



# The Common Agricultural Policy after the Fischler Reform

National Implementations, Impact Assessment and the Agenda for Future Reforms

Edited by

Alessandro Sorrentino

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Providing an updated state of the art report on the effects of the 2003 Common Agricultural Policy (CAP) reform, this volume has a particular emphasis on the governance of institutional changes and national/regional implementation. Written from an agricultural economist's point of view and enriched by the contribution of political scientists and policy makers, this book offers:

- an updated report of the European debate on agricultural and rural policies;
- an in-depth analysis of the decoupling process of the agricultural financial support in Europe;
- an analysis of the CAP implementation in the old and new Europe Member States ;
- a discussion on the future scenarios for the European Agricultural Policies.

Based on a selection of papers from the 109th Seminar of the European Association of the Agricultural Economists (EAAB), this book, with a foreword by Franz Fischler, also includes four commissioned contributions from leaders in the field including Sofia Davidova, Roberto Esposti, Tassos Haniotis and Johan Swinnen.

### About the editors

Alessandro Sorrentino is a Professor of European Economic Policies at the Università della Tuscia, Viterbo (Italy). He has been working in the field of agricultural economics since the beginning of the 1980s. He is the author of several scientific papers and books concerning the Economics and Political Economy of the Common Agricultural Policy.

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The Common Agricultural Policy after the Fischler Reform  
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## Chapter 1

# From the Fischler Reform to the Future CAP

*Roberto Henke, Simone Severini and Alessandro Sorrentino*

### **1. Introduction**

The analysis regarding the CAP reform have covered several issues: the political economy of the reform, the impact of the Fischler Reform on the EU agriculture, the environmental effects of the new CAP and the consequences of the new measures on the rural development policies. While most analyses look at what happened after the Fischler Reform, other analysis have a more prospective nature, looking at the future of the CAP in general and of specific instruments including market measures and direct payments.

This paper analyses three broader issues: the achievements of Fischler Reform; the relative instability of the current CAP and the need for further reform; the new political, institutional and financial conditions in which the reform might occur.

While opinions regarding the Fischler Reform can be very articulated, there is no doubt that it has been a turning point for the evolution of the CAP. It has introduced radical changes in the way the EU provides support to the farm sector, has developed instruments that have actually become cornerstones of the new CAP, and has reached some of the important objectives that originally motivated it. However, despite these achievements, after less than 10 years from the reform, it is becoming evident that the current structure of the CAP shows problems that make it rather unstable and call for further reform. Finally, now that the debate about the new CAP reform is mounting, it is

important to look especially at the current institutional and financial settings.

## **2. The achievements of the Fischler Reform**

The achievements of the Fischler Reform should be analysed considering the particular institutional and political context in which it took place, because several factors have influenced the Reform's outcome (Moehler 2008; Swinnen 2008). One of these factors refers to the external pressures from the Wto Doha development round that has particularly influenced the choices in terms of the decoupling of the support. Other more internal factors are the important EU budget constraints and the pressure from the EU enlargement (Henning 2008). Furthermore, the Reform has been developed in a context of diminishing power of agricultural interests and of the active presence of a broader number of new actors such as consumers, environmentalists, animal rights activists and other social groups (Matthews 2010).

The main elements of Fishler's Reform that we would like to focus on here are: the decoupling of direct payments, the introduction of cross-compliance and the strengthening of rural development policies through modulation.

### *The decoupling of direct payments*

The decoupling of direct payments, the main core of both Single Payment Scheme and Single Area Payment Scheme, have reduced production distortions caused by the coupling of direct payments to production level or input use. This move has been perceived as a more efficient way of providing support because coupled support is often characterised by a limited transfer efficiency and relevant distributive leakages (OECD, 2000). Furthermore, the shift of financial resources from coupled to decoupled direct payments has been a strategy to maintain an adequate level of income support provided

by the EU without incurring the limitations that the WTO obligations on internal support are going to pose.

