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# The determinants of CAP reform: learning from the European financial crisis and CAP 2013

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**Abstract:** There is an ongoing debate on which are the determinants of CAP reform. The economic environment has not been contemplated as a direct determinant of CAP reform but its proxy, the budget, has not only been looked at as such but underlined as a key cause of CAP reform. This paper argues, however, that the budget does not affect the modus operandi of the CAP. It affects the quantity of support each farmer is going to get and sometimes even the timing of the reform, but not the form it is going to receive it. Other CAP determinants and international negotiations in particular, have an impact on the substance of CAP reform. This hypothesis is not contradicted by an analysis of CAP 2013 changes.

JEL Codes: L98, N44, Q18

Keywords: EU, crisis impact, CAP, policy reform.

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## 1. INTRODUCTION

Our research question is whether the European financial crisis has determined the changes made to the Common Agricultural Policy (CAP) in 2013. This is an important question for EU analysts in general and CAP specialists in particular as its answer may help to improve our knowledge on CAP dynamics.

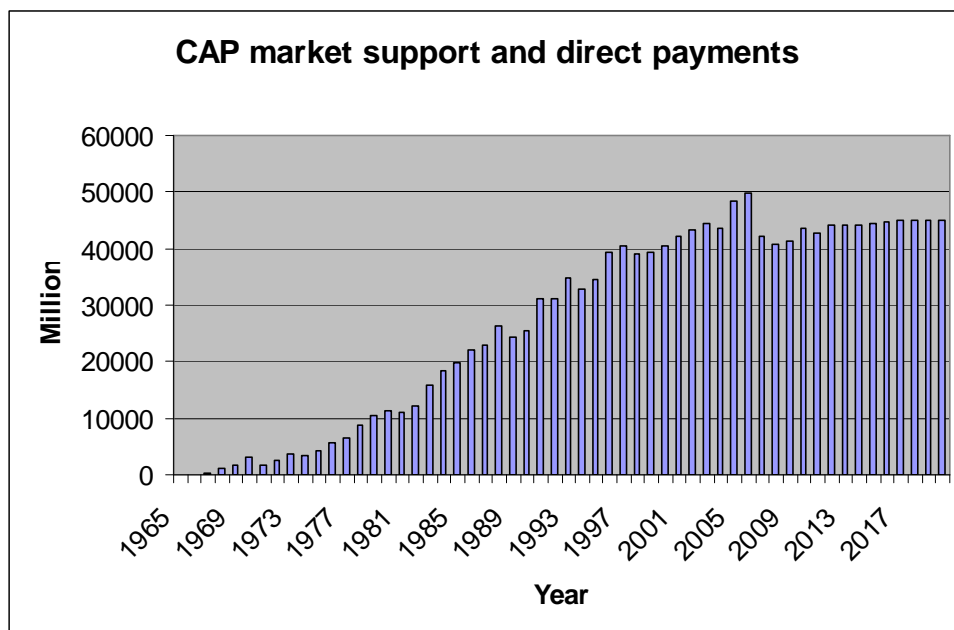
There is an ongoing debate on which are the determinants of CAP reform. Research has been carried out on the possible connection between CAP reform and six main factors: the EU budget, enlargement, paradigm shifts, the institutional setting, previous CAP reforms and international pressure (whether multilateral, regional or bilateral). In other words, the economic environment has not been contemplated as a direct determinant of CAP reform but its proxy, the budget, has not only been looked at as such but underlined as a key cause of CAP reform. It is indeed generally assumed that the budget will reflect the economic environment by being more austere in times of economic crisis.

In the area of our particular policy, there is a clear budgetary trend. Since the 1980s there has been a conscious effort to limit the weight of the CAP in the general budget, at least in relative terms. As a result several financial constraints to the CAP budget growth have been agreed upon over the years. For both the 1988-92 and 1993-99 budgetary periods, the so-called Agriculture Guideline limited 'guarantee' expenditure growth to 74% of the rate of growth of the EU's GDP. A system of stabilizers triggering automatic cuts in support prices if certain production thresholds were breached ensured the respect of the Guideline throughout those years. The Financial Perspective for 2000-2006 left for the first time the overall ceiling on the EU budget unchanged, enlargement notwithstanding, and maintained the CAP Guideline. In 2002 an agreement was reached regarding the 2007-2013 Financial Framework that introduced a Financial Discipline Mechanism. The CAP expenditure for market support and direct payments would remain constant on the 2006 levels and a maximum yearly increase of one percent would be allowed. Direct payments to farmers would be reduced if the annual agricultural budget ceiling was exceeded. This limitation to CAP expenditure was confirmed both in 2005, when the 2007-13 MFF was actually agreed upon, and in the 2007-08 full ranging review covering all aspects of EU spending and resources. So far there has been no need to invoke the Financial Discipline as among other factors the world market prices for agricultural commodities have been higher than expected.

These agreements have ensured a decrease in relative terms of the CAP budget for market-related expenditure and direct payments. The relative weight has gone from a peak of 86.9% in 1970 to less than 35% in 2013. Despite this trend, as figure 1 shows, in absolute terms resources increased till 2007 and the reduction pattern since then has been very small. CAP total expenses still represent over 40% of the general budget and therefore still are a key issue in EU budgetary negotiations.

