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# The Common Agricultural Policy After 2013

In October 2011 the European Commission presented a set of legal proposals designed to make the Common Agricultural Policy more effective. Pending a debate in the European Parliament and the Council, approval is expected by the end of 2013. This Forum aims to identify the proposals' shortcomings and to offer suggestions for improvement which the Parliament and Council can work to implement. The authors pay particular attention to the future of direct payments, CAP greening and rural development, as well as to the change in the decision-making rules which grants the Parliament more authority over the process.

Jean-Christophe Bureau

## Where Is the Common Agricultural Policy Heading?

The Common Agricultural Policy (CAP) is now more than fifty years old. The initial objectives included fostering agricultural productivity, ensuring a fair standard of living to farmers and securing food availability. These objectives have, in practice, been complemented by new ones, in particular in the environmental area, reflecting societal demands that have emerged in recent decades.

The historical CAP relied on market management. From the early 1960s to the 1990s, most of the agricultural sectors were subject to administratively set prices, requiring that EU authorities purchase excess production. With the growth in production resulting from frequent increases in institutional prices and a high rate of technical change that lowered costs, managing surplus became the main problem in the 1980s. The budget devoted to storage expanded rapidly. The EU subsidised the disposal of excess production abroad, another source of large budget expenditure as well as of world market distortions that triggered international disputes and retaliations. This intervention system reached its limits when the pork and poultry sector fed animals with cheaper import substitutes to cereals, while the EU taxpayer had to buy and subsidise the export of domestic wheat and barley which were no longer consumed locally. Eventually, the budgetary problems became so critical that the EU Commission convinced the Council to pass a drastic reform in 1992. The lowering of intervention prices in 1993 was the first of a continuous flow of reforms that led to the progressive dismantling of the intervention system and the end of the export subsidies. Farmers were compensated via

direct payments. Further reforms led to the removal after the mid-2000s of almost all links between the lump sum direct payments granted to farmers and production. Today, an intervention system exists only for bread wheat and dairy products, with strict limitations on the quantities eligible and a price so low that it has been inactive for almost a decade in the case of wheat. With the exception of border tariffs – which remain high in the dairy, beef and sugar sectors – the entire EU farm support policy is now based on direct payments, decoupled from production and subject to cross-compliance, i.e. to respect for conditions regarding the environment, animal welfare and worker safety.

In the 1990s, the Commission also pushed for a “rural development” policy. This is often called the “second pillar” of the CAP and relies on the idea that agriculture provides services, public goods and potential positive externalities that deserve to be funded. The corresponding budget covers a variety of measures. In Western Europe, it is mostly agri-environmental measures and support of extensive forms of agriculture in regions with a natural handicap (e.g. mountainous and northern areas). In new member states, the corresponding budget funds some “modernisation” of agriculture. More generally, environmental issues have now become more central to the CAP, even though there are large differences between countries. A characteristic of the rural development policy is that it is co-financed by the member states in order to provide an incentive to good supervision and control by local authorities, while Pillar 1 measures, which sup-

port production and income, are fully financed by the EU. The management of Pillar 2 measures is also more complex, requiring multiannual programming, inspection and control and resulting in high administration costs. This is particularly a problem for member states where there are still a large number of very small farms.

### The Evolution of the CAP

The general path towards greater exposure to market signals, reduced government intervention and more decoupled assistance to farmers that characterises 20 years of CAP reform is still criticised by many farmers' organisations. It was nevertheless the least bad of all possible policies, and no credible alternative has been proposed since. In the ongoing process of defining the future CAP for the 2013-2020 period, critics of the market orientation put forward that this liberalisation has generated the price variability now experienced by EU farmers. They also put forward that the United States, which pioneered the move to decoupled payments, has undergone a complete turnaround. In its recent farm bills, the USA reverted to instruments that are more linked to market conditions and yields, and the proposals tabled by Congress for the 2012 Farm Bill go further to protect farmers from adverse situations.<sup>1</sup> These arguments find an echo in member states and in the European Parliament.

In the EU, the institutional setting is such that the Commission has a monopoly on drafting CAP reform proposals. However, decisionmaking remains in the hands of the Council (representatives of member states) and the EP. The latter has gained considerable power recently and now has full co-decision authority with the Council on agricultural issues. In its proposals for CAP reform, released in October 2011, the Commission integrated the outcome of large public consultations and the reactions of both the EP and the Council to preliminary versions.<sup>2</sup> In particular, the concerns of the Ministers of Agriculture as well as the Agricultural Committee of the EP regarding price fluctuations were taken into account. So was the risk of leaving European farmers dependent on market forces while their US counterparts will benefit from many systems of insurance, countercyclical payments and "shallow loss" payments. However, the Commission has so far resisted pressures to reverse the orientation that CAP reforms have followed for 20 years, i.e. support-

ing farmers' incomes with payments that are as close to production-neutral as possible.

The Commission proposal appears modest to those who expected a major reform.<sup>3</sup> The budget framework proposed by the Commission in June 2011 would maintain the CAP budget in nominal terms, i.e. an impressive €44 billion a year for the first pillar and €14 billion for the second pillar. The main CAP features remain in place. The intervention system is maintained for bread wheat, butter and skimmed milk powder with (rather small) maximum quantities purchased, making this measure a simple safety net. A package to deal with crises would be implemented, with a tendering process for barley, maize, rice and beef, and a simple private storage aid for sugar, olive oil, flax, beef, butter, skimmed milk powder, pork and sheep meat. These measures would be funded from a €3.5 billion "crisis reserve" separate from the CAP budget. There would be some measures to extend the recognition of producers' organisations and secure their legal framework so that they could gain bargaining power ahead of the downstream sector. The Commission pro-

3 E.g. G. Anania: The European Union's Common Agricultural Policy After 2013. What is likely to be the outcome of the policy decision process and why. Paper presented at the 28th IAAE Congress, Foz de Iguaçu, 8-24 August 2012; L.-P. Mahé: Do the proposals for the CAP after 2013 herald a 'major' reform?, Policy paper 53, Notre Europe, Paris 2012.

1 J.-C. Bureau: Latest U.S. Farm Bill developments, Detailed note, European Parliament (forthcoming), 2012.

2 Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No. 73/2009, Different documents: COM(2011) 625 final/2, to COM(2011) 630 final, 12.10.2011. See also: A Budget for Europe 2020, SEC (868) final, 29.6.2011.

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posal would authorise member states to develop a system of insurance and an income stabilisation tool with some co-financing from the EU budget but with several ceilings. Part of farmers' losses would be reimbursed by a mutual insurance fund if income falls below a certain threshold, within a limit of 70% of the income loss (only 65% of the eligible costs could be supported). This ensures that these programmes will remain limited and that they will comply with World Trade Organisation discipline. The fact that some co-financing is required from member states is likely to act as a strong deterrent for implementing large-scale programmes. The Commission proposal allows for some (limited) degree of recoupling for specific productions, but only where specific types of farming undergo particular difficulties and are important for economic, social and/or environmental reasons.

The Commission proposal includes a reorientation of the direct payments, with more focus on environmental issues. A "Basic Payment Scheme" would replace the current Single Farm Payment and Simplified Area Payment schemes. All EU member states would have to move towards a uniform payment per hectare at the regional level by 2019. National envelopes for direct payments would be adjusted so that those that receive less than 90% of the EU average payment per hectare would receive more, thereby reducing the gap by one-third by 2018. Direct payments in excess of €150,000 would be capped at progressive rates with an absolute ceiling of €300,000 (exclusive of the greening component). A simplified flat rate system would be introduced for small farms. New criteria would be introduced for receiving direct payments, such as that the farmer must be "active", i.e. receiving at least five per cent of earnings from agriculture (with an exemption for small farmers).

The most controversial issue is perhaps the greening element that would be introduced. Some 30% of direct payments would be conditional on three measures: crop diversification (arable farmers would have to cultivate at least three crops a year, none accounting for more than 70% of the surface and each for at least five per cent), the devotion of seven per cent of land to an ecological focus area and the maintenance of permanent pasture. Two extra payments would be allowed, one for areas with natural constraints and the other for young farmers, both subject to limitations (a maximum of five per cent of the national envelope and two per cent of the Pillar 1 national envelope respectively).

Rural development would be reformed significantly, setting new priorities. At least 25% of Pillar 2 envelopes would be devoted to climate change mitigation and adaptation and to land management measures (including

organic farming). The rates of financing of some Pillar 2 measures by the EU budget would also be revised upwards.

### A Cold Reception for the Commission Proposal

The Commission proposal has received a cold reception from many sides. In their reactions, the EP and most of the member states proposed to water down the main innovative provisions, in particular the greening of the direct payments. Most of the farmers' organisations have also opposed the greening provisions, in particular the "ecological focus" that they equate with a set aside that would result in a negative productivity shock. Environmental non-governmental organisations consider the greening provisions as simply an attempt to justify the continuation of direct payments, which are largely harmful to the environment, whereas serious reform would require real-locating portions of the budget to the provision of public goods. A number of economists share the environmental NGOs' point of view that "public money should go to public goods". Others hold positions closer to those of the farm lobby, arguing that Europe needs to produce more to feed the world rather than set aside land for conservation.<sup>4</sup>

Our opinion is that, while the proposal clearly contains disappointing aspects, critics tend to ignore the political economy context, the new institutional setting and the "game" being played at the international level.

Indeed, the Commission proposal takes place in a completely new institutional framework. While in the past the Commission could push a reform, sometimes with an ambition that the Council did not expect, as in 2002, the EP's new competences necessitate that the Commission must now anticipate the EP's assent. It must de facto co-construct the reform with elected representatives who are perhaps less impressed than technocrats by the merits of sound economic theory, but who are closer to the concerns of farmers. Because of this co-construction and the long consultation process with stakeholders that took place in 2010 and 2011, the Commission proposal reflects some widespread concerns.

First, there is a feeling that after twenty years of permanent reforms, many efforts were made toward the elimination of guaranteed prices, the decoupling of payments, the progressive conditionality, the de facto ending of export subsidies and, at the same time, a reduction in applied tariffs caused by the many preferential trade

<sup>4</sup> U. Koester: Greening – a return to compulsory set-aside, [www.capreform.eu](http://www.capreform.eu), 1 November 2011, accessed September 2012.

agreements that have been concluded. One of the most obvious consequences is that the EU, the second largest exporter of sugar ten years ago, is now the second largest importer. The situation is rather similar in the beef sector (EU poultry production and exports have also been reduced considerably).

There is also the perception that these efforts, which led to a reduction of the actual WTO Aggregate Measurement of Support from €72 billion (the EU ceiling) to some €10 billion, have not been echoed in other countries. Indeed, OECD figures show that production-linked (coupled) farm support is increasing considerably in emerging countries like China, Turkey, Russia, Ukraine and even Brazil.<sup>5</sup> Moreover, some countries such as the United States (and, to some extent, Canada, thanks to a large-scale insurance programme) are also moving towards more distorting forms of farm support.<sup>6</sup> Finally, there is a feeling in the EU that the time is not appropriate for further unilateral dismantling. With the failure of the Doha Round, there is some pressure on the Commission to keep some bargaining chips for future negotiations.<sup>7</sup> After years of decoupling and unilateral dismantling of farm support, the EU does not have many of these chips left.

### Some Caveats of the Proposed Reform

There are many reasons for dissatisfaction with the Commission proposal. First, the budget devoted to agriculture remains very high. Some €44 billion of direct payments are provided to farmers, while recipients are, on average, wealthier than those who fund these payments, and there is little ambition to reduce them. Capping provisions appear very timid.<sup>8</sup>

The proposal maintains some of the fundamental inconsistencies of the current CAP. For example, maintaining basic direct payments also means maintaining the undesirable effects of the current system, in particular the capitalisation in asset prices (land) and the encouragement of farm specialisation (through a risk reduction effect). At the same time, the Commission introduces a supplementary payment for promoting crop rotation and a special pay-

ment for young farmers, even though both the problems of excessive specialisation and barriers to entry are actually caused – or at least worsened – by the system of direct payments.

There has been considerable work done under the auspices of the Commission on the possibility of reorienting the CAP budget toward the provision of public goods.<sup>9</sup> There is not much left of these debates in the Commission proposal. As explained by Mahé,<sup>10</sup> conditioning large payments to good practices, especially with a green payment topping a basic payment subject to minimal requirements, is a high-cost policy compared to payments directly targeting public goods.

Some other criticisms could be made of the proposal. For example, maintaining two pillars, one requiring co-financing and the other not, will also maintain the bias against environmental payments, which need to be matched with domestic funds. The convergence of payments across member states is more the product of considerations of what might be politically acceptable than of an economic logic. The obligation to make payments more uniform among farmers (on a per hectare basis) is presented as a major step by the Commission, while this type of reallocation is a possibility already left to member states in the current legislation. The budget for agricultural innovation proposed by the Commission (€5.1 billion for a seven-year period) looks ambitious but largely recycles some research budget funding available under other programmes. And the attempt to strengthen producers' organisations, rather than curbing the power of the oligopolistic downstream sector, bears the risk of double marginalisation, which might eventually be costly for consumers and lower the demand for products such as fruit and vegetables.

### A Limited Ambition, but a Sound Proposal

In spite of these reasons for dissatisfaction, the Commission proposal remains a balanced attempt to guide the CAP in the right direction. The reform proposed is consistent with the previous reforms and confirms the orientation towards more cost-efficient and less distorting forms of farm support. It includes some measures that limit the most adverse effects of market liberalisation, with some instruments to prevent land abandonment in specific areas and risk management instruments. And compared to the lenient current cross-compliance conditions, it intro-

5 J.-P. Butault: Comparative Analysis of Agricultural Support within the Major Agricultural Trading Nations, EuroCARE Study, European Parliament, Brussels 2012.

