The new common agricultural policy

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The common agricultural policy (CAP) had already been reformed in 1992 in order to avoid the overproduction resulting from the price guarantee. It reduced the guarantee and safeguarded farmers' income through direct aid from the Community budget. That reform significantly reduced cereals and, in particular, beef and veal surpluses, but it was still inadequate, as indicated in the European Commission's Agenda 2000 in which it put forward detailed proposals.

The Commission took the view that the reform should be more radical. The support provided for farmers was still unequal, favouring the most prosperous regions and producers. Intensive farming methods continued to be used, with serious consequences both for the environment and for animal health ('mad cow disease'). Furthermore, the applicant countries that would be acceding to the European Union were required to adopt the Community *acquis* — the entire body of legislation adopted by the Community, and, hence, the agricultural policy, even when their farmers had to make an enormous effort to bring themselves up to standard and to be able to participate in the Single Market. The Commission therefore considered that an enlarged Europe called for CAP reform. Lastly, the international context had to be taken into account: the agreement on agriculture in the Uruguay Round Final Act (1995) provided for a reduction in domestic support and export subsidies and for improved market access. Multilateral negotiations to that end started in the World Trade Organisation (WTO) in 1999. The United States prepared for them by reducing production aids but retained revenue support for farmers.

The Commission's proposals, drawn up by Franz Fischler, the Austrian Commissioner for Agriculture, and his French Director-General, Guy Legros, were submitted on 18 March 1998. The aim was to reduce guaranteed prices whilst remaining within budgetary limits (EUR 45 billion for the CAP in 1999). The reduction would be offset only partially by direct aid to farmers, the cost of which could be shared between the Community and the Member States. At the same time, a proper comprehensive rural development policy would be formulated as the 'second pillar' of the CAP. This would maintain the diversity of Community agriculture, strengthen the social and economic fabric of rural areas, curb the rural exodus, protect the environment and safeguard the European agriculture model.

The proposals were discussed in a 'marathon' meeting of the EU's Ministers for Agriculture from 22 February to 11 March 1999. Meetings were very tense. The Germans, whose main concern was to reduce the proportion of the Community budget accounted for by agricultural expenditure, supported the proposal for cofinancing by the Member States. France rejected the proposal, on the grounds of financial solidarity based on the CAP and the risk of competition between Member States. In fact, as the main beneficiary of the CAP, it was unwilling to have to share the cost. In the end, the introduction of the new common agricultural policy was confirmed at the Extraordinary European Council meeting on Agenda 2000 held in Berlin (24 to 25 March), but on a scale that was still insufficient.

With regard to the common organisation of markets, the measures taken on arable crops continued where the previous reforms had left off: a 15 % reduction in intervention prices for cereals over two years, half to be offset by direct aid; retention of a mandatory 10 % set-aside rate for the period 2000 to 2006, offset at the same rate as for cereals. New measures were introduced for stock-farming so as to improve competitiveness on foreign markets: a 20 % reduction in the basic market support price for beef and veal, with the loss of revenue offset by an increase in beef and veal premiums, continuation of the milk quota system until 2006 and a 15 % reduction in intervention prices for butter and powdered skimmed milk from 2003–2004, the loss of revenue being offset by a direct premium based on the producer's quota.

For the 'second pillar' of the CAP, relating to comprehensive and coherent rural development, the Council Regulation of 26 June 1999, which entered into force on 1 January 2000, emphasised the multifunctional role of agriculture, an integrated approach to the rural economy through multisectoral development, attention to the environmental dimension, simplification of the rules by incorporating them into a single framework and financing from the EAGGF Guarantee Section instead of the EAGGF Guidance Section, which had insufficient resources.

However, the scope of these reforms was still limited. The Commission wanted to make the payment of direct aid to farmers conditional upon respect for the environment, what is known as ‘ecoconditionality’, but the Council, after discussion, decided to leave that measure to the discretion of the Member States, and that decision reduced its scope. The ceiling mechanism proposed by the Commission for direct aid was not adopted, although Member States would have the right to modulate the aid granted to each holding according to the workforce, the prosperity of the holding and the overall amount of payments received under the support systems. The modulation was limited to 20 % of direct CAP aid. The cofinancing of aid proposed by Germany was not adopted because of French objections. The allocation of aid was still very unequal. In the 2000–2006 financial perspective, rural development policy accounted for only about 10 % of CAP expenditure.

