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THE FUTURE OF THE CAP – A DECLINING POLICY IN THE EUROPEAN UNION?

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Abstract

The CAP, more than any other EU policy, has traditionally been seen as the core of European integration. Yet, the interests of the member states over agricultural agenda diverge to an extent that has encroached on the supranational construction and the *communautaire* nature of this policy area. The 2008 health-check debate has clearly shown a tendency for providing several policy options, which vary significantly the level of agricultural support among Member States (partial decoupling, additional payments within Article 69 of the Council Regulation No 1782/2003). The second pillar of the CAP is treated in fact as an indirect source of subsidies for farmers, instead of improving economic and social development in rural areas. In fact, specific patterns of re-nationalization in this policy sphere can be discerned. Therefore, is the CAP a EU policy in decline? Will the future CAP lose its common character and be replaced by national agricultural policies? The present paper sheds light on the current health-check debate and considers the future perspectives of the CAP. Specifically, national positions of selected old and new Member States on major elements of the health check are examined. In particular, Germany, France, United Kingdom, Poland and the Czech Republic are cited as examples of countries with heterogeneous agricultural sectors. It conclusion, it is noted that growing differentiation within the CAP leads to its marginalization and will also probably lead to its formal re-nationalization. Therefore, the evolution of the CAP from the most common and regulated EU policy to a wide range of possible national implementation systems raises a question about the future of other EU policies, particularly those in the making, like for example the European Security and Defense Policy.

Key words: CAP**,** national preferences, health-check debate

JEL: Q18

Introduction

The Common Agricultural Policy (CAP), despite its 50-year history, seems to be inefficient in accomplishing its objectives. The lack of efficiency results mainly from the fact that the member states look at the EU's budget from the perspective of their net position. When allocating funds for individual member countries, no one is interested in creating an effective budget. Instead, getting a guarantee that a given member state will not be a greater net contributor than other member states is more important. The EU member states are unable to decide whether they prefer the budget which is limited to the redistribution of funds between countries, or the budget which would allow for the effective running of specific EU policies.

Therefore, a question about the future of the CAP arises – whether it will be evolving, as up to now, following its traditional objectives but with decreasing financing from the EU budget, or whether it will become a modern community policy responding to new challenges lying ahead of the EU (climate change, globalization, migration and others). The current review of the CAP following the 2003 reform, the so-called *health check,* clearly indicates that supporters of the CAP's re-distributive character and its gradual re-nationalization are dominant. Legislative proposals put forward by individual member states and farm lobbies, concerning both the health check and the last reforms of agricultural markets (e.g. in wine sector) change the CAP even more to a "domestic" policy carried out at the member states' level. Hence, the "community" character of the EU CAP is fading away.

The aim of the paper is to consider the future perspectives of the CAP. First, major elements that make the CAP an increasingly less common EU policy will be considered. In the following, the paper will discuss the current shape of the CAP and the planned policy changes. Specifically, positions of selected member states concerning individual elements of the health-check debate and their implications for the future evolution of the CAP will be examined.

Factors undermining the common character of the EU agricultural policy

The CAP emerged as the first genuine common policy and the most successful achievement of the EC in the 1960s. Given post-war food shortages, the common policy in agriculture was generally regarded as the most effective contribution to Community integration. At recent ceremony of the 50th anniversary of the Treaty of Rome, the Agriculture Commissioner, Mariann Fischer Boel, pointed out that the CAP as a common policy is as relevant now as it was five decades ago, albeit for different reasons[1]. Nonetheless, it is clear that the CAP is undergoing inherent change and adaptations which make it less

[1] *The EU and the CAP - past, present and future. A perspective by Mariann Fischer Boel*, Agra Europe, 23 March 2007.

common[2]. Traditional market intervention mechanisms are gradually phased-out and the remaining instruments, such as direct aids and rural development measures are in principle more exposed to national variation. Generally, the CAP's governance system becomes more decentralized and less supranational in nature. Decentralisation remains crucial to successful policy enforcement, however, at the same time, it enhances national dimensions of the CAP and seems to increase the risk of renationalisation[3].

