 MFF, but that promise evaporated for a number of reasons.

Despite a promising start, the European Commission failed to deliver its budget review on time. Market circumstances changed, emboldening supporters of the status quo, and the leverage that could have resulted from a successful conclusion of the Doha Round of trade negotiations in the WTO was lacking (Swinbank, 2015). A new commissioner, and the enhanced role of the European

Parliament following ratification of the Treaty of Lisbon, changed the institutional dynamics of decision-making. The UK's incoming coalition government in 2010 had so enfeebled itself in the EU's corridors of power that it was probably unable, and unwilling, to press for its objective of a fundamental CAP reform if it was to retain the British rebate in the 2014-20 MFF, and a modicum of credibility for its EU policy. Many of the coalition government's MPs in the House of Commons represented rural constituencies: they might have quite welcomed their government's reluctance to press for radical CAP reform. Moreover, the London-based Defra did not have the full support of the devolved administrations, particularly in Scotland, and a referendum on Scottish independence was pending.

For the moment it is too soon to say what the outcome of the British general election in May 2015 will be, whether there will be a referendum on the UK's EU membership, or whether the UK will be a member of the EU for the next CAP reform debate in the late 2010s. If it is still a member, the likelihood is that CAP reform and the British rebate will again dominate British thinking in deliberations on the post-2020 MFF.

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PART IV

**CO-DECISION AND THE
EUROPEAN PARLIAMENT**

13. COMAGRI AND THE 'CAP AFTER 2013' REFORM: IN SEARCH OF A COLLECTIVE SENSE OF PURPOSE *CHRISTILLA ROEDERER-RYNNING**

1. Introduction

The Lisbon Treaty significantly changed the rules shaping farm policy-making in the EU by introducing co-decision, now known as the ordinary legislative procedure. Bringing co-decision to agriculture was not simple, however. Constitutionally, there were still unsettled issues regarding the exact distribution of power between Council, Parliament and Commission, to be dealt with in the phase of implementation of the Lisbon Treaty. Politically, many of the reasons for the longstanding hegemony of the Council in agricultural affairs remained. Farmers and rural constituencies sympathetic to farmers continued to be a significant electoral force in many European countries; and the EU remained the preponderant level of intervention in European agriculture, both in terms of regulatory scope and budgetary outlays. As a rare case of an EU 'money policy', the CAP has generated vested interests that resist retrenchment. In addition, new developments made the CAP an even more sensitive political area. The implementation of the

* The author acknowledges funding by the Danish Social Science Council (#11-104384). This study draws on interviews carried out between September 2012 and September 2014 in Brussels, at the European Parliament, the Commission, and various interest groups and non-governmental organisations. The author thanks all those who participated in these interviews for generously sharing their time and insights. Alan Matthews, Alan Swinbank and Carsten Daugbjerg provided useful comments on various versions of the text.

Lisbon Treaty coincided with the start of the euro crisis. Many member states were hit by rising unemployment, while subject to growing pressure to reduce their public expenditure. This context made it difficult to sustain growing levels of CAP expenditure while fuelling redistributive conflict within and between the member states. In other words, farm issues acquired renewed political sensitivity in the late 2000s, explaining the reluctance of many member states to involve the European Parliament in CAP affairs. The conditions were thus ripe for making the first reform of the CAP under the co-decision procedure a battleground of criss-crossing economic, political and institutional interests.

This chapter explores how this battle played out within the European Parliament during the Cioloş reform and to what extent Parliament, and especially Parliament's Committee on Agriculture and Rural Development (COMAGRI), was able to articulate and carry out a coherent vision for European agriculture. Parliament committees are nodal points in its legislative process: they have been called Parliament's 'legislative backbone' (Westlake, 1994: 191). We know that COMAGRI under the past leadership of committee chairs such as Friedrich-Wilhelm Gräfe zu Baringdorf or Joseph Daul was able to assert itself in the policy process in spite of Parliament's lack of power pre-Lisbon (Roederer-Rynning, 2003; Daugbjerg & Roederer-Rynning, 2014); and that it is primarily an interest-driven committee whose members tend to pursue particularistic interests responding to the specific needs of homogeneous electoral and interest constituencies (Yordanova, 2009). Bearing this in mind, and given the role of national political sensitivities, it is interesting to examine what role COMAGRI played in the first CAP reform under co-decision. What were the lines of conflict about the CAP reform in the Parliament? Did co-decision lead to a broader and more diversified political representation on COMAGRI? How did COMAGRI aggregate the contending positions?

The chapter proceeds by providing an overview of the internal legislative process in the Parliament; outlining the division of labour between different Parliament committees during the 'CAP after 2013' reform; describing political representation in post-Lisbon COMAGRI; and, finally, tracing the process of aggregation of interests in the Parliament, distinguishing between the drafting and

amending phase, the phase of political compromises in committee, and finally the adoption of the Parliament mandate.

2. Internal Parliament process in the CAP reform

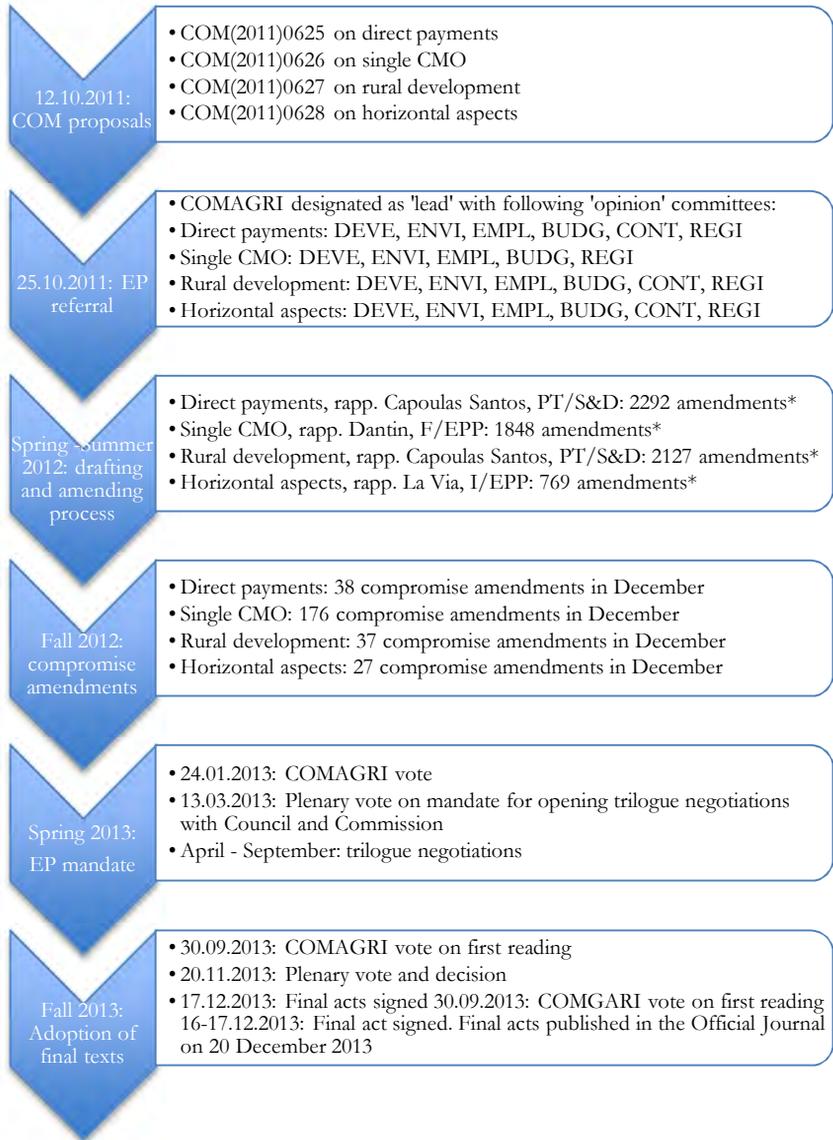
The CAP reform negotiations unfolded in three phases: agenda-setting, from April 2010 to October 2011 (18 months), leading to the publication of the Commission's legislative proposals; legislative deliberation in the Parliament and in the Council, from October 2011 to April 2013 (18 months); and inter-institutional negotiations, from April 2013 to November 2013 (eight months). This study focuses on the second phase, looking at the formulation of the Parliament mandate and COMAGRI's contribution to it (Figure 13.1). In the Parliament, this phase starts with the referral decision including the designation of a responsible legislative committee as well as the specific format of inter-institutional relations (first reading agreement or not). Referring legislative proposals to a committee is a structural choice with important consequences. Committees develop an "*esprit de corps*...over the years", which not only explains why reforms of the Parliament committee system are notoriously difficult to carry out (committee members being "reluctant to see a merger with another committee") (Corbett et al., 2011: 145), but also shapes how they frame a given "policy problem" (Gusfield 1980). Referral proposals are prepared by the Directorate-General of the Presidency in coordination with the secretariats of the stake committees, and announced in plenary by the presidency. In case of a disagreement, referral decisions are forwarded to the Conference of the Presidents, which must decide within six weeks upon a recommendation from the Conference of Committee Chairs unless the original recommendation endures (Corbett et al., 2011: 153).

Standard referral decisions entail the designation of a lead committee, referred to as the 'responsible committee', usually with the designation of 'opinion-giving committees'. Lead committees are responsible for putting forward Parliament legislative proposals in plenary and negotiating with the Council and the Commission in trilogues, while opinion committees may only submit amendments to be considered by the lead committee (but not the plenary) on those aspects of the text falling within their responsibility. In certain cases where the matter falls under the competence of two or more committees, the Conference of Presidents may decide to allow for

some degree of reinforced cooperation between these committees: ranging from the 'association' procedure (Rule 50) to the 'joint' procedure (Rule 51) depending on the degree of competence overlap and the importance of the matter. The role of opinion-giving committees under the standard and the associated procedures can be summed up using the distinction between at best 'policy-influencing', in the former case, and 'policy-making' actors, in the latter case (Judge & Earnshaw, 2008). Therefore committee referral may be a conflict-ridden process. Once the referral process is completed, the legislative process in the Parliament takes place primarily in the lead committee, which is responsible for drafting Parliament amendments and adopting the mandate for inter-institutional negotiations. In the case of the CAP after 2013 reform, however, the process was complicated by the decision in the fall of 2013 to use the newly adopted Rule 70a of the Rules of Procedure (RoP). This rule conditions the opening of trilogue negotiations upon a mandate delivered by the Parliament's plenary.

The critical sequence of the CAP after 2013 reform in the Parliament thus unfolded between October 2011, when the referral decisions were made, and March 2013, when the plenary adopted the Parliament mandate. The four reports were drafted in the spring of 2012. They were amended in the summer of 2012 in the open amendment phase. Given the considerable number of amendments, MEPs and their staff then devoted a great deal of their time to boiling down the amendments to compromise amendments. This process was completed by the end of 2012, paving the way for a two-step adoption of the mandate: first in the lead committee in January 2013, and then in the plenary in March 2013. The whole process is summarised in Figure 13.1.

Figure 13.1 Legislative process in the European Parliament



* The number of amendments includes the amendments submitted by the rapporteur (completed in early June 2012) and the amendments subsequently submitted by MEPs in the open amendment phase (deadline end of July 2012).

3. COMAGRI-ENVI division of labour

The Parliament presidency announced committee referral decisions on the 'CAP after 2013' legislative package on 25 October 2011, in the plenary session immediately following the publication of the Commission's legislative proposals. This announcement included the designation of COMAGRI as the 'responsible committee' on all four legislative proposals, and of different constellations of opinion-giving committees for each of the legislative proposals (Figure 13.1). The referral process brought COMAGRI in conflict with the Committee on the Environment, Public Health and Food Safety (ENVI) and the Committee on Budgetary Control (CONT), which filed requests with the Conference of Committee Chair on 22 and 23 November 2011 to be involved under Rule 50 on associated committees: on the Rural Development Regulation (both ENVI and CONT); on the Horizontal Regulation (CONT); and on the Direct Payment Regulation (ENVI). Eventually, an agreement was reached between the three committees and both ENVI and CONT withdrew their requests in March 2012. The conflict was settled by a decision to invite the ENVI rapporteurs (and presumably also the CONT rapporteurs) to the COMAGRI shadow rapporteurs' meetings. This decision still secured ENVI's participation in a crucial phase of the Parliament's internal legislative process where political groups forge compromises, which determine the negotiating position of the Parliament as a whole. We know that the Council is particularly attentive to this phase, which informs the Council presidency of the alliances emerging between the shadow rapporteurs and the rapporteur and may be used to exert political leverage in the trilogue phase.

In all, 21 'rapporteurships' were subsequently allocated (excluding the shadow rapporteurs): four in COMAGRI, and 17 in the opinion-giving committees (see Table 13.1). In COMAGRI, the rapporteurships were equally divided between the two largest groups. S&D obtained the reports on the Direct Payment Regulation and the Rural Development Regulation: Luis Manuel Capoulas Santos, PT, was appointed rapporteur on both matters. The EPP obtained the reports on the Horizontal Regulation: Giovanni La Via, IT, was appointed rapporteur; and on the Single CMO Regulation: Michel Dantin, FR, was appointed rapporteur.

Table 13.1 *Rapporteurs and opinion rapporteurs on the 'CAP after 2013' reform*

| | Direct payments to farmers under support schemes | European Agricultural Fund for Rural Development (EAFRD): support for rural development | Common agricultural policy (CAP): financing, management and monitoring | Common organisation of the markets in agricultural products (Single CMO Regulation) |
|--|---|--|---|--|
| Rapporteur, Responsible committee (AGRI) | Luis Manuel CAPOULAS SANTOS PT/S&D - PECH(S) | Luis Manuel CAPOULAS SANTOS PT/S&D - PECH(S) | Giovanni LA VIA IT/EPP - BUDG(M), AGRI(S) | Michel DANTIN FR/EPP - TRAN(S) |
| Rapporteur, Opinion-giving committee, DEVE | Birgit SCHNIEBER- JASTRAM DE/EPP - ENVI(S) | Birgit SCHNIEBER- JASTRAM DE/EPP - ENVI(S) | Birgit SCHNIEBER- JASTRAM DE/EPP - ENVI(S) | Birgit SCHNIEBER- JASTRAM DE/EPP - ENVI(S) |
| Rapporteur, Opinion-giving committee, ENVI | Dan JØRGENSEN DK/S&D | Karin KADENBACH AT/S&D - REGI(S), AGRI(S) | | |
| Rapporteur, Opinion-giving committee, BUDG | Giovanni LA VIA IT/EPP - AGRI(S) | Giovanni LA VIA IT/EPP - AGRI(S) | Georgios PAPASTAMKOS GR/EPP - AGRI(M), BUDG(S) | Giovanni LA VIA IT/EPP - AGRI(S) |
| Rapporteur, Opinion-giving committee, CONT | Monika HOHLMEIER DE/EPP - BUDG(M), CONT(S) | Tamás DEUTSCH HU/EPP - REGI(M), EMPL(S) | Iliana IVANOVA BG/EPP - CONT(VC) | |
| Rapporteur, Opinion-giving committee, REGI | Catherine GRÈZE FR/GreensEFA - REGI(S) | Elisabeth SCHROEDTER DE/GreensEFA - EMPL(VC) | Giommaria UGGIAS IT/ALDE - TRAN(M) | Younous OMARJEE FR/GUENGL |

Source: Author's compilation.

Taking the overall distribution of rapporteurships across COMAGRI and opinion-giving committees, the EPP secured 13 of the 21 rapporteurships (62%). In the opinion-giving committees, S&D secured two rapporteurships as compared with 11 rapporteurships for the EPP. The overall EPP group of rapporteurs was by far the largest with seven MEPs, as compared with three MEPs for S&D, two for the Greens, and one each for ALDE and GUE/NGL. ENVI focused on the Direct Payments and Rural Development Regulations, disregarding the Horizontal and Single CMO Regulations. The allocation of rapporteurships revealed the respective strategic priorities of Parliament groups: S&D controlled ENVI; EPP controlled BUDG.

The pattern of allocation of rapporteurships can usually be ascribed to varying mixes of expertise and resources available at committee level and political salience of the legislative proposals for the party groups. In this case, it is striking that S&D allocated two key COMAGRI rapporteurships to one individual, MEP Luis Manuel Capoulas Santos – a great responsibility and a formidable task, given the politically and technically complex character of these two files.

4. Who is COMAGRI?

In light of the pivotal role granted to COMAGRI in the legislative process of the CAP reform, it is interesting to examine in greater detail what kind of a committee it was after the entry into force of the Lisbon Treaty. COMAGRI is widely perceived as a committee close to the farming world. COMAGRI Chair Paolo De Castro himself described the seventh legislature committee as “45 full members and 45 substitute members, all of them very committed to its work. Many of these members have very close links to agriculture, through their origins or their previous activities.”²⁰² At the same time, however, there is a perception that times are changing, and farmers might be losing their clout over COMAGRI. Past or current members of COMAGRI occasionally argue that the committee is now influenced by people who are more concerned with greening than farmers’ welfare or global competitiveness.

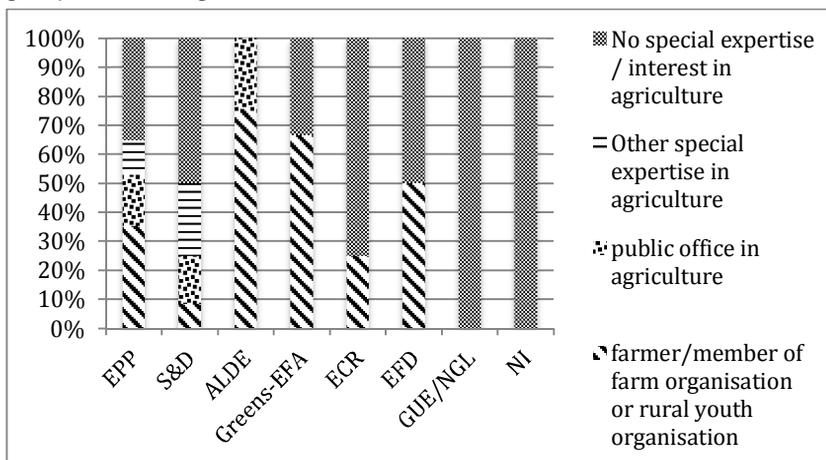
²⁰² www.europarl.europa.eu/committees/en/agri/home.html.

How heterogeneous was COMAGRI's membership in the seventh legislature?

Parliament data on committee members in the seventh legislature can help us better understand the nature of political representation in COMAGRI. In order to capture the different ways in which COMAGRI members may relate to the 'farming world', we distinguish between three types of connection: 'special interest' in farming characterises the COMAGRI full members who have been members of farmers' unions or cooperatives or have owned a farm or worked as farmer; 'special expertise' in agriculture characterises the COMAGRI full members who have held a ministerial or other public office in agriculture; finally, 'other special expertise' in agriculture characterises the COMAGRI full members with educational or occupational trajectories implying a clear and recognised expertise in agriculture (see Yordanova, 2009: 266 for a similar approach). Based on these categories, note that only three party groups have a majority of their full members on COMAGRI coming from outside the farming world: ECR, GUE/NGL and NI. On the whole, 31% of COMAGRI full members in the seventh legislature had a 'special interest' in agriculture and an additional 24% had a 'special expertise' in agriculture (Figure 13.2).

This is not new or unique to agriculture: already two decades ago, observers of the Parliament noted that "MEPs who are or were somehow attached to farming or a farming group [we]re more likely to be on the Agriculture Committee, as [we]re those MEPs coming from a peripheral state"; just like "lawyers and those with an attachment to human rights organizations are more likely to be members of the Legal Affairs Committee. And the Economics Committee tends to attract MEPs with business and labour union backgrounds" - in short, personal background is an important explanatory factor of committee assignment (Bowler & Farrell, 1995: 231). Furthermore, it is difficult to derive any direct policy implication of this pattern of representation, as the consequences in practice depend on whether COMAGRI in practice functions as a homogenous committee of high demanders of status quo or actually incorporates rival interests and representation.

Figure 13.2 Farming background of COMAGRI full members by party group, seventh legislature



Source: Author's compilation.

Focusing on the two largest party groups, which together represented close to two-thirds of COMAGRI's full members, the mix of competences and specialisation differed visibly. About 35% of EPP COMAGRI full members had been members of farmers' unions or cooperatives, or were or had been farmers or owned a farm ('special interest'), compared with only 8% in the case of S&D. S&D drew most of its special knowledge on agriculture from members having developed a special expertise in agriculture via a ministerial or other public office in agriculture or yet another occupational or educational background with a clear relation to agriculture (42% of S&D full members of COMAGRI). Conservative party groups, i.e. EPP, ECR and EFD, were better represented on this committee than in the plenary. In the seventh legislature, EPP, ECR and to a lesser extent EFD were better represented in COMAGRI than in the plenary. By contrast, S&D, ALDE, the Greens/EFA and GUE/NGL were all underrepresented in COMAGRI compared with the share of seats in the plenary, and this over-representation rose from the sixth to the seventh legislature (Table 13.2).

Table 13.2 Party group representation in COMAGRI and in the plenary, sixth and seventh legislatures

| <i>Sixth legislature (2004-09)*</i> | | | | |
|--|---------|------|---------|------|
| Party Group | Plenary | % | COMAGRI | % |
| EPP | 288 | 36.7 | 34 | 37.4 |
| PES | 217 | 27.6 | 23 | 25.3 |
| ALDE | 100 | 12.7 | 8 | 8.8 |
| Greens/EFA | 43 | 5.5 | 6 | 6.6 |
| UEN (later ECR) | 44 | 5.6 | 8 | 8.8 |
| GUE/NGL | 41 | 5.2 | 3 | 3.3 |
| IND/DEM/NA | 52 | 6.6 | 9 | 9.9 |
| <i>Seventh legislature (2009-14)**</i> | | | | |
| Party Group | Plenary | % | COMAGRI | % |
| EPP | 273 | 35.7 | 34 | 38.6 |
| S&D | 196 | 25.6 | 22 | 25 |
| ALDE | 83 | 10.9 | 8 | 9.1 |
| Greens/EFA | 57 | 7.5 | 6 | 6.9 |
| ECR | 57 | 7.5 | 8 | 9.1 |
| GUE/NGL | 35 | 4.6 | 2 | 2.3 |
| EFD | 31 | 4.1 | 4 | 4.5 |
| NA | 33 | 4.3 | 4 | 4.5 |

* Outgoing parliament. Data collected from www.europarl.europa.eu under entry "About Parliament" => "In the past" => "Composition".

** In the absence of available data on "Outgoing parliament" data are collected from <http://www.europarl.europa.eu> under entry "MEPs" => "Search" => "Advanced search".

Source: Author's compilation.

It is interesting to what extent the overrepresentation of conservative groups reflect the strategic priorities of the different Parliament parties with respect to agriculture. These discrepancies were larger than adjustments for rounded figures, which is methodologically considered to be an indicator of strategic priority.²⁰³ In the seventh legislature, the EPP and the ECR together secured four COMAGRI seats in excess of the expected distribution based on the composition of the plenary, while S&D and the Greens/EFA together were short of two COMAGRI seats (Table

²⁰³ Yordanova (2009) considers a two-seat discrepancy as so great as indicating "a deal between groups driven by their policy priorities."

13.3). But in order to be meaningful, the analysis would have to include a qualitative analysis of the different parties' ideological positions on agriculture. In COMAGRI, the left-right wing cleavage might not be so important, as most of the S&D in COMAGRI might be closer to their EPP colleagues on COMAGRI than their S&D colleagues on ENVI (interview, 3 December 2014). The fact that the S&D group secured the chairmanship of the committee could be seen as a partial compensation for the conservative tone of COMAGRI. The real cleavage is more likely between Green representations of agriculture and the more traditional representation of agriculture displayed in the large majority of COMAGRI members.

Table 13.3 Distribution of COMAGRI seats based on party group size in the plenary, sixth and seventh legislatures

| <i>Sixth legislature (2004-09), 91 COMAGRI seats</i> | | | |
|--|----------|----------|-------------|
| Party Group | Expected | Observed | Difference* |
| EPP | 33.3 | 34 | + |
| PES | 25.1 | 23 | -2 |
| ALDE | 11.5 | 8 | -4 |
| Greens/EFA | 4.9 | 6 | + |
| UEN (later ECR) | 5.1 | 8 | +3 |
| GUE/NGL | 4.7 | 3 | -2 |
| IND/DEM/NA | 6 | 9 | +3 |
| <i>Seventh legislature (2009-14), 88 COMAGRI seats</i> | | | |
| Party Group | Expected | Observed | Difference* |
| EPP | 31.4 | 34 | +3 |
| S&D | 22.5 | 22 | - |
| ALDE | 9.5 | 8 | -2 |
| Greens/EFA | 6.5 | 6 | - |
| ECR | 6.5 | 8 | + |
| GUE/NGL | 4 | 2 | -2 |
| EFD | 3.5 | 4 | 0 |
| NA | 4.9 | 4 | - |

* Signs alone indicate a difference of one seat. Seats are rounded to whole numbers with a cut-off point at -.4. For example: 22.5 expected seats are rounded to 23 seats, whereas 31.4 expected seats are rounded to 31 seats.

Source: Author's compilation.

Geographically, MEPs from member states supporting an interventionist CAP represented the largest part of the COMAGRI membership (54.5%), whereas countries generally viewed as having more liberal interests represented slightly less than 30% of COMAGRI. Countries in favour of an interventionist CAP include: Austria, Belgium, Cyprus, France, Greece, Hungary, Ireland, Italy, Lithuania, Poland, Portugal and Spain. Countries in favour of a more liberal CAP include: Czech Republic, Denmark, Estonia, Finland, Latvia, Luxembourg, Malta, the Netherlands, Slovakia, Slovenia, Sweden, and the United Kingdom; Germany is generally viewed as balancing between the two coalitions (Daugbjerg & Roederer-Rynning, 2014). Representatives from new member states made up 22% of COMAGRI, compared with 28.5% in the Parliament as a whole. This may be considered surprisingly low given the redistributive implications of the CAP: in comparison, the share of MEPs coming from the new member states reached 40% in the Regional Development Committee (REGI), a committee having, like COMAGRI, a redistributive remit involving the distribution of EU funds.

Thus it appears on the basis of these preliminary data that COMAGRI in the post-Lisbon era was not a different committee from what it was before the introduction of co-decision. It had close connections to the farming world; and its centre of gravity lay, politically as well as geographically, around an interventionist and rather status quo-oriented interpretation of the CAP. None of this was new,²⁰⁴ which in itself is interesting given the significant institutional changes that inaugurated the seventh legislature. If anything, we may speculate on the basis of these data that the entry into force of co-decision in agriculture coincided with the renewed reassertion – rather than the lessening – of the farming profile of COMAGRI. More research into the farming background of COMAGRI *ex ante/ex post* Lisbon will be needed to ascertain this point. The policy implication of this overall pattern of representation depends on the extent to which non-farm interests are incorporated in the organisation of the legislative process in the Parliament.

²⁰⁴ For example, ALDE has been historically most under-represented in COMAGRI (see Yordanova, 2009: 258).

5. From 719 to 7,036 Parliament amendments

COMAGRI had started to work on the CAP reform long before the Commission presented its proposals in October 2011, and even before the Commission launched its Public Consultation in June 2010 leading to the publication of a Commission Communication on the CAP reform on 18 November 2010. These efforts materialised in a series of 2009 reports adopted by large majorities, not least the Lyon report (Crombez et al., 2012). The conditions for shaping the Commission's views were favourable as the new Commissioner had urged his services – not just DG Agriculture and Rural Development's services in charge of inter-institutional relations – to establish informal contacts with the relevant administrative units of the Parliament. The Commission's Communication was said to refer specifically to ideas developed in COMAGRI, and the first deed of Commissioner Ciolos̃ following the publication of the Commission's Communication was to meet with the members of COMAGRI. After the November 2010 Communication, however, things turned less favourably for MEPs, as COMAGRI was decreasingly able to control internal divisions. The Dess report on the Commission's Communication was perceived as articulating an idiosyncratic vision of the CAP reform out of line with the majority position and echoing national interests. The controversial report failed to receive the backing of Dess's own group (EPP), of which he was political coordinator in COMAGRI. After a tortuous process (and many amendments) the plenary adopted the report in June 2011 in a version more compatible with earlier COMAGRI reports. This pre-reform exercise highlighted how difficult it could be for COMAGRI to coordinate its position.

The COMAGRI rapporteurs drafted their reports on the CAP reform in the spring of 2013. This phase was completed in early June. Together, the rapporteurs put forward 719 amendments to the Commission proposals: this was not a particularly high number of amendments given the scope and breadth of the proposed (four) legislative regulations. It was nothing in comparison with the 7,036 amendments that MEPs subsequently submitted during the open amendment phase. The tenfold increase in amendments dismayed some in COMAGRI, who worried about negative implications for the credibility of the Parliament as a co-legislator. Besides underscoring the complexity of the Commission proposals, this

avalanche of amendments highlighted the heterogeneity of agricultural and national interests. They reflected intense lobbying by professional farmer organisations, the industry, and institutional lobbyists, as well as NGOs:

COPA allied itself with upstream and downstream economic partners, such as European Crop Protection Association (ECPA), Fertilizers Europe, European Feed Manufacturers' Federation (FEFAC), European Seed Association (ESA), but also CEMA (European Agricultural Machinery) and Food and Drink Europe, and the European Society for Agronomy (ESA). This constellation of interests mobilised on the theme of the promotion of European agriculture's competitiveness, productivity, and global engagement, and focused significant parts of its argumentation on technical and scientific evidence. Given the diversity of agriculture in the EU, COPA ordinarily devotes much time to internal consensus building; this effort was even more pressing in the CAP reform, given the eminently redistributive dimension of the reform. Large industrial actors lobbied directly in supplement or replacement of COPA, using a variety of means including large public events such as large conferences organised by Syngenta together with the European Landowners' Organisation (ELO).

Institutional lobbyists were also active. National governments were involved in devising these amendments, sometimes through lobbying from the permanent representations, other times directly from the national capitals. A considerable number of amendments were authored by MEPs coming from the same national delegations but affiliated to different Parliament party groups (Olper & Pacca, 2015: chapter 14, this volume). The French government inspired an amendment introducing from scratch a new optional scheme into the Commission proposals, the so-called 'redistributive payment' allowing member states to redistribute up to 30% of their national envelope to support smaller farms through a "premium on the first 50 hectares of land".²⁰⁵ The French introduced this proposal as a trial balloon before Council discussions as it appeared that the Commission was divided on this

²⁰⁵ French Agriculture Minister Stéphane Le Foll could draw on his experience as a former member of the European Parliament and COMAGRI (until May 2012).

issue and that opposition in parts of the Commission services had kept the issue off the agenda. This measure became a flagship redistributive measure of the Parliament, but it also testifies to the ability of coalitions of MEPs and national governments to set the agenda concurrently with the Commission.

Perhaps a newer development is that NGOs, too, were actively lobbying in the drafting phase. Civil society activism materialised along two axes: a conservationist platform around environmental NGOs (eNGOs) such as BirdLife, European Environmental Bureau (EEB), World Wildlife Fund (WWF), International Federation of Organic Agriculture Movements (IFOAM) and Friends of the Earth; and a rural platform around the Agricultural and Rural Convention (ARC2020) emerging at the end of 2009. These two platforms overlapped as many eNGOs participated in the ARC2020, but they tended to focus on different themes (conservation/good food – good farming) and target different actors. ARC2020 tended to focus mostly on farm policy actors, Commissioner Ciolos during the phase of public debate and COMAGRI during the legislative phase up to plenary vote in March 2013. Environmental NGOs, on the other hand, focused more on the Parliament's Environment Committee. These civil society coalitions built detailed common positions throughout the legislative process while seeking to raise awareness of the issues in the broader public. They participated in hearings and public events in the Parliament, proposed amendments to the Parliament reports and made specific voting recommendations ahead of the COMAGRI vote in January 2013. Unlike the COPA constellation, NGOs had limited access to technical and scientific expertise and identify this comparative disadvantage as one of the factors that prevented them from exerting influence in COMAGRI.

6. A COMAGRI compromise

COMAGRI devoted the second half of 2012 to sorting out the amendments and working out political compromises in shadow rapporteurs' meetings on the basis of lists composed with the help of the administrative staff of COMAGRI. On 6 November, the Parliament announced that the vote in COMAGRI, originally scheduled for late November 2012, was delayed by two months to 23-24 January 2013, and it would be followed by a plenary vote

some time in March. The rules governing voting were further specified in late November. As mentioned above, the Parliament leadership chose to apply the newly adopted Rule 70a of the Parliament's Rules of Procedure on the opening of inter-institutional negotiations under the co-decision procedure. This new rule enabled the Parliament to open inter-institutional negotiations on the basis of a reinforced mandate, by requiring the Parliament plenary to adopt the negotiation mandate.

There was a great deal of speculation as to why the process was so slow and delayed several times; certainly, delaying the vote had strategic and policy implications. Strategically, it made the Parliament more vulnerable to Council pressure by turning the Parliament into an 'impatient legislator'. The entry into force of the reform was now postponed to 1 January 2015. With the end of the seventh legislature approaching (Parliament elections in May 2014), this meant that a CAP reform agreement had to be reached under the Irish presidency by the end of June 2013. This new timeline worked to the Council's advantage due to the different institutional preferences of Council and Parliament.²⁰⁶ From a policy perspective, delaying the process also made it more difficult to push an agenda for reform. The delay entrenched the contingency of the greening agenda: the commitment to greening depended on the size of the overall envelope. It also enabled sceptics to suspend any meaningful talk on greening. Environmentalists were thus critical of this delay advocated by COMAGRI on grounds of stalled budgetary negotiations in the Council.

In the absence of a November COMAGRI vote, the negotiations on forging compromise positions lasted until December 2012. The political landscape was difficult to navigate. COMAGRI was caught in overlapping lines of conflict involving: pro-environmentalists versus pro-producers; old versus new member states; large versus small farmers; free-trade versus interventionist member states; as well as farmers involved in

²⁰⁶ The Council generally seeks to avoid conciliation, which is institutionally less favourable to the Council due to its lack of administrative resources. The Parliament's bargaining position is stronger when the Parliament can afford to wait, and negotiate under the shadow of conciliation.

producing different commodities. Furthermore, in view of the agreement reached during the referral process, COMAGRI had to involve ENVI rapporteurs in the compromise negotiations.

The political groups were torn. ECR had to bridge a wide gulf of preferences between UK members and Polish members, not just on redistributive issues such as the capping of farm payments, but also on more ideological issues such as the appropriateness of greening the CAP. S&D lines of cleavage largely followed a North-South opposition; S&D also had the added problem that it had to find a compromise between the widely different positions of its ENVI and COMAGRI rapporteurs. Groups dealt with internal divisions differently. Some, like the S&D group, sought to develop a line of compromise and win internal acceptance for this line. The S&D leadership was never quite successful in rallying the 'Northern' group, which sought a more favourable representation of environmental concerns and formed an internal coalition, the 'Viking Group', including British, Danish, Dutch, Swedish and some German MEPs. Conservative groups adopted a different strategy, which can be abbreviated as 'choosing not to choose'. The ECR, for example, tabled competing (and sometimes mutually exclusive) amendments in order to keep all options open in the committee vote.²⁰⁷ This gives an indication of how difficult it was for some (most) Parliament groups more generally to develop a common position.

Several mechanisms underpinned the emergence of compromises. Within COMAGRI, the groups that pushed for a more active reform agenda remained in a marginal position. The Greens/EFA MEPs never became consensus builders; from the perspective of environmentalist sympathisers, the Greens' idealistic strategy in the CAP reform enabled adverse pieces of legislation from being passed. Some S&D MEPs in opposition to the

²⁰⁷ For example, on the greening model proposed by the Commission (Article 29, Direct Payment Regulation), ECR amendments aimed both at deleting the text proposed by the Commission (amendments 1244 and 1245) and softening it (amendments 1258 and 1259). Similarly, regarding the Commission proposals on the principle of crop diversification (same text, Article 29 - paragraph 1 - point a), the ECR presented no fewer than five amendments (amendments 1279, 1283, 1295, 1303 and 1307) pointing in different directions.

COMAGRI position on the CAP reform report being marginalised in their group, due to a combination of political and procedural manoeuvres. The marginalisation of ENVI also facilitated a compromise. Under the aegis of Dan Jørgensen and Karin Kadenbach (both from the S&D group), ENVI had played a key role in articulating an alternative set of proposals for the CAP with a view to improving the environmental aspects of the Commission's proposals. However, its input did not have much influence on the final outcome of the CAP reform process in COMAGRI. In spite of the referral agreement, the ENVI rapporteurs were never meaningfully involved in the shadows' meetings as their participation was internally contested in COMAGRI.

Eventually, a common COMAGRI position emerged from these internal labours and 278 compromise amendments were tabled in December 2012, enabling to reduce considerably the number of Parliament amendments.

7. The Parliament mandate

The COMAGRI vote took place in 23-24 January 2013. After internal discussions as to the appropriateness of different voting methods, it was decided that the COMAGRI vote would take place by show of hands. Sometimes the political groups had been able to reach a compromise; other times, however, persistent disunity had led political groups to table concurrent proposals to vote. Observers report the vote as confusing: it went very fast and was hard to follow, causing uncertainty as to how the counting was done. On one of the issues where multiple proposals were on the table, one MEP changed his position in the process, leading to an inconclusive vote. This forced MEPs to revert to voting on the original amendments, which the two competing compromise amendments had enabled them to eliminate. MEPs did not have voting lists prepared on these highly technical amendments and had to take their cue from their respective group leaders. This was instrumentalised by the sceptical segment of the British press, which described the event as testimony to the fact that MEPs commonly vote on issues they don't understand.²⁰⁸

²⁰⁸ www.telegraph.co.uk/news/worldnews/europe/9829032/Bingo-hall-vote-caps-classic-piece-of-EU-double-dealing.html.

The vote was a difficult moment for most of the political groups. In the S&D group, an internal vote preceding the COMAGRI vote had resulted in a large minority (40%) opposing the compromises presented by MEP Capoulas Santos. A few issues remained contentious after the COMAGRI vote, either because no compromises could be found, or because the majorities were thin. These included: double-funding of farm activities; the greening model proposed by COMAGRI, including provisions enabling farmers to be called automatically 'green'; the penalty for non-compliance with the greening requirements, where a thin COMAGRI majority emerged in favour of reducing the penalty to the greening payment; the transparency on the names of the beneficiaries of CAP payments, where several member states in the Council insisted on the public disclosure of all beneficiaries (including Germany, where a national ruling compelled the government to do so); cross-compliance requirements, where COMAGRI amendments *deleted existing binding references* to the protection of ground water against pollution, minimum soil cover, soil erosion, ban on hormones in meat, registration of animals, animal diseases, the Pesticides Directive, the Water Framework Directive, the protection of wetlands and carbon rich soils, the Birds and Habitats Directive; the extension of the sugar quota system beyond the proposed deadline of 2015; the proposition to recognise inter-branch organisations; etc.

Outside of the Parliament, the COMAGRI vote produced a clear pattern of reaction: approval of producer groups versus anger among eNGOs, who accused COMAGRI of being closed to civil society.²⁰⁹ In the period leading up to the plenary vote, these

²⁰⁹ Compare, e.g. WWF's reaction: "The environmental community", according to a key eNGO, "is alarmed that the European Parliament Committee on Agriculture and Rural Development has effectively stripped away any meaningful greening from the proposed CAP...COMAGRI has squandered a historic opportunity to support farming and environmental sustainability together and has lost all credibility" ("WWF Anger at EU Parliament COMAGRI Voting Decisions", www.wwf.eu/?207328/WWF-anger-at-EU-Parliament-COMAGRI-voting-decisions--Double-funding-goes-through); and COPA-COGECA's "COPA-COGECA welcomes MEPs' timely vote on future CAP and sees measures as step in right direction" (COPA-COGECA, Press Release, 23 January 2013).

organisations put increased pressure on MEPs, using coordinated action in several member states to revert to the COMAGRI outcome. Their strategy was modelled from the previous reform of the fisheries, where a civil society campaign had enabled activists to reverse an adverse committee vote and muster an unexpectedly large victory in favour of a ban on overfishing and additional protective measures in plenary.²¹⁰

Many additional amendments were tabled between the COMAGRI vote of January and the plenary vote, often sponsored by other actors than the committee responsible (Table 13.4). The legislators considered sending the text back to COMAGRI in view of the large number of additional amendments and requests for split and separate votes.²¹¹ However, this was technically ruled out given that all amendments met the statutory requirement of being supported by at least one-tenth of the committee's members. During the plenary, there were again requests to refer the matter back to COMAGRI. Before the vote on the Direct Payments Regulation, Sir Robert Atkins (ECR), supported by 40 MEPs, asked pursuant to Rule 175(2) that the proposals on all four CAP reform legislative dossiers be referred back to COMAGRI. The plenary rejected the request. John Stuart Agnew (Europe of Freedom and Democracy group) reiterated this request before the vote on the Single CMO Regulation.

²¹⁰ <http://cfp-reformwatch.eu/2013/02/parliament-adopts-cfp-reform-position-with-strong-majority/>.

²¹¹ Rule 162 of the Parliament's Rules of Procedure reads: "When more than 50 amendments and requests for a split or separate vote have been tabled to a report for consideration in Parliament, the President may, after consulting its Chair, ask the committee responsible to meet to consider those amendments or requests. Any amendment or request for a split or separate vote not receiving favourable votes at this stage from at least one-tenth of the members of the committee shall not be put to the vote."

Table 13.4 Amendments tabled to the committee report on the CAP after 2013 reform, plenary vote of 13 March 2013

| | (1) Committee am automatically tabled in plenary | (2) Additional am tabled in plenary by political groups or > 40 MEPs* | (2a) Number of (2) am adopted | (2b) Number of (2) am rejected | (2c) Number of (2) am lapsed | (3) Committee- authored am rejected in plenary | (4) split votes | (5) separate votes | (6) RCV |
|----------------------------------|--|---|--|---|---------------------------------------|--|-----------------------|--------------------------|------------|
| Direct Payments Regulation | 98 | 88 (90%) | 4 | 66 | 18 | 2 | 8 | 15** | 63 |
| Horizontal Regulation | 194 | 22 (11%) | 3 | 18 | 1 | 17 | 2 | 44 | 34 |
| Rural development | 142 | 36 (25%) | 10 | 22 | 4 | 0 | 8 | 8 | 30 |
| Single CMO | 349 | 126 (36%) | 3 | 86 | 37 | 1 | 5 | 105 | 108 |
| Total | 783 | 272 | 20 | 192 | 60 | 20 | 23 | 172 | 235 |

* Percentages in parentheses indicate ratio of additional amendments tabled by political groups and groups of at least 40 MEPs (2) / committee amendments (1).

