

# Qualitative analysis of the European Union members positions under the Common Agricultural Policy reform

## *Kvalitativní analýza pozice členských států EU ve Společné zemědělské politice*

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**Abstract:** The Common Agricultural Policy (CAP) reform in 2003 represents the entry into the third phase of the CAP. The final shape of the reform packet is a result of a compromise between external and internal interests of the EU members. The external interests, such as the liberalization of the agricultural trade under the World Trade Organisation (WTO) and EU enlargement, represented a common platform that in principle did not create a barrier between the member's positions. On the other hand, internal interests of the members affected significantly their positions. The most important internal interests may be classified as follows: the EU budget spending, level of farm subsidies, effects of the reform on farm employment, farm income, rural viability, consumers, environment, food safety or animal welfare. Positions of the individual EU members were a function of the agricultural structures and competitiveness. Coalitions of the EU members were created during the reform negotiations: reform-liberal group, cohesion group, conservative group and the group of specific interests. Aims of the future members of the EU (10 candidate countries) in the reform were not to deteriorate their EU entry conditions and to guarantee equal treatment, comparable with that of the EU-15. The analysis of the EU member's positions under the CAP 2003 reform is an inspiration for defining of the Czech Republic's position, as a new member state, in the agricultural area.

**Keywords:** Common Agricultural Policy, CAP, CAP Reform, EU members positions

**Abstrakt:** Reforma Společné zemědělské politiky (SZP) z roku 2003 představuje vstup do třetí fáze SZP. Finální podoba reformy je výsledkem kompromisu mezi vnitřními a vnějšími zájmy členských zemí Evropské unie (EU). Vnější faktory (jednání ve Světové obchodní organizaci, rozpočtové limity výdajů na SZP a rozšíření EU) představovaly společný jmenovatel, který pozice členských států principiálně nerozděloval. Pozice členských států při schvalování reformy byly funkcí jejich zájmů a reagovaly zejména na vnitřní rozhodovací faktory. Mezi nejdůležitější je možno řadit výdaje z rozpočtu EU, výše podpor ze SZP, dopady na zaměstnanost, důsledky pro venkovské osídlení a život na venkově, příjmy zemědělců, dopady pro spotřebitele, dopady na životní prostředí a bezpečnost potravin. Pozice jednotlivých členských států odrážela strukturu jejich zemědělského sektoru a jeho konkurenceschopnost. Při jednání se vytvořily aliance liberálně reformních zemí, kohezně orientovaných zemí, konzervativních zemí a zemí se zvláštními zájmy. Budoucí členské země EU sledovaly zájem nezhoršení vstupních podmínek členství v EU a stejného zacházení. Analýza pozic členských států při reformě SZP v roce 2003 je inspirativní pro formování pozic České republiky jako nového člena EU.

**Klíčová slova:** Společná zemědělská politika, SZP, reforma SZP, pozice členských států

Common Agricultural Policy is an indicator of the external and internal situation of the EU member states. From the first moment of its existence in early 60s, it was often constructed up as a result of the conflict positions of the EU members. The subsequent EU's enlargement of six countries brought about more farm-heterogeneous situation. This caused further position diversification to the CAP. The aim of this study is to analyse motivation of the member's positions under the CAP reform of 2003. The additional aim is to define parameters for the Czech Republic as the EU member for the next CAP modifications.

With a simplification, we can state that the CAP reform of 2003 has started the third phase of the CAP history.

### REVIEW OF LITERATURE

The history of the CAP related negotiations is described in many documents, e.g. Bilal and Pezaros (2000).

In the first CAP phase (1957–1992), high internal price of the agricultural production was the most significant instrument of the CAP. This was a result of the post-war

effort to increase the volume of production and productivity. It was a period of establishing three key CAP principles: principle of single market, community preference and financial solidarity. The main part of the farm support came to the farming sector via consumers' supports.

In the second CAP phase (1992–2003), the EU partially changed, as a result of the pressure of the trade partners, its policy of high internal prices and liberalised its markets. Farmer income losses were partially compensated by direct supports (formally called compensation payments) coupled with the historical (individual as well as state) production parameters. Rural development programs (second pillar of the CAP) were enforced consequently.

