

# 12 Agriculture and Cohesion

Agriculture and cohesion (efforts to reduce socioeconomic disparities among regions) are highly distinctive areas of European Union policy. The Common Agricultural Policy was put in place in the 1960s. Although it has changed markedly since then, its original rationale remains the same: the CAP is a welfare program intended to give farmers an income comparable to that of workers in other sectors, which requires substantial financial transfers to the agricultural sector from the EU budget. For a long time the CAP was the largest item of EU expenditure; its declining share of spending is due not to cutbacks in payments to farmers but to higher spending on cohesion, the other main category of EU outlay.

EU agricultural subsidies are visible (and welcome) to the farmers who get the checks, but are hardly perceptible to the population of the EU as a whole. By contrast, the impact of the structural funds (the instruments for promoting cohesion) is readily apparent. Travelers throughout the EU, but especially in the less developed areas (notably in Central and Eastern Europe), frequently encounter road and rail improvements paid for in part—as the blue signs with gold stars proudly proclaim—by EU structural funds. Workers in transition and the unemployed are also aware that their vocational training courses are paid for to some extent by the structural funds. Apart from monetary union, which puts a common currency in people's pockets, no other EU policy has such high visibility.

## ■ The Common Agricultural Policy

The CAP is one of the oldest and most controversial EU policies.<sup>1</sup> It covers almost every aspect of farming life in an EU that, with successive enlargements, has acquired an ever more diverse agriculture sector, incorporating small family farms and large factory farms, farms in the plains of Poland and the highlands of Scotland, farms in the frozen north of Finland and the sweltering south of

Spain. The variety of agricultural products is as diverse as EU farm size and type, ranging from cereals, beef, milk, olive oil, fruit, and vegetables to tobacco and reindeer meat. Agriculture in the EU employs 8 million people (5.3 percent of the working population), and agricultural exports account for 8 percent of total EU exports.

Critics of the CAP denounce it as expensive, wasteful, ecologically unsound, and trade-distorting. It accounts for approximately 45 percent of annual EU spending, has caused food surpluses warehoused throughout the EU or dumped in foreign markets, and contributes to land and river pollution through farmers' excessive use of fertilizers and pesticides. Because of its complexity, the CAP is difficult to manage; because of its largesse, it is prey to massive fraud. The CAP is a source of friction in the EU's external economic relations by virtue of its import restrictions and export subsidies. Farmers, who depend on it for their livelihoods, are ambivalent about the CAP. Most welcome the generous financial support that it provides but resent what they see as excessive bureaucratization and unfavorable reforms, which they ascribe to pressure from the consumer, environmental, and global development lobbies.

Despite its obvious failings, the CAP remains a cherished icon of European integration, and especially of Franco-German accord. It evokes the heady days of the late 1950s, when Germany supposedly agreed to European subsidization of France's large agricultural sector in return for French acceptance of a common market in industrial goods. The truth was less clear-cut, but French leaders habitually evoke the myth of the EU's constitutive bargain to deflect pressure for far-reaching CAP reform. German leaders invariably perpetuate the CAP for its own sake and for the sake of harmonious relations with France.

Nevertheless, the CAP is changing in significant ways. Since the early 1990s, the CAP has been in a process of almost continuous reform. The EU has largely moved away from the system of price supports that had caused overproduction to a system of direct income support for farmers, and has been linking payments to the requirement that farmers meet environmental and animal welfare obligations. But the EU is not about to abandon large-scale subsidization of agriculture. At French prompting, the EU rationalized farm subsidies in the late 1990s on the grounds that agriculture in the EU is different from agriculture anywhere else in the world; that the "European model of agriculture" with its mixture of social, environmental, and economic elements requires a high degree of government intervention and support.<sup>2</sup>

Although the phrase "European model of agriculture" is no longer in vogue, the sentiment that it encapsulates persists among EU elites, who continue to see agriculture as a singular sector in need of large-scale subsidization. Undoubtedly agriculture is a case apart—food is a basic need, rural life has a special appeal, and farms have a romanticism about them that factories and offices do not. Nevertheless, the vast majority of Europeans, who are not

involved in agriculture and who are far more exposed to global competition, restructuring, and job losses, are less indulgent of their compatriots on the land and more resentful of the money—their money—being lavished on farmers.

Looked at purely from an economic perspective, the CAP does not make sense. But it cannot be understood only from an economic point of view. Rather, comprehending the CAP requires some knowledge of the history and politics of European integration, in which agricultural policy is deeply interwoven. History and politics favor what has become the status quo—continuous reform but maintenance of the CAP's underlying characteristics—rather than a radical overhaul. Although agricultural policy is undergoing considerable change, the CAP will likely endure forever as an emblem of European integration and an instrument of support for a privileged socioeconomic sector.

#### **Characteristics and Unintended Consequences**

The objectives of the CAP have remained remarkably consistent over time. Originally outlined in the Rome Treaty of 1957, they are essentially unchanged in the Lisbon Treaty of 2007:

- Increase agricultural productivity.
- Ensure a fair standard of living for farmers.
- Stabilize agricultural markets.
- Guarantee regular supplies of food.
- Ensure reasonable prices for consumers.

Similarly, member states remain committed to replacing various "national organizations" of agricultural markets with a "European market organization" that has at its disposal such interventionist measures as "regulation of prices, aids for the production and marketing of the various products, storage and carryover arrangements and common machinery for stabilizing imports or exports."

The guiding principles for the CAP, first elaborated by the European Commission in 1958, are as valid today as they were when the policy came into being:

- *Single market:* Agricultural produce should be able to move freely throughout the EU.
- *Community preference:* Priority should be given to produce originating within the EU over that of other countries.
- *Financial solidarity:* The cost of the policy should be borne by the common EU budget rather than by individual member states.

Based on Commission proposals, the Council of Ministers fleshed out the CAP in the 1960s by replacing national systems of customs duties, import

quotas, and minimum prices with harmonized price supports throughout the European Community, unrestricted intra-Community trade in agricultural products, and common protection vis-à-vis nonmember countries. National governments agreed to establish the European Agricultural Guarantee and Guidance Fund (EAGGF) to underwrite the entire operation. The guarantee section (accounting for the bulk of the fund) would cover the costs of market intervention; the guidance section would pay for structural improvements. The Council agreed to finance the EAGGF by national contributions only for the first three years, after which a new arrangement would have to be made. Commission proposals to finance the EAGGF after July 1965 by using the EC's own resources sparked the infamous "empty chair" crisis; it was only in 1970, as part of a wide-ranging budgetary agreement, that the EC finally switched to paying for the CAP through its own resources.

Beginning in the 1960s, national governments negotiated separate regimes, known as Common Market Organizations (CMOs), for key agricultural commodities within the CAP. Each CMO had a guaranteed price for a particular commodity; an intervention system to guarantee the sale of produce regardless of market demand; an entry price that protected the EU market from cheap imports; and an export subsidy that enabled farmers to sell their products on the world market, given that the EU's guaranteed minimum price was generally higher than prevailing world prices. Over time, the number of CMOs grew to twenty-one (as part of the Commission's better-regulation initiative, there is now only a single CMO covering all agricultural products).

Annual farm price negotiations in the Agriculture Council (agriculture ministers) were one of the most distinctive features of the CAP. The process began in January of each year with a set of Commission proposals. The Special Committee for Agriculture, rather than the Committee of Permanent Representatives as in most other EU policy areas, considered the proposals during the next two or three months. The special committee and the agriculture ministers would try to reach agreement on the price package during the Council's monthly meeting in April or May, but negotiations sometimes continued into June or even into the beginning of a new Council presidency in July.