** These are separate votes on the amendments proposed by the responsible committee. In addition, there were seven separate votes on other parts of the legislative texts. These votes are identified as separate votes in the 'Requests for separate votes' below the voting records even though they do not appear as 'separate votes' in the table summarising the voting results.

Source: The data are collected from the minutes of the plenary session, 13 March 2013, Annex: Results of Votes, pp. 8-45.

The plenary vote on the CAP reform was not comparable to the green landslide that had materialised, one month earlier, in the plenary vote on the fisheries reform. Large majorities were secured on the rural development dossier (556 for, 95 against) and the horizontal regulation (472 for, 172 against) in contrast to the Direct Payments Regulation (approved by 427, against 224) and the Single CMO Regulation (the most contested, with 375 in favour and 277 against). The plenary corrected the recommendations made by COMAGRI on several points and adopted additional measures. Most important, it banned provisions for double-funding; reinstated some of the Commission's greening model against less constraining COMAGRI provisions on 'automatically green' farmers;²¹² and partly reintegrated cross-compliance requirements (failed to reintegrate compliance with: the Water Framework Directive – lost with only nine votes; Protection of Wetlands and Carbon Rich Soils; and, unexpectedly, the Birds and Habitats Directive). The plenary initially supported additional support for the High Nature Value programme, but this was voted down after an electronic check, just as it had happened in COMAGRI in January. At the end of the day, the environmentalist forces in and outside the Parliament hailed it as "damage limitation"; producer groups were relieved by the "swift" adoption of a Parliament mandate.²¹³

8. Conclusion

Although the shift to the new Lisbon set of rules was expected to affect the politics of agriculture in the Parliament, precisely what type of change would ensue had until now remained the object of speculation. National and sector-specific interests might be consolidating their position in farm politics using the Parliament as an extra channel of influence. Conversely, ideological cleavages might become more salient as increased Parliament powers in this area compelled the chamber as a whole and Parliament political groups to compete over a broad range of decisions, ranging from COMAGRI assignments to report allocation, through the institutional parameters of intra-institutional (between COMAGRI

²¹² But the COMAGRI position on the content of the greening remained.

²¹³ COPA-COGECA, Press release, 13 March 2013.

and other Parliament fora) and inter-institutional (between Parliament and other EU institutions) cooperation.

The Parliament approached the 'CAP after 2013' reform from a conservative position, politically as well as institutionally. The features defining this position were: a default formula of committee referral granting COMAGRI the lead; the consolidated position of conservative party groups in the pattern of allocation of rapporteurships in the lead and opinion committees; and a segmented representation of EPP and S&D in the opinion committees, as the two largest political groups entrenched their influence in different committees, BUDG and ENVI, respectively. Before the entry into force of the Lisbon Treaty, COMAGRI had long been shaped by a consensus about the importance of the CAP and defending the CAP against – as a seasoned observer of Parliament agricultural politics put it – other “political forces in the chamber” which consider the CAP “a policy of the past”, and that the time has come to “move to something else.”

This remains the case today after the shift to co-decision. COMAGRI in the seventh legislature had close connections to the farming world; its centre of gravity lay, politically, around centre-to-right farmer-friendly parties, and, geographically, around a group of countries traditionally favouring an interventionist interpretation of the CAP. In spite of the agreement reached between ENVI and AGRI, the participation of the ENVI rapporteurs in the COMAGRI shadows' meetings remained internally contested in COMAGRI and was not allowed to have any policy impact on the emerging position of COMAGRI. The institutional segmentation of the legislative process in the Parliament supported this hierarchy of concerns between agricultural and industrial interests on the one hand, and environmental interests on the other hand, for the benefit of the former.

Beyond these familiar features, a new political debate on the appropriateness and legitimacy of the specific forms of EU intervention in agriculture is emerging in the Parliament as a result of the shift to co-decision. This debate reflects the nascent mobilisation of reform-oriented groups at the intersection of the parliamentary and the extra-parliamentary arenas, and it cuts across established Parliament party groups. COMAGRI politics is not a simple conflict over the spoils of the CAP. Internal debates about

principled issues have developed in all groups, including the EPP and S&D, leading to the persistent articulation of minority and dissident positions. This development would probably not have taken place, had co-decision not been introduced.

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14. THE EUROPEAN PARLIAMENT'S POSITION ON MARKET REGULATION AND THE IMPACT OF THE ECONOMIC CONTEXT

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1. Introduction

The June agreement on the Single Common Market Organisation Regulation (alternatively, the 'Single CMO') of the CAP 2020 reform, reached by the Commission, the Council and the European Parliament, can be summarised in two main objectives.¹ The first one is to contribute towards further market orientation of agriculture and farmer activities in a contest of increasing international pressure and competition. The second is to preserve a minimum intervention safety net to protect farmers from the growing uncertainty and instability of international markets.

In the new Single CMO Regulation, these principles are included in the following policy instruments. With the objective to increase market efficiency and to reinforce the role of farmers along the food supply chain, the new CMO gives a central role to producer organisations (POs) and to inter-branch organisations (IBOs), from now on extended to every agricultural sector covered by the CMO.²

¹ The new Single CMO Regulation related to Market Measures [(EU) No 1308/2013] was approved in November 2013 by the Parliament and in December 2013 by the Council.

² The new regulation extends, in some sectors, the possibility for collective bargaining and, in all sectors, delivery contracts to producer organisations, their associations and inter-branch organisations. Moreover, it introduces

There will be a reorganisation with some (minor) changes of the standard public (and private) market intervention instruments, and the creation of a reserve for crises in the agricultural sector of €2.8 billion (€400 million per year), outside the multiannual financial framework (MFF). This reserve could be used by the Commission as market support measures in response to market disruption related to animal diseases and/or loss of consumer confidence due to animal or plant health issues. The supply control measures in the sugar, wine and dairy sectors have been eliminated and, finally, there is an improvement of the schemes for (school) supply of milk and fruits for children, and the introduction of specific aids for food distribution in response to food security issues.

The new Single CMO Regulation represents a long and complex document of 232 articles, 19 detailed annexes, and 184 pages. However, to what extent it represents a true innovation of the CAP 2020 reform it is not immediately clear. The first impression suggests that the innovative contribution of the Single CMO Regulation is quite limited. Indeed, although some new safety instruments and the reinforcement of POs and IBOs have been introduced, in the end it represents a sort of revision and fine-tuning of regulations that were already in place in the CAP, without any substantial introduction of new instruments.

The objective of this case study is to analyse the Parliament's position on market regulation, taking also into consideration the extent to which the recent food crisis and the increasing volatility of international markets contributed, if anything, to affect the Parliament's position and behaviour. From this perspective, a look at the explanatory statement that accompanied COMAGRI's amendments to the Commission text clearly seems to show that COMAGRI's justification was largely based on issues linked to external world dynamics. For example, the introduction to the explanatory statement is as follows: "The ever growing world food demand, the relentless internationalization of agricultural trade, the increasingly more visible effects of climate change, the structural rise in energy prices, and the gradual dwindling of water, biodiversity, arable land, and other natural resources: these

temporary exemption from certain competition rules during periods of severe market imbalance.

upheavals are all transforming the context in which European agriculture now has to operate" (COMAGRI Draft Report, 2011/0281). Also relevant in this respect are the conclusions of both the Lyon and Dess reports (COMAGRI Draft Reports, 2009/2236 and 2011/2051). They contained a number of relevant statements on food security, price volatility, market orientation and the sustainability of the CAP, which subsequently were used as the forerunners of the Draft Report on the Single Common Market Organisation (SCMO) file in the Parliament. For example, the Lyon report in the conclusions sets out five key building blocks that should shape the future CAP, namely "Food Security and Fair Trade, Sustainability, Agriculture across Europe, Biodiversity and Environmental Protection, and Green Growth".

In what follows, the Parliament position on market regulation will be investigated through an analysis of the amendments made by the Parliament on the Commission text. However, given the large number of Parliament amendments on the Single CMO Regulation,³ to make the analysis tractable, we decided to select a key sample of Parliament amendments, by exploiting the so-called roll-call vote (RCV) data. Roll-call votes in the Parliament offer a wealth of behavioural data useful to study numerous issues focusing on the behaviour of the Members of the European Parliament (MEPs).

Thus our basic information to analyse the Parliament position on market regulation will be based on roll-call votes made by MEPs on 83 amendments on the European Commission text proposal (COM (2011) 626) during the March 2013 plenary session.⁴

The organisation of the chapter will be as follows. In section 2 we justify the use of RCV data to investigate the main Parliament

³ Considering the Parliament plenary vote of March 2013 on the Single CMO Regulation (decision on the opening of interinstitutional negotiations), the total Parliament amendments voted on were 509. An important fraction of these amendments, 349 (68%), were put forward by COMAGRI.

⁴ The amendments with a roll-call vote during the March plenary of the Parliament were 108, of which 21 lapsed. Of the remaining 87 RCVs, when accounting for the 'split vote', the 'deleting amendments' and the 'compromise amendments', 83 (84 with the final vote) are usable for this analysis.

positions on the Single CMO. Section 3 gives a general background to the position of the Parliament on the Single CMO, focusing especially on the COMAGRI draft report amendments. In section 4, a detailed analysis of the amendments' distribution and content will be carried out. Section 5 will analyse the behaviour of the Parliament, considering issues related to party versus national cohesion of the MEPs during the roll-call votes, as well as taking into consideration how frequently majorities are formed between different party groups. Section 6 draws the conclusions.

2. Roll-call votes and Parliament behaviour

The use of roll-call votes to analyse issues concerning the voting behaviour in the Parliament is a quite standard approach in the political science literature. Although roll-call votes represent only a fraction of total votes in the Parliament, raising potential selection bias problems (see Carrubba et al., 2006), many scholars have based their analyses on party group cohesion and competition in the Parliament using this particular form of vote (see, e.g. Hix, Noury & Roland, 2006; Kaniovski & Mueller, 2011). This is because data on roll-call votes are the only recorded information on voting behaviour of the Parliament, and thus usable for policy analysis.

Indeed, in the Parliament most of the votes are taken by a "show of hands". If the result is unclear, an electronic check may be carried out. This means that MEPs are asked to press a voting button (in favour, against or abstain), and the result is established electronically. This gives an accurate overall result, but the individual votes of MEPs are not registered. Just a small proportion of MEPs' votes (roughly one-third of total votes) is performed by roll-call or recorded vote. This is similar to an electronic check, but in this instance the Parliament's services also record which MEPs voted in which way. Under the current rule, a 'political group' or at least 40 MEPs can request any vote to be taken by roll-call.⁵

Party groups call roll-call votes for a variety of reasons (see Corbett et al., 2000, for a discussion). If roll-call votes in the Parliament are called for strategic reasons, then the MEPs' behaviour may be quite different in roll-call votes than in other

⁵ Note that from 2009, every European Parliament final vote has to take place through roll-call vote.

votes. However, as stressed by Hix, Noury & Roland (2006) and many others, regardless of the strategic reasons for calling them, it is reasonable to assume that roll-call votes are used for the most important decisions. Thus the underlying hypothesis is that analysing roll-call votes on the Single CMO amendments could give interesting insight to Parliament positions and political behaviour on market measures.

Within the political science literature, three main explanations are normally highlighted to interpret the reasons why a European Party Group (EPG) calls for a roll-call vote (see Mühlböcky & Yordanovaz, 2012). According to the discipline model, an RCV may be used by an EPG as a party disciplining instrument. The signalling model predicts instead that EPGs request strategically RCVs to signal their already highly cohesive position on a particular issue to external audiences, i.e. a lobby. Finally, a further argument relies on the simple idea that, whenever the vote is 'important' or 'salient' for a party group, which could be for a mix of reasons, then an RCV is requested. Mühlböcky & Yordanovaz (2012) recently found substantial support for the latest explanation of RCV requests, namely that party groups call RCVs on more salient, and/or more contentious issues.

In what follows, we are not directly interested in the reason why an EPG calls for an RCV. We simply take the different possibilities for granted and, by analysing the content of the key amendments on the Single CMO Regulation, we hope to gain some insight and to give a possible interpretation to the Parliament's behaviour.

3. Background on the COMAGRI and Parliament position on the Single CMO Regulation

The position of the European Parliament on the Single CMO Regulation has been one of the most controversial across the four regulations related to the CAP 2020 reform. This clearly emerges in the final Parliament vote taken on 13 March 2013 on the "Decision on the opening of, and mandate for, interinstitutional negotiations on common organization of the markets in agricultural products (Single CMO Regulation)." The final vote on this regulation passed through a narrow majority of EPP and S&D MEPs (55% votes for,

41% against), largely because many MEPs from Germany, also member of the EPP, voted against.⁶

One of the reasons for this narrow majority is the consequence of the COMAGRI position on the issue, largely driven by the ideas put forward by Michel Dantin, the Parliament rapporteur for the Single CMO Regulation.⁷ Mr Dantin (EPP, France), who worked in the past as leader of (regional) farm unions and as advisor of different agricultural ministers, has to be considered a direct exponent of (French) agricultural interests.

Mr Dantin is a historical supporter of the so-called concept of 'agricultural exceptionalism', the idea that, in agriculture, markets do not work well, and so they need to be strongly regulated by the states. Also as a reaction to the recent food crisis and the increased volatility in agricultural markets, one of the objectives of the COMAGRI rapporteur has been to propose many changes to the Commission text, aimed at reinforcing several market intervention mechanisms, partially eliminated or weakened over the last 20 years.

Many of the amendments to the Commission's draft regulation made by Parliament come directly from the COMAGRI rapporteur,⁸ and follow two general rules (Matthews, 2012): to reinforce state assistance to farmers who operate in instable and

⁶ Specifically, out of 91 German MEPs present, 62 voted against. Interestingly, 16 out of 42 German MEPs of the EPP group, the European party that traditionally supports CAP issues, voted against.

⁷ The shadow rapporteurs for the Single CMO Regulation were: Iratxe García Pérez (S&D, ES), Britta Reimers (ALDE, DE), José Bové (Greens/EFA, FR), James Nicholson (ECR, UK), Giancarlo Scottà (EFD, IT), Alfred Rubiks (GUE/NGL, LV).

⁸ In particular, the rapporteur tabled 434 amendments (out of the total 2,596 SCMO amendments - including compromise, plenary and opinion-giving committees - which is 16.7%). Out of these 434 amendments, 357 (82%) were adopted - either unchanged or in a compromise form - by COMAGRI. See Fertó & Kovács (2014), and the draft report by COMAGRI (2011/0281(COD)), for further details.

volatile markets; to emphasise the legislative role of the Parliament with respect to both the Commission and the Council.⁹

Mr Dantin's amendments were largely directed to reinforce the market intervention of the CAP, especially by encouraging a stronger concentration of producers and a stronger role for supply management during market crisis situation, as well as by preserving certain supply control measures already in place, such as quotas in the sugar, milk and wine sectors.

Concerning the role of producers in the supply chain's management, Mr Dantin's amendments were aimed at reinforcing their market power. To do this, they followed the strategy of making contracts *compulsory* in each member state, like those already existing in the milk sector. From his perspective, this contract should include specific conditions related to price, duration as well as quantity and quality requirements, and many other things regarding payments.

Concerning intervention practices, the rapporteur's position was that regulating supply and demand for agricultural products with only minimal 'safety net' mechanisms, such as the one put forward in the Commission proposal, cannot be sufficient to contrast the increasing volatility in food prices. Mr Dantin's idea was to develop and reinforce instruments based on private supply management to increase the coordination of the various operators, giving them the option of withdrawing a product during bad marketing conditions. Furthermore, Mr Dantin's report calls for a specific treatment of the farming and food supply chain, suggesting that agriculture must, to some extent, constitute an exception to competition law of the Treaty.

Finally, with respect to specific intervention arrangements, the Parliament's negotiating mandate also included the following proposals. First, it called for maintaining intervention in cereals for durum wheat and sorghum, abolished in the Commission text; it wanted public intervention to be available through the year and not for limited calendar periods; it proposed to raise the intervention price for beef from its current 70% of the reference price to 90% of the reference price; and finally, it proposed to raise the volume limit

⁹ More details of the position of the Parliament regarding a number of market measures can be found in Fertő & Kovács (2014, Annex II, p. 68).

for public intervention on butter from 30,000 tonnes to 70,000 tonnes.

Concerning the legislative role of the Parliament with respect to both the Commission and the Council, the Parliament amendments were largely aimed at increasing the Parliament's decision-making power in several technical aspects linked, for example, to the management of the intervention mechanisms, until now largely under the control of the Commission and the Council.

From this short summary of the COMAGRI position on the Single CMO Regulation, it emerges clearly that many of the changes requested to the Commission text were indeed justified by the recent food crisis and the growing instability of international markets. Thus, not surprisingly, the external context appears to be one of the drivers used by COMAGRI to justify the rationale of many of its amendments.

4. An analysis of the Parliament position using roll-call vote data

Table 14.1 is a summary of the distribution of the amendments with a roll-call vote.¹⁰ The distribution of the amendments by EPGs and COMAGRI confirms the fundamental role played by the latter in governing the Parliament discussion on the Single CMO Regulation, although the role of COMAGRI is underestimated in this selected number of amendments. Of the 83 amendments with an RCV, 31 (37%) were put forward from COMAGRI, 22 (27%) from groups of more than 40 MEPs, 14 (17%) from the ALDE, 7 (8%) from the GUE/NGL, 5 (6%) from the ECR and, finally, 4 (5%) from the GREENS/EFA group.

¹⁰ The full list of the roll-call votes used in this analysis is available upon request.

Table 14.1 Summary of roll-call votes on Single CMO amendments by Parliament groups and COMAGRI

| | No. Amendments | % Distribution | No. Adopted | % Adopted | No. RCV | % RCV |
|--------------|-------------------|-------------------|----------------|--------------|-----------|-------------|
| ALDE/ADLE | 14 | 17% | 0 | 0% | 0 | 0% |
| ECR | 5 | 6% | 0 | 0% | 16 | 19% |
| EFD | 0 | 0% | na | na | 0 | 0% |
| EPP | 0 | 0% | na | na | 14 | 17% |
| GUE/NGL | 7 | 8% | 0 | 0% | 8 | 10% |
| GREENS/EFA | 4 | 5% | 0 | 0% | 46 | 55% |
| S&D | 0 | 0% | na | na | 0 | 0% |
| > 40 MEPs | 22 | 27% | 0 | 0% | na | na |
| COMAGRI | 31 | 37% | 30 | 97% | na | na |
| TOTAL | 83 | 100% | 30 | 36% | 84 | 100% |

Notes: The total number of RCVs in column 5 is 84 (instead of 83), since it includes the RCV call on the final vote.

Legend: ALDE/ADLE: Group of the Alliance of Liberals and Democrats for Europe; ECR: European Conservatives and Reformists Group; EFD: Europe of Freedom and Democracy Group; EPP: Group of the European People's Party (Christian Democrats); GUE/NGL: Confederal Group of the European United Left - Nordic Green Left; GREENS/EFA: Group of the GREENS/European Free Alliance; S&D: Group of the Progressive Alliance of Socialists and Democrats in the European Parliament.

Source: Based on data collected from www.VoteWatch.eu.

Interestingly, among the 83 amendments, COMAGRI's showed an adoption rate of 97%, meaning that only one amendment from COMAGRI did not find any majority in the Parliament plenary vote.¹¹ Meanwhile, the amendments raised by more than 40 MEPs or other EPGs were all systematically rejected.

This result is not surprising, because the share of party groups in COMAGRI is close to the one in the plenary, so that when an amendment obtains the majority in COMAGRI, it has a high probability to obtain the same majority during the plenary session.

Perhaps more interesting is to look at the distribution of RCVs across groups, reported in the last two columns of Table 14.1. From this perspective, the more active group at the committee level has been the GREENS/EFA, which accounted for by 55% of RCV

¹¹ This refers to amendment number 109, finalised to establish "strategic stocks of raw materials for livestock feed" in order to prevent severe market imbalances and to guarantee the continuity of livestock sectors.

requests, followed by the ECR (19%), the EPP (17%) and, finally, the GUE/NGL (10%).

Thus RCV activities have been particularly relevant for the GREENS/EFA, the ECR and the EPP, although with different meaning. For example, out of 14 RCVs called by the EPP, 13 were against amendments put forward by the ALDE. As it is well known, the ALDE group is traditionally against the protectionism of the CAP and, as such, of many COMAGRI amendments that, in the words of the shadow rapporteur from the ALDE (Britta Reimers, Germany), tried to reintroduce “Automatic purchase of agricultural commodities in the case of price drops and extended export subsidies risk taking us back to the bad old days.”

The amendments on which the GREENS/EFA called for RCVs have a quite different content and rationale. On the one hand, 20 of the GREENS/EFA RCVs were equally in support of (10) and against (10) COMAGRI amendments, suggesting that the GREENS played an active role during the committee discussion and formation of these amendments. On the other hand, the other RCVs from GREENS/EFA were all in favour of amendments put forward by MEPs or the ALDE group, the majority of which are related to the limitation of the use of export refund. Finally, and not surprisingly, the RCVs from ECR were all against COMAGRI amendments, but in favour of their one amendment.

In general, as a matter of fact, when a party group calls for a roll-call vote on its own amendment, their members tend to respond following strictly the party line, a consistent behaviour with both the discipline and signalling hypotheses underlying the call of an RCV.

Table 14.2 considers the distribution of RCV amendments by the different issues of the Single CMO proposal. The amendments with roll-call votes have been largely concentrated on Part I (Introductory Provisions) and Part II (Internal Market) of the regulation: alone, these issues absorbed 73% of the total RCV amendments. The remaining RCV amendments refer to Part III (Trade with Third Countries), 17%, Part IV (Competition rules), 6%, and Part V (General provisions), 5%.

The 27 amendments on the introductory part of the regulation were raised by MEPs (14), COMAGRI (6), GUE/NGL (5), and GREENS/EFA (4). The amendments put forward by more than 40

MEPs were exclusively focused on the Recital of the Commission text, and on issues related to import duty and export refund. All these amendments push in a direction of more market liberalisation through the elimination of export refund, a more transparent management of the licenses and advance fixing of export refund.

Table 14.2 Roll-call votes on Single CMO amendments by proposal issues (March 2013)

| | Roll-call Votes | |
|---|----------------------|-------------------------|
| | Number of Amendments | Amendments Distribution |
| PART I INTRODUCTORY PROVISIONS | 27 | 33% |
| PART II INTERNAL MARKET | 33 | 40% |
| Title I Market intervention | 17 | 52% |
| Chapter 1 Public intervention and aid for private storage | 5 | 29% |
| Chapter 2 Aid scheme | 12 | 71% |
| Title II Rules concerning marketing/producer organisation | 16 | 48% |
| Chapter 1 Rules concerning marketing | | |
| Chapter 2 Specific provision for individual sectors | 5 | 31% |
| Chapter 3 Producer, interbranch and operator organisations | 11 | 69% |
| PART III TRADE WITH THIRD COUNTRIES | 14 | 17% |
| Chapter 1 Import and export licences | 1 | 7% |
| Chapter 2 Import duties | | |
| Chapter 3 Tariff quota management and special treatment | | |
| Chapter 4 Special import provision for certain products | 3 | 21% |
| Chapter 5 Safeguard and inward processing | | |
| Chapter 6 Export refund | 10 | 71% |
| Chapter 7 Outward processing | | |
| PART IV COMPETITION RULES | 5 | 6% |
| PART V GENERAL PROVISIONS | 4 | 5% |
| Chapter 1 Exceptional measures | 3 | 75% |
| Chapter 2 Communication and reporting | 1 | 25% |
| Chapter 3 Reserve for crisis in agricultural sectors | | |
| PART VI DELEGATION OF POWER, IMPLEMENTING PROVISIONS | | |
| TOTAL | 83 | 100% |

Source: Based on data collected from www.VoteWatch.eu and (COM(2011)626).

Also the amendments of COMAGRI were largely attached to the Introductory Provisions, although their content was quite different. Indeed, they have the clear objective of justifying protective measures for farmers, like the introduction of milk aids to producers who voluntarily cut production or the deletion from the Introductory Provisions of quota elimination in the sugar, milk and wine sectors. The GUE/NGL amendments had a similar purpose. Two of them added a new article (Article 7a) aimed at maintaining the quotas in the milk, sugar and wine sectors beyond 2015.

Quite surprisingly, the amendments of the GREENS to the Recital largely went in a direction of a more liberal agricultural trade policy, e.g. elimination of export refund, and also sensitive to the possible (negative) external effects of the market measures on least developing countries (LDCs).

The amendments to Part II (Internal Market) of the regulation were largely raised by COMAGRI (18), once again with the clear objective of extending market intervention rules to production excluded by the Commission text, e.g. by extending rules for intervention to the livestock sector, as well as to durum wheat, sorghum, barley and maize production. Other important amendments by COMAGRI were intended to further reinforce the farmers' position in the food supply chain (especially in the milk sector), to better defend the position of sugar producers, and to establish the European Food Price Monitoring Tool. These amendments to the Commission text have the clear objective of protecting farmers from the instability of world markets and were all approved in the plenary vote.

The remaining amendments to Part II were raised especially by the ALDE group alone or together with the ECR group. Here, the content of the amendments is more ambiguous, sometimes aimed at constraining the possibility for market intervention, e.g. by setting maximum aid amounts for market withdrawal, sometimes intended to increase the possibility for market interventions, as in the case where inter-branch organisations are extended also to the olive oil sector. All these amendments were rejected.

The amendments to Part III (Trade with Third Countries) were put forward especially by groups of more than 40 MEPs, without any univocal attribution to a specific political group. The majority of these amendments focused on export refund issues and rules by adding further details and constraints to the Commission text. For example, they asked more equilibrium in export refund distribution across sectors and across small versus big operators, or in the export refund for animals and beef that need to be in compliance with animal welfare regulations. It is quite informative to understand the GREENS position on this part of the regulation. Indeed, an amendment raised by this group was intended to add constraints to export refund in a situation where they can be harmful for LDCs' local markets.

The residual amendments were raised on Part IV (Competition Rules) and Part V (General Provisions) mainly by COMAGRI. The amendments on competition rules were largely aimed at better defining issues related to the “relevant market” or the definition of “dominant position”, as well as to add exceptions for agricultural products to Article 101 of the Treaty, related to competition rules.¹²

In sum, the analysis of the RCV amendments tends to confirm the key role played by COMAGRI in the Parliament position related to the Single CMO Regulation. COMAGRI was the author of the majority of amendments with a RCV, all but one of which were approved, and their content has been often aimed at reinforcing the “protectionist power” of market intervention put forward by the Commission text. At the same time, the key EPGs that more often formed the majority on the COMAGRI amendments – largely composed of S&D, EPP and EFD – systematically rejected both the amendments with a clear liberalisation content (proposed especially by the ALDE and ECR) and those with a more protectionist content (proposed especially by GUE/NGL and GREENS). A final interesting element that emerged from the analysis of the RCVs is the active role played by the GREENS. This activism came out first of all in support of some of the key amendments put forward by COMAGRI, revealing the important role of the GREENS during the formation of these amendments at the committee level. Moreover, the GREENS also proved to be the EPG that calls for the majority of RCVs during the plenary session. This appears partially in contradiction with overall GREENS behaviour. Indeed, the GREENS is the third-most successful Parliament Group (after EPP and EFD) in terms of amendments proposed and adopted in the final Single CMO Regulation. For this reason, and given the high level of party discipline within this group (see below), the higher frequency of RCVs could probably be interpreted using the signalling model. According to it, RCVs are requested strategically to signal to external audiences their highly cohesive position on a particular issue.

¹² Article 101 of the Treaty on the Functioning of the European Union prohibits cartels and other agreements that could disrupt free competition in the European Economic Area’s internal market.

5. Party discipline and coalition formation on Single CMO

Previous studies of roll-call voting based on limited samples of votes, as in this analysis, have established that MEPs vote along transnational party lines more frequently than national lines and that the European party groups are less cohesive than parties in domestic parliaments (see Hix & Lord, 1997).¹³ It follows that EPGs that are transnational federations (such as the EPP, S&D, GREENS and ALDE) should be traditionally more cohesive than the groups that do not possess these complex external party organisations (such as the GUE/NGL, ECR and EFD). However, issues involving substantial cross-country redistribution (such as the Common Agriculture Policy and Structural Funds) tend to create cleavages within EPGs (see Faas, 2003; Hix, Noury & Roland, 2006), increasing the propensity of MEPs to vote also along national lines.

At the same time, previous research has also showed that the left-right dimension is important in the formation of coalitions in the European Parliament (Kreppel & Tsebelis, 1999). Moreover, Hix, Noury & Roland (2006) showed that the time variation in ideological distance between party groups is one of the main determinants of coalition formation.

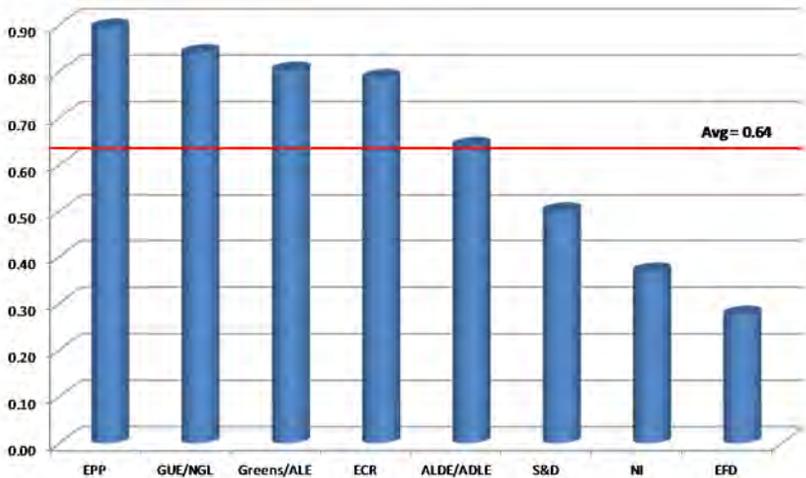
In what follows, we try to analyse the extent to which the behaviour of MEPs followed these patterns when dealing with issues related to the Single CMO Regulation. To start with, Figure 14.1 shows the EPGs cohesion on the 83 RCVs considered in this analysis. Party cohesion is measured using the Hix, Noury & Roland (2006) agreement index.¹⁴ This index equals 1 when all the members

¹³ The EPGs that are transnational party federations (such as the EPP, S&D, GREENS and ALDE) are traditionally more cohesive than the groups that do not possess these external party organisations (the GUE/NGL, ECR, and EFD).

¹⁴ Party group cohesion is measured using an 'Agreement Index' (AI) as follows:
$$AI = \frac{\max\{Y_i, N_i, A_i\} - \frac{1}{2}[(Y_i + N_i + A_i) - \max\{Y_i, N_i, A_i\}]}{(Y_i + N_i + A_i)}$$
 Where Y_i denotes the number of Yes votes expressed by group i on a given vote, N_i the number of No votes and A_i the number of Abstain votes. As a result, the AI equals 1 when all the members of a party vote together and equals 0 when the

of a party vote together and equals 0 when the members of a party are equally divided between all three of the possible voting options (Yes, No, Abstain).

Figure 14.1 Voting cohesion of the party groups on the 83 RCVs



Source: Own computation based on data collected from www.VoteWatch.eu.

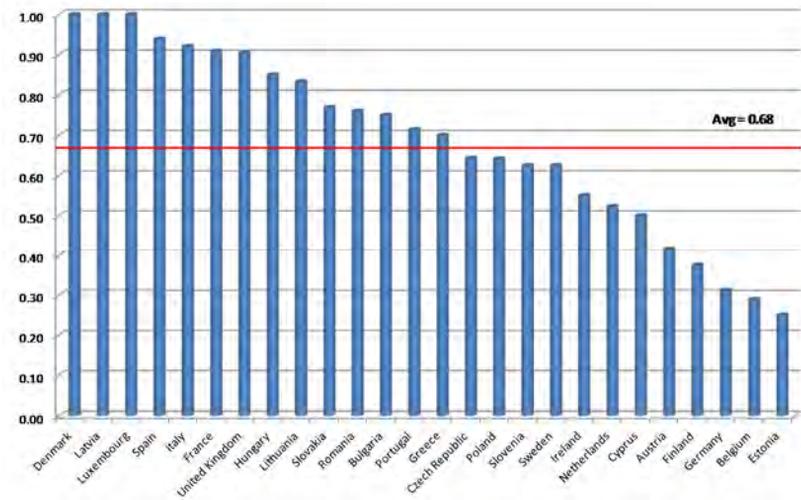
On the 83 RCVs analysed the (simple) average agreement index across all EPGs was 0.64. The higher cohesion, with an agreement index equal to 0.89, is reached by the EPP and this makes sense, firstly because the EPP is an important transnational party that traditionally defends the CAP, and secondly because it was the party of the rapporteur from the COMAGRI on Single CMO. However, in contrast with the general prediction from previous studies, party groups that do not possess a consolidated transnational party organisation, as do the GUE/NGL, ECR and EFD, when voting on CAP issues, showed a quite different behaviour. Indeed, consistently with the expectations, the EFD group displays the lowest party discipline on the RCVs. However, the GUE/NGL and the ECR, with an agreement index of 0.84 and 0.79, respectively, showed cohesion just a little below that of the EPP. Thus it appears that, when CAP issues are considered,

members of a party are equally divided between all three of these voting options.

ideological positions matter in affecting the MEPs' behaviour. In line with this general rule, the GREENS, with an agreement index of 0.8, showed high party cohesion. However, this is not the case for other important transnational party groups such as the ALDE and, especially, the S&D, which showed very low party discipline on CAP issues.

A possible interpretation of the deviation from the general rule of transnational parties can be found moving from party to country cohesion in the MEPs' vote.

Figure 14.2 Voting cohesion for member states on the 83 RCVs



Source: Own computation based on data collected from www.VoteWatch.eu.

Indeed, probably as an effect of the strong redistributive nature of the CAP, the voting behaviour of MEPs tends to be more concerned with country interests than with party line. This behaviour came out quite clearly from the analysis of Figure 14.2, which displays the MEPs' agreement index measured across countries. The average country discipline of MEPs, equal to 0.68, is indeed slightly higher than the party discipline, a result in contrast with the most recent evidence on the average voting behaviour of the MEPs. Moreover, the country cohesion on Single CMO roll-call votes is higher than 0.90 for large countries, such as Spain, Italy and France, which, although for different reasons, are historical

supporters of the CAP. Similarly, the country cohesion of MEPs coming from countries traditionally against the CAP, such as Denmark and the UK, proves to be particularly high – close to 1 in the first case and to 0.9 in the second case – thus significantly stronger than the average party cohesion displayed in Table 14.1, which is always below 0.9. However, this rule does not apply to Germany, which, with the very low country cohesion index of 0.31, represents an important exception.

Some further insight from the MEPs' behaviour can be found when considering the coalitions that formed the majority on the roll-call votes. Table 14.3 shows the proportion of times the majority in one party group voted the same way as the majority in another party group in the considered roll-call votes. The party groups in the table are ordered from left to right. Moreover, to better understand if ideology matters on CAP issues, we also displayed in red the hypothetical 'centre' of the political spectrum – here considered by the ALDE group.

Table 14.3 Coalitions: Proportion of times the party groups voted together on Single CMO

| | GUE/NGL | Greens | S&D | ALDE | EPP | ECR | EFD |
|---------|---------|--------|-------|-------|-------|-------|-------|
| GUE/NGL | - | 0.286 | 0.357 | 0.107 | 0.357 | 0.143 | 0.333 |
| Greens | - | - | 0.512 | 0.179 | 0.500 | 0.250 | 0.464 |
| S&D | - | - | - | 0.214 | 0.940 | 0.560 | 0.869 |
| ALDE | - | - | - | - | 0.250 | 0.214 | 0.214 |
| EPP | - | - | - | - | - | 0.607 | 0.905 |
| ECR | - | - | - | - | - | - | 0.619 |
| EFD | - | - | - | - | - | - | - |

Source: Own computation based on data collected from www.VoteWatch.eu.

As recently showed by Hix, Noury & Roland (2006), the *a priori* expectation is that coalition patterns should follow a left-right dimension. That is, the closer two party groups are to each other on this dimension, the more likely they are to vote together. For example, the EPP should be more likely to vote with the ALDE than the S&D and the S&D should be more likely to vote with the GREENS than the GUE/NGL (Radical Left) and with the ALDE than the EPP. Yet interestingly, when considering CAP issues this general prediction is systematically disregarded.

Indeed, on the left side, the GREENS voted more frequently with the EPP (0.5 times) than with the ideologically closer GUE/NGL (0.28 times), and they voted with the same frequency with the closer S&D and with the ideologically farther EPP (0.51 versus 0.50 times). On the right side of political spectrum, the EFD voted more frequently with the EPP (0.9 times) and even with the S&D (0.87) than with the ideologically closer ECR (0.62 times), and so on.

Interestingly, the most frequent coalition was the one between the EPP and S&D (0.94 times), confirming the notion that, on CAP issues, partisan voting behaviour from coalitions formed by the two most important EPGs still matters. That said, however, it also emerges that, when considering agriculture votes, coalitions formed between right-wing parties are systematically more frequent than coalitions formed between left-wing parties. This result confirms the idea that agricultural interests tend to be more frequently represented by the centre-right parties.

6. Summary and conclusions

In this case study, the Parliament's voting behaviour on the Single CMO Regulation has been investigated using roll-call votes related to Parliament amendments on the Commission proposal. The analysis of this selection of amendments largely confirms the key role played by COMAGRI on the Parliament plenary vote related to the Single CMO Regulation. COMAGRI has been the author of most of the amendments with a RCV, and the majority of these have been approved. COMAGRI amendments often have a 'protectionist' nature when compared with the original proposal put forward by the Commission. At the same time, the key EPGs that more often formed the majority on COMAGRI amendments – largely composed by the S&D, EPP and EFD – systematically rejected both the amendments with a clear liberalisation content (especially from the ALDE, ECR or groups of MEPs), but also those with a more protectionist content (especially from the GUE/NGL and the GREENS).

An interesting element that emerged from the analysis of the RCVs is the active role played by the GREENS group. Its active role came out first of all in support of some of the key amendments put forward by COMAGRI, thus giving an important contribution

during the discussion and the formation of the Parliament position at the committee level. Moreover, the GREENS group calls the majority of the RCVs during the plenary session, showing at the same time a high level of party discipline. The behaviour of the GREENS group during the plenary could be interpreted using the signalling model, namely as the tendency of a group to call strategically RCVs with the aim to signal to external audiences their discipline on particular relevant issues.

The analysis of party versus country cohesion gives support to the notion that the MEPs, when they have to decide on policy issues with a clear redistributive nature, such as the CAP, still tend to vote in the interests of their respective country of origin. Among the 83 RCV amendments on the Single CMO, the country discipline often tends to be more important than party discipline. However, there are relevant exceptions to this general rule, and the most interesting one is that related to the behaviour of German MEPs, which instead showed one of the lowest levels of country discipline. From this perspective, a deeper investigation of roll-call votes related to the other elements of the Commission proposal on the CAP 2020 reform could be very useful to better understand whether, and for which member states, the country discipline still matters.

As expected, the more frequent coalition was the one between the EPP and S&D, suggesting that on CAP issues, partisan voting behaviour from coalitions formed by the two most important EPGs still matters. However, it also clearly emerged that, when considering agricultural voting, coalitions formed by right-wing parties are systematically more frequent than coalitions formed between left-wing parties, confirming that right-wing party groups are the ones that take greater care of the agricultural interests.

A final question is related to the extent to which the external conditions, such as food crisis and the volatility of international food markets, really have made the difference in affecting the Parliament position and, above all, the final decision. Not surprisingly, in the analysis of the MEPs' behaviour, the role played by external conditions come out quite systematically in the justification of many amendments to the Commission text, and especially that of COMAGRI. Several key participants in the debate used this as a new and additional argument to make their case

stronger. So issues related to 'volatility management', 'crisis cushion', and so on (as well as food security, fair trade, climate change, environmental protection, and so on) represented in many cases the basis for justifying and motivating Parliament amendments. Yet the extent to which they actually have an effective innovative content and, more important, an impact in influencing the final legislation is less clear cut.

In the end, the CAP political agreement on the Single CMO maintains with few exceptions, e.g. the risk management toolkit and the reinforcement of POs and IBOs, the current architecture of market management tools. In fact, the attempt to raise to different degrees the level of market support guarantees was largely resisted, and, more important, dairy quotas will be eliminated in 2015 and sugar quotas in 2017, although in the wine sector a system of production limitation is still in place. Thus all in all the 'new' common market organisation represents a sort of revision and fine-tuning of regulations that largely were already in place in the CAP. Hence, the external conditions, although present in the 'discourse' of the CAP reform, do not appear to have changed significantly the final outcome.

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15. PARLIAMENTARY AMENDMENTS TO THE LEGISLATIVE PROPOSALS OF THE 2013 CAP REFORM

IMRE FERTÓ AND ATTILA KOVACS

The role of the European Parliament in the decision-making and legislation of the European Union has long been a subject of analysis in political science. A considerable part of this research agenda measures the relative power of the Parliament compared to the other two EU institutions that take part in EU legislation – the European Commission (EC) and the Council – (Hix, 2002; Selck & Steunenbergh, 2004; Greer et al., 2012), while others measure the power of the Parliament under different – consultation, cooperation, co-decision – legislative procedures (Earnshaw & Judge, 1997; Tsebelis et al., 2001; Kreppel, 2002).

Treaties in recent decades have significantly changed the institutional balance in the decision-making procedures of the EU as well as the role and power of EU institutions in EU legislation. The Treaty of Maastricht, the Treaty of Amsterdam, the Treaty of Nice and the Treaty of Lisbon were the key milestones in this process. The most important institutional change was the Treaty of Maastricht in 1993, which introduced the co-decision procedure that made the Parliament a co-legislator, and the Treaty of Lisbon, which entered into force in 2009 and largely extended the scope of the policy domains falling under the co-decision procedure.

Research was more intensive in the 1990s, when subsequent EU treaties reshaped the EU political landscape and attracted much scientific attention to this topic (Tsebelis, 1994; Scully, 1997; Crombez, 1997; Kreppel, 1999). Although the Treaty of Lisbon marks a key milestone in the evolution of the EU's inter-institutional

setup, no extensive empirical research has been done on the impact of the Treaty of Lisbon on EU-level decision-making and, most concretely, on the legislative power of the EP.

The aim of this chapter is to analyse how the entry into force of the Treaty of Lisbon changed the influence and power of the Parliament in the common agricultural policy (CAP). More specifically we focus on the legislative influence of the Parliament, which increased owing to the changing in legislative procedure from consultation to co-decision, using the 2013 CAP reform as a case study.

We compare the legislative instruments of the CAP of two consecutive EU programming periods, 2007-13 and 2014-20. The chapter is organised as follows. First, we provide a brief literature review on the role of the Parliament in legislative procedures. Then we describe the dataset, introduce our methodology and present our results. In the final section we conclude.

