BEYOND THE RENT-SEEKING:

The Political Economy of the European Agricultural Policy (Non)Reform

in the Twenty-First Century

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Declaration

I, the undersigned, Ardi Priks, candidate for the degree of Doctor of Philosophy in Political Science, declare herewith that the present thesis is exclusively my own work, based on my research and only such external information as properly credited in notes and bibliography. I declare that no unidentified and illegitimate use was made of the work of others, and no part of the thesis infringes on any person's or institution's copyright. I also declare that no part of the thesis has been submitted in this form to any other institution of higher education for an academic degree.

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Abstract

This dissertation analyses why the European Union's agricultural policy has not been radically reformed. Based on the works of leading agricultural economists, radical reform of the Common Agricultural Policy (CAP) can be considered to have taken place when the direct payments have been phased out, the budget of these payments has been freed up to pursue other priorities, and the rural development pillar has been thoroughly reformed to reflect the public-money-for-public-goods principle. According to this benchmark, none of the past reforms of the CAP have brought about radical change. Both the literature and the interviews conducted show that the most obvious current beneficiaries of the policy—farmers—lack the political power, at least at the EU-level, to prevent reforms that they do not like from taking place. This means the traditional rent-seeking explanation is insufficient. The absence of a radical reform, therefore, poses an empirical puzzle: the EU and the Member States' leaders could gain from using the resources to address new priorities or by using the funds to cater to other constituencies. This dissertation proposes a two-fold answer.

Firstly, agricultural bureaucrats of the Member States believe that agriculture is a sector unlike any other economic sector and, as such, warrants special support. Driven by these agricultural exceptionalist views, national agricultural bureaucrats use venues like the Special Committee on Agriculture (SCA) and the Agricultural Council to form transnational inter-bureau coalitions that put pressure on the Commission not to propose anything they do not like or—if this does not succeed—they obstruct or attenuate the proposals in these venues. Agricultural bureaucracies benefit from the fact that agriculture is the only policy area that by-passes the Committee of Permanent Representatives.

Secondly, the Multiannual Financial Framework (MFF) negotiations suffer from intergovernmental bargaining failure. Leaders of the Member States are focused on the "juste

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retour", the net budgetary position of their Member State towards the EU's budget. Due to unanimity voting in the European Council, any head of government can block the adoption of an MFF that results in significant deterioration of his or her "juste retour". The absence of an MFF agreement means that the previous budget is rolled over. The Commission cannot propose an MFF that compensates all losers with a lump sum nor with spending in other policy areas (it is not possible to come up with a distribution key that follows the public-money-for-public-goods principle and, at the same time, does not change any Member State's "juste retour"). "Transaction costs," therefore, prevent Pareto-improving MFFs from being negotiated.

Methodologically, process tracing is used to confirm the validity of the theoretical propositions in three CAP reforms and MFF negotiations that have taken place in the 21st century, in the implementation of the European Green Deal and in the EU sustainable finance taxonomy deliberations. Seventy semi-structured elite interviews with the Member States and the EU officials are used to study the views of the policy-makers. Input from a minority of interviewees who are not agricultural exceptionalists informs the theory part.

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To the officials of the European Union and its Member States whose wisdom, professionalism and dedication sustain our prosperity, liberty and democracy.

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List of Abbreviations

AGRIFISH	Agriculture and Fisheries Council
ANC	Areas with Natural Constraints
ARC	Agricultural and Rural Convention
BPS	Basic Payment Scheme
CAP	Common Agricultural Policy
CEEC	Central and Eastern European country
CMO	Common Market Organisation
COMAGRI	Committee for Agriculture and Rural Development of the European Parliament
COMENVI	Committee on the Environment, Public Health and Food Safety of the European Parliament
COPA-COGECA	The Committee of Professional Agricultural Organisations - General Confederation of Agricultural Cooperatives
COREPER	Committee of Permanent Representatives
DDR	Doha Development Round
Defra	Department for Environment, Food and Rural Affairs (UK)
DG AGRI	Directorate-General for Agriculture and Rural Development of the European Commission
DG BUDG	Directorate-General for Budget of the European Commission
DG CLIMA	Directorate-General for Climate Action of the European Commission
DG ENV	Directorate-General for Environment of the European Commission
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union of the European Commission
DG GROW	Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs of the European Commission
DG SANTE	Directorate-General for Health and Food Safety of the European Commission
DG TRADE	Directorate-General for Trade of the European Commission
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
ECA	European Court of Auditors
ECOFIN	Economic and Financial Affairs Council
EEB	European Environmental Bureau
EEC	European Economic Community
EFA	Ecological Focus Area
EMU	Economic and Monetary Union
EP	European Parliament
EPP	European People's Party
EPSC	European Political Strategy Centre
ETS	Emissions Trading System
EU	European Union
F2F	Farm to Fork strategy
FPTP	First-past-the-post electoral system
FSF	EU Sustainable Finance Strategy
FSP	Farm Sustainability Plan
GAC	General Affairs Council
GAEC	Good Agricultural and Environmental Conditions
GATT	General Agreement on Trade and Tariffs
GD	Green Deal
GHG	Greenhouse Gas
GNI	Gross national income
GSC	General Secretariat of the Council of the European Union
HLEG	High-Level Expert Group
HLVC	High-Level Video Conference

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HZR	Horizontal Regulation
IIA	Inter-Institutional Agreement
IPOL	Directorate-General for Internal Policies of the Union of the European Parliament
JRC	Joint Research Centre of the European Commission
MEP	Member of the European Parliament
MFF	Multiannual Financial Framework
MSEG SF	Member States Experts Group on Sustainable Finance
MTR	Mid-Term Review
NDM	New Delivery Model
NFRD	Non-Financial Reporting Directive
NGEU	NextGeneationEU
NMS	New Member States
NSP	National Strategic Plan
OECD	Organisation for Economic Co-operation and Development
OLP	Ordinary Legislative Procedure
OMS	Old Member States
PERM REP	Permanent Representation of a Member State
QMV	Qualified Majority Voting
RRF	Recovery and Resilience Facility
S&D	Progressive Alliance of Socialists and Democrats
SAPS	Single Area Payment Scheme
SCA	Special Committee on Agriculture
SFDR	Sustainable Finance Disclosure Regulation
SMR	Statutory Management Requirements
SPR	CAP Strategic Plans Regulation
SPS	Single Payment Scheme
TEG	Technical Expert Group
USDA	United States Department of Agriculture
WTO	World Trade Organisation
WWO	World Wildlife Fund

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Chapter 1: Introduction and empirical puzzle

> Economists have the least influence on policy where they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently. (Blinder, 1987, p. 1)

> If political feasibility was an obstacle to adopting the reforms proposed, [then] perhaps it should explicitly be taken into account in policy models. If agricultural economists extended their field of study to the political decision-making process, they might be able to identify sources of reform resistance and suggest ways in which this could be overcome. (Senior Nello, 1997, p. 3)

Agricultural policy can be defined as a 'course of government action selected from available alternatives to guide and determine present and future conditions in agriculture' (Schmitz, Moss, Schmitz, Furtan, & Schmitz, 2010, p. 31). Public policy is necessary, at least according to economic theory, to address market failures. Whether, and to what extent, agriculture in Europe and other developed countries actually suffers from market failures is debatable.[1] But most modern polities have an agricultural policy of one kind or another. And the European Union (EU), although it lacks many other characteristics and policies associated with states, is no different in this regard. For the EU, the Common Agricultural Policy (CAP) is one of the most important and one of the most controversial EU policies.[2] It is important because it still accounts for nearly 31.31% of the EU's regular budget (also known as the Multiannual Financial Framework (MFF)) in the 2021-2027 period. Compared to the pervious 2014-2020 MFF, the CAP budget for the 2021-2027 period was even increased[3] by 3%, at least in *current*

[1] Some prominent agricultural economists, such as Tracy (1993, p. 3), point out that agricultural markets are generally cited as the best examples of 'perfect competition', implying that there is no need for the government to intervene to correct market failures. A more detailed discussion of the existence, and extent of market failures in agriculture, and possible public interventions needed to address them, can be found in the 5th chapter.

[2] Parts of this introduction chapter, and also other chapters, were presented at the European Union Studies Association (EUSA) conference in Denver, Colorado, in May 2019. The unpublished conference paper can be accessed at the EUSA's website as Priks (2019).

[3] Compared to the 2014-2020 MFF, the CAP budget for the 2021-2027 period decreased *in 2018 prices* from 382.9 to 343.9 billion EUR, representing a 10% fall. Author's calculations. Data sources: Massot Marti & Negre (2018), The Commission (2018b; 2020g), the General Secretariat of the Council (2019a; 2020a; 2020b; 2020c; 2020d).

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prices, from 375.5 to 386.7 billion EUR. Most of this money is spent on supporting farmers' incomes. The salience of the policy—particularly its share in the budget—is surprising given that agriculture only accounted for 4.4% of employment, just under 9.2 million jobs, in the EU in 2021 (European Statistical Office, 2022a) and only accounted for 1.4% of the EU's gross domestic product in 2022 (European Statistical Office, 2022b). It is controversial, among other things, because 'the case for the CAP's income support is difficult to make in a market economy where economic agents in other sectors also face the risk of gradual or sudden income decline' (Pelkmans, 2006, pp. 218-219). Due to severe pressures, the CAP has clearly been reformed in the last three decades. However, the reforms have primarily changed the way *how* farmers receive their rent.[4]

There has been a shift from production subsidies to direct payments which can be conceptualised as ill-targeted welfare. Reforms have also changed *who pays* for the CAP as there has been a shift from consumers to taxpayers, but these reforms have not done away with the rent granting core of the CAP (Daugbjerg & Swinbank, 2016; Kay, 2003; Roederer-Rynning, 2020). Furthermore, there has certainly been a shift in *who exactly benefits* from the CAP (see Figure 1.1 below), as agricultural producers are increasingly sharing their rents with non-farming landowners.[5] Finally, the reforms[6] have also changed how much the CAP costs altogether. Since the mid-1990s, a declining trend can be observed when the CAP's budget is compared to the GDP (see Figure 1.2). However, at the same time, total budgetary costs, although now fixed in nominal terms, have grown despite the reforms. Up until the last 2013

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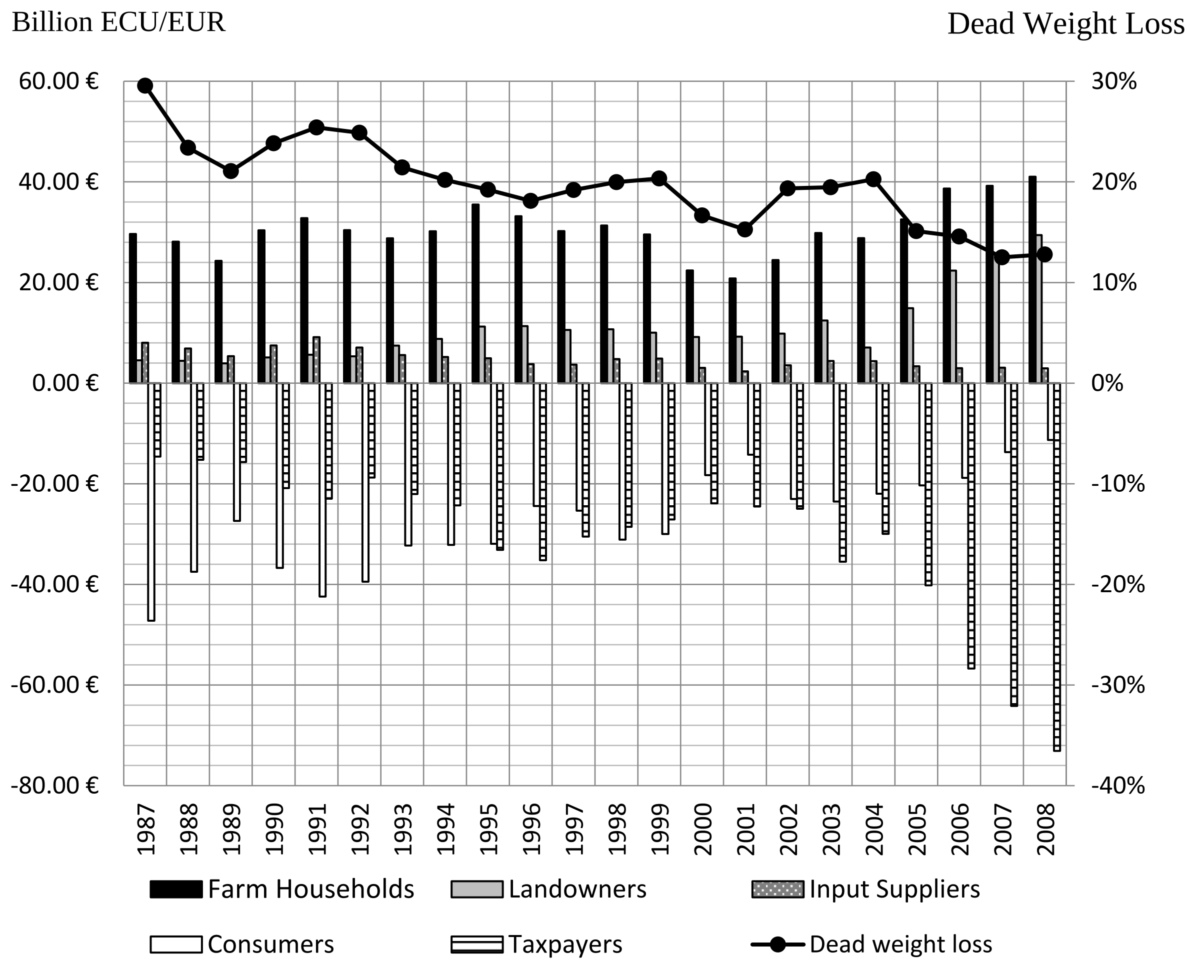
[4] Rent here refers to the reward derived from "rent-seeking" by farmers. "Rent-seeking" in this context can be understood as 'the act of trying to seize an income flow rather than create an income flow' (Hindriks & Myles, 2006, p. 335).

[5] Baldwin & Wyplosz (2019, p. 227) report that about 45% of the direct payment benefits end up in the hands of non-farming landowners. Market support measures show even worse performance. Farmers retain only 48%, while 38% goes to real resources costs and input suppliers.

