

The Health Check is concluded; let us now reflect on the CAP post 2013

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Introduction

After a laborious process that lasted exactly one year, on November 20 last year the Health Check of the CAP was concluded. According to the Agricultural Commissioner, Mrs Fischer Boel, its aim was to “fine-tune the 2003 reform and contribute to the discussion on future priorities in the field of agriculture.” (European Commission, 2007). The goal of this article is to evoke a collective reflection. The analysis does not want to enter into the technical details of the complex decisions contained in the concluding document of the Health Check. Rather the objectives of this article are twofold: (a) to examine if, with the final compromise on the Health Check, the Fischler Reform has been completed effectively; (b) to evaluate if and how the conclusions of the Health Check can contribute to define the characteristics of a CAP that is convincing and durable for the post 2013 period.

Has the Health Check completed the Fischler Reform?

To answer this first question it would be a good idea to recall the framework of the 2003 reform. Although having begun as a simple "mid term review" of Agenda 2000, the Fischler reform received very favourable remarks for the global balance of the adopted solutions. On one hand, a decoupling between payments and agricultural production had been realised once and for all (except residual cases of coupling to be eliminated with time); on the other hand, with the Single Payment Scheme, a solution was found that did not penalize those that, in following the indications of the CAP until then in force, had invested in the productive sectors in which prices would no longer be supported.

The really positive judgement of the Fischler reform is therefore linked to its capacity to release, without trauma, the farmers of its impairing policies that, while altering artificially the signals of the market, constructed rent positions that: a) impeded business management and generational renewal; b) provoked distorted distributive effects, favouring a limited number of farms and the more endowed territories; c) put obstacles in the way of the process of European integration (in particular to the detriment of the new Member States); d) put Europe in conflict with the rest of the world, in an international context of expansion and of the opening up of markets. But it is evident that the adopted solution had a transitional character.

Right from the first proposals, it was clear the Health Check of the CAP did not have this transitional nature, which was the inspiration of the Fischler reform, as a point of reference. It suffices to observe how the starting document was essentially concentrated on the first pillar, only addressing the second pillar indirectly and in a disorganised manner. In fact, despite the declarations by Mrs Fischer Boel: "rural development must form part of the so-called CAP Health Check" (Fischer Böel, 2007a) and "rural development policy ... this is where music is playing" (Fischer Böel, 2007b), the document lacked an analysis of the of health state of the second pillar, although it is going through a particularly critical phase of slow and problematic implementation: at the end of

the second year of the programming period 2007-2013 a lot of Member States in Europe had not yet put their Rural Development Programmes into full operation. Moreover, Member States often demonstrate that they are quicker in activating the measures that are the easiest ones to manage, while neglecting or postponing the more complex measures, but which are at the same time more innovating and qualifying. For example, until the end of 2007, the rate of implementation at the European level of Axis 2 (environment) was at 81.9%, that of the Axis 1 (competitiveness) was at 15.4% and that of the Axis 3 (rural development) only at 2.2% (European Union, 2008). This difference is not surprising if one considers that Axis 2 is based on the agri-environmental measures and in support to Less Favourable Areas, whose payments were already fixed by contracts of the preceding programming period or consist of annual payments with have a character of continuity connected to the past. The risk is that Member States commit more to spending resources put at their disposal by Brussels, than in spending them well, in a selective manner and based on a strategic vision. Thus, as was mentioned in the past by the European Court of Auditors (2006), Member States run the risk that takes on a dangerous logic of distribution that pays no attention to selection, concentration and finalisation of interventions, and thus to the efficiency and effectiveness of the entire policy.

On the other hand, the initial suggestion to increase modulation (from 5% to 13%) could already be considered slight, in comparison to the 20% originally proposed by Fischler in 2002 (if the aim of the Health Check was to complete his reform, why propose a lower rate of modulation than five years before?). As for the "new challenges" (climate change, renewable energies, water management, biodiversity) the Commission has limited itself by merely drawing up a list, although one could just as well adopt them to develop credible suggestions for future European agricultural policy. In some cases, problems that manifested themselves with the further reform of the first pillar were now brought under the second pillar: the question of the dairy producers in sensitive regions in relation to the progressive abolition of the dairy quotas, the environmental effects of the abolition of set-aside, and so on.