Growing diversity in agricultural landscape of the EU is the basic factor which makes the EU agriculture policy less common. The CAP, originally designed for six member countries, now seeks to accommodate 27 agricultural sectors which are highly differentiated in terms of structure, economic weight, productivity and farm employment. There are countries with modern and competitive agricultural sectors like Denmark and the Netherlands, large countries with relatively efficient agriculture like France, Germany and Spain, countries sharing a predominance of small-scale farming (Portugal, Greece, Italy) or countries where agriculture is of minor importance (the United Kingdom and Sweden). Recent accessions of poorer and more agricultural countries from Central and Eastern Europe have further complicated the EU agricultural situation. Generally, agriculture in most of the new member states plays a more prominent role than in the older member states. However, owing to different patterns of agricultural development under communism and due to varying economic performance in the transition years, farm sectors of the new member states are also marked by enormous diversity.

Clear differences between agricultural sectors of the old and new member states called for a number of transitional measures and new instruments which created *de facto* a two-tier system within the CAP. Moreover, in 2003 a wide range of national options in implementing the Fischler reform were agreed. Fundamentally, some flexibility has been always present in agricultural policy making in the EU. It has been often argued that the same policy may not be equally appropriate across the Community. However, various implementation options, especially differing systems for direct aids, contribute currently to unprecedented inequalities in the distribution of CAP support, both among farmers and between the member states[4]. The bulk of payments continue to be channelled to wealthier member countries and farms with large turnovers. As subsequent reform efforts fail to ensure a more equitable aid distribution, the prospects for restoring the CAP's integrity and legitimacy seem dubious. If the current distribution pattern results in enduring asymmetries in the level of support to farmers, not justified by economic and social conditions, the CAP will also inevitably lose its common character.

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[2] Cf. A. Greer, *Agricultural Policy in Europe*, Manchester University Press, Manchester, 2005.

[3] Cf. D.R. Harvey, The CAP in the 21st Century, in C. Ritson, D.R. Harvey, *The Common Agricultural Policy*, 2nd edition, CAB International, Oxfordshire/Cambridge, 1997; A. Wilkinson, Renationalisation: an Evolving Debate, in R. Kjeldahl, M. Tracy, *Renationalisation of the Common Agricultural Policy?*, Institute of Agricultural Economics, Copenhagen, 1994.

[4] J. Núñez Ferrer, *The EU Budget: The UK Rebate and the CAP – Phasing them both out?*, Centre for European Policy Studies, Brussels, 2007.

Apart from inequality, inefficiency in attaining the Treaty's objectives cements the bad reputation of the CAP as the most wasteful EU policy and brings into question the need for a pan-European approach to agriculture. Empirical evidence invariably indicates that the EU agricultural policy fails to ensure a fair standard of living for the agricultural community. Also, rather than increasing agricultural productivity it has been increasing agricultural production[5]. What is crucial, however, is that the CAP remains inefficient not only in attaining its traditional objectives, but also in providing appropriate policy framework for dealing with other problems, notably rural development and new challenges lying ahead of European economies and farm sectors such as climate change, renewable energy, water management and biodiversity. Fundamentally, the policy regulated and managed at the EU level fares poorly in responding to diverse and variable economic, social and environmental conditions across Europe. Although rural development programs are largely a responsibility of the member states, the EU-wide regulatory framework with no clear criteria for the distribution of rural development funds and a tendency of focusing Pillar 2 measures on agricultural activities does little to address the real economic needs of rural areas in individual member states[6]. As a result, pressures for transferring policy competences back from the Community to national level have been increasing in recent years.

Interstate distributional conflicts and conflicting visions as to the future shape of agricultural policy in Europe are another factors contributing to the present weakening of the *communautaire* nature of the CAP. A preference of the net-payers to substantially reduce agricultural expenditure and to change the rules for financing the CAP is now greater than in the EU-15[7]. The net payers opt for the departure from financial solidarity principle either by means of full renationalisation or through the introduction of co-financing for income support schemes under the CAP's first pillar. Even countries traditionally defending the CAP, like France, start to consider whether the policy should, in the longer term, be financed at EU or national level[8]. Particularly, co-financing option has been gaining support among a number of better-off member states. There are also growing pressures to phase out all farm subsidies and to establish a new rural and environmental policy for Europe. Most of the new member states and other countries with lower *per capita* incomes and substantial agricultural sectors have entirely different preferences as to the future of the CAP. They opt for the maintenance of the current financing rules and for the preservation of traditional farm support programs. \

However, with increasing importance of other EU policies and new aims such as the Lisbon Agenda, the clash between the interests of net contributors and net beneficiaries of the

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[5] *Ibidem.*

[6] H. Grethe, Agriculture Policy: What Roles for the EU and the Member States?, in G. Gelauff, I. Grilo, A. Lejour (eds), *Subsidiarity and Economic Reform in Europe*, Springer, Berlin/Heidelberg, 2008, pp. 198-204.