The Berlin European Council provided for a ‘mid-term review’ so that the system could be revised, where necessary. The Commission submitted a report on 10 July 2002 which evaluated the reforms introduced since 1992. The guaranteed-price reduction improved the position of European agriculture on the domestic and world markets; intervention on the markets was increasingly confined to providing a ‘safety net’, but producers still had problems in adapting to the markets. The trend in agricultural revenue had been favourable, because of the increased proportion of direct payments, but there were still considerable disparities between regions and sectors. The modulation of revenue support to the circumstances of individual farmers, a social cohesion objective, was still insufficient, because it was only optional for Member States (in 2001, only France and the United Kingdom operated such a system). Aid was not sufficiently dependent on respect for the environment. The same applied to good stock-farming practice. Rural development policy, aimed at strengthening economic and social cohesion, was inadequate, particularly in the regions of Europe most vulnerable to changes in agricultural policy.

The Commission proposed technical measures to remedy these shortcomings and, in particular, defined the general framework of the new common agricultural policy: greater liberalisation of agricultural markets, reducing the role of regulatory mechanisms; phased reduction of direct aid and transfer of financing from the first, ‘Guarantee’, pillar to the second, ‘Rural Development’ pillar, now extended to include animal health and welfare measures, with redistribution of aid between regions and sectors; decoupling of revenue aid from production and conditionality rules for the granting of aid (compliance with the regulations and good agricultural practice). The proposals were the subject of intense discussion in the Agriculture Council, starting on 15 July 2002. They were supported by the countries that saw the decoupling and reduction of aid as a way to reduce agricultural expenditure, namely Germany, the United Kingdom, Sweden, Denmark and the Netherlands. On the other hand, Spain, France, Ireland, Austria and Luxembourg, which were recipients of the aid, took the view that the revision was incompatible with the Berlin agreement, which was valid until 2006.

The planned enlargement of the European Union to include the 10 countries of Central and Eastern Europe (CEECs), whose agricultural sectors were large but not competitive, introduced a new element. In the opinion of those countries, agricultural price support was part of the Community *acquis* which they had been required to adopt as a condition of accession. They wanted to be granted the full amount of aid as soon as they acceded. In the Commission’s view, that was not likely to encourage the necessary modernisation, and it proposed that the new Member States should receive the aid only gradually, starting from 25 % of the aid received by the Fifteen and rising to 100 % in 2013. The applicant countries did not consider that satisfactory.

This gave rise to fierce debate between the Fifteen. The German Chancellor, Gerhard Schröder, wanted a reduction in the German contribution to the Community budget and made this an issue in his campaign for the parliamentary elections held on 21 September. He objected to the granting of direct aid to the new Member States. France, on the other hand, was in favour, backing the Community *acquis* argument, which it saw as a way to maintain the direct aid of which its farmers were the biggest beneficiaries. The new common agricultural policy proposed by the Commission also met with strong objections. German was in favour, seeing it as a means of abolishing direct aid. France, on the other hand, was opposed to the ‘mid-term review’ going further than technical adjustments, did not want early reform of the CAP and quoted the decisions taken by the Berlin European Council in March 1999 on the 2000–2006 financial perspective and direct aid.

The Ministers for Agriculture reached a compromise on 17 June 2002, under which direct support was part of the *acquis* and should benefit all the Member States, with the agreement on the details not prejudicing the CAP debate. They would therefore discuss aid percentages but not CAP reform. Germany, the United Kingdom, the Netherlands and Sweden argued that, if direct aid was granted to the new Member States, it should be reduced for all 25 countries after 2006.

The matter was to be resolved by the meeting of the European Council held in Brussels on 24 and 25 October 2002. Before that, a bilateral agreement was concluded between President Chirac and Chancellor Schröder, who had been re-elected. The German Chancellor agreed that direct aid should continue until 2006, since President Chirac suggested that aid should be capped at the 2006 level from 2007 onwards. Accordingly, agricultural expenditure would be stabilised for the 25 until 2013. That had the advantage that the CAP would continue but the disadvantage that its funding would be reduced. Mr Chirac also called for savings in other areas to offset that, in particular the stabilisation of regional aid and a critical review of the British 'rebate'. The Southern European countries and the United Kingdom were opposed to that. The European Council decided that the ceiling placed on accession-related expenditure decided by the Berlin Council for 2004–2006 would be retained and that direct payments to the new Member States would be introduced gradually from the date of their accession, rising from 25 % in 2004 to 100 % in 2013.

The agreement on aid therefore opened the way for enlargement but froze the agricultural budget. From 2007 to 2013, agricultural expenditure would be limited to the 2006 expenditure level, plus an annual 1 % deflator to allow for inflation. The CAP would certainly have a budget until 2013, but that stabilised budget would be shared between 25 Member States, and then 27 from 2007, instead of between 15. That prospect made radical reform of the common agricultural policy all the more imperative.