This brief description belies the monumental effort involved in concluding the annual package of farm prices, a staple of the EU until national governments introduced reforms in the early 2000s, in anticipation of Central and Eastern European enlargement, that reduced the annual negotiations to only a few sectors, and robbed them of much of their drama. Indeed, the effort was so great that the rotating Council presidency was organized so that a country in the presidency for the first half of the year (and therefore responsible for managing the agriculture negotiations) assumed the presidency for the second half when its turn next came around. In the latter stages of the price-setting process, negotiations could last several days, taxing the patience and stamina of the negotiators. Price packages sometimes contained fifty or sixty regula-

tions that included not only monetary amounts but also complex changes to already complicated market mechanisms.

The European farmers' lobby—notably the powerful Committee of Professional Agricultural Organizations (COPA)—is active in all stages of CAP policymaking, contacting the Commission, the European Parliament, agriculture ministers, and national officials (especially the senior officials on the Special Committee for Agriculture). National governments are highly susceptible to pressure from farmers. Despite the popular notion that France is the CAP's most tenacious defender, Germany has proved equally obdurate in perpetuating price-driven support and blocking meaningful reform, thanks largely to the Bavarian farm lobby's sway over the Christian Social Union, a small but nationally influential political party.

The CAP's market-regulating mechanisms—target prices, intervention, levies, and export subsidies—ensured a number of positive outcomes: agricultural production increased greatly, farmers enjoyed a better standard of living, agricultural markets were stabilized, and food security was ensured. However, consumers clearly lost out as high prices in shops and supermarkets reflected high target prices for farm products and high duties on imported foodstuffs.

Although the CAP could be judged a success on the basis of its stated objectives, the policy's market-regulating mechanisms caused serious unintended consequences:

- Guaranteed prices bore no relation to demand and encouraged colossal overproduction.
- Surplus produce had to be stored in "intervention" (warehoused) throughout the EU at considerable cost to taxpayers (these were the infamous butter mountains, wine lakes, and the like).
- "Big" farmers (those with large farms) produced more and thereby earned more money, whereas small farmers, who most needed assistance, earned less.
- In order to increase output from their already overworked fields, farmers used excessive amounts of herbicides, pesticides, and artificial fertilizers, exacerbating the EC's acute environmental problems and diminishing biodiversity.
- The maintenance of quotas, levies, and tariffs in agricultural trade angered exporters to the EU and contrasted unfavorably with the EU's efforts to promote global market liberalization in other sectors.
- Export price supports distorted world prices and undercut non-EU producers, hampering global development and triggering trade disputes.

The 1973 enlargement made matters worse by bringing into the EC two small countries (Denmark and Ireland) with large agricultural sectors, and a large country (Britain) with a small agricultural sector but many big farmers.

Britain had traditionally pursued an agricultural policy that was the antithesis of the CAP (it was even called the “cheap food” policy). Not since the beginning of the Industrial Revolution had Britain attempted to be self-sufficient in food production. Britain’s population was too large and its amount of arable land too small to feed everyone on the island solely from homegrown stocks. Accordingly, Britain imported food from the empire and, as the empire shrank, from Commonwealth countries and other inexpensive suppliers—hence Commonwealth concerns about Britain’s entry into the EC; hence also Britain’s instinctive antipathy toward the CAP.

By the time that Britain joined the EC, vested agribusiness and rural interests had a firm grip on the CAP and could successfully resist major reform. Farmers maximized political support for the CAP by lobbying effectively and by portraying themselves as a disadvantaged and beleaguered group providing a vital service to society. Despite paying high prices over the counter, the non-farming sector had relatively little information about or interest in the CAP and failed to appreciate the program’s pernicious economic impact. Thus, politicians could win farmers’ votes without alienating other social groups and political constituencies. As a result, not just agriculture ministers but also foreign ministers and national leaders aggressively advocated farmers’ interests, often invoking the national veto to do so.

The idiosyncratic nature of the Agriculture Council compounded the problem. Apart from convening more often than most other Council formations and being served by the Special Committee for Agriculture rather than by Coreper, the Agriculture Council consists mostly of ministers with strong ties to the rural community and a strong personal and political awareness of the CAP’s importance. Similarly, until the dramatic increase in the pace and scope of European integration in the late 1980s, the Commission’s identity was bound up almost entirely in the CAP, the Community’s most important and expensive policy. Within the Commission, Directorate-General VI, now DG Agriculture and Rural Development, was the largest and most influential unit, staffed by officials who saw the CAP as an essential building block for the powerful EU to which they aspired. For nearly four decades, the head of DG Agriculture was always French and, needless to say, always a stout defender of the old-fashioned CAP (the Commissioner was never French, but always came from a farming background).

Obscene levels of overproduction in the late 1970s intensified calls for CAP reform. In 1979 the Council introduced a modest change in the system of price guarantees and imposed a “coresponsibility” levy on dairy farmers to help meet the cost of storage and subsidized sales of surplus produce. When the levy failed to curb output, the Commission proposed a production quota. After an intensive series of negotiations at the highest level, which at one point saw the Irish prime minister walk out of a summit meeting, EC leaders agreed in March 1984 on a quota system for milk production.<sup>3</sup>

The milk quota was an inadequate response to the problem of overproduction and did little to reduce spending on the CAP (which by 1984 accounted for over 70 percent of the EU budget). The possibility of bankruptcy and impending Mediterranean enlargement, together with Britain’s insistence on budgetary reform, intensified pressure for reform. Indeed, as part of the budgetary package agreed to at the June 1984 Fontainebleau summit, the European Council resolved to curtail the growth of CAP expenditure. At the same time, however, it agreed to increase the Community’s own resources, thereby eliminating the most compelling reason for far-reaching CAP reform: the threat of running out of money.

Budgetary pressure again brought the question of CAP reform to the top of the EC’s agenda in 1987 and 1988. As part of the Delors I package for the first multiannual financial framework, introduced in 1987 in the wake of the Single European Act, the Commission proposed a mix of measures to prevent overproduction, limit expenditure, diversify support for farmers, and promote rural development. Germany’s fragile government was unwilling to countenance reform until after crucial local elections (curtailing agricultural spending was unpopular with farmers and could have cost the government valuable votes). Once the elections were out of the way, negotiations on the Delors I package came to a conclusion at an extraordinary summit in Brussels in February 1988.

Like previous reform efforts, the 1988 package proved only moderately successful. Pressure for more far-reaching reform continued to build not only because of the CAP’s exorbitant cost but also because the CAP encouraged unfavorable international comment on the recently launched single market program. Although the single market program was popular within the EC itself, it raised fears abroad about the possible emergence of a “fortress Europe.” Undoubtedly, the CAP’s abominable international image fueled concern in nonmember countries about the single market’s consequences. If the protectionist and trade-distorting CAP was an example of a common policy in action, the single market would hardly help the rest of the world. Thus, the EC’s vigorous efforts to combat pessimistic prognoses about the single market’s external impact intensified internal pressure for agricultural reform. At the same time, efforts to complete the Uruguay Round negotiations of the General Agreement on Tariffs and Trade, which involved agricultural issues, threw another harsh light on the CAP.

### **CAP Reform**

There have been three rounds of major CAP reform—in 1992, 1999 (when EU leaders reached agreement on Agenda 2000 reforms), and 2003—plus a “health check” (minor reform) in 2008. The CAP is poised for another major reform before the end of the current multiannual financial framework in 2013, or possibly later if the framework is extended by a few years (see Chapter 11).

*The MacSharry Reform (1992).* Agriculture commissioner Ray MacSharry was the architect and prime political mover of the CAP's first major reform, which set the direction of subsequent reforms. As Ireland's first-ever agriculture commissioner, MacSharry seemed more suited to keeping things as they were, but the extent of the CAP's propensity for overproduction genuinely appalled him. MacSharry was just as concerned about the inequitable distribution of price supports between big and small farmers, not least because his political roots lay in the poor western part of Ireland. Driven by MacSharry's deep commitment to reform, in July 1991 the Commission for the first time adopted a proposal to break the automatic link between price support and volume of food production.

