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# Agricultural Policy in the European Union
# - An Overview -

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**CONTENTS**

**FIGURES**

## TABLES



## ACRONYMS

| | |
|---|---|
| CAP | Common Agricultural Policy |
| CMO | Common Market Organization |
| COREPER | Committee of Permanent Representatives |
| DG | Directorate General |
| EAFRD | European Agricultural Fund for Rural Development |
| EAGF | European Agricultural Guarantee Fund |
| EU | European Union |
| GDP | Gross Domestic Product |
| IACS | Integrated Administration and Control System |
| MEP | Member of the European Parliament |
| MS | Member State(s) |
| NGO | Non-governmental organization |
| OECD | Organization for Economic Co-operation and Development |
| OLAF | European Anti-Fraud Office |
| RTA | Regional trade agreement |
| SCA | Special Committee on Agriculture |
| TRQ | Tariff rate quota |
| WTO | World Trade Organization |

# 1. Fact Sheet

## 1.1 Facts

Table 1.1 presents basic statistical indicators for agriculture in the EU. Altogether, 13.7 million agricultural holdings farm a total of 178.4 million hectares of agricultural land in the EU-27. Hence, the average holding farms 12.6 hectares. However, this average hides a great deal of heterogeneity. Agro-climatic conditions in the EU vary widely from the Arctic Circle in Finland and Sweden, to the semi-arid plains in Spain, to the Black Sea ports of Romania and Bulgaria. The historical and cultural background of agriculture in the EU also varies widely, with the most marked contrast being that between the typically smaller family farms in the 15 Member States (MS) that made up the EU until 2004, and descendents of large former collective farms in the 12 Central and Eastern European MS that acceded to the EU thereafter (and in the East of Germany). As a result, the face of agriculture in the EU, its agricultural structures and production patterns, are richly varied as well.

Agriculture is a relatively small sector in the economy of the EU-27, accounting for only 1.1% of GDP and 5.1% of employment (Table 1.1). These proportions are higher in several MS, most notably the two newest members, Bulgaria and Romania, where agriculture’s share of GDP is 3.8 and 5.4% respectively, and its share of employment reaches 7.1 and 29.1%. Overall, the final three rows in Table 1.1 show that as the EU has expanded from 15 to 25 and most recently 27 MS, the relative importance of agriculture in GDP and employment has grown. Furthermore, the number of holdings has grown proportionately more rapidly than the agricultural area and, hence, the size of the average holding has decreased. While the share of agricultural holdings with less than 5 hectares has grown (from 54.5% in the EU-15 to 70.4% in the EU-27), the share of agricultural holdings with more than 50 hectares has fallen (from 10.9% in the EU-15 to 5.1% in the EU-27).

These shifts in the shares of smaller and larger agricultural holdings in the EU over time are the result of changes in the composition of the EU, specifically the accession of new members such as Bulgaria, Hungary, Poland and Romania with many small agricultural holdings. This compositional effect obscures the trend towards fewer and larger agricultural holdings in individual MS over time. This is illustrated using data on the structure of agricultural holdings in Germany since 1960 in Table 1.2.[1]

[1] Similar data could be presented for any of the EU-15 MS, which developed as market economies in the decades after the Second World War. In the centrally planned economies of Central and Eastern Europe, agriculture was subject to varying degrees of collectivisation following the Second World War, and varying degrees of repartitioning of collective farms in the process of transition since 1989, leading to breaks in the evolutions of their farm structures over time (see Swinnen and Rozelle, 2006).

*Table 1.1 Basic statistics for agriculture in the European Union (2009 unless otherwise indicated)*

| | Agricultural area ('000 ha) | Number of holdings ('000)* | Agricultural Area per holding (ha)* | Share of holdings with <5 ha (%)* | Share of holdings with >50 ha (%)* | Share of agriculture in employment (%) | Share of agriculture in GDP (%) | Share of consumption expenditure on food (%)** |
|---|---|---|---|---|---|---|---|---|
| Belgium | 1 365 | 48 | 28.6 | 25.4 | 18.3 | 1.5 | 0.6 | 16.7 |
| Bulgaria | 5 101 | 493 | 6.2 | 94.9 | 1.3 | 7.1 | 3.8 | n.a. |
| Czech Republic | 3 546 | 39 | 89.3 | 50.4 | 16.7 | 3.1 | 0.5 | 23.9 |
| Denmark | 2 695 | 45 | 59.7 | 3.7 | 34.2 | 2.5 | 0.7 | 14.7 |
| Germany | 16 890 | 371 | 45.7 | 22.6 | 23.0 | 1.7 | 0.5 | 14.6 |
| Estonia | 802 | 23 | 38.9 | 36.1 | 11.1 | 4.0 | 1.3 | 28.3 |
| Ireland | 4 190 | 128 | 32.3 | 6.5 | 17.7 | 5.0 | 0.6 | 14.7 |
| Greece | 3 819 | 860 | 4.7 | 76.2 | 0.8 | 11.9 | 2.4 | 20.2 |
| Spain | 23 105 | 1 044 | 23.8 | 52.8 | 9.7 | 4.2 | 2.0 | 16.8 |
| France | 29 385 | 527 | 52.1 | 24.7 | 37.4 | 2.9 | 1.2 | 16.4 |
| Italy | 13 338 | 1 679 | 7.6 | 73.3 | 2.4 | 3.7 | 1.5 | 17.3 |
| Cyprus | 148 | 40 | 3.6 | 86.5 | 1.0 | 3.9 | 1.8 | 22.7 |
| Latvia | 1 833 | 108 | 16.5 | 40.9 | 4.7 | 8.7 | 1.2 | 24.5 |
| Lithuania | 2 689 | 230 | 11.5 | 60.5 | 3.0 | 9.2 | 2.2 | 31.1 |
| Luxembourg | 131 | 2 | 56.8 | 17.9 | 48.1 | 1.4 | 0.2 | 17.3 |
| Hungary | 5 783 | 626 | 6.8 | 89.4 | 1.9 | 4.6 | 1.8 | 27.1 |
| Malta | 10 | 11 | 0.9 | 97.4 | 0 | 1.4 | 1.0 | 20.4 |
| Netherlands | 1 921 | 77 | 24.9 | 28.0 | 14.5 | 2.8 | 1.3 | 14.4 |
| Austria | 3 169 | 165 | 19.3 | 33.5 | 6.8 | 5.3 | 0.9 | 13.8 |
| Poland | 15 625 | 2 391 | 6.5 | 68.5 | 1.0 | 13.3 | 2.1 | 26.8 |
| Portugal | 3 684 | 275 | 12.6 | 72.6 | 3.6 | 11.2 | 1.2 | n.a. |
| Romania | 13 745 | 3 931 | 3.5 | 89.8 | 0.4 | 29.1 | 5.4 | 31.4 |
| Slovenia | 489 | 75 | 6.5 | 59.0 | 0.5 | 9.1 | 1.1 | 19.4 |
| Slovakia | 1 930 | 69 | 28.1 | 87.2 | 4.2 | 3.6 | 0.5 | 22.5 |
| Finland | 2 296 | 68 | 33.6 | 9.7 | 20.7 | 4.6 | 0.7 | 17.4 |
| Sweden | 3 067 | 73 | 42.9 | 15.0 | 24.7 | 2.2 | 0.3 | 15.9 |
| United Kingdom | 17 709 | 300 | 53.8 | 39.8 | 24.7 | 1.1 | 0.5 | 12.6 |
| **EU-27** | **178 443** | **13 700** | **12.6** | **70.4** | **5.1** | **5.1** | **1.1** | **16.4** |
| **EU-25** | **159 597** | **9 276** | **16.8** | **60.9** | **7.3** | **4.0** | **1.1** | **16.2** |
| **EU-15** | **126 763** | **5 662** | **22.0** | **54.5** | **10.9** | **3.1** | **0.9** | **15.5** |

Source: European Commission – Agriculture and Rural Development (2011b).
Notes: * Data for 2007. ** Data for 2008; food includes beverages and tobacco.

*Table 1.2 The number of German farms in various size classes (1960-2007)*

| Year | 2 - 10 ha | 10 - 50 ha | 50 - 100 ha | > 100 ha | Total |
|---|---|---|---|---|---|
| 1960 | 730 086 | 408 485 | 13 672 | 2 639 | 1 154 882 |
| 1965 | 614 245 | 427 096 | 14 363 | 2 764 | 1 058 468 |
| 1970 | 483 669 | 425 342 | 16 284 | 3 011 | 928 306 |
| 1975 | 367 531 | 387 834 | 22 342 | 3 892 | 781 599 |
| 1980 | 303 999 | 359 176 | 26 897 | 4 395 | 694 467 |
| 1985 | 264 349 | 329 371 | 32 133 | 5 150 | 631 003 |
| 1990 | 217 564 | 285 855 | 40 598 | 7 100 | 551 117 |
| 1999* | 355 461 | | 54 311 | 24 358 | 434 130 |
| 2007* | 263 760 | | 53 399 | 31 879 | 349 038 |

Source: Statistisches Bundesamt and Bundesregierung.
Note: * Data for reunified Germany (includes the territory of the former German Democratic Republic).

Although agriculture in the EU is dominated numerically by small farms, it is the relatively few larger holdings that farm the lion's share of its agricultural area and account for a corresponding share of its agricultural output.[2] Holdings in the category 0-5 hectares, which account for 70.4% of all agricultural holdings, farm only 8.4% of the EU's agricultural land, while the 5.1% of all holdings in the category with 50 hectares and more farm almost 63% of that land (Table 1.3).

*Table 1.3 The distribution of agricultural land in the EU-27 across farms of difference sizes (2007)*

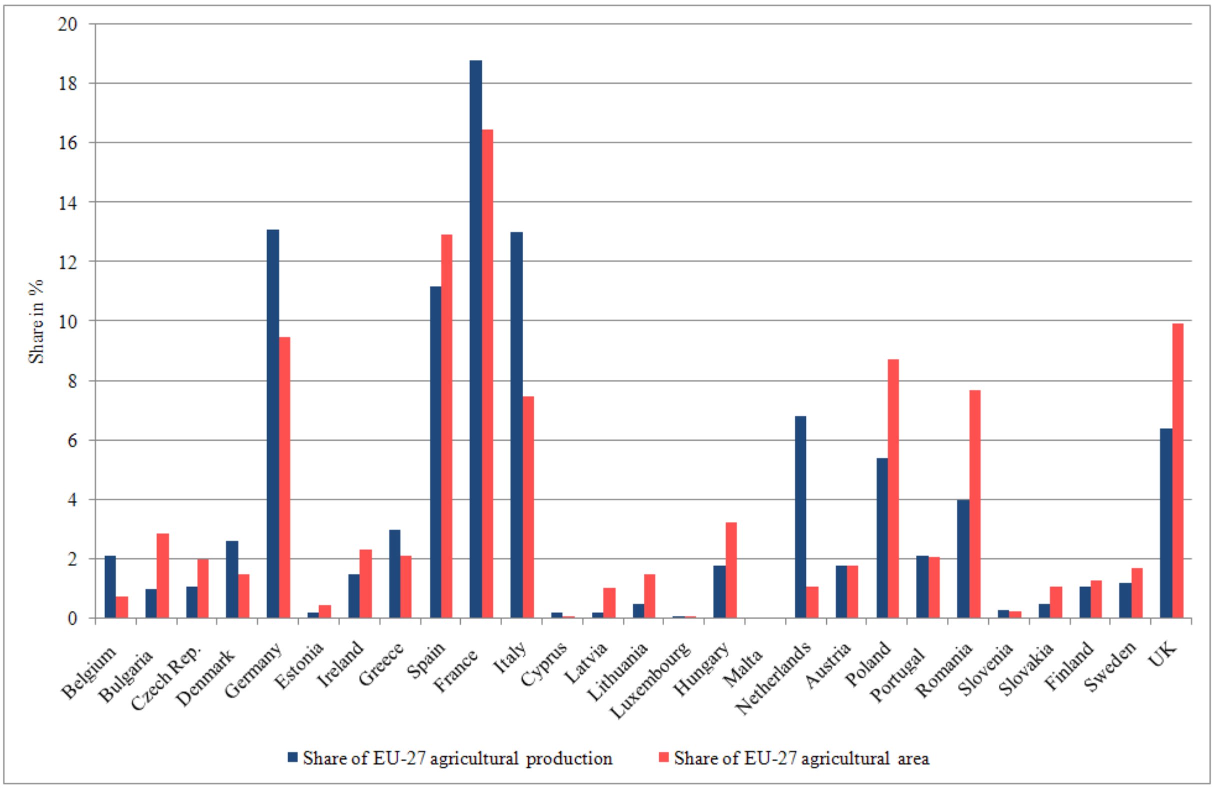
| **Size category (ha)** | **Number of holdings (mill.)** | **Share of total number of holdings in the EU** | **Area farmed (mill. hectares)** | **Share of total EU agricultural area** |
|---|---|---|---|---|
| 0-5 | 9.65 | 70.4 | 14.41 | 8.4 |
| 5-10 | 1.56 | 11.4 | 10.91 | 6.3 |
| 10-20 | 0.99 | 7.2 | 13.89 | 8.1 |
| 20-50 | 0.80 | 5.9 | 25.39 | 14.7 |
| >50 | 0.70 | 5.1 | 107.90 | 62.6 |
| **Total** | **13.70** | **100.0** | **172.49** | **100.0** |

Source: European Commission – Agriculture and Rural Development (2011b).

The heterogeneity of agriculture in the EU also becomes apparent when data on the share of each member state in the EU's agricultural area is juxtaposed with data on each member state's share in the EU's total agricultural production (Figure 1.1). Large differences in per hectare productivity become apparent. At one extreme the Netherlands, thanks to modern intensive production and a focus on high-value products (e.g. flowers, bulbs and other horticultural products) produces almost 7% of the EU's agricultural output on just over 1% of its agricultural area. At the other extreme, Bulgaria with almost three times as much agricultural area as the Netherlands produces only roughly one-seventh as much agricultural output. Like Bulgaria, most of the new EU members in Central and Eastern Europe are characterized by large shares of the EU's agricultural area relative to their shares in the EU's agricultural output, indicating that overall agricultural productivity in these countries lags behind that in most of the older EU members.

[2] Of course, some farms with little area (e.g. intensive poultry operations) produce a great deal of output.

*Figure 1.1* ***The share of each member state in EU-27 agricultural area and EU-27 agricultural production (2009, in %)***




Source: European Commission – Agriculture and Rural Development (2011b).

Underlying these differences in per hectare productivity are differing production patterns as outlined in Table 1.4. While there are individual exceptions, the older members of the EU-15 tend to have lower shares of grains in their agricultural output than most of the 12 newer members in Central and Eastern Europe, and higher shares of generally land-intensive and higher-value products such as fruits and vegetables, wine and livestock products.

*Table 1.4 The share of individual products in total value of agricultural production by EU member state (2009, in %)*

| | Grain | Sugar-beet | Tobac-co | Olive oil | Oil-seeds | Potato | Fruits | Vege-tables | Wine | Milk | Cattle | Pigs | Sheep & goats | Eggs & poultry | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | 4.2 | 1.9 | 0.0 | 0.0 | 0.3 | 4.3 | 5.4 | 10.7 | 0.0 | 10.2 | 16.8 | 19.9 | 0.0 | 7.8 | 18.5 | 100 |
| Bulgaria | 19.7 | 0.0 | 4.3 | 0.0 | 10.1 | 3.1 | 4.7 | 6.6 | 0.0 | 11.5 | 2.9 | 4.8 | 4.2 | 8.8 | 19.4 | 100 |
| Czech Republic | 19.2 | 2.3 | 0.0 | 0.0 | 9.6 | 2.6 | 1.4 | 1.4 | 0.7 | 16.8 | 7.8 | 10.3 | 0.1 | 9.0 | 18.8 | 100 |
| Denmark | 11.5 | 1.3 | 0.0 | 0.0 | 2.1 | 1.7 | 0.4 | 2.0 | 0.0 | 16.2 | 4.0 | 29.3 | 0.1 | 3.3 | 28.1 | 100 |
| Germany | 12.1 | 1.2 | 0.1 | 0.0 | 3.9 | 3.1 | 1.1 | 4.3 | 2.6 | 16.9 | 8.4 | 13.1 | 0.3 | 6.5 | 26.4 | 100 |
| Estonia | 14.9 | 0.0 | 0.0 | 0.0 | 7.7 | 3.4 | 1.2 | 4.6 | 0.0 | 25.3 | 6.5 | 14.0 | 0.4 | 6.1 | 15.9 | 100 |
| Ireland | 3.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.6 | 0.7 | 4.1 | 0.0 | 21.9 | 29.5 | 6.1 | 3.1 | 3.2 | 26.8 | 100 |
| Greece | 8.7 | 0.5 | 1.2 | 7.1 | 0.1 | 3.5 | 15.9 | 19.2 | 0.6 | 10.8 | 2.6 | 2.5 | 8.0 | 2.8 | 16.5 | 100 |
| Spain | 7.9 | 0.5 | 0.3 | 4.5 | 0.6 | 0.9 | 16.4 | 17.3 | 3.3 | 6.6 | 5.6 | 11.7 | 2.7 | 8.0 | 13.7 | 100 |
| France | 13.2 | 1.4 | 0.1 | 0.0 | 3.5 | 1.8 | 4.6 | 4.9 | 13.4 | 11.7 | 12.0 | 4.7 | 1.2 | 6.3 | 21.2 | 100 |
| Italy | 7.1 | 0.3 | 0.6 | 3.3 | 0.5 | 1.5 | 11.1 | 14.0 | 9.0 | 10.7 | 7.6 | 5.7 | 0.5 | 7.2 | 20.9 | 100 |
| Cyprus | 1.5 | 0.0 | 0.0 | 2.9 | 0.1 | 5.7 | 18.7 | 12.0 | 0.0 | 17.5 | 1.5 | 9.8 | 3.7 | 14.7 | 11.8 | 100 |
| Latvia | 20.8 | 0.0 | 0.0 | 0.0 | 6.7 | 6.3 | 0.5 | 5.0 | 0.0 | 18.3 | 5.1 | 9.0 | 0.2 | 9.6 | 18.6 | 100 |
| Lithuania | 24.7 | 1.5 | 0.0 | 0.0 | 6.5 | 3.9 | 0.5 | 3.9 | 0.0 | 16.6 | 5.0 | 9.0 | 0.2 | 7.4 | 20.8 | 100 |
| Luxembourg | 5.3 | 0.0 | 0.0 | 0.0 | 1.8 | 1.6 | 0.8 | 1.1 | 10.4 | 27.9 | 22.0 | 8.3 | 0.3 | 1.5 | 19.0 | 100 |
| Hungary | 23.9 | 0.4 | 0.1 | 0.0 | 8.6 | 1.5 | 5.2 | 9.3 | 1.7 | 6.6 | 2.2 | 11.3 | 0.9 | 14.2 | 14.1 | 100 |
| Malta | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.0 | 5.7 | 26.9 | 0.0 | 15.2 | 3.2 | 11.6 | 0.3 | 12.4 | 20.7 | 100 |
| Netherlands | 0.9 | 1.2 | 0.0 | 0.0 | 0.0 | 4.6 | 2.5 | 7.6 | 0.0 | 14.5 | 6.8 | 10.9 | 0.6 | 5.4 | 45.1 | 100 |
| Austria | 7.7 | 1.4 | 0.0 | 0.0 | 1.6 | 1.1 | 6.3 | 3.5 | 7.7 | 14.9 | 14.4 | 12.6 | 0.4 | 5.9 | 22.5 | 100 |
| Poland | 14.2 | 2.6 | 0.5 | 0.0 | 3.9 | 4.4 | 4.2 | 8.1 | 0.0 | 14.1 | 5.5 | 13.6 | 0.0 | 14.1 | 14.8 | 100 |
| Portugal | 2.4 | 0.0 | 0.1 | 2.0 | 0.1 | 1.3 | 13.6 | 12.5 | 13.0 | 11.0 | 7.7 | 8.4 | 1.6 | 7.7 | 18.6 | 100 |
| Romania | 15.9 | 0.2 | 0.0 | 0.0 | 3.0 | 8.8 | 7.1 | 12.9 | 1.6 | 10.5 | 3.5 | 7.3 | 1.5 | 8.5 | 19.3 | 100 |
| Slovenia | 5.0 | 0.0 | 0.0 | 0.0 | 0.9 | 1.8 | 8.7 | 5.0 | 10.1 | 14.1 | 12.3 | 6.1 | 0.9 | 11.2 | 23.8 | 100 |
| Slovakia | 20.7 | 1.5 | 0.0 | 0.0 | 8.9 | 1.5 | 2.4 | 6.6 | 0.0 | 11.3 | 11.1 | 8.2 | 0.7 | 10.8 | 16.3 | 100 |
| Finland | 11.2 | 0.6 | 0.0 | 0.0 | 1.2 | 3.2 | 2.3 | 8.7 | 0.0 | 30.4 | 9.7 | 8.7 | 0.2 | 5.0 | 18.7 | 100 |
| Sweden | 10.0 | 1.3 | 0.0 | 0.0 | 1.8 | 4.0 | 1.0 | 4.1 | 0.0 | 21.0 | 9.2 | 8.5 | 0.4 | 6.3 | 32.4 | 100 |
| United Kingdom | 12.6 | 1.3 | 0.0 | 0.0 | 2.6 | 3.5 | 3.1 | 5.7 | 0.0 | 16.7 | 16.1 | 5.4 | 6.4 | 11.8 | 14.8 | 100 |
| **EU-27** | **10.5** | **1.0** | **0.2** | **1.2** | **2.4** | **2.7** | **6.4** | **8.8** | **5.0** | **12.9** | **8.8** | **9.3** | **1.6** | **7.5** | **21.7** | **100** |
| **EU-25** | **10.1** | **1.1** | **0.2** | **1.2** | **2.3** | **2.5** | **6.4** | **8.7** | **5.2** | **13.0** | **9.1** | **9.4** | **1.5** | **7.5** | **21.8** | **100** |
| **EU-15** | **9.2** | **1.0** | **0.2** | **1.4** | **1.9** | **2.3** | **6.7** | **8.9** | **5.7** | **13.0** | **9.6** | **9.1** | **1.7** | **6.8** | **22.4** | **100** |

Source: European Commission – Agriculture and Rural Development (2011b).

