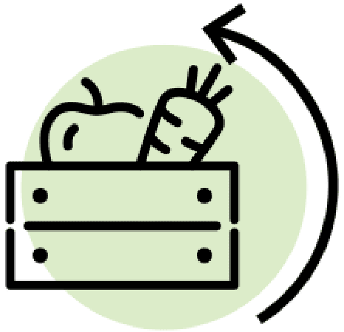
European Union Politics

SESSION 04: **COMMON AGRICULTURAL POLICY**

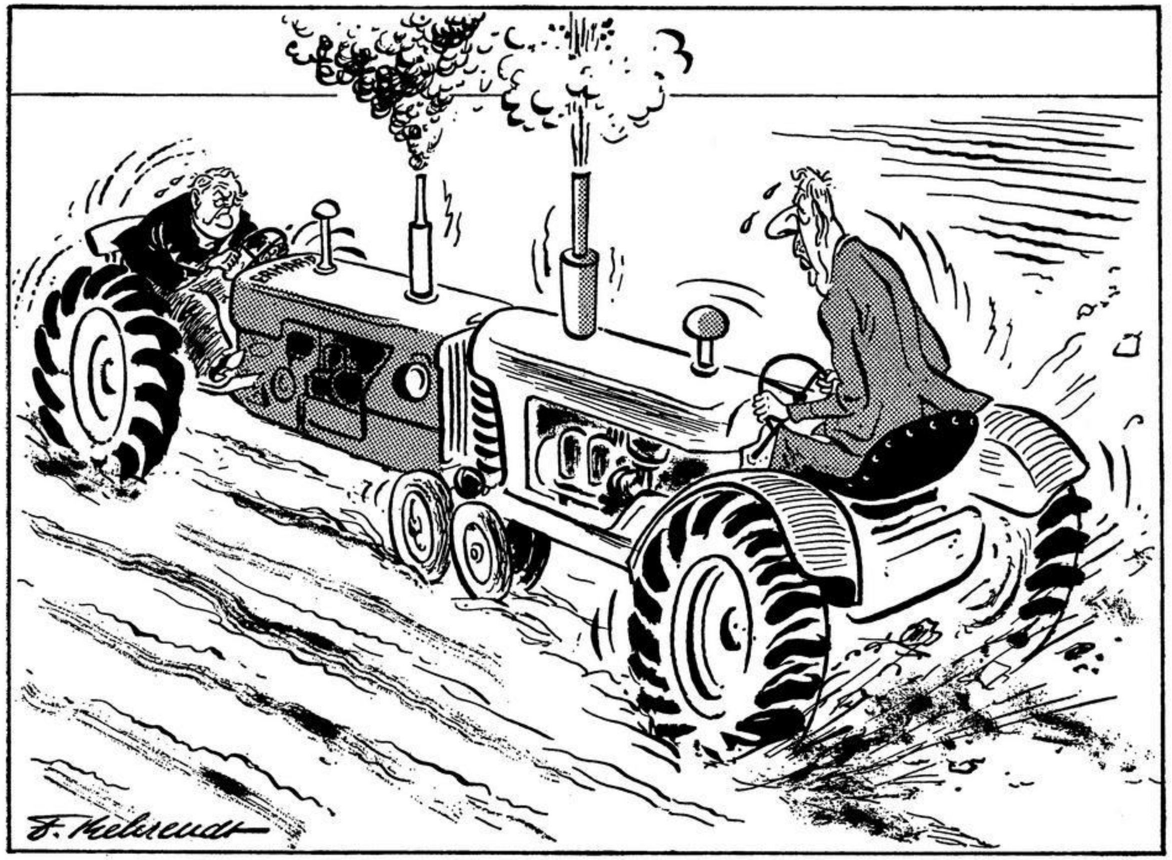
Common Agricultural Policy
…a policy full of **contradictions**

- 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 commodity (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

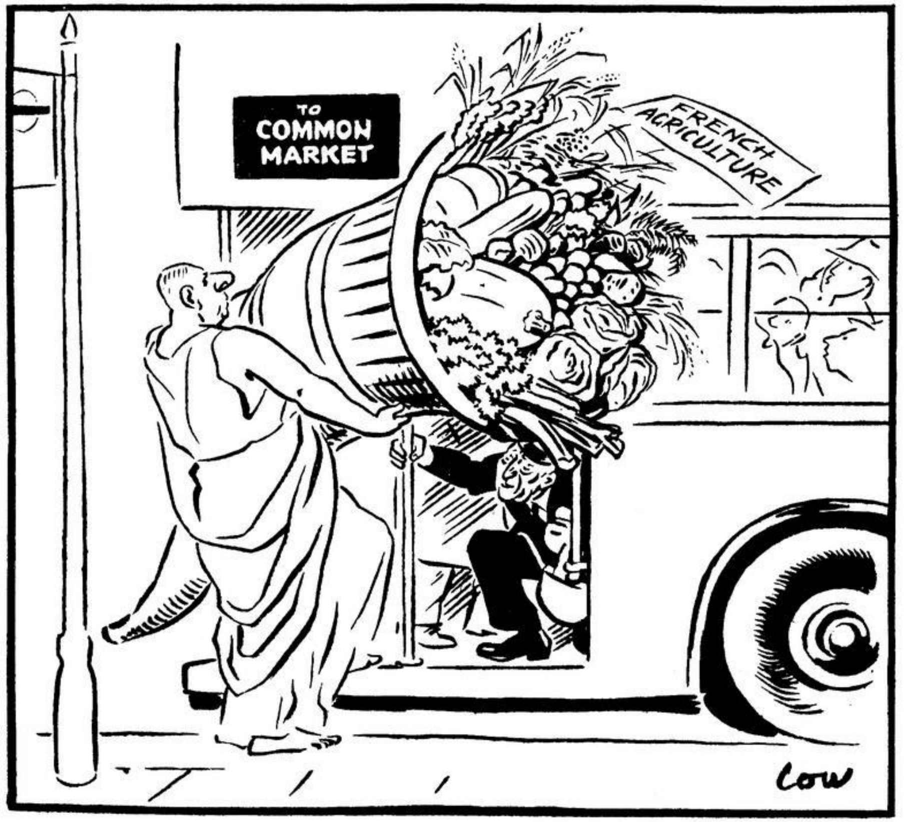

Samen ploegen – ja, gezellig.

- 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**: farmers as % 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 (later **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 farming subsidies

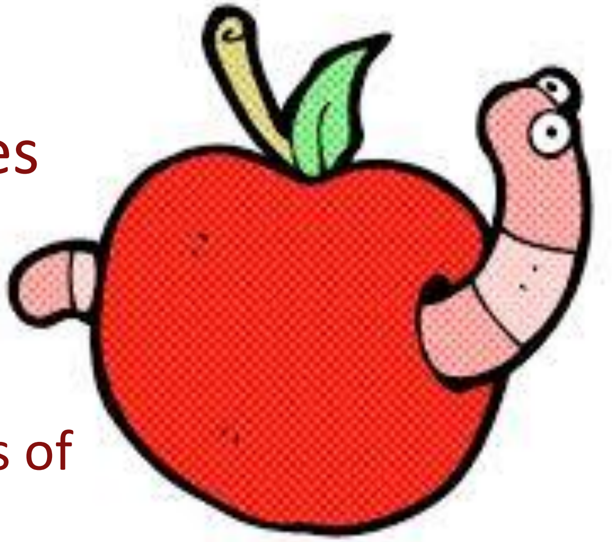
-> uniform price support throughout the Community (**1 commodity = 1 target price for all**)

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** (1968)

→ **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 (over-)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 intervention price packages (example 2007/08)
- AGRIFISH Council (Ministers of Agriculture and Fisheries)

