

The Common Agricultural Policy (CAP)

EU Integration after Lisbon

"EU Training Institute"

EU Decision Making & Lobbying discounts

Brussels in a Day	550 → 400
Masterclass Lobbying (2 days)	2000 → 1600

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(excluding VAT)

Budget

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Press release:

- ▶ Parliament set to accept budget proposal
- ▶ EP-President Jerzy Buzek: “In particular, I welcome the commitment of the next four EU presidencies on Parliament’s involvement in the Multiannual Financial Framework negotiations (MFF)”
- ▶ “Importantly, the Commission will launch a legislative proposal on own resources and the next MFF by June 2011”

Last week's last question

- ▶ Could there be a division of labour between various theoretical approaches?

Outline

Intro

CAP in Perspective

Historical development

The CAP in action

The "New" CAP

Summary

Financial Times, ca.
2000

"CAP is the single most idiotic system of economic mismanagement that the rich western European countries have ever devised"

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"CAP is the single most idiotic system of economic mismanagement that the rich western European countries have ever devised"

Still correct?

Intro: Paradoxes



Less than 3% of EU GDP;
less than 5% of
employment
Highest degree of
integration

> 45% of EU spending

Before Lisbon, next to nil
EP involvement; national
interests & policies

One of the oldest policies

Permanent conflict
between member states

Created a common market

Not subject to liberal SEM
rules

Large number of reforms

In 2010, still many
features of planned
economy

Why is agriculture "special" ?

Economic perspective

- ▶ Absolutely essential → economic vulnerability (imports)
- ▶ Potentially, a main driver of inflation → price stability
- ▶ Linked to many other sectors
 - ▶ Labour market (1950s/60s)
 - ▶ Social/economic implications (for rural areas)
 - ▶ Health and food safety
 - ▶ Chemical industry & the environment

Why is agriculture “special”?

Political perspective

- ▶ Political vulnerability
- ▶ Political influence and power of farmers
 - ▶ (Electoral weight)
 - ▶ Unity of interests, concentrated benefits, weak opposition
 - ▶ Agricultural organisations
 - ▶ “Many friends” (industry, bureaucracy, land owners)
- ▶ Tradition and culture

Why/when was the CAP created?

- ▶ General provisions in ToR (Article 39) → intergovernmental agreement
- ▶ "Classical" CAP from early 1960s – a "fortress"
- ▶ Various attempts to change the system from 1980s

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Five objectives (Art. 39 ToR)

1. Increase agricultural productivity, rational development of production, optimum utilisation of resources
2. Fair standard of living for agricultural community
3. Stabilise markets
4. Assure availability of supplies
5. ~~Reasonable prices for consumers~~

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The CAP principles

1. "Unity of the market
2. Community preference
3. Financial solidarity"



The politics of CAP

Further political objectives

- ▶ Secure local/regional/national agricultural structure
- ▶ Social and democratic integration of farmers
- ▶ Unite politically against political pressure from USA
- ▶ Side payments/compensations

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Special arrangements (community method)

- ▶ Central role for commission
- ▶ Council legislates w/o EP (before Lisbon: consultation); consensus
- ▶ Coreper (partially) replaced by Special Committee on Agriculture (SCA)
- ▶ CAP budget not under EP control from 1970 (before Lisbon)
- ▶ Largely insulated from other policies

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The price-support system

- ▶ “Positive” integration
- ▶ Political agreement on prices (for whole EU)
 - ▶ EU buys surplus produce to reduce supply
 - ▶ EU subsidises exports
 - ▶ Quotas: farmers paid for non-production
- ▶ In 2000, milk prices in EU roughly twice the price on the world market
- ▶ A welfare system for farmers, but
- ▶ “Regressive”: disproportionate benefits for big farms

The levy-and-refund system

If prices (e. g. for sugar) within EU higher than world market prices

...

