AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

The Political Economy of the Most Radical Reform of the Common Agricultural Policy

Die politische Ökonomie der bisher umfassendsten Reform der Gemeinsamen Agrarpolitik der EU

Jo Swinnen
Katholieke Universiteit Leuven, Belgium

Abstract

The 2003 reform of the European Union's Common Agricultural Policy (CAP) under Commissioner Fischler was the most radical in the history of the CAP. This paper analyzes the causes and constraints of the 2003 reform. The paper argues that an unusual combination of pro-reform factors such as institutional reforms, changes in the number and quality of the political actors involved in the reform process, and strong calls to reform from external factors came together in the first few years of the 21st century, allowing this reform to be possible.

Key words

Common Agricultural Policy; 2003 Reform; Mid Term Review; Political Economy; Fischler Reform

Zusammenfassung

Die 2003-Reform der Gemeinsamen Agrarpolitik der EU unter Kommissar Fischler ist die bisher radikalste Reform in der Geschichte der EU. In diesem Artikel werden die Faktoren untersucht, die die Reform ermöglicht, aber in ihrer Ausgestaltung auch begrenzt haben. Es wird gezeigt, dass eine ungewöhnliche Kombination von „pro-Reform-Faktoren" wie institutionellen Reformen, Veränderungen in der Zusammensetzung und Anzahl der politischen Akteure und aus verschiedenen externen Faktoren resultierender Reformdruck zu Anfang des 21. Jahrhunderts diese Reform ermöglicht hat.

Schlüsselwörter

Gemeinsame Agrarpolitik; 2003-Reform; Halbzeitbewertung; Politische Ökonomie; Fischler-Reform

1 Introduction

The Common Agricultural Policy (CAP) has been under fire since its creation in 1958 at the Stresa conference. It has long been considered by foes, rightly or wrongly, as a policy impossible to reform substantially because of the staunch opposition to reform from powerful farm and agribusiness lobbies and also because of the complications of European politics.

In 1995 Franz Fischler, a then largely unknown Austrian politician, became EU Commissioner in charge of the CAP. This was a surprise because a new member state had been given the powerful Agricultural Commission chair. Although there were no major expectations with his arrival in Brussels, a decade (two tenures) later, Fischler was recognized by friend and foe to be the architect of the most radical reforms to the CAP.

This paper is the first in the literature which attempts to answer the question: what made the radical reforms, and in particular the 2003 reform, of the CAP possible? The paper analyzes how various factors contributed to this political outcome. The analysis in the paper draws on a combination of theoretical and empirical research. We use recent theoretical studies which provide a framework to analyze the political economy of CAP reforms. The empirical evidence used in this paper draws on personal interviews conducted by the author with experts and people involved in the decision-making of the 2003 reform as well as a series of recent empirical studies and papers. Several of these papers are published as chapters in SWINNEN (2008). The paper is related to and builds on previous studies on the political economy of the CAP, including studies by MOYER and JOSLING (2002), OLPER (1998), PAPPI and HENNING (1999), as well as studies on the political economy of other agricultural policy reforms, including studies by GARDNER (2002) and ORDEN et al. (1999).

2 The CAP Reforms

There were several reforms which were implemented over the two terms of Commissioner Franz Fischler

(1996-2004). Although other reforms, such as Agenda 2000, were very important, his name is most closely associated with the 2003 reform. At the time it was created, the 2003 reform was generally referred to as the 'mid-term review' (MTR) – a term that in hindsight does not do justice to the extent and substance of the reform package. The 2003 reform has been assessed by many experts as the most radical reform of the CAP since its creation.

The key innovation of the 2003 reform was the introduction of the single farm payment (SFP), decoupling a large share of CAP support from production. Two new instruments, 'cross-compliance' and 'modulation', were also introduced. Cross-compliance requirements ensure that the SFP is only paid to farmers who abide by a series of regulations relating to the environment, animal welfare, plant protection and food safety. Modulation refers to the shift of funds to rural development policies (i.e. from pillar I to pillar II) by reducing transfers to larger farms. The reform also changed several market organizations, especially in dairy and rice, by increasing quotas and replacing reduced support prices with direct support. There is a general consensus that the decision to decouple farm support from production was a very radical change in the CAP. In addition, the policy shift from quantity and the public regulation of markets and prices to a policy focused on quality, market-based initiatives and rural development is also an important strategic change.

Yet, there are also elements of the 2003 reform that were decidedly less than "radical". First, total farm support has only marginally been affected by the reforms and remains essentially the same as before. Moreover, there is very little change in the distribution of CAP benefits across countries and farms. Second, the reforms had no effect on EU border protection, except for the rice sector (OLPER, 2008). This fact is important, in particular because of the claims that the CAP is now much less market distortive. Third, the much emphasized shift to rural development policy should be judged on the base of the funding allocation; if the reform is judged on this basis, it is much more modest than official statements suggest. In fact, despite all of Fischler's emphasis on rural development, the budget for rural development was lower at the end of his tenure than it was before the 2003 MTR. Fourth, a considerable compromise was reached by giving in to British demands to discard the ceiling on payments to farms.

A change from the past was also the decision to anticipate rather than react to problems. In the past, CAP reforms were in reaction to problems – such as market surplus and burgeoning public stocks or trade conflicts (JOSLING, 2008). In contrast, the MTR (and Agenda 2000) were reforms that to a considerable extent anticipated necessary changes.

One of the most radical features of the reform was the timing and the audacity of the European Commission in proposing them. After the decisions were made about the Agenda 2000 reform, commentators suggested that the reforms were insufficient (BRENTON and NÚÑEZ FERRER, 2000). Yet, for many involved the MTR was considered exactly what the term implied: a review to check halfway through the Agenda 2000 implementation period (2000-2006) whether any (minor) adjustments were necessary. When Fischler announced his plans in the summer of 2002, most opponents and member states expressed shock and dismay. For example, PIRZIO-BIROLI (2008) reports that farmers' organizations considered the proposal as a "sort of Molotov cocktail". The reform proposals went far beyond what they considered a "review" or "minor adjustments". The Commission was accused of going beyond its mandate.