6 J.-C. Bureau, op. cit.

7 Note that this feeling is consistent with some modern theories of international trade which stress the need for reciprocal conditions and asymmetric gains for successful trade liberalisation. See K. Bagwell, R.W. Staiger: Can The Doha Round Be A Development Round? Setting A Place at The Table, NBER Working Paper, No. 17650, 2011.

8 L.-P. Mahé, op. cit. shows that accounting for hired labour in the calculation of the ceiling will de facto make this capping illusory.

9 See TWG3: Public Goods And Public Intervention Synthesis Report (Final Version), March 2011, Thematic Working Group 3, European Network for Rural Development, Brussels.

10 L.-P. Mahé, op. cit.

duces measures to protect biodiversity as a condition for some of the direct payments (potentially for all direct payments, depending on the interpretation of the proposal).

An important point is that the Commission has resisted many alternative proposals that appear particularly ill-founded as far as economic rationale is concerned. Critics of the proposal tend to ignore the positions that are favoured by a significant number of member states as well as members of the EP. These proposals include making the current direct payments more countercyclical, for example. While reducing direct payments in years of high income could be seen as a good idea, this would have many unwanted effects. Adjusting payments to market conditions would blur market signals to producers, require going back to product-specific payments, recouple support and thus revive international tensions that have been soothed by reforms, introduce some bureaucracy where farmers make their own interannual hedging, remove the possibility of cross-compliance, since payments could be zero in certain years, generate financial needs incompatible with a fixed EU budget and make payments more easily challenged under the Subsidies and Countervailing Measures Agreement as well as the Agreement on Agriculture.

Large-scale EU-funded insurance schemes have also been proposed by some member states. The example of the US crop insurance programme, with its poor efficiency and its huge costs, show that this could generate larger deadweight losses than the current system of direct payments for protecting farmers.<sup>11</sup> Price stabilisation schemes are also demanded by some farmers' organisations, in spite of the evidence that no such public system could be maintained if speculators decided that it was not sustainable. And using production subsidies to ensure that prices "cover the costs of production", another demand from farmers' organisations, would generate the same problems that the CAP experienced in the past.

That is, the main quality of the Commission proposal is perhaps more in resisting the most inept ideas that have been proposed than in proposing innovative and ambitious measures. Indeed, regarding market management, the Commission is not proposing major changes. It is wise not to go back to price management and to resist demands for (most likely ineffectual) price stabilisation instruments. The Commission has proposed to make it easier for member states to implement risk management schemes but with conditions that ensure this will remain

a safety net and not the large-scale subsidy programme that prevails in the USA. Recoupling of direct payments in the Commission proposal is limited to bringing some flexibility to help fragile productions and to promoting joint externalities, especially in difficult areas. The efficiency of the fund for crises remains to be tested. But if "soft touch" instruments such as encouraging private storage are sufficient to deal with large drops in prices, the proposed scheme will be a good way to help stabilise farmers' expectations without engaging in costly policies such as the ones currently envisaged by the US Congress.<sup>12</sup>

The Commission proposal maintains a large amount of direct payments, with the "basic" component subject to even fewer requirements than the current system. While this is hardly satisfactory, this reflects the political difficulties of dismantling the costly system of payments which represent a large component of farm incomes, in particular in the beef and sheep sectors. By ending historical references, the proposal would remove the remaining reference to the initial "compensatory" nature of these payments. It would make it possible to reallocate these payments in a future reform in a way that is more defensible than the current allocation.

Economic theory suggests that payments for public goods should be proportional to the individual efforts that provide such goods. However, the current agri-environmental measures under Pillar 2 show that this principle is difficult to apply, given the degree of imperfect information and transaction costs in agriculture. Managing, inspecting and monitoring agri-environmental programmes is expensive. Large-scale and simple measure like the ones proposed by the Commission are potentially an interesting compromise between environmental impact and transaction costs.

Mahé<sup>13</sup> considers that the requirements of crop rotation would have little practical impact and that the grassland support mechanism is very weak. He also rightly laments the proposal's lack of ambition regarding permanent pastures, as their restoration would provide a genuine set of ecosystem services in terms of biodiversity, carbon storage and water management. The ecological focus area provisions are particularly controversial due to their potential negative impact on production and competitiveness. Note, however, that a crude estimate is that at least three per cent of the relevant surface already satisfies the ecological focus area requirements, so the constraint would be on an additional four per cent of the surface

11 B.A. Babcock: Giving It Away. Free Crop Insurance Can Save Money and Strengthen the Farm Safety Net, Environmental Working Group, April 2012.

12 B.K. Goodwin, V.H. Smith, D.A. Sumner: Fixing the 2012 Farm Bill, American Enterprise Institute, Washington DC, 2012.

13 L.-P. Mahé, op. cit.

rather than a full seven per cent. The Swiss experience with the *surfaces d'intérêt écologique* needs to be further assessed before launching a “green payment” programme that might involve a budget around €12 billion. So far, assessments suggest that the Swiss programme has had some positive impacts, even if the conclusion is mixed on some taxa (e.g. on mammals). Trommetter et al.<sup>14</sup> find that Switzerland is the only European country where the dramatic erosion of biodiversity has been curbed, while in EU member states, agri-environmental programmes have been disappointing in this area. The Commission proposal could perhaps be improved, but it is potentially a useful provision of the future CAP.<sup>15</sup>

### Conclusion

Overall, the Commission proposal does not address the most fundamental caveats of the CAP, i.e. the unwanted effects of the direct payments and the lack of targeting of the budget on public goods. However, it firmly maintains the direction that was taken by the EU in the early 1990s, i.e. a move towards direct payments, which are a more

14 X. Le Roux, R. Barbault, J. Baudry, F. Burel, I. Doussan, E. Garnier, F. Herzog, S. Lavorel, R. Lifran, J.-R. Estrade, J.-P. Sarthou, M. Trommetter: Biodiversité, agriculture et politiques publiques, Expertise collective INRA, Rapport pour les ministères de l'agriculture et de l'écologie, Paris 2008, p. 634.

15 Mahé proposes to amend the provisions on ecological focus to foster biodiversity by promoting spatial linkage between ecological surfaces.

Stefan Tangermann

## CAP Reform and the Future of Direct Payments

The Common Agricultural Policy (CAP) has undergone fundamental reform over the last 20 years, initiated and implemented by three strongly reform-minded Commissioners for Agriculture (MacSharry, Fischler and Fischer Boel). A major thrust of the reform was to progress from strongly distortive price support to a more benign policy in the form of direct payments to farmers.<sup>1</sup> This direction of reform was well in line with the paradigm of a more market-oriented agricultural policy as developed by the agricultural economics profession and promoted by a number of international organisations, most notably the

1 For an account and evaluation of the reforms the CAP has undergone in the past, see OECD: Evaluation of Agricultural Policy Reforms in the European Union, Paris 2011.

efficient way to transfer income to producers than market management, and a reduction of distortions on international markets. It is a sound proposal that economists should not dismiss, and it is in any case a sound basis from which the Council and the Parliament can start.

The harshest critics of the proposal should consider the political environment and the fact that the outcome of the CAP reform process is likely to be even more remote from what they expect. The Council remains a place where petty domestic interests (such as the *juste retour* concept, i.e. defending policies that maximise the net budgetary return to the member state) still play a major role. The EP is the playing field of a variety of vested interests, in particular of lobbies that still defend some of the most cost-inefficient policies that the CAP has experienced. Political realism made it difficult for the Commission to propose more ambitious reforms of the system of direct payments, which currently represent the bulk, if not all, of farmers' net incomes in some sectors. And the widespread feeling that the EU has already done a lot and that it makes little sense to comply with a reform process that neither the emerging countries nor the United States seem to care about are not incentives to accelerate the reform process.

One way of looking at the Commission proposal is perhaps not to lament its lack of ambition but to acknowledge that it has managed to keep most of the bad ideas proposed for a CAP reform out of the agenda.

OECD.<sup>2</sup> CAP reform also helped significantly to achieve a successful conclusion of the Uruguay Round of General Agreement on Tariffs and Trade negotiations, where wholly new and effective disciplines for agricultural policies at the international level were enshrined in the Agreement on Agriculture, which is now a firm part of the multilateral trading system.<sup>3</sup>

2 This paradigm and its practical implications for the pursuit of agricultural policies is, for example, outlined in OECD: Agricultural Policy Design and Implementation: A Synthesis, Paris 2008.

3 For an analysis of the WTO Agreement on Agriculture, see T. Josling, S. Tangermann, T.K. Warley: Agriculture in the GATT, Houndmills, London and New York, 1996. The relationship between CAP reform and the Uruguay Round negotiations is discussed in A. Swinbank, C. Tanner: Farm Policy and Trade Conflict: The Uruguay Round and Common Agricultural Policy Reform, Ann Arbor 1997.

As a result of past CAP reforms, direct payments to farmers now account for the lion's share of the EU expenditure on its policies for agriculture and rural development. The EU budget for 2012 foresees direct aids of €40.7 billion, nearly three-quarters (precisely 71.6%) of all expenditure on the CAP.<sup>4</sup> As a matter of fact, direct aids under the CAP are the largest single expenditure item in the whole budget for the EU, making up nearly one-third (precisely 31.4%) of all EU expenditure planned for 2012.<sup>5</sup>

In other words, direct payments have become a central element of the CAP. The extent to which this is the case, not only in financial but also in political terms, is evident from the intensity of the current debate about their future. The wrangling about the overall EU budget for the 2014-2020 period is strongly flavoured, in one way or another, by views on what the implications might or should be for the amount of money available for future direct payments to farmers.

Yet, before the budget to be made available for direct payments under the CAP is decided, it is imperative to develop a clear understanding of the strategic role this central element of Europe's agricultural policies is supposed to play in the future. Which objectives are served by this particular policy measure? How does it relate to other instruments employed by the CAP? Following from that, how should the payments be designed and implemented? Is their future role expected to change over time? And how is all this reflected in the Commission's proposals for the CAP post-2013? This article will offer a few observations in response to these questions.<sup>6</sup>

### The Strategic Role of Direct Payments

Direct payments were introduced into the CAP when fundamental reform began under Commissioner MacSharry in 1992. Politically determined support prices for major products were reduced, and direct payments were granted as compensation. Under Commissioner Fischler, the process of decoupling direct payments from production was initiated by making them independent of what,

and indeed of whether, farmers produce. Commissioner Fischer Boel continued this reform process by including more products in the reform and pushing on with the process of decoupling payments from production. As a result, direct payments have meanwhile become essentially lump sum payments made universally to all farmers in the EU, granted per hectare of land farmed by an operator. The level of payment per hectare differs from country to country and in several member states from region to region, depending on what the respective farm used to produce in the historical reference period preceding reform and also depending on the extent to which support prices for the products concerned were reduced under the reform. At one point in the reform process, receipt of direct payments was made conditional on respecting a number of requirements regarding good agricultural practices and environmental standards, most of which had existed already anyhow; in agricultural policy jargon, this conditionality is referred to as "cross-compliance".

Overall, the successive reform steps were a major achievement. Heavy-handed government interference with agricultural markets was redressed when price support was cut. Farmers were not left out in the cold as compensation was granted.<sup>7</sup> This approach was not only politically necessary in order to allow farm price reform to proceed. It was also socially and economically wise: over a long time farmers had been led to believe that the old support policy was going to be continued. On that basis they had made investments and may even have decided to become farmers. The CAP could not turn away from its past overnight; it had to provide the economic conditions under which producers could adjust to the new situation. Decoupling the payments from production was another great step as it helped to reduce market and trade distortions even further.

One big question, however, was left unanswered from the beginning: What was the future of the payments going to be, and would they be granted forever? After all, at some point farmers can be expected to have adjusted to the policy reform. The political, social and economic justification of compensation for past price cuts fades away as time goes by.<sup>8</sup> Payments originally introduced in 1992 can hardly be said to still be necessary to allow farmers time to get used to the reformed policy framework twenty or thirty years down the road. Yet, the respective EU regulations on direct payments said nothing about the dura-

4 Draft General budget of the European Union for the financial year 2012, at <http://eur-lex.europa.eu/budget/data/DB2012/EN/SEC03.pdf>.

5 Ibid.

6 A more extensive and detailed discussion of the role of direct payments in the CAP for the 2014-2020 period is provided in S. Tangermann: Direct Payments in the CAP Post 2013. Note for the European Parliament's Committee on Agriculture and Rural Development. Directorate-General for Internal Policies, Document IP/B/AGRI/IC/2011\_003, Brussels 2011, <http://www.europarl.europa.eu/committees/pt/studiesdownload.html?languageDocument=PT&file=34680>. See also S. Tangermann: How Can Direct Payments be Justified after 2013?, Agra Europe, February 2010, where many of the points made here were originally raised.

7 For the role of compensation in agricultural policy reform, see OECD: Agricultural Policy Design and Implementation: A Synthesis, Paris 2008; and more specifically OECD: The Role of Compensation in Policy Reform, Document AGR/CA/APM/WP(2007)7, Paris 2007.

8 For the need to limit the duration of compensation payments, see the OECD publications referenced in the preceding footnote.

tion, nor about the future level, of the direct payments. But farmers are clever people. They are aware that the history of economic policymaking is full of examples where compensation for a reform was granted, though only for a given period of time. As a result, there was growing uncertainty about the future of the instrument that had come to form the biggest part of CAP expenditure.