1. Literature review on the Parliament's role

The European Parliament in its resolution stressed that the Treaty of Maastricht has major shortcomings because it “does not provide a real co-decision procedure, which would have meant that the Parliament and the Council would have had the same decision-making powers over any legislative act, since the Council is allowed to act unilaterally in the absence of an agreement with the Parliament, and also applies this procedure only to a limited area” (IGC, 1992, Point 2. (c)).

Steunenberg (1994) argues that the co-decision procedure does not really improve the Parliament's position and it didn't increase its power. In his opinion, under the co-decision procedure – similar to the consultation and cooperation procedures – the Commission is the most influential EU institution. Tsebelis (1995) and Tsebelis et al. (2001) state that at the end of the co-decision procedure, the Council can make a ‘take-it-or-leave-it’ offer to the Parliament. It gives the Council the agenda-setting power, which earlier belonged to the Parliament. Therefore, under co-decision, the Parliament's power is decreased owing to the loss of its agenda-setting power. Crombez (2000) points out that the co-decision procedure weakens the influence of the Commission, which may

weaken the power of the Parliament as well. It is because the policy position of the Parliament is generally closer to that of the Commission: representing EU-level interests contrary to national positions of the member states represented in the Council. Apart from the general influence of the Parliament, Neuhold (2001) and Yordanova (2010) analysed the role and legislative power of Parliament committees. They found the committees exert a huge impact on the legislative outcome.

However, there is increasing research with opposite conclusions, namely that the Parliament gained significant power via the introduction and extension of the co-decision procedure. In many of its resolutions – IGC (1992); Parliament (1995); Parliament (2008) – the Parliament defined itself as an equal co-legislator with the Council under co-decision. The main conclusions of the related articles are summarised in Table 15.1.

The previous research also raises an important question for empirical analysis: How can we measure the impact of the Parliament on legislative procedures? One of the simplest answers is to calculate the success rate of amendments. However, there are conflicting views of the applicability of the ratio of adopted Parliament amendments as an indicator of Parliament's legislative power. Some papers argue that these success rates do not provide a well-founded argument to describe its legislative influence (Tsebelis et al., 2001; Shackleton, 1999). They claim that simple success rates do not give any information regarding the importance or weight of the Parliament amendment concerned. Tsebelis et al. (2001:576) point out that "counting success of amendments may not mean very much about the influence of different actors". Shackleton (1999:5) also says, "[N]umbers [of successful amendments] alone do not offer an adequate view of the impact of the Parliament".

However, the majority of research analysing the Parliament's amendments (Kreppel, 1999; Tsebelis & Kalandrakis, 1999; Kreppel, 2002; Tsebelis et al., 2001; Lucic, 2004) justifies measuring the role and influence of the Parliament via the success rates of adopted Parliament amendments as well as the variables attributed to the amendments. The main research question of these analyses is what factors influence the adoption of Parliament amendments. The major findings are summarised in Table 15.2.

Table 15.1 The role, influence and power of the European Parliament (EP) in the consultation and co-decision procedures (conclusions in italics show the minority positions of authors)

| Summary of the main conclusions of relevant articles | | Co-decision procedure | |
|--|--|-----------------------|--|
| Consultation procedure | | Article | Main conclusion |
| Westlake (1994) | The EP does not have a real legislative power. | Steunenberg (1994) | <i>The introduction of the co-decision procedure did not increase the legislative power of the EP.</i> |
| | | Tsebelis (1995) | <i>The agenda-setting power of the EP decreases in the co-decision procedure.</i> |
| | | Crombez (2000) | <i>The power of the EP can decrease under the co-decision procedure.</i> |
| | | Corbett et al. (1995) | The adoption rates of EP amendments are higher under the co-decision procedure. |
| Crombez (1996) | The influence of the EP is weak. | Crombez (1997) | The EP became an equal co-legislator with the Council. The EP has more legislative power under co-decision compared to consultation. |
| Tsebelis & Garrett (2001) | The legislative influence of the EP is minimal: the only way for the EP to influence the legislation is to delay it. | Jacobs (1997) | Under the co-decision procedure, the rejection rates of EP amendments are lower than in any other EU legislative procedure. |
| Laruelle (2002) | The EP plays a minor role under the consultation procedure. | Scully (1997) | The co-decision procedure increases the legislative influence of the EP and the MEPs. |
| Lucic (2004) | The role of the EP is modest and limited. | Steunenberg (1998) | In the co-decision procedure, the final political outcome is closer to the ideal policy of the EP. |

| | | | | |
|----------------------------|--|----------------------------|---|---|
| | | | Shackleton (1999) | Under the co-decision procedure, the Council cannot hinder the EP to influence the legislation significantly, therefore, the power of EP increases. |
| Jupille (2004) | The consultation procedure is an interaction between the European Commission and the Council: the role of the EP is marginal. | Tsebelis et al. (2001) | The adoption rates of EP amendments are higher under co-decision than any other EU legislative procedure. | |
| Thomson et al. (2006) | Negative opinion on the role of the EP under the consultation procedure. | Tsebelis & Garrett (2001) | The EP became an equal co-legislator with the Council under co-decision. | |
| Kardasheva (2009) | The EP's power in the consultation procedure is very limited. | Hix (2002) | The Treaty of Maastricht and the Treaty of Amsterdam increased the power of the EP. | |
| Selck & Steunenberg (2004) | <i>The policy position of the EP is closer to the political outcome under the consultation procedure than under the co-decision procedure.</i> | Selck & Steunenberg (2004) | The EP can be considered a real co-legislator. | |
| | | Thomson et al. (2006) | The EP managed to increase its power during the transition from consultation to co-decision. | |
| | | Jupille (2007) | The introduction of the co-decision procedure resulted in the enhancement of the legislative power of the EP. | |

Source: Own composition.

Table 15.2 Factors increasing the adoption of the amendments of the European Parliament (EP)

| Summary of conclusions of relevant articles | | | Co-decision procedure |
|---|--|---|---|
| Article | Cooperation procedure | Consultation procedure | Co-decision procedure |
| Kreppel (1999) | First reading amendments | | |
| | Clarification amendments | | |
| | Recital amendments | | |
| Tsebelis & Kalandrakis (1999) | Internal unity of EP behind the amendment | | |
| | First reading amendments | | |
| Lucic (2004) | First reading amendments | | |
| | Non-policy amendments (less important amendments) | | |
| Kardasheva (2009) | | The European Commission supports the EP amendment. | |
| | | The legislative proposal is of outstanding importance. | |
| | | The EP can link the legislative proposal to a co-decision legislative file. | |
| | | The amendment is tabled to a legislative proposal in the field of human rights. | |
| | | The legislative proposal is urgent. | |
| Tsebelis et al. (2001) | The European Commission supports the EP amendment. | | The European Commission supports the EP amendment. |
| Shackleton (1999) | | | The adoption rates of EP amendments tabled in a compromise form are higher. |

Source: Own composition.

Although there is a wealth of literature on CAP reform, the role and legislative influence of the Parliament in the formulation of CAP has not yet been extensively analysed.

Crombez & Swinnen (2011:23) evaluate the implications of the adoption of co-decision on CAP reform. They focus on the Parliament's role in CAP legislation. In their paper they compare the consultation and co-decision procedures. Their conclusion is that "the move from the consultation to the co-decision procedure has led to a redistribution of formal legislative powers between the Commission and the EP." They claim that with this legislative change, the "EP gains legislative influence over the policy outcome".

Swinnen & Knops (2012) analyse the Parliament's role in the 2013 CAP reform under the co-decision procedure. They claim that until the Parliament has significant capacities - primarily a staff with significant expertise - similar to the Commission's and the Council's, it will not be able to act as a real co-legislator. The lack of capacity and resources as well as the lack of traditions in the technical level working culture with the other two EU institutions jeopardise the Parliament's ability to enforce its position during the 2013 CAP reform.

Roederer-Rynning et al. (2012) examine the circumstances under which the co-decision procedure has been extended to the CAP. In their paper they share the view that the Treaty of Lisbon increased the Parliament's power both in budgetary and legislative terms.

Greer et al. (2012) investigate the inter-institutional relationships of the three EU institutions in the field of the CAP. They claim that even after the introduction of the co-decision procedure, the Council remains the primary legislator in the CAP. Nevertheless, the Commission - mostly thanks to the high-level professional knowledge of its staff - maintains its influential role in the formulation of CAP legislation. Under the co-decision procedure, the Parliament will only gradually become an equal co-legislator with the Council.

These papers share the view that the Parliament became more powerful in the CAP legislative procedure after the Treaty of Lisbon; however, mostly due to capacity constraints, the Parliament is not yet an equal co-legislator with the Council.

2. Dataset

The research is based on a newly elaborated dataset, which contains Parliament amendments tabled to eight legislative proposals related to the CAP. Most of these legislative proposals were in the EU legislative packages for the seven-year multiannual financial framework (MFF): four proposals relate to the 2007-13 MFF, another four relate to the 2014-20 MFF. These legislative instruments are the most important in the CAP as they define the rules for the use of the CAP budget for a seven-year EU programming period. These four regulations are the Direct Payment (DP) Regulation, the European Agricultural Fund for Rural Development (EAFRD) Regulation, the Single Common Market Organisation (SCMO) Regulation and the Horizontal Regulation.

The two consecutive EU programming periods also reflect two legislative procedures: the four regulations concerning the 2007-13 term were adopted under the consultation procedure, and the four regulations relating to the 2014-20 period were adopted under the co-decision procedure.

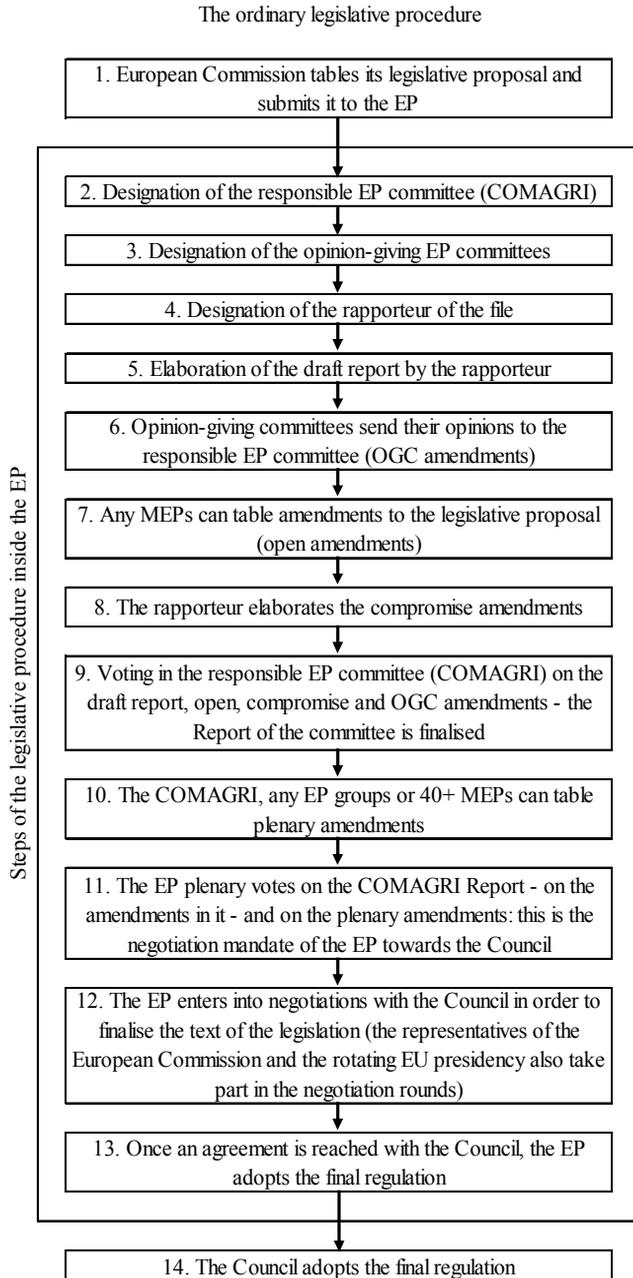
Table 15.3 The analysed legislative instruments of the CAP

| Common Agricultural Policy Regulation | Consultation procedure | Co-decision procedure |
|---------------------------------------|--------------------------------------|------------------------------|
| | 2007-13 | 2014-20 |
| Direct Payment Regulation | Council Regulation (EC) No 73/2009 | Regulation (EU) No 1307/2013 |
| EAFRD Regulation | Council Regulation (EC) No 1698/2005 | Regulation (EU) No 1305/2013 |
| SCMO Regulation | Council Regulation (EC) No 1234/2007 | Regulation (EU) No 1308/2013 |
| Horizontal Regulation | Council Regulation (EC) No 1290/2005 | Regulation (EU) No 1306/2013 |

Source: Own composition.

In order to get a better understanding of the Parliament's role in the 2013 CAP reform, it is necessary to have an overview of the steps of the legislative procedure with a focus on the intra-Parliament phases of the process.

Figure 15.1 Legislative procedure in the 2013 CAP reform



Source: Own composition.

Regarding the 2007-13 EU programming period – under the consultation procedure – steps 1-11 (Figure 15.1) were the same for the CAP legislative process. But unlike the co-decision procedure, the Parliament did not enter into negotiations with the Council in the consultation procedure: the Council decided on the Parliament amendments without the involvement of the Parliament.

Regarding each legislative instrument in Table 15.3, all the amendments tabled in the Parliament by any MEPs at any stage of the legislative procedure have been merged into the dataset. Amendments in this context mean textual amendments tabled to the original text of the legislative proposal highlighted by track changes.

The total number of Parliament amendments tabled to the eight legislative proposals is detailed in Table 15.4.

Table 15.4 The number and share of EP amendments tabled to the CAP legislative proposals

| Common Agricultural Policy Regulation | Consultation procedure 2007-13 | | 2013 CAP Reform | |
|---------------------------------------|--------------------------------|------------|----------------------|------------|
| | Number of amendments | % | Number of amendments | % |
| Direct Payment Regulation | 931 | 62.9 | 2,567 | 29.8 |
| EAFRD Regulation | 426 | 28.8 | 2,471 | 28.7 |
| SCMO Regulation | 98 | 6.6 | 2,596 | 30.2 |
| Horizontal Regulation | 25 | 1.7 | 972 | 11.3 |
| Total | 1,480 | 100 | 8,606 | 100 |

Source: Own composition.

Table 15.4 shows 30.2% of all amendments have been tabled to the Single CMO Regulation, followed by the Direct Payment Regulation (29.8%) and the EAFRD (28.7%), while only 11.3% of all amendments have been proposed to the Horizontal Regulation.

Depending on the phase of the legislative procedure within the Parliament, in which the amendments were tabled, another categorisation of the amendments is also possible per Table 15.5.

Table 15.5 The number of EP amendments tabled to the CAP legislative proposals by type

| Type of amendment | Consultation procedure 2007-13 | | 2013 CAP reform | |
|-------------------------|--------------------------------|------------|----------------------|------------|
| | Number of amendments | % | Number of amendments | % |
| Draft report amendments | 185 | 12.5 | 711 | 8.3 |
| Open amendments | 1,063 | 71.8 | 6,749 | 78.4 |
| OGC amendments | 128 | 8.7 | 533 | 6.2 |
| Compromise amendments | 45 | 3 | 279 | 3.2 |
| Oral amendments | 3 | 0.2 | 0 | 0 |
| Plenary amendments | 56 | 3.8 | 334 | 3.9 |
| Total | 1,480 | 100 | 8,606 | 100 |

Source: Own composition.

Draft Report amendments are tabled by the rapporteur of the file as the initial phase of the legislative procedure in the Parliament. Then, any MEPs can propose amendments to the legislative instrument. These are the so-called open amendments. Besides the Parliament committee, which is responsible for elaborating the Parliament report – in case of the CAP, it is COMAGRI – other Parliament committees also have the possibility to express their opinions on the legislative proposals. These opinions mostly take the form of textual amendments, which are now called the ‘amendments of opinion-giving committees’ (OGC amendments). Besides the vote in COMAGRI, the rapporteur of the file forms compromise amendments. These compromise amendments are mostly the combination of previously tabled draft report, open and OGC amendments. Oral amendments can be tabled by COMAGRI members just before the vote on the file in the COMAGRI meeting. After the COMAGRI vote, the file is tabled to the forthcoming Parliament plenary session. Before the plenary session, only COMAGRI, Parliament groups or a group of more than 40 MEPs jointly have the opportunity to propose plenary amendments. This categorisation of Parliament amendments makes it possible to calculate adoption rates of Parliament amendments of any type at any stage of intra-Parliament decision-making.

There are three stages of the legislative procedure: the first stage is the vote of COMAGRI on Parliament legislative amendments. The second stage is the decision of the Parliament plenary, and the last stage is the final joint decision of the Parliament and Council on whether the amendments are incorporated in the text of the final regulations.

Table 15.7 contains the analysed Parliament amendments grouped both by amendment type and CAP regulation.

As for the 'draft report' amendments, most (61%) have been tabled to the Single CMO Regulation, followed by the Horizontal Regulation, the Direct Payment Regulation and the EAFRD Regulation. Regarding the 'open amendments', most (32.4%) have been tabled to the DP Regulation, followed by the EAFRD, the Single CMO and the Horizontal Regulation. Most of the compromise amendments (63.1%) were proposed to the Single CMO Regulation; only 13.6% to the EAFRD and 13.6% to the Direct Payment Regulation; and 9.7% to the Horizontal Regulation. Concerning the amendments of opinion-giving committees, 49.5% were proposed to the EAFRD Regulation, followed by the Direct Payment Regulation (26.3%), the Horizontal Regulation (18%) and the Single CMO Regulation (6.2%). As for plenary amendments, 47.9% were proposed to the Single CMO Regulation, followed by the Direct Payment Regulation (29.9%), the EAFRD Regulation (12.3%) and the Horizontal Regulation (9.9%).

Table 15.6 The distribution of EP amendments (in %)

| | Consultation procedure 2007-13 | | | | 2013 CAP reform | | | |
|--------------------------|--------------------------------|-----------------|-----------------|------------------|-----------------------|-----------------|-----------------|------------------|
| | Total - initial phase | COMAGRI-adopted | Plenary-adopted | Final regulation | Total - initial phase | COMAGRI-adopted | Plenary-adopted | Final regulation |
| Draft report amendments | 12.5 | 21.4 | 20.8 | 16.7 | 8.3 | 36.6 | 36.9 | 37 |
| Open amendments | 71.8 | 71.5 | 69.7 | 77.8 | 78.4 | 58.3 | 56.5 | 58.1 |
| Compromise amendments | 3 | 1 | 1 | 1.4 | 3.2 | 1.4 | 1.4 | 1.2 |
| OGC amendments | 8.6 | 5.5 | 4.4 | 1.4 | 6.2 | 3.7 | 3.7 | 2.6 |
| Oral amendment (COMAGRI) | 0.2 | 0.6 | 0.6 | 1.4 | 0 | 0 | 0 | 0 |
| Plenary amendments | 3.9 | 0 | 3.5 | 1.3 | 3.9 | 0 | 1.5 | 1.1 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Own calculations.

Table 15.7 The number and distribution of the proposed EP amendments by CAP regulation and amendment type

| | | DP | EAFRD | HR | SCMO | Total |
|------------------------|---------------|--------------|--------------|-------------|--------------|--------------|
| Draft report amendment | Number | 102 | 73 | 102 | 434 | 711 |
| | % | 14.3 | 10.3 | 14.3 | 61 | 100 |
| Open amendments | Number | 2,187 | 2,055 | 714 | 1,793 | 6,749 |
| | % | 32.4 | 30.4 | 10.6 | 26.6 | 100 |
| Compromise amendments | Number | 38 | 38 | 27 | 176 | 279 |
| | % | 13.6 | 13.6 | 9.7 | 63.1 | 100 |
| OGC amendments | Number | 140 | 264 | 96 | 33 | 533 |
| | % | 26.3 | 49.5 | 18 | 6.2 | 100 |
| Plenary amendments | Number | 100 | 41 | 33 | 160 | 334 |
| | % | 29.9 | 12.3 | 9.9 | 47.9 | 100 |
| Total | Number | 2,567 | 2,471 | 972 | 2,596 | 8,606 |
| | % | 29.8 | 28.7 | 11.3 | 30.2 | 100 |

Source: Own calculations.

3. Methodology

In the amendment analysis, we applied the following definitions for the categorisation of Parliament amendments:

- Agricultural policy amendments are those that are not institutional amendments.
- CAP reform amendments are defined as those tabled to the new CAP reform items such as greening, young farmers scheme, small farmers scheme, etc., also when the Parliament's position is a step back from the Commission proposal, i.e. amendments which aim at decreasing the ambitions of the Commission proposal, most often in the form of a more incremental introduction of certain measures.
- Institutional amendments relate to the institutional and legal aspects of decision-making (comitology, delegated acts, implementing acts, delegated powers, etc.).
- Compromise amendments are tabled by the rapporteur in a compromise format. Unless otherwise stated, in this chapter extracted compromise amendments are used. Extraction in this context refers to the methodology, when amendments "behind" one compromise amendment are taken into consideration (in official texts it is referred to as "Compromise amendment replacing amendment X, Y, Z.") If one compromise amendment is adopted, the amendments replaced are also considered to be adopted. When two or more compromise amendments replace the same original – draft report, open or OGC – amendments, the number of draft report, open or OGC amendments is multiplied when calculating amendment success rates. This methodology makes it possible to apply a more sophisticated approach and to analyse some of the underlying tendencies in Parliament decision-making. Extracted compromise amendments also give a better picture on the role and influence of Parliament amendments. However, it should be noted that not all the compromise amendments are the combination of previous – draft report, open or OGC – amendments. These compromise amendments cannot be extracted and are analysed in their original form.

- Among the amendments in the Parliament negotiating mandate there are some – non-compromise – amendments, which encompass previous amendments, but not in a compromise form. When analysing amendment success rates during the Parliament internal decision-making, these amendments are also extracted. This is the reason – in some cases – for the seemingly contradictory figures between the calculation of thematic success rates and the success rates in the Parliament’s internal decision-making.
- When analysing the amendments tabled by the OGCs, only amendments stipulated in the final committee opinion had been taken into account (no draft opinion amendments, etc.).

In the amendment analysis, we considered a Parliament amendment adopted if at least part of it was adopted by COMAGRI or Parliament plenary or built into the final regulation.

In this chapter, the word “co-decision” always reflects the “ordinary legislative procedure” as stipulated in the Treaty of Lisbon.

4. Analysis

4.1 The increased role of the Parliament vis-à-vis the Council

The legislative power of the Parliament is best reflected by its ability to influence the final policy outcome during the negotiations with the Council. Nevertheless, it is also worth seeing the internal evolution of decision-making in the Parliament. Table 15.8 contains the success rates of amendments in each of the three phases of decision-making. The final column shows what percentage of the total number of Parliament amendments was finally adopted by the Council and incorporated in the final regulations.

Table 15.8 The success rates of EP amendments by CAP regulation (% of adopted amendments compared to total)

| | Consultation procedure 2007-13 | | | 2013 CAP reform | | |
|---------------------------|--------------------------------|-----------------|------------------|-----------------|-----------------|------------------|
| | COMAGRI-adopted | Plenary-adopted | Final regulation | COMAGRI-adopted | Plenary-adopted | Final regulation |
| Direct Payment Regulation | 30.2 | 30.3 | 9.2 | 5.4 | 5 | 3 |
| EAFRD Regulation | 36.9 | 36.6 | 11.5 | 18.6 | 18.6 | 13.6 |
| Horizontal Regulation | 28 | 28 | 16 | 32.4 | 30 | 12.4 |
| SCMO Regulation | 51 | 51 | 5.1 | 23.7 | 23.7 | 13.6 |
| Total | 33.4 | 33.4 | 9.7 | 17.7 | 17.4 | 10.3 |

Source: Own calculations.

In the 2013 CAP reform, 17.7% of Parliament amendments were adopted by COMAGRI and 17.4% by the plenary, while 10.3% of all amendments were incorporated in the final regulations. Under the consultation procedure 9.7% of all amendments were incorporated in the final regulations, thus there was a slight increase in the Parliament's power under co-decision. However, absolute figures show a more striking difference between the two legislative procedures: an approximate 10% under consultation means 140 adopted Parliament amendments, while 10% under co-decision covers 860 adopted amendments.

For the Direct Payments Regulation, the COMAGRI adopted 5.4% of the amendments and the Parliament plenary adopted 5%, while 3% of all DP amendments were adopted in the end legislation and can be found in the final DP Regulation. In case of the EAFRD Regulation, both COMAGRI and the Parliament plenary adopted 18.6% of the amendments; 13.6% of the amendments are incorporated in the final regulation. Regarding the SCMO Regulation, both COMAGRI and the Parliament plenary adopted 23.7% of the amendments; 13.6% of the amendments are incorporated in the final regulation. Concerning the Horizontal Regulation, 32.4% of all amendments have been adopted by

COMAGRI and 30% by the Parliament plenary, while 12.4% of the amendments were incorporated in the final regulation.

We can conclude that the Direct Payment Regulation has the lowest level of amendments adopted at all levels (COMAGRI, Parliament plenary, and final regulation). The Horizontal Regulation has the highest level of adoption within the Parliament followed by the SCMO Regulation. The adoption ratio of amendments in each of the final SCMO and EAFRD Regulations equals 13.6%.

Table 15.9 contains the ratios of final incorporated Parliament amendments to the number of Parliament amendments in the Parliament negotiation mandate with the Council. These success rates of Parliament amendments, which show the power of the Parliament *vis-à-vis* the Council, are broken down by amendment type and CAP regulation. The main conclusion of this part of the analysis is that for the four CAP regulations, 59.2% of those adopted by the Parliament plenary were finally built into the final CAP regulations. This ratio is 60.2% for the Direct Payment Regulation, 57.1% for the SCMO Regulation and 73% for the EAFRD. In the Parliament negotiation mandate 41.4% of the amendments can be found in the final Horizontal Regulation. So we can conclude that the Parliament managed to make almost 60% of the amendments in its position (Parliament plenary adopted amendments) adopted by the Council during the trilogue negotiations. It shows a significant increase under the co-decision procedure compared to the consultation procedure: this figure is practically doubled (29.1% under the consultation procedure).

As for draft report amendments, 59.3% of the Parliament plenary adopted amendments – amendments in the Parliament negotiation mandate – were adopted after the trilogue negotiations and finally built into the final regulations. This ratio is 60.8% for open amendments, 66.3% for compromise amendments, 41.8% for the amendments of opinion-giving committees and 43.5% for plenary amendments.

Table 15.9 Success rates in the trilogue negotiations by amendment type and CAP regulation

EP amendments in the final regulation compared to EP plenary-adopted (in %)

| Amendment type | Regulations | Consultation procedure 2007-13 | 2013 CAP reform |
|-------------------------|--------------|--------------------------------|-----------------|
| Draft report amendments | DP | 19.7 | 65.8 |
| | EAFRD | 41.2 | 80.3 |
| | HR | 50 | 42.1 |
| | SCMO | 16.7 | 59.7 |
| | Total | 23.3 | 59.3 |
| Open amendments | DP | 36.2 | 61.3 |
| | EAFRD | 32.2 | 74.2 |
| | HR | 75 | 40 |
| | SCMO | 3.3 | 55.6 |
| | Total | 32.5 | 60.8 |
| Compromise amendments* | DP | 7.3 | 68.6 |
| | EAFRD | 50 | 72.2 |
| | HR | n/a | 44 |
| | SCMO | n/a | 67.9 |
| | Total | 11.1 | 66.3 |
| OGC amendments | DP | 0 | 100 |
| | EAFRD | 11.1 | 48.3 |
| | HR | 0 | 40 |
| | SCMO | n/a | 0 |
| | Total | 9.1 | 41.8 |
| Plenary amendments | DP | 13.3 | 25 |
| | EAFRD | 0 | 44.4 |
| | HR | n/a | 71.4 |
| | SCMO | n/a | 0 |
| | Total | 11.8 | 43.5 |
| Total | DP | 30.5 | 60.2 |
| | EAFRD | 31.4 | 73 |
| | HR | 57.1 | 41.4 |
| | SCMO | 10 | 57.1 |
| | Total | 29.1 | 59.2 |

*All types of amendments are calculated with the extraction of the compromise amendments. Success rates of compromise amendments are calculated based on their original figures (non-extracted).

Source: Own calculations.

Box 15.1 Policy amendments

In the framework of the amendment analysis, we also categorised the amendments in the Parliament negotiation mandate by policy type. The results show that agricultural policy amendments in the four CAP regulations have been adopted by the Council at an above-average rate (51.2%). With this rate of acceptance, we can conclude that the Parliament became a real co-legislator with the Council, i.e. if one player in a two-player decision-making process manages to make more than 50% of its positions adopted by the other, it can be considered to be a decision-maker on equal footing. The higher adoption rate was in the case of the EAFRD Regulation (57%), while the lowest was in the case of the Horizontal Regulation (40.2%).

Table 15.10 Success rates of agricultural policy amendments

EP amendments in the final regulations compared to EP negotiation mandate (in %)

| | Direct Payments Regulation | EAFRD Regulation | SCMO Regulation | Horizontal Regulation | Total |
|--------------------------------|----------------------------|------------------|-----------------|-----------------------|-------|
| Total number of amendments | 39.8 | 47.2 | 47.3 | 37.1 | 43.8 |
| Agricultural Policy amendments | 49.2 | 57 | 54.7 | 40.2 | 51.2 |
| CAP reform amendments | 48.8 | 65.7 | 52.4 | 60 | 56 |

Source: Own calculations.

Calculation based on non-extracted compromise amendments.

As for “CAP reform amendments”, 56% of these amendments in the Parliament negotiation mandate were finally adopted by the Council. The highest acceptance rate was in the case of the EAFRD Regulation (65.7%), while the lowest was in the case of the Direct Payment Regulation (48.8%).

In sum, our major findings are as follows. First, regarding all types of amendments, these ratios show significant increase compared to the consultation procedure. Second, the Parliament appears to be the most powerful *vis-à-vis* the Council concerning compromise amendments (66.3% success rate). The high success rates of both the compromise and the draft report amendments highlight the key role of rapporteurs. Third, amendments of

opinion-giving committees and plenary amendments have the lowest levels of success (41.8% and 43.5%, respectively), which might mean that these types of amendments had limited influence on the final policy outcome. Finally, more than 50% of the agricultural policy amendments and the CAP reform amendments in the Parliament negotiation mandate were incorporated in the final regulations, which appears to make the Parliament an equal partner with the Council during the trilogue negotiations.

4.2 *The role of Parliament rapporteurs*

There were three Parliament rapporteurs for the four CAP legislative proposals in the 2013 CAP reform: Luis Manuel Capoulas Santos for the Direct Payment and EAFRD Regulations, Michel Dantin for the SCMO Regulation and Giovanni La Via for the Horizontal Regulation.

When making an amendment analysis in order to see the role of the rapporteurs, draft report and compromise amendments form the basis of analysis. In sum, the rapporteurs tabled 711 amendments in their draft reports to the four CAP regulations, which is 8.3% of the total number of amendments. Additionally, rapporteurs tabled 279 compromise amendments during the legislative procedure, which is 3.2% of the total number of amendments.

The influential role of the rapporteurs has already been highlighted in the analysis in Table 15.9. High adoption rates of draft report and compromise amendments show that rapporteurs had significant legislative influence during the 2013 CAP reform.

When analysing the Parliament-Council relationship, we can see that almost two-thirds of the compromise amendments adopted by the Parliament plenary was finally incorporated in the four CAP final regulations. This ratio is 72.2% for EAFRD, 68.6% for Direct Payments, 67.9% for SCMO and 44% for the Horizontal Regulation. Regarding draft report amendments, the power of the Parliament *vis-à-vis* the Council as co-legislator is reflected in adoption rates for EAFRD (80.3%), Direct Payments (65.8%), SCMO (59.7%) and Horizontal Regulation (42.1%). Nevertheless, it is important to note here that high adoption rates of draft report and compromise amendments do not necessarily reflect the high personal legislative

influence of the rapporteurs, although they show the ability of the rapporteurs to build strong political consensus and backing behind these amendments.

Based on the above figures we can draw the conclusion that the Parliament could most effectively defend its position during the trilogue negotiations over EAFRD. In this sense, the EAFRD and Direct Payments Parliament rapporteur (Capoulas Santos) and his negotiating team were the strongest during the trilogue negotiations, followed by Michel Dantin.

When comparing the adopted draft report and compromise amendments to the total number of amendments we can see that 78.6% of the draft report amendments were adopted by COMAGRI, and 77.5% by the Parliament plenary in March 2013; therefore, 46% of the draft report amendments – either solely or in a form of a compromise amendment – were integrated in the final regulations. These figures show that rapporteurs appear to have significant power in internal Parliament decision-making, and that draft report amendments are powerful.

Table 15.11 The success rates of draft report and compromise amendments

Adopted EP amendments compared to total (in %)

| | | COMAGRI-adopted | Plenary-adopted | Final regulation |
|-------------------------|--------------|-----------------|-----------------|------------------|
| Draft report amendments | DP | 42.2 | 37.3 | 24.5 |
| | EAFRD | 83.6 | 83.6 | 67.1 |
| | HR | 96.1 | 93.1 | 39.2 |
| | SCMO | 82.3 | 82.3 | 49.1 |
| | Total | 78.6 | 77.5 | 46 |
| Compromise amendments | DP | 97.4 | 92.1 | 63.2 |
| | EAFRD | 94.7 | 94.7 | 68.4 |
| | HR | 100 | 92.6 | 40.7 |
| | SCMO | 92 | 92 | 62.5 |
| | Total | 93.9 | 92.5 | 61.3 |

Source: Own calculations.

Regarding the draft report amendments, the highest adoption rates within the Parliament can be observed in the case of the Horizontal Regulation and the lowest in the case of the Direct Payment Regulation. Based on this, La Via can be considered the strongest rapporteur within the Parliament.

When analysing the amendments in the final regulations, the Parliament was strongest concerning the EAFRD Regulation (67.1%) followed by the SCMO Regulation (49.1%). Based on this, Capoulas Santos and Michel Dantin can be considered the strongest rapporteurs. However, it should be noted that Capoulas Santos was weakest concerning the Direct Payment Regulation.

Box 15.2 Compromise amendments

If compromise amendments are not extracted, the following key pattern can be observed. For the four CAP regulations, there were 279 compromise amendments, 93.9% of which were adopted by COMAGRI, 92.5% by the Parliament plenary – being part of the Parliament’s negotiation mandate – and 61.3% were adopted after the trilogue negotiations. Regarding the trilogue negotiations, the success rate is 68.4% for the EAFRD, 63.2% for the Direct Payment, 62.5% for SCMO and 40.7% for the Horizontal Regulation. These adoption rates are the highest compared to any kind of amendment categories. As almost two-thirds of the compromise amendments can be found in the final CAP regulations, we can conclude that rapporteurs were powerful as they managed to formulate compromise amendments that have strong political support behind them.

It shall be also noted that in the Parliament plenary, 63.9% of the draft report amendments were adopted in a compromise amendment form (352 out of 551 amendments). This ratio is even higher – 75.5% (247 out of 327) – when the draft report amendments are analysed in the final regulations. It means that draft report amendments had a higher chance of being adopted in any stage of the decision-making – plenary, final regulation – in a compromise amendment form. Therefore, it might be supposed that rapporteurs deliberately packed a high number of their ‘draft report’ amendments in a compromise amendment form to give them a greater chance of being adopted.

4.3 The relationship between the Parliament plenary and COMAGRI

In this section we analyse how much the Parliament plenary was able to influence the final policy outcome and how much the Parliament plenary wanted to or could the change the position taken by COMAGRI. Table 15.12 contains the success rates of amendments in the Parliament plenary-COMAGRI relationship. Taking into account the total number of amendments tabled to all four CAP regulations, 96.4% of COMAGRI-adopted amendments were supported by the Parliament plenary. This figure is 89.2% for the Direct Payment Regulation, 99.8% for the SCMO, 98% for EAFRD, and 90.5% for the Horizontal Regulation.

As for the total number of 'draft report' amendments, the Parliament plenary adopted 98.6% of those adopted by COMAGRI. Regarding open amendments, the Parliament plenary adopted 94.8% of those amendments that were previously adopted by COMAGRI. Concerning compromise amendments, the Parliament plenary adopted 98.5% of those adopted by COMAGRI.¹ As for the amendments tabled by the opinion-giving committees, the Parliament plenary adopted 98.2% of those adopted previously by COMAGRI.

There were 334 amendments tabled to the Parliament plenary session, 47.9% of which were proposed to the SCMO Regulation, 29.9% to the Direct Payment Regulation, 12.3% to the EAFRD and 9.9% to the Horizontal Regulation. The Parliament plenary adopted 6.9% of all plenary amendments. In the final regulations, 3% of all plenary amendments can be found.

¹ For these figures, Compromise amendments are not extracted.

Table 15.12 Plenary to COMAGRI success rates by amendment type and CAP regulation

EP plenary-adopted amendments compared to COMAGRI-adopted (in %)

| Amendment type | Regulations | Consultation procedure 2007-13 | 2013 CAP reform |
|-------------------------|--------------|--------------------------------|-----------------|
| Draft report amendments | DP | 95.7 | 88.4 |
| | EAFRD | 100 | 100 |
| | HR | 100 | 96.9 |
| | SCMO | 100 | 100 |
| | Total | 97.2 | 98.6 |
| Open amendments | DP | 96.6 | 88.2 |
| | EAFRD | 98.3 | 97.8 |
| | HR | 100 | 86.3 |
| | SCMO | 100 | 99.6 |
| | Total | 97.5 | 94.8 |
| Compromise amendments* | DP | 100 | 94.6 |
| | EAFRD | 100 | 100 |
| | HR | n/a | 92.6 |
| | SCMO | n/a | 100 |
| | Total | 100 | 98.5 |
| OGC amendments | DP | 42.9 | 100 |
| | EAFRD | 94.7 | 96.7 |
| | HR | 100 | 100 |
| | SCMO | n/a | 100 |
| | Total | 81.5 | 98.2 |
| Total | DP | 95 | 89.2 |
| | EAFRD | 98.1 | 98 |
| | HR | 100 | 90.5 |
| | SCMO | 100 | 99.8 |
| | Total | 96.6 | 96.4 |

Source: Own calculations.

*All types of amendments are calculated with the extraction of the compromise amendments. Success rates of compromise amendments are calculated based on their original figures (non-extracted).

Table 15.13 The success rates of plenary amendments by CAP regulation

| Regulation | Consultation procedure 2007-13 | | | 2013 CAP reform | | |
|--------------|--|----------------------------|----------------------------|--|----------------------------|----------------------------|
| | Number of plenary amend- ments | Plenary- adopted (%) | Final regulation (%) | Number of plenary amend- ments | Plenary- adopted (%) | Final regulation (%) |
| DP | 53 | 28.3 | 3.8 | 100 | 4 | 1 |
| EAFRD | 3 | 66.7 | 0 | 41 | 22 | 9.8 |
| HR | 0 | 0 | 0 | 33 | 21.2 | 15.2 |
| SCMO | 0 | 0 | 0 | 160 | 1.9 | 0 |
| Total | 56 | 30.4 | 3.6 | 334 | 6.9 | 3 |

Source: Own calculations.

In this section we can draw three conclusions. First, the Parliament plenary largely adopted the COMAGRI position. Only a very few number of COMAGRI-adopted amendments have been turned down by the Parliament plenary. It appears that the policy direction was set by COMAGRI and not by the Parliament plenary. Second, the success rates of Parliament plenary amendments are very low. It seems to indicate that the Parliament plenary does not greatly influence the Parliament's policy direction. And third, there is not a real difference between the co-decision and the consultation procedures: first, under both legislative procedures the Parliament plenary overwhelmingly adopts the COMAGRI position, and second, the success rates of Parliament plenary amendments are very low.

4.4 The role of opinion-giving committees

There were five opinion giving committees (OGC) tabling amendments to the four CAP regulations: BUDG, CONT, DEVE, ENVI and REGI. OGCs tabled 533 amendments to the CAP regulation, which is 6.2% of the total number of amendments.

Regarding the total number of amendments tabled by OGCs, the calculations show that 10.5% were adopted by COMAGRI and 10.3% by the Parliament plenary, while 4.3% of the OGC amendments were adopted after the trilogue negotiations and therefore built into the final regulations.

Table 15.14 The numbers and success rates of OGC amendments

| EP committee | Number and share of amendments | | Success rates - compared to the total | | | Success rates |
|--------------|--------------------------------|------------|---------------------------------------|---------------------|----------------------|----------------------|
| | Total number | Share (%) | COMAGRI-adopted (%) | Plenary-adopted (%) | Final regulation (%) | Final to plenary (%) |
| BUDG | 47 | 8.8 | 2.1 | 2.1 | 2.1 | 100 |
| CONT | 137 | 25.7 | 11.7 | 11.7 | 5.8 | 50 |
| DEVE | 38 | 7.1 | 21.1 | 21.1 | 13.2 | 62.5 |
| ENVI | 179 | 33.6 | 7.3 | 6.7 | 3.4 | 50 |
| REGI | 132 | 24.8 | 13.6 | 13.6 | 2.3 | 16.7 |
| Total | 533 | 100 | 10.5 | 10.3 | 4.3 | 41.8 |

Source: Own calculations.

OGCs had the highest influence on the Horizontal Regulation with an amendment success rate of 8.3% in the final regulation, followed by EAFRD (5.3%). Broken down by OGC, we can see that the BUDG committee had the greatest impact – highest adoption rate of amendments – on the EAFRD Regulation (4.4%). CONT and REGI had the highest level of influence on the Horizontal Regulation, with 16.2% and 3.1% of their amendments in the final regulation, respectively. DEVE and ENVI were the most influential in the EAFRD Regulation, with 38.5% and 4.1% adoption rates, respectively.

We can draw four conclusions regarding the role and influence of OGCs in the 2013 CAP reform. First, the most active OGC was ENVI, tabling 33.6% of the total number of OGC amendments. Second, OGCs in general had minimal influence on the final CAP policy outcome: slightly more than 4% of the OGC amendments were incorporated in the final CAP regulations. Third, DEVE was the most successful OGC, as 13.2% of its amendments can be found in the final CAP regulations.² Finally, OGCs

² These results should be treated with caution, as 76% of them were amendments which had a minor connection to the most sensitive CAP policy issues. These amendments mostly contained references to developing or

influenced the CAP policy outcome in the Horizontal and EAFRD Regulations the most, but had a very minor influence on the Direct Payment and SCMO Regulations.

