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Evolution of the Common Agricultural Policy: an Historical Perspective

Every enlargement of the European Union was first of all an important political issue that crossed strictly technical and economic subject, while safeguarding the specific interests of Member Countries. That is, although the integrative path is studded with general priority policy goals, the Community has always had to try to mediate this general political interest with the objectives and priorities of specific economic sectors, particularly agriculture, as the main item of expenditure the Community budget. The same problem has been produced for enlargement to the CEECs that, from a political point of view, had an extraordinary interest: "Achieving an almost continental dimension of the Union has prompted the charm of this enlargement", which has opened Europeans to hopes of peace, stability and prosperity of the continent. But if political support came indiscriminately from all member countries, as regards the practical implementation, and hence the effective entry of new countries into the Union, the situation has greatly complicated and a delay tactic was born in certain countries. In economically weaker countries, namely those that had gained most of the resources before the big enlargement. But even those countries where political interest for enlargement did not coincide with the national interest, that is those countries that did not want, in view of enlargement, deep reforms of most expensive common policies among which, in the foreground, the CAP.

Indeed, the difficulty of reconciling the general political will with the sectoral interests (recurring problem of European integration) became evident shortly after the fall of the Berlin Wall: the first enthusiastic reactions to reunification of the European continent, to the end of the Cold War and to the growth of EU, left soon way to a growing concern in many countries. From a strong desire to support democratic transition and enlargement also with economic aids, it moved to adopt, as early as 1990-91, slower rhythms and delay options -when not to call in question the possibility of access in a short time period of countries who requested it.

In fact, the long period historical-political analysis of the common agricultural policy highlights some important features that CEECs enlargement strengthens, but does not introduce *ex novo*. Analysing the long period emerge basically two important characteristics:

the CAP already during his first decade of life has some serious problems, so becomes a policy to reform only a few years after its adoption and remained so until today. The other element is that the need for reform is almost inextricably binds to the theme of enlargement, because in almost all enlargements, agriculture is one of the main negotiating issues. Enlargement to the CEECs again reinforces these long-term characteristics for two main reasons: the size (understood, of course, as a number of countries and new European citizens) and the importance that agriculture remains in some Central and Eastern Europe countries that joined the European Union in 2004 and in 2007. These reasons, together, have once again placed the agriculture at the centre of negotiations (along with structural funds, that, however, are also often linked to rural areas) and led the Union to support the necessity of an urgent reform, triggering opposed attempts to safeguard their agricultural sector and its prerogatives, both by the 15 countries that those of the big enlargement.

The governments of EU countries have focused mainly on trying to prevent that enlargement had financial costs too high for the EU, since it differed from all previous enlargement, both for the large number of countries involved, and for the strong gap in the per capita income levels between the candidate countries and existing EU members. But member states have not wanted to address the inefficiencies and inequities of some European policies, thus losing an important opportunity to reform their distributive policies. Indeed, the Copenhagen European Council of 12 and 13 December 2002 concluded negotiations on enlargement without changing any of the policies that have a greater impact on the budget, particularly agriculture. The summit has only decided to postpone major problems, providing a sufficiently long transition period, particularly with respect to transfers to agriculture, whose decision was postponed until 2007-2013 financial program. The decision not to address these issues, linking them closely to the new accessions, is due to the fear of slowing down, or prevent, enlargement. As has happened often since 1962 to now, the Union has avoided a drastic reform of the CAP, fearing that the political consequences could produce a period of great tension and general slowdown of integration, but "The process of Common Agricultural Policy (CAP) reform and the accession of the Central and Eastern Europe countries (CEEC) to the European Union are two issues "inseparable".

In the nineties intersect the urgent need to create new objectives for the CAP, based on the situation and needs of European agriculture, and the enlargement to a large number of countries with a significant (economically and socially) primary sector.

The result of the connection between agriculture and enlargement is the reform of the CAP, which started in 1992 with the so-called MacSharry reform, and concluded (though in a non-final way) in June 2003.