**Figure 1. CAP budgetary evolution**

(EAGGF Guarantee Section or market-related expenditure and direct payments; From 1961 to 1977 in million UA; from 1978 until 1998 in million ECU; from 1999 onwards in million Euros)



*Sources: European Commission's Annual Financial Reports (2008, 2010 and 2013) and Conclusions of the European Council 7/8 February 2013 for the Multiannual Financial Framework 2014-2020*

On the account of these two facts: the effort to limit the CAP weight in the budget and the crisis general constraint upon EU finances, one would expect the crisis to have a negative impact on CAP expenses. Indeed, the European Council agreement in February 18 (EUCO 37/13) on the 2014-20 multilateral framework, approved by the European Parliament in November, indicates that EU member states have not been prepared to accept the Commission proposal regarding either the general budget nor the agricultural expenses. More austerity has been asked for.

On these bases, the linear causality would be the following: The crisis has an impact on the general budget making it more austere. More austerity in the EU financial framework means more austerity in CAP expenses. In turn that means budgetary pressure for CAP reform so that the 2013 changes are the result of the negative economic environment.

Is this line of causality true? How can we ascertain that?

In principle this line of causality is the result of what previous research tells us on the budgetary impact on CAP reform. Nevertheless, previous research has never tried to

measure the impact of budgetary pressures on CAP reform. The method has been to look for evidence of budgetary constraints and to logically deduce that these restrictions would affect the CAP. This was especially true in the 1980s and 1990s when agriculture expenses were considered to be out of control. Yet from 1988 onwards budgetary discipline has been introduced in all financial frameworks so as to prevent a spiral of expenses, i.e. to limit the growth of agricultural expenses. Nowadays nobody (not even the French) is expecting an increase in the weight of agriculture in the EU budget, on the contrary, we all expect a decrease in the relative financial importance of the CAP. The bets are on the speed of the decrease. Swinbank (2012) has even recently argued that the Eurozone crisis may have helped prevent a larger trimming of the CAP's budget so as to preserve the redistributive effects of CAP among Member States and in particular among the four Eurozone countries most badly affected by the crisis.

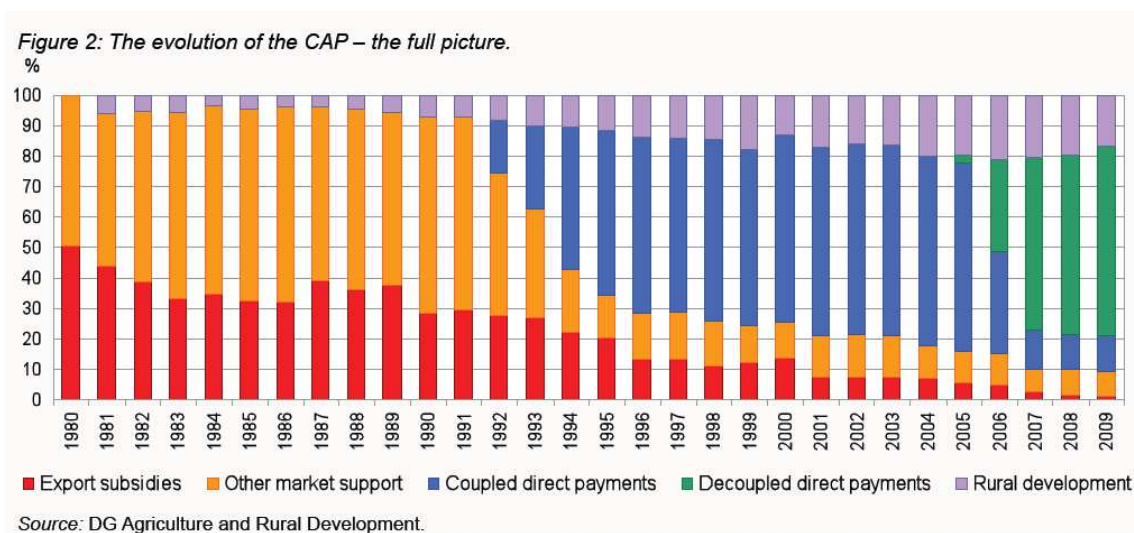
Another doubt regarding this line of causality arises from the fact that each CAP reform studied so far has also been attributed not only to budgetary pressures but also to other internal factors as well as to international pressure. Yet if the reform of the CAP answers to other determinants apart from budgetary constraints, these pressures may not be demanding the same type of reform. In fact, budgetary constraints may have meant that the CAP could not longer remain the same yet the reforms introduced in 1992 and 2003 both supposed an increase in absolute terms of CAP expenses. Both in 1992 and 2003, the reform meant that the CAP was no longer to be financed in part by price support, that is, by consumers, but that the EU budget would have to carry the full burden of the assistance through direct payments. In fact, as Swinbank (2012) points out some price support reduction was postponed to 2005-2006 so as to bringing the expected expenditure on the CAP back within the financing package.