As far as the first pillar is concerned, the content of the initial proposals were more courageous and more explicitly oriented towards finalising the 2003 reform: completion of decoupling, compulsory regionalization, upper and lower limits to direct payments, complete abolition of supply control measures, reinforcement of the former article 69, and the simplification of cross-compliance.

If one views the final results of the Agricultural Council of November 20 in the light of these premises, one can conclude that Mrs Fischer Boel succeeded in defending her position. She has obtained something for practically each of the negotiation points. But, while on the dairy quotas, the abolition of market measures, the complete decoupling as well as on modulation, she had to yield relatively little, on other points such as the regionalization that constituted one of the key elements of her proposals, only remaining as a voluntary option, all will stay in fact unchanged. On other points, such as the new article 68 or the accompanying measures in the dairy sector linked to rural development, the compromise produced ambiguous solutions. In other cases, as for example the additional cut of 4% for the payments over 300,000 Euros, the solution agreed will introduce the principle of an upper limit to the direct payments, but with few practical effects.

On the whole, while maintaining a 'low profile' negotiation, close to the interests of the agricultural sector itself, and while focusing the attention of the Health Check on the first pillar, Mrs Fischer Böel promoted changes that, considering the premises and initial suggestions, seem to be rather satisfactory. On the other hand, very hardened resistance had to be overcome. One can therefore conclude that the first objective of the Health Check, "an adjustment of the 2003 reform", has been more or less achieved.

Does the Health Check indicate a solution for the future of the CAP?

Another objective of the Health Check, as stated by Mrs Fischer Boel, was also, as previously stated, to offer "a contribution to the debate on the future priorities in the domain of agriculture". If so, it becomes necessary to wonder if the conclusions of the Health Check are in line with the debate on the CAP post 2013. In other words, does the debate, that was primarily a debate held within the agricultural world itself, entail a convincing and sustainable proposal that can be presented to the negotiation table concerning the Budget Review and the financial perspectives of the next programming period? In fact, at the same time that the conclusions of the Health Check were agreed upon, two other key meetings took place: from October 16th to 17th in Limassol (Cyprus) the conference "Europe's rural areas in action: facing the challenges of tomorrow" (the third big meeting on the rural development policies after the Cork conference of 1996 and Salzburg conference of 2003); and on November 12th in Brussels the conference "Reforming the Budget, Changing Europe". The conclusions of the public consultation on the review of the Union's budget were presented as a contribution to the negotiations, which will probably culminate in 2009-10. Two important pieces of evidence emerged from these meetings: the first one concerned the relationship between the CAP and the future strategies of the EU; the second one concerned the relationship between the agricultural world and the representations of the other European stakeholders.

The characteristics of a sustainable CAP post 2013

Within the European Union a complex debate is under way to come to a new definition of the functions of the Union. After the expansion to the East, the French and Dutch 'no' to the Constitution before and the Irish 'no' to the Treaty of Lisbon after, the recurrent attempts of certain Member States to cut themselves loose from the Union, thus saving on the contributions to the European budget and the effects of the economic crisis, the EU has started questioning its own objectives for the years to come. The risks are the dissolution, if not the defeat, of the European political project and, with that, the role of Europe in a world that is both more open and multipolar. The contributions to the debate are numerous and in general of great importance; the scope of positions is very wide. But one can identify three principal strategic tendencies that meet a wide convergence:

- Competitiveness, research, innovation: the EU must promote a significant growth in support for research and innovation, and in doing so should aim at converging all its policies towards the objective of competitiveness (following the Lisbon principles)
- Environment and climate change: it is necessary to designate a bigger part of expenditure in this direction, to promote research and development activities that support environmental objectives, align all policies towards environmental sustainability (following the principles of Göteborg);
- Energy: the EU must increase its energy security, concentrate research and investments on energy efficiency and the development of the renewable and sustainable sources of energy.

