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# Renationalization of the Common Agricultural Policy: Mission Impossible?

Jyrki Niemi [a]ⓘ and Jukka Kola [b]

[a] *Professor, MTT Economic Research, Agrifood Research Finland, Luutnantintie 13, FIN-00410 Helsinki, Finland.*

[b] *Professor, Department of Economics and Management, University of Helsinki, P.O. Box 27, Viikki, FIN-00014 Helsingin Yliopisto, Finland.*

## Abstract

The Common Agricultural Policy (CAP) of the EU does not currently meet the different needs of diverse agricultural conditions of different member countries in a just and equal way. To meet this challenge has become inevitably more difficult as new and diverse Central and Eastern European countries have entered the Community. Several commentators and economists have thus suggested that a renationalization of the CAP would be an applicable way to proceed in an attempt to pursue a policy sensitive enough to national and regional or local needs and priorities. Renationalization mainly deals with two issues: (i) should member states have more power and freedom on decisions of agricultural policy, and (ii) should there be a shift from common financing back to national funds? This paper discusses these issues from a political-economy perspective.

**Keywords:** CAP, renationalization, regionalization, subsidiary

ⓘ Corresponding author: Tel: + 358-9-560-86314
Email: jyrki.niemi@mtt.fi
Other contact information: J. Kola: jukka.kola@helsinki.fi;

 

## Introduction

There is growing awareness within the political system that the Common Agricultural Policy (CAP) of the EU is not the most efficient means of addressing an increasing number of policy objectives, ranging from rural development to environmental considerations. The CAP has hitherto sought to address a wide range of goals with a variety of uncoordinated instruments, leading to the uneven, non-targeted, unconditional and inefficient subsidizing of EU farmers. Farmers in the most-favored areas receive more than double the amount per hectare in CAP arable payments compared to farmers in the less favored areas of Finland and Portugal. Thus, for equity reasons there is a need for a better balanced distribution of CAP support among products, regions and farmers (Buckwell et al. 1997, Shucksmith et al. 2005). Furthermore, the logic of remunerating the multifunctional role of agriculture – a key concept in the EU today – calls for better consideration of factors like the rural territory, the environment, the landscape, rural communities and rural employment.

Several commentators and economists have suggested that a renationalization of the CAP would be an applicable way to proceed in an attempt to pursue a policy sensitive enough to national and regional or local needs and priorities (Kjeldahl and Tracy 1994, Gant 1995, Rabinowicz et al. 2001). Renationalization implies a shift of competence back from EU institutions to national ones. This may be in terms of decision-making, of financing or of implementation, or all of these aspects. Is such additional flexibility desirable? Does it offer a way to relieve the hard-pressed EU budget? How is the principle of subsidiarity to be applied here? At what level is competence exercised in the most efficient way? What tasks could better be left to the Member States? And, vice versa, what missions would this produce for the union? How to ensure that a redefined division of competence does not distort competition, threatening the common agricultural market and thereby endangering the principle of Single European Market? This paper discusses some of these issues from a political-economy perspective with no pretence of completeness.

## European Union, Integration and Institutions: Supranational or National Agricultural Policies?

The CAP of the EU represents a concentrated, supranational decision making. In general, concentrated, supranational decision making can have advantages, if we are able to utilize the gains in efficiency and economies of scale resulting from these common, concentrated decisions (Van den Bergh 1996, Widgrén 2003). Efficiency gains emerge, if we can create good and effective common rules, standards and administrative procedures. However, the key question is that in what kind of situations and conditions these potential gains are most likely to be realized. Is the European agriculture and agricultural policy such a playing field or an object, as it has high diversity between the Member States and their agricultural sectors and

 

rural regions? And what kinds of institutions are most effective in dealing with this kind of policy area; should they be concentrated or national and regional?

The starting point for common policies is usually economic integration and its gains. International economic integration can be defined, mainly from the point of economists specializing in international trade, as a state of affairs or a process which involves the amalgamation of separate economies into larger free trade regions. In a wider sense, integration simply means the increasing economic interdependence between nations. Different forms of economic integration are (El-Agraa 2001):

- Free trade areas
- Customs unions
- Common markets
- Complete economic unions: common markets and complete unification of monetary and fiscal policies (the EU's aim now);
- Complete political unions: one nation, e.g. common parliament and other necessary institutions (e.g. the unification of the two Germanies in 1990).