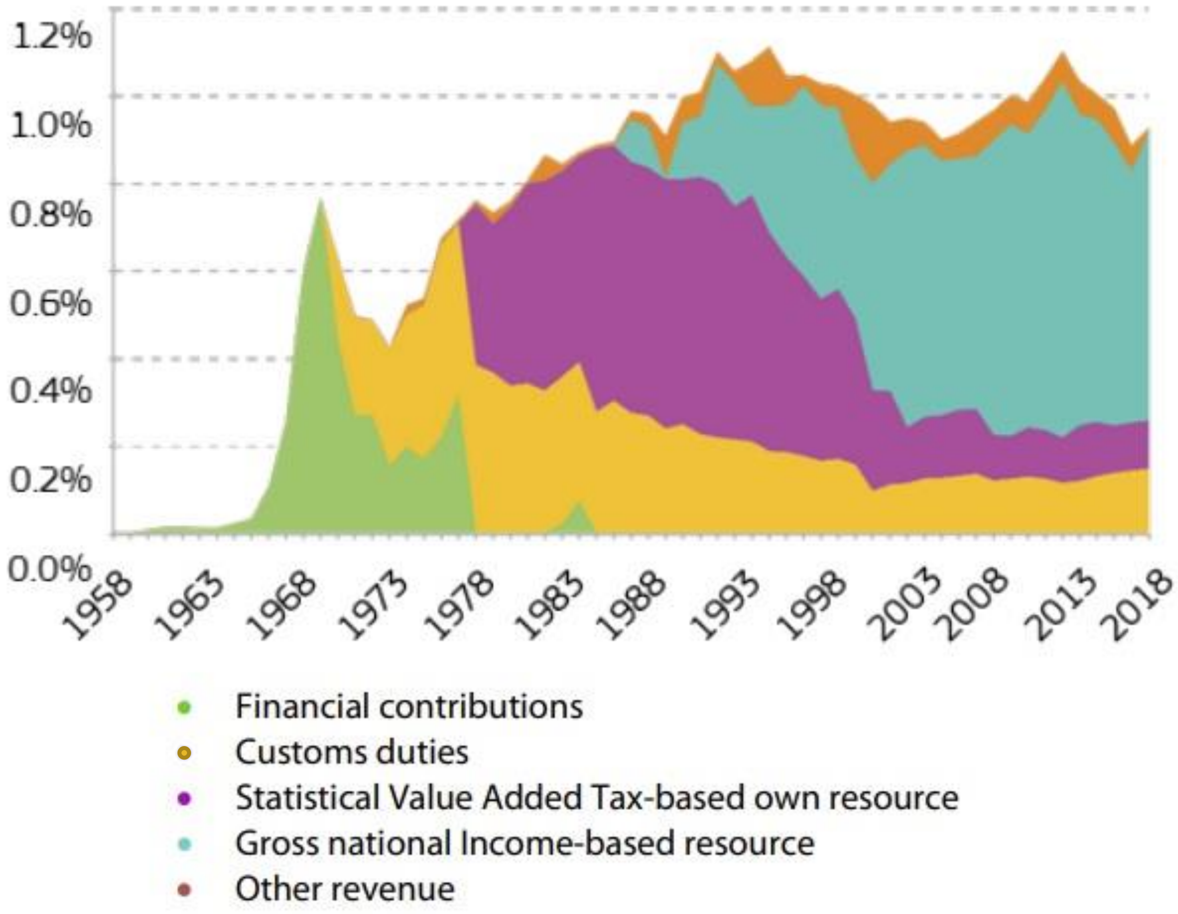
Where does the money come from?

- **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



Source: European Commission (2018a).

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

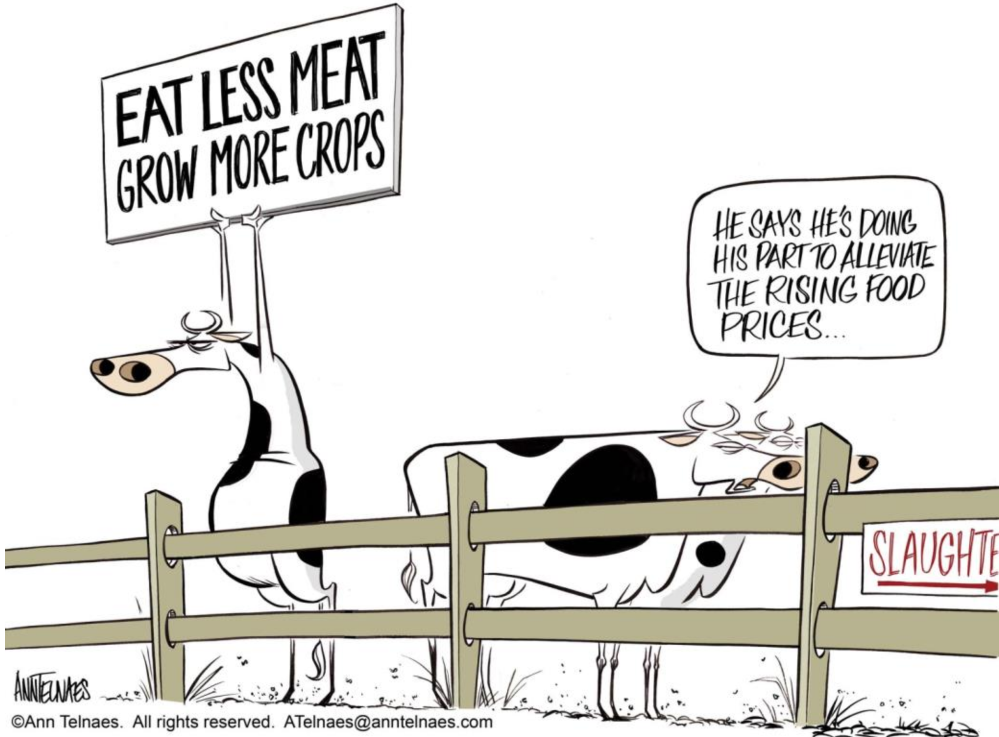
▶ HOWEVER, **consumers** were faced with **high prices**

- 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** (CAP 70%)**!!!**

- **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** -> negative ecological impact (!!!)



EC/EU Self-sufficiency 1973-05

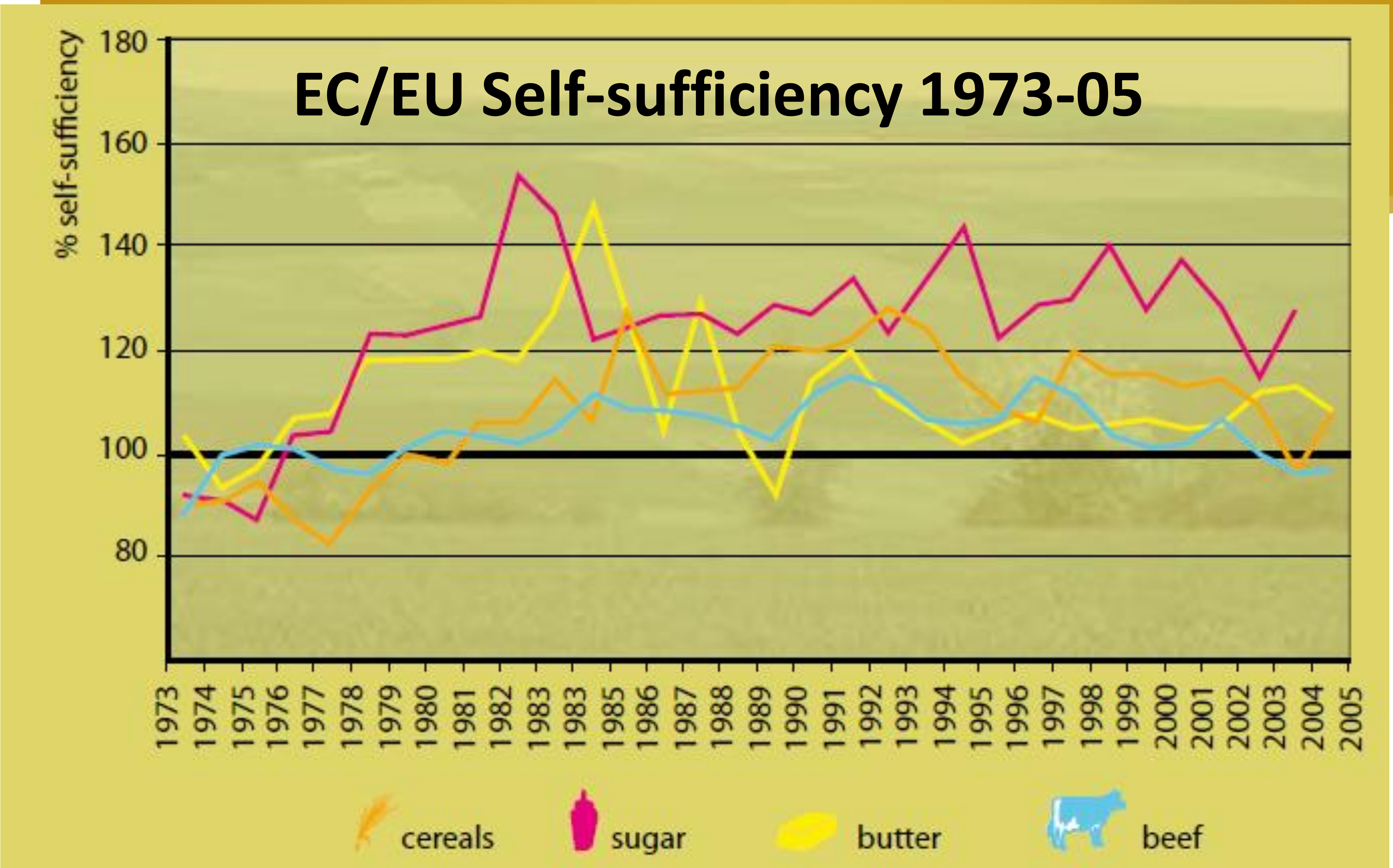
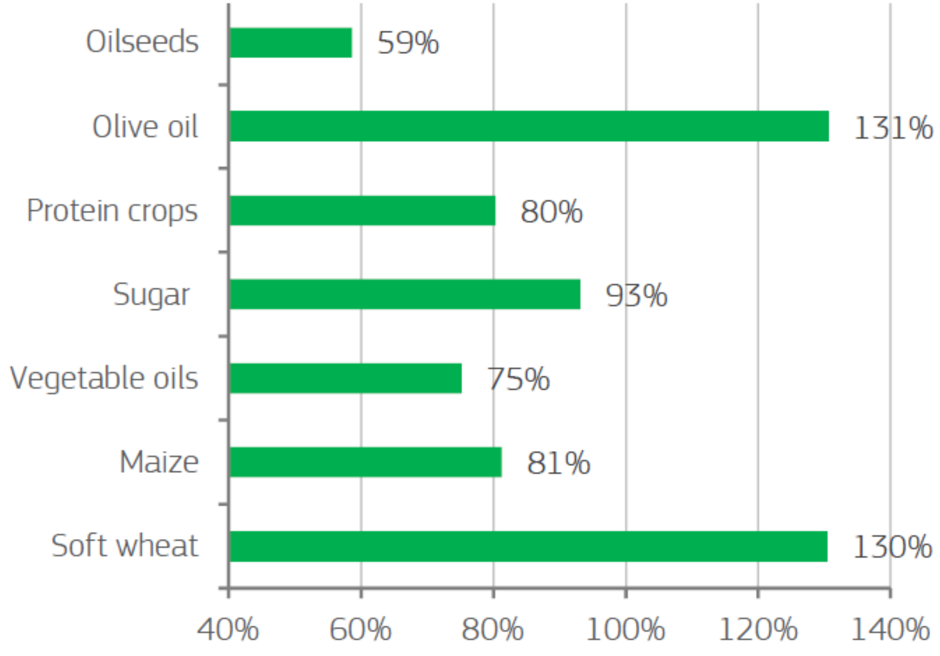
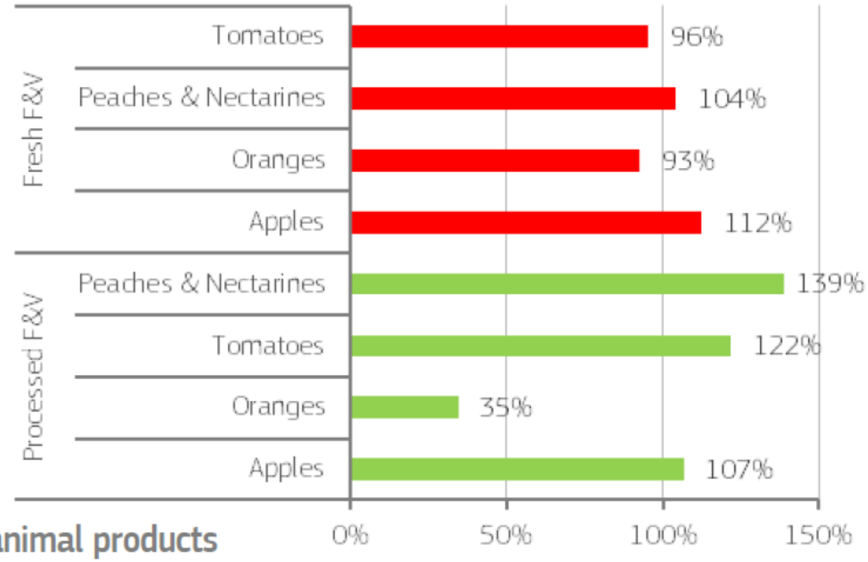


Figure 5 EU self-sufficiency rates for selected plant products (average 2020-2022)



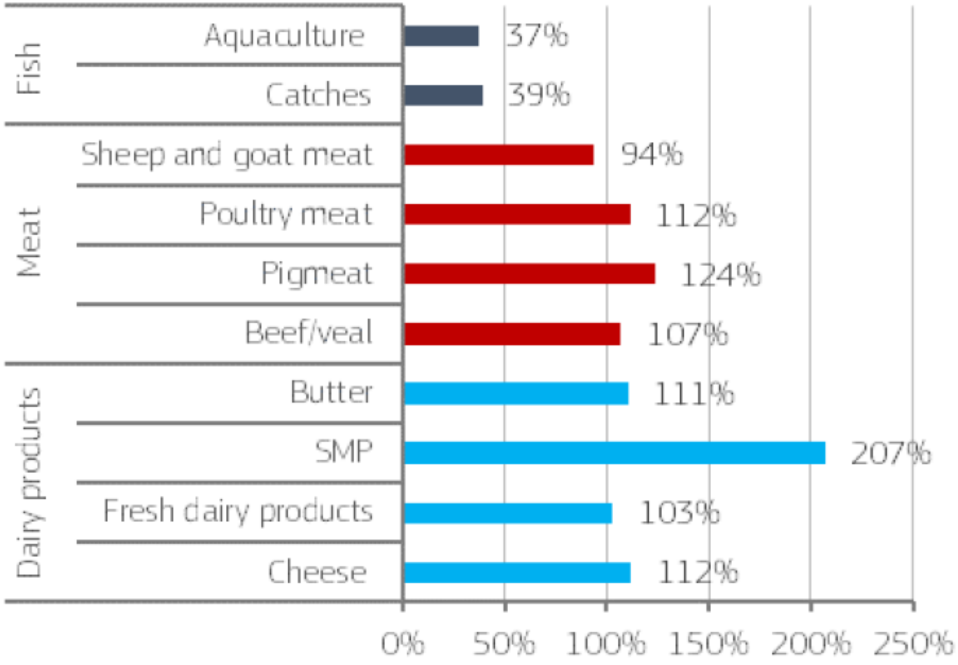
Source: DG Agriculture and Rural Development, based on Short-term outlook.

