

European Union Politics

SESSION 04: **COMMON AGRICULTURAL POLICY + COHESION**

Common Agricultural Policy

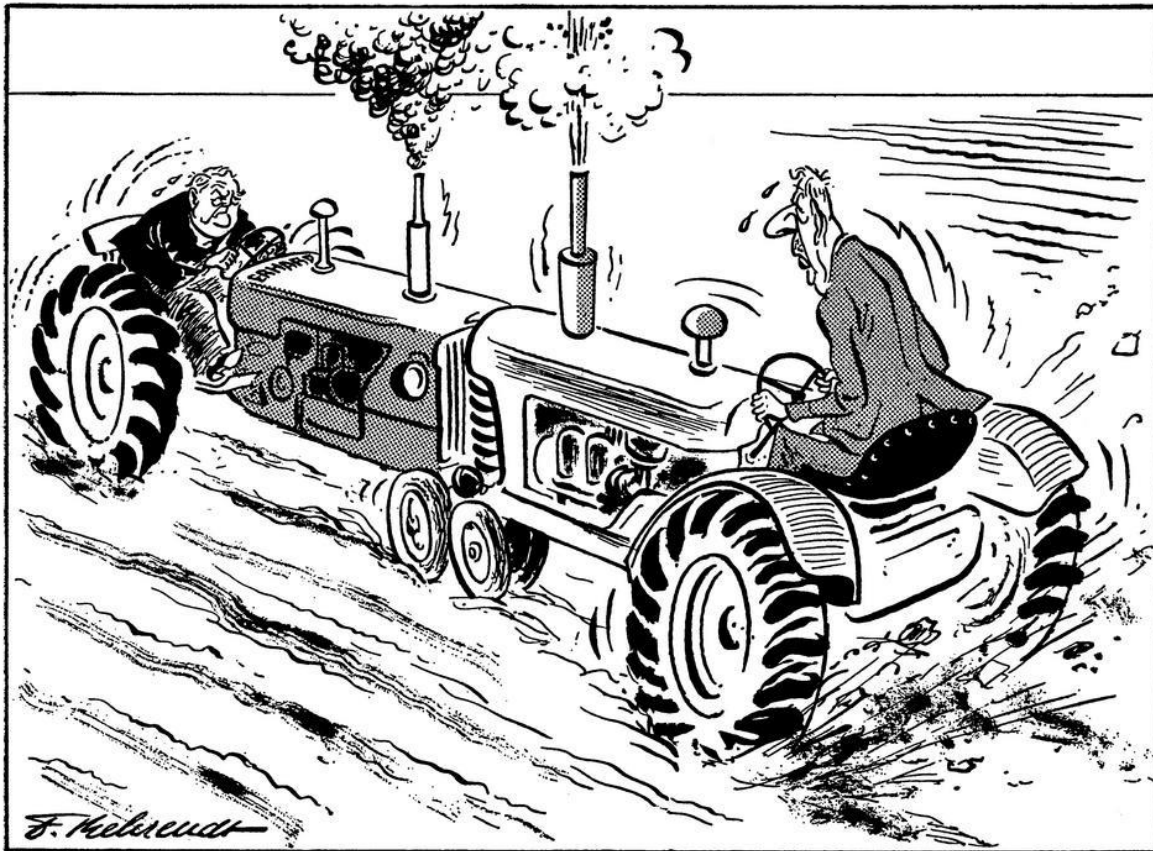
...a policy full of **contradictions**

- ▶ How to reach **food sustainability** in a **competitive** market environment?
- ▶ How to **subsidize food** production and **NOT go bankrupt** (EC budget)?
- ▶ How to **keep farmer's (political) support**, prevent union strikes, and **reform policy** by decoupling it from product subsidies?
- ▶ How to **export** food surpluses and **not 'dump' (distort) world food prices** when European food is produced at a higher cost than food in developing countries?
- ▶ How to be both **food** and **environmentally** sustainable?
- ▶ How to **keep people on land** when **cities offer greater opportunities** and salaries than rural regions?



How to farm in the 21st century?

CAP – a ‘traditional’ policy

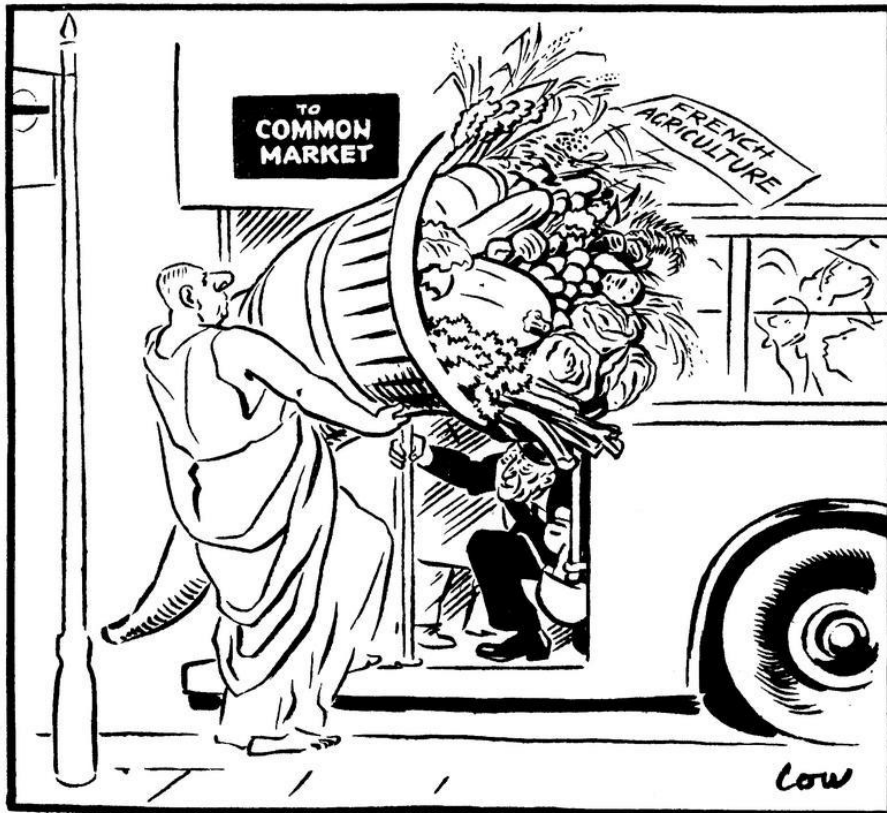


Samen ploegen – ja, gezellig.

- Food shortages after WWII
- French – modernize economy (at W. German expense)
- ▶ **DEAL:** French open their **industrial market** to German competition, Germans will help subsidize the populous French **farming sector**
 - Common market AND common agricultural policy ♥

Treaty of Rome 1957 – Title II – Agriculture

Treaty of Rome: CAP goals (p.16)



"HEY! YOU WANT TO HIRE THE WHOLE BUS?"

GOALS:

- (a) increase agricultural productivity
- (b) ensure a fair standard of living for the agricultural community
- (c) stabilise (agricultural) markets
- (d) assure the availability of (food) supplies
- (e) ensure that supplies reach consumers at reasonable prices

► [Still today](#)

Establishing CAP in 1960s ~ Squaring the circle

- ▶ **Protect farmers income** (intervene) *and* secure **reasonable prices** for customers (free market)?
- ▶ **Stabilize *and* modernize** the farming sector?
- ▶ Disparities between member states
 - **Structural:** % of economy and workforce
 - **Natural:** climate in south Italy and north of W. Germany
 - different levels of food self-sufficiency
 - different exports/imports (colonies); regional disparities within states themselves



...what CAP watered down to...



- ▶ **Price support** for the farmers:
 - + guaranteed high prices for crops/produce (**subsidies**)
 - + **protection** from non-EEC competition
 - (customs union levies, quotas, import taxes)
- ▶ Restructuring/**modernization** of farming sectors was modest
- ▶ **CAP** = a “guaranteed expenditure” in EC budget in MS hands, removed from European Parliament’s control (consultation only)

WHY?

- > belief in **exceptionality** of the agricultural sector
- > to close the gap between urban and rural population (curb extremism)
- > **revive a backward sector** to generate wealth for the economy as a whole

CAP principles

PRINCIPLES:

- ***Common market:*** free movement of agricultural products
- ***Community preference:*** priority of EC products over imports
- ***Financial solidarity:*** CAP financed through EC budget, rather than MS “race to the bottom” competition in subsidies



-> **uniform** price support throughout the Community (**1 commodity = 1 target price for all**)

European Agricultural Guarantee and Guidance Fund (EAGGF) – covering the costs of market intervention

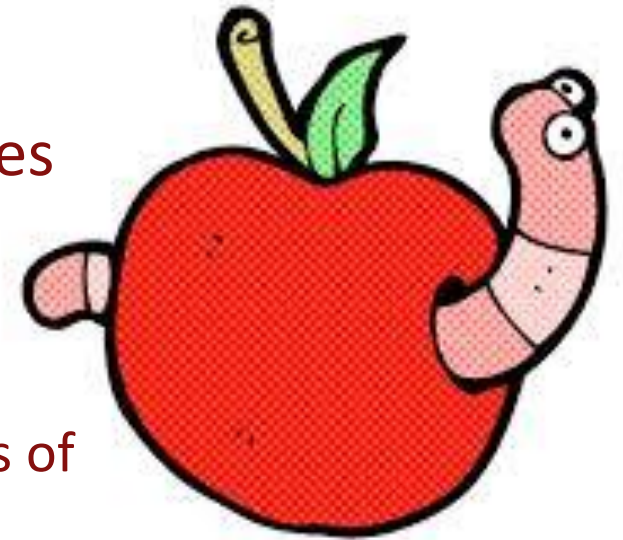
CAP: EC subsidies and protectionism

- ▶ Plan to phase out national subsidies ('til 1967) and introduce an **EC-wide 'guaranteed prices' system**
- **Coupling**: each commodity linked to a price

Common Market Organizations (CMOs) for specific commodities

(cereals, milk, sugar, beef and veal, fruit, oil, pork etc.)

