



Meeting of Energy and  
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**Meeting of Agricultural Affairs  
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## Substantive issues for discussion Erjavec

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### Contribution to the debate on the concept of CAP

#### Purpose

1. The Common Agricultural Policy (CAP) is a controversial European Union public policy, subject to harsh criticism on one side and enjoying absolute advocacy on the other. It was born in the late 1950s and early 1960s, in a different time of specific political-economy conditions. The Member States introduced high level of price supports which resulted in food surplus in the Community, leading to budgetary problems and disputes with international partners. Several reforms followed gradually, which - on the account of the introduction of direct payments - reduced price supports and slowed down budget growth, yet maintained an elevated budgetary level. Over decades of reform, however, the primary purpose and mission of CAP seem to have been lost. The CAP is nowadays dealing above all with the consequences of its own failures and is determined by widely diverging political and economic interests.

2. The last wave of CAP reforms in 2003-2007 contributed to a higher degree of decoupling of direct payments as well as to greater heterogeneity of regional and national direct payment schemes. The deregulation of agricultural markets and the reduction of price support continue under the influence of international trade negotiations. It seems that the CAP health check will not diverge from its hitherto course. Significant changes will only relate to the abolition of milk quotas and to the increase of transfers from the first to the second pillar by means of payment-reduction mechanisms and modulation. The actual debate is quite technical and is not enabling to identify the course of future CAP changes and to reflect on what kind of CAP is wished and needed after 2013.

3. According to policy cycle management theory, the analysis of public policies is based on the assessment as to how much such policy contributes to resolving important public issues (problem situation), how the set objectives are defined and achieved in relation to the problems (the desired situation), and how selected and potential instruments can lead from the problem to the desired situation.

Considering the given political and economic context, this paper will focus on the triangle: problems - instruments - CAP objectives, with the aim to contribute in the debate for a long-term sustainable concept of public interventions in food production and management of natural and human resources in rural areas. It highlights the complexity and thanklessness of questions that give no possibility for providing comprehensive and decisive answers. The paper presents possible ideas and modifications concerning the issues which are most often - at least within institutional debates - missing but which can significantly determine the outline and impacts of the future CAP.

#### CAP mission

4. The legal basis of the CAP is the Treaty of Rome of 1958 establishing the common market. The CAP objectives are enshrined in Article 33 (former 39) of the Treaty and have so far remained unchanged. Thus, they are predominantly sector and market-price oriented: increased productivity, fair income for farmers and fair prices for consumers, market stability and food security. The Lisbon Treaty brought no change as to the definition of the CAP, although societal requirements have changed considerably over the last 50 years and the public policy has turned towards new issues and instruments.

5. Attempts have been made to circumvent the »obsolete target framework« and what is known

as the »European model of agriculture« has been proposed. The interpretation of the latter is very political. It is based on the theory that agriculture is more than merely an economic activity and that it brings positive external societal impacts that are not regulated by the market. Such broad aspects have been embodied in the new measures, and the market-price instruments have been supplemented with rural development policy. Yet although the political horizon has expanded, the activities as well as the legal-political framework continue to be mainly sectoral.

6. An agreement as to the new mission of CAP is made difficult by the diverging opinions of the Member States on the role and significance of the agricultural policy. The pro-reform Member States draw attention to the negative impacts of CAP and suggest it (in its present form) be abolished; on the contrary, the majority of states sees CAP as positive for resolving the income issue in agriculture and wishes to preserve it to the greatest extent possible. Some are bothered while others see the CAP main purpose in the redistribution, presenting their arguments with the sole intention to maintain the status quo. Criticism leads to changes, yet their radicalness is limited by persistent preservation of previously acquired rights in the policy instrument determination. Such conflict continues to arise anytime an agreement on the CAP is being negotiated and has not been eliminated by the last CAP reform.

7. Given the ongoing political and economic conflict, no consistent long-term solutions may be expected. Such actions will continue to lead towards a pragmatic preservation of an interest redistribution policy, whereas critical pressures will result above all in a lower CAP budget. This may well be seen as some kind of »policy dying by instalments and forcibly kept alive«. Caught in their own interests, the decision-makers are unable to provide an answer to the question whether the EU actually needs the CAP, and if yes, what should it look like. Putting off the

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solution of such dilemma has negative consequences on European integration processes and diminishes the efficiency of EU's public interventions, which has been made clear when adopting the EU budgetary framework for 2007-2013.

8. In its sectoral function, the CAP can not be rationally substantiated in the long run. Criticism expressed by politicians, interest groups and professionals is becoming increasingly important also for decision-makers, particularly the European Commission. Political pragmatism and the hitherto decision-making process in the common EU institutions - which in the past gave considerable weight to agriculture - can preserve yet not fully halt CAP changes. Radical changes are necessary also with regard to the interpretation and definition of CAP. Are there any relevant issues that need to be resolved by the EU wide public interventions? In other words: in terms of political and economic realism and practice, the public policy in this area will certainly be preserved in some pragmatic form; the question is whether it can be made less disputable, more substantiated and more efficient?