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)

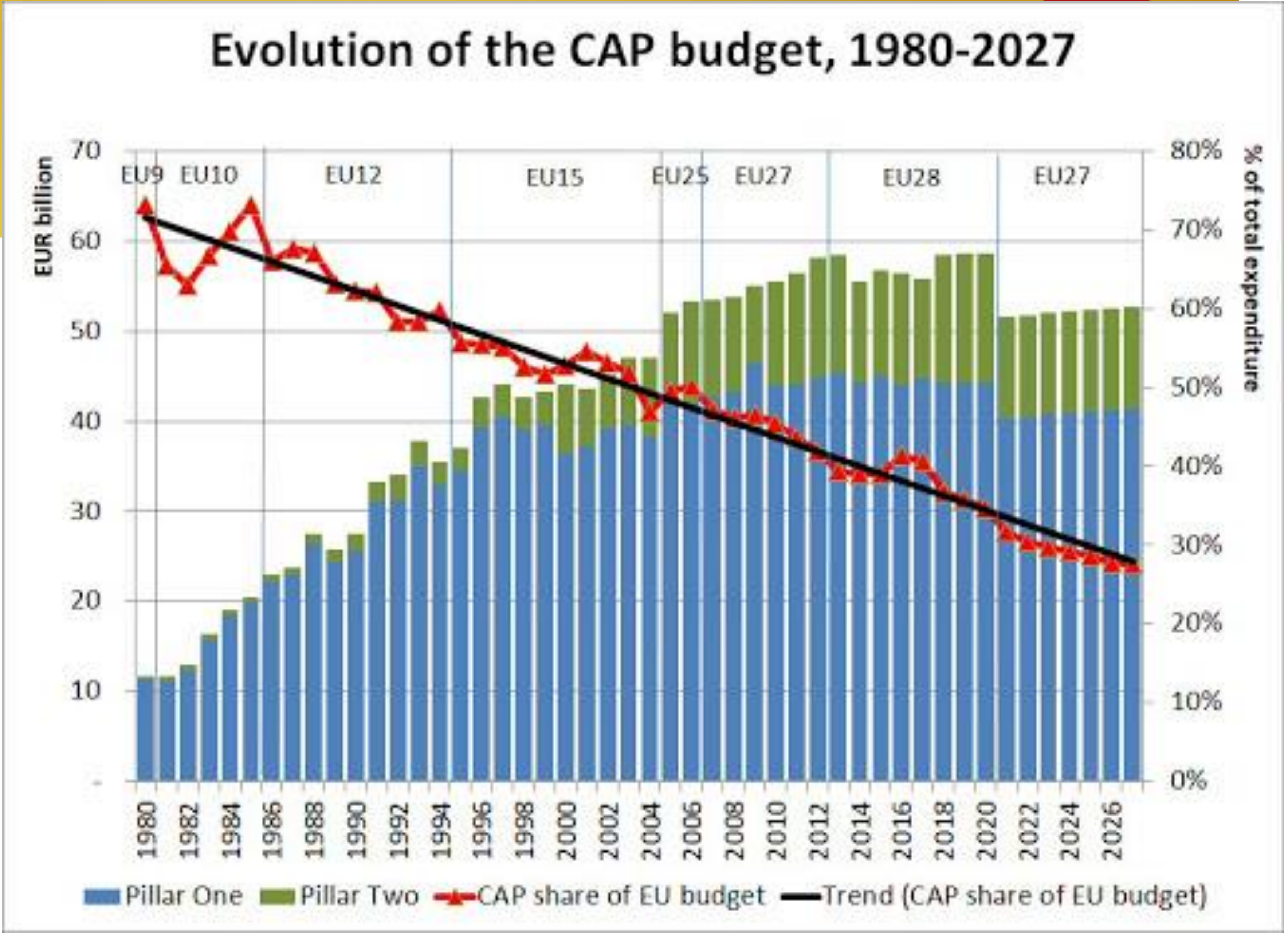


Source: DG Agriculture and Rural Development, based on Short-term outlook and

State of Food Security in the EU

Autumn 2023

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 the 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

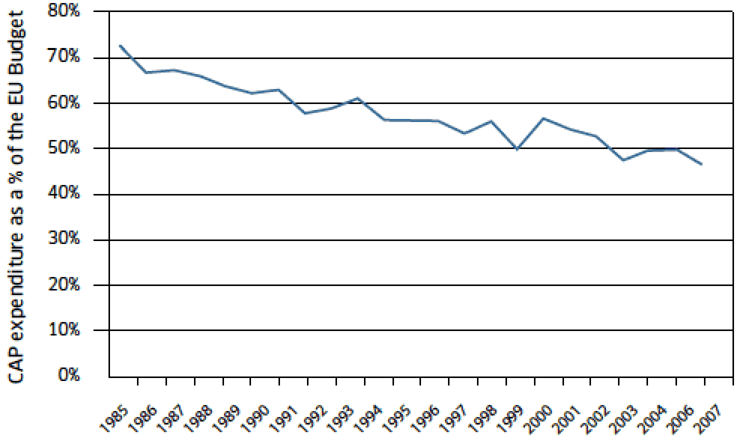
Fortress CAP: Reform-resistant decision-making in 1970 and mid-1980s

- **Entrenched agrarian nationalism**
- Luxembourg compromise 1966 still in effect – politics of **unanimity** (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
- **Inflationary tendencies** – require more and more subsidies

1980s Pressure(s) for REFORM



- Strain on **EC budget – CAP <u>not financially sustainable</u>**, no end to product-coupled guaranteed payments

  - particularly important with impending **Southern enlargements**!
- For almost 40 years, the Agri Commissioner was French (resentment)
- Excessive **overproduction** + payments for storage
- <u>Thatcher's irritation</u> (BBQ and rebate; subsidies = socialism)
- **GATT pressure** to reduce tariffs and export subsidies (Uruguay round)
- **Environmental** damage

ONLY MILD REFORMs

-> introduction of milk production **quotas** in 1984 didn't help curb expenditures much

-> budget ceilings on spending 1988 (without penalty)

New budget resources ('78 VAT and '88 GNI) **had the OPPOSITE EFFECT** (see slide 10)

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 wanted
- **Liberalization** of agricultural markets, in line with liberalization ~ creation of the single market

→ **De-coupling:** break the link between commodity price support and volume of production (big and small farmers)

→ But full **compensation** for small farmers, scaled for big producers (if they **set-aside** a piece of land)

Idea of **direct payments!!!** based on size of cultivated land area (hectares) or animal herds

- and **limits** on storage levels

- Adopted By AGRIFISH Council by a QMV after a 50 hours meeting!

- **ideas** to introduce direct payments to farmers and replace the system of guaranteed prices with direct income entirely …totally watered down →

- did not abolish (only curbed) the system of guaranteed commodity-"coupled" prices

1992 protests

French farmers block Disneyland in Paris

International dimension of protests as part of GATT global trade negotiation

MacSharry reform 1992

- **Cut fixed prices for select commodities,** example: cereals by 29%, beef by 15%
- **Compensatory direct payments** to producers (not directly coupled to products but land) (!!!)