However, it is important to look at this topic considering both pros and cons. On one hand, some efficiency has been gained especially in those cases where, after the decoupling process, farmers have quit production activities where direct payments made them artificially profitable. This has been the case of some specific Mediterranean crops such as, for example, durum wheat, tobacco and cotton. As a consequence, a drastic reduction of the supply of these products has been recorded, which has also had effects on the related agro-food chains, including the downstream industries that are now experiencing a drastic restructuring process. On the other hand, this shift has had relevant implications in terms of the use of resources. In many cases, it has caused the release of part of the resources previously used in those activities, including labour, but also contract works and other inputs. Because of the structural constraints that characterise the farm sector in many of those areas, the adjustment process deriving from decoupling has been slow and has often resulted in the impossibility to find alternative uses for the released resources. Indeed, especially in the period of economic recession that has been experienced in the last years, some of those resources have been left unused or, at least, underused. This phenomenon has been particular strong in the most internal and remote rural areas, especially in the South Mediterranean Member States where this has had negative consequences on their overall economic situation and rural development. In synthesis, where the released resources did not find a proper alternative use, it seems very likely that the negative consequences of decoupling on rural development have exceeded the gains of efficiency deriving from the decoupling.

Letting Member States choose how to apply the SPS (i.e. historical vs. regional

model and the possibility of leaving some partially coupled payments) contributed to reaching a political consensus on the reform. However, this choice has had very different redistributive implications among farmers and production factors, particularly in those regions where farms differ in terms of production patterns<sup>1</sup>. Indeed, the decoupling has also had consequences on the distribution of support among production factors. Especially with the historical model, farmers have often shifted to less intensive production activities or have even decided to leave some of the land idle. In these cases, the most negatively affected by the reform have been temporary workers and those supplying services to farmers. Furthermore, the fact that some direct payments have been left coupled or partially coupled has strongly reduced the extent of the simplification of the CAP that was one of the objectives of the reform.

The decoupling of direct payments also poses some questions regarding their justifications and policy objectives. Indeed, direct payments can compensate EU farmers for the high production costs due to, for example, health and hygiene compliance, traceability and origin requirements, environment protection, preservation of biodiversity and countryside management. However, it can be questioned if direct payments are actually structured in the best way to reach this goal given that their distribution is not tailored to compensate these costs.

Furthermore, direct payments can be seen as a basic income safety-net for EU farmers that allows them to cope more adequately with increasing price volatility. However, because direct payments are not specifically targeted to revenue or income stabilisation, a more targeted policy could, at least theoretically, reach the same goal

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<sup>1</sup> While with the historical model the redistribution of the support provided by direct payments among farmers from the pre-reform to the post-reform can be considered generally very limited, this is not so in some of the cases where the regional model has been chosen.

more efficiently.

Finally, direct payments could support the structural adjustment of the sector. In the less competitive farms where the main strategy is to leave the sector and to find non-farm job opportunities, the opportunity to count on an annual *quasi* constant payment can be used to cover some of the costs farmers may incur in pursuing this strategy. However, this opportunity could also be used to finance some on-farm investments (maybe co-financing rural development measures) that may enable farmers to improve the economic efficiency of their farms and to reinforce their competitiveness.

### *Cross-compliance*

Direct payments represent the basis for cross-compliance that requires EU farmers to fulfil statutory management requirements and to maintain land in good agricultural and environmental conditions. This instrument seems very much in line with what the EU citizens expect from EU agriculture: the provision of safe, healthy food and a sustainable use of natural resources. Therefore, it provides one of the main justifications to the support provided to EU farmers through direct payments. However, several criticisms have also been raised on this measure.

The European Court of Auditors concludes that: "... at farm level many obligations are still only for form's sake and therefore have little chance of leading to the expected changes" (ECA, 2008: p. 1) also because the conditions required by cross-compliance merely ask for what is already legally binding according to existing EU legislation. Other criticisms originate from the perceived high administrative burden for farmers and public administrations. However, it should be analysed whether this burden is caused more by the complexity of EU legislation on the fields covered by cross-compliance or by the cross-compliance itself.