The EU is a major player on world agricultural markets. It accounts for a large share of the global production of several important agricultural commodities such as cow milk (roughly 26% of world production by value), pork (22%), potatoes (19%), wheat (16%) and beef (14%).[3] The EU is currently both the largest importer and exporter of agricultural products worldwide. Its overall agricultural trade is roughly in balance, with agricultural imports amounting to 77.4 billion Euro and agricultural exports to 75.1 billion Euro in 2007. However, the EU's agricultural imports tend to be raw products (especially coffee, tea, cocoa, oilseeds, fruits, vegetables and tobacco) for which it had an overall trade deficit of roughly 25 billion EUR in 2007, while its agricultural exports tend to be processed products (such as alcoholic beverages, juices, cigarettes, meat and cheese) for which it had an overall trade surplus of almost 22 billion EUR in 2007 (European Commission, 2011c).

### 1.2 Implications for Agricultural Policy

What are the implications of these facts for agricultural policy making in the EU? First, since agricultural structures, production patterns and productivities are heterogeneous across MS, the agricultural policy interests of these MS are also, and increasingly, heterogeneous. This heterogeneity makes it difficult to reach agreement on policy reform. It also implies that agricultural policy in the EU is the outcome of a delicate web of compromises spun over 50 years of often tortuous negotiations. The result is a powerful bias in favor of the status quo in EU agricultural policy making. As a rule, major reforms only take place when powerful external shocks leave policy makers with no other choice.[4]

Second, agricultural structures in the EU are dual. Many small holdings farm a small share of the agricultural area in the EU and account for a correspondingly low share of its agricultural output, while comparatively few large holdings farm a large share of the EU's farm land and account for a correspondingly large share of its agriculture output. This creates a fundamental dilemma for agricultural policy making in the EU. Policy makers have to consider the demands for a protective 'social' farm policy that will support the many small farms in the EU. However, providing support that is linked to production (e.g. via subsidized prices) or input use (e.g. payments per hectare of land) will automatically provide disproportionate benefits to the relatively few larger farms. Former EU Agricultural Commissioner Ray MacSharry described this dilemma by often pointing out that the EU's Common Agricultural Policy (CAP) channels roughly 80% of its subsidies to just 20% of the largest farms (Smith, 2003, p. 151).

Finally, since agricultural products are tradable, and since the EU is one of the most important participants on world markets for agricultural and food products, agricultural policy in the EU has important ramifications for third countries. Agricultural policy making in the EU, as elsewhere, is primarily driven by domestic policy pressures. The CAP as it was originally conceived, with its high rates of protection and provisions for export subsidization, had significant negative implications for third countries, implications which policy makers in the EU initially largely ignored. The substantive CAP reforms of the last two decades – the MacSharry reform of 1992 and the Fischler reform of 2003 – were largely responses to international pressure that arose from these negative implications and that was brought to bear on the EU via the World Trade Organization (WTO).[5]

[3] Own calculations using 2008 data from FAO (2011).
[4] For a formal derivation of this result based on a political economic model of EU decision making, see Pokrivcak et al. (2008).
[5] These reforms are discussed in Section 0 below. Moyer and Josling (1990 and 2002) and Swinnen (2008) provide informative accounts of the history of CAP reform, and Daugbjerg and Swinnen (2009) relate the process of CAP reform explicitly to the WTO negotiations.

# 2. The Process of Formulating Agricultural Policy in the EU

## 2.1 Actors and Instances Involved

Agricultural policy making in the EU is a complex process that is influenced by a wide variety of actors and instances. The most important of these are the European Commission, the Council of the European Union, the European Parliament and the European Council. In the following these institutions and their roles will be introduced in turn. [6] We also briefly consider the European Court of Justice and the European Court of Auditors, both of which have an indirect but sometimes strong influence on agricultural policy making.

### 2.1.1 The European Commission

The European Commission is often referred to as the ‘guardian of the treaties’. It represents and defends the interests of the EU vis-à-vis the MS and third countries and it is responsible for the implementation and enforcement of EU law. If it feels that a member state is in breach of EU law, it will ask that member state to rectify the problem and, as a last resort, refer the matter to the European Court of Justice. The Commission is also responsible for managing the implementation of the EU budget, subject to supervision by the EU Court of Auditors. The Commission also represents the EU in international bodies such as the WTO, thus enabling but also obliging the MS to speak with one voice in multilateral trade negotiations. Finally, the Commission’s right of initiative gives it a pivotal role in EU policy making; with few exceptions, a proposal from the Commission is required to begin the EU’s decision making process.

The Commission is made up of 27 members, one from each member state, and each with a specific portfolio such as agriculture and rural development, trade, fisheries or the environment.[7] Each portfolio is referred to as a ‘Directorate General’ (DG). As the EU has grown and in order to provide each member state with a Commissioner position, the number of DGs has multiplied and they have become more specialized. Despite the fact that each member state is entitled to ‘its own’ Commissioner, the Commissioners individually and collectively are expected to uphold EU and not national interests. Nevertheless, a Commissioner’s background including his/her nationality will clearly have an influence on his/her approach to policy making and basic political orientation. Because agricultural policy is politically sensitive and represents such a large share of EU spending, it is an unspoken rule that the Agricultural Commissioner cannot come from one of the ‘large’ MS such as France or Germany. Hence, the last Agricultural Commissioners have come from Ireland, Austria, Denmark and, currently, Romania.

The President of the Commission is nominated by the European Council, and the European Parliament then approves or vetoes the appointment of this nominee. There have been frequent complaints about a lack of transparency in the nomination process, which largely takes place behind closed doors. The nomination is expected to take the results of the latest elections of the European Parliament into account. José Manuel Barroso, for example, who has

[6] More information on the EU institutions is available under http://europa.eu/about-eu/institutions-bodies/index_en.htm.

[7] A list of the current members of the EU Commission can be viewed at http://ec.europa.eu/commission_2010-2014/index_en.htm. The current Commissioner for Agriculture and Rural Development is Dacian Cioloş, who is Romanian.

been President of the Commission since 2004, is a member of the centre-right European People's Party which emerged as the largest group following the parliamentary elections in 2004 and 2009. Informally the criteria for the selection of a President include that he/she come from an integrated MS that is a member of the Schengen Agreement[8] and the Eurozone. To date all twelve Presidents have come from one of nine MS, all of which are original members of the EU-6 (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands) or joined no later than 1986 (the UK, which joined in 1973, and Spain and Portugal). Regional proportions (Northern vs. Southern MS; there might be some push for the next President to come from one of the new MS in Eastern Europe) are also relevant, as is the unspoken rule that a President from a large MS be followed by one from a small MS.[9] In the final analysis, political coalitions and logrolling in the European Council play a decisive role, and many past Presidents (e.g. Santer, Prodi) have been nominated as compromise candidates following disagreements over other individuals.

The President in consultation with the European Council then nominates the other members of the Commission. In practice, each member state proposes an individual for the Commission, and the President, after informal consultation with the MS, allocates these individuals to the available portfolios based on their abilities and backgrounds but also on political considerations (large MS would like to have important portfolios, the need to maintain a balance between different regions of the EU, etc.). Portfolios are not assigned to specific MS, although it is clear that certain portfolios will be of greater interest to some MS than others (for example, a landlocked country such as Austria or Luxembourg will not be interested in the fisheries portfolio). The final appointment of the Commission President and his/her slate of nominees is subject to approval by the European Parliament. The Commission is appointed for a five-year term and can only be dismissed by the European Parliament. In recent years the European Parliament has increasingly made use of this power to influence the composition of the Commission. Although *de jure* the Parliament can only dismiss the Commission as a whole (via a so-called 'motion of censure') or reject a slate of nominated Commissioners in its entirety, the threat that it might do so has lead to the resignation of individual Commissioners and the removal of individual nominees from the President's list of proposed Commissioners.

### 2.1.2 The Council of the European Union

The Council of the European Union is generally referred to as the 'Council of Ministers' or simply the 'Council'.[10] It is composed of 27 national ministers, one from each EU member state, and its composition varies depending on the policy topic in question. Hence, the 'Agriculture and Rural Development Council' is composed of the 27 ministers who are responsible for agricultural policy in their respective national governments. Other configurations include, for example, the so-called 'Ecofin' for Economic and Financial Affairs, and the 'Environment Council'. The Presidency of the Council rotates among the members states every six months – in the second half of 2011 Poland will hold the Presidency and hence the Polish minister responsible for the agricultural policy portfolio will chair the meetings of the Agricultural Council.

[8] The Schengen Agreement is a treaty that provides for the elimination of border controls between MS.
[9] The last six Presidents have come from the UK (Jenkins) followed by Luxembourg (Thorn), France (Delors), Luxembourg (Santer), Italy (Prodi) and Portugal (Barroso).
[10] The similarity between the terms ‚Council of the European Union‘(discussed here) and 'European Council' (discussed below) often leads to confusion. In the following we shall use 'Council' to refer to the Council of the European Union.

In most policy areas (including agriculture) decisions in the Council of Ministers are reached by qualified majority voting. According to this system, each member state has a voting weight that is roughly proportional to its population (Table 2.1). The exact distribution of these voting weights is the result of a difficult political compromise – a glance at Table 2.1 reveals that Germany in particular has a disproportionately small voting weight (8.4% of the total voting weights despite having 16.5% of the EU population), while many of the smaller members states have disproportionately large voting weights.  For a proposal to pass in the Council of Ministers, the MS that support it have to collectively fulfill all of the following three criteria:[11]

i) They must number at least 14 (50% of the total number of MS in the EU);
ii) They must together hold at least 74% of the voting weights (255 of 345 weights); and
iii) They must account for 62% of the EU population.[12]

***Table 2.1 Voting weights and population* by member state in the EU***

| Member state | Voting weights | Population (mill.) | Member state | Voting weights | Population (mill.) |
|---|---|---|---|---|---|
| Germany | 29 | 82.5 | Austria | 10 | 8.1 |
| France | 29 | 59.6 | Bulgaria | 10 | 7.9 |
| UK | 29 | 59.3 | Denmark | 7 | 5.4 |
| Italy | 29 | 57.3 | Slovakia | 7 | 5.4 |
| Spain | 27 | 41.6 | Finland | 7 | 5.2 |
| Poland | 27 | 38.2 | Ireland | 7 | 4.0 |
| Romania | 14 | 21.8 | Lithuania | 7 | 3.5 |
| Netherlands | 13 | 16.2 | Latvia | 4 | 2.3 |
| Greece | 12 | 11.0 | Slovenia | 4 | 2.0 |
| Portugal | 12 | 10.4 | Estonia | 4 | 1.4 |
| Belgium | 12 | 10.4 | Cyprus | 4 | 0.7 |
| Czech Republic | 12 | 10.2 | Luxembourg | 4 | 0.5 |
| Hungary | 12 | 10.1 | Malta | 3 | 0.4 |
| Sweden | 10 | 8.9 | EU-27 | 345 | 484.2 |

Source: Eurostat (2004). Note:* Population data for 2003.

### 2.1.3 The European Parliament

The European Parliament is directly elected for a term of five years by voters in the EU. The European Parliament currently comprises 736 MEPs. Each member state elects a number of Members of the European Parliament (MEPs) approximately in proportion to its population, subject to the restriction that no member state can have fewer than six or more than 96 MEPs. This restriction, like the distribution of voting weights in the Council of Ministers, gives smaller MS a larger weight in EU decision making. The MEPs sit in (currently) seven so-called political groups that reflect general political affiliation. For example, the European People's Party is composed of centre-right Christian Democrats from the various MS; other political groups include the Progressive Alliance of Socialists and Democrats and the Group of the Greens/European Free Alliance. Much of the Parliament's work is done in specialized committees, of which there are roughly 20, including the Committee for Agriculture and Ru-

[11] According to the Treaty of Lisbon, these criteria will change as of November 1, 2014, after which a Council decision will require 55% of the MS representing no less than 65% of the population of the EU.
[12] This criterion is only relevant if a Council member requests that it be checked.

ral Development. Membership in these committees is based on nominations made by the political groups, with each group being entitled to a number of members that is proportional to its share of the total number MEPs.

The European Parliament has two main tasks. The first task is legislative; the EU Parliament together with the Council of Ministers debates and passes EU laws and the EU's budget. The second task is one of democratic oversight of the European Commission's work, which is underpinned by the Parliament's above-mentioned right to dismiss the Commission or withhold approval for a new Commission.

The importance of the European Parliament in EU policy making has steadily increased over time. In particular, the range of policy areas in which EU legislation must be passed jointly by the Parliament and the Council of Ministers according to the so-called 'co-decision' process (see below) has been expanded. As a result of the Lisbon Treaty, which came into force on December 1, 2009, agriculture has been added to the list of policy areas subject to co-decision in the EU. Previously, agricultural policy had been subject to so-called 'consultation' under which Council reached decisions alone and Parliament could only submit non-binding opinions.

### 2.1.4 The European Council

The European Council has been meeting since 1974 but only acquired official status as an EU institution when the Treaty of Lisbon came into force in late 2009. The European Council is composed of the heads of state of the 27 MS, the President of the European Commission, the President of the European Council and the EU's High Representative for Foreign Affairs[13], although the latter three do not have votes. The European Council meets at least once every six months. Chairing and setting the agenda for these meetings is the prerogative of the President of the European Council, but the MS that currently holds the rotating six-month Presidency of the Council of the European Union (see Section 2.1.2 above) can exercise considerable influence in setting priorities. It has no power to pass legislation, but it nonetheless plays a crucial role in establishing the EU's overall political agenda and in resolving difficult political problems that cannot be solved at a lower level of EU decision making. In recent months, for example, the European Council has had to reach a number of difficult decisions in connection with the so-called 'Euro-crisis' in Greece, Ireland and Portugal. There have been a number of cases in which the European Council has had a decisive influence on agricultural policy decisions in the EU, typically when major reforms were at stake. In particular, farm ministers in the Agricultural Council have often had to wait for the European Council to reach a decision on the EU's budget before they could proceed with detailed agricultural policy negotiations. A famous case in point is the so-called Schroeder-Chirac 2002 compromise on EU farm spending. As is outlined below in Section 2.3, the future of the CAP after 2013 will also be influenced by upcoming European Council decisions on the EU budget.

### 2.1.5 The European Court of Justice

The European Court of Justice interprets EU law and ensures that it is applied uniformly in all MS. It rules on many different types of cases, including those in which a member state is ac-

[13] The positions of President of the European Council and High Representative for Foreign Affairs were created by the Treaty of Lisbon. Both are elected for two and one-half year terms. The current (and first) incumbents are Herman Van Rompuy (Belgium) and Catherine Ashton (UK), respectively, whose terms run from December 1, 2009 until May 31, 2012.

cused of not applying EU law, those in which EU laws are thought to be in violation of the EU treaties, and those in which an EU institution is accused of failing to reach a decision that is required of it. The Court of Justice is composed of one judge per member state, each of whom is appointed to a six-year term.

The Court of Justice is not directly involved in EU policy making. However, its rulings have played an important role in shaping the CAP, especially in the areas of food standards and the enforcement of a free, common market within the EU. In this connection, the Cassis-de-Dijon ruling of 1979 is frequently cited. In this case the Court ruled that products that comply with food standards in one member state cannot be forbidden in other MS unless this would represent a threat to fiscal supervision, public health or consumer protection.

### 2.1.6 The European Court of Auditors

The Court of Auditors is based in Luxembourg and is responsible for improving EU financial management. It is composed of one representative from each member state, each of whom is appointed by the European Council for a renewable, six-year term, and one of whom is elected by the others for a three year term as President. It has the right to audit any person or organization that is involved in the use of EU funds at the EU level (e.g. the Commission) but also at the national and regional levels (e.g. members states but also regional authorities such as municipalities that implement EU regional policies such as the rural development measures in the so-called second pillar of the CAP – see Section 3 below). The Court of Auditors carries out three basic types of audit:[14] financial audits check whether the EU's accounts adequately reflect its financial position and cash flow over the year in question; compliance audits check whether the EU's spending is in compliance with the laws and regulations that govern it; and performance audits check whether funds are spent effectively and efficiently.

Like the Court of Justice, the Court of Auditors is not directly involved in the legislative process of drafting and passing EU law. However, it does play an important role in EU agricultural policy making (see Section 5). It generates transparency in a complex area of policy making and brings facts to light that would otherwise remain concealed, thus providing critics of the CAP and proponents of reform with valuable facts and arguments. Its compliance and performance audits of specific EU agricultural policies have frequently revealed considerable inefficiency and, occasionally, fraudulent use of funding. For example, the Court of Auditors 2008 audit of the EU's cross-compliance policy (see Section 3 below) concludes "…that the objectives of this policy had not been defined in a specific, measurable, relevant and realistic way, and that at farm level many obligations were still only for form's sake and therefore had little chance of leading to the expected changes, whether reducing the size of payments or modifying farming practices" (Caldeira, 2009). Based on these conclusions, the Court recommended that the cross-compliance rules be "simplified, clarified and prioritized" (Caldeira, 2009).

The Court of Auditors has no legal powers. If the Court finds evidence of fraud or other irregularities, the European Anti-Fraud Office (OLAF) is informed. When the Court publishes an audit, the Commission is invited to provide a response. Typically that Commission response argues that the European Court of Auditors' critique is not, or at least not fully, justified (see Section 5.2 below).

[14] See Caldeira (2009).

### 2.2.1 Agenda Setting

The agricultural policy making process in the EU formally begins with a legislative proposal. Making such proposals is the prerogative of the European Commission. Before the Commission tables a proposal, however, the need for a new or reformed policy must be established. A variety of factors can create an agenda for policy change and thus move the Commission to develop and table a proposal. The EU operates in a rhythm of so-called 'financial frameworks'. Financial frameworks define the EU budget, including the provisions for spending in specific policy areas such as agriculture, over periods of seven years and the expiry of one framework (which will next occur at the end of 2013) inevitably triggers a debate about the role of the CAP in the next financial framework. An event such as a food scandal or an epidemic can create a need for stricter food safety monitoring and certification requirements. A new trade agreement can commit the EU to reducing tariffs. Initial reform steps in selected branches of agriculture can create momentum for further, analogous steps in other branches.[15] National governments and lobby groups will try to influence what comes on the agricultural policy agenda. Farm groups might argue for the elimination of control measures that are imposing a large bureaucratic burden on farmers; a Member State might argue for more regulation of agricultural markets (for example, France is currently spearheading calls for a stricter regulation of speculation, which it claims is destabilizing agricultural commodity markets). There are several thousand registered lobby groups operating in Brussels, and many of these are partly if not primarily interested in agricultural policy issues. COPA-COGECA, the umbrella organization of the various national farmers unions and cooperatives in the EU MS, is the most important agricultural lobby in Brussels.[16] All of the major food processing industries also maintain representations at the EU level and actively engage in agenda setting in Brussels[17], as do the retailing sector and agricultural input suppliers. The influence of these lobby groups, in particular of COPA-COGECA, on setting the agenda is rather strong. For example, based on empirical research and questionnaires, van der Zee (1997) points out that:

> "informal lobbying can take the form of *ad hoc* contacts regarding a specific policy issue and contacts on a more regular – ongoing dialogue – basis. They range from contacts with the officials of administrative units responsible for a particular policy area to the Director-General, the Cabinet and the Commissioner himself. For most routine lobbying the Euro-group's [i.e. the lobby group's] Secretary-General and his Secretariat (staff) are responsible. When important policy issues are discussed the political leadership, i.e. the President or the executive board consisting of representatives of the national member organizations, may have a lobbying role as well. For instance, the Praesidium of COPA has frequent contact with the Commissioner and the highest Commission bureaucrats (the directors-general and their *adjoints*). … In terms of policy influence, informal lobbying seems to be more effective than lobbying in formal committee structures – a hypothesis which was confirmed by several interviewees and respondents to the questionnaire." (van der Zee, 1997, p. 197).

[15] For example, after Commissioners MacSharry and Fischler introduced reforms for several key products (most notably cereals) in the 1990s and early 2000s, Commissioner Fischer Boel 'mopped up' by reforming a number of remaining, and difficult market organizations such as sugar and fruits and vegetables.
[16] See http://www.copa-cogeca.be for more information on COPA-COGECA and its member organisations.
[17] A list of the food industry associations and federations in Europe can be viewed under http://ec.europa.eu/enterprise/sectors/food/links/list-associations_en.htm.

Once a topic is on the reform agenda, the Commission usually engages in a series of formal and informal consultations to sound out and prepare potential majorities in the Council of Ministers and, if the policy in question is subject to co-decision, in Parliament. Formally, and if time allows, the Commission might publish a document such as an 'Action Plan' or a 'White Book' or a 'Communication' that outlines policy challenges and goals, and possible policy options as a form of 'trial balloon' to gauge public and political reactions and sensitivities. Informally, representatives of the Commission will engage in discussion with representatives of the MS and other stakeholders such as non-governmental organizations (NGOs) and lobby groups (e.g. farm unions, industrial associations).

These groups will attempt to get involved in reform discussions as early as possible, ideally well before the Commission has actually drafted legislative proposals, providing Commission officials with information and arguments. For example, if environmental NGOs have succeeded in persuading the Commission to consider making pesticide restrictions in the EU more stringent[18], lobby groups representing the agricultural chemicals industry will meet informally with Commission officials and MEPs to explain the costs of restricting pesticide use in terms of reduced yields, farm incomes and competitiveness, and to outline how much safer pesticides have become over the years. In this way, lobby groups will attempt to influence reform proposals before they are actually drafted and tabled by the Commission. Once a proposal has been drafted and enters the decision making process (see below), lobby groups will continue their activities, meeting with MEPs in Brussels and decision makers in the relevant MS ministries in an attempt to influence their opinions and, ultimately, votes. However, those with experience in EU decision making argue that once the Commission has actually drafted a proposal it is often too late to exercise much further influence on it – the earlier a lobby group intervenes, the greater its impact on the legislative process (European Parliament, 2003 p. 18; Wiggerthale, 2006). Hence, the most effective lobbying work by interest groups but also by MS themselves generally takes place in the pre-proposal stage when Commission officials are collecting information and sounding out the range of politically feasible alternatives.