The Commission was obviously fully aware of this problem. However, rather than setting the CAP on a path towards (at least partial) elimination of direct payments, Commissioner for Agriculture Ciolos and his staff decided to push in the opposite direction, creating the conditions for a continuation of the payments. As a matter of fact, the Commission's proposals regarding direct payments for the 2014-2020 period come across as a desperate endeavour to exonerate the current direct payments regime from its most controversial features, and to construct a new justification that, it is hoped, could create the political base for maintaining as much of the payments as possible as a permanent feature of the CAP.

### Exoneration: Equity

The exoneration element of the proposal is directed primarily towards the equity concerns frequently raised by stakeholders who want to see the payments continued but complain about the way they are distributed. The controversial equity issue is that payment amounts differ greatly from farm to farm. Clearly, as payments are made on a per hectare basis, operators farming a large area receive greater sums than smallholders. Moreover, as payment levels per hectare depend on the historical product mix and rates of past cuts in support prices, even farms of equal size receive different amounts of payments, depending on the member country and region in which they are located. In particular, farmers in the new member states from Central Europe, not having been members at the time the direct payments were originally introduced, receive payments generally significantly below those granted in the older member states. For example, in the Netherlands, the average payment per hectare is more than €400, while in Latvia it is around €150.<sup>9</sup>

In order to overcome such concerns and the resulting political quarrels, the Commission proposes to redistribute payments, both among farms of different sizes and across Member States, so that they would become somewhat less unequal. Regarding the farm size dimension, an element of degressivity would be introduced,

<sup>9</sup> European Commission: The CAP towards 2020 – Legal Proposals, Brussels 2011, [http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/slide-show\\_en.pdf](http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/slide-show_en.pdf).

and the maximum payment a farm can receive would be capped at €300,000.<sup>10</sup> Redistribution across member states would happen gradually and so that one-third of the gap between the current payment level per hectare in any member state and 90% of the average per hectare payment in the EU would be closed by 2020.

While any mechanical redistribution of this nature would make payments less unequal in numerical terms, it cannot really create more equity in a more fundamental sense and as interpreted in other sectors of policymaking. For direct payments to farmers to be justified on equity grounds, they would have to be based on a means test. As long as that is not the case, it is perfectly possible that a rich family that happens to run a large farm receives a great amount of direct payments, while a poor family operating a small farm receives far less. Also, there is no reason whatsoever to assume that (more or less) equal payments per hectare in all member states bear any relationship to what any socially justified needs of farm families in the individual countries may be. In other words, the redistribution component of the Commission's proposal cannot really remove *inequity*. It simply addresses political concerns about *inequality*.

### Justification: Environment

While more equity (if it really were achieved) in the distribution of payments might do away with some criticism of the current direct payment regime, it would still not provide a justification for making the payments in the first place. To repeat this point: the reason why the payments were originally introduced, i.e. compensation for a policy reform, is fading away with the time elapsed since the reform. Hence a new justification must be put forward if the political will to continue the payments exists. Accordingly, the Commission's proposal also contains a justification element, namely that the direct payments will in the future more explicitly serve to attain objectives related to the environment and climate change. This dimension of the proposal is generally referred to as "greening" payments. There is a stipulation that 30% of the budget for direct payments would in the future be made subject to farmers respecting certain conditions regarding crop diversification, maintenance of permanent pastures and ecological focus areas.

In the ongoing negotiations over the Commission's proposals, farmers' unions and ministers of agriculture are busy trying to water down any such new conditionalities, if not eliminate them altogether. However, even if one were to assume for a moment that they were to be adopted

<sup>10</sup> The proposed payment can exceed €300,000 by the amount of salaries paid by the farm.

as proposed by the Commission, one may well ask two fundamental questions regarding this element of the proposed future CAP.

First, would the farm practices required by these conditions really make a significant contribution to improving the environment and fighting climate change? And more specifically, would they do so equally in all parts of the EU? For example, while permanent pasture makes a lot of sense in certain regions, it is not a sensible use of land in others. Ecological focus areas are definitely needed in some places, but not in others. A general payment to all farmers across the whole of the EU, with such strings attached, is a highly inefficient policy approach.

Second, why do payments have to be made in order to ensure that farmers comply with such conditions? Most farmers engage in crop rotation anyhow, for very good business reasons. Equally, in most places where land is currently used under permanent pasture, it would in any case not be profitable for farmers to convert it to crop land – which is precisely the reason why they have decided to farm it as permanent pasture. And even if one were to assume that the farming practices concerned are both socially desirable and not voluntarily pursued by farmers, there is no indication whatsoever that the payment amounts considered bear a fair relationship with the extra costs incurred by farmers in all parts of the EU.

In short, “greening” the payments may potentially serve the political purpose of suggesting they have a reasonable justification. Yet on closer inspection, the direct payments cannot really be considered to be justified on the grounds of objectives related to the environment and climate change. This raises the question whether there is any other acceptable justification for continuing the payments on a long-term basis.

### Direct Payments for Food Security?

One other justification frequently invoked is the need to provide food security, both in Europe and globally. In times of volatile international commodity markets and sudden price explosions for food, this might appear to make perfect sense. However, there is no danger that Europe is not producing enough food to save its citizens from starvation, nor would we have to fear such consequences if the direct payments were abandoned. After all, the payments have been decoupled from production, for very good reasons. It is not a convincing proposition to argue, in the context of WTO negotiations and in other international forums, that direct payments under the CAP do not cause market distortions as they do not provide incentives to produce, only to turn around and justify them back home

in the EU on the grounds that they are needed to make sure Europe’s farmers produce enough food. Moreover, it is even less sensible for the CAP to persuade Europe’s farmers to produce food for the rest of the world. If the market demands more food, then prices will signal that clearly to the farming community. And Europe’s farmers have shown how well they can respond to rising prices, as when they produced butter mountains and wine lakes in the 1970s and 1980s. There is no need for policymakers, by granting payments from public coffers, to tell farmers they should produce more.

Helping farmers to cope with larger market volatility may well be worthy of (limited) government assistance. But this can be achieved much more effectively, and at significantly lower cost, through well-designed insurance schemes, which the Commission suggests should come on top of continued direct payments.

Another attempt at justification is the argument that farming will be abandoned in significant areas if support is withdrawn. Irrespective of the empirical accuracy of this argument, simple logic suggests that it is not necessary to make direct payments to all of EU agriculture in order to keep specific regional areas from falling idle. It would make much more sense to identify where in the Union there is a threat of areas no longer being farmed in the absence of payments, determine where in these areas there is a need or desire to maintain farming and on that basis make specific payments to these areas, conditional on farming activities of the nature desired. Payments of that nature are also included in the Commission’s proposals as a possible further element of (coupled) direct payments which would complement the current less-favoured area payments. Such payments can certainly be used to avoid land abandonment – however, there is no need to maintain a comprehensive regime of direct payments to all farmers to deal with that specific issue.

### Income Support Cannot Justify Direct Payments

The most important argument for continued direct payments, both explicit and implicit in the Commission’s proposals, remains farm income support. The Commission has made the point that farm income per working unit is considerably lower than in the rest of the economy. That is a highly questionable argument for income support: if governments were to try and make income per working unit (or per unit of capital) equal across all sectors through support payments, then we could give up on the market economy in the first place. Income support must be based not on a comparison of factor incomes but on social criteria, i.e. on family income relative to a socially accepted threshold. But that is precisely what direct pay-

ments cannot achieve, as they are granted on a flat-rate per hectare basis, irrespective of the actual income situation of the recipient. As a matter of fact, the Commission has in the past shown no interest in generating statistics that would allow the measuring of the family incomes of farm households. The central motivation behind continued direct payments, i.e. income support, is completely void of logic and evidence.

What is more, direct payments get capitalised in land values. The consequence is that tenants, farming more than half of Europe's agricultural land, have little if any benefit from the payments as they forward (most of) the payments to landowners through higher rents. It also means that the CAP makes the most important and specific factor of production in agriculture, i.e. land, more expensive and thereby undermines the international competitiveness of Europe's agriculture. Incidentally, the distortions that direct payments create on the market for farm land would be further aggravated through the redistribution of payments across farm sizes proposed by the Commission. Degressivity and capping mean that larger farms, receiving lower payments per hectare, will find it more difficult to compete for land than smaller farms. This is not exactly a recipe for enhancing the competitiveness of Europe's agriculture.

### What the Commission Should Have Proposed

Instead of trying desperately to defend continued – though somewhat differently distributed and “greened” – direct payments, what should the Commission have proposed? The most convincing approach would have been a forward-looking continuation of the main thrust of CAP reforms achieved by the three previously mentioned Commissioners for Agriculture. The reform process began with replacing price support with direct payments and then continued with the decoupling of payments from production. The next logical step would now be to target the payments to well-defined specific objectives. The Commission's proposals list several objectives that come to mind in this context. They generally have to do with services agriculture can provide to society and which are not remunerated by the market. Environment, biodiversity and climate change are some of the most relevant categories in that context.

As argued above, flat-rate payments per hectare, granted to all farmers in the EU irrespective of the local conditions under which they farm and unrelated to the specific public services required in their neighbourhood, are an ineffective and inefficient approach to incentivising farmers to provide these services. Only targeted payments can fulfil that role. For payments to be really well targeted, the first

requirement is to identify the desired nature and volume of the public services actually required in any given place. This will typically have to be done on a rather disaggregate territorial basis, as natural and economic conditions vary among individual locations. The next step is to determine the necessary and appropriate level of payment to be granted for these services. Finally, payments are made according to the actual service delivered, on a contractual basis.

In institutional terms, this progression from decoupling to targeting could be achieved by moving money from the first to the second pillar of the CAP, provided the nature and implementation of measures in the second pillar are appropriately defined. Ideally, the member states and regions should be involved in deciding on the nature of the place-specific policies to be pursued in their territories; and in accordance with the philosophy of fiscal federalism, they should complement the money transferred to the second pillar with their national and regional co-financing.<sup>11</sup> The level of Union expenditure should, therefore, be reduced, and the member countries could use some of the money saved for targeted payments in their territories. This transfer of some CAP expenditure, and of the related decisionmaking power, back to member countries should not be seen as a re-nationalisation of the CAP. The framework for policies would continue to be decided in Brussels, as would the nature of, and expenditure on, all measures of Union-wide significance (climate change being one prominent example).

The shift from per hectare payments to the new targeted payments should occur gradually, over a defined period of time. The capacity of farmers to adjust to the declining level of per hectare payments could be enhanced if the total amount of future payments per hectare were to be guaranteed in an appropriate document handed out to the individual farmer. Farmers could then sell these documents like bonds on the capital market and use the cash revenue for investments.<sup>12</sup>

11 For a more detailed discussion of the appropriate distribution of responsibilities and financing of agricultural policies among the European Union, the member states and the regions, see H. Grethe: Agriculture Policy: What Roles for the EU and the Member States?, in: G. Gelauff, I. Grillo, A. Lejour (eds.): *Subsidiarity and Economic Reform in Europe*, Berlin/Heidelberg 2008. See also S. Tangermann: *EU-Agrarpolitik und Niedersachsen: Muss Brüssel alles entscheiden?*, in: *Jahrbuch der Akademie der Wissenschaften zu Göttingen* 2009, Berlin/New York 2010.

12 A respective proposal was made in S. Tangermann: *A Bond Scheme for Supporting Farm Incomes*, in: J. Marsh, B. Green, B. Kearney, L. Mahe, S. Tangermann, S. Tarditi: *The Changing Role of the Common Agricultural Policy. The Future of Farming in Europe*, London and New York 1991. More research on the implications of such a bond scheme is presented in A. Swinbank, R. Tranter (eds.): *A Bond Scheme for Common Agricultural Policy Reform*, Wallingford 2004.

## Conclusions

The Commission has presented its proposals for direct payments as a policy that takes EU agriculture into a new future and responds to the challenges to be faced in the decades to come. In reality, the political aim appears to be to maintain as much of the existing payments as possible by suggesting a new, though phoney, justification and making the payments immune against criticism. The proposals do not create a new and future-oriented paradigm. They are a retrograde attempt at safeguarding an outdated policy approach that had its justification as a

step in a longer-term reform process. That reform process, though, is brought to a halt with these proposals.

Unfortunately, the debate so far about these proposals in the European Parliament and the Council of Ministers does not promise to change that philosophy fundamentally. The fight is mainly about maintaining the overall payment volume as large as possible and about who gets how much of the payments. In times of a deeply worrying crisis of overly indebted governments in the EU, one can sometimes feel that EU agricultural policymakers live on a planet of their own.

Alan Matthews

## Greening the Common Agricultural Policy Post-2013

One of the most contentious elements in the European Commission's legal proposals to the Council of the European Union and the European Parliament for changes to the Common Agricultural Policy (CAP) in the post-2013 period concerns what has become known as "greening".<sup>1</sup> The Commission proposes replacing the existing direct payments (under Pillar 1) with a basic payment topped up by an additional payment conditional on farmers respecting certain "agricultural practices beneficial for the climate and the environment" financed from 30% of the national direct payments envelopes (a "green" payment). The requirements include ecological focus areas (EFAs), crop diversification and the maintenance of existing areas of permanent grassland at farm level. Participants in the proposed small farmers' scheme are exempt, and organic farmers would automatically receive the green payment.