We believe that the answer to this conundrum is that each of these determinants has an impact on different aspects of CAP reform. Our hypothesis is that the budget does not affect the modus operandi of the CAP. It affects the timing of the reform and the quantity of support each farmer is going to get but not the form it is going to receive it. Other CAP determinants and international negotiations in particular, have an impact on the substance and timing of CAP reform. On the basis of this hypothesis, the 2013 CAP review would have taken place without the crisis. The crisis will have an impact on the amount of money the farmers will receive but not in the way the CAP works. If this is true then the CAP 2013 changes should be explained by other factors.

## **2. CAP REFORM DETERMINANTS: A REVIEW OF THE LITERATURE**

Analysts agree that the CAP has greatly changed since the 1960s despite the fact that its objectives continue to be those set out in Article 39 of the Treaty of Rome. The policy change has been brought up through changes in its instruments. As Haniotis (2006: 55) summarizes it: 'In the early 1990s, market measures related to support of agricultural products accounted for 91 percent of the agricultural budget of the EU. By 2000, the product support had declined to 21 percent and by 2007, the year of the full implementation of the 2003 reform, this figure dropped to 10 percent.' Figure 2 graphically shows this instrumental change from market support (or forms of indirect support through prices and export subsidies) to direct payments (coupled or decoupled) and rural development support.

**Figure 2. CAP instrumental change since the 1980s**



Source: European Commission (2011)

If we consider that policy reform implies at least a change in the policy instruments that operate across the sector as a whole (or most parts of it),<sup>1</sup> the CAP has so far gone through only two reforms: the MacSharry Reform in 1992 and the Fischler Reform in 2003 (Grant, 2010). The 1988 and 1999 revisions and the so-called Health Check in 2008 cannot be considered real reforms as they did not change the policy instruments. What these revisions did was to adjust the policy instruments or/and finish to implement the previous reform. As table 1 summarizes (see at the end of the article), till the MacSharry reform, the CAP was a commodity support policy based on threshold prices. With the 1992 reform it started to shift towards a farmer support policy through switching from indirect support (through prices) to direct payments. The Fischler reform fully endorsed the shift by introducing decoupling. The Agenda 2000 CAP revision was ‘cast in the MacSharry mould’ (Daugbjerg and Swinbank, 2007: 8) and the Health Check was a deepening of the Fischler reform.

**Table 2. Single and Comparative CAP reform studies**

determinants	Single reform studies	Comparative reforms studies
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<sup>1</sup> Other definitions of CAP reform have been put forward. For example, Lynnggaard and Nedergaard (2009: 294) consider that ‘in order to accept an observation within the CAP as a policy reform, it needs to have actual effects on the CAP budget and/or the distribution of financial resources among the involved agents.’

enlargement	Henning and Latacz-Lohmann (2004) enlargement 2004  Henning (2008) Enlargement 2004 and 2007 Cunha(2004) 2003 reform	Lovec and Erjavec (2013)
budget pressure		Ackrill et al (2008) -> reforms 1980s till 2003
international pressure	Swinbank and Tranter (2004) -> 1992 reform Daugbjerg and Swinbank (2011) -> Health Check	Daugbjerg and Swinbank (2007) -> reforms 1992-1999-2003 Ackrill et al (2008) -> reforms 1980s till 2003
path dependency		Daugbjerg (2009) -> how reactive sequencing may help explain CAP reforms Kay (2003) -> path dependency constraint more than determinant
ideas		Lynggaard and Nedergaard (2009) -> reforms between 1980 and 2003 Daugbjerg and Swinbank (2009) -> reforms 1992-1999-2003.
institutional setting	Haniotis (2006) -> 2003 reform	Daugbjerg and Swinbank (2007) -> reforms 1992-1999-2003
all		Garzon (2006): reforms till 2003.

There have been both single reform and comparative reform studies that have tried to pinpoint which are the determinants of CAP revisions -Table 2 offers a classification of our literature review on that bases. Research so far has brought evidence that these determinants can be both internal and external in nature and that, since the 1990s, international pressure has been particularly important. There is no general consensus however on which are the internal factors or as to which is the most important among them in terms of impact on the CAP reviews. Even Commission officials and government representatives involved in the discussions have different positions on the issue (Daugbjerg and Swinbank, 2009; Cunha and Swinbank, 2009). To take the words of Kay (2003: 408): ‘There is no well-developed, high content theory in the current literature on the development of the CAP.’ By reviewing the secondary literature, it is nevertheless possible to reach some conclusions regarding the nature of each of the main CAP determinants.

**International pressure:** there is a consensus among both academia and practitioners that CAP reforms have been influenced by multilateral trade Round of negotiations, that is by external pressure (by the interests of non-EU export countries but also by the interests of non-agricultural EU sectors). (Some have even argued that bilateral and regional negotiations with third countries may have an impact of CAP reform). Daugbjerg (2009) for example explains how with the 2003 reform, and specifically with the decoupling of the area and headage payments from production, the EU intended to switch direct payments from the WTO blue box into the green box so as to be exempted from reductions commitments. Henning and Latacz-Lohmann (2004) argue that there is a gridlock in the Council of Ministers of Agriculture in favour of the status-quo and that

external shocks such as further WTO restrictions serve to mitigate extreme positions and to break up the gridlock. From this point of view, international pressure would be the main cause of CAP reforms because it is a force capable of changing its policy instruments. This international pressure started with the Uruguay Round. As Daugbjerg and Swinbank (2009: 316) put it: 'Prior to the URAA, the GATT played only a minor role in shaping the CAP.' Nevertheless, there is some debate on the extent external factors can explain all aspects of CAP reform. Lovec and Erjavec (2013), among others, argue that EU has engaged in unilateral changes, that is, reforms that were not specifically linked to trade concessions. In any case, the research method used to establish the importance of international pressures in CAP reform has invariably been to prove that the reforms allowed the CAP to comply with third country demands.