In Commissioner Fischler's opinion, reform was needed even before 2006, for several reasons. With a ceiling on the budget, revenue aid would no longer have to be shared between 15 countries but between 25. It would, therefore, be impossible to reduce it further for the benefit of agricultural development expenditure, making this unworkable. Hence the need to decouple the aid from production, especially since decoupling was to be an important issue in the World Trade Organisation (WTO) negotiations due to finish at the end of 2004.

In Doha, Qatar, on 14 November 2001, the 145 WTO members agreed to open a round of negotiations aimed at 'reductions of, with a view to phasing out, all forms of export subsidies, and substantial reductions in trade-distorting domestic support', in order to improve the market access sought by the developing countries. On 16 December 2002, the Commission drew up general proposals for the Council's definition of its mandate for the negotiations that it was to conduct: an average reduction of 36 % in customs duties on agricultural imports, a 45 % reduction in all forms of export subsidy and a 55 % reduction in agricultural product price support. However, the deadline of 31 March 2003 for an agreement on the details of the agricultural negotiations could not be met, since the agreement secured between the European Union and the United States on domestic support and market access and export competition was rejected at the Ministerial Council held in Cancún, Mexico, from 10 to 14 September 2003 by a group of developing countries (headed by Brazil, India and China), which called for a bigger reduction in agricultural subsidies. To revive the negotiations, the European Commission, at the instigation of Franz Fischler and Pascal Lamy (Foreign Trade), was to take the initiative on 9 May 2004, with a view to the WTO Ministerial Council Meeting to be held in Geneva on 17 June 2004, by proposing the total abolition of agricultural product export subsidies so as to persuade the United States to do the same. The offer was well received by Germany, the United Kingdom, the Netherlands, Sweden, Austria, Denmark and Luxembourg but heavily criticised by France, backed by Belgium, Italy, Ireland, Slovakia and Cyprus. The French Government was to take the view that the Commission had exceeded its powers and made a tactical error in offering such a concession right at the start of the negotiations. It was particularly annoyed because export subsidies were essential for beef and veal and also for milk exports.

Lastly, Franz Fischler believed that the agricultural policy needed to be reviewed before enlargement, because decision-making would be even more difficult with 25 than with 15 Member States. On 21 January 2003, he renewed his efforts and submitted further proposals for a general reform of the CAP, one based on the complete decoupling of direct aid from production and a reduction in intervention prices for cereals and dairy products, to which France was very strongly opposed. From early June, successive meetings of Ministers for Agriculture were held in a very tense atmosphere, without any solution being found. However, Jacques Chirac realised that his opposition to radical reform was no longer tenable. There was a possibility that qualified majority voting would put France in the minority. He came to an agreement with Gerhard Schröder on partial and limited decoupling, but, in fact, he had to accept the abandonment of the basic principle of the CAP, despite protests by agricultural organisations in France.

The Ministers for Agriculture eventually agreed on a compromise on 26 June. The decoupling principle was adopted. Most of the direct aid to farmers would be replaced by a single payment for each farm, calculated on the basis of 2000–2002 output. Complete decoupling would come into effect in 2005, but France, backed by Germany, secured the possibility of partial decoupling restricted to 75 % in the major crop sectors and 60 % for the slaughter of bovine animals. The conditions imposed on aid become mandatory, the single payment being dependent on compliance with 18 Community rules on the environment, food safety and animal health. In the interests of social justice, a contribution would be levied solely from farms receiving over EUR 5 000 per year (i.e. from a quarter of farms in receipt of over 80 % of the aid), through a deduction rising from 3 % in 2005 to 5 % from 2008. The sums collected would be redistributed to the less-favoured regions in the countries receiving aid from the Structural Funds (Portugal, Spain and Ireland). Intervention prices, i.e. the financial compensation received by producers when prices fell, were not to be reduced, because of the French objections with a view to offsetting the reduction in aid. They were retained for cereals (wheat, barley and maize) and milk powder and reduced by 25 % only for butter. Milk quotas were extended until 2014. The Commission was able to have the phased-reduction principle for aid adopted only for the period after 2007 and if the agricultural support expenditure ceiling set until 2013 was likely to be exceeded by EUR 45 billion, of which France’s share was EUR 9.2 billion.

All things considered, despite certain no doubt temporary limitations, the agricultural policy to be introduced in the enlarged European Union was a totally new policy.