Greening measures in the current CAP include cross-compliance standards for direct payments in Pillar 1 and agri-environmental measures (AEMs) under Pillar 2. Furthermore, Article 68 of Regulation 73/2009 introduced the possibility of paying for environmental public goods through Pillar 1 for the first time. The novelty of the Commission's proposals lies in its attempt to define and fund mandatory green standards applicable across the EU which can be administered as a Pillar 1 direct payment.

The Commission put forward two reasons to pursue further greening through a green payment in Pillar 1: the need for universal application of greening measures on all EU agricultural land and the fact that it makes the greening of the CAP more visible. It may also have been influenced by the perceived political difficulty of increasing the Pillar 2 budget sufficiently to allow a significant increase in the area of land covered by AEMs.

Europe's natural environment faces a variety of threats from agricultural production even if, in some areas, progress is being made. Nutrient loads; usage of pesticides, energy and water; and ammonia and greenhouse gas emissions are all on a decreasing trend in the EU15.<sup>2</sup> However, the natural environment continues to face significant pressures, including ongoing declines in biodiversity and the challenges of climate change. Significant problems also remain in relation to water scarcity and quality and achieving good soil management.

The EU and its 27 member states have committed to meet a number of environmental targets, including the EU's 2020 biodiversity objectives and targets for greenhouse gas emission reductions. Yet member states continue to have difficulty in living up to their obligations under the Nitrates Directive and face stringent challenges to comply with the Water Framework Directive. A recent report of the Rise Foundation Task Force summarises the empirical data which shows that the scale of market failure in the provision of environmental public goods is extremely

1 European Commission: a Proposal for a Regulation of the European Parliament and of the Council establishing direct payments to farmers under support schemes within the framework of the common agricultural policy, COM(2011) 625/3, Brussels 2011, and associated texts. The legal proposals and impact assessment are available at [http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index\\_en.htm](http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm).

2 European Environment Agency: The European Environment – State and Outlook 2010, Copenhagen 2010.

large and that policy responses to date have not been adequate.<sup>3</sup>

Reactions to the greening proposal have varied widely. Some groups have welcomed the Commission's plan to link direct payments more specifically to management measures by farmers designed to deliver improved environmental outcomes. Other groups have criticised the proposals on the grounds that they will be cumbersome and costly to implement, of doubtful environmental value and that they will reduce the ability of the EU to increase food production in response to the global tightening of food supplies.

The projected allocation in the Commission's proposal for the 2014–2020 Multi-annual Financial Framework (MFF) of €42.78 billion for Pillar 1 direct payments in 2020 implies an annual allocation of €12.8 billion to the green payment during the latter years of the programming period. This compares to annual average spending on agri-environmental measures in Pillar 2 in the 2007–2013 period of just over €3 billion.<sup>4</sup> At a time of severe public funding difficulties in EU member states, the environmental pay-offs need to be clearly demonstrated in order to justify this expenditure. We argue that there are inherent flaws in the Commission's approach to greening which make it difficult to defend the proposal. In the ultimate political compromise on the CAP2020 negotiations, there is a danger that greening will be little more than a rhetorical device used to justify the continuation of direct payments to EU farmers.

### Environmental Effectiveness of the Commission's Proposals

One of the problems in evaluating the Commission's proposal is that there is no detailed assessment of the expected impacts on the various environmental dimensions. As the Court of Auditors notes:

Scientific evidence exists which justify [*sic*] the effectiveness and necessity of measures such as crop diversification and ecological focus areas (for biodiversity, the quality of water, for soil etc.). However, the regulation does not specify the concrete objectives, which should be achieved by the farming community

3 A. Buckwell: RISE Task Force on Public Goods from Private Land, Rural Investment Support for Europe (RISE) Foundation, 2009, [www.risefoundation.eu](http://www.risefoundation.eu).

4 European Court of Auditors: Is agri-environment support well designed and managed?, Special Report, No. 7, Luxembourg 2011.

in that domain, nor does it explain the impact which is expected.<sup>5</sup>

However, the immediate environmental impacts of the three measures are expected to be limited.<sup>6</sup>

The Commission crop diversification proposal is that farmers should have three different crops on their arable land where the arable area covers more than three hectares and is not entirely used for grass production (sown or natural), entirely left fallow or entirely cultivated with crops under water for a significant part of the year. The current optional crop rotation cross-compliance standard would be removed. Crop diversification could provide protection against large monocultures, although the benefits will be less than for crop rotation.<sup>7</sup> However, a crop rotation requirement was ruled out because of the practical difficulties of administering and enforcing this as an annual measure in Pillar 1.

Issues raised in the subsequent debate include the undue burden on smaller arable farms, possible perverse incentives for livestock farms growing small amounts of arable crops for feed, the need for clarification on what counts as a crop in meeting the diversification criteria and the treatment of permanent crops. The proposal is not expected to have a major environmental impact mainly because only a small area of arable land will be required to adopt different farm practices. The Commission estimated, on the basis of Farm Accountancy Data Network (FADN) data and its original proposals, that only 1.4% of the eligible area would be affected by this measure, although some national studies arrive at higher figures using a restrictive definition of what qualify as different crops.

The second condition to receive the green payment requires farmers to maintain as permanent grassland the areas of their holdings declared as such for claim year 2014. This would replace the current cross-compliance requirement that member states must maintain their area under permanent grassland at existing levels. Issues raised in the subsequent debate include the definition

5 European Court of Auditors: Opinion on certain proposals for regulations relating to the common agricultural policy for the period 2014–2020, Opinion No. 1/2012, Luxembourg 2012.

6 A. Matthews: Environmental Public Goods in the New CAP: Impact of Greening Proposals and Possible Alternatives, IP/B/AGRI/CEI/2011-097/E001/SC1, Directorate-General for Internal Policies, Brussels 2012.

7 European Commission: Impact Assessment. Common Agricultural Policy towards 2020, SEC(2011)1153, Brussels 2011. (Main text and Annex 2). The legal proposals and impact assessment are available at [http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index\\_en.htm](http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm).

of permanent grassland, whether rotation of permanent grassland would be allowed, whether the 5% franchise at farm level should be increased, setting 2014 as the base year and the need for greater focus on high nature value (HNV) grasslands.

Protecting permanent grassland can have benefits for biodiversity, historic interest, landscape character, climate change and resource protection. The extent of these benefits depends on the definition of permanent grassland and the management practices permitted. Much permanent grassland is improved grassland of low biodiversity value. Hart and Baldock<sup>8</sup> point out that, because the current cross-compliance requirement on grasslands protection operates only at a national/regional level, it allows semi-natural grasslands to be ploughed or offset by improved pasture elsewhere, potentially resulting in a significant loss of biodiversity. The main benefit of moving the reference restriction from the national to the farm level is to increase the implied protection for HNV grasslands. However, these grasslands would continue to be under threat from intensification, e.g. from reseeded. Environmental NGOs have instead called for a top-up premium for grasslands maintained without ploughing or reseeded.<sup>9</sup>

The third element in greening is that farmers must ensure that at least 7% of their eligible hectares, excluding areas under permanent grassland, are ecological focus areas such as land left fallow, terraces, landscape features, buffer strips and afforested areas. Issues raised around the implementation of EFAs include how the base area is defined, permitted land uses, the 7% minimum requirement (which many member states see as too high), how best to encourage collective approaches among farmers and how to encourage appropriate management of EFAs.

EFAs can help to promote biodiversity as well as to produce benefits for soil and water quality, climate change mitigation and adaptation, pest control, landscapes and pollination.<sup>10</sup> The extent of these benefits will depend on the areas allocated, their location, the quality of management, whether the areas are rotated or not, their spatial connectivity, the link with Pillar 2 measures and the provi-

sion of advice.<sup>11</sup> Apart from the first factor, the Commission's proposal does not contain measures to influence these other aspects.<sup>12</sup>

Critics note the lack of evidence to support a 7% EFA target at the farm level (though it is hardly a coincidence that this is the percentage used by the Swiss for their ecological compensation areas). Many are sceptical that applying a formulaic percentage of area at the farm level is the most effective or efficient method of delivering the Commission's environmental objectives.<sup>13</sup> There will be an incentive for farms in more intensive areas to meet their EFA obligations by renting land in more marginal areas. Some might welcome this trading as a way to meet the specified environmental objectives at least cost. Whether it is desirable or not depends on the importance of the spatial distribution of biodiversity and other environmental goods (this links to the land-sparing versus land-sharing debate in Phalan et al.<sup>14</sup>).

### Alternatives to the Commission's Proposals

A common theme in the critical reactions to the Commission's proposals is that the "one size fits all" approach is too rigid. As alternatives to the Commission's proposals, some member states have suggested a "menu" approach in which they could choose among a set of green practices which would be deemed equivalent to those proposed by the Commission. Others believe that greening should cover all direct payments and be included in the framework of cross-compliance. A few member states favour greening via Pillar 2 by transferring a tranche of Pillar 1 funding to Pillar 2 with full EU financing.<sup>15</sup> The danger is that, under the guise of flexibility, the environmental impact of the green payment would be further reduced.

Under the "menu" approach, member states would be allowed to select the greening measures they would make compulsory for their farmers from a longer list drawn up

8 K. Hart, D. Baldock: Greening the CAP: Delivering environmental outcomes through Pillar 1, London 2011, Institute for European Environmental Policy.

9 European Forum on Nature Conservation and Pastoralism: Permanent pasture definition – ploughing and reseeded grasslands, Brussels 2012.

10 European Commission: Impact Assessment. Common Agricultural Policy towards 2020, SEC(2011)1153, ..., op. cit.

11 H. Westhoek, H. van Zeijts, H. Witmer, M. van den Berg, K. Overmars, S. van der Esch, W. van der Bilt: Greening the CAP: An analysis of the effects of the European Commission's proposals for the Common Agricultural Policy 2014-2020, The Hague 2012, PBL Netherlands Environmental Assessment Agency; B. Allen, A. Buckwell, D. Baldock, H. Menadue: Maximising environmental benefits through ecological focus areas, Institute for European Environmental Policy, UK 2012.

12 L.-P. Mahé: Do the proposals for the CAP after 2013 herald a 'major' reform?, Policy paper No. 53, Notre Europe, Paris 2012.

13 House of Commons Environment: Food and Rural Affairs Committee, 2012, Greening the Common Agricultural Policy, Vols. 1 and 2, HC 170, London 2012, The Stationery Office Limited.

14 B. Phalan, A. Balmford, R. Green, J. Scharlemann: Minimising the harm to biodiversity of producing more food globally, in: Food Policy, Vol. 36, 2011, pp. S62-S71.

15 K. Hart, J. Little: Environmental approach of the CAP legislative proposal, in: *Politica Agricola Internazionale*, Vol. 1, 2012, pp. 19-30.

at the EU level, or alternatively, member states could require farmers to choose a number of greening measures from a longer list that they themselves would determine. Proposed additional EU-wide green measures which might qualify farmers for the green payment include green cover, land planted to willow and other perennial crops, preparation of nutrient and/or soil management plans, and certified energy efficiency (including provision of alternative energy or renewable raw material). An even longer list could be prepared by member states from which their farmers could choose.

Allowing member states the flexibility to choose from a wider menu of more locally-tailored options has attractions, but there are potential drawbacks. One objection is that it would lead to farmers in different countries being treated differently. Some member states might be tempted to design their national measures in a way that made minimal demands on their farmers; other member states might have a much higher level of ambition for the delivery of environmental public goods and might seek to “gold-plate” their national measures. Farmers in the high-ambition countries will feel aggrieved that their government is putting them at a competitive disadvantage. Environmental groups worry that flexibility would allow low-ambition countries to get away with minimal effort. However, the real test of the menu approach is practicality. The Commission’s approach to greening Pillar 1 requires simple, annual, generalisable measures that apply across all farms. The more differentiated and varied the measures sought to qualify for the green Pillar 1 payment, the stronger is the argument for delivering these payments through Pillar 2.

The Commission draft Regulation would allow organic farmers to automatically qualify for the green payment on the grounds that these farmers contribute at least as much in terms of environmental public goods as would be provided by compliance with the three green measures. Various stakeholders have argued that automatic qualification (“greening by definition”) should be extended to other groups of farmers demonstrably following sustainable farming practices. Two categories of farmers are proposed to qualify for exemption under this “green by definition” route. One is farmers already enrolled in an AEM under Pillar 2. The other is farmers who comply with the growing number of environmental certification schemes (e.g. annual energy audit, carbon footprint, water efficiency and integrated farm management) or have a minimum percentage of their agricultural area covered by grassland.

The arguments in favour are that this would ensure consistency between greening in Pillar 1 and other environ-

mentally targeted schemes, it would simplify the green payment by taking advantage of already existing schemes and controls, it would provide an incentive for farmers to get involved in these higher-level environmental schemes, and it would enhance the flexibility available to member states. The argument against is that “green by definition” exemptions would not provide taxpayers with any additionality in terms of agri-environmental public goods, given that these goods are currently provided in return for payment in an AEM or as part of a certification scheme.

Providing the green payment automatically to farmers who are enrolled in a Pillar 2 AEM appears to run counter to the legal requirement governing CAP payments which prevents paying for the same actions in both Pillar 1 and Pillar 2. Either the AEM measures build on the basic requirements in Pillar 1 or they are a substitute for them. It seems impossible to avoid that many farmers in a Pillar 2 AEM, including organic farmers, would receive a double payment in Pillars 1 and 2 under the “green by definition” option.

If farmers in a certification scheme do not receive payments under Pillar 2, then this problem does not arise. A certification scheme then becomes a way for member states to introduce additional measures to qualify for the greening payment beyond the three proposed by the Commission. In principle, this flexibility might be welcomed, but it introduces a completely new instrument into the CAP, the operation of which is currently unknown. The Commission would be required, by means of implementing acts, to further specify the conditions relating to the commitments and the certification schemes, including the level of assurance to be provided by those certification schemes as regards their effectiveness, objectivity and transparency.

Another approach to greening is to introduce the Commission measures as additional good agricultural and environment condition (GAEC) standards in cross-compliance. It would involve establishing a menu of measures that would be mandatory in application but only where relevant and appropriate in line with the current approach to GAEC. The Commission reviewed this option in its impact assessment<sup>16</sup> but rejected it because it

would not necessarily ensure that the entire EU territory is effectively greened. At the same time, it would meet with considerable resistance from farmers as it would be framed as a requirement rather than an incentive, and arguably do away with the political visibil-

<sup>16</sup> European Commission: Impact Assessment. Common Agricultural Policy towards 2020, SEC(2011)1153..., op. cit.

ity of greening direct payments that is one of the main drivers of this reform.<sup>17</sup>

However, varying standards across member states is an issue which will arise with any move to provide greater flexibility and is not specific to GAEC – it would also be present in the menu approach or allowing “green by definition” exemptions. If participation in the greening measures is required for farmers to receive the basic payment, then the green measures are already a form of super cross-compliance. The political visibility argument betrays the motivation of the Commission’s proposal as primarily about justifying the existing payments rather than designing an effective environmental scheme. Including green measures as part of cross-compliance is the approach adopted in Switzerland, whose experience shows that biodiversity can be enhanced at a continental scale under cross-compliance.<sup>18</sup>

A small number of member states and many environmental NGOs would prefer to see greening pursued through Pillar 2. Pillar 2 measures offer member states the flexibility they seek. As programmed, multi-annual measures have the potential to deliver significantly greater environmental improvements than the measures proposed in Pillar 1. But Pillar 2 AEMs have drawbacks. They have high transaction costs, and the lack of baseline monitoring and clear objectives at the member state level means that it can be difficult to assess the contribution that they make.<sup>19</sup>

The Commission chose not to pursue the option of further greening the CAP by expanding the funding for Pillar 2. It points to the voluntary nature of Pillar 2 measures and the fact that only a minority of farms are enrolled in AEMs. It may also have been influenced by the political difficulties of shifting resources from Pillar 1 to Pillar 2. However, the draft Regulation would allow member states to voluntarily transfer up to 10% of their Pillar 1 ceilings to Pillar 2 expenditure on agri-environment-climate measures as long as there was co-financing. Voluntary modulation is not popular among farm groups which argue that it creates unfair conditions of competition because farmers in different member states receive different levels of direct payments. Even if we leave aside the presumption (strongly defended by the EU in the WTO) that direct payments are decoupled and thus have minimum effects on production, the fact is that the Commission’s proposals envisage continuing differences in the value of entitlements among member states for some time to come.

17 European Commission: Impact Assessment. Common Agricultural Policy towards 2020, Annex 2, SEC(2011)1153, Brussels 2011, p. 13.

18 A. Matthews, *op. cit.*

19 European Court of Auditors: Is Agri-environment support..., *op. cit.*

Transferring 30% of direct payments’ national envelopes to Pillar 2 would imply a quintupling of EU support for agri-environment-climate measures. Increased funding of this magnitude on its own would attract additional enrolment in AEMs. A greater focus on objectives and results to draw down these funds would incentivise member states to design schemes which are also attractive in intensively-farmed areas. More generous AEM payments could be complemented by strengthening GAEC by including appropriate greening standards as part of cross-compliance, along the lines of the Swiss model. This would go a long way to ensuring the universality sought by the Commission in its legislative proposals.

### Assessment of the Debate

Where there is evidence that agricultural practices damage the environment in terms of water quality, soil loss or greenhouse gas emissions, farmers should be subject to the same rules and sanctions as other groups in society. Where farmers go beyond good farming practice to provide environmental public goods valued by society, it is appropriate that they should be supported in these activities. Targeting CAP payments to encourage farmers to produce socially-desired public goods therefore makes sense.

The Commission strategy is to propose shallow, one-size-fits-all greening measures in Pillar 1. The stated justification for this approach is the need to ensure a universal application of greening measures across the entire EU agricultural area. Given the importance of direct payments to EU farm incomes, this could be achieved if the legislation required farmers in receipt of the basic payment to also enrol in the green payment scheme. However, this would turn the green measures into a form of “super cross-compliance”. It becomes difficult to justify the administrative complexity of introducing another payment apart from the argument that it increases the political visibility of a greener CAP. If, on the other hand, the payment is a top-up payment which farmers can opt into (which is the direction taken in the political debate on the Commission’s proposals), then it will lose its universal character depending on how farmers evaluate the payment on offer relative to the extra burden and costs (including foregone income) that implementing the measures entail. This weakens the case for retaining the payment in Pillar 1 given the many advantages there are to making agri-environment payments through Pillar 2.

Apart from the additional administrative burden of monitoring the greening requirements, the major criticism of the Commission’s proposal is that requiring every farm in the Union to follow exactly the same measures is both inefficient and ineffective. The approach is prescriptive and rules-based and will not encourage the support and

commitment of farmers to better environmental management. Member states have sought additional flexibility in implementing the Commission measures. However, to be meaningful, such flexibility would have to operate at the farm level, where farmers would have a choice among a range of options to gain eligibility for the green payment. Such flexible menu schemes belong in Pillar 2 and not in Pillar 1, at least with the current regime for the administration, monitoring and inspection of Pillar 1 payments.

The Commission may be correct in its assessment that there is no political willingness in either the Council or

the Parliament to shift resources from Pillar 1 to Pillar 2 and to use the additional resources to invest more heavily in Pillar 2 AEM schemes. But its proposals lack environmental credibility and are thus hard to defend. As political momentum grows to allow various exceptions to the Commission's conditions and to give greater flexibility to member states in the implementation of the greening conditions, the danger increases that greening is no more than a rhetorical device to justify continuing the existing levels of Pillar 1 payments in the debate on the composition of future EU spending in the 2014-2020 period.

Davide Viaggi

## Rural Development in the Post-2013 CAP: Huge Opportunity or Devil in the Details?

Rural development (RD) has gained growing attention over the last two decades in the context of the Common Agricultural Policy (CAP). With the Agenda 2000 reform (in 1999), a dedicated "pillar" (Pillar II) of the CAP was established that is responsible for rural development, including measures aimed at farm competitiveness, environmental protection and quality of life in rural areas.

Every further round of CAP reform has been accompanied by claims and requests for a stronger role and budget for RD. However, resources dedicated to rural development have tended to stabilise at about one-fifth of the CAP budget. Also, with the development of the CAP objectives and with Pillar I mainly devoted to income support, ever more expectations have been placed on RD in terms of contributing to the achievement of such objectives. In spite of the importance attributed to this CAP component, the most widely debated issue in the literature and in the policy arena is the problem of the presumed ineffectiveness or a lack of evidence of the effectiveness of RD measures to date.<sup>1</sup>

The difficulty with any analysis exercise related to RD rests in the variety of measures and objectives that are collated within the Rural Development Programmes (RDPs), the operational instrument in this strand of the CAP. Another element of complexity resides in the fact that the actual design and implementation of RDPs is performed at dif-

ferent programming levels – hence the detailed designs of policy measures change from one programming region to another and are sometimes hidden from the analyst by national languages and huge programming documents.

The objective of this contribution is to discuss the main features of the post-2013 RDP as it emerges from the current regulatory proposals and to provide a critical discussion of avenues for further improvement and effective implementation. The paper is structured as follows: in the subsequent section, we summarise some of the main features of post-2013 proposals. Then we discuss some concerns and issues in relation to a few key areas of the RDP. Finally, we provide a discussion of potential improvements and final remarks about the road ahead.

### Key Features of the Post-2013 CAP Proposals on Rural Development

Current proposals on rural development for the period 2013-2020 are described in the document COM(2011) 627/3, providing a Proposal for a Regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).<sup>2</sup>

In terms of budget relevance, the proposal allocates €101.2 billion to Pillar II over the period 2014-2020 against €317.2 billion allocated to Pillar I, which means about

<sup>1</sup> See e.g. Court of Auditors: Special Report No. 7/2006 concerning rural development investments: do they effectively address the problems of rural areas? together with the Commission's replies. Official Journal of the European Communities C 282/1-31, 2006; and Court of Auditors: Is agri-environment support well designed and managed? Special Report No. 7. European Court of Auditors, Luxembourg 2011.

<sup>2</sup> European Commission: Proposal for a Regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), COM(2011) 627/3, Brussels 2011.

24% of the total budget remains allocated to rural development. Notably, an additional €5.1 billion are allocated for research and innovation. This, in the framework of the proposal, should be strictly tied to rural development, yet managed jointly by the European Commission's Agriculture and Research Directorates.

The mission of the RDP support is to contribute to

the Europe 2020 Strategy by promoting sustainable rural development throughout the Union in a complementary manner to the other instruments of the common agricultural policy ..., to cohesion policy and to the common fisheries policy. It shall contribute to a more territorially and environmentally balanced, climate-friendly and resilient and innovative Union agricultural sector.

The rural development support is aimed at contributing to the following objectives:

- the competitiveness of agriculture;
- the sustainable management of natural resources and climate action;
- a balanced territorial development of rural areas.

While this threefold structure seems to basically maintain the current approach, it is then proposed that these general objectives be implemented through the following six thematic objectives:

- fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- enhancing the competitiveness of all types of agriculture and enhancing farm viability;
- promoting food chain organisation and risk management in agriculture;
- restoring, preserving and enhancing ecosystems dependent on agriculture and forestry;
- promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture and in the food and forestry sectors;
- promoting social inclusion, poverty reduction and economic development in rural areas.

These objectives provide a new structure to RD action, though some of their content was already included in

the old RDPs. In turn, these objectives are implemented through a number of measures that present a mix of old/existing measures and new proposals. Given the current general debate on agriculture in the economy alongside the crisis and overall instability, two areas of intervention likely represent the most relevant new components.

The first is related to the family of measures comprising insurance, co-operation, risk management insurance and those dealing with natural disasters. The second area is comprised of the measures related to innovation, knowledge management and transfer, and the connection with research. In particular, the regulation proposes the establishment of a European Innovation Partnership (EIP) for agricultural productivity and sustainability. The EIP is aimed at contributing to resource efficiency, food and feed production, and environmental protection through better connections between agriculture and related research. In particular, this is to be achieved by way of creating better linkages between research and farming practice and encouraging the wider use of available innovation measures, promoting the faster and wider transposition of innovative solutions into practice, and informing the scientific community about the research needs of farming practice.

## Five Key Issues

### Environmental Measures and Their Connection with First Pillar Instruments

As far as the environmental side of RDPs is concerned, there are two key issues: the scope of the measures (i.e. the selection of objectives) and the ability to provide incentives that are effective in producing additional changes compared with baseline trends.

With regard to the first point, the proposals offer a reasonable change from the old set of measures, putting forward areas of action that are consistent with the current overall objectives of EU policy.<sup>3</sup> As usual, the main issue will be the extent to which the budget will be allocated to old versus new objectives. An example is organic farming, which can be expected to remain a prominent measure and source of debate in many areas.

The issue of appropriate incentives may be even more relevant. It was surprising to see that farmers were reluctant to engage in agri-environment schemes (AES) in the previous

<sup>3</sup> See guiding documents such as European Commission: Europe 2020: A strategy for smart, sustainable and inclusive growth, Brussels 2010 and European Commission: Innovating for sustainable growth: a bioeconomy for Europe, Brussels 2012.

programming period in many areas. Yet perhaps it should not have been so surprising in light of the fact that the calculation of payments came at a time of rising commodity prices, and thus the payments were likely inadequate to provide incentives for participation. The problem of coordination with commodity prices may remain a key issue to ensure participation in the age of volatility and expected increases in prices.

A second key issue is additionality with respect to the first pillar. Measures in the RDPs should fund actions that go beyond the environmental prescriptions already included in cross-compliance and the current greening measures. While this was clear in principle from the inception of the 2005 reform introducing cross-compliance, the practical implementation proved to be rather difficult. Somehow, even the explanation of how to implement it in the calculation of payments came too late to be able to ensure that it was consistently accounted for in the correct manner, which may have contributed to an underestimation of actual compliance costs. Furthermore, the theoretical additionality between the two pillars can rapidly vanish in practice if there is weak enforcement.<sup>4</sup> Besides this, the further articulation of requirements in the first pillar, now adding the greening measures to the modified cross-compliance measures, can only be expected to make things more difficult. The discussion regarding the extent to which organic farming fulfils the greening prescriptions is already a strong signal in this direction.

A third issue concerns transaction costs. Although they are welcome in the calculation of payments, the fixed rate may in fact lead to totally unrealistic estimations. In some cases, transactions and unexpected costs during implementation proved to be of major importance, whilst in others they were not. This should not be regarded as a minor detail, as there are measures for which the majority of costs for farmers actually fall under the category transaction costs. While this can hardly be properly accounted for in the calculation of payment, attention should at least be given to their minimisation in setting up the rules and procedures for participation and the implementation of measures.