[7] Cf. H. de Gorter and J. Pokrivcák, 'The Impact of Central and Eastern Europe Joining the Common Agricultural Policy on Agricultural Protection in the European Union: A Political Economy Perspective', in J. G. Hartell and J.F.M. Swinnen (eds), *Agriculture and East-West European Integration*, Ashgate Publishing, Aldershot, 2000, pp. 261-263.

[8] *Implementation and Vision of the Common Agricultural Policy. CAP in 27 EU Member States*, Council for the Rural Area, 2007, http://www.rlg.nl/cap/

EU budget is likely to exert an enormous pressure on the CAP during the 2009 budgetary review and EU internal negotiations on the next financial perspective.

Basically, the CAP in its traditional form becomes politically irrelevant in most of the older member states. Political actors competing for electoral support are no longer as responsive to the 'farm vote' as they were in the 1970s or the 1980s. It is widely held that agricultural policy networks have become more open and heterogeneous in recent decades[9]. The increasing importance of wider rural and environmental interests carries with it pressure for more decentralized and inter-sectoral approach to agricultural policy planning. With these developments, farm lobby groups have found themselves in a downward spiral. Undoubtedly, decomposition of agricultural policy community in the EU is one of the most important factors that undermine the CAP. Paradoxically, an increase in the number of farmers after eastern enlargement has further debilitated the already weak farm lobby. Given differentiated policy expectations, tensions and disagreements between agricultural interest groups across Europe have been quite recurrent. The major EU-wide farm organization, COPA-COGECA has been facing serious coordination problems in recent years and has found it difficult to define a common position on a number of key CAP issues[10].

Overall, the EU of 27 or more member states is bound to have a more differentiated and eclectic policy regime in agriculture. The EU's increasing diversity and a shift from a simple agricultural policy to a more complex set of agri-environmental and rural development policy measures put an enormous pressure on the CAP. Clear inefficiencies and inequalities of the current system, political antagonisms arising from budgetary disputes, different preferences of the member countries as to the role of agriculture, pressures for greater decentralization and autonomy for member states in choosing policy measures and disintegration of farm lobby all seem to contribute to the winding up of the CAP. In the following, the current shape of the CAP will be analyzed in more detail.

The current shape of the CAP: the growing importance of national dimensions

The CAP reforms carried out so far have been rather limited to reducing the distorting effects of instruments applied on the internal and external EU policies instead of contributing to the effective achievement of stated objectives and needs. The current instruments of the CAP are based on parameters that are unrelated to costs of achieving a given goal, while the real needs are devoid of financial support. Direct payments are not being distributed according to individual needs of farms; that is why they are so inefficient in supporting low-income farmers. Therefore, the CAP needs a real reform that would increase its value added.

[9] A. Greer, *op.cit.*, p. 63.
[10] M. Hennis, *Globalization and European Integration. The Changing Role of Farmers in the Common Agricultural Policy*, Rowman & Littlefield Publishers, Inc., Oxford, 2005, pp. 182-187.

This should be done through precisely defined objectives and changed criteria for the distribution of direct payments so they could be directed to where they are most needed.

Paradoxically, the simplification process and actions aimed at providing uniform instruments within the CAP – initiatives propagated by the European Commission – lead to greater differentiation in policy implementation as far as forms, rules and level of support are concerned.

There are already significant differences in the level of subsidies to agriculture in different EU member states under the first pillar of the CAP. They result both from the application of different rates of direct aids per hectare (based on historic production in the 2000-2002 reference period) and from the possibility of granting additional support for certain types of farm production, mainly through the use of partially coupled payments. The opposition of the member states to full decoupling has forced the European Commission to search for compromise solutions under the health-check proposals for the CAP. Extending the scope of the Article 69 of the Council Regulation 1782/2003 is one of them. It is *de facto* a hidden form of additional support for production types to be chosen by the member states (within given framework), which will replace the so-far coupled payments in these countries.