5. Conclusions

We investigated the role of the Parliament in the legislative procedure after the introduction of the co-decision procedure by using the amendment analysis of the CAP reform under two subsequent periods. Unlike previous research, ours provided an in-depth analysis of CAP amendments with two novelties. First, the categorisation of Parliament amendments by type, and second, analysing the adoption of Parliament amendments in each of the three stages of the legislative process.

The main conclusion of our analysis is that in the 2013 CAP reform, almost 60% of Parliament amendments adopted by the Parliament plenary were built into the final CAP regulations, compared to less than 30% under the consultation procedure. These results confirm the findings by Corbett et al. (1995) and Tsebelis et al. (2001) that adoption rates of Parliament amendments are higher under the co-decision procedure.

Our results also show that agricultural policy amendments in the four CAP regulations have been adopted by the Council at an above-average rate (51.2%). These results are in line with the findings of Crombez & Swinnen (2011) on the CAP reform that the Parliament gains legislative influence in the move from consultation to co-decision procedure. Our results also support the conclusions of Roederer-Rynning et al. (2012) that the Treaty of Lisbon increased the influence of the Parliament in legislative terms in the CAP.

In the Parliament-Council relationship, with adoption rates of Parliament amendments between 50% and 60%, we can conclude that the Parliament appears to become a real co-legislator with the Council, i.e. if one player in a two-player decision-making process manages to make more than 50% of its position adopted by the other, it can be fairly considered to be a decision-maker on equal footing. In the 2013 CAP reform, more than 50% of the agricultural

third countries, development cooperation or agreements in light of the CAP reform.

policy amendments and the CAP reform amendments in the Parliament negotiation mandate were incorporated in the final regulations, which appears to make the Parliament an equal partner with the Council during the trilogue negotiations. In general, this result reinforces the position of Crombez (1997) and Tsebelis & Garrett (2001) that the Parliament became a real co-legislator with the Council after the introduction of the co-decision procedure. These high adoption rates of Parliament amendments in the final regulation also confirm the findings of Steunenberg (1998), namely that the final political outcome is closer to the Parliament's position under co-decision.

The adoption rates of Parliament amendments by type reveal our main conclusion: the Parliament appears to act most powerfully *vis-à-vis* the Council regarding compromise amendments (66.3% success rate). The adoption rates of compromise amendments are the highest compared to any kind of amendment categories. The high success rates of compromise as well as draft report amendments highlight the key role of rapporteurs, primarily in gaining strong political support behind these amendments.

Regarding the COMAGRI-Parliament plenary relationship and the role of the plenary amendments, we see that the Parliament plenary predominantly adopted the COMAGRI position. Only a very few number of COMAGRI-adopted amendments were turned down by the Parliament plenary, while a very few Parliament plenary amendments were adopted. It means that the policy direction is set by COMAGRI and not by the Parliament plenary. This reinforces the conclusion by Neuhold (2001) that the Parliament committees are the backbone of the Parliament decision-making procedure. Our findings also support the findings of Yordanova (2010), namely that "when legislative acts are adopted in the Parliament plenary...they are largely based on the committee reports".

Finally, we have shown that the role of OGCs in the 2013 CAP reform is very limited. OGC amendments had the lowest level of adoption (41.8%) in the 2013 CAP reform.

This research goes beyond existing literature, by categorising the Parliament amendments and analysing the adoption rates of amendments in each of the three stages of the legislative process. There are conflicting views among scholars of how much the

adoption rates of Parliament amendments could be used for measuring the legislative influence of the Parliament. This research aims to contribute to this debate via a more detailed analysis of Parliament amendments.

Nevertheless, it should be noted that without the analysis of the content of the amendments, we need to be wary of drawing strong conclusions regarding the increase of the legislative power of the Parliament. The authors share the view that the Parliament managed to increase its legislative influence under the co-decision procedure – see Table 15.1 and Roederer-Rynning et al. (2012) – and the amendment analysis presented in this chapter appears to underpin it in the case of the CAP.

Future research should focus on analysing the content of amendments and weighting them regarding their importance in order to provide a more in-depth analysis of the change of the legislative influence of the Parliament after the extension of the ordinary legislative procedure to the CAP. Also, in order to know more about the legislative power of the Parliament, future research should place more emphasis on the Parliament-Council relationship in the legislative process, by analysing the factors influencing the adoption of the Parliament's policy position – Parliament amendments – during the trilogue negotiations.

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16. CO-DECISION AND THE CAP: AN UNFINISHED STORY – THE ROLE OF THE EUROPEAN PARLIAMENT IN THE 2013 REFORM *LOUISE KNOPS AND MARIA GARRONE*

1. Introduction

A new CAP entered into force in January 2015, as a result of a reform process concluded with a political agreement in 2013. Amongst the political economy factors which have shaped the outcome of this reform, the application of co-decision rules to agriculture certainly stands out as one of the most important. For the first time in the long-standing history of the CAP, and following the coming into force of the Lisbon Treaty in 2009, the European Parliament took part, on equal footing with the Council, in the decision-making of the policy which still represents close to 40% of the EU budget. This change of rules in a so-called ‘resistant-to-change’ policy area inevitably had consequences on the process of the CAP reform itself but also on the content of the new policy architecture. This first CAP reform under co-decision¹ therefore provides an opportunity to look at these consequences, understand the Parliament’s new role in the process and draw lessons for the future. This was precisely the focus of a recent study commissioned by the Parliament itself

¹ This procedure is formally called the Ordinary Legislative Procedure under the Lisbon Treaty, but will be referred to as co-decision throughout this chapter.

(Knops & Swinnen, 2014) of which this chapter provides some key insights and results.

In particular, this chapter explores key dimensions of the new institutional setting that frames CAP reform, while shedding light on the remaining limits to the so-called ‘democratisation of EU agricultural decision-making’, resulting from the participation of directly-elected representatives in the process. These dimensions will be explored in sections 2, 3 and 4. Section 2 provides a brief literature review of studies analysing the impact of institutional change on policy outcomes, with a particular focus on co-decision. Building on the findings of Knops & Swinnen (2014), section 3 looks into the shifts in institutional dynamics which occurred under co-decision, the emerging new inter-institutional working culture and finally the nature and scale of the Parliament’s legislative influence in its new role as co-legislator. Section 3 will conclude by looking at the overall Parliament performance in this first CAP reform under co-decision. Section 4 considers the complexity of co-decision and the political reality at EU level, as factors limiting the democratisation of agricultural policy. Section 5 concludes by providing a few lessons for the future.

2. Literature review

Several studies have investigated how the extension of co-decision rules has affected the distribution of powers between the three EU institutions. For example, Crombez, Knops & Swinnen (2012) argued that co-decision would bring a clear transfer of institutional powers from the European Commission to the Parliament and the member states inside the Council. Greer & Hind (2012) proposed four scenarios to describe the new inter-institutional balance achieved with co-decision: the conventional scenario, where the Parliament acquires more influence at the expense of the other institutions but is constrained by limited resources; the Council-Parliament axis, where the Council fills the void created by the lack of Parliament resources; the Commission-centric model, where the Commission manages to extend its influence, and finally the status quo scenario, where the changes in decision-making rules produced stasis, a more protracted decision-making process that made reform more difficult by reinforcing the status quo.

Other scholars have tried to understand how the Parliament has exploited this new distribution to increase its influence on legislation (Shackleton, 2000; Corbett et al., 2003; Maurer, 2003). In some policy fields, the Parliament has been part of the decision-making process for 20 years, since the entry into force of the Maastricht Treaty. Burns, Rasmussen & Reh (2013) provide an extensive overview of the lessons that can be drawn from this co-decision experience. In particular, they document how the introduction of co-decision affected the extent to which the EU constitutes a political system, the character of this system and whether it has contributed to increasing its democratic legitimacy.

Until recently, only a few of these studies had investigated concretely how the extension of co-decision has affected the CAP, as no major reform had taken place under this procedure before 2013. In recent years academics have made predictions on how co-decision would impact the CAP and the likelihood of reform.

Crombez & Swinnen (2011) suggested that the extent to which co-decision may influence the outcome of the 2013 CAP reform depends crucially on the structure of relative preferences for reform, e.g. the introduction of co-decision may reduce the prospects for CAP reform if the Parliament is seeking a lower level of reform than the Commission is. Combining a theoretical approach and preliminary empirical observations, Crombez, Knops & Swinnen (2012) tried to predict how the Parliament's increased role would affect policy reform. They concluded that co-decision may lead to gridlock (no policy reform) if the Parliament does not agree with a qualified majority in the Council.²

Roederer-Rynning & Schimmelfennig (2012) argued that co-decision may equally strengthen reform or status quo by giving it the legitimacy of Parliament-backed legislation. Greer & Hind (2012) suggested that co-decision may encourage reform by broadening the agricultural policy agenda. This point was shared by Roederer-Rynning (2003, 2010) who argued that the new rules could bring new people into the Parliament's Committee for Agriculture and Rural Development (COMAGRI), which would affect the power of vested interests and could make the CAP

² Annex of this chapter provides a full picture of the co-decision process, step by step.

accountable to a wider constituency. However she, and others such as Swinnen & Knops (2012), also suggested that co-decision might slow the pace of reform by placing new technical and political constraints on the Commission's right of initiative. Greer (2013) concludes that the 2013 CAP reform, rather than introducing new ideas into the policy, actually confirms the highly resistant-to-change nature of the CAP.

Another perspective on the matter was taken by Cunha & Swinbank (2011), who made interesting predictions on the way the internal functioning of the Parliament, in particular the relationship between COMAGRI and the plenary session, may affect the Parliament's influence in the process. This perspective was broadly shared by Roederer-Rynning (2014), who focused on the Parliament's internal dynamics to describe and analyse its influence on CAP reform.

Finally, based on these various insights, Knops & Swinnen (2014) made a first attempt at analysing the impact of co-decision on the 2013 CAP reform and verifying some of the predictions made in years prior to the reform. Based on a series of interviews with a selection of key actors of the reform³ and the comprehensive amendment analysis of Fertó & Kovacs (2014), they analyse how the change of rules influenced the Parliament's internal decision-making, how it impacted the negotiations between the three institutions and how successful the Parliament was in fulfilling its role as co-legislator. The rest of this chapter builds on a few key findings of this study, while exploring some remaining issues.

³ For the purpose of the study a large number of key actors (34 in total) directly and indirectly involved in the preparation and negotiations of the 2013 CAP reform were interviewed between 12 February and 2 April 2014. Nineteen experts were from the Parliament, accounting for 56% of the sample, and 15 from outside the Parliament (44% of total interviewees), coming from the Commission (7), Council (4) and civil society (4).

3. The first CAP reform under co-decision: inter-institutional dynamics and legislative influence

Many lessons can be drawn from the 2013 CAP reform. Given the length constraints imposed by this chapter, we select only four and address them in the rest of this section.

First, one recurrent topic in discussions on the impact of co-decision is the new inter-institutional balance struck by the Parliament, Commission and Council, as a result of the new procedure. In this chapter, we take the analysis one step further by looking at where, i.e. in whose hands, the new legislative competences actually lie.

Second, given the new empirical evidence provided by the 2013 CAP reform, we look at the extent to which the three institutions adapted their working culture to the new political and institutional reality.

Third, within the new inter-institutional context, the ultimate objective of co-decision remains allowing the Parliament to have a greater say in the nature and direction of the policy. To what extent has this objective been achieved in the 2013 CAP reform? And to what extent was this influence 'reformist' or pro-status quo? Here, we take a closer look at the scale and nature of the Parliament's legislative influence.

Finally, this section concludes with an assessment of the Parliament's performance in this first CAP reform under co-decision.

3.1 A new inter-institutional balance: dispersion or concentration of competences?

The new inter-institutional balance achieved under co-decision is discussed in earlier work reviewed in section 2 of this chapter. The overall consensus seems to be that, while the Parliament is the overall 'winner' in the situation (since it enjoys legislative competences it never did before), several constraints have offset its newly acquired influence as co-legislator, e.g. an in-house resource deficiency compared to the other institutions. In this sense, they confirm earlier empirical observations which suggested that, in the

short term, the Parliament may not reap all the benefits of the formal increase of legislative influence.

However interesting this finding may be, it does not identify exactly who, within and across the institutions, has benefitted or lost out from the new inter-institutional setting.

At first sight, it would be legitimate to think that co-decision dispersed the EU legislative competences on agricultural policy, given the new participation of 751 members of the Parliament (MEPs) in amending and deciding the CAP's future. This is undeniably one side of the story: there are more actors involved in the reform today than there were before.

However, a closer look at the Parliament's functioning - in isolation but also with regards to the two other institutions - indicates that a concentration of competences and influence has also been underway simultaneously to the relative dispersion induced by co-decision. In fact, in what follows, we show that a three-tier concentration can be observed under the new procedure.

The first level of concentration takes place within the Parliament. Indeed, the idea that all 751 MEPs (actively) participate in the CAP's future design is not accurate. Despite the final vote of all MEPs on a common Parliament position, the real decisions are made inside COMAGRI by its 44 members. As already pointed out by Westlake (1994), Parliament committees feature prominently in discussions of Parliament influence and have been described as 'the legislative backbone' of the Parliament. They perform the bulk of the Parliament's legislative work, including debating legislative proposals, assessing policy options and orientations, and drafting the Parliament's position. Consequently, the Parliament's legislative influence rests in large part on the ability of its committees to deliver clear legislative positions (Roederer-Rynning, 2014).

The delegation of the bulk of the legislative work to specialised committees is no different than the functioning of national parliaments but is worth underlining when analysing precisely where the real decision-making lies under co-decision. In the case of the 2013 CAP reform, the Parliament's share of influence and decision-making was clearly in the hands of COMAGRI

members, in particular the rapporteurs and shadow rapporteurs⁴ in charge of defining the Parliament's official position on the CAP reform package and defending it *vis-à-vis* the other institutions (see Table 16.1).

Table 16.1 *Rapporteurs and shadow rapporteurs for the 'CAP after 2013' legislative package*

| | Direct payments | CMO | Rural development | Horizontal Regulation |
|--------------------|--------------------------------------|---------------------------|--------------------------------------|----------------------------------|
| Rapporteur | Luis Manuel Capoulas Santos (PT/S&D) | Michel Dantin (FR/EPP) | Luis Manuel Capoulas Santos (PT/S&D) | Giovanni La Via (IT/EPP) |
| Shadow rapporteurs | Mairead McGuinness (EPP) | Iratxe García Pérez (S&D) | Elisabeth Köstinger (EPP) | Michał Olejniczak Wojciech (S&D) |
| | George Lyon (ALDE) | Britta Reimers (ALDE) | Marit Paulsen (ALDE) | George Lyon (ALDE) |
| | Martin Häusling (Greens/EFA) | José Bové (Greens/EFA) | Alyn Smith (Greens/EFA) | Bas Eickhout (Greens/EFA) |
| | Janusz Wojciechowski (ECR) | James Nicholson (ECR) | James Nicholson (ECR) | Julie Girling (ECR) |
| | Patrick Le Hyaric (GUE/NGL) | Alfreds Rubiks (GUE/NGL) | Patrick Le Hyaric (GUE/NGL) | Alfreds Rubiks (GUE/NGL) |
| | John Stuart Agnew (EFD) | Giancarlo Scottà (EFD) | Giancarlo Scottà (EFD) | Giancarlo Scottà (EFD) |

⁴ They are the MEPs who are in charge of presenting the first draft of a future Parliament position and leading the internal negotiations to bring the Parliament to a joint position. The shadow rapporteurs are the lead MEPs of the other political groups (other than the political group of the rapporteur) who are in charge of following the designated file. Together, the rapporteurs and shadow rapporteurs form the Parliament negotiating team, in charge of negotiating a political deal with the Commission and the Council.

From 751, we therefore go down to 21 MEPs (see Table 16.1) who engaged the Parliament's responsibility on the redesign of the CAP. This concentration was further enhanced in the case of the 2013 reform by the joint rapporteurship of two crucial reports (Direct Payments and Rural Development) in the hands of one single MEP, L.M. Capoulas Santos. There are diverging views on this specific aspect of the CAP reform report allocation.⁵ However, whether this was positive or negative for the Parliament's involvement as a whole is not really the question; the interesting point is that there was a large concentration of legislative power in the hands of one single rapporteur, in charge of two of the most fundamental pieces of the reform package. Box 16.1 illustrates how much more influence lies in the hands of the rapporteurs compared to the other COMAGRI members (Fertó & Kovacs, 2014).

The second concentration of influence which took place under the 2013 CAP reform relates to the indispensable role of the Commission, both as facilitator to a political agreement between the Parliament and the Council, and as crucial source of resources and expertise, in particular to the Parliament. Given the relative asymmetry in the levels of in-house technical resources to deal with the complexity and scale of the CAP reform package, the Parliament partly relied on external sources of expertise (amongst which the Commission) to fulfil its role as co-legislator. Whilst before the reform, many scholars, such as Crombez, Knops & Swinnen (2012), would have expected to see the Commission role decrease with co-decision, the Parliament's resource dependency actually strengthened the Commission position.

⁵ Some argued that two reports were too much to handle for one rapporteur, not least because of physical limitations and the pressure imposed by an intense reform calendar. Others emphasised that having an overview of the issues relating to both direct payments and rural development ensured more consistencies between these two files, which are interdependent both in financial and political terms (Knops & Swinnen, 2014).

Box 16.1 The draft reports in figures

Given that the rapporteurs are in charge of drafting the first amendments to the Commission legislative proposals, they inevitably have an upper hand in orienting the Parliament's position on a given policy package.

In the 2013 CAP reform package, the rapporteurs introduced draft reports to amend the Commission legislative proposals on the four CAP reform basic regulations. These took the form of 711 amendments – including amendments tabled to the recitals – which represents 8.3% of the total number of amendments.

Broken down file by file, 102 draft report amendments were tabled to the Direct Payment Regulation, 73 to the EAFRD, 434 to the CMO and 102 to the Horizontal Regulation. In total, 78.6% of the draft report amendments were adopted by COMAGRI and 77.5% by the Parliament plenary in March 2013; they were therefore a part of the Parliament negotiation mandates. Ultimately, 46% of the draft report amendments – either solely or in the form of a compromise amendment – were incorporated into the final regulations.

Source: The results of the amendment analysis undertaken by Fertó & Kovacs (2014).

Furthermore, although the Commission may have lost ground *vis-à-vis* the two other institutions in the negotiations themselves (the most successful winning coalitions being the Parliament and Council together, without the Commission (Fertó & Kovacs 2014)), the Commission retains a crucial facilitator role, not the least because of its unique ability and expertise to draft alternative proposals in the negotiations and technical legislative acts in the last phase of the process, i.e. delegated and implementing acts.⁶

⁶ The implementation of the Lisbon Treaty also had an impact beyond the negotiations on the CAP reform basic acts, by making the distinction between delegated and implementing acts. With both, the legislator delegates to the Commission the power to adopt acts amending non-essential elements of a legislative act. For example, delegated or implementing acts may specify certain technical details, or they may consist of a subsequent amendment to certain elements of a legislative act. The legislator can therefore concentrate on policy direction and objectives

Finally, a third level of concentration occurred within the Council. Whereas in previous rounds, each member states had a seat at the negotiation table, they are now represented by one single entity – the Presidency – mandated by the Council to negotiate with the Parliament, in view of reaching a political agreement. Although the Presidency cannot deviate from the negotiating mandate agreed upon by all members of the Council, once inside the trilogue room, it is the Presidency alone that defends this mandate against the Parliament. This is an evolution that large countries, such as Germany, had a hard time accepting, especially when the Presidency takes such a proactive role, as the Irish team did to finalise the 2013 reform.

3.2 *A new working culture?*

With co-decision, the new inter-institutional balance discussed above needed to be materialised in practice, via a new working culture between the three institutions. We discuss in what follows the extent to which this has been the case.

In the context of the 2013 CAP reform, the working culture was naturally biased from the start towards the already well-established working relationship of the Commission and the Council, which have been reforming the CAP for the past 50 years. Crombez, Knops & Swinnen (2012) described this institutional setting as an “executive bias”. Indeed, it can be argued that, under co-decision rules, there is a bias in favour of the executive branch of the EU decision-making apparatus, since legislation is negotiated by: a) a first chamber composed of national executives (the Council) and b) an under-resourced second chamber (Parliament) relying on the EU executive resources (the Commission’s).

without entering into overly technical debates. However, it is also acknowledged that delegation is sometimes “a case of entrusting politically delicate tasks to the executive” (European Parliament, 2008). There are, however, fundamental differences between delegated and implementing acts. The Parliament may reject delegated acts (but it cannot amend them). On the contrary, concerning implementing acts, the European Parliament is excluded from their adoption. Therefore, the choice between delegated and implementing acts represents a crucial decision (Knops & Swinnen, 2014).

In terms of working practices, two sides of this “executive bias” were at play in the 2013 CAP reform.

Firstly, it is very easy to understand how two institutions (Commission and Council), who have been working closely together for so many years, have developed a distinct way of interacting, which may be disrupted by the entry of a new actor (the Parliament). Information exchange and mutual understanding, at the formal and informal level, work better between the first two than with the third player.

Secondly, looking at the nature of each institution, it is also quite clear that the inherently political character of the Parliament contrasts with the administrative and executive nature of both the Commission and the Council. Here again, it would be legitimate to expect that the two ‘administrative’ institutions have more in common between them, than with the political one. This ‘political’ isolation of the Parliament was particularly clear and problematic during the trilogue negotiations, where all negotiators did not enjoy the same level of decision-making powers. In particular, whilst the Parliament negotiator (*rapporteur*) is able to take clear political decisions (without needing to refer to a higher instance), the negotiating civil servants on the other side of the table (from the Council and the Commission) sometimes have to revert back to a higher political level for approval, since neither the ministers nor the commissioner themselves take part in the trilogues. This was certainly not favourable to the emergence of a new and balanced working culture between the three institutions.

Nevertheless, despite the relatively unfavourable starting point described above, the Council, the Commission and the Parliament managed to adapt (to some extent) their working practices to the new setting, at least well enough to reach a final agreement.

In their study, Knops & Swinnen (2014) reveal that there are different assessments and descriptions of how successful this adaptation applied in practice. These assessments naturally depend on the institutional point of view; each institution involved in the process tends to overrate its own performance and willingness to adapt, while underestimating the others’. Some actors in the Parliament may feel that inter-institutional communication was not optimal, in particular in terms of accessing important pieces of

expertise held by the Commission. Actors in the Commission, on the other hand, may argue that the Parliament was not proactively seeking contact or information and was therefore lagging behind on certain issues. From the Parliament's point view, some members of the Council simply did not accept the new setting, while this was obviously not the viewed shared by the Council itself, especially when led by the Irish presidency.⁷ One area where the working culture was almost unanimously described as unsatisfactory was the episode of CAP reform delegated acts.⁸

Finally, there seems to be a consensus across the institutions that: a) the informal working culture between the technical teams of each institution was working effectively and b) the Irish presidency made a conscious effort to adapt its strategy to co-decision, by proactively engaging with the Parliament even before the negotiations started. Both elements are recognised to have played a crucial role in securing a political deal in June 2013 and should therefore be considered as key elements in the emerging working culture between the three institutions.

3.3 *A status quo influence?*

A matter which triggered a lot of discussion prior and in the aftermath the reform was the nature and scale of the Parliament's legislative influence on the policy content and architecture. This first reform under co-decision provided an opportunity to test some previous empirical predictions and a few additional observations.

Over its history, the CAP has often been criticised for its resistance to change (Kay, 2003) and its tendency to favour farm interests over other interest groups. Farm unions have traditionally

⁷ The Irish presidency is said to have been very sensitive to the Parliament's involvement in the reform (Knops & Swinnen, 2014).

⁸ This episode revealed a lack of trust on both sides (the Commission and the Parliament), and a lack of understanding of the Commission's and Parliament's respective roles in this final phase of the process. The Parliament thought the Commission was going beyond the political agreement in the content of these acts, whilst on the Commission side some thought that the Parliament was not taking the process seriously enough or dedicating the necessary resources (Knops & Swinnen, 2014).

been known to fight for status quo positions in successive reform rounds.

As detailed in section 2, many observers and scholars attempted to make predictions before the 2013 CAP reform on the nature of the Parliament's legislative influence. Some predicted that the Parliament would reduce the opportunity for reform (by confirming the status quo bias of this policy field), while others saw in the Parliament a new force for change. The latter prediction was backed up by the idea that the increase in legislative influence for the Parliament would attract non-farm-related members to COMAGRI, thereby broadening the policy agenda of the committee and moving the policy away from its traditional status quo bias. The discussion on the COMAGRI membership is therefore crucial to understanding the nature and scale of the Parliament's legislative influence, given that it is the COMAGRI members who have shaped the Parliament position and negotiation strategy in the process.

On this particular aspect, Crombez, Knops & Swinnen (2012) already anticipated that COMAGRI was unlikely to push for more reform, given that its composition had remained largely dominated by farm-related members. They argued that "if traditional (pro-status quo) agricultural interests find an echo in a more powerful COMAGRI, potential CAP reforms may become more difficult under co-decision". This prediction was largely confirmed by Roederer-Rynning (2014), who describes the COMAGRI membership under the Seventh Legislature as mainly "farm-connected". She also finds that two political groups - the EPP and ECR, which are traditionally perceived to be closer to farm constituencies and interests - are over-represented compared to their share in the Parliament plenary (respectively 38.6% and 9.1% compared to 35.7% and 7.5% in the plenary).

The interviews conducted in Knops & Swinnen (2014) also go in the same direction: they reveal no evidence that the COMAGRI membership has changed as a result of co-decision, which means that the prediction that the increase of influence would attract non-farm-related members was wrong.⁹ This almost unchanged

⁹ In fact, this does not come as a surprise. Firstly, there is a natural tendency for MEPs with a specific technical or professional background to enter the corresponding committees. Indeed, given the growing empowerment of

membership in COMAGRI had implications for the *nature* of the Parliament's legislative influence, which resulted in an overall resistant-to-change position on CAP reform. Indeed, the Parliament – and COMAGRI in particular – appears to have pushed for less reform than the Commission: 56% of respondents believed that the increase of legislative power in COMAGRI moved the CAP further away from reform (and closer to the status quo) and 44% believed that it enabled new values and new ideas to be reflected in the new CAP (see Table 16.2).

Table 16.2 Impact of co-decision on policy content and the likelihood of reform

| Description of the CAP reform process (Response rate = 62%) | Percentage of respondents |
|--|---------------------------|
| A. The increase of power in COMAGRI has moved the CAP further away from reform (and closer to policy status quo) | 56% |
| B. By giving more power to COMAGRI, new values and new ideas were represented and reflected in a new CAP | 44% |

Source: Knops & Swinnen (2014).

This resistance to change was particularly striking in the case of the greening component, if change is understood as the reform options proposed by the Commission. The influence of the Parliament on the greening part of the reform is thoroughly documented in Hart (2014).

the Parliament in specialised and technical legislation, it is logical to expect MEPs with a farming background to represent a growing part of the COMAGRI membership (Roederer-Rynning, 2014). Secondly, the technicality of the files handled by the committee may act as a disincentive for MEPs with no farming background. Finally, it could also be argued that, paradoxically, the increase of power did not encourage members from outside the farming community to join the committee: with legislative power come responsibility, accountability and increased scrutiny by the public, all of which could be costly in electoral terms (Knops & Swinnen, 2014).

Box 16.2 The nature of the Parliament's influence from a comparative perspective

The following concrete examples were alluded to in the interviews conducted by Knops & Swinnen (2014) to illustrate the nature or the specificity of the Parliament's influence:

On the CMO: Some recognised the important influence of the Parliament on this file, underlining the number of 'new' ideas introduced by the Parliament, in particular in terms of collective organisations of producers and other market intervention instruments. Others, however, described the influence of the Parliament on this file as the most conservative, "reverting to instruments of the past". Notably, the Parliament managed to postpone the end of the sugar quotas until 2017.

On Direct Payments: The Parliament's position was described as being "concerned by the practicability and economic relevance of the regulation" or as being a "watering down" influence on greening (although not all shared this view), or even a renationalising influence, with regard to the increased flexibility given to member states for implementation. The Young Farmers' Scheme was often cited as an area where the Parliament's influence was decisive: it managed to impose the mandatory character of the scheme in the face of opposition from the Council, which wanted to keep it voluntary. The Parliament also managed to increase the number of eligible hectares from 25 to 90. As regards the Small Farmers' Scheme, the Parliament also had a notable influence: the Council wanted to cap the lump sum at €1,000, while the Parliament proposed €1,500. The final outcome ended up being a compromise between the two: €1,250.

On Rural Development: The Parliament's influence was described as consensual but decisive with regard to the elimination of double funding and the ring-fencing of agri-environmental spending.

On the Horizontal Regulation: The Parliament supported the efforts of the Commission on strengthening the accountability of the paying agencies. The Parliament also supported the Commission on a number of other issues aimed at strengthening the control systems (certification, possibility of suspending monthly payments, etc.). Finally, the Parliament added some elements to the Farm Advisory System, e.g. competitiveness, entrepreneurship, and to cross-compliance, e.g. early warning system.

Source: Knops & Swinnen (2014).

Fertő & Kovacs (2014) also show the rather status quo-oriented position of the Parliament when compared to the other institutions. They provide an extensive picture of the differences between the institutional positions on some of the most important issues of the CAP reform package (see Box 16.2 and the Appendix). However, despite this general consensus on the *nature* of the Parliament's legislative influence, this finding should be treated with caution: such influence varied on a case-by-case basis and there were instances when the Parliament introduced new elements of reform, compared to the initial proposals of the Commission.

Trying to draw definite conclusions on the nature of the Parliament's position and influence in the CAP reform process remains a highly delicate matter. Depending on one's viewpoint and preferences, the Parliament's position will be reformist or status quo-oriented.

What is easier to describe, however, is the *scale* or *magnitude* of the Parliament's influence in this reform, as it can be somewhat measured and quantified. In other words, whatever direction in which the Parliament tried to change (or not) the CAP, how much of its own position did it manage to impose in the negotiations? Fertő & Kovacs (2014) extensively document how the Parliament managed to play a pivotal role in amending the proposals and being part of the winning inter-institutional coalitions. In particular, they show that 44% of the total number of Parliament amendments in the negotiation mandate were accepted in the final outcome. They also reveal that the Parliament was more often engaged in winning coalitions than the Council (in 65.6% of cases for the Parliament, compared to 57% for the Council). What these figures show is that, whatever the nature of its influence, the Parliament managed to exert its role as co-legislator.

The results of the interview process carried out by Knops & Swinnen (2014) confirm this view. As Table 16.3 shows, when asked to describe the role of the Parliament *vis-à-vis* the other institutions, almost 80% of respondents argued that they evaluated the Parliament as a 'working Parliament' as opposed to an 'antechamber to the Council' (21%). None of the interviewees replied that the Parliament acted as a rubber-stamp institution endorsing the Commission positions.

Table 16.3 Role of the Parliament in the CAP reform

| Role of the EP in the CAP reform (Response rate = 59%) | Percentage of respondents |
|---|----------------------------------|
| A. A rubber-stamp institution endorsing the Commission positions | 0% |
| B. An antechamber to the Council | 21% |
| C. A working Parliament (able to amend and produce its own legislation) | 79% |

Source: Knops & Swinnen (2014).

3.4 The first CAP reform under co-decision: A success story?

If one takes a very broad perspective by looking only at the ultimate result, it would be legitimate to argue that co-decision worked, since an agreement was reached and a new CAP entered into force in January 2015. For some observers, this may be enough to argue that the Parliament faced up to its responsibilities and fulfilled its co-legislator functions.

In their study, Knops & Swinnen (2014) reveal a relative high average grade given by key actors and observers of the reform to grade the Parliament's performance in its first co-decision experience on CAP: 4.85 on average (on a scale of 1 to 7) (see Table 16.4).

Table 16.4 Overall performance of the Parliament in its first CAP reform co-decision

| Interviewees Grade 1 (lowest) – 7 (highest) (Response rate = 79%) | Average grade |
|--|----------------------|
| Average grade | 4.85 |
| A. Parliament interviewees (response rate = 83%) | 5.20 |
| B. Commission interviewees (response rate = 71%) | 4.70 |
| C. Council interviewees (response rate = 50%) | 5.00 |
| D. Stakeholders/Civil Society (response rate = 100%) | 2.50 |

Source: Knops & Swinnen (2014).

In the same vein, their interview results also reflected a general positive perception of the Parliament's involvement as a co-legislator in the overall CAP reform process. Table 16.5 indicates that more than two-thirds (70%) of interviewees thought that the Parliament's involvement strengthened the accountability mechanisms on the CAP (and its democratic character).¹⁰ The increased transparency of the process¹¹ and the increased public scrutiny over the reform were found to be the main reasons for this.

Table 16.5 Assessing the impact of the Parliament's role as co-legislator

| Overall assessment of the Parliament's involvement as co-legislator (Response rate = 69%) | Percentage of respondents |
|--|----------------------------------|
| A. Strengthened the accountability mechanisms on the CAP | 72.5% |
| B. Raised obstacles to reform | 7.5% |
| C. Made the decision-making more efficient | 5% |
| D. Other | 15% |

Source: Knops and Swinnen (2014).

These findings tend to indicate that, despite the constraints, problems, shortcomings and difficulties encountered during the process, the general appreciation of the Parliament's participation in the process was quite positive and that the Parliament's performance was seen as rather successful.

¹⁰ However, in Knops & Swinnen (2014) it is noted that some interviewees selected this option by default and added a number of reservations and additional comments mostly on how much more accountable the process had really become. A related comment referred to the limitations imposed by the complexity of the reform. Many interviewees expressed concerns about the complexity of the legislation which had been adopted and the related difficulty of organising real scrutiny over it (see next section).

¹¹ As Knops & Swinnen (2014) point out, COMAGRI meetings where the proposals were debated and amended were open to the public; the attention of civil society actors and the public in general increased, and more documents could be circulated on a formal or informal basis. Plenary debates are also web-streamed.

Section 4 below provides a slightly more nuanced and critical appreciation of the Parliament's relative 'success' in the 2013 CAP reform.

4. The limits of co-decision: complexity and political reality

Despite the relative success of this co-decision experience, numerous factors can be identified as having partly offset the formal increase of power enjoyed by the Parliament in the 2013 reform, amongst which the asymmetries in the levels of in-house resources of each institution. In this section, we take a slightly different approach by looking at two factors jeopardising the attainment of co-decision's ultimate objective, i.e. increasing the democratic legitimacy of the CAP. We first look at the issue of legislative complexity before discussing the political reality at play at EU level.

4.1 Democracy at the price of complexity

Many observers and citizens saw the entry of the Parliament into the CAP arena as a sign of democratisation of agricultural policy. It is indeed undeniable that the EU decision-making process has been rendered more 'democratic' with the participation of Europe's directly-elected representatives, compared to a situation where only unelected Commission officials and the ministers of agriculture would decide on the future of the CAP. Co-decision should therefore logically grant greater democratic legitimacy to its policy outcomes, not only because of the direct representativeness of the Parliament's members, but also because of the Parliament's specific role of democratic scrutiny over the other institutions, assigned by the Treaties (TUE Article 14; TFUE Article 223, ff.).

However, this apparent democratisation should also be considered in the light of the practice of co-decision and the related legislative complexity, which can be noticed both on the procedural and legislative front.

Box 16.3 CAP reform under co-decision: A multi-staged and complex process

12 October 2011: The Commission presented a set of legal proposals on the CAP, which served as a starting point for the negotiations with the other institutions.

23-24 January 2013: COMAGRI voted on the four CAP reform regulations.

8 February 2013: The Council reached an agreement on the 2014-20 MFF.

13 March 2013: The Parliament adopted its negotiating mandates on the four CAP reform Basic Regulations.

19 March 2013: The Council adopted its general approach on CAP reform.

25 March 2013: The Council adopted its mandates on the four CAP reform regulations.

11 April 2013: The inter-institutional negotiations started with the opening of the trilogue meetings on the four CAP reform regulations.

27-28 May 2013: An informal Council was held in Dublin as part of the negotiations on the CAP reform package.

26 June 2013: A political agreement on the reform of the CAP was reached between the Commission, the Parliament and the Council, under the Irish presidency.

20 November 2013: The Parliament approved the four Basic Regulations in a plenary vote.

16 December 2013: The Council formally adopted the four Basic Regulations for the reformed CAP as well as the Transition Rules for 2014.

20 December 2013: The four Basic Regulations and the Transition Rules were published in the Official Journal.

11 March 2014: The Commission adopted ten 'Delegated Acts' that clarify technical implementation details of the reform.

7 April 2014: COMAGRI approved the Delegated Acts in its committee meeting of 7 April. The Parliament plenary did not object to these Delegated Acts in its last plenary session of the 2009-14 legislative term (14-17 April 2014). The Council accepted these acts on 14 April 2014.

Sources: European Commission website, www.capreform.eu; Matthews (2014).

Firstly, on the procedural front, Box 16.3 above gives a brief overview of the complex procedure: from the Parliament's internal decision-making to adopt a common position, to the intense negotiations with the Commission and the Council to finalise a political deal and up to the final stage of adopting delegated acts. This procedural complexity reinforces the public's perception of a distant and unaccountable EU political system, difficult to access owing to its numerous facets and channels of communication. Furthermore, the complexity of the co-decision process strengthens the impression of a lack of transparency, in particular during the trilogue negotiations – the decisive stage leading to a political deal – which all take place behind closed doors between the negotiating teams of the Parliament, Council and Commission, respectively. These negotiations are never open to external actors and the exact content of the discussions is not available to the public. This makes appropriate democratic oversight over what the negotiators actually defend during the trilogues virtually impossible.

Secondly, complexity is also apparent on the legislative front. It is especially revealed by the vulnerability of the Parliament on highly complex and technical legislative issues, which only experts – not politicians – can fully comprehend. This raises the question of the limited in-house resources the Parliament relies on to deal with complex legislative content,¹² and the relative incompatibility between the Parliament's political nature and the technical nature of European legislation over which it is supposed to have democratic oversight. As suggested in Knops & Swinnen (2014), this complexity may contribute to a relative 'technocratic drift' in EU decision-making, i.e. a shift of power from the directly-elected members to experts.

These two facets of the complexity linked to co-decision indicate two limits to the relative democratisation of agricultural policy achieved under the new procedure. Indeed, both the public's difficult access to EU decision-making and the MEPs' reliance on

¹² The case of the CMO regulation could be mentioned here, as an example of legislative complexity: the new regulation adopted by the Parliament and the Council is contained in a long and complex document of 232 articles, 184 pages and 19 annexes. To this must be added the second regulation adopted by the Council alone on the CMO issues regulated under Article 43(3) TFUE.

additional and external expertise work against the democratisation aim of co-decision.

4.2 Co-decision in the face of political reality

Co-decision is defined by the European Treaties – ratified and adopted by member states – and grants full legislative competences to the Council of Ministers and the Parliament. However, beyond the legal bases and rules of procedure, there is one factor that still seems to overrule the principles of co-decision: political reality. At EU level, EU heads of state and governments still have the last word, regardless of any Treaty provisions.

This political reality was at play during the 2013 CAP reform process and can easily be demonstrated with two examples. Firstly, on the so-called ‘MFF-related issues’, heads of state stepped in the co-decision process on crucial issues (falling under co-decision), despite not having any mandate to do so. This aspect is thoroughly presented in Matthews’s chapter 7 of this volume. Matthews shows very clearly that, despite rules and procedures, the highest instance of political influence still resides with heads of state and governments, in particular when issues with financial implications are at stake.

A second example of the political reality at play during the 2013 CAP reform is the episode surrounding the ‘Article 43(3) issues’.

Co-decision applies to all CAP-related issues, except for those enumerated in Article 43(3) TFEU: the measures relating to fixing prices, levies, aid and quantitative limitations, and on the fixing and allocation of fishing opportunities are to be legislated separately via a regulation of the Council. Understanding and interpreting the scope of this exception has been a delicate matter. On the one hand, Article 43(3) implies that the acts adopted on this basis are no longer of a legislative nature but an executive one, and as such, must be regarded as a limitation of the Parliament’s legislative powers. On the other hand, the four points listed in Article 43(3) cover many issues regulated by the CMO basic act, including issues at the very core of it, which means that they should, logically, fall under the ordinary legislative procedure (co-decision).

This question naturally came to the fore before the CAP reform negotiations started and triggered an important inter-institutional battle between the Parliament and the Council.

Discussions on the legal basis of the CMO and whether or not Article 43(3) should apply were indeed very tense. The issue therefore remained unresolved throughout the CAP reform process and was left until the very last stages of the negotiations. The Parliament negotiators were faced with a 'take it or leave it' deal and were not in a strong position to block the whole agreement based on these issues only, given the high pressure to close the deal and the Parliament's willingness to show that co-decision on the CAP could work. The Council eventually won the legal battle on these issues and two regulations were adopted: one of the Parliament and the Council, and another of the Council only.

In conclusion, one could argue that, in both the MFF and Article 43(3) episodes, there was an asymmetry of power between the two co-legislators, which is in contradiction to the core principles of co-decision, i.e. the equal importance and involvement of both co-legislators in the process.

5. Conclusions

In this chapter, we provided a few insights on the role and position of the Parliament during the 2013 CAP reform process. We underlined the paradoxical concentration of legislative influence and competences which took place across the institutions and were in the hands of a few specific actors. We discussed the particular role played by COMAGRI members, especially the rapporteurs and shadow rapporteurs. We revealed that, despite the entry into the game of a new actor (the Parliament), the Commission remains in a strong position (not the least because of its expertise), and that the Council is now represented by one single entity during the negotiations (the Presidency), as opposed to enjoying the representation of each individual member state. This sheds light on where the decision-making and influence actually lie under the co-decision setting.

We also commented on the emerging working culture between the three institutions and we made an attempt at describing the Parliament's legislative influence in the reform, both

in terms of nature and scale. A successful working culture will take time to materialise but there are already signs that the institutions are adapting to the new setting.

As regards the *nature* of the Parliament's influence, we confirm some of the anticipated predictions by underlining the rather status quo influence of the Parliament, although we consider this finding with caution and acknowledge the need to look at this dimension on a case-by-case basis. In terms of *scale*, we also suggest that the Parliament had a significant influence on the final outcome; it played a pivotal role in the negotiations and managed to get almost half of its negotiating mandate into the final texts.

Finally, we addressed one final question which had remained so far unanswered: Was this first CAP reform under co-decision a success? One answer which can be given is that, ultimately, co-decision 'worked'; an agreement was reached and a new CAP entered into force. The findings of Knops & Swinnen (2014) also reveal a relative high 'mark' given by actors and observers of the 2013 CAP reform to describe the Parliament's performance.

However, despite these relative indicators of success, numerous limits and areas for improvement remain. We identified two major limits to the current co-decision setting, both in terms of democratisation and materialisation of the Parliament's new decision-making role, namely the legislative complexity induced by co-decision and the political reality at play at EU level.