The theoretical third CAP phase (starting from 2004) was opened by the reform of 2003. A fundamental change is decoupling of direct payments from production. This introduces more market-oriented conditions within CAP. This decision is, among others, again a result of an external factor, which is trade liberalization (WTO Millennium Round). New CAP will enforce public goods production, such as environmental protection, rural development and food safety.

Complete overview of the CAP reform is described in the Council of the European Union (2003), European Commission (2003). There is a substantial literature which provides expected effects of the reform on member states, their agricultural sectors, farm income and on consumers: EuroCARE (2002), European Commission

(2002), European Commission (2003), FAPRI (2002); Keyzer, Merbis, Riet van 't (2003); Mash, Tarditi (2003); Witzke (2002). Member state positions are stated in AgraFocus (2003a, 2003b), Webber (1998).

## RESULTS

### a) Scope of the 2003 CAP reform and its impact

Table 1 summarizes the main areas of the reform and the effects relevant to the analysis of the member states positions to the reform.

### b) Decision making elements of the members

Final compromise of the CAP reform is a result of the balance between external and internal interests of the members.

Decisive external factors are those, which lie outside the competency of the farm sector. Members positions vis-à-vis these factors were in principle harmonious. However, individual members differed in their positions how to match in the optimal way with the external goals of the EU. Decisive external factors in the CAP 2003 reform could be described as follows:

- A need for liberalization of the EU markets, including agricultural sector. This has a budgetary implications (compensations for farmer losses);

Table 1. Main areas of the CAP reform and its impacts

Decision	Impact
Partial decoupling of the direct payments	<ul style="list-style-type: none"> <li>– Reinforcing of the market orientation of the farm sector.</li> <li>– Social risk for less-favoured areas (LFA), but compensated by only partial decoupling.</li> <li>– Keeping of the historical volume of farm subsidies, both on the individual and state level.</li> <li>– Elements of the CAP denationalisation (sectorial, regional flexibility of the single farm payment).</li> </ul>
Modulation of the direct payments	<ul style="list-style-type: none"> <li>– Financial reinforcing of the 2<sup>nd</sup> pillar of the CAP.</li> <li>– Partial redistribution of subsidies among members.</li> <li>– Softening of social risk of the reform.</li> </ul>
Cross-compliance	<ul style="list-style-type: none"> <li>– Link between farm subsidies and creation of public goods (fulfilling standards).</li> </ul>
Financial discipline	<ul style="list-style-type: none"> <li>– Keeping budgetary spending, including EU enlargement, in the decided corridor (replaced former proposal of stricter instrument of the degressivity of direct payments).</li> </ul>
Enforcement of the rural development	<ul style="list-style-type: none"> <li>– Rebalancing of the relations between 1<sup>st</sup> and 2<sup>nd</sup> CAP pillars.</li> <li>– More rural development measures and its higher attractiveness.</li> </ul>
Market measures	<ul style="list-style-type: none"> <li>– Liberalisation of the dairy sector.</li> <li>– Partial liberalization in the arable crop sectors.</li> <li>– Partial advantages for Mediterranean production.</li> <li>– Better position vis-à-vis the trade partners in the WTO.</li> </ul>
Non-food production	<ul style="list-style-type: none"> <li>– More support (helps to solve overproduction and energetically sources of the EU).</li> </ul>

- EU enlargement (budgetary implications);
- Budgetary limits for the CAP (Brussels Summit in 2002 decided about the stabilization of the farm spending of the 1<sup>st</sup> CAP pillar in 2006–2012).