In summary, there is wide agreement that some key elements of the 2003 reform were indeed radical changes. Other elements were much more modest. Nevertheless, the radical elements make the 2003 reform unique.

3 Conceptual Framework

What made these radical reforms possible? To answer this question, we will use a conceptual framework which draws on theoretical research about EU decision-making (e.g. CROMBEZ, 1996; STEUNENBERG, 1994)) which has been applied to CAP decision-making by POKRIVCAK, CROMBEZ and SWINNEN (2006). They develop a theory of CAP reform and identify the conditions which create what they refer to as, "the optimal reform context". According to this theory, CAP reform is more likely when: (a) an external change moves policy preferences in a pro-reform direction; (b) this external change is large; (c) the policy preferences of the European Commission are pro-reform; and (d) the EU voting rules require a lower majority. External changes alter the political preferences of member states, yet effective policy adjustments will occur only if these changes are large enough because of the decision-making procedures in the EU which induce a "status quo bias". The final outcome will also depend on the preferences of the European Commission which sets the agenda. The

Commission can make a proposal within a certain policy range. Hence, if the Commission has pro-reform preferences, it can pick the strongest reform option that is possible within the policy range that can be approved.

The external change that is required for change and thus the likelihood of reform are directly related to the voting rules. Under the unanimity rule, those most opposed to reform hold an as-if veto over the reform decision. Under the simple majority rule, any change that affects the preference of the median (member state) voter will lead to reform. Under a qualified majority rule, an external change needs to be sufficiently large for a minimum coalition of countries to be better-off with a policy change compared to the status quo.

Differences in the quality of political agents, due to experience or political capital for example, may also play a role. Moreover, consecutive enlargements of the EU have affected the number of member states as well as the heterogeneity of preferences of member states (HENNING and LATACZ-LOHMANN, 2004).

In the rest of the paper, we use this framework to argue that radical CAP reform was possible in 2003 because several factors contributed to "an optimal reform context". In the next sections, we analyze key factors, including external changes, institutional reforms as well as changes in the agents involved, reform preferences, experience of the Commission, political coalitions, etc., to explain the 2003 reform. We then use this evidence to analyze the extent to which these conditions contributed to the 2003 reform.

4 External Changes and Pressures for CAP Reform

Several studies demonstrate how changes in external factors, such as world market prices and exchange rates, have in the past induced CAP reforms (e.g. OLPER, 1998 and 2008). JOSLING (2008) argues that in the early years of the CAP the main external pressures on the CAP were macroeconomic factors, with budgetary and trade relations becoming important later. AHNER and SCHEELE (2000) list several external causes for the Agenda 2000 reforms: market developments (including food safety), environmental concerns, trade liberalization and the preparation for enlargement. External pressures which have been mentioned as important in the 2003 reform are eastern EU enlargement, trade negotiations (WTO and other), the budget, as well as food safety and environmental concerns.

The Agenda 2000 reforms were intended to address the CAP constraints related to the enlargement process, but the reforms were partially diluted in the political negotiations at the Berlin 1999 summit. Nevertheless, by 2001, even with the diluted Agenda 2000 decisions, enlargement was less likely to create a conflict with WTO commitments than had been predicted five years earlier (SWINNEN, 2002). The likelihood of a WTO conflict depended more on the outcome of the upcoming negotiations in the WTO millennium round than on the post-Agenda 2000 enlargement effects. If, as a result of a new WTO agreement, the EU needed to significantly reduce export subsidies or change the implementation of direct payments then the CAP would have to be reformed, irrespective of enlargement. Although no one expected the next WTO round on agriculture to be easy, in the late 1990s it looked as if it could be a rather straightforward exercise, at least in theory. The previous round had resulted, if not in much effective trade liberalization, at least in a framework to build on in the next round. By 2000, however, it had become clear that this was too optimistic.

The WTO was not the only trade arrangement affecting EU markets and the CAP. Pascal Lamy, while still EU Commissioner for Trade, undertook several multilateral and regional trade initiatives. The Everything but Arms (EBA) initiative allowed imports without restrictions from the 48 poorest countries into the EU market. Opposition by the rice, sugar and banana sectors delayed the implementation of the EBA agreement. This further raised awareness of the international effects of the CAP and contributed to the idea of the necessity of CAP reform.

Increased consumer demand for food quality and safety were reinforced by several food safety crises before the MTR. These crises put food safety, animal welfare and environmental concerns on top of the agricultural policy agenda. Both the BSE and foot and mouth disease (FMD) crises (which began in the UK) and the dioxin crisis (which began in Belgium) had EU-wide effects. Extensive media coverage provoked strong reactions from consumers and the general public, which contrasted sharply with their rather passive attitude towards traditional agricultural policy issues. There were calls for the overhaul of the CAP. Consumer groups, environmental organizations and government officials emphasized that government subsidies for farming practices that did not adhere to appropriate food safety, environmental and animal welfare standards were unacceptable.

The food crises had considerable political impacts. In Germany, the Minister of Agriculture and the

Minister of Health Affairs resigned in the wake of the discovery of BSE in Germany. Renate Künast from the Green Party became the new Minister of Consumer Protection, Food and Agriculture in 2000. She called for a fundamental rethinking of the CAP, including a large shift to organic farming. In the UK, the Department of Agriculture was replaced with the Department of Environment, Food and Rural Affairs, signalling a change in priorities. In Belgium, two ministers resigned following the discovery of dioxin in the food chain and the scandal contributed to a major electoral defeat of the governing parties. The EU budget was also affected by necessary additional expenditures for increased intervention purchases and measures to contain BSE and FMD.