Furthermore, there are still areas of improvement for the Parliament to become a full co-legislator and for co-decision to work effectively. Some of these include working on the Parliament's in-house resources, which need to be adapted to its new legislative role, but without falling into the trap of increasing the technocratic character of EU decision-making. Improvements should also be made in inter-institutional relationships, especially when it comes to the understanding of each institution's role and ensuring that an optimal working culture emerges. Transparency and communication towards the European public should be increased as a way to compensate for the complexity of the process both on the procedural and legislative front.

To conclude, this first CAP reform under co-decision was only the first episode in what will surely be a whole new page in the history of Europe's agricultural policy. If all stories have a

beginning and an end, the end of this 'CAP and co-decision' story certainly has not been written yet.

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PART V

**CONCLUSIONS
AND THE FUTURE**

17. AN IMPERFECT STORM IN THE POLITICAL ECONOMY OF THE COMMON AGRICULTURAL POLICY

JOHAN SWINNEN

1. Introduction

Previous chapters in this book have identified and analysed the factors that played a role in the negotiations and 2013 decisions that determined the Common Agricultural Policy (CAP) for 2014-20. In this chapter I attempt to integrate these insights into a comprehensive political economy framework to provide explanations and hypotheses for the choices that were made during the CAP decision-making process in 2009-13 (as I explain in chapter 1, the term 'reform' is not a generally accepted description of the policy choices).

The CAP is a complex set of policies and regulations. I focus here on four key aspects of the CAP negotiations: the budget, greening, external convergence, and market regulations.¹ Each of those policy choices, and their implementation, has been described in some detail in other chapters of this book; to avoid repetition I will only refer to these specific chapters and to the Appendix of the book.

My approach is therefore more conceptual than most other chapters in that I focus on a number of broader institutional, economic and political factors that can explain the general direction of the policy choices. The conceptual framework I adopt is a

¹ For the negotiations on capping and degressivity, see Sahrbacher et al. (ch. 11).

combination of theoretical arguments that focus on the impact of political institutional arrangements on the decision-making (such as qualified majority voting (QMV) in the 2003 CAP reform and the co-decision used now, based on e.g. Pokrivcak et al., 2006; Crombez & Swinnen, 2011) and more general political economy theories that attempt to explain how changes in market conditions affect political choices (e.g. Anderson et al., 2013; Swinnen, 1994) and the role played by individuals and specific interest groups.²

Many traditional political economy models of agriculture and food policies focus on three types of agent: producers, consumers and taxpayers (see Gardner, 1987; Swinnen, 1994).³ Such a political economy framework is useful when thinking about the economic impacts and political aspects of agricultural and food policies. However, to analyse specific policy decisions it is useful to extend this framework to include the impact on and influence of other types of agents – such as environmental groups, landowners, etc. and of agenda-setters, such as the European Commission (Commission), and influential political actors, such as the

² A related approach is the framework used by Grant (2008) that clusters the variables involved 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 focuses on the role of the actors involved, such as the Commissioner for Agriculture and Rural Development, the DG for Agriculture and the rest of the Commission, the European Parliament, the member states and other stakeholders. Context refers to contingent factors that were present in one period but not another, creating what political scientists call ‘policy windows’, which can create opportunities for change to be seized by policy entrepreneurs.

³ Policy changes affect producer and consumer welfare and trigger political actions. Because of expenditures on social policies and agricultural/food subsidies, taxpayers have always been an important actor in food policy discussions. In the EU, with the shift from price and trade interventions to direct payments (in the 1990s), most of the support to farmers now comes through budget expenditures. In addition, the financial and economic crisis has had a major impact on taxpayers and member states’ budgets and on their fiscal policy. This affects their willingness to allocate funds to EU policies (such as the CAP and food aid) and to spend on domestic social policies.

Committee for Agricultural (COMAGRI) of the European Parliament (EP) and member states, either directly or through the Agriculture and Fisheries Council of the EU (Agriculture Council).⁴ For example, in recent years landowners have lobbied intensively on EU farm policies as farm subsidies have shifted from price and trade interventions to land-linked subsidies, directly affecting land prices (Swinnen & Vranken, 2009; Ciaian, et al., 2010). Environmental groups have been increasingly vocal in agri-food policy debates (Hart, ch. 10). Several chapters in this book discuss the role played by the Commission, COMAGRI and the Council.

The chapter is organised as follows. To put the recent CAP decision-making in perspective, it might be useful to first present a highly relevant comparative case with a very different reform outcome. I therefore start (in section 2) by summarising the political economy of the 2003 Fischler reforms using a similar political economy framework. This will serve as a reference point for interpreting the recent reform discussions and political choices. Section 3 will then present the main pressures, political actors and decision-making institutions involved in the recent reform discussions.

Subsequently I discuss certain events that had a major impact on the political economy of the CAP negotiations. The first event, discussed in section 4, is eastern enlargement, which brought ten new countries to the CAP negotiation table and influenced the distribution of policy preferences and political weighting.

Another major event was the spike in global agricultural and food prices, in 2007-08 and again in 2010-11. Paradoxically, after decades of EU reform to reduce the CAP's (negative) impact on global agricultural and food prices, the world became concerned once more with the implications of high food prices. Following the price spikes of 2007-08, international organisations, NGOs and numerous experts pointed to the effects of high food prices on hunger and poverty. Their argument was that not only were urban consumers suffering from high food prices, rural households were

⁴ A related approach is by Briones Alonso and Swinnen (2015) and Swinnen (2015) who explicitly use a more disaggregated value chain approach in considering political economy effects and disaggregated policy impacts along the value chain.

hit too. They also argued that poor farmers were not benefiting from these high prices due to the imperfect price transmission of international prices and because many rural households were thought to be net food-buying households – arguments absent from the pre-2008 discussions (Swinnen & Squicciarini 2012).⁵ While the empirical support for these arguments was questionable, they did have a major impact on the policy debate (Guariso et al., 2014; Swinnen, 2011). In sections 5 and 6 we discuss the impact of these price changes on the CAP reform negotiations.

In the final section (section 6) we summarise the key factors and how they influenced (or not) the CAP for 2014-20.

2. A perfect storm in the Fischler CAP reform (2000-03)

In Swinnen (2008a), I argued that institutional, economic and political factors came together around 2002 to create “a perfect storm” that led to the radical Fischler reforms in 2003. Here I summarise how each of these factors played a role and how they reinforced each other to lead to significant reforms.

Crucial elements of the 2003 perfect storm were the changed institutional context of qualified majority voting, large external changes that moved policy preferences in a pro-reform direction, and a pro-reform and influential agenda-setter, the EU Commission (Cunha & Swinbank, 2011; Pokrivcak et al., 2006; Swinnen, 2008b).⁶

⁵ See Swinnen (2011) for a detailed review of this major turnaround in arguments and Swinnen et al., (2011) for a political economy explanation.

⁶ The optimal reform context under QMV, as defined by Pokrivcak et al., (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 that *ceteris paribus*, an external change that alters the political preferences of member states will lead to a demand for policy adjustments. Effective policy adjustments only occur if the change is large enough, because of the ‘status quo bias’. 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. If an external change is sufficiently large, the final outcome will depend on the

2.1 *The pressures for reform*

The main pressures for CAP reforms were trade negotiations (WTO and others), budgetary pressures, rising food safety and environmental concerns, and the forthcoming eastern enlargement. These elements, some traditional and others new, translate into increased pressure for change in the EU. Franz Fischler himself summarised these important developments by stating that “the CAP had lost its legitimacy among the EU public”. In particular, the CAP was increasingly seen as harming EU trade interests, having negative effects on the environment and failing to address the food safety concerns of EU consumers.

These developments compounded calls for radical change to the CAP at a time when ministers of finance and other members of the European Commission were seeking budget cuts or reallocations within the EU budget. These were vital issues for an EU on the verge of eastern enlargement; a process that was expected to greatly increase the CAP budget without CAP reform to contain the costs. The structural funds were also likely to need extra funds, given that new member states had much lower incomes than the EU-15 average.

2.2 *The political actors*

These pressures were reinforced by the Commission pushing for CAP reforms (although not all Commissioners pushed in the same direction). Commission President Romano Prodi and several other commissioners wanted the share of the CAP in the EU budget to be reduced, and substantially so. Trade Commissioner Pascal Lamy wanted reform of the CAP so that the EU could take the initiative into the Doha round and not always be on the defensive. In addition, several crises in the late 1990s enhanced the Commission’s awareness of increasing consumer and environmental concerns

preferences of the Commission, which sets the agenda. Hence, if the Commission has strong pro-reform preferences, it can pick the strongest reform option that is possible within the policy range. This leads to what Pokrivcak and his colleagues (2006) call the ‘pro-reform bias’. Obviously, the opposite can also happen. Note that these arguments no longer apply in the same way after co-decision with the EP has been introduced (see Crombez et al., 2012).

about the EU's agriculture and the food system. Agricultural Commissioner Fischler was moved to use the mid-term review (MTR) of 2003 to propose significant reforms of the CAP. Surprisingly, the food safety and environmental crises of 1999-01 reinforced this agenda. The sense of urgency for a significant rethink of the CAP helped push the general political agenda closer to his personal preferences.

Two enlargement processes influenced decision-making: the previous enlargement of 1995 with respect to EU member state preferences, and the imminent eastern enlargement with its likely altered future preferences and more difficult decision-making. First, the 1995 enlargement with Sweden, Finland and Austria reduced the vote shares of the established players in the EU. Second, anticipation of the eastern enlargement added a sense of urgency to the reform process. With ten east European countries joining, some of which had large agricultural sectors and even larger farm populations, the Commission realised that reform would not be any easier after enlargement.

The 2003 discussions and political tactics also transformed stakeholder involvement and the 'politics as usual' approach of the CAP. Traditionally, the main pressure group involved in the CAP negotiations had been the farm unions, which urged their agriculture ministers and the Commission to obtain as much as the other ministers would allow. The negotiations, however, brought both consumer and environmental groups to the political table in a much stronger way than before. They were an element of Fischler's strategy to secure support for his reforms by environmental organisations and consumer groups. As a result, discussions in the member states were much more balanced than in previous reform efforts, when farm unions dominated the debate.

A potential source of opposition against the reforms, within the Commission, was in itself transformed. Administrative reforms and generational changes helped to overcome 'traditional DG AGRI thinking' among bureaucrats, as many of the old-style DG AGRI officials whose careers developed in the early years of the CAP were succeeded by younger people, such that thinking within DG AGRI was much more open to environmental and economic arguments.

Friends and foes agree that Commissioner Fischler played a crucial role in the reforms. The combination of his experience (a

second-term commissioner with specific experience of the Agenda 2000 reforms), 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 calculated the potential effects of the reforms. 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.

2.3 The political institutions: Putting the votes together

Besides enlargement, the most critical institutional changes were those to 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. Fischler and his team expended much effort in putting together a winning coalition and breaking a blocking minority one.⁷ 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 agriculture ministers in the Council meeting with the heads of state and governments.

⁷ As explained in Pirzio-Biroli (2008) and Swinnen (2008a) 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 French President Chirac and German Chancellor Schröder in opposition to the reforms – despite the fact that Germany had earlier favoured reform. But Fischler used the Iraq alliances to manoeuvre Spain out of the anti-reform group through UK Prime Minister Blair's links to Spanish Prime Minister 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 German votes later).

2.4 *Reforms to 'save the CAP'*

Finally, it is worth emphasising that Fischler and his team saw their reforms not as an instrument to reduce the importance of the EU's agricultural policy, but as a way of saving it. While discussions on the importance of the reforms focus mostly on the 2003 reforms (and to some extent on the Agenda 2000 reforms), Fischler himself saw the achievements of the 2003 reforms as being much more in tandem with the 2002 budgetary agreement. Commission President Prodi and other 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 to reduce the negative effects of the CAP on the environment, on market distortions and on the WTO negotiations, and to enable the CAP to fit within a concept of sustainable rural development, Fischler and his team created a new 'legitimacy' for the CAP and a new support base that would counter the demand for large budget cuts, in effect limiting the cuts planned for the next financial period (up to 2013). Fischler saw this as a major achievement of the reforms. From this perspective, they 'saved the CAP' (and its budget) instead of scrapping it.

3. **Pressures, institutions and agents in the 2009-13 political negotiations**

There were similarities with the 2003 reforms but also significant differences, which affected the outcome of the 2009-13 CAP reform debate and negotiations, and thus the 2014-20 CAP. I will start with the pressures for change.

3.1 *Pressures for change*

There were several politically significant pressures for change (see Table 17.1 for a summary in the final section of this chapter).

3.1.1 *The budget*

Budgetary pressures were important for two reasons. One, there was the formal budgetary review, required as part of the 2005 December Council conclusions. As Swinbank (2015, ch. 14) convincingly explains, the role of Tony Blair and the UK government was crucial in this: "the British Government pressed for a new CAP reform debate, [...], and in the European Council

meeting of December 2005 secured a commitment for the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9'.⁸ While Swinbank goes on to argue that the impact of the UK government on the CAP has been very limited, it is an interesting hypothesis that, if it had not been for Blair and the UK government in 2005, there may not have been the substantial discussion and negotiations about CAP reform that we saw in 2009-13, although there would have been negotiations on the 2014-10 Financial Framework.

The pressure to reduce CAP spending in the 2014-20 MFF was reinforced by global events after 2008. The financial and economic crisis caused major economic, and consequently budgetary, problems for governments in all member states. It put pressure on budgets as tax revenues declined and demands for social spending (including unemployment benefits) increased. Even as the financial and economic crisis constrained government budgets, social expenditure in the EU increased by approximately 7% between 2005 and 2010 (Swinen et al., 2014).⁹

3.1.2 Eastern enlargement and (external) convergence of direct payments.

From the moment of the new member states' (NMS) accession in 2004, there was a strong demand from their side for a more equal distribution of direct payments (DPs) across member states. As Figure 17.1 illustrates, the direct payments differed strongly across member states, and in particular between NMS and old member states (OMS). These differences could be partly justified by differences in incomes and (historical) productivity (as they had been during the accession negotiations) but were also due to the fact that the NMS were not at the table when the key budgetary and DPs decisions were taken in 2002 and 2003. Clearly, a convergence of DPs by reducing the gap between OMS to NMS was a key demand.

⁸ José Manuel Barroso's Bureau of European Policy Advisors (BEPA) responded to this invitation with enthusiasm, and organised a meeting on a new CAP reform in early 2009.

⁹ Not surprisingly, there are large disparities among member states, but spending on social security benefits increased in almost all MS.

3.1.3 Public funds for public goods

A factor that received much attention from both economists and ecologists was the need to link the DPs more closely to ‘environmental’ or ‘public good’ objectives. Ecologists had long argued the need to use the DPs to reduce the negative impact of EU agriculture on climate change and to enhance biodiversity, etc. (see chapters 6, 10 and 20 by Potočnik, Hart and Buckwell, respectively). Economists saw this as the next step in the long-run reform path of farm support: from distortive interventions in the 1970s and 1980s to less distortive payments in the 1990s (after MacSharry) to decoupled payments in the 2000s (after Fischler) to (more) targeted payments in the 2010s, as reflected in the report by Bureau & Mahé (2008) and the statement of a group of “leading agricultural economists” (Anania et al., 2010). These objectives were summarised in the “public funds for public goods” statement.¹⁰

Farm organisations were mostly opposed to these demands, however, as they saw them as additional constraints and as adding to their production costs.

3.1.4 Price changes for food and agricultural commodities

Unlike in 2003, high food prices and volatility weighed heavily in the public debate. After 2007 food prices spiked, food security and volatility became a major issue but the impact on the CAP was complex. Several issues were involved: first, with high prices it was less obvious for farmers to argue that they needed government support. Second, volatility induced demands for regulation markets and prices. Third, high food prices and (the prospect of) food shortages on developing countries shifted the debate on policies to stimulate environmental objectives rather than agricultural production.

3.1.5 International agreements and trade partners: Pressure or constraint?

One of the most important drivers of CAP reforms in the past was pressure from trading partners directly or within international trade

¹⁰ See also arguments made in the chapters by Potoznic (ch. 6) and Hart (ch. 10).

negotiations (Josling, 2008; Moehler, 2008; Swinbank, ch. 8). International trade (negotiations) appears to have been much less an issue this time. Tim Josling argues in chapter 18 that the global trade negotiations, including the ongoing TTIP negotiations between the EU and the USA had little or no impact on the 2013 CAP reform. Alan Swinbank in chapter 10 even asks: "Is the WTO no longer relevant for CAP reform?"

The general perspective appears to be that the WTO was not important since the Doha Development Round (DDR) was stuck, with an uncertain outcome. In any case the expectations were that the 2003 CAP reforms had done enough to address possible DDR outcomes. I take a slightly different perspective here. While I agree that there was much less pressure to reform from the trade (in particular WTO) side than in the past, my hypothesis is that the trade agreements did play an important role in (implicit) counter-pressure for a return to regulations in the aftermath of increased price volatility. In other words, the absence of pressure to reform from the international policy arena may cloud the fact that some of the international trade agreements (such as WTO) may have been an important factor in the background, in particular to prevent a return to market distortions (see also next section).

In summary, there were several forces for change but also several factors that countered these: i) the fiscal pressures and high agricultural prices translated into pressure to reduce farm payments from the budget; ii) there was a clear demand from NMS (and particularly the Baltic states, where payments were lowest) for more equal payments; iii) there was pressure for a return to market interventions and regulation under the arguments to fight against price volatility; iv) the food price spikes in 2008 and 2011 supported the 'productionist' arguments not to impose (environmental) constraints on agricultural production; iv) while trade agreements (WTO) were almost absent from the debate they could still play an important role in constraining a return to market regulations and distortions.

Overall, these pressures and constraints formed a complex mix - not unlike the situation in the early 2000s (2008b), but with different ingredients. However, the 2003 set of complex pressures turned into a significant reform path, with a clear strategic vision of the agenda-setters of where to go, a well thought out tactic of how

to get there, and an institutional process that was conducive to such an outcome. This was different during the 2009-13 CAP discussions. While, as in 2002-03, an attempt was made to create a coalition between keeping payments for farmers (farm organisations) in exchange for better targeting (economists) and more environmental benefits (ecologists), this was much less successful. There are several reasons for this. Among others, these include the preference of the agenda-setter; institutional changes that reduced the influence of the Commission; better preparation of those who opposed reform proposals/ideas; market forces that countered reform pressures in the political arena; etc.

3.2 Political actors and decision-making mechanisms

3.2.1 European Commission

The European Commission was less of a pro-reform force than in 2003. Several factors explain this changed role.

First, unlike in 2003, the reform discussions were not launched because the Commissioner for Agriculture and Rural Development wanted the reforms, but because the review was required as part of a political agreement between then Prime Minister Tony Blair and the other EU leaders in 2005. This was quite different from the MTR process, since in 2000 Commissioner Franz Fischler himself was the reason why the MTR was scheduled (a compromise obtained during the Berlin meeting of heads of state in 1999). Most observers agree that Commissioner Ciolos̄ was not a main driver of reform but a reluctant guide, or even follower.

Second, Ciolos̄ and his team were inexperienced. In contrast to Fischler who was in his second term and had learned from success, and especially failure, during his first term Ciolos̄ was tasked with managing a reform debate almost from the moment of his appointment in 2010, without much experience at the EU level.

Third, the relationship between the Commission and his cabinet on the one hand and DG AGRI on the other was quite different. Fischler was in continuous and close communication with (key parts of) DG AGRI staff and used their expertise and analytical capacity to assist him in the preparation of his reform ideas and in

assessing the impact of his proposals. The relationship between Commissioner Ciolos and his cabinet on the one hand and DG AGRI on the other hand was less collaborative (or, one could argue, more antagonistic).

Fourth, the change in the decision-making instructions reduced the (potential) influence of the Commission. Institutional reforms that changed the decision-making procedures also played an important role earlier in affecting the outcome of the decision-making. In the 2003 MTR the voting rules, in particular the use of qualified majority voting,¹¹ also played an important role: Fischler and his team tried hard to put together a winning coalition and break a blocking minority coalition.

It was not only the introduction of co-decision that reduced the influence of the Commission with respect to the EP and the Council (see next section), but also the decision-making by the heads of state and government (the European Council) on the MFF with several CAP aspects in the so-called 'negotiation box'. As Matthews explains convincingly in chapter 7, this process enhanced the influence of the member states (through the European Council) on the final CAP decision, in particular since the Irish presidency considered CAP issues as non-negotiable in the final MFF agreement. Matthews also argues that the short final negotiation phase (imposed by the refusal of key actors (such as the EP) to fully negotiate until the MFF budget decisions were final) strongly favoured those preferring the status quo (for example, farm groups) and disadvantaged those who sought more radical CAP reform (for example, environmental groups on environmental regulations).

3.2.2 *Co-decision, the European Parliament and the Council*

The 2013 CAP decision-making was the first in which the European Parliament had co-decision power, and this obviously changed the rules of the game. In theory, this change in political rules could

¹¹ The Single European Act (SEA) and the Treaties of Maastricht and Nice introduced qualified majority voting for decision-making in EU policy where the unanimity rule had been used before. In this respect, the 1999 CAP reforms (Agenda 2000) was a watershed: for the first time a major country (France) was outvoted in relation to a major CAP reform.

dramatically reduce the influence of the Commission by curbing the influence of the agenda-setter in the process (Crombez & Swinnen, 2011). Co-decision would thus cause a transfer of institutional powers from the European Commission (EC) to the EP and the member states (MS) inside the Council. However, this redistribution of power could be mitigated by factors such as the Commission's dominance of analytical resources (Crombez et al., (2012); Greer & Hind (2012)).

An additional factor was that Crombez & Swinnen (2011) argued that the extent to which co-decision would actually influence the outcome of the 2013 CAP reform depended crucially on the structure of relative preferences for reform. In other words, the introduction of co-decision could reduce the prospects for CAP reform if the EP was less pro-reform than the Commission or if it influenced the proposals put forward by the Commission. It could also lead to gridlock (no policy decision) if the EP did not agree with a qualified majority in the Council (Crombez et al., 2012); an outcome also depending on the distribution of policy preferences (Crombez & Hix, 2014).

Several chapters in this book (e.g. Roederer-Rynning (ch. 13), Olper & Pacca (ch. 14), Fertő & Kovacs (ch. 15), Knops & Garrone (ch. 16)) as well as Knops & Swinnen (2014) discuss the actual impact of the co-decision procedure on the CAP outcome. Conclusions from these analyses are, first, that the predicted impact of a broader EP interest in CAP issues and on the composition of COMAGRI did not emerge in reality, and in the 2010-14 legislature the COMAGRI also had close connections to the farming world. Second, the EP and the Council preferences often differed from those of the Commission, and on several issues the EP and the Council found common ground to change Commission proposals (see the chapters by Bureau & Mahé, Hart, and Fertő & Kovacs, and the Appendix). This was particularly clear on the greening proposals where the EP and the Council were more status quo oriented than the Commission ("however prudent" the Commissioner already was, according to Bureau & Mahé (ch. 3)). Third, co-decision did not apply equally to all issues. De Castro & Di Mambro (ch. 5) stress the limited influence of the EP on the MFF (the budget) and on the CAP issues that were in the so-called 'negotiation box', as explained above. Although the EP eventually

gained some concessions, its role of co-legislator was certainly diminished on these issues (Matthews, ch. 7). Fourth, the influence of the Commission was certainly weakened but not fully removed, among other things because of its domination in analytical capacity and expertise in the complexity of the policy and regulatory details (Knops & Swinnen, 2014).

Finally, it may be useful to point out that the change in decision-making procedure also would have made it more difficult for a Fischler-type strategy that was partly based on a secret preparation that took the opponents by surprise (see Swinnen, 2008b). This approach would have had far less chance of success because of the information and proposals that had to be revealed at various stages of the co-decision process with the EP.

3.2.3 Lobby groups: The farm unions were present

Many different interest groups were affected (at least potentially) by the ideas to change the CAP and therefore lobbied decision-makers. This included (organisations and representatives of) farmers, tax-payers, consumers, the environment, the food industry, land owners, agribusiness, etc.

In my 2008 book I raised the question: “Where were the farm unions?” in the 2003 MTR. I suggested that the EU farm unions may have had less impact on both the debates and the outcomes of the Fischler reforms than on any previous CAP policy decision. It appeared that farm unions were taken by surprise by the Fischler reform strategy; they faced a new political environment in which environmental groups, consumer groups, etc., were being taken seriously by political leaders.¹²

This conclusion (or hypothesis) is not supported by the recent reform discussions. The two main lobby groups involved in the ‘greening’ debate were the farm organisations and the

¹² The latter hypothesis was consistent with the argument that a declining number of farmers in the EU-15 and growing citizen awareness and concerns about environment and animal welfare, may have reduced the power of farm unions on the CAP, both in terms of setting the agenda and influencing its outcome. However, declining numbers do not necessary imply a weakening of political influence, sometimes quite the contrary (see Anderson et al. 2013; Swinnen & de Gorter, 1993).

environmental organisations. The farm unions were very active and present – possibly having drawn lessons from the 2003 MTR.

Instead it appears that the environmental organisations (EOs) were outmanoeuvred on several occasions. The EOs felt that the initial proposals tabled by the European Commission were much too weak going into the political negotiations to form the basis for a compromise (see the discussion in Erjavec et al. (ch. 9) and Hart (ch. 10)). Second, they were much less influential in the co-decision procedure because the farm organisations succeeded in having their views well represented in the Agricultural Committee of the EP (COMAGRI) and because the Environmental Committee was largely sidelined in the CAP debate by COMAGRI (see the chapters by Knops & Garrone, and Hart). Third, they failed to influence the EP plenary vote to significantly alter the COMAGRI proposals – something they were successful at earlier in the EU fishery policy debate (Roederer-Rynning, ch. 13). Finally, the coalition between EOs and farm unions to secure CAP funds in exchange for more environmental conditions collapsed after the budget decision was made. After the budget decision when greening was no longer a requirement to secure a large budget, farm groups launched an all-out offensive to (further) weaken the environmental conditions on direct payments (the greening conditionalities) and EOs were not able to muster sufficient political counterweight to stop them.

4. Eastern enlargement and ‘external convergence’

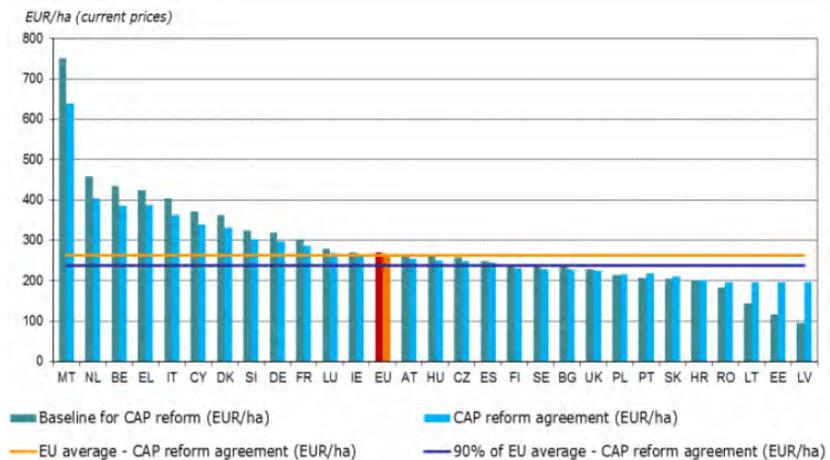
Eastern enlargement brought several new aspects to CAP decision-making: it significantly increased the number of decision-makers, it increased the heterogeneity of Europe and its agricultural and food systems, it introduced a set of different policy preferences into the political negotiations, and it changed the relative political weights of all member states.

One of the obvious demands from the NMS was a more equal distribution of direct payments across member states (the so-called external convergence of payments). Existing differences in direct payments (DPs) could be partly justified by differences in incomes and (historical) productivity (as they had been during the accession negotiations) but were obviously also due to the fact that the NMS were not at the table when the key budgetary and DP decisions were made in 2002 and 2003. Clearly, because the NMS were now part of

the EU and the CAP decision-making process, where the future DPs were to be decided, the demand for external DP convergence was a key demand. However, an intriguing issue is the extent to which it seems to have played less of a role in the debates than one could have expected.

There are several hypotheses to explain this. The first is that the OMS realised that the distribution of 2003 was too unfair for the NMS and not politically sustainable; it was more an issue of 'by how much' than 'if'. The second argument is that with the pressure to reduce the overall reduction of the DPs several NMS were more focused on lobbying for the maintenance of the overall DP budget. They would be close to a new EU average under a reduced DP budget, and were more worried about seeing a reduction in their DPs because of the overall budget cut, rather than gaining from redistribution. The countries that were most disadvantaged in DPs were the Baltic states – and they lobbied intensely for convergence. The ultimate reallocation benefited them most (see Figure 17.1).

Figure 17.1 Direct payments in the EU member states before and after CAP reform (€/ha)



Source: European Commission.

Another argument is that several NMS governments were under pressure from their farm lobbies to fight against capping. This applied in particular to those with a large share of (very) large farms, such as Slovakia and the Czech Republic. Hence, these

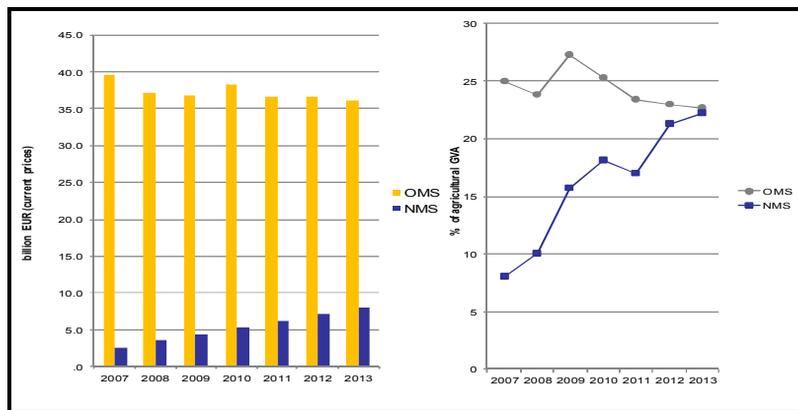
governments spent their ‘political capital’ more on lobbying to maintain the amount of DPs and to avoid capping (see ch. 13 by Sahrbacher et al.; and Sahrbacher et al., (2014)).

A fourth argument is that, while the NMS were receiving lower DPs, if one compared the DP share to their share in gross value added (GVA) in agriculture, the gap closed markedly and the share of DPs in GVA for the NMS was by 2013 very close to that in the OMS – both were close to 23% by 2013 (see Figure 17.2a). Moreover, NMS were increasingly benefiting from large EU transfers under the CAP Pillar II (see Figure 17.2b) and structural and cohesion fund (SCF) support (see Figures 17.2c and 2d). Hence, from an overall budgetary support perspective, their (dis)advantaged position was quite different from considering the DPs alone. In fact, by 2013, the NMS and OMS both received around 26 billion euro of structural and cohesion funds. Total EU support under the CAP and SCF was equivalent to around 0.6% of GDP in the OMS, but had risen from 1.7 % in 2008 to 4% in 2013 in the NMS (see Figure 17.2d).

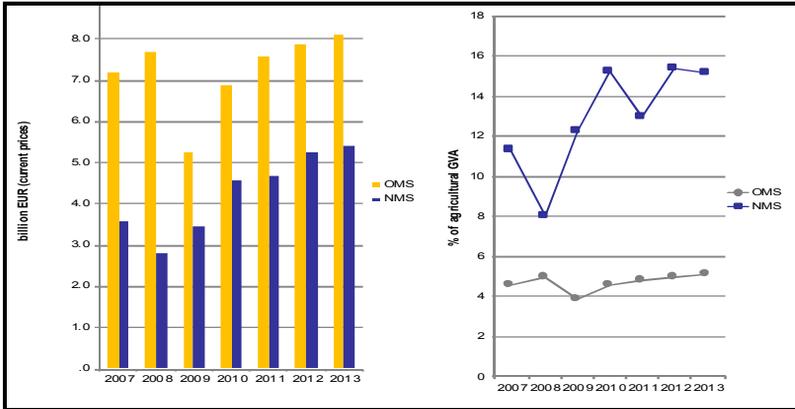
Obviously, all these elements of EU support were taken into account when discussing political priorities, and when trade-offs were made in the final political negotiations.

Figure 17.2 EU budget for NMS: CAP and structural and cohesion funds 2007-2013 (in billion euro and % of gross value added (GVA) and GDP)

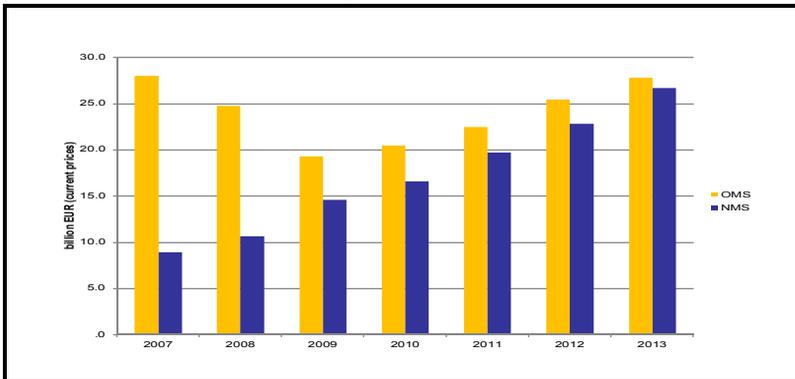
17.2a: CAP Pillar I (billion euro and % of agricultural GVA)



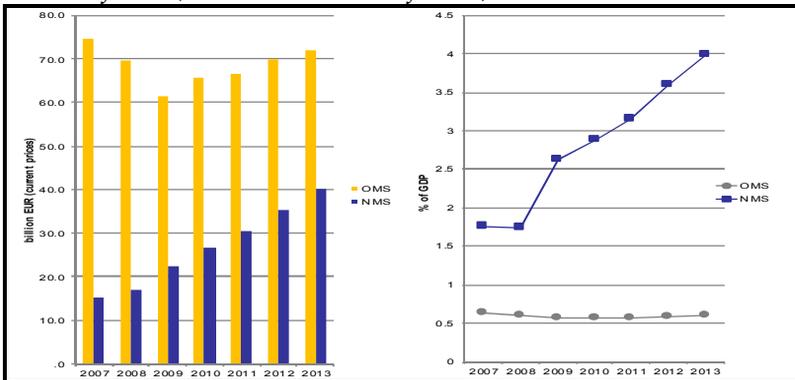
17.2b: CAP Pillar II (billion euro and % of agricultural GVA)



17.2c: Structural and cohesion funds (billion euro)



17.2d: Total budget for the CAP (pillars I and II) and structural and cohesion funds (billion euro and % of GDP)



Source: Own calculations based on data from Eurostat.

5. Public funding for what? How global food price shocks transformed the CAP debate

5.1 *Prices and the political economy of food policies*

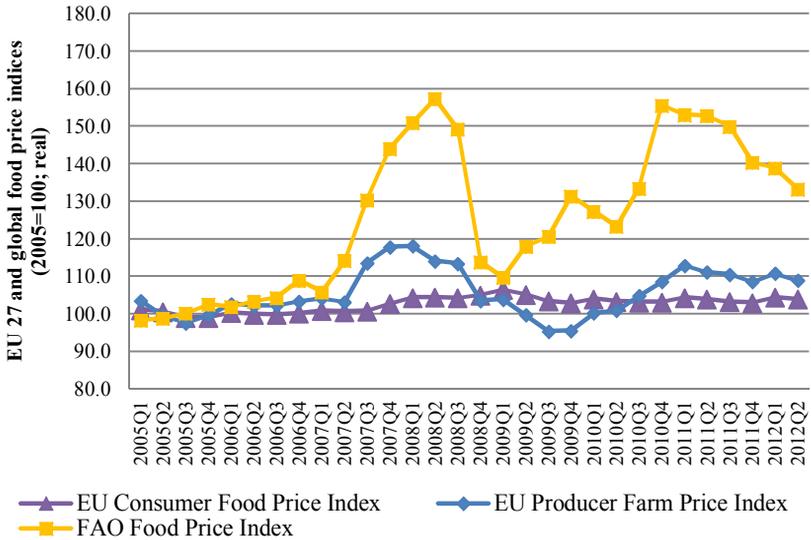
World market prices for major commodities, such as cereals, rose sharply in 2007-08 and in 2010-11. Figure 17.3 illustrates how global food prices increased by 50% in 2007-08 compared to the 2005 level. This rise coincided with a general rise in commodity prices, in particular of energy and metals. In the second half of 2008 food prices decreased sharply as one of the consequences of the global financial crisis. By 2009, the food price index had returned to much lower levels, albeit still much higher than in 2005. In 2010 and 2011, food prices rose again.

The first food price spike coincided with the conclusion of the so-called Health Check reforms, with Commissioner Mariann Fischer Boel (Commissioner for Agriculture and Rural Development from 2004 until 2009) leading the policy proposals. The second price spike occurred when a new round of CAP reform discussions was launched, under the regime of Commissioner Dacian Cioloş (Commissioner since February 2010).

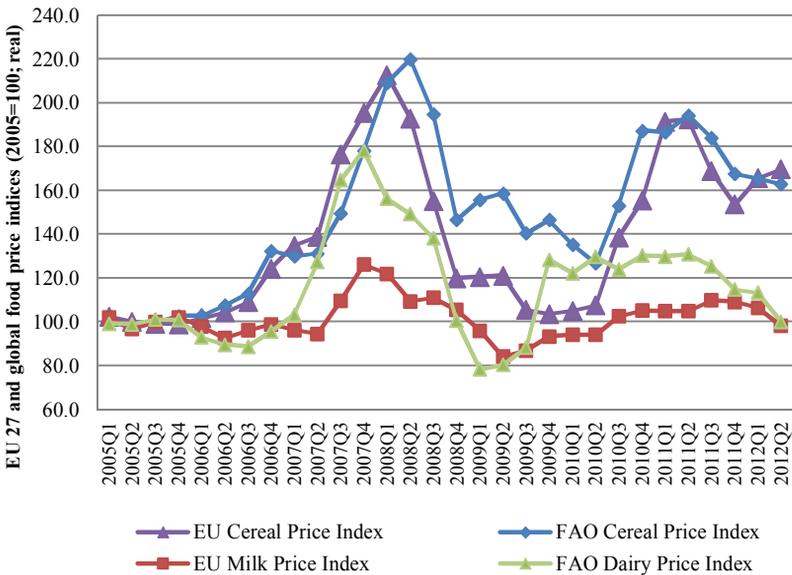
Figure 17.3a illustrates how average producer prices in the EU followed a similar trend to global food prices, although the scale of these changes was much smaller than those of the global food price index. Compared to the 2005 prices, average prices for producers increased by around 20% in real terms in the first price spike and somewhat less during the second price spike. However, the average price change hides important differences between agricultural commodities. Figure 17.3b illustrates how in the EU cereal prices increased by 113%, five-times more than milk prices, which increased by 22% between the first quarter of 2005 and the first quarter of 2008. Overall farm incomes increased significantly during this period, as Figure 17.4 illustrates: average farm incomes were 20-30% higher in 2011-12 than in 2008-09.

Figure 17.3 EU and global agricultural and food prices (2005-2013)

17.3a: Food and farm price indices (2005=100; real prices)

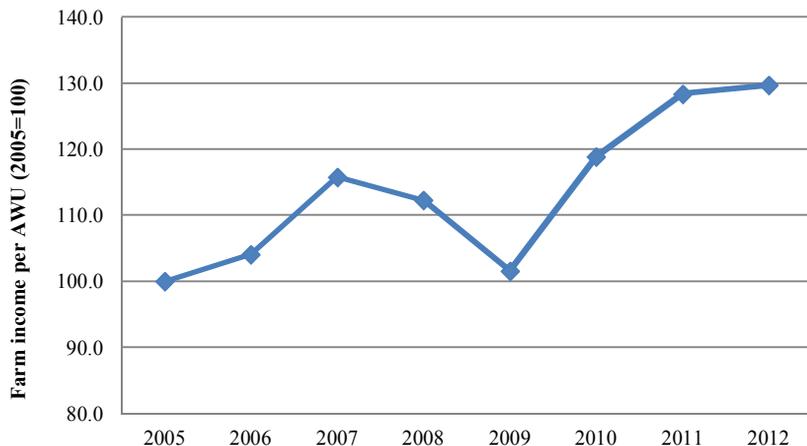


17.3b: Cereals and dairy price indices (2005=100; real prices)



Source: Swinnen et al. (2014) based on data from FAO and EUROSTAT.

Figure 17.4 Index of real farm income per annual working unit (2005=100)



Source: DG Agriculture and Rural Development, European Commission.

5.2 Prices and the political economy of food policies

It is well known that changes in commodity prices can have a significant impact on agricultural and food policies, which often respond to changes in food prices as such changes alter the political incentives for interest groups and for political decision-makers (Anderson et al., 2013; Swinnen, 1994, 2009). More specifically, agricultural and food policies shift as prices move since the incentives to lobby governments, and the incentives for governments to respond, change when economic conditions change. In other words, when prices go up producers turn to the market to increase their incomes and when prices fall producers turn to governments to assist them, and vice versa for consumers.

This has been documented for many countries and historical periods (e.g. Olper, 1998; Swinnen et al., 2001; Swinnen, 2009), and the recent period of price spikes was no exception. In many countries high food prices triggered major policy reactions with food exporters imposing export taxes or outright bans and food importers lowering their import tariffs (Anderson et al., 2013; Martin & Anderson, 2010; Pieters & Swinnen, 2014).

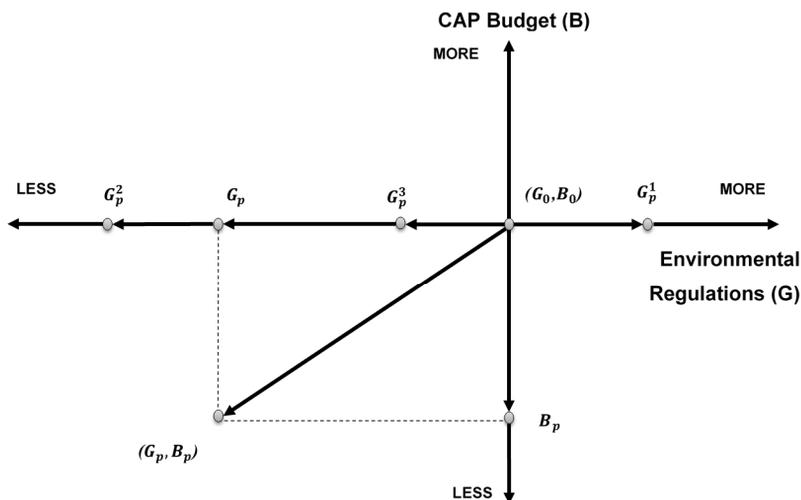
5.3 *The multi-dimensional political relationship between food prices and CAP reform*

Changes in food prices have affected various interest groups in the EU, including producers and consumers, and this has resulted in policy reactions through the political process. To understand the impact of the global food price changes on the CAP it is important to: a) see this in a broader perspective, meaning also to consider how other policies were changed in response to the price changes; and b) consider this as a multi-dimensional issue. It appears that agricultural and food price changes affected the political equilibrium on the CAP decision-making in (at least) three different dimensions: the level of the farm support, i.e. the budget (B); the environmental conditions on farms support, i.e. greening (G); and the nature of the farm support, i.e. market regulation or decoupled payments (R). These issues are obviously interrelated to some extent, but for didactic reasons, let us consider them as independent (orthogonal in mathematical terms) - which is not an unrealistic assumption.

