

Method of Co-ordination and New Governance Patterns in the EU', *Journal of European Public Policy*, 11 (2004): 185–208.

A useful review of the EU's Lisbon Strategy, its constituent policy measures, and its evolution into Europe 2020 is contained in **P. Copeland and D. Papadimitriou (eds)**, *The EU's Lisbon Strategy: Evaluating Success, Understanding Failure* (Basingstoke: Palgrave Macmillan, 2012).



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Chapter 19

Agriculture

Chapter Overview

The Common Agricultural Policy (CAP) was the first redistributive policy of the EC, and for many years the only one. The success of agriculture sustained the hopes of the advocates of integration during the 1960s, when it was seen as the start of a process that would lead to other common policies; but for a long time the other common policies did not appear. As a result, agriculture dominated payments from the common budget. Developed to ensure security of food supplies in the Community, the CAP proved highly expensive, with overproduction by farmers keen to maximize subsidies. Despite widespread criticism, the policy proved notoriously difficult to reform. Farmers' groups fiercely resisted change and their importance in the domestic politics of key member states ensured that reform was slow and piecemeal. Only in the context of new internal and external pressures from the 1990s was significant change secured.

History

Agriculture was one of only four common policies that had its own Title in the Treaty of Rome. The importance given to the sector owed a great deal to food shortages at the end of the Second World War. Governments agreed that it was important to ensure adequate supplies of food at reasonable prices. To achieve this it was necessary to provide an adequate income to farmers, while taking measures to increase their productivity. All of the states involved in the original EEC were in agreement on these objectives.

France had a particular interest in agriculture. Small French farmers were politically important because they had the sympathy of the French people. On the other hand, France also had a lot of large and efficient farms. Part of the price that the French insisted on for their participation in the **common market** in industrial goods was the subsidization of the cost of maintaining their small farmers, plus the guarantee of a protected market for French agricultural exports.

Had the EC simply abolished restrictions on free trade in foodstuffs, the effect would have been to produce competition between member states to subsidize their own farmers. So free trade was not viable. Yet, it was also recognized that the equalization of food prices was important for fair competition in industrial products. Higher

food prices meant that workers demanded higher wages, thus raising industry's costs. To have a level playing field of competition in industrial goods, cost differences arising from the effect of food prices needed to be limited.

Before reform in the 1980s, the CAP was a price support system. Every year national Ministers of Agriculture decided the level of prices for agricultural products that were covered by the CAP. These prices were ensured by the intervention of the Commission in the market to buy up enough of each product to maintain the agreed price. If prices subsequently rose above the agreed level, the produce that the Commission had purchased and placed into storage would be released onto the market to bring the price back down. In practice, though, this did not occur.

Prices were set at the level that would ensure the least efficient farmers in the EC an adequate income, which encouraged the more efficient, large-scale farmers to maximize their output, because the price was more than adequate to guarantee them a return on their investment. Thus surpluses in most products became permanent. The Commission's interventions in the market were all in one direction: to keep up prices by intervention buying. The amounts of produce in storage constantly grew and became an embarrassment, prompting press reports of 'food mountains' and 'wine lakes'. The cost of storage in itself became a significant burden on the Community budget.

The problems stemmed from the failure of agricultural policy itself to develop. What was commonly known as the CAP was in effect only a policy on agricultural price support. Sicco Mansholt, the Commissioner in charge of agriculture during Hallstein's presidency, saw a clear line of spillover from price support to the restructuring of European agriculture to create fewer, larger, more efficient farms. This would have allowed guaranteed prices to be reduced.

At the request of the Council of Ministers, Mansholt introduced proposals for such a restructuring in the late 1960s, but an economic recession in the 1970s led to resistance to the restructuring measures from those governments that had considerable agricultural populations.

Price settlements tended to remain high because of the political influence of farmers, which was everywhere considerable. At the same time, the high prices acted as a burden on the Community budget, and put a particular burden on the national budgets of West Germany and Britain, the two largest net contributors to the Community budget.

Failure to reform the CAP led to ever-larger surpluses of produce being kept in storage, and the cost of storage itself added to the budgetary burden. In an attempt to address at least this part of the cost, a decision was made in the course of the 1970s to encourage the export of the surpluses instead of storing them. As world market prices for all products covered by the CAP were consistently lower than the guaranteed internal prices, it was necessary for the EC to pay farmers the difference between the price they received for the exports and the guaranteed price. Such export subsidies technically constitute what is known as the 'dumping' of products on world markets. It had the adverse effect of lowering world prices by adding to supply; but it also encouraged other agricultural producers to subsidize their own farmers so that they could compete with the EC farmers. This move from storage to export of surpluses was eventually to produce irresistible external pressure for reform of the CAP, although these pressures did not hit home until the 1980s.

Agriculture in the 1980s and 1990s

In the course of the 1980s and 1990s the pressures built up for reform of the CAP (see Insight 19.1). Together these pressures did produce some reforms in 1984 and 1988, and a more radical reform in 1992.

In 1984 a system of quotas for dairy products was agreed. In 1988 agreement was reached on a complex package that put a legal limit on agricultural price support for 1988 and fixed future increases above that level at an annual maximum of 74 per cent of the increase in Community GDP. If this limit were breached there would be automatic price cuts for the relevant products in subsequent years until the ceilings ceased to be breached. Also, money was made available to encourage farmers to set aside arable land and to let it lie fallow (Butler 1993: 116–17).