Decisive internal factors are linked to the economic situation of particular members and conditions and/or structure of their agricultural sector. Position of the members under the reform depended on decisive internal factors. These factors in the CAP 2003 reform could be described as follows:

- Budgetary factors:
  - spending to the EU budget (different interests of net paying and net receiving members; link to the actual internal economic situation of the country in question);
  - changes of the farm subsidy volume as a result of the reform.
- Social factors:
  - employment impact (linked to the competitiveness and volume of the farm production);
  - rural viability impact (linked to the extend of LFA, diversity of economic activities in rural areas);
  - farm income impact (combination of the competitiveness of the sector and farm policy).
- Factors of public goods produced by farming sector (linked to the criticism of the production orientation of the CAP and long-term viability of the CAP):
  - consumer impact (prices, quality, diversity; depends on the ratio of self-sufficiency of the country);
  - environmental impact;
  - food safety impact;
  - animal welfare impact.

Tables 2 summarize positions of the EU members vis-à-vis to the decisive internal factors under the CAP reform

in 2003. In some cases it is difficult to describe precisely the member's position, as it is a combination of real interests and a tactical way of reaching them. Described member's positions are based on the documents (internal, public) and on the oral presentations made during the reform talks. The evaluation is partially based on the subjective opinion of the authors.

Budgetary factors of the overall EU expenditures were priority for net-payers to the EU budget. Their interest is to save sources. Those net-payers that are at the same time important farm subsidy receivers (Austria, the Netherlands) followed this aim less rigorously. In relation to the farm spending, important farm subsidy receivers wanted to keep it (France, Ireland) while others, mainly Mediterranean countries, argued for increasing of the supports (Spain, Greece, Portugal).

Social factors have had large political consequences. They were strong arguments especially for those members, which have high amount of LFAs (France, Luxembourg, Mediterranean countries). Decoupling of direct payments might represent a social risk. Another sensitive factor was the sector structure of the agricultural production of individual members. Partially sensitive were beef and milk sectors (Ireland, France, others). Social factors were seen from two perspectives. First one was the conservative approach (change of the CAP creates social risk). The other approach was to reinforce a rural development measures as the instrument for elimination of social risks of the reform as well as a tool for diversification of economic activities in rural areas.

Generally, all members considered public goods production by farming sector as an important factor. In this respect, these factors might be seen as an external factors as they

Table 2. Importance of budgetary factors, the social factors and public goods for the EU members during the CAP reform in 2003

EU membre	Budgetary factors		Social factors			Public goods			
	EU budget expenditures	level of farm subsidies	employment	rural areas	farm income	consumer	environment	food safety	animal welfare
Belgium					+			+	
Denmark	++			+		+	+	+	+
Germany	++			+			+	+	+
Greece		++	+		+				
Spain		++	+		+				
France		++	+		+				
Ireland		+	+		+				
Italy		+							
Luxembourg				+			+		
The Netherlands	+			+		+	+		+
Austria	+			++	+		+		
Portugal		++	+		+				
Finland			+	+	+		+		
Sweden	++			++		++	+	+	+
United Kingdom	++			++		++	+	+	+

+ Interest, ++ Priority

are a condition for long term existence of the CAP. However, the sensibility among the members varied and in fact it represents an alternative model of functioning of the CAP. These factors were important for those countries, which aimed to a rather radical CAP reform.

### c) Positions of the member states under the CAP reform in 2003

During the process of negotiation, informal groups of members have been created. The description of these coalitions is a subject of the same methodological approach as described under point b). In some cases, one member could be seen in two groups, depending on the farming conditions and goals for the reform. The following groups of members might be distinguished.

Liberal-reform group (Sweden, United Kingdom, Denmark, Germany, partly the Netherlands) wanted to limit the EU spending for the CAP, to liberalise agricultural markets and to reinforce public goods produced by farming sector. These countries supported decoupling of direct payments from production parameters and reinforcing of 2<sup>nd</sup> pillar of the CAP. They were sensitive to the budgetary (in the sense of sparing) and public goods production factors.

Cohesion group (Spain, Portugal, Greece, partly Italy and Ireland) argued for rebalancing of the level of the CAP supports among members as well as for refocusing of the CAP more to the Mediterranean production. This group claimed for more financial solidarity (redistribution of funds) generated by modulation of direct supports. This group was sensitive to the decisive budgetary factors.