In the European Commission's view, decoupled payments are more conducive to greater market-orientation of farmers limiting thereby potential losses resulting from crisis situations. Undoubtedly, this philosophy corresponds with the attempts made in the international fora to reduce the scope and size of price-support instruments which distort international trade. Following this rationale, the Commission aims at gradual elimination of the traditional CAP's instruments and proposes instead risk management measures, consistent with the WTO *green box* criteria that would be co-financed from national budgets of the EU member states. Until now, farmers have been compensated for reduced market support with increasing direct payments. The currently proposed risk management measures will not compensate farmers for the reduced level of market support, but will allow for shifting the costs of supporting farm sectors to the member states, if they would wish to protect their farmers against price fluctuations.

The increasing importance of the second pillar of the CAP, which has been evident in recent years, implies continuous increase in the level of the member states' co-financing of the agricultural policy. In 2003 Pillar 2 expenditures amounted to 11 percent of all CAP expenditures, and in 2006 to as much as 19 percent – as a combined result of greater Pillar 2 expenditures in the new member states and obligatory modulation[11] of direct payments in the EU-15 in 2005. Following the implementation of the assumptions of the 2007-2013 financial

[11] Modulation – transferring some part of direct payments from Pillar 1 to Pillar 2 of the CAP. It entered into force in 2005. In the years 2007-2012 modulation amounts to 5 percent of payments allocated to a farm in a given year. Farms receiving less than 5000 euro per year are not subject to modulation. Also, the new member states have been exempt from modulation until the level of payments in these countries reaches the level of payments applicable in the EU-15.

perspective, the share of Pillar 2 expenditures will increase to 24 percent[12]. The rules applying to Pillar 2 impose the requirement that the EU funds must be co-financed from national budgets of the member states at rates from 25 percent (member countries and regions where GDP *per capita* is less than 75 percent of the EU average) to 45 percent (other countries).

Modulation of direct payments is to provide an additional source of funds for rural development. There is a danger that the abolition of the first pillar of the CAP, which is furthered by certain member states, and the concentration on the second pillar, which is based on co-financing, will lead in the future to financing of the agricultural policy solely from national budgets.

Increasing financial resources for the second pillar, both at the EU and domestic level, would be justified if the Pillar 2 objectives were clearly defined. Unfortunately, the second pillar becomes a "sack" where all possible measures and instruments are located, provided they meet the *green box* criteria. There are programmes that support indirectly incomes of agricultural holdings, and few programmes which are directed towards rural development. Also, measures to adapt to climate change and instruments supporting the development of renewable energy, water management and biodiversity the so called new challenges, are to be placed in the second pillar. The new member states, although temporary exempt from modulation, are obliged to respond to the new challenges within their current financial envelopes devoted to rural development (second pillar). Taking into account possible redefinition of the green box by the WTO, the objectives of the CAP's second pillar as well as the sources of its financing should be reconsidered.

Most of the member states also make use of national aids to support their farm sectors. These forms of support have to comply with the EU defined state aid rules. In 2004 the greatest amounts of national aid to agriculture were spent in France (2,3 billion EUR), Germany (2 billion EUR), Finland (1,8 billion EUR) and Italy (1,1 billion EUR). In the same year Poland allocated 0,89 billion EUR to support its agricultural sector. However, when state aid for agriculture in relation to the GDP is taken into account, it turns out that France, Germany and Italy spend only about 0,1 percent of their GDPs. Poland devotes a relatively large part of its GDP to agriculture; it occupies the third position, after Finland and Lithuania, as far as national expenditures for agriculture are concerned (more than 0,4 percent of the GDP) [13].

The guidelines for state aid in the agricultural sector are subject to strict regulations which give an impression that there is no room for any discretion on the part of the European Commission and the member states. The first type of national support requires notification to

[12] S.H. Gay et al., *Recent evolution of the EU Common Agricultural Policy (CAP): state of play and environmental potential*, prepared within the EU project SSPE-CT-2004-5036604, FAL & IEEP, March 2005.