#### **The public interests in agriculture**

9. Food and nutrition, environmental protection and care, as well as international political and humanitarian issues are gaining importance. Modern consumers and voters are aware of and very sensitive about them, most probably because of the increasing media attention. The number of such issues is growing and they are gaining new dimensions, such as climate change, growing biofuel production, population obesity, genetically modified organisms. Often referred to as management of natural and human resources in rural areas, a common name to include them all is hard to find - the best would be "quality of life".

10. For decades, agricultural policy has been tackling income issues and the gap between agricultural and other employment activities. Thanks to a partial evolution of agricultural holdings and their transformation into capital intensive »family enterprises«, such issue has become - at least in developed countries - irrelevant and can not serve as argument for agricultural policy. Although explicit cases of poverty are still found in rural areas of the eastern and southern parts of our continent, along with social diversities in the structure of agricultural holdings, they can not represent the rationale for major public intervention. Can the new issues relating to the individual or at least enjoying general societal attention become the reason and matter of agricultural policy or should it remain narrow sector, production and farm income oriented?

11. Managing natural resources and ensuring basic quality of life require public concerns and may well turn into the new mission of agricultural policy. This issue has an explicit European and regional dimension and is not limited by state boundaries. An agreement is necessary as to what needs to be regulated at the EU level and what is a mere definition of European standards that need to be provided at a lower level. Although rather unidentifiable in political terms, public policy may rationally be explained in terms of - economically speaking - concern for the »European public goods«. These may be understood as economic services and externalities that the market is unable to regulate to a socially desired extent. The EU does have some experience in defining such goods. A lot is known about the link between the environment and land management on one side and agriculture and forestry on the other, as well as about the links between these two sectors and social balance. A clear definition of food safety is also provided. Transparent social needs in relation to spatial and environmental management can provide a new meaning for the agricultural policy.

12. According to public opinion polls at the pan-European level, the European consumers and taxpayers are not insensitive to the new issues. Environment, food, physical space, development, etc. are all issues of great interest. The only thing missing is a step towards a new definition of policy in such area. The CAP in its hitherto form is no longer viable; quite the contrary, it is harmful as it diverts attention from certain fundamental social issues calling for public intervention. The CAP objectives should be defined anew and enshrined in the basic EU documents.

13. A new name should also be made up for this public policy. According to Buckwell (2007), proposals for an European Food and Environmental Security Policy suggest that most people are looking for new ways and a new mission of CAP. A possible drawback of this suggestion is that it has not originated within EU institutions and is too strongly based on the British perspective. Nevertheless, it represents a significant contribution that should certainly be given more attention also in formal debates. Most important, however, is to change the policy's objectives and the name will follow. Changing the policy's name is also indispensable for the new concept of agricultural policy and what it symbolises - maybe with the new name the negative perception of the CAP inherited from the past will be transcended.

14. Searching for a new mission does not imply that agriculture and the related activities have been completely deprived of attention. Quite the contrary, their role in managing physical space and natural resources and in providing an adequate quality and quantity of food is reconfirmed in some other form, through a new definition of the policy objectives and instruments. Here, a clear explanation is necessary about the legacy of the policy's redistributive and sector elements and the role of the EU budget. Will the key stakeholders be able to find and believe into a new mission and role of agricultural policy?

#### **Food security - for whom?**

15. Abolishing sector policy in its entirety is unwise. The theory and practice of the functioning of agricultural markets clearly suggest that the food market should not be left merely to market rules. Affected by natural factors and political decisions, the fluctuations of supply and demand and, consequently, prices are irregular and socially unsustainable. Instable market conditions and price fluctuations are the main reason for maintaining the public policy, while ensuring market stability could be a »public good«. It needs to be said, however, that owing to an increasing heterogeneity of the EU the price risks are considerable on both the Community and regional levels, as they may affect a smaller or a larger group of countries. At the EU level, agricultural policy can not deny its responsibility for the management of price-fluctuations related risk, yet greater attention could be paid to the regional dimension thereof. Based on past experience, the focus of decision-makers is exclusively on how to prevent downward fluctuations; as for the future, attention will need to be paid to upward price fluctuations as well. This is necessary to achieve macroeconomic stability and prevent poverty, an issue still ignored by CAP decision-makers.

16. 2007 saw a renewed awareness of the importance of food security. The latter features several dimensions, from global to European and regional dimensions. Some see it mostly as a revival of the EU concern for sufficient food supply. This is something that I find hard to agree with. In fact, only the greatest pessimists and predictors of a bleak future claim that the EU might

With, in fact, only the greatest pessimists and predictors of a bleak future claim that the EU might soon experience the lack of food security. Yet food surplus will certainly continue at the EU level. Globally speaking, the situation is slightly different. The natural resources for food are decreasing, whereas the world population grows and is expected to total 10 billion in the near future. The situation is made even worse by the competition with biofuels. Europe has therefore to decide whether to contribute its food sources to global food security, particularly to reduce hunger in the less developed world and to increase welfare in the developing countries. It is a real problem, impossible to avoid, and the developed world certainly needs to bear its share of responsibility.

17. Some people argue that public funds should be used to maintain and expand food production in the EU, also in the light of the global perspective of food security. Yet the European protectionism is hardly justified. There are grounds to believe that it actually implies a search for arguments to maintain the sectoral orientation and protection of agriculture. Problems such as hunger and poverty can not be solved by food aid. This only goes to the detriment of traditional farms. Global food security can only be solved by transferring knowledge, supporting development, and providing emergency humanitarian support. However, as far as global responsibility is concerned, more emphasis could be understood and placed on the possibilities offered by the developing structural markets and the related demand.

18. Important yet neglected is the regional dimension of food security. Surprising as it may seem, experience indicates that the common European market alone is unable to provide for undisturbed supply in all parts of the Community. The markets are not perfect and in some cases deviations can be significant. If Europe recognises food security as a public good, such should be even better clarified at the regional level. Although integrating such concept in the current ideology of the single market will not be an easy task, one needs to be aware that the regional stability of the markets is closely related to food security at regional European levels.

#### **Policy instruments and budget**

19. The new issues that should be tackled by the CAP have an explicit European and regional content, making the existing two-pillar structure of measures questionable. The difference between the two is the manner of their financing, whereby the first pillar should cover the European priorities and should be entirely financed from EU funds. Is such structure and differentiation of measures and ways of financing still justified in the light of the new tasks?

20. The reason for maintaining the pillar structure could be understood in the searching for better net recipient status from the EU budget for most Member States. Such budgetary arguments also represent a significant brake in the search for a better and more efficient EU budget policy. The introduction of co-financing also under the first pillar reduces the pressures on the EU budget and thus provides a solution to one of the main EU conflicts. The existing CAP measures are unlikely justified at the Pan-European level. If the policy gives up its sector and market-price orientation or if its role is considerably diminished, the change in the objectives might be followed by a change in the manner of financing and organising measures into programmes. The purpose of the changed CAP is to reach an agreement on the role as well as on the manner and implementation of direct payments.

21. Direct payments represent the very basis of the existing CAP. Their purpose is, however, rather unclear. Some argue that through the requests for cross compliance they also carry out part of their function of providers of public goods, while in the jargon and understanding of the interest groups and the European public direct payments are clearly seen as farm income payments and are therefore sectoral as well as an element of the market-price or income policy. The existence of such payments and of the differences among producers and regions is unsustainable. The European Commission thus cautiously considers standardising payments at the regional level, yet even so their purpose will remain unclear. In the long run, they can only remain closely tied to public goods. Be it food security or sustainable management of risks, we should be able to redefine them.

22. The historical rights at the level of agricultural holdings do not form a transparent and rational direct payments policy. Single area payments raise the price of land and support the land owners rather than the land »managers«. Also in terms of minor international trade distortions, the much praised system of coupled production is far from being a perfect concept - quite the opposite, it brings about additional (political) failures. The answer might be well-considered and planned direct payments. Innovation is thus needed also in such context.

23. Market interventions will be deregulated to the level of low foreign trade protection, self-protection measures, and safety nets. This only partially covers price volatility. The proposed new measures - such as support to insurance, market integration, mutual funds, etc. - have not been welcomed at the EU level. Obviously, the EU is unable to adopt them. They resemble the »emperor's new clothes«, i.e. the preservation of agricultural support, although in some other form. Abolishing market interventions makes price fluctuations even more critical. Courage and innovation is needed, particularly from the European Commission as it has the power to make proposals. Market deregulation can not be the answer to all questions and to the new policy role. The possibility of regional implementation of measures needs to be considered, based on the European rules and co-financing. High prices of food require a different policy in terms of internal food aid. Europe is much more heterogeneous than it may be seen from Brussels and other Member States' capitals. Is the extended European food aid programme really so utopian?

24. Rural development is the preferred policy of CAP reformers, yet less appreciated by the agricultural interest sphere which expects above all income support. Some enthusiasts use it as an excuse to abolish CAP. However, rural development calls for a thorough health check as well. Excessive uniformity and administrative burden, a too strong sectoral orientation, and unsuccessful overlapping with other policies all hinder an efficient definition and implementation of rural development policy. The latter is gradually becoming stiff and unable to address new questions and dilemmas. It should be simplified and targeted onto new questions and development.