On each of the three dimensions one can think of farmers as having preferences opposed to those of other interest groups, more particularly taxpayers (*dimension B*), environmental organisation (*dimension G*) and a coalition of international trade partners and other EU (exporting) sectors that are against agricultural market interventions (*dimension R*). The increase in food prices is likely to have caused a shift in the equilibrium in dimensions B and G, while increased volatility affected equilibrium in the R dimension. I will first explain the B-G policy equilibria. The R dimension is discussed later.

Figure 17.5 presents a two-dimensional model of the conflict of interests in the CAP reforms. The horizontal line represents the greening (G) issue where environmental interests (wanting *more* environmental regulations) are confronted with farmers interests (wanting *less*). The vertical line represents the budget (B) issue where taxpayer interests (wanting less CAP spending) are confronted with farmers' interests (wanting more). Let the point (G_0, B_0) represent the political equilibrium before/without the price shock.

Figure 17.5 Impact of price changes on the political equilibrium for greening and budget



Source: Author's own configuration.

What happens when prices increase? In terms of the budget (B), theory and empirical evidence suggest that there would be a shift towards less support for farmers as prices for their products and their market incomes increase, as explained above. Hence, one would expect a shift, as represented by the move from B_0 to B_p in Figure 17.5.

The impact on environmental regulations is more complicated and there are three partial effects involved. The first partial effect is a shift of the equilibrium towards environmental interests. As farmers earn more for their production with higher prices the impact of increased regulations on their welfare is smaller – at the margin and assuming concave utility function. This will reduce their opposition to increased regulations, and will thus induce a shift in the political equilibrium from G_0 to G_p^1 . A second partial effect is that with increasing prices for their products, farmers have more to lose from regulations that restrict their supply. This will induce them to oppose such regulations more firmly. This effect is represented in the move from G_0 to G_p^2 . The third effect is

represented by the shift from G_0 to G_p^3 . This is due to the increased opposition from food consumers, already hurt by high prices.¹³ Environmental regulations that restrict production lead to lower supply and thus higher prices. Hence, as consumer welfare has declined with higher food prices, they increase their opposition to environmental measures that would further increase food prices (again at the margin and assuming concave utility functions).¹⁴ This is represented by the shift from G_0 to G_p^3 .

The net effect, from G_0 to G_p , depends on the relative importance of these three sub-effects. The combined effect could be either positive or negative. In Figure 5, I have drawn the combined effect as a downward shift in the regulatory equilibrium: from (G_0, B_0) to (G_p, B_p) with $G_p - G_0 = (G_p^1 - G_0) + (G_p^2 - G_0) + (G_p^3 - G_0)$.

In combination, this conceptual framework suggests that the food price increase caused a decline in the CAP budget and a lower level of environmental regulations (greening) than would have been the case without the price increases, represented by the shift from (G_0, B_0) to (G_p, B_p) .

This prediction seems to have been borne out in reality, but probably more so for the greening aspect than for the budget. The negative impact of the food price rises on the support for (or opposition to) greening is supported by arguments of various authors in this book (including, for example, Haniotis, ch. 4; Di Castro and Di Mambo, ch. 5; Matthews, ch. 7). Erjavec et al. (ch. 9) argue that the food price increases led to a decline in support for greening and for CAP subsidies overall, consistent with our prediction.

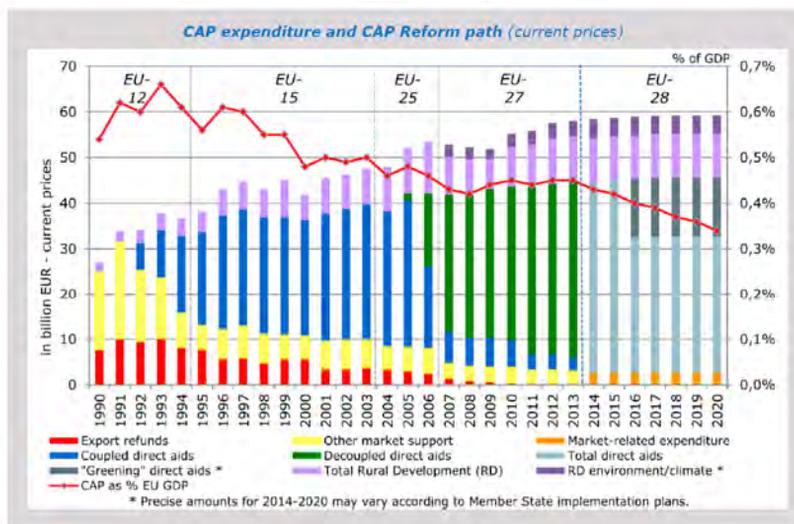
However, while the impact on greening appears clear, the impact on the CAP budget is less obvious. There was a reduction in support to farmers in real terms and as a share of GDP, but not in

¹³ Figure 17.3 also shows how average food prices for consumers in the EU increased slightly over the 2005-12 period, with real food prices 5% higher in 2012 than in 2005.

¹⁴ Note that this should not necessarily be interpreted that consumer organisations actively lobby against greening measures, but it could also be interpreted as that the 'productivist' perspective on the CAP became more generally accepted as a valid and important argument, or that their support for environmental measures became less important.

nominal terms (as is reflected in Figure 17.6). Even the decline in real terms is less than what many had expected (and feared or desired, depending on preferences). In fact, Matthews (ch. 7) argues that farm organisations were “surprised and delighted” with the original Commission proposal to keep the CAP budget in nominal terms. While the ultimate MFF agreement on the CAP budget is lower than what the Commission initially proposed, it is not that much lower.

Figure 17.6 CAP budget 1990-2020



Sources: CAP expenditure for past years: European Commission, DG Agriculture and Rural Development (Financial Report). For 2014-2020, amounts taken into account for MFF (before transfers and flexibility between CAP pillars). GDP: Eurostat and Global Insight.

What can explain the relatively limited reduction in the real CAP budget, despite budgetary pressures and increasing farm prices and incomes? Several additional factors appear to have played a role. First and foremost, as explained above, the link with the greening reforms in the MFF negotiations seems to have worked for saving the budget, but not for greening. At the start of the MFF negotiations the link and coalition was still there, however weak it was compared to the ex-ante proposals on greening. It was only after the MFF that the coalition completely collapsed.

Another reason is probably that, while average farm incomes increased (as Figure 17.4 illustrates), a significant number of European farmers, in particular dairy and livestock farmers, suffered from the increase in grain and feed prices. Their incomes fell significantly over the 2007-12 period. This is clearly illustrated in Figure 17.7, which presents the ratio of milk prices over animal feed prices. This ratio shows a consistent decline since 2005, with the 2012 ratio being 25% lower than in 2005: increases in dairy prices have been consistently offset by increases in animal feed prices. For these farmers, CAP payments were argued to be an important safety.¹⁵

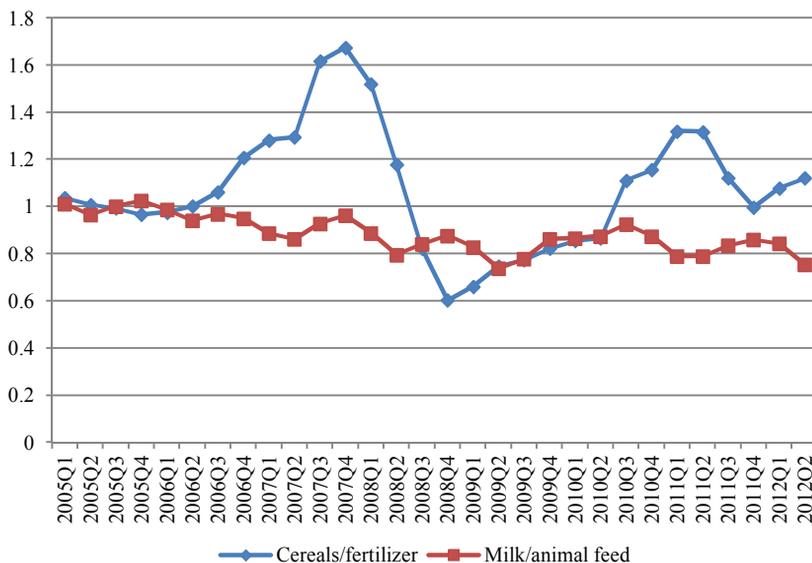
This sensitivity of EU farm incomes to price changes not only applied to the dairy and livestock farmers, but also to the crop farmers who gained from higher farm prices, but who saw their costs increase significantly. This is reflected in the strongly fluctuating grain/fertiliser price ratio in Figure 17.7, with significant downturns in 2008 and 2011, and the decline in average farm incomes over the 2007-09 period (Figure 17.4).

The significant increase in prices and in average EU farm incomes between 2008-09 and 2011-12 thus hides significant heterogeneity, both across subsectors in EU agriculture and over the years. Clearly, those variations made farmers and decision-makers aware of the income effects of the CAP payments and aware that prices might not stay high forever, and that CAP payments could be an important safety net when markets and prices turned downwards (see also next section). It enhanced the pressure from farmers to keep the payments, and countered pressures explained above to cut the CAP budget significantly.

As we explain in the next section, this volatility in prices and farm incomes also induced demands for (a return to) more market regulations.

¹⁵ Many studies and reports on the impact of the CAP on farm incomes are static studies, which ignore the second-order effect of the CAP on farmers' costs. This is surprising since it is now very well known that CAP subsidies and payments increase farmers' costs (see e.g. Ciaian et al., 2010) and the 2013 reform of the CAP is unlikely to have a major impact on that (Ciaian et al., 2014). Hence the dynamic income effects are likely to be quite different from static estimates.

Figure 17.7 Evolution of the ratio of cereal over fertiliser prices and the ratio of milk over animal feed prices in the EU27



Source: Eurostat.

5.4 Price volatility and the 2014-20 CAP: A return to intervention or not?¹⁶

Figures 17.3, 17.7 and 17.8 illustrate the volatility in different price indicators, with EU price volatility typically lower than global price volatility indicators. There was more volatility in the producer price index and little volatility in the food consumer price index in the EU.

Food price volatility influenced the discourse of interest groups and policy-makers, however generally without fundamentally altering their policy proposals. For example, COPA-COGECA (2011), the main EU farmers' organisation, argued that

¹⁶ As explained in the introduction, the arguments that high food prices (which were induced by the spike in agricultural commodity prices) had negative impacts on the poverty and hunger in the world were brought forward (and forcefully so) after the EU had gone through decades of reforms to reduce the CAP's (negative) impact on global prices (Swinnen, 2011; Swinnen & Squicciarini, 2012).

despite high prices, farmers lose out because of volatility, high input prices and “food chain imbalances”. They and other interest groups asked for a more interventionist reaction, moving away from the long-term liberalisation strategy for the CAP.

By contrast, the European Commission used the price volatility as a motivation for its overall reform (liberalisation) strategy. In 2008 the so-called Health Check reform of the CAP included several minor measures that were linked to the price changes, such as the abolition of set-aside and the gradual increase in the milk quotas before their abolition in 2015. At the same time the Commission confirmed that the agenda would stay on course to a more market-based CAP. The reforms further decoupled support and reduced intervention in markets for pig meat, cereals (barley, sorghum, wheat) and for dairy products (butter and skimmed milk powder). Similarly, in response to the crisis in the dairy sector¹⁷ the so-called Milk Package of 2010 (which entered into force in 2012) did not include measures which directly intervened in the markets despite considerable pressure of dairy organizations. This, according to the Commission, aimed to “modernize, simplify and streamline the CAP and remove restrictions on farmers, thus helping them to respond better to signals from the market and to face new challenges” (European Commission, 2008c).

A similar argument was used by Commissioner Ciolos in the CAP reform proposals. He used price volatility as a justification to maintain the CAP payments (as ‘safety net’) to protect farmers against price volatility: “Farming is more and more exposed to high market volatility. (...) Therefore I will propose in the new CAP reform to maintain direct payments in order to give basic financial

¹⁷ Grain prices are output prices for grain producers, but are input prices for livestock producers. The grain/fertiliser price ratio in the EU has evolved similarly to global grain/fertiliser prices, with a rapid increase in 2006 and 2007, a strong decline in 2008 and significant growth in 2010. The grain/fertiliser price ratio has been very volatile over the 2005-12 period, with an average positive (15%) effect. By contrast, the milk/ animal feed price ratio has been less volatile and has shown a consistent decline since 2005, with the 2012 ratio being 25% lower than in 2005: increases in dairy prices have been consistently offset by increases in animal feed prices.

security to our farmers, without distorting international markets” (European Commission, 2011b).¹⁸

The European Parliament (and the Council) preferred a more interventionist approach and favoured more market regulation. This was also evident in other issues such as the European Parliament’s reactions to the Commission’s proposals in the Communication on “A Better Functioning Food Supply Chain in Europe”, regarding relationships between the CAP and competition policy rules,¹⁹ and in the discussion on ending the sugar quota.²⁰

However, by the end of the legislative process, the Commission’s proposals had been significantly amended but nonetheless substantially adopted.²¹ In terms of impacts on global

¹⁸ The proposal included some measures that directly concern food price volatility, such as a new ‘Crisis reserve fund’ of €3.5 billion and the introduction of a ‘crisis management toolkit’ that would include funds for crop and weather insurance, and an income stabilisation option (that would allow a pay-out (up to 70% of losses) from a mutual fund if income drops by 30%). The official aim of these instruments was to respond rapidly to an extreme event of price volatility (European Commission, 2011c).

¹⁹ With respect to competition policy, the European Parliament was in favour of allowing more far-reaching exceptions to the general competition rules than the EC proposes. These exceptions could allow producer organisations to manage their supplies by fixing prices or setting quotas for a relatively large share of the agricultural production.

²⁰ The difference in approach and discourse between the EC and European Parliament was also revealed in the debate on the end of sugar quotas. The EC often confirmed the ending of the sugar quota regime by 2015. However, key members of the European Parliament, e.g. Michel Dantin (French Member of the European Parliament and key figure of the Agricultural Committee), argued that the extension of this regime was crucial to stabilise markets at a time of increasing price volatility, a position backed by the major sugar producing countries. Interestingly, those against the extension of sugar quotas put forward the opposite argument, saying that, considering rising demand, maintaining sugar quotas would be completely counterproductive in the context of price volatility (Matthews, 2012). Hence, both groups argued that their solution would improve the competitiveness of the sugar sector.

²¹ Anania and Pupo d’Andrea (ch. 2) conclude that an evaluation of the CAP from the perspective of a further market orientation shows mixed results: the elimination of the sugar and milk quota was confirmed, but on

markets (and thus on global food security), despite new arguments, and some recoupling, Matthews (2014) concluded that the CAP reform does not fundamentally alter the trend followed by the EU over the past two decades.²² Price volatility was used as a justification to move towards more market liberalisation in the agricultural sector and reduce intervention mechanisms, and as a justification to maintain existing CAP payment (as a 'safety net') to protect farmers against price volatility.

Several authors in this book consider this status quo outcome as one of the main achievements of the 2013 reform in the area of market orientation of the CAP (e.g. Bureau & Mahé (ch. 4) and Swinbank (ch. 8)).²³ Bureau & Mahé (ch. 3) conclude that "the Commission managed to resist most of the bad ideas floating around ... some of which could have been particularly damaging, in particular regarding market management and price support".

While the WTO was not (or not often) mentioned in this debate, it is my hypothesis that it still played an important role in this. Although Alan Swinbank (ch. 8) argues that "What is perhaps more surprising – given that the [WTO] Doha agreement has not yet locked-in past CAP reforms -- is that the EU did not significantly reverse its policy decisions of the last decades", in his detailed analysis he documents the role of WTO constraints in this debate. For example, both in the Commission's 2010 communication "The CAP towards 2020", in the EP's response to this document, and in the Commission's 2011 Impact Assessment that accompanied the 2011 CAP proposals, WTO constraints and green box compatibility was raised in several places to motivate certain proposals (see Swinbank, ch. 8 for details).

the other hand the liberalisation of vine planting was reversed, there was an increased amount of coupled support, and competition laws had been waived to allow some producer actions to constrain supply.

²² That said, there was still considerable uncertainty as many of the implementation details were left to the member states at the end (see chapters 2 and 3).

²³ Obviously, these evaluations depend on the perspectives of the authors and those who favoured more regulated markets see this as a negative element of the reform – or something to address in the future (see the discussion in De Castro and Di Mambo, ch. 5).

In summary, during the price spikes the EU has (a) reaffirmed the engagement of the EU towards an open trade policy – also by underlining the harm done by the restrictive export policies implemented by some countries in response to price volatility – and (b) stayed mostly on course with its reform proposals in specific sectors such as dairy and sugar (phasing out the quota regime), despite a slight change in argumentation, i.e. by also linking the motivation to price volatility (European Commission, 2008c).

That said there is a significant amount of recoupling allowed that is to be determined at member state level (which varies between 0% and 20% between member states – see Anania & Pupo D’Andrea, Table 4 for details). Moreover, not all sectors stayed on course towards liberalisation. A return to regulation is obvious in the EU’s wine policy where the 2008 decision to liberalise the vineyard planting rights system was overturned and a new set of regulations on planting rights introduced before the liberalisation was implemented (Deconinck & Swinnen, 2013; Meloni & Swinnen, 2015).

5.5 Other EU policy reactions

Note that the EU also adjusted the existing CAP and its implementation (to the extent possible) during the price spikes. For example, the European Commission undertook some quick changes to the CAP market management measures, such as the relaxation of several restrictions to increase the supply of food: intervention stocks were sold, the 10% obligatory set-aside for farmers was suspended in 2008, most import duties on cereals were lifted following a decision of the Council on 20 December 2007, and milk quotas were increased by 2% as from 2008 (European Commission, 2008a).

Besides the CAP, there were other policy responses by the EU and its member states to the food price changes.²⁴ These include

²⁴ The initial EU-level response to the price spikes in 2007-08 was set out in three communications published by the EC in 2008 and 2009 (European Commission, 2008a; 2008b; 2009a), which structured the EU response to price volatility around three sets of actions: i) actions to mitigate short and medium term effects of the food price shock (e.g. aid programmes for EU citizens, tackling speculation on food commodities); ii) actions to increase

changes in social policies, regulations of biofuels²⁵ and financial investments in food commodity markets, food and development aid both within and outside the EU (see Swinnen et al., 2014 for a more detailed analysis). Most social protection policies, such as unemployment benefits, pensions and disability payments are the responsibility of the member states. The increase in food prices induced pressures from consumers, particularly the poorest, to increase social spending at a time when they were also hurting from the economic crisis and rising energy prices.²⁶ Social expenditures in the EU increased by approximately 7% between 2005 and 2010. During the same episode, food aid to the poor also became the subject of a political fight between the EU and the member states.²⁷

agricultural supply and ensure food security in the longer term (e.g. sustainability of EU biofuel policy, investment in agricultural research, etc.); and iii) actions to tackle the global effects of price rises on the poor (e.g. promoting open trade policy, development aid). At the same time, several initiatives were taken at the member state level.

²⁵ With growing critique of its biofuel policy, the EU proposed what the press and the industry have qualified as a policy U-turn on biofuels. From strongly encouraging this sector through binding targets and blending mandates, the EU is now backtracking on this policy option and seeks to minimise the use of food crop-based biofuels.

²⁶ Increases in other prices, such as for energy and transport, reinforced this pressure. At the same time social security systems were affected by the financial and economic crisis. The financial and economic crisis had two (opposite) effects on social spending. On the one hand, the negative impact on government budgets increased pressure to cut expenditure. On the other hand, with higher unemployment, expenditure on this type of social benefits is expected to increase.

²⁷ Since 1987, the EU has had a food aid programme to support the poor and the needy of Europe. The first version of this scheme consisted of the distribution of stocks of surplus food. However, reforms of the CAP in the 1990s and 2000s reduced the amount of surpluses in the EU and lowered intervention stocks. The food aid scheme was revised in 2008 to make it easier to access products from the open-market. In 2010, the EC put a ceiling of €500 million per year on the EU's contribution to the scheme. In 2011, in the midst of financial and economic turmoil, the EC proposed a drastic cut to the scheme's budget: from €500 million to €112 million (European Commission, 2011a). Aid organisations argued that it is precisely at times of rising food prices that such programmes are most

6. Summary and conclusion: An imperfect storm in the political economy of the CAP

Table 17.1 summarises the arguments explained in this paper. In 2000-03, both the pressures for change, the political actors and changes in decision-making institutions were conducive to reform (represented by “+” in the table). The combination of these factors contributed to a perfect storm that resulted in the radical Fischler reforms (Swinnen, 2008). The factors included the institutional introduction of qualified majority voting, large external changes that moved policy preferences in a pro-reform direction and a pro-reform agenda-setter, the EU Commission. In addition, key internal changes in the EU and its institutions boosted the chance of reform and the EU Commission itself was strongly in favour of significant reforms.

The 2009-13 CAP reform negotiations were quite different. Table 17.1 summarises the key factors in the political economy of the four CAP elements that are the focus of this chapter (the budget, greening, external convergence, and market regulations).

Decision-makers faced several pressures and constraints. These included pressure to reduce the budget for farm payments because of fiscal pressures and the need to fund other EU policies; a demand from NMS (and particularly the Baltic states where payments were lowest) for more equal distribution of direct payments; and (future) WTO agreements, which constrained market interventions. From 2008 onwards agricultural and energy commodities prices peaked, soon followed by financial and economic turmoil, which created upheaval in commodity markets, government budgets and the world’s economies, also inside the EU.

needed. A proposal to remove the member states’ co-financing requirements to the scheme, and make it exclusively EU financed was opposed by several members states (Germany, the Netherlands, Denmark, Sweden, the UK and Czech Republic), who argued that ‘social policy’ is a national competence. An agreement was reached to maintain the level of funding for the scheme (€500 million) for 2013 only and to shift this consumer support programme from the CAP to the EU social and poverty reduction policy.

Table 17.1 Summary of influences and policy outcomes

| | 2003 | 2013 | | | |
|--|------|----------------------|-------------|----------|--------------------|
| | | External convergence | Budget cuts | Greening | Market regulation* |
| Pressures for changes | | | | | |
| Trade (WTO) | + | 0 | 0 | 0 | -- |
| Budget | + | 0 | + | 0 | 0 |
| Food Safety & Environment | + | 0 | 0 | + | 0 |
| Enlargement | + | 0 | 0 | 0 | 0 |
| Food Prices | | | | | |
| Level | 0 | 0 | +/-- | -- | 0 |
| Volatility | 0 | 0 | -- | 0 | + |
| NET | +++ | 0 | 0 | 0 | 0 |
| Political actors and institutions | | | | | |
| Enlargement | | | | | |
| "Nordic" | + | 0 | 0 | 0 | 0 |
| "Eastern" | 0 | + | 0 | 0 | 0 |
| Commission | | | | | |
| AGRI | + | 0 | -- | 0 | -- |
| Overall | + | + | + | + | 0 |
| Decision-Making | | | | | |
| QMV | + | 0 | 0 | 0 | 0 |
| Co-Decision | 0 | 0 | 0 | -- | + |
| NET | +++ | + | 0 | 0 | 0 |
| TOTAL NET EFFECT | +++ | + | 0 | 0 | 0 |

* "--" means less market regulation, "+" means more market regulation. Source: Author's own configuration.

However, this did not translate into reinforced pressures for reforms. While these economic developments had a significant impact on the CAP debate they did not necessarily reinforce existing pressures; in some aspects the opposite happened. Increased price volatility induced pressure for a return to market interventions and increased opposition to budget cuts as the CAP was presented as a safety net for farmers. Higher food prices supported the 'productionist' view that agricultural production should be encouraged, not constrained, e.g. by environmental regulations. In addition, a series of institutional changes politically mitigated the pressures.

Reforms were further hampered by institutional constraints and the absence of a decisive guide. The pressures and constraints were a complex mix, but the situation in the early 2000s was also complex (Swinnen, 2008b). However, the 2003 set of pressures turned into a significant reform path, with a clear strategic vision on the part of the agenda-setters of where to go, a well thought out tactic of how to get there, and an institutional process that was conducive to this outcome. This was quite different in the 2009-13 CAP discussions.

As in 2002-03, an attempt was made to create a coalition between keeping CAP payments for farmers (farm organisations) in exchange for better targeting (economists) and more environmental benefits (ecologists). The coalition worked for saving the budget, but not for greening or better targeting. While there is a reduction in real terms, the budget for the CAP was largely saved, despite budgetary pressures and increasing farm prices and incomes. Why was this? One factor is the initial link with the greening reforms. This link, albeit already fairly weakened, still held during the MFF negotiations when the budget was decided. Another factor is the volatility in agricultural prices and the heterogeneous impacts of the price changes for EU farmers. The sensitivity of EU farm incomes to price changes not only applied to dairy and livestock farmers, who suffered from increased costs, but also to other farmers who saw significant fluctuations in their incomes. Those variations made farmers and decision-makers aware that prices would not stay high forever, and that CAP payments would be an important safety net when markets and prices turned downwards.

After the MFF had fixed the budget, the 'budget for greening' coalition unravelled and many greening requirements were relaxed. There were probably several reasons for this: a less committed and less strategic Commission, the reduced influence of the Commission with co-decision with strong opposition in the EP and among member states in the Council, and better preparation and lobbying strategies by those who opposed reforms. Opposition from farm organisations received extra ammunition as commodity price increases gave strength to the 'productionist' argument that the food supply should not be constrained by extra regulations – an argument that found much support in the Council and the EP's COMAGRI.

Regarding market regulations, the increased price volatility induced demands for more regulation, including the maintenance of supply controls in dairy and sugar. However, DG-AGRI and the Commission motivated their support for DPs as a safety net approach – an insurance against volatility, and one in line with the decades-long strategy towards liberalisation – consistent with their commitment to WTO and possible future accords. Here, despite some re-coupling, the status quo was seen as an important positive achievement by those favouring the CAP's market orientation (and a failure by those wanting more regulation of markets and prices).

Eastern enlargement enhanced the influence of the NMS and reduced the gap in direct payments per hectare, particularly in the Baltics where DPs were the lowest. External convergence occurred and was most significant for those NMS where the gap was widest, but the total redistribution was limited because the NMS already benefited strongly from various other transfers such as Pillar II payments and structural and cohesion funds – in particular in relation to their contribution to value added and GDP.

In summary, the 2013 CAP decision included a relatively small budget cut, a realignment of DPs 'from West to East', increased flexibility in the implementation of the policies and the allocation of funds, and relatively minor changes in environmental and market regulations. Different pressures and institutional changes partially offset rather than reinforced each other. In other words, this resulted in an imperfect storm in the political economy of the CAP, in which various elements were mixed but did not reinforce each other, and which resulted in relatively small changes.

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18. CAP REFORM, THE US FARM BILL AND THE TTIP

*TIM JOSLING**

This could have been a very brief contribution to the volume on CAP reform. The ongoing Transatlantic Trade and Investment Partnership (TTIP) negotiations have virtually no substantive connection with the 2013 CAP reform or indeed with the 2014 Farm Bill in the US. End of story. But such a statement would in itself be quite remarkable in the context of US and EU trade relations over the past five decades. Why is there so little connection? How have we come to a position that a significant agricultural policy reform effort in the EU, three years in the making, is somehow disconnected from a path-breaking effort to create a transatlantic marketplace free of trade barriers and regulatory divergences? And, how is it possible that the US negotiators have made no attempt to use the TTIP as a way of shaping the CAP, long a target of mainstream farm opinion? So the topic is indeed worth a discussion, even if the bottom line is predictable.

1. The CAP at the centre of transatlantic tensions

To answer the “why?” question requires some historical perspective. US-EU tensions over agricultural policy have their origins in the early 1960s, when the new European Economic Community was in the process of establishing the CAP.¹ US political and economic interests were at variance: strong support for

* The author would like to thank Alan Swinbank for helpful comments on a draft.

¹ The development of EU-US trade relations in agricultural and food products is the topic of a forthcoming book (Josling & Tangermann, 2015).

European integration initially masked the threat to US export interests in agricultural products. The Chicken War of 1963, which was triggered by the EU introducing its new trade barriers on poultry meat, was a 'shot across the bows' and tested the ability of the GATT to mediate such bilateral trade tensions.² The GATT was not up to the task and political distrust increased. The EU and the US were on a collision course. The Kennedy Round brought out some fundamental differences in the approach to world markets for agricultural goods. The US wanted trade barriers to be reduced but the EU preferred to manage international trade. But the Kennedy Round yielded no breakthrough in terms of agricultural trade rules, though it successfully reduced tariff levels for manufacturing goods. The CAP was still the major stumbling block to reconciling US commercial interest with EU political imperatives.

The bilateral tensions in agricultural trade were overshadowed in the tumultuous 1970s by the chaotic situation in commodity, oil and financial markets. Both the EU and the US continued on separate paths as they sought to deal with macroeconomic as well as agricultural market problems. In agriculture the situation was made worse by irresponsible EU decision-making, leading to even higher support prices. Currency fluctuations also played their part in increasing the support gap. When world prices dropped the CAP was left high and dry. Both the EU and the US suffered during the 1980s from bloated agricultural budgets and weak world demand. A trade war began through competitive export subsidies. GATT litigation was used in an attempt to settle the problems but many of these survived the decade. At least for one year (1985) the EU overtook the US in agricultural export earnings and the US surpassed the EU in agricultural budget cost – a function of the strong dollar.

A gruelling GATT Uruguay Round finally brought the two protagonists together and enabled them to forge an agreement to discipline domestic policies. The Agreement on Agriculture (AoA) established rules on market access, export competition and domestic support; began the process of reducing tariffs and curbing export and domestic subsidies; and provided a forum (the Committee on Agriculture) for discussion of differences of

² For much more detail on this early dispute see Talbot, 1978.

interpretation. It increased transparency by obliging countries to notify the Committee of the conformity of domestic farm policy with the agreed rules. The WTO also replaced an unsatisfactory dispute settlement mechanism and brought clarity to the question of health and safety regulations. Disputes about farm policies across the Atlantic became rare after 1995 and an uneasy truce emerged, as both the EU and the US shifted to direct payments away from price supports (as described in Swinbank, 2015: chapter 8, this volume). The transatlantic tensions in agricultural and food products at present are largely confined to different health standards and regulations on livestock additives.

The agricultural part of the TTIP negotiations is therefore focusing on these regulatory issues, such as hormone use in livestock, chlorine washes for chickens, place names for cheeses, and biotech food approvals. Governments on both sides of the Atlantic are trying to find a way to achieve regulatory coherence without appearing to lower standards. But these issues are neither the subject of CAP reform nor covered in US farm legislation. They are the province of regulatory agencies that are more or less independent of farm interests. Hence the current irrelevance of CAP reform to the TTIP is a combination of farm policy reforms on each side of the Atlantic, a more stable trade relationship built on the WTO AoA, and a shift in focus to food regulatory issues as bilateral trade irritants.

2. Farm policy reforms reduce trade tensions

The successive reforms of both the CAP and the US farm legislation have played a major part in reducing transatlantic trade tensions. Swinbank (2015: chapter 8, this volume) chronicles the importance of the 2000 and 2003 CAP reforms in allowing the EU to free itself from the imposed limits of the WTO support reduction schedules. The same changes have led to a dramatic reduction in bilateral tensions over agricultural policy. Though these CAP reforms were greeted with some scepticism initially in the US, the determination with which they have been carried out appears in sharp contrast to the wavering of US policy over the same time period. After having led the way toward direct payments less closely tied to production in the 1996 Farm Bill the US introduced emergency (price-linked) payments in 1998, when prices on world markets fell, consolidated

them in the 2002 Farm Bill (as countercyclical payments), took a small step sideways in 2008 and has finally abandoned decoupled payments in 2014 (Zulauf & Orden, 2014). Indeed, it can now be reasonably said that the CAP is in the lead in the search for a farm policy that provides a stable environment for farming and is minimally disruptive to trade.

Though both the EU and the US have moved away from price support and market intervention, the chosen instruments that replace them are different. In the EU the new instruments include the basic payment (a modification of the existing direct payments), a 'green' direct payment to encourage actions deemed environmentally beneficial, and a payment to support farming in 'areas of natural constraints'. The US has chosen to concentrate on farm income insurance, with a number of different instruments available to protect farmers against risk. So far, the instruments chosen have not themselves elicited much criticism across the Atlantic. Not only are the incentives to production more difficult to measure, they may work in unfamiliar ways. EU environmental constraints would tend to lead to a reduction in crop intensity whereas US crop insurance could expand production by shifting the burden of risk. So the US farmer could in principle welcome the focus of the CAP on green measures and be content to rely on crop insurance should there be any untoward external impact on prices. For similar reasons, these payments are less visible to agricultural politicians. It is easier to complain about higher prices under the CAP than to criticise enhanced safety nets and strengthened rural development programmes.

3. WTO rules provide framework for improved relations

It would be misleading to suggest that all transatlantic tensions relating to domestic farm programmes are resolved. But they are contained in an institutional framework that allows governments to resist domestic pressures for greater protectionism. The search for expanding sales abroad continues, particularly in the US, with a focus on access to Asian markets. But with the glacial progress in the WTO Doha Round the focus has turned to bilateral or mega-

regional trade agreements for expanding markets.³ Export subsidies and similar policies have mostly evaporated in recent years, in part because of the higher prices on world markets since 2007 and in part because the notion of payments from the budget that benefit overseas consumers at the expense of domestic consumers has lost some of its political appeal. Though there is the opportunity to restrict export subsidies in bilateral agreements such as the TTIP, it is usually considered better to continue to seek a multilateral agreement to ban such market-disturbing policies.

With respect to domestic support, i.e. policies that operate within the borders, the Doha Round is still regarded as the appropriate location for continuing the process of reduction of trade distortions. Even the possibility that the Doha Round might never be completed does not seem to have been enough to justify putting domestic farm policies on the TTIP agenda. It is inherently difficult to restrain subsidies to producers of those goods sold within a free-trade area (FTA) but allow subsidies to producers of the commodity or good if sold outside the area. The rationale is that no government is likely to be willing to tighten constraints on domestic farm programmes in a bilateral agreement when the rest of the world would gain advantages but offer nothing in return. The counter argument is that subsidies to agricultural producers in an FTA partner will generally have economic impacts on intra-FTA agricultural and food trade and be a source of political friction. The argument for raising the issue in bilateral talks is essentially the same as that which led domestic support to be included in the Uruguay Round. Removing tariffs may not be enough to open up

³ Bilateral agreements are often the building blocs of mega-regional agreements, such as the Transpacific Partnership (TPP), in which most partners already have separate trade agreements with one or more of the other partners, and the Regional Comprehensive Economic Partnership, which includes Association of Southeast Asian Nations countries and the six states with which ASEAN has existing free-trade agreements (including China, Japan and Korea). In this respect the TTIP is unusual: it is a bilateral trade agreement but will join two markets that already are linked through trade agreements with a large number of other markets. Whether this will in effect consolidate the markets in which the US and the EU have preferences remains to be seen. For a fuller discussion of these issues in the context of Latin America see Josling et al., 2014.

markets if some producers are blessed with subsidies. Addressing the levels of subsidies may eventually be necessary if the FTA is to lead to satisfactory conditions of competition in the internal bilateral market.

Should the EU and the US keep domestic programmes off the table so as to be able to give them up in the Doha Round in exchange for market access abroad? Perhaps, but the reduction in price-based domestic support by the EU and the US is a rapidly-depreciating asset for negotiations with other countries. Few believe that there will be a reversion to the policies of the 1980s. It could be tempting to liquidate those negotiating assets in a bilateral deal while they still have some political value.

4. Nature of the TTIP avoids underlying issues

The main reason why agricultural policies are not under discussion in the TTIP has to do with the nature of the prospective agreement itself. There will naturally be a market access component to the TTIP that will have to include agricultural products. Particular sectors of US agriculture would like better access to EU markets, including beef producers, and some EU sectors such as producers of dairy products would hope to gain sales in the US markets.⁴ But these are in many ways side issues in a bilateral context. The main focus will be on the regulatory tensions that have irritated agricultural and food sectors in the US and the EU. Does this mean that the underlying tensions over agricultural policy have gone away? Not necessarily. It may be that some fundamental issues will still remain at the end of the negotiations. The strong political support for the opening of the negotiations came with a target date for completion that did not allow enough time to resolve all the issues in agricultural and food trade. The likely outcome of the TTIP will be to start a process of reconciliation and conflict control in areas of diverse and conflicting regulations. The major stumbling blocks are likely to be livestock growth promoters, the approval of biotech varieties of cereals, the tighter restrictions on the use of place names for foods and the hygienic standards of poultry-processing plants. The public is aware of each of these issues and the room for any longer-term resolution of the disagreements is slight. So setting up

⁴ See European Parliament (2014) and Josling & Tangermann (2014).

processes for handling such disagreements may be all that can be realistically achieved. And even that could be undone by legislatures when they come to endorse a political agreement.

If this cautious conclusion proves correct, several underlying tensions will remain. These include the attitude of the public to the adoption of scientific advances; the degree of public confidence in the scientific and regulatory agencies to provide the level of food safety desired; and the extent to which the developed countries can or should shape their policies to meet the challenge of climate change.

If the current divergence between the attitude of the public and the majority of politicians in the US and the EU to the spread of biotechnology continues, then cost differences between the US and the EU will become a significant factor in competition, and this will be exacerbated by the open transatlantic market. At the risk of oversimplification, the US public believes that technology, making use of advances in such areas as genomics and nano-science, is to be welcomed and encouraged. Though there are opponents, they have had little impact on policy. In the EU the situation is the reverse: caution replaces optimism and scientific advances are hindered. It is not difficult to see this attitudinal split within the transatlantic partnership as causing more tensions in the future rather than less. And the CAP is almost painfully neutral on these matters, including funds for research and competitiveness but not establishing clear priorities for the future of farming. Attempts to blur the distinction between the two pillars may solve a political problem but makes the CAP look rudderless.

Similarly, the divergence between the public willingness to accept the role of science in food regulations is also likely to be widened, and create more problems in an integrated market. Of course, better consumer information would help, but that begs the question as to who should provide the information if public agencies are seen to be untrustworthy. On climate change, the scientific establishment appears to be believed more in the EU. So we have an odd situation. The US public accepts biotech and trusts regulators to manage health risks but sees the scientific consensus on climate change as a threat to competitiveness. The EU public rejects biotechnology (in food, though not in medicine) and distrusts regulators and their scientific advisors but is convinced that climate

change is for real and that policies should reflect the need to ameliorate conditions. It is difficult to imagine these perceptual differences coexisting in a single transatlantic food market, at least without some retreat on the part of regulators. CAP reform did not advance the ball, and neither did the recent Farm Bill. If the TTIP could make any progress in this area its impact on EU and US agriculture could actually be more fundamental than tinkering with marginal reforms to the direct payments and adding new insurance options for farmers.

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19. REFLECTIONS ON THE CAP POST-2014

ALAN MATTHEWS

1. Introduction

At the time of preparing this chapter (December 2014), the process of implementing the 2013 CAP reform is underway. It is proving to be a difficult process for national administrations and farmers alike.

The introduction of the new direct payments regime was already postponed one year to 1 January 2015 in view of the delays in approving both the basic and implementing legislation. Yet farmers claim that they still do not know all the rules needed to implement the new policy (COPA-COGECA, 2014). In November 2014 the agriculture coordinators from the European Parliament's four main political groups urged Agriculture Commissioner Phil Hogan to postpone the introduction of greening measures for a further year to allow farmers and member states more time to correctly implement the complex environmental rules and to reduce the likelihood of penalties.¹ Commissioner Hogan did not accede to this request when he met with the Parliament's Committee on Agriculture and Rural Development (COMAGRI) on 3 December 2014, pointing out that he was not prepared to change a policy that had not even entered into force yet. However, he has stated that there would be a degree of flexibility to facilitate the implementation of greening measures, and he pointed out that no penalties would apply to farmers in breach of their greening obligations in the first two years. For those countries transitioning from the historic model of direct payments to their farmers, the transition may not be completed until 2019, towards the end of the

¹ www.farminglife.com/news/farming-news/hogan-urged-to-postpone-greening-1-6447569.

current multiannual financial framework (MFF) period. The same timeframe is envisaged for external convergence, involving the redistribution of direct payments from member states with above-average per hectare payments to member states with payments per hectare below the EU average.

The process of programming the new rural development programmes (RDPs) has also suffered significant delays. The first three RDPs out of 118 expected were not approved until mid-December 2014, and the great majority of the new RDPs are not expected to be approved until mid-2015. Changes in common market organisations are also being phased in over time. The abolition of dairy quotas takes place on 1 April 2015, while the elimination of sugar quotas will not take place until 1 October 2017. Thus full implementation of the 2013 CAP reform is being phased in at least over a four-year period.

2. The commissioner's mandate

Although the implementation phase of the 2013 CAP reform is not yet completed, it is worth reflecting on what might lie in store for the CAP in the years ahead. Commission President Juncker's mission letter to the incoming Commissioner for Agriculture and Rural Development emphasised the role that agriculture and rural development could play in delivering on the jobs, growth, investment and competitiveness agenda that he has placed at the centre of his presidency (Juncker 2014). He also charged him with "reviewing the potential for further simplification in the areas of direct payments and in particular as regards greening, rural development, quality policy and the fruit and vegetables scheme." Other priorities specifically mentioned included renewing efforts in the agricultural sector to contribute to energy efficiency and emissions reductions, and contributing to the 2016 review of the MFF by identifying ways of further increasing the focus of the CAP on jobs, growth, investment and competitiveness.

In his confirmation hearing before the Parliament, Commissioner Hogan emphasised his commitment to the simplification agenda (Hogan 2014a). He proposed to develop a simplification and subsidiarity strategy for the CAP within the first year of his mandate. He also committed to reviewing the design of direct payments policy after one year's experience with the reform,

including the arrangement on greening and ecological focus areas (EFAs), which links to a commitment made by the previous Commission (see below). He suggested reviewing the legislation on geographical indications with a view to further harmonisation and simplification, and examining the potential to simplify the fruit and vegetable scheme. Significantly, he also proposed to have a mid-term review of the CAP once there is sufficient data, which was the first explicit mention of a mid-term review of the 2013 CAP reform (Ragonnaud, 2014).