[13] *Wsparcie rolnictwa i obszarów wiejskich środkami krajowymi w krajach Unii Europejskiej [Supporting agriculture and rural areas from national funds in the EU member states]*, SAEPR/FAPA, Warszawa, styczeń 2006.

the Commission and the Commission's decision, the second type - only notification to the Commission of the aid to be granted, and the third type - the so called *de minimis* aid – has been exempt from notification. The greatest discretion exists within the third type. In 2007 *de minimis* aid was raised from 3 000 to 7 500 euro. The aid can be granted to a farmer in the maximum amount once or periodically over three years. Therefore, the member states may support their agricultural sectors according to chosen priorities, making use of their own financial resources. The ceiling of the overall value of this type of aid in each country cannot exceed 0,75 percent of the value of production in the agriculture and fisheries sector and the global amount of such aid for each country set by the Commission.

Positions of the member states on the present reforms of the EU's agricultural policy

In the following table, positions of selected member states regarding the evaluation of the CAP after the 2003 reform (*health check*), prepared on the basis of interviews conducted with national experts in individual member countries, experts' materials and information published on web sites of various agencies, research institutes and farmer organisations, have been presented. This overview perfectly illustrates the differentiation of interests of individual member states regarding various elements of the *health-check* debate and helps to identify potential coalitions among the major players.

Table 1. Positions of selected Member States on major elements of the CAP's health-check debate following the 2003 reform.

Member State	**Issues in the health check debate**
The system of direct payments up to 2013	
France	Reluctance to regionalisation of payments which is thought of as leading to significant transfers between various types of farms and to decline of some sectors (beef, cereals, oilseeds and protein crops).
Germany	Planned gradual shift from the historic to regional model of the SPS until 2013; flat rate payment at 300 EUR per ha foreseen; potential impact of regional model: drop in prices for rye, milk (by 17%), beef (7,5%), veal and young cattle (30%).
United Kingdom	Planned gradual shift from the historic to regional model in England, in other regions (Scotland, Wales, Northern Ireland) no agreement as to the flat rate payment per ha. Proposal: calculating payments on the basis of specific environmental and climatic conditions, independent from farmers, regionally differentiated. Gradual phasing-out of direct aids in the future.

Poland	The continuation of the SAPS until 2013, equalization of payments within regions of MS as a step towards reducing disproportions in the level of support between the MS after 2013
Czech Republic	The continuation of the SAPS until 2013; in the future: the creation of one single system of direct aids for the whole EU with the option of supporting certain sectors.
	Partial coupling
France	Preserving special forms of support for beef – as they ensure agricultural use of certain areas; payments for flax, hemp, seeds and rice should remain coupled.
Germany	There are economic grounds that make coupled payments justified in certain sectors (e.g. in the sector of suckler cows); Pillar 2 has not included so far any measure which would support this production profile. This also concerns starch potatoes and dried fodder.
United Kingdom	Additional support for selected sectors: beef production, nuts, energy and protein crops.
Poland	Postulate of equal rights for all MS in determining the scope of coupled payments, regardless of whether they apply the SAPS or the SPS; the need for preserving support for starch, dried fodder, flax and tobacco.
Czech Rep	The need for additional support for starch.
	Cross-compliance
France	Consent for modifying the catalogue of requirements. Requirements that cannot be enforced should be withdrawn. Management of water resources is a key priority.
Germany	Further requirements in CC inadvisable. Common standards should be elaborated quickly at the EU level and the CC should be simplified. Direction of changes: shifting activities related to CC to Pillar 2.
United Kingdom	The future CC should be directed towards increasing the requirements so as to justify the amount of payments received; otherwise funds should be transferred to Pillar 2 and spent under contracts comprising specific activities. New elements to be included in CC: requirements imposed by the Water Framework Directive.
Poland	Later implementation of animal welfare as the most costly element of CC; further simplification of regulations; better adaptation of CC to conditions in MS/regions; reducing the requirements to the most essential elements, that