It is also important to look at cross-compliance in perspective and to pose the following question: is cross-compliance enough to provide a political justification for the direct payments? Indeed, it should be acknowledged that cross-compliance is a strong move towards the legitimacy of a concept: farmers have the right to receive direct payments only if they behave in a way that is consistent with the goals of society. Note that this is particularly important because this approach can be extended to other sectors and requirements (e.g. land and water management). However, the future of cross-compliance is very much linked to three important questions that are central in the debate on the future reform of the CAP. How will the extent of direct payments change? How are agro-environmental measures going to be modified? Will the future CAP Reform introduce new instruments (e.g. market-based) to improve the provision of public goods?

If, as expected, the level of direct payments is reduced by future reforms, the scope for cross-compliance will also decline because this reduces the “leverage” of cross-compliance. The same can happen if it will be decided to give more emphasis to agro-environmental measures<sup>2</sup> or if new instruments aimed at incentivising the provision of public goods referred to by cross-compliance are introduced.

#### *Strengthening rural development policies through modulation*

The last fifteen years have seen a progressive increase of the range of the political objectives of the CAP and most of these should be better dealt with through rural development policies. However, financial resources available for the two pillars are still

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<sup>2</sup> In particular, any increase in the amount of the overall financial resources for these measures and in the level of payment rates, any enlargement of the fields of application and any increase in the level of the requirements attached to agro-environmental payments, could reduce the scope for cross-compliance.

quite unevenly distributed in favour of the first pillar.

The introduction of modulation has been a way to revert such unbalance and to strength rural development policies without altering either the two-pillar structure of the CAP, or the policy equilibrium that has permitted an agreement on the financial perspectives and the Fishler Reform. Even if the relatively small modulation rate and the 5,000 Euro per farm threshold have limited the amount of resources obtained by modulation so far, the amount of additional resources moved to rural development measures has not been negligible. Because of the strong pressure towards the reduction of the CAP budget, modulation has been an effective way to avoid the reduction of resources assigned to the second pillar of the CAP that, in the planning period 2007-2013, decreased from the expected amount. Indeed, modulation is playing an important role given that in the EU-15, according to estimates by Henke and Sardone (forthcoming), about 20 per cent of additional resources are added to the RDP budget. Furthermore, the introduction of modulation has permitted the 2009 Health Check Reform to double the modulation rate and the resources moved to rural development policies and also to use these to meet the “new challenges” identified by that reform.

Despite these achievements, the modulation has also been criticised by some farmers’ organizations because of the re-distributional effect it has had (Henke and Sardone, forthcoming). Additional criticisms come from those national governments that have problems in adding the national resources required to fulfil the co-financing rules of the second pillar, or that have already not been able to spend all available resources because of the administrative problems they face.

### **3. The instability of the CAP after the Fischler Reform**

In spite of the many important achievements of the 2003 Fischler Reform, after the Health Check the CAP is at a turning point. Indeed, the recent reforms have considerably changed the features of the CAP:

- The profile and features of the first pillar have been re-shaped, with a substantial increase in the direct payments that have been now shaped as a form of income support for farmers whose nature and goals are the main issues of the current debate about public support for agriculture.
- The second pillar of the CAP has been enhanced in terms of financial resources, but at the same time its scope and goals have been widened, so that the final balance is not necessarily positive. In spite of the continuous process of improvement of the second pillar, it keeps the double and somehow ambiguous nature of a sector-oriented and territory-oriented tool box. It does not lose its original feature of “accompanying policy” to the first pillar, being unable to stand and be acknowledged as a fully independent pillar of the CAP.
- There is a clear attempt to justify the whole public support for agriculture as a form of incentives for the production of European public goods, but at the moment there seems to be a gap between the theoretical justification and the instruments implemented.
- The current structure of the CAP is the result of a reform process designed for and led by the 15 older Members of the EU. The new Member States have had to adapt themselves to the new CAP, but in the near future, the agenda of reforms will be highly influenced by the EU-12 and that will lead to a redistribution of roles and resources within the EU-27.