The long process of reforming the CAP

The CAP is still a "Policy to reform" and it is so from 1968 when, at the end of the transitional period, emerged the need for a reform, to be implemented primarily through a slow and steady mediation. Indeed, for being the first policy of the EEC, the CAP has put to the test the designing and negotiating ability of the Community, becoming the land of confrontation and mediation of the member countries and setting up the most important policy area and the origin of further disputes. In the agricultural policy the EU has more powers than in any other sector and it holds first place for the number of laws adopted. That is why the CAP brings in itself the contradictions between the major political and ideal goals of the member countries and, at the same time, the interim solution of the difficult mediations between different national interests, either economic, or social, or political.

The first attempt at reform of the CAP is the "Agriculture Program 80", proposed in December 1968 by former Commissioner of agriculture, Sicco Mansholt. The paper created an immediate and strong opposition by the agricultural lobbies, shared by the Council of Ministers that decreed the not feasibility. In the forty years in which was attempted the reform of the CAP, the most pressing and urgent proposals were produced by the Commission, but disregarded or heavily reduced by member states and the pressure of European and national agricultural lobbies. The European Parliament denounced several times the excessive expenditure, especially when it refused to approve the budget for the year 1980, if it had not started a reform of the CAP, which can reduce the financial chapter. But also the economic and social distortions, the risks to the health of consumers, also corroborated by the reports of the European Court of Auditors.

The first major reform was only in the nineties. During the Council of Ministers of Agriculture of 30 June 1992 were approved and adopted various measures that will radically innovate the common agricultural policy, impairing the support mechanisms that were consolidated in thirty years of life of the CAP. That is why the intervention of 1992 can be described as the first attempt to genuine reform of the common agricultural policy.

Given the profound contrasts and the strong pressure from agricultural lobbies the approval of the reform was a fairly long and delicate process. The reform is being opened in

February 1991 with the submission to the Council of a working document "Evolution and the future of the CAP", but soon took the name of its author, the Irish Ray MacSharry, European Commissioner for agriculture. Based on the comments received the Commission drew up and presented a genuine reform proposal. In October the Commission presented a new document, which also contained provisions to give effect to the reform. The document was the subject of a delicate negotiation between the commissioner MacSharry and the President of the Council of Ministers of agriculture, the Portuguese Arlindo Cunha.

The most delicate phase was in March 1992, with the presentation of the Commission's proposals on agricultural prices for the 1992-93 campaign. Despite the opposition of a large part of the European agricultural world, the reform was approved in Brussels, during the meeting which took place from 18 to 21 May 1992, when it was approved by the Council of Ministers. The agreement was reached with the abstention of Italy that wanted to express their dissent in relation to milk quotas.

The agreement of 21st May was further refined and the 30th June 1992 was approved unanimously, including Italian vote. The reform was approved at the time of transfer of power from the Portuguese Presidency to British new president. The reform had become operational since the 1993-94 campaign and provided for a transitional period of three years. In the immediate following years, the reform actually turned out to be insufficient and further action was needed on agricultural mechanisms, but the leap in quality had been done, especially through the objectives of supporting an agriculture compatible with the needs of the environment. In fact, despite the measures dedicated to agriculture compatible with the environment were partly inadequate and disregarded, the concept began to take shape and was taken over with more bite in 1996 at the Conference of Cork and again in the reform of 2003.

The MacSharry plan foresaw accompanying measures for the implementation of a series of interventions to support income, and to promote, at the same time, the development of alternative activities to the traditional production, exploiting the relationship between agriculture and rural environment. The measures originate from the principle that farmers play an important role in society as a whole, both in the use of compatible production methods, and in growing demands for environmental and natural resources protection, and in the need to safeguard the landscape and natural space, through prevention of phenomena such as forest fires and hydrogeological disruption. To continue to play that social services, farmers must be adequately supported.

The 1992 CAP reform had two more goals very important and closely related. First was the need for the community to keep his international position of great agricultural producer and exporter, but making European farmers more competitive both on domestic, as well as on external markets, thus reducing prices. Moreover it was necessary to align the production to the demand, cutting down to the total volume to compress surpluses.