Political integration is often not included in the lists of forms of economic integration. For the European integration the political reasons have been clear, though. The driving force behind the formation of the EU was the political unity of Europe to guarantee peace in the continent. Moreover, the CAP, as one key instrument of the integration process in the EU from the very start, has had and still has also strong political foundations and reasons, e.g. with regard to recent policy reforms, both within the Member States and between the EU, the third countries and the international institutions like the WTO (Rieger 1996, Hix 1999). At the same time, the CAP represents also the sectoral integration. Sectoral integration deals with certain areas (sectors) of the economy, not with the general across-the-board integration. We can, however, ask how important this kind of sectoral integration is and does it serve the purposes of economic integration as such. When mainly related to the free trade areas and customs unions, usual gains from economic integration appear in the form of (El-Agraa 2001):

1. Enhanced efficiency in production by increased specialization (comparative advantage)
2. Increased production by better exploitation of economies of scale
3. An improved international bargaining position
4. Enforced changes in efficiency by stronger competition between firms
5. Changes affecting both the amount and quality of the factors of production due to technological advances, which, in turn, are encouraged by # 4.

An improved international bargaining position (# 3) is one instance where the role of supranational decision making is clear for the CAP. Hardly any Member State

 

could have been able to negotiate in the WTO with the same strength as the EU has done and will do in the Uruguay and Doha rounds. At the same time, not all Member States agree on the EU's stance in the international negotiations to the same extent, which has been proved many times in the EU's internal reforms of the CAP. On the other hand, it is clear that we do not need CAP as such to take care of the agricultural interests of the EU.

As a whole it seems to be that the EU and its decision making are overwhelmingly burdened by the CAP: the share of the CAP of all decisions of the EU is still 40 % (Alesina et al. 2002) and it still takes about 47 % of the EU budget. Most likely the agricultural sectors and issues could be dealt with by more efficient ways than what has been the procedure in the CAP of the EU. These more efficient ways could also be more targeted and equal, according to the subsidiarity principle of the structural funds and regional policy, than what are the procedures of the CAP today.

Concerning the structural funds and regional policy of the EU, they have better reasons and goals than the CAP as they contribute positively to the more balanced economic development in the EU by helping poorer, remote regions. The CAP often does just the opposite, as - according to the notorious rule - 20 % of farmers of the best agricultural regions receive 80 % of CAP subsidies. Common regional policy serves at least some of the defined purposes of economic integration; the common agricultural policy does not. Renationalization should seriously be considered in this kind of situation and conditions.

The task of institutions in the international economy is to take care of those functions, in which certain countries or regions co-operate or are integrated. In addition, institutions act as coordinators; one example of supranational, independent institution is the European Central Bank. Widgrén (2003) states that if citizens' viewpoints strongly deviate from one country, or region, to another, and thus there is high probability to create conflicts between winners and losers, the decision making is sensible to retain at the national or regional level. This, among other issues, leads him to propose that a considerable part of the CAP should be renationalized, provided that national decisions will not create barriers to competition in the common markets of the EU.

Hence, the renationalization of one common policy, the CAP, does not threaten one important form, i.e. common markets, of economic integration, but it can be maintained and further developed by the common rules of the competition and trade policies. But the amount of agriculture-specific, Brussels-based double-bureaucracy could be reduced. Yet, and of course, all the key institutions of the EU remain (Commission, Council, Parliament), and their objectives in advancing true economic (and political) integration of the Europe could be made much clearer. In the following chapters we look at the CAP and its possible renationalization within this framework.

 

## Problems and Challenges of the CAP

The CAP has steadily evolved since its foundation at the Stresa Conference in 1958. Attempts at reform have been legion, but not entirely successful. They have not improved the efficiency of the CAP nor the friction with the rest of the world (Elliott and Heath 2000). The major policy problem is the uneven, non-targeted, unconditional and inefficient CAP subsidizing of EU farmers (Baltas 1997, Kola 1998). Despite ferocious criticism, the core of the policy - highly protected commodity prices - was not seriously altered until 1992, when a new support regime was introduced. The latest CAP reform agreed on June 2003 makes an attempt to create a real radical reform by breaking the basic link between subsidies and production – a link which economists see as fundamentally affecting the degree to which agricultural policy distorts trade . However, this break is still far from being a clear one. “Coupled” support payments are set to continue in many member states, particularly in the beef sector, and even where full decoupling is applied, a comprehensive armoury of market support measures still remains at the disposal of the EU's market actors.