To balance the deepest price cuts ever contemplated by the Community, the Commission proposed full compensation for small farmers and scaled compensation for big farmers, subject to big farmers' removal of large tracts of land from production (so-called set-asides). The idea of replacing the system of guaranteed prices with a program of direct income support for farmers was radical and politically difficult. Farmers like to pretend that they operate in a free market system; direct payments reveal the truth. Nor would it be easy to target assistance to those farmers who needed it most. Accordingly, although the MacSharry Plan included a shift toward direct income support, it did not propose to abolish guaranteed prices.

Predictably, agriculture ministers and farmers' organizations almost uniformly opposed the MacSharry Plan. Initially MacSharry appeared to lack even the Commission's support. Fearful of alienating French political opinion, Commission president Jacques Delors never backed MacSharry completely. Only after intensive discussion did the Commission eventually approve the plan and forward it to the Council, where discussion of it proved more contentious. British, Dutch, and Danish ministers complained that the plan discriminated against large producers; Spanish, Greek, Portuguese, and Irish ministers complained that it did not compensate small farmers adequately; and the French government opposed reform of any kind. Unusually, the German government, hoping to conclude the GATT negotiations as soon as possible and apprehensive about the impact of German unification on farm policy, supported the MacSharry Plan (there were no elections in Germany at the time).

The agreement finally reached by the Agriculture Council in May 1992, after a classic fifty-hour meeting, was a triumph for MacSharry and for the Portuguese presidency, which got the package through by qualified majority vote.<sup>4</sup> Although smaller than the cuts in the original proposal, the price reductions approved by the Council were nonetheless substantial. As a concession to the French and British governments, the compensation offered to big farmers was substantially higher than MacSharry's original offer.

Paradoxically, the generous compensation package agreed to by the Agriculture Council made the reformed CAP more expensive than the unreformed

CAP. But by cutting guaranteed prices and taking land out of production, the reform helped reduce the EU's ruinous agricultural surpluses. At the same time, farmers did not experience the drops in income predicted by their leaders; on the contrary, farm incomes across the board rose steadily in the following years.

*Enlargement and Agenda 2000.* In the late 1990s the EU began to confront the challenge of imminent enlargement to the east. In agriculture as in other policy areas, Central and Eastern European enlargement was qualitatively different from previous enlargements: the accession of all ten countries in the region would result in a doubling of the farm labor force and a 50 percent increase in agricultural land in the EU. Moreover, agricultural prices in Central and Eastern Europe were much lower than in Western Europe. Thus, extending the CAP to the new member states would necessitate either a big increase in the EU's budget, major cuts in price supports throughout the enlarged EU, or lower subsidies for the new member states than those paid to farmers in the existing member states. Raising the EU budget and cutting the level of subsidies in the existing member states were political impossibilities. The only option left was to subsidize Central and Eastern European farmers at a lower level than their Western European counterparts. This difference would be justified on the grounds that a huge infusion of money into economies lacking the capacity to absorb it would be socially and economically catastrophic.

The impetus of enlargement, together with growing environmental and consumer concerns about the CAP, underlay the proposals for reform in Agenda 2000, the Commission's strategy "for strengthening and widening the Union in the early years of the 21st century."<sup>5</sup> Released in July 1997, Agenda 2000 included revised policy objectives for the CAP that revealed the influence on agricultural policy of new social movements and economic trends and showed how far the EU had changed in the four decades since the launch of the EC in 1958. The revised goals for the CAP included:

- Improving the EU's global competitiveness through lower prices.
- Guaranteeing the safety and quality of food to consumers.
- Ensuring stable incomes and a fair standard of living for the agricultural community.
- Making agricultural production methods environmentally friendly and respectful of animal welfare.
- Integrating environmental goals into CAP instruments.
- Seeking and creating alternative income and employment opportunities for farmers and their families.

In essence, Agenda 2000 proposed that the EU continue the MacSharry reforms by shifting agricultural subsidies from price supports to direct payments. The Commission suggested large cuts in guaranteed prices for a range

of agricultural products; farmers would be compensated with direct payments of one kind or another. Indeed, the Commission estimated that the cost of the compensatory payments would exceed the savings from reduced price supports by €6 billion annually. However, expected increases in EU revenue (linked to projected annual economic growth) meant that CAP spending would remain within existing guidelines and continue to shrink as a percentage of overall EU spending.

Agenda 2000 paid particular attention to the environment and the increasing use of the countryside for recreation. Accordingly, the package proposed making rural development the second pillar of the CAP, with price and market policy (the CMOs) being the first. Improving CAP management was another major thrust of the proposed reform, which emphasized the desirability of giving national and regional governments more responsibility for implementation of EU agricultural policy. However, the Commission sought to balance the vogue for decentralization and subsidiarity against the risk of renationalizing the CAP.

Farmers' reactions to the Commission's calls for cuts in guaranteed prices were predictably negative. Most national governments also reacted negatively, but not necessarily for the same reasons. For countries critical of the CAP, such as Britain, the proposals did not go far enough to reduce price supports; for others, such as France, they went too far. As on so many occasions in the past, Germany's reaction was moderated by Bavarian farmers' unequivocal rejection of Agenda 2000. With federal elections looming, the German government was not willing to risk alienating the farmer-friendly Bavarian Conservatives' vote by wholeheartedly endorsing Agenda 2000.

The Commission followed up the broad outlines of Agenda 2000 with precise legislative proposals in March 1998. Sensitive to the general perception that many farmers were bilking the system, the Commission also proposed a ceiling on the amount of direct aid that a farm could receive under various support schemes. As was the case with all proposals for agricultural legislation, the Commission's reform proposals were chewed over by the Agriculture Council and its special committee. Early in the process, agriculture ministers signaled their concerns about the extent of the proposed cuts and complained that the various compensatory schemes were inadequate. However, given the overall political importance of Agenda 2000, the General Affairs Council (foreign affairs ministers) staked a claim to oversee the legislative program for CAP reform. Despite deep differences among governments on specific parts of the proposals, foreign ministers were more likely than their agricultural counterparts to take a broader view of things. Moreover, the change of government in Germany in October 1998 augured well for the fate of Agenda 2000. With the farmer-friendly Bavarian Conservatives out of the coalition government and the environmentally conscious Greens in, Germany was more inclined toward CAP reform.

The political salience of both CAP reform and a new financial framework for the period 2000–2006—the other key component of Agenda 2000—meant that a final decision would have to be taken by the European Council. Meeting in March 1999, EU leaders reached agreement on the entire package. On agriculture, French president Jacques Chirac, a tenacious defender of the unreconstructed CAP, led the charge against large-scale price cuts. Chirac prevailed over Gerhard Schröder, the inexperienced German chancellor, who may have been more accommodating because Germany was in the Council presidency. Unwilling to stand up to the farmers' lobby, the other EU leaders went along with Chirac and Schröder. As a result, despite some cuts in guaranteed prices and in direct payments to big farmers, the cost of the CAP would remain largely unchanged.

Overall, the Agenda 2000 CAP reform was extremely modest, involving as it did neither a radical shift from a price support system nor a major reduction of spending on agriculture. At least the elevation of rural development to a separate pillar of the CAP signaled a new emphasis on environmental standards in European agriculture. Yet the overall package did not adequately address the affordability of the CAP in the post-enlargement period. It seemed as if enlargement, the ostensible reason for further CAP reform, hardly intruded on the Agenda 2000 agreement.

Instead, EU leaders dealt specifically with the question of the CAP and enlargement some years later as the accession negotiations drew to a close. They agreed at their summit in October 2002 to phase in direct payments for the new member states, starting at 25 percent of the level of support available for Western European farmers and ending at 40 percent in 2007, when a new financial framework would begin. Far from accepting a *fait accompli*, the candidate countries pressed for larger allocations in the run-up to the next meeting of the European Council, in December 2002, when a final decision on enlargement was due to be made. As anticipated, agriculture therefore became the most contentious and longest-lasting issue in the accession negotiations. The summit ended successfully when the Danish presidency managed to eke out some more money for farmers in the new member states, thus paving the way for enlargement to take place in May 2004. But the entire affair embittered the acceding countries, which resented the second-class citizenship inherent in the CAP agreement.