Commissioner MacSharry introduced a further package of reform proposals in July 1991, and they were agreed with some modifications, and side-payments to sweeten the pill, in a very rapid ten months, by May 1992. Although known as the 'MacSharry reforms', they nevertheless bore the imprint also of President Delors and his *cabinet*. The package involved a sharp decrease in the prices for cereals and beef, to bring them more into line with world prices, linked to a move from supporting farmers through subsidies on production to direct support for rural incomes. More land was to be taken out of production altogether, with the farmers being compensated by direct payments; an early retirement scheme was introduced to encourage older

Insight 19.1 Pressures for CAP Reform in the 1990s

- Budget pressures, which had abated in the 1980s, again became significant as the USA allowed the value of the dollar to decline and reintroduced agricultural export subsidies of its own. This forced down world prices, and so increased the cost of export subsidies.
- The reunification of Germany brought into immediate membership of the EC considerable grain-producing areas, as well as extra dairy and beef livestock, adding to the problems of overproduction.
- The need to stabilize democracy and capitalism in the states of central and eastern Europe demanded that the West buy exports from them to allow them to obtain the hard currency necessary to buy from the West to re-equip their industries. These countries had few products in which they had any comparative advantage. Agricultural products were among the few. If the CAP had not prevented it, several of the states could have exported their agricultural goods to the EC.
- By 1992 the Uruguay Round of the GATT had reached a critical stage. In previous rounds of the GATT, agriculture had been raised as an issue, but had always been eventually left on one side because the participants did not want the overall package to collapse. This time the fate of farmers was so serious that both the USA and the Cairns Group appeared to be prepared to collapse the deal unless it was included. Eventually in 1992, with the original deadlines for agreement already well past, the Cairns Group agreed to allow the United States to negotiate directly with the EC on agriculture.

farmers to cease production; and more environmentally friendly farming was encouraged, with the implication that this would lower yields (Ross 1995: 200).

Sceptics claimed that the reforms would not solve the budget problem, and in the short term would even increase the cost of the CAP. However, at the end of November 1993 MacSharry's successor, René Steichen, claimed that cereal production for 1993 was 16 million tons lower than it would have been without the reforms (*The Week in Europe*, 2 December 1993). More significantly, the reforms accepted for the first time that support for farmers could be separated from production.

To understand why it proved possible to agree these reforms, it is necessary to understand the pressures on policy makers. The main sources of pressure were the escalating cost of the CAP, enlargement, increasing concern about the environmental effects of intensive farming, and external pressures, particularly in the context of world trade negotiations.

The Cost of the CAP

Between 1974 and 1979 the cost of the CAP rose by 23 per cent, twice the rate of increase of incomes. It then stabilized between 1980 and 1982, but in 1983 the cost soared by 30 per cent, and the EC reached the ceiling of expenditure that could be covered from its own resources. Agreement to lift the limit had to be unanimous, and the British government would not agree to any increase without firm measures to curb the cost of the CAP. This led to the 1984 agreement on dairy quotas, and on a system of budgetary discipline whereby a maximum limit would be set to the size of the budget each year before the annual round of negotiations on agricultural prices. Ministers of Agriculture would therefore be negotiating within fixed parameters. Any budgetary overshoot would be clawed back in the following years.

In the event, this system did not work because there was no automatic mechanism for making the necessary adjustments to costs in the years following an overrun. Between 1985 and 1987 the cost of the CAP increased by 18 per cent per annum. Although the EC did not appear to face the immediate exhaustion of its financial resources as it had in 1984, by 1987 there was an estimated budgetary shortfall of 4 to 5 million European currency units (ecus), which was covered by creative accountancy that simply pushed the problem forward in time.

So, although some of the reforms in the 1980s marked significant departures from earlier policies, they 'failed to halt the relentless rise in the budget required for the CAP, and the reforms of 1992 became inevitable' (Colman 2007: 81).

Enlargement

The Southern enlargement (see Chapter 27, History) brought new demands on the budget that could only be met by either diverting money away from existing beneficiaries or expanding the size of the budget. This situation was compounded by the insistence of the Spanish, Portuguese, and Greek governments that they would not be able to participate in the freeing of the internal market of the EC by the end of 1992 unless the structural funds were substantially increased. At the London meeting of the European Council in December 1986 agreement was reached in principle on the doubling of the structural funds by 1993 (see Chapter 22, History), thus requiring an

increase in the resources of the EC. The first enlargement therefore added to the pressure for reform of the CAP to make room within the existing budget for these new items of expenditure.

With the collapse of communism at the end of the 1980s, Germany moved rapidly to reunification. In effect this constituted an enlargement of the EC. The former east German territories included areas that were considerable agricultural producers, so threatening a big increase in the cost of the CAP.

Pressure on the EU to continue the process of reform of the CAP became greater as the former communist states of east-central Europe began to press ever more strongly for full membership of the EU in the 1990s. After some initial reluctance, most member states came round to the realization that it would be necessary to grant membership to most of these states. Germany in particular became a strong advocate of eastern enlargement. However, reports prepared by the Commission indicated that the existing CAP could not simply be applied to the applicant states without dramatic consequences for the budget of the EU.