- ▶ Importers have to pay a *levy* to compensate for the difference
- ▶ Farmers that want to export get a "*refund*" to compensate for the difference

The levy-and-refund system

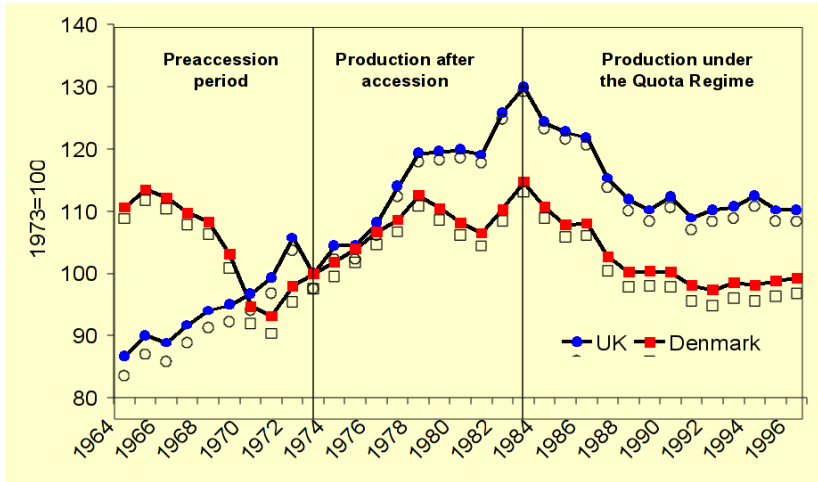
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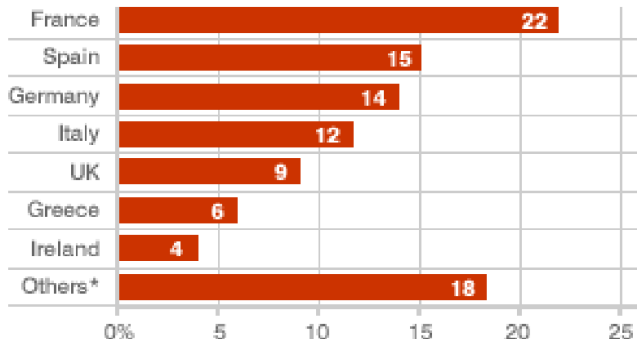
Consumers pay twice

Impact of political incentives: quotas



Who benefits from CAP?

AGRICULTURAL/RURAL AID, WHO GETS WHAT?



* Others: Austria, Belgium, Czech Rep, Cyprus, Denmark, Estonia, Finland, Hungary, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Sweden

SOURCE: European Commission (2004 figures)

Problems

- ▶ Planned Economy
- ▶ Environmental problems
- ▶ Overproduction of food
- ▶ Hurt producers in the third world
- ▶ Expensive



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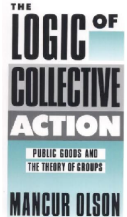
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“Why are 50 per cent of the EU’s budget spent on CAP so that prices for food are 100 per cent above world market prices?”

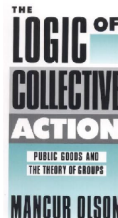
Why has CAP been so difficult to reform?

- ▶ First major reform attempts in late 1960s (Sicco Mansholt)
 - ▶ Limits to policies of market intervention
 - ▶ Farmers still poor, costs excessive, detrimental to environment and outside world
 - ▶ Reduce land use, larger farms, encourage millions of farmers to give up



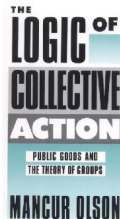
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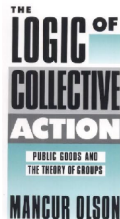
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- ▶ "Iron triangle" of national bureaucracies, commission, lobby groups
- ▶ No strong anti-farming lobby: concentrated benefits, diffuse costs



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- ▶ No way out?



Reforms of the CAP

- ▶ Reform of dairy sector 1984 → quotas for milk
- ▶ Budget ceilings 1988 → limits on CAP spending
- ▶ McSharry 1992 → price cuts, set-aside, *farm payments*
- ▶ Agenda 2000 (1999) → price cuts, cross-compliance, "rural development" as second pillar, "modulation"
- ▶ Fischler reform/MTR (2003) → farm payments largely decoupled (SFP), degression for larger farms
- ▶ "Health Check" 2008 → further liberalisation & simplification, even less market intervention

Eastern enlargement

- ▶ Freezing of total spending under current framework
- ▶ Farmers in new member states began receiving 25% of the rate paid in old member states
- ▶ Long transition periods: 100% by 2013



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- ▶ Long transition periods: 100% by 2013
- ▶ "Equality for Czech pigs!"
- ▶ By then, some of the less efficient farms will be gone
- ▶ Many farms too small to qualify

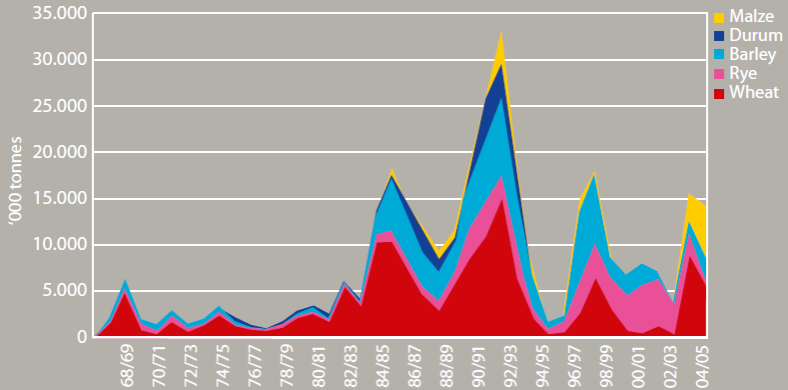


Reforms of the CAP: Why?

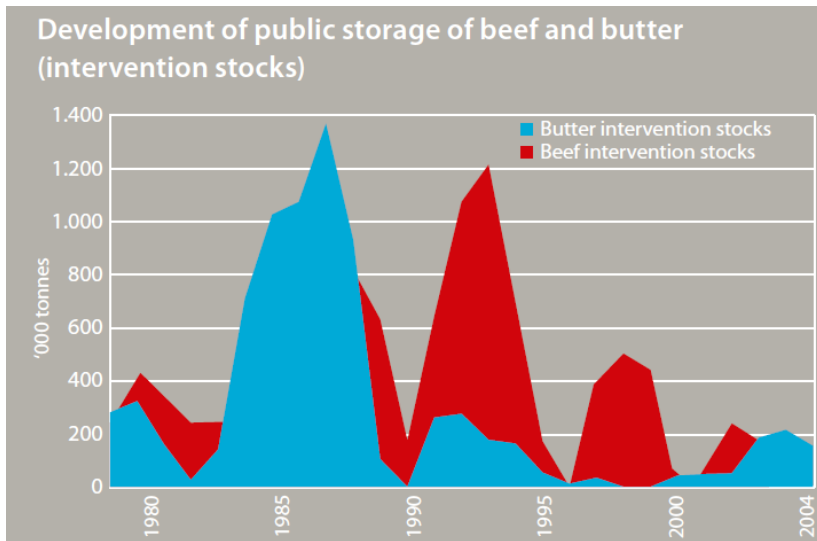
- ▶ Initially insulated from public but began to contribute unpopularity of integration
- ▶ Farmers less united than in the past
- ▶ Changing composition of EU (UK, Sweden)
- ▶ Eastern Enlargement
- ▶ Became untenable in 1990s
 - ▶ EU favoured free trade in GATT
 - ▶ But levied imports & subsidised exports
- ▶ Reduced support from Commission (SEM)
- ▶ CAP reform driven by corporate interests (SEM)

The demise of "Food Mountains"

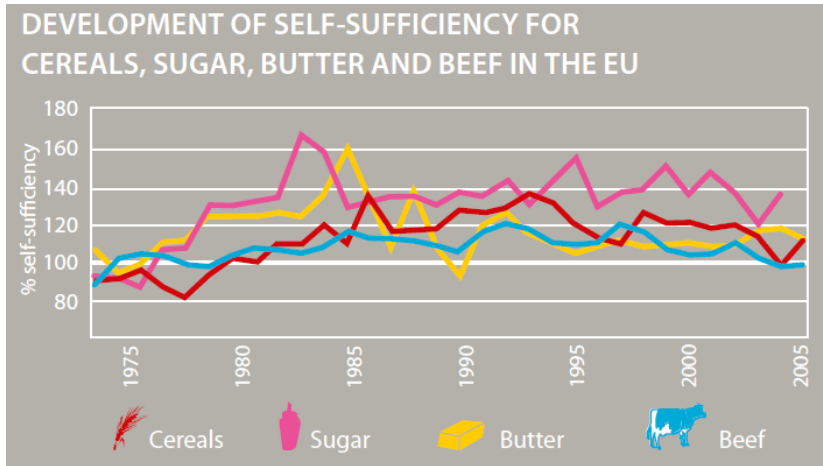
"FOOD MOUNTAINS" NO LONGER EXIST
Development of public storage of cereals
(intervention stocks)



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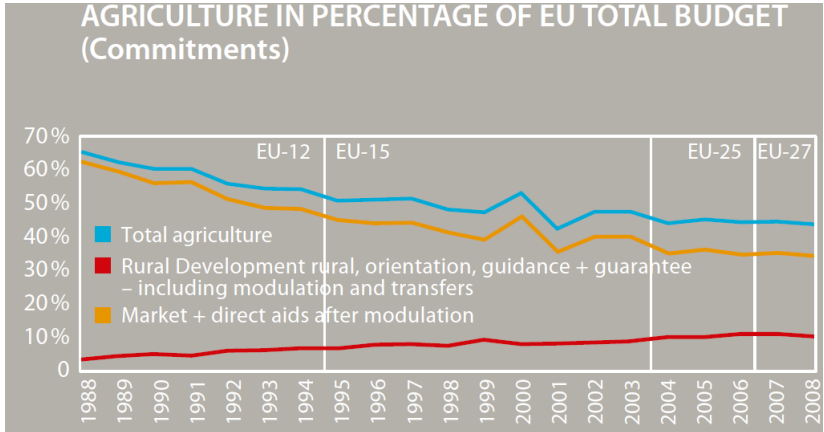


Self-Sufficiency



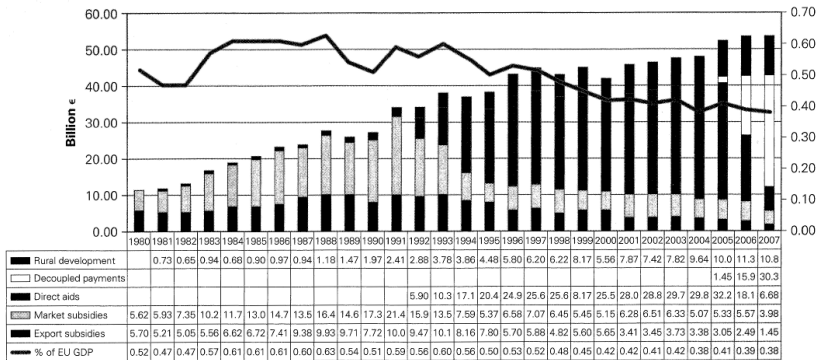
Source: Commission, http://ec.europa.eu/agriculture/publi/capexplained/cap_en.pdf

CAP: relative spending



CAP expenditure, 1989-2007

FIGURE 8.1 Evolution of CAP expenditure 1980–2007



Source: European Commission (1977-); personal communication

Summary

- ▶ Still the most expensive (and most arcane?) EU policy
- ▶ For a long time, insulated from the outside world
- ▶ Serves neither consumers nor small farms
- ▶ Terrible for the environment and the developing world
- ▶ Undermines EU position in WTO
- ▶ In recent years, rather impressive changes . . .

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- ▶ In recent years, rather impressive changes . . .
- ▶ Triggered by external developments

Class questions

- ▶ What were the main obstacles to CAP reform, and to what extent have these been overcome?
- ▶ What are the new challenges posed by the huge agricultural sectors of the applicant countries?