**Budget pressure:** there is also a consensus regarding the existence of a causality link between financial constraints and CAP reform. The main research method has been to find evidence of budgetary constraints and to logically deduce that these restrictions affected the CAP. Kay (2003: 416-17) argues that the budget stabilizer reform of 1988 laid the seeds for the 1992 CAP reform because it implied an 11 per cent cut in effective support prices and this was politically too much for the farm ministers. Ackrill (2005) and Kay (2006) show that the distribution of costs and benefits of the CAP among EU member states has remained stable throughout the history of CAP despite substantial reforms.<sup>2</sup> By so doing they show that 'the desire to avoid major budgetary redistribution among member states is an important constraint in the evolution of the CAP' (Daugbjerg, 2009: 397). Yet one can also argue that these studies only pinpoint to the fact that, except in 1980s,<sup>3</sup> the budget has been a reform constraint but not a trigger for policy instruments changes. Moreover they also indicate that the budget has not been a substance determinant: 'the design of the CAP changed substantially over a decade despite the maintenance of a stable budgetary balance among member states' (Daugbjerg, 2009: 397)

Burrell (2009) has argued that budget pressures may affect the substance of CAP through forcing a renationalisation of the policy. Yet though the 'renationalisation of the CAP' has been discussed and promoted over the last twenty years, even recently by the Sapir Report of 2003, the responsibility for agricultural policy funding remains engrained into the EU budget. Co-financing has just been introduced in the realm of the second pillar. This evidences that budget pressures have not been as intense as in the 1980s. In this line, Burrell (2009: 285) argues that 'There is no precedent for even a partial EU withdrawal from a major policy area, such a farm income support...If it occurs, it will be the result of a comprehensive top-level review and realignment of all EU-level activities rather than a unilateral decision by EU agriculture ministers.' This top-level realignment has not yet taken place and therefore the budget has yet to have an impact on the substance of CAP policy.

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<sup>2</sup> As Daugbjerg and Swinbank (2011: 128) argue: 'Incentives to reform policy may arise as a result of a budgetary crisis, particularly with respect to redistributive policies because of a constrained budget, as different interest groups compete for a limited pot of taxpayers' cash.'

<sup>3</sup> As Daugbjerg and Swinbank (2011: 127) put it: 'Until the late 1980s there was little doubt among CAP analysts that budgetary concern was the major driving force capable of generating CAP reform.'



**Enlargement pressure:** EU enlargement is considered to be a determinant of CAP reform but not a sufficient condition. The main research method has been to establish the impact of enlargement on structural changes in the agricultural sector. The debate regarding enlargement role as a determinant of CAP reform is on whether enlargement fosters CAP changes or make them more difficult. Some analysts have indeed argued that enlargements have made CAP reform more difficult. Jensen et al (2009) show that EU enlargements have, for their most part (p 332: ‘The 1973 and 1995 enlargements were rather neutral or with a tendency to do the opposite’), intensified agricultural production at EU level and that extensive agricultural production in a member state is often an indicator of reduced willingness to reform. In this sense, Henning and Latacz-Lohmann (2004) argue that the 2004 enlargement has made the Council more heterogeneous in terms of the political interests represented and more supportive of higher levels of agricultural support. In their view, (p 42) ‘enlargement, at most, poses a further obstacle to reform...’

Other authors have highlighted that enlargement may also be a CAP reform promoter. Henning (2008: 41) contends that ‘enlargement might be a driver of CAP reforms *ex ante* the EU’s expansion, while it is an obstacle to future reforms *ex post*’. Cunha (2004: 155) endorses this view by arguing that the 2003 reform can in part be explained by the ‘simplification challenge imposed by [the expected 2004] enlargement’. Lovec and Erjavec (2013) have nevertheless recently sustained that enlargements may have an *ex post* driver impact on CAP reform. In particular, they argue that the 2004 enlargement through changing the constellation of the production structures explains the increasing flexibility of payments schemes.

Last but not least, enlargement has also been seen as enhancing the CAP budgetary constraint (Cunha, 2004). As Grant (2010: 34) explains: ‘The CAP has been below Budget in the recent past [due to high international prices], but it is anticipated that Single Farm Payments will be cut by 7 per cent a year by 2013 under the Financial Discipline Mechanism [in force since 2007]. This will result from the continuing phasing in of direct aids in the new member states while the addition of Bulgaria and Romania has taken the SPS payment budget beyond the Pillar 1 budget ceiling.’ In other words, as the CAP budget growth has been limited since the 1980s through different stability mechanisms, enlargements cannot be financed through budgetary increases.