- ▶ Each CMO had a **guaranteed price** for a commodity
 - market intervention system to guarantee the sale of produce regardless of market demand (**fixed prices**)
 - **an entry price** that protected EU market from cheap imports
 - **export subsidy** that helped sell EU produce in the world



From April 1968 onwards the following threshold prices (per 100 kg.) will apply:

	\$
1. Lactoserum powder	21·50
2. Whole-milk powder	103·25
3. Skimmed milk powder	54·00
4. Condensed milk, unsweetened	46·00
5. Condensed milk, sweetened	61·75
6. Blue-veined cheese	132·25
7. Parmesan cheese	204·00
8. Emmental cheese	149·25
9. Hard cheese (Gouda)	123·50
10. Semi-hard cheese (St. Paulin)	119·75
11. Soft cheese (Camembert)	123·50
12. Lactose	43·00
13. Butter	191·25
14. Cheddar cheese	134·25
15. Tilsit cheese	123·50

▶ Commodity prices examples

- ▶ Annually negotiated price packages
- ▶ [AGRIFISH Council](#) (Ministers of Agriculture and Fisheries)

Where does the money come from?

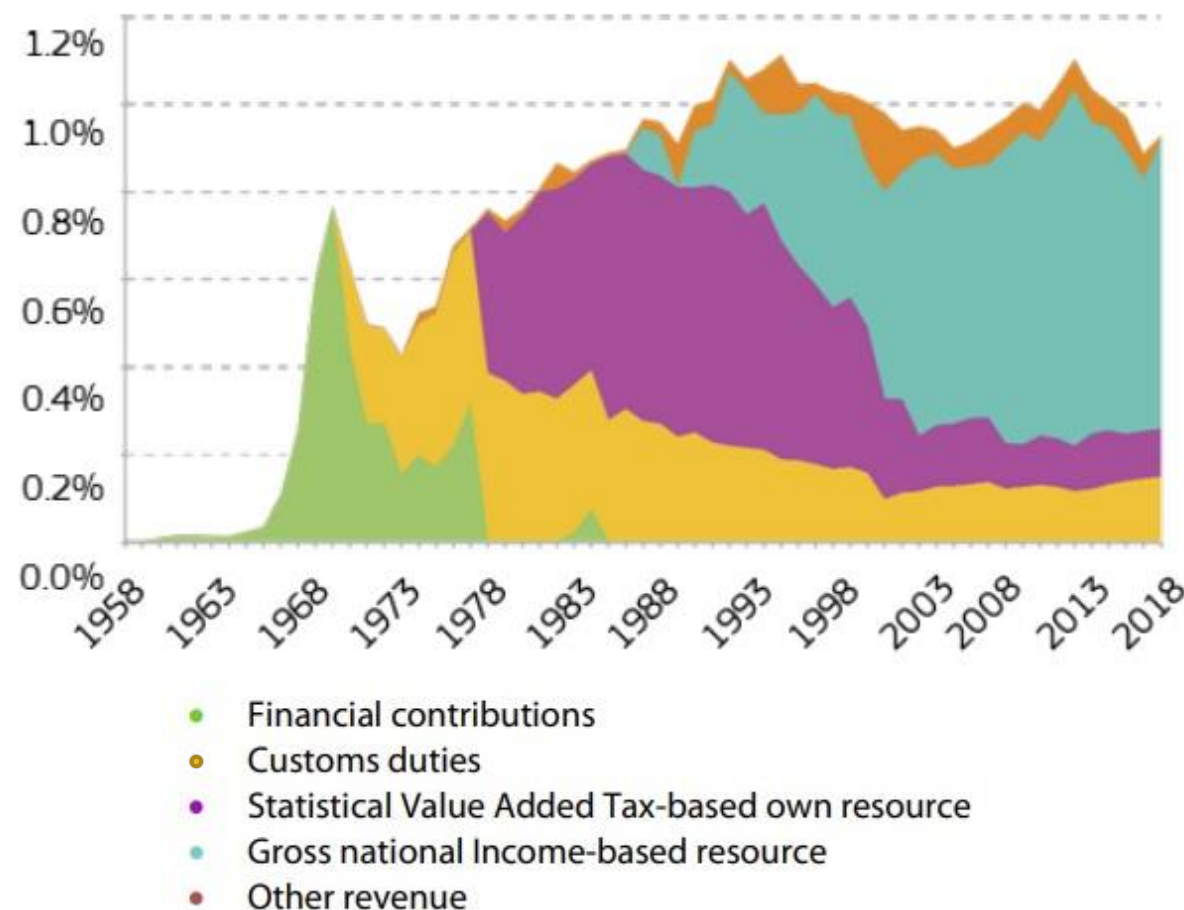
► EC budget and traditional “own resources”

- External tariffs/duties (customs union)
- Agricultural levies (agricultural imports customs union – especially sugar!)

Later budget reforms:

- VAT 1% from 1978
- GNI/GNP from 1988 around 1.3%

Figure 4: Evolution of Own Resources since 1958



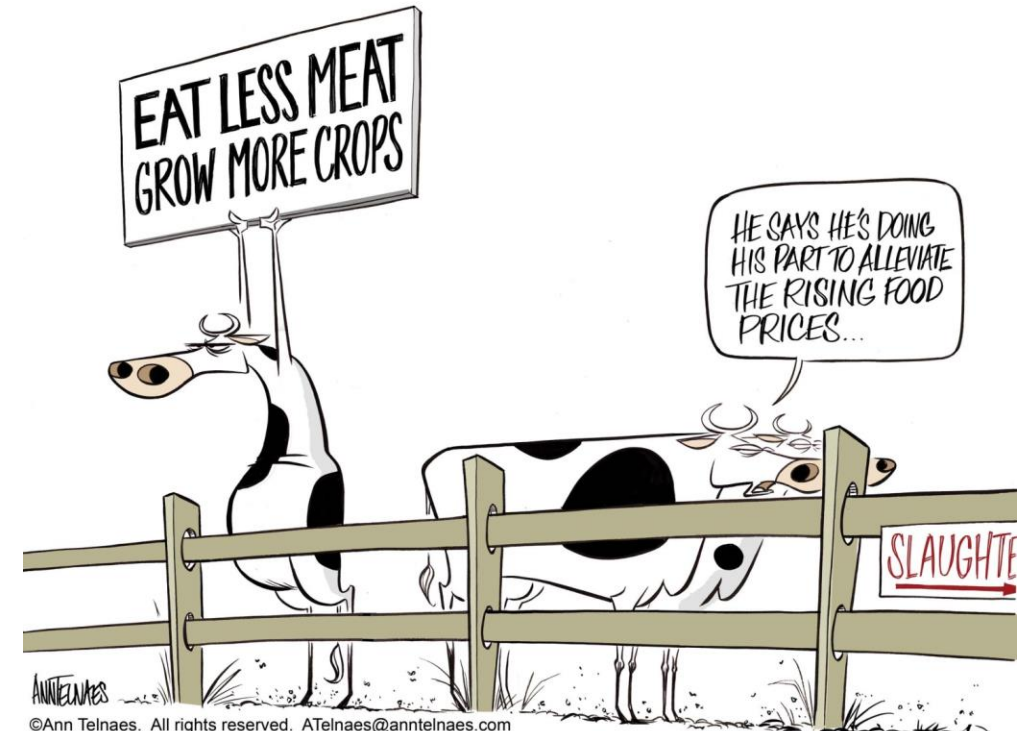
Fortress CAP: intended consequences

- ✓ Agricultural **production increased greatly** in 1960s
 - ✓ Farmers enjoyed a **better standard of living**
 - ✓ Agricultural markets were **stabilized**
 - ✓ **Food security** was ensured
- ▶ **HOWEVER, consumers** were faced with **high prices**
- reflecting the high target prices for farm products and duties on imported foodstuffs