  - only **farmers** of eligible commodities receive payments

Direct payments today

Direct payments → later become chief CAP farmer support instrument

  - puts CAP finances under control, temporarily

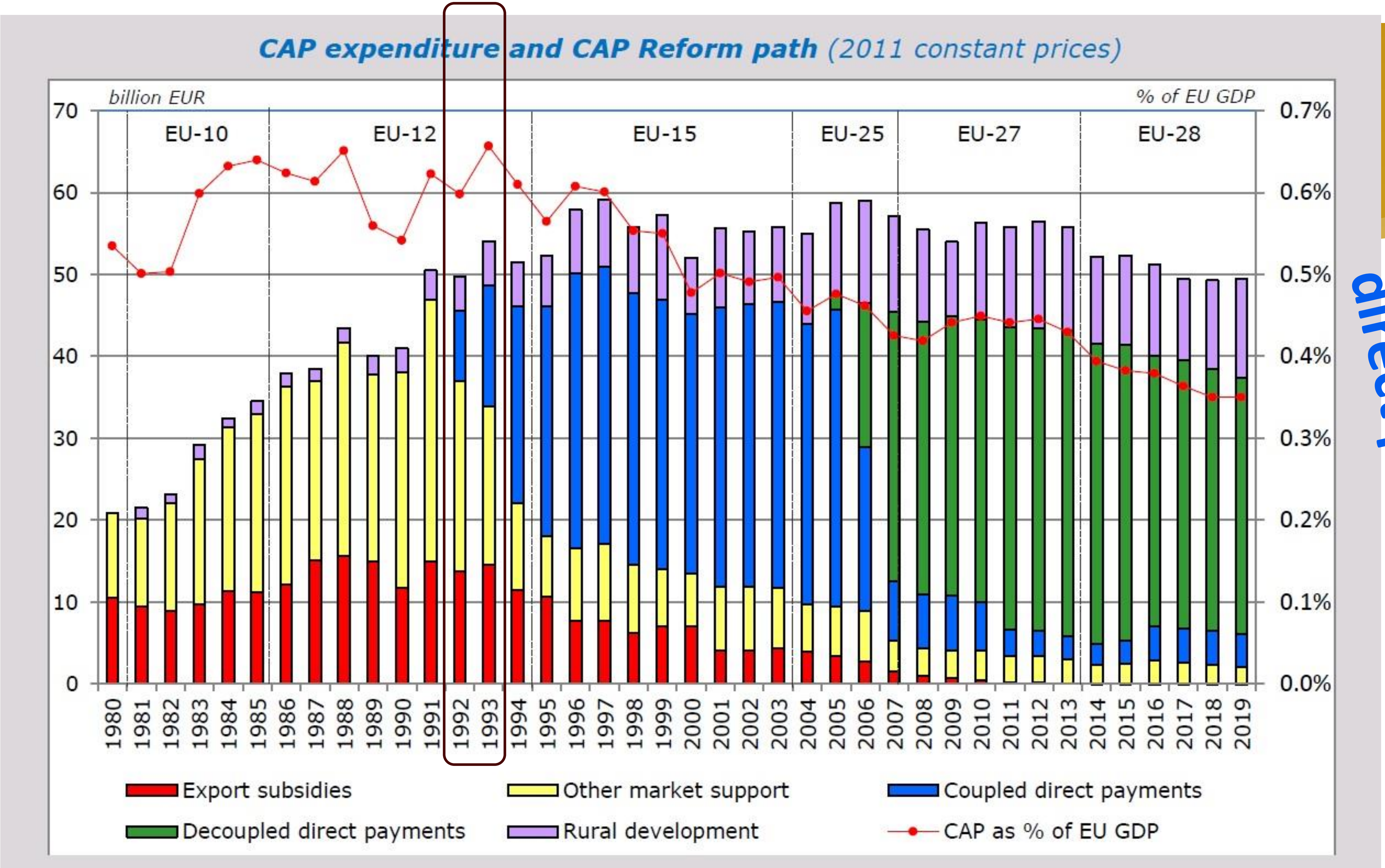
- **Support of reforestation** – “set-aside” land

  - a little enviro-conscious too

→ Although the reform initially cost more,

it put **a ‘cap’ on overproduction**

MacSharry reform



Introduction of "compensatory" 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
- Farmers getting paid for setting land aside

…neither the existing "milk quotas" curb the existing overproduction

1999 Reform as part of “Agenda 2000” GOALS

- **Improve** EU’s **global competitiveness** through lower prices ~ guaranteed price cuts
- 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**

- **…not run out of money & reconnect agriculture to general economy**

Farmers' protests

- Consensus at an end – **modest reform** only

Agenda 2000 – Fischler I.

- Divide CAP into two pillars:

I. Pillar – **income and market intervention** (CMOs)

II. Pillar – **rural development**

I. Pillar – agricultural support / guarantee

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

II. Pillar – rural development / guidance

- enhance **'multifunctionality'** of agriculture – agriculture as a **public good**
- **link payments** to social and environmental objectives (MS co-payers)

“Midterm Review” 2003 aka the Fischler II. reform

- Further **de-coupling** of subsidies from produced food towards

-> “Single farm payments” (basic payment scheme today)

-> “**Single area payments**” (new EU members from 2004-2020)

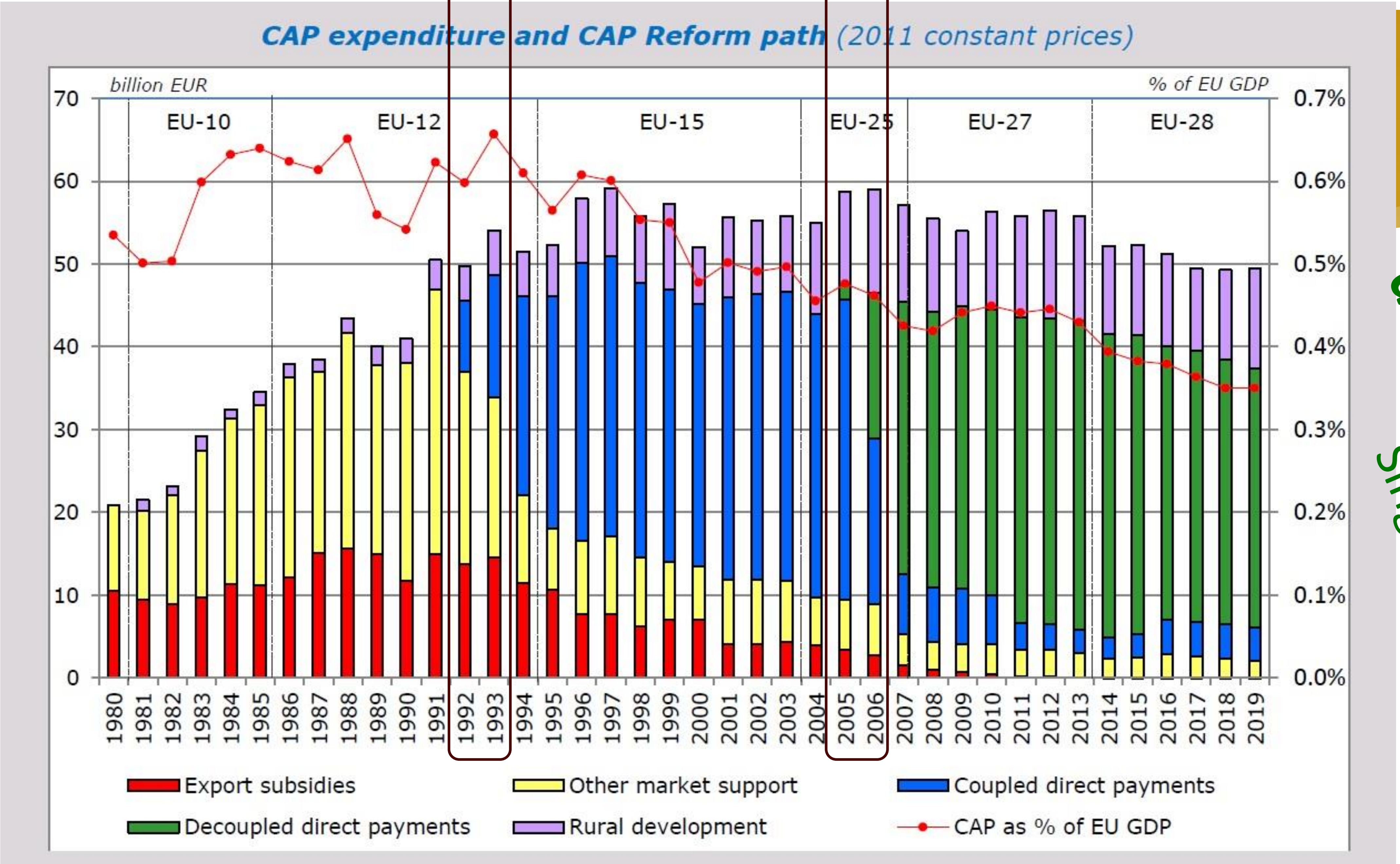
- Emphasis on **cross-compliance** (enviro, food safety and animal welfare standards)

- **Modulation = shift of resources from I. to II. pillar – rural development**
- More equitable distribution of payments from big to small farmers
- Further cuts in CMOs prices (cereals, milk, sugar)
- European Agricultural Guarantee and Guidance Fund (EAGGF) divided:

- **European Agricultural Guarantee Fund (pillar I)**
- **European Agricultural Fund for Rural Development (pillar II)**

MacSharry reform

Fischler II. reform



Decoupled direct payments

Single farm payments

CAP "Health-check" 2007-08

- Only tinkering with MacSharry and Fischler reforms
- **Commission ideas:**

- wanted to do away with payment-production link for good

- phasing out milk quotas by 2015

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

Council results:

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

- Emphasis on **rural development** – biodiversity, climate change, renewable energy etc. but **not** followed by as much money as the Commission wanted (redistribution from big farms)

- More **modulation** – moving money between pillars I. → II.