Extension of the CAP in its present form to the acceding countries would create difficulties. Given existing price gaps between candidate countries and generally substantially higher CAP prices, and despite prospects for some narrowing of these gaps by the dates of accession, even gradual introduction of CAP prices would tend to stimulate surplus production, in particular in the livestock sector, thus adding to projected surpluses. World Trade Organization (WTO) constraints on subsidized exports would prevent the enlarged Union from selling its surpluses on third markets (Avery and Cameron 1998: 153).

Environmental Pressures

In the 1980s there was growing concern about the environment in general, and about the effect of the CAP in particular (Lynggaard 2007: 300). The main beneficiaries of the CAP were large farmers who responded to the high prices by maximizing output. To do this they pumped more and more fertilizer into the land, and hormones into animals, to improve yields. The rise of environmentalism provided a counter-weight to the general sympathy of European public opinion for farmers, and made it politically easier for governments to respond to the financial pressures with reform measures.

Sympathy for modern farming methods was further reduced in the late 1980s and early 1990s by the outbreak of a number of scares about the safety of food. Of these, the most serious was the epidemic of 'mad cow disease', or bovine spongiform encephalopathy (BSE) in the United Kingdom, which reached its height in 1992. Blame for this was put on intensive farming methods that ignored the welfare of animals. The issue of food safety is not strictly an environmental concern, but it is closely related and was associated with concerns about damage to the environment in the minds of the European public.

These problems became linked with the pressing issue of surpluses to produce a change in the perception of the CAP even among those institutions and groups most closely associated with it, so that 'by 1992, the conception that intensive farming is the source of both problems of agricultural surplus production and environmental depletion was institutionalized among all the central agents within the CAP' (Lynggaard 2007: 302).

External Pressures

External pressures proved a strong incentive for change in the CAP. The United States made the phasing out of agricultural subsidies a central part of its negotiating position for the trade talks under the **General Agreement on Tariffs and Trade (GATT)**, which began in 1986 and were known as the Uruguay Round. It was joined by the Cairns Group of fourteen agricultural-producing states, including Australia, Canada, New Zealand, and several Latin American states. All felt that they suffered from the dumping of the EC's agricultural exports onto world markets, which drove down prices and prevented them selling some of their own production.

The 'MacSharry reforms' of 1992 allowed Ray MacSharry, the Commissioner for Agriculture, to negotiate a deal on agricultural trade that temporarily satisfied the United States and the Cairns Group, and meant that it was possible to conclude the Uruguay Round. That was not the end of the story, though. At the conclusion of the Uruguay Round it was agreed to open a further round of trade talks at the end of 1999. It was clear that the compromises on agricultural trade reached in the Uruguay Round were provisional, and that agriculture would be a central element of the new round.

In June 1996 the British National Farmers' Union (NFU) produced a paper explaining why the EU would come under great pressure in these trade talks to reform the CAP further. At the end of the Uruguay Round, agreement had been reached to allow both the EU and the USA to continue to subsidize cereal and livestock farmers. These measures had, in the terminology of the agreement, been placed in a 'blue box'. This meant that the subsidies did distort production, but could be continued without legal challenge until 2003 provided that they were not increased. Another 'green box' was created, consisting of support for farmers that did not distort production. These included measures such as those that had already been introduced into the CAP by the MacSharry reforms: measures to take land out of production, or to encourage environmental protection. Since the agreement, the USA had unilaterally moved almost all of its support measures out of the blue box into the green box, leaving the EU alone in the blue box. Although the blue box measures could be sustained until 2003, the EU would now be under tremendous pressure to reciprocate the unilateral US gesture (NFU 1996).

It was in this context that Franz Fischler, Agriculture Commissioner in the Santer Commission, produced a package of proposals for further reform in November 1995. These continued the pattern of the 1992 reforms, decoupling support for farmers from production and linking it to social and environmental objectives (European Commission 1995). They were subsequently incorporated into the Commission document *Agenda 2000: For a Stronger and Wider Europe* (European Commission 1999).

Agenda 2000 and the 2003 Reform

Agenda 2000 'consisted essentially of the Commission's recommendations for the Union's financial framework for the period 2000–6; the future development of the Union's policies, and in particular its two most important spending policies—the

cohesion and structural funds, and the Common Agricultural Policy; and the strategy for enlargement of the Union' (Avery and Cameron 1998: 101). On CAP it proposed large reductions in support prices and giving compensation to farmers in the form of direct payments, with a ceiling on the level of aid that any one individual could receive. Although explicitly linked to the eastern enlargement in *Agenda 2000*, these reforms were in line with shifting support from the GATT 'blue box' to the 'green box'.

When negotiations began on the CAP proposals of *Agenda 2000* in February 1999, the French government predictably pressed for more limited reform. This position was supported by 30,000 farmers—mainly from France, Germany, and Belgium—protesting on the streets of Brussels, the biggest demonstration since those against the Mansholt reforms in 1971. After a temporary suspension of the negotiations, the Agriculture Ministers agreed, on 11 March, to cut cereal prices by 20 per cent, as proposed by the Commission, but to do so in two stages—a half in 2000–01 and the other half in 2001–02. They agreed to lower milk prices by 15 per cent in line with the Commission's proposals, but only over three years starting in 2003, and dairy production quotas were actually raised slightly. They also agreed that beef prices should be cut by 20 per cent, but this was only two-thirds of the cut proposed by the Commission.