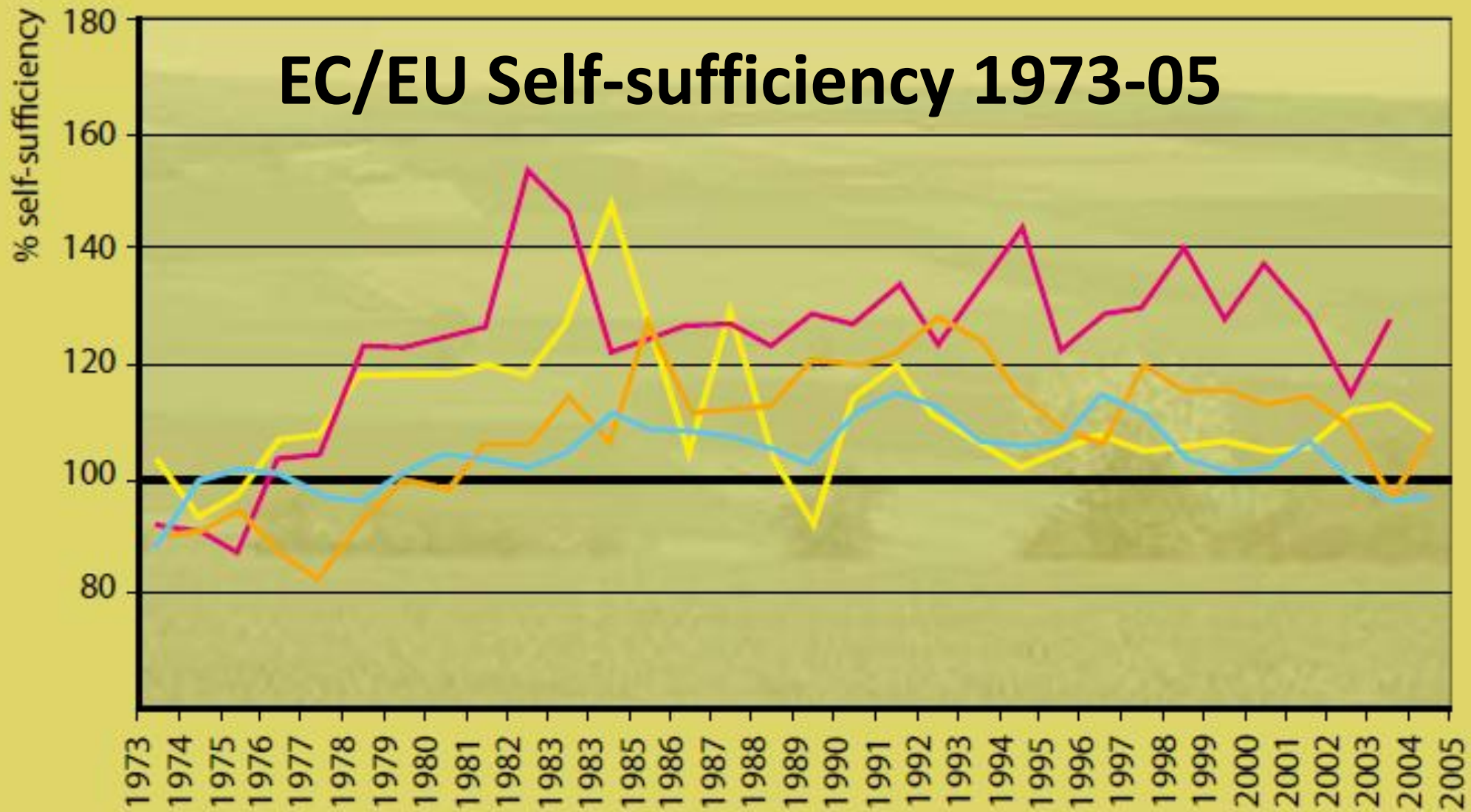


Fortress CAP: unintended consequences

- ▶ Guaranteed prices bore no relation to market demand -> **overproduction**
- ▶ **Surplus** had to be sold, stored (or disposed of) -> 'intervention' (at taxpayer's cost)
- ▶ **EC budget going bankrupt in 1980s!!!**
- ▶ **Big farmers** produced more -> got paid more
- ▶ **Small farmers** who needed assistance the most, produced less -> got paid less
- ▶ To increase output even further -> **overuse of pesticides, herbicides and fertilizers** -> ecological impact (!!!)



EC/EU Self-sufficiency 1973-05



cereals



sugar

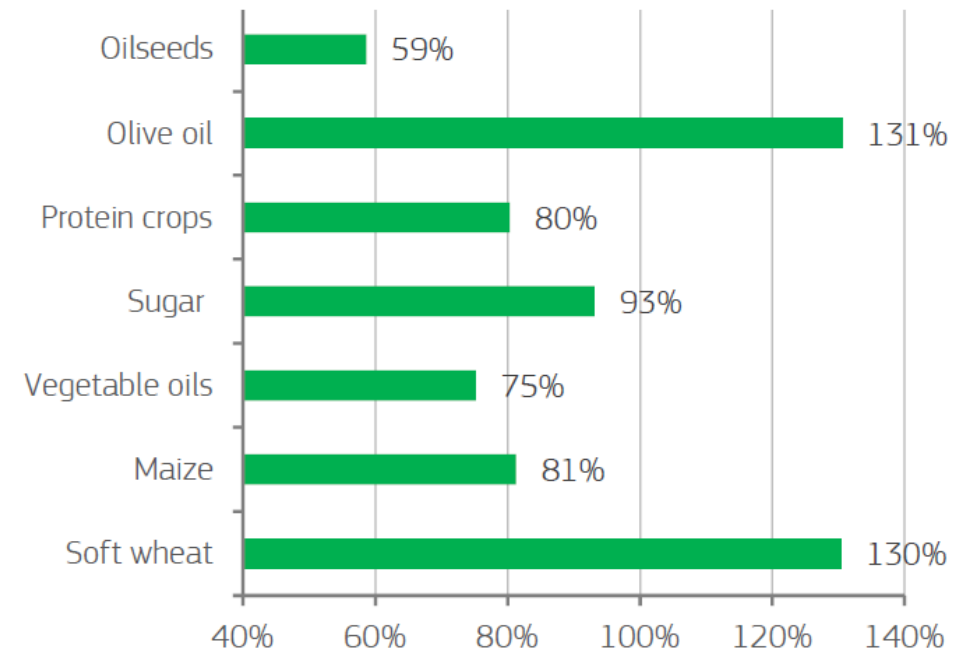


butter



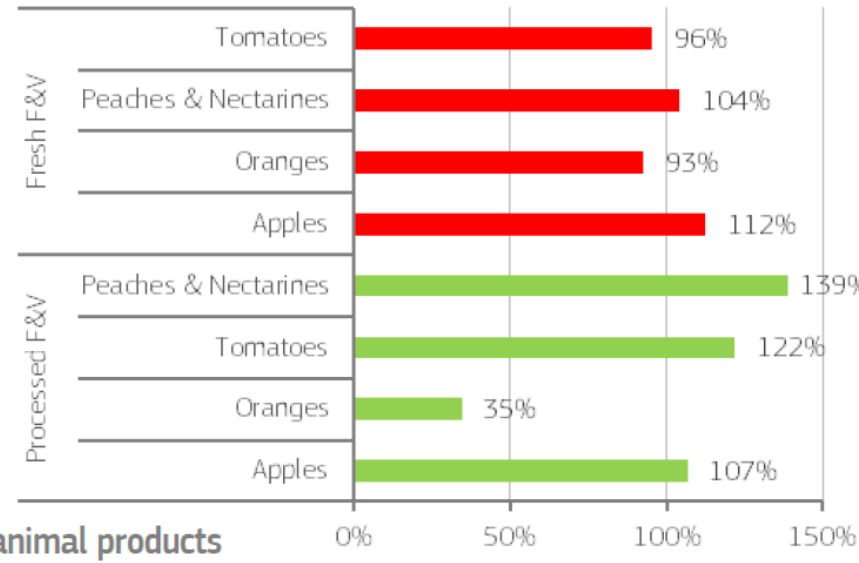
beef

Figure 5 EU self-sufficiency rates for selected plant products (average 2020-2022)



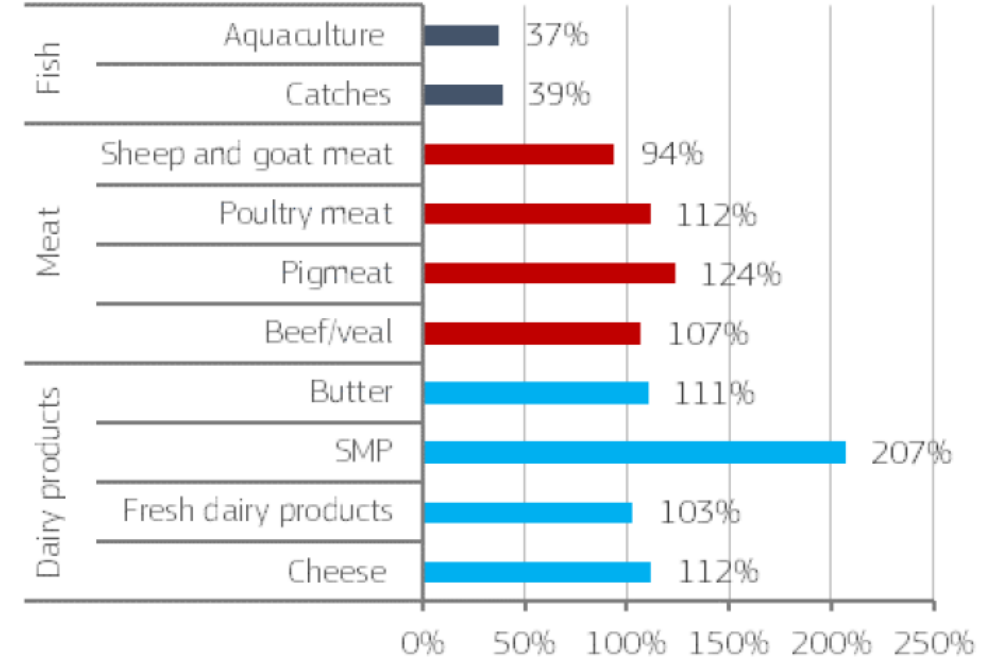
Source: DG Agriculture and Rural Development, based on Short-term outlook.