- Simplified cross-compliance rules; direct financing farms from 1ha and bigger (to exclude golf courses)

- Confirmed gradual increase and then phase out of milk quotas by 2015

- By 2013, 94% of all payments were to be de-coupled from production

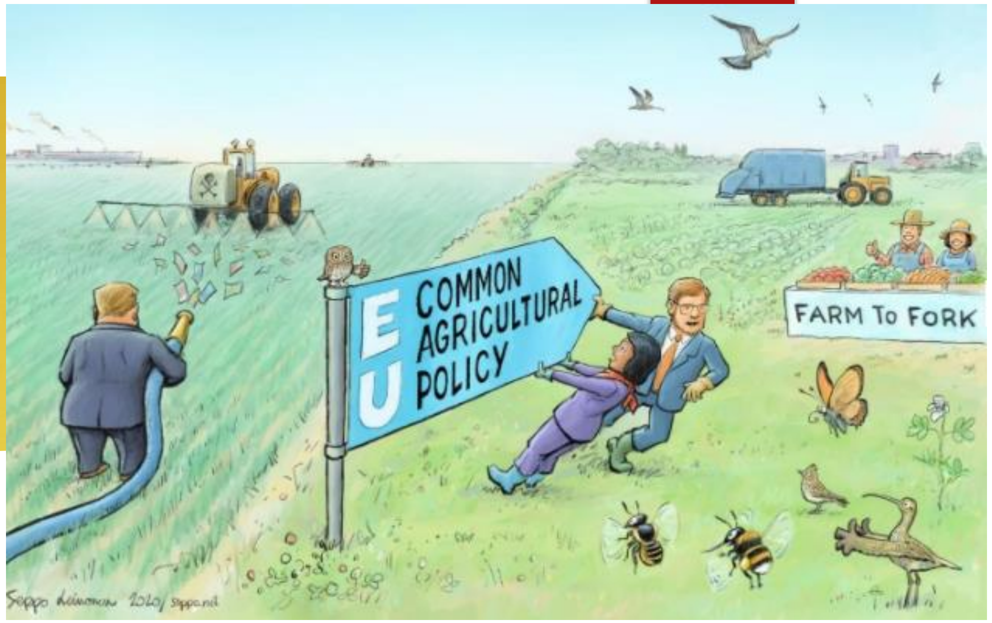
2010s:
Climate and financial crises

- Lisbon treaty finally(!) transferred CAP to **ordinary decision-making procedure**
- Pressure to **cut expenditure** in times of financial crisis (**cap** direct income for big farms or cut from Pillar II. rural development…)
- Demands to equalize payments per area between **old and new MS** = more **convergence**, consider **regional** disparities
- **Climate change** effects become visible – push for sustainable farming

2013 reform and after…

- **Market support:**
  - **Coupled payments** only for a 'handful' of commodities
  - Milk, sugar quotas to expire 2015
- **Enviro:**
  - 30% of direct payments require enviro cross-compliance
  - "green payments" for maintenance of "ecological focus areas"
- **Spending:**
  - Direct payment cap on large farms & target support **small** farms and **young** farmers
  - Progressive convergence: no MS or **region** should receive less than 60% of average EU aid
  - **Flexibility** = shift money back from II. to I. pillar (kind of a reverse modulation)
- **Rural development:**
  - Enviro (30% of rural budget), diversification, modernization, competitiveness, MS co-financing,

CAP Future



- Another reform initiative from the Commission in 2018

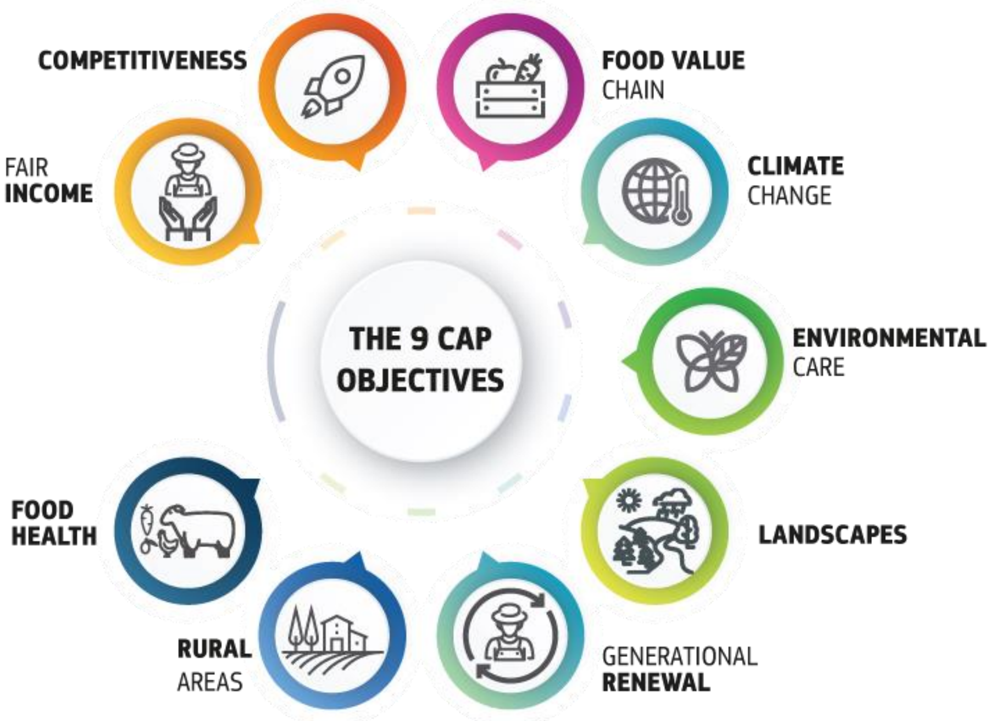
-> in conjunction with the **European Green Deal**

-> "[Farm to Fork]" [strategy]

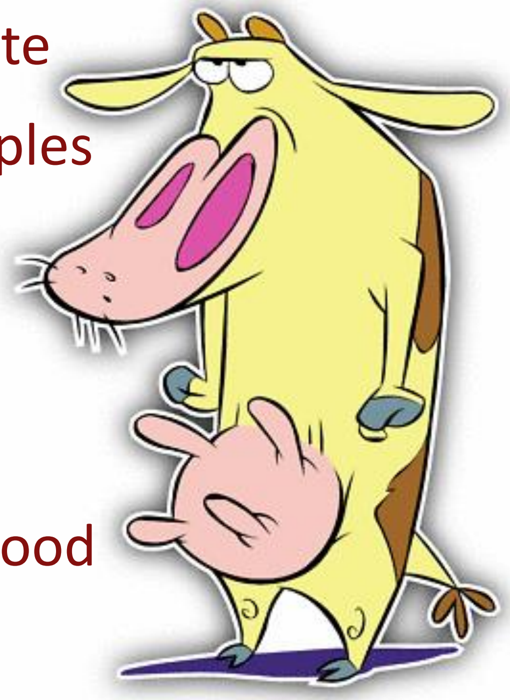
-> foster biodiversity

- To apply since 2023

-> Farmers protest [again]



CAP dilemmas



- Only slow **incremental** reform possible **X fast** changing markets and climate
- Support prices and bring **stability X** go against **market competition** principles
- **Small** farms **X** large **industrial** farms
- **Regional** and national specificities **X European-level** policy
- Industrial farming **X** ecology, environment, welfare
- Interest of **farmer** unions and lobbies **X consumers**’ interests and public good

- EU disparities still persist: old **X** new, different methods of payment *calculation (historical reference for CAP support)*

Cohesion policy =
EU’s regional policy

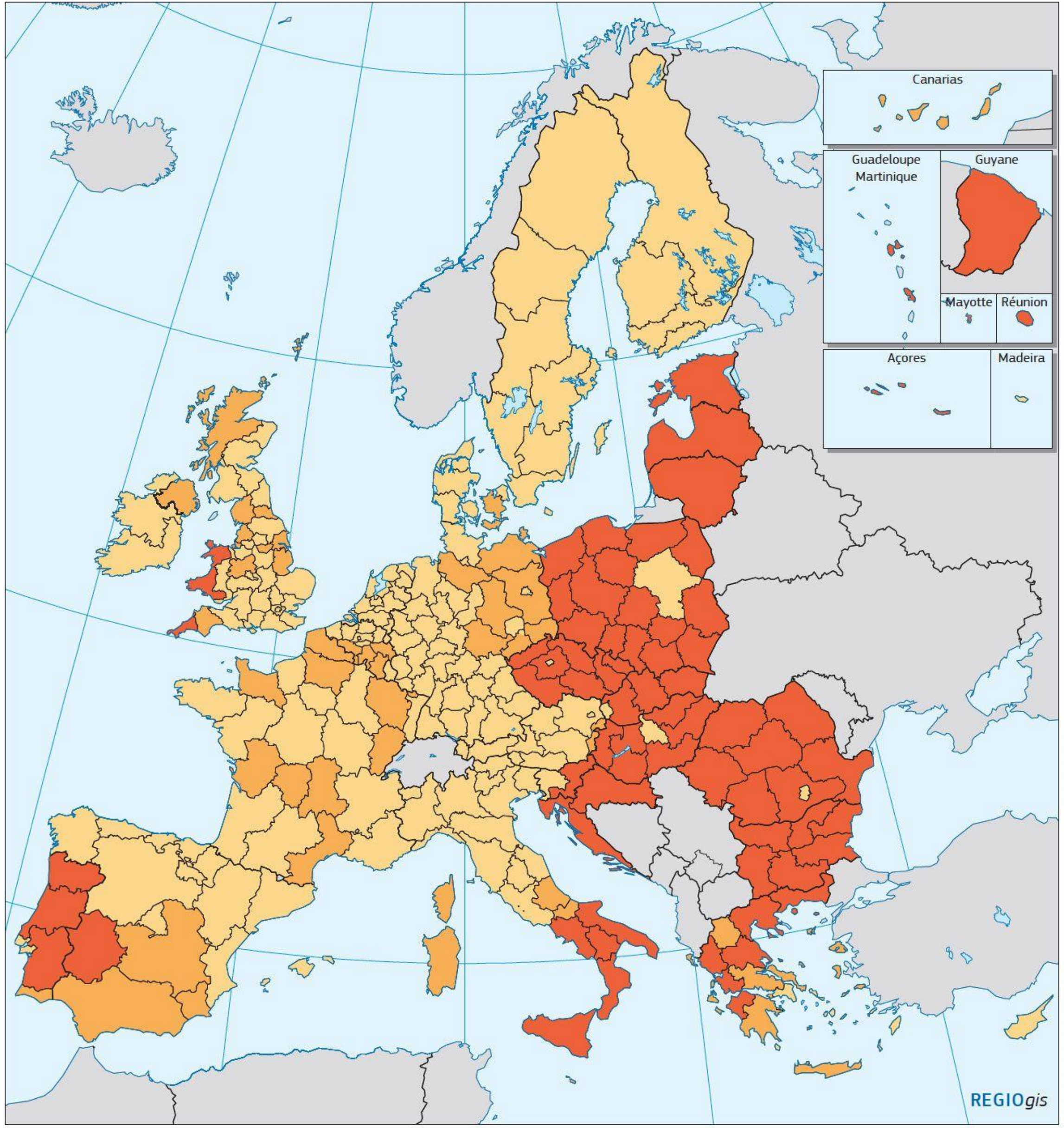
- Growing **(economic) disparity of regions** with successive enlargements – Ireland ’73, Greece ‘81, CEE countries ‘04, ‘07…
  - Income, infrastructure, production, education, (un)employment
- Became obvious in the process of “1992 single market programme”
  - Trickle-down economics won’t cut the divide

- Structural and investment funds

European Regional Development Fund

European Social Fund

European Cohesion Fund



Structural Funds (ERDF and ESF) eligibility 2014–2020

Category

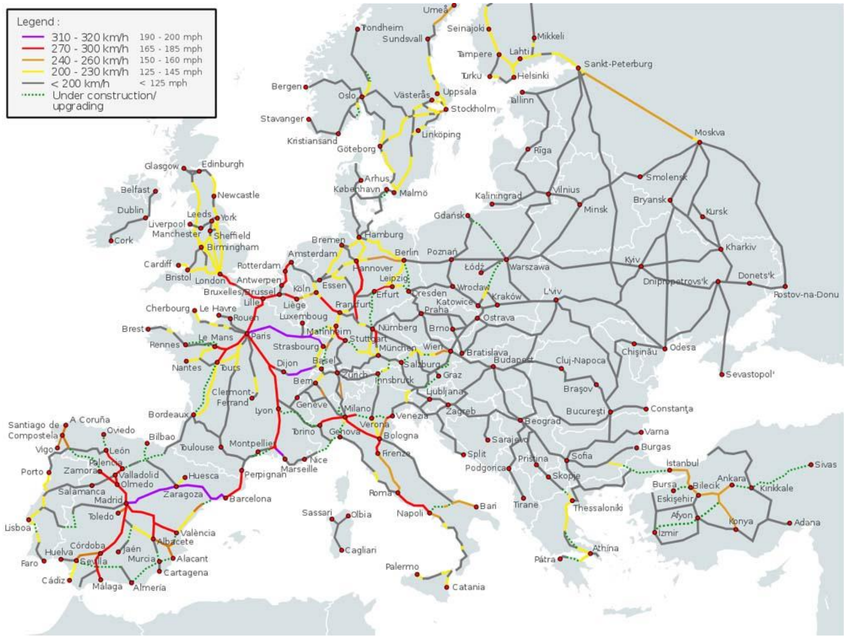
- Less developed regions (GDP/head < 75% of EU-27 average)
- Transition regions (GDP/head between >= 75% and < 90% of EU-27 average)
- More developed regions (GDP/head >= 90% of EU-27 average)

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)
  - Environmental transition