A much-debated issue in the literature is that of the targeting of measures. This is often confused with supporting actions such as the identification of priority zones, while the connection with payments is often poor. On the contrary, the payment levels can yield more accurate allocations of measures as long as they are adequate for the

4 F. Bartolini, V. Gallerani, M. Raggi, D. Viaggi: Modelling the Linkages between Cross-Compliance and Agri-Environmental Schemes Under Asymmetric Information, in: *Journal of Agricultural Economics*, Vol. 63, No. 2, 2012, pp. 310-330.

specific population that the public administration seeks to involve as opposed to using wide averages. The expectation of being able to achieve effective targeting without it being incorporated into both the design of payments and the identification of priority areas is, of course, unrealistic and would lead to failure.

The actual additionality of measures remains largely hidden behind the mix of maintenance measures and the introduction of environmentally friendly technologies, but this debate is not clear-cut, as the lack of maintenance measures would easily generate perverse effects in terms of the farmers' ability to opt in or out of the measures.

Finally, the politically sensitive issue of compliance controls and sanctions remains. It is very likely that farmers are often more compliant than expected based on pure incentive calculations. However, most of the literature is in agreement that the present system is insufficient to guarantee compliance.<sup>5</sup>

### Innovation

The key question here is: can a policy really lead to innovation? At the core of innovation is entrepreneurship, which begs the question of whether a policy can actually promote entrepreneurship. We have anecdotal examples of very interesting new actions from the past programming period involving innovations undertaken under measures 123 and 124 of the current RDPs or, to a lesser extent, connected to investment funding in measure 121 of the current RDPs (modernisation of agricultural holdings). However, the question remains: would this not have occurred nonetheless without EU RDP funding?

A second issue is the connection between research and innovation. The model promoted by the former RDP was basically oriented to "downstream" research funding. Though there is no extensive evidence on how it has worked, the model hints at an idea of research coming as a mere support to fund innovations that have already been chosen and to a large extent developed by the private or public sector.

The challenge of the upcoming RDP will be to push the coordination between research and innovation upstream. This is the specific aim of the EIP. This appears to be a very promising initiative, linking different actors in the system and connecting different levels to one another. The main risk of the initiative, however, is that it is merely a forum for discussion and "document-making", while

5 I. Fraser, R. Fraser: Targeting monitoring resources to enhance the effectiveness of the CAP, in: *EuroChoices*, Vol. 4, 2005, pp. 22-27.

decisions are taken elsewhere. Strategically speaking, in order to prevent this from happening, it would be necessary for the funding relationship to be clarified at an early stage of the process, both on the side of RDP funding measures (priorities set by the EIP are expected to be implemented through the measures funded by the RDPs) as well as with respect to funding research by Horizon 2020 (the EU's next framework programme for research and innovation). Previous similar experiences, such as the EU Technology platforms, have resulted in both successes and failures, yet the key factor for success has always been the commitment of public authorities to provide relevant funding for the priorities that they set out. In addition, timing is important, and a potential problem is that the EIP is being implemented too late: regional authorities are already discussing the focus of their measures, but the content and functioning of the EIP remains only vaguely known. This is one of the actions whose contents should be clarified as soon as possible, and the process should be accelerated.

Innovation is also inherently related to other measures, such as investment, research and advisory systems: the coherence among these measures and the ability to exploit cross-measure provisions in order to build consistent innovation actions will be a key issue in the next RDPs.

This is also one of the measures for which the need to look beyond the regional level is more urgent. The expectation to build innovation independently in each region based on local resources (e.g. research centres) and needs (local demand for innovation) is far from the reality of globalised innovation processes. Hence, the transnational dimension of this component of RDPs could become the real strategic feature for success.

Needless to say, this area of policy may be the one that is most prone to failure, in particular in light of past experience with innovation-oriented policy. Accordingly, particular attention is required to make sure that the programming authorities have the necessary expertise and support for a fruitful implementation.

### Risk

Risk measures are high on the agenda in times of significant price volatility, economic crisis and climate change. The current proposal provides a wide range of action under Article 37, including:

- financial contributions for crop, animal and plant insurance against economic losses caused by adverse

climatic events, animal or plant diseases or pest infestation;

- financial contributions to mutual funds for economic losses caused by the outbreak of an animal or plant disease or an environmental incident;
- an income stabilisation tool, based on financial contributions to mutual funds, providing compensation to farmers who experience a severe drop in their income.

Their inclusion in RDPs is welcome in general, though a number of questions could be raised: How will this cooperate with other policy actions? Are the programming authorities the best level to implement risk-related measures? Will the RDPs and competing measures have sufficient budgets for these measures? With regard to the last question, we note the heterogeneity of the measures listed, which hints at the potential for very different implementation mechanisms and high transaction costs compared to the final relevance of the measures. Nonetheless, perhaps this will be a good opportunity to test these measures for future wider applications.

A relevant issue is risk management for investments related to innovation promoted by the RDP measures. Particularly for actions that may have a high level of institutional or environmental risk, actions taken by the RDP itself to control for some typologies of risk may provide a relevant incentive (e.g. unexpected administrative costs due to local regulations and failures due to climatic conditions or pests).

### Connection with Non-agricultural Policies

During the past programming period, the crucial problem in some areas of intervention was the need to co-ordinate actions with other policies. A critical example is the Water Framework Directive (WFD). WFD bodies are eager to look at potential sources of financial incentives to implement measures included in the WFD district management plans. RDP measures were available which aimed at providing compensation to farmers facing constraints imposed by WFD implementation. However, the key prerequisite for this compensation was the existence of a concrete normative basis at the local level in time for the design of the RDP measures – something that was often lacking during the previous implementation period. This draws attention to the problem of timing in policy coordination. Moreover, it raises the issue of coordination among different norms as well as among different directorates at both the EU and local levels. Needless to say, this kind of coordination is often hindered by the complex

relationships and conflicts among different jurisdictions in the programming process.

### Process: Decision-making and Evaluation

In spite of the very extensive monitoring and evaluation system, the RDPs still struggle to show their relevance in the rural economy and their positive impacts on the environment.

The current model of monitoring, evaluation and reporting, based on the Common Monitoring and Evaluation Framework (CMEF), provides a rather sophisticated logical framework and requires considerable data collection and documentation by the programming authorities. However, the additional impact of measures promoted by RDPs remains difficult to elicit. This does not mean that the effects are not there. The difficulties are largely due to the complexity of measures and effects, as well as to the number of driving forces which have effects in opposite directions and which can have much higher relevance compared to the financial relevance of RDPs.<sup>6</sup>

In spite of the alternative techniques brought to the debate and the increasing availability of indicators and concepts able to contribute in theory to the measurement of RDPs' effects, it is almost certain that in seven years' time, what we know about the actual effectiveness of RDPs will be no greater than what we know today. The new measures are even more difficult than those instituted previously with regard to targeting and *ex post* evaluation. Targeting was rarely achieved satisfactorily when the main issues, e.g. those related to the environmental field, were mainly related to physical or ecological features. It will be even more difficult to target and evaluate measures in which farmers' individual attitudes and abilities are the key determining factors and in which the actual outcome is a function more of external drivers than of individual will and efforts.

### Discussion and Perspectives

There has been much debate in recent years regarding the extent to which RDPs have actually contributed to rural development. On one hand, the expectation of additional reinforcements in this direction is part of the present debate about the post-2013 CAP reform. On the other hand, in the longer term, the rural development pillar of the CAP could be seen as the forerunner in rede-

signing the old subsidy-based agricultural policy into an EU bioeconomy policy.

While both ambitions will probably remain unsatisfied in the short term, the present version of the RDP proposal may still be open to different interpretations. Some may claim that it is quite innovative. Others will likely argue that it is just the old policy in new clothes. In fact, the text seems to introduce a number of new provisions that could allow for innovative activities. This will require creativity and innovativeness on the part of programming authorities, as well as clear implementation guidance documents, to exploit the potential of these "empty boxes". The implementation rules themselves do not seem very new, in that they seem to focus on the "usual" allocation of funds and responsibilities, which inevitably contributes to making this funding line so interesting from the local point of view but also so path-dependent when it comes to practical implementation.

Given the scope of the budget for RDPs, a key task is not only to inject new funds, but also to provide "informative" incentives, i.e. funding which provides exemplary evidence about the directions in which technology and institutional priorities are changing. For example, over the past twenty years, this approach resulted in the creation of environmental awareness among farmers. If the overarching objective of Europe 2020 is innovation, RDPs seem to be fit for the purpose in principle, but their effectiveness will depend on the local allocation of budgetary resources across measures and the willingness and ability of local authorities to more explicitly convey the overall cultural message. In addition, successful actions in the field of innovation require a cautious balance between public action, critical mass and chain coordination, and an entrepreneurial attitude on the part of individuals. In this sense, the RDPs will probably need to be more explicitly devoted to supporting "weak networks" able to allow private initiatives to emerge rather than forcing individuals to adopt top-down established technologies or strategies. Finally, a key component of the programmes could be the mechanisms of knowledge exchange. Here in particular the risk that old models that have failed in the past, especially in the field of extension services, are brought back to life appears to be high. This is particularly relevant for advice and innovation measures. It should also be extended to trans-European collaboration: RDPs clearly need to go beyond localisms and find pan-European or even worldwide alliances that focus on innovation. The potential is there, but implementation may yield completely different outcomes.

The key question remains: if the devil is hidden in the details, can the same be said of virtue?

6 F. Bartolini, D. Viaggi, J. Bryson, A. L. Silburn, Y. Desjeux, L. Latruffe, T. Kuhlman, L. Juvancic, T. Travnikar, R. Berges, A. Piore, S. Uthes, I. Zasada: Report on data screening and qualitative identification of causal relationships, SPARD deliverable 5.1, 2011.

Christophe Crombez, Louise Knops and Johan Swinnen

## Reform of the Common Agricultural Policy Under the Co-decision Procedure

2012 is a crucial year for the future of the Common Agricultural Policy (CAP) of the European Union. A new reform is being prepared. Past reforms of the CAP have been extensively studied and analysed. A key issue in the current discussions is the impact of changes in the EU decision-making structure. The Treaty of Lisbon (2007) changed the rules under which agricultural policy is set in the EU. Specifically, it altered the influence of the European Parliament on the CAP in two important ways: it expanded the EP's role in the budgetary process, and it modified the legislative procedure that applies to the CAP, introducing co-decision to replace consultation. In this paper we focus on the latter modification.

Co-decision was first introduced in 1992 in a number of policy areas other than the CAP. This move represents the most important step in the EP's process of legislative empowerment to date. Co-decision formally recognises the parity between the Council and the EP as legislative bodies, granting the latter a continued involvement in the legislative process. This is an important difference from the consultation procedure, in which EP intervention is only consultative at a specific and defined stage of the procedure. The application of co-decision to the CAP may have important effects on the feasibility of CAP reforms.

Political and institutional changes have played an important role in earlier CAP reforms. Theoretical and empirical evidence suggest that the three major treaties ratified by the EU member states before the Treaty of Lisbon – the Single European Act (SEA) of 1987, the Maastricht Treaty of 1992 and the Treaty of Nice of 2000 – have increased opportunities for policy reform. The SEA introduced the qualified majority voting (QMV) rule in the legislative process, which prevented the most “status quo-oriented” member states from blocking a reform. The Maastricht Treaty gave the EP and a qualified majority in the Council an opportunity to amend the Commission's proposals, and the Treaty of Nice changed the Commission appointment procedure<sup>1</sup> by introducing QMV. Major CAP reforms, such as the MacSharry and Fischler reforms, have been carried out due to a conjunction of

internal and external factors but also due to changes in decision-making rules (e.g. the 2003 Fischler reform occurred just after the Treaty of Nice).

The objective of this contribution is to evaluate the implications of the adoption of co-decision for future CAP reform. Several studies have evaluated the increasing influence of the EP on EU policy outcomes. Some provide a descriptive account of this increasing influence. They consider how treaty modifications have affected the distribution of powers among EU institutions and explain how the EP has been able to exploit its new powers to increase its impact on legislation.<sup>2</sup> Others approach the problem analytically. For example, they consider the number of amendments successfully proposed by the EP under different procedures as a measure of its legislative power.<sup>3</sup> However, none of these studies focus on the role of the EP in the CAP.

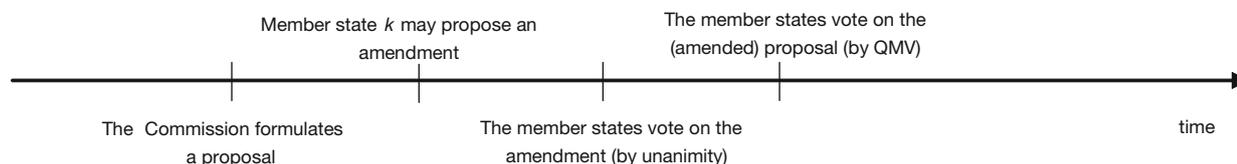
An empirical study of the EP's influence on the CAP and the likelihood of CAP reform under co-decision requires a large database on different issues involved in the CAP and the way they have been settled under consultation and co-decision. Since co-decision has only been applied to the CAP since December 2009, we cannot compare the numbers of successful EP amendments on the CAP under consultation and co-decision to evaluate the EP's powers under co-decision and the likelihood of CAP reform.

1 Before the Treaty of Nice, the Commission was appointed by the member states' governments by a “common accord” (Europa, Summary of Legislation).