**The path dependency perspective,** as a self-reinforcing force or as a reactive sequence, has also been sought to understand the causes of CAP reform. Path-dependency, which is a key element of historical institutionalism, suggests that ‘present structure, or functioning, can only be understood when embedded in a historical perspective’ (Daugbjerg, 2009: 395); previous reforms set the direction for future reforms due to large fixed costs, potential network effects, potential learning effects and adaptative expectations (Kay, 2003). This type of analysis has shown that there are links between CAP reforms. The main research method has been to look at the existence of possible connections between reform changes over time.

For instance; Kay (2003) argues that path dependency provides an account of why the 1980s CAP reforms were moderate: ‘the initial policy structure of the CAP [had] become entrenched and resistant to reform’. Daugbjerg (2009) shows how reactive sequencing from the MacSharry reform enabled further reform of the CAP, eventually resulting in the 2003 reform due to the need to simplify the CAP administrative

procedures and burdens. In the same line, Grant (2010) argues that the social and economic efficacy of instruments and the drive to simplify the policy instruments have been major sources of policy change since the 1980s. Garzon (2006: 51) considers that 'all reforms since 1992 have tried to address the market imbalances created by the original policy instruments based on price support.'

Nevertheless, it has also been acknowledged that this type of historical analysis does not allow predicting further reform. As Daugbjerg (2009) put it: 'the weakness of the reactive sequencing approach is its limited potential to generate theoretical statements on sequences' (p 407) and the limit of the self-reinforcing approach is that it 'has limited potential in explaining substantial policy change over time' (p 396). One may conclude from the review of the literature on path dependency analysis of CAP reforms that what has happened in previous reforms is an input for future reforms (it should be taken into account to understand the substance of the reforms) but not a trigger (it does not explain why reforms take place) What has happened before limits the number of choices the policy-makers will consider when faced with the need for reform, facilitating certain policy responses and precluding others. Past CAP reforms experience and consequences help decision-makers to choose among different policy options to face other pressures. As Daugbjerg put it (2009: 407) 'the internal dynamics of CAP evolution made certain responses to the [external] pressures more likely than others.'

**The institutional setting:** There is also literature on the role the different actors of the EU institutional setting have played in the different reforms. Most of this literature concludes that the European Commission has played a key role in the reforms: 'farm commissioners, assisted by top commission officials, have been the driving forces behind the CAP reforms...In the history of CAP reform, the Council, as a whole, has been status quo minded and, thus, not a driving force behind reform; rather it has been an obstacle for farm commissioners to overcome.' (Daugbjerg, 2009: 399). As Lynggaard and Nedergaard (2009: 294) put it: 'The Commission is usually seen as *the* agent of policy reform within the CAP...However, the latitude of the Commission to bring about change is limited.' Nevertheless, the institutional setting has mostly been looked upon to understand the EU internal process leading towards CAP reform rather than as a factor that explains why reform took place (Garzon, 2006). The main research method has been to assess the institutional setting from a viewpoint of decision-making influence. The institutional setting would be what determines how the EU answers and reconciles internal and external pressures. In this sense, Haniotis (2006) sustains that policy responses in the EU and the US to similar challenges in the agricultural field are quite different due to their different institutional settings.<sup>4</sup>

The five previous determinants may be considered part of theoretical frameworks which focus on rationalist assumptions. CAP reform would be the result of a bargaining process between individual and collective agents (both internal to the EU and external such as the WTO); even the path-dependency determinant could be argued to be part of rationalistic historical institutional perspective (Lynggaard and Nedergaard 2009). This general approach to CAP reform has been complemented in the last years with new

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<sup>4</sup> It is interesting to note that analysts agree that farm organisations have become less powerful in the process. Grant (2010: 36) argues that the terrain 'has been occupied by environmental, third world and consumer organizations.'

studies based on constructivist assumptions or approaches that allow adding a new internal determinant to our list: ideas.

**Ideas:** Constructivist studies argue that ‘ideas informing the CAP have not remained the same and that expectations of what the CAP should deliver have changed in the course of its development.’ (Lynggaard and Nedergaard 2009: 296) From this viewpoint, the rationale informing the CAP has moved from a dependent (state-assisted) agriculture paradigm towards multifunctional and competitive (market liberal) agriculture paradigms in a ‘cumulative paradigm change’ process (Daugbjerg and Swinbank, 2011: 131). These studies have concentrated in pinpointing the evolution of the ideational structure prevailing at the time of each CAP reform so as to explain the underlying forces of political processes. In the late 1970s and 1980s, the notion of co-responsibility as a means of restoring the market balance was favoured by the Commission (Grant, 2010). By the late 1990s, internal EU debate ‘referred to the “European Model of Agriculture”, reflecting agriculture’s “multifunctionality”’ (Ackrill et al, 2008: 404) (Cross-compliance and modulation are part of multifunctionality making CAP more acceptable to consumers and taxpayers. Since the 2008, significantly rising world prices have led to a revival of the discourse of food security.) The main research method has been to assess the constructivist determinant in terms of discursive developments.