### 2.2.2 Decision Making

Drawing on the results of these consultations and its own analysis, the Commission will draft a legislative proposal and submit it to the Council of Minister and the Parliament. If the policy in question is subject to consultation, as was the case for agricultural policy until the Lisbon Treaty came into force in December 2009, Parliament can submit an opinion on the proposal, but the actual decision making takes place as the result of a dialog between the Council of Ministers and the Commission.[19] The Commission's proposal is first scrutinized by the Special Committee on Agriculture (SCA) which consists of permanent officials from the ministries responsible for agriculture in each of the MS and a representative of the Commission who explains and justifies the proposal. The SCA may pass a proposal on to a technical working group for more detailed consideration. If a proposal in agriculture affects other EU policies (such as trade, or the environment, both of which are often affected), then the so-called Committee of Permanent Representatives (COREPER) will also deal with it; COREPER is comprised of permanent representatives (Ambassadors in all but name) from each of the MS.

[18] This occurred most recently in September 2008, when new EU regulations governing pesticide residues were passed (see http://ec.europa.eu/food/plant/protection/pesticides/regulation_ec_396_2005_en.htm).

[19] Indeed, the Council of Ministers has often ignored the Parliament's opinion and sometimes even reached a decision before even receiving this opinion.

Both the SCA and COREPER prepare Commission proposals for discussion in the Council of Ministers. Proposals on which agreement is reached among the member state representatives in the SCA and/or COREPER are forwarded to the Council of Ministers as so-called 'A-points' which can be passed without debate. Points on which agreement cannot be reached are forwarded as 'B-points' for debate in the Council of Ministers.

Under the Treaty of Lisbon, agricultural decision making is subject to co-decision rather than consultation. According to this procedure, Parliament must also approve a proposal before it can become EU law. Decision making thus takes the form of a 'trilog' involving the Commission, the Council of Ministers and the Parliament.[20] It is not clear how the introduction of co-decision in agricultural policy making in the EU will affect policy outcomes. Past negotiations on agricultural policy reform between the Council and the Commission took place behind closed doors and generally came to a head in lengthy Council meetings that often lasted until deep into the night.[21] During these meetings, shielded from the public eye, the Council of Ministers and the Agricultural Commissioner would craft complex compromise packages, and add last-minute 'sweeteners' to sway individual MS on the way to a qualified majority. These sweeteners could, for example, take the form of lengthier transition periods for the implementation of reform measures in specific MS. However, cases of more blatant 'purchasing' of votes whereby a member state would, for example, request special EU funding for a rural development project or a larger milk quota for its farmers were not uncommon. The move to co-decision with the European Parliament will make it difficult to 'cut' such deals behind closed doors.

Greer and Hind (2011) discuss four possible scenarios for agricultural co-decision and conclude that the most likely scenario is one in which the Commission gains influence overall. They argue that in view of "the technocratic and detailed nature of CAP legislation (and of its implementation), the European Parliament faces some important constraints in its ability to exercise power, particularly a lack of administrative resources" (Greer and Hind, 2011, p. 2). This creates a void that either the Council of Ministers or the Commission could fill, but the authors argue that the "Commission not only possesses significant technical resource that is accessible in Brussels to MEPs … but also embodies the same supranational spirit of the EU as the Parliament" (p. 16). If true, this would also point to a weakening of the Council of Ministers and its ability to craft last-minute compromises. However, Greer and Hind also point out that co-decision may "lead to more protracted decision making because the typical duration for the agreement of a co-decision dossier is around 3 years" (p. 2).

### 2.3 The CAP after 2013

To illustrate the interplay between the players involved in agricultural policy making in the EU we briefly discuss the example of the ongoing efforts to agree on a reform the CAP for the period after 2013. The past, ongoing and expected steps in this reform process are outlined schematically in Figure 2.1.

[20] The formal steps that make up this trilog are complex, involving first and second readings by the Council of Ministers and the Parliament as well as conciliation procedures if these two bodies cannot agree on amendments to a Commission proposal. See e.g. http://www.eurunion.org/images/EUdecisionChart.jpg.

[21] See, for example Pirzio-Biroli (2008) for an account of the negotiations that led to the adoption of the so-called Fischler reform of the CAP in 2003.

*Figure 2.1* ***Steps leading to the adoption and implementation of a CAP for the period after 2013***

| | |
|---|---|
| April-June 2010: | Public consultation process by Commission |
| November 2010: | Publication of Commission Communication |
| October 2011: | Commission publishes legislative proposals |
| Late 2011 – 2012: | Trilog among Commission, Council of Ministers and Parliament |
| Late 2012/early 2013: | Adoption of reform legislation |
| 2013: | Translation in to national law, preparation of programs |
| January 2014: | Start of implementation |

Source: Own presentation.

The current EU financial framework began in 2007 and will expire at the end of 2013. The need to prepare a new financial framework for the period from 2014 to 2020 presents an opportunity for the EU to reconsider its overall spending priorities and, if deemed necessary, reform specific policies. Numerous studies (e.g. Sapir, 2004; Copenhagen Economics, 2009) make a compelling case that the EU should shift spending post-2013 from the CAP to other areas such as research, infrastructure and foreign affairs, where it would generate considerably more European value added. Hence, the debate on the financial framework for 2014 to 2020 has also become a debate on the reform of the CAP.

This debate began to take shape in April 2010, when the Commission launched a public consultation process in which the general public, NGOs and other stakeholders were invited to provide online responses to questions regarding the future of the CAP.[22] This was followed by a meeting in Brussels June 2010 to which a broad range of stakeholders, lobby groups and analysts were invited by the Commission to present their views on the CAP after 2013.[23] These exercises provided the Commission with a broad range of opinions. Indeed, skeptics argue that the purpose of these exercises was to provide such a broad range of views that the Commission could claim public support for just about anything that it might later propose, and especially support for a continued ‘strong’ CAP to counter the above-mentioned arguments for a shift away from agriculture in EU budget priorities. In parallel with this publicly visible process of stakeholder consultations, representatives of the various lobbies interested in agricultural matters, above all farmers’ spokespersons from COPA-COGECA, met Commission officials informally to argue their case. For obvious reasons, information on how this informal process has operated (who met whom when and where? what were the topics discussed? to what extent did the Commission take the viewpoints expressed by lobby groups into account?) is not publicly available. However, when one talks personally to Commission officials they provide anecdotal evidence of the strong and rather effective lobbying process that takes place behind the scene, which was also the case during the process of preparing the Commission’s position on the CAP post-2013.

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[22] See http://ec.europa.eu/agriculture/cap-post-2013/debate/report/summary-report_en.pdf for a report on the results of this consultation process, which collected roughly 5700 submissions.

[23] See http://ec.europa.eu/agriculture/cap-post-2013/speeches/adgroup20100603_en.pdf for a report on this public meeting.

The first document that outlines the Commission's views on the CAP after 2013 was published on November 18, 2010 (European Commission 2010). In this document, the Commission, with reference to the preceding consultation exercises, describes what it considers to be the challenges facing EU agriculture and the goals of a policy to address these challenges. It then discusses broad options for the CAP after 2013, although the treatment of these options is very general and devoid of concrete measures and numbers.

Following these preliminary steps, the Commission is currently preparing concrete legislative proposals. Initially these were to be released in mid-2011, but currently the expectation is that they will be released later, perhaps in October 2011. This will initiate the trilog process outlined above, with the SCA and COREPER and the responsible technical working groups preparing negotiations in the Council of Ministers and the Agricultural Committee preparing Parliament's position. In the meantime, the European Parliament has responded to the Commissions Communication of November 2010. A report drafted by the Rapporteur of the Parliament's Committee on Agriculture and Rural Development (Albert Deß, an MEP from Germany) in February 2011, and subsequently debated, amended and adopted by the Parliament in June 2011, welcomes the main thrust of the Commission's Communication, while advocating a number of changes to the reform steps outlined in it (European Parliament, 2011). Numerous other stakeholders, such as lobby groups, NGOs and academics, have also commented on the Commission's Communication.

Ideally, agreement among the Commission, the Council of Ministers and the Parliament will be reached by the end of 2012. This will leave one year for any necessary translation of new CAP provisions into national law in the MS, and to design and prepare programs which lead-time, prior to implementation on January 1, 2014. In practice, it is not clear that this timetable will be met. The 2014-2020 EU financial framework is of such overriding political importance in the EU that it will require an agreement by the European Council. Only after the structure of the financial framework has been determined (i.e. the size of the EU budget overall and of the individual policy areas such as agriculture within it) will it be possible to undertake detailed and concrete negotiations on specific provisions of the CAP. It appears likely that an agreement on the financial framework in the European Council cannot be reached prior to the upcoming presidential election in France in April 2012.[24] Hence, the trilog process may only begin in earnest in mid-2012, and some observers therefore do not expect new CAP legislation to be adopted until well into 2013. If this is indeed the case, then the EU might enter 2014 without a formal budget. There are provisions for a roll-over of the previous budget and spending programs in this eventuality. Whether or not the timetable outlined above is met, the policy making process leading to the adoption of new CAP legislation for the post-2013 period will also be subject to any major shocks, such as an intensification of the Euro crisis in Greece, that might influence the general policy environment in the EU.

[24] The presidential election will take place on April 22, and a run-off election, if necessary, on May 6, 2012.

# 3. Current Agricultural Policies of the EU

## 3.1 A Short History of the CAP

Unlike agricultural policy in any individual country, the CAP has not resulted from a long-term evolution: it was created synthetically at one point in time, after the EU[25] had been established, and replaced significant parts of the historically grown agricultural policy regimes that had earlier existed in the EU's original six member countries. The decision to include agriculture in the new common internal market of the EU, in spite of the widely diverging agricultural policies of the six founding countries, was considered imperative to create some sort of a political balance between France's interest in gaining a larger market for its agricultural exports and the benefits Germany was expected to gain in the industrial sector. In consequence, the Treaty of Rome, setting up the EU in 1958, provided for the establishment of a common agricultural policy, though it still left much scope for how precisely that policy should look like.[26]

But relatively soon the courageous decision was taken to opt for the strongest possible degree of integration, i.e. the establishment of a common market organization for the most important agricultural commodities, providing not only for completely free agricultural trade across all EU member countries, but also a common level of protection and support of agriculture in the whole of the EU. This meant that in future all decisions regarding agricultural market policies had to be taken centrally at the supra-national EU level, and that the new common agricultural policy also had to be financed out of the common EU budget.[27] It also required a politically extremely difficult decision on where to pitch the common level of price support, in the relatively wide range between the low levels previously prevailing in France and the Netherlands and the much higher prices to which farmers in Germany and Italy were used. Prices were eventually set relatively high, and thus the CAP started out on the way towards a rather protectionist policy, implemented through intervention buying in the domestic market, and variable levies and export subsidies at the borders towards third countries (for detail, see below). The CAP was to stay on that protectionist course for quite some time, and Germany's inclination to push for high farm price support made a significant contribution to that policy stance.[28]

Ironically, soon after policies and prices had been harmonized across the EU's member countries in 1967, support prices were again differentiated in 1969 when the French Franc was devalued and the German Deutschmark revalued but the requisite adjustments of support prices in national currencies appeared politically unacceptable. New duties and subsidies on agricultural trade among the MS were introduced, and that "agri-monetary" regime, keeping

[25] The term EU will be used here throughout, even where it would be more historically correct to speak of the EU's predecessors, i.e. the European Economic Community (EEC) or the European Communities (EC). For a brief online account of the historical evolution of the EU, see http://europa.eu/abc/history/index_en.htm .

[26] An excellent account of the early history of the CAP, and of the prior evolution of agricultural policies in the EU's original member countries since 1880, is provided by Tracy (1982).

[27] The need for a common financing of the CAP out of the Brussels budget was a nearly mechanical implication of the decision to pursue a common market policy, with farm product prices kept significantly above those in international trade. Had the individual member countries remained financially responsible, then there would have been strong incentives for national governments to manipulate agricultural trade flows such that imports into a given member country came from outside the EU (bringing tariff revenue into the national budget), while exports went into other member countries (placing the financial burden of intervention purchases or export subsidies on their shoulders). These incentives could have easily undermined the functioning of the common internal market in agriculture.

[28] For a discussion of Germany's influence on the CAP in its early years, see Tangermann (1979).

national farm product prices apart but also adding further to the level of protection, remained in place until the introduction of the Euro in 1999.[29] A further dimension of price differentiation within the common market for agriculture was added when the EU was enlarged in successive rounds and farm product prices in the acceding member countries were only gradually adjusted to the common level.[30]

The high level of price support soon made EU markets for major agricultural products turn from deficit into surplus, and the CAP was confronted with rapidly growing budget expenditure on acquiring and holding intervention stocks ('butter mountains' and 'wine lakes') and export subsidies. Expenditure on the CAP made up for a growing share of the overall budget of the EU (reaching a maximum of 73% in 1985[31]), pushing the EU nearly to the brink of bankruptcy a number of times in the 1980s. The EU, unwilling to reform the CAP, tried to suppress the most problematic symptoms of its excessive price support policy, through various forms of supply management, including production quotas for sugar and milk. However, intervention buying and export subsidy expenditure continued to mount.

At the same time, tensions with the EU's trading partners and international criticism of the CAP intensified. In the Uruguay Round of GATT negotiations, finally, a point was reached where the EU could no longer sustain its outdated market policy under the CAP. Commissioner for agriculture MacSharry saw the writing on the wall and embarked on a reform course in 1992, cutting the level of price support and introducing direct payments to EU farmers as compensation. This opened up the way to a successful conclusion of the Uruguay Round, which also did away with the EU's variable levies which were replaced by fixed tariffs, to be reduced over time according to the WTO schedule.[32]

The two following Commissioners for agriculture, Fischler and Fischer Boel, continued with CAP reform in the early 2000s, and in particular 'decoupled' the direct payments from production.[33] As a result, not only has the structure of the CAP fundamentally changed, with a large part of former price support having been transformed into fixed per hectare payments to EU farmers. The EU's domestic markets for agricultural products have also become much more open to international influences and prices more variable. As another dimension of the reforms, market and incomes policy (the so-called "Pillar 1" of the CAP) became increasingly complemented by structural policies under the heading of Rural Development ("Pillar 2" of the CAP), which in the early phase of the CAP accounted for less than 5% of CAP expenditure but have meanwhile expanded to around 20%. As EU expenditure outside agriculture grew more rapidly than the CAP budget since around 1990, the share of the CAP in the EU's overall budget has over time declined, to 44% in 2010.

As the EU is preparing its policies for the next budget period (2013-2020), the debate about another possible round of CAP reform is currently underway. However, it appears the current Commissioner for agriculture, Ciolos, has no intention to push for modifications that would

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[29] For a description and analysis of the agri-monetary regime under the CAP, see Ritson and Tangermann (1979) and von Cramon-Taubadel (1994).

[30] The successive rounds of EU enlargement, and the lists of countries joining the EU, are also reported at http://europa.eu/abc/history/index_en.htm. When countries from Central Europe joined the EU, beginning in 2004, their agricultural prices were immediately aligned with those in the common market.

[31] For statistics on the budget of the CAP and the EU overall, see the EU Commission's annual reports on "Agriculture in the European Union – Statistical and Economic Information", the most recent edition to be found at http://ec.europa.eu/agriculture/agrista/2010/table_en/index.htm .

[32] For an account of CAP reform since 1980, the political forces driving it and its interaction with the development of agricultural policy reforms in the USA, see Moyer and Josling (1990 and 2002).

[33] The political economy of CAP reforms under Commissioner Fischler, which resulted in 'decoupling' of the direct payments, is discussed in Swinnen (2008).

come anywhere close to the reform impetus of his three predecessors. A first Communication on the CAP post-2013, issued in November 2010 by the Commission (European Commission, 2010), can be interpreted as aiming mainly at a political stabilization of the regime of direct payments (Tangermann, 2011). We shall come back to prospects for the future of the CAP in the concluding chapter.

## 3.2 Objectives of the CAP

### 3.2.1 Stated Objectives

The legal and institutional foundations of the EU are laid down in treaties that have changed over time. The currently applicable version is the Lisbon Treaty, which entered into force on 1 December 2009. The basic rules for the EU's policies form one major part of the Lisbon Treaty, namely the Treaty on the Functioning of the European Union (formerly the Treaty establishing the European Community).[34] Title III of that Treaty deals with EU policies relating to agriculture and fisheries. Its Article 39(1) states the fundamental objectives of the CAP as follows:

> "The objectives of the common agricultural policy shall be:
>
> (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labor;
>
> (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
>
> (c) to stabilize markets;
>
> (d) to assure the availability of supplies;
>
> (e) to ensure that supplies reach consumers at reasonable prices."

This wording of the CAP's basic objectives is still precisely the same that was adopted in the Treaty of Rome, signed in 1957 and establishing the European Economic Community among its six original member countries in 1958. The longevity of these objectives, for a policy whose orientation and structure has changed fundamentally over the about fifty years of its existence and which now applies to 27 MS covering most of Europe's territory, is already an indication of their rather general nature. Also, these objectives have no specifically "European" character as they are not much different from the objectives laid down for agricultural policies in most other developed economies.

However, in spite of their age and generality, the CAP's stated objectives as specified in Article 39(1) still have practical legal significance. They are cited in many of the legal texts (Regulations and Directives) that are issued all the time to regulate the individual policy measures under the CAP, and thus still form the basis on which the CAP is designed and implemented. In case of doubt, when the European Court of Justice has to judge on the legality of given measures under the CAP, the Court has also occasionally based its decisions on Article 39(1).

More specific objectives, often of a rather operational manner, are sometimes stated in the respective EU legislation (see below). When the EU Commission engages in an impact as-

[34] The other part of the Lisbon Treaty is the Treaty on the European Union. Moreover, the Lisbon Treaty also contains several Protocols and Declarations. The full text of the Treaty of Lisbon is available at http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2007:306:SOM:EN:HTML.

sessment[35] of proposed changes to the CAP, it also typically states objectives – not so much of the policy as such, but of the proposed changes. For example, in its impact assessment of the proposed 2008 Health Check of the CAP, the Commission specified the objectives of modifying the direct payments regime as follows:

- "Achieving improved competitiveness, better market orientation and better compliance with EU standards;
- meeting the underlying sustainability goals of the reformed CAP;
- meeting the societal expectations from the CAP in terms of the provision of public goods, the distribution of direct payments and new challenges;
- preserving the vitality of rural areas and specific types of farming, which may be low in intensity, but high in positive environmental or regional benefits;
- further simplifying the CAP"

(Commission of the European Communities, 2008, p. 19).

### 3.2.2 Implicit Objectives

One does not need to dig very deep to see that the objectives actually pursued by major policy instruments under the CAP must be much different from those stated in Article 39(1). For a long time, a high level price support was the central feature of the CAP, accounting for by far the largest share of budgetary expenditure on the policy. As a result of the reforms implemented since 1992, direct payments have replaced a good part of that past price support, and these payments now make up for the bulk of CAP expenditure (68% of expenditure on the CAP, amounting to 29% of the overall EU budget in 2010). There is no doubt that both price support and direct payments aim at increasing the level of farm income. The EU Commission, for example, makes that point clearly when it says that "the current decoupled direct payment therefore … ensures that farmers respond to market signals while providing income support" (European Commission - Agriculture and Rural Development, 2009, p. 6).

At the first glance it may appear as if providing farm income support is entirely consistent with the objective "to ensure a fair standard of living for the agricultural community" as stipulated in indent (b) of Article 39(1). However, the first word of indent (b) calls for achieving that fair standard of living through an increase in agricultural productivity, not through transfers from consumers (via price support) or taxpayers (via direct payments).[36] If the CAP's objectives as laid down in Article 39(1) were taken literally, then an overwhelming part of the policy would make a serious effort "to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labor" as suggested in indent (a) of Article 39(1). In particular, a large part of CAP expenditure would then be spent on activities such as research and development so as to promote technical progress; extension services to improve farmers' capacity to adopt innovation; market information services that assist farmers in adjusting agricultural production in a rational way to the changing forces of supply and demand; improving the mobility of factors of production, in particular labor (and land), so as to enhance their optimum utilization. However, a central focus of the CAP is not on such

[35] Impact assessments, as an extensive form of *ex ante* evaluations, are discussed below in Section 5.1.
[36] Harris, Swinbank and Wilkinson (1983, p. 35) refer to Article 39(1) as "probably the most quoted section of the whole EEC Treaty", and to the first word of its indent (b) as "the most neglected word in the Treaty".

measures with a longer-term orientation, but has always been, and continues to be, on immediately effective and politically visible instruments that transfer income directly to farmers.

The objective “to stabilize markets” as postulated in indent (c) of Article 39(1) would, if taken literally, require that measures would be adopted that reduce both downward and upward price fluctuations, maintaining prices close to where their average would have been otherwise. However, the market policy instruments in place and applied, in particular intervention buying, tariffs and export subsidies, are oriented to eliminating price troughs, not price spikes.[37] For a long time, these instruments have been used to keep EU prices permanently and far above the prices on international markets – in order to provide income support to farmers. This policy could certainly not be said to be in line with the objective “to ensure that supplies reach consumers at reasonable prices” as stipulated in indent (e). It was also not justified by the objective “to assure the availability of supplies” (indent (d)) as it resulted, for a number of major products, in massive surpluses that are exported to third countries, for a long time with the help of large export subsidies.

In other words, like in most other developed countries, the primary implicit objective of the CAP has always been, and still is, to raise current farm incomes through transfers from the rest of the economy to the agricultural sector.[38] A number of other objectives and constraints also play a role, and their composition and weight has changed over time. Budgetary concerns act as a constraint on the CAP’s generosity towards farmers. They were particularly felt, and have brought about the first policy adjustments, in the 1980s. As evidenced by the major policy changes that took place since the early 1990s, considerations regarding tensions with international trade partners have had a growing influence on the CAP. More recently, environmental concerns and related interests have been increasingly taken into account. However, when looking at the actual instrumentation of the CAP, and in particular at the overwhelmingly large role played by direct payments, it is obvious that providing support to farm incomes remains the primary objective of the CAP.