	directly concern farmer and his farming activity.
Czech Republic	Minimal requirements for CC should be introduced, the same for all the MS; limiting the number of CC requirements so as to reduce the administrative costs.
New version of Article 69 of the 1782/2003 Regulation	
France	Relaxing the criteria for the use of art. 69 through raising the support limit to 15-20%; extending its scope of application and the number of eligible branches so as to support local production systems and remunerate environmental benefits generated by certain types of farming activities.
Germany	Scope of activities under art 69 should not be extended following the health check, future farm support should be based on Pillar 2 mechanisms, not on Pillar 1.
United Kingdom	Art. 69 applied to beef production (Scotland only). Postulate – the application of art. 69 should be more flexible, so as to support the really endangered areas and other areas where maintaining beef and ovine production is also especially important from the environmental point of view.
Poland	Support for Art. 69, but at the same time stressing limited opportunities for financing risk management measures; proposal for supporting sectors that will lose as a result of moving from the SAPS to the SPS.
Czech Republic	Art. 69 is not sufficiently flexible to respond to various needs of individual sectors; the 2,5% limit should be raised; possibility of annual changes is necessary.
Modulation	
France	No support for raising modulation rates since it implies the necessity of co-financing; modulation funds should be directed to agri environmental programmes, supporting production investment and risk management measures.
Germany	The Commission's proposal to raise obligatory modulation by 2% in the budget years from 2010 to 2013 is the best solution. The financing of Pillar 2 should be specified precisely in the future, without linking it to direct payments under Pillar 1.
United Kingdom	Domestic modulation effectively brings more funding than increased modulation at the EU level, thus this proposal is not beneficial. Resignation from the minimum threshold (5000 EUR) would affect around 49% of beneficiaries; thus it is not proposed to resign from it, unless increased EU modulation takes place along with decreasing domestic modulation. But this solution leads to scattering of funds, and not to their effective augmentation.

Poland	Postulate for maintaining cohesion criteria for the distribution of funds from additional modulation; new MS should be subject to modulation (starting from 3 percent) only after they reach 100 percent of payments applicable in old MS.
Czech Republic	No support for progressive modulation as it leads to distortions and inequalities. Modulation should affect all farmers (also receiving less than 5000 EUR). Option for re-allocating modulation funds between individual axes of Pillar 2.
	Market intervention
France	The need for maintaining minimum intervention (*safety net*); legal and financial rules providing producer organizations, associations and inter-branch organizations with the possibility of taking actions aimed at market stabilisation should be added to the COMs.
Germany	The maintenance of a *safety net* is questionable; if it is to be maintained, it should take a form of intervention on cereals market and private storage for other farm products. Only those instruments that will support agriculture in crisis situations with the aim of stabilising prices should be maintained.
United Kingdom	Postulate for introducing full liberalisation of agricultural market and its opening to world, abolition of payments, tariffs, and export subsidies. Yet, owing to differentiated production standards applied in the EU and in other countries of the world, tariffs on products from outside the EU should be maintained. Intervention as a *safety net* necessary on the cereals market because of the central role of cereals in the food production chain.
Poland	The need for preserving the present intervention instruments of the CAP (securing price stability on agricultural markets).
Czech Republic	The necessity of maintaining a *safety net* as a protection against price fluctuations. Effective intervention system on cereals market should be preserved (soft wheat, barley).
	Abolition of milk quotas
France	In case of milk quota abolition, the following conditions must be met: 1) creation of mechanism supporting market channel integration (long-term contracts between milk suppliers and buyers); 2) developing support mechanisms for mountainous regions; Pillar 2 measures may prove insufficient for alleviating negative results of quota abolition, hence the proposal of making use of Art. 68 (possible support from Germany and Austria).
Germany	Milk quotas should be gradually phased out; no support for maintaining minimum production in mountainous and other marginal areas through payments linked to Pillar 1, instead adequate measures within Pillar 2 should be developed.