- Finally, the whole CAP Reform process is strictly dependent on the debate about the budget review and the future agreements on the financing system of the EU.

One of the main issues left open by the latest CAP Reform is that of the goals addressed by the CAP itself and the instruments provided for the fulfilment of those goals. Are the two pillars of the CAP the most adequate set of tools with which to address the new objectives of the CAP? To this end, the main issue is to find a new and valid justification for the high rate of expenditure of the CAP in the total EU budget (Swinnen 2009). The Fischler Reform has reduced trade distortions thanks to the decoupling process and has more vigorously linked direct payments to environmental, ethical and health issues, with the main goal and quote explicit goal to re-legitimize the CAP (Cooper et al. 2009). It is quite paradoxical that the more transparent and the less distortive the CAP becomes, the more difficult it is to legitimize it properly: the basic CAP is no longer a product-based support aiming at the market stabilization, but it looks more and more like a history-based income support that is not among the legitimate goals of a common agricultural policy. Moreover, since decoupled direct payments are considered non-distortive in the international competition there is no need, at least in theory, why they should be a “common” policy<sup>3</sup>. The main justification for keeping them at European level is that they contribute to providing public goods that are better produced and consumed at the supra-national level. On the other hand, with the Fischler Reform and the subsequent Health Check, the whole issue of targeting the CAP support to the production of public goods is sort of half-way: it is still rather weak in itself and it

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<sup>3</sup> Evidently a “common” agricultural policy has the main goal of supporting farmers’ income, but in that case direct payments based on a historical approach are not the best way to accomplish such a relevant goal.

also does not justify the existence of two pillars.

The other relevant aspect of the new CAP is its dependency on the whole process of the past reforms (Iagatti and Sorrentino 2007, Kay 2003). This is, of course, very relevant in understanding the decision process of the CAP reform within the EU and the problems of implementing measures that represent a net break with the past (such as regionalisation or flat rate). The so-called path dependency can create a paradoxical situation in which a support measure like direct payments do not find a proper theoretical and distributive justification and there is a growing pressure for a radical solution to this problem. On the other hand, CAP has always been characterised by slow and limited changes, and this can be the main reason why even though in principle everybody thinks direct payments should be phased out, it is very probable that, in the future, they will still play a relevant role in the distribution of resources.

With regards, more specifically, to the first pillar, the debate is at the moment mainly focused on two relevant aspects: 1) to what extent are direct payments able to improve the production of public goods in agriculture and 2) is the supra-national level the best one to produce those public goods (subsidiarity)? Once again, the main problem addressed in this debate is twofold: one has to do with definitions (what are today the direct payments?) and the other has to do with justification (why should farmers receive such a substantial support from the EU budget)<sup>4</sup>?

It is not easy to provide tight answers to these questions; however, the current debate seems to converge on the idea of a radical change of direction, making direct

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<sup>4</sup> It is worth to remind, to this end, the paper signed by a number of prominent European agricultural economists about the desirable CAP for the future, that points out the relevant questions of the justification of the direct payments and the need of the CAP to effectively reward the ability of the primary sector to produce common public goods (<http://www.reformthecap.eu/declaration-on-cap-reform-html> ).

payments more directly tied to the ability of the primary sector to produce public goods which are not producible at the local level (Swinbank and Zahrnt 2009). Other keywords of this new direction of the public support are: competitiveness of agriculture, diversification of rural areas, stabilisation of markets. Specifically to this last point, the debate involves also the future of market policies, given the ongoing decline of the traditional distortive market policies of the first pillar. Today the attention is focused on market stabilisation and food security as the main goals of market policies, and on an effective safety net that can substantially contribute to improve income stabilisation and to reduce price volatility (Copa-Cogeca 2010).

All in all, it seems that the debate is drawing the attention on a twofold set of tools: on one hand highly targeted and multi-tiered direct payments that are designed to cover the needs and demands of the society; on the other, a set of new – less distortive, market policies, designed for the sector-specific features of the agriculture activity.

Moving to the second pillar, in this case most scholars share the view that it actually contributes to the production and enhancement of public goods (Zahrnt 2009). Moreover, since it is co-financed by the Member States, the subsidiarity issue is less relevant in this case. However, there are other crucial questions regarding the current features of the second pillar and its future after 2013:

- the heterogeneity of the intervention programmed under that umbrella (sector-based measures, environmental measures, territory measures);
- the need of a deeper area targeting;
- the delicate balance between the financial reinforcement of the second pillar and the expenditure capacity and effectiveness of the national and sub-national institutions.

It seems quite clear that tools like modulation, originally designed as a temporary instrument to shift resources from the first to the second pillar, do not have any reason to be further developed and any adjustment among instruments needs to take place under a clear review of the whole CAP.

Looking at the role of old and new Member States, the whole process of the CAP Reform has so far been the result of a political process started in the Nineties and led by the fifteen old Member States. As a consequence, it has been mainly designed over their specific needs (with a leading role of France, Germany and, financially, of the United Kingdom). The new Member States have “paid” their access to the EU with a sort of silent acceptance of rules, especially for the CAP, that have often been against their specific and legitimate interests (one case for all is the limited access to direct payments and the top ups). Of course now the gradual process of enlargement is concluded and in the current discussion on the future of the CAP and direct payments the new Member States reclaim a different and “equal” position in the negotiations. Indeed, their position has already been influencing the debate on the future of the CAP and on the budget review, since they are all net beneficiaries of the EU budget. Some of the big New Member States (Poland, Hungary, Rumania) will have a major role in the future assets of the budget and the CAP. Not surprisingly, these countries are listed as “gold diggers” in the Member States classification of Clapser and Thurston (2010) based on their position about the EU budget reform: they are in favour of the status quo both in terms of the budget and CAP measures and adverse to any possible form of national co-financing of the CAP.

The final point has to do with the whole EU budget review and the weight that the CAP has in the debate going on. It is clear that the CAP, absorbing around 40% of

the EU budget is the core around which any budget reform proposal spins. There is a wide literature about this issue that discusses different scenarios about the EU financing. The hypotheses at stake are manifold. The most radical are a change in the Member State contributions, or a reduction of the resources devoted to agriculture and diverted towards other chapters of the budget (competitiveness, cohesion, etc.). More conservatively, another option is the defence of the status quo for agriculture, with an internal switch from pillar one to pillar two, or even the creation of a new pillar for the climate change and the environment. Key in this debate is the position of the single Member States and their net positions in terms of partial balances (mainly agriculture vs. other policies), even though it is often underlined how the partial net balances are not able to catch the actual level of support received/contributed by each Member State.

#### **4. Institutional and financial settings for the CAP post 2013**

The previous paragraph highlights how the CAP is still today in a transitional phase, despite the radical reform of 2003 and the modifications introduced by the *Health Check*. The almost integral decoupling of the financial support from production requires the anchoring of the EU expenditures for agriculture to the provision of public goods, which are coherent with the current requirements that the European society expects from the agricultural sector.

It is not purely by chance that the European Commission felt the need, in the months preceding the publication of this book, to launch a public debate on the CAP post 2013, the results of which were debated by leading experts, stakeholders, NGOs, representatives of the food chain and institutions in a Conference held in Brussels in July, 2010. Using the words of the Commissioner Ciolos, the public consultation and the

conference were supposed to outline objectives and strategies able to support the feeling that “CAP is not only tailored for the farmers but for all European Citizens” (European Commission 2010a).