*The Fischler Reform (2003).* Agenda 2000 mandated a review of the EU budget in 2003, halfway through the 2000–2006 financial framework. The net contributors to the EU budget, led by a now more experienced Schröder, anticipated the midterm review with a call for additional CAP reform. So did Franz Fischler, the agriculture commissioner, who sought to revisit the Agenda 2000 debate and push agricultural policy further in the direction of the MacSharry reform. Defending the status quo, France led a group of countries, including Greece, Ireland, Portugal, and Spain, that benefited greatly from the existing

CAP. Britain, traditionally in the forefront of the reform campaign, was in a difficult position as both sides took aim at its budget rebate, negotiated by Prime Minister Margaret Thatcher in 1984 and considered sacrosanct by subsequent British governments, regardless of their political stripe.

The Commission's proposals for the midterm review sought to strike a balance between the contending French and German positions, between maintaining the status quo and reducing the cost and complexity of the CAP. In keeping with the direction of CAP reform in recent years, the Commission's proposals linked direct payments to environmental, forestation, and animal welfare measures (so-called cross-compliance), thereby advancing the broader social and environmental objectives of EU agricultural policy. Also in keeping with previous reform efforts, France and Germany overcame their differences and reached a common position, in this case in the form of a deal between Chirac and Schröder just before the EU summit in October 2002 to freeze annual expenditure on agriculture in the forthcoming financial perspective (2007–2013) at the 2006 level of approximately €45 billion, with a 1 percent increase for inflation. Much to the consternation of the reform-minded countries, Chirac and Schröder pushed this agreement through at the summit itself. Once again, Schröder chose Franco-German harmony over discord, perhaps fearing that without a guarantee of continued agricultural largesse, France would delay a final agreement on enlargement.<sup>6</sup>

The European Council's agreement on agricultural expenditure for the next ten years postponed difficult decisions about the amount of agricultural spending until at least 2013, when a new financial perspective would have to be completed and the existing pie divided among many more member states. In the meantime, there was ample room for changing the modalities, if not the munificence, of the CAP. The Fischler reform, eventually concluded by agriculture ministers in June 2003, included the following elements:

- Further decoupling of subsidies from production with a single payment for EU farmers regardless of how much they produce (the Single Payment Scheme was introduced in 2005–2006; nearly 90 percent of direct support to farmers is now decoupled).
- Renewed emphasis on cross-compliance (respect of environmental, food safety, and animal welfare standards).
- Shift of resources to rural development (pillar two).
- More equitable distribution of payments from big to small farmers.
- Reduction of prices in some hitherto unreconstructed agricultural sectors.

Essentially, the 2003 reform was a continuation of the MacSharry reform of 1992. Its most noteworthy achievement was the extent of decoupling (ending production-linked payments) and the introduction of the Single Payment

Scheme. Given the history of the CAP, it represented a series of small steps rather than a giant leap toward a more rational, efficient, and cost-effective agricultural policy. In keeping with previous reform efforts, it included a patchwork of compromises and concessions to obstinate member states—the usual suspects being France and Spain.

As part of the Fischler reform, the Council agreed in June 2005 to divide the fund for the CAP into two separate funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). The establishment of a free-standing fund for rural development emphasized the growing importance of this activity for the CAP.

*The Health Check (2008).* As part of the agreement reached in December 2005 on a new multiannual financial framework, the European Council decided to conduct a “health check” of the CAP in 2007–2008. The choice of words suggests that leaders had in mind a number of adjustments rather than a radical overhaul. The Commission got the process going with a set of proposals in November 2007 that aimed at ending the link between payments and production, continuing the shift in resources from the first pillar of the CAP (direct payments) to the second (rural development), phasing out milk quotas, further limiting the size of direct payments, and doing away with set-asides (compulsory fallow land). On this occasion the agriculture commissioner was Mariann Fischer Boel, a Danish farmer who, like MacSharry and Fischler before her, sought to protect the CAP by moving it in new directions while safeguarding the interests of farmers and rural communities. Her goal was to continue in the direction of the MacSharry and Fischler reforms rather than embark on a thorough overhaul of the CAP.

The Commission's proposals set off a lengthy period of consultation, during which national governments, farmers' organizations, and other interest groups, notably the environmental lobby, staked out their positions. The Commission followed up with legislative proposals for policy changes in May 2008. The EP delivered a nonbinding opinion, paving the way for agriculture ministers to reach a political agreement in November 2008, during France's Council presidency. The yearlong process, overshadowed by the Lisbon Treaty's delayed ratification, entailed behind-the-scenes intervention from national leaders as the negotiations drew to a close. The outcome was not as far-reaching as the Commission had hoped, but the changes to the CAP were nonetheless significant:

- Ending most remaining production-based subsidies and shifting assistance for producers to the Single Payment Scheme.
- Phasing out milk quotas by 2015 at the latest.
- Transferring more money from direct support to rural development, but not as much as the Commission had initially called for.

- Putting a special emphasis in pillar two (rural development) on pressing issues such as climate change, renewable energy, water management, and biodiversity.
- Abolishing set-asides.
- Simplifying and improving the implementation of cross-compliance.
- Giving greater flexibility to national governments to offer assistance from funds allocated to pillar one (direct payments) to sectors with special problems.

### **Reasons for Reform**

A number of factors have driven—and continue to drive—CAP reform. Some of them, such as financial pressure, have been prevalent almost since the beginning; others, such as public unease with the CAP and dissatisfaction with the EU, are more recent but no less potent. Climate change is an example of a new issue that is bound to have an effect on agricultural policy and that is helping to shape CAP reform.

*Trade and Development.* The EU's main trading partners, notably the United States, have long claimed that the CAP is a major impediment to global trade in agricultural products and especially to the conclusion of multilateral trade agreements. Developing countries, many of which have large but poor agricultural sectors, complain about the ruinous domestic effect of EU agricultural export subsidies as well as the difficulty they have in accessing the lucrative EU market. Nonagricultural business associations within the EU have pressured national governments and the Commission to reform the trade-distorting aspects of the CAP, while the development lobby has highlighted the double standard inherent in EU trade and development policy (undermining the agricultural sectors of poor countries while at the same time trying to promote their economic growth).

So far, trade rather than development policy has been a major driver of CAP reform. Indeed, it was pressure to complete the Uruguay Round of the GATT that pushed the EU to adopt the MacSharry reform. The MacSharry reform, in turn, gave a decisive boost to the Uruguay Round, which finally came to an end in December 1993. The agreement on agriculture, which set limits on levels of domestic support, export subsidies, and market access, provided the framework for global trade in agriculture under the auspices of the World Trade Organization's Committee on Agriculture. The agreement also called for new negotiations to continue the process of liberalizing agricultural trade.

The negotiations on agriculture became part of the next major initiative for global trade negotiations, the Doha Round. Even more than in the early 1990s, the EU's trading partners targeted the CAP as an obstacle to the success of this ambitious effort to liberalize global trade and investment. More-

over, because the new round was specifically linked to global development, the EU faced added pressure to change the CAP so that farmers in the developing world would not be disadvantaged by it.

Growing WTO-related pressure gave the EU a strong incentive to continue CAP reform. For its part, the EU hoped that the 2003 Fischler reform would facilitate a breakthrough in the Doha Round in general and the negotiations on agriculture in particular. Switching income support for farmers from production subsidies to direct payments reduced the scope for food surpluses, import levies, and export subsidies, thereby lessening the trade-distorting impact of the CAP. Nevertheless, the EU's trading partners remained skeptical, preferring to see concrete proposals for agricultural trade liberalization in the WTO negotiations themselves.