These various elements, some traditional and others not, increased pressure for CAP reform. Franz Fischler himself summarized these developments by stating that "the CAP had lost its legitimacy among the EU public". The CAP was seen as damaging EU trade interests and instilling negative effects on the environment as well as unable to address food safety concerns of EU consumers. These elements compounded, resulting in a call for radical changes in the CAP at a time when ministers of finance and other members of the European Commission were demanding significant CAP budget cuts. These were vital issues which needed to be addressed. Moreover, the issue of eastern enlargement was expected to increase the budget for the CAP and for structural funds as the new member states had larger agricultural sectors and lower incomes than the EU-15. Hence, at the start of the Prodi Commission many were of the opinion that the CAP budget should be cut: a reduction target of 30% was mentioned. This view was reinforced by the Sapir Report which argued that EU expenditures on agriculture should be drastically reduced.

5 Institutional Reforms, Changes in Voting Rules and in the Political Actors

The voting rules had been altered by several institutional reforms of the EU prior to 2003, including the Single European Act (SEA) and the Treaties of Maastricht and Nice. Most relevant for our analysis are the changes in voting rules initiated by the SEA. In the 1990s, qualified majority voting was increasingly used for minor CAP decisions but major CAP decisions were often still decided by unanimity. In this respect, the 1999 CAP reforms (Agenda 2000) were a turning point: for the first time a major country (France) was outvoted in relation to a major CAP reform. For the MTR decision-making, this change in the EU decision-making rule was critical. As we will explain later, Fischler and his team spent a lot of effort trying to put together a winning coalition to break a blocking minority coalition.

There were important changes in who was involved in the decision-making and in the reform preparations. First, the enlargement of the EU in the previous decades affected both the aggregate preferences and the distribution of votes in the EU. In particular, the accession of Sweden, Finland and Austria to the EU in 1995 affected the political equilibrium. Enlargement reduced the share of the established players' votes, such as France and Germany. In addition, for cultural reasons none of these three countries were "natural allies" with France, a country that traditionally played a very important role in opposing CAP reforms. The pro-reform camp was reinforced with Sweden, which had gone through a process of radical liberalization of its agricultural policy in the early 1990s and which was forced to re-introduce regulations and subsidies under the CAP with its accession to the EU. Sweden has consistently been a critic of the CAP and a voice for reform. Finland and Austria, however, supported farm subsidies as their small farms in disadvantaged areas depended on such subsidies. As high-income countries with small-scale farmers, many based in mountainous or arctic regions, Finland and Austria were more sympathetic to supporting rural development and agri-environmental policies than large subsidies for quantity production – which mainly benefited larger producers.

Second, the anticipation of eastern enlargement also played a significant role. With ten Eastern European countries joining, some of which had a large farm population, the Commission realised that reform would not become easier after enlargement.[1] This gave a sense of urgency to the reforms: they had to be decided before eastern enlargement.

Third, a large share of the EU Commissioners wanted CAP reform. President Romano Prodi and several Commissioners wanted the share of the CAP in the EU budget to be substantially reduced. Commissioner for Trade, Pascal Lamy, wanted the CAP to be reformed to allow the EU to take the initiative in the Doha round. In addition, the Commissioners reflected consumer and environmental concerns.

[1] See HENNING and LATACZ-LOHMANN (2004) for a formal analysis of this issue.

Fourth, as Commissioner for Agriculture and Rural Development, Fischler himself was in his second term and had thus gained experience from his first term. The Agenda 2000 negotiations had also made him better prepared for new reform[2]. He was keen to leave a legacy of having put the CAP on a course that he considered sustainable and consistent within his view of European agriculture – an Austrian perspective one could argue. Fischler wanted a CAP more in line with rural development, the environment, and the production of high-quality and safe food. This was different from the "old CAP" which focused on quantity, output and prices. In a rather unexpected way, the food safety and environmental crises of 1999-2001 reinforced this agenda.

Fifth, the 2003 MTR discussions also transformed the politics-as-usual in the CAP. Traditionally, the main CAP pressure group had been farm unions who put pressure on their agriculture ministers and on the Commission, trying to obtain as much as the other ministers would allow. But the MTR brought consumer and environmental groups to the political negotiations more forcefully than before. In fact, Fischler reached out to these groups to establish public support for a reformed CAP. He deliberately designed a media strategy and a series of presentations to win their support. His view was that even in countries that were not in favor of the CAP per se, the public was still very much in favor of policies that improved the rural environment, enhanced animal welfare, ensured food safety and food security, etc.

Finally, an important potential source of opposition against the reforms was within the Commission itself: the traditional thinking of the DG AGRI administrators. The preparation of the reforms was kept within a tight circle of six top officials (of the cabinet and of the administration). In addition, a small group of policy analysts within DG AGRI were asked to assess the effects of some of the proposals, but without being fully informed. Once the reform proposals were finalized, an essential mission was to convince the rest of the DG that they were the right strategy.

In this respect, a number of earlier institutional changes may have also contributed to the 2003 reform. The administrative reforms introduced some years before removed the hold of France on the top job in DG AGRI. In addition, many of the old-style DG AGRI officials whose careers had developed in the early years of the CAP, had left and younger persons had joined during the past decade. This made thinking within the DG much more open to, for example, environmental and economic arguments (MOEHLER, 2008).

6 A Complex Reform Puzzle

It is clear from the above discussion that there were strong pressures to reform the CAP and that institutional changes had enhanced the opportunity for such reform. However, almost all the participants in the reform debate and most outside observers which we interviewed argue that the success of the reforms was far from certain at the outset. Most thought that the chances were slim *ex ante*.

