

EXPLAINING THE HEALTH CHECK: THE BUDGET, WTO, AND MULTIFUNCTIONAL POLICY PARADIGM REVISITED

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Abstract

Three potential explanations of past CAP reforms have been identified in the literature: a budget constraint, pressure from GATT/WTO negotiations or commitments, and a paradigm shift emphasising agriculture's provision of public goods. The presentation, content and context of the Health Check reform proposals of 2007/08 are assessed. The proposals are probably more ambitious than first supposed. The Health Check was not primarily driven by budget pressures; the European Commission's wish to adopt an offensive negotiating stance in the closing phases of the Doha Round was a more likely explanatory factor. The EU's response to the commodity price spikes in 2008, and its Health Check proposals, suggest that the supposed switch from a state-assisted policy paradigm to the multifunctional paradigm is more apparent than real. The shape and purpose of the CAP post-2013 is contested, with quite divergent views among the Member States

Key Words: Health Check, CAP Reform, WTO, Doha, paradigm change, multifunctional

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Introduction

Until the late 1980s there was little doubt among CAP analysts that budgetary concern was the major driving force capable of generating CAP reform. The MacSharry reform of 1992 triggered a debate on the driving forces of CAP reform in a new era in which farm trade had become more fully integrated in the WTO trade regime with its distinct *Agreement on Agriculture*. During the debate two camps crystallised - one emphasising the WTO, and the other the budget, as the root cause of the MacSharry reform (see Swinbank and Daugbjerg 2006 for an overview of this debate). The debate re-emerged after the Agenda 2000 CAP reform but with less strength, presumably because Agenda 2000, in general, is seen as a limited reform, or perhaps rather as a simple policy adjustment. The 2003 Fischler reform raised the same questions once again (see Swinbank and Daugbjerg 2006 and Cunha 2007 for a discussion of the driving forces behind the 2003 reform). While the debate on the MacSharry reform initially focussed mainly on the WTO and the budget as reform drivers, later contributions drew attention to a possible change of policy paradigm as the key to understanding the CAP reforms undertaken since the early 1990s. For instance Garzon (2006) argues that there has been a shift from the state-assisted to the multifunctional paradigm. As a result the CAP should be shifting its emphasis more towards the provision of public goods, such as environmental services.

With the Health Check under way, debate on the driving forces behind CAP reform has re-emerged once again. In this paper we revisit ‘the usual suspects’ - the budget and the WTO - but we also consider the more recent explanation that CAP reform is driven by a desire to bring the policy into conformity with the multifunctional paradigm.

The paper proceeds as follows. First we introduce the three potential drivers of reform. Second we set the scene by outlining policy developments from 2003 to 2008. Then we introduce, briefly, the Health Check package, and suggest that it is rather more ambitious than is usually assumed. The discussion then moves on to consider the potential drivers that shaped and conditioned the Health Check debate, before moving to a brief conclusion.

Three potential drivers of reform

Since the launch of the Uruguay Round in 1986, CAP reform and GATT/WTO developments have tended to progress in unison, although the sequencing of events has been problematic, and establishing cause and effect is difficult. Nonetheless, there is some evidence to suggest that the MacSharry, Fischler, and 2005 sugar reforms, were prompted by the EU’s perception of the need to make progress in the GATT/WTO. These CAP reforms in turn facilitated progress in GATT/WTO: the MacSharry reforms enabled the EU to accept the Uruguay Round *Agreement on Agriculture* (URAA), the Fischler reforms allowed the EU to adopt a more offensive negotiating stance in the Doha Round (on domestic support in particular), although at the time of writing it is too soon to say whether the Doha Round can

be brought to a successful conclusion, and the sugar reform enabled the EU to curb its exports of subsidised sugar and comply with a Dispute Settlement ruling (Daugbjerg & Swinbank, 2008 and forthcoming). Can similar WTO pressures be observed in the run-up to the Health Check proposals? Since the setback at the Cancún Ministerial Conference in September 2003, the Doha Round negotiations have suffered one crisis after another and the round is now in danger of *de facto* collapse after the failed, but intensive, negotiations in Geneva in July 2008. However, each intensive negotiating round has moved negotiators closer to a compromise. Can the Health Check be seen as a last concession of the EU to pave the way for an agriculture agreement?