In August 2003, the United States and the EU, hitherto highly critical of the impact of each other's agricultural policies on the prospects for a Doha Round agreement, came together and presented a "joint approach" to agricultural, dealing with domestic support, export subsidies, and market access. It used to be that a transatlantic initiative in the WTO was analogous to a Franco-German initiative in the EU: when the two leading players took the lead, the others often had little choice but to follow. On this occasion, however, the US-EU initiative was insufficient to ensure progress.

With the WTO having missed the deadline of January 2005 for completion of the Doha Round, in part because of dissatisfaction among developing countries with the Europeans' and Americans' offers of agricultural trade liberalization, the EU came under additional pressure to reform the CAP. The European Council had already agreed on the size of the CAP budget for 2007–2013, the period of the new financial framework, but not on how to allocate agricultural expenditure among a considerably enlarged EU. Yet WTO-related pressure for CAP reform was considerably less intense than it had been in 2003, or than GATT-related pressure for CAP reform had been in the early 1990s. The changeover to direct payments, accelerated under the CAP health check, effectively removed subsidies as a stumbling block to a global trade accord. EU tariffs and quotas on agricultural imports continued to irritate US and other major agricultural producers, but for other reasons the Doha Round remained far from completion. Despite ritualistic exhortations by global leaders in forums such as the G8 and G20 for completion of the round, governments lacked the appetite for making the kinds of concessions across a range of sectors that were necessary to reach an agreement. As a result, trade policy has declined in intensity as a driver of CAP reform.

*The Environment.* As environmental policy grew in political salience for the EU, inevitably it became a factor propelling CAP reform. Environmentalists were aghast in the 1970s and 1980s at the high levels of land and water pollution and the extensive ecological damage caused by intensive farming, which

seemed driven by the CAP's financial incentives for overproduction. The first mention of environmental policy in the treaties, in the SEA, had no direct impact on the CAP but served notice of the increasing importance of environmental issues in the EU. The Maastricht Treaty went considerably further by including respect for the environment as a basic objective of the EU, and the Amsterdam Treaty went further again by declaring that "environmental protection requirements must be integrated into the definition and implementation of the Community policies and activities . . . with a view to promoting sustainable development."

As a result, environmental concerns have had a major impact on CAP reform since 1999, notably in the shift away from production-linked subsidies; the emphasis on cross-compliance (obliging farmers to satisfy basic environmental and ecological standards); and the launch and growth of the rural development pillar, which provides support to farmers specifically for projects tied to protecting the environment and the ecosystem. Within the Commission, Directorate-General Environment has emerged as a counterweight to the traditionally powerful DG Agriculture. Even within DG Agriculture, environmental interests are now well represented. Similarly within the Council, environment ministers hold considerable sway over the formulation of agricultural policy. Sensitive to the power of the environmental lobby, farmers and their political allies have tried to recast themselves as champions of environmental protection, while the EU lists this as a key policy objective for the CAP. Most environmental groups seem unconvinced and remain fiercely critical of the CAP.

**Food Safety.** Consumers first became concerned about the CAP not because of high prices but because of food safety. Whereas food security (meaning self-sufficiency in food production) was one of the CAP's original objectives, for most of the CAP's history, farmers and agricultural officials paid little or no attention to food safety (meaning the quality and healthfulness of food). By contrast, consumers gradually grew more concerned about food safety in the 1980s and 1990s, largely as a spin-off of the environmental movement. European farmers and agricultural officials happily jumped on the bandwagon when it involved issues such as hormones in beef and genetically modified organisms (GMOs); because such practices were prevalent in the United States rather than in Europe, opposing them was a useful way primarily to oppose beef and cereal imports into the EU. Yet consumer concerns about hormones in beef and GMOs paled in comparison with concerns about bovine spongiform encephalopathy ("mad cow disease"), which first appeared in Britain in the 1980s.

An announcement by the British government in March 1996 of a possible link between bovine spongiform encephalopathy (BSE) and Creutzfeldt-Jakob disease (CJD), a human brain condition that affects mostly young people and can be fatal, caused widespread panic throughout the EU. Here was an indige-

nous food safety crisis; no one could blame the Americans (the United States was BSE-free). Moreover, European officials had been aware for the previous decade of BSE's existence but had done little to control or eradicate the disease. The Commission now leaped into action, banning all exports of beef from Britain. A major political crisis followed, as the EP blamed the Commission for mishandling the whole affair.<sup>7</sup>

The British announcement caused an immediate public health scare and depressed the European beef market overnight. Consumers questioned not only the safety of beef but also the safety of other products of a system (the CAP) that emphasized mass production and paid little attention to product quality. Although farmers in other countries fell over themselves to present their products as safe for human consumption, it was too late to put the genie of consumer criticism back into the bottle. As a result of the BSE and several subsequent food safety scares, such as a pork dioxin crisis in Ireland in December 2008 caused by contaminated animal feed, the CAP has become a target for persistent consumer complaints, forcing farmers and officials to incorporate food safety into CAP reform and portray European agriculture in a health-conscious light.

**Animal Welfare.** Animal welfare relates to environmentalism and food safety, but is an important issue in its own right. Many advocates of animal welfare decry the consumption of animal products and advocate vegetarianism. Farmers engaged in animal husbandry are well aware of the political force of the animal welfare movement. So are politicians, who have included a reference to animal welfare in the Lisbon Treaty and incorporated animal welfare provisions into the CAP in a number of recent reforms.

**Cost.** With the shift in agricultural subsidies from production to direct support for farmers, the cost of the reformed CAP is less apparent to consumers today, although high tariff barriers push up the price of agricultural imports. Nevertheless, the cost of the CAP—about €45 billion annually—is exorbitant and represents a considerable outlay for taxpayers in the EU. Defenders of the CAP like to point out that the policy accounts for a smaller portion of the EU budget now than it did in the past, but they are referring to the CAP's relative rather than absolute cost.

Clearly, budgetary pressure has been a major driver of CAP reform. Yet successive reforms have changed the modalities of the CAP without reducing its overall cost. With governments showing little inclination in recent years to increase the size of the EU budget, the CAP imposed a huge opportunity as well as a real cost. Every euro spent on agriculture is one euro less that could be spent on more beneficial measures for the broader European economy. A group of outside experts, asked by the Commission to study the EU budget, called in 2003 for a major cut in agricultural spending in order to finance more

important priorities such as education and research.<sup>8</sup> EU leaders did not do so in 2005, when they reached agreement on the current financial framework. Yet the cost of the CAP is likely to be a much bigger issue in the negotiations for the next financial framework, not least because of the lingering impact of the 2008–2009 economic recession.

*Inequality and Inefficiency.* The CAP is notoriously inefficient and unequal in its allocation of resources. Direct income support goes to landowners, who are not necessarily the farmers who work the land. Big farmers continue to fare better than small farmers, and rich Western European countries fare better than poor Southern or Eastern European countries. The glaring east-west divide in CAP support is unlikely to survive the next round of budget negotiations.

*Public Opinion.* The permissive consensus that characterized the early decades of European integration gave way long ago to public dissatisfaction and rampant Euroskepticism. Such feelings pertain generally to the EU and its institutions rather than specifically to EU policies. Given its unrelentingly negative image, however, especially for financial, environmental, and food safety reasons, the CAP is becoming a target for popular ire and opposition. Non-farmers are understandably resentful of the generous subsidies that farmers receive, subsidies that go far beyond the welfare benefits available to workers in the nonagricultural sectors. In that regard the economic recession of 2008–2009 was salutary, with government cutbacks of unemployment and other benefits contrasting sharply with high levels of income support for farmers under the CAP.

*Transparency.* Growing awareness of the CAP's many failings is driving public opposition to the policy. Such awareness is due to detailed information about who gets what from the CAP, which the Commission and national governments have recently made available, under pressure from journalists, critics of the CAP, and advocates of better governance. The Commission, itself a champion of openness and transparency, could hardly object to throwing light on the CAP. National governments were reluctant to identify the recipients and the amounts of CAP support, knowing that the system was deeply flawed. Nevertheless, the Council agreed in 2005 that governments would have to publish, on the Internet, the identities of CAP fund recipients and the amounts received, in order "to enhance transparency regarding the use of the Funds and improve their sound financial management."<sup>9</sup> Some governments dragged their feet in complying with the new regulation, which came into effect in 2008, and have made the websites containing the information difficult to navigate. As expected, the information has been an eye-opener for Europeans, few of whom have searched for it themselves but many of whom are aware of it through extensive media coverage. Analysis of the data shows that, over the

years, large CAP payments have gone to rich investors, wealthy aristocrats, and large conglomerates, and have funded golf courses, theme parks, and the like.

### *The Future of the CAP*

The forces of CAP reform seem inexorable. Under the circumstances, it is hard to imagine that funding for the CAP will not be reduced in the next financial perspective, and that more fundamental reforms are not also in the offing. One of the great unknowns about the future of the CAP concerns the influence of the European Parliament. Historically, the EP has been excluded from CAP decisionmaking. With the abolition in the Lisbon Treaty of the distinction between compulsory and noncompulsory expenditure, however, and the extension of the ordinary legislative procedure to almost every EU policy area, the EP is becoming involved in everyday CAP decisionmaking. The impact of these changes is likely to be mixed. Most members of the EP's agriculture committee are highly sympathetic to the farming community (many of them are farmers), and are unlikely to want to change the status quo. By contrast, the EP as a whole is less interested in agriculture and is less beholden than national parliaments and governments to agricultural interests. On fundamental issues such as the allocation for agriculture in the multiannual financial framework, the EP may well be inclined to support major reform. Nevertheless the CAP is likely to remain an iconic and predominant EU policy area for many years to come.

### ■ *Cohesion Policy*

Regional policy aims to achieve economic, social, and territorial cohesion, a fundamental objective of the EU. "Cohesion policy," a term used interchangeably with "regional policy," is unabashedly interventionist: it presumes that market mechanisms are insufficient to reduce economic and social disparities between richer and poorer regions and may even exacerbate them. Only by intervening with a range of policy instruments—and a large infusion of public money—can the EU hope to achieve more equitable levels of wealth, living standards, and opportunities across a vast geographical area.

### *The Emergence of Cohesion Policy*

The development of regional policy is inextricably linked with EU enlargement and with the deepening of European integration since the late 1980s. The preamble of the Rome Treaty mentioned the need to reduce regional disparities, but the treaty itself included few references to regional policy. The European Social Fund and the European Investment Bank, established by the treaty, were not intended primarily to promote what later became known as

cohesion, but were nonetheless expected to help the EU's poorer regions. Similarly, the treaty declared that national subsidies (aid to states) were compatible with the common market as long as they promoted "the economic development of areas where the standard of living is abnormally low or where there is serious underemployment."

Apart from those concessions, the prevailing attitude in the late 1950s, encapsulated in the Rome Treaty, was that the common market would of its own accord "promote throughout the Community a harmonious development of economic activities" and thereby lessen disparities among regions. After all, the treaty was a package deal to distribute losses and gains among member states, not to redistribute resources between rich and poor regions. In any case, with the notable exception of the south of Italy (the Mezzogiorno), regional disparities in the EC of six member states were not as striking as in the enlarged Community of nine, ten, and twelve member states, let alone in the EU of nearly thirty member states.

Successive enlargements increased regional disparities with regard to income, employment, education and training, productivity, and infrastructure. The EC's growing regional differences manifested themselves in a north-south divide, with Ireland included in the southern camp. The spatial characteristics of the EC's regional imbalance conformed to the core-periphery concept used by social scientists to analyze inequalities between or among regions. As a result, the EU built its cohesion policy in the late 1980s and early 1990s largely on the assumption of a poor periphery (Scotland, Ireland, Portugal, central and southern Spain, Corsica, the Mezzogiorno, Greece, and—after 1990—eastern Germany) and a rich core (southern England, northeastern France, the Benelux countries, northwestern Germany, and northern Italy).

A protocol attached to Ireland's accession treaty emphasized the need to end regional disparities in the EC, but the European Regional Development Fund was established only in 1975, largely to compensate Britain for its poor return from the CAP. The EC began coordinating national governments' regional aid schemes in the late 1970s, although its own regional aid policy remained rudimentary. The extent of the EC's failure to redress regional imbalances became more apparent after Greece's accession in 1981 and in the run-up to Spain's and Portugal's accession in 1986. All three countries were economically underdeveloped and lagged far behind the existing member states (except Ireland) in per capita GDP.

Economic, political, and moral arguments underpinned the Commission's efforts to promote cohesion at the time of the Mediterranean enlargement. Commission president Jacques Delors had long been aware of a growing rich-poor divide in the EC, which the accession of Spain and Portugal would greatly exacerbate. Delors warned the EP in March 1985 that the enlargement negotiations had "revealed a tension in Europe which is, let's face it, a tension between north and south. It stems not only from financial problems but from

a lack of understanding, from a clash of culture, which seems to be promoting certain countries to turn their backs on the solidarity pact that should be one of the cornerstones of the Community."<sup>10</sup>

The contemporaneous emergence of the single market (1992) program greatly boosted the Commission's and the poorer countries' leverage for a well-funded cohesion policy. The gradual worsening of regional disparities since the 1960s suggested that market liberalization would not necessarily narrow the rich-poor divide. Advocates of a stronger regional policy exploited uncertainty about the distributional consequences of the single market program to press their claims for cohesion. Fear that market integration would make rich regions richer and poor regions poorer and that the dynamic of liberalization would intensify existing disparities led to an explicit link between cohesion policy and the single market program.

Delors used an influential report by Italian economist Tommaso Padoa-Schioppa to make a compelling case for a massive increase in spending on regional policy. Published in April 1987, the report assessed the "implications for the economic system of the Community of . . . [the] adoption of the internal market program and the latest enlargement." One of its major conclusions pointed out "the serious risks of aggravated regional imbalances in the course of market liberalization" and, in a memorable phrase, warned that "any easy extrapolation of 'invisible hand' ideas into the real world of regional economics in the process of market opening would be unwarranted in the light of economic history and theory."<sup>11</sup> This was grist to Delors's mill and strengthened the southern countries' determination to win a sizable redistribution of resources in conjunction with the single market program.

Apart from vague notions of solidarity and precise projections of the likely economic impact of greater regional disequilibrium, the politics of the single market program strengthened the case for cohesion. The single market might never be implemented if poorer countries, resentful of their situation, blocked legislation in the Council of Ministers necessary to complete the 1992 program. Accordingly, in the run-up to the SEA, the Commission advocated a substantial redistribution of resources to the EC's less prosperous regions. Although one of the attractions of the single market program for a financially strapped EC was its relative lack of cost, the Commission's emphasis on cohesion raised the prospect of a hefty increase in the budget. National governments deferred until later a decision about the amount of money involved, but committed themselves in the SEA to reducing "disparities between the various regions and the backwardness of the least favored nations," and to reforming the so-called structural funds—notably the European Regional Development Fund and the European Social Fund—within a year of the act's implementation.

*The Structural Funds.* Reform of the structural funds in 1988–1989 and the introduction of the European Cohesion Fund in 1992 were key events in the

development of cohesion policy. Both were linked to the new system of multiannual financial programming, begun in 1988 with the Delors I package. As a staunch economic liberal, British prime minister Margaret Thatcher opposed regional policy and rejected the idea of guiding the “invisible hand.” In her view, market liberalization would hasten rather than hinder economic development in the poorer member states. Despite Thatcher’s misgivings, the rich countries’ endorsement of the new financial framework demonstrated their acceptance of redistributive solidarity as part of the single market program. A delighted Delors called the decision to double the structural funds by 1993 “a second Marshall Plan” for Europe.<sup>12</sup>

Apart from increasing the size of the structural funds, the Council reformed cohesion policy later in 1988 in order to improve the funds’ effectiveness. In particular, the Council sought to weld regional development policy and aspects of social policy into a powerful means of narrowing the north-south divide.

The 1988 reform radically recast cohesion policy by introducing a number of new principles and procedures and strengthening existing ones:

- *Additionality*: Structural funds must add to, not substitute for, national public expenditure.
- *Partnership*: The partnership principle was the key to involving regions, not just national governments, in formulating and implementing structural policy. Because EU projects would complement national measures, there would have to be close consultation and cooperation among the Commission, national governments, and regional or local bodies at all stages of a structural program. Eligible national plans for regional assistance would be incorporated into Community Support Frameworks, which were contractual agreements between the Commission and national and regional authorities. The Community Support Frameworks set out the program’s priorities, type of aid, methods of financing, and so on.
- *Programming*: The reform of structural funds involved a major switch from project-related assistance to program assistance and decentralized management, putting the emphasis on planning and continuity rather than on ad hoc activities. Under the old system the Commission dealt with thousands of separate projects; under the new system the Commission would oversee a much smaller number of Community Support Frameworks.
- *Concentration*: Instead of spreading the EC’s financial resources widely and ineffectively, structural funds would be concentrated on a few major objectives. Functional and geographic concentration would restrict assistance to five priorities or objectives, the most important of which (Objective 1) was assistance to “regions whose development is

lagging behind,” that is, regions with a per capita GDP of less than 75 percent of the EC average (all of Greece, Ireland, and Portugal; large parts of Spain; and southern Italy, Corsica, and the French overseas departments). Almost 80 percent of the Regional Development Fund (by far the largest structural fund) was allocated to Objective 1 projects. Other objectives sought to promote economic conversion and modernization in declining industrial areas, integrate young people into the workforce, assist “regions dependent on fishing,” and support certain “rural areas.”

The 1988 reform and the ensuing centrality of cohesion policy in the EU had political as well as financial implications. The structural funds now accounted for about 35 percent of a substantially larger EU budget, a close second to agricultural policy in terms of EU expenditure. Politically, the rise of cohesion policy raised the profile and influence of the Commission, and within it of the commissioner and directorate-general for regional policy. Moreover, the principles of concentration and partnership allowed the Commission to work closely with regional authorities as well as national governments, thereby extending its reach throughout the EU. The Commission used these contacts “to act as a lever for regions that are not yet traditionally recognized” and to promote the emergence of new “Euroregions” straddling national frontiers.<sup>13</sup> Most regions opened offices in Brussels and became active in the Assembly of European Regions, a Brussels-based interest group. Thus the formulation and implementation of cohesion policy strengthened regionalism in Europe and contributed to the emergence of multilevel governance both in the day-to-day operations of the EU and as a way of conceptualizing European integration.<sup>14</sup> It also contributed to the inclusion in the Maastricht Treaty of a provision calling for the establishment of the Committee of the Regions, an EU advisory body that came into existence in 1994.

Moves toward monetary union raised concerns among the poorer countries similar to those prevalent at the outset of the single market program. The 1989 Delors Report, which set the stage for monetary union, pointed out that because monetary union would deprive countries of their ability to devalue, it could worsen the balance-of-payments difficulties of poorer countries. Indeed, the need for countries to harmonize their budgetary policies in a monetary union, coupled with a loss of exchange rate flexibility, portended serious problems for the less developed member states.<sup>15</sup>

During the negotiations leading to the Maastricht Treaty, Ireland, Spain, and Portugal attached the highest priority to strengthening cohesion policy. Using arguments honed during the Delors I debate, they claimed that failure to meet their demands would impair prospects for monetary union and undermine the EU. From their point of view, the outcome of the negotiations was highly satisfactory. The Maastricht Treaty provided a framework for extending and

deepening EU policies and actions to promote cohesion in parallel with the achievement of monetary union. It also identified cohesion as one of the EU's main goals and listed rural development as an objective of structural policy. Of more immediate importance, the treaty stipulated that the Council could set up a cohesion fund by the end of December 1993. The purpose of the fund was to help poorer countries reconcile the apparent contradiction in the treaty between the budgetary rigor necessary to achieve economic convergence (a prerequisite for monetary union) and the budgetary flexibility necessary to promote cohesion (a key EU objective).

In February 1992 the Commission sent the Council a proposal (Delors II) for a new financial framework for the years 1993–1999. It included a large increase in the EU budget, including a higher allocation for the structural funds. An EU-wide economic recession, together with Germany's effort to meet the costs of unification, made it difficult to reach an agreement on the Delors II package. Ironically, the Maastricht ratification crisis—another gloomy development—may have helped. Battered by a year of economic and political blows, national leaders wanted to demonstrate their ability to act decisively in the EU's interest. The Delors II package was a good way to show that redistributive solidarity had survived the year's setbacks. The new financial framework, which the European Council concluded in December 1992, more than doubled EU spending on cohesion in Ireland, Greece, Portugal, and Spain.

*The Impact of Central and Eastern European Enlargement.* The 1995 enlargement had little effect on cohesion policy, apart from leading to the creation of a new objective “for the development of regions with very low population densities.” This was a sop to Finland and Sweden, net contributors to the EU budget that would otherwise not get much from the structural funds. Austria, another net contributor, would benefit from some of the existing objectives, at least enough to give the appearance of a fair return for its money.

In its impact on cohesion policy, however, the 1995 enlargement paled in comparison with what was on the horizon. The countries of Central and Eastern Europe were underdeveloped compared to the EU's Mediterranean countries, let alone the EU's more affluent members. Their accession would dramatically change the face of the EU. All of the Central and Eastern European states would qualify for Objective 1 funding. Meeting the organizational challenges and the high cost of Central and Eastern European enlargement would test the EU to the limit (see Box 12.1).

The initial response came in the Commission's proposals for Agenda 2000, including a financial framework covering the period 2000–2006. The Commission recommended keeping funding for cohesion policy at 0.46 percent of the EU's GDP, amounting to €275 billion over the seven-year period. Of that amount, €45 billion would be earmarked for the new member states,

#### Box 12.1 The New Central and Eastern European Member States (2004)

- Had an average per capita GDP less than half the average in the EU15.
- Only 56 percent of those of working age were employed, compared to 64 percent in the EU15.
- As much as 92 percent of their populations lived in regions with a per capita GDP below 75 percent of the average per capita GDP in the EU25, making those regions eligible for the highest possible level of support from the structural and cohesion funds.
- Accounted for just under 5 percent of the EU's GDP but almost 20 percent of the EU's population, thereby reducing the average per capita GDP in the EU25 by about 12 percent from what it had been in the EU15.
- Had a poor administrative capacity, making it difficult to manage allocated funds in the run-up to accession and in the early years of membership.

Source: European Commission, *A New Partnership for Cohesion: Third Report on Economic and Social Cohesion* (Luxembourg: Office for Official Publications of the European Union, 2004).

which were likely to join toward the end of the financial perspective, plus €22 billion in pre-accession aid. The Commission proposed as well reducing the structural fund objectives from six to three and making some badly needed administrative and managerial improvements.

Although the Commission's budgetary proposals were modest by the standards of other estimates of the likely cost of enlargement, Agenda 2000 generated controversy in existing and prospective member states. Net contributors to the EU budget wanted to pay less, recipients of large-scale transfers from the structural and cohesion funds wanted to maintain or increase their share, and prospective member states wanted more than the Commission offered. The inevitable row over cohesion funding began in earnest in March 1998 when the Commission followed up with precise legislative proposals for the new financial framework. Almost every country—not only the poorer ones—pleaded for special treatment. Despite hard bargaining in the ensuing negotiations, the final agreement stuck closely to the Commission's proposal.