Among political actors, there are occasional attempts at providing a seemingly rational justification for raising farm incomes through measures such as direct payments. For example, in its Communication of November 2010 on the CAP post-2013 the European Commission makes the point that “agricultural income [is] significantly lower (by an estimated 40% per working unit) than that in the rest of the economy” (European Commission 2010). Whether farm incomes are actually low is a matter of both conceptual definition and empirical measurement. The statistics typically cited in this context, and also referred to by the Commission, relate to income from agricultural activity per annual work unit, as compared to labour income in the rest of the economy. Agricultural income per work unit is not an appropriate indicator of standard of living as that depends on total household income of the family concerned (OECD, 2003). If farm income support were to respond to equity concerns like other social policies, in particular if its purpose were to overcome unacceptably low standards of living in the farming community, then it would have to be based not on agricultural income per work unit but on overall incomes of farm households where income from other sources often complements agricultural income. From that perspective there is not much reason to provide general income support to agriculture in the EU as empirical research has shown that farm household income

[37] There have been rare occasions when, in a situation of strongly rising prices on international markets, import tariffs were reduced or eliminated, in order to dampen a price rise on EU markets. The products concerned were typically feedstuffs, indicating that the objective of such measures was primarily to protect (livestock) farmers.

[38] For a discussion of the political economy and the motivations behind this type of policy stance, see for example Schmitt (1984) and Swinnen (1994). The special treatment of agriculture in many countries’ policy regimes, sometimes referred to as ‘agricultural exceptionalism’, is discussed for example by Grant (1995), Skogstad (1998) and Halpin (2005).

is not generally below incomes in other parts of society (OECD, 2003). Moreover, and even more important, if farm income support in the EU were really based on social equity concerns, then it would have to be provided not through flat rate per hectare payments, but through targeted payments to individual families, based on a means test.

Another seemingly rational justification of farm income support is proposed by the Commission in a recent Agricultural Policy Perspectives Brief (European Commission - Agriculture and Rural Development 2011c) where it is suggested that providing income support to farmers is a precondition for enabling them to provide basic public goods "by helping to ensure the longer term economic viability, and a smooth structural adjustment, of the farming sector". However, if the provision of public goods were the actual reason for supporting farmers, then that support should not come in the form of general per hectare payments, but through targeted payments that are made per unit of public good provided, where a specific public good is required and not generated automatically as a by-product of market-oriented farm output (Tangermann, 2011).

In other words, at close inspection it turns out that the various justifications for providing farm income support are not really convincing – they are pretexts rather than explanations. Farm income support, forming the backbone of the CAP, is provided for political reasons rather than pursuing rational economic objectives. The typical minister of agriculture in an EU Member State comes from a farming background and is expected by his political party to secure election support from the side of farmers. Most EU Commissioners for Agriculture also have had roots in agriculture, and are nominated arguably because they understand more of the complex business of agricultural policy making than a politician who never had any links with agriculture. As a result, agricultural policy in the EU, like in many other countries, is essentially made by farmers for farmers – and if that is the case, it cannot come as much of a surprise that it aims at providing financial benefits to farmers.

## 3.3 Basic Structure of the CAP

### 3.3.1 Policy Domains

In a broad sense, the structure of the CAP can be described as being composed of two major policy domains, often referred to as 'Pillars'. Pillar 1 consists of the market, trade and incomes policies, the latter coming primarily in the form of direct payments. Pillar 2 includes structural policies, referred to as Rural Development. The two Pillars are distinguished not only by the nature of policies pursued under them, but also by the way in which the supranational level of the EU on the one hand and the individual Member State governments on the other hand interact in them.

Pillar 1 measures, forming the core of the CAP in many regards, are purely supra-national policies. They are decided and financed entirely at the EU level and apply equally to all MS.[39] In contrast, policies falling under Pillar 2 are pursued in joint responsibility of the Union and the individual MS. There is a common EU framework for Pillar 2 policies, but it is for the individual MS to select the specific measures, within that framework, that they want to use. The Pillar 2 measures are co-financed between the EU and the respective Member State, within a given budget ceiling for EU contributions to each member country's Rural Development policies. As a consequence, the nature and composition of structural policies under Pillar 2 differs significantly across the EU's member countries, while market, trade and income poli-

[39] Administrative implementation of Pillar 1 measures, though, rests with the MS, see Section 4.1.

cies under Pillar 1 are truly common in the sense that there is no differentiation between MS.[40]

There are also some types of policy measures in agriculture that have (so far) remained outside the CAP and are pursued and financed under the exclusive competence of the individual MS (see below, Section 3.6). Such national policies, though, have to respect given EU rules aimed at avoiding distortions of competition within the common market.

### 3.3.2 Financing of the CAP, and Overall Level of Support

Expenditure on the EU's policies is financed from the Union's budget.[41] That budget is funded by the EU's "own resources"[42], limited to a given maximum (currently 1.23% of the EU's gross national income). The "own resources" consist of three different types of revenue. Customs duties on imports from third countries, the oldest source and most typical for a customs union, flow directly to Brussels and are forecast to account for 13% of the EU's revenue in 2011. The second source of revenue for the EU's budget, 11% in 2011, is a given percentage of the harmonized value-added tax base across all member countries. The third source is a standard percentage of gross national income in all member countries, accounting for 75% in 2011. The amounts representing the second and third source are to be paid to the EU by the national Member State governments.[43] The EU budget is based on the principle that revenue must match expenditure, i.e. there must not be a deficit. The appropriations for the EU's budget in 2011 foresee a total of commitments of 138.5 billion EUR.

Expenditure on the CAP, with budgeted commitments of 57.3 billion EUR in 2011, is financed out of the overall EU budget. As a matter of presentation, CAP expenditure is structured into two different "funds", equivalent to the two Pillars of the CAP. The European Agricultural Guarantee Found (EAGF) represents expenditure on market policies and direct payments (Pillar 1), with budgeted commitments of 42.7 billion EUR in 2011. The European Agricultural Fund for Rural Development (EAFRD) finances the EU contribution to the rural development programs of the MS (Pillar 2), budgeted for 14.6 billion EUR in 2011. The evolution of the structure of expenditure on the CAP from 1980 to 2009 is shown in Figure 3.1.[44]

[40] In spite of the fundamentally common character of Pillar 1 policies, there are a number of regards in which they can differ between member countries, allowed for in the common rules applicable to all MS. For example, there are several different regimes regarding the allocation of direct payments to the individual farms in a given country (see below). Also, the rules governing direct payments in the 12 new MS recently acceded to the EU are different from those of the old member countries.

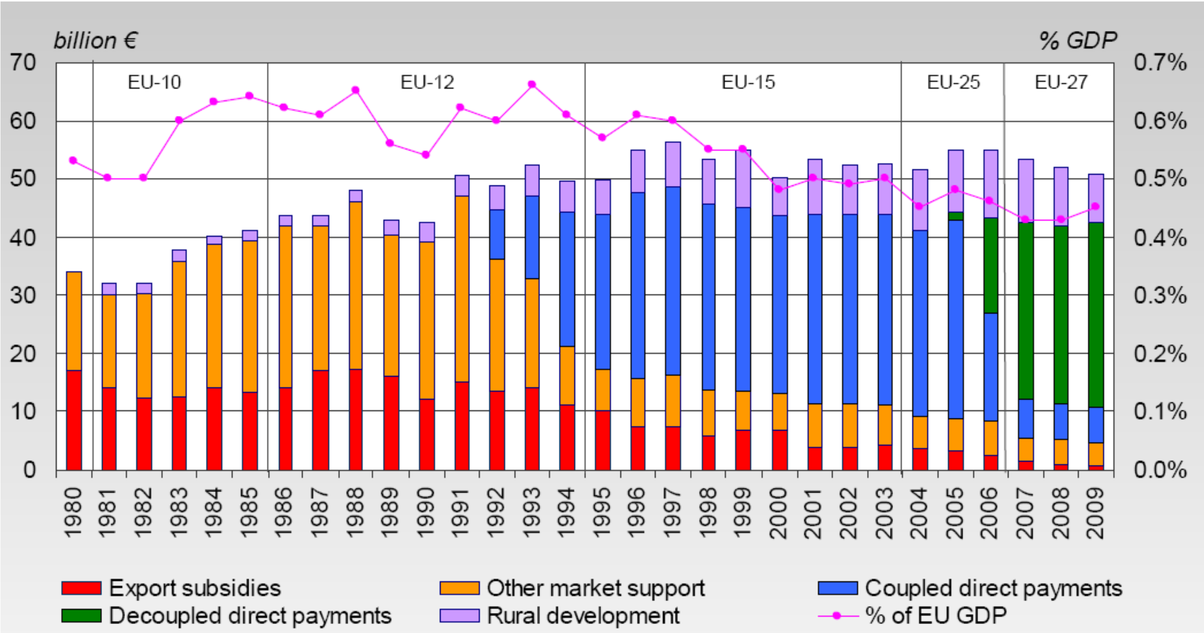
[41] Summary information on the EU budget, used as source for this section, can be found at http://ec.europa.eu/budget/explained/budg_system/index_en.cfm , where links provide access to more detailed information than the brief and necessarily simplifying description provided here.

[42] There are also minimal other sources, accounting for no more than 1% of the EU's budget.

[43] There is a debate about introducing some type of a new EU tax whose revenue would be directly owned by, and flow immediately into, the EU budget. For the time being, though, that debate has remained inconclusive.

[44] Note that Figure 3.1, taken from the EU Commission, presents CAP expenditure in constant prices. "Rural development" in that figure represents what is now referred to as Pillar 2, financed out of the EAFRD. The other expenditure items shown in that figure fall under Pillar 1.

*Figure 3.1: The Evolution of CAP Expenditure (in Constant Prices of 2007)*




Source: Reproduced from European Commission at http://ec.europa.eu/agriculture/cap-post-2013/communication/slide-show_en.pdf

In economic terms, the way the EU overall and the CAP in particular are financed means that the financial burden resulting from the policy is primarily born by taxpayers in the individual member countries, and partly also by the users of products imported into the EU from third countries. The budgetary flows, though, do not show the whole picture of farm support in the EU. A good part of the overall transfers to agriculture, channeled through the CAP to farmers from the rest of society, comes in the invisible, but nevertheless real, form of policy-supported prices for agricultural products, kept above those prevailing on international market through the market and trade measures under the CAP. The OECD includes these consumer-based transfers in its Producer Support Estimate (PSE). In 2009, the overall PSE for the EU stood at 87 billion EUR, equivalent to 24% of gross farm receipts in the EU (OECD, 2010, p. 51). Of this total, 20.9 billion EUR came in the form of market price support, i.e. invisible transfers from consumers to farmers.[45]

## 3.4 Pillar 1: Market, Trade and Incomes Policy

### 3.4.1 Objectives and Target Population

The EU has not stated specific objectives or a target population for the whole of its Pillar 1 policies. Hence, the general objectives set for the CAP overall (see above, Section 3.2) apply to Pillar 1 as well. In addition, the Regulations laying down, in legally binding form, the rules for the individual policy measures, could in principle state more specific objectives in their preambles (‘recitals’, or ‘whereas’ clauses). However, the objectives stated in the preambles may simply repeat parts of the general (and rather aged) CAP objectives as stated in Article

[45] To be precise, some part of market price support is also financed by taxpayers, namely that resulting from export subsidies. – The part of the EU’s PSE coming not in the form of market price support, but through budgetary payments, cannot directly be compared to budget figures of the EU, among others because it also comprises expenditure by national governments of EU MS.

39(1). For example, the Regulation on the common organization of agricultural markets, i.e. the legal cornerstone of the EU's agricultural market and trade policies, cites wording of indents (b) and (c) of Article 39(1) by stating that:

> "In order to stabilize the markets and to ensure a fair standard of living for the agricultural community, a differentiated system of price support for the different sectors has been developed, in parallel to the introduction of direct support schemes, taking account of the different needs in each of these sectors on the one hand and the interdependence between different sectors on the other."[46]

Typically, though, the Regulations for individual policy measures do not state any fundamental policy objectives, but more narrow operational aims. For example, the Regulation on direct payments under the CAP, after all the legal basis for annual expenditure of nearly 40 billion EUR, more than two-thirds of all CAP expenditure, has nothing to say about what the direct payments are supposed to achieve in general terms. However, it makes reference to specific aims, for example by suggesting that:

> "The abolition, in accordance with this Regulation, of compulsory set aside within the single payment scheme could in certain cases have adverse effects on the environment, in particular as regards certain landscape features. It is therefore appropriate to reinforce the Community provisions aimed at protecting specified landscape features. In specific situations it should also be possible for a Member State to provide for the establishment and/or retention of habitats."[47]

In the absence of stated objectives pursued specifically through Pillar 1 policies, what has been said above on the objectives of the CAP in general (Section 3.2) applies to the EU's market, trade and incomes policies in agriculture as well.

The target population for Pillar 1 policies is the whole agricultural community, i.e. all farmers in the EU. Market and trade policies do not specifically address individual people as they operate at the level of commodity markets. In effect, though, they impact on everybody operating on these markets. The intended impacts of these policies, as far as people are concerned, are producers of the commodities concerned and their revenues. There are, though, of course also side-effects on other parts of the population, in particular those on users of farm products, in particular food consumers. Yet, in a political sense, food consumers are not the target population of market and trade policies – the higher food prices they have to pay as a result of the CAP are best described as some form of collateral damage of a policy that targets farmers.

Direct payments, the financially most important part of Pillar 1, do operate on the level of individual people, namely the payment recipients. They could, therefore, in principle envisage a well defined target population. However, given the historical origin of the direct payments, that target population was defined only implicitly, by allocating payment rights to all producers of the products whose support prices were cut in the course of CAP reforms and where income compensation was, hence, considered appropriate. A targeted approach to the CAP's farm incomes policy in the form of direct payments is notable by its absence. It could be argued that any incomes policy, including (quasi) permanent direct payments in agriculture, should be needs oriented and hence be based on a means test, to make sure transfers are not made to families with sufficiently high incomes (Tangermann, 2011). However, that is not the case with direct payments under the CAP. The implied violation of fundamental equity principles is, to some extent, felt at the political level, as evidenced by repeated attempts at intro-

[46] Whereas clause 10 of Council Regulation (EC) No. 1243/2007 of 22 October 2007.

[47] Whereas clause 5 of Council Regulation (EC) No. 73/2009 of 19 January 2009. In this Pillar 1 Regulation, applying equally to all MS, reference to the possibility for MS to provide for habitats is an indirect reference to environmental policies under Pillar 2 where individual countries have more flexibility to develop their own programs, as explained below.

ducing some form of degressivity, such that lower per hectare payments would be made to larger farms. However, these attempts have so far largely failed because of resistance from those MS where large farms play an important role, for example the United Kingdom and Germany.[48] Governments of such MS do not want to see the flow of money from Brussels to their countries reduced through limits on payments to large farms. Moreover, they are also under pressure from their large farmers, intent on avoiding a reduction of their benefits. The arguments advanced publicly in this debate make reference to the negative implications degressivity of payments might have for structural adjustment in agriculture, though fundamentally the concerns relate to purely financial benefits.

Another attempt at creating more 'fairness' in the distribution of direct payments is currently underway, as part of the process of preparing the CAP for the post-2013 period, by moving in the direction of less unequal levels of per hectare payments across the member countries of the EU.[49] However, neither degressivity according to farm size nor equality of payments per hectare across all farmers can be considered a targeted incomes policy in line with individual needs (Tangermann, 2011). Another issue regarding the target population for direct payments currently discussed in the context of the CAP for the post-2013 period is how it can be assured that payments go only to people actually engaged in agriculture[50], referred to as "active farmers". However, it is difficult to conceive of any approach that would solve that issue in a rational way (Tangermann, 2011).

### 3.4.2 Domestic Market Policy

In 2007, the EU has brought the many market policy regimes it previously had for the individual product sectors under the joint umbrella of one Regulation establishing a common market organization (CMO) for all agricultural products.[51] The most important (and probably most widely known) CAP instrument for use on the internal market is intervention buying at given pre-determined floor prices, applying to a number of basic agricultural product sectors (cereals, rice, sugar, olive oil and table olives, beef and veal, milk and milk products, pork, sheep meat and goat meat). Intervention can take the form of either buying into public stocks or the granting of aids for private storage. While in the past all quantities that were offered had to be acquired at the high policy prices, after CAP reforms there are now limits to the quantities that can be purchased into intervention, and intervention prices are now much lower, typically below 'normal' world market prices. As a result, intervention buying is now limited largely to the function of a safety net, to be used when market prices decline to a rather low level. Figure 3.2 illustrates, for the case of wheat, the evolution of the intervention price relative to market prices inside and outside the EU.

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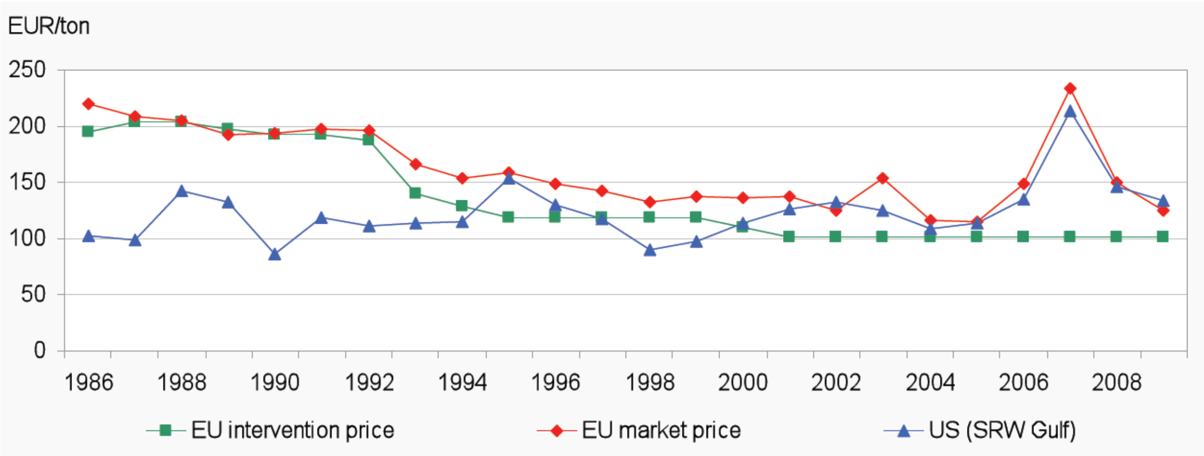
[48] There is, though, an extra reduction of 4% of payments beyond EUR 300.000 in the context of so-called modulation.

[49] Under the direct payments regime currently in place, as having resulted from the historical process of CAP reforms and the Eastward enlargement of the EU, direct payment levels per hectare vary widely across member countries, between about EUR 100/ha in Latvia and EUR 800/ha in Malta, see http://ec.europa.eu/agriculture/cap-post-2013/communication/slide-show_en.pdf . The different levels of payments per hectare reflect the historical composition and intensity of production in the individual MS, as the payments were originally calculated on the basis of price reductions per quantity of output as having resulted from the reforms of 1992 and later years. Thus, where yields were high, or where products undergoing large price cuts were predominantly produced, payments per hectare were higher than in other MS.

[50] As opposed to, for example, absentee landowners such as investors owning land but not farming it themselves.

[51] Council Regulation (EC) No. 1243/2007 of 22 October 2007.

*Figure 3.2: Wheat Prices, EU and World Markets*




Source: Reproduced from European Commission - Agriculture and Rural Development (2011a).

In most product sectors without intervention buying, there are other forms of domestic measures to provide price support. For example, in the fruit and vegetables sector, member countries are encouraged to establish producer organizations, which can then engage in 'crisis' management such as non-harvesting, so as to reduce supplies. While intervention buying is entirely financed out of the Brussels budget, crisis management in the fruit and vegetables sector is co-financed between the EU and the respective Member State.

Another important element of domestic market policy in the EU is supply control, in the form of production (or rather marketing) quotas for milk and sugar. The quota regimes were introduced (in 1968 for sugar and in 1984 for milk) to limit market surpluses and the resulting budget expenditure under the CAP while maintaining high support prices. In the 2008 'Health Check' of the CAP, the decision was taken to phase out milk quotas by 2015, and a gradual annual increase of quota volumes until that time is hoped to facilitate that process. The EU's sugar policy was reformed, in response to difficulties regarding the volume of its subsidized sugar exports the EU faced in the WTO, in 2006, with a significant cut in price support, compensated through direct payments and accompanied by restructuring payments to producers leaving the sector. The reform turned the EU from a net exporter to a net importer of sugar. Yet, quotas remained in place, though the Commission has now indicated, in its Communication on the CAP post-2013, that the time may have come for considering a phase out of sugar quotas as well.

Finally, in some product sectors, domestic market policies under the CAP also foresee subsidies per unit of product, including for the use of certain agricultural products in processing activities (e.g. dried fodder, flax, starch, skim milk), for distribution of school milk, and for silkworm rearers.

### 3.4.3 Trade Policy

The EU's customs duties on imports of agricultural products are outside the day-to-day influence of agricultural policy makers as they are set, along with tariffs on any other products, in the EU's Common Customs Tariff, in line with the EU's obligations under the WTO. Like all other WTO Members the EU had to respect the requirement of the 1994 Uruguay Round Agreement on Agriculture to remove all non-tariff measures such as variable levies, import quotas and voluntary self-restraint agreements, and replace them by bound tariffs, to be reduced by given rates over a number of years. While this has improved the transparency of the import regime and reduced the degree to which the EU's domestic markets are insulated from international price variations, markets for many agricultural products in the EU continue to be protected by high tariffs against international competition. Around 13% of all tariff lines for agricultural products in the EU, covering around one sixth of total agricultural imports into the EU, have tariffs above the equivalent of 50% (Kutas, 2010, p. 30). Product groups with particularly high tariff protection include grapes and grape must (152% ad valorem equivalent on average for tariff lines in that group), bovine meats (146%), sugars (145%), dairy products (141%) and goat and sheep meat (100%) (ibid).

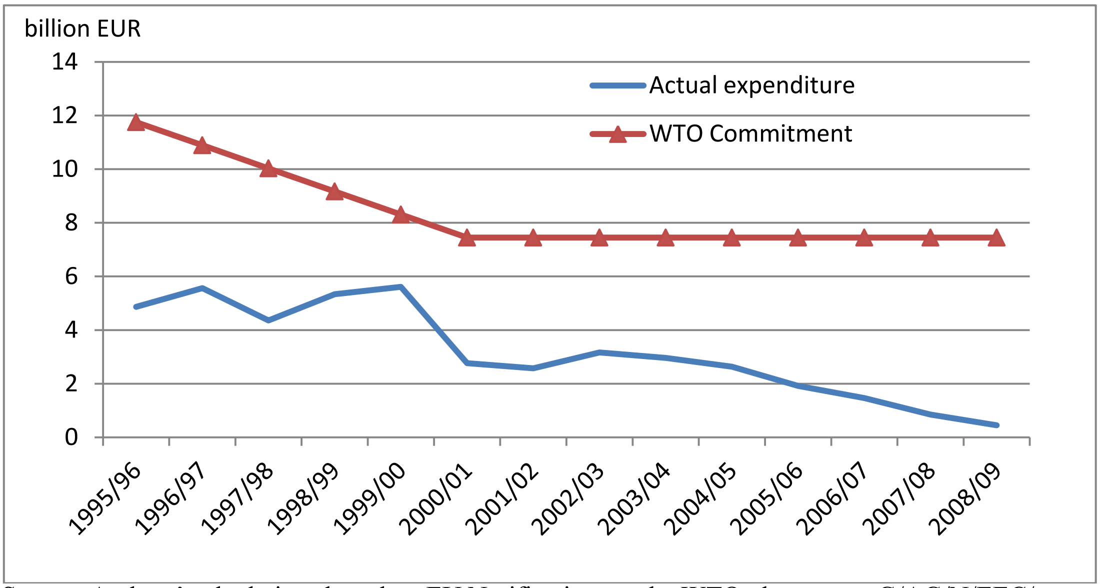
Moreover, there are still product groups where import duties can vary with market conditions, thus providing the potential to shield EU markets from international price fluctuations (Tangermann et al, 1997). This is in particular the case for cereals where duties can vary inversely with international prices, up to the bound tariff level. However, as international prices for cereals were high in the recent past, no tariffs were charged on EU imports of cereals. Duties can also vary in the fruit and vegetable sector where the entry price regime aims at making sure imports do not enter the EU below a politically determined price level (Grethe and Tangermann, 1999). Where import tariffs are essentially prohibitive, even fixed tariffs may shield EU markets from international influences. However, for a number of products with high levels of tariff protection the EU had to establish, as a result of the Uruguay Round, tariff rate quotas (TRQs) allowing a certain quantity of imports into the EU at a reduced tariff.

TRQs also play an important role in the many bilateral and regional trade agreements (RTAs) the EU has concluded with a large number of trading partners. Under these RTAs, preferential access to the EU's market for agricultural imports is often confined to given quantities, as frequently the case for agricultural products also in other countries' RTAs (Fulponi, Shearer and Almeida, 2011). More generally, preferences do play an important role in the EU's overall trade regime, and in agriculture they have sometimes had an important influence on the development of the CAP. For example, the provision of free access to the EU's sugar market for given quantities exported from certain countries in the Asia, Caribbean and Pacific (ACP) region, coupled with the more recent opening up of the EU's borders to duty and quota free importation of all goods (everything but arms, EBA), including sugar, from the least-developed countries, has put significant pressure on the EU's high-price regime in the sugar sector, eventually leading in 2005 to reform of a policy that for a long time had been seen as an epitome of the CAP.

On the export side, the Uruguay Round Agreement on Agriculture also imposed important constraints on the CAP. For a long time the EU had heavily relied on export subsidies in agriculture, in spite of massive international criticism. The EU's CMO still provides for the possibility of subsidizing exports of a number of agricultural products[52], within WTO limits. However, the extent to which the EU actually uses export subsidies has declined significantly as a result of the cuts in support prices brought about by CAP reforms (see Figure 3.1). The EU's overall expenditure on export subsidies notified to the WTO has therefore since some time remained far below the constraints agreed in the Uruguay Round (see Figure 3.3).[53] However, when there was a (perceived) market 'crisis', export subsidies have again been used from time to time, and subsidized exports of dairy products in 2009 were a notable, and internationally much criticized, case in point.

[52] Export subsidies may, as regulated in the CMO, be granted for cereals, rice, sugar, beef and veal, milk and milk products, pork, eggs, and poultry meat, and processed foods containing these products.
[53] WTO commitments regarding export subsidies are defined at the product level. Aggregate expenditure on all products relative to aggregate commitments as shown here is, therefore, not legally relevant.

*Figure 3.3: EU Export Subsidy Expenditure Notified to the WTO*




Source: Authors' calculations based on EU Notifications to the WTO, documents G/AG/N/EEC/…

### 3.4.4 Direct Payments

As described above, direct payments to farmers were originally introduced as compensation for cuts in support prices when fundamental CAP reform began in 1992. They have meanwhile developed into the most important element of the CAP, accounting for about two-thirds of CAP expenditure and nearly 60% of the PSE in the EU-27. The largest part of the direct payments are now 'decoupled' from production, in the sense that they are made irrespective of what is produced on the farm.[54]

When direct payments were first introduced, payment rates were calculated by multiplying the cut in support price with the respective volume of production. For crops, regional averages of yields were used to determine the payment per hectare, and each farm was allocated a payment entitlement according to the number of hectares it had planted under the respective crop in a given reference period. In the livestock sector, payment rates were calculated in a similar way. Originally, farmers had to produce the respective products in order to receive the payments. Under the 2003 reform initiated by EU Commissioner for Agriculture Franz Fischler, most of the payments were then 'decoupled', and some further 'decoupling' later took place under Commissioner Mariann Fischer Boel's so-called Health Check of the CAP in 2008. The system now in place is referred to as the single payment scheme (SPS), applying to the 15 'old' MS, while the 12 new MS having joined the EU under its Eastward enlargement are still in the process of phasing direct payments gradually in under a transitional simplified regime, known as the single area payment scheme (SAPS).[55]

Under the SPS, each farm was allotted entitlements for flat rate payments per hectare for all of its eligible area. The allocation of entitlements to individual farms was based on the payment rights farmers had following the reforms of 1992 and 2003. Payment entitlements are tradable among farmers. However, in order to activate an entitlement (i.e. to actually receive the payment), a farmer has to dispose of eligible area. Eligible area is essentially all agricultural land,

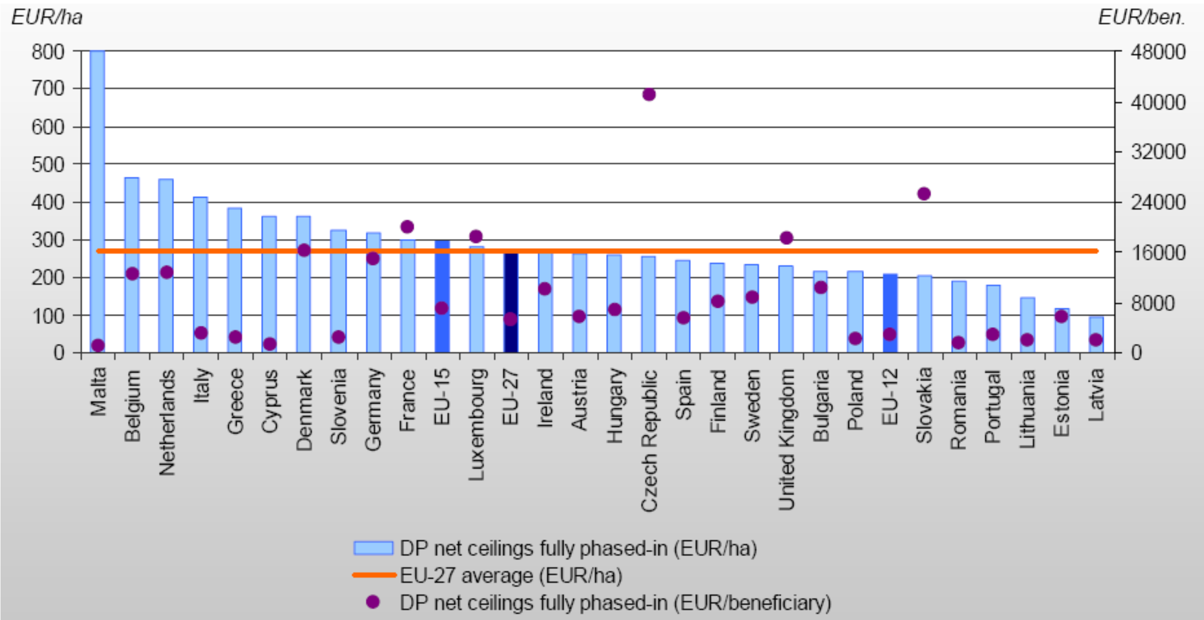
[54] In 2010, budget appropriations for 'decoupled' aids were 33.3 billion EUR, out of a total of 39.3 billion EUR for all direct aids (http://eur-lex.europa.eu/budget/data/D2011/EN/SEC03.pdf)

[55] The legal basis of the SPS and the SAPS is Council Regulation (EC) No. 73/2009 of 19 January 2009.

with the exception of land used for permanent crops and forestry. Farmers receive these 'de-coupled' payments irrespective of what they produce and whether they produce anything at all. However in order to receive their payment in full, farmers have to respect 'cross compliance' conditions, requiring them to keep their land in 'good agricultural and environmental condition' and to observe statuary management standards. These cross compliance conditions are largely composed of standards farmers had to respect already before they became requirements for receiving the direct payments.

As the original payments reflected the historical levels of payments resulting from the preceding reforms, rates per hectare differed widely across farms in a given Member State, depending on production structures and intensities. This was considered a political problem, and hence the SPS regime currently in force allows MS to redistribute payments across farms, within the overall budget envelope for direct payments in the country concerned. Specifically, MS can align payments to an average per hectare rate in individual regions, or adopt a distribution anywhere between the historical origin and a regionalized approach. As a result of this flexibility there is now a host of different distribution regimes in the EU. All of the new MS, though, still apply the SAPS, which provides for equal payments to all eligible hectares in a given country, within that country's overall envelope.[56] Because of the different historical payment levels and the later accession of the new MS, average payments per hectare vary widely across MS, see Figure 3.4.

***Figure 3.4: Average Direct Payments per Hectare and Beneficiary by Member State***




Source: Reproduced from European Commission at http://ec.europa.eu/agriculture/cap-post-2013/communication/slide-show_en.pdf

In order to achieve a gradual shift of expenditure from Pillar 1 to the more targeted Pillar 2 policies, a schedule of gradually increasing deductions from the direct payments was introduced, referred to as "modulation". Under that provision, direct payments are currently (2011) reduced by 9% (to rise to 10% in 2012), and the savings are transferred to the budget for rural

[56] The only exception is Slovenia, which applies the SPS at a regional level.

development measures in the respective Member State.[57] While all MS are free to shift larger amounts from direct payments to their Pillar 2 measures, only the UK and Portugal make use of this "voluntary modulation".

When 'decoupling' was introduced, some MS were concerned that production of certain products might decline more than they considered appropriate. Hence it was agreed that MS could be granted the option to maintain coupled payments, requiring current production, for a number of specific products (now only suckler cow, goat and sheep meat). In addition, there is the option for MS to retain up to 10% of their national budget ceiling for direct payments, for use in measures providing assistance to "sectors with special problems". These so-called "Article 68 measures"[58] can include coupled payments to the dairy, beef and veal, sheep and goat meat as well as rice sectors. Thus, even though 'decoupled' per hectare payments clearly constitute the majority of direct payments under the CAP, there is still a significant amount of expenditure on payments directly linked to (and providing incentives for) production of specific products.

## 3.5 Pillar 2: Rural Development

Structural policies for EU agriculture, referred to as Rural Development (Pillar 2), are completely different in nature from market and incomes policies (Pillar 1), not only regarding the type of instruments used, but also in terms of their institutional design, decision making and financing. Within a jointly agreed framework forming part of the CAP, governments of the individual MS have much influence on how they want to shape these policies, and they participate in their financing. As a result, Rural Development policies differ significantly from country to country.

### 3.5.1 Objectives and Target Population

Fundamentally, like in any other country, the EU's policies for rural development aim at shaping the structural conditions under which people residing in rural areas, in particular farmers, live and operate. As far as stated objectives are concerned, the CAP's overall objectives are also valid for the EU's Rural Development policies. The recital of the Regulation laying the foundations of these policies simply says that:

> "a rural development policy should accompany and complement the market and income support policies of the common agricultural policy and thus contribute to the achievement of that policy's objectives as laid down in the Treaty" [of Rome].[59]

More specific objectives are provided in that Regulation, which states that support to rural development shall contribute to achieving the following objectives:

> "(a) improving the competitiveness of agriculture and forestry by supporting restructuring, development and innovation;
> (b) improving the environment and the countryside by supporting land management;
> (c) improving the quality of life in rural areas and encouraging diversification of economic activity."

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[57] Farms with total direct payments of less than EUR 5000 are not subject to deductions, while farms with payments of EUR 300,000 and above face four percentage points larger deductions.

[58] In reference to Article 68 of Council Regulation (EC) No. 73/2009 of 19 January 2009 where this option is specified.

[59] Council Regulation (EC) No. 1698/2005 of 20 September 2005.

Though not explicitly stated among these objectives, the structural policies of the EU, including rural development, aim not only at improving certain conditions in the country where they apply, they are also supposed to improve equity by strengthening "coherence" within the Union, in the sense of raising the standard of living in the less well-off MS closer to the level already achieved in the more highly developed parts of the Union. This is evidenced by the financial arrangements, which provide preferences to the MS with lower levels of economic welfare (see below).

The Strategic Guidelines set by Council for the 2007-13 programming period for Pillar 2 place particular emphasis on sustainability by suggesting that:

> "strong economic performance must go hand in hand with the sustainable use of natural resources and levels of waste, maintaining biodiversity, preserving ecosystems and avoiding desertification. To meet these challenges, the CAP and its future development should, among its objectives, contribute to achieving sustainable development by increasing its emphasis on encouraging healthy, high-quality products, environmentally sustainable production methods, including organic production, renewable raw materials and the protection of biodiversity."[60]

However, as will become clear from the description of Pillar 2 measures below, a good part of these policies is focused on the economic conditions on farms, arguably aiming at improving the competitiveness of the EU farming industry.

There is no explicit definition of the target population of Pillar 2 policies that could differentiate them from Pillar 1. Thus, Pillar 2 policies are also principally targeting farmers. To a significant degree, policies under Pillar 2 are still another mechanism to channel support to farmers, though the subsidies paid under Pillar 2 come with significantly more strings attached to them, and hence are likely to add less to farmers' net incomes than the same amount of money would do if spent, for example, on direct payments. Yet, some Pillar 2 measures can also provide support to non-farmers living in rural areas. Moreover, given the wide variety of measures coming under Pillar 2, and their differentiation in national and regional dimensions, Rural Development can affect different groups of farmers in rather different ways, depending on how the respective MS designs and implements them. In that sense, the target population of Pillar 2 measures is, at least implicitly, less broadly defined than under Pillar 1.

### 3.5.2 Procedures and Major Instruments Used

The framework for EU Rural Development policies is established for the whole period of the respective Financial Framework, currently for the years 2007 to 2013.[61] Equally, the overall budget available for Pillar 2 measures is also set for that whole period, and then broken down to individual years. The Pillar 2 budget is then allocated to the individual MS (see Figure 3.5). Officially the allocation to individual MS is based on a number of 'objective' criteria[62]. However, in reality there is a strong dose of purely political negotiations in the Council of Ministers involved, where Ministers from the individual MS use all sorts of arguments to claim that their respective country suffers from specific structural deficiencies and therefore is in need of an extra allocation. Member States having joined the EU more recently have also tended to use their accession negotiations to secure a particularly large allocation from the Pillar 2 budget. Austria is a case in point, where its then Minister of Agriculture Franz Fischler has

[60] Council Decision of 20 February 2006 (2006/144/EC).

[61] The framework currently in force is specified in Council Regulation (EC) No 1698/2005 of 20 September 2005.

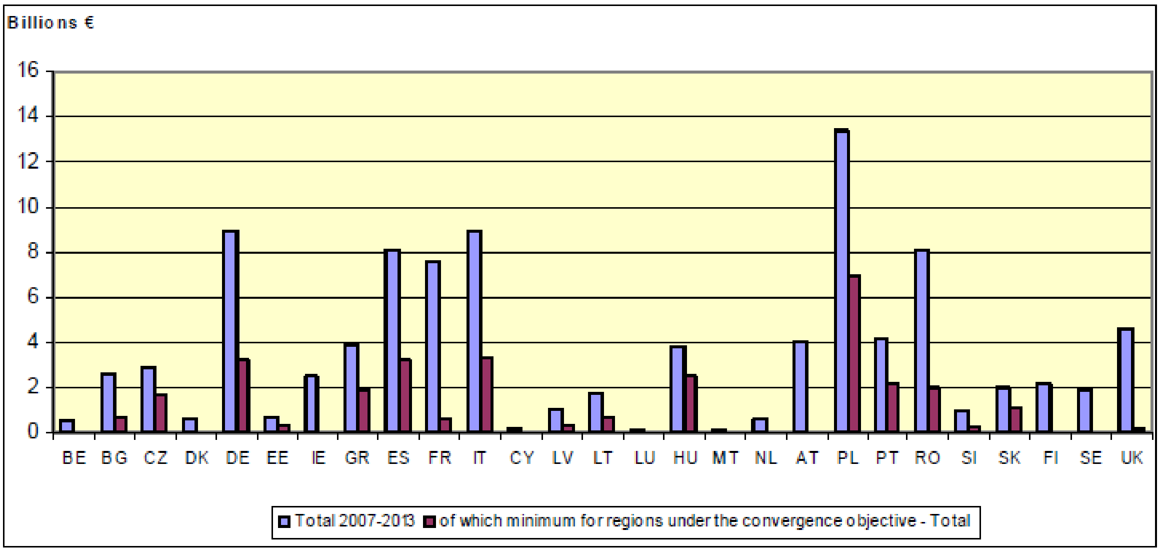
[62] The "objective" criteria are not defined explicitly, but it can be inferred that they include agricultural area, agricultural employment and GDP of the individual MS (Grethe, 2008).

very successfully negotiated a more than proportional share of Pillar 2 money for his country in the accession talks – perhaps one of the reasons why he was later considered an excellent candidate to become Commissioner for Agriculture once Austria had joined the EU.

Member State allocations are increased by the amounts resulting from modulation of the direct payments (see above, Section 3.4.4). The Member State governments then have to propose their rural development programs for the overall period, based on the Strategic Guidelines set by Council. [63] The Commission checks whether these programs are in line with the overall framework.

In establishing their national (or regional) programs, within the allocated budgetary limits, the MS can choose from a menu of 42 measures listed in the framework Regulation. This menu is structured into three 'axes', corresponding to the three objectives (a) to (c) mentioned above (i.e. improving competitiveness, improving the environment and countryside, quality of life and diversification). In addition there is a cross-cutting fourth axis, providing support to local action groups engaged in rural development, referred to as Leader. When choosing from the menu of measures, MS have to adopt policies under all of the four axes, allocating budgets of a minimum of 10%, 25%, 10% and 5% respectively to axes 1, 2, 3 and 4. In rural development policies, the EU level (i.e. EAFRD) covers only part of expenditure, the rest has to be financed by the respective Member State. For measures under axis 1 and 3, the EU contributes 50% (in less developed parts of the EU 75%), while for axis 2 and 4 the EU contribution is 55% (89% in less developed areas). The overall structure of this rather complex regime is summarized in Figure 3.6.

***Figure 3.5: Allocation of EU Budget (from EAFRD) for Rural Development to the Individual Member States for the 2007-2013 Period***




Source: Reproduced from European Union – Directorate General for Agriculture and Rural Development (2009), p. 21.

As MS can choose, within given limits, from the menu of measures proposed, the actual structure of rural development policy instruments used becomes clear only after the national pro-

[63] The programmes have to be based on national strategy plans, in line with the Strategic Guidelines set by Council. MS with a respective sub-national structure can submit regional programs, typically worked out by the regional authorities.

grams have been established. Figure 3.7 provides an impression of the nature of the most popular measures and their budget allocations.