Since world market prices remained high in 2007 and well into 2008, EU expenditures on export subsidies and intervention purchases have been correspondingly low. At first sight this may rule out budgetary pressure as a likely candidate explaining the Health Check proposal. However, with the 2009 debate on the Financial Perspective post-2013 in sight, high world market prices have prompted some ministers to question whether the EU still needs to support its farmers at the present level. In the US, high commodity prices were an important precondition for the adoption of the FAIR Act. This agricultural policy package phased out direct payments, albeit temporarily. So one could argue that high world market prices have opened a window of opportunity for a CAP reform that would release funding for other purposes in the EU.

The nature of the impact of the last candidate, paradigm change, is somewhat different from the two explanations discussed above. The concept of policy paradigm refers to the deeper layers of policy and 'specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing' (Hall 1993, 279). Skogstad (1998) and Daugbjerg (1998, 1999) both emphasised the importance of paradigms in their analyses of the 1992 CAP reform. Both authors argued that the state-assisted (or dependent agriculture) paradigm underpinning the CAP remained untouched as the ideational foundation of the CAP, and argued that the fact that the paradigm remained unchallenged explains why the 1992 reform could not be labelled radical. In Hall's (1993) notion of paradigm shift, change occurs over a relative short time and would lead to fundamental institutional and policy change. However, paradigm change need not necessarily be associated with rapid change of institutions and policy. As suggested by Coleman *et al.* (1997) when comparing policy reform processes in the Australian, Canadian and US cereals and dairy sectors, there may also be a 'cumulative, negotiated, problem-solving trajectory to paradigm change'. Garzon (2006: 172) has suggested that previous policy reforms have not so much shifted the CAP from a state-assisted, or dependent agriculture, policy paradigm to the competitive agriculture paradigm, but instead replaced the state-assisted by the multifunctional paradigm. The state-assisted paradigm rests on two fundamental principles: 'first, the agricultural sector contributes to national policy goals and therefore merits special attention; and, second, the price mechanism is a suboptimal means of achieving an efficient

and productive agricultural sector' (Coleman *et al.* 1997 p. 275). In the multifunctional agriculture paradigm 'agriculture is viewed as a provider of public goods in addition to, and in many ways more important than its role as a producer of raw material for the food industry' (Moyer and Josling, 2002, 35). Garzon (2006: 173) suggests that the 'image of the farmer ... evolved towards stewardship of the environment, as a reaction against the negative environmental impacts of both the "state assisted" and "market liberal" paradigms'; and that 'Revenue transfers from society found therefore a justification in the provision of public goods'. Accepting the notion of cumulative paradigm change, it could be argued that the Health Check is a further adjustment of the CAP to bring it into conformity with the multifunctional paradigm.

The historical and institutional context

The 2003 CAP reform was agreed prior to the ill-fated WTO Ministerial meeting in Cancún that had been seen as an important milestone in wrapping-up the Doha Round by the official deadline of December 2004. In adopting the package Farm Ministers said:

This reform is ... a message to our trading partners It signifies a major departure from trade-distorting agricultural support, a progressive further reduction of export subsidies, a reasonable balance between domestic production and preferential market access, and a new balance between internal production and market opening. ... The CAP reform is Europe's important contribution to the Doha Development Agenda (DDA), and constitutes the limits for the Commission's negotiating brief in the WTO Round. Its substance and timing are aimed at avoiding that reform will be designed and imposed in Cancun and/or Geneva –which could happen if we went there empty handed (Council of the European Union, 2003: 2).

In adopting the Fischler package EU Farm Ministers mandated a review of certain aspects of the reformed CAP in about 2007/08, long after the scheduled completion of the Doha Round. For example Article 64(3) of Regulation 1782/2003 provided for a review of the partial decoupling option in the Single Payment Scheme (SPS).¹ The 2003 package was quickly followed in 2004 with an extension of the SPS mechanisms to Mediterranean crops; the new Commissioner, Mariann Fischer Boel, spent much of 2005 pushing for sugar reform; and Member States were busy implementing the SPS.

But the UK was agitating for more, and attempted to trigger a new CAP reform debate in 2005 as Member States tried to decide on the size, and scope, of the EU's budget (its *Financial Perspective*) for 2007-2013. In particular, at the European Council meeting in June 2005, the British Prime Minister, Tony Blair, appeared to be saying that the UK would be

¹ *Official Journal of the European Union*, L270, 21 October 2003.

willing to give up its budget rebate, first negotiated in 1984, in exchange for a sizeable cut in the CAP budget (*Agra Europe*, 24 June 2005: EP/5-EP/7). Speaking to journalists, Commission President José Manuel Barroso noted the commitment for a mid-term review of the SPS in 2008 (*ibid.*, EP/7). As the debate intensified, French President Jacques Chirac was characteristically staunch in his defence of the CAP in refusing the British ‘offer’ (*Agra Europe*, 15 July 2005). The need for further CAP reform was widely debated, not least in the *Financial Times*. Bertie Ahern (2005), the Irish Prime Minister, in September 2005 argued that, as well as being ‘unwise and unfair to ask farmers to accept another radical reform now’, tactically it would ‘handicap the EU’ in the forthcoming WTO negotiations in Hong Kong, and ‘remove the motive for other big food producers to move towards reform of their agricultural sectors.’

The 2007-2013 *Financial Perspective* was eventually agreed at the European Council in December 2005, with: i) the British rebate more-or-less intact; ii) no CAP reform, but a much reduced budget for Pillar 2 expenditure; and iii) the Commission being asked ‘to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9’ (Council of the European Union, 2005, paragraph 80). But just before this decision had been reached, the UK Government published a document setting out its *Vision* for the CAP (HM Treasury & Defra 2005); which prompted a caustic response from Mariann Fischer Boel, and her comment that: ‘There will be full debate on the future direction of the CAP, before the end of the current budget period in 2013. And we have already programmed a *health check* for the reforms in 2008 to 2009’ (as quoted in *Agra Europe*, 9 December 2005: EP/7; emphasis added). However it was not until June 2006 that *Agra Europe* began to make regular use of the term ‘Health Check’ (9 June 2006: EP/1). Later the Commissioner was to talk about the Commission proceeding on the basis of ‘one vision, two steps’. First there would be the Health Check; and second ‘a look ahead to the CAP after 2013, within a general review of the European Union budget’ (Fischer Boel, 2007).

Had the *Treaty of Lisbon* been ratified as planned then, from 1 January 2009, the European Parliament would have gained enhanced co-decision rights over the CAP, sharing decision-making with the Council. This, it was thought, would encourage the Council to conclude its deliberations on the Health Check before the end of 2008. Failure to do so would have opened up the debate in the European Parliament, and with elections to the Parliament pending in summer 2009, progress on the Health Check package could have been delayed until autumn 2009. Ireland’s referendum has at best delayed, if not de-railed, ratification of the Lisbon Treaty, and thus removed one reason for concluding the Health Check debate this year. However the French Presidency of the Council has declared its intent to conclude the discussions in November: to do so will depend on its willingness and ability to put forward a Presidency Compromise acceptable to the Commission and a qualified majority of Member States. Given, as argued below, that the Commission’s proposals are probably more radical

than at first supposed, and that some Member States (including France) have important reservations about some aspects, the outcome is a little uncertain.

As well as elections to the European Parliament, a new College of Commissioners will be appointed in 2009. Thus from the early summer through to the autumn both Parliament and Commission will be embroiled in change, and the parliamentary hearings to approve the new Commission President and Commissioners. It seems unlikely that any substantive discussion on the mandate given by the European Council in December 2005 ('to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate') can really begin until late 2009; and whether Mariann Fischer Boel will then be Commissioner for Agriculture is unclear.

The Health Check proposal: unambitious?

In the run-up to the November 2007 launch of the Health Check the Commission had been keen to suggest that the forthcoming review of the CAP would be technical in character, focusing on simplification. No-doubt it was keen to dispel fears in the farming community that this 'mid-term review', like its predecessor under Franz Fischler, would turn into a major CAP reform. Major changes to the policy, it was hinted, would only arise in the context of the budget debate, to be launched in 2009, on the *Financial Perspective* post 2013.

In launching the debate on the Health Check in November 2007 the Commission said:

The 2003 Reform was the first step to make the CAP fit for the 21st century. Consensus on all the elements of the 2003 Reform could not be reached in one go. Indeed, this is why a number of review clauses were ... foreseen in the final agreement These review clauses, without implying a fundamental reform of the existing policies, allow the possibility of further adjustments in line with market and other developments (Commission of the European Communities, 2007: 3).

One way in which circumstances had changed since 2003 was that world market prices for oil, metals, and agricultural commodities were much higher than they had been. Export subsidies on dairy products had not been used since June 2007, and intervention stocks were depleted. Thus in its formal Health Check proposals in May 2008 the Commission concluded that 'that any remaining supply controls of the CAP (namely, dairy quotas and set-aside) should be removed' (Commission of the European Communities, 2008a).

Despite the Commission's desire to postpone discussion of more substantial reform until 2009, it could be argued that the Health Check proposals are rather more ambitious than might have been expected. As widely leaked beforehand, the Commission used this occasion to announce that it will not propose an extension of the milk quota regime beyond 2015, and it has suggested a gradual increase in quota in the interim to prepare the sector for a 'soft

landing'. It has proposed a further shift of funds away from the SPS to Pillar 2; but the system of 'modulation' it favours taxes more heavily larger farm businesses, making this a politically sensitive issue in some member states. It wants a simplification of the SPS, including abolition of the set-aside requirement (popular amongst farmers because of soaring world market prices, but problematic to environmentalists), a shift to fully decoupled SPS payments for some specific crop payment schemes, and a substantial reduction in the partial decoupling option, particularly for arable crops, that had been favoured by France and other southern Member States. Intervention mechanisms would also be weakened.

In promoting the package to the European Association of Agricultural Economists, the Commissioner's Deputy Head of Cabinet suggested that whilst 'better regulation and simplification' was an important political priority, so too was a move 'towards more market orientation' and competitiveness. For this a key aspect was

decoupling of farmers' support from production decisions. Decoupling allows EU farmers to make their choices in response to market signals It brings EU agriculture much closer to world market [sic] without distorting them because of their Green Box compatibility keeping some arable payments partially coupled has brought no market benefits but has added red tape. In this sector and several others, it's time to phase in full decoupling (Borchardt, 2008: 2, 4).

But if the Commission has proposed a moderately ambitious package, what prospects are there for its adoption? There is some difficulty addressing this issue in a paper written in September 2008, for presentation at a conference in November, given that it is hoped that the Agriculture Council can agree the package in its meeting scheduled for 17/18 November.

Budget constraints?

The CAP reform decisions of June 2003 were taken in the context of a budget framework agreed in October 2002, and lasting beyond the *Financial Perspective 2000 – 2006* through to 2013 (see Swinbank & Daugbjerg, 2006). Although this did not create immediate financial problems for the CAP, with increased expenditures on direct payments in the new Member States there was some concern that CAP budget constraints would tighten by the end of the decade. According, Article 11 of the SPS regulation (1782/2003) included a *Financial Discipline* under which, on an annual basis from 2007, the Council was mandated to reduce the direct payments if there was likely to be any breach of the annual budget ceilings set in October 2002. Enlargement proceeded as planned, with increasing levels of expenditures on direct payments in the new Member States, and new compensation payments have been brought into the SPS, but there has been no need to invoke the Financial Discipline.

Indeed, as a result of high world market prices, expenditure on export subsidies and intervention purchases has fallen away sharply, and there have been competing claims put

forward for appropriating the ‘unspent’ CAP money: on extra support to farmers in the new Member States for example, or for agricultural development in the Third World (*Agra Europe*, 20 June 2008: EP/2). Thus the Health Check is not being discussed at a time of CAP budget crisis. Its proposals would not reduce CAP expenditure; although a result of its proposals on ‘modulation’ would be the redirection of funds from Pillar 1 to Pillar 2 and this would *increase* overall EU taxpayer expenditure on agricultural support because of the requirement on Member States to co-finance Pillar 2.

In March 2007 the European Council had agreed that 20% of EU energy supplies should come from renewable sources by 2020 (excluding nuclear power), and that a mandatory minimum 10% blend of biofuels would be used by all Member States in ‘transport petrol and diesel’ by 2020 (Council of the European Union, 2007). With a world ‘food crisis’ apparently looming, these and other biofuel policies worldwide were increasingly seen as problematic. Responding to these concerns in an open letter to his colleagues on the ECOFIN Council, just before the Commission tabled its Health Check proposals, Britain’s Chancellor of the Exchequer proposed, *inter alia*, ‘a fundamental reform of Europe’s agricultural sector’ including ‘phasing out of all elements of the CAP that are designed to keep EU agricultural prices above world market levels’ and ‘an end to direct payments to EU farmers’; and ‘a close examination of the direct and indirect effects of EU biofuels policy, including a full assessment of its effect on food prices ...’ (Darling, 2008). From the other extreme the French response to high world food prices seemed to be to defend the CAP. For example the French Agriculture Minister Michel Barnier, interviewed by the *Financial Times* (28 April 2008: 1), had suggested that the CAP was a good model for others to follow: ‘It is a policy that allows us to produce to feed ourselves’.

The Health Check is of course not unrelated to the budget, but it is certainly not driven by a budgetary constraint. However, the budget may have played an unexpected role in the Health Check. The 2005 debate over the 2007-2013 *Financial Perspective*, with the UK’s persistent calls for CAP reform, might explain why the Commission upgraded the level of ambition in its Health Check proposals, whilst insisting that any substantive discussion on the CAP after 2013 should form part of the 2009 budget review.

WTO pressures?

Whether or not motivated by the desire to make progress in the Doha Round, the June 2003 reform package, with the associated commitment to extend its ‘objectives and ... approach’ to ‘the so-called Mediterranean products, such as olive oil, tobacco or cotton’ (Council of the European Union, 2003: 2), was an important step in the EU’s approach to the Doha Round. Most importantly the SPS (when ‘fully’ decoupled) shifted the bulk of blue box, and some amber box, support to the green box; and it gave the EU some scope to negotiate

tariff and export subsidy reductions on dairy products. Nonetheless Swinbank and Tranter (2005) questioned whether the SPS met all the requirements of the green box.

One concern was addressed by the 2007 fruit and vegetable reform, which removes (from 2010) the planting restrictions on SPS land that might otherwise have been challenged in a manner analogous to the problems the US faced over *Upland Cotton*.² The fruit and vegetable reform also removed the processing aids previously paid on various processed products, channelling the budget funds into increased SPS payments for the growers concerned (European Commission, 2007). Had the processing aids remained in place, the EU could have been vulnerable to a WTO challenge that they fell foul of the *Agreement on Subsidies and Countervailing Measures*, being Prohibited Subsidies ‘contingent ... upon the use of domestic over imported goods’.

In 2005 the WTO’s Dispute Settlement Body ruled that the EU had subsidised its export of sugar to a greater extent than was allowed, and the EU agreed to respect the ruling and bring its exports into line with its export subsidy commitment. This involved eliminating the export of so-called C sugar, and severely cutting back on the volume of sugar exported with payment of export subsidies. It did so by reducing EU production, as a result of a quota buy-out scheme that was facilitated, in part, by a phased 36% reduction in the support price. Political agreement on the sugar reform was achieved in November 2005, just ahead of the WTO Ministerial in Hong Kong, allowing Mariann Fischer Boel to suggest that the deal would strengthen the EU’s negotiating position in Hong Kong as it ‘demonstrated that the EU could tackle one of the bastions of its common agricultural policy as well as respect WTO rulings’ (as quoted in the *Financial Times*, 25 November 2005: 10). Although some progress was made in Hong Kong –it was agreed, for example, that export subsidies would be eliminated by 2013 if an overall agreement could be achieved– it was not sufficient to conclude the Doha Round, and the negotiations limped on.

By the time the Doha talks entered a deep freeze in July 2008 the EU had come a long way from its position in January 2003 when it had indicated only a very limited willingness to engage in reductions in domestic support, export subsidies and import protection. As well as the elimination of export subsidies by 2013 (which the EU had first accepted in May 2004), Crawford Falconer’s draft *Modalities* envisaged tariff cuts of about 70% in the highest tariff band (although the detail of Special Safeguard mechanisms, sensitive product status, and safeguards on preference erosion, significantly complicate the picture). It also envisaged a 70% reduction in the EU’s Aggregate Measurement of Support (AMS), and individual AMS product caps; a 75 to 80% reduction in a new aggregate measure of *Overall Trade-Distorting Support* (OTDS); and a capping of blue box expenditure at 2.5% of the average total value of agricultural production in a 1995-2000 base period (WTO, 2008; Swinbank, forthcoming).

² However potential problems remain because the SPS is an annual payment, to farmers, who have to have the land at their disposal in ‘agricultural’ production, and cross compliance applies.

Whether this package would have proved acceptable to its trading partners had the negotiations progressed is unclear; but what is evident is that the green box status of the SPS is crucial for the EU's acceptance of the proposed AMS, OTDS, and blue box reductions. Is the Health Check in any way associated with this; or is it unrelated to the WTO?

It must be conceded that the Commission's November 2007 communication contains neither the place-name 'Doha' nor the acronym 'WTO', although in the introduction to its legislative proposals of May 2008 the Commission does refer to the WTO twice: once explaining the 2003 reform ('The main objective was providing a direct payment system that allows farmers to be market oriented, as simple as possible from an administrative point of view and compatible with WTO'), and second the need to respect green box provisions if a relaxation of the Article 69 rules were to allow Member States more spending discretion (Commission of the European Communities, 2008a: 5, 6). However, the Health Check proposals, and the emerging Doha package, are both moving in the same direction.

Klaus-Dieter Borchardt (2008) drew attention to the proposal for 'further decoupling', moving from a situation in which some arable payments were 'partially coupled' by phasing in 'full decoupling'. As the EU has not made a declaration to the WTO of its domestic support levels since the introduction of the SPS it is a little difficult to judge how it plans to declare its direct payments, or how other WTO Members might react. It seems fairly certain that the EU will declare the bulk of SPS expenditure in the green box; but how will partially coupled payments be declared? Presumably the partially coupled part (for example 25% of the old arable payment in France) will remain in the blue box. But can partially coupled SPS payments be split between the green and blue boxes; or does partial coupling imply that the whole of the partially coupled SPS payment should remain in the blue box (all the old arable payment in France for example)? And might concerns of this sort have prompted the Commission's quest for full decoupling in the Health Check?

Borchardt (2008: 5) also noted the ambition of the Health Check to weaken the remaining elements of market price support: 'Market orientation further needs the conversion of our traditional market instruments, like intervention, private storage, export refunds and quotas, into a genuine safety net. These instruments should not be applied any more as "price setters" on the markets but as instruments that keep farmers in business in case of dramatic market disruptions'. The recent world market price spikes, and the expectation that prices will continue at higher levels than prevailed in the early 2000s, have meant that CAP market price support is not currently important for most commodities. Whilst this situation prevails, the EU can agree to the elimination of export subsidies and to substantial reductions in import protection, without serious erosion of EU market prices. But, if world market prices were to revert to previous levels, the Falconer package would limit the EU's ability to maintain its traditional levels of market price support. Thus yet again the Health Check proposals to weaken market price support mechanisms could be seen as an important element in the Commission's Doha strategy.

If the Doha package was to be agreed it would 'lock-in' the CAP reforms the EU has agreed to-date. If the Doha Round is not concluded the WTO system, with its existing URAA, will continue to apply, and aspects of the present CAP could be challenged (Swinbank, forthcoming). Paradoxically, the green box status of the SPS would not, in these circumstances, be particularly problematic, as the blue box and the EU's AMS allowance are sufficiently commodious. But without leverage from the WTO, it is unclear whether budget or other 'internal' concerns would be sufficiently powerful to drive further CAP reform, or even prevent backsliding towards the 'old' CAP.

Paradigm shift?

Although we agree with Coleman, Grant and Josling (2004, 106) when they argue that the competitive agriculture paradigm had '... became globally institutionalized in the set of rules found in the WTO's Agreement on Agriculture', this does not imply that the EU had uniformly embraced the market liberal paradigm and rejected CAP support. Indeed a range of views is current, as noted earlier, stretching from those of the UK's Alistair Darling through to Ireland's Bertie Ahern and France's Michel Barnier. This uneasy truce, we believe, is constrained by the EU's international commitments, and aspirations, in the WTO.

As suggested earlier, the driving force behind the Health Check reform may be the cumulative paradigm shift from the state-assisted to the multifunctional policy paradigm. But how robust is this argument on paradigm change? Did a genuine paradigm shift really take place in the 2003 reform? In 2003 there was no intention of redistributing support to farmers according to the level of public goods produced. Neither the historical nor the regionalised mode of transforming the area and headage payments into SPS payments linked them to the production of public goods. A true shift to the multifunctional paradigm would, to a considerable extent, imply that payments would be much more directly related to the provision of public goods. Thus, there is some evidence to suggest that the rhetoric of multifunctionality in 2003 was just the state-assisted paradigm dressed up in different clothes.

Both the Health Check and the recent world commodity price spikes pose further challenges to the argument that the multifunctional paradigm has set the direction for cumulative reform of the CAP. With the rise in world commodity prices the EU abolished the set-aside requirement for 2007/08, and in the Health Check abolition of set-aside has been proposed (and will likely be agreed). Thus set-aside's prime policy objective is revealed as a supply control mechanism, not an environmental goal, and when market circumstances changed European agriculture was to be released from restrictive provisions (although we do concede that the Commission has proposed some measures that aim to retain some of the environmental benefits of set-aside). Faced with a very wet harvest in England in 2008, the Good Agricultural and Environmental Condition (part of the SPS cross compliance package) restriction on taking motorised vehicles onto waterlogged soils was lifted to allow the harvest

to be completed (*Agra Europe*, 12 September 2008: N/2). As an *Agra Europe* (11 July 2008: A1-2) editorial had earlier opined,

A growing school of thought took the view that the CAP was evolving, slowly but inexorably, into a European rural policy which would have an increasingly significant agri-environmental component. In the future, the prevailing wisdom ran, farmers would be paid as much for their role as custodians of the countryside as for their role as providers of food. But with prices for most types of food having risen sharply in recent times, the notion that the farmer of the future will be some kind of large-scale park keeper now looks distinctly fanciful.

Although the incomes of many farm businesses have been much improved as a consequence of higher world market prices³, undermining the need for the SPS to provide *income* support, the Member States have not shown much enthusiasm for the Commission's proposal to shift more funds from Pillar 1 to Pillar 2 (Buckwell, 2008: A/1); such a shift would be a strong indicator that the CAP is indeed moving towards more multifunctionalism because Pillar 2 is where member states could better address the EU's environmental and rural development concerns. The income support offered by the SPS was in the past justified as compensation to European farmers for the extra costs they incurred for delivering a multifunctional agriculture. But if the market is now returning higher prices to farmers, why do they also need income support?

Moreover, in explaining the Health Check package to the European Association of Agricultural Economists, the Farm Commissioner's Deputy Head of Cabinet, Klaus-Dieter Borchardt, emphasised more than once that agriculture needs protection because it is a vulnerable sector, dependent on climate and soil and its major production factor, land, is immobile (notes taken by the authors, August 2008). This is exactly the defining feature of the state-assisted policy paradigm which holds that the farming industry is different from most economic sectors in modern societies, subject to unstable weather and market conditions, which are beyond the control of the individual farmer (Skogstad 1998). Borchardt seems to imply that the state-assisted paradigm, rather than multifunctionalism, still forms the underpinning of the CAP. Had there been an earlier move towards multifunctionalism, it would appear that it is now backtracking.

³ The world commodity price boom did of course impact farm costs as well as revenues (fuel, fertilizers, animal feed, etc.), and not all farms were in a position to sell at the price spikes, and so the impact on farm *incomes* was uneven with some farms failing to benefit from the price boom. Similarly these other costs (tinplate, fuel, etc.) are reflected in retail food prices; but the extent of food price inflation has generated new concerns, and led the Commission to establish a task force 'to examine the functioning of the food supply chain' (Commission of the European Communities, 2008b: 10).

Concluding comments

Although the bitter debate in 2005 over the *2006-2013 Financial Perspective* possibly influenced the Commission's approach to the policy reviews built into the 2003 Fischler reform package, the Health Check was not about the budget. The budget debate demanded by the UK had been deferred to 2009, or later; there was no immediate budget crisis; and the Health Check proposals would simply reallocate the CAP budget between Pillars 1 and 2.

Instead, the primary goal of the Health Check was to move European agriculture onto a more competitive footing, more compatible with any likely Doha agreement; and, with buoyant world market prices, to release the productive potential of European agriculture through the abolition of set-aside and milk quotas. Suggestions that EU farm policy was underpinned by the 'multifunctional' paradigm were thus eroded. Thus in the run-up to the 2009 budget review the future of the CAP is again contested, with some member states espousing the competitive agriculture paradigm (the UK Treasury for example) and others the state-assisted, or dependent agriculture, paradigm (e.g. the French Ministry of Agriculture).

With the Doha Round and the Health Check still not concluded, a number of questions remain unanswered. Will the Health Check facilitate completion of the Doha Round, or –in the case of a Doha failure, and with no Peace Clause in place– will it better equip the CAP to withstand further attack in Dispute Settlement proceedings? And what role will the WTO play in the 2009 budget review, and the shape of the CAP post-2013? Without a final Doha agreement in place there is no external constraint to lock-in the decoupling of EU farm support achieved between 2003 and 2008. How this will play out on the CAP in the future is too soon to say, but there is a risk that the CAP will backtrack to a pre-2003 version.

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