At the same time, Agenda 2000 included some important procedural reforms. Given the stronger institutional capacity of many formerly disadvantaged regions and the Commission's administrative overreach, the reforms gave more responsibility for the management of cohesion policy to the national governments and regional authorities concerned, and reduced the Commission's responsibility for implementing, monitoring, and evaluating programs. Instead, the Commission assumed greater financial control. To encourage better management, the Commission introduced a financial incentive in the form of a performance reserve for allocation in 2004 to countries that achieved their program targets set at the beginning of the financial perspective in 2000.

The Commission's next set of proposals for cohesion policy came in July 2004, shortly after enlargement and in the run-up to the negotiations for a new financial framework for the period 2007–2013.<sup>16</sup> The fact that the EU now included eight Central and Eastern European states, with two more (Bulgaria and Romania) expected to join in the near future, overshadowed the budget negotiations. So did the fact that the net contributors, notably Germany and the Netherlands, strongly opposed increasing the size of the EU budget and resented the idea of generous financial transfers going to countries (like Ireland) that were doing well economically or (like Greece) that allegedly squandered regional development assistance. Nor did it help that France wanted to increase spending on the CAP and Britain wanted to protect its cherished budget rebate.

Under the circumstances, the negotiations for the new financial framework were extremely fraught. The agreement reached in December 2005 included an allocation of 35.7 percent of the budget—€347.41 billion—to cohesion policy, the bulk of it for the new member states. Because those countries were so poor, none of the EU15 would qualify any longer for Objective 1 funding, the most generous source of cohesion support. For reasons of fairness and political expediency, EU leaders decided that any of the older member states that would have qualified for Objective 1 funding in the EU15 but did not qualify in the EU25 (because of the so-called statistical effect) would continue to receive Objective 1 support until 2013.

The launch in March 2000 of the Lisbon strategy for economic modernization and reform had an important impact on cohesion policy. The neoliberal language of the Lisbon strategy soon pervaded most policy areas, including cohesion policy. Accordingly, negotiations in 2004 and 2005 on the future of cohesion policy during the next financial framework were laced with references to private enterprise, greater innovation, more competitiveness, and higher productivity, with a view to stimulating growth and employment, cohesion's traditional objectives. A neoliberal approach did not sit well with a policy built upon government intervention. Nevertheless, the imprint of the Lisbon strategy was evident in the legislative package enacted in 2006 to regulate cohesion policy for the period 2007–2013.

Under this legislation, three headings replaced the existing policy objectives:

- *Convergence*: Supporting growth and job creation in the least developed member states (formerly Objective 1 regions) by modernizing infrastructure and strengthening economic foundations, with a particular emphasis on areas such as transport, research and technological development, information society, and entrepreneurship.
- *Competitiveness and employment*: Helping regions in the other member states to innovate and adjust to particular challenges.

- *Territorial cooperation*: Encouraging cross-border cooperation, including cooperation across borders between member states and non-member states.

### ***The Future of Cohesion Policy***

Over the years, the EU has spent hundreds of billions of euros on cohesion policy and plans to continue doing so well into the future. Is the money well spent? How effective is cohesion policy? Economists disagree sharply in their answers to these questions.<sup>17</sup> Disregarding serious problems with the management of structural and other cohesion funds, empirical evidence of the utility of cohesion policy is difficult to distill because of the multifaceted nature of economic growth and decline. It is hard to imagine that large-scale financial flows into poor countries and regions would not have a beneficial effect, although on economic grounds alone such a rationalization of cohesion policy (or global development policy) is surely unconvincing.

Not surprisingly, the Commission claims that the north-south economic divide within the EU is closing, yet with enlargement a new east-west gap has opened. In general, economic differences between rich and poor regions are widening, not narrowing, in the enlarged (and enlarging) EU. Some of the biggest beneficiaries of cohesion funding in the EU15 have performed well economically; others have not. Similarly, some of the biggest beneficiaries of cohesion funding in the new member states are performing well economically, despite the 2008–2009 recession; others are not. What role, exactly, does cohesion policy play?

Ireland and Poland are instructive examples. Ireland is generally seen as the classic success story of cohesion policy, despite its spectacular economic fall in 2008–2009. Thanks to annual growth rates well in excess of 5 percent, Ireland's per capita GDP rose from 63.6 percent of the EU average in 1983 to 89.9 percent in 1995, at a time when the country received huge financial transfers from Brussels. Despite no longer being eligible for Objective 1 funding, Ireland continued to grow economically; by 2004, it had the second highest per capita GDP in the EU. Yet Ireland's economic takeoff was not due solely, or even largely, to cohesion funding. Massive foreign direct investment, major economic reforms, and a national consensus on moving the country forward and using cohesion funding wisely were essential for Ireland's success. By contrast, Portugal and Spain fared less well, and Greece remained in an economic rut despite receiving generous cohesion funding. As well as attracting relatively little inward investment (less than 1 percent of its GDP, compared to about 21 percent in Ireland) and failing to undertake macroeconomic policy reforms, Greece reputedly squandered much of its cohesion funding through fraud and mismanagement.

Poland's experience bears out the point that the key to economic development in the poorer member states is a combination of sensible macroeconomic

policies, large-scale inward investment, sound management of cohesion funding, and closer coordination in the formulation and implementation of regional policy at the European, national, and subnational levels. Despite the downturn that began in 2008, Poland continued to attract a substantial share of global investment, thanks to its EU membership and, no doubt, to infrastructural and other improvements undertaken through cohesion policy. Like Ireland in the 1990s and early 2000s, Poland in the late 2000s owed its success to inflows of foreign investment as well as or even more than cohesion funding—and the adoption of sound public policies. Other Central and Eastern countries have been both less fortunate in their particular circumstances and less sensible in their policy choices.

Net contributors to the EU budget continue to complain that their contributions are too large and their direct return, notably in agricultural and cohesion transfers, too small. The economic recession has increased the frequency and loudness of such complaints. For their part, the main beneficiaries of cohesion funding have used the recession to strengthen their case for large-scale financial transfers, arguing that convergence is more urgent yet more difficult at a time of economic downturn. They (and the Commission) also point out that the net contributors benefit from extra public works contracts and other business in the poorer member states.

A bruising budgetary battle looms for the next financial framework. Although the EU budget is unlikely to grow, cohesion policy will probably maintain its share of approximately 35 percent. Unlike agricultural policy, which faces a severe legitimacy crisis, cohesion policy generally enjoys public support or at least does not face entrenched opposition. Thousands of cofinanced projects scattered throughout the EU, ranging in scale from small business start-ups to large-scale infrastructural development, have generated considerable goodwill toward cohesion policy.

The moral, political, and economic justifications for cohesion remain strong. If anything, they are more compelling in the aftermath of enlargement, as glaring economic gaps have opened up in the EU. Most of the older member states acknowledge that the Central and Eastern European countries have a lot of catching up to do and need generous assistance along the way.

Doubtless the modalities of cohesion policy will continue to change over time. Yet the underlying goal remains the same: to help regions with poor infrastructure, labor skills, and social capital to develop more rapidly than they otherwise would, or at least to prevent them from regressing further than they otherwise might. Despite neoliberal critiques of the effectiveness of cohesion policy, most politicians are wedded to what has become an iconic EU policy area. Like social welfare within member states, cohesion policy rests on cherished principles of fairness and solidarity. Also like social welfare, however, the costs of cohesion policy are high and may prove untenable, pitting pragmatism against principle in the years ahead, especially if the EU ever em-

braces Turkey, an impoverished European country for which few other Europeans appear to have much sympathy or to show much solidarity.

## ■ Notes

1. See Isabelle Garzon, *Reforming the Common Agricultural Policy: History of a Paradigm Change* (Basingstoke: Palgrave Macmillan, 2007); and Berkeley Hill and Sophia Davidova, *Understanding the Common Agricultural Policy* (Earthscan, 2010).
2. See Luxembourg European Council, "Presidency Conclusions," Bulletin EC 12-1997, point 1.5.11.
3. See Michel Petit et al., *Agricultural Policy Formation in the European Community: The Birth of Milk Quotas and CAP Reform* (Amsterdam: Elsevier, 1987).
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