Commissioner Hogan has frequently mentioned the importance of stability and predictability for farmers, and the need to avoid continual changes of the rules. He thus sees simplification not as a 'big bang' at a point in time, but rather "a constant flow of smaller and larger actions aimed at making the lives of farmers and other operators easier" (Hogan, 2014b). However, he has also recognised that simplification is anything but simple. Many previous efforts have been made to simplify the CAP, yet the consensus seems to be that the policy has become even more complicated over time.² On the one hand, the purpose of many rules is to ensure that EU taxpayers' money is efficiently spent and to limit the opportunities for fraud. Many of the rules are put in place in response to the regular criticisms of the European Court of Auditors in relation to CAP spending. On the other hand, the 2013 CAP introduced an unprecedented amount of flexibility for member states in how they implemented CAP rules. Already, farmers in some member states complain that their governments are implementing the rules more strictly than in other countries and putting them at a competitive disadvantage. Restoring an even greater degree of subsidiarity to member states, even if it leads to more effective decision-making, can also mean that the common agricultural policy becomes even more uncommon. Navigating these conflicting objectives in pursuing his simplification agenda will not be an easy task for the new commissioner.

² See the DG AGRI web page on simplification http://ec.europa.eu/agriculture/simplification/index_en.htm.

3. Legislative trigger points

Apart from the commissioner's political commitment to deliver this simplification strategy within one year of taking office, the 2013 CAP legislation sets out specific dates that trigger a review of current regulations.

The earliest of these is contained in the declaration by the Commission on EFAs associated with the approval of the implementing legislation for the 2013 CAP reform:³

The Commission undertakes to thoroughly evaluate the experience with the implementation of the obligations on Ecological Focus Areas (EFA) as part of the 'greening' obligations, after the first year of application. In particular, the Commission will ensure that the administrative burden for Member State authorities and producers arising from the application of EFA is kept to an absolute minimum and that procedures are simplified, including those on ditches. The situation in terms of a level playing field due to the implementation of EFA in different Member States will also be examined and addressed if necessary. Should the requirement to meet the EFA obligations result in a noticeable reduction of the production potential of the EU, the Commission will revise the relevant delegated act.

This declaration was a concession to those member states and MEPs concerned that the greening measures would take land out of production. The spirit of this declaration runs counter to the commitment in the 2013 direct payments regulation that the Commission would present an evaluation on the implementation of the new EFAs by 31 March 2017 accompanied, where appropriate, by a proposal for a legislative act to increase the arable area covered by EFAs from 5% to 7%. Should the Commission decide, in its review of the first year of operation of EFAs in early 2016, that EFAs have had a negative impact on agricultural production, it would seem highly unlikely that it would then proceed, in the following year, to put forward legislation to increase the EFA area from 5% to 7% of the relevant eligible area.

³ http://ec.europa.eu/agriculture/newsroom/161_en.htm.

Furthermore, Commissioner Hogan indicated, in his first meeting with COMAGRI in December 2014, that he intends to widen this review of EFAs to other aspects of the direct payments rules. “We should seize the opportunity to also simplify the other rules of the new direct payments regime, provided that we do not re-open the basic policy decisions of the 2013 reform in this area...” (Hogan, 2014b). What remains unclear at this stage is how these early reviews of the direct payments and greening rules will feed into the promised mid-term review of the CAP, which seems likely to get under way in parallel with the mandated mid-term review of the MFF in 2016.

The mid-term review of the MFF is the result of a ‘revision clause’ in the current MFF whereby the Commission will present a review of the functioning of the MFF towards the end of 2016, taking full account of the economic situation at that time. The Commission had declared that this review would focus mainly on the functioning of the global margin for payments in order to ensure that the overall payments ceiling remains available throughout the period and on the particular requirements of the Horizon 2020 programme.

However, in his political guidelines for the next Commission presented to the Parliament last July, Commission President Juncker seemed to go further by stating, “The mid-term review of the Multiannual Financial Framework...should be used to orient the EU budget further towards jobs, growth and competitiveness” (Juncker, 2014). Recall that President Juncker, in his mandate to the new agriculture commissioner, specifically identified as one of his tasks “[c]ontributing to the 2016 review of the Multiannual Financial Framework by identifying ways of further increasing the focus of the CAP on jobs, growth, investment and competitiveness.” This mid-term MFF review could thus provide the opportunity to review the new CAP regulations. We discuss below whether this mid-term review of the CAP might be mainly a housekeeping exercise or an opportunity for a more radical shift in direction.

Another possible trigger point is contained in the new horizontal regulation that requires the Commission, as part of the extended common monitoring and evaluation of CAP policy instruments, to present an initial report on the performance of the CAP by 31 December 2018 and a second report by 31 December

2021. The first performance monitoring report might feed into the process of defining the CAP budget in the next MFF and possible revisions in the accompanying CAP regulations.

4. Link with the next MFF

The 2013 CAP reform had been well flagged. Even as the discussions on the CAP Health Check were underway in the Council on the basis of the Commission's proposals published in late 2007 and before the passage of the legislation implementing the Health Check reforms in January 2009, the French presidency circulated in July 2008 a paper for the informal Annecy meeting of agricultural ministers in September 2008 initiating a debate on the future of the CAP. Subsequently, in 2009 and early 2010 under the Czech, Swedish and Spanish presidencies, Council meetings were devoted to specific fundamental aspects of the future of the CAP: direct aid schemes, rural development and market management instruments, respectively. At Dacian Ciolos' hearing before the European Parliament as Commissioner-designate for Agriculture and Rural Development in January 2010, he explicitly proposed a post-2013 reform taking new market realities into account. He also recognised that the debate on the future CAP and the talks on the post-2013 financial perspectives were closely linked.⁴

This close linkage in the 2013 CAP reform with the MFF programming cycle has raised expectations that future CAP reforms would also be synchronised with the agreement on the next MFF. This would move the EU closer to the US model where a new farm bill is negotiated every five years. However, the relationship between CAP reform and MFF negotiations has often been asynchronous in the past, and budget considerations have not always been the driving factor.

For example, the 1993-99 MFF (known as the Delors II package) was launched in February-March 1992 in two papers entitled "From the Single Act to Maastricht and Beyond: the Means

⁴ COMAGRI, Hearing with Dacian CIOLOȘ, Commissioner-designate for Agriculture and Rural Development, Written answers sent by Mr Dacian Ciolos, Notice to members CM\800542EN.doc, European Parliament, http://www.event.europarl.europa.eu/hearings/static/commissioners/answers/ciolos_replies_en.pdf.

to Match our Ambitions" (COM(92)2000) and "The Community's Finances Between Now and 1997" (COM(92)2001). By this stage, the MacSharry CAP reform which had been launched a year earlier in 1991 was well underway and was concluded in July prior to the agreement on the MFF at the European Council meeting in Edinburgh in December 1992.

There was a much closer relationship between the Agenda 2000 CAP reform and the negotiation of the 2000-06 MFF. The Commission proposal "Agenda 2000: For a Stronger and Wider Union" (COM(97)2000) presented in 1997 built on the Commission's 1995 Agricultural Strategy Paper to the Madrid European Council, which examined various options for the CAP to deal with the forthcoming eastern enlargement. The Madrid Council at the same time requested the Commission to prepare a new financial framework, which resulted in the launch of Agenda 2000. The 2000-06 financial framework was agreed by the European Council at the Berlin meeting in March 1999 and the new CAP regulations were adopted shortly afterwards in May 1999.

The Fischler 2003 reform (which led to the introduction of decoupling) and the 2008 Health Check were not particularly informed by budgetary issues, as the financial envelope for the CAP for the period 2007-13 had been agreed at the October 2002 European Council. Following the fundamental reform of the first pillar of the CAP in 2003, it had been assumed that the major focus for policy reform in the new financial period would be rural development and an updated rural development regulation was agreed in 2005. However, this was followed by a revised consolidated single common market organisation (CMO) regulation in 2007 as a result of the simplification agenda and then by the 2008 Health Check that resulted in revised regulations for direct payments, the single CMO and rural development in 2009.

With the 2013 Ciolos reform a link between CAP reform and the negotiation of the next MFF was reintroduced. This CAP reform coincided with the preparation of the 2014-20 MFF and indeed was driven, to some degree, by the need to defend and maximise the share of the CAP in that MFF (Matthews, 2015: chapter 7, this volume). If this link were to continue for the next MFF period, then the schedule for approving the current MFF gives us some idea of the timeline to expect.

For the current MFF, the Commission forwarded its proposal to the Council and Parliament in June 2011. The European Council, having failed to reach agreement at its meeting in November 2012, finally decided on its common position in February 2013. This left sufficient time for the Council and Parliament to reach agreement by July 2013 to allow the Parliament to give its consent to the new MFF, which entered into force on 1 January 2014.

According to the 2013-20 MFF regulation, the Commission should present its proposal for a new MFF by 1 January 2018, which would be a half-year earlier than was the case for the current MFF. If the same timetable were followed on the next occasion, this would imply that the European Council would decide its position around the middle of 2019. The negotiations between the Council and Parliament to ensure the Parliament's consent to the MFF would then take place during the latter half of 2019. However, the lifespan of the current Parliament expires in May 2019, and a new Parliament will be constituted after elections on 1 July 2019. Thus a new Parliament will be asked to give its consent to the next MFF and not the current Parliament elected just last year. This may complicate the timing of any CAP reform linked to approval of the next MFF. If the Commission were to put forward proposals to revise the CAP regulations by the end of 2017 to coincide with the new MFF proposal, the current Parliament might give an initial response but it would most likely be the Parliament elected in 2019 that would conclude the co-decision process (see below).

5. Another grand CAP reform?

There are thus a number of opportunities in the legislative calendar during the current MFF for the Commission to propose another reform of the CAP. These include the 2016 mid-term review of the MFF as well as the legislative preparation for the next MFF due to be presented by the end of 2017. We have also seen that there are deadlines built into the CAP legislation itself requiring a review of CAP regulations, including the review of EFAs scheduled by end-2017 and the first performance monitoring report by end-2018. There are also the trigger points set out in the commissioner's political commitments, including the commitment to propose a simplification and subsidiarity strategy by the end of 2015, a commitment to review direct payment rules in early 2016, and a

commitment to a 'mid-term review' of the CAP at some unspecified date.

Will the new commissioner take the opportunity of one of these trigger points for a 'Hogan reform' of the CAP? Below, I consider the political economy arguments that point to limited rather than radical change in the next set of CAP proposals. But it is possible that this discussion could get very confused because people have very different interpretations of what they mean by 'reform'. Reform means change, but change is, in itself, an ambivalent term. There are at least two dimensions of change that should be highlighted: the distinction between 'grand reforms' and 'fine-tuning', and the direction of reform.

The mandate given to the Commissioner-designate for Agriculture and Rural Development by Commission President Juncker on his appointment emphasised implementation of the recent CAP reform, further simplification and prudent management of financial resources as his key tasks. The new commissioner already has a busy programme of CAP legislation in his period of office. A Parliament briefing to prepare COMAGRI MEPs for the confirmation hearings lists some of the dossiers he must address (Weissenberger, 2014). Implementing the newly-reformed CAP includes some specific challenges, such as the adaptation of the dairy sector to the end of quota system, answering recent strong criticisms from the EU Court of Auditors on EU financial support for the wine sector, and addressing the current crisis resulting from the Russian ban on imports of EU farm products. Other priorities include international negotiations covering agricultural goods, such as those relating to the Transatlantic Trade and Investment Partnership (TTIP) or within the World Trade Organisation (WTO) as well as policies on cultivation and use of genetically modified organisms and on the use of hormones or cloning in animal farming. Further, if it turns out that instruments in the new CAP are insufficient to address some emerging or unexpected problems, one would expect the Commission to respond by proposing new legislation.

Arguably, however, all of these issues amount to 'fine-tuning' of the CAP rather than adding up to a 'grand reform'. While it may be hard to draw the distinction, 'grand reforms' in the past have significantly altered the balance of the two CAP pillars, changed the

design and the distribution of direct payments, introduced new policy objectives for the CAP, or modified the degree of public intervention in agricultural markets. Nothing in the president's mandate or the Parliament's proposed agenda for the new commissioner hints at changes of this kind.

The second definitional issue concerns the content of any future 'grand reform'. Reform is a value-laden term that positively denotes significant change in line with the observer's preferences. But one person's reform may be another person's regress, as evidenced by the debate over whether it is appropriate to describe the 2013 CAP package as a 'reform'.

Until the Ciolos CAP package, there had been a certain trajectory of CAP reform towards what economists consider less distorting and more market-oriented policy instruments. The MacSharry and Agenda 2000 reforms replaced market price support with coupled direct payments, while the Fischler 2003 reform and the Fischer Boel Health Check replaced coupled by decoupled payments and set a date for the final elimination of supply controls on milk, sugar and vineyard areas.

From this perspective, a true reform in 2013 would have followed the advice of the Organisation for Economic Co-operation and Development (OECD) agriculture ministers in 2010 and moved from untargeted decoupled direct payments (which can only be justified as an interim, transitional measure) to targeted transfers designed to achieve specific objectives (OECD, 2010). The Ciolos reform made some moves towards greater targeting (it might be better to call it differentiation) of direct payments while also distributing them more evenly across member states and among farmers. It confirmed the elimination of supply management for milk and sugar and introduced measures to give producers greater bargaining power in the supply chain. It paid greater attention to increasing the competitiveness of EU agriculture, through new measures and greater resources for innovation and limiting the future use of export subsidies.

It responded to calls for greater subsidiarity by providing greatly increased flexibility to member states on how they want to implement the CAP, albeit at some risk to the cohesion of the single market. It also avoided responding to calls that would have reversed the reform process to date, such as introducing price-

dependent countercyclical direct payments or significantly raising safety net intervention prices.

However, the 2013 CAP package also enlarged the scope for recoupling of direct payments, did not forbid the use of export subsidies, and maintained expenditure on largely untargeted direct payments at the expense of Pillar II funding. Also, the greening proposals adopted have been heavily criticised as yielding very limited benefits for the environment due to the shallow nature of the measures and the large number of exempted farmers, despite the allocation of 30% of the direct payments budget as a 'green payment'. At the same time, if farm prices fall (perhaps as a result of slowing global trade) and margins come under pressure, the commissioner will face calls to raise intervention prices, reintroduce export subsidies, propose a voluntary buy-out scheme in the dairy sector and move back towards a more regulated market.

Thus an important issue for the incoming commissioner's term in office is not only whether he will propose a 'grand reform' but what direction would it take? Answering these questions requires an understanding of the political economy around another CAP reform.

6. The political economy of further CAP reform

The 2013 CAP reform itself left many stakeholders dissatisfied. There will be pressure to reopen some of the compromises made as part of that reform (Buckwell & Baldock, 2014). New member states will be hoping to complete the process of external convergence of direct payments. Environmental groups, disappointed by the outcome on CAP greening, will be hoping to build on the modest new instruments introduced by the 2013 CAP reform to push for a greater focus on public goods. Farm groups will push for stronger market crisis instruments and less regulation of farming practices. Public policy analysts will continue to question the basic rationale for uniform decoupled direct payments.

However, these pressures for further reform to some extent work in opposite directions and thus tend to cancel each other out. There are also other arguments that suggest a limited appetite for reform in the current MFF period. The new commissioner has emphasised the importance of stability and predictability for

farmers. Neither did the Commission President Juncker's mission letter call for a further round of reform. Member states are completely absorbed by the process of implementing the 2013 reform, fearful of the additional complexity and of the prospect of payment disallowances if they get it wrong.

The reformist camp, always a minority among the member states, appears to have lost much of its momentum and cohesion during the 2013 CAP negotiations (with the UK, in particular, preoccupied with other issues). It is also likely that the greater flexibility member states now have to implement the CAP will sap the reformist zeal. Member states that wish to move the CAP in a more targeted direction to focus on public goods now have considerable scope to do that within the current CAP framework, even if the same flexibility allows other member states to move in the opposite direction. Why waste political capital advocating for further CAP reform when the possibilities are already in your own hands?

In this context of 'reform fatigue', it is probable that only a rapid change in external circumstances would trigger another 'grand reform'. The 2013 CAP reform was clearly influenced by external events, in particular the high and volatile prices on global food markets, which changed the terms of the debate on the future CAP by elevating the 'food security' argument at the expense of the 'public goods' one. Unexpected external events could also be important in shaping the Commission's next CAP proposals.

The WTO, which had an important influence on earlier CAP reforms, is unlikely to be a significant driver of further reform even if the Doha Round unexpectedly returned to life, although the CAP remains vulnerable to a challenge regarding the 'green box' status of the single payment (Swinbank, 2015: chapter 8, this volume). Global food prices are forecast to remain at historically high levels, but also to be more volatile, which will continue to feed into the 'food security' narrative for more support for EU farmers.

The EU's next energy and climate package now being negotiated will affect agriculture in various ways, including the support given to agriculture-based biofuels, the way emissions from land use and land use change are addressed and the scale of the demands on agriculture to limit emissions. Although the European Council has agreed headline targets for emission reductions for

2030, the treatment of agricultural emissions within these targets still remains unclear.⁵

Also, biodiversity loss, water pollution, soil erosion and resource waste and inefficiency will continue to play a role in setting the agricultural policy agenda, but the new Commission may well argue that these are matters where member states, in the first instance, must respond by making use of the instruments that are already available.

Finally, the state of the EU economy towards the end of the decade will influence the overall resources available for the next EU MFF. This, in turn, will shape the share of the CAP in that MFF. If the Commission were to seek additional resources for competitiveness and infrastructure projects by cutting back on the CAP budget more severely (as recommended in the leaked but discarded first draft of the Commission's mandated budget review half way through the 2007-13 MFF),⁶ this might be sufficient to trigger a more fundamental review of CAP instruments and policies, although whether the outcome would be a move in the direction of greater reform remains an open question.

7. What are the prospects for the next CAP reform?

Against this background, what are the prospects for the next CAP reform? Some optimists among environmental NGOs already see a possibility that the promised mid-term review could build on the greening measures, not only moving to the 7% figure for EFAs but also extending obligations to more farmers and even introducing additional measures. It is hard to see the political appetite for such an initiative.

Also, although it will be possible to measure the impact of EFAs on land use and agricultural production during their first two years of operation by early 2017, when the Commission is due to

⁵ <http://capreform.eu/agriculture-in-the-2030-climate-and-energy-package/>.

⁶ A copy of this leaked version is available at www.pouruneautrepac.eu/wp-content/uploads/2009/11/draft-document-reforming-the-budget-oct-2009.pdf-0.

report on the operation of this requirement, measuring their environmental impacts (or lack thereof) is going to take much longer. Indeed, the extension of EFAs to 7% of arable land in 2017 cannot be taken for granted and could well be postponed to the next revision of the CAP regulations in connection with the MFF.

It seems plausible that the Commission would first make proposals to revise the CAP regulations as part of its MFF proposal to be made before the end of 2017. One of the lessons from the recent CAP reform was that the Parliament was unwilling to engage in trilogues with the Council until it knew the outcome of the MFF figures for the CAP. I have argued that this position greatly helped the more status quo-oriented voices in that debate and weakened the position of those pushing for a stronger focus on greening the CAP (Matthews, 2015: chapter 7, this volume). The Parliament will be strongly tempted to adopt the same position in the next set of negotiations as the same arguments would apply. However, the current Parliament's term comes to an end in May 2019. Assuming that the European Council's MFF figures would not be known until mid-2019, this strategy would mean that the current Parliament would forego its chance to decide the nature of the next CAP reform. Under that scenario, it would be up to the new Parliament to agree on the new CAP regulations through co-decision in the second half of 2019 or early 2020.

An alternative scenario would see Commissioner Hogan converting his 'mid-term review' in 2016 into a more far-reaching review of the CAP regulations. This would imply discussions taking place on the future CAP already in 2015, with almost no information available on the impact of the 2013 reform and with no clear idea of the macroeconomic and budgetary context for agricultural policy in the years after 2020. It is hard to see the merits of this option compared to waiting until at least the end of 2017 or even later to activate the process.

Whatever the timing, the current evidence suggests that these new CAP regulations will largely roll the existing rules over, perhaps tweaking the external convergence formula under pressure from the new member states and making other minor changes. There appears to be little appetite for further substantial steps towards a more targeted CAP focused on the delivery of public goods. On the contrary, the specific mandate given to

Commissioner Hogan by the commission president is to increase the focus of the CAP on “jobs, growth, investment and competitiveness”. This sits well with the expressed views of the commissioner himself, and is a more likely direction for the next set of CAP reform proposals.

But up to four years could pass before the commissioner makes his proposals, and a lot can happen in that time!

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20. WHERE SHOULD THE CAP GO POST-2020?

*ALLAN BUCKWELL**

The breadth of the necessary stakeholder consultation and the length of the EU political decision-making process mean that early thinking on the next CAP reform has to commence as soon as the last reform is decided. Consideration of the range of pressures likely to confront EU agriculture into the 2020s, their origins in market failure, market imperfections and missing markets, and their generally transboundary nature lead to the conclusions that the EU will continue to require agricultural policy and there are sound reasons for it to be a common European policy. The variety of challenges confronting agriculture and problems with the current CAP are such that it is hard to see any single or pair of dominating ideas emerging to define the shape and content of the next reform. This suggests that it is more likely to follow the example of the last two reforms as incremental evolutionary change rather than a big-bang radical restructuring.

1. Why it isn't too early to start thinking about the next reform

Discussions about the future of the post-2020 common agricultural policy (CAP) started in late 2014 in different parts of Europe as a new commissioner for agriculture and rural development took up his post and the implications of the final version of the 2014-20 reform became more apparent. This chapter draws on some exploratory dialogues in and beyond the Institute for European

* This chapter started out as a think piece first drafted by Buckwell & Baldock (2014) for the IEEP website, benefitting from insights from Martin Nesbit and Kaley Hart. The modifications since that posting and full responsibility for this version are the author's.

Environmental Policy (IEEP) in that period. It provides reflections both on what to expect and what might be most welcome in any future CAP, if indeed the CAP will survive into the third decade of this century. The incredible adaptability, and thus durability, of the CAP, and its Treaty basis, suggest that it is a safe bet that it will survive another decade. Seeking to ensure that it better serves the interests of the EU citizens is the prime motivation for this article.

It might seem premature to be raising questions in early 2015 about the future of the CAP beyond 2020. After all, the full implementation of the most recent reform, which runs until the end of 2020, only commences in January 2015, and new rural development programmes always take a long time to develop and disburse funds. Three reasons are offered for starting to think about the next reform now:

- i) With full co-decision it now takes three years to conduct a serious reform from a first communication, such as a Green Paper, to full implementation readiness.
- ii) Experience suggests that genuine reform requires a broad, shared understanding of the purpose and direction of a new policy. It takes several years to prepare the ground and assemble the EU-wide evidence to back sound reform proposals.
- iii) In any case, the mid-term review of the multiannual financial framework (MFF) during 2016 and the mandated reviews of ecological focus areas (EFAs), the fruit and vegetable regime and geographical indications will raise questions potentially central to a new CAP in the next few years. Well prepared proposals from the Commission should be on the table in 2018.

It also seems plain that the Ciolos reform has opened, but by no means completed, several adjustment paths within the policy. Redistribution and better targeting of support payments and further transformation of the policy to confront the pervasive market failures surrounding agricultural land management, especially the delivery of environmental public goods, are launched in the current reform, but none is taken more than a third of the way. In the process, the policy has become considerably more complex and there are strong political pressures – notably in the mandate that

Commission President Juncker gave Agriculture and Rural Development Commissioner Hogan¹ – to simplify the policy.

2. Will there continue to be justification for a grand policy for agriculture and rural development?

With a policy so strongly entrenched as the CAP it is very tempting to start the consideration of the next stage of its evolution by listing its current shortcomings. This should be resisted, precisely because it is exactly where the EU institutions will start. Rather, we should start by asking whether and why we need a European agricultural policy by examining its justification and looking at the challenges facing EU agriculture that may demand collective policy action. It is suggested that the prime challenges facing post-2020 EU agriculture are those listed in Table 20.1.

Table 20.1 Expected challenges facing post-2020 EU farming

| | |
|----|---|
| 1 | Achieving productivity gains |
| 2 | Hence alleviating low farm incomes – cost price squeeze |
| 3 | Coping with market volatility |
| 4 | Survival of the marginal areas – land abandonment/population outflow |
| 5 | Assisting restructuring : food chain, tiny holdings, new entrants, aged farmers |
| 6 | Providing environmental protection for: soil (fertility and erosion); water (quantity and quality); biodiversity and ecosystem services, e.g. pollination and cultural landscape |
| 7 | Mitigating and adapting to climate change (reducing GHG emissions; coping with change in temperature, precipitation, extreme events, plant and animal disease) |
| 8 | Bioenergy contribution |
| 9 | Food safety and authenticity |
| 10 | Safeguarding animal welfare |
| 11 | Waste and residues utilisation |
| 12 | Diet and health /nutritional quality of food |

¹ European Commission (2014).

The first five of these challenges have been subjects of the CAP since its inception. The others have been added as considerations in the CAP progressively since the mid-1990s, particularly through the programmed schemes of the second pillar, although the last has received one-third of the resources and attention.

The challenges are transcribed into the following familiar mix of broad European rural policy objectives:

- to maintain resilience and improve agricultural productivity to help ensure food security for citizens at a lower resource cost;
- to help agriculture improve its environmental performance;
- to contribute to reasonable living standards for primary producers who will have to cope with continuing volatility in markets, including that arising from the effects of climate change, and;
- to assist the development of rural areas, especially remote and marginal areas.

Yet, these challenges themselves partly arise because agriculture continues to undermine its own sustainability by degrading natural capital – pollinators, soil fertility, biodiversity, water and air quality and contributing to harmful climate change. Helping improve the resource efficiency of food production and thus its financial viability for the future whilst at the same time restoring and maintaining rural natural capital should be core functions of agriculture beyond 2020 and reflected in the objectives of the CAP.²

Simplistic claims about the EU needing to increase production to feed the world should be avoided, but Europe's contribution to overall supplies may have to grow in the coming decades and this is an additional reason to build production systems and accompanying skills that are robust, resilient and in tune with environmental and social demands in Europe.³

² Another way of expressing this is that EU agriculture should be steered onto a path of sustainable intensification, RISE (2014).

³ Global food security raises issues about governance, food access and food consumption patterns, which are far wider than simply increasing the

There will continue to be difficult questions concerning the optimal structure of EU agriculture. There is still a strong political, and it could be said, romantic, attachment to a highly fragmented structure of family farms.⁴ There seems to be reluctance to accept that most larger agricultural holdings are also family-based, and distrust of larger corporate farming structures. So there is little consensus about how much restructuring, rationalisation and consequent decline in smaller farm employment is desirable and acceptable. Although seldom explicitly acknowledged, the CAP's role has generally been to slow the outflow of labour from agriculture; this should surely be balanced by a more vigorous role in creating viable new jobs in the food system and rural environmental management.⁵ Part of this structural challenge is finding routes for farming to thrive whilst sandwiched between the highly concentrated upstream supply industries (fertilisers, machinery, crop protection and plant breeding) and the only slightly less concentrated downstream food processing and distribution sector.

In addition to its prime function of food production, mainstream agriculture will continue to have a wider role in contributing to the EU bio-economy and the circular economy. This includes renewable energy production, reducing waste, and recovering and recycling biomass and crop nutrients. Getting the right balance between agriculture, forestry and other land uses will be increasingly important, as will be the management of soil and soil carbon. The proportionate contribution of agriculture and land use change to greenhouse gas (GHG) emissions may well increase in the future, so the pressure to curb these emissions will grow.

quantity of food output, and even less about food output in the EU. But equally, it is inconceivable that EU agricultural policy could ignore food security altogether.

⁴ This was especially evident in many of the events and articles that emerged during the 2014 UN International Year of Family Farming, e.g. European Network for Rural Development (2013).

⁵ This is certainly an aspect where there will still be strong divergences between the needs of the older and some newer member states lasting through the 2020s.

If these are not already a complex enough set of considerations, the policy must also contribute to high standards of food safety and authenticity, improved animal welfare and of course healthy and nutritious diets that, in turn, could change quite significantly. Accompanying these objectives could be a continuation of the strong emphasis on “jobs and growth” that was the central priority of the Commission president in his letters to the commissioners for the period 2014-19, including both Hogan (agriculture) and Georgieva (budget).

This brief overview of the likely challenges facing EU agriculture at the end of this decade serves already to indicate that a sector that manages a high proportion of the territory and thus the natural environment, and that also provides a high proportion of the food needs of the population, is bound to present some difficult interactions and choices. It is important to note that perceptions of which of these considerations is the most important vary. It is not clear at all that there is a consensus in EU society about which of these challenges should be considered the top priority. Indeed, strong interest groups have developed to articulate alternative positions – most strikingly, the farmers who want to focus on food productivity and production, and environmentalists who are concerned that too much agriculture is already at, or approaching, environmental limits.

However, a common feature of the issues concerning land management and food production is that they are replete with market failures, market imperfections and uncertainties. In nearly every one of the challenges discussed here there is a strong public interest that seems unlikely to be met by the market alone. These form the strong justification for continued public policy arrangements for EU food production and rural land management. The next questions are whether the most appropriate policy response is at EU or member state level and its resemblance to the existing CAP. This is the subject of the next section.

3. Will we still require a common EU agricultural policy?

For a certain period in the development of the CAP, it seemed that the need for a commonly financed and administered policy for the

EU rural areas was diminishing. The successive reforms of MacSharry (1993), Fischler (1999 and 2003) and Fischer Boel (2007) transformed the CAP away from essentially a regulatory framework for agricultural commodity markets, which in a single market necessitated common support measures, common prices and shared 100% EU financing. The reforms were accompanied by a system of direct payments in Pillar I that were very explicitly calculated as compensation for the cuts in support prices. These payments were complemented, after the Agenda 2000 reform, by regionally defined, menu-driven, co-financed, multiannual, rural development programmes under Pillar II.

The policy evolution for roughly a decade and a half, from the early 1990s to the late 2000s, could therefore be characterised as a slow transformation process from a set of universal, obligatory, 100% EU-financed, agricultural commodity support measures towards a more market-oriented, decoupled, decentralised, and co-financed⁶ rural development approach. Some interest groups and one or two member states indeed advocated the logical conclusion to this process.⁷ This was to recognise that compensatory payments should be transitional and ultimately phased out, leaving the regionalised and co-financed rural development measures as the core of the policy. If this had come about, or if it comes about in the future, then it would logically be accompanied by a debate about the extent to which a common policy, and especially common EU financing, was still justified.

However, the strategic policy path of moving from a commodity support policy towards a more differentiated and

⁶ The fact that the Pillar II measures were mostly co-financed was a matter of important principle for many. The idea is that member states will pay more attention to the value for public money of these more discretionary measures if they have to find part of the financing themselves. However, this high principle has been sacrificed when expedient to do so (as exemplified by the UK in relation to voluntary modulation).

⁷ Agricultural economists as a profession were strongly (though of course with some dissenters) inclined to advocate the elimination of direct payments – no groups should be compensated indefinitely for policy change. See, for example, *Reform the CAP* (2009). The UK and Sweden were the member states most inclined to argue that Pillar I should be diminished and phased out, see HM Treasury & Defra (2005).

programmed rural development and environmental land management policy was, at best, weakly established and accepted. Unsurprisingly, the major direct beneficiaries of the support system, i.e. farmers, have strenuously resisted any hint that the compensatory payments might be transitional and ultimately phased out or, for example, converted into bonds. And fatally for the compensation view of direct payments, the candidate member states in Central and Eastern Europe fought hard for, and won, the battle to be included in this 'compensation' even though their accession involved nothing for which compensation was justified. It was therefore no surprise that in the first real reform undertaken in the EU of 27 members, and under a commissioner from a new member state, the principal issue was the redistribution of the funds for the direct payments rather than their phasing out. In the Ciolos reform, the drift of resources from Pillar I to Pillar II was halted and for some member states reversed, and the extent of allowing the recoupling of measures back to agricultural commodities widened. Thus the previous strategic reform direction has ground to a halt or even reversed.

Interestingly, the eastern enlargement that introduced much greater heterogeneity into the farming systems, structures and range of natural, economic and social conditions, also introduced in the Ciolos reform considerably more national flexibility. This showed up as the wide range of choices available to the member states in the way that the measures in both pillars of the CAP could be implemented.⁸ On the face of it, therefore, the CAP that will operate until 2020 will contain a wide variation around the member states and regions in support levels and detailed operation of support measures in both pillars. With the final disappearance of the remnants of the commodity regimes (milk and sugar quotas), it might be argued that these arrangements, whilst still operated as a common policy framework under common EU regulations, are in fact highly differentiated national policies.

⁸ The very nature of Pillar II has always allowed wide discretion and thus variation amongst member states; the Ciolos reform introduced similarly wide flexibility in Pillar I measures. This shows up, for example, in the definitions of 'active farmer', the regionalisation of payments, the extent to which large payments are curtailed and small payments enhanced, the greening measures, and the extension of coupled payments.

However, starting from the present realities, the jump from differentiated implementation of a common basket of measures, which is still to a great degree financed from the EU budget, to nationally defined and financed agricultural policies is a jump too far. In the current era in which there is a general suggestion that the EU is trying to do too much, however logical it might seem to some to put agricultural and rural policy into the category of things the EU is doing that should be repatriated to the member states, this is not in the realm of feasible options.⁹ Indeed, the arguments in principle for action at EU level are strong. This speculative overview chapter is not the place for a rigorous analysis. These issues are examined in some detail in the evidence collected in the UK under an exercise conducted by the British government in 2012-14 to look at the 'balance of competences' between the EU and a member state.¹⁰ The broad conclusion was:

The debate on EU competence for agriculture as set out in the evidence submitted was strongly supportive of EU competence in relation to the Single Market for agricultural goods and to the EU's role in negotiating global trade deals for agricultural goods.

The review continued, "In the main, respondents thought that EU-level action was appropriate for agriculture." But there were also strong criticisms that "the CAP remains misdirected, cumbersome, costly and bureaucratic." It is therefore of interest that even in the member state generally associated as having the most hostile attitude towards the CAP it is not argued that it would be better if agricultural policy were devolved to the member state level.

Why not? Because the heterogeneity of European agriculture, environment and rurality, the complexity of arranging pan-European policy measures that work, and the departures from commonality on the recent reforms are outweighed by the interaction of four factors:

- The overwhelming suspicion that outside a common policy it would be impossible to prevent un-level playing fields developing as some member states inevitably found ways to

⁹ Not least because it would demand treaty change.

¹⁰ See the final report of the UK Government (2014), "Review of the Balance of Competences between the United Kingdom and the EU: Agriculture".

support their agriculture more generously than others. This is tantamount to saying that there is no confidence that the Commission would have the powers and ability to enforce state aid rules for the agricultural sector. This seems an extreme position. However, there is no doubt that even with a common policy there are still heart-felt arguments from producers in some countries that they are penalised vis-à-vis producers elsewhere in the Union.

- The land management sector is characterised by pervasive market failures, mostly, but not only, with respect to environmental concerns – soil, water, climate, biodiversity and cultural landscape. For all but the first and last of these they involve for most (but not all) member states transboundary effects. This is already reflected in that these issues (except soils) are managed under EU environmental directives. Thus it makes sense that the complementary actions under agricultural and rural policy are also managed at EU level.
- The fact that there is a strong connection between the production of the marketed agricultural outputs of the sector and the non-marketed environmental services that are or could be produced on farms.
- There has always been at the very least a hope that the CAP as a significant, although falling, user of the total EU budget serves some degree of solidarity and cohesion within the EU. That is, it transfers resources towards less developed, more marginal producers and regions. The extent to which this is so is highly dubious, but several of the attempts in the Cioloş reform to redistribute support and better target the measures at least set out with this general objective.

It is suggested that these four factors combined with the fact that the existence of a common agricultural policy is, and has been since the Treaty of Rome, written into the Treaty, mean that there will still be an EU common agricultural policy in the 2020s. Even if a fragmentation of the eurozone, or a British exit, or measures to prevent these things from happening, were to necessitate a Treaty change in the next five years, it is judged to be extremely unlikely that removing agricultural policy from the Treaty lies in the bounds of political feasibility.

4. What are the options for reform?

To this point, the conclusions are, first, that there will continue to be significant challenges confronting post-2020 European agriculture, which by virtue of their association with externalities, missing markets and market imperfections deserve a collective or policy response. Second, this should continue to be a policy response at the European level. Thus as long as there is a Treaty basis for a common agricultural policy, this will form the legal framework for this policy. There is, however, no necessity that future agricultural policy has to be the same as the current CAP. It has proved an extremely resilient and flexible framework that has survived the growth of the EU from 6 to 28 members, under several different currency regimes, a switch from a net import to a net agricultural export stance, and a complete transformation from a commodity support policy to a complex set of agricultural, environmental, territorial and social measures. It is evident that the unchanged Treaty objectives of the CAP that have survived since 1957 are not a constraint on the measures actually deployed under this policy.

In what directions could reform take the policy? A zero-based review might come up with seven conceivable versions of a CAP for the post-2020 era. These are summarised in Table 20.2. The first four describe radical redefinitions of what the policy could primarily be about. They show the prime focus could be: agricultural adjustment; the food chain; rural land and resource management; or rural society. The next three options listed are progressively less ambitious, more incremental or evolutionary reforms of current policy. The table offers a brief descriptive account of each option.

Just as in the Commission's 2011 Communication that preceded the Ciolos reform, these are not spelled out in detail, but offered to stimulate debate about the character and principal objectives of the policy. The first four options represent a distinct narrowing of the focus of the policy to test what it is really mostly about. What is the most important thing we are trying to achieve with this policy? Each of the radical options, if taken at face value, would require a significant dismantling of existing policy measures.

Table 20.2 Options for a post-2020 common agricultural policy

| | | |
|---|---------------------|---|
| A | Radical reform | <p>Policy for agricultural adjustment</p> <p><i>No enduring annual payments, only transitional support for, say seven years, for restructuring and refocusing for life without subsidy, environmental performance within legislative standards, coping with natural and market volatility, managing the market power imbalance with the up and downstream sectors, and delivering locality and quality. Provide mostly investment, restructuring, advisory and training help.</i></p> |
| B | | <p>Policy for the food chain</p> <p><i>Stronger focus on integrating and rebalancing farming structures into local and/or national and international food chains, with strong focus on waste reduction, improving diet and health (plus elements of option A?).</i></p> |
| C | | <p>Policy for rural land and resource management</p> <p><i>Focus on the environmental market failures/public goods and climate mitigation and adaptation, which explicitly embraces supporting and regulating, as well as provisioning cultural ecosystem services. Will therefore include energy, forestry, wetlands, cultural landscape and rural recreation.</i></p> |
| D | | <p>Rural social policy</p> <p><i>Direct payments only on social (including income if explicitly tested) or territorial solidarity grounds. Repatriate greening and Pillar II to member states, much smaller budget, stronger enforcement of environmental regulations, enhanced state aid rules.</i></p> |
| E | Evolutionary reform | <p>Major switch to rural development</p> <p><i>Scale back direct payments to the minimum, retain and enlarge rural development to include proper greening and whichever measures in options A to D can be agreed. (This essentially builds on the Commission Communication 2011, third option.)</i></p> |
| F | | <p>Redistribution and rebalancing</p> <p><i>As now but insist on co-financing either all measures, or no measures (i.e. treat both pillars the same) more redistribution of direct payment funds – but based on objective criteria, more targeting of direct payment e.g. means-tested. Switch greening to Pillar II with its funding.</i></p> |
| G | | <p>Further improvements on Ciolos reform</p> <p><i>Elements of option F plus:</i></p> <ul style="list-style-type: none"> - innovation for sustainable farming, water, energy, waste - reconsider risk management measures to substitute basic payments - more effective cross-compliance - more appropriate principles for 'high nature value' farming support - finding ways to delivery landscape/catchment scale management - increased farmer self-administration via cooperatives - more emphasis on results-based payment schemes |

These really would be strong simplifications of what the policy is trying to achieve, and therefore would offer significant simplification of the measures. This illustrates that if (as is likely) we persist in a policy for a heterogeneous EU-28 with multiple agricultural, food, environmental and social objectives, then we should not be too surprised that this results in a policy of immense complexity. The presumption would be that whatever is chosen as the prime objective of the CAP amongst these radical options, the other objectives would be pursued by national policies. Of course, this would raise issues of fair terms of competition.

All the radical options A through D explicitly involve the removal of most or all direct payments. In reality this would inevitably require an adjustment period or perhaps a revival of the Tangermann 'bond' idea as an exit route for these payments. This step would also demand an answer to the question: how, in the absence of direct payments with cross-compliance, do we get respect for the statutory management requirements and good agricultural and environmental conditions?

Of course, the options listed in Table 20.2 could no doubt be much extended by others with more creativity and imagination than the author. However, experience of the EU agricultural policy debates of the last five decades suggests that significant groups could be found to support each one of the general directions suggested by the options listed. This is exactly what was noted at the consultative conference that Commissioner Ciolos held in July 2010 soon after his appointment. There was little or no consensus about the top priority challenge that the policy confronted; no consensus on what was the most important problem with the CAP as of 2010; thus no consensus on the principal characteristic of the reform direction. It is suggested that this was in contrast to the situation that applied prior to the 1993 MacSharry and the 2003 Fischler reforms.

5. What are the weaknesses of the current CAP?

However radical, the next CAP reform will have to build upon the existing policy so the shortcomings and strengths of the CAP as modified by the Ciolos reform will be a crucial departure point at some stage in the debate. However, the different interest groups have quite different perceptions of these shortcomings and

strengths. Many will point to the continued lack of justification for the current level and distribution of the basic support payments. Others will emphasise the lack of progress in delivering the protection of biodiversity, water, soil, climate and cultural landscapes. Still others will say the policy does not do enough to help the industry restructure and innovate or to survive without dependency on public subsidy and without degrading the natural environment. The principal direct beneficiaries of the CAP, farmers, complain of its complexity and associated bureaucracy, unevenness and unfairness of support, and lack of help in dealing with volatility and the market power of the food industry. These problems of the current CAP as seen by certain interest groups are summarised in Table 20.3.

Table 20.3 Principal problems of the current CAP (from the perspective of...)

| | |
|---|---|
| 1 | Perpetuated, untargeted payments (taxpayers/efficiency) |
| 2 | Unfair distribution of supports (the poorest farmers) |
| 3 | Poor help with volatility, market power and lower standards abroad (farmers) |
| 4 | Environmental measures are not delivering (society/green NGOs) |
| 5 | Complexity , cost-raising bureaucracy (farmers and administrators) |
| 6 | Deterrence of needed structural change (potential investors) |
| 7 | Poor value for money (VFM) in many rural development measures (taxpayers) |
| 8 | Insufficient help with innovation (farmers and society) |
| 9 | Over-constrained by benefit distribution (reformers) |

About the only proposition on the CAP that commands near universal agreement (but that has also quite explicitly been part of the CAP debate for well over a decade) is the complaint that levels of complexity in the CAP seem excessive both for farmers and administrations in the member states.¹¹ It is worth pointing out that not all the complexity surrounding agriculture emanates from DG

¹¹ Matthews (2015) provides a pithy summary of the attention devoted to simplification since the early 2000s.