Some consider that the ideational structure evolution has been the result of changes internal to the EU (Burrell, 2009), others that they can be attributed to ideational change in the WTO (Daugbjerg and Swinbank, 2009). In any case, researchers recognise that the constructivist determinant is not a trigger for reform but a constraint on the direction of the reform. In the words of Lynggaard and Nedergaard (2009: 297): ‘Altogether, according to this perspective, policy developments are occurring against the background of an ideational context, which delimits available, efficient and legitimate policy choices from those that are not.’ Daugbjerg and Swinbank (2009: 312): ‘ideas underpin institutions which, in turn, give direction to policy makers when making policy by providing shared views on how to interpret policy problems and on how to rank policy concerns.’<sup>5</sup> The process of fundamental reforms initiated with the MacSharry reforms in the early 1990s ‘has been accompanied by a reorientation of the CAP’s rationale from one of socially-legitimised income support to one recognising the multifunctionality of agriculture, placing more emphasis on public-good type benefits, e.g. environment protection.’ (Henning and Latacz-Lohmann 2004: 39).

### **3. A FRAMEWORK OF ANALYSIS OF PAC REFORM DETERMINANTS**

Studies of CAP reform have concentrated in establishing whether each of these determinants have had an impact on CAP reform. The studies that try to establish links among these different determinants or to distinguish between different types of influence have so far been the exception rather than the rule.<sup>6</sup> Nevertheless they are

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<sup>5</sup> It should be mentioned that some analysts consider that ‘the rhetoric of multifunctionality’ may just be ‘the state-assisted paradigm dressed up in different clothes’ as most payments are still not directly related to the provision of public goods. (Daugbjerg and Swinbank, 2011: 137)

<sup>6</sup> Ackrill et al (2008) have tried to reconcile budget pressures with international pressures by arguing that both were generated by the price support system of the initial CAP. Lynggaard and Nedergaard (2009)

probably the next step in studying CAP reform because as Jensen et al (2009: 330-331) put it: ‘In total, it is hard to imagine that these internal and external issues are not correlated in some way. The causality, however, can differ across reforms.’

We believe further insights on the dynamics of CAP reform may be gained by focusing on the nature of the impact of the determinants of CAP reform. Taking advantage of the fact that there is literature on the role played by each of the six determinants in each of the CAP revisions, we have reinterpreted these findings in terms of their impact on timing, generosity and substance. To carry out this re-interpretation of the literature review, we have considered that a determinant has an impact on timing when without this factor the reform would not have happened. The determinant has an impact on substance when without this factor the reform would not have been the same in terms of instruments, that is, in how the CAP has changed its instruments. And the determinant has an impact on generosity when without this factor the reform would not have been the same in terms of the amount of financial support given to the farmers by any means.

Table 1 highlights the results of this analysis for each of the CAP revisions. Table 3 ( at the end of the article) summarises the results from the viewpoint of the six determinants. Both tables show that the determinants role in terms of timing, substance and generosity is not always the same. Three of the determinants impact varies depending on the reform/revision we are considering. Budget pressures have always had an impact on generosity but only affected the substance of CAP reform in the 1980s and were not a timing determinant in 2003. International pressures have had an impact on substance since the 1990s but sometimes also a timing one. Even enlargement can be argued to have had timing, generosity or substance impact depending on the reform although this may be due to its clear connection with the budget pressures. Three determinants always have the same role: the impact of path dependency, ideas and the institutional setting has always been on substance.

If now we look at the results from a viewpoint of the impact classification (see Table 4 at the end of the article) and we take into account that only two of the revisions of CAP can be considered real reforms, a certain pattern appears. International pressure seems to be the necessary condition for real CAP reform to take place. Yet international pressure was also present in 1999 and 2008 without leading to a reform of CAP instruments. It seems therefore that international pressure is always taken into account when revising the CAP but it only becomes a timing determinant when there are active international negotiations. Our results also show that international pressure does not have an impact on the generosity of CAP support. In other words, international pressure does not determines what EU farmers are going to receive but have a big say on how they are going to receive it.

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have argued that there is a general link between the constructive determinant and the rational choice determinants. They sustain that (p 298) ‘in the medium to longer term, ideational change may give to changes in agents’ conception of costs and benefits of alternative policy choices and, in turn, alter agents’ conceived interests.’ For them ‘preferences (constructivism) + institutions (rational choice)= outcome’ (p 300)). Lovec and Erjavec (2013) have recently tried to link the three ‘reform contexts’ –the world trade, the budget bargaining and the new policy issues (such as food safety, animal welfare, rural development and the environment)- through Moravcsik’s liberal intergovernmentalist approach. In particular, they consider that the underlying causality is the asymmetrical development of production factors and production relations, including the international production relations.

The budget pressure is always present although it was only able to affect the substance of the reform in the 1980s. Since then the budget has become an ever present constraint to the generosity of the CAP support. In fact, one may argue that the budget has been a timing determinant in almost all CAP revisions because each financial perspective revision has entailed a negotiation on how to limit the CAP budget. As the 2003 reform proves, nevertheless, changes in CAP instruments may happen even without impending budget negotiations. In other words, since the 1980s budget pressures have not been a sufficient condition for CAP reform but have always helped determine the amount of aid farmers were going to receive.

The enlargement pressure, as expected, is much related with the budgetary pressure. The entry of new members with clear agricultural weight in a context of budget restraint can only lead to further budgetary constraints. It is interesting to note that the 2004 enlargement may be having an *ex-post* impact on substance. This impact may, nevertheless, be very much related with path dependency as the *ex-post* enlargement impact may be the result of pre-enlargement decisions.