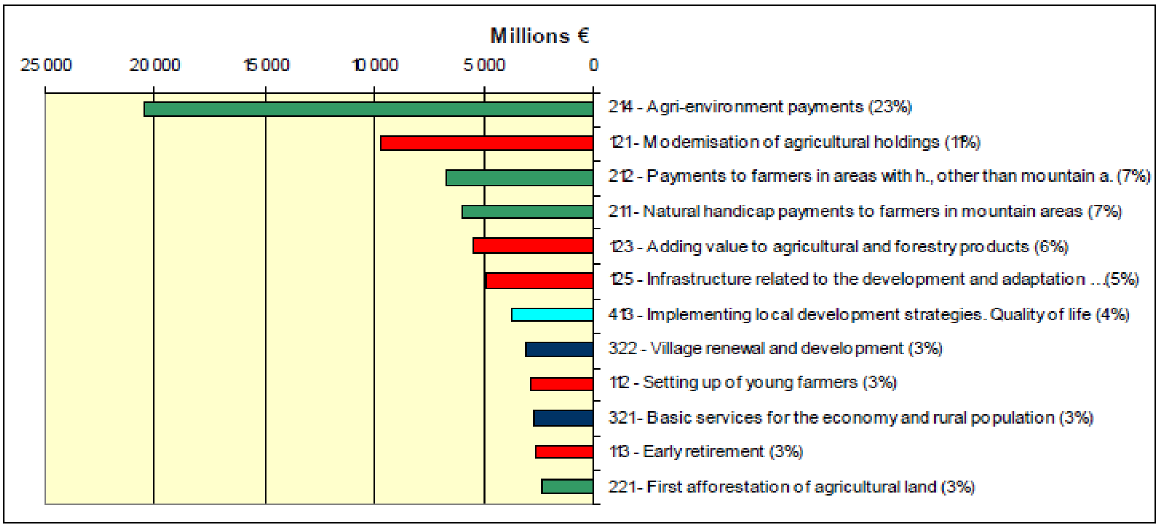
***Figure 3.6: Structure of the EU's Rural Development Policy***

| **Objective setting** | | EU strategy<br>National strategy<br>RD programmes |
|---|---|---|
| **Axis 1 competitiveness** | measures | **Human resources:**<br>Vocational training and information actions<br>Young farmers<br>Early retirement<br>Use of farm advisory services<br>Setting up of farm management, relief and advisory and forestry advisory services<br>**Physical capital:**<br>Farm/forestry investments<br>Processing/marketing/co-operation for innovation<br>Agricultural/forestry infrastructure<br>Restoring agricultural production potential<br>**Quality of agricultural production and products:**<br>Meeting standards temporary support<br>Food quality incentive scheme<br>Food quality promotion |
| | | **Transitional measures:**<br>Semi-subsistence<br>Setting up producer groups |
| | funding share | minimum 10 % |
| | EU co-financing rate | max 50/75 %* |
| | territorial application | all rural areas |
| **Axis 2 land management** | measures | **Sustainable use of agricultural land:**<br>Mountain LFA<br>Other areas with handicaps<br>Natura 2000 agricultural areas<br>Agri-environment/animal welfare (compulsory)<br>Support for non-productive investments<br>**Sustainable use of forestry land:**<br>Afforestation (agricultural/non-agricultural land)<br>Agroforestry<br>Natura 2000 forest areas<br>Forest environment<br>Restoring forestry production potential<br>Support for non-productive investments |
| | baseline (agriculture) | cross compliance |
| | funding share | minimum 25 % |
| | EU co-financing rate | max 55/80 %* |
| | territorial application | all rural areas |
| **Axis 3 wider rural development** | measures | **Quality of life:**<br>Basic services for the rural economy and population (setting up and infrastructure)<br>Renovation and development of villages<br>Protection and conservation of the rural heritage<br>**Economic diversification:**<br>Diversification to non-agricultural activities<br>Support for micro-enterprises<br>Encouragement of tourism activities<br>**Training skills acquisition and animation:**<br>Training and information<br>Skills acquisition, animation and implementation |
| | funding share | minimum 10 % |
| | EU co-financing rate | max 50/75 %* |
| | territorial application | all rural areas |
| **Leader axis** | implementation | Leader approach for selected territories within the scope of the 3 thematic axes |
| | funding share | minimum 5 % (2.5 % in new member states) |
| | EU co-financing rate | max 55/80 %* |
| | territorial application | all rural areas, selected territories |

*The first co-financing rate refers to all regions except Convergence regions, the second co-financing rate is applied in the Convergence regions

Source: Reproduced from European Commission (2006).

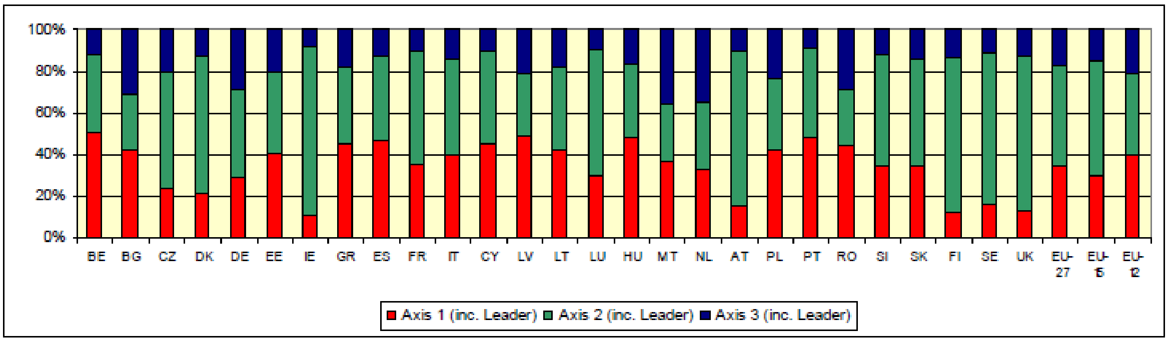
***Figure 3.7:*** ***Main Rural Development Measures in Terms of Budget Allocations for the 2007-2013 Period, Aggregate of all EU-27 Countries***




Source: Reproduced from EU – Directorate General for Agriculture and Rural Development (2009), p. 26. Figures in parentheses indicate shares of total EAFRD budget allocated to the respective measure.

As the individual MS have different preferences among the available rural development measures, the composition of their programs by the three axes differ significantly, as evidenced in Figure 3.8.

***Figure 3.8:*** ***Relative Importance of the Three Axes in the Individual Member States During the 2007-2013 Period for Rural Development***




Source: Reproduced from European Union – Directorate General for Agriculture and Rural Development (2009), p. 24.

The nature of measures under the EU's rural development framework is such that in most cases the individual recipient (typically a farmer) has to enter into a contract with the implementing public authority, requiring him or her to engage in the activity that is subsidized under the respective program. These contracts may cover several years. Agri-environmental payments, the most popular measure under Pillar 2, are a typical case in point: farmers can receive a subsidy if they make a commitment to engage in certain environmentally friendly practices beyond mandatory standards.

### 3.6 Other EU Policies Relating to Agriculture

Market and income policies under Pillar 1 and rural development policies under Pillar 2, described in the two preceding sections, clearly constitute the core of the CAP. However, there are many more policy measures relating to agriculture that are designed and pursued at the EU level. In many other areas the EU sets the framework conditions for national policies. For space reasons they cannot be outlined here in any detail. Instead, for the most important categories of such other policies a few references to relevant literature are provided.

A large and highly diversified category of these other policies relates to the quality of agricultural and food products. For example, sanitary and phytosanitary standards, aimed at protecting animal and plant health, are set at the EU level to allow for free trade among MS within the common internal market and to avoid the spread of diseases, including through the importation of agricultural products from third countries (Landeg, Coulson and Mourits 2010; Mourits, Schans and Lansink, 2010). Along the same lines, the EU establishes food standards to protect human health, and labeling and certification requirements to facilitate consumer information (van der Meulen and van der Velde, 2010. The EU's controversial policy on genetically modified organisms (GMOs) regulates their use in, and importation into, the EU (Valetta, 2010; Wesseler, 2010).

Another category of EU policies regulates the nature of the production process in agriculture. For example, standards and policies are established at the Union level that aim at making sure agricultural production respects the environment, biodiversity and rural amenities (Brouwer and Silvis, 2010). Other EU legislation aims at protecting and improving animal welfare (Bennett and Appleby, 2010).

The marketing of agricultural and food products is also subject of a host of EU policies, ranging from the promotion of exports (European Commission - Agriculture and Rural Development, 2010), through the EU's internationally controversial policy on geographical indications (O'Connor, 2007), to the promotion of organic foods and the regulation of contractual relations along the food chain (High Level Group, 2010; Oskam and van Witteloostuijn, 2010).

Another policy domain with rapidly growing importance in recent years and significant impact on the EU's farming industry is support to the production and use of bioenergy, in particular biofuels (Banse et al, 2008; OECD, 2008a; Josling, Blandford and Earley, 2010; Swinbank, 2009).

Finally, the EU also pursues policies related to research and development in the agricultural sectors, including as part of its Framework Programs.[64]

### 3.7 National Policies

Even though a large part of agricultural policies in the EU is designed and pursued at the Union level, there are also national agricultural policies of the individual MS that have remained in purely national responsibility and which are financed exclusively by the respective Member State governments. However, the EU has established framework rules for national policies that aim at ensuring undistorted competition among its member countries within the common market and making sure that the EU's international commitments, in particular those in the WTO, are respected. In particular, there is a whole set of rules regarding state aids granted by the MS, including for a long list of state aids in the agricultural sector.

National policies in agriculture that the EU can accept, under certain common conditions relating to state aids, include in particular assistance to production insurance (in particular crop

[64] Information on Framework Programme 7 currently in operation is provided at http://cordis.europa.eu/fp7/home_en.html.

insurance); disaster assistance; certain types of investment aids in agriculture and the processing sector; aids for the setting-up of young farmers and for early retirement; aid for meeting standards; and aid for advertising of agricultural products.[65]

Moreover, as social policies in general have remained under national responsibility in the EU, social policies for farmers are also pursued at the national level. This applies in particular to health insurance, accident insurance and pensions – policy domains on which significant expenditure is made in a number of MS. For example, in Germany, national expenditure on social policies in agriculture in 2010 amounted to 3.8 billion EUR.[66]

For an impression of the orders of magnitude of national expenditure on agricultural policies, compared to EU expenditure, take the case of Germany. In 2010, national budget expenditure of the German Federal Ministry of Food, Agriculture and Consumer Protection amounted to 5.8 billion EUR.[67] At the same time, EU expenditure under Pillar 1 in Germany in 2010 was 5.7 billion EUR[68], while the average annual EU expenditure on Pillar 2 during the 2007-13 period in Germany is budgeted at 1.3 billion EUR[69]. In other words, EU expenditure on CAP policies overall in Germany amounted to about 7 billion EUR in 2010, compared to German national expenditure running at 5.8 billion EUR. This comparison is not precise, for three reasons. First, the budget of Germany's Federal Ministry of Food, Agriculture and Consumer Protection includes some expenditure that cannot be counted as agricultural policy as it relates, for example, to general consumer protection. Second, some expenditure of Germany's federal ministry for agriculture goes for the German contribution of the co-financed Pillar 2 policies, and thus should be considered as part of the CAP. Third, because of Germany's federal structure, rural development policies under Pillar 2 are in Germany partly also financed by the individual states, which on the other hand also spend money on some other agricultural policy measures outside the CAP at their regional level. However, roughly speaking it can be said that expenditure on national agricultural policies in Germany is not much less than Union expenditure under the CAP on German territory.

For the EU overall, an impression of the relative weights of Union policies versus national policies in agriculture is provided in Figure 3.9, showing that according to the OECD's PSE measurement, about one-fifth of total farm support in the EU originated from national payments in 2009. However, it must be noted that national payments included in the OECD's PSE measurement for the EU do not include all national expenditure, in particular not expenditure on social policies.

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[65] A complete list of national state aids in agriculture that the EU can accept, under certain conditions, is provided at http://ec.europa.eu/agriculture/stateaid/index_en.htm .

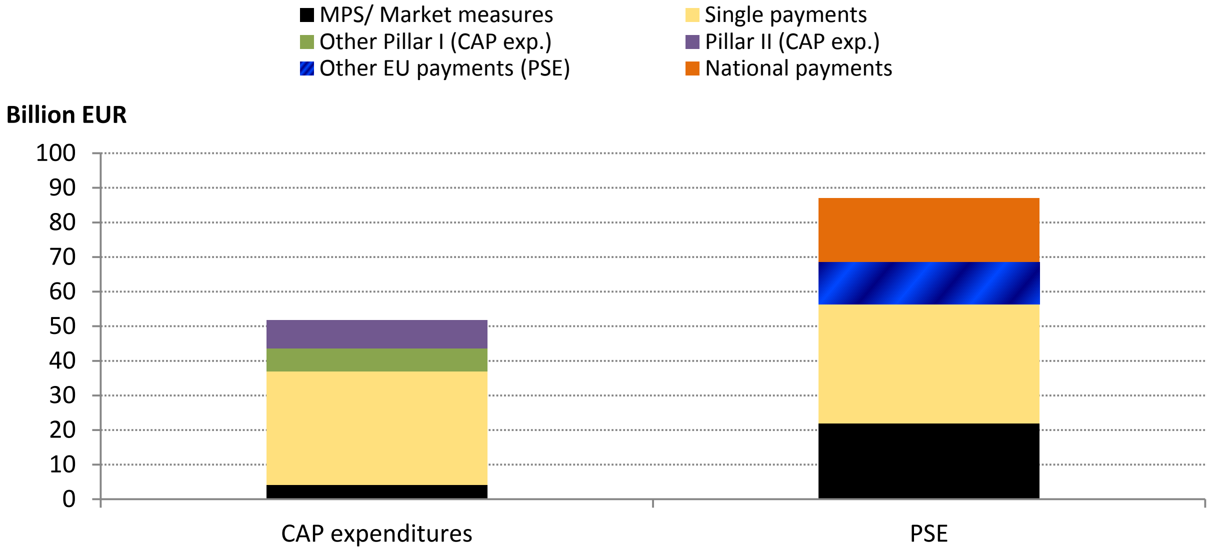
[66] Federal Ministry of Food, Agriculture and Consumer Protection (2011), p. 51. For a description of social policies for agriculture in Germany, for example, see Hagedorn and Mehl (2000).

[67] Federal Ministry of Food, Agriculture and Consumer Protection (2011), p. 51.

[68] Federal Ministry of Food, Agriculture and Consumer Protection (2011), p. 94.

[69] European Union – Directorate General for Agriculture and Rural Development (2009), p. 20.

*Figure 3.9: Composition of CAP Expenditures and OECD Indicators of Support, 2009*




Source: Reproduced from OECD (forthcoming)

## *4. Implementation of the CAP*

The implementation of the CAP takes place at the member state level. The Commission, which is composed of roughly 24,000 European civil servants in total, of which roughly 1000 work for the Directorate General for Agriculture and Rural Development, does not have nearly enough personnel for implementing such a complex policy.[70] Furthermore, Commission employees do not have the legal authority to carry out many of the required tasks (such as border inspection and collecting customs duties) which have to be performed on the ground, i.e. in the territories of the individual MS. Thus, for both practical and legal reasons most of the day-to-day implementation of the EU's agricultural policies is executed by the national administrations of the MS where the respective activities take place. The great variety of institutional arrangements within the MS engenders a corresponding variety of specific political and administrative structures for the planning and implementation of CAP measures at the national level. This makes it difficult to provide specific details on the implementation of the CAP, as this would require a sub-section for each of the 27 MS. In the following the general budgeting and spending procedures that apply to all MS are outlined, and some aspects relating to the role of MS in implementation are discussed.

### 4.1 Budgeting

The EU's financial framework is a spending plan that sets limits on EU spending over the seven-year period and defines maximum levels of spending commitments for the main categories of expenditure, such as agriculture (see Section 3.3.2).[71] Once a financial framework has been adopted, the overall level of agricultural spending in each of its seven years is determined. Technical adjustments to the financial framework are made each year to take inflation and economic growth into account (since the EU budget is largely funded by a contribution from each member state that is based on its gross national income). There are also provision for a so-called 'flexibility instrument' of up to 200 million Euros per year for necessary spending under a budget heading such as agriculture that is in excess of its expenditure ceiling.

Each month the Commission publishes an online Budget Implementation Report that informs the Parliament and the Council of Ministers about the revenue received and about expenditure and budget implementation. This report compares budget commitments, which are the legal pledges of the EU to provide funding, and payments, which are the actual disbursements from the budget to beneficiaries.

### 4.2 Spending

Roughly three-quarters of the EU budget is spent under so-called 'shared management' whereby the individual EU MS disburse funds and manage spending. Most of the remaining one-quarter is spent by the Commission directly, for example when it pays its staff, selects

[70] The Directorate General for Agricultural and Rural Development is one of the largest units within the Commission, but others such as 'Research and Innovation' or 'Development and Cooperation' are larger, and the largest is the Directorate General for Translation, with roughly 2,300 employees. For more information on the composition of the Commission see http://ec.europa.eu/civil_service/about/figures/index_en.htm.

[71] For more information on the implementation of the EU budget, see http://ec.europa.eu/budget/explained/index_en.cfm.

contractors and awards research grants.[72] Agricultural spending is even more concentrated on shared-management than the EU budget as a whole. Agricultural spending is divided into two main funds: the European Agricultural Guarantee Fund (EAGF) for the first pillar of the CAP (direct payments to farmers and market regulation) accounts for the lion's share of the EU's agricultural spending; and the European Agricultural Fund for Rural Development (EAFRD) for the second pillar (see Section 3.3.2).

Direct payments account for more than two-thirds of the spending under the EAGF. For these payments there are fixed national envelopes that leave little leeway for discretion or reallocation of funds. Spending on market regulation (e.g. for intervention purchases and storage of agricultural commodities or export subsidies) is more flexible in the sense that its volume varies from year to year as a function of production levels and world markets prices. Subject to certain procedures, agricultural spending in this area can be reallocated. Hence, for example, funds that are not required for export subsidies in a given year might be used to finance a special relief measure for producers who have been affected by the outbreak of an animal disease. Spending on second pillar measures is based on multi-annual programs and projects and requires co-financing by the MS. Since not all programs are concluded or completely fulfilled, payments are generally lower than commitments, and this again can create some leeway for reallocation within the budget.

Under shared management of the budget, the task of actually disbursing EU funds is delegated by the Commission, which is ultimately responsible for the management of the budget, to the MS who themselves employ 85 national or regional disbursement agencies (European Commission, 2007). These agencies must be accredited by the Commission. Before they can disburse money to applicants, for example direct payments to farmers, they must determine that these applicants are indeed eligible by applying checks that are defined in the corresponding CAP regulations.

For most of the spending under the EAGF, and for roughly one-half of the spending under the EAFRD, the applicable system of checks is the so-called Integrated Administration and Control System (IACS). For the purposes of controlling the disbursement of direct payments, farmers are identified in a detailed electronic database in IACS that includes information on the sizes of their holdings, past applications and receipt of aid, etc. Applications for direct payments are subject to administrative plausibility and consistency checks, and on-the-spot checks either based on a random sample or on risk analysis. On-the-spot checks can involve a visit to a farm to, for example, count heads of animals for which aid has been claimed or to control whether a farmer is keeping adequate documentation of activities related to cross-compliance; they can also involve remote sensing using satellite or aerial photos to measure the size of land for which payments have been claimed.

MS are reimbursed by the Commission for the payments that they have made to beneficiaries. Payments on direct aids and market regulation measures such as export refunds under the first pillar are reimbursed on a monthly basis, while payments under the second pillar (rural development) are reimbursed on a quarterly basis. Reimbursements are subject to correction if subsequent audits find any irregularities. Independent certification agencies carry out annual checks that the national and regional disbursement agencies are providing complete and accurate accounts of their spending and control activities, and if everything is found to be in order ultimately recommend that the Commission reach so-called 'clearance of accounts' decisions.

[72] There is also some spending by third, non-member countries, and joint spending with international organizations, but this is very limited.

Multi-annual so-called ‘conformity clearance’ checks are also carried out to ensure that disbursement has taken place in conformity with EU rules (European Commission, 2007). An example of non-conformity would be the disbursement of direct payments to farmers for acreage that they are not, in fact, farming, either as a result of an administrative failure to adequately check farmers’ applications or, in the extreme, active fraud on the part of the disbursement agency, possibly in collusion with farmers. Depending on the gravity of any deficiencies that are revealed, and as the result of meetings with the member state in question (and, if necessary, a conciliation procedure), the Commission can apply penalties (so-called ‘financial corrections’) of 2%, 5%, 10% or 25% of the expenditure in question. The reimbursements to the MS mentioned above provide the Commission with a regular opportunity for ‘clawing back’ financial corrections.

MS must attempt to recover any amounts that have been lost due to irregularities. This is often difficult, however, as it can involve lengthy national legal proceedings. According to the so-called 50/50 rule, the Commission protects the financial interests of the EU by charging 50% of the amount in question to the member state in which it was irregularly spent, if that member state requires more than four years to recover the amount (eight years in the event that national court proceedings against the beneficiary are required to recover the amount) (European Commission, 2007). The member state is required to continue its efforts to recover the funds, and provide the remaining 50% of the amount in question to the Commission.

Between 1999 and 2007, the Commission ‘clawed back’ a total of 4.17 billion EUR of funds via financial corrections. Commission data (European Commission, 2007, p. 13-14) reveals that the bulk of these financial corrections were applied to Spain, Greece, France and Italy (amounts exceeding 800 million EUR in each case), followed by the UK and Germany (roughly 270 and 140 million EUR, respectively). The types of CAP spending that led to the most financial corrections were direct payments on land and livestock (roughly 900 and 670 million EUR, respectively), followed by market regulation in the areas of olive oil, oils and fats, and fruit and vegetables (540 and 460 million EUR, respectively). The predominance of these specific products corresponds to the four southern members states noted above. Compared with the total volume of CAP spending in the 1999-2007 period (roughly 330 billion EUR in the 2000-2006 financial perspective), 4.17 billion EUR might be considered a relatively small amount. However, it almost certainly represents a lower-bound of the actual volume of irregular use of EU funds in agriculture. Furthermore, as is discussed in Section 5 below, there is considerable evidence that the economic efficiency of CAP spending provides much greater cause for concern than the regularity of this spending.

### 4.3 The Role of Member States in Implementation

Although, as outlined in Section 3.1, the CAP has moved away from market and price support and to direct payments since 1992, market organizations that provide for activities such as intervention purchases and export subsidies remain (see Section 3.4) and must be administered. The EU employs so-called management committees for these purposes. Until 2008 there was separate EU legislation in the form of a separate Common Market Organization (CMO) for each major agricultural commodity or commodity group (cereals, pork, olive oil, sugar, fruits and vegetables, etc.). The CMOs detailed the operation of the support mechanisms for their respective products, for example over what periods and under what conditions intervention purchases could take place, how export subsidies were to be determined, etc. For each CMO there was a corresponding Management Committee. Made up of Member State officials who were experts on the markets in question and Commission representatives, the Management Committees would meet at least every two weeks to discuss and decide on implementation of these mechanisms. For example, the cereals Management Committee would meet to consider the tenders submitted by traders for export subsidies on grain exports, determining which tenders would be accepted and, hence, which traders would receive licenses to export which quantities.

In 2008 the commodity-specific CMOs were replaced by a single CMO regulation. Correspondingly, the commodity-specific Management Committees were replaced by a single Management Committee for all agricultural markets. This committee meets more frequently (sometimes more than once in a given week) and its composition varies as the MS may send different experts, depending on which product is on the agenda.[73]

Many aspects of the CAP have to be implemented 'on the ground' in the MS. As mentioned above, the Commission delegates responsibility for these tasks to agencies in the MS, subject to accreditation and clearance procedures. The responsible agencies vary from Member State to Member State. In Germany, for example, the customs authorities are, as might be expected, responsible for collecting levies on agricultural imports.[74] They are also responsible for the administration of export subsidies, certifying that the exports in question have left port and arrived at the export destination as specified, and disbursing the export subsidy payments. Other aspects of market regulation such as intervention purchases and storage are the responsibility of the so-called BLE (Bundesanstalt für Lebensmittel und Ernährung – Federal Department for Food and Nutrition).[75] What is perhaps somewhat surprising is that for historical reasons the customs authorities are also responsible for the implementation of the supply management (quota) systems for milk and sugar in Germany.

The introduction of cross-compliance regulations as a condition for the receipt of direct payments has created a need for another type of CAP implementation at the member state level. In Germany, the implementation of cross-compliance regulations is managed at the regional level by the Bundesländer (Federal States), where the local authorities or Chambers of Agriculture ('Landwirtschaftskammer'), which have traditionally provided public extension and advisory services to farmers, are responsible for carrying out controls.[76]

The EU's agricultural policy is supposed to be common throughout the EU. However, the different institutional arrangements used to implement it at the Member State and in some cases regional level occasionally give rise to concern that implementation might be uneven, and that this might be distorting competition between farmers within the EU. Some CAP regulations are expressly designed to allow for heterogeneous implementation. For example, MS can choose what share of certain direct payments they wish to decouple, and whether they wish to employ the historical or the regional approach to distributing these payments (see Section 3.4.4). In other cases, implementation of supposedly homogeneous regulations has been more or less stringent in different MS. While the milk quota system was introduced in 1984, for example, Italy has never fully implemented it, failing to crack down on farms that produce more than they should. Italy has managed to avoid sanctions for this blatant failure to conform

[73] For a look at the timing and agendas of recent management committee meetings, see http://ec.europa.eu/agriculture/minco/manco/cmo/index.htm.

[74] The revenues of the customs duties collected by the respective Member State authorities are forwarded to the Commission, and become part of the "own resources" revenue of the EU budget. However, as compensation for the administrative efforts on the side of the MS, they withhold 10% of the customs duty revenue collected.

[75] The BLE is also responsible for a wide variety of food safety and quality monitoring and certification activities in Germany. See http://www.ble.de/cln_099/nn_465852/DE/00__Home/homepage__node.html?__nnn=true.

[76] Not all of the German Bundesländer still have Chambers of Agriculture. Where Chambers of Agriculture no longer exist, the respective state authorities, typically the agencies for agriculture ('Landwirtschaftsamt') perform these implementation tasks (Großkopf, 2000).

with EU law by repeatedly linking the issue to other policy decisions, both within and outside agriculture, for which its vote was sought.

Such differences in the stringency of implementation can be the result of two different, but sometimes interrelated factors. First, MS will sometimes have an incentive to be less stringent in the implementation of CAP regulations because this can increase the flow of payments they receive from the EU and/or make it easier or less costly for farmers to benefit from such payments. Second, there are different traditions of public administration in the MS. In some countries, such as Germany and the Scandinavian MS, there is a relatively strong tradition of an independent civil service that takes pride in efficiency and attention to detail. In other countries there is a stronger tradition of political patronage in awarding civil service positions, and bureaucracies tend to work less rapidly and accurately.

Hence, differences in the implementation of the CAP at the MS level are a combination of formal institutional factors (e.g. regulations that explicitly grant the MS leeway in the design and implementation of a measure, and historical processes such as the original conception of direct payments as compensation for price reductions that had different impacts on per hectare earnings as a function of regional yields) and informal institutional factors (e.g. differences in administrative rigor and in the toleration of corruption). It is difficult to say which group of institutional factors, the formal or the informal, is of greater importance, and we are aware of no studies that have explicitly addressed this question. In the first pillar of the CAP, which covers direct payments and market and price support, formal institutions in the form of EU regulations presumably play the stronger role and ensure that policies are applied quite uniformly across all MS. Informal institutions probably have a greater influence on the implementation of the second pillar, with its great variety of regional development measures and programs. While the EU Commission generally favors the uniform implementation of common policies across all MS, some degree of differentiated implementation is justifiable both for reasons of efficiency (subsidiarity and tailoring policies to heterogeneous conditions and preferences) and to ease the process of EU negotiation and decision making.

These differences in informal institutions can lead to differences in the implementation of the CAP, regardless of whether they are actively instrumentalized by national governments to increase benefit flows. Certainly, German farmers commonly complain that while regulations such as cross-compliance are applied to the letter at home, their competitors in other MS benefit from laxer application. We are not aware of any studies that conclusively prove that differences in the stringency of CAP implementation significantly distort competition between farmers in the EU, however. On the contrary, Plankl et al. (2010) study the impact of differences in the strictness of environmental regulations in field crop production between Germany and Ukraine, which has much laxer standards than any EU MS, and find little impact on production costs and competitiveness. Furthermore, and as outlined above, the EU does apply clearance and correction procedures in an attempt to maintain a level playing field. Finally, strict application of standards and regulations is but one side of the coin. Farmers in Germany and other MS with similar traditions also benefit from the traditions of stricter and more efficient public administration that prevail in their countries. For example, their applications for benefits are processed faster and more accurately, and they might be less subject to arbitrary decisions or even corruption in their dealings with the state and its agencies.

# 5. Evaluation of the CAP

## 5.1 Process of Formal Evaluation

EU rules require regular evaluation of all EU activities, and the procedures regulating the evaluation process are laid down in several documents, in particular the Financial Regulation and rules on its implementation.[77]

The Financial Regulation specifies that:

> "In order to improve decision-making, institutions shall undertake both *ex ante* and *ex post* evaluations in line with guidance provided by the Commission. Such evaluations shall be applied to all programs and activities which entail significant spending and evaluation results disseminated to spending, legislative and budgetary authorities." (Article 27(4), Council Regulation 1605/2002).

When the EU Commission submits any proposal which may have an impact on the budget, the proposal has to be accompanied by an *ex ante* evaluation. Also, when the Commission submits the preliminary draft budget, it is mandated to provide:

> "information on the achievement of all previously set objectives for the various activities as well as new objectives measured by indicators. Evaluation results shall be consulted and referred to as evidence of the likely merits of a proposed budget amendment" (Article 33(2d), Council Regulation 1605/2002).

*Ex ante* evaluation is required to identify:

> "(a) the need to be met in the short or long term;
> (b) the objectives to be achieved;
> (c) the results expected and the indicators needed to measure them;
> (d) the added value of Community involvement;
> (e) the risks, including fraud, linked with the proposals and the alternative options available;
> (f) the lessons learned from similar experiences in the past;
> (g) the volume of appropriations, human resources and other administrative expenditure to be allocated with due regard for the cost-effectiveness principle;
> (h) the monitoring system to be set up" (Article 21(1), Commission Regulation 2342/2002).

For all important and far reaching policy changes considered, the Commission engages in a formal impact assessment and makes it available when submitting the legislative proposal. An impact assessment can be seen as an extensive and comprehensive *ex ante* evaluation and in most cases is considered to fulfill the formal requirements for *an ex ante* evaluation, which is then not submitted separately.[78]

Regarding ex post evaluation, the rules specify that:

> "all programs or activities shall then be the subject of an interim and/or ex post evaluation in terms of the human and financial resources allocated and the results obtained in order to verify that they were consistent with the objectives set, as follows:
> (a) the results obtained in carrying out a multiannual program shall be periodically evaluated in accordance with a timetable which enables the findings of that evaluation to be

[77] For an overview of the process and implementation of evaluation of EU activities as well as references to the relevant official documents, see European Commission – Directorate-General for the Budget (2004).

[78] For more information on impact assessment in the EU, see European Commission (2009).

taken into account for any decision on the renewal, modification or suspension of the program;

(b) activities financed on an annual basis shall have their results evaluated at least every six years" (Article 21(2), Commission Regulation 2342/2002).

The current multiannual evaluation plan for CAP measures is shown in Figure 5.1.

***Figure 5.1: Multiannual Evaluation Plan 2011-2013 of the Directorate-General for Agriculture and Rural Development***

| Ongoing evaluations | Start | End |
|---|---|---|
| Income effects of direct support | early 2010 | mid 2011 |
| Measures applied under the CAP to the dairy sector | late 2010 | end 2011 |
| Measures applied under the CAP to the sugar sector | late 2010 | late 2011 |
| Measures applied under the CAP to the sheep and goat meat sector | late 2010 | late 2011 |
| Community policy for the promotion of agricultural products | end 2010 | late 2011 |
| Synthesis of rural development ex-post evaluations (2000-2006) | end 2010 | end 2011 |
| Exceptional market support measures (poultry and eggs) | end 2010 | late 2011 |
| **Evaluations starting in 2011** | **Start** | **End** |
| Synthesis of rural development mid-term evaluations (2007-2013) | mid 2011 | mid 2012 |
| Measures applied under the CAP to the wine sector (including restructuring measures) | mid 2011 | mid 2012 |
| School fruit scheme | mid 2011 | early 2012 |
| Measures applied under the CAPto the cereals sector | mid 2011 | late 2012 |
| EU Forest Action Plan ex-post evaluation | late 2011 | mid 2012 |
| Structural effects of direct support | late 2011 | late 2012 |
| **Evaluations starting in 2012** | **Start** | **End** |
| Synthesis of Sapard ex-post evaluations – update (RO, BG, HR) | begin 2012 | mid 2012 |
| F&V operational programmes | early 2012 | mid 2013 |
| Article 68 measures | early 2012 | mid 2013 |
| School milk programme | mid 2012 | mid 2013 |
| Investment support under the rural development policy | mid 2012 | late 2013 |
| **Evaluations starting in 2013** | **Start** | **End** |
| Economic Partnership Agreements (EPAs) | begin 2013 | early 2014 |
| Synthesis of rural development ex-ante evaluations (2014-2020) | | |
| Measures applied under the CAP to the cotton sector | | |
| EU food programmes | | |
| Measures applied under the CAP to the beekeeping sector | | |
| Agricultural information policy | | |
| **Other activities related to evaluation 2007-2013** | | |
| European Evaluation Network for Rural Development – "Helpdesk" | April 2008 | Ongoing |

All the evaluations are retrospective except the Synthesis of RD ex-ante evaluations (2014-2020)

Source: Reproduced from http://ec.europa.eu/agriculture/eval/program/2011_2013_en.pdf

According to the EU Commission, the main purposes of evaluating an intervention (i.e. an EU policy) are:

"• To contribute to the design of interventions, including providing input for setting political priorities,
• To assist in an efficient allocation of resources
• To improve the quality of the intervention
• To report on the achievements of the intervention (i.e. accountability)" (European Commission – Directorate-General for the Budget, 2004, p. 9).

When analyzing the effects of policies, evaluations are expected to show:

"– how a policy instrument is concretely implemented in Member States
– who is affected (i.e. who are the direct and indirect addressees of the intervention),
– how the intervention is intended to work and how it works in reality (i.e. test the hypotheses on cause and effect represented by the arrows in the diagram below),
– why the intervention produced certain effects and not others (i.e. understanding the factors that facilitate, retard or block the occurrence of effects)" (European Commission – Directorate-General for the Budget, 2004, p. 92).

All Commission services are expected to establish an evaluation unit. Accordingly, the Commission's Directorate-General for Agriculture and Rural Development has a unit designated "evaluation of measures applicable to agriculture; studies" as part of its Directorate L for "economic analyses, perspectives and evaluation". The Commission describes the process of *ex post* evaluations in the following way:

> "The evaluation projects examine in particular the impacts of the measures of the Common Agricultural Policy on market equilibrium, farm incomes, production structures, the environment, and rural development. The evaluation projects are prepared and managed by the Commission's Directorate General for Agriculture and Rural Development, in co-operation with other Commission services. They are carried out by independent experts, with contracts established through tendering procedures. Each evaluation study undergoes a strict monitoring and is subject to a quality assessment according to established quality benchmarks. Results are disseminated, together with the quality statement, to decision makers inside the Commission and other European Institutions and they are published on [a Commission website]." (http://ec.europa.eu/agriculture/eval/index_en.htm#guide).

The quality statement mentioned in this quote is an assessment of the quality of the evaluation provided by external experts, and it is carried out by the evaluation unit in the respective Commission service.

A particularly busy area of evaluation activity (and a popular source of revenue for commercial consultants active in the field) is the large set of rural development policies under Pillar 2, where the respective authorities in the EU's 27 MS have to organize for evaluations of each rural development program.[79]

Though not formally referred to as evaluation, another source of official assessments of the performance of EU activities, including those under the CAP, is the European Court of Auditors (ECA) which more or less regularly publishes "Special Reports" on individual aspects of the EU's agricultural policies, often rather critical of the policies pursued. Over the years, the ECA has published 105 Special Reports on EU policies in agriculture.[80]

### 5.2 Results of Formal Evaluation

Given the many formal evaluations, both *ex ante* and *ex post*, of measures under the CAP that have appeared over the years it is impossible to provide a comprehensive and unified account of their results. Instead, one example each of the most important categories of evaluation will be presented here.

A major impact assessment, including implicitly, but also going far beyond, the formally required ***ex ante* evaluation**, was conducted by the European Commission when it proposed the 2008 Health Check of the CAP (Commission of the European Communities, 2008). The 158 page document, accompanied by several more detailed annexes, provided an extensive assessment of reasons for, and the expected impacts of, another round of CAP reform, in each of the three areas of (i) direct payments, (ii) market policies, and (iii) rural development measures. For each of these areas, a problem definition was provided, the objectives of the policy changes proposed were specified, options for policy changes were outlined, and im-

[79] For the process of evaluating the rural development programmes, see European Commission – Directorate General for Agriculture and Rural Development (2006).

[80] The ECAs reports on agricultural policies are listed at http://eca.europa.eu/portal/page/portal/publications/auditreportsandopinions/specialreports/specialreportsdetailed?mo=containsany&ms=&p_action=SUBMIT&pg=&fi=-1&fs=&pu=0&l=&ci=&pi=7266%2C0&rt=items&ii=&st=Advanced&saa=ALL.

pacts were analyzed with regard to a number of criteria (economic, social, environmental, administrative burden, simplification, WTO compatibility, coherence with other objectives).

In its impact assessment the Commission found, not surprisingly, that the proposed changes to the CAP promised positive impacts, and it concluded among others that:

- "the current policy framework, as reformed in 2003, contributes positively to fulfilling the principal CAP objectives", but "there are areas where adjustments of the current policy would lead to more optimal solutions";
- "time now seems ripe to allow MS to consider a targeted adjustment towards a more flat rate for payments, which would address the societal concerns of unequal distribution of payments between farmers";
- "another way of addressing the uneven distribution of payments is through the introduction of progressive modulation of funds";
- "revising the scope of cross compliance, by deleting and adding requirements, contributes to easing the administrative burden";
- "the phasing out of milk quotas and removal of set aside will allow the farmers to better respond to market situation";
- "full decoupling of remaining sectors would have a positive impact on farm income in most regions due to higher transfer efficiency";
- "the best way to strengthen their role [the role of certain Pillar 2 measures] within the Rural Development policy is to create mechanisms that guarantee that they are taken up by Member States and that ample financing is provided through modulation" (all quotes from Commission of the European Communities, 2008, pp. 150-151).

As a last element of this impact assessment, the Commission also outlined the process of monitoring and evaluation to be conducted once the policy changes proposed were implemented, and suggested indicators to be used in that context.

An example of an ***ex post*** **evaluation** is a synthesis of the results of a series of individual *ex post* evaluations of the environmental impacts of CAP market policies for a number of major product sectors and of the cross compliance conditions for direct payments, conducted by a private consulting group (Groupement Européen d'Intérêt Économique – Alliance Environnement, 2010). The synthesis concluded, among others, that:

- High price support provided before the 1992 CAP reform had resulted in an intensification of agricultural production, with negative impacts on a whole range of environmental indicators, with even more pronounced negative effects in regions where many farmers had specialized on the same production lines.
- These negative environmental implications had been greatly reduced when price support was reduced through CAP reforms.
- Direct payments coupled to production (as introduced in 1992) have continued to have largely the same negative environmental impacts as the previous price support.
- 'Decoupling' of the direct payments and their combination with cross compliance requirements as of 2003 has had a positive impact on the environment.
- The requirement to set aside a given share of acreage that existed in the past had a positive impact on the environment, as had dairy quotas.

Even though no comprehensive overview of the results of formal evaluation of the CAP pursued on behalf of the Commission is available, it would appear that in most cases the evaluations arrived at the conclusion that the policies studies performed well.

In a Special Report issued in 2010, the European Court of Auditors assessed the extent to which the reform the CAP for sugar initiated in 2005 had achieved its main objectives (European Court of Auditors, 2010). The Court's findings can be summarized as follows:

- The reform did not fully achieve its objective of creating an internationally competitive sugar industry in the EU.
- Regarding the objective of stabilizing the EU's sugar market, the Court makes the point that EU supplies are increasingly dependent on imports, and that there is the risk that downward movements in sugar price are not passed on to consumers.
- Regarding mitigation of the adjustment problems resulting from policy reform, the Court notes that it was still too early to pass judgment.
- On budgetary implications, the Court notes that a significant amount of money, not included in the restructuring fund that formed part of the sugar reform package, will be needed to compensate traditional ACP exporters of sugar (who suffered from preference erosion as a result of the cut in the EU support price), such that the overall cost of the reform will be 1.2 billion EUR higher than budgetary expenditure before the reform.

As outlined in Section 2.1.6, when the Court of Auditors comes up with a Special Report, the EU Commission is always requested to provide a response. As is usually the case, the Commission's response to the Special Report on the reform of the sugar market organization argued that the Court's critique is for the most part not justified. It is also typical for the Court of Auditor reports to have very little impact on actual policy making, and that was indeed the case (at least so far) with the report on sugar. This lack of major impact on actual policy pursuit cannot come as much of a surprise: the Special Reports of the Court of Auditors come *ex post*, when the policy has already been formulated and implemented. Given the complex decision making process among Commission, Council and Parliament it is difficult to expect that a policy, once in place, can be easily changed by another EU institution.

### 5.3 Evaluation by Independent Analysts

Like agricultural policies in other parts of the world, the CAP has always attracted the attention of analysts, and there is a vast amount of analytical literature on the EU's agricultural policies, often evaluating their performance. Within the scope of the present study it is plainly impossible to summarize the findings in that literature, but fortunately a recent review of much of the relevant literature on the CAP has been provided by Josling and Swinbank (2012), who also summarize some of what that literature has to say on the performance of the CAP.

Typically, independent analysts, in particular academic economists, have been rather critical of the CAP. Major points of criticism have included issues such as:

- the distortions of production, markets and trade caused by market and trade policies under the CAP, in particular in the period before reforms began in 1992;
- the negative international impacts that these distortions have on the EU's trading partners, in particular developing country agricultural exporters;
- the tensions that the CAP has created for international relations, in particular in the framework of the GATT/WTO;
- the welfare losses to the EU economy resulting from a misguided allocation of resources;

- the inequitable distribution of benefits from CAP support across farmers, regions and member countries;
- the lacking efficiency of the CAP in transferring income to farmers;
- the negative impacts of the CAP on the environment, biodiversity and the countryside;
- the lack of proper targeting of policy measures under the CAP to well specified objectives;
- the large budgetary burden caused by the CAP, and the resulting crowding-out of other EU policies;
- the heavy administrative burden resulting from an overly complex and interventionist policy;
- the difficulty of reforming the CAP, resulting from factors such as the strong influence of agricultural lobbies, the sympathy of agricultural policy makers for farmers' concerns, and the complex and opaque structure of decision making in the EU.

This list of criticisms of the CAP could be easily extended, nearly without limits. Instead, it is more appropriate here to quote an evaluation of agricultural policy reforms in the EU recently conducted by the OECD (OECD, forthcoming). The concluding paragraphs of the executive summary of that evaluation read as follows:

> "Overall, CAP reforms over the 25 years have substantially and continuously increased the market orientation of the sector, reduced distortions, and improved the capacity of the CAP to transfer income to farmers. While deadweight losses have become smaller, an increasing proportion of support is captured by non farming landowners. The level of support received by farmers has decreased, but remains concentrated on larger farms. Large reductions in overall protection have been gradually achieved, with a variable and unequal pace across commodity sectors. Some of them remain sheltered by market access restrictions and provisions for using export subsidies are maintained although they have not been used to a great extent in recent years and expenditures on export subsidies have decreased to 1% of Pillar 1 funds in 2010. Moving funds from Pillar 1 to Pillar 2 has facilitated the move towards policy measures that are better targeted to specific objectives, but they still account for a limited share of support.
>
> Evolving in a gradual and steady way, successive reforms have achieved significant improvement in the performance of EU's agricultural policies. The reduction in distortions to EU and world markets has allowed EU farmers to take advantage of market opportunities from stronger and diversified demand for food and non-food use, as well as from higher real prices for a number of major commodities that are expected over the next decade. At the same time, the EU agricultural sector will have to respond to major challenges, including global food security, mitigation and adaptation to climate change, and market volatility. With the reduction of market management, farmers are becoming more exposed to price volatility in agricultural commodity markets.
>
> Future reform should build on past success and continue to increase the market orientation of the sector and reduce distortions, mainly from remaining market price support. Future efforts should focus on improving market access more widely as part of on-going international trade negotiations and bilateral agreements. Some steps have already been taken with respect to improved market access for least developed countries. Reform should address the remaining market deficiencies that constrain the competitiveness of the EU food and agricultural sector. An effective policy framework should be developed to provide a wide variety of risk management tools for farmers to manage their risk. The scope of agri-environmental measures is expected to increase to better take into account challenges related to climate change. At the same time, improving the environmental performance of agriculture would require better information on problems, demand for public

> goods and practices and institutional arrangements best able to achieve requirements. Strengthening the contribution of agriculture to rural economies would require coordinated approaches that recognize the diversity of rural areas and draw on local assets. In order to improve the efficiency and equity of agricultural policy, efforts should be made to better target support to specific objectives. A pre-requisite would be to clarify the definition of policy objectives, in particular with regard to income objectives, and define measurable targets corresponding to each objective. Improving targeting would require defining the type and level of income to be targeted, as well as using information on the income and wealth situation of the farming community. The optimal precision of targeting would depend, among other things, of the size of transaction costs, which varies with farm structure, relative to other costs and benefits. Clarifying the link between instruments and objectives of agricultural policies is essential to further improve the performance of the CAP and its ability to respond to emerging challenges. It would allow for a comparison of policy options potentially able to meet objectives, taking into account all costs and benefits, including transaction costs and side-effects. The current debate on the CAP post-2013 represents a unique opportunity for the EU to align future policy instruments with its future objectives."