Figure 6 EU self-sufficiency rates for selected fruit and vegetables (average 2020-2022)



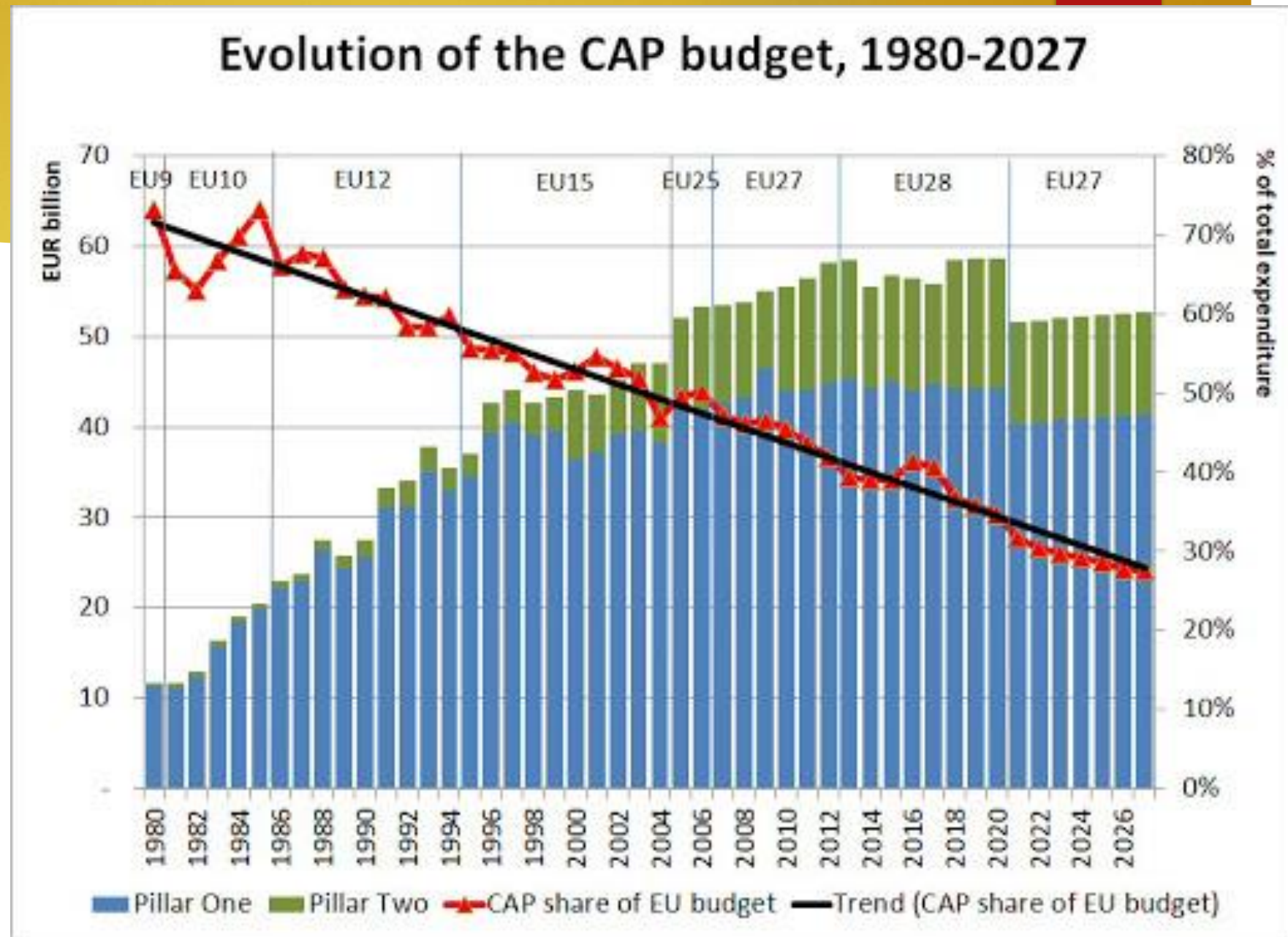
Rural Development, based on Short-term outlook.

Figure 4 EU self-sufficiency rates for selected animal products (average 2020-2022) and fish (average 2020-2021)



Source: DG Agriculture and Rural Development, based on Short-term outlook and...

CAP share in EC/EU budget



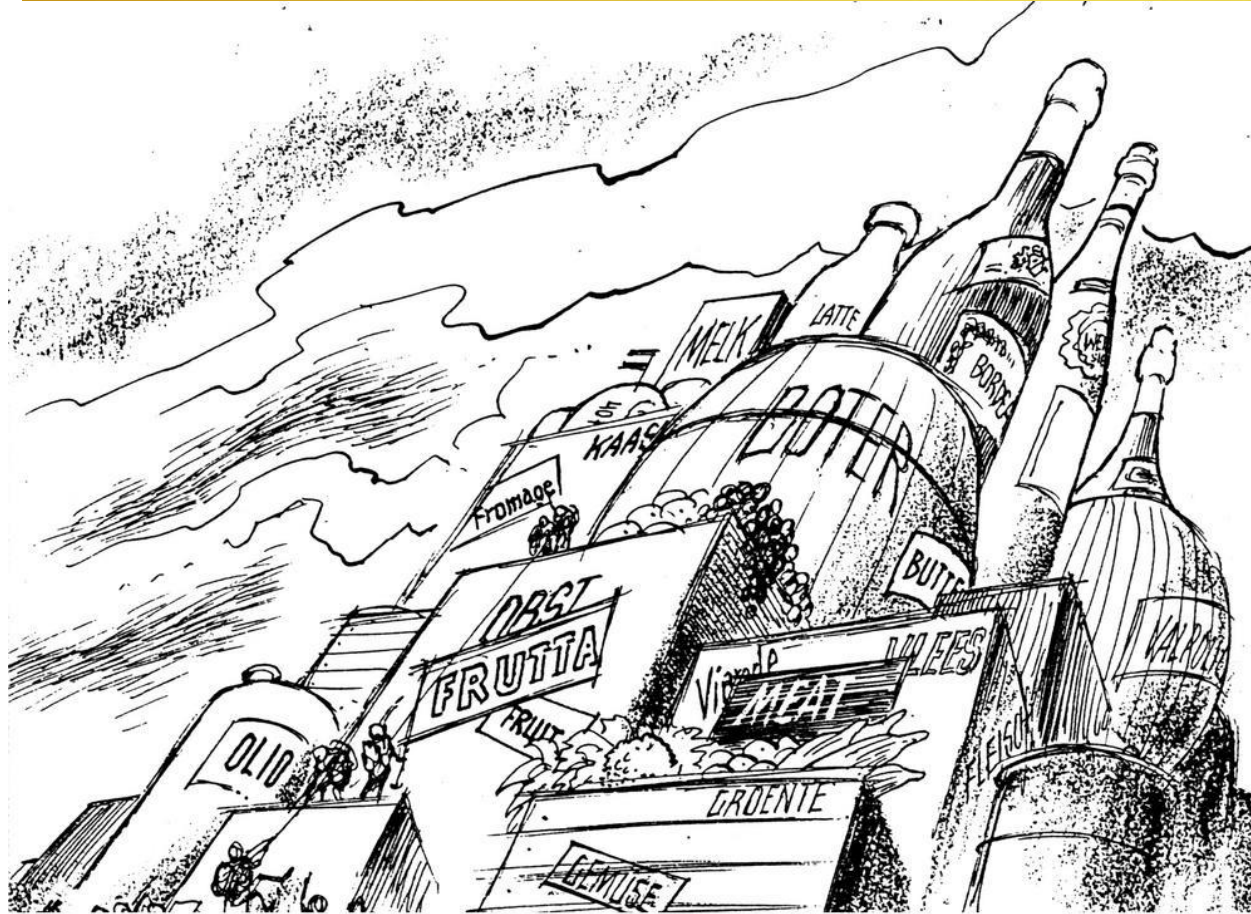
Fortress CAP: unintended consequences ...in the world

PROTECTIONISM:

- ▶ **Hypocrisy:** agricultural protectionism at odds with overall EC market liberalization efforts
- ▶ EC's **import quotas**, levies and tariffs angered international sellers/producers including US
- ▶ **Food standards** developing countries were unable to meet
- ▶ Food "aid" – surpluses dropped onto the "third world" rather than helping them to become self-sufficient
- ▶ EC **export price support (dumping)** distorted world food prices -> triggering trade disputes especially in developing world (with producers of sugar)



Fortress CAP! “Wine lakes and butter mountains!”