2 M. Shackleton: The Politics of Codecision, in: *Journal of Common Market Studies*, Vol. 38, No. 2, 2000, pp. 325-342; R. Corbett, F. Jacobs, M. Shackleton: The European Parliament at Fifty: A View from the Inside, in: *Journal of Common Market Studies*, Vol. 41, No. 2, 2003, pp. 353-373; A. Maurer: The Legislative Powers and Impact of the European Parliament, in: *Journal of Common Market Studies*, Vol. 41, No. 2, 2003, pp. 227-247.

3 D. Earnshaw, D. Judge: The European Parliament and the Sweeteners Directive: From Footnote to Inter-Institutional Conflict?, in: *Journal of Common Market Studies*, Vol. 31, No. 1, 1993, pp. 103-116; D. Earnshaw, D. Judge: The Life and Times of the European Union's Cooperation Procedure, in: *Journal of Common Market Studies*, Vol. 35, No. 4, 1997, pp. 543-564; D. Judge, D. Earnshaw: Weak European Parliament Influence? A Study of the Environment Committee of the European Parliament, in: *Government and Opposition*, Vol. 29, No. 2, 1994, pp. 263-276; P. Moser: The European Parliament as a Conditional Agenda Setter: What are the Conditions? A Critique of Tsebelis (1994), in: *American Political Science Review*, Vol. 90, No. 4, 1996, pp. 834-838; A. Kreppel: What Affects the European Parliament's Legislative Influence? An Analysis of the Success of EP Amendments, in: *Journal of Common Market Studies*, Vol. 37, No. 3, 1999, pp. 521-537.

Figure 1  
The Sequence of Events Under the Consultation Procedure<sup>1</sup>



<sup>1</sup> We assume for simplicity that only one member state  $k$  is selected to propose an amendment and that it can decide whether or not to use that opportunity.

At this point there is merely some anecdotal evidence that the EP is behaving differently under co-decision, moving away from position-taking and towards responsible policy-making and acquiring more influence in the process.

For these reasons, Crombez and Swinnen<sup>4</sup> use a theoretical approach based on spatial models. Such models explain policy outcomes as a function of legislative procedures, the preferences of political actors and the location of the status quo.<sup>5</sup> Spatial models have also been applied to the CAP to study how the institutional setting increases or depresses the likelihood of reform.<sup>6</sup>

In the first part of this paper we draw on these models to conceptually identify the key expected effects of these institutional changes in terms of the scope for policy re-

form and the institutions' powers. In the second part, we relate this to empirical observations on the EP's role in the ongoing CAP reform by underlining the constraints it faces at this stage of the process. Finally, the impact of these constraints on the policy outcomes is discussed.

### The Consultation and Co-decision Procedures: Conceptual Issues

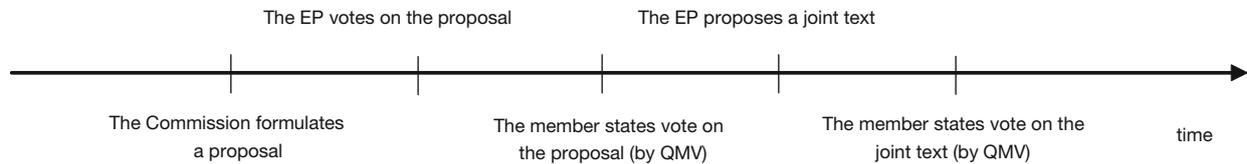
Before the Treaty of Lisbon, the CAP's legislative procedure was the "consultation" procedure. Consultation started with a legislative proposal presented by the Commission. The Commission submitted the proposal to the EP and the Economic and Social Committee (ESC). Those bodies had a consultative role. The ESC expressed its opinion over the proposed legislation, and the EP could propose amendments.

The EP amendments were evaluated by the Commission, which could (but was not required to) include them in its proposal. The proposal was then submitted to the Council. For the evaluation of the proposal, the Council worked with its Special Committee on Agriculture, the body in which the member states discuss technical rather than political aspects of agricultural policy. This Committee played the same role that the Committee of Permanent Representatives, which consists of the member states' Ambassadors to the EU, does in other policy areas. The Council voted on the proposal under qualified majority rule. Each member state could propose amendments, which were voted on under the unanimity rule. Finally, the member states could approve the (amended) proposal by qualified majority. The sequence of events under consultation is shown in Figure 1.

The situation is very different under the co-decision procedure, which was first introduced by the Treaty of Maastricht in 1992. The use of co-decision was extended by the Amsterdam, Nice and Lisbon Treaties in 1997, 2001 and 2007 respectively. It has applied to the CAP since the ratification of the Lisbon Treaty in 2009.

- 4 C. Crombez, J. Swinnen: Political Institutions and Public Policy: The Co-Decision Procedure in the European Union and the Reform of the Common Agricultural Policy, LICOS Discussion Papers 28611, LICOS – Centre for Institutions and Economic Performance, KU Leuven, 2011.
- 5 B. Steunenberg: Decision Making Under Different Institutional Arrangements: Legislation by the European Community, in: *Journal of Institutional and Theoretical Economics*, Vol. 150, No. 4, 1994, pp. 642-669; G. Tsebelis: The Power of the European Parliament as a Conditional Agenda Setter, in: *American Political Science Review*, Vol. 88, No. 1, 1994, pp. 128-142; C. Crombez: Legislative Procedures in European Community, in: *British Journal of Political Science*, Vol. 26, No. 2, 1996, pp. 199-228; C. Crombez: The Codecision Procedure in the European Union, in: *Legislative Study Quarterly*, Vol. 22, No. 1, 1997, pp. 97-119; C. Crombez: Institutional Reform and Co-decision in the European Union, in: *Constitutional Political Economy*, Vol. 11, No. 1, 2000, pp. 41-57.
- 6 H. de Gorter, J. Pokrivcak, J. Swinnen: The 'restaurant-table' effect: Europe and the common agricultural policy, in: T. Yildirim, A. Schmitz, W. Hartley Furtan (eds.): *World Agricultural Trade*, Boulder 1998, Westview Press, pp. 147-164; J. Pokrivcak, H. de Gorter, J. Swinnen: Does a 'Restaurant Table Effect' exist with the EU's Common Agricultural Policy?: A Note, in: *Journal of Agricultural Economics*, Vol. 52, No. 3, 2001, pp. 28-30; C. Henning, U. Latacz-Lohmann: Will enlargement gridlock CAP reforms? A political economy perspective, in: *EuroChoices*, Vol. 3, No. 1, 2004, pp. 38-43; J. Pokrivcak, C. Crombez, J. Swinnen: The Status Quo Bias and Reform of the Common Agricultural Policy: Impact of Voting Rules, the European Commission and External Changes, in: *European Review of Agricultural Economics*, Vol. 33, No. 4, 2006, pp. 562-90.

Figure 2  
The Sequence of Events Under the Co-decision Procedure<sup>1</sup>



<sup>1</sup> The second reading is analytically irrelevant, because it is similar to the first. For that reason it is not represented in the figure. For simplicity we assume that the EP proposes the joint text. In reality the member states could also formulate it, and there may be different rounds of proposals and amendments, but the results would not be significantly different.

Under co-decision, the Commission formulates a proposal. The EP votes on the proposal, and then the member states vote on it (by qualified majority). These two steps are considered as the first reading, which is similar to the consultation procedure. The EP can propose amendments, the Commission can subsequently choose whether to include them in its proposal and finally the Council votes on the proposal. The Council can approve the proposal by qualified majority, whereas unanimity is required for amendments. If the EP and the Council pass the same version of the proposal, the proposal is adopted. If they pass different versions, however, the process moves on to a second reading.

The second reading is similar to the first. Once again, if the EP and the Council pass the same version of the proposal, it is adopted. If they pass different versions, a Conciliation Committee is convened in what is usually referred to as the “third reading”. In the Conciliation Committee, representatives of the EP and the Council directly negotiate a compromise, referred to as a “joint text”. The joint text needs to be approved by the EP and a qualified majority in the Council for adoption. If conciliation fails to reach an agreement, the procedure ends, and no proposal is adopted. Figure 2 summarises the sequence of events under co-decision.

Hence, compared to the consultation procedure, the co-decision procedure enhances the EP’s role in two important ways. First, it gives the EP a veto right on legislation. At no stage in the process can a proposal be adopted without the consent of the EP. Second, together with the Council, the EP can amend Commission proposals. In contrast to the EP, with the shift to the co-decision procedure, the Commission has lost much of its formal influence over the legislative process, especially in the Conciliation Committee.

### Some Implications

There are important implications, such as a higher likelihood of gridlock. Both legislative procedures lead to

gridlock if no qualified majority is reached. If there is no qualified majority in the Council in favour of CAP reform, it does not occur, whether it be under consultation or co-decision. The introduction of co-decision does not alter that. However, there are differences as a result of the different powers the institutions have under the two procedures.

Under consultation, gridlock occurs if the Commission does not agree with a qualified majority (unless all member states agree and unanimously overrule the Commission). This type of gridlock does not occur under co-decision. Instead, co-decision leads to gridlock if the EP does not agree with a qualified majority. Whether there is more gridlock, and thus less CAP reform, under co-decision than under consultation depends on the locations of the preferred policies of the Commission and EP relative to the preferred policies of the pivotal member states.<sup>7</sup>

For example, if the Commission wants to reduce agricultural subsidies, but the EP and a qualified majority want an increase, then there is gridlock under consultation. However, the EP and a qualified majority may be able to push through an increase under co-decision. If the Commission and a qualified majority want to reduce subsidies while the EP wants to increase them, there is gridlock under co-decision, but the Commission and a qualified majority are able to reduce subsidies under consultation.

The extent of CAP reform depends on these policy preferences and, under co-decision, the bargaining powers in the Conciliation Committee. If the Commission favours a larger reduction in agricultural subsidies than do the EP and a qualified majority, then the introduction of co-decision will result in a smaller cut. The same is true if the EP or the pivotal member states want a greater cut than the Commission but have little bargaining powers in the Conciliation Committee. If the EP has suf-

<sup>7</sup> For details, see C. Crombez, J. Swinnen, *op. cit.*

efficient bargaining powers and wants a further reduction than does the Commission, or the member states with bargaining powers want a greater reduction, then the introduction of co-decision leads to a larger reduction in subsidies.

As far as the balance of powers between the institutions is concerned, this analysis implies a clear transfer of powers from the Commission to the EP and the member states. Whether the EP benefits more from this transfer than the member states, and which member states benefit more, depends on the location of their ideal policies and their bargaining powers in the Conciliation Committee. The introduction of co-decision reduces the prospects for CAP reform if the EP wants less reform than the Commission does. The extent of reform, however, also depends on the bargaining powers in the Conciliation Committee. Whether co-decision leads to more or less reform than consultation thus hinges on who has bargaining powers in the Conciliation Committee. If the Commission is more pro-reform than the EP and the member states with bargaining powers are, the use of co-decision reduces the extent of CAP reform.

### Empirical Observations

With the CAP reform discussions well under way, we can try to observe to what extent this shift in power is being reflected in the current negotiations and whether the likelihood of gridlock (i.e. the inability to reach a conclusion) has increased or not.

Empirical observations suggest that the theoretical predictions may reflect a long-run equilibrium (as they of course do) but that in the shorter term, the EP may not reap all the benefits of this increase in its formal powers. Several constraints may offset some of its newly acquired influence as co-legislator. These include a lack of resources (in terms of expertise), internal divisions and budgetary pressure. Two concrete factors are also found to increase the likelihood of gridlock: an ideological bias in the Agricultural Committee of the EP (COMAGRI) and a reform schedule which is becoming increasingly difficult to respect.

#### Under-resourced and Isolated European Parliament: An Executive Bias?

A clear – and inevitable – handicap for the EP is that the Commission and the Council have built up working relationships since the inception of the CAP. Indeed, thus far, reforms have been exclusively in the hands of the Commission, ministers and national administrations.

Over time, significant expertise and CAP-oriented capacities have been developed at the highest level both in the Commission and the member states. As underlined by Greer and Hind, the EP's lack of resources in this respect, compared to the two other institutions, jeopardises its ability to deal with “the sheer scale of CAP legislation ..., take full account of costs and benefits and draw up legislative amendments that offer a comprehensive alternative to the proposals drafted by the Commission”.<sup>8</sup> Some argue that the EP needs to rely on the Commission's technical expertise in order to meet the challenge of reform. But an over-reliance on the Commission's technical expertise would work against the ultimate goal of applying co-decision to the CAP, i.e. bringing more democratic legitimacy to this policy field.

Compared to the legislative process in the United States, for example, where Congress can rely on a Congressional Research Service for expertise to drive the US farm bill reforms, there is a clear imbalance towards the “executive” branch of the EU decision-making apparatus. Indeed, in the EU, there is no such thing as an EP expertise service dedicated only to the CAP, and co-decision is carried out by an under-resourced second chamber (the EP) and a first chamber composed of national executives (the Council). This creates what could be called an “executive” bias, unfavourable to strong parliamentary politics.

Today, as the third player in the game, the EP has to catch up on these decades of capacity-building and experience in reforming one of the most technical and cumbersome EU policies. In this sense, one could argue that until the EP enjoys such close relationships with both the Commission and the Council on the CAP and until it is equipped with a similar level of resources (in terms of staff and expertise, for example), it is hard to imagine how its formal increase in powers will materialise.

#### Internal Division in the EP

Since the debate on CAP reform began in April 2010 (with the Public Consultation launched by Commissioner Ciolos), the EP has been a very vocal actor in the discussion, mainly through three key documents: the Lyon, Bové and Dess reports. The first two reports were adopted prior to the Communication of the Commission outlining the main reform options (published on 18

<sup>8</sup> A. Greer, T. Hind: The Lisbon Treaty, agricultural decision-making and the reform of the CAP: a preliminary analysis of the nature and impact of ‘co-decision’, Annual Conference of Agricultural Economic Society (AES), University of Warwick, April 2011, p. 14.