Agri; much comes from the Sanco, Environment, Climate, and Energy DGs. However, simplicity *per se* can never be a prime purpose of public policy. The structural heterogeneity in EU farming, which itself is based on the heterogeneity of physical, biological and climatic features of Europe, plus the intrinsic connection between the production of market goods (food) and non-market services (good environmental land management), create a certain unavoidable complexity. Highly targeted policies sensitive to local conditions have their place and will be needed. Also, monitoring and evaluation are not a luxury, however exasperating to farmers and administrations. But many might agree that the way in which the CAP caters to so many special interests, and often incorporates measures to smooth the sometimes uncomfortable impacts of previous reforms, is itself a driver of complexity.

One lesson is that these issues demand collaborative thinking across organisations, public and private, spanning the full range of issues that should be feeding into the CAP. This list is long and includes food, soil, water, biodiversity, climate, energy, diet, health, food safety, animal welfare, competing land use such as forestry, economic growth and employment, competition, and trade. Is it reasonable to expect a sectoral and territorial policy affecting this range of issues ever to be simple?

6. Lessons learned from past reforms

These are numerous and analysts all have their favourites. One is that there must be substantive drivers to create impetus for reform in a domain where the status quo is strongly entrenched. This does not mean that national governments need to be enthusiastic, but successful reform requires strong, clear leadership from somewhere. Few were ready to support Fischler's clear steer towards payment decoupling at the time of the 2003 mid-term review, especially at the beginning. In 2010-13, by contrast, the Commission seemed less confident in its exchanges with the European Parliament and apparently more ready to cede ground, including on points where the Parliament's Committee on Agriculture and Rural Development (COMAGRI) had advanced proposals that did not withstand much technical scrutiny.

Future strong leadership is likely to require a determined push from a set of interested commissioners embracing agricultural, regional, environmental, energy/climate and budget policy. A solitary agricultural commissioner, however brilliant, will struggle to break any moulds.¹² This is even more the case since other DGs will be looking for a slice of the CAP budget and could be pressing their case with some force in what could be a tighter economic climate as new MFF is sketched out starting in 2016.

Distributional issues, especially the gains and losses per member state, are always critical in CAP debates and it is easier to formulate and negotiate proposals that do not disturb the status quo too much. However, this can be a stifling constraint on new approaches and the capacity to pursue changing objectives. It should be remembered that distributional adjustments between member states can be managed outside the CAP, not only within it.

7. The context in which the reform debate takes place and in which the next policy will operate

Apart from proximate geopolitical threats (e.g. Ukraine, ISIS) the EU itself is going through a difficult period economically, with the continuing debt and low-growth crises affecting both eurozone and non-eurozone members. There are also political strains of holding together the current membership of both the eurozone and the EU itself whilst maintaining the defining principles of the single market. None of these issues will disappear quickly. In particular, the current focus on jobs and growth is likely to remain critical in the background of the MFF review. It is hard to escape the conclusion that the EU budget share of the CAP beyond the current financial perspective is bound to fall under scrutiny – not least because it is not clear how direct payments contribute to EU ‘jobs and growth’. This is the strongest candidate to be the defining pressure for post-2020 reform. Adjustments in future agricultural

¹² Especially so since the new feature of the Juncker Commission of having project teams of commissioners within the College grouped around the four themes: Energy Union with a Forward-Looking Climate Change Policy, Jobs, Growth, Investment & Competitiveness, Digital Single Market and A Deeper and Fairer Economic and Monetary Union. See European Commission (2014a).

policy may be precipitated to accommodate trade agreements (see Swinbank, 2015: chapter 8, this volume; and Josling, 2015: chapter 18, this volume). The Transatlantic Trade and Investment Partnership (TTIP), if it is agreed, could put the focus both on vulnerable sectors such as beef producers, and on food and agricultural standards that Europeans broadly support. However, it is suggested that these will not produce the kind of CAP reform pressure that was experienced in the late 1980s.

Since the commodity price spikes from 2007-08 there has been a broad view that the global market context in which EU agricultural policy will be operating is one of tight markets and generally high prices.¹³ This was particularly premised because of the apparent new reality of much higher energy, and thus fertiliser, prices. It is not clear if the unpredicted collapse in oil prices in the second half of 2014 is an aberration that will be short-lived or whether it could persist for several years. But, paradoxically, it appears that whether commodity prices are high or low, European farmer organisations are adept at wheeling out arguments for the continuation of generous public support.¹⁴ At times of low prices they plead poverty, and when prices are high they argue that impending food insecurity necessitates investment in farming!

The Commission's 2014 market outlook¹⁵ for the next decade shows a continuation of cereal prices "above historic averages but significantly below the 2010 and 2012 peaks" but with considerable volatility, as indeed is being witnessed for oil and dairy products.

The pressure seems likely to be most acute in arable areas, especially if more food crops are directed into bioenergy supply, despite the Commission's signals that this is not appropriate post-2020. Indeed, livestock numbers may well continue to fall, and land may continue to be abandoned from active cultivation and

¹³ Higher, that is, than the lows achieved after a century of secular decline in real agricultural commodity prices by the end of the 20th century.

¹⁴ These arguments, in any case, are invariably conducted in terms that are too coarse: high grain prices create severe difficulties for the livestock sector in which feed represents a significant part of total costs. And even in the arable sector, what matters is the relativity between the high grain prices and energy, fertiliser and other costs.

¹⁵ See European Commission (2014b).

agricultural use. This would point to greater focus on raising arable yields and converting permanent grassland to crop production, accentuating environmental pressures. Gathering evidence on these potential dynamics and their implications will be an important element of the preparations for new policy formation.

8. In summary, what could be the broad elements of the next reform debate?

Drawing these reflections together, the following conclusions are suggested.

- The challenges facing the complex mix of farming, food production, food security and dietary health, the rural environment and rural society and the controversies surrounding this nexus will mean there is still a need for significant public policy action under what we loosely term agricultural policy.
- Strong principles as well as inertia in the institutional decision structures of the EU dictate that this agricultural policy will continue to be an EU competence post-2020.
- There is no consensus about a particular aspect of the CAP that is highest in priority for radical change. Hence there is no neat catch-phrase (such as market orientation, or decoupling, or move to public-good provision) that will characterise the next reform direction at the centre of the debate.
- Therefore the next reform, like the last, but unlike the step changes set in motion under MacSharry and Fischler, will be a pragmatic set of adjustments to the current structures and measures, without a big guiding principle.

The author's preferences would include some of the following as key elements.

- A significantly lower CAP budget.
- Sustainable land management in a European and global context is more clearly defined with a more explicit focus on the public good to be pursued through the CAP.
- The politics and mechanics of focusing the support that is available on those who most justify it. These will be mainly outside the core productive areas and farms, and those

genuinely delivering and incurring costs for sustainable land management. The current compensation rationale for Pillar I payments is obsolete in this respect.

- A market safety net apparatus, involving intervention *in extremis* and also encouragement of farm level insurance, will continue with a small share of the budget; but with risks of more volatile expenditure commitments and pressures for a more common approach than the current one driven by member states.
- Cost effective and administratively feasible environmental land management will be a core issue. This requires more discussion on how to incentivise farmers to manage the environment better, with more cost-effective measures and without obsessive bureaucracy. This may involve more collective/cooperative delivery, payments by results, landscape/catchment scale approaches, with greening absorbed into voluntary, programmed, multiannual schemes.
- It should also involve more creative thinking about how to maintain accountability and rigorous auditing of real results on the ground without micro measurement or driving farmers and governments into risk-adverse behaviour with easy to measure but not very useful commitments.
- Further emphasis on innovation and modernisation of mainstream agriculture so it becomes a sector that can operate within legislative environmental standards without annual subsidy, with the potential for greater emphasis on improving farm uptake of the fruits of research solutions for sustainable gains in productivity and yields.
- At the same time there could well be countervailing pressure for addressing more issues by reverting to market regulation (with a less direct cost on the EU budget) rather than through CAP payments. This should be resisted, as it would be a reversal of the most important reforms of the last 25 years.
- The solutions to these challenges may not all be 'common' in the sense that all producers are treated in the same way. For example, quite different actions may be needed in the prime agricultural producing areas relative to the more economically marginal but environmentally sensitive areas,

especially those associated with high nature value farming. The current distribution of funding between farms should not be treated as a sacred cow.

- The architecture of the CAP deserves scrutiny, especially the value of maintaining two pillars with their associated different funding rules that have inhibited the expansion of rural development.
- If the environmental movement is sufficiently disillusioned with the CAP, as could well occur, they could argue for a large slice of the funding to be transferred to a new environmental fund with different rules and administered by different authorities. The interests of those who support the focus of a significant component of funding on rural areas could diverge.

Achieving a more satisfactory post-2020 CAP will also require different ways of working by the European institutions. The new groupings of commissioners could mesh in different ways. On a positive reading it could provide a stronger basis for the Commission to work more effectively for reform with more inputs to CAP redesign coming from the Agriculture, Environment, Energy, Sanco, Regio and Climate DGs. How to get a parallel broadening of the inputs into the detailed policy formation in the Parliament (where COMAGRI, with a high level of farming interest representation, has dominated the debate) and in the Agriculture Council is less clear. Current studies on the political economy of the latest reform could help further innovation in future rural policy formulation.

Another vital ingredient will be the assembly of a stronger evidence base on the workings of the current policy – in particular, how ‘greening’ delivers on its stated objectives – and the challenges the policy faces in the future. There is little recent evidence on the full impacts of many policy measures, including Article 69 measures, and cross-compliance and a lack of certainty about key issues – for example, the weight to be given to stronger, more focused farm advice and technical support as opposed to subsidies. For all these reasons, preparations for a new reform cannot begin too soon.

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21. IS THERE A NEED FOR A MID-TERM REVIEW OF THE 2013 CAP REFORM? *ROLF MOEHLER*

1. Mid-term review of past common agricultural policy

Unlike US farm bills, EU regulations on the CAP are not limited by a term. As there is no term, there is no mid-term review. The EU budget's multiannual financial framework (MFF), however, does have a term, of seven years, and it is in the context of the MFF that the term 'mid-term review' was, eventually, coined. The 1993-99 and 2000-06 MFFs did not have mid-term reviews. Rather, in both inter-institutional agreements in which these MFFs were laid down,¹ the Commission was requested to submit a report on the application of the agreements when necessary but at the latest when submitting a proposal on the next MFF. However, in March 1999, when deciding on the 2000-06 MFF, the European Council singled out the CAP. Specifically, while endorsing the Agenda 2000 CAP reform, the European Council asked the Commission to submit a report in 2002 on the development of agricultural expenditure, accompanied, if necessary, by appropriate proposals.² This was a concession to Prime Minister Tony Blair to help him face up to critics of the CAP at home. On this basis, in 2003-04, Commissioner for Agriculture, Rural Development and Fisheries Franz Fischler, in addition to the review of agricultural expenditure, launched and

¹ The Lisbon Treaty replaced inter-institutional agreements with regulations.

² Presidency Conclusions of the Berlin European Council, 24-25 March 1999, paragraph 21.

achieved the most far-reaching CAP reform since the 1992 MacSharry reform, as it decoupled direct payments from production. The European Council, taking up farm ministers' conclusions, had only asked Fischler to follow the oilseeds and beef market and within two years submit a report with any appropriate proposals.

This series of events apparently led the European Council, in 2006, to include for the first time in an MFF the requirement for a comprehensive mid-term review. The 2007-13 MFF proposal invited the Commission to undertake a full, wide-ranging review of all aspects of EU spending, including the CAP, and submit a report in 2008-09.³ Before embarking on the review of the CAP as requested by the European Council in 2005, Commissioner for Agriculture and Rural Development Mariann Fischer Boel first launched a reform of the sugar market organisation in 2005, followed by a reform of the fruit and vegetables sector in 2007 and the wine sector in 2008. In parallel she started her 'Health Check' reform of the CAP that, in 2008, completed the decoupling move Fischler had begun.

2. Review commitments of the 2013 CAP reform

The Council Regulation on the 2014-20 MFF invites the Commission to submit a review of the MFF by the end of 2016.⁴ Before 1 January 2018 the Commission has to present a proposal for a new MFF. But the MFF Regulation does not mention a specific review of the CAP. In the European Council's February 2013 conclusions on the 2014-20 MFF no mid-term review of the CAP was requested. The Agriculture Council has also been silent on this point.

However, commitments were made during the legislative process on CAP reform to review specific points. Thus on 2 April 2014 the Commission promised to evaluate ecological focus area (EFA) obligations after the first year of application, i.e. after 31 December 2015. In addition, Article 46 Reg. 1307/2013⁵ mandates the Commission to submit an evaluation report on the requirement of farmers holding more than 15 hectares of arable land to keep an

³ Inter-Institutional Agreement, Declaration 3, OJ 2006, C 139/1.

⁴ Article 2 Regulation 1311/2013, OJ 2013 L 374/884.

⁵ OJ 2013 L 347/608.

EFA of at least 5% of this land, and to propose increasing the EFA to 7% of arable land.

Furthermore, Article 110 Regulation 1306/2013⁶ on the financing, administration and control system of the CAP establishes a monitoring and evaluation procedure that ought to measure the performance of the CAP, in particular direct payments, market measures and rural development measures. The Commission shall present a first report on the implementation of this procedure and first results by December 2018. A second report, including an assessment of the CAP, shall be presented by 31 December 2021. This monitoring and evaluation of the CAP may prove very useful but will rather be an end-term than mid-term review, as Parliamentary elections will be held in spring 2019 and the mandate of the Commission ends on 31 October 2019.

In his opening speech to his hearing before the Parliament's Agriculture Committee Commissioner for Agriculture and Rural Development Phil Hogan committed to extensively screen CAP legislation for what can be simplified and where more subsidiarity can be applied, and thus develop a CAP simplification and subsidiarity strategy. Against this background he promised, referring to the commitment of the previous Commission, after one year of experience with the reform to review whether the CAP, in particular as regards direct payments, is designed in a way that is properly applied in practice.

3. Implementation of review commitments

Thus there is no shortage of review commitments, but it is less clear how they fit together. The 2015 Commission Work Programme does not clarify the situation either, as it only states that CAP simplification efforts will be launched in 2015.⁷ But in another speech to the Agriculture Committee, on 3 December 2014, Commissioner Hogan again made it clear that simplification is a top priority for him in 2015. He sees simplification as a constant flow of smaller and larger actions aimed at making life easier for all concerned. This simplification process will embrace the review of

⁶ Ibid.

⁷ COM (2014)910 final.

the direct payments, including EFAs. When revising implementing regulations of the CAP reform the Commission will simplify them as much as possible. The commissioner did not mention the performance reports due by the end of 2018 and 2021, respectively, in either of these speeches.

In the short term the focus is on direct payments, in particular on EFA, as the Commission is committed to presenting a report on EFA in early 2016 and another report on the possible extension of EFA by 31 March 2017. The commissioner's remarks on 3 December 2014 may suggest that the report on EFA in early 2016 may cover the whole of the direct payments scheme. The Commission will also have to follow closely the development of the milk and sugar markets once quotas are abolished on 31 March 2015 and on 30 September 2017. The review of the rules on geographical indications to which the commissioner referred in his Agriculture Committee hearing, and which should bring about more harmonised rules for all the sectors concerned, is now part of his 2015 simplification strategy. It is not clear when the results of the commissioner's screening process of agricultural legislation will be available, though his previous remarks suggest that they will not lead to a major Commission initiative but rather feed into the continuous process of simplification. Should he nevertheless plan a major initiative on simplification, he could do so when the MFF mid-term review is due before the end of 2016 or wait for the end of 2017 when the Commission has to report on the MFF's implementation and to submit its proposal on the 2021-27 MFF. The last opportunity would be to wait until the end of 2018, when the first report on the performance of the CAP is due, but such a report would look rather like a farewell statement, as the impending end of the Commission mandate.

A review of the fruit and vegetables market organisation is scheduled for 2018, as the Commission committed at the June 2014 Council meeting to submit proposals, a commitment Commissioner Hogan referred to at his hearing. Furthermore, by the end of 2018 the Commission has to present its first report on CAP performance.

4. Is there a need for a comprehensive mid-term review of the CAP?

To answer this question a brief look at the CAP reform process since the 1992 MacSharry reform may be helpful. In the early 1990s the CAP had again come up against an impasse. Despite the 1988 budgetary reform it ran the risk of breaching the budgetary limits again and pressure to reform the CAP was mounting as the Uruguay Round was in a stalemate over agriculture. The 1999 Fischler reform had two objectives: to prepare the CAP for EU enlargement and for the continuation of the negotiation over agriculture as agreed in the Uruguay Round. The 2003-04 Fischler reform broke new ground in strengthening the EU position in the Doha Round negotiations by bringing direct payments into the safe haven of the 'green box'. Reform of the sugar, fruit and vegetables, and wine regimes was in line with the Fischler reform, which was completed by the 'Health Check' initiated by Commissioner Fischer Boel. The 2013 reform fits into this pattern as it made the CAP still more market-oriented by eliminating mandatory private storage aid, relegating export subsidies to crisis situations and giving a new push to the endeavours of previous reforms to make the CAP more environment-friendly and more responsive to climate change concerns.

Thus the CAP has become more market-oriented than ever. Market price support by way of public intervention or private storage aid as well as export subsidies have become part of a safety net that can be activated in case of crisis but – with the exception of intervention for wheat, butter and skimmed milk powder (SMP) – are no longer tools of daily market management. With the exception of vine planting rights, production quotas will be eliminated by 2017. Direct payments provide the farmer with income support and the freedom to respond to the market when taking his production decisions. Support for rural development starting with the MacSharry reform helps farmers become or remain competitive, protect the environment, mitigate climate change and keep the countryside viable. By 'greening' direct payments Commissioner Dacian Cioloş made the CAP more acceptable to the broader public. That helped to preserve financing of the CAP in the new MFF.

This means that the reform process towards a more market-oriented CAP has largely run its course. It still needs to be carried forward, but the measures to be taken are of limited scope. On market price support there is still mandatory intervention for wheat, butter and SMP. In times of high prices this has no impact in practice. Nevertheless, it would be preferable to activate intervention buying in case of crisis only. To scrap export subsidies would be premature as long as there is a glimmer of hope of having a more comprehensive agreement on export competition including export credits, export credit insurance and state enterprises on which a broad consensus existed in 2008 when the negotiations broke down.

At the end of the implementation period direct payments will be more uniform than before the reform despite the option given to member states to apply special rules on young and small farmers and farmers in areas with natural constraints. They should be kept and not be replaced by countercyclical payments as the 2014 Farm Bill has done in the US.⁸ However, more convergence between member states should be pursued. Funds available for direct payments should be reduced in favour of rural development, and the possibility to transfer funds from rural development to direct payments should be reversed. Recoupling with production should be reduced with a view to eliminating it. Last but not least, it should be clarified that keeping land in good agricultural and environmental condition without production entitles a farmer to the 30% green payments. As the text of Regulation 1307/2013⁹ stands now production is required for entitlement to the green payments. This is incompatible with the WTO 'green box' rules on direct payments.

Once the rural development programmes of member states or regions have been adopted by the Commission experience will show whether the reforms serve their purpose. Reviewing rural development should be reserved to the evaluation process. They are

⁸ V.H. Smith (2014), "The 2014 Agricultural Act: U.S. Farm Policy in the context of the 1994 Marrakesh Agreement and the Doha Round", Issue Paper No. 52, ICTSD, Geneva, June, p. 5 sq.

⁹ OJ 2013 L 347/608.

not suited to a mid-term review unless obvious shortcomings require immediate action.

Although further reform as suggested above is limited in scope, the chance to persuade the Parliament and the Council to accept them are slim if they are presented as a mid-term review. They touch upon issues that have been hard-fought during the legislative process in 2013. Neither the Parliament nor the Council will easily accept reopening these debates. They may have a better chance if they are presented as a proposal to fit the CAP for the next MFF.

For the new commissioner none of the motivations behind the past reforms are still pressing, aside from the need to secure financing in the next MFF. Therefore, there is no apparent need for a mid-term review. Launching such a review without a pressing need could even be counterproductive if the movement is seized by those who push for a less market-oriented CAP. The call for higher intervention prices as a response to the market disturbances triggered by the Russian import ban does not augur well.

Another important factor is the length of time CAP reform will take under the Lisbon Treaty with the full involvement of the Parliament. If the 2013 reform is of any guidance, the legislative process will take two years – three if there is a public consultation beforehand. It might be possible to reduce this time frame further if no new instruments, such as ‘greening’, in the 2013 reform are to be adopted. This means that the CAP proposal for the 2021-27 MFF has to be submitted in 2017. It makes little sense to launch a mid-term review in 2016 when the decisive proposal for the CAP under the next MFF has in any case to be made just one year later.

Simultaneous decision on CAP reform and on the MFF has not been the rule prior to 2013. But there is little doubt that when approaching the 2021-27 MFF the Commission has to bring the CAP up to date. Otherwise, financing the latter could be at risk. The Commission will have no choice but to propose a further greening of the CAP, particularly to submit proposals on how to bring agriculture under the EU programme of greenhouse gas (GHG) emission reductions. In its meeting in October 2014 the European Council called for the sustainable intensification of food production.

The Commission has to flesh out this programme before 2020.¹⁰ But this is not enough. The Commission should push for a still more market-oriented CAP even if there is no longer any external pressure to do so. Reducing direct payments and enhancing rural development may be an option for consideration.

5. The call for simplification and subsidiarity in the CAP

Commissioner Hogan's commitment before the Agriculture Committee to simplify the CAP and give member states more room for manoeuvre in implementing the CAP is a particularly complex mission, and his comments at the committee's hearing and in December 2014 left little doubt that he is well aware of this.

One of the objectives Commissioner Cioloş had set for his reform project was simplification. It is obvious that this objective has not been achieved. To the contrary, the 2013 CAP is more complicated than its predecessor. Although the discrepancy of the level of direct payments between member states will be reduced by 2020 and uniform payments per member state or by region will be in place, more types of direct payments, e.g. for young and small farmers, have been created. The rules on EFAs will be a challenge to apply in practice; they are well intentioned but by no means simple. These examples leave no doubt that simplification is not a technical exercise but a political choice. The complexities of the new rules are due to the negotiation process between the Council, the Parliament and the Commission. Reducing them inevitably reopens this process.

Subsidiarity in the CAP is an even more elusive concept than simplification. In the first place the CAP guarantees the single market for agricultural products. This means common rules that member states have to apply and enforce. Market intervention and rules on external trade have to remain prerogatives of the Union. This leaves direct payments and rural development as areas of more discretion for member states. On direct payments the 2013 reform has, regrettably, given member states the possibility to use funds

¹⁰ Conclusions of the European Council on 23-24 October 2014 (EUCO 169/14), paragraph 2.14.

assigned to rural development to top up direct payments. It has also given much more leeway in applying direct payments to certain categories of farmers and in defining EFA requirements. Within certain limits member states can decide on recoupling aid. It is not obvious that we could go much further without ripping up the CAP.

More recoupled aid runs counter to the basic need of the CAP to become more market-oriented and to be in conformity with its WTO obligations. Topping up direct payments by member states by using funds for rural development or from their own budget runs the risk of opening a Pandora's Box even if it is done within strict limits of Commission oversight in order to avoid distortion of competition. A better way to reduce disparities between member states would be a continuation of the harmonising process started by the 2013 reform.

6. Possible scenarios

CAP reform is likely to need the support of public opinion to secure its financing. This means that CAP reform in political terms is linked to the adoption of the 2021-27 MFF. A complicating factor is that the terms of the Parliament and the Commission are incongruous with that of the MFF. The current MFF expires at the end of 2020, whereas the Parliament faces elections in May 2019 and the mandate of the Commission expires at the end of October 2019. However, as the Commission has to present a proposal on the next MFF before 1 January 2018, neither the Commission nor the Parliament can leave the question of a new CAP reform to its successors.

Against this background two scenarios are feasible.

In the first scenario, during 2016 (the year the MFF mid-term review is due), the Commission will present the results of its review of the reform's functioning, particularly its rules on direct payments, followed by an initiative to further simplification and subsidiarity. Proposals for the post-2020 CAP could follow in 2017, preceding or in parallel to the presentation of the new MFF.

The second scenario would also deal with any shortcomings of the 2013 reform in 2016 but combine any new initiative on simplification and subsidiarity with proposals for the post-2020 CAP in 2017, which could also take into account first results of the

monitoring and evaluation process as established by Regulation 1306/2013.

7. Conclusion

There is no obvious need for a mid-term review of the 2013 CAP reform. But the Commission has to submit its ideas on post-2020 CAP when making its proposal on the 2021-27 MFF in 2017. The post-2020 CAP should further reduce market price support while keeping direct payments decoupled from production. Direct payments should be reduced to make more funds available for rural development. To win over public opinion again, further greening of the CAP will be crucial. Agriculture will have to come more effectively under the EU GHG emission programme.

APPENDIX

**A SUMMARY OF THE
INSTITUTIONAL POSITIONS
IN THE CAP NEGOTIATIONS**

*ATTILA KOVACS, LOUISE KNOPS,
IMRE FERTŐ AND JOHAN SWINNEN*

| Direct Payment Regulation | | | | | | |
|---------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--|
| Measure | Item | EC position | EP position | Council position | Final Regulation | |
| 1 | Financial discipline | 5.000 EUR | 5.000 EUR | 2.000 EUR | 2.000 EUR | |
| 2 | Active farmer | Mandatory | Mandatory | Voluntary | Mandatory | |
| 3 | Redistributive payments | N/a | Voluntary | Voluntary | Voluntary | |
| 4 | Redistributive payments | N/a | Up to 50 or average farm size | Up to 30 or average farm size | Up to 30 or average farm size | |
| 5 | Redistributive payments | N/a | N/a | Max. 65% | max. 65% | |
| 6 | Redistributive payments | N/a | Up to 30% | Up to 30% | up to 30% | |
| 7 | Support for young farmers | Mandatory | Mandatory | Voluntary | Mandatory | |
| 8 | Support for young farmers | Up to 2% | 2% | Up to 2% | Up to 2% | |
| 9 | Support for young farmers | Up to 25 or average farm size | up to 100 | Up to 25 or average farm size | between 25-90 | |
| 10 | Support for small farmers | Mandatory | Voluntary | Voluntary | Voluntary | |
| 11 | Support for small farmers | Voluntary | Mandatory | Voluntary | Voluntary | |

| Direct Payment Regulation | | | | | | |
|---------------------------|---------------------------------|--|-------------|-------------|------------------|------------------|
| | Measure | Item | EC position | EP position | Council position | Final Regulation |
| 12 | Support for small farmers | Maximum of annual payment | 1.000 EUR | 1.500 EUR | 1.000 EUR | 1.250 |
| 13 | Support for small farmers | Amount of annual payment as a percentage of the national average payment per beneficiary | Up to 15% | Up to 25% | Up to 15% | up to 25% |
| 14 | Support for small farmers | Calculation of payment based on national average payment per ha | Up to 3 ha | Up to 5 ha | Up to 3 ha | Up to 5 ha |
| 15 | Support for small farmers | Maximum annual national ceiling | 10% | 15% | 10% | 10% |
| 16 | Support for small farmers | Application for SAPS | No | No | Yes | Yes |
| 17 | Greening | Equivalence of national environmental certificates | No | No | Yes | Yes |
| 18 | Greening - Crop diversification | Lower threshold for crop rotation | 3 ha | 10 ha | 10 ha | 10 ha |
| 19 | Greening - Crop diversification | 2 crops | No | 10-30 ha | 10-30 ha | 10-30 ha |
| 20 | Greening - Crop diversification | 3 crops above | 3 ha | 30 ha | 30 ha | 30 ha |

| Direct Payment Regulation | | | | | | |
|---------------------------|-----------------------------------|---|---|---|---|--|
| Measure | Item | EC position | EP position | Council position | Final Regulation | |
| 21 | Greening - Crop diversification | 70% | 80% | 75% | 75% | |
| 22 | Greening - Permanent Grassland | At farm level | national, regional or sub-regional level | national, regional or sub-regional level | national, regional or sub-regional level | |
| 23 | Greening - Permanent Grassland | No | Yes | No | Yes | |
| 24 | Greening - Ecological Focus Areas | 0 ha | 10 ha | 15 ha | 15 ha | |
| 25 | Greening - Ecological Focus Areas | 7% | 3 %, up to 5% from 2016, up to 7% from 2018 | 5%, up to 7% from 2018 | 5 %, 7% from 2018 | |
| 26 | Internal Convergence | Uniform unit value have to be reached by 2019 | Same as EC position but with possibility to deviate by 20% from this value + 2019 levels can't be more than 30% over 2014 level | Uniform unit value have to be reached by 2019 + increase by 1/3 for payments whose unit value in 2014 is lower than 90 % of the national or regional unit value | All farmers below 90% of national average must get a payment increase of at least 1/3 of the difference of the current payment to the 90%. All farmers shall receive at least 60% of the national or regional average. Option for Member States to limit farmers' losses' to 30%. | |

| Direct Payment Regulation | | | | | | |
|---------------------------|---------------------------|--|--|--|--|---|
| Measure | Item | EC position | EP position | Council position | Final Regulation | |
| 27 | External Convergence | Convergence between MSs | MSs with direct payments below the level of 90% of the average should close one third of the gap between their current level and this level by 2020. | No MSs should receive less than 65% of the EU average. | All MSs should reach at least 196 EUR/ha by 2020 | MSs shall attain at least a level of 196 euros per ha by 2020 |
| 28 | Voluntary coupled support | List of sectors | Short list | Long list | Short list | Short list |
| 29 | Voluntary coupled support | MSs applying more than 5% of their DP for coupled payments during at least one year between 2010-2013 | Up to 10% | Up to 15% | Up to 10% | Up to 13% |
| 30 | Voluntary coupled support | MSs applying more than 10% of their DP for coupled payments during at least one year between 2010-2013 | No position | No position | more than 10% | more than 13% |

| Direct Payment Regulation | | | | | | |
|---------------------------|-----------------------------|-------------|--------------------|-------------------------------|---|--|
| Measure | Item | EC position | EP position | Council position | Final Regulation | |
| 31 | Voluntary coupled support | Up to 10% | Up to 15% | Up to 10% | up to 13% | |
| 32 | Voluntary coupled support | Up to 5% | Up to 15% | Up to 5% | up to 8% | |
| 33 | Voluntary coupled support | 0 | Plus 3% | Plus 2% | Plus 2 % | |
| 34 | Payment entitlements | 2011 | 2009, 2010 or 2011 | 2012, 2013, 2014 | 2014 | |
| 35 | Payment entitlements | 31/12/2013 | 31/12/2020 | 31/12/2020 | 31/12/2020 | |
| 36 | Capping and degressivity | Mandatory | Mandatory | Voluntary | Mandatory | |
| 37 | Capping and degressivity | 300.000 EUR | 300.000 EUR | No maximum | No maximum | |
| 38 | Capping and degressivity | 20-70% | 20-70% | Fix percentage set by the MSs | at least 5% | |
| 39 | Capping and degressivity | No | No | Yes | MSs using at least 5% of ANC on redistributive payments | |
| 40 | Flexibility between pillars | Up to 10% | Up to 15% | Up to 15% | Up to 15% | |
| 41 | Flexibility between pillars | Up to 10% | Up to 15% | Up to 15% | Up to 15% | |

| Direct Payment Regulation | | | | | |
|---------------------------|-------------------------------------|-------------|-------------|------------------|------------------|
| Measure | Item | EC position | EP position | Council position | Final Regulation |
| 42 | From P2 to P1 for above-average MSs | 0 | 0 | Up to 15% | Up to 15% |
| 43 | From P2 to P1 for below-average MSs | up to 5% | up to 10% | Up to 25% | Up to 25% |

| CMO Regulation | | | | | |
|----------------|---------------------|--|------------------------------------|--|---|
| Measure | Item | EC position | EP position | Council position | Final Regulation |
| 1 | Export refunds | Not defined in the CMO | EUR 0 | Not defined in the CMO | EUR 0 |
| 2 | Export refunds | Not only | Yes only | Not only | Yes only |
| 3 | Public intervention | Common wheat, barley, maize, paddy rice, beef, veal, butter, skimmed milk powder | EC proposal + durum wheat, sorghum | Common wheat, barley, maize, paddy rice, beef, veal, butter, skimmed milk powder | Common wheat, durum wheat, barley, maize, paddy rice, beef, veal, butter, skimmed milk powder |
| 4 | Public intervention | Varies by product | Throughout the year | Varies by product | Varies by product |
| 5 | Buying-in | Measures on quantitative limitations | part of the regulation | not part of the regulation, defined later by the Council | not part of the regulation, defined later by the Council |

| CMO Regulation | | | | | | |
|----------------|--|--|--|--|---|---|
| Measure | Item | EC position | EP position | Council position | Final Regulation | |
| 6 | Private storage aid | Olive oil | Olive oil and table olives | Olive oil | Olive oil | Olive oil |
| 7 | Private storage aid | No cheese | Cheese | No cheese | No cheese | Cheese |
| 8 | Private storage aid | Average recorded Union market price; reference prices for the products | Average recorded Union market price; reference prices for the products; production costs; impact of market situation on producers' profit margin | Average recorded Union market price; reference prices for the products | Average recorded Union market price; reference thresholds and production costs; profit margins in the sector; | |
| 9 | School fruit Scheme | No | Yes | No | Yes | Yes |
| 10 | School fruit Scheme | EUR 150 million | EUR 150 million | No definite amount; shall be defined later by the Council | No definite amount; shall be defined later by the Council | No definite amount; shall be defined later by the Council |
| 11 | Aid in the fruit and vegetables sector | Not defined | 3-5 years | Not defined | Not defined | Not defined |
| 12 | Aid in the fruit and vegetables sector | Less than one-third | 40% | Less than one-third | Less than one-third | Less than one-third |

| CMO Regulation | | | | | |
|----------------|--|---|---|--|---|
| Measure | Item | EC position | EP position | Council position | Final Regulation |
| 13 | Aid in the fruit and vegetables sector | 4,60% | 5,00% | 4,60% | 4,70% |
| 14 | Aid in the apiculture sector | Max 50% | Max 60% | Equivalent to 50% | Equivalent to 50% |
| 15 | Sugar sector | 30/09/2015 | end of the 2019/2020 marketing year | 30/09/2017 | 30/09/2017 |
| 16 | Wine sector | End of WPR by 31/12/2015 with possibility for MSs to extend up to 31/12/2018, no new system after | End of WPR by the end of 2029/3030 marketing year | End of WPR by 31/12/2018 + set up of new vine authorization system from 1/1/2019 to 31/12/2024 | End of WPR by 31/12/2015 + set up of new vine authorization system from 1/1/2016 to 31/12/2030 |
| 17 | Producer Organisations | Mandatory | Mandatory | Voluntary | Voluntary, but for specific sectors, i.e. fruit and vegetables, olive oil and table olives, silkworm sector, hops, is mandatory |

| CMO Regulation | | | | | |
|----------------|--|---|---|---|---|
| Measure | Item | EC position | EP position | Council position | Final Regulation |
| 18 | Producer Organisations | POs shall not hold a dominant market position | POs can hold a dominant market position | POs can hold a dominant market position | POs can hold a dominant market position |
| 19 | Producer Organisations | Not defined | Non-Annex I. products shall not exceed 49% of the total volume marketed | Not defined | Non-Annex I. products shall not exceed 49% of the total volume marketed |
| 20 | Associations of producer organisations | Mandatory | Voluntary | Voluntary | Voluntary |
| 21 | Interbranch organisations | Mandatory | Voluntary | Voluntary | Voluntary |

| EAFRD Regulation | | | | | | |
|------------------|---|--|---|---|---|--|
| Measure | Item | EC position | EP position | Council position | Final Regulation | |
| 1 | Ring-fencing for environmental payments | N/a | 25% for agri-environment and organic farming; 30% for agri-environment, organic farming, LFA, Forestry measures, Natura 2000 payments, WFD payments in the Luxembourg compromise proposal | 0% initially, 25% for agri-environment, organic farming, LFA, Forestry measures, Natura 2000 payments, WFD payments in the Luxembourg compromise proposal | 30% for: Agri-environment; Organic farming; LFA; Forestry payments; Natura 2000 payments; Environment-related investment; | |
| 2 | Greening under P1 and P2 | No double funding | No double funding | Explicitly allowing double funding | No double funding | |
| 3 | Organic farming | No exclusion of double funding | No double funding | No exclusion of double funding | No double funding | |
| 4 | National distribution of RD resources | Annual breakdown by MSs implementing act | Annex to EAFRD regulation | Implementing act | Annex to EAFRD regulation | |
| 5 | National distribution of RD resources | Adjustments due to inter-pillar transfers implementing act | Delegated act | Implementing act | Delegated act | |
| 6 | Support rates | Investments in physical assets and investments in new forestry technologies - Aegean islands 65% | 75% | 65% | 75% | |

| EAFRD Regulation | | | | | | |
|------------------|-------------------|---|--|---|---|--|
| | Measure | Item | EC position | EP position | Council position | Final Regulation |
| 7 | Support rates | LFA - mountain areas | 300 EUR/ha | 450 EUR/ha | 300 EUR/ha | 450 EUR/ha |
| 8 | Support rates | Possibility to increase the support rates by 20% under the 'Investments in physical assets, Agricultural sector' measures | Young farmers setting up; Collective investments and integrated projects; Areas facing natural constraints as referred to in Article 33; | Young farmers setting up; Collective investments and integrated projects; Areas facing natural constraints as referred to in Article 33; Operations supported in the framework of the EIP; Organic farmers, Natura 2000 and WFD, Agri-environment | Young farmers setting up; Collective investments and integrated projects; Areas facing natural constraints as referred to in Article 33; Operations supported in the framework of the EIP; Organic farmers, agri-environment; | Young farmers setting up; Collective investments and integrated projects; Areas facing natural and other specific constraints as referred to in Article 33; Operations supported in the framework of the EIP; Organic farming, agri-environment; |
| 9 | Fund contribution | Percentage of eligible expenditure in less developed regions, outermost regions and Aegean islands | 85% | 85% | 75% | 85% |

| EAFRD Regulation | | | | | | |
|------------------|--|--|-------------|--|-------------------------|------------------|
| | Measure | Item | EC position | EP position | Council position | Final Regulation |
| 10 | Fund contribution | Percentage of eligible expenditure in other regions | 50% | 50% | 53-75% | 53-75% |
| 11 | Fund contribution | Agri-environment and climate measures | 50-85% | 55-90% | 75% | 75% |
| 12 | Fund contribution | Operations receiving funding from funds transferred to EAFRD from P1 | 50-85% | 95% (MSs receiving FA) | 100% | 100% |
| 13 | Areas facing significant natural constraints | Eligibility threshold in terms of UAA | 66% | EC was asked to table new delimitation by 31/12/2014 | 60% | 60% |
| 14 | Areas facing significant natural constraints | Number of criteria to be fulfilled | at least 1 | EC was asked to table new delimitation by 31/12/2014 | At least one | at least 1 |
| 15 | Areas facing significant natural constraints | Percentage that criteria shall be fulfilled | 100% | EC was asked to table new delimitation by 31/12/2014 | 1 for 100% or 2 for 90% | 100% |
| 16 | Areas facing significant | Deadline for new delimitation | No position | 31/12/2014 | No position | 2018 |

| EAFRD Regulation | | | | | | |
|------------------|--|--|---------------------------|----------------------------------|---------------------------|---|
| | Measure | Item | EC position | EP position | Council position | Final Regulation |
| | | natural constraints | | | | |
| 17 | Producer groups | Eligible activity | Setting up the PG | Setting up and development of PG | Setting up the PG | Setting up the PG |
| 18 | Young farmers | Definition, eligible person | Less than 40 years of age | 40 years of age or less | Less than 40 years of age | No more than 40 years of age |
| 19 | Afforestation and creation of woodland | Maximum period of support | 10 years | 15 years | 15 years | 12 years |
| 20 | Establishment of agroforestry systems | Maximum period to cover the costs of maintenance | 3 years | 5 years | 5 years | 5 years |
| 21 | Animal welfare payments | Commitment period | 1 year | 1-7 years | 1 year | 1-7 years |
| 22 | Investments in irrigation | Eligibility of new irrigation installations | Only in new MSs | In all MSs | In all MSs | Compromise between the three institutions |

| Horizontal Regulation | | | | | | |
|-----------------------|--|--|---|---|--|---|
| | Measure | Item | EC position | EP position | Council position | Final Regulation |
| 1 | General provisions | No double funding for environmental obligations both under P1 and P2 | No double funding | No double funding | Double funding is possible for agri-environment and organic farming | No double funding |
| 2 | Transparency, publication of beneficiaries | Threshold, under which beneficiaries are exempted | Yes, equal to the amount of the SFS | No | Yes, equal to the amount of the SFS | Yes, equal to the amount of the SFS or 1250 Euro if SFS not applied in the MS |
| 3 | Paying Agencies | Number of PA | 1 per MS or 1 per region / type of support (reduction relative to status quo) | 1 per MS or 1 per region (even stronger reduction relative to status quo) | Restrict to the necessary minimum (allows increase relative to status quo) | 1 per MS or per region/type of support, with derogation to keep existing paying agencies (confirms status quo, but limits further increase) |
| 4 | Cross-compliance | Water Framework Directive | Yes | No | No | No |
| 5 | Cross-compliance | Pesticide Directive | Yes | No | No | No |
| 6 | Cross-compliance | GAEC 7 | GAEC 7 included | Deletion of GAEC 7 | Deletion of GAEC 7 | Deletion of GAEC 7 |

| Horizontal Regulation | | | | | |
|-----------------------|--|--|---|--|---|
| Measure | Item | EC position | EP position | Council position | Final Regulation |
| 7 | Penalty for non-compliance with the greening requirements (% additional to the 30% greening payment) | No limit (unlimited reduction of basic payment possible) | 0% (reduction of basic payment not possible at all) | Max. 25% (limited reduction of basic payment possible) | Limited reduction of basic payment possible: 0% in the first two years, 20% for the third year, 25% from the 4th year |

Source: From I. Fertó and A. Kovacs (2014), "Analysis of the European Parliamentary amendments to the legislative proposals of the 2013 CAP reform", Working Paper, CEPS, Brussels (www.ceps.eu/system/files/EP_Amendment_Analysis%20Case%20Study.pdf).

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