De moeizame beklimming van het Euro-obstakel (1986)



Common External Tariff

Fortress CAP: entrenched interests

decision-making in 1970 – mid1980s

- ▶ **Entrenched agrarian nationalism**
- ▶ Luxembourg compromise 1966 still in effect – politics of consensus (CAP **reform resistant**)
- ▶ *Symbiotic* relationship between the Council (member states) and Commission
 - Council ‘requests’ legislation
 - Assisted by the [Special Committee on Agriculture](#)
 - Commission drafts a regulation, lobbied by [COPA](#) unions
 - Approved by Council
- ▶ EP only consultative role on ‘guaranteed expenses’
- ▶ National parliaments excluded (regulations)

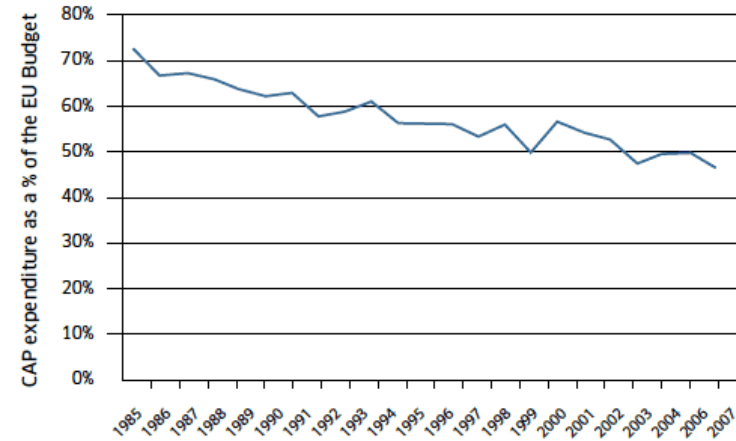


CAP features



- ▶ **Dense interactions** among a plethora of actors (EU institutions, lobbyists, national agencies) – exchange of information, common interests
- ▶ **Asymmetric representation of interests:** organized farming vs. heterogeneous consumer interests
- ▶ **Technical nature** of decisions necessitates expert opinion input (invites lobbying)
- ▶ **Consensual policy-making** (especially 1970s)
- ▶ **Regressive form of subsidy redistribution** – bigger farmers receive more

1980s Pressure(s) for REFORM



- ▶ Strain on EC budget – CAP not sustainable, no ceiling to product-coupled payments
 - particularly important with impending **Southern enlargements!**
- ▶ For almost 40 years, the Agri Commissioner was French (resentment)
- ▶ Excessive **overproduction** + payments for storage
- ▶ **Thatcher's irritation** (BBQ and rebate; subsidies = socialism)
- ▶ **World trade organization** complained about distorting nature of CAP
- ▶ **Environmental damage**

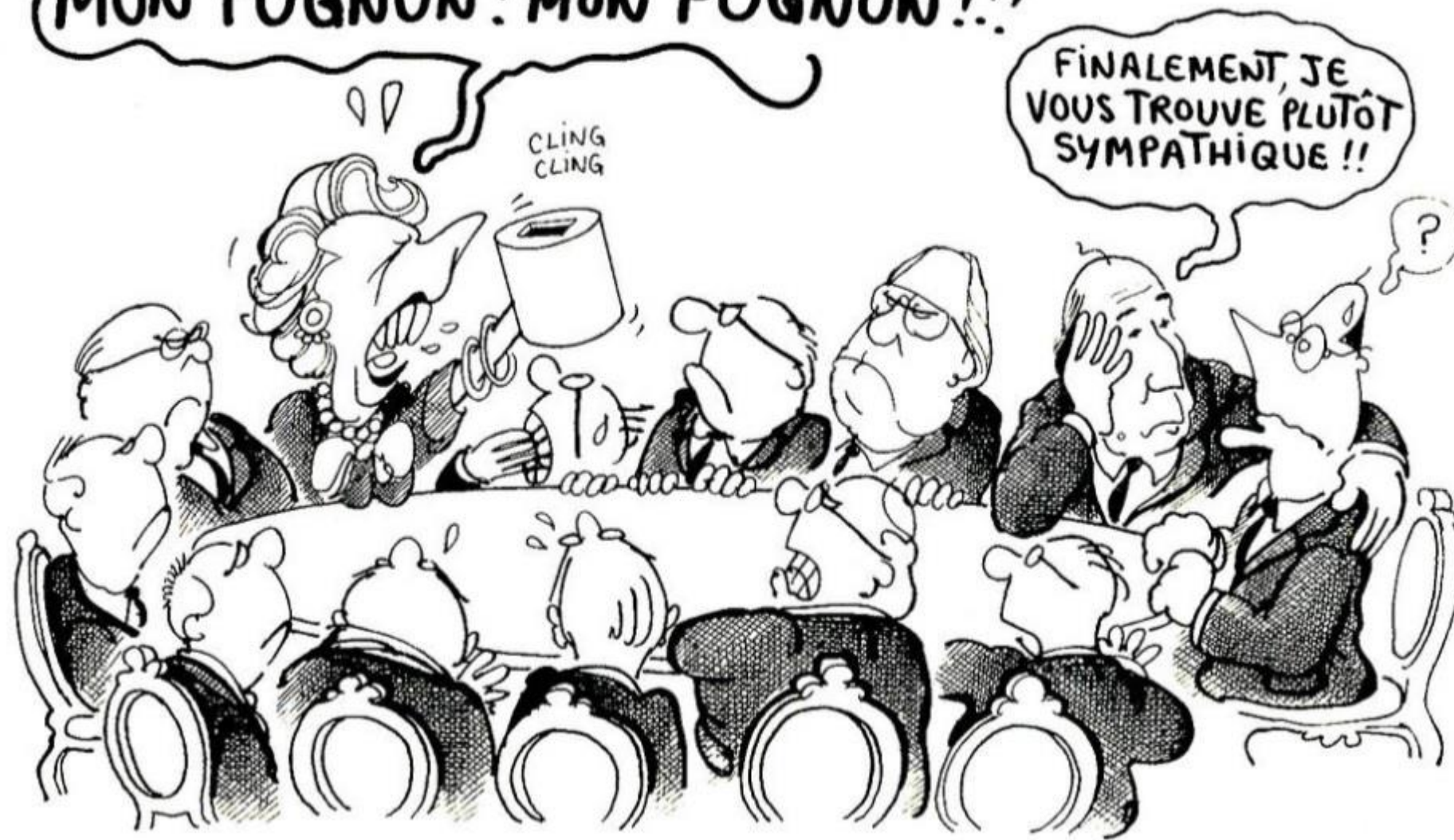
MILD REFORMS

- > introduction of milk production quotas in 1984 didn't help curb expenditures much
- > budget ceilings on spending 1988 (without penalty)

New EC budget resources ('78 VAT and '88 GNI) had the OPPOSITE EFFECT



MON POGNON! MON POGNON!!!



My money! My money!' X 'You're not so bad after all!!' Negotiation of new EC budget Dec. 1987

The “MacSharry reform 1992”



- ▶ Ireland’s first Agriculture Commissioner
- **De-coupling**: break the link between price support and volume of production (big and small farmers)
- **Full compensation** for small farmers, scaled for big producers (if they **set-aside** a piece of land)

Idea of **direct payments**

- **limits** on storage levels
- **ideas** (only) to introduce direct payments to farmers and replace the system of guaranteed prices with direct income
- did not abolish (only curb) the system of guaranteed prices
- ▶ Adopted By Agrifish Council by QMV after a 50 hrs meeting!

MacSharry reform 1992

- ▶ **Cut fixed prices:** example - cereals by 30%
- ▶ **Compensatory payments** to producers (not directly coupled to products) (!!!)

- only farmers of eligible commodities receive payments (farm payments)