Conservative group (France, Ireland, in later phase of negotiations Spain and others) preferred no radical

change of the CAP and keeping existing sector subsidies. According to this group, it might be better first to fulfil the WTO talks and then to do the necessary changes of the CAP. These members were sensitive to the decisive social factors.

In parallel to the above-mentioned groups, there was a semi-conservative group (Austria, Finland, Belgium, Luxembourg). These countries created a rather conservative group but it was less homogenous and its members were sensitive to the particular situation of their agricultural sectors (mountain or Nordic farming, high proportion of LFA).

Ten future new members of the EU, which participated in the reform talks in positions of active observers, aimed at not eroding the entrance conditions of their EU memberships. They argued for equal economic logic in implementing of the CAP reform (for instance compensation for price degressivity not to be subject of phasing-in for direct payments). They represented a homogenous group, with homogeneity of their interests.

Examples of the areas of main interests and positions of member states under the CAP reform negotiating are described in Table 3.

### d) Links between groups of members under the CAP reform

Formation of informal coalitions of the EU members followed every CAP reform. Agenda 2000 adopted in 1999 covered not only the CAP reform but also budgetary (including enlargement and United Kingdom rebate), structural and regional policy debate. Comparing the CAP reform in 2003, the CAP reform under the Agenda

Table 3. Examples of main interest and positions of member states under the CAP reform

Member state	Area of interest	Positions
Belgium	– Dairy sector	– Partial decoupling of payments from production – Modulation of direct payments without redistribution of sources among members
Denmark	– More flexibility (dairy sector) – Environmental protection – Keeping the level of supports	– Decoupling of payments from production – Modulation of direct payments without redistribution of sources among members
Germany	– Less EU spending – Farm employment (new Lands) – Keeping the level of supports	– Partial decoupling of payments from production, keep link between beef premium and grasslands, flexibility of single farm payment – Instead of direct payments degressivity, a more flexible instrument – Modulation of direct payments without redistribution of sources among members, flexibility for national use of sources
Greece	– Farm employment – Increase of the level of supports	– Partial decoupling of payments from production – Modulation of direct payments with redistribution of sources among members

Member state	Area of interest	Positions
Greece	– Mediterranean products	
Spain	– Farm employment	– More fair distribution of supports within the EU (lately partial decoupling of payments from production) – Modulation of direct payments with redistribution of sources among members
France	– Keeping the level of supports, minimise the CAP changes – Suckler cows, dairy sector, cereals	– Partial decoupling of payments from production, to keep coupled payments especially for beef sector – No market regime change – Flat-rate approach to the direct payments modulation
Ireland	– Keeping the level of dairy and beef production	– Partial decoupling of payments from production, keep beef production coupled – Flat-rate approach to the direct payments modulation
Italy	– Get more milk quota	– Partial decoupling of payments from production – Modulation of direct payments with redistribution of sources among members (additional criterion: unemployment rate)
Luxemburg	– Dairy sector – Supports for LFA	– Partial decoupling of payments from production – Modulation of direct payments with redistribution of sources among members (additional criterion: scope of rural development programs)
The Netherlands	– More flexibility (dairy sector) – Stabilize EU spending	– Decoupling of payments from production – Modulation of direct payments without redistribution of sources among members
Austria	– Mountain farming – Rural development  – Organic farming	– Partial decoupling of payments from production – Modulation of direct payments within more detailed segmentation of farm subsidy categorization
Portugal	– Farm employment – Increase of the level of supports  – Mediterranean products	– Partial decoupling of payments from production – Modulation of direct payments with redistribution of sources among members
Finland	– Rural development – Nordic farming	– Partial decoupling of payments from production – Specific support for Nordic farming – Modulation of direct payments with redistribution of sources among members (additional criterion: scope of the LFA)
Sweden	– CAP liberalization – Rural development – Less EU spending	– Decoupling of payments from production – Greater importance for 2 <sup>nd</sup> pillar – Modulation of direct payments without redistribution of sources among members
United Kingdom	– CAP liberalization  – Rural development – Public goods production  – Less EU spending	– Decoupling of payments from production, otherwise flexibility for member state – Greater importance for 2 <sup>nd</sup> pillar – Modulation of direct payments with redistribution of sources among members (additional criterion: area of agricultural land)
Candidate countries	– Keeping membership parameters – Equal price compensations  – Administrative flexibility	– Decoupling of payments from production – Modulation of direct payments with redistribution of sources among members (cohesion criterion) – Compensation for dairy price reduction