Furthermore, the reform falls short of correcting the major biases in the CAP by fixing the current, distorted subsidy system: farmers in the most-favored areas continue to receive subsidies that are more than double the amount per hectare received in the less favored areas of the current EU-15, e.g. in Finland, Greece, Portugal or Spain. Thus, the new support policy will not be more beneficial for the less-favored regions of the Union than the current policy, though the CAP reforms since 1992 have included also the objective to focus support for farmers' incomes where it is most needed (Gant 1995, Shucksmith et al. 2005).

## The Budget

Spending on the CAP has been the main component of the EU budget for many years. It still consumes almost half of its entire budget (47 % in 2005) and provides the focus for some of the major disagreements among member states and between the EU and the rest of the world. Sharply increasing budgetary costs of the CAP have often threatened the financial stability of the EU. Contrary to the belief of some commentators and policy-makers, pressure to cut CAP spending will not ease now that the policy has been overhauled, and the terms of accession for the ten new member states have been agreed on.

The agreement on spending levels on the CAP between 2007 and 2013 accepted in the Brussels Summit in October 2002 - which paved the way for a breakthrough deal on EU enlargement - tied the CAP into a very effective financial straight-jacket. The agreement allowed the phasing-in of direct aid payments to new member states to begin in 2004, but from 2007 spending on the so called first pillar

 

of the CAP (mainly CAP support and financing of the common market organisations) is frozen at the 2006 estimated level of € 45.3 billion, plus an annual adjustment for inflation of 1 % to 2013.

**Table 1:** Estimated Budgetary Costs of CAP Reform Proposal Compared with Agreed Ceilings (million euros)

| | Budget ceiling | Estimated CAP costs | Margin |
|---|---|---|---|
| 2004 | 42 769 | 41 744 | 1 025 |
| 2005 | 44 598 | 43 891 | 707 |
| 2006 | 45 502 | 44 487 | 655 |
| 2007 | 45 759 | 46 176 | -417 |
| 2008 | 46 217 | 46 330 | -113 |
| 2009 | 46 679 | 46 970 | -291 |
| 2010 | 47 146 | 47 566 | -420 |
| 2011 | 47 617 | 48 182 | -565 |
| 2012 | 48 093 | 48 798 | -705 |
| 2013 | 48 574 | 49 414 | -840 |

Source: Agra Europe 2003b.

Figures in Table 1 illustrate the fact that budgetary pressures will continue to weigh heavily on CAP decision-making throughout the coming decade. In fact, the EU is facing the prospect of applying cuts in the rate of single farm payment aids as early as 2007, in order to offset the risk of exceeding the budget ceilings set out at the Brussels summit (Agra Europe 2003b, Mayhem 2004). In addition, current cost may be further affected by the reform of the sugar regime, which is inevitably having a major impact on EU budgetary expenditure.

There is also ambiguity as to whether the ceilings may be adjusted to allow for the planned accession of Romania and Bulgaria in 2007. According to the Commission, the costs of absorbing the two countries into the EU agricultural policy will amount to about €760 million in 2007, rising to €1.65 billion by 2013. Commission says that these costs are not included in the budgetary limit for pillar 1 agreed in the Brussels 2002 ceiling. Member states determined to hold down EU agricultural spending say they must be included.

The impending wrangle over the total level of EU spending in the 2007-13 period has put the issue of the size of the agriculture and rural development budget very much under the political spotlight. The main element of disagreement is the overall level of spending, which the Commission wishes to raise to 1.14% of the EU's gross national income (GNI) but which six member states would prefer to be capped at no more than 1% of GNI. The campaign by six net contributor countries - the UK, France, Germany, Sweden, the Netherlands and Austria - may not be fully successful, but will certainly put farm spending of all types under pressure.