These choices imply a great reform of the budget that will weigh heavily on the current balance sheet and, in particular on the items that represent 78.5% of the community's budget: the agricultural policy and the cohesion policy. The question is not *if* the financial support of the EU for agriculture will diminish, but *how much*. It is not by coincidence that, among the results of the public consultation promoted by the DG Budget in the Budget Review, the CAP was the political item with the largest number of observations. If one summarizes the contents, these observations aim to ask first for a decrease in expenditure and secondly, the transfer of funds from the first to the second pillar, the decrease (if not the suppression) of the Single Farm Payments, and in any case the levelling of the SFP in all the Union, the co-financing of the first pillar and so on. In this context, however, several interventions emphasized that agriculture must be considered a strategic sector, that has to modernize and become competitive; it has also been pointed out that the rural

development policy is necessary to confront the "new challenges", climate change, food safety and food security, biodiversity and the protection of natural resources.

All this necessitates the alignment of the CAP with the new objectives of the EU, and to explain precisely what the citizens pay and why they pay when they support agriculture; to orient the CAP towards political contracts in which the obligations are laid down which the farmers have to meet in order to get paid with tax payers' money; to proportion the amount of payments of public goods to the increase in cost or the loss of income. This implies a quicker reinforcement of the second pillar; the orientation of public intervention towards the new challenges, competitiveness and innovation; as well as the integration of the CAP in the more complex context of the programming approach, at either EU, national and regional levels.

As far as the first pillar is concerned and in particular the SFP, that uses 70% of the total expenditure of the CAP, it is necessary to note that its role as *transitional adjustment assistance* (Buckwell and others 1997) is running on empty and that attempts to defend it as a payment to the "option value" of agriculture runs the risk of appearing weak in the European arena. The survival of agriculture in certain territories is already guaranteed to a large extent by market opportunities (and in this case it is necessary to improve competitiveness); in other cases, as for example in the less favoured regions or the regions that have a high environmental vulnerability, the current right to the SFP is not always sufficient to stop the spread of bad agricultural practices, the decline or the abandonment of agricultural land (with heavy consequences for the environment, hydrological risks and so on).

Besides, as is common knowledge, a support linked to the land and not calculated as equivalent of futures obligations, translates itself largely in higher land values and costs of using the land, making the exploitation more costly and the realization of higher levels of competitiveness more difficult. This consideration is valid also in the extreme hypothesis of regionalization of the single farm payment per hectare for the whole territory of the EU, as has been proposed. It is valid for all payments that have a historic basis, based on support received in the years 2000-2002, and through which subsequently, at least up to 2013, the unequal distribution of support between farm holdings and territories will be maintained. The SFP, gradually but quickly, must be abolished in the future of Europe. What will remain after 2013 will only be due to inertia (to path dependency, as economists would say). Therefore, one should not keep up the defence of this payment. Insisting on this form of payment will isolate agriculture from the debate on the future of the EU and will on the whole weaken the project of a new reformed and sustainable CAP. An indefinite defence to the SFP may result in keeping some more Euro in the budget of the CAP, but the money would be so inadequately utilised and distributed that it would not constitute a good agricultural policy or serve the interests of agriculture. In this respect, one can conclude that what the Health Check is lacking is the promised contribution to the debate on the future priorities for agriculture. The Fischler reform has been completed. But what is being proposed for the future? To bet again on the SFP system totally financed by Brussels after 2013? To wait another five years to make a another small step in modulation or to restart with the compulsory regionalization across all the Union? Or what else? The risk is that a true reform of the CAP will be a result of cuts in the Budget Review or the future financial perspectives.

The separation of agriculture

The second piece of evidence that manifests itself from the confrontation between Health Check of the CAP and the two afore mentioned appointments, the one on the Revision of the Budget on November 12 in Brussels and the other one on the Rural Development Policy that took place from October 16-17 in Cyprus, concerns the institutions and the main stakeholders.