Fischler hailed the agreement as the most far-reaching reform of the CAP for forty years; but the states that had most strongly supported reform—Britain, Italy, Sweden, and Denmark—expressed their disappointment. They did not like the delays in implementing the cuts that had been forced through by France and Germany (which held the presidency of the Council). They were to be even more disappointed following the Berlin European Council in March 1999, which was intended to approve the reform.

In Berlin, President Chirac of France simply refused to accept what the French Minister of Agriculture had negotiated. This reflected the fact that Chirac was a conservative President who was forced to work with a socialist government. He was blatantly playing domestic politics. However, so important was it to the German government to get an agreement during its presidency, and not to break publicly with France, that Chancellor Schröder eventually agreed to support a significant further dilution of the reform package. The dairy reforms were further delayed, and the cuts in cereal prices were scaled back from the compromise level reached by the Ministers of Agriculture. The other member states went along in return for side-payments: Spain and Greece got agreement to continuation of the Cohesion Fund (see Chapter 22, The 1999 Reform); Britain got agreement to the continuation of the British budgetary rebate with only minor concessions.

The Agenda 2000 outcome was thus deeply compromised and must be judged a missed opportunity to reform the CAP.

(Lowe et al. 2002: 4)

But Commissioner Fischler did not give up. The 1999 reforms, although not as far-reaching as the Commission had wanted, did continue with the principle, first conceded in the MacSharry reforms, that the reduced production subsidies would be compensated by direct payments that were decoupled from production. In June 2001 a further reform in this direction was agreed as a way of helping small farmers who found the complexities of operating the multiple strands of the revised CAP just too burdensome. Under the Small Farmers' Scheme, farmers who received less than

€1,250 in total from the CAP could opt to convert their payments into a single decoupled flat-rate payment based on a historical reference point (Daugbjerg 2009: 403). This reinforced the precedent of flat-rate decoupled payments that had been established as part of the 1999 reforms.

The shift to direct payments was also used to provide a solution to the problem of how to accommodate the very large farming sectors in the states of Central Europe that were negotiating for membership of the EU. It was clear that these farmers could not be offered production incentives equal to those available to farmers in the existing member states. Both the budgetary implications and the implications for agricultural surpluses would have been unbearable for the EU. Also, the administrative structures that needed to be put in place to implement the complex system of different payments would have stretched the capacities of the states and their farmers. Instead, in January 2002, the Commission proposed what it called the 'Simplified Approach' to calculating agricultural support in the new member states. The new member states would receive a flat-rate decoupled payment based on farm size, starting at 25 per cent of the average rate for the existing EU member states. This would be distributed to farmers by the state itself, using whatever criteria it deemed most relevant, so long as production subsidies were not involved.

Having established, and then reinforced, the principle of flat-rate decoupled payments, in July 2002 Fischler put forward a revised proposal for the full decoupling of agricultural subsidies from production in the existing EU by the end of 2004. He was helped by difficulties in the new Doha Round of WTO negotiations, which became bogged down at an early stage by disputes over agricultural subsidies.

Under these proposals, the amounts of money that each member state would receive would be the same as under the system that had been agreed at Berlin, but the money would be paid in a lump sum to the governments, which could then distribute between their farmers as they saw fit, so long as it was not paid in the form of a production subsidy. So, governments that did not wish to enter into a confrontation with their larger farmers, who received the bulk of the subsidies under the existing system, could simply pay the money out according to historic distributions; whereas those that were keen to bring about a domestic restructuring of agricultural holdings could divide the money up differently. In either case, the payment would be linked to requirements for farmers to comply with EU-wide standards on environmental protection, food safety, and animal welfare. Fischler argued that the reforms would help the EU to meet the requirements of the Doha Round, and would at the same time integrate the new member states with the system of agricultural support operating in the rest of the EU. They also implied a degree of re-nationalization of the CAP.

After almost a year of debate, the Council of Agriculture Ministers reached a compromise at the end of June 2003. The essence of the Commission's proposals was adopted, although the shift to direct payments was deferred until 2005, and individual member states could apply for exceptions until 2007 to continue to subsidize production where there was a risk of farmers withdrawing from production altogether.

In 2008 there was an interim review of the state of the CAP, which went by the name of a 'health check'. Completed under the French presidency in the second half of 2008, the review agreed to shift money to rural development from 2009 and progressively to liberalize the dairy sector before the expiry of existing milk production quotas in 2015.

The 2013 Reform

With the arrival of the new Commission came a new Commissioner for Agriculture. Taking up post at the start of 2010, Dacian Cioloş soon after announced a wide-ranging public debate on the future of the CAP. This was in the context of warnings from the Budget DG that big cuts in the allocations to agriculture were inevitable in the context of a demand from national governments for overall budgetary constraint in the face of the gathering crisis in the eurozone.

Further reform of the CAP seemed inevitable, but the whole process soon became messy. First, the Lisbon Treaty had transferred agriculture to co-decision, so agreement had to be reached not just within the Council of Ministers, as previously, but also with the EP. Although the change had been made in the name of increasing democratic control, the main effect was to provide the farm lobby with another channel for resisting further reform. Second, the negotiations on the future of agriculture were taking place at the same time as those on the next multi-annual financial framework. The financial framework talks dragged on into the start of 2013, and neither the Council of Agricultural Ministers nor the EP's Agriculture Committee was prepared to adopt a position to take into negotiations with the other institutions until the overall amount of money available was known.