The trade relations in the agricultural sector had always been a particularly sensitive issue, both for the international repercussions and WTO negotiations, and because concerns the sectors most sensitive of the CAP. In the nineties the field of international agricultural trade has witnessed an extremely strong acceleration and has become a fundamental issue for the CAP. But also assumed great importance with regard, more directly, to the enlargement. The European Union was the main trading partner of the thirteen candidate countries who, in their turn, occupied the second place among the EU's trading partners, after the United States. The first reciprocal tariff concessions were established in the early'90s, as part of bilateral agreements between the EU and individual CEECs. In view of their accession there has been a continuous, though gradual, liberalization of trade.

The Council of March 1999 had given the mandate to the Commission to investigate the extent of mutual concessions included in the European Agreements. The mandate included a "double zero" option in certain areas, where the parties were to agree on the abolition of import duties in exchange for the abolition of export refunds. Negotiations were completed in 2000 and are active from 1st July the same year for all countries except Poland and Lithuania (from 1st January 2001).

With "double zero" negotiations almost 2/3 of trade in agricultural products were exempted from duties. The degree of liberalization varies from country to country (please note that the treaty is bilateral), but overall about 88% of agricultural production from CEECs and 75% of that from EU towards the CEECs is exempt from duties or benefits reduced preferential rates. At the end of 2001, the Council approved the Commission's proposals for a new series of "double benefit" negotiations that had to extend liberalisation to the most sensitive areas of the CAP those where was applied a system of internal support, combined with an high border protection.

Agenda 2000: the meeting point between reform and enlargement

On 16th July 1997 the Commission opened negotiations on enlargement with the publication of Agenda 2000, which explained the situation of the ten candidate countries of Central and Eastern Europe and expressed an opinion on the ability of each to meet the conditions for accession on the basis of the "Copenhagen criteria". It was a programme of reforms to be implemented within the decade. In particular, it showed the three main points that the Union had to improve by 2000 to reform and consolidate the community policies and to adapt them to a bigger Union. A particular attention should be devoted to the reform of the CAP and to the policies for economic and social cohesion; to evaluate applications for membership of the candidate countries; to adopt an EU financial framework that would allow from 2000 to arrange to the evolution of community policies and to the impact of enlargement.

It was as a result of Agenda 2000 that the European Council held in Luxembourg on 12th-13th December 1997 started the enlargement process of the EU, providing a route in stages, to allow both the new countries to be prepared, and the Union to adapt. The accession process began on 30th March 1998 with the creation of a specific framework, which is closely linked to the reinforced pre-accession strategy, with the objective of greater alignment of candidate countries to the *acquis communautaire*, even before accession. The accession negotiations were opened on 31st March 1998 in the form of bilateral intergovernmental conference with Cyprus, Estonia, Hungary, Poland, Slovenia and Czech Republic.

Agenda 2000 is the true meeting point between CAP reform and enlargement because the same document provides a long-term strategy for the reform of the CAP as a necessary element to enable and encourage enlargement. The document seeks, namely, to solve the difficult challenge which sees the EU committed itself to maintain the international political objectives and, at the same time, meet the internal needs.

Indeed, as regards agriculture, the Commission had confirmed the policies expressed in agricultural strategy paper presented to the Council of Madrid on 29th November 1995, which meant to deepen and extend the 1992 MacSharry reform. The document noted that the agricultural sector in the CEECs had deep structural deficiencies both as to farms, and as to processing industries. The Commission's analysis suggested a support to modernize and diversificate the sector, rather than a high level support of price and income of farmers. The Commission took the view that compensation payments of "direct payments" should not be applied to CEEC farmers, as the prices of their products would not significantly lower after their entry into the CAP, which, on the contrary, the adoption of the CAP would resulted in an increase in income. On the other hand, this choice created significant political problems, detected during the individual negotiations, because the CAP would permanently provide monetary contributions to wealthier old 15 EU countries farmers, and not to poorer CEEC farmers. In addition, the direct payments expenditure occupies a significant part of the CAP budget (and therefore of the whole European Union budget) and it would be unfair to be directed only to a part of future EU members.