The pressure of path dependency, ideas and the institutional setting is clearly focused on the substance of the policy. None may be considered a sufficient condition but all seem to play a role in the design of CAP instruments. Their role in substance seem to be subordinated to that of the international pressure since a real reform only takes place when there are international pressures and CAP instruments have to give an answer to those pressures.

This analysis of the literature confirms that to understand CAP reform both external and internal factors must be taken into account. Our analysis, however, allow us to refine this conclusion. It seems that it is the external pressures that have determined the timing of the main reforms. International pressures would also have been crucial in explaining the substance of all reforms since the 1990s. Internal pressures, including the budget, would have been particularly important in explaining the generosity of the CAP support but subsidiary in terms of substance or timing.

On the bases of this analysis, the economic crisis, by itself, can only be expected to have an impact in CAP generosity. The policy would have been reviewed in any case since a new financial perspective had to be negotiated for 2014-20 and the substance of the policy would only be changed in earnest (that is, change of its instruments) if there is enough international pressure. Does the analysis of the 2013 CAP changes confirm this hypothesis?

#### **4. CAP 2013 DETERMINANTS**

**IT IS NOT A REFORM:** CAP 2013 cannot be considered a reform because it does not change the policy instruments. Post 2013 CAP will still be based on two Pillars: a first Pillar, fully EU funded, for market support and direct payments based on decoupling and cross-compliance and a second Pillar, co-financed by the Member States, for rural development. As Table 5 summarises, the changes agreed in 2013 suppose an adjustment of this policy main instruments.

**Table 5. CAP 2013 changes in terms of policy instruments**

Market support	Confirmation that milk quotas will disappear in 2015. Sugar quotas to be maintained until 2020. Other remaining measures of market support, including export subsidies, are to be maintained
Direct payments	Adjustments to the decoupled Single Payment Scheme so as to introduce an EU wide flat area payment by 2019 (new redistribution of payments among member states and among farmers) Definition of active farmer. Reinforced cross-compliance Coupled payments are still possible
Rural development	Objectives remain the same: climate change, environment and innovation (competitiveness). (Risk management)

Sources: own elaboration on the bases of Regulations proposals (2011) and European Parliament decision (Bridges Weekly Trade News Digest 17(9), 13 March 2013).

## **ROLE PLAYED BY EACH OF THE SIX DETERMINANTS**

**International pressure:** No impact. Although there has been a revival of Doha negotiations on agriculture, evidence indicates that CAP is already prepared to comply with third country demands regarding both internal support and export subsidies. The two remaining contention points: the green box and market access do not seem to have been taken into account.

As to the green box, the 2013 changes increase the degree of cross-compliance and introduce an active farmer definition despite the fact that some analysts have pointed out that these changes may endanger the consideration of EU decoupled payments as part of the WTO green box. So far decoupled payments have not been denounced by the other WTO members as non being green box but that does not mean that they cannot be challenged in the future.

Regarding market access, analysts agree that depending on which products are considered sensible, the need to reduce protection in front of imports may have an impact on the European agricultural sector. Again there is no mention of this particular possibility in CAP 2013. It may be that it is assumed that international prices of agricultural goods will remain high.

**Budget pressure:** Impact on timing and on generosity. On timing: the need to agree on new EU Multiannual Financial Framework supposes a revision of all EU policies. Generosity: the reduction of CAP budget has not been radical. One may even argue that the reduction has been in line with previous tendency. Nevertheless, there has been a reduction so that the flat area payment proposed by the Commission will have to be adjusted accordingly. The latest figures tell us that ‘sustainable growth’ expenditure will

diminish in relative terms: from 0.45% GNI in 2007-13 to 0.39% GNI in 2014-20. In absolute terms the expenditure for this Heading will remain constant in real terms but market related expenditure and direct payments will diminish: from 293 105 to 277 851 million Euros (although this reduction has to be qualified by the creation of emergency aid reserves).

**Enlargement:** No impact. The entry of Croatia is not expected to have a noticeable impact on the agricultural sector structure and Turkey is not expected to become a member in the next seven years despite the renewal of negotiations.<sup>7</sup>

**Path dependency:** Impact on substance. It may be argued that most of the 2013 changes are an attempt to deal with the equity problems created by previous decisions on how to deal with enlargement and with the CAP transformation. Previous decisions would have created new equity problems between farmers from different Member States.

**Institutional Setting:** Impact on substance. The European Parliament has a new role both in budget and CAP decisions that has already led to changes to the European Council agreement. A clear prove of the EP enrolment is the fact that it has voted to maintain export subsidies as policy instrument, to water down cross-compliance requirements and to re-couple some payments to production. The new CAP Regulations were published in the Official Journal of the EU in December 2013 (OJ L347, 20.12.2013).

**Ideas:** Impact on substance. There has been a shift in the effort to give legitimacy to the CAP. The concept of multifunctionality is still present and linked to climate change and environment but, in a context of high international food prices, food security has reappeared as a valid argument to justify farmer support. What is new is that food security is advocated from the international viewpoint: To secure food supply at international level it is necessary to ensure agricultural production in the EU. Last but not least, CAP 2013 changes are justified on the bases of equity.

On the bases of this analysis, our hypothesis is confirmed. Despite the fact that all internal determinants have been present, CAP 2013 cannot be considered a reform. Again it seems that international pressure is needed for instrumental change to occur. The economic crisis has not made the budget pressure strong enough to affect the substance of the policy. Neither can the crisis explain the timing of the revision: CAP 2013 was called for by the need to review EU policies in the context of the multiannual financial perspectives negotiations.

## 5. CONCLUSION

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<sup>7</sup> We consider that any ex-post effect of the 2004 and 2007 enlargements must now be considered part of the path dependency determinant because CAP 2013 addresses the equity problems previous enlargement agreements have created rather than how to deal with the enlargements per se.

CAP 2013 has not been the result of the economic crisis and cannot even be considered a reform. The economic crisis may have had an impact on the generosity of CAP support but not on the timing or substance of the changes.

Since the 1990s CAP reforms have been based on changes in its instruments rather than on its objectives and have been triggered by international rather than internal pressure. Since most of EU support may now be considered part of the WTO green box, international pressure may well be in the descent. Nevertheless, new CAP reforms may still be on the making as internal pressures may gather force. Indeed, some analysts seem to believe that budgetary pressures may one day lead towards the re-nationalization of the CAP and others that the need to legitimise the CAP may one day lead to a change of its objectives in the Treaty. In any case, the present economic crisis has not been able to provoke such a reaction. (Does this reflect the lack of political force of Great Britain which in 2005 had been able to get a promise for a two step revision of the CAP?)

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Table 1. CAP revisions

<b>THE 1980S</b>	
Market support	CAP: policy characterized by indirect support to farmers provided by a floor for domestic prices, border protection and export subsidies. All financed by the Community budget. <b>1980s</b> Price revisions and curbs on production (Guarantee thresholds (1982), milk quotas (1984), maximum guaranteed quantities (1987)) with co-responsibility levies.
Rural development	<b>1970s</b> Mansholt Plan: limited set of structural measures co-financed by Member States
<b>1992 MACSHARRY REFORM</b>	
Market support	Reduction in prices
Direct payments	Partial shift from indirect or price support to compensatory direct payments (coupled to type of crops grown and livestock kept).
Rural development	New accompanying measures co-financed by Member states (agri-environmental programme, new subsidies for afforestation of agricultural land and early retirement scheme for farmers)
<b>1999 AGENDA 2000</b>	
Market support	Further price reduction
Direct payments	Further shift from indirect to direct payments (in 2002 the Commission recognised that the compensatory character had disappear and that the term ‘direct aid’ had replaced ‘compensation payment’ –Swinbank and Tranter, 2004, preface) and introduction of optional cross compliance (Member states decided on whether farmers were obliged to respect specified environmental, animal health and food safety standards to receive full payment of direct aid)
Rural development	Creation II Pillar: consolidation of green

	direct payments and of co-financing Introduction of voluntary modulation
<b>2003 FISCHLER REFORM</b>	
Market support	Reduction of prices
Direct payments	Reduction of coupled direct payments
Decoupled direct payments	<p>Partial decoupling of farm aid from type of commodity and from production. From the area and headage payments into a flat rate decoupled Single Payment Scheme based on previous (2000-2002) direct payment levels. Member states were allowed to apply the scheme on a regionalised basis or in a farm-based mode.</p> <p>For New Member States: simplified version of Single Farm Payment to be phased in until 2013 (starting at 25% of the EU-15 rate in 2004)</p> <p>Cross-compliance is reinforced and becomes compulsory.</p>
Rural development	Introduction of compulsory modulation (5%) and of member state discretion in using the modulation funds..
<b>2008 HEALTH CHECK</b>	
Market support	Reduction
Direct payments	Reduction
Decoupled direct payments	<p>Almost complete decoupling from production</p> <p>Direct payments are still tied to land, land must be kept in good agricultural condition (cross-compliance) and recipients must be farmers.</p>
Rural development	Funds from increased compulsory modulation (10%) to be used to address new challenges: climate change, renewable energies, water management and biodiversity, at the discretion of each member states

**Table 3. The CAP reform determinants in terms of timing, generosity and substance**

	1980s	1992	1999	2003	2008
Budget	Timing, generosity, substance	timing, generosity	timing, generosity	generosity	timing, generosity
Enlargement	generosity	generosity	timing, generosity	Generosity, substance	generosity, substance
Path dependency	substance	substance	substance	substance	substance
Ideas	substance	substance	substance	substance	substance
Institutional setting	substance	substance	substance	substance	substance
International pressure	not relevant	timing, substance	substance	timing, substance	substance

**Table 4. CAP reforms from the viewpoint of timing, generosity and substance**

	1980s	1992	1999	2003	2008
Timing	Budget	<b>Budget, International pressure</b>	Budget, enlargement	<b>International pressure</b>	Budget
Generosity	Budget, enlargement	<b>Budget, enlargement</b>	Budget, enlargement	<b>Budget, enlargement</b>	Budget, enlargement
Substance	Budget, path dependency, ideas, institutional setting	<b>International pressure, path dependency, ideas, institutional setting</b>	International pressure, path dependency, ideas, institutional setting	<b>International pressure, path dependency, ideas, institutional setting, enlargement</b>	International pressure, path dependency, ideas, institutional setting, enlargement