Despite not knowing the exact figure, all the actors involved knew that there would be a cut in funding in real terms, even if agriculture kept its share of the budget, because the overall figure would be smaller. Thus, the debate was about where savings would be made. Cioloş made it clear that he favoured making savings by imposing a cap on the amount of payments for which larger farms were eligible. This position reflected his nationality, Romania having many small farms and few large. It was a position, though, that was bound to run into opposition from the member states that normally supported reform of the CAP, particularly Britain and Germany, which themselves had many large farms; and from the formidable lobby of large farmers.

The position of the farmers' organizations as a whole was that as much money as possible should be saved from Pillar 2, which supported environmental measures and rural development, rather than from the direct payments that constituted Pillar 1. Their hand in this was strengthened by a decline in the level of public concern about environmental issues since the negotiation of the 2003 reforms, reflecting the more difficult economic situation faced by consumers across the EU. Accepting the inevitability of some savings being made in Pillar 2, the Commission tried to keep the environmental groups happy by strengthening the requirements on farmers receiving direct support under Pillar 1 to adopt measures of environmental protection, such as leaving uncultivated strips of land for the benefit of wildlife. The farmers considered these requirements to be a financial burden that they could do without.

As well as a decline in the pressure on farmers from public concern over the environment, the pressure from world trade talks for changes to the CAP, which had been prominent in the preceding rounds of agricultural negotiations, no longer figured. The Doha Round of the WTO had become bogged down, and as the EU agricultural talks got under way it became increasingly obvious that a rapid conclusion of the WTO talks was unlikely, not least because the Obama Administration, which took

office in the United States in January 2009, soon showed itself to be keener on bi-lateral than multi-lateral deals (see Chapter 25).

At the start of 2013 it looked as though there was little prospect of agreement being reached on reform of the CAP in time for the new rules to start in January 2014, as they were supposed to do. The multi-lateral financial framework negotiations were only concluded at the start of February, and they imposed a CAP budget that was nearly €16 billion below what the Commission wanted, a 10 per cent cut. This obviously made agreement on CAP reform even more difficult to achieve. Nevertheless, the Irish government made concluding an agreement a priority for its presidency of the Council in the first half of 2013, perhaps encouraged by the importance of agriculture to the Irish economy, but also by the inexperience of the Lithuanian government that would take over for the second half of the year.

Against the expectations of most commentators, the Irish presidency did reach an agreement in co-decision with only days of its term left. It was only agreed, though, by leaving decisions on some of the most controversial issues to be taken by the heads of government, including the capping of direct payments, the pace of convergence of payments to the older and newer member states, and the transfer of resources from Pillar 2 into Pillar 1. Although agreement was reached to tie 30 per cent of direct payments to the adoption of measures to protect and enhance the environment, each of the three environmental criteria was weakened and made easier and less expensive to meet, much to the fury of environmental groups, who were scathing about the outcome. Some MEPs were also unhappy at the way that they felt they had been railroaded into reaching an unsatisfactory agreement by the tight deadlines that the Council presidency imposed and pressure from national governments.

The Effect of Reform

Although it had been a long and sometimes frustrating series of negotiations, the cumulative effect on the CAP of the reform process that started in 1992 was to bring about a considerable shift in the pattern of support for farmers away from price support to direct support. By 2002–03, direct payments, or ‘compensatory payments’, accounted for 65 per cent of CAP support, and the June 2003 agreement meant that by 2007 all support would be in this form. This, when combined with ‘set aside’ requirements, did have the effect of reducing the production surpluses that had plagued the system since it was set up, but it did nothing to redress the problem that the bulk of receipts from the CAP went to a small number of large farmers. In 2003 the Organization for Economic Co-operation and Development (OECD) estimated that 70 per cent of CAP support still went to the richest 25 per cent of farms.

Large farmers had always benefited more than small farmers from the CAP because they were able to achieve higher yields. Thus, when payments were related to output, the larger and more efficient farmers pocketed the largest share. Direct payments were introduced under MacSharry to compensate farmers for the reduction in guaranteed prices towards world market prices. In order to minimize opposition to the changes, the direct payments were based on the size of farms. Farmers received payments linked to the number of hectares that they farmed. This reduced the incentive to maximize

yields, which was the primary aim of the exercise. Production was further curtailed by making it a requirement of receiving the direct payments that 15 per cent of arable land be set aside and not used to produce crops. Similarly, meat producers were required to reduce the density of livestock per hectare in order to qualify for the direct payments. *Agenda 2000* extended the same principle further. It did nothing, though, to redirect subsidies from rich farmers to poor farmers. This political hot potato was effectively dropped into the laps of national governments by the June 2003 agreement to move to a ‘single farm payment’ that governments could distribute between different categories of farms as they chose. The 2013 reform was driven primarily by overall budgetary concerns, and the desire of the governments of the member states to save money over the period of the next multi-annual financial framework. As the CAP, despite previous reforms, still accounted for 40 per cent of the EU’s overall budget, it was obvious from the outset that it would have to take its share of the austerity in public spending that set in with recession and the crisis in the eurozone. Although the hand of the big farmers had been strengthened by developments since the 2003 negotiations, they were only able to play this hand within the actual agricultural negotiations, whereas the financial decisions were being taken in a different forum. The result was an agreement that reversed some of the previous gains in environmental protection and rural development, and did nothing to resolve the imbalance in payments to large and small farmers. It did, though, mean that CAP expenditure would decline to below 40 per cent of the overall budget for the first time ever, and this is a remarkable difference from the 70 per cent that it took immediately before the series of reforms began in the 1980s.

Explaining the CAP

Hardly surprisingly, intergovernmentalism (see Chapter 1, International Relations Theories of European Integration) explains well the setting up of the CAP. Until the signing of the treaties there were no European institutional actors to take into account. The importance of agriculture has to be understood in terms of the perceived national interests of the six states that came together to form the EEC. It is often told as the story of how French agricultural interests made a deal with German industrial interests to produce an EEC founded on the twin pillars of the industrial common market and the guided price support system of the CAP. This, though, is an oversimplification, and liberal intergovernmentalism, which looks at the domestic politics that produce the positions taken up by national governments in international negotiations, directs our attention to the importance of agriculture and of farmers in all the member states.

Neofunctionalism (see Chapter 1, International Relations Theories of European Integration) could only come into play once the EEC and the CAP existed, with institutional actors being formed at the European level, but several elements of neofunctionalism can be seen in the history of the CAP. Setting up a system of support for agriculture that was based on fixing the prices of commodities, in a context of mixed farming sizes, inevitably caused problems. The price level that was needed to keep inefficient small farmers in business was so high that it encouraged more efficient farmers to

increase output to the maximum level. When combined with technological advances, this led to the food surpluses that became one of the biggest headaches of the EC. This outcome was not an unanticipated consequence of the CAP, though. It was foreseen by the Commission, and Sicco Mansholt tried to use it as a lever to get member states to take the next step, of rationalizing farm sizes. So this was a potential example of cultivated spillover. However, it did not work because the governments of the member states retreated from radical reform in the face of domestic political pressures, thus providing some support for the liberal intergovernmental critique of neofunctionalism (see Chapter 1, International Relations Theories of European Integration).

Neofunctionalism predicted also that the creation of a single common policy would set up spillover pressures for the adoption of other common policies. This did appear to be working in the 1970s, when frequent changes in the exchange rates of the currencies of the member states threatened to render the CAP unworkable. Again, though, the governments of the member states avoided the apparent implication that they would either have to fix their exchange rates or abandon the CAP, by improvising a solution based on 'green currencies', regulated by levies and rebates when produce crossed national boundaries. The spillover pressures certainly existed, but the governments proved able to resist them until they felt that they wanted to take the next step. Again this seemed to vindicate intergovernmental analyses.

Ultimately, though, these ad hoc solutions were unstable. Neofunctionalism might be thought to have been vindicated when agreement between governments on the single market programme, and the consequent removal of customs checks between states, forced the abandonment of the 'green currency' system. On the other hand, this was only made necessary by the intergovernmental decision to proceed with the removal of customs checks, and it was only made feasible by the adoption of the single currency, which again was the result of an independent decision by governments.

Turning to the theories of governance (see Chapter 2), the CAP appears at first sight to be a prime example of a sector where supranational governance applies. Support for agriculture had been transferred from the national to the EC/EU level. Policy communities of national farmers' organizations and bureaucrats in national ministries of agriculture were apparently replaced by a European policy community of EU farmers' organizations and Commission officials in the Directorate-General for Agriculture. However, decisions both on fixing annual price levels and on the regulation and reform of the system remained firmly with national ministers of agriculture meeting in the Council of Ministers. The extent to which these ministers became identified with the interests of their sector rather than with the interests of their governments is a question for empirical research, but examples of ministers having to be overruled by the heads of government suggest that this particular Council may have developed a supranational tinge. More significantly, perhaps, the national bureaucrats in agriculture ministries remained involved, if for no other reason than that the actual implementation and administration of the policy remained at national level. The CAP may always, then, have been more accurately analysed as a system of multi-level governance rather than an example of supranational governance, and the reform process that was concluded in June 2003 enhanced the multi-level nature of the sector by restoring considerable discretion over the expenditure of CAP receipts to the national level.

That reform of the CAP became possible at all in the 1980s and 1990s has been explained through a variety of different theoretical perspectives.

Fouilleux (2007: 345), without using the term 'epistemic community' (see Chapter 2, Governance and Networks), adopted an explanation that invoked the importance of academic experts. She emphasized a learning process within the international agricultural policy community, a process that was sparked off by an exercise that the OECD initiated to review the agricultural policies of its member states. The responsible officials asked academics, mainly agricultural economists, to undertake a critique of existing policies, and, '[t]his process engendered a learning process within the international agricultural policy community, and induced a profound change in the way agricultural policy issues were defined'.

Moyer and Josling (1990) emphasized the weakening of the European agricultural policy community. The 1984 reforms were ineffective in restraining the growing cost of the CAP, because they were both too modest in their aims, and lacked effective enforcement mechanisms. This reflected two aspects of the reforms. First, that they were drawn up by an EC agricultural policy community that consisted of the Agriculture Directorate-General of the Commission, the European Agriculture Commissioner, and the representatives of farmers in the Committee of Professional Agricultural Organizations of the European Community (COPA). These groups had developed close working relationships, and were unlikely to produce proposals that would seriously damage the interests of farmers, or reduce the importance of agriculture as an EC policy sector. Second, the proposals had to be agreed by the Council of Agriculture Ministers, most of whom were strongly influenced by national farmers' representatives.