2000 was not of such importance. In agricultural area the Agenda 2000 continued in the logic of the MacSharry reform from 1992. Main agricultural topics of the Agenda 2000 were co-financing of the EU spending by member states, balance between 1<sup>st</sup> and 2<sup>nd</sup> CAP pillar, dairy reform and direct payments degressivity.

Núñez Ferrer and Emerson (1999) described the coalitions under the Agenda 2000 farm policy talks in the following manner (Figure 1).

The situation in 2003 reform of the CAP can be described in a way described in Figure 2. Explanation of the members' positions was shown in point c).

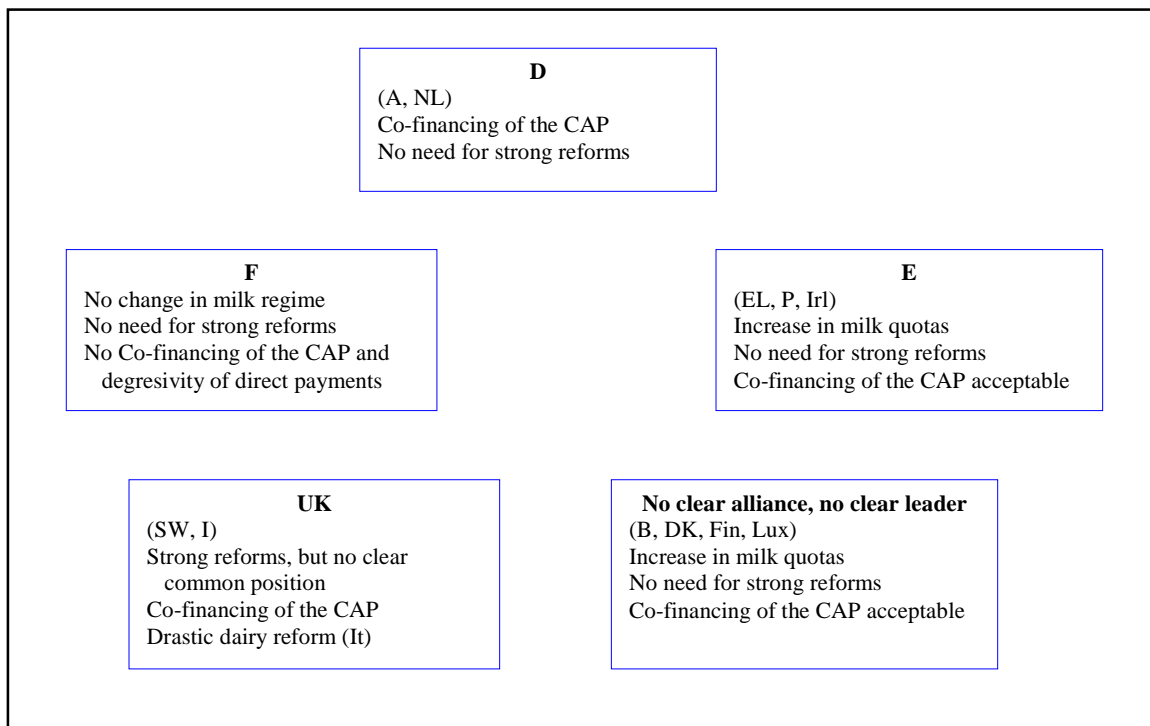


Figure 1. Coalitions of the member states under the Agenda 2000 farm policy negotiations

