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Capping the CAP?

All is not well in the European Union. The latest episode of a modest proposal by the Commission and the vigorous resistance from some member states has not exactly improved the dismal situation in which the EU finds itself. Once again, national egoisms seem to prevail over the common good. Commissioner Franz Fischler has presented a modest reform proposal in his Mid-Term Review of the Common Agricultural Policy (CAP) and the reaction from national governments clearly reflects how much it affects their pocket-books in the short term. France and Spain, the biggest net recipients of EU funds under the CAP, reject it, supported by Italy and other net recipients. Germany, Britain, the Netherlands and other net contributors welcome the idea in principle since they could expect, in the medium to long term, to have to pay less. While the idea is welcomed in principle, it is also clear that even the latter group cannot accept the proposal in its present form. Germany, for instance, demands deeper cuts to achieve a significant reduction in its net contributions. At the same time, it does not like the idea that the maximum annual subsidies going to one farm should be restricted to € 300 000 since this would mean that the large agricultural enterprises in eastern Germany would face significant income losses. In other words, the position is simple: paying less to Brussels is fine, but receiving less from Brussels is not so fine.

This is a shame because the idea has a lot going for it. It would be good for the EU internally and also improve the external standing of the EU. So what is considered so outrageous in Fischler's proposal? At the moment, Fischler's proposal basically reinforces the trend of decoupling income support for farmers from production and reallocating funds from supporting the (over)production of agricultural goods to direct subsidies to farmers. Instead of producing wine and milk lakes farmers should get paid for protecting the environment and producing in a healthy and environmentally friendly way. Payments would be made conditional on environmental, food safety, animal welfare and occupational safety standards. Thus, farmers would receive money for cultivating land, keeping it in use and for living in the countryside. To make this reallocation possible, Fischler wants to cut subsidies by 3% annually until his cumulative savings have reached 20% by the year 2010. (From this so-called modulation, small farms are exempted.) But not all the money should be reallocated; the small sum of € 200 million should be saved each year.

But there are clear losers of such a reform. First of all, farmers might not at all like it that they will only receive money once they have been scrutinised regarding their methods of production and that they will be audited. In addition, payments for rural development (as the Commission calls it) will be based on present payments, the area under cultivation, the number of employees and "some welfare criterion". Especially the fact that French farmers tend to farm intensively could imply that they lose from this new formula. In eastern Germany the large farms, successors of the large communist combines, will mostly suffer from the cap on direct payments of € 300 000. Some farmers in the east accordingly voice their suspicion that Fischler was actually aiming at them when he concocted his sinister plan. Not surprisingly the German minister, Renate Kühnast, has already promised that this cap will not be implemented.

But Fischler's proposal is not so revolutionary after all; it is modest and it has a lot of exemptions (like, for instance, producers of olive oil) to get more countries into his boat.

So while it is a step in the right direction, he still wants too little. And it is certainly not too early, independent of the French position that in 2006 even the most radical proposals could be discussed, but just not now! Their argument is that this was supposed to be a Mid-Term Review of the Agenda 2000 and not a complete overhaul. That things will be easier in 2006, however, is highly unlikely, and it might by then already be a discussion among countries in an enlarged EU. Given that the candidates tend to have a larger agricultural sector than the current members, it is illusionary to believe that they would vote for a reduction in payments. It is also illusionary that present net contributors would be willing to shoulder an even larger burden. Adopting the Commission's modest proposal now might, in other words, be the only way to avoid a serious political crisis in 2006.

In any case, the Commission's proposal can only be the first step of a much larger reform. In light of the fact that almost half of all the money Brussels spends is spent on the CAP (amounting to some € 40 billion a year) this is overdue. In the present situation, EU farmers are among the most generously supported farmers in the world; they receive 35% of their incomes from subsidies, compared to 21% in the US and only 1% in New Zealand. (Farmers in Switzerland, Norway and Japan receive up to more than two-thirds of their incomes in subsidies.) The CAP is moreover highly inequitable: 80% of the subsidies paid out go to only 20% of the farms. This already indicates that the CAP has nothing to do with preserving the romantic image of small farms and a traditional rural life-style. In fact, Fischler's reform might bring the CAP closer to that image than it currently is.

Since the money Brussels spends is coming from taxpayers, they should clearly benefit from a reduction in spending. But the current support for farmers also ensures that product prices are well above the world market level. It is estimated that consumers pay around 15-20% more for agricultural products than they would without the CAP; this amounts to some € 600 a year for the average European family. Not surprisingly, a large majority of consumers want a reform of the CAP. Eurobarometer polls show that about 60% of European consumers would welcome a shift to direct support for farmers.

A reduction of subsidies for production would also imply that fewer European agricultural products are dumped on world markets at subsidised prices. This hurts developing countries and hinders their access to European markets. The principle of "trade not aid" would greatly be fostered by such a change in the CAP and thus also help developing countries. In addition, the WTO negotiations that are under way will also deal with agriculture. It is to be expected that Fischler's proposal will in some way or another also be among the measures that a successful WTO round would produce. Since his proposal means a reduction in the distortions in world trade, it would clearly strengthen the EU's position in the WTO.

There is still a chance, though, that Fischler will be successful against the opposition of France and others. The reform proposal concerning the CAP will only have to find the support of a majority of member countries; it does not require unanimous consent. That means the chance that supporters of a reform can outvote opponents. At the same time, however, it is hard to imagine that such a far-reaching reform would be implemented against the opposition of major countries. What is likely to happen, in the best time-honoured tradition of the EU, is that a compromise will be struck. If the proposal is not rejected *in toto*, it will be watered down just enough to not hurt anybody seriously. The appetite for radical reforms seems to be generally low. In Germany it is particularly weak because of the September elections. All in all, one might confidently expect that not much will come of this and that we will have to wait just a bit longer to see serious reforms in the EU.

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