- ▶ **Direct payments** become chief support instrument

- puts CAP finances in control

- ▶ **Support of reforestation** – set-aside land

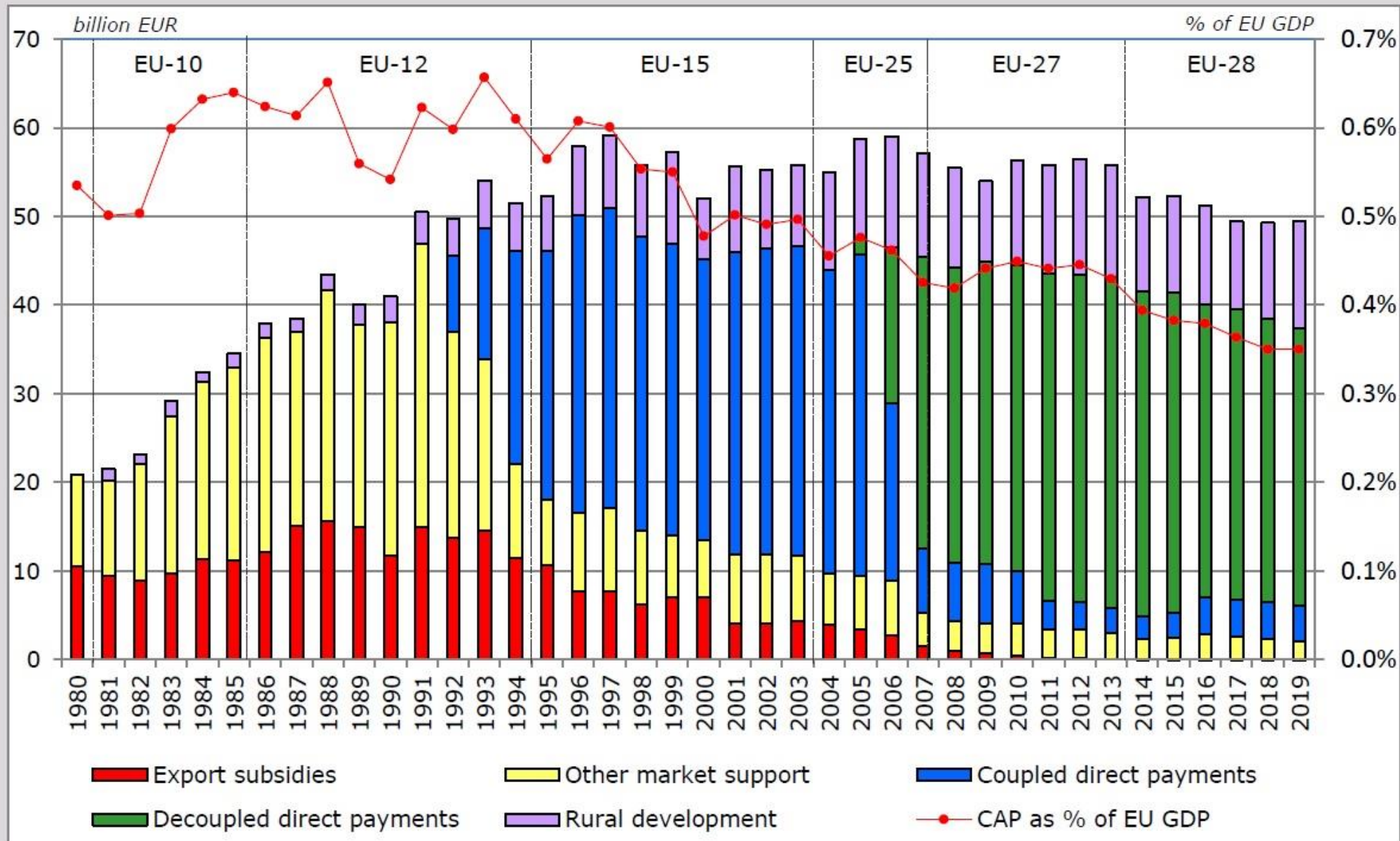
- more enviro-conscious too

→ Although the reform initially cost more,
it put a **'cap'** on overproduction

[Direct payments today](#)



CAP expenditure and CAP Reform path (2011 constant prices)



Introduction of
direct payments

Late 1990s – CEE enlargement pressure

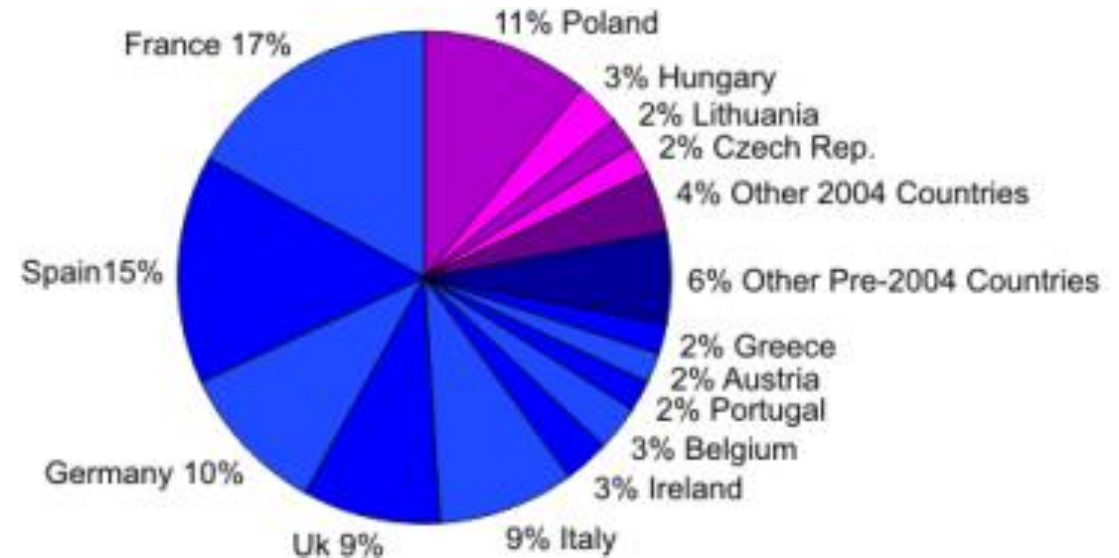
► Looming Eastern Enlargement

- 10+ countries
- doubling of farm labour force
- increase in agricultural land in the EU

WHAT TO DO????

- > big increase in EU budget? (impossible)
- > major cuts in existing price support (for old MS)? (impossible)
- > **lower subsidies for the new member states**

% of farm land



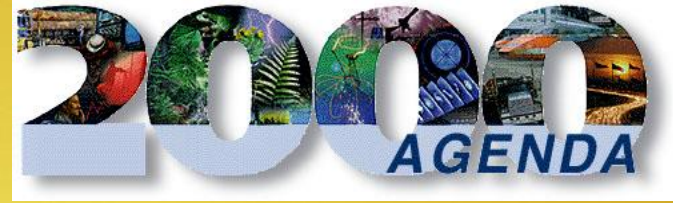
Dinan: “Huge infusion of money into economies lacking the capacities to absorb it would be socially and economically catastrophic” (2010: 337)

Late 1990s – consumer pressure

- ▶ Growing environmental and consumer concerns over **industrial farming!**
- Consumer safety: mad cow disease, avian flu
- E.coli contamination
- Animal welfare concerns!
- Environmental and health impact of used herbicides and fertilizers
- Soil erosion, land degradation



Agenda 2000 GOALS



- ▶ **Improve EU's global competitiveness** through lower prices
- ▶ Guarantee **food safety and quality** to consumers
- ▶ Ensure **stable incomes** and fair standard of living for the agricultural community
- ▶ Make agricultural methods **more environmentally-friendly** and respect animal welfare
- ▶ **Integrate environmental goals into CAP instruments**
- ▶ Seek and create **diversified income and employment for farmers and their families**

Agenda 2000 – HOW TO

► Divide CAP into two pillars:

I. Pillar – price and market policy (CMOs)

II. Pillar – rural development

I. Pillar

- further (gradual) reduction in intervention prices
- prices cut further on cereals, beef and veal, and dairy
- direct aids to farmers calculated on the basis of annual production of commodity

II. Pillar

- link payments to social and environmental objectives



Farmers' protests



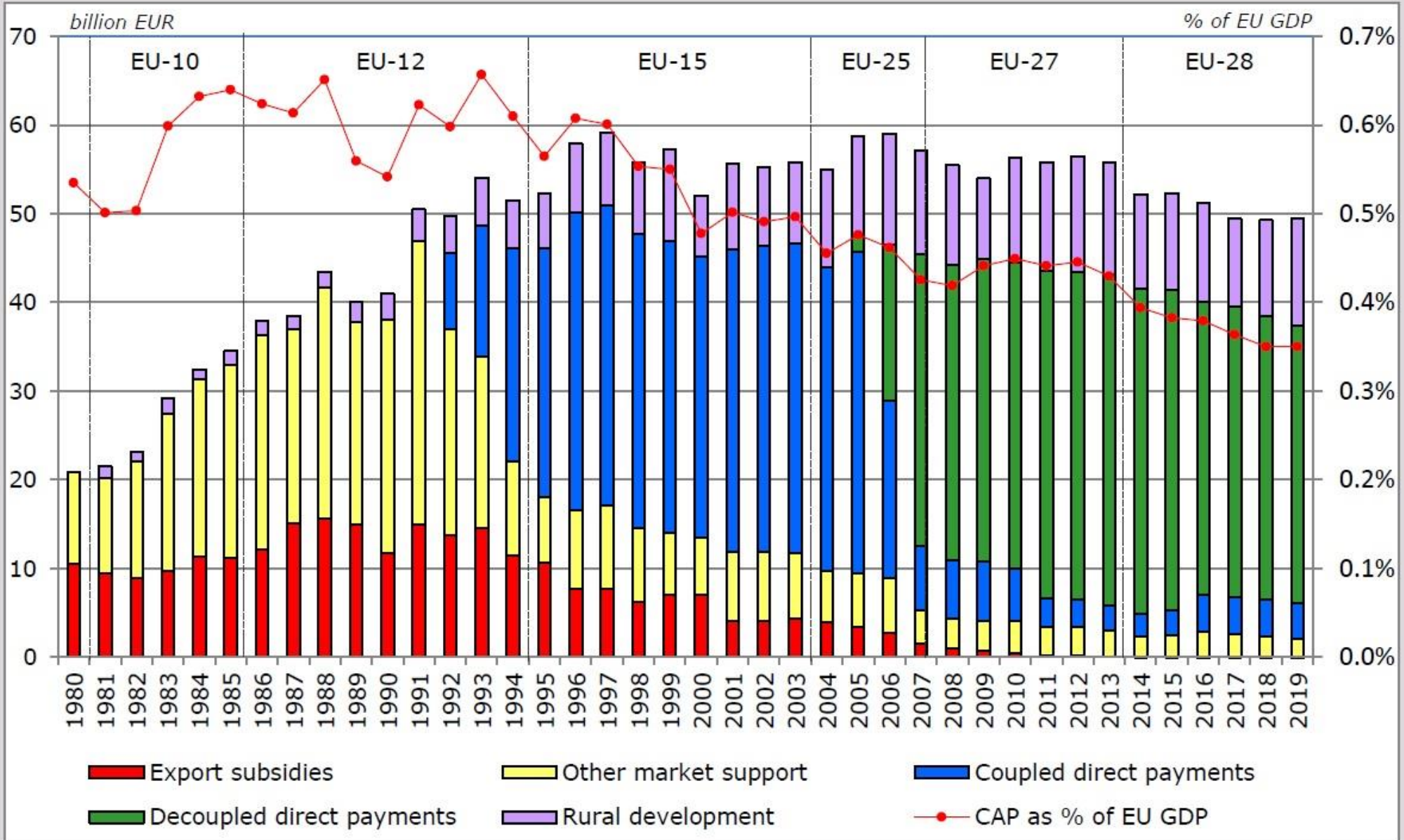
► Consensus at an end – modest reform only

Midterm Review 2003 aka Fischler Reform

- ▶ Further **de-coupling** of subsidies from produced food towards
 - > **“single farm payments”** (basic payment scheme today)
 - > **“single area payments”** (new EU members from 2004)
- ▶ Emphasis on **cross-compliance** (enviro, food safety and animal welfare standards)
- ▶ **Shift of resources to II. Pillar – rural development**
- ▶ More equitable distribution of payments from big to small farmers
- ▶ Further cuts in CMOs prices
- ▶ European Agricultural Guarantee and Guidance Fund (EAGGF) divided:
 - **European Agricultural Guarantee Fund (pillar I)**
 - **European Agricultural Fund for Rural Development (pillar II)**



CAP expenditure and CAP Reform path (2011 constant prices)



Decoupled direct payments

CAP “Health-check” 2007-08

- ▶ Only tinkering with MacSharry and Agenda 2000/Fischler reforms

- ▶ Commission ideas:

- wanted to do away with payment-production link completely

- phasing out milk quotas by 2015

- shift further resources from the I. to the II. pillar

- ▶ Year-long negotiations in the shadows of the Lisbon treaty

- ▶ Emphasis on **rural development** – biodiversity, climate change, renewable energy etc.