	Postulate of a separate programme and measures for farmers operating in less favoured areas without alternative forms of production.
United Kingdom	The future abolition of milk quotas is considered favourable for market liberalisation. However, these issues will have no impact on changes in the milk sector; milk production is small, and given low profitability it will probably not increase as a result of quota abolition. Support for a 2% increase in milk quotas to ensure a *soft landing.* Analyses indicate that milk farms will suffer most from changes in income levels, provided that all proposals of the health-check enter into force.
Poland	The prolongation of the milk quotas system; in case of the lack of support from other MS – annual increase in national milk quotas by 2% starting from 2009/2010 until 2013/2014, in total 10%, and the establishment of special fund which would alleviate negative effects of quotas abolition for milk farms.
Czech Republic	Support for the preservation of milk quotas until 2014/2015. Proposal for a 2% increase in national milk quotas to ensure a *soft landing*.
Risk management	
France	Firm support for risk management measures; the proposed solutions are based on measures already tested at domestic level.
Germany	Solutions that contribute to the establishment of new forms of subsidising agriculture are inappropriate. Concerning price fluctuations, there are already adequate guarantees in the CAP and there is no need to develop other measures. Risk insurance should, in the first instance, be provided by private economic activities.
United Kingdom	The role of state in risk management should be limited to paying compensation when the state does not fulfil its duties, e.g. in anti-flood protection, and in crisis situations (animal diseases, natural disasters). Farmers should alone take care of their incomes; such decisions as e.g. public co-financing of insurance rates should be taken by the MS alone, not at the EU level. Instruments focused on information flow, development of cooperatives, better integration in supply chain should be developed to secure farmers' incomes.
Poland	No support for financing farmers' insurance by means of reduced national envelope for direct aids (under Art. 68 up to 10%).
Czech Republic	A key source for financing risk management measures should rather come from Pillar 2, from modulated funds.

	New challenges and Pillar 2
France	Challenges lying ahead of the CAP: feeding a growing world population, ecological and energy challenges, territorially balanced economic development.
Germany	The most important challenges for the CAP relate to three issues: climate change, management of water resources and biodiversity. They are already taken on under Pillar 2, but actions are insufficient. Measures used should in greater extent focus on more efficient energy use and improvement/protection of water quality.
United Kingdom	Agricultural policy in the future should, in major part, focus on providing public goods and not on supporting agriculture as such. The preservation of biodiversity, management of water resources and adaptation to climate change are of paramount importance.
Poland	Given temporary exclusion from modulation, there are no additional funds to meet the new challenges. Hence the new MS should be exempt from the obligation of introducing changes in the Rural Development Plan for 2007-2013 related to these matters.
Czech Republic	The present actions under the Rural Development Plan which relate to new challenges should be financed from modulation.

Source: own elaboration.
Abbreviations used:

MS – Member States; CAP – Common Agricultural Policy; SPS – Single Payment Scheme; SAPS – Single Area Payment Scheme; CC – Cross Compliance; COMs – Common Organisation Markets

The future of the Common Agricultural Policy after 2013

The shape of the future CAP will depend, as up to now in the history of this policy, on a compromise that the biggest and the smallest member countries, the new and the old, and the wealthy and the poor will reach. An example of this 'great game' can be found in recent negotiations on the current financial perspective for the years 2007-2013. As a result of these negotiations agriculture remains the most supported economic sector in the Community. This is so despite its declining share in the GDP (in 2005 it amounted to 1,3 percent in the EU-15 and to 2,2 percent in the EU-10) and decreasing agricultural employment (in 2004 it amounted to 3,8 percent in the EU-15 and to 12,5 percent in the EU-10) [14]. Around 40 percent of the EU budget is still spent to the CAP. Only a small share of the budget is allocated to

[14] *Enlargement, two years after accession: an economic evaluation*, Occasional Papers No 24, European Commission, May 2006.

attain the EU's declared aim of making the Community the most competitive and knowledge-based economy in the world (the so-called Lisbon Strategy).

The recently observed rise in world food prices, the result of unfavourable climatic conditions and rising demand for food, fodder and energy in the dynamically developing countries of Asia and Southern America, show the importance of agriculture as a provider of farm produce, food and the strategic security for the EU. Apart from its basic function of providing farm produce and food, agriculture has long been seen as responsible for fulfilling a number of new tasks, i.a. preserving the countryside, protecting the environment, conserving natural resources and biodiversity, ensuring animal welfare. The changing consumption patterns force a shift in the traditional lines of food production to those better responding to consumers' expectations. Given increasing number of obesity cases, cancer illnesses, and heart diseases agriculture sector should contribute to actions against the so called diseases of the 21st century. Additionally, agriculture is increasingly subject to pressures from progressing climate change which calls for adequate adaptation and preventive actions against negative effects of these changes. All functions of agriculture, both the basic (food production) and the additional ones (providing public goods), are to be carried out under the conditions of continuously decreasing EU budget expenditures to agriculture.