The discussion showed a widespread acknowledgement that maintaining food production capacity keeps on being the core business of the CAP, despite the dramatic change of the global scenario experienced in the last fifty years. To confirm this statement, some participants observed that, even if very relevant changes have been introduced all around the EC Treaty, Article 33 (39 in the Treaty of Lisbon) setting out the internal objectives of the CAP has remained unchanged. Different opinions came out about the current meaning of food security and food production capacity, according to the international role of the European Union and the world food prices volatility. Equally it has been recognized that European agriculture provides services and functions going well beyond those which the market recognizes and pays for. In other words, European agriculture provides its outputs complying with an higher level of process and product standards, providing further kinds of public goods like environmental services and landscape protection. Thus, the key issue could be seen as structured around the twin themed approach that could be called Food and Environmental Security (Buckwell 2010).

The Commission's document of November 2010 (European Commission 2010c), which launches the institutional debate, encompasses many of the claims came out during the Conference in three reform options. These options range from an adaptation of the status quo along with the current economic and political conditions of the EU ("enhanced Status Quo") to an option entirely focusing on environmental and climate change objectives ("abolished market and income support"). While maintaining a wide

range of options for the CAP post 2013, the Commission suggests however an adaptation of the direct payment system, which expresses an implicit bias in favor of the conservative options. The prudence of the Commission, although consistent with the current phase of the debate, clearly takes into account the Franco-German position<sup>5</sup> emerged in a joint document presented by the two governments few weeks before. The existence and nature of the CAP post 2013 will already be greatly affected by some new conditions. In particular, we are talking about the new institutional setting introduced by the Treaty of Lisbon and the agreements that will be reached by the Member States regarding the new Multiannual Financial Framework (MFF). The two aspects are closely linked, especially taking into consideration the fact that the institutional changes introduced by the Lisbon Treaty create new relations between the main institutional actors even in the choices regarding the EU budget. The impact of such conditions on the configuration of a new CAP will be crucial because it is well known that the negotiations on the reform of the CAP look like “a large group of diners at a restaurant, where the debate about what to order are matched only by disputes over how to split the bill” (Clasper and Thurston 2010).

According to the CAP policy making, the Treaty of Lisbon introduces relevant changes concerning the legislative and the EU budget procedure. First, the decision about the CAP will follow the rules of the “co-decision” (now “ordinary”) procedure. Such rules establish a substantial balance of powers between the Council and the Parliament in setting the EU Regulations. It will lead to a dramatic empowerment of the European Parliament (EP) in shaping the future CAP. It is indubitable that in the last fifty years the EP has had a marginal role in the CAP decisions, providing only an

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<sup>5</sup> [http://agriculture.gouv.fr/IMG/pdf/100914\\_position\\_commune\\_FR-DE\\_anglais\\_.pdf](http://agriculture.gouv.fr/IMG/pdf/100914_position_commune_FR-DE_anglais_.pdf)

obligatory (but not binding) judgement on the Commission proposals. Second, concerning the budget procedure, the expenditures on the CAP will not be anymore “obligatory expenditures” on which the Council keeps the right of having the last word. According to the Lisbon Treaty, the EU expenditures on the CAP will also require an agreement between the Council and the Parliament. This change is obviously consistent with the new legislative procedure for the CAP.

The new institutional setting brings about relevant implication in the EU agricultural policy making. Actually, in the last twenty years the EP has continuously tried, sometimes successfully, to enforce its influence over agricultural policy going beyond its mere institutional mandate (Roeder and Rynning 2003). In the eighties and nineties, new decisional procedures concerning the EU budget, as well as the consumer and environmental policy, gave the EP the device to affect CAP decisions externally despite its formal powerlessness in the agricultural domain. Furthermore, in the last few years, the emergence of food safety scares (e.g. BSE) provided a strong opportunity to make the EP voice more effective in shaping the recent CAP reforms. According to such anticipations, the EP participation in the CAP decision making stated by the Lisbon Treaty will dramatically affect the traditional agricultural policy paradigm based on the prevailing of the intergovernmental negotiations and the substantial institutional separation of the CAP decision-making from the broader issues of public policy (Bulmer 1998). Following the new legislative procedure and given that members of the EP represent at least 90% of the population not involved in the farm sector, we should expect that the traditional intergovernmental profile of the agricultural negotiations will soften because of the overlapping with other prominent profiles (political parties, stakeholders, civil society, NGOs etc).