The timing was complex. To see the complexity, we should put ourselves back in the situation of 2001.[3] The implementation of Agenda 2000 was ongoing, but the full impact would not be realized until 2006. Upcoming elections in the member states, particularly in France and Germany, complicated the CAP decision-making process. No difficult decisions could be taken regarding the reform of the CAP before the French elections in the spring of 2002, but some decisions needed to be made before the German elections in the autumn of 2002. Germany played a prominent role in the policy discussions on the budget and the environment and the German government wanted to show results before elections.

In 2001, despite much pressure from the CEECs, there was no agreement on the time of accession. Negotiations were continuing. Important remaining issues were the allocation of direct payments and quotas to CEEC farms and the CEECs' request for an exception to the single market principles which allowed foreigners to purchase agricultural land. But since the Prodi Commission had made accession a top priority, it wanted some CEECs to accede during its tenure, which expired in January, 2005.

The WTO millennium round was behind schedule, with little progress made since the Seattle meeting.

[2] Because of Fischler's reform attitude and experience, French President Jacques Chirac intervened in 2000 at the start of the Prodi Commission; he did not to reappoint Fischler as the Commissioner responsible for agriculture. Prodi, however, wanted CAP reform and wanted someone who could deliver this reform. He denied Chirac's request and chose Fischler to continue his position. Thus, Prodi made an important contribution to the CAP reforms, although he did not intervene in the actual CAP discussions.

[3] For a detailed review see SWINNEN (2001).

Negotiations on agriculture had continued with the submission of negotiation positions and were gaining some momentum in 2001 with the arrival of the Bush administration and Trade Representative Robert Zoellick. Yet, it was unclear whether the Bush administration would obtain fast-track negotiation authority from the US Congress. Moreover, the EU also faced the end of the Peace Clause, which was scheduled to expire in 2003.

Another major issue in 2001 was how EU accession was possible within the financial framework for 2000-2006. CEEC governments insisted on obtaining full payments from the CAP and the structural funds, while EU-15 member states who would lose (net contributors and current beneficiaries of the structural funds) opposed such a policy.

In summary, the interaction of enlargement, WTO negotiations, EU budget negotiations and CAP reform was complex. Nevertheless, the second term of Commissioner Fischler expired in January, 2005. With all this in mind, 2002-2003 must have looked like the best – or the only possible – timing for the next CAP reform.

The reform process was also complex because of the interaction, and sometimes contradiction, of the different elements involved. The various demands for reform in some sense appeared to weaken rather than reinforce one another. For example, the food safety crisis significantly contributed to the demand for CAP reform, and, probably more than anything else, put CAP reform on the political agenda by raising public awareness about agricultural policy. The interactions between environmental and food safety concerns and subsidies were especially strong in the livestock sector where BSE caused many problems. At the same time, CAP subsidies stimulated overproduction. Yet, the reform ideas from this agenda tended to go in the direction of more regulation rather than less as well as more subsidization (albeit redirected) rather than less. For example, few of the environmental groups who pressured for a radical rethinking of agricultural policy in the EU considered trade liberalization and WTO negotiations as positive developments. Their stance contrasted with the more traditional pressure for CAP reform from mostly economists and some politicians who argue for less regulation and lower subsidies, and who favor more liberalized trade and markets. For example, while "old reformers" tended to look rather sceptically upon the concept of "multifunctionality", which the EU was pushing in the WTO negotiations as an argument to maintain a large part of its agricultural support system, "new reformers" tended to appreciate this concept as it was consistent with their desire to subsidize and protect a particular farming system and rural way of life.

In conclusion, the pressure to reform the CAP had clearly increased by 2001, but it did not contribute to a more focused picture on what direction the reforms would need to take. Clearly, there was reinforcement in the sense that "*something* needs to be done", but there was much less common ground on *what* should be done. In fact, some of the reform ideas were in opposition to one another. Nonetheless, in Fischler's mind (and his team) the various pressures were crystallizing into a consistent reform strategy. In hindsight, it appears that the argument that the BSE crisis had nothing to do with agricultural policy (e.g. TANGERMANN, 2001) may have been true from an economic perspective, but not from a political one. In fact, in the type of political strategy that Fischler and his team had in mind, the two fitted very well together.

7 Franz Fischler: Strategist and Tactician

Everybody inside the Commission with whom we spoke discusses Franz Fischler's role in the 2002-2003 reforms in quasi-heroic terms. Some argue that what really made the reforms succeed was the combination of Fischler's strategic vision and political tactics and the Commission's officials' effort and preparation. Fischler not only had a clear strategic view about the direction of the reforms, but he also had masterful political tactics which he used to get there.

Experience mattered as well. The general experience of a second-term commissioner and specific experience with the Agenda 2000 reforms made Fischler better prepared for the 2003 reform battle. In general, a second-term commissioner has more experience in how deals and decisions in the EU are made. Probably even more important was his experience with Agenda 2000 and, in particular, Chirac's unusual intervention at the Berlin European Council meeting in 1999. During the Agenda 2000 reform discussions, France had opposed the main reform proposals and voted against them in 1999. Yet, French opposition was insufficient. In the vote in the Agriculture Council in February, 1999, there was a qualified majority of votes in favor of the Commission's reform package. To the surprise of many, Chirac managed not only to bring up the issue during a meeting of the European Council in Berlin in March, 1999, but also managed to re-open the compromise decision. In the final negotia-

tions, and despite Fischler's opposition, Chirac succeeded in convincing the other heads of state to approve a weakened version of the reforms.[4] Fischler learned from this experience that he had to anticipate potential political obstacles and strategies to avoid a similar fate with the 2003 reforms.

7.1 Preparation of the Reforms

Fischler learned from previous reforms that if specific proposals are made early, vested interest groups, such as commodity groups, will mobilise quickly and reform efforts may be undermined and blocked before they are even launched. Therefore, Fischler put together a small inner circle of six officials to prepare the entire reform package. As is well documented by PIRZIO-BIROLI (2008) and SYRRAKOS (2008), this small group of senior Commission officials, drawing on a substantial amount of study and analysis by experts within the Commission administration, prepared the details of the proposals and calculated their potential effects. The six officials were high-level Commission staff, partly from Fischler's cabinet and partly from the DG AGRI. Everybody else was kept in the dark or on a need-to-know basis only. Commission services were asked to perform preparatory analyses and impact studies without being informed of the entire picture.[5] Analyses were prepared under the guidance of Dirk Ahner, the Deputy Director-General who had also led analytical work in preparation for Agenda 2000 and the EU enlargement process. Several Commission officials interviewed by the author highlighted the importance of this work. The extensive in-house discussions and analyses made DG AGRI well-prepared when the discussions came out into the open. Since nobody outside of the small Commission circle had expected Fischler to propose full decoupling, the opponents had little preparation and little analysis of the impacts of such a policy. In contrast, the DG AGRI team was ready to address critiques and comments about their proposals with careful analysis and counterarguments, all of which had been prepared in the previous years and months.

While hints about the reforms were given to the public in 2001, there was a complete communication stop in the spring of 2002 during the period leading up to French elections, which took place in May and June of 2002. In fact, Commission officials were forbidden to speak in public on CAP reforms.

Fischler announced his plans for the CAP reform in the summer of 2002. The opponents of the reforms publicly expressed shock and dismay. Yet, the proposals actually contained little that had not yet been suggested by Fischler in various speeches in 2001. These public speeches contained much of what was formally proposed by Fischler in the summer of 2002. For example, Fischler's address "The road ahead for EU agricultural and rural policy" to the CDU congress in Berlin on May 7th, 2001 and his Opinion Article in the *Financial Times* on May 9th, 2001 contain all of the major ingredients of the reform proposals. Fischler explained later that his public addresses were used to test the waters of the various ideas in the proposals. It appears that opponents, and in particular the French government, did not take these remarks seriously, either because they underestimated his determination or they overestimated their own political strength to block them. In a personal interview, Fischler confirmed that this was also roughly his interpretation of the facts.

A final element of Fischler's strategy was to build support for the reforms from a non-traditional political coalition across member states. Instead of focusing on farm unions, Fischler gave presentations, interviews to the media and participated in conferences to secure support from environmental organizations and consumer groups. When the reform proposals were announced, the traditional negative reactions emerged from farm unions. In the past, farm unions had dominated political discussions on the CAP. Now other organizations joined the debate and presented a different view. As a result, the discussions were more balanced than in previous reform efforts.

7.2 Counting the Votes: the Role of the Iraq War

Qualified majority voting had become the rule for CAP reform decisions. When the MTR proposal was announced, only the UK and Sweden, member states customarily in favor of CAP reforms, immediately supported it. Other member states were either skeptical, pointing to specific problems, or opposed the CAP reforms.

[4] Instead of 30% as proposed by the Commission, the Council decided to cut the beef support price by 20% only; instead of a proposed cut of 20% for cereal support prices, it was decided to be cut by 15%; and, the dairy reforms were postponed to take place in 2005, instead of beginning in 2000 as proposed by the Commission.

[5] There are some notable stories surrounding the secrecy of the reform preparations, including the distribution of proposals on specially marked paper. SYRRAKOS (2008) even refers to a break-in at the Commission offices.

After some time three groups emerged: the "pro-reform group", which in addition to the UK and Sweden also included the Netherlands and Denmark; a "middle group" that included Greece, Belgium, Luxembourg, Finland, Austria and Italy; and the "anti-reform group" with France, Spain, Germany, Portugal and Ireland.

The middle group contained a set of countries that were not completely opposed to the reform, but had specific problems with the reforms. The Commission thought it could win the support of most of this group since it was predominately made up of small countries with few votes. Moreover, the Commission thought concessions in specific areas could convince this group to support the reforms. The middle group was also not considered a major problem because it included Greece which held the presidency and wanted a successful summit, as well as Belgium which did not have a unified voice with its three ministers of agriculture.

The anti-reform group was strong with three large countries (France, Spain and Germany), easily controlling a blocking minority. Nevertheless, the anti-reform group was not a natural coalition. Germany played a special role. Renate Künast, the politician from the Green Party who was the German minister responsible for the CAP, had been a vocal advocate of a more environmentally-friendly CAP – and should have been a natural ally of Fischler. This was indeed the case initially, but more influential political alliances later interfered.

Traditionally, the Franco-German political axis had continued to work very well under the regimes of Helmut Kohl and François Mitterrand. They managed to overcome their personal differences to form a very powerful and successful European force. Initially there was no chemistry between Gerhard Schröder and Jacques Chirac. They disliked one another and did not manage to form a bond or a strong Franco-German coalition. But in 2001 important international events changed this.

The Iraq war began in 2001. The governments of Spain under Prime Minister José Maria Aznar, Italy under Prime Minister Silvio Berlusconi and the UK under Prime Minister Tony Blair joined US President George Bush in what Bush referred to as "the coalition of the willing". Both France and Germany strongly opposed the Iraq war. Hence, somewhat unexpectedly, Chirac and Schröder found themselves as allies in opposing the Iraq war.

Furthermore, on the eastern enlargement of the EU, France and Germany had opposing views but managed to come to an agreement. Germany was a strong proponent of eastern enlargement while France was not enthusiastic. A deal was made. As one Commission official summarized, "the French agreed with the enlargement if the Germans agreed to pay the bill" which included future CAP financing for the EU-15. This was cemented in the 2002 Brussels Council meeting where, among other things, a decision was made with far-reaching implications for the CAP: CAP pillar I payments were fixed until 2013 to assure French farmers and politicians that CAP benefits would continue to come long after enlargement.

All this mattered for the CAP reform proposals of Fischler. France was opposed. For Schröder, who was in some international isolation with his strong anti-Iraq war stance, maintaining the general Franco-German international political coalition because of the Iraq war and enlargement was more important than the preferences of his Green Party coalition partner on CAP reforms.

Facing this strong anti-CAP reform coalition, Fischler decided to use the Iraq war for his own purpose. As Chirac used the war coalition to keep Schröder on his side in the CAP debate, Fischler seeked support for his reforms from the opposite side, more specifically from the Blair-Aznar camp. Fischler asked Blair to approach Aznar and convince him to switch sides and support the CAP reforms. Blair, who had supported the CAP reforms all along, agreed on one condition: the Commission had to drop the capping of support to large farms – which would hurt large UK farms and landowners – from the reform proposals. Fischler agreed and Blair approached Aznar. Fischler went on a nightly mission to Madrid to seal the deal. Spain switched camps in the CAP reform debate and left the opposing coalition severely weakened.

In the days following these political changes, Künast managed to re-take the initiative in Germany on the CAP reforms and to change the German stance in the reform debate. Similar to Blair, she asked for adjustments of the reform proposals in exchange for her support. Künast liked the idea of cross-compliance, but did not want to implement decoupled payments based on what farms had received in the past (which became known as the "historical model"). Instead, Künast wanted to pay farms in the same region the same payment, independent of what they had received in the past (later termed the "regional model").

Fischler opposed this idea, not so much for the economic effects, but rather for the political ones. He feared that the redistribution of subsidies among farms, which was implicit in the regional model, could increase opposition to the CAP reforms on the basis of

farm interests. OLPER (2008) emphasizes the lack of redistribution of support in the Fischler reforms as a key element of the reform proposals. By limiting redistribution and emphasizing a more efficient instrument of decoupling for enhancing farm incomes, Fischler avoided a significant amount of potential opposition.

Nonetheless, Künast was adamant on this issue because she wanted to use the new subsidy system to support more extensive and organic farming systems, which traditionally had not been receiving as much support as the intensive, conventional production systems.[6] Fischler ultimately gave in to Künast's demands to obtain German votes. In the final proposal, Germany was allowed to introduce the regional model.

Finally, Ireland also switched positions, but for a different reason. Farm unions in Ireland opposed the reforms, but farmers there had a different perspective. They were convinced that the reforms could be good for them as the reforms provided them with direct income support and allowed them more freedom in their decisions. The Irish position switched, despite farm union opposition, as the Irish minister sided with the preferences of grassroots farmers rather than with farm unions.

In the end, France found itself isolated in its opposition to the reforms. Even within France and the FNSEA, the main French farm union, opposition was no longer unanimous. Facing a loss in qualified majority voting, France then attempted to join the winning camp and to extract compensations and adjustments from the reform proposals. Yet, they were in a weak negotiating position and finally ended up with few of their demands met.

[6] Interestingly, the introduction of the regional model in Germany had the opposite effect of Künast's intentions as she (and her advisers) had underestimated (or ignored) the impact of the subsidies on the land market. With subsidies given across the region, the value of farm land increased and extensive farm systems were no longer profitable with high land prices; a switch had to be made to more intensive production systems.

8 The Paradoxical Impact of Jacques Chirac

President Chirac played a very important role in the Fischler reforms, but in many ways differently from how he had intended. By his masterful political act in 1999 in Berlin, Chirac had achieved what he considered a major political victory: protecting French farmers from an overzealous reform-minded Commission. Later he also intervened with Prodi in an unsuccessful attempt to prevent Fischler from remaining in his post for a second term. At the conclusion of the Berlin meeting, Fischler managed to obtain – what looked at the time like – a small compromise.

First, to anticipate problems from partial reforms, a mid-term review was to be undertaken around 2002-2003 to re-examine market developments as well as the situation of the agricultural budget as a clearer perspective emerged on enlargement, WTO negotiations, etc. Chirac's intervention in Berlin thus allowed a review of agricultural policies in 2003 – something that otherwise would not have been the case and which gave Fischler the opportunity to introduce another set of reforms.

Second, as explained above, Chirac's unusual intervention in Berlin made it clear to Fischler that he had to anticipate any potential political obstacle and strategy to avoid the fate of the Agenda 2000 reforms.

Third, it is difficult to imagine that Fischler did not have a psychological effect from the way in which Chirac had approached the CAP: first by re-opening the decision above the heads of the ministers of agriculture and later by trying to block Fischler's reappointment. It would be understandable if these experiences strengthened Fischler's resolve to push forward with the reforms.

Fourth, Chirac's successes with Agenda 2000 (and in earlier CAP discussions) may have blinded him to the determination of Fischler in preparing the 2003 reforms. Chirac's successes also may have led him to underestimate his political opponents during the MTR debate and may have caused him to be complacent.

In summary, Chirac's dramatic political intervention in Berlin in 1999, in which he weakened the Agenda 2000 reforms, made the most radical reforms of the CAP possible. The intervention allowed an evaluation of the CAP in 2003 as well as made the success of Fischler's reforms more likely by reinforcing the determination of his opponent, providing a warning to Fischler to avoid all possible political and diplomatic booby-traps, and by convincing the other side to be well prepared for debate and decision-making.

9 Franz Fischler: Killer or Saviour of the CAP?

The acrimonious reactions following the launch of the proposals involved accusations of the Commission siding with opponents who wanted to "scrap the CAP". Yet, Fischler and his team saw their proposals not as an instrument to eradicate the EU's agricultural policy, but instead as a way of saving it. PIRZIO-BIROLI (2008: 124) explains:

> *"Scrapping the CAP [was] not an option. …The Fischler reform was aimed at helping the CAP and its farmers reconcile the needs of modernisation and restructuring with the acknowledgement of their community function, and the recognition of the positive externalities generated by agriculture, and rural activities and spaces.… Fischler acted in the conviction that the EU needed to keep a strong agricultural policy, but periodically update it in order to adapt it to new realities."*

From this viewpoint, it is interesting to note that according to Fischler, the concept of decoupling was not chosen for reasons most often mentioned by economists, i.e. to reduce distortions, but because it was the best way to save the CAP.[7]

Economists, based on their focus on improving efficiency and reducing distortions, had long preferred non-distorting (lump sum) transfers. Thus, the decoupled payments Fischler proposed were a welcome improvement. These economic arguments, however, were never convincing for Fischler who favored decoupled payments based more on political reasoning.[8] Fischler looked at the reforms from the standpoint of how he could save the support for European agriculture in the 21st century with new opportunities as well as new demands and constraints being imposed on European farmers. Decoupling was an attractive choice based on these new factors for several reasons. Decoupled payments were an efficient use of EU funds, given pressures on the budget from taxpayers. Fischler referred to an OECD study on decoupling which demonstrated that with a decoupled support system the net income gains for farmers are almost twice as large compared to the then existing payments per hectare or per animal, if much of the existing support is dissipated through an induced increase in land and other input prices. Fischler saw the salience of the argument not from an economic perspective, but from a political one. If the CAP were using half the EU budget, he considered it essential to convince the EU taxpayer that this money was well spent and effectively used. Decoupling also reduced trade distortions and improved the environment as it reduced incentives to use land intensively. The introduction of cross-compliance further enhanced the environmental benefits of decoupled payments. Fischler and his team emphasized in interviews that while the WTO negotiations were not an initial motive for decoupling, once they began to think about the option they realized that decoupling could be very useful for the Doha negotiations as well.

While discussions on the importance of the reforms focus mostly on the 2003 MTR (and to some extent on the Agenda 2000 reforms), Fischler sees the achievements of the 2003 reform much more in tandem with the 2002 budgetary agreement. In his view, the proposals of the 2003 reform allowed him to convince those most opposed to the CAP within the European Commission to agree to a much smaller budget cut than they had requested.

Prodi (and with him many commissioners and ministers of finance) had targeted a 30% budget cut of the CAP when the Prodi Commission took office. By proposing a series of bold reforms that reduced the negative effects of the CAP on the environment, market distortions and the WTO negotiations, as well as enabled the CAP to fit within a concept of sustainable rural development, Fischler and his team reduced the ammunition of those demanding large budget cuts and created a new support base for the CAP. In this way, he was able to convince the Commission to table a proposal (which was later approved) with much more limited cuts for the next financial period (i.e. up to 2013).

The European Council summits in Brussels and Copenhagen in the autumn of 2002 sealed the deal. The decisions fit enlargement into the 2000-2006 financial framework by deciding the gradual introduction of direct payments in new member states. It was also decided that the CAP would continue to receive generous funding from the EU budget. From 2007 to 2013, the total budget for market interventions and direct payments was fixed at the 2006 level in real terms. In nominal terms, expenditures could increase

[7] Notice, of course, that both perspectives are closely related: transfer efficiency is high because distortions are low and the WTO may allow decoupled payments because they do not (or minimally) distort international markets and trade.

[8] In a sense, one could interpret Fischler's logic as an example of BECKER'S (1983) argument that politicians will choose (economically) efficient policy instruments to enhance their political objectives.

by 1% annually. Rural development spending was not constrained. Fischler and his colleagues saw this as a major achievement: the CAP budget was not drastically reduced until at least 2013 and the cuts were much less than demanded at the start of the Prodi Commission in 2000. From this perspective, Fischler's reforms had "saved the CAP" instead of scrapping it.

10 Concluding Comments

The 2003 MTR under Commissioner Franz Fischler was the most radical reform in the history of the CAP, albeit that not all aspects were substantive reforms. The reform process and its timing were complex. Several major developments, all of which affected each other, overlapped: WTO negotiations, enlargement negotiations, the enlargement process, the Iraq war, the Agenda 2000 implementation, budget discussions and the mid-term reviews.

Three (sets of) factors came together around 2002 which created strong demand for radical CAP reforms and sufficient pressure to overcome opposition to such reforms. The three factors were institutional reforms, changes in the number and quality of the political actors involved in the reform process, and strong calls to reform from external factors. The main pressures came from the WTO and other trade negotiations, the budget, food safety, environmental concerns and – to a lesser extent – enlargement. These elements, some traditional and others not, combined to increase pressure for change. The CAP had lost its legitimacy among the EU public and was seen as hurting EU trade interests, having negative effects on the environment and unable to address food safety concerns of EU consumers. This compounded calls from ministers of finance other members of the European Commission for CAP reform.

A critical institutional change was the Single European Act which introduced qualified majority voting for CAP decision-making. The enlargement of 1995 reduced the share of the votes of the established players in the EU as well as enabled Sweden to be a strong voice for CAP reforms. The 2003 MTR discussions and political tactics also transformed the politics-as-usual of the CAP. Consumer and environmental groups played more prominent roles in the CAP reform debate than they had previously. Finally, many of the old-style DG AGRI officials had left and younger persons had joined in the decade before the reforms took place. This allowed thinking within the DG AGRI to be much more open to environmental and economic arguments.

The combination of Fischler's experience, his strategic vision, his political tactics and the Commission's officials' effort and preparation played a vital part. The reforms were prepared in relative secrecy by a small inner circle of officials while experts within the Commission administration calculated the potential effects of the reforms without knowing the overall picture. During the campaigns for the French elections in the spring of 2002, there was a communication stop. In-house analyses were undertaken by DG AGRI officials to counter critiques with well-prepared arguments.

The proposals initially faced a strong anti-reform group, including three large countries (France, Spain and Germany), which had the power to block the reform. The Iraq war made Chirac and Schröder allies in opposing the reforms despite Germany's earlier demand for reform. Yet, Fischler used the Iraq alliances to his own advantage by manoeuvring Spain out of the anti-reform group through Blair's links with Aznar. Fischler paid a price by having to drop the capping of subsidies (for Blair's support) and by allowing regional instead of historically-based payments (to secure German support).

Chirac played an important role, but in ways his role turned out differently than he had intended. Chirac's intervention at the 1999 Council in Berlin initially appeared to be a major political victory, but it ultimately allowed a review of agricultural policies in 2003. Moreover, it made Fischler anticipate all potential political obstacles and reinforced his determination for reforms. Chirac's earlier successes in blocking reforms may also have caused him to become complacent. Thus, Chirac contributed to the most radical reform of the CAP.

Farm unions were taken by surprise by the Fischler proposals and were unprepared. They also faced a new political environment in which environmental and consumer groups were taken seriously by political leaders. Nonetheless, decoupled payments are more effective in transferring income to farmers and farmers may have realized this, which could contribute to explain their limited opposition.

Finally, Fischler and his team saw their reforms not as an instrument to reduce the importance of the CAP, but as a way of saving it. Bold reforms to reduce its negative effects on the environment, market distortions and the WTO negotiations reduced the pressure for large budget cuts and created a new support base for the CAP. These reforms avoided major budget cuts for the next financial period. From this perspective, the Fischler reforms contributed to the survival of the CAP, rather than to its demise.

References

AHNER, D. and M. SCHEELE (2000): The Common Agricultural Policy: An overview from where we come from, where we are, tasks ahead. Paper presented at the International Postgraduate Course on European Agricultural Policy in Transformation, 15 September, Wageningen University.

BECKER, G. (1983): A Theory of Competition among Pressure Groups for Political Influence. In: Quarterly Journal of Economics 98 (3): 371-400.

BRENTON, P. and J. NÚÑEZ FERRER (2000): EU Agriculture, the WTO and Enlargement. In: Bilal, S. and P. Pezaros (eds.): Negotiating the Future of Agricultural Policies: Agricultural Trade and the Millennium. Kluwer Law International, The Hague: 113-131.

CROMBEZ, C. (1996): Legislative Procedures in the European Community. In: British Journal of Political Science 26 (2): 199-228.

GARDNER, B. (2002): American Agriculture in the Twentieth Century. Harvard University Press, Cambridge, MA.

HENNING, C.H.C.A. and U. LATACZ-LOHMANN (2004): Will Enlargement Gridlock CAP Reforms? A Political Economy Perspective. In: EuroChoices 3 (1): 38-43.

JOSLING, T. (2008): External Influences on CAP Reforms: An Historical Perspective. In: Swinnen, J. (ed.): The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy. Centre for European Policy Studies Publications, Brussels: 57-75.

MOEHLER, R. (2008): The Internal and External Forces Driving CAP Reforms. In: Swinnen, J. (ed.): The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy. Centre for European Policy Studies Publications, Brussels: 76-82.

MOYER, H. and T. JOSLING (eds.) (2002): Agricultural Policy Reform – Politics and Process in the EU and US in the 1990s. Ashgate Publications, London.

OLPER, A. (1998): Political Economy Determinants of Agricultural Protection Levels in EU Member States: An Empirical Investigation. In: European Review of Agricultural Economics 25 (4): 463-487.

– (2008): Constraints and Causes of the 2003 CAP Reform. In: Swinnen, J. (ed.): The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy. Centre for European Policy Studies Publications, Brussels: 83-101.

ORDEN D., R. PAARLBERG and T. ROE (1999): Policy Reform in American Agriculture. University of Chicago Press, Chicago, IL.

PAPPI, F. and C.H.C.A. HENNING (1999): The Organization of Influence on the EC's Common Agricultural Policy: A Network Approach. In: European Journal of Political Research 36 (2): 257-281.

PIRZIO-BIROLI, C. (2008): An Inside Perspective on the Fischler Reforms. In: Swinnen, J. (ed.): The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy. Centre for European Policy Studies Publications, Brussels: 102-114.

POKRIVCAK, J., C. CROMBEZ and J. SWINNEN (2006): The Status Quo Bias and Reform of the Common Agricultural Policy: Impact of Voting Rules, the European Commission, and External Changes. In: European Review of Agricultural Economics 33 (4): 562-590.

STEUNENBERG, B. (1994): Decision Making Under Different Institutional Arrangements: Legislation by the European Community. In: Journal of Institutional and Theoretical Economics 150: 642-669.

SWINNEN, J. (2001): Will Enlargement Cause a Flood of Eastern Food Imports, Bankrupt the EU Budget, and Create WTO Conflicts? In: Eurochoices 1 (1): 48-53.

– (2002): Transition and Integration in Europe: Implications for agricultural and food markets, policy and trade agreements. In: The World Economy 25 (4): 481-501.

– (2008): The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy. In: Centre for European Policy Studies Publications, Brussels: 135-166.

SYRRAKOS, D. (2008): An Uncommon Policy: Theoretical and Empirical Notes on Elite Decision-Making During the 2003 CAP Reforms. In: Swinnen, J. (ed.): The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy. Centre for European Policy Studies Publications, Brussels: 115-134.

TANGERMANN, S. (2001): Agricultural Policy Making in Crisis Times: BSE and the Consequences in Germany. In: EuroChoices 1 (1): 54.

PROF. JO SWINNEN, PHD
LICOS – Centre for Institutions and Economic Performance
Katholieke Universiteit Leuven
Kantoorgebouw Waaistraat, Waaistraat 6
3000 Leuven, Belgium
e-mail: Jo.Swinnen@econ.kuleuven.be