

## Another Reform of the Common Agricultural Policy: What to Expect

## Qu'attendre d'une nouvelle réforme de la Politique Agricole Commune?

## Eine weitere Reform der Gemeinsamen Agrarpolitik: Was davon zu halten ist



Another reform of the CAP is under way. At time of writing (2018), the European Commission has tabled new proposals, and several key actors – notably Member State governments, farm organisations, and major NGOs – have reacted to these proposals. The debate is already hot, as several governments and major farm organisations have stated that the Commission proposals are ‘unacceptable’. Such theatrics are not new and public opinion in Europe does not seem to be very concerned. Other issues on the horizon (migrations, domestic and international security issues, the future of a rule-based international trading system, weak real commitments to deal with the threats of climate change, etc.) are seen as much more worrisome. Yet, the CAP, the most important common policy of the European Union in monetary terms at

least, is viewed by many as totally obsolete and in need of radical reform.

Many farmers and farm organisations in Europe express great dissatisfaction with the proposed CAP, even though farmers are the main beneficiaries of a policy which consumes some 40 per cent of the entire common budget of the Union and provides farmers with more than 50 per cent of their income. Indeed the income of many European farmers appears low, which raises a question of effectiveness since one of the major objectives of the CAP has always been to support farmers’ incomes. In addition, European agricultural support payments are very unevenly distributed, which raises a major issue of equity. The CAP is also sharply criticised on

other grounds. Many organisations, notably environment NGOs, lament that the CAP does not properly address important societal concerns in such domains as the environment, food safety, animal welfare, etc. Indeed, they argue that the CAP often makes matters worse on these issues.

“ Les marges de manœuvre des différents acteurs impliqués sont très limitées. ”

Admittedly, the above one paragraph assessment of the CAP does not do justice to its complexity. Many of those involved, particularly Commission officials who have spent their entire career defending the CAP and elaborating reform proposals to improve it over the years, feel irritated by these sweeping statements. Yet, it remains that these shortcomings and criticisms of the CAP are widely expressed. The critics suggest that a radical reform is in order. This article explains why such an outcome is very unlikely. A rich literature on the political economy of the CAP since its inception more than 50 years ago (see Box 1), provides us with useful insights to understand this paradox of an ineffective and inequitable policy which cannot be radically reformed even though ‘CAP reforms’ have regularly been on the policy agenda for almost 30 years.



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## Why is the CAP the way it is?

In 2003, I suggested that the following four major long-term economic and institutional forces could account for the trajectory of the CAP during the first three decades of its existence (the 1960s, 70s and 80s):

- the downward rigidity of the nominal value of agricultural price support levels;
- the growth in budget costs;
- external pressures; and
- the need for closure of the debate (Jongeneel and Silvis, 2007; Petit, 2003).

1. The downward rigidity of price support was critical until the MacSharry reform of 1992. An illustration of this was the decision to set a high support price for cereals, close to the German level, when the first common market organisation was established in 1967. The same rigidity also explains the adoption of dairy quotas in 1984, even though nobody was in favour of that solution at the beginning of the decision process one year earlier.
2. Budget pressures became more and more important as commodity surpluses accumulated. They made the dairy policy status quo impossible in 1984, and were responsible for the introduction of budget stabilisers for cereals in 1987.
3. External pressures exerted through the General Agreement on Trade



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and Tariffs (GATT) negotiations became irresistible in the early 1990s. Budget costs were not under control, and as a result the rigidity of EU price support levels had to 'give'. This was the main substance of the MacSharry reform of 1992, i.e. lower price support levels and the introduction of 'compensatory payments' to farmers. This reform can thus be interpreted as the result of a radical shift in the relative influences of long-term economic forces. However, these outside pressures were not new; they had been exerted, particularly by the US government, in successive

GATT negotiations for decades. For instance they led to the 'chicken war' in the 1960s and to the paralysis of the Tokyo round of the GATT for several years in the 1970s. In the Uruguay Round of the GATT, which started in 1986, the US government continued to put pressure on the CAP, with the support of the Cairns group that was created a few years before at the initiative of the Australian government. Quickly, it became obvious that no deal excluding agriculture from the liberalisation process could be found; while at the same time many economic stakeholders in

### Box 1: Political economy literature and the CAP

For a long time, European agricultural economists thought that their main role with respect to the CAP was that of policy advisers. In the 1980s, the attention began to shift from a normative posture (what should the policy be?) to a more analytical one (why is the policy what it is?). Borrowing from what had become the 'new political economy' literature, approaches were developed to understand the determinants of agricultural policies. Some 40 years later, the international literature on the political economy of agricultural policies is very rich (Swinnen, 2018). However, most of the empirical work by economists, trying to quantify the relative weights of the policy determinants, has been done in a static, or at best comparative static, framework. Some 30 years ago, I proposed an alternative analytical framework stressing the path dependency character of the policy decision process (Petit, 1985). This framework has been used more or less directly by several authors (Moyer and Josling; Petit *et al.*; Kay, Cunha and Swinbank, etc.) to assess the evolution of agricultural policies in Europe and the USA from the 1930s to the beginning of the 2000s. In a nutshell, policy decisions are seen in the short run as the outcome of a process of political interaction among many actors pursuing their individual objectives, be it the promotion of their economic interests or some political objective. But, in the long run, economic and institutional forces become critical because these forces determine the interests at play in the short run. This article deals with the evolution of the CAP over several decades, focusing on the main long-term economic and institutional forces.



Europe wanted a deal and were not willing to accept being taken hostage by agriculture.

4. The need for closure of the debate was obvious when unanimity was *de facto* necessary for making a decision in the Council of Ministers. The agricultural 'marathons' in the 1970s and 1980s illustrate this, with ministerial meetings concluded every year in the wee hours of the morning after a long night of negotiations to fix the support price level. This institutional force is not relevant any more.

## The current debate

The Commission's Communication on 19 November 2017 launched the current debate. It was followed by the Commission's proposal for the multiannual financial framework (MFF) on 3 May 2018, and by its legislative proposal on the future of food and farming on 1 June 2018. Many actors reacted. To make sense of the various positions taken so far, it is useful to put

them in the context of the current play of long-term economic forces of the type discussed above. Again four such forces can be identified to interpret the main features of the current debate: First, budget constraints and external pressures as in the past. Second, 'new' societal concerns for the environment. Third, food safety and animal welfare. Fourth, the perceived need to support farm income, the latter having replaced the rigidity of nominal price support levels which is no longer politically feasible.

1. Budget pressures are overwhelming. Available resources will decline after Brexit at a time when new pressing issues – related to internal and external security, migration, etc. – require new actions and new expenditures. In its MFF proposal, the Commission proposed an increase in total spending. Not surprisingly, several Member States which are net contributors to the European budget (e.g. the Netherlands,

Denmark and Austria) have reacted very negatively. Conversely, the Commission proposal to reduce spending on traditional domains of intervention (agricultural and cohesion policies) has been judged to be 'unacceptable' by several Member States which are the main beneficiaries of these policies, most notably France. Moreover, the negative reactions of several central European governments to the proposal of conditioning European funding to respect of the 'rule of law' further illustrate the complexity of the budget negotiations.

More specifically for agriculture, the Commission stated that the reduction of the agricultural budget it proposed for the next financial period would be 5 per cent. This figure grossly underestimated the real reduction proposed, in particular because it was expressed in nominal and not real terms. This led to a quite acrimonious dispute



Farmers' incomes will be greatly affected by cuts in European payments.





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reflecting also the complexity involved in such computations; see Matthews (2018) for a thorough discussion of this complexity.

2. The concern for farmers' income is also very high on the agenda of the current policy debate. This is quite understandable since direct payments contribute more than 50 per cent of farmers' income and, as just discussed, the budget constraint is such that these payments will be sharply reduced. Admittedly, the payments are very unevenly distributed, but the main point here is that the income of many European farmers will be seriously affected, a situation which is a source of a massive political pressure. Accordingly, this concern has been the main driver of the hard criticisms against the Commission proposal voiced by a large number of Member States: 20 states argued that the CAP budget should not be reduced at the Council of

agricultural ministers on 18 June. The Commission's proposal reflects the concern about the impacts on farmers' income. Thus there was a much greater initial reduction in Pillar 2 (26 per cent) than in Pillar 1 payments (10 per cent); according to Matthews' *op. cit.* first estimates, subsequently revised in view of further clarifications by the Commission, but without changing orders of magnitude. The Commission publicly acknowledged that the greater protection proposed for Pillar 1 was prompted by the reactions to its Communication of November 2017. Pillar 1 payments are clearly perceived

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by farmers as more secure. Thus, the current debate is dominated by the dilemma caused by growing and probably irresistible budget pressures and the negative consequences for farmers' income

3. Undoubtedly, societal concerns linked to the environment and food safety are greater than they have ever been. They have been the main drivers of the successive reforms of the direct payments since they were created in 1992. Yet, they seem to play a secondary role in the current CAP debate. Major NGOs, notably those dealing with the environment such as Bird Life, WWF and Greenpeace, have long been highly critical of the CAP. Thus, their negative reactions to the Commission's proposals are not surprising. However, it is the budget/farm income tensions that dominate the current CAP debate. Although these NGOs complain, they seem unable to move the

debate and, as a result, they prefer to devote their resources to more specific and more focused issues such as pesticide use, food safety or animal welfare.

4. The outside pressures, which played such an important role in the 1990s, do not seem relevant today. The Doha Round of multilateral trade negotiations in the WTO has been paralysed for several years and protectionist measures are spreading. Furthermore, unilateral actions of the US government under President Trump fuel the current paralysis. Yet, the influence of outside considerations on the CAP has not totally disappeared. The Commission today is quite eager to protect a multilateral, rules based, trading system. As a result, it has not proposed to renege on WTO commitments and come back to the pre-MacSharry reform era of price support and market intervention instruments; which could have alleviated the tension between the budget constraint and the desire to protect farm income.

Finally, nothing has been said so far of the so-called 'new delivery mechanism' proposed by the Commission. Could this new institutional mechanism be the

radical reform of the CAP? Sensitive to the sharp criticisms of the complexity of the CAP and the heavy administrative costs involved, the Commission has proposed to simplify and to decentralise decisions to Member States. This has led to sharp reactions against what many saw as a 'renationalisation' of the CAP. The main concern, I believe, is the fear that European payments being less predictable and secure, farmers' incomes would be further damaged; another manifesta-

“ There are very limited margins for manoeuvre by the various actors involved. ”

tion of the importance of the concern for farm income as a force determining the policy process. Whether or not the new delivery mechanism will entail simplification of the implementation is questionable. Member State governments are expected to develop 'a national CAP Strategic Plan' to be assessed by the Commission, which will 'approve the plans and monitor progress'. This will certainly entail a lot of bureaucracy in Member States and in Brussels. Assuredly, transaction costs will increase and many national administrations will face a

heavy challenge. Only the future will tell how the new measures will be implemented but at this stage the new mechanism does not seem to radically change the play of the long-term forces discussed in this paper.

## Radical reform unlikely

This brief analysis of the four long-term economic and institutional forces determining the interests at play in the current CAP reform debate is admittedly extremely simplified. Yet, it has the advantage of focusing on what I believe are the main determinants of the debate and of pointing out the very limited margins for manoeuvre by the various actors involved. The policy situation today is the outcome of a long sequence of events and decisions throughout the past decades. In a sense, starting from scratch is not an option. As a result, the Commission cannot propose a radical reform and no other actor is in a position to do so. Consequently, in spite of its many shortcomings and of the sharp criticisms it faces, the CAP will probably not be profoundly changed. This is despite the new delivery mechanism put in place, provoking important changes in the respective roles of the actors implementing the CAP, but not changing significantly the play of the major forces discussed here.


## Further Reading

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# Summary


## Another Reform of the Common Agricultural Policy: What to Expect

 Another reform of the CAP is on the agenda. This common policy, which was initiated almost 60 years ago is criticised by almost everybody. Even farmers, who are the main beneficiaries, are critical. Moreover, many NGOs that are concerned with a broad range of issues such as the environment, food safety, animal welfare, etc. argue that the CAP makes matters worse in these domains. These shortcomings and criticisms of the CAP suggest that a radical reform is in order. Yet, an analysis of the main determinants of the CAP since its inception suggests that such an outcome is very unlikely. The article focus is on a few long-term economic and institutional forces which determine the interests of, and positions taken by, the main actors involved in the political process where they pursue their own objectives. The CAP debate today is dominated more than ever by the contradiction between the extreme pressures to cut public expenditures and the desire to protect farmers' incomes which will be greatly affected by cuts in European payments. In this context, other societal concerns, although very vocal, will probably not be much taken into account. Similarly, equity concerns raised by the uneven distribution of payments received by farmers will probably be addressed only marginally.

## Qu'attendre d'une nouvelle réforme de la Politique Agricole Commune?

 Une nouvelle réforme de la PAC est à l'ordre du jour. Presque tout le monde, y compris les agriculteurs qui en sont les principaux bénéficiaires, critique cette politique commune, initiée il y a presque soixante ans. En outre, de nombreuses ONG concernées par un large éventail de questions telles que l'environnement, la sécurité des aliments, le bien-être des animaux, etc. soutiennent que la PAC aggrave la situation dans ces domaines. Ces lacunes et critiques de la PAC suggèrent qu'une réforme radicale s'impose. Cependant, selon une analyse des principaux déterminants de la PAC depuis sa création, un tel résultat est très improbable. L'article se concentre sur quelques forces économiques et institutionnelles à long terme qui déterminent les intérêts et les positions des principaux acteurs impliqués dans le processus de conception des politiques et qui poursuivent leurs propres objectifs. Le débat sur la PAC est aujourd'hui dominé plus que jamais par la contradiction entre les pressions extrêmes visant à réduire les dépenses publiques et la volonté de protéger les revenus des agriculteurs, qui seront grandement affectés par la réduction des paiements européens. Dans ce contexte, les autres préoccupations de la société, bien que très vives, ne seront probablement pas beaucoup prises en compte. De même, les problèmes d'équité soulevés par la répartition inégale des paiements reçus par les agriculteurs ne seront probablement traités que de manière marginale.

## Eine weitere Reform der Gemeinsamen Agrarpolitik: Was davon zu halten ist

 Eine weitere Reform der GAP steht auf der Tagesordnung. Diese gemeinsame Politik, die vor fast sechzig Jahren eingeleitet wurde, wird von fast jedem beanstandet. Selbst die Landwirte, die die Hauptbegünstigten sind, sind kritisch. Darüber hinaus argumentieren viele Nichtregierungsorganisationen, die sich mit einem breiten Spektrum an Themen wie Umwelt, Lebensmittelsicherheit, Tierschutz usw. befassen, dass die GAP die Situation in diesen Bereichen verschlimmert. Diese Mängel und die Kritik an der GAP deuten darauf hin, dass eine radikale Reform erforderlich ist. Eine Analyse der wichtigsten Bestimmungsgründe der GAP seit ihrer Einführung zeigt jedoch, dass ein solches Ergebnis sehr unwahrscheinlich ist. Der Artikel konzentriert sich auf einige langfristige wirtschaftliche und institutionelle Kräfte, welche die Interessen und Positionen der Hauptakteure im politischen Prozess bestimmen, über die sie ihre eigenen Ziele verfolgen. Die heutige Debatte über die GAP wird mehr denn je vom Widerspruch zwischen dem extremen Druck, die öffentlichen Ausgaben zu kürzen, und dem Wunsch, die Einkommen der Landwirte zu stützen, beherrscht, die von den Kürzungen der EU-Zahlungen erheblich betroffen sein würden. In diesem Zusammenhang werden andere gesellschaftliche Anliegen, auch wenn sie sehr lautstark sind, wahrscheinlich nur wenig Berücksichtigung finden. Ebenso werden die Bedenken hinsichtlich der Gerechtigkeit, die sich aus der ungleichen Verteilung der Zahlungen an die Landwirte ergeben, wahrscheinlich nur am Rande angesprochen.