The importance of this topic has made the negotiations with the candidate countries very difficult and it has not been resolved satisfactorily. The decision to integrate, though gradually, the enlargement countries in the direct payments system, was taken under the pressure of these countries, in particular of Poland, which called for a treatment similar to that of the member countries. The problem then was only postponed, making it even more difficult to solve.

The aim of Agenda 2000 was also to "give the Union more effective policies and financial means to implement them in a spirit of solidarity" by ensuring at the same time, rigour in the EU budget as to that applied nationally . In this regard, it was also determined the level of the EU budget for the years 2000-2006.

As usual, the final results achieved by the Council remove from the Commission paper the important innovative charge that had at the time of presentation. The main issue of the negotiations concerned, once again, the policies and financing of the CAP.

Agenda 2000 was considered an important step towards enlargement, because "without the reform of the most controversial and expensive policies the European Union will not be able to finance enlargement." But the adjustment and limiting of the Council made the CAP reform of Agenda 2000 unsatisfactory for enlargement countries, leaving unchanged the differences in the price of agricultural products, but, above all, with the exclusion of new member states from the system of compensatory payments and other benefits of the CAP. Actually, this reform created two categories within the common agricultural policy.

During the negotiations the discussion on agricultural expenditure was increasingly pressing, also because of the demands of net contributors countries, in particular Germany, to introduce some mechanisms for correction. The proposal for a national co-financing, which had strongly opposed France, was not accepted because it risked "renationalising" agriculture, but was preferred the policy of a limit of Community expenditure until 2006. Great Britain, on the other hand, declared himself for the financing of the CAP by individual member states, provided that these revenues were used to reduce spending on the Community budget and not was used to build other programs, and provided financing not became a substitute for other elements necessary for the reform of the CAP. This solution would have had a minimal impact on net British contributions, for the existence of the mechanism for reimbursement granted in previous years.

Little wonder that, within the package of proposals of Agenda 2000, Great Britain manifest soon to be particularly favourable to a reform of the CAP. Tony Blair, even before he became British prime Minister had already emphasized the need to reform the CAP, as the only means of achieving the objective of enlargement in Europe. Indeed, according to Blair, this was the best time to proceed with the reform of the CAP. The insistence of the British Government on the reform of the CAP sprang from a precise fact: the extension of agricultural policy to future EU members would have increased national contributions to the community budget to politically unacceptable levels for member states.

During the Cardiff European Council, in June 1998, member states agreed that they would try to reach an agreement on the whole reform package of Agenda 2000 by March of the following year. After more than a year of intense negotiations, these reforms designed to modernize the major policies and to prepare the Union for enlargement were approved by the various heads of state and government during the European Council in Berlin, held on 24th and 25th March 1999. External events, such as the war in Kosovo, the dissolution of the European Commission and the resignation of Oskar Lafontaine from the German government, helped the need of an agreement in Berlin.

The Council reached a unanimous decision on three main issues. First, the community budget was frozen at the level of 1999. Secondly, Schroeder managed to secure his electorate reducing net German payments to the community, although not to the extent originally hypothesized, as a result of freeze on subsidies to agriculture. Thirdly, Blair was reassured about the issue of the British refund. At the same time, member states proposed to begin a new intergovernmental conference in 2000, to discuss issues that had not found a solution in Amsterdam. In the months after the March 1999 were approved regulations necessary to implement the reform.

The new financial framework provided that the agricultural guideline remains unchanged, subject to the adjustments necessary at the accession of new members. CAP reform provided a total budget of 297.8 billion euros, of which 267.4 assigned to market policies and only 30.4 to rural development, despite the importance that this policy had gained especially after Cork.

Agenda 2000 revealed that the enlargement would produce significant economic costs to the Union. Despite this, the conclusions of the document indicate how the enlargement could also bring significant economic and political benefits, even though the differences between member states were increased significantly and adjustments were needed in the various economic sectors at regional level.

From agenda 2000 to the enlargement

On the basis of the guidance and objectives set by Agenda 2000 and in sight of the enlargement, the Union has strengthened its rural development programme, in an attempt to include agriculture within a wider economic and social framework.