25. Regional needs in rural development policy are quite heterogeneous. In some parts intense investments in agriculture are still needed, while in others priority is given to environmental issues or to adjusting to climate change. The programmes are far too rigid. The system provides for an optional definition of regional needs, yet always following an exactly determined list of measures. Programmes and measures are often carelessly copied, without defining the actual needs of individual rural areas. Here, again, considerable emphasis is given to previously acquired rights that no reform may change. In fact, the said problems are less tied to policy definition than to its implementation. Institutional innovations are absolutely necessary, if

agricultural policy intends to have a long-term perspective and will not inherit all the faults of the first CAP pillar.

26. The CAP budget will be thoroughly examined also in the future. Of course, no radical reduction - as wished by many - is possible, but there will neither be any preservation of the existing level considering the growing needs of EU enlargement and the new social issues and tasks. Available funds will need to be allocated with more efficiency. As mentioned above, co-financing of measures under the first pillar is merely a question of time. The co-financing of all policies, with the exception of the remaining market interventions, will facilitate their future implementation and make it more consistent. With better arguments, the necessary financing can be ensured or even rationally increased thanks to the new purposes and national funds. The political and economic barrier - i.e. that the existing policy is maintained due to fear of losing it completely - would be reduced if not totally abolished. The decision-makers should address content issues more bravely, instead of worrying about interest balance. A precondition for such brave changes is the abolition of the net recipient mentality in the European budget.

27. Abolishing the current two pillars and replacing them with more targeted programmes - such as competitiveness, food security, climate change, etc. that would cover a more uniform package of measures - would improve the policy's target argumentation. All direct payments could be joined into a single pyramid system, in order to include as many producers as possible into the group of recipients of the basic payment, based on arguments of food security and basic environmental conditions. More than the mere rules of good agricultural practice should be observed. The recipients would also receive other payments, for which other requirements would need to be met. On the top of the pyramid, there would be the payments for organic food production. Moreover, a uniform and transparent payments system would prevent the currently frequent overpayments. Transparent common rules need to be defined and implementation needs to be simplified, which is currently the main problem of second pillar compensatory payments.

28. An important innovation could be the possibility of applying for European programmes by individual chapters (food and health, climate change) instead of allocating the funds by Member States in advance. Most of CAP financing is allocated according to the historical key, based on the past rights and not on the actual needs. The policy is disputable and hard, if not impossible, to justify. An incomprehensible solution suggested by the existing proposal under the CAP health check is that the mitigation of and adjustment to climate change should be financed from modulation. There is no logic behind it, except for the interests and the budget. Is there any relation whatsoever between the direct payments quantity per farm and climate change? No. Yet nevertheless, this will be the key for the new »challenges« after the CAP health check.

29. There are issues that are not addressed by the CAP, although considerable importance is attached to them in the countryside. Such as poverty. Why shouldn't there be a separate programme for the most remote and underdeveloped regions, with additional financing and programmes? Are all these actually contained in rural development programmes where most funds are allocated to the developed, even in the poorest countries? What is needed is serious and overall reflection on the purpose and manner of programme implementation, as well as an institutional adjustment to the enlarged EU. Centralisation is losing efficiency. Although reluctant to present a comprehensive proposal, we should nevertheless make a few brave steps if the Community wishes to do more for solving critical development, social and environmental issues.

30. To symbolise the redefinition of the CAP, a new name would be most appropriate. The CAP symbolises a sectoral approach and an undesired past, and halts changes. A new name - symbolising the social concern for natural and human resources management in rural areas, food safety and food security - might considerably contribute to finding new solutions. Innovation is also necessary in institutional terms, in the redefinition of the tasks of EU institutions in such context. The necessary restriction of the sectoral approach should, however, not serve as an excuse to neglect serious and fundamental issues, such as food, natural resources, and the environment.

#### **Conclusion and questions**

31. The existing CAP is a result of historical development and ongoing reforms. Nevertheless, its fundamentals have remained untouched or neglected. In order to find an efficient and targeted agricultural policy, the future debates on the long-term vision of CAP should address all the relevant questions and provide for a new definition of CAP. The following questions need to be answered:

- a. Which is the target public of CAP and what is its purpose? How to consolidate the concept of public policy in agriculture? Should it be renamed?
- b. Do the objectives enshrined in the Treaty of Rome comply with the modern societal requirements? Do they need to be adjusted or redefined?
- c. What are the European public goods in relation to agriculture and other forms of natural resources management in rural areas? Are public goods the only sustainable argument for public intervention in the long run? What are the issues to be resolved by agricultural policy?
- d. Is it possible to maintain on a long-term basis the agricultural support which is income-based and resulting from historical decisions and rights?
- e. Is division of CAP into two pillars still necessary? Should instead the measures be combined by programmes and forms of intervention?
- f. Which measures rationally contribute to socially desired food security and economic stability in food production?