New CAP decision-making is so expected to strengthen the involvement of the so-called “countervailing interests”. As noted by Swinnen (Swinnen 2008) the enlargement in the number and the quality of the political actors through the involvement of environmental organizations and consumer groups was a key element of the Fischler strategy to make its proposal for CAP Reform successful. With the assignment of formal policy-making prerogatives to the EP, a broader emergence of non-traditional political coalitions is to be expected. This should counterbalance the traditional prominence of the farm unions and offer political support for a more radical paths of CAP reform.

The Treaty of Lisbon could also affect the institutional setting for the CAP through the change in the budget decision-making. According to the previous budget procedure (in force before the Lisbon Treaty), the Council had the convenience to freeze a high share of the budget for the CAP. Given the institutional feature of the agricultural expenditure as “compulsory expenditure”, high spending for the CAP enabled the Council to maintain a large share of the budget under its absolute control. The Council’s powers on the budget, together with the increasing national origin of the “own resources”, made the intergovernmental feature prevail in the budget negotiations and the “net balances” among member states become the key variable addressing the policy choices. As in a vicious circle, the intergovernmental nature of the budget negotiations strengthened the net balance concern, as well as the net balance problem requiring a central role of the Council in the budget decision-making. In such a frame, given the worsening of the net balance problem originated by the EU regional and cohesion policies, the CAP remained the only way whereby Member States sought to obtain the most favourable net balance among contributions and appropriations from the EU

Budget (IEEP 2009). Any attempt to reform the CAP had to face this severe impediment. The Fischler Reform was possible only after each member state's appropriation from the first pillar budget of the CAP was defined by the national ceilings.

With the Lisbon Treaty, the distinction between “compulsory” and “non-compulsory” expenditures has been eliminated and the budget procedure requires the agreement between the Council and the Parliament after two readings and a conciliation committee. In such a new scenario, the CAP is no longer an effective device to preserve the absolute power of the Council with respect to the budget and the pressure for high CAP spending could be mitigated. Furthermore, the co-decision method on the entire budget spending should make the net balances conflict overlap with other arguments raised by the societal demands and that are widely represented in the EU Parliament. This could make it possible to shift resources from the CAP to other policies that address more relevant challenges such as economic growth, employment, climate change and foreign relations.

In such a framework, there could be some room for the several claims brought up in the public consultation on the budget review opened in 2008 by the Commission. Anticipating its final document, the Commission states that the principle of the “European added value” should be at the heart of the budget and drive the future Multiannual Financial Framework (MFF) out of the “net balances” and the *juste retour* arguments (European Commission 2010b). A “new, policy driven own resources” should allow the phasing out all the net balance correction mechanisms. Regarding the agricultural policy, the Commission provisional document implicitly suggests shifting some of the money to other key policy challenges, living anyway a open the door to

the following document on the CAP reform (European Commission 2010c). Of course, as long as the intergovernmental logic still prevails, despite the new institutional setting, such a severe change of the EU budget priorities and CAP spending would have to face a strong opposition in the Council. As already mentioned, the new member states together with France, Spain and Greece are expected to oppose cutbacks in order to maintain the current CAP spending levels.

According to the institutional arrangements introduced by the Treaty of Lisbon, new political conditions could make a reshaping of the CAP possible. Potential significant reductions of the EU agricultural budget, along with the political strengthening of the new challenges in line with the societal claims, are expected to put pressure on for a further reform of the CAP. Such a pressure would lead to a substantial reform as long as the change of the institutional setting was capable to soften intergovernmental feature of the CAP and the EU budget decision making.