 

Not only are factors external to the CAP itself coming to bear, but European consumers and taxpayers are asking themselves what they want from the CAP, how they want it to be achieved and how much it will cost. The high level study group (Sapir et al. 2003) in their examination of EU economic policy arrived at two startling conclusions about the CAP. First, spending at the EU level should be reduced to one-tenth of its current level. Second, the redistributive functions of the CAP should be delegated to member states, in effect a renationalization of farm policy. The group contend that the current CAP is a major impediment to the achievement of sustainable economic growth, and that it has moved away from a policy designed to boost production and economic output, as originally intended, towards a policy aimed at social welfare for farmers through a redistribution of wealth. Such distributive tasks would be better managed at the national levels. The case for a common social policy is, hence, weak (Padoa-Schioppa, 1987).

An important aspect of the financial flows of the CAP to deserve special mentioning is the relationship they have created between national interest and the expansion of domestic agriculture. It is well known that whilst every government may accept that aggregate production and aggregate expenditure of the CAP should be cut, it will not wish to cut its own production or to reduce its own receipts (Harvey 1982). Member states know that the more they produce internally the more they internalize the financial flows of the CAP, reducing their purchases from other Member states and their net contributions to the budget. If, indeed, they have overstepped the self-sufficiency mark and reached a point of becoming exporters, then the CAP ensures that they bear the cost of disposing of the excess only in proportion to their incremental contribution to the budget (Marsh 1984).

Furthermore, the CAP support has also affected the inter-sectoral flows within Member States differently than would have been the case under purely national policies. This aspect also deserves mention, since an appropriate level of intersectoral transfers is likely to be perceived very differently within Member States (Rabinowicz et al. 2001). In subjective terms, it is clear that the political weight of agriculture varies within Member Countries. In more objective terms, countries are different regarding the real income per caput, the relative income of the agricultural and other sectors of the economy and the regional distribution of income and employment opportunities. Thus if the problem is one of equity, different rules would be required in different countries (Marsh 1984).

## Structures and Income

The CAP was initially designed for a Community that was small and quite homogeneous, i.e. for the six founding Member States of the EU. Now there are 25 Member States, soon to be 27. There are great differences between the agricultural sectors of the old 15 Member States. These differences have become much more

 

striking with the accession of the candidate countries of Central and Eastern Europe (CEECs). There is a huge variation between Member States for example in terms of natural and climatic conditions, farm structure, productivity and profitability, allocation and levels of CAP support, and the overall significance of agriculture to rural regions and national economies, and the significance of rural, mainly agricultural, regions to society and economy at large.

In 2000, the average farm size was only 5 ha in Greece but more than 70 ha in the UK (EU-15, 20 ha). The average dairy herd size ranged between 9 and 18 cows in Portugal, Greece, Austria, Spain and Finland but was 65 in Denmark and 72 in the UK (EU-15, 26 cows). Agriculture employed 17 per cent of the labor force in Greece, 13 per cent in Portugal but only 2 to 3 per cent in Belgium, Germany, the Netherlands, Sweden and the UK (EU-15, 4.3 per cent). The growing season is about 140 days in Finland but over 300 days in many Member States. Diversity is often regarded as the richness and advantage of the EU, but at the same time one should ask whether it is possible, or sensible, to have a common agricultural policy in the EU especially as it has become even more diverse after the enlargement.

Inequalities of development among member states and differences in production orientations mean that some states benefit more than others from the European farm policy. The budget balance thus differs from one state to another, some being net beneficiaries and others net contributors. In agricultural aid, the major cereal producing and cattle rearing countries are the main beneficiaries (France, Germany and Italy). Structural funds are awarded mainly to regions that are behind in development: Spain, the Eastern Germany, Italy, Greece and Portugal. The strict budgetary discipline decided in the Brussels summit in October 2002 has led to increased criticism concerning the unequal distribution of agricultural expenditure between the different sectors. The Mediterranean countries, in particular, have been demanding more balanced resource allocation between the so-called northern products (arable crops, milk, beef) and southern products (fruits and vegetables, olive oil, wine, tobacco). Currently, arable crops account for about 45 % of the budget funds of the CAP.

Because the CAP rewards high yields, farmers in the most-favored areas receive more than double the amount per hectare in CAP arable payments compared to farmers in the less favored areas of Finland and Portugal. Moreover, as there are no support ceilings or thresholds in the CAP, many big farms receive hundreds of thousands of euros of taxpayers' money (Kola 2002). Thus big farms, and big exporters, farms in Denmark and the UK receive on average more than €18,000 per farm from the Guarantee section. In contrast farms in the less-favored agricultural areas of the Southern Member States receive in the range of €1,600-4,100 per farm, the EU average being about €5,700. The most recent member states with arctic and alpine conditions, Finland and Austria, do not do very well either.

 

The current CAP is just not capable of meeting the needs of the member states. In order to secure continuation of agriculture in the least-favored regions of the EU, some Member States have been forced to use considerable amounts of national funds, with the permission of the EU, to offset the inadequacies of the CAP. In Finland, for example, the share of national funds in total farm support is 56 per cent, and special northern aids are fully financed by the national government, again with the permission of the EU (Niemi and Ahlstedt 2005). In the Finnish view the agricultural policy of the EU should contain more elements through which the differences in the competitiveness due to the natural conditions could be better taken into account. Now most of the EU support compensates for the decrease in the institutional prices since 1992, which means that farmers in the best agricultural regions get the highest support.

The less-favored areas (LFA) support does not change this picture very much at all as this aid is also allocated to all Member States. The traditional forms of support in the EAGGF Guarantee section still account for 90 per cent of the EU's total agricultural budget, and they are the basis for the future farm subsidies according to the latest CAP reform. It is therefore clear that the CAP measures have not mitigated and will not mitigate regional differences to a sufficient extent, i.e. the CAP is not common enough (Baltas 1997). If support per hectare were the same throughout the EU we would have a much more common and fair policy. Moreover, the EU could make much needed savings with a common rate set clearly below the current top levels.

The single farm payment of the latest CAP reform is innovative to some extent, but the new support policy will not be more beneficial for the less-favored regions of the Union than the current policy. Instead, the reform will consolidate the present distribution of support payments, which from the perspective of less-favored regions is distorted and unjust, as the payments would be based on the support levels of the previous years. Furthermore, the decrease in the producer prices and decoupling of payments is ill suited to the adverse conditions, where the variable costs of the production are often higher than the market return. The more favourable production regions in Central Europe are not faced with this problem, because there the market return from the production very well covers the variable costs.

## Changing Objectives

New approaches and means for rural policy in association of the CAP are evidently, and quite urgently, needed. Since almost two decades in the EU, attempts have been made to integrate agricultural structural policy into the wider economic and social context of rural areas - without major success. Sufficiently concrete policy measures are to a large extent still missing (Shucksmith et al. 2005). In terms of the efficiency and sensibility of policy, special care should be taken that the integration of agricultural policy objectives and stronger rural development

 

objectives creates true benefits, rather than just making the policy more costly and bureaucratic (Day 1998, Buckwell et al. 1997). It is clear that agriculture alone cannot maintain rural livelihood, but it can - today and in the future - contribute to rural livelihood also through its traditional goal, i.e. via helping to maintain economic viability of the agricultural sector (Kola 1998, Shucksmith et al. 2005).

Where agricultural measures are concerned, there has been a gradual shift from measures directed at productivity growth towards measures emphasizing the multifunctional role of the agricultural sector – a key concept in the EU today (Terluin 2001). The logic of remunerating the multifunctional role of agriculture calls for better consideration of factors like the rural territory, the environment, the landscape, rural communities and rural employment. Government assistance will be granted only in return for clearly defined services on the part of farmers.

Yet, the allocation of CAP spending does not advance multifunctionality very much at all. By pursuing the CAP with the current instruments the Commission therefore undermines its own goal, a goal which it is strongly advocating in the World Trade Organization. This new goal requires a revised allocation and new types of support to enhance multifunctionality throughout the EU. Although, arguably, this is not a rational goal in purely economic or budgetary terms it is, nevertheless, a widely accepted common decision. EU policies should advance it, not hinder it (Kola 2002).