The support for rural development is governed by a special regulation called “rural development”. The regulation resumes and innovates all previous agro-structural rules. It introduce a new measure regarding the promotion, the adjustment and the rural development: a multi-fund and integrated territorial programme. One of the key objectives is to build a social environment suitable for development by enhancing the quality of life in rural areas lagging behind.

On 7th January 2002, the Commission presented “a discussion paper”, which addressed issues related to direct payments, production quotas, rural development policies. In the document the Commission noted that, despite the steps taken in all candidate countries, and despite the special SAPARD instrument, the objective of restructuring the agricultural sector was still distant. For an effective modernization of rural areas, the Commission proposed a strengthening of community support, giving future members an integration equal to 50% of the aid for rural development compared to fifteen.

The reform process began in 1992 and deepened in Agenda 2000 has seen further deepening with the approval by the Council of Luxembourg of the reform of 26th June 2003, which sought to provide a solution to major problems. The issues of greater contrast between the CEEC and EU in the agricultural sector were four and their resolution was complicated by the fact that if the EU had agreed to authorization or delays would contravened basic rules laid down in the Treaties.

In the agricultural negotiations Poland has played an important role as well as the largest and most populated country, and for the importance of agriculture in the GDP. The two main elements of the debate were: the implementation of direct payments also to CEEC farmers and the polish proposal to allow an exception to the CEECs of 4-5 years to adjust to standard health. Other relevant problems concerned the duration of the transition period in which the citizens of 15 can not buy agricultural land. This request clearly violates one of the four fundamental freedoms of the Union, that of free movement of capital. Finally, the level of production quotas has created concern. It was very different between countries according to the desired level of quotas.

Essentially, in the agricultural negotiations, Poland and other central and eastern European countries wanted to stress the importance of efforts made during the pre-accession phase, which had produced a profound change in their agriculture, not only from the point of view of the market, but properly structural. This change, of course, requires much time and considerable financial investments, considering that approximately 60% of *acquis communautaire* concerns agriculture.

Finally, one of the most obvious enlargement item, which can be observed in historical perspective is the fundamental role of the agriculture in the negotiations: a sector that has created the biggest problems both in the negotiating stages and in the final draft of the accession treaties. For this reason, the analysis of enlargements into historical perspective, using the filter of the CAP, can be particularly interesting. The reasons explaining the centrality of agriculture in the accession negotiations were essentially two, and opposing one another: on the one hand, the particular importance of agriculture for new members and interest on their part to broaden the outlook thanks to rich CAP (as in the case of Poland and Romania); second, the opposition to the common agricultural policy, especially in relation to its importance for the Community budget (the classic example is Great Britain).

Important differences between previous agricultural accession and that of CEECs, there were as regards the economic aspects and their expectations towards the Community. In previous enlargements, faced with a much smaller *acquis communautaire* to assimilate, the Community had planned an economic support and a preparation for enlargement greater than done in the case of the countries of central and eastern Europe. So that, ultimately, agricultural groups and governments more concerned were those of the countries already members. For CEEC, on the other hand, the EU has prepared a reformed CAP: A lot less rich, much more complicated in connection with the *acquis communautaire* and for which the EU have asked in return an enormous effort: little money in return for major efforts. In the pre-accession period was provided the "accession partnership", a common strategy of EU and each new member, which included the recruitment of specific commitments (short and long term) to bring in dates set. Regarding the agricultural sector, it provided an “aid to agricultural development" to strengthen weaker areas, but priority for membership, such as the diversification of production, quality improvement (adjustment to the veterinary and phytosanitary standards), processing and marketing. The EU support was provided as co-financing.

In addition, in the pre-accession period, trade between the EU and CEECs were governed by the "European Agreement Association”. Under these agreements, which had asymmetrical character, preferential nature and unlimited duration, the agriculture was considered separately for its peculiarities and its agreements were less favourable to CEEC, compared with the products of other sectors. The evolution of trade favoured old fifteen EU countries more than the CEECs. Three of them (Poland, Hungary and Czech Republic) were particularly important for the EU trade balance, since ensured almost 70% of total agri-food trade with the EU.