It is not precisely easy to determine the impact that evaluations by independent analysts have on actual policy formulation under the CAP as there are few cases in which a concrete policy change can be directly traced back to any particular independent evaluation. It is probably safe to say that the influence of independent analysts, to the extent it has any effect, comes mainly through its impact on public thinking as represented, for example, through the media, and that it takes considerable time to filter through to the decisions taken by agricultural policy makers. However, given these two caveats, there are good reasons to believe that policy paradigms formulated by academics, or by international organizations such as OECD, have in the longer term had quite some impact on the general directions in which the CAP has evolved. Daugbjerg (1999) has argued that networks of analysts and the paradigms they developed have facilitated CAP reform. Daugbjerg and Swinbank (2009) have shown how ideas emanating from independent sources have impacted on changes of the CAP since the early 1990s. Josling and Swinbank (2012) have established relationships between the academic literature and the evolution of the CAP. Thus one can say that evaluation by independent analysts has, at least in the long term and in a general way, contributed to the development of agricultural policies in the EU.

# 6. Conclusions

## 6.1 Agricultural Policy Making in the EU: A Special Case

All policy making, including for the agricultural sector, is of idiosyncratic nature and differs widely from country to country. However, due to its supra-national dimension the EU's Common Agricultural Policy is a very special case that is in no way even vaguely comparable to the agricultural policy regime in any other part of the world. The specificity of the CAP relates to several factors, including the historical origin, the process of decision making, the financing regime, and the global significance of the EU's agricultural sector.

Regarding its **historical origin**, the CAP is specific in the sense that it has not, like typical in any nation state, evolved 'naturally' over a long period of gradual development, but it was created 'synthetically' from scratch at one point in time in the early 1960s (see Section 3.1). While this could conceivably have resulted in a beautifully rational and consistent policy regime created at the drawing board of technical experts, following all the rules and criteria specified in textbooks on economic policy making, in reality the process of establishing the CAP was an act of intense political bargaining among the MS of the nascent EU. That process also continued throughout the further evolution of the CAP, whenever any significant decisions needed to be taken. It always became particularly intensive when the EU was enlarged through the accession of further MS and a new balance needed to be struck among the interests of a newly configured set of countries. As a somewhat ironic result, in spite of its 'synthetic' creation under what could be considered laboratory conditions, the CAP has become a highly politicized regime.

Another dimension of this specific historical origin of the CAP is its great importance for the idea and process of European integration. Not only has the CAP from the beginning been seen as a constituent component of building a common European economy, balancing the particular economic interests above all between France and Germany (Tangermann, 1992). The CAP is also, along with trade policy vis-à-vis third countries, among the most intensely integrated policy domains in the EU, where MS have given up a particularly large degree of national sovereignty. The mirror image of that feature is the unusually large share of the overall EU budget that it devoted to agricultural policy (41% in 2011, though for a long time in the past that share was around two-thirds and more, see Sections 3.1 and 3.3.2). The constituent importance of the CAP for European integration also means that the policy is protected against scrutiny and criticism by some degree of political immunity. For example, proponents of shifting responsibility for some part of agricultural policy making to the level of the MS, in order to improve policy performance, are immediately accused of arguing for 'renationalization' of the CAP – an absolute sacrilege in the European policy debate.

The **process of decision making** on the CAP in the supra-national framework of the EU is probably its most unique feature, involving several idiosyncratic elements (see Chapter 2). The European Commission, with its decisive power of initiating policy formulation, is an institution *sui generis* that has no direct counterparts elsewhere in the world. As it does not depend on elections it can, in principle, act rather independently from popular political trends. Some Commissioners for Agriculture and Rural Development (in particular MacSharry and Fischler) have used that independence to initiate major reforms to the CAP (Moyer and Josling, 2002; Swinnen, 2008). Others have adopted a more conservative policy stance and tried to avoid significant policy reform. The current Commissioner appears to belong to the latter category, although his tenure has only recently begun.

The 'trilog" between the Commission, the Council of Ministers and the European Parliament (Chapter 2) also is a highly specific feature of decision making in the CAP. While the strengthened role of the European Parliament since the Lisbon Treaty has added a new element of democracy to the process at the EU level, the influence of national parliaments in the MS has remained weak to non-existent. As a matter of fact, when a minister of agriculture is questioned by a national parliament about a decision taken in the CAP, he/she can easily respond that there was no way he/she could have avoided that decision as a compromise had to be found among the 27 MS at the EU level. Finding such compromises has become increasingly difficult as the EU has grown to include more and more MS, with ever more heterogeneous conditions and interests (see Section 1.2). In an indirect way this has strengthened the power of the Commission as MS find it progressively hard to form blocking minorities that could counter a Commission proposal.

Another implication of the very particular interplay between the Commission, the European Parliament and 27 national governments, coupled with the technical complexity of the instrumentation of the CAP, is that the transparency of decision making is greatly reduced. The media and the general public find it difficult to understand what is going on. The implication is that agricultural policy makers in the EU often operate in a political vacuum, among what has sometimes been referred to as ‘happy accomplices’, designing policy to please sectoral lobby interests without being subject to rigorous public scrutiny.

An extra level is added to the hierarchy of actors under the CAP, and hence the complexity of the decision making machinery is further complicated, when regional governments are involved in designing and implementing Pillar 2 policies (Section 3.5). This is the case, for example, in federal states such as Germany, where the German Bundesländer play an active role. The complexity of the decision making process in this three-level hierarchy of actors (regional, national, Union) is considerable.

Another implication of the supra-national nature of the CAP and its **financing** out of the common EU budget is the attention that MS dedicate to financial flows between their national budgets and the EU. As MS cannot influence their contributions to the common EU budget (see Section 3.3.2), they are especially interested in seeing the CAP shaped such that as much spending as possible ‘returns’ in the form of payments directed at their own farmers. This is particularly the case for the large financial flows involved in the direct payments (Section 3.4.4). In the current debate about the CAP for the post-2013 period, for example, a major issue is a possible re-distribution of payments so that the new MS receive a larger share of them. An implication of this strong focus on the individual countries’ net surplus/deficit position vis-à-vis the EU budget is that the overall economic efficiency and rationality of the CAP is emphasized less than its implication for financial flows to the individual MS.

The **global significance** of the EU’s agricultural sector, finally, resulting from the sheer size of its output volume and trade flows, means that the design of the CAP is watched with a considerable degree of attention, and concern, at the international level (see Section 1.2). This means that the relationships between the CAP and the WTO have a very special importance (Daugbjerg and Swinbank, 2009). The CAP and its high level of support and protection have, for a long time, been strongly criticized by the EU’s trading partners, and one major focus of the GATT/WTO negotiations on agriculture has always been the aim to impose stricter disciplines on the CAP. This was finally achieved in the Uruguay Round, and since then the WTO Agreement on Agriculture has had a strong influence on agricultural policy design in the EU, probably more than in many other countries.

All of these specificities mean that the way the EU pursues its agricultural policies is plainly unique and not directly comparable with the agricultural policy regime in any other part of the world. There is simply no other case in history in which agricultural policy making has been elevated to a supra-national level in the way this has occurred in the EU. This means that it is difficult to transfer specific insights from the way the CAP is formulated, shaped and implemented to other countries. However, a few more general lessons can be derived, and this is what the final section of this study will try and do.

### 6.2 Lessons Learned

The historical development of the CAP, from a highly protectionist policy in the 1970s and 1980s, through a phase in the 1980s in which all sorts of *ad hoc* additional interventions were 'tacked on' to suppress the symptoms of surplus production and an excessive budgetary burden, to an increasingly market oriented approach based on direct payments pursued since the early 1990s, demonstrates that economic rationality does impose limits on agricultural policy making. The specific nature of the supra-national policy regime that characterizes the CAP, as discussed in the preceding section, has retarded this process and continues to act in favor of the *status quo* and against determined policy reform. Economic rationality is ignored as long as possible, however at some point it catches up with all policy making, and that has also been the case with agricultural policies in the EU. Like in engineering, where the fundamental laws of physics cannot be disregarded forever, economic policy making, including in the agricultural sector, cannot permanently act against economic logic. For a long time, the CAP has been pursued as if the laws of supply and demand did not exist. Most crucially, the CAP was designed with almost no regard to the need to contribute to a fair and rules-based international trading system – and that despite the fact that most EU members depend vitally on international trade. But eventually the difficulties created by this 'old' policy accumulated to an unbearable degree, and reform was unavoidable. Had this insight gained ground earlier, agricultural policy making in the EU could have avoided many problems which plagued the CAP for a long time.

A number of factors eventually contributed to promoting the process of policy reform in the CAP, as they did in other parts of the world. One of them was the budgetary burden created by the CAP. An important lesson, indeed, is that a pre-determined and unchangeable budget limit for agricultural policy is an important means of holding agricultural policy makers accountable to society at large. This lesson is, also, born out by the ongoing process of preparing the CAP for the post-2013 period. The way that process works in the EU, a first decision will be made on the budgetary limit within which the future CAP will have to operate (see Section 2.3). At the time of writing this study, agricultural policy makers in the EU eagerly await that decision, because only then will they feel in a position to develop a perspective on the shape the CAP will have to take as of 2014.

Another factor contributing to reform was the development of a more market-oriented policy paradigm in academic circles and an increasingly outspoken approach that researchers adopted when commenting on agricultural policy issues (Daugbjerg and Swinbank, 2009). Another factor was international scrutiny of agricultural policy developments. This process began in the OECD when the Ministerial Trade Mandate was adopted in the 1980s, leading to a comparative analysis of farm support in major developed countries and its implications for agricultural markets and trade (Josling, Tangermann and Warley, 1996; Daugbjerg and Swinbank, 2009). The process of bringing international scrutiny to bear on agricultural policies in the EU came to a head when the Uruguay Round negotiations of the GATT, much inspired by the transparency created in the OECD, imposed new internationally binding disciplines on the CAP.

Reform was also promoted through the results of the various forms of evaluation that have evolved over time, pointing to some of the major economic inefficiencies caused by the CAP of the early days. In this regard it is probably safe to say that evaluations pursued under the direct control of the actors involved in formulating the policy, for example the European Commission, have contributed less than independent evaluations originating from other sources, for example the European Court of Auditors (see Chapter 5). Critical views pronounced by various NGOs, in particular those focusing on environmental concerns, have also contributed to casting light on problematic aspects of the CAP. Evaluations are particularly effective in revealing malfunctions of a policy regime when they are based on quantitative analysis. In this regard the scientific community has made major contributions by developing the methodologies for quantitative economic research, such as econometric analysis and the design of modeling techniques that allow the simulation of alternative policy scenarios. The European Commission initially took quite some time to adopt these techniques for use in agricultural policy planning, but they have now become a regular tool of prospective analysis in preparing agricultural policy decisions under the CAP.

Along similar lines, transparency regarding beneficiaries of the policies in place, as well as regarding the distribution of burdens among taxpayers and consumers, can be a powerful tool in shaping perspectives on policy implications and the potential need for policy reform. In relation to the CAP, this became particularly obvious when interest grew in obtaining information regarding the recipients of direct payments. Indeed, the importance of the MacSharry reform in 1992 was not only that the direct payments it introduced were economically less distortive than the price support it reduced. By introducing direct payments, which are more visible and understandable than price support, which generates comparatively hidden transfers, it fundamentally shifted the political economic balance of forces in agricultural policy making in Europe. For some time there was only a private initiative that provided statistical information on the recipients of direct payments.[81] Later the European Commission began to publish records on the beneficiaries of the payments. However, in response to pressure from farm lobbies, some Member State governments opposed this transparency and took the case to the European Court of Justice, which decided that publication of data for individual beneficiaries (natural persons) exceeded the limits imposed by the principle of proportionality. As a result, publication of that data was suspended. Lack of such information now further impedes analysis of the farm income situation in the EU, which is anyhow difficult due to various deficiencies in the statistics on incomes of farm households (Hill, 2009).

Another lesson to be drawn from a look at agricultural policy making in the EU relates to the importance of specifying concrete and verifiable policy objectives. The objectives of the CAP are not only outdated and unchanged from the 1956 Treaty of Rome, but also vague and internally inconsistent (see Section 3.2). Moreover, there is an essentially complete lack of specific objectives pursued by the individual policy instruments. In the absence of such specific objectives, policy pursuit is largely immune to an analysis of policy performance in the sense of checking the degree to which the policy measures in place actually achieve what they aim at.

Closely related to the issue of setting specific and verifiable objectives is the matter of targeting. At an analytical level there is no doubt that policy measures need to be properly targeted to well-defined objectives, and that the number of policy measures used needs to match the number of objectives pursued (OECD, 2007). While effective targeting of agricultural policies requires a considerable amount of planning and administration, it is the most valuable and efficient approach to designing a well performing policy regime (OECD, 2008b).

[81] This initiative, pursued by Jack Thurston, created the website www.farmsubsidy.org .

In relation to the CAP, a lesson to be learned is that agricultural policy reform requires a well considered perspective on what the long-term policy structure is intended to look like, in terms of how the package of measures to be implemented should target the objectives pursued. When the decision was taken in the EU to move away from high levels of protection and price support, the need was felt to provide compensation to farmers, so as to avoid a sudden drop in their incomes. There are good reasons to engage in such compensation as an element of policy reform. However, it is also clear that compensation is justified only for a limited period during which farmers can adjust to the new policy situation (OECD, 2006). In the EU, though, when direct payments were introduced as a means to compensate for cuts in support prices, no decision was taken regarding their longer-term future – no 'sunset clause' was attached. At the time, reform was a major achievement, and its effectiveness was further enhanced when the direct payments were decoupled from production. However, while the feeling grows that decisions regarding the future of the direct payments are required, no convincing strategy has been proposed by policy makers as to what to do with the payments in the years to come. Among (most) farm policy makers in the EU, there is obviously a strong tendency to maintain the payments, to avoid antagonizing their beneficiaries and disturbing the distribution of CAP benefits among MS. In order to find a justification for doing so, all sorts of new aims are being proposed that the payments are supposed to achieve now that the compensation argument no longer can convince. However, it can well be argued that instead of flat-rate per hectare payments, a set of much more targeted measures is required to pursue the various aims now proposed as justification for maintaining the direct payments (Tangermann, 2011).

The ongoing process of preparing the CAP for the period after 2013 (see Section 2.3 above), where the future of direct payments is the predominant issue to be decided, provides new evidence of the strong influence that informal institutions have always had on shaping Europe's agricultural policies. Through their direct, but informal, contacts with Commission officials and policy makers in the individual MS, lobby groups, in particular representatives of farmer organizations, have tried to make sure that the financial benefits provided through direct payments are maintained as much as possible into the post-2013 period. Even though a move towards more targeted measures would now be a logical and economically rational continuation of the CAP reforms that were implemented since 1992, the Commission has, in its Communication of November 2010, proposed only marginal modifications to the regime of direct payments, in a way that can be interpreted as providing political justifications for maintaining the current regime largely undiminished. This approach is essentially in line with the interests of the farm lobbies and provides another indication of their strong influence on policy design under the CAP. Thus, another major lesson to be learned from the evolution of the CAP is that the forces determining agricultural policy pursuit in the EU represent a delicate balance between formal institutions on the one hand, responding to factors such as specified objectives, transparency, evaluations and economic analysis through a publicly visible process, and on the other hand informal institutions such as the exertion of lobby pressure behind the scene. Which of these two elements of designing the CAP have prevailed at any particular point in the history of agricultural policy making in the EU, depends on the respective economic and political environment, including factors such as the budgetary situation, international trade negotiations, the composition of MS in the gradually enlarged EU, and the changing constitutional design of the EU regarding the interplay between Commission, Council and European Parliament. It also depends in the individuals involved, in particular on the political strength and reform orientation of the respective Commissioner for Agriculture.

Thus, while the EU's agricultural policy regime is a very specific case, not comparable with agricultural policies in any other part of the world, a few lessons of a more general nature can be drawn from its development over time. One of them is the importance of informal institutions, in particular farmers' lobbies, in the design of agricultural policies – and in this regard the process of designing the CAP would appear to be similar to agricultural policy making in many other developed countries. The most fundamental message, though, is that agricultural policy reform is an ongoing process which requires a long-term perspective. As the need for supra-national coordination grows in many other policy areas – such as the regulation of financial markets, or measures to combat and mitigate the impact of climate change – the study of the EU's Common Agricultural Policy will remain an interesting source of insights.

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| | | |
|---|---|---|
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| | | |
|---|---|---|
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| **0906** | Zschache, Ulrike,<br>Stephan v. Cramon-Taubadel<br>u. Ludwig Theuvsen | Die öffentliche Auseinandersetzung über Bioenergie in den Massenmedien - Diskursanalytische Grundlagen und erste Ergebnisse |
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|---|---|---|
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| | **2010** | |
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| **1006** | Hellberg-Bahr, Anneke,<br>Martin Pfeuffer,<br>Nina Steffen,<br>Achim Spiller u.<br>Bernhard Brümmer | Preisbildungssysteme in der Milchwirtschaft -Ein Überblick über die Supply Chain Milch |
| **1007** | Steffen, Nina,<br>Stephanie Schlecht,<br>Hans-Christian Müller u.<br>Achim Spiller | Wie viel Vertrag braucht die deutsche Milchwirtschaft?- Erste Überlegungen zur Ausgestaltung des Contract Designs nach der Quote aus Sicht der Molkereien |

| | | |
|---|---|---|
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| | **2011** | |
| **1101** | Mylius, Donata,<br>Simon Küest,<br>Christian Klapp u.<br>Ludwig Theuvsen | Der Großvieheinheitenschlüssel im Stallbaurecht - Über-blick und vergleichende Analyse der Abstandsregelungen in der TA Luft und in den VDI-Richtlinien |
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| **2012** | | |
|---|---|---|
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| **1203** | Tangermann, Stefan | Preisanstieg am EU-Zuckermarkt: Bestimmungsgründe und Handlungsmöglichkeiten der Marktpolitik |
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| **1207** | Marggraf, Rainer,<br>Patrick Masius u.<br>Christine Rumpf | Zur Integration von Tieren in wohlfahrtsökonomischen Analysen |
| **1208** | Sebastian Lakner,<br>Bernhard Brümmer,<br>Stephan v. Cramon-Taubadel<br>Jürgen Heß,<br>Johannes Isselstein,<br>Ulf Liebe,<br>Rainer Marggraf,<br>Oliver Mußhoff,<br>Ludwig Theuvsen,<br>Teja Tscharntke,<br>Catrin Westphal u.<br>Gerlinde Wiese | Der Kommissionsvorschlag zur GAP-Reform 2013 - aus Sicht von Göttinger und Witzenhäuser Agrarwissenschaftler(inne)n |
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| **1210** | Prehn, Sören, Bernhard Brümmer und Thomas Glauben | An Extended Viner Model:<br>Trade Creation, Diversion & Reduction |
| **1211** | Salidas, Rodrigo and Stephan von Cramon-Taubadel | Access to Credit and the Determinants of Technical Inefficiency among Specialized Small Farmers in Chile |
| **1212** | Steffen, Nina und Achim Spiller | Effizienzsteigerung in der Wertschöpfungskette Milch ?<br>-Potentiale in der Zusammenarbeit zwischen Milcherzeugern und Molkereien aus Landwirtssicht |

| | | |
|---|---|---|
| **1213** | Mußhoff, Oliver, André Tegtmeier u. Norbert Hirsch-auer | Attraktivität einer landwirtschaftlichen Tätigkeit<br>- Einflussfaktoren und Gestaltungsmöglichkeiten |
| | **<u>2013</u>** | |
| **1301** | Lakner, Sebastian, Carsten Holst u. Barbara Heinrich | Reform der Gemeinsamen Agrarpolitik der EU 2014<br>-mögliche Folgen des Greenings<br>für die niedersächsische Landwirtschaft |

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| | | |
|---|---|---|
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1969/70 wurde durch Zusammenschluss mehrerer bis dahin selbständiger Institute das **Institut für Agrarökonomie** gegründet. Im Jahr 2006 wurden das Institut für Agrarökonomie und das Institut für Rurale Entwicklung zum heutigen **Department für Agrarökonomie und Rurale Entwicklung** zusammengeführt.

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- Marketing für Lebensmittel und Agrarprodukte
- Soziologie Ländlicher Räume
- Umwelt- und Ressourcenökonomik
- Welternährung und rurale Entwicklung

In der Lehre ist das Department für Agrarökonomie und Rurale Entwicklung führend für die Studienrichtung Wirtschafts- und Sozialwissenschaften des Landbaus sowie maßgeblich eingebunden in die Studienrichtungen Agribusiness und Ressourcenmanagement. Das Forschungsspektrum des Departments ist breit gefächert. Schwerpunkte liegen sowohl in der Grundlagenforschung als auch in angewandten Forschungsbereichen. Das Department bildet heute eine schlagkräftige Einheit mit international beachteten Forschungsleistungen.

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