By the time of the 1988 reforms, according to Moyer and Josling (1990: 86–7), the coalition against change had been weakened by the formation within the Commission of an inner circle. This inner circle consisted of the President, Jacques Delors, the Agriculture Commissioner between 1985 and 1989, Frans Andriessen, and the Budget Commissioner, Henning Christophersen. Delors's reason for supporting reform was the damage that failure to achieve it might do to the single market programme. 'Delors had made the single European market something of a personal crusade and could not easily see this goal frustrated by agricultural stalemate' (Moyer and Josling 1990: 86). Under pressure from the Commission, which was prepared to take the Council of Ministers to the European Court of Justice if it did not agree a budget for 1988, a system of price stabilizers for agricultural produce was accepted in February 1988. That did not resolve the problems, though, and further reform was planned within the Commission during 1990.

The MacSharry reforms were the result of the same combination of internal and external pressures that had produced the 1988 reforms, but there is a vigorous academic debate about how important the different pressures were in producing the reforms. Rieger (2000: 193–6) argued that it was the mounting cost of the CAP that forced reform. Swinbank and Daugbjerg (2006; and Daugbjerg and Swinbank 2008) dismissed this argument and sided with Grant (1997: 196) in emphasizing the central importance of the international trade negotiations; indeed, according to Daugbjerg and Swinbank (2008: 637), this pressure 'had a decisive impact on the EU's decision to embark on CAP reform'.

In contrast, the 2013 reforms were undertaken against the background of faltering negotiations on world trade, which considerably reduced the pressure for change in the CAP. Global economic conditions deteriorated rapidly after 2008, and governments faced a tide of public opinion against further liberalization of trade in a context of

rising domestic unemployment. At the same time, the need to reduce government debt put a premium on reining-in public expenditure, especially in the eurozone (see Chapter 21, The Eurozone Crisis), which meant that finance ministers and heads of government insisted on a tight overall budgetary settlement for the EU. It was this budgetary squeeze, rather than the pressure from international trade negotiations, that drove the 2013 reforms. The difference from 2003 was that then the requirements of the WTO talks implied a particular direction of reform for the CAP, whereas the budgetary constraint in 2013 required only that CAP expenditure be reduced. In this context, and with a relaxation of the level of public concern about the environment, the strength of the traditional agricultural lobbies came to the fore once more to produce an agreement that did little to restructure agriculture or promote rural development, and left crucial questions about issues such as the balance of payments between large and small farms to national governments, further contributing to the fragmentation and re-nationalization of the CAP. Intergovernmental theories of the EU seem most relevant here.

CONCLUSION

For three decades, from the late 1950s to the late 1980s, agricultural policy was absolutely central to both European integration and to academic attempts to understand the process. Then, at the end of the 1980s, a programme of reform began that rapidly moved the policy sector to the periphery of the EU. After many unsuccessful attempts to bring about reform, the CAP was beginning to look entrenched and immutable. Yet, when reform began, it moved remarkably quickly. Within a few years, one of the pillars of European integration had been effectively dismantled, and the policy had been effectively re-nationalized.

Today, the CAP is no longer central to the politics of the EU. The extent to which successive reforms dismantled the supranational elements of the policy is indicated by the fact that within the United Kingdom agriculture is one of the policies that has been devolved from Westminster, and different spending priorities are pursued in England, Scotland, Wales, and Northern Ireland. This would have been inconceivable under the old CAP.

Although new policy areas have pushed agriculture out of its central role within the EU, the explanation for the evolution of the CAP remains an interesting historical and theoretical case study. The variety of explanations offered for the CAP's movement from pillar to peripheral policy covers a wide range of the theoretical perspectives identified in Part One of this book, and fully justifies the continued study of the sector.

KEY POINTS

History

- France made it a condition of its participation in the EEC that agricultural policy be a joint pillar alongside the common market in industrial goods.
- The policy that was set up was based on supporting the price of agricultural products so as to maintain the incomes of farmers.
- Prices were set through political bargaining, and tended to be high so as to give an adequate income to small, inefficient farmers, who were politically influential.

- The high prices encouraged large, efficient farmers to produce large surpluses.
- Storing the surpluses put a huge strain on the budget of the EC, and disposing of them through export subsidies attracted hostility from other agricultural-producing states.

Agriculture in the 1980s and 1990s

- Reforms were made in 1984, 1988, and 1992.
- The reforms were forced by the increasing budgetary cost of the CAP, enlargement, environmental pressures, and demands from other states in the context of world trade negotiations.

Agenda 2000 and the 2003 Reform

- Further reforms to the CAP were proposed in the context of the *Agenda 2000* budget negotiations, but they were watered down in intergovernmental bargaining between France and Germany.
- The principle of decoupling payments from production was accepted in the 1999 reforms, and was fully applied to the new member states of central and eastern Europe.
- Reforms were finally agreed in 2003 that continued the processes begun in 1992 of decoupling from production subsidies to farmers in the rest of the EU, and re-nationalizing the CAP.