## **5. Conclusions**

The Fischler Reform has undoubtedly introduced a breakdown element in the long and complex process of CAP Reform. By dismissing the traditional model of coupled support once and for all, the 2003 reform has opened a transition period. However, the outcomes of it are still quite difficult to foresee, also considering the crucial political and institutional courses of the EU building following the Treaty of Lisbon and the recent Union enlargements.

Now it is the right time to wonder what remains of the CAP, especially with reference to its first pillar, now that the old model has been abandoned. In other words, it is interesting to ask what is left of “common”, “agricultural” and “policy” in the

current features of the CAP? Probably not much remains and this could be considered both positive and negative, but there are definitely only a few of the original principles of a “common agricultural policy”. Let’s briefly see why.

The first consideration is that the new CAP is diminishing the concept of a “common” policy, to the extent that it progressively widens gaps for the national (and sometimes sub-regional) governments to filter into them and gain space at the expense of the EU institutions. This is particularly true for the some regulations and measures and in the way they are implemented (e.g., different hypotheses of regionalisation of the direct payments, different levels of implementation of conditionality and also possible differentiation in the competitiveness rules). It is not a case that EU Regulations make an increasing reference to the equal treatments of farmers in the EU territory and to the competition rules on common markets. However, three elements still stand in favour of the commonness of the CAP: the redistributive function of the SPS (even though as underlined before, this is between individual subjects); the enhancement of the production of public goods at the European level (but this is a much debated aspect in the current discussion on the future of the CAP); finally, the resource allocation to both pillars which follow the solidarity principle.

The second consideration is whether the reformed CAP is really focused on agriculture and rural areas. Again, looking at the direct payments, it is hard to maintain, since decoupled payment has a fully subjective nature (it is a support to the single farmer who owns the land but might also not farm on it). Moreover, it can be capitalised by the single farmer selling it together with the land and the entitlements. Also in this case, it is in the second pillar that at the moment one could find an agricultural feature of the intervention, especially considering measures for supporting and improving the

primary sector competitiveness and the quality of agricultural products.

Finally, is decoupled support a proper economic policy for agriculture and rural areas? This is hardly defensible, since its essential nature is that of a income support, leaving the market on its own in allocating resources. The only allocational function left is the one of conditionality, but it is widely acknowledged as being rather weak, and moreover it is currently just an enforcement of an existing set of regulations. It is worth noting that direct payments play a potential role in the stabilisation of farmers' incomes, but in practice such objective is not selective and targeted.

The agricultural policy has a more appropriate role and scope in Axis 1 of the second pillar. This is quite paradoxical if we consider that the fortune of pillar two has been built on the idea of increasing a territorial and non-agricultural approach to support rural areas.

All in all, we can conclude that the 2003 Reform has a widely acknowledged credit, but can also imply a serious risk.

On one hand, clearing the way from the traditional support measures, it offers a chance to redesign an agricultural support consistent with the new demand expressed by society, even though it does not solve the financial problem of the “juste retour”. The Fischler Reform has amplified the new philosophy launched by Agenda 2000, in the support to the primary sector and rural areas, focusing more on diversification and the production of public goods rather than on specific products. At the same time, it has enhanced synergies between pillars rather than encouraging overlapping.

On the other, losing the tight connections with the original goals of the Treaty of Rome (unchanged, probably not by chance), the Reform leads the generous EU budget for agriculture into a stormy ocean, in which the recent enlargements and the reform of

the Treaty might refrain from an easy journey towards a new CAP. In other words, the risk is that of a sudden and substantial reduction of financial support to the primary sector and to rural areas. This, in turn, might imply an unforeseeable reaction of some specific markets and, in specific areas of the EU, might even threaten in the medium-long run their food production capacity.

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