Gradual renationalisation of the Common Agricultural Policy – a way forward?

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Introduction

There is growing awareness within the political system that the Common Agricultural Policy (CAP) of the EU is not the most efficient means of addressing an increasing number of policy objectives, ranging from rural development to environmental considerations. Several commentators and economists have suggested that a renationalisation of the CAP would be an applicable way to proceed in an attempt to pursue a policy sensitive enough to national and regional or local needs and priorities. Renationalisation of the CAP is not a new feature, however. Over the last couple of decades, certain elements central to the CAP have involved a considerable degree of nationalisation. Hints at the renationalisation of at least some aspects of the CAP have also emerged from the recent reform debate.

Renationalisation implies a shift of competence back from EU institutions to national ones. This may be in terms of decision-making, of financing or of implementation, or all of these aspects. Is such additional flexibility desirable? Does it offer a way to relieve the hard-pressed EU budget? How is the principle of subsidiarity to be applied here? At what level is competence exercised in the most efficient way? What tasks could better be left to the Member States? And, vice versa, what missions would this produce for the union? How to ensure that a redefined division of competence does not distort competition, threatening the common agricultural market and thereby endangering the whole process of European integration? This paper discusses some of these issues from a political-economy perspective with no pretence of completeness.

Problems and challenges of the CAP

The CAP of the EU represents a concentrated, supranational decision making. In general, concentrated, supranational decision making can have advantages, if we are able to utilise the gains in efficiency and economies of scale resulting from these common, concentrated decisions (Widgrén 2003). Efficiency gains emerge, if we can create good and effective common rules, standards and administrative procedures. However, the key question is that in what kind of situations and conditions these potential gains are most likely to be realised. Is the European agriculture and agricultural policy such a playing field or an object, as it has high diversity between the Member States and their agricultural sectors and rural regions? And what kinds of institutions are most effective in dealing with this kind of policy area; should they be concentrated or national and regional?

The Budget

Spending on the CAP has been the main component of the EU budget for many years. It still consumes about half of its entire budget (52 % in 2001) and provides the focus for some of the major disagreements among member states and between the EU and the rest of the world. Sharply increasing budgetary costs of the CAP have often threatened the financial stability of the EU. Contrary to the belief of some commentators and policy-makers, pressure to cut CAP spending will not ease now that the policy has been overhauled, and the terms of accession for the ten new member states have been agreed on.

At the moment, the EU is not faced with any serious financial problems, but it is obvious that the accession of the ten new Member States is very costly. There may be unforeseen expenses also in sectors other than agriculture. Considering the already very tight budgetary discipline, this will inevitably lead to an increase in the national contributions to the financing of measures in the agricultural sector. The financing of programme-based support payments on the basis of contracts with farms differentiates the support schemes to the extent that a common financial interest may be increasingly difficult to find. The pressures on the CAP are therefore likely to lead to a situation where the support payments under the CAP are to an increasing extent financed through the national budgets (Aakkula 2003).

Increasing national financial responsibility would also lead to a necessary change in the system of political and economic incentives to Member Country governments which results from the CAP. In the current institutional framework, the Member States have an incentive to violate the Community's interest by stimulating domestic agriculture, leading to increased divergencies in national interests with respect to common price and support decisions.

Not only are factors external to the CAP itself coming to bear, but European consumers and taxpayers are asking themselves what they want from the CAP, how they want it to be achieved and how much it will cost. Recently, the high level study group (Sapir et al. 2003) contend that the current CAP is a major impediment to the achievement of sustainable economic growth, and that it has moved away from a policy designed to boost production and economic output, as originally intended, towards a policy aimed at social welfare for farmers through a redistribution of wealth. According to the group such distributive tasks would be better managed at the national levels.

Structures and income

The CAP was initially designed for a Community that was small and quite homogeneous, i.e. for the six founding Member States of the EU. Now there are 15 Member States, soon to be 25. There are great differences between the agricultural sectors of the present 15 Member States. These differences will become much more striking with the accession of the candidate countries of Central and Eastern Europe (CEECs). There is a huge variation between Member States for example in terms of natural and climatic conditions, farm structure, productivity and profitability, allocation and levels of CAP support, and the overall significance of agriculture to rural regions and national economies, and the significance of rural, mainly agricultural, regions to society and economy at large.