With regard to the measures aimed at the more general development of rural economies, we have seen a shift from measures encouraging inward investments towards measures enhancing the local development potential. In governance an emerging shift from top-down to bottom-up can be perceived (Day 1998). The politicians will be forced to take account of the objectives supported by voters. Objectives such as preventing rural depopulation, maintaining the appearance of the countryside, and ensuring that farming is carried in an environmentally friendly manner require a closer integration of agriculture in a comprehensive rural policy (Gant 1995). Therefore, it seems clear that the EU agricultural policy will in future be defined in decreasingly sectoral but increasingly territorial terms (Vihinen 2001).

Given the differences in rural problems between member states, many of these objectives can be tackled more efficiently at a national level within the context of partnership between the Union and the member states (Gant 1995). The importance of the national level can, for example, be illustrated by the fact that central governments are the most important distributors of resources for public infrastructure, social security, education etc. (Keating 1999). In addition macro-economic policy for ensuring economic stability is also implemented at the national level.

 

Giving the CAP a more territorial and even a regional content will make it easier to be financed, since measures of this kind are normally co-financed, in distinction to price and market regimes, which are financed totally from the EU budget. This change would prepare the ground for more national influence on social and environmental measures, implying an implicit renationalization of the CAP.

It would seem fair to say that for European taxpayers it would be better, both for economic and equity reasons, if the CAP and other policy supports were more clearly allocated and targeted to the most important objectives and to those most in need (Vaubel 1994, Gant 1995). The CAP must serve more clearly and efficiently the new and more consumer, environment and rural-oriented objectives of the entire EU (Shucksmith et al. 2005). Paying the highest subsidy to farms with the most productive land, or to an industrialized large-scale livestock unit in the most intensive farming systems cannot be the direction desired by European citizens. Proper multifunctionality support, the equalization of support per hectare and support ceilings per farm, together, would contribute to greater policy efficiency and effectiveness (Kola 2002).

Supporters of a switch in emphasis in the operation of the EU's rural and agricultural policies from production support to rural development had hoped that the new regime ushered in by the 2003 CAP reform would lead to much more money being switched out of market support into the payments “based on public goods and services.” But the outlook for the budget would suggest that this is not likely to be so. Under the Commission's proposals for the 2007-13 period an average annual amount of around €43 billion is allocated to agricultural markets, while a mere €11 to 12 billion on average is set aside for agricultural/rural structural schemes (Agra Europe 2005).

Thus the total possible expenditure on rural development in the new budgetary period, €97.15 billion is only 28% of the massive sum of €344.8 billion to be spent on direct subsidies and market support during the same period. All of this sum could be easily absorbed in the badly needed restructuring of the 10 mainland European new member states (i.e. including Bulgaria and Romania). Therefore, a serious thought should be given in the upcoming budget negotiations to the possibility of switching much more of the total €433.6 billion to be spent in the period from 2007 to 2013 from support of farms and farming into the wider economic development of rural areas.

## Institutional Factors and Governance Methods

Over the decades, the CAP as a whole has become very complex and bureaucratic, and some of its methods of governance rather obsolete. The decision-making process of the CAP is itself rather complicated. The central decisions concerning the course of the policy are taken by the Council of Agricultural Ministers and the

 

Commission. It is difficult to deny that the complicated structure of the CAP makes clear and easily understandable political decisions difficult (Schmitt 1986). In particular, it does seem fair to say that the decision-making process of the CAP has not been able to respond adequately to the national and regional or local needs and priorities. Neither the 1992 reform nor the Agenda 2000 reform has eased the situation. However, policy reforms can be expected to be successful only if implemented in conjunction with the restructuring of the methods of governance.

The model of CAP governance was initially conceived for a Community that was small and quite homogeneous. Therefore, the enlargement in May 2004 is bound to challenge the governance of the CAP in two major respects: it has very significantly increased the diversity of preferences and needs; and it has increased by two thirds the number of governments participating in the Council, thereby putting additional demands on already strained decision-making procedures (Sapir 2003). Differences arise, for example, in capacities to deliver shared rules. This is apparent in areas such as environmental protection, product safety, or some elements of which are currently centralized in the name of the Single Market. Similarly, the difficulty of enforcing common disciplines for state aids is going to increase. Hence, the trade-off between efficiency and preference heterogeneity is bound to become more acute (Tabellini 2003).