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

esf european social fund in the czech republic

- ***European Social Fund***

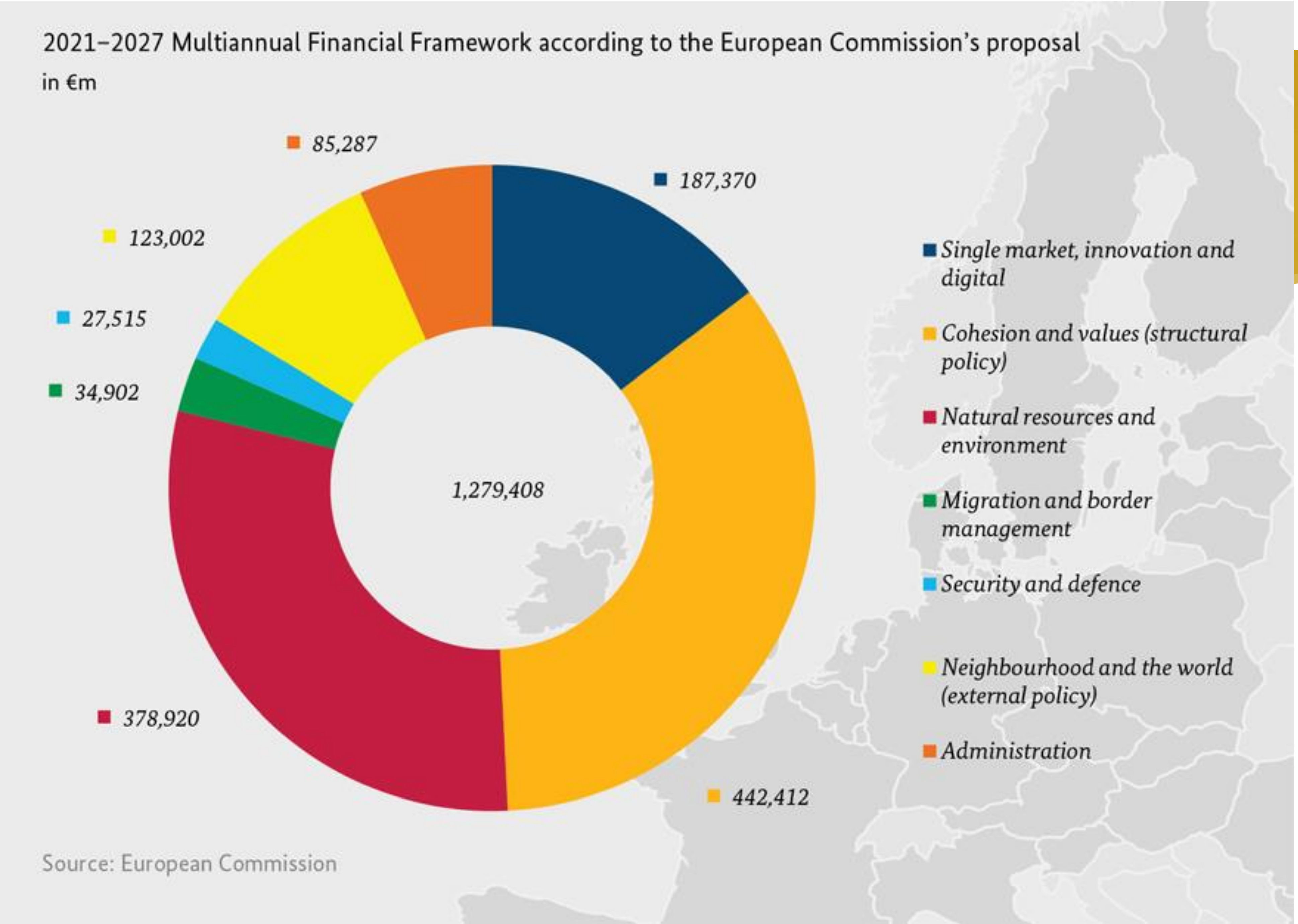
!!! Non-infrastructure projects

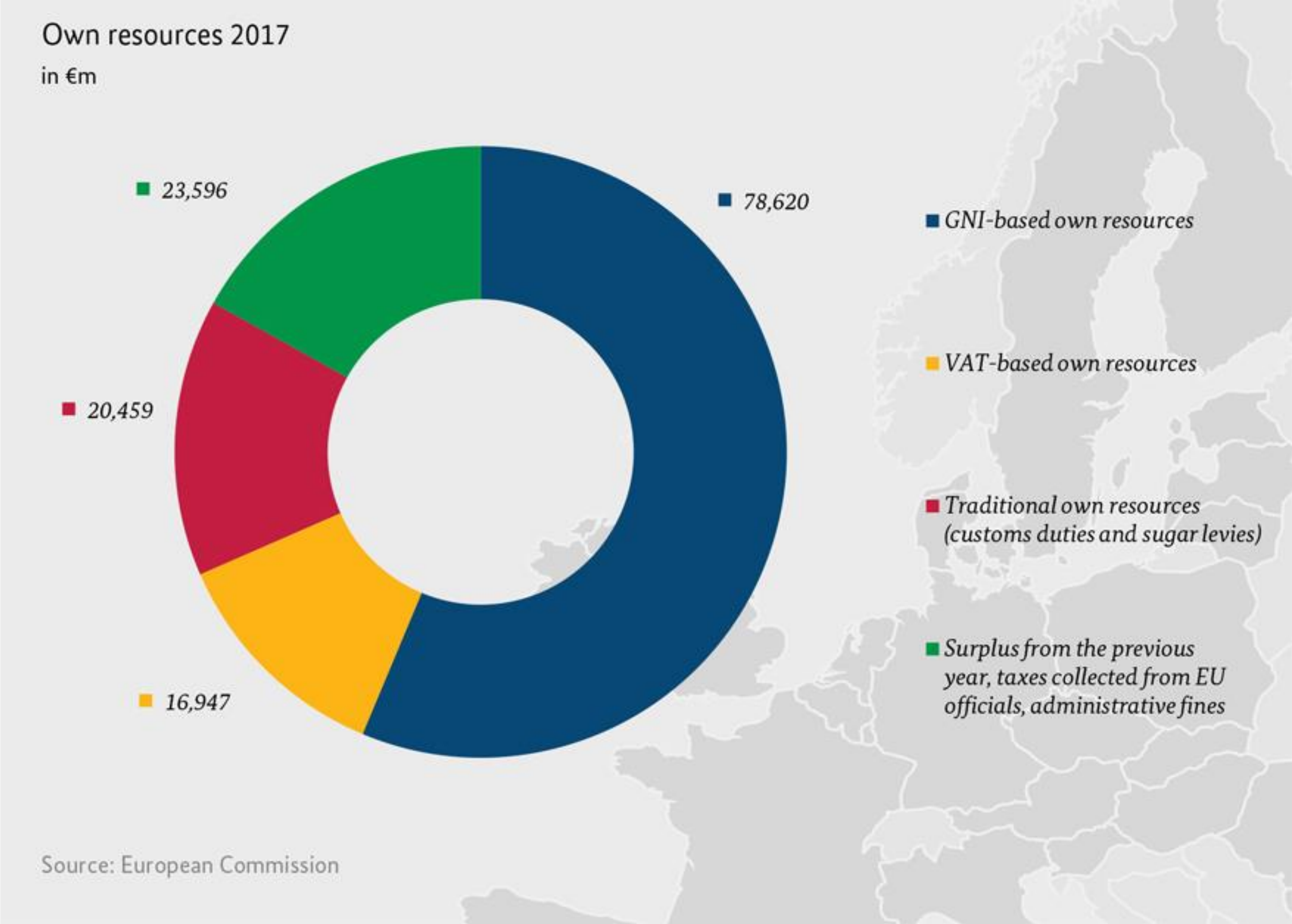
- Requalification of the unemployed
- Inclusion of handicapped persons
- Projects for children, youth, minorities
- Programmes against (employment) discriminaiton
- Educational programmes, life-long learning
- Programmes in support of employment

ESF 60 YEARS

Investing in people

European Social Fund


2021–2027 Multiannual Financial Framework according to the European Commission's proposal
in €m
85,287
187,370
123,002
27,515
34,902
1,279,408
378,920
442,412
Single market, innovation and digital
Cohesion and values (structural policy)
Natural resources and environment
Migration and border management
Security and defence
Neighbourhood and the world (external policy)
Administration
Source: European Commission



Own resources 2017
in €m
23,596
78,620
20,459
16,947
GNI-based own resources
VAT-based own resources
Traditional own resources (customs duties and sugar levies)
Surplus from the previous year, taxes collected from EU officials, administrative fines
Source: European Commission