Taking into account the decreasing number of farms in the EU and increasing world food demand, the most rational directions for the future development of the CAP would be to focus the policy on ensuring food security and on supporting farmers in their efforts to face the global competition. Therefore, the EU agricultural policy must be more actively involved in the Lisbon Strategy implementation. It should be aimed towards enhancing the competitiveness of the EU farm sector through its modernization and development (increasing expenditures for research and innovation), assistance to training and extension services, marketing and infrastructural investments in the rural areas. Only the modern CAP has the chance to meet the mounting expectations of the EU society and to remain the EU common policy.

The support for the agriculture sector in the EU should be continued, mainly due to specific character and unforeseeability of farming activities. Farmers must be protected against sudden and unexpected income decline that results from factors being out of their control. Basically, the free market cannot fully regulate agriculture. All the more since farm incomes are much lower than incomes in other segments of the economy; and they rise at a slower pace when compared to earnings outside agriculture. However, subsidies to farm sector should be more selective, focusing on support in crisis situations and on more precisely defined beneficiaries. In the longer-term perspective, the EU agricultural policy should support farmers (engaged in farming activities) for delivering public goods not remunerated by the market. The level of future payments should be calculated on the basis of real costs borne by farmers while delivering public goods to society. The adoption of the proposed changes to the CAP would provide an opportunity for doing away with the support based on

historic production figures and with sectoral preferences. This would also create equal competition conditions between regions and member countries, increasing at the same time public understanding for agricultural spending.

With the aim of preserving the *status quo* in level of support to EU agriculture, some member states have proposed to introduce the co-financing of direct payments from national budgets. This implies shifting the costs of financing of the agricultural policy to the less wealthy member states where the CAP's expenditures represent a relatively large share of their GDPs when compared to shares in the wealthier member states. The departure from financial solidarity principle would put into question one of the greatest values of the CAP – the operation of the Single Market for agricultural products.

Traditional market support instruments distort the market and trade; therefore they should be gradually phased out. Instead, new instruments for the stabilisation of farm prices such as risk and crisis management measures, marketing and promoting of EU agri-food products should be introduced. Furthermore, the agricultural policy should be based on mechanisms that would encourage farmers to take some part of responsibility for stabilising market prices and improving production structure. Such mechanisms should allow for consolidating farm sector with the aim of providing standardised and higher quality farm products. New solutions of the modern CAP should also include measures favouring the development of produce auctions and contractation systems for temporary markets as they reduce fluctuations in farm incomes.

However, the problem lies in the excessively differentiated expectations of the member states as to the future of the CAP. Most of the EU-15 member states utilized this policy to restructuring and modernisation of their agricultural sectors and ensured that food production for their citizens is at a level higher than needed. Fundamentally, they do not need the CAP as much as they did in the 1950s and the 1960s. Given their actions aimed at further reductions in agricultural expenditures, greater re-nationalisation of the Pillar 2 and the introduction of co-financing for Pillar 1 measures, the CAP becomes a declining policy in the EU. In contrast, most of the EU-12 wish to maintain the current level of financing for the agricultural sector. The less wealthy countries, usually with large agricultural sectors, treat the CAP as an agricultural "cohesion policy" that allows for reducing the disparities in the level of economic development between the member states and for investing in measures beneficial to structural changes and adaptations to economic challenges of globalisation.

When observing the differentiation of national interests and growing difficulties in reaching a compromise after subsequent EU enlargement waves, one can wonder whether the evolution of the CAP - the most common and regulated EU policy – will not end up in its full re-nationalization. In this context, one can doubt whether the EU will be able to run other common policies in the future, particularly those in the making like for example the Common Security and Defense Policy. On the other hand, potentially negative impacts of the declining CAP on both the European integration and the EU cohesion should be more carefully studied.

The proposition that the EU will suffer from the abolition of the common policy in agriculture may be a myth as well. The integrative functions can be taken over by other policies, which were absent in the 1950 but which are now rapidly developing and seem more important from the point of view of the EU's global interests. Yet, the question about the EU capacities to create effective rules for running these policies still remains.

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