The standard EU response to heterogeneity is to leave the 'acquis communautaire' untouched while making room for long transition periods. This traditional response – less regulation, more co-ordination and commitment – is likely to conflict with the alternative response of advocating more streamlined, simplified decision-taking procedures, since the move to income support in lieu of price support combined with increased diversity as a consequence of enlargement weakens the rationale for retaining EU competence in agriculture (Padoa-Schioppa 1987, Sapir et. 2003). Efficient income distribution, for example, requires detailed administration at the level of the individual, and coherence with features of income tax and social security systems, and Community cannot assure this.

Moving policies back from the EU institutions to the national level is politically very sensitive, however. Advocates of the traditional approach suggest that increasing Member States' influence could turn out to be a dangerous path unless the EU institutions are given sufficient powers to ensure that basic principles of the CAP are not put at risk. Supporters of the gradual renationalization, however, believe in a streamlined, political Commission with fewer managerial functions, and the creation of a raft of semi-autonomous bodies to deal with the finer details of day-to-day policymaking. In fact, the high level study group (Sapir et al. 2003) suggests spelling out more precisely the scope of policies and rules that must apply to all Member States and the procedures for making decisions in cases where not all are required to participate.

 

## Renationalization of the CAP – A Way Forward?

The problems and challenges of the CAP discussed in the previous section and the latest enlargement have important implications for how to reform the CAP policies and institutions. In the following, it will be discussed if a renationalization of the CAP would be an applicable way to proceed in an attempt to pursue a policy sensitive enough to national and regional or local needs and priorities. Renationalization can be understood as a propensity to reinforce the power of the Member States in CAP matters at the expense of the Community decision-making process. In other words, the prerogatives put forward by the CAP should revert back to the Member States, and that this would be confirmed by a change of the Community law in this direction (Bublot 1984, Rabinowicz et al. 2001).

Renationalization of the CAP is not a new feature, however. Over the last couple of decades, certain elements central to the CAP have involved a considerable degree of nationalization (Kjeldahl and Tracy 1994). Hints at the renationalization of at least some aspects of the CAP have also emerged from the recent reform debate. This is illustrated most vividly by the agreement to allow up to 10% of each member state's overall national aid entitlements to be spent on special “additional payments … for the purposes of encouraging specific types of farming”. Member states themselves would draw up a list of the "specific problem areas" involved. In addition, Member States have been given leeway to choose full of partial decoupling of direct aid payments. Where the Agenda 2000 created the notion of “financial envelopes” offering a choice of cash top-ups on existing aid payments, this new innovation amounts to the creation of “policy envelopes” (Agra Europe 2003a). Member States may also pay the single farm payment at a flat-rate regional level, and may set separate aid rates in each region for permanent pasture and for cropland.

In effect, member states are being invited to write their own farm support policies as a supplement to (and partial replacement for) existing aid schemes. For CAP traditionalists, this represents an alarming development – even though the relative share-out of total CAP funds between member states will be rigidly maintained at the current levels (Agra Europe 2003a). Although Commission officials scoff at any notion of renationalizing the CAP, accusations are already being leveled against the Commission that it is now presiding over a “renationalization” of the CAP, in the flexibility it has shown member states.

Increasing Member States' influence in some policy areas could also be justified by the principle of subsidiarity (European Commission 1999). The Accession Treaty of Austria, Finland and Sweden already includes some measures that are of a mainly national nature. Finland, in particular, has emphasized many country-specific characteristics and disadvantages, primarily the northern location, that should be taken care of by the CAP means. Since the existent CAP means are insufficient and

 

inapplicable, the EU has not been willing to pay for Finland-specific measures. The financial responsibility of the northern support measures have been left entirely on Finland (Kola 1996). As a result, the share of national funds in total farms support in Finland is 56 per cent. Yet, also the nationally financed programs have to be accepted by the EU Commission.

With the accession of the ten candidate countries of Central and Eastern Europe (CEECs) in May 2004, the pressure for increased financial participation by Member States is reinforced. There may be unforeseen expenses also in sectors other than agriculture. Considering the already very tight budgetary discipline, this will inevitably lead to an increase in the national contributions to the financing of measures in the agricultural sector. A point has been made also in a Commission report which discusses the possibility for Member States to shoulder a larger share of the financing of direct aids (European Commission 1998).