The 2013 Reform

- Reform of the CAP was undertaken against a background of tight budgetary constraint. Talks on the multi-annual financial framework were taking place at the same time as those on the future of agriculture.
- Negotiations were complicated because agriculture now came under the co-decision procedure, which meant more actors were involved in more forums.
- The Commission wanted to cap direct payments to large farms, against opposition from the large farmers.
- Farmers wanted to see savings made on environmental and rural development rather than direct payments.
- The final agreement reduced environmental protection and left other key decisions to national governments.

The Effect of Reform

- Decoupling subsidies from production allowed for better budgetary control and put the EU in a stronger position in world trade negotiations.
- The subsidies were only gradually extended to new member states in central and eastern Europe, thus preventing the feared sudden hike in budgetary costs.
- As a result of the 2013 reform, agricultural expenditure would decline below 40 per cent of the overall EU budget for the first time, but several decisions were left to heads of government, and some, such as the balance in payments to large and small farmers, were decentralized to national level.

Explaining the CAP

- Intergovernmentalism and liberal intergovernmentalism explain the setting up of the CAP.
- Neofunctionalists expected spillover from the initial CAP both to lead to the reform of agriculture and to produce other common policies, but governments managed to resist these pressures for a long time.

- Arguments can be made for both supranational governance and multi-level governance as the best description of the CAP prior to the 1992 and 2003 reforms. After the 2003 and 2013 reforms the case for describing it as an example of multi-level governance is stronger.
- Various explanations have been given of the reform of the CAP, emphasizing the role of ideas, of policy communities, of internal pressures, and of external pressures.

FURTHER READING

On the difficulties and emerging prospects of reform of the CAP, in chronological order see: **H. W. Moyer and T. E. Josling**, *Agricultural Policy Reform: Policy and Process in the EC and the USA* (Ames: Iowa University Press, 1990); **A. Swinbank**, 'CAP Reform in 1992', *Journal of Common Market Studies*, 31 (1993): 359–72; **W. Grant**, 'The Limits of Common Agricultural Policy Reform and the Option of Renationalization', *Journal of European Public Policy*, 2 (1995): 1–18; **W. D. Coleman**, 'From Protected Development to Market Liberalism: Paradigm Change in Agriculture', *Journal of European Public Policy*, 5 (1998): 632–51; **P. Lowe, H. Buller, and N. Ward**, 'Setting the Next Agenda? British and French Approaches to the Second Pillar of the Common Agricultural Policy', *Journal of Rural Studies*, 18 (2002): 1–17; **C. Daugbjerg**, 'Sequencing in Public Policy: The Evolution of the CAP over a Decade', *Journal of European Public Policy*, 16 (2009): 395–411. For a more encompassing study, see **I. Garzon**, *Reforming the Common Agricultural Policy* (Basingstoke: Palgrave Macmillan, 2006). A comprehensive analysis of the main reforms, drawing on the evidence of some of those involved in making the decisions (including Ray MacSharry and Franz Fischler) is presented in **A. Cunha with A. Swinbank**, *An Inside View of the CAP Reform Process: Explaining the MacSharry, Agenda 2000, and Fischler Reforms* (Oxford: Oxford University Press, 2011).

The organization **Bird Life International** provided a critique of the environmental effects of the CAP after 2005, when cross compliance was introduced, setting rules for farmers who received subsidies, in *Through the Green Smokescreen: How is CAP Cross Compliance Delivering for Biodiversity?* (Birdlife International, Brussels, 2009).

Wyn Grant for many years ran an invaluable website on the CAP, which is still available in an archived version, and is now continued as a blog. Both are accessible via the Online Resource Centre to this book.



Visit the Online Resource Centre that accompanies this book for links to more information on agriculture and the CAP:
<http://oxfordtextbooks.co.uk/orc/bache4e/>

Chapter 20

The Single Market

Chapter Overview

Although the European Union (EU) is much more than just a **common market**, the economic ideal of a common or single European market lies at its core. The aspiration to create a common market was fundamental in the decision in the mid-1950s to set up the European Economic Community (EEC). Thirty years later, the decision to institute a drive to achieve a single internal market by the end of 1992 was fundamental to the revival of European integration.

This chapter looks at the original decision to create a common market, the patchy record of progress from the 1960s through to the 1980s, then at the moves to complete the internal market—what became known as the single market programme—in the 1980s. It reviews the development of internal-market policy, the record of implementation beyond 1992, and it outlines recent policy developments in relation to the single market in the context of the eurozone crisis which began in 2009. Finally, it considers the academic literature on the single market, outlining the main explanations for its development and exploring some key ideological or normative perspectives on its consequences.

History

Article 9 of the Treaty of Rome (EEC) stated, 'The Community shall be based upon a **customs union**'. Also, a substantial section of the Treaty was devoted to the free movement of persons, services, and capital (now Articles 45–66 TFEU). Together, these objectives constitute the construction of a single European market (SEM). Progress in achieving them has varied over time.

The decision to create a common market reflects two of the main motivations for setting up the EEC: to avoid any return to the national protectionism that had been economically disastrous for Europe between the world wars, and to promote economic expansion by creating a large internal market for European producers that would rival the large US market. The history of the decision is recounted in Chapter 6.

It was clear that the creation of a customs union would result in an uneven distribution of benefits and losses between the member states; although the precise distribution of those benefits and losses could not be predicted in advance, there were reasonable grounds for believing that West German industry might gain more than