- ▶ Abolishing “set-asides”

- ▶ Simplified cross-compliance rules



2013 reform and after

- ▶ Lisbon treaty transferred CAP into a co-decision ordinary decision-making process
- ▶ Pressure to **cut expenditures** in times of financial crisis (cap income for big farms or **cut from Pillar II. Rural development...**)
- ▶ Demands to equalize payments per area between old and new MS = more **convergence** where no state receives less than 75% EU average
- ▶ Coupled payments only for a 'handful' of products
- ▶ 30% of payments requiring enviro cross-compliance

Our long term food security is in your hands!



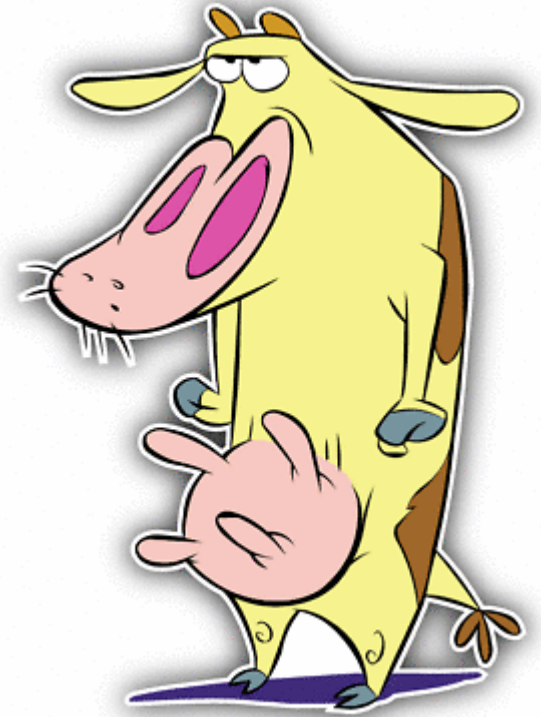
CAP Future

- ▶ Another reform initiative from the Commission in 2018
 - > in conjunction with the **European Green Deal**
 - > “[Farm to Fork](#)” [strategy](#)
 - > foster biodiversity
- ▶ To apply since 2023
 - > Farmers protest [again](#)



CAP pros and cons!

- ▶ Small **X** big farms
- ▶ Market competition and economies of scale **X** local production
- ▶ Industry **X** ecology
- ▶ EU disparities still persist: old **X** new, different methods of payment calculation



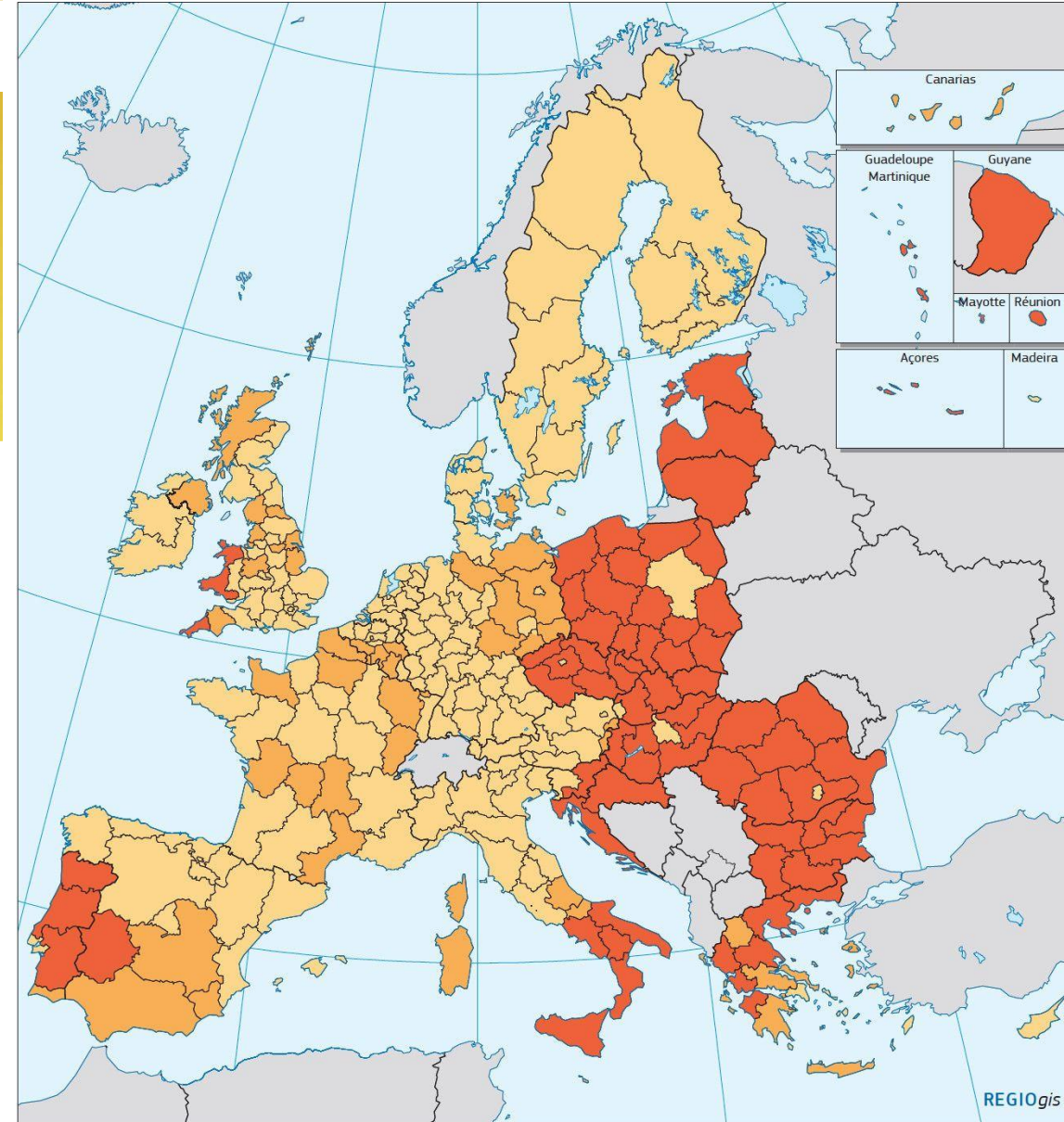
Cohesion policy = regional policy

- ▶ Growing (**economic**) disparity of regions with successive enlargements – Ireland '73, Greece '81, CEE countries '04, '07...
- Income, infrastructure, production, education, (un)employment
- ▶ Became obvious in the process of “1992 single market programme”
- Trickle-down economics won't cut the divide
- ▶ Structural funds

European Regional Development Fund

European Social Fund

European Cohesion Fund



Structural Funds (ERDF and ESF) eligibility 2014–2020

Category

- Less developed regions (GDP/head < 75% of EU-27 average)
- Transition regions (GDP/head between >= 75% and < 90% of EU-27 average)
- More developed regions (GDP/head >= 90% of EU-27 average)

Source: DG REGIO

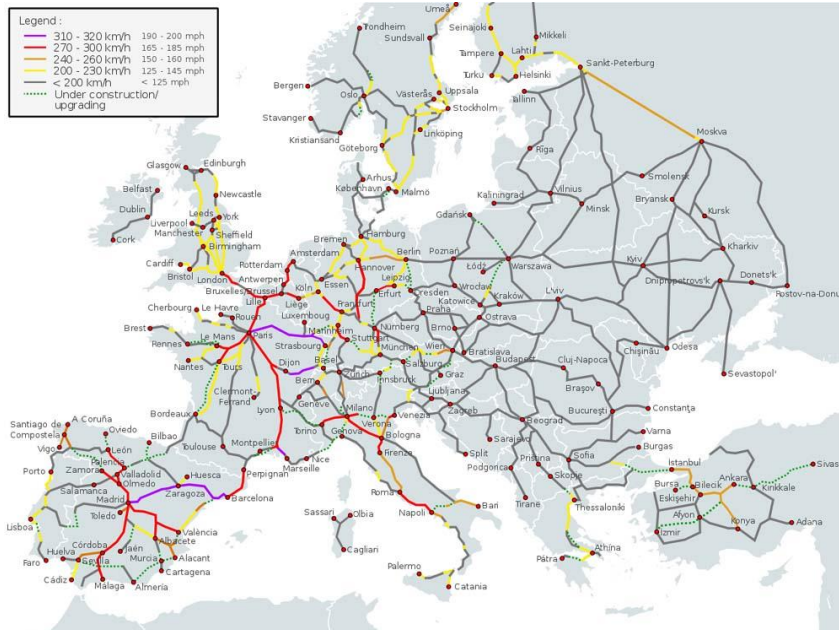
Structural funds



European Union

Cohesion Fund

- ▶ Complement national development expenditure
- ▶ Multi-level partnership (EU, MS, regions)
- ▶ Not individual projects but “frameworks”