Inequalities of development among member states and differences in production orientations mean that some states and some farmers benefit more than others from the European farm policy. Because the CAP rewards high yields, farmers in the most-favoured areas receive more than double the amount per hectare in CAP arable payments compared to farmers in the less favoured areas of Finland and Portugal. In order to secure continuation of agriculture in the least-favoured regions of the EU some Member States have been forced to use considerable amounts of national funds, with the permission of the EU, to offset the inadequacies of the CAP. In Finland, for example, the share of national funds in total farm support is 58 per cent, and special northern aids are fully financed by the national government, again with the permission of the EU. In the Finnish view the CAP should contain more elements through which the differences in the competitiveness due to the natural conditions could be better taken into account.

The 2003 reform of the CAP falls short of correcting the major biases in the CAP by fixing the current, distorted subsidy system: farmers in the most-favoured areas continue to receive subsidies that are based on CAP arable area payments that are now more than double the amount per hectare in the less favoured areas of the current EU-15, e.g. in Finland, Greece, Portugal or Spain. Thus, the new support policy will not be more beneficial for the less-favoured regions of the Union than the current policy, though the CAP reforms since 1992 have included also the objective to focus support for farmers' incomes where it is most needed (EC 1993).

Changing objectives

New approaches and means for rural policy in association of the CAP are evidently, and quite urgently, needed. Since almost two decades in the EU, attempts have been made to integrate agricultural structural policy into the wider economic and social context of rural areas - without major success. Still, sufficiently concrete policy measures are to a large extent missing. In terms of the efficiency and sensibility of policy, special care should be taken that the integration of agricultural policy objectives and stronger rural development objectives creates true benefits, rather than just making the policy more costly and bureaucratic. It is clear that agriculture alone cannot maintain rural livelihood, but it can - today and in the future - contribute to rural livelihood also through its traditional goal, i.e. via helping to maintain economic viability of the agricultural sector (Kola 1998).

The logic of remunerating the multifunctional role of agriculture calls for better consideration of factors like the rural territory, the environment, the landscape, rural communities and rural employment. Yet, the allocation of CAP spending does not advance multifunctionality very much at all. By pursuing the CAP with the current instruments the Commission therefore undermines its own goal, a goal which it is strongly advocating in the WTO. This new goal requires a revised allocation and new types of support to enhance multifunctionality throughout the EU. Although, arguably, this is not a rational goal in purely economic or budgetary terms it is, nevertheless, a widely accepted common decision. EU policies should advance it, not hinder it (Kola 2002).

It also seems clear that the EU agricultural policy will in future be defined in decreasingly sectoral but increasingly territorial terms (Vihinen 2001). Government assistance will be granted only in return for clearly defined services on the part of farmers. Giving the CAP a more territorial and even a regional content will make it easier to be financed, since measures of this kind are normally co-financed, in distinction to price and market regimes, which are financed totally from the EU budget. This change would prepare the ground for more national influence on social and environmental measures, implying an implicit renationalisation of the CAP.

Institutional factors and governance methods

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

The standard EU response to heterogeneity – less regulation, more co-ordination and commitment – is likely to conflict with the alternative response of advocating more streamlined, simplified decision-taking procedures, since the move to income support in lieu of price support combined with increased diversity as a consequence of enlargement weakens the rationale for retaining EU competence in agriculture (Sapir et. 2003).

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

Conclusions

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

Naturally, questions arise of how market unity, a fundamental principle of the CAP, may comply with steps towards more national influence. Market unity has hitherto been applied by imposing common support measures, including protection against imports from third countries, while removing obstacles within the Community. Emerging protectionism in the Member States, expressed as generous national support, would constitute a threat to this principle (Bublot 1984). In other words, renationalisation should not pave the way for governments to give unlimited national aids to their agricultural sectors. If market unity should be conserved along with a more nationally-oriented policy, it would be essential that the Commission should be able to survey – and enforce – that national assistance targeting environmental or social objectives do not give rise to unfair competition (Kjeldahl and Tracy 1994).

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

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