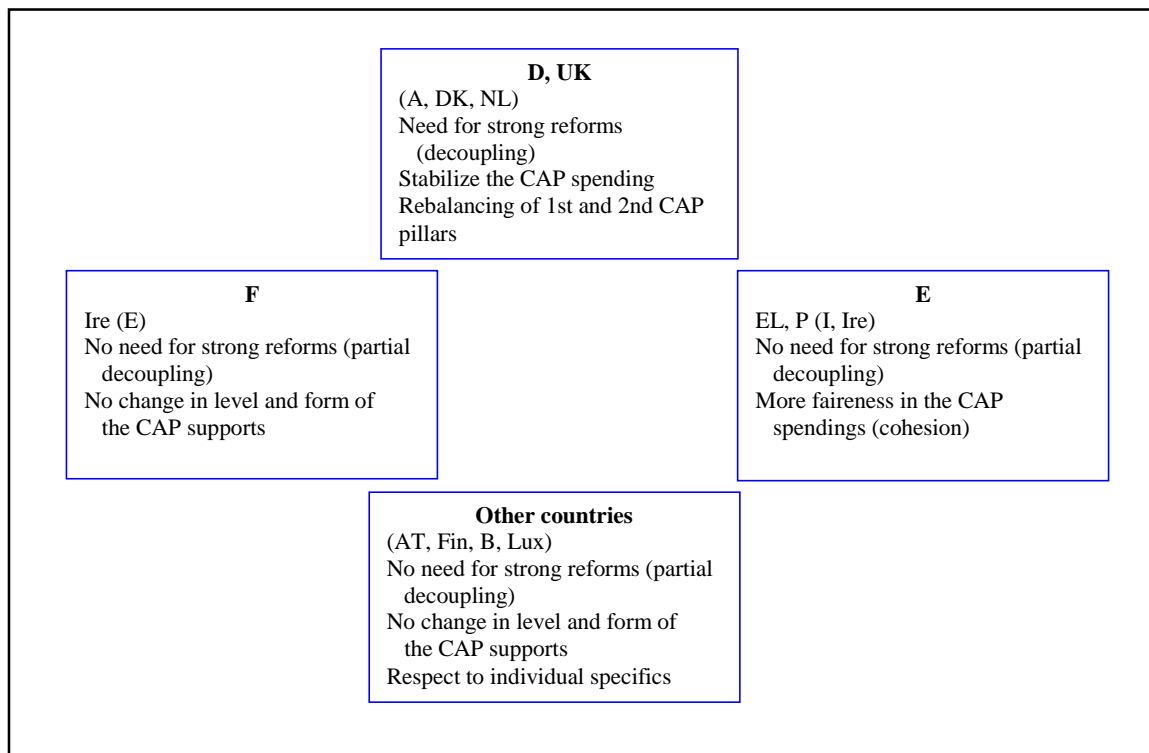


Figure 2. Coalitions of the member states under the CAP reform in 2003

## DISCUSSION AND CONCLUSION

Comparing interests and positions of the EU members during the Agenda 2000 and the CAP reform 2003 negotiations, we may state, that main topics remain unchanged. This might be explained by the rigidity of the agrarian structures as well as by no radical change in the internal political and economic situation in member states. However, there is one difference, which might be noticed comparing both talks. In the Agenda 2000, decisive external factors played a greater role, as some of the external parameters were not clearly determined (farm expenditures, international trade talks). Also specific proposals changed in the meantime, but they remained to be addressed to the similar areas (need of reform, the CAP spending, dairy sector).

In this context, the methodological approach might play a role. As describe above, the method of evaluation of the positions of member states is not for tactical reasons transparent. This handicaps similar comparisons as well as the results of this study. Also subjective character of the method should be taken into account.

Finally, the result of this study shows that member states positions under the CAP reform in 2003 lied mainly in decisive internal factors. Internal factors are of budgetary, social and public goods production character. Internal factors are a function of the economic situation of a member state and its agrarian sector (structure, competitiveness, position in the economy). Comparison of the reform talks in 1999 and 2003 shows the rigidity in the members' positions due to the small change in their internal factors. This means that the future CAP reform would much more depend on the decisive external factors.

One of the implications for the Czech Republic (and other candidate countries) is the need of analysis of the decisive internal factors. This analysis is a precondition for defining of the medium/long-term position towards the CAP. It might help to set up the way and alliances to reach internal goals.

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