November 2010), while the Dess report was the Parliament's official response to it. The earlier Lyon and Bové reports were adopted with large majorities and reflected a high level of consensus on agricultural issues, even among the different political groups of the EP. These consensus efforts put the EP in the position of a strong negotiation partner vis-à-vis the EC and the Council. However, this was only temporary, and real differences in CAP preferences soon emerged. The Dess report was heavily criticised. The disputes spurred by this report revealed cracks in the EP's relative unity on CAP. More recently, this has been somewhat confirmed by the "confiscation" of the CAP reform reports by the two largest political groups in the EP, which offset the benefits of consensus building shown in previous reports.

The Green MEPs sitting on COMAGRI, who are not taking part in the drafting process (together with the Liberals and other smaller groups), deplore the conservative line adopted by the two largest groups, who seem to favour the status quo rather than the development of a "progressive" alternative on CAP reform.<sup>9</sup>

It is too early to draw any firm conclusions regarding the contents of the EP's response to the Commission's proposals. However, beyond the technical discussions on greening, capping, etc., one report seems to be attracting most of the attention and criticism of the largest farm lobbies. By calling for more market management measures, Dantin<sup>10</sup> somewhat contradicts the deregulation move taken by the Commission over past reforms. In his report, he specifically calls for strong market regulation in the dairy sector and an extension of the sugar quota rules until 2020. These preliminary observations suggest that the EP's relative unity achieved during the years leading up to CAP reform has been watered down by internal divisions.

### Budgetary Context

While the EU budget is traditionally seen as a strong driver of reform, some argue that current talks on the EU's Multiannual Financial Framework (MFF)<sup>11</sup> are dictating discussion on the CAP, leaving very little room for manoeuvre to the EP. The MFF proposals of the Commission (published on 29 June 2011) included a very specific "policy fiche" on CAP reform, giving precise in-

dications months before the EC published its legislative proposals (12 October 2011).

The EP reports and the votes are highly contingent upon the budget talks, and the EP is reluctant to make any formal decision until there is more clarity on the level of budget. In recent months, MEPs of the COMAGRI have been discussing the different options available to move forward with their reports without proceeding to a vote. They finally agreed that no plenary vote should be scheduled before the final deal on the MFF, foreseen to be struck at the December Council.<sup>12</sup> Now it seems that even this prediction is optimistic. As Matthews describes in a recent post, striking a deal over the next weeks on how a trillion euros should be spent in the years 2014-2020 "smacks more of hope than reality".<sup>13</sup>

Divergences within the Council – which explain the difficulty of striking a deal – cover all issues (market measures, greening, capping, young farmers, small farmers, active farmers, etc.), but the hottest topics are the pace and scale of internal convergence and the overall level of the CAP budget. While the Cyprus Presidency has acknowledged the option of budgetary cuts, member states do not agree on the extent of these budget reductions. The UK (followed by a group of net contributing countries, including Germany) is looking at a reduction beyond €100 billion in commitments,<sup>14</sup> while other (beneficiary) countries oppose the cuts as such, pointing to the need for growth investments in times of recession. Through an opinion by MEP De Castro, COMAGRI chairman, the MEPs have threatened to veto a deal that does not cover their policy priorities.<sup>15</sup>

The strong budget-driven nature of CAP reforms is no novelty, but it is accentuated today by the context of severe austerity. As the budgetary room for manoeuvre tightens, the usual battle between net contributors and beneficiaries of the CAP is exacerbated, and its share of the EU budget is under unprecedented levels of pressure.

### Ideological Bias in the Committee?

In all policy fields, parliamentary committees have a crucial role to play, and votes in the plenary sessions are often in line with political agreements reached inside the committees. Committees form the "backbone" of

9 AgraFacts, No. 69-12, agrafacts.com.

10 M. Dantin: Draft Report on the Single Common Market Organisation (CMO) regulation proposal, [http://www.europarl.europa.eu/document/activities/cont/201206/20120619ATT47248/20120619ATT47248\\_EN.pdf](http://www.europarl.europa.eu/document/activities/cont/201206/20120619ATT47248/20120619ATT47248_EN.pdf).

11 The EU budget for the next seven years, 2014-2020.

12 AgraFacts, No. 15-12, agrafacts.com.

13 A. Matthews: How close is the EU to agreement on spending one trillion euro?, 30 September 2012, capreform.eu.

14 AgraFacts, No. 80-12, agrafacts.com.

15 European Parliament, COM(2011), 0398-2011/0177(APP).

parliamentary activities.<sup>16</sup> This is particularly the case for the Agricultural Committee, which has historically been composed of members with strong “agricultural” ties (whether from the national political scene, the academic world, the agro-food industry, farm unions or the farming community itself). This phenomenon has been encouraged by the widespread belief in “agriculture’s exceptionalism”, i.e. the idea that agriculture is a sector like no other, which, as a consequence, has been sealed from other policy fields for decades. A corollary of this specificity is that agricultural policy-making in the EU “occurs in a regularized setting of stable relationships”, which reflects the persistence over time of a “state-assisted paradigm” directly linked “to the durability of agricultural exceptionalism”.<sup>17</sup>

With the Lisbon Treaty and the new powers for MEPs sitting on COMAGRI, there was hope that “non-farm-related members” would be attracted to this committee and bring their perspective to the debate,<sup>18</sup> thereby going beyond sectoral (agricultural) interests. This has not happened, however. The majority of the 44 COMAGRI full members are former agricultural ministers or secretaries of state, agricultural advisors, farmers’ unionists, members of farming associations, doctors in agricultural studies or farmers themselves.<sup>19</sup> In sum, the nature of the COMAGRI membership seems to be roughly the same as in the past, in effect failing to reflect the plurality of interests linked to agricultural and rural policy.

As a consequence, the COMAGRI has a reputation as “a conservative forum welded to the defence of vested interests”.<sup>20</sup> In fact, if traditional (pro-status quo) agricultural interests find an echo in a more powerful COMAGRI, potential CAP reforms may be made more difficult by the new co-decision rules. In other words, this would mean that “co-decision might actually strengthen the

hand of status-quo oriented players in the CAP by giving them the legitimacy of EP-backed legislation”.<sup>21</sup>

A clear illustration of this bias is the internal distribution of parliamentary reports amending the Commission’s legislative proposals; out of the six reports, none have been allocated to MEPs representing the Liberal or the Green political groups traditionally seen as progressive political forces.<sup>22</sup> This bias would be exacerbated in the case of a first reading agreement on CAP reform, where the plenary vote can only confirm the outcome of the deal between agriculture ministers and COMAGRI. A second reading agreement is more likely to get “non-agricultural” MEPs involved and a wider range of ideas reflected in the EP’s input to reform the CAP.

### Time Schedule

As explained above, the first co-decision experience in the context of CAP reform took place under the rapporteurship of German MEP Dess (EPP). After over 1200 amendments, whittled down to about 60 compromise amendments,<sup>23</sup> the final report was adopted at the EP plenary session of June 2011. Looking at this first “co-decision” experience on the CAP is a useful indication of the potential difficulties the EP may face when amending the Commission’s legislative proposals; it shows the procedural consequences of the new institutional set-up and the potential delays the latter may create. Seven months went by between the publication of the Commission’s Communication – a 12-page document released in November 2010 – and the adoption of the EP’s response to it in the plenary session of June 2011.

Unsurprisingly, the first draft reports on the Commission legislative proposals (published in October 2011) have also generated a significant amount of amendments (around 2000 for each proposal), which are now being boiled down to compromise amendments in view of a committee vote, and ultimately a vote in the plenary. Today, over a year after the publication of these proposals, we still do not have a precise idea of when this vote will actually take place. Dantin has recently

16 C. Roederer-Rynning: From ‘Talking Shop’ to ‘Working Parliament’? The European Parliament and Agricultural Change, in: *Journal of Common Market Studies*, Vol. 41, No. 1, 2003, pp. 13-35.

17 G. Skogstad: Ideas, Paradigms and Institutions: Agricultural Exceptionalism in the European Union and the United States, in: *Governance*, Vol. 11, No. 4, 1998, pp. 466, 479.

18 C. Roederer-Rynning: The Common Agricultural Policy: the Fortress Challenged, in: H. Wallace, M.A. Pollack, A.R. Young: *Policy-Making in the European Union*, 6th Edition, Oxford 2010, Oxford University Press.

19 The CVs of each Member sitting on the Committee for Agriculture and Rural Development are accessible at <http://www.europarl.europa.eu/members/expert/committees/search.do?committee=2870&language=EN>.

20 C. Roederer-Rynning: *The Common Agricultural Policy*, op. cit. p. 119.

21 C. Roederer-Rynning, F. Schimmelfennig: Bringing codecision to agriculture: a hard case of parliamentarization, in: *Journal of European Public Policy*, Vol. 12, No. 7, 2012, pp. 951-968.

22 L.M. Capoulas Santos (Socialist, Portugal): proposal on direct payments, proposal on rural development and proposal on transitional measures for 2013. M. Dantin (EPP, France): proposal on a single CMO. G. La Via (EPP, Italy): proposal on financing, management and monitoring. H. Dorfmann (EPP, Italy): proposal on support to vine-growers. While report allocation must reflect the political weight of political groups in the EP (with the EPP and S&D leading), it is extraordinary that no report of such an important and large legislative package was allocated to any other political group.

23 AgraFacts, No. 43-11, [agrafacts.com](http://agrafacts.com).

acknowledged that the EP COMAGRI vote would “more than likely” take place in January 2013, possible as late as the 31st.<sup>24</sup> MEPs would apparently rather take a few more weeks rather than compromise the overall quality of the final reports.

In this context, there is currently much talk about the potential delays that co-decision may bring and stakeholders fear that the new CAP will not be ready for implementation by 1 January 2014, especially in the light of a potential deadlock in the MFF negotiations (see above). Having seen the pace at which negotiations are currently unfolding and the divergences of positions within the Council, a delayed CAP reform scenario has become a credible one. As explained by the EP legal services, a political agreement on the MFF ceilings needs to take place at least one year before the framework enters into force.<sup>25</sup>

Finally, some MEPs are arguing that the redesign of such a crucial policy should not be jeopardised by a tight schedule. If, under the pressure of the Commission and the Council, the EP “rushes” its part of the process, the quality of its contribution to CAP reform may well be undermined. This would be counter-productive for policy outcomes overall and for the EP’s future track record on reforming the CAP.

## Conclusions

In the first part of this paper, we developed and used spatial models of EU decision-making to examine the effects of changes in the legislative procedure on CAP decision-making. The move from the consultation procedure to the co-decision procedure has led to a redistribution of formal legislative powers between the Commission and the EP. As pointed out above, the Commission loses the formal powers it had under consultation. At the same time, the EP gains legislative influence over the policy outcome. Formally, co-decision requires that the Council and the EP agree on a policy in order to positively close a co-decision dossier. This is the main difference with respect to consultation, in which the EP exerts a consultative role with no direct influence over legislation.

The consequences of the move from consultation to co-decision depend on the preferences of the EP, the Commission and the member states, the location of the status quo and the bargaining powers in the Conciliation Committee. If the EP and the member states with bargaining powers in the Conciliation Committee are more (less) op-

posed to reform than is the Commission, the use of co-decision leads to less (more) reform. If both the Commission and the EP want more (less) reform than the pivotal member states, the move to co-decision has little impact, and the little impact there is depends on the bargaining powers of the EP in the Conciliation Committee.

In the second part of our analysis, we looked at how we could link these theoretical predictions to empirical observations. While we do not know yet whether the reform of the CAP will be adopted through a first- or a second-reading agreement nor what the position of the EP in the Conciliation Committee will be, our observations suggest that the move to co-decision may increase the probability of gridlock.

We show that, despite current uncertainties, the EP may not reap the benefits of the formal increase of power, as many constraints offset its newly acquired influence as co-legislator. These include a lack of resources, internal division and a budgetary context which leaves very little room for the EP to develop its own policy options. We also discuss two concrete elements which enhance the likelihood of a deadlock: not meeting the 1 January 2014 deadline (because of procedural delays but also a potential deadlock in the MFF negotiations) and a resistant-to-change COMAGRI inside the Parliament.

Most strikingly, it seems that despite COMAGRI’s increased power, this policy field has not attracted new members beyond traditional interests, thereby confirming the already strong conservative character of this policy. This means that the EP’s influence on the reform may not be in line with what European citizens are calling for, i.e. a profound policy reform, but rather a continuation of what agricultural interests have been fighting for for decades, i.e. policy status quo.

Nevertheless, despite these constraints and their impact on the probability of gridlock, we also suggest that the EP’s new role will by no means be merely superficial. First, evidence already shows that the EP is determined to make its own voice heard, including on the budget, where it is threatening to veto a Council deal that would result in budgetary cuts. Second, some MEPs are attempting to open an alternative path to the market orientation introduced by the Commission by trying to re-introduce some market management measure in the Single CMO report.

The next weeks and months will give us a more precise indication of the extent of the EP’s influence on the policy outcomes and on whether it will manage to leave a real imprint on the EU’s agricultural policy.

<sup>24</sup> AgraFacts, No. 80-12, agrafacts.com.

<sup>25</sup> European Parliament, IP/B/AGRI/NY/2011\_12.