Furthermore, the financing of program-based support payments on the basis of contracts with farms differentiates the support schemes to the extent that a common financial interest may be increasingly difficult to find. The shift of the focus away from the basic agriculture means that the measures and their criteria would be designed on the basis of the special needs of different countries and regions. The detailed contents of the support measures would no longer be harmonized at the EU level, but the common policies would lay down only the general framework and maximum compensations. This procedure is already being followed for the part of the environmental support schemes, where the measures, extent and compensations vary considerably (Aakkula 2003).

Increasing national financial responsibility would also lead to a necessary change in the system of political and economic incentives to Member Country governments which results from the CAP. In the current institutional framework, the Member States have an incentive to violate the Community's interest by stimulating domestic agriculture, leading to increased divergences in national interests with respect to common price and support decisions. The system of financial solidarity implies that any price and support change induces visible and invisible transfers among Member States. Therefore, it is understandable that individual countries aim at maximizing the changes in their received net transfers. From all this it follows that the institutional arrangements of the CAP create a bias in favour of the agricultural industry among the political agents (Whetstone 2000). If the agricultural policy were decided at the national level, this would not happen to the same extent.

Naturally, questions arise of how market unity, a fundamental principle of the CAP, may comply with steps towards more national influence. Market unity has hitherto been applied by imposing common support measures, including protection against imports from third countries, while removing obstacles within the Community.

 

Emerging protectionism in the Member States, expressed as generous national support, would constitute a threat to this principle (Bublot 1984). In other words, renationalization should not pave the way for governments to give unlimited national aids to their agricultural sectors. If market unity should be conserved along with a more nationally-oriented policy, it would be essential that the Commission should be able to survey – and enforce – that national assistance targeting environmental or social objectives do not give rise to unfair competition (Kjeldahl and Tracy 1994).

It is, therefore, expedient to remember that national policy should be in conformity with the EU's constitutional principles, including the EU competition policy and the principle of Single European Market. Primary responsibility for implementation of social, income, regional or structural policies could be left on member states, whereas it would be important to have common framework for agro-environmental issues as well as production ethics and veterinary and phytosanitary aspects of agricultural production and food products in the EU (Kola 1996). National measures are needed only if the common policies ignore the national objectives, needs, and conditions

## Conclusions

The Common Agricultural Policy (CAP) of the EU does not currently meet the different needs of diverse agricultural conditions of different member countries in a just and equal way. To meet this challenge has become inevitably more difficult as new and diverse Central and Eastern European countries (CEECs) have entered the Community. Several commentators and economists have thus suggested that a renationalization of the CAP would be an applicable way to proceed in an attempt to pursue a policy sensitive enough to national and regional or local needs and priorities. Renationalization implies a shift of competence back from EU institutions to national ones. For CAP traditionalists, this represents an alarming development, however.

The key question in the framework of economic integration is that in what dimension the Common Agricultural Policy is better than a renationalized policy. This paper shows that the EU does not need the CAP as such to promote the economic integration and balanced development of the Member States. In fact, in some instances the CAP eventually prevents the EU from achieving these general goals. Common markets can be guaranteed by the common competition and trade policies. The EU budget allocations can be directed to the objectives and functions that are much more efficient than the CAP in enhancing the economic integration and balanced development of the Union, especially in association of the enlargement. Renationalization would remove a remarkable share of the agriculture-specific, Brussels-based double-bureaucracy. It would also release the decision making bodies to concentrate on true integration of Europe, instead of

 

devoting a big share of their time and resources to so-called sectoral integration in the form of the CAP.

One of the major drawbacks of the renationalization would be related to the new member countries in Central and Eastern Europe. Most of the CEECs cannot afford on allocating same kind of resources to their agricultural sectors as what could be the case in the current Member States. Hence, this may generate economic and market distortions and political tensions. However, they could be avoided by a more targeted and efficient use of the EU's structural funds and regional policy, which can be regarded as sensible common policies in the framework of economic integration and efficient functioning of EU institutions.

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