On one hand, for the sectorial approach that was used, the negotiation on the Health Check was made between the agricultural institutions and lobbies, while the interventions of the other interests and sectors were very limited; on the other hand, at the other two meetings a wide representation of participants was present, while the agricultural world was practically absent. The Health Check, in essence, catalyzed and attracted the representatives of the agricultural world in a debate that was primarily about agriculture, a debate that centred on details, maybe very important for the respective lobbies, but that sometimes lacked economic and strategic substance. As participants were searching for a final compromise, that would include for example an additional reduction of payments over 300,000 euro, an intervention that concerns a mere 0.04% of the European farm holdings, the farming contribution in the other arenas of debate was insufficient or totally absent. The case of the Cyprus conference was exemplary; participation was massive and engaged, showing how the theme of rural development can attract the interest of a numerous and diversified number of institutions and groups. In the first place, the institutions and actors working at territorial and local levels that are bypassed by the interventions of the first pillar (the right to direct payments is passed on directly from Brussels to the beneficiaries), but that are primary protagonists of the second pillar; the local organizations that were created as experiences of new forms of governance introduced by the Leader initiative and by various national participatory initiatives (Local Action Groups, natural parks, rural districts, etc.) ; social and environmental organizations, but also trade unions and associations that have an interest in the preservation of cultural, historic, gastronomic values of the rural regions or in the development of the typical products; and the world of the research and universities.

On the other hand, it is embarrassing to note how, with exceptional quickness, the Copa/Cogeca reacted with a pre-emptive "No" to the first proposals of compulsory modulation destined to finance the new challenges of the second pillar, as if the transferred funds from the first to the second pillar would be definitively lost for agriculture, although the national co-financing would double the value. This position was confirmed again on November 20, 2008 at the end of Health Check: "a compromise which weakens farmers' incomes" (joint statement Copa/Cogeca). Thus, even in the "public consultation" on the Budget Revision launched in September 2007, that saw a great participation, with up the last count more than 300 contributions, representing a wide range of institutions and interests, the agricultural world participated only marginally (http://ec.europa.eu/budget/reform/issues/issues_en.htm). The Copa/Cogeca reaffirmed in a rather predictable text, the validity of the original objectives of the CAP formulated in the Treaty of Rome, in a framework of defence of the interests of the consumers and protection of the environment; the text concludes that "any cuts to the CAP budget will endanger these objectives". Besides this intervention there were reactions made by the European Landowner Organization (ELO) and only five other interventions from the agricultural world (of Great Britain, Denmark, Finland and Germany). For the good of European farming it is evident that it is necessary now to relaunch quickly and with vigour an agricultural presence at the table of the Budget Review and that, with even more urgency, a larger participation of the farming world is necessary to reflect on the future of the whole CAP, in particular on the matter of the second pillar. This transition may be painful, given the large and very strong internal resistance to all modifications of the CAP, but it is absolutely necessary. The separation of agriculture is harmful, it produces isolation, undermines alliances and will jeopardize crucial appointments for the future of the sector. But especially, it will penalize, within the agricultural sector, the better entrepreneurial forces, the generational transition, and the valuation of the heritage of quality food. In conclusion, it will also hinder the development of an agricultural and food system that can compete in international markets.

A call for debate

This paper was written while taking account of the central role agriculture plays and has to play in Europe. At the same time it wants to recall the basic role that the CAP has had in building Europe, a role that she now risks losing. Her weakness will put the two pillars at risk: the first one because of its ambiguous economic nature and difficult political justification of the Single Farm Payment system; the second pillar for too much absence of a clear strategic vision and of overbearing bureaucracy. The understanding that in Europe new solutions are necessary do not date from today (Buckwell 1997), as there have been recent suggestions for the CAP post 2013 (Bureau Mahé 2008-a, Bureau Mahé 2008-b). But in our opinion, it is necessary and urgent that a collective reflection on the future of the CAP is resumed; the goal of this work is therefore to give a contribution to a return of the debate.

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