▶ *European Cohesion Fund*

- Big investment infrastructure projects especially in transportation
- Across member states
- Energy transportation (oil and gas pipelines)

Structural funds



European Union

European Regional
Development Fund

► *European Regional Development Fund*

- Investment support
- Infrastructure: roads, railroads
- Removal of ecological damage (industrial areas)
- Sporting facilities, cultural venues and historical sites, renovation of health care infrastructure
- Re-forestation

Structural funds

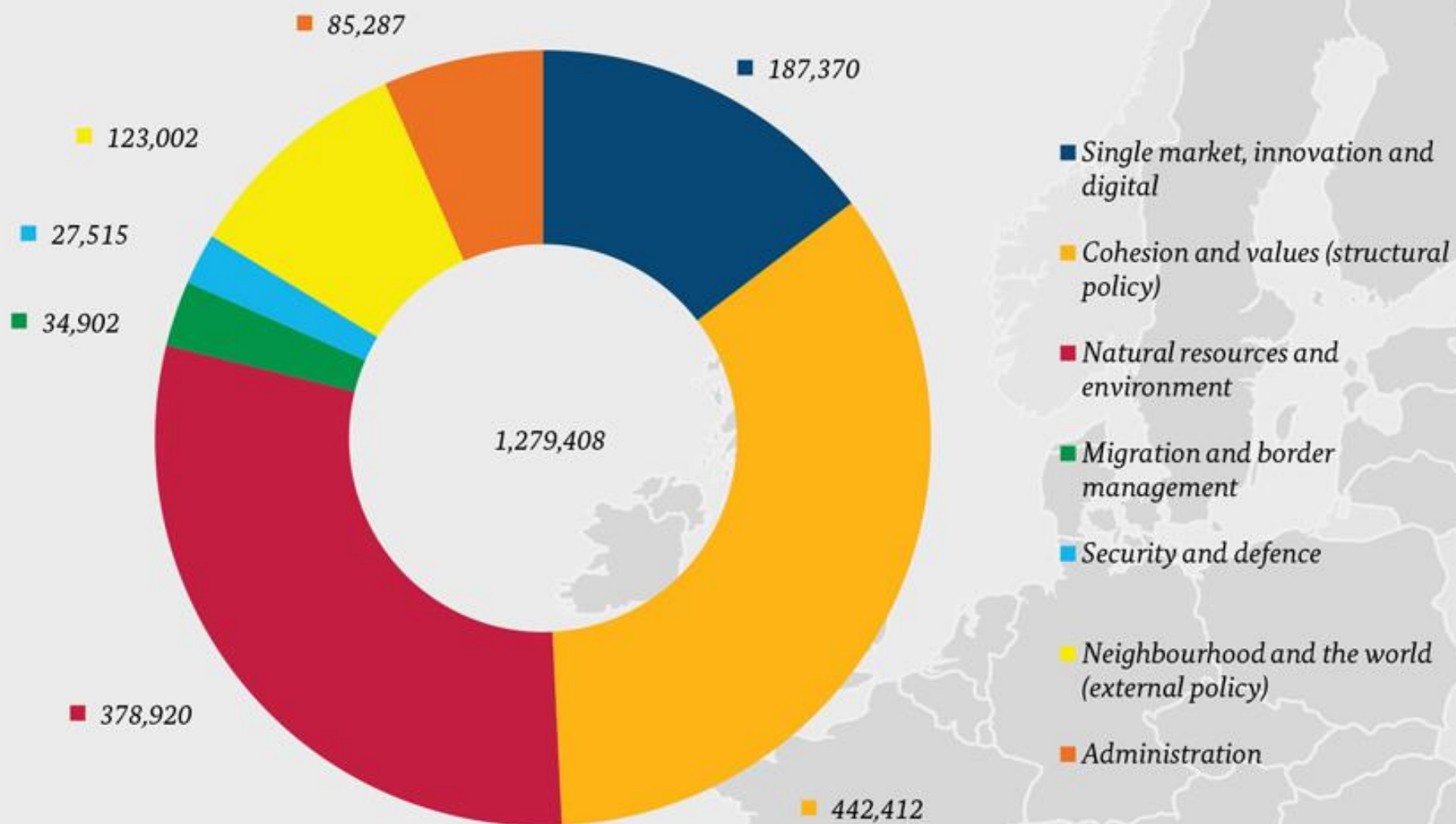


- ▶ *European Social Fund*
- Non-infrastructure projects
- Requalification of the unemployed
- Inclusion of handicapped persons
- Projects for children, youth, minorities
- Programmes against (employment) discrimination
- Educational programmes, life-long learning
- Programmes in support of employment



Investing in people
European Social Fund

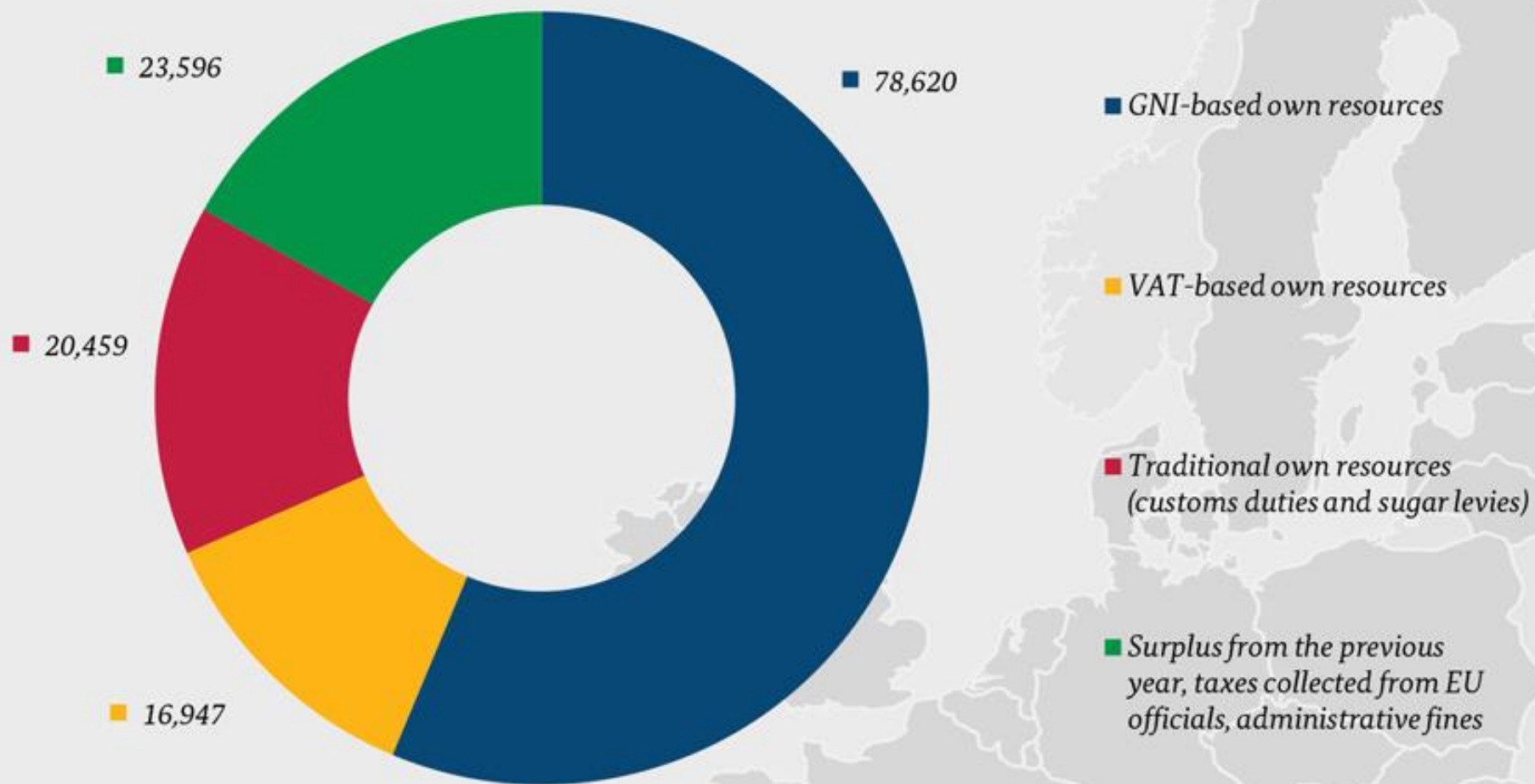
2021–2027 Multiannual Financial Framework according to the European Commission's proposal in €m



Source: European Commission



Own resources 2017 in €m



Source: European Commission