[6] The six reforms of significance usually discussed are called the MacSharry reform (or 1992 reform), Agenda 2000 (or the 1999 reform), the Fischler Reform (also known as the Mid-Term Review or the 2003 reform), the CAP Health Check (or the 2008 reform), the 2013 reform and the 2021 reform.

reform, this held true even when total budgetary costs were adjusted for inflation.[7] The problems[8] caused by the CAP and the persistence of the agricultural community's rents highlight the need for further, and more importantly, fundamental reforms of the CAP (Anania, et al., 2010; Buckwell, Matthews, Baldock, & Mathijs, 2017; Heinemann & Weiss, 2018a; Hoelgaard, 2018; Swinbank & Tranter, 2004).

Figure 1.1: Shift in the estimated distribution of benefits and costs of the CAP, 1986-2008



Data source: the Organisation for Economic Co-operation and Development (2011, p. 107)

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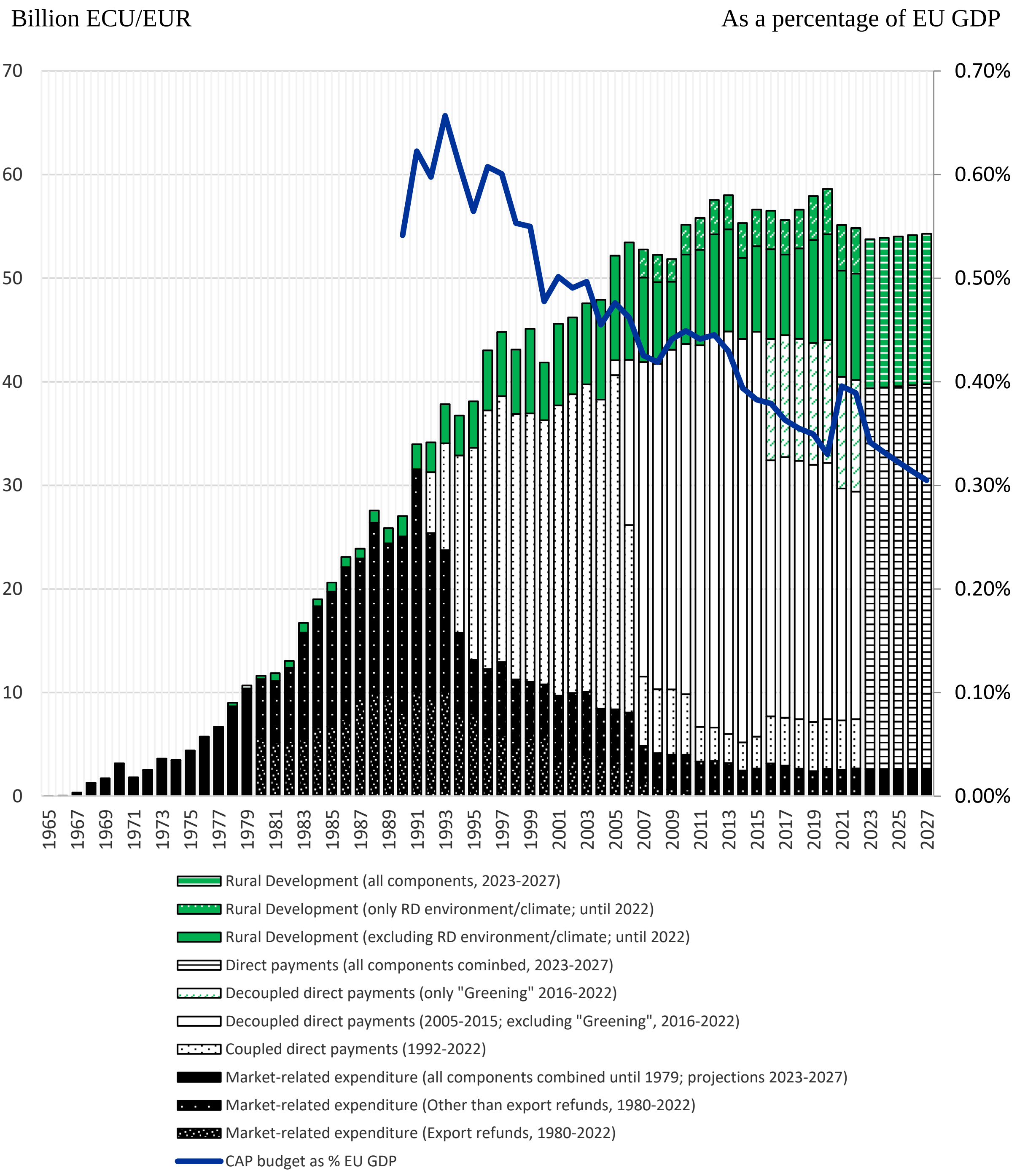
[7] As shown on the Figure 1.2, the CAP cost to European taxpayers 37.8 billion EUR a year in 1993 in current prices and 58.0 billion EUR twenty years later in 2013. EURCPI inflation in the twenty-year period is 52,13% (author's calculations based on Eurostat (2022a) data). This means that if the CAP's cost had exactly paced inflation, the CAP would have cost 57.6 billion EUR in 2013, not 58.0 billion EUR. These total budget figures, however, ignore the enlargements – per EU citizen, figures have not kept pace with the inflation.

[8] A good critique of the CAP post 2020 reform proposals from DG AGRI (2018b; 2018d; 2018c) has been produced by none other than the European Union's own Court of Auditors (2019).

Figure 1.2: The CAP's budget evolution in current prices, 1965-2027



Author's work.
Data Sources: The CAP expenditure breakdown of the 1965-2020 period from the author's personal various email communications with Frank Bollen, Deputy Head of the Budget Management Unit, DG AGRI and with Dirk De Smet, Budget assistant DG AGRI.
Note: The EU's membership has varied through the period.

The problems of efficacy and equity, however, are nothing new to scholars studying the EU's agricultural policy. Senior Nello (1997) recalls how the frustration with the CAP led many agricultural economists in the 1980s to doubt whether the traditional neo-classical economic

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model could be employed at all when agricultural policies are studied. It was commonly acknowledged already back then that farm policy decisions were not made based on welfare analysis. The following mindset emerged:

> If political feasibility was an obstacle to adopting the reforms proposed, [then] perhaps it should explicitly be taken into account in policy models. If agricultural economists extended their field of study to the political decision-making process, they might be able to identify sources of reform resistance and suggest ways in which this could be overcome. (Senior Nello, 1997, p. 3)

Indeed, as Pokrivcak et al. (2008) argue, there is a dearth of empirical data overall on CAP decision-making. In fact, a significant issue in this field of study is the dearth of empirical data and even fundamental knowledge about the stylised facts. Since only the Council's final decisions are public, there is limited information on how choices are made. Furthermore, judgments of the stances and preferences of member states can only be based on pronouncements, many of which are only beginning positions that may be purposefully prejudiced for tactical reasons (Núñez Ferrer (2001) cited in Pokrivcak et al. (2008, p. 20)).

The EU has a complex quasi-federal decision-making process involving a number of actors at multiple levels and multi-issue inter-governmental bargaining. Considering this, in-depth political science research is needed to bridge this gap encountered by agricultural economists. After all, distinguished agricultural economists (such as Tangermann (1991), Swinbank et al. (2004), and Anania et al. (2010) and Buckwell et al. (2017)) have proposed balanced solutions[9] to address the CAP's shortcomings every time reforms have been deliberated on. It seems that their and their colleagues' suggestions have been disregarded when it comes to the final outcome of the reforms.

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[9] Tangermann (1991) and Swinbank et al. (2004) and a group of leading European agricultural economists' (Anania, et al., 2010) proposals can only be described as radical reforms by CAP standards. They are discussed in detail in the 5th chapter.

The “usual suspects”

At this point, one might ask what there is to study. Is it not evident that agricultural special interests, being the most obvious suspects as farmers have gained the most from the CAP (see Figure 1.1 above), have somehow captured their national governments and/or the European Commission? Indeed, various authors, such as Schmitz et al. (2022), have precisely advanced the argument that the role of special-interest groups engaged in rent-seeking activities with the goal of receiving government subsidies has often been overlooked. These authors therefore go on to ‘present traditional arguments about why governments intervene in an economy and how rent-seeking activities can lead to paths that are not supported by the theory of optimal government intervention’ (p. 36). To do so, Schmitz et al. rely on arguments from the public choice theory, which exactly emphasises the importance of rent-seeking behaviour. They make a convincing case about how political-institutional arrangements such as the first-past-the-post electoral system (FPTP) in the US—and, to a lesser extent, in Canada, create fertile ground for rent-seeking. The existence of marginal constituencies and swing states empower agricultural special interests in these countries. Schmitz et al. also try to expand their explanation to the EU. However, they struggle to identify clear causal paths in this case.

The premise of public choice theory is that members of the government are self-interested (Dixit, 1996; Schmitz, Moss, Schmitz, van Kooten, & Schmitz, 2022). That is, acting as a collective, governments have interests they want to maximise. Chief among these is securing their own survival. In a democracy, this means securing one’s re-election. In such an atmosphere, governments will court the support of specific groups by imposing restrictions and levies on these groups’ competitors or by handing out subsidies to these groups. Interest groups contribute to this process by notifying politicians of their wishes, making campaign contributions to politicians, and securing favourable media coverage for the interest group's

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goals. In other words, a "political market"[10] exists in which governments pay subsidies to farmers in exchange for political support. Schmitz et al. (2022) emphasise that public choice theory is concerned with voting and politics as a means for individuals to maximise their utility from political outcomes. Politicians provide „services" that address public needs. In alignment with Buchanan & Tullock (1999 [1962]), this means analysing political behaviour with a presumption that each participant (voter, politician, or bureaucracy) is seeking to maximise their personal utility. The theory of public choice is related to rent-seeking activity that may be conducted by an individual or group of individuals (e.g., farmers) in order to get transfers from the government, either directly or indirectly through favourable rules (Krueger, 1980).[11]

The rent-seeking theory has been used compellingly to explain US agricultural policies (Gardner (1987) and Rausser (1992), for example). However, a number of scholars have also applied rent-seeking theory to EU farm policy. Poczta-Wajda (2016), for example, argues that the CAP is a modern manifestation of the same rent-seeking problem. She argues that in Europe, the role of the state in supporting rent-seeking and rent protection is essential. She points out that a sizable portion—often even the majority—of farmers' income in the EU is derived from political decisions and taxpayers' financial support rather than through farmers' productive activities. Poczta-Wajda (2016) comes to the conclusion that:

> these subsidies are partly a consequence of the political activities of interest groups. In order to secure these benefits, farmers continue to engage considerable resources in lobbying efforts. Rent-seeking or rent-protecting behaviours of European farmers also include their engagement in actions to influence public opinion such as demonstrations, dumping agricultural products on the street or blocking traffic with tractors. (Poczta-Wajda, 2016, p. 55)

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[10] There is rich political economy literature explaining why this "political market" will not lead to a pareto-efficient outcome along some "political Coase theorem" (see Acemoglu (2003)).
[11] Theorising on rent-seeking, in turn, can be traced back to Posner (1975), who created a model which predicts when companies would lobby for a government intervention to fix prices.

Similarly, Jonsson (2007) explains agricultural subsidies that farmers receive under the CAP with the influence of special interest groups with EU-wide membership (which he labels Euro-groups). Following Gardner's (1987) work on US farm policy, Jonsson assumes that when policy-makers decide agricultural subsidy levels, they face a redistribution problem between consumers and producers. Jonsson's research is based on panel data spanning from 1986 to 2003 over fourteen commodities. According to Jonsson, effective lobbying creates a collective action dilemma for all EU farmers due to the CAP's status as an overarching EU policy. Jonsson (2007) finds that indicators of lobbying explain a portion of the difference in agricultural support, implying that farmers' special interest groups do influence EU agricultural policy.

However, a closer look into the issue reveals that this "usual suspects" explanation cannot *fully* account for the dismal characteristics of the CAP. Research by Cunha and Swinbank (2009; 2011), employing an anonymous survey of top decision-makers, has shown that the agricultural lobby has had little impact on the past CAP reforms, not because it is not powerful—it is still one of the most important forces to be reckoned with—, but because it has a tendency to make unreasonable demands and it offered no realistic solutions for dealing with budgetary and trade policy pressures. Syrrakos (2008) drew similar conclusions using 78 elite interviews with decision-makers. Both national and supranational agricultural lobby groups have been sceptical, if not staunchly anti-reform, but this did not prevent previous reforms from taking place. Closed-door discussions in the Special Committee on Agriculture (SCA) and both public and closed-door debates of the Agriculture and Fisheries Council of the EU (AGRIFISH) and interviews with policy-makers—conducted for this thesis—generally confirm this. For example, one high-ranking DG AGRI official divulged in an interview that they personally

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challenge anybody to tell them the time when the DG AGRI made a proposal that the European farm lobby, the COPA-COGECA,[12] liked! The same official went on to elaborate that:

> Especially after the enlargements, there is so much split[ing] among [farmers' lobbies] themselves that they come late, with positions that don't really match! And in the years I have been in DG ARGI, I have seen DG AGRI being much more sensitive to national sensitivities, to ministers' and national interests. […] The COPA-COGECA sees us [at DG AGRI] as a balancing force [against the environmental lobbies] because otherwise [policy] would go in a different direction. But they don't really play a role. When I see and compare them with the Farm Bureau,[13] which is one of the 10 strongest lobbies in Washington, this [COPA-COGECA] doesn't have power. (personal views of an high-ranking EC official, 2018)

Another high-level EC official recalled that from the time they had just begun working on agricultural policy and first met the budget Commissioner, the attitude they encountered towards farm lobbies in other parts of the Commission was exemplified by the quote below:

> The first question that the Commissioner in charge of the budget at the time asked me was: "tell me why I would have to support a community that—no matter what I do—is always complaining?" Because why would you support someone throwing eggs at your window every day? (personal views of an high-ranking EC official, 2018)

Revisionist scholars—such as Roederer-Rynning (2002; 2007) and Konold (2010)—have even challenged the view that farming lobbies are all powerful (when it comes to agricultural policy and its budget) in France, the country perhaps most associated with fierce defence of the CAP and its budget, especially in the early decades of the policy. Konold (2010, p. 330), studying the French strategy toward the EU-Mercosur trade negotiations, concludes that '[i]f the farm lobby exerts influence, this is only the case because the government allows them to do.' It can therefore be concluded that there must be something *beyond rent-seeking by agricultural special interests* if the 'usual suspects' story does not hold up even in the most likely case: the domestic politics of France.

[12] The Committee of Professional Agricultural Organisations - General Confederation of Agricultural Cooperatives (COPA-COGECA), with the acronym being derived from the original French 'Comité des organisations professionnelles agricoles - Comité général de la coopération agricole de l'Union européenne.'
[13] The American Farm Bureau Federation (AFBF)

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The puzzle

The CAP is an empirical puzzle: on the one hand, the CAP causes many problems for both national and supranational authorities in Europe without bringing substantial benefits—as noted by the European Union's own Court of Auditors (2019). Radical reform could bring economic benefits to those authorities (both in terms of drawing legitimacy from good governance and in terms of using funds freed from CAP to satisfy other constituencies) and to a number of other powerful actors, the latter including (non-agricultural) business lobbies and the EU's trade partners. On the other hand, the main beneficiaries, while far from negligible when it comes to power, do not appear to be strong enough to maintain their rents through rent-seeking, especially considering that institutional reforms of the EU have weakened the veto players' hands with the introduction of qualified majority voting. As some eminent observers have noted, '[i]t would therefore be logical to expect much more significant policy adjustments than were observed' (Swinnen, 2014, p. 138). Yet, we have not seen any meaningful overhaul of the CAP, only "muddling through" types of reforms with incremental tinkering.

The purpose

Solving the empirical puzzle can potentially contribute (more narrowly) to understanding multi-level governance in the EU and (more broadly) to New Institutional Economics (NIE), also know as the new- or neoinstitutionalism. With the NIE, a term which Nobel Laureate, North had borrowed from Eggertsson's (1990, p. xii) research project, North had set out 'to discover how institutions evolve through time and why institutions that produce poor economic (and political) performance can persist' (North, 1993, p. 12). Transaction costs, property rights, and contractual relations are the core concepts of the NIE literature (Furubotn & Richter, 2005,

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p. 34). Furthermore, using the NIE approach means applying the methodology of economics to research how institutions affect the addressees of rules, how institutions come into existence, and, perhaps most relevant for policy, how they should be designed in order to fulfil selected objectives (Voigt, 2002, pp. 22-44). Applying economic methodology to non-market decision-making also forms the core of Public Choice[14] (Kirchner, 2007, p. 21), which has the same subject matter as political science. Together with ‘the need to integrate the insights of other social sciences, of context and to create a better interaction with policy-making,’ it forms an approach that Csaba calls ‘new political economy’ (Csaba, 2007, p. 21).’

Since the CAP takes up a large share of the EU’s budget and because the direct payments of the CAP act as automatic stabilisers—even if very flawed and ill-targeted—in the EU, reform or its absence is also relevant for the governance of the Economic and Monetary Union (EMU). Several authors, such as Nowotny (2018) and Jaillet et al. (2022), have critiqued that the EU—or, more precisely, the Eurozone—is a monetary union without being a fiscal union. Because the EU is subject to symmetric and asymmetric shocks that the EMU is currently not fit to address, this is a source of major problems. Hence, the way the EU’s budget is negotiated—discussed in more detail in the 8th and 9th chapters—is also topical for the broader discussion of economic governance in the EU. The purpose of this dissertation is, therefore, to help political scientists and policy-makers[15] understand what obstacles are faced when improving European Union governance in general and agricultural policy in particular.

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[14] Focusing on non-market decision-making distinguishes Public Choice from "individual choice," which addresses only one aspect of resource allocation and ignores resource allocation via non-market processes, such as the state, where choices are made in elections and in the bureaucracy (Kirchner, 2007, p. 21).
[15] It would be especially interesting and relevant to those policy-makers who are above or not directly engaged in agricultural policy-making but who nevertheless have to make important decisions regarding issues like European or national budgets, which weigh heavily on agricultural policy.

The case study approach

One could, perhaps, ask at this point why an in-depth study of the European Union's agricultural policy reform is the best way to go about answering North's (1993, p. 12) question 'why can institutions that produce poor economic (and political) performance persist?' Indeed, based on Odell's (2001) review of case study methods in international political economy, it might appear as if a comparative case study would have better chances of solving the empirical puzzle. However, it can be argued that this is not so because, as Senior Nello (1997) points out, the 'key to interpreting the EU experience is that the models that were developed for the US system […] lend themselves badly to what is very much the *sui generis* nature of EU agricultural decision-making' (Senior Nello, 1997, p. 16). But the *sui generis* nature of the EU does not mean that it cannot produce generalisable insights for the new political economy field (Puetter, 2014, p. 3).

Rather, what the *sui generis* of the EU means is that the CAP is an excellent deviant case. According to Lijphart (1971), a deviant case is selected for studying in order to uncover why the cases are deviant—that is, to reveal important but previously uncovered information such as variables, or 'to refine the (operational) definitions of some or all of the variables' (p. 692). The CAP is a deviant case because it produces dismal economic outcomes—just like other agricultural policies places like the US do—despite the fact that the "usual suspects", rent-seeking farm lobbies, are not that powerful and, hence, cannot be used to explain the policy choice. As discussed in more detail in the 4th chapter covering the methodology, for this study, such variables could be political-institutional arrangements[16] (or simply institutions, as they

[16] The term "political-institutional arrangements" might be preferred to the term "institutions" because, in the context of EU studies, the word "institutions" usually refers to the following entities: European Commission, European Parliament and Council of the European Union. To avoid confusion and to align the vocabulary with what practitioners in Brussels use, the word "institution" will be used to refer to the European Commission, European Parliament and Council of the European Union. The term "political-institutional arrangements" will be used to refer to what scholars of New Institutional Economics know as "institutions" (rules).

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are known in the NIE literature), actors and pressures. The idea is that such 'case studies can have great theoretical value. They weaken the original proposition but suggest a modified proposition that may be stronger' (Lijphart, 1971, p. 692). Of course, the validity of the theoretical propositions of thesis need to be confirmed by further comparative analysis - but that comparative[17] research would be beyond the scope of this dissertation.

The summary

It can be briefly summarised that the dissertation proposes a two-fold answer to the main research question. Firstly, using the interview material, this dissertation shows that agricultural bureaucrats of the Member States believe that 'agriculture is a sector unlike any other economic sector, and, as such, warrants special support' (Skogstad, 1998, p. 467). Driven by these agricultural exceptionalist views, national agricultural bureaucrats use venues like the SCA and the AGRIFISH to form transnational inter-bureau coalitions that put pressure on the Commission not to propose anything they do not like or—if this does not succeed—they block or water down the proposals in these venues. Agricultural bureaucracies benefit from the fact that agriculture is the only policy area that by-passes the COREPER. Secondly, the Multiannual Financial Framework (MFF) negotiations suffer from intergovernmental bargaining failure. Leaders of the Member States are focused on the "juste retour", the net budgetary position of their Member State towards the EU's budget (Benedetto, 2019; Citi, 2017; Richter, 2008). Due to unanimity voting in the European Council, any head of government can block the adoption of an MFF that results in significant deterioration of his or her "juste retour". The absence of an MFF agreement means that the previous budget is rolled over. The Commission cannot propose an MFF that compensates all losers with a lump sum nor with spending in other policy

[17] While the *sui generis* nature of the EU would make it difficult to compare the results with other countries, cross-policy comparison within the EU might be the way to go.

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areas. The Commission cannot offer compensation to the losers through increased spending in union's other policies because it is impossible to come up with a distribution key that follows the public-money-for-public-goods principle and, at the same time, does not change any Member State's "juste retour". What North (1990a) and Dixit (1996) call the "transaction costs," therefore, prevent Pareto-improving MFFs from being negotiated.

Outline of the dissertation

The chapters of this dissertation are organised as follows: the second chapter presents a comprehensive literature review of the political economy of the CAP. Theoretical propositions that answer the main research question—very briefly summarised in the previous section—are presented in more detail the third chapter, together with the discussion of testable hypotheses. The fourth chapter provides a brief description of the methodology used to test these hypotheses. The fifth chapter gives an overview of what radical reform of the CAP would actually look like based on public policy literature. Views of prominent agricultural economists are used as a benchmark for the reform in this chapter. The sixth chapter of the thesis discusses the history of the CAP and its muddling through reforms from 1992 to Agenda 2000. The seventh chapter discusses the 2007-2013, 2014-2020 MFF negotiations and the 2003 and 2013 reform of the CAP. The eighth chapter explains the continued resistance to radical reform using the 2021 CAP reform process and closely related 2021-2027 MFF negotiations as an example. Finally, the ninth chapter discusses the impacts of the European Green Deal and the EU's Sustainable Finance Strategy (SFS) on agricultural policy. The concluding chapter summarises the results, discusses these conclusions in the broader context of New Institutional Economics (NIE) literature and proposes avenues for future research.

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Chapter 2: Literature review

This chapter reviews political economy literature that has attempted to explain the CAP and the outcomes of its various reforms. The purpose of this review is to expand on the empirical puzzle and to lay the foundation for the next—theory—chapter. Major theories that have been applied to explain the CAP include intergovernmentalism (Moravcsik (2000)), path-dependency (Kay (2003), and Daugbjerg (2009)), rational choice institutionalism (Pokrivcak, Swinnen and Crombez (2006)), and public choice, specifically rent-seeking by agricultural lobbies (Poczta-Wajda (2016), and Schmitz et al. (2022)), joint-decision trap (Scharpf's (1988), and Roederer-Rynning (2010; 2011)), multi-level games (Avery (1993), Patterson (1997), and Garzon (2006)) and comparative political economy, specifically the Varieties of Capitalism (Collantes (2020)). Intentionally left out are political economy theories which—to the best of the author's knowledge—have not been applied to the EU's agricultural policy reform. Similarly, the provided review does not try to capture all international relations or European integration theories. Furthermore, the categorisation of the literature under the headings listed above is not definitive. Some theories can be argued to be mutually inclusive of others. Some could also be easily categorised as sub-theories of larger—baseline—theories.

Path-dependency theories

Kay (2003) applies Pierson's (2000) path-dependency theory to the MacSharry reform of the CAP. Kay argues that path-dependency is an ideal theory to explain how the CAP has survived several crises, why change has been moderate, why the basic redistributive objectives of the policy remain, and why the CAP's distributional outcome has been remarkably stable. Kay's approach, while excellent in explaining persistence, nevertheless remains weak in explaining why the MacSharry reform of 1992 took the CAP away from the quota path established in

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1988. A better application of path dependency to the CAP is pursued by Daugbjerg (2009), who uses Mahoney's (2000) reactive sequences theory.[18] Daugbjerg goes on to argue that the past reforms have been institutionally induced. They originated from the Commission, whose duty it was to handle the EU's finances and negotiate on the EU's behalf in the GATT (and later WTO) negotiation rounds. When a budget or multilateral trade negotiations related trouble was looming, political entrepreneurs in the Commission engineered modest reforms to prevent the institution's output legitimacy from being undermined. Daugbjerg does not, however, address the question of why the Commission did not try to pursue more radical reform proposals when the CAP was at a critical juncture. Was it a lack of motivation by the Commission's officials or resistance by some actors? If so, who exactly were and are these actors? For the application of the path-dependency approach, this question becomes even more acute in the discussion following the "business as usual" reforms of the CAP in 2013 and 2021 and the MFF negotiations that led to the 2014-2020 and 2021-2027 budgets, respectively. To emphasise, the issue is not that path dependency lacks explanatory power – rather, theoretical insights from the path-dependency need to be augmented to overcome the above-raised questions. Path dependency, when conceptualized as 'a self-reinforcing process involving positive feedback' (2004, p. 20) is struggling when the positive feedback in the form of resources—the direct payments—go to a player who unable to use these resources to "capture" the Commission, who does not seem to have the power to block policy reforms, not to mention force through reforms that would give the player even more resources. Hence, at minimum, the mapping of the path dependency theory's feedback loop needs to be re-examined in the case of the CAP.

[18] Reactive sequences are defined as 'chains of temporally ordered and causally connected events' (Mahoney, 2000, p. 398)

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Rational choice institutionalism

Pokrivcak et al. (2006) have constructed a formal model of EU decision-making for agricultural policy. Their model is designed to assess the conditions under which the CAP reform takes place and the impact the European Commission has on this reform. Pokrivcak et al. (2006) focus on rules, namely voting and amendment rules in the Council of the EU. They conclude that tougher voting procedures enhance the status quo bias and decrease the Commission's impact, whereas stricter amendment rules that prevent member states from changing the Commission's proposal increase both the status quo bias and the Commission's influence. Pokrivcak et al. (2006) conclude that the greater the magnitude of external change, the more substantial the change in policy and the Commission's effect on the outcome. However, Pokrivcak et al. (2006) work is not without drawbacks. For one, the decision-making environment has changed since they wrote their article. Notably, the Lisbon Treaty has introduced co-decision, which has enhanced the powers of the supranational European Parliament. More importantly, research has shown that the European Council has gradually become the most powerful body in EU's policymaking (Puetter, 2014). At the very least, a careful analysis—using empirical evidence from the 2013 and 2021 "muddling through" reforms of the CAP—is due before it can be concluded that the lack of radical reform can still be explained conclusively with Pokrivcak and his colleagues' formal model.

Secondly, Pokrivcak et al. (2006) focus on the CAP reform, not the MFF negotiations. They show that the move from unanimity decision-making to qualified majority voting will be conducive to reform on the condition that the Commission, which has the monopoly of making legislative proposals, is reform minded. The issue here is that while the CAP reform itself is being adopted with the QMV, the MFF is arguably more important for bringing about radical reform. Although Pokrivcak et al. (2006) have spent a lot of effort to create a formal model that could operate within various levels of supermajority voting rules, their model can handle

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unanimity situations too. The MFF negotiations can be conceptualised as a special case in Pokrivcak et al. (2006) framework, where all the Member States' governments have veto power in the European Council. Formally, the EU's budget is proposed by the Commission and approved by a unanimous decision of the Council of the European Union after the European Parliament has approved it (given "consent") in a majority vote. In reality, it is the European Council that debates and decides the fate of the budget, usually in a marathon negotiation session. Hence, some focus in research needs to shift from the Agriculture and Fisheries Council configuration (AGRIFISH) of the Council of the EU—which adopts the CAP reforms and nowadays does so with QMV—to the European Council, which adopts the MFFs and does so using unanimity. Furthermore, failure to reach any decision needs to be better integrated into the model. In Pokrivcak et al. (2006) model, this would merely constitute a special case (no agreement is possible) of a special case (unanimity voting in the Council), and hence, they do not pay attention to this. But from a theoretical perspective, the failure to reach an agreement is very important because—however unlikely—it has a different impact on the actors involved. The failure to reach an agreement can, therefore, potentially be used as leverage by some actors.

Thirdly, as Pokrivcak et al. (2006, p. 585) observe, there 'is little information on decision-making since only final decisions of the Council are available. […] Hence, there is a strong need for better empirical information and much scope for useful empirical research in this field'. In other words, while Pokrivcak et al. formal model goes some way toward answering the main research question, there is still a large void that needs to be filled with empirical evidence. Pokrivcak et al. leave questions such as whether the Commission is reform-minded or not unanswered. This thesis—as discussed in more detail in the coming chapters—tries to address this and other similar questions by using elite interviews to uncover the opaque black box of EU agricultural policymaking (which Pokrivcak et al. (2006) only observe from the outside).

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Public Choice and rent-seeking theories

Political economy theories of rent-seeking, such as works by Buchanan and Tullock (1999 [1962]), Tullock (1967), Krueger (1974), Posner (1975) and Bhagwati (1982), also appear as an appealing basis for the study of the CAP. Indeed, as discussed in the previous chapter, rent-seeking is the traditional or standard explanation. Schmitz et al. (2022) state that—or so their narrative goes—experts often cannot agree on what the economic problem in agriculture is. Political entrepreneurs[19]—whose interests are also not always transparent—then, in turn, frequently employ agricultural policy to address the current crisis. Alternatively, they create the impression that there is a farm crisis when there is none. For Schmitz et al. (2022), this is compatible with politicians' rent-seeking behaviour in farm states but not necessarily with lobbying attempts by farmers and/or agribusiness. Thus, agricultural policy is frequently formulated without clearly defined objectives, resulting in an abundance of potential policy responses and increasing complexity. As Schmitz et al. (2022, p. 24) bluntly observe: 'The farm problem is what politicians want it to be!' These authors observe that the lack of consensus over the objectives of the policy creates a fertile ground for the farmers to lobby the government for subsidies. Schmitz et al. (2022, p. 27) present what they call 'traditional arguments' to explain 'why governments intervene in an economy and how rent-seeking activities can lead to paths that are not supported by the theory of optimal government intervention.' The authors rely on the public-choice theory, the basis of which is the government's self-interest. That is,

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[19] Moe (1980) defines a political entrepreneur as a 'hypothetical individual who exploits profitable opportunities by providing, or promising to provide, services that are designed to attract support from individuals who might find them of value.' (p. 36) Moe explains that it is not hard to understand how the well-known entrepreneur-client relationship could be productively extended to a variety of intriguing circumstances between leaders and constituencies. 'Legislators, presidential candidates, party and group leaders, revolutionary figures – all these and more can be approached from an entrepreneurial perspective… we assume the entrepreneur is boundedly rational and economically self-interested … he will act rationally to maximize his own material surplus' (Moe, 1980, p. 37)

governments have objectives they attempt to maximise – the most important of which is power retention. In liberal democracies like the EU member states, this manifests in getting re-elected and being included in the new (coalition) government. In such a setting, governments will curry favour with specific groups whose support they require by appeasing them with favourable rules and regulations, tax cuts and levies, or subsidies that improve their economic position. Special interest groups form and engage in this process by spending resources on activities such as donating to campaigns of politicians who are most inclined to appease them. Besides financial and direct ballot contributions, special interest groups can also help their cause by securing favourable media coverage. In other words, there exists a “political market” in which governments pay subsidies to farmers in exchange for their support of a certain political party. Political entrepreneurs, of course, respond favourably to the support they get since it is in their best interests to do so (Gardner B. L., 1996; Babcock, Carter, & Schmitz, 1990). Public-choice theory places emphasis on voting and political entrepreneurs as means by which individuals maximise their utility from political outcomes. This is based on Buchanan & Tullock’s (1999 [1962]) theorising that politicians provide services in response to the public's needs. Political behaviour must be analysed as though each participant—individual voter, political entrepreneur etc.—is seeking to maximise his or her individual welfare.

Rausser (1992) applies the rent-seeking theory to the US agricultural policy. He observes that the US farm policy has resulted in both the enhancement of efficiency through socially beneficial "productive policies" (such as investment in research and innovation) and the redistribution of capital and revenue to special interests through "predatory policies.” As various interest groups exert pressure on the political process, the government alternates between socially helpful and predatory policies in an effort to obtain, balance, and secure political power. However, once policies are in place, they transform into programmes with concentrated benefits and widespread expenses. Rausser observes that much of the US’s

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agricultural policy legislation has become 'a vehicle for codifying rent-seeking behaviour' (Rausser, 1992, p. 135). Similarly, Senior Nello (1984) has applied public choice theory to explain the dismal performance of the old CAP that existed before the 1992 MacSharry reform. Senior Nello identified the apparent preponderance of producer interests over consumer and taxpayer interests in agricultural policy-making of the 1980s European Economic Community. She went on to recommend modifications to voting procedures at the EC level that might counteract this trend. However, as shown in the later chapters, these recommendations—particularly the use of qualified majority voting in agricultural policy matters—have not been enough to bring about radical reform in the CAP.

More recently, Schmitz et al. (2022) and Poczta-Wajda (2016) have employed the rent-seeking theory to explain the unsatisfactory performance of the EU's agricultural policy. Just like Gardner (1987), Poczta-Wajda (2016) assumes political entrepreneurs in government face a redistribution dilemma as they have to decide how to divide benefits between consumers and producers. She relies on an earlier modelling of the impact of rent-seeking by special interest on the EU's agricultural policy decisions that was constructed by Jonsson (2007). Due to the CAP being an EU-wide policy, Jonsson (2007) argues that lobbying—as a collective activity by the agricultural community—ought to also be analysed at the EU level. Consequently, he evaluated the impact of the EU-level special interest groups on the CAP by examining the policy decisions made in regard to 15 different sets of agricultural commodities over a period of eighteen years. The findings of this study indicate that Euro-group lobbying has influenced the CAP. It is worth noting that Jonsson (2007) did not look into the far costlier decoupled direct payments that had been established just a few years before the publication of his article, but instead specifically focused on commodity price support programs as causal links were easier to establish in that instance. At the end of Jonsson's (2007) sampled period in 2003, all market-related expenditures combined accounted for only 21% of the CAP's budget. And even

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then, Jonsson's research actually yielded only partial confirmation of his rent-seeking thesis. Poczta-Wajda, nevertheless, took Jonsson's (2007) observations even further and argued that agricultural organisations in the EU (such as COPA-COGECA in the EU) are able to secure significant amounts of income transfers to EU producers. Poczta-Wajda also notes—just like Schmitz et al. (2022)—that rent-seeking behaviour can also take the shape of social campaigns designed to sway public opinion. In problems involving technical rules, health standards, and other measures whose appraisal necessitates specialised expertise, a potential to gain additional political rent is present (Poczta-Wajda, 2016). She concludes that:

> The European Union's Common Agricultural Policy is a modern example of the phenomenon of rent-seeking. The state plays an important role in facilitating rent-seeking and rent protection in Europe. A large part, sometimes even the majority, of the income obtained by farmers in the EU is a result of political decisions and the financial support received, rather than of productive activity. The level of subsidies and other benefits is decided by the authorities at European level. Though decreasing over time, the various forms of transfers to the agricultural sector and rural areas amount to almost half of the total EU budget. One must also add the losses to consumers resulting from higher food prices. It can be assumed that these subsidies are partly a consequence of the political activities of interest groups. In order to secure these benefits, farmers continue to engage considerable resources in lobbying efforts. Rent-seeking or rent-protecting behaviours of European farmers also include their engagement in actions to influence public opinion such as demonstrations, dumping agricultural products on the street or blocking traffic with tractors. (Poczta-Wajda, 2016, p. 55)

However, as briefly elaborated in the introduction chapter, rent-seeking theories suffer from several drawbacks. For one, they seem to be much better suited to explain agricultural rent-seeking in polities—such as the US—that use first-past-the-post (FPTP) voting systems to elect legislators. The FPTP voting systems can empower marginal constituencies—such as farmers—in swing districts/states/provinces. The EU's quasi-federal political system, on the other hand, seems to be almost designed to do the opposite. Most of the EU member states use some form of proportional representation to elect the legislature. The same holds for the European Parliament too. Secondly, authors such as Schmitz et al. (2022) and Poczta-Wajda (2016) place emphasis on agricultural special interests. Adherents to the rent-seeking explanation essentially infer—from the fact that farmers benefit from the CAP and therefore

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have an incentive to defend the policy and its budget share—that agricultural special interests must be behind the outcome. The problem with this approach is that empirical support for its main claim is scarce at best. Jonsson (2007) did find some support for lobbying having an effect when he turned his attention to narrowly focused commodity price support programs during the 1986-2003 period. However, research conducted by Field and Fulton (1994, p. 16) indicates that agricultural special interests are 'relatively ineffective at the supranational level.' Research by Cunha and Swinbank (2009; 2011)—employing an anonymous survey of top decision-makers—only confirms that rent-seeking by agricultural special interests, at least on the EU level, is not what is deterring decision-makers from reforming the CAP and reducing its budget share. Syrrakos (2008) drew similar conclusions using 78 elite interviews with decision-makers.

This finding does not mean that public choice and rent-seeking theories should be disregarded. In fact, on the contrary – as will be discussed in more detail later, farmers are not the only beneficiaries of the CAP. As Niskanen (1968) observes, rent-seeking also takes place within bureaucracies. However, in the case of the CAP reform, the focus must shift from the EU level to the national level bureaucracies. Hence, the hypothesis that the lack of reform and persistence of the CAP's budget can be explained by EU farmers having come together and organised an effective EU-level lobby (the COPA-COGECA has somehow politically captured the European Commission—or at the very least, the DG AGRI—by supplying votes in the European Parliament and national elections and by funding campaigns of pro-agricultural special interests politicians). As a result, this hypothesis can be put to rest.

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Joint-decision trap

Another way to approach the puzzle would be to use Scharpf's (1988) joint-decision trap. Building on the historical institutionalist theory, Scharpf (1988) contributed to theory building by considering earlier decisions as having a negative and restricting influence on states. To that end, he compared the decision-making of the Federal Republic of Germany (FRG) and the quasi-federal European Community, as the latter polity was officially called before the Maastricht Treaty in 1992. Scharpf contends that in both instances, the direct participation of federal subjects—Länder in the Federal Republic and member states in the quasi-federal EU—in important policy choices and the de facto need for unanimity results in the sub-optimal policy. In fact, Scharpf (1988) explicitly uses the CAP as an example of this, observing that:

> the centrepiece of European economic integration, Common Agricultural Policy, is now almost universally considered a grandiose failure. CAP has managed to generate huge agricultural surpluses, at the expense of European consumers and taxpayers who have to pay twice, for food prices far above the world-market level as well as for enormous subsidies for the purchase, storage and disposal of surplus production. And in spite of it all, CAP has neither been able to assure acceptable family incomes for small European peasants, nor has it maintained its major original achievement of common prices in a common European market for agricultural goods. Thus, if there should be any 'spill overs' at all from functional integration, they are more likely to be negative. Indeed, the controversies over British contributions, which almost wrecked the Community in 1984, were closely related to the perversities of CAP, and so are the budgetary conflicts with the European Parliament. (Scharpf, 1988, p. 241)

However, Scharpf (1988) also identifies an exception to his dismal conclusion. When the member states of the EU or länder of the FRG are engaged in what Scharpf calls "problem-solving", sub-optimal policy outcomes can be avoided. However, when the member states and Länder engage in a "bargaining" style of decision-making, a sub-optimal outcome is almost unavoidable. What is worse, as observed by Scharpf, in the case of both the EU and Germany, the "bargaining" approach to decision-making has triumphed. For Scharpf, this "joint-decision trap" with the utility functions of member states and Länder. Existing institutional arrangements—notwithstanding their sub-optimal policy output—appear to constitute "local optima." At least political entrepreneurs running the Länder appear to think so when they

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compare the outcome to either a greater accumulation of power in the hands of the centre or the dissolution of the national polity.

The joint-decision trap theory has been applied to the CAP too. Roederer-Rynning (2010; 2011), for example, uses Scharpf's (1988) concept of the theory to explain why it was so difficult to reform the CAP in the first thirty years of its existence. She argues that the CAP was finally reformed in the 1990s only because the unity of the agricultural community broke down. Problems of the CAP highlighted that farmers with different farm sizes, from different countries and producers of different agricultural products might transform from allies to competitors if their rents were going to be scrutinised. She further argues that the farm community was bypassed through legislation in the field of budget-making and food safety (2010, p. 194).

Roederer-Rynning (2010; 2011) succeeds in explaining the early history of the CAP. Ironically, this makes it, arguably, harder to use the theory to explain events in the 21st century, particularly the outcomes of the 2013 and 2021 reforms of the CAP. Essentially—or so Roederer-Rynning's (2010, p. 181; 2011) narrative goes—Scharpf's joint-decision trap was in place until the early 1990s, and then the 'fortress' crumbled. This made the MacSharry reform of 1992 and Fischler's Mid-Term Review of 2003 possible. But how come the reforms then suddenly stopped? The 2013 and 2021 reforms were, arguably, muddling through reforms at best and partial regressions at worst. Did the joint-decision trap somehow re-emerge? Was there a short window of opportunity between 1992 and 2003 when the trap was malfunctioning and progress could be made before the trap was "fixed"—by whom, why and how?—and began blocking any further progress?[20] More fundamentally, it is not quite clear how useful the

[20] In the updated version of her 2010 chapter about the policy "fortress" CAP, Roederer-Rynning (2020) no longer emphasises Scharpf's joint-decision trap. She mentions the term only once and proceeds to discuss a variety of possible causes for the continued existence of the "fortress."

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approach of dividing decision-making into "problem-solving" and "bargaining" is. At least in the case of the EU's agricultural policy, the bargaining mode seems to have dominated throughout its history.

While Scharpf's insights about the bargaining style of decision-making with informal or formal unanimity leading to suboptimal policy outcomes are still valuable, the application of the joint-decision-making trap on the continuity and change in the CAP would have to be expanded significantly. In particular, the joint-decision trap seems to take member states' interests as a given instead of investigating how they came about. Secondly, the joint-decision trap theory, when illustrating the bargain-style of policymaking, presumes that there is a zero-sum game at the (quasi)federal level. However, as discussed in the empirical puzzle, this need not to be the case. Due to increases in allocative efficiency and reduced waste and bureaucracy, it is—at least theoretically—possible to make all member states better by reforming the CAP and reshuffling the EU's budget. Of course, there would be losers domestically in all or most member states. Nonetheless, if the joint-decision-making trap is the culprit, then—at the very least—its exact working mechanism at the (quasi)federal level would need to be clarified, and this analysis would have to take into account domestic political influences.

Multi-level bargaining theories

Several researchers[21] have used Putnam's (1988) multi-level games to study the Uruguay Round of agriculture negotiations of the early 1990s and compiled their findings in a volume—edited by Avery (1993)—and published prior to the conclusion of the Uruguay Round in March 1994. According to Putnam (1988, p. 434) there are two interlinked levels of policy-making. Firstly, at the domestic level of the game 'domestic groups pursue their interests by pressuring

[21] For example, Moyer (1993).

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the government to adopt favourable policies, and politicians are seeking power by constructing coalitions among those groups.' Secondly, on the international level, 'national governments seek to maximise their own ability to satisfy domestic pressures while minimising the adverse consequences of foreign developments' (ibid). Central to Putnam's thesis is the idea that the negotiations do not advance sequentially from one level to the next but rather occur simultaneously at all levels. What occurs at one level of negotiations 'reverberates'—to use Putnam's (1988, p. 454) own term—throughout the others. This reverberation indicates that strategies and outcomes at several game levels influence one another concurrently. Furthermore, to the extent Putnam's (1988) multi-level games presume the rationality of actors (national political leaders) and take constraints faced by these actors on the two levels as fixed, at least in the short-run, multi-level games can also be seen as complementary to the institutionalist and liberal intergovernmentalist approaches.

In any case, since the 1992 MacSharry reform of the CAP was entangled in the Uruguay Round trade negotiations—as analysed in Avery's (1993) edited volume—it was a valid hypothesis to make that Putnam's (1988) multi-level games approach can also be applied to the future reforms of the CAP in a similar manner. However, a closer a look reveals that while this "intermestic" approach—as Thies (2001, p. 403) has labelled it—is an improvement over a solely domestic-level theory, its predictive and explanatory powers were nevertheless left wanting. In particular, academics who contributed to Avery's (1993) edited volume concluded confidently that domestic agricultural lobbies will always block initiatives to liberalise agricultural trade. This was, after all, the case with all prior rounds of GATT negotiations. Governments and their domestically organised agricultural special interests had typically proclaimed that agriculture is unique and deserving of protection from market forces. However, as discussed in the 6th chapter, agricultural interests did not prevail in the Uruguay Round. Although the 1992 MacSharry reform did not bring about radical reform of the CAP, tinkering with the policy was

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sufficient for the EU to sign up for the Marrakesh Agreement of 1994, which brought the Uruguay Round to a successful end.

A more successful attempt to apply Putnam's (1988) theory to the CAP reform has been carried out by Patterson (1997). Patterson compares the 1988 reform of the CAP with the 1992 MacSharry reform—discussed in the 6th chapter—and offers theoretical reasoning why much more was achieved in the MacSharry reform. Patterson (1997, p. 141) puts forward the idea that the 'unique structure of the EU' necessitates the expansion of Putnam's two-level game to a three-level interactive game. In the case of the European Economic Community (as the EU was known before the Treaty of Maastricht took effect in 1993), there is an extra level of the playing field—the Community level—between the domestic and international levels. At this Community or EU level, the Member States concurrently pursue domestic objectives and cooperative integration. She goes on to demonstrate that the CAP reform of 1992 became possible because, unlike in 1988, Germany was more internally split by opposing interests in 1992 than it was back in 1988. She argues that in 1992, Chancellor Helmut Kohl had a higher degree of autonomy vis-à-vis the German agriculture lobby than in 1988. In addition, the cost of no agreement at all levels was higher in 1992 than it was in 1988. In addition, Agricultural Commissioner MacSharry of the European Commission was granted a higher degree of authority in 1992. This allowed MacSharry to employ a strategy of pitting the Geneva and Brussels discussions against one another. By doing so, MacSharry strengthened the forces supporting a more ambitious CAP reform at the Community level, and it allowed the EU to sign up to the Agreement on Agriculture (AoA), thereby removing the last major hurdle to a successful conclusion of the Uruguay Round (Patterson, 1997, p. 145).

Employing Patterson's (1997) three-level games theory to the 21st-century attempts to reform the CAP, however, runs into trouble. For one, it is doubtful whether there is still a need for three levels. While the 2003 reform—discussed in more detail in the 7th chapter—was indeed

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influenced by the policy-makers' fixation with the upcoming Doha Development Round (DDR) launched in November 2001, the Doha trade negotiations have been stalled ever since. The CAP, on the other hand, has gone through several "muddling through" reforms. And as Swinbank (2015) has shown, trade negotiations had almost no impact on the 2013 reform. The same can be said about the 2021 reform, too (discussed in more detail in the 8th chapter). With this in mind, it is far from clear if Patterson's (1997) third and Putnam's second level—international—actually add value to the theory. One could, perhaps, propose that the absence of the international level is the explanation: since there was no pressure from the WTO multilateral trade negotiations, radical reform of the CAP in 2013 and 2021 was also not possible. This is an interesting hypothesis to make, but—given the possibility of Pareto improvement at the EU level—it does not address the question of why no deal could have been made at the Community level. More precisely, if the multi-level games approach is to be used, the theory would have to be tested again using the empirics from the 2013 and 2021 reforms.

This issue has not gone unnoticed. Hence, a more complex narrative of the 2003 reform is offered by Garzon (2006, p. 2), a former European Commission official, who proposes 'to combine multi-level, multi-issue and multi-lateral bargaining frameworks, complemented by policy network analysis.' She contends that institutions are a crucial variable in the process of policy reform because institutions have a direct impact on the ability of various actors to influence decision-making. She uses political economy analysis and looks at how both formal and informal interests operate within multi-level institutions. Although Garzon discusses Putnam's (1988) and Patterson's (1997) multi-level games, she neglects to combine the large number of theories she uses into one coherent theoretical framework – a critique shared by Daugbjerg (2007) in his review of Garzon's book. Garzon's case study is also limited to only one instance of reform—the Fischer Reform.

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Comparative political economy

One of the most eminent approaches in comparative political economy is the Hall & Soskice's (2001) seminal *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Hall & Soskice (2001) propose that there are two different forms of capitalism that are able to overcome coordination problems and foster innovation. These two forms—which Hall & Soskice call the varieties of capitalism (VoC)—are the Liberal Market Economy (LME) and the Coordinated Market Economy (CME). The former can be found in the Anglo-Saxon countries and—with the risk of over-simplification—characterised as laissez-faire capitalism that is able to generate radical innovation. The latter can be found in continental Europe and—again, with the risk of over-simplification—characterised as democratic-corporatist capitalism that is able to generate incremental innovation.

At first glance[22], it might appear as if the CAP could be conceptualised as one of the institutions of the CME. Keeler (1987), for example, characterised agricultural policy-making in the French Fifth Republic as corporatist politics carried out by the French state in close collaboration with farmers' representative organisations. Keeler, whose seminal study of the agricultural politics in France predated Hall & Soskice's (2001) varieties for more than a decade, did not elaborate on all of the features of the polity itself with the same structure and detail as Hall & Soskice do. That being said, associations can be drawn, at least in regard to France, as analysed in Keeler's (1987) study.

For one, the old CAP—as discussed in more detail in the 6th chapter—could be characterised as a policy that creates non-market relations in the sense that primary producers, facing secured and high prices, were far removed from market signals. There was—and to a degree, still is—

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[22] Keeler (1987), for example, views agricultural politics in the French Fifth Republic as Neo-Corporatist. In a similar vein, Hall and Soskice (2001, p. 281), when discussing the politics of decentralised cooperation, explicitly refer to Keeler's work.

strategic interaction among farmers and other actors, namely member states' agricultural bureaucracies and, to a lesser degree, the European Commission's DG AGRI. With some caveats discussed later, relationships between farmers during the first decades of the CAP could also be described as collaborative rather than competitive. To the extent that such a comparison can be made between wages and other types of income, "wage bargaining" has also taken place mainly at the industry level. This was so because during the old-CAP—again, with some caveats—farmers encountered the same prices for their products across the EU and were essentially negotiating with their employer, the European Economic Community. With the decision to pace out the use historical method of direct payments[23] in the 2021 reform and the resulting move towards internal convergence of support levels, one could make the case that they are still bargaining at the industry level. It is just that the method of payment has now shifted from price support to direct payments. In both cases, even if the "wages" were or are negotiated at the industry level, there has, however, always existed great inequality between how much different recipients in different member states, regions and niche commodities production earn. In the VoC literature, this characteristic is usually associated with LME rather than CME. All this has led Collantes (2020) to ask:

> Is the CAP an agricultural incarnation of the alleged virtues of coordinated capitalism? Or, rather, is the European model merely a rhetorical artefact set to make the CAP more legitimate in the eyes of public opinion and third countries? (Collantes, 2020, p. 62)

To answer this question, Collantes (2020) analyses the performance of the CAP in detail, with a particular focus on the welfare, environmental and rural development aspects of the policy. Even though Collantes (2020) is one of a handful of scholars who is, if not positively disposed, then, at least, reserved his criticism towards the CAP,[24] he too comes to a firm conclusion that

[23] The historical method of direct payments meant that farmers would receive—as their direct payment—the amount of money they lost in their annual income because the 1992 and 2003 reforms liberalised trade and lowered market-intervention prices.
[24] In an attempt to tackle what he calls the 'monster myth' (p. 46), Collantes (2020) dedicates a whole chapter of his book to downplay problems with the economic performance of the CAP.

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the CAP is and never was an example of a successful institution of a CME. He points out that the payments to farmers are not appropriately targeted toward those who need it the most. Instead, Collantes observes that payments are flowing to wealthy socioeconomic groupings such as landowners and even large businesses. Secondly, Collantes agrees with numerous critics of the CAP's environmental performance that the policy—despite its costs to the EU taxpayers—has failed to deliver on said objective. Thirdly, Collantes demonstrates that the CAP's performance in the field of rural development is also mediocre. He points out that the proponents of the CAP say that the CAP contributes to rural development because it links agricultural inhabitants to communities and because farm subsidies may eventually lead to the growth of other rural sectors, such as food processing. Collantes goes on to demonstrate that both statements are, however, based on a gross misunderstanding of reality. Collantes (2020), therefore, arrives at a conclusion that:

> The idea that the CAP has allowed the EU to shape some sort of coordinated agrarian capitalism is purely rhetorical. […] CAP's triple fiasco portrays a great myth - that of coordinated agrarian capitalism in the framework of the "European model of agriculture". Rather than coordinated agrarian capitalism, what we find is a failure to coordinate Europe's agrarian capitalism according to the values exposed by the policy-makers and largely shared by public opinion (Collantes, 2020, p. 77).

In general, the CAP poses a challenge to comparative political economy approaches such as the *Varieties of Capitalism*. As will be discussed in more detail later, some governments of the Member States of the EU that are otherwise considered to be excellent examples of the CME—Sweden, Denmark, and Netherlands, for example—have, at times, been most vocal in calls for more substantial, if not radical, reform of the CAP. If the CAP really was an example of successful coordination, why would political entrepreneurs of these member states want to dismantle or radically reform it? Secondly, as far as the *Varieties of Capitalism* approach is concerned, an explanation is needed for the apparent failure—as discussed by Collantes (2020)—to coordinate. That is, even if the radical reform along the lines suggested by

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agricultural economists—discussed in detail in the 5th chapter—is not the only possible path, it is clear that a major reform would be necessary to arrive at a policy that could be characterised as a coordinated market economy. The core tenet of the *Varieties of Capitalism* approach is that there is more than one type of successful market economy and that advanced capitalist economies have institutional complementarities that make them work. In fact, one of the general conclusions of scholars taking the VoC approach has been that trying to combine institutions from different types of market economies is unlikely to work (Cernat, 2006). The shortcomings of the CAP, however, cannot be explained by the institutional mismatch. The CAP of 2022—not to mention the pre-1992 CAP—is not an institution of the LME that has somehow ended up in pre-dominantly CMEs of the EU. Therefore, in terms of the VoC approach, the failure to coordinate needs to be addressed.

Chapter conclusions

The brief literature review presented in this chapter shows that while a number of accounts get close to explaining the empirical puzzle, they all nevertheless fall short in some respects. This means that the empirical puzzle—why is there no radical reform of the CAP?—remains standing. Even the most promising theoretical approaches—such as Scharpf's (1988) joint-decision trap—need to be complemented with empirical evidence from more recent reforms to test their continued validity. The next chapter, therefore, attempts to answer—at times also relying on or integrating insights from the reviewed literature—the question and proposes hypotheses to empirically test its validity.

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Chapter 3: Theory

> A transaction cost approach to politics offers the promise both of a better analytical understanding of the political choices made at an instant of time and an explanation for the differential performance of polities and economies over time. It does so because the level of transaction costs is a function of the institutions (and technology) employed. And not only do institutions define the incentive structure at a moment of time; their evolution shapes the long run path of political/economic change. (North, 1990a, p. 366)

If existing literature does not answer the main research question of this dissertation, what does? The main proposition put forward in this thesis is that there is a two-part story behind the absence of radical reform of the EU's agricultural policy in the 21st century. Firstly, there are bureaucratic politics, played out primarily within the ministries responsible for agriculture in most member states, the COMAGRI and—to a significantly lesser extent—also within the DG AGRI of the European Commission. This shifts the focus away from rent-seeking by the agricultural lobby. Although bureaucratic politics are not something unique to the EU, to the Member States, nor to the agricultural sector in particular, specific institutional arrangements in place in the EU give narrow agricultural policy-making community[25] leverage that this not paralleled elsewhere. But bureaucratic politics and the outsized influence that the narrow agricultural policy-making community has managed to secure do not explain why there is no

[25] For the purposes of this thesis, narrow or traditional agricultural policy-making community consists of officials working for the Member States' ministries responsible for agriculture and for the European Commission's Directorate-General for Agriculture and Rural Development (DG AGRI, or DG VI in the early days of the CAP). For practical purposes, only mid and high-ranking officials who work on the substance of the policy and whose decisions can influence the outcome are of interest. But in addition to officials, since the Lisbon Treaty, MEPs belonging to the European Parliament's Committee on Agriculture and Rural Development (COMAGRI)—and their political assistants—are also included. The narrow or traditional agricultural policy-making community should not be confused with a broader agricultural policy-making community. In addition to the above, broader agricultural policy-making community also includes officials whose duties are related to agricultural policy matters but who otherwise work for other ministries of the Member States, for other DGs of the European Commission or even for other EU institutions such as the General Secretariat of the Council. MEPs belonging to the European Parliament's Committee on the Environment, Public Health and Food Safety would also be included in this category. As discussed in the chapter on methodology, for the empirical part of this thesis, interviews were conducted with people belonging to the broader agricultural policy-making community (which incorporates the narrow one too)
Last but not least, the narrow or traditional agricultural policy-making community should not be confused with the agricultural community, which refers to farmers and members of their representative organisations instead. The agricultural community does not overlap with the agricultural policy-making community except when members of the agricultural community end up holding an office, usually as ministers of agriculture or as members of the European Parliament.

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overriding from above. The argument made in this thesis is that heads of State and Government nevertheless choose not to pursue reform path because radical reform worsens some member states' net budgetary position. The focus on the net budgetary position stems from the well-known "juste retour" attitude,[26] 'a general understanding that member states should not pay an unfair price for policies and programmes that mostly benefit other member states' (Citi, 2017, p. 1) The heads of governments, and bureaucrats in finance ministries, who adhere to the "juste retour" attitude therefore prioritise the 'net financial position vis-à-vis the Community budget over any other consideration concerning the Community budget' (Richter, 2008, p. i). This "juste retour" attitude, combined with unanimity voting in the European Council and the presence of "transaction costs" in the MFF negotiations, results in an intergovernmental bargaining failure. This chapter expands these two theoretical propositions and proposes testable hypotheses that will be evaluated in the empirical chapters.

Bureaucratic politics and agricultural exceptionalism

In the literature review, rent-seeking was discussed almost solely in the context of special interests. In the case of the CAP, agricultural special interests, represented at the EU level by the COPA-COGECA. However, as Niskanen (1968) points out, bureaucrats can also engage in rent-seeking to increase their own employment and job-related perks. On this, Tullock's (1965) classic account in *the Politics of Bureaucracy* remains relevant. Tullock points out that hierarchical relationships consisting of superiors and subordinates are, perhaps, most prevalent

[26] This attitude has been, perhaps, best spelt out by the then British Prime minister Margaret Thatcher who, at the Dublin European Council in December 1979, told the press: 'I am only talking about our money, no one else's.' This utterance, which has been paraphrased 'I want my money back' (Wall, 2008, p. 6) did not, however, characterise only Ms. Thatcher and her Conservative Party's approach to the EU's finances. Adinolfi et al. (2011, p. 28), commenting on the 2014-2020 MFF negotiations, also add that the increased reliance of national contributions to fund the EU's budget have 'given rise to what the Commission defines as 'my money back attitude' on the part of the net contributors, distorting the rationale for an EU budget and questioning the overarching solidarity principle of the Union.

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in government employment. The EU (with its executive branch – the European Commission) and the Member States of the EU with their line -ministries (of which the ones dealing with agriculture are most relevant to this thesis), are no different in this regard. The traditional, narrow agricultural policy-making community is made up of officials at the Member States' ministries of agriculture and of the functionaries of the European Commission's Directorate-General for Agriculture and Rural Development. The motivation of these people—especially the mid- and high-ranking ones—has to be studied.

Most fundamentally, 'the average employee in a bureaucracy is interested in retaining his job and gaining promotion and for this purpose wants to please his superiors' (Tullock, 2004 [1987], p. 22). Tullock (1965) explains that for many people, the transition to non-government employment is relatively simple, but for the vast majority of government employees, it would require tremendous personal sacrifice. In a totally "political" relationship—to use Tullock's (1965, p. 14) term—, the normal government employee's sole chance for promotion is to please his superiors. If he displeases them or if they begin to despise him, his job options will be severely limited. He cannot change employers easily. Transferring to another department or agency may be challenging to organise. The majority of government workers, particularly at the higher levels, are consequently dedicated to a career of determining what their superiors want (sometimes not an easy task) and fulfilling those desires in the hopes that their superiors would reward such behaviour with promotions (Tullock, 1965, p. 14).

There is, however, a limit to how high the promotions can take a bureaucrat in an agricultural hierarchy. For example, in the member states' ministries responsible for agriculture, there is usually one bureaucrat—called Secretary of State for Agriculture, Secretary-General of the Ministry of Agriculture, Director General of the Ministry of Agriculture or something similar—above whom no bureaucrat can climb in his or her hierarchy. These people at the apex of the hierarchy obviously want to maintain their jobs. To the extent that their superior—the Minister

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of Agriculture—is able to remove them from their post, bureaucrats at the apex of the hierarchy also want to please their superiors. However—depending on the local laws and civil service practices—top officials can be quite isolated from the political pressure emanating from above. But more than formal power, they have the power of information on their side. Having usually served in the same hierarchy for many years—usually many times more than the minister under whom they serve—these top bureaucrats have an informational advantage over the ministers. The ministers come and go with elections and coalition government changes. There are few ministers of agriculture who stay in their posts for longer periods, but most of the time, top bureaucrats in ministries of agriculture benefit from the principle-agent problem. If these top officials are considering retiring from civil service, they might be eyeing a comfortable position in the private sector—possibly in the agricultural lobby—or, in rarer cases, an entry into politics. All these things mean that agricultural bureaucracies, at least in the member states, do not necessarily do what heads of government would like them to do. Instead, those who are lower in the ranks do what they think is necessary to please their superiors. Those at the apex use the output of their hierarchies to convince to their own superior—the minister of agriculture, for example—why agricultural bureaucracy's chosen policy course is the best and why alternatives, even ones proposed by the minister him or herself, are unfeasible.

This does not mean that bureaucrats are cynical. Bureaucrats, according to Prendergast (2007), routinely act without expecting any personal—at least monetary—gain. Instead, they may be driven by their own personal preferences and objectives. As Tullock explains:

> As a rough rule of thumb, those people who do work hard and prepare themselves well are those people who have their own idea of what government should do in their particular division and work hard at that. In a way they are hobbyists. It should be said however, that their hobby is normally motivated by a desire on their part to maximize what they think is the public good. In other words, they are usually well-intentioned individuals who can be criticized only in that their idea of the public good may or may not coincide with that of their superiors.' (Tullock, 2004 [1987], p. 23)

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This raises the question: what is the idea of the public good for the members of the agricultural policy-making community in the EU? However, before this question can be tackled, it is necessary to discuss how ideas are conceptualised in the dissertation, especially in relation to the rationality of the involved actors.[27] North (2005) points out that—with a few notable exceptions, such as Hayek (1952)—economists have mostly neglected the significance of ideas in decision-making. The rationality assumption has served economists (and other social scientists) well in a restricted range of micro theory difficulties, but it falls short in dealing with the challenges crucial to this research. Indeed, as North (2005) argues, *uncritical* acceptance of the rationality assumption has dismal consequences for most of the fundamental challenges confronting social scientists and is a serious impediment to further development. This does not mean that the rationality assumption is wrong, and this dissertation is by no means suggesting this. Rather it means—following North (2005)—that accepting it precludes a more in-depth understanding of the decision-making process when confronted with the uncertainties of the complex world we have built. For this reason, this dissertation presumes actors have—to use North's (1993, p. 16) term—intended rationality[28] instead of instrumentally rationality.[29]

Goldstein and Keohane (1993, p. 3) argue that 'ideas influence policy when the principled or causal beliefs they embody provide road maps that increase actors' clarity about goals or ends means relationships, when they affect outcomes of strategic situations in which there is no

[27] Goldstein & Keohane (1993) point out that the two most prominent theories of international relations—realism and liberal institutionalism—start with the rationality assumption. Both realist and institutionalist scholars imply that—subject to limits—self-interested agents maximise their benefit. In such models, actors' desires and causal beliefs are supplied, and emphasis is placed on the diversity in the constraints that actors experience.

[28] According to North (1993, p. 16), actors with only intended rationality 'have incomplete information and limited mental capacity by which to process that information and in consequence develop regularized pattern of rules and norms to structure exchange.'

[29] Instrumental rationality is defined as 'the ability to choose good means to ends' (Blau, 2021). This ideal rationality is 'typically assumed in doxastic logic and game theory, requires an agent to have perfectly consistent beliefs, and to be logically omniscient in the sense that their beliefs are closed under entailment (Hoek, 2022, p. 1).

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unique equilibrium, and when they become embedded in political institutions.' Goldstein and Keohane (1993) argue that ideas are relevant when it comes to policy-making even when humans act rationally to attain their goals. Indeed, as Keohane (1984, p. 108) points out, rationalist foreign policy experts have frequently acknowledged that rationality, like egoism, 'is a theoretically helpful simplification of reality rather than a realistic representation of it.' While the assumption of rationality is the basis for modelling human behaviour, how humans act is nevertheless dependent on the substantive quality of accessible ideas. These exist to explain principles and perceptions of causal links, as well as to coordinate individual behaviour. Furthermore, as will be illustrated in the 6th chapter using the creation of the CAP in 1960s, 'once institutionalised, [..] ideas continue to guide action in the absence of costly innovation' (Goldstein & Keohane, 1993, p. 6). What this means is that ideas in the EU agricultural politics play a role similar to that described by Weber (1946 [1922]) when he wrote that:

> Not ideas, but material and ideal interests, directly govern men's conduct. Yet very frequently the 'world images' that have been created by 'ideas' have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest. (Weber, 1946 [1922])

Having clarified the role of ideas, it can now be proposed that one of the casual beliefs held by members of the EU's narrow agricultural policy-making community is that of agricultural exceptionalism. Agricultural exceptionalism is defined as 'the idea that agriculture is a sector unlike any other economic sector, and, as such, warrants special support' (Skogstad, 1998, p. 467).[30] This '*elite assumption*, or idea, on the nature of agricultural production and markets' (Daugbjerg & Swinbank, 2009, p. 6) states that agricultural issues can never be left for the market to sort out. Most crucially, agricultural exceptionalism sets the members of the narrow

[30] Different authors use different terms for this concept. Coleman, Atkinson, & Montpetit (1997, p. 275) call it 'state-assisted paradigm,' Moyer and Josling (2002, p. 33) prefer 'the dependent agriculture paradigm,' and Daugbjerg (1999, p. 418) opts for 'the interventionist policy paradigm.' However—as Daugbjerg & Swinbank (2009) point out—despite the absence of a consensus on the term, the definitions by these authors are startlingly similar. All of highlight paradigm in which the market mechanisms are seen as 'a suboptimal means of achieving an efficient and productive agricultural sector' (Coleman, Atkinson, & Montpetit, 1997, p. 275).

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agricultural policy-making community up for an irreconcilable disagreement with the agricultural economists, whose views about public goods—the topic of the 5th chapter—diverge fundamentally from those holding agricultural exceptionalist views.

Although any successful bureaucrat is likely to be heavily impacted by his cultural surroundings, according to Tullock (1965), this influence is nearly invariably entirely unconscious. Because of his or her indoctrination in a native cultural pattern, the individual will simply be unaware that there may be different ways of doing things (for example, treating agriculture like any other sector of the economy).[31] Furthermore, rational considerations of the bureaucrats will be likely to enhance their 'unconscious cultural indoctrination' (Tullock, p. 37). This matters because to be successful, the bureaucrat must be trusted by others. In particular, the bureaucrat must have the trust of his or her superiors. The bureaucrat will know that—with few exceptions—these individuals will be members of his own cultural group. In the case of the CAP, this means, for example, having a job at one of the Member States' agricultural ministries or sub-ministerial agencies and holding the casual belief of agricultural exceptionalism. On the other hand, a bureaucrat who develops and spreads heretic views is unlikely to inspire much trust in others. According to Tullock (1965, p. 37), rational bureaucrat 'will, therefore, make every effort to appear to conform to the image of the "proper" person that is held by the membership of the organisation. He must become an "organisation man."' This has implications for how the narrow agricultural policy-making community works and influences the policy.

Furthermore, a bureaucrat who wishes to advance must comply. He or she has to be the sort of colleague who appears "sound" to his co-workers, which implies he can't really depart from them (Tullock, 1965, p. 41). In the case of the Member States' ministries of agriculture, this

[31] Daugbjerg & Swinbank (2009) call this 'agricultural normalism' (2009, p. 12).

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means that a career-minded bureaucrat has to adopt—at least outwardly—similar views about the role of government interventions in agriculture. His or her superiors, until the hierarchy's apex person, must be able to empathise with the bureaucrat to a sufficient degree to give the bureaucrat essential trust. All of these things necessitate that a successful bureaucrat thoroughly examines the dominant personality type in his or her ministry and makes an attempt to “blend in.” Because success in achieving this will be one of the factors determining advancement, the “ideal kind” will gain proportionately more power as higher classifications are obtained. Hence, paradoxically, people who end up at decision-making levels within the narrow agricultural policy-making community are likely to be even more conformist than a randomly selected lower-level bureaucrat in those ministries, on average, would be.

As Tullock (1965) already observed in the 1960s, in most American and European government bureaucracies, a bureaucrat—or even minister—is rewarded by his or her own superior merely for expanding the number of inferiors that he or she oversees. 21st century agricultural bureaucracies in EU Member States—and also in the European Commission—are no different in this regard. This results in what Tullock (1965, p. 135) terms ‘bureaucratic imperialism.’ This imperialistic behaviour might take two forms. First, the bureaucrat (or politician) may strive to expand his or her unit or directorate of the hierarchy by employing additional employees. Second, he or she could try to boost it by plundering the domains of his or her competitors. This latter form of imperialistic behaviour is distinct from convincing the leadership of the ministry—or, if the bureaucrat is already at the top then the Member State’s government—that his or her bureau or agency should recruit additional workers. Bureaucrats, on the whole, prefer this direct sort of expansion over the raiding version which sets them against one another. Regardless of this choice, the restrictions on government resources ensure that most people who have climbed quickly will be specialists in both sorts. However, whether successful or not, all bureaucrats enthusiastically support the extension of the whole

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bureaucracy. As Tullock (1965, p. 136) notes, '[i]f the army is expanded sufficiently, all present officers can be generals, or, at the least, colonels.' In EU agricultural politics, this plays out in the agricultural ministries' staunch defence of their domain of authority from outside incursions. In particular, bureaucrats in Member States' ministries of agriculture are concerned about their colleagues from the ministries of environment invading their area of responsibility. Most of all, bureaucrats in the Member States' ministries of agriculture resist and fight even the slightest hints of the need to merge their ministry with, say, the ministry of environment or ministry of economy. As Tullock (1965) observes:

> In most cases, all members of a single hierarchic organization are united against outsiders, and each sub-group within the given hierarchy is united against other sub-groups. The ambitious [bureaucrat] is normally well advised to cultivate an appearance of strong in-group exclusiveness (Tullock, 1965, p. 40).

What makes agricultural policy-making in the EU stand out here—Tullock's described behaviour, after all, characterises all bureaucracies—is that certain institutions of the EU greatly enhance the power of the agricultural bureaucracy. Members of the narrow agricultural policy-making community can support each other across the Member States. At times, they can even create fait accompli situations at the Special Committee on Agriculture (SCA). Before the Treaty of Lisbon took effect in 2009 and introduced the Ordinary Legislative Procedure (OLP)[32]—which made the EP an equal co-legislator with the Council—most of the adopted legislation passed through the Committee of Permanent Representatives (COREPER). Or, rather, two configurations of this committee.[33] However, there was an exception.

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[32] Also known as the "co-decision."

[33] COREPER I, comprising the Deputy Permanent Representatives, prepared—and still does—the Council meetings on transportation, communications, energy, the environment, education, youth, culture, and sports, as well as social policy, health, and consumer affairs. Arguably more important, COREPER II is made up of the Permanent Representatives themselves, prepared—and still does—Council meetings on hard-politics issues such as foreign affairs, security and defence policy, economic and financial affairs (including the budget) and justice and home affairs.

The Farm Council decided in 1960 to create the SCA[34] to circumvent the COREPER. Anecdotally, the SCA was established to reduce the burden of COREPER I ambassadors and to save them from "boring" agricultural matters. This institutional setup means that agricultural matters—albeit not sanitary and phytosanitary questions—effectively bypass COREPER I. All substantive preparatory discussions take place in the SCA. Since its inception in 1960, the SCA has been made up of representatives (called SCA spokespersons), one from each Member State. The SCA meetings are usually also attended by the spokespersons' deputies and—need be—other officials. The SCA spokespersons are interlocutors between the domestic and the EU level. For example, they inform the capital on what is feasible at the EU level and relay back to the Commission—and to other Member States' spokespersons listening—what their country's wishes and red lines are in any given negotiations. The SCA spokespersons also actively interact with and, if need be, lobby each other.

The representatives in the SCA come almost exclusively from the ranks of the Member States' ministries of agriculture (unlike Member States' representatives in the COREPER, who often hail from ministries of foreign affairs). Especially in smaller member states, the SCA representative's job is a highly sought-after position. Many SCA spokespeople and their deputies also reside in Brussels permanently as diplomats during their several-years-long tenures. It is also not uncommon to see former SCA spokespersons rising to leadership positions in their ministries after their stint in the SCA. Being a member state's representative in the SCA gives an official a lot of visibility in the hierarchy in the ministry and thereby also the opportunity to prove oneself as the "organisation's man" (to use Tullock's (1965, p. 37) terminology).

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[34] The Council of the European Economic Community (1960, p. 1218) decision.

Whenever the Commission comes up with a proposal (such as the CAP reform), it is first debated in the SCA. The Commission is represented by the DG AGRI (usually at the deputy Secretary-General level) and the Member States by their agricultural ministries' officials serving as the SCA spokespersons. The Member States representatives in the two COREPERs have broad portfolios, and they, therefore, have to balance various sectoral and bureaucratic interests when preparing for Council of the EU meetings. But this is not the case with the Member States' SCA spokespeople. They represent the interests of their agricultural ministries. This means that they can—together with ministries leaderships back home—often tilt their own Member State's position in their desired direction. They can do that by, for example, reporting that—based on the discussions in the SCA—one or another item advocated for by their own member state's ministry of environment is entirely unachievable. By reporting this, they can create an impression back home that there is no point even in going and asking for what the ministry of environment wants. As Alford & Friedland (1985) have observed, bureaus within the bureaucracy—when trying to maximise their legitimacy and autonomy—set up relatively steady networks of patronage, financing and, last but not least, inter-bureau coalitions. In the case of the EU agricultural policy-making, there is a transnational inter-bureau coalition.

A similar process occurs at the Agriculture and Fisheries Council (AGRIFISH) meetings, where the member states' ministers responsible for these policy areas meet usually about once a month. The AGRIFISH meetings are explicitly prepared for in the SCA. Questions put on debate at the AGRIFISH are pre-announced in the SCA by the SCA spokesperson from the member state holding the rotating Presidency of the Council that semester and other member states' representatives are invited to give feedback on the questions. They often use this opportunity to also divulge what their minister of agriculture might say at the upcoming AGRIFISH meetings. The SCA effectively functions as a third COREPER with only one area of responsibility: agriculture. Unlike other ministries, whose officials also participate in various

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sectoral committees but whose Council of the EU meetings are prepared for by their Member State’s COREPER I or II representatives (who take a more horizontal or broad view), ministries of agriculture have a privileged position. And officials from ministries of agriculture use this privileged position to enhance the interests of their domain. Since most of them share agricultural exceptionalist views, debates in the SCA become sort of an echo chamber which rejects radical reform ideas challenging their views. It is therefore argued in this thesis that Hall’s (1986, p. 266) observation that ‘organisational structures [tend] to lead policy-makers into some courses of action and away from others; and each course of action tends to favour the interests of some social groups over others,’ very much applies to the agricultural policy-making in the EU.

It should be noted, though, that watering down efforts in the SCA and the AGRIFISH Council are often not observable in the QMV voting patterns if voting takes place at all. For one, proposals that are going be voted down are far more likely to just be withdrawn by the Commission. However, another reason why QMV voting patterns are not particularly informative is the tendency to flock to the winning side once it becomes clear that a proposal—radical or not—is going to pass. In situations like this, political entrepreneurs need to balance multiple considerations. For one, it might be prudent to posturise for the domestic constituency by casting "nay", regardless of whether it is going to pass or not. If it passes, the political entrepreneur might be able to wash his or her hands clean of the matter by pointing out that he or she was against it. If it does not pass, then he or she can also take credit for this development. However, there is also the question why political entrepreneurs often change their position at the last minute and join a winning coalition even if they would have preferred the proposal not to pass. This has to do with the ability to extract small last minute concessions for one's support. Since there is a general preference towards consensual decision-making in the EU, political entrepreneurs representing both the Commission and the rotating Presidency are usually

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willing to make small concessions to get players that are actually not needed for the proposal on board to pass with QMV. Being able to form a coalition that is larger than the smallest one needed to adopt legislation formally is something political entrepreneurs representing both the Commission and the rotating Presidency take credit for. It helps them in their career. This, in turn, creates a situation where political entrepreneurs working for actors (such as one or another Member State's agricultural bureaucracy) that are unhappy with or even deeply hostile to the tabled proposal will flip sides at the last moment. Hence, it is more important to analyse in depth what happened before the vote took place (or why there was no vote at all).

The above theorising about bureaucratic politics yields two testable hypotheses:

- *If members of the narrow agricultural policy-making community hold agricultural exceptionalist views, this would also be evident in the interviewees and in the speeches given in the SCA, AGRIFISH and/or COMAGRI (and in the policy documents from these meetings).*
- *If members of the narrow agricultural policy-making community are able to use institutions such as the SCA to obstruct any reform attempts that are incompatible with agricultural exceptionalist views, then we would see watering down of such legal proposals at the level of SCA, AGRIFISH and/or COMAGRI.*

As discussed in more detail in the methodology section, normal caveats of social science research and relying on either interviews or public statements apply. For example, even though interviewees interviewed for this thesis were offered anonymity,[35] it is not possible to be certain that they divulged their views sincerely. However, if anything, due to the conformity pressure discussed above, it is more likely that there are "closet liberals" who are shy about their

[35] More precisely, all of the interviewees were told at the beginning of the interview that if they were to be quoted in this dissertation, then that was going to be done anonymously, but their name was going to be listed in Annex II—together with all the 69 other interviewees' names—to provide transparency to the research.

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agreement with agricultural economists' views than there are “closet-agricultural exceptionalists.” Similarly, statements, even in closed forums such as the SCA—not to mention the partially public AGRIFISH and wholly public COMAGRI—might be insincere and merely meant for consumption by the public (or colleagues). These, however, are unavoidable limitations of the hypotheses testing.

What bureaucratic politics and the prevalence of agricultural exceptionalist views do not answer, however, is the question of why there is no intervention from above. Given that the heads of government of the Member States—who jointly adopt the EU’s Multiannual financial framework (MFF)—could reallocate a considerable portion of the CAP’s huge budget to other policy areas, the question arises as to why they do not do so. Taking money from agriculture would inevitably be met with opposition from the agricultural lobbies and—as discussed in the previous section—from the narrow agricultural policy-making community who would zealously protect their budget. However, presumably, heads of government and their governing coalitions could nevertheless benefit from such a move if they used the money liberated from the CAP to at least partially satisfy other political constituencies. For instance, in the case of the 2021-2027 MFF negotiations, a mere 20% reduction in agriculture’s budget would have been enough to fill the entire gap left in the EU budget by Brexit and helped the heads of governments avoid the difficult negotiations over how to fill the “Brexit gap” in the EU budget. This question is the topic of the next section.

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Intergovernmental bargaining failure

Since the treaty of Maastricht taking effect in 1993, the classic ‘community method’ of EU decision-making has been on the decline. This classic ‘community method’ was focused on Commission-led legislative decision-making. It continues to apply to traditional so-called community policies, such as regulatory and competition policies in the context of the single market as well as to agriculture (as far as its substance is concerned). But when it comes to big and important issues, such as the EU's budget, it has been side-lined by what Puetter (2014, p. 1) calls 'new intergovernmentalism' As Puetter (2014, p. 31) notes, this post-Maastricht new intergovernmentalist mode of decision-making creates a particular challenge for EU decision-making: 'member states need to reach consensus within the European Council and the Council each and every time they want to level genuine collective EU action'.

The problem for the CAP reform lies in how the EU negotiates its budget. It used to be the case that the European Communities budget was agreed upon annually, as is done in the Member States. After the adoption of the Single European Act in 1986—which helped to create an internal market—the Commission proposed a new type of agreement between the Commission, the Council, and the European Parliament on a longer-term budget. This became known as the Interinstitutional Agreement (IIA). The rationale was to make the EEC's budget more stable across multiple years and to settle the 1980s budget dispute between the European Parliament and the Council (Benedetto, 2019). In 2009, the Lisbon Treaty rebranded the fourth of these IIAs as Multiannual Financial Frameworks (MFF), when Article 312 TFEU introduced the notion of the MFF into the treaties[36] (Benedetto, 2019). The inclusion of the MFF in the Treaties was a game-changer. As a political-institutional arrangement,[37] the MFFs now establish maximum levels that the EU can spend on various policies. The real expenditure for agriculture and all other areas was—and still is—disbursed through expenditure programmes like the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund

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[36] In this thesis, the first three Interinstitutional Agreements (IIA) are also occasionally called the Multiannual Financial Frameworks (MFF) to emphasise similarity and continuity even though there were not formally called MFFs before 2009.

[37] Following North's (1990a, p. 364) definition of 'institutions,' political-institutional arrangements are defined in this dissertation as the 'rules of the game.' As North explains, they 'define the way the game is played. The consequent organizations that arise will reflect the opportunities available in that institutional setting.'

for Rural Development (EAFRD) using annual budgets that are adopted with the QMV. Furthermore, since 2009 when the Lisbon Treaty took effect, the MFF does not need to be ratified by the member states' parliaments (which was the case before the Treaty). Unlike other changes the Treaty of Lisbon made, this will make MFF negotiations—therefore possibly also the CAP reform—easier as heads of governments no longer have to worry about how to get the EU's budget ratified domestically.

Last but not least, the Treaty of Lisbon article 207A, paragraph 4, clarifies that 'where no Council regulation determining a new financial framework has been adopted by the end of the previous financial framework, the ceilings and other provisions corresponding to the last year of that framework shall be extended until such time as that act is adopted' (Treaty of Lisbon, 2007, p. 122). Similar formal—or informal—rules about the previous budget being rolled over if no new one is agreed upon are, of course, in place in the member states and other polities too. But the *sui generis* nature of the EU gives this rule a different impact. In the member states of the EU, the budget acts as a formal or informal vote of confidence for the government. If the budget fails, there is going to be a government crisis in the member state. Eventually, a new government will emerge from this crisis. This new government pushes the budget through the legislature. If no government can be formed or all formed governments fail to have the budget adopted in the legislature, there is almost always a mechanism that triggers early elections. But in the EU, the Commission would not resign if the European Council failed to adopt the MFF, and there is also no way to dismiss the European Council and to elect a new one. In the national legislature, politicians working against the adoption of the budget have to weigh the risk of early elections and how they might perform in those elections. This is not the case with the Heads of State and Government sitting in the European Council meetings. Granted, some of them face national elections in the near term and might suffer in those elections if they block the adoption of the MFF in the European Council, but by and large, the risks and calculations

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are different. And, of course, national budgets are adopted annually while MFFs are for seven years, considerably changing the time horizon of the politicians involved in the negotiations.

The Heads of States and Governments of the Member Sates participating in the European Council, where the Multiannual Financial Frameworks (MFF) are decided, approach these negotiations with a particular zero-sum mind-set: net contribution to the EU budget is a “loss” and net benefit is a “gain” (Benedetto, 2019; Citi, 2017; Richter, 2008). The Member States’ policy positions at the European Council are, of course, not solely those of the individual heads of governments’ sitting behind the desks. Policy positions that the heads of governments take at the European Council also reflect the views of members states’ officials, but the influence of the officials from different hierarchies is not even. The influence of agricultural bureaucracies varies from member state to member state. But it is dwarfed by the influence of the officials from the ministries of finance. The effect of the member states’ ministries of finance officials’ large influence is that the EU’s top decision-making body’s[38] decisions are not ‘problem-solving’ in nature, but ‘bargaining’ style, to use Scharpf’s (1988, p. 239) terminology.

But why doesn’t the ‘bargaining’ style of the MFF negotiations lead to side payments to the losers to buy their support for the MFF package that includes reshuffling the budget? Why doesn’t “political market”—which is what the MFF negotiations essentially are—work? The reason why the heads of governments and national—mostly finance ministries’—officials advising them cannot come to an agreement where losers of CAP budget cuts are compensated with other means has two explanations. Firstly, it is nearly impossible to make credible commitments to side payments. This echoes arguments made by—among others—North

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[38] The European Council does not actually have formal powers. Its decisions are later formalised in the General Affairs Council (GAC) which is made up of the Member States’ ministers responsible for European and/or foreign affairs.

(1990a) and Dixit (1996) who take a “transaction cost”[39] approach to political economy. As North explains:

> A transaction cost theory of politics is built on the assumptions of costly information, of subjective models on the part of the actors to explain their environment, and of imperfect enforcement of agreements. Choices employing such models result in high political transaction costs that make political markets very imperfect. I believe that modifying the standard rational choice model by incorporating into it transaction cost theory can substantially increase the explanatory power of the model and make more sense out of the political markets we observe. (North, 1990a, p. 355)

What we can observe in the “political market” of the MFF negotiations are indeed severe imperfections. Even when the European Council takes a nothing-is-agreed-until-everything-is-agreed approach to the MFF and decides to reallocate the bulk of the CAP's funds to alternative policy areas, where European value added is much greater, there would be a need to come up with distribution key for this. To have legitimacy, this distribution key has to have some grounding in the new policies’ priorities. But—at the same time—the distribution key also has to result in all member states receiving back the same amount of money they previously had in their agricultural policy and rural development envelopes. Such a distribution key is impossible to produce or—at least—for the Commission to defend publicly. To put this in North’s (1990a) and Dixit’s (1996) terms, once the Head of State and Government of a Member State agrees to a radical reform, his or her member state’s “property” is no longer protected. Furthermore, his or her Member State has no way to enforce any informal agreement saying that at least the same amount of money must come back to the Member State, one way or another. Secondly, because agricultural support cannot be withdrawn very rapidly, what actually has to be agreed upon is *a commitment to do it in the future*. Funds to compensate losers will only be freed with a delay. This delay, however, brings back the credible commitment issue. If the European

[39] For the purposes of this thesis, transaction costs can be broadly defined as ‘the costs of measuring the valuable attributes of what is being exchanged and the *costs of protecting rights and policing and enforcing agreements*’ (North, 1990b, p. 27) or as the ‘comparative costs of planning, adapting, and monitoring task completion under alternative governance structures’ (Williamson O. E., 1989, p. 142).

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Council (unanimously) agrees that CAP will be radically reformed and a part or all of the direct payments budget will be reallocated to, say, environmental, climate, science, defence, migration and/or other policies—with a distribution key that leaves all of the Member States' net budgetary positions intact—but that these funds will only be made available after, say, 7 or 15 years, then there is no guarantee that this decision will not be amended in the meantime. As Moe (1990) explains, political uncertainty:

> has a profound effect on the choices of political actors when they are fortunate enough to be in power. In particular, they know that whatever policies and structures they put in place today may be subject to the authoritative direction of other actors tomorrow, actors with very different interests who could undermine or destroy their hard-won achievements. If today's authoritative decisions are to have staying power and continue generating benefits for their creators into the future, they must somehow be insulated from tomorrow's exercise of authority. (Moe, 1990, p. 124)

Faced with this uncertainty, it is much more secure for the net beneficiary member states' heads of government to defend the existing policy and the accompanying budget allocation.

But how to test this theory? If the budget of the CAP's direct payments is not reallocated—there is no change in the dependent variable—then how do we know that this is because of the intergovernmental bargaining failure described above and not because the "usual suspects" or the agricultural bureaucracies have captured their respective member states' governments? One way to test this would be to see how the heads of government react if—for whatever reasons—the union's budget is increased. This theorizing, therefore, yields one testable hypotheses:

> *If the heads of government are not captured by agricultural lobbies and/or domestic agricultural bureaucracies and only choose to maintain the CAP's large budget share because institutional-political arrangements of the MFF negotiations give veto powers to the CAP's net beneficiary member states' heads of government then—should there ever be an increase in the EU's budget—a much smaller share or none of "new" money will be allocated to the CAP.*

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This is so because the heads of governments of the CAP's net beneficiary member states—who do not have be net beneficiaries overall—cannot use their veto power in the European Council to have money added to the CAP's budget. Their veto would result in no new money being added to the budget at all. If a member state is not only a beneficiary from the CAP's budget but from the EU's budget as a whole (a typical case for the CEEC), it would be unwise for the Head of State and Government of such a member state to veto the increased[40] EU budget. As a result of the veto, his or her member state would be deprived of the share of the new funds that would otherwise be spent in his or her Member State through other policies. Increasing the overall budget of the EU will therefore reveal the true preferences of the heads of governments whose countries are net contributors to the EU's budget as whole but are net beneficiaries from the CAP's budget.

The heads of governments of the member states that are net contributors to the EU's budget as a whole are empowered in the budget negotiations under previously described rules. If they veto the package, no Member State will receive additional funding from the EU. But net contributor member states are free—within the limits of the Treaties—to spend the money they are no longer obliged to transfer to the EU's budget domestically. Since the CAP's rules allow them to shift some money from their EU-funded rural development envelope to their EU-funded direct payments envelope—discussed in detail in the 8th chapter—and then replace missing funds in the rural development envelope with financing from the national budget, net contributor member states can—within limits—even subsidise their agriculture!

The reason they do not do so is that officials of the ministries of finance do not support the idea of increasing agricultural subsidies (the finance ministry bureaucrats are generally not convinced by the agricultural exceptionalism paradigm), and the heads of governments are far

[40] Increased in the sense that the total budget of the EU also includes the NextGenerationEU funds.

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more likely to listen to the advice from officials from ministries of finance than from the ministries of agriculture. But—theoretically speaking—institutional-political arrangements in the EU budget negotiations empower net contributor member states' heads of governments to ask for an increase in agricultural spending. Theoretically, they could ask for the CAP's budget to increase up to the point where the EU's increased agricultural spending equals their Member State's increased net contribution to the EU budget as a whole. If a net contributor Member State does not ask for additional funding for the CAP whenever an increase of the EU's budget is being discussed in the European Council, it is an indication that the Head of Government of this member state is not captured by rent-seeking agricultural lobbies or domestic agricultural bureaucracy. He or she is merely interested in the "juste retour".

Chapter conclusion

Unsurprisingly, the theoretical takeaway from the above discussion is that institutions and ideas matter. In particular, two institutional-political arrangements—which are almost unique to the EU—create a very strong anti-radical reform bias in the EU. First, there is the ability of national agricultural bureaucracies to use the EU policy-making setting to bypass and, at times, ignore competing national hierarchies by forming transnational inter-bureau alliances. Policy-making venues such as the Special Committee on Agriculture (SCA) and the Agriculture and Fisheries Council (AGRIFISH), whose meetings the SCA also prepares, give bureaucrats in Member States' ministries of agriculture almost unparalleled power to pursue a policy without full constraints of their domestic horizontal policy coordination. This contrasts with other national hierarchies whose EU-related work goes through the COREPER meetings, where member states' representatives have to take a horizontal view and balance various sectoral and bureaucratic interests. Bureaucrats in national agricultural ministries believe that agriculture as

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a sector is exceptional. Hence, state intervention and taxpayer funding are always on the table for them. Conveniently for bureaucrats in the ministries of agriculture in the member states, this paradigm and resulting blockage of any radical reform of the CAP also serves them personally well because it necessitates the existence of a large national agricultural bureaucracy that must execute this well-financed policy.

The second institutional-political arrangement in the EU that stands in the way of radical reform of the CAP is the unanimity rule used in the European Council to decide the multi-annual budget (MFF). The Member States' heads of government and bureaucrats in the finance ministries try to maximise their member states' fiscal balance in the EU budget, known as the "juste retour" (Benedetto, 2019; Citi, 2017; Richter, 2008). Hence, heads of governments of those member states who are net beneficiaries from the CAP—even if they otherwise would not see the need to cater to the agricultural constituency—are against any reform that does not guarantee that their Member State receives the money back through other policies. Although it is formally the role of the Commission to propose the multi-annual budget and the European Council does not have any formal role, a new intergovernmentalist mode of policy-making has been dominant in the EU since the 1990s, and it empowers status quo-minded heads of government. This is so because in the event of gridlock in the European Council and the existing MFF expiring, existing expenditure levels are rolled over—year-by-year—to the next period until an agreement is achieved. Theoretically, it would be possible to offer side payments to the losers in the form of funding in other policy areas. However, in practice, it would be nearly impossible to draw up a defensible distribution key that has some ground in the policy area(s) where the money is channelled and that gives all the member states back the money they used to receive through the CAP. Furthermore, since there probably has to be some compensation during the transitionary period for farmers, the CAP's funds wouldn't be freed immediately. Delay in the side payment, however, raises credible commitment issues. Heads

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of governments cannot be sure that if they agree to cuts in the CAP's budget, then—after some years—the money they used to get from the CAP will be channelled to their preferred policy area(s) and spent in their member states. The current institutional structure of the EU does not allow anyone to make such commitments credibly. This leads to what could be described as inter-governmental bargaining failure due to "transaction costs."

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Chapter 4: Methodology

> Process tracing seeks to explain the stream of events in a process by which various initial conditions are translated into outcomes. It involves an attempt to reconstruct agents' definitions of the situation and their resulting action. The framework within which agents' perceptions and actions are described is given by the researcher, not by the agents themselves. The process of creating such an explanation is similar to the construction of a web or network, with the researcher assembling bits and pieces of evidence into a pattern. The process-tracing approach attempts to uncover what stimuli create agents' interests, how interests are translated into behaviour, and the effects of various institutional arrangements on agents' behaviour. (Thies, 2001, p. 406)

From North's (1993, p. 12) quote in the introduction chapter—emphasis on 'why institutions that produce poor economic (and political) performance can persist'—or from Odell's (2001) review of case study methods in international political economy, it might appear as if a comparative case study would have the best chance of solving the empirical puzzle. However, it can be argued that this is not so because, as Senior Nello (1997) points out, the 'key to interpreting the EU experience is that the models were developed for the US system and […] lend themselves badly to what is very much the sui generis nature of EU agricultural decision-making' (Senior Nello, 1997, p. 16). However, the *sui generis* nature of the EU does not mean that it cannot produce generalisable insights for the new political economy field. Rather, it means that the CAP is an excellent deviant case. What makes the CAP's reform a deviant case is that it produces dismal economic outcomes—just like other agricultural policies in places like the US do—*despite* the fact that farm lobbies are not that powerful and, hence, cannot be used to fully explain the policy choice. According to Lijphart (1971, p. 692), a deviant case is selected for study in order to uncover why the cases are deviant. In other words, the purpose of the study is to reveal important but previously uncovered information, such as variables, or to clarify the (operational) definitions of selected variables or even all of the variables.

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Process tracing

The fact that the radical reform of the CAP has not taken place—at least, according to the conceptualisation offered in the 5th chapter that deals with the agricultural economists' perspective—means that there is no variation in the dependent variable. To overcome this methodological challenge, this thesis employs George and McKeown's (1985) process tracing procedure. This methodology has been successfully employed in similar situations. For example, Collier and Collier (1991), in the portion of their country-specific case studies of labour movements and regime dynamics in Latin America. Similarly, Thies (2001) used process tracing for his within-case analysis because he had only a single instance of the Fordist regime of agricultural accumulation.

Process tracing aims to describe how different initial conditions[41] are transformed into results in a process. It entails an effort to reconstruct how actors perceived the circumstances and what they did as a result. 'The framework within which agents' perceptions and actions are described is given by the researcher, not by the agents themselves' (Thies, 2001, p. 406). The method of developing such an explanation involves the researcher putting disparate pieces of data together to form a pattern, just as a web or network is built. The process tracing technique looks into how interests are generated in agents, how those interests are translated into behaviour, and how different institutional setups affect how agents behave (George & McKeown, 1985). In the case of agricultural policy reform in Europe, initial conditions to be described are—among other things—the economic performance of the sector, distribution of rents within the sector and between the countries, budgetary contributions of various member states of the EU's common treasury, past allocation of the EU's budget between various policy area etc. For agricultural bureaucracies, the effort to reconstruct how actors perceived the circumstances is

[41] In this thesis, these initial conditions are the two institutional political arrangements highlighted in the theory chapter.

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mostly done by identifying the general pattern or paradigm of thinking of the interviewed participants.

In the case of heads of government—who are not as accessible as national agricultural bureaucrats and the Commission officials—evidence from existing secondary literature has been used. Translation of actors' interests into their behaviour is analysed by looking into the positions they take, particularly in venues like the Council and—or, in the case of agricultural bureaucracies—the Special Committee on Agriculture (SCA). Additionally, what kind of coalitions they form and with whom are both described and analysed. The impact of different institutional setups—in particular the political-institutional arrangements governing decision-making in the EU—is described, and where necessary, a deductive reasoning is used to highlight why another course of action was not chosen by actors even if it would have been in actors' interest to pursue it. For example, veto players do not actually have to exercise their veto powers if all the other players are aware of their veto power and therefore never put the veto players in the position where they would have to exercise the veto.

In practice, research undertaken for this thesis involved analysing various CAP-related policy documents, statements, press releases, articles,[42] secondary academic literature[43], minutes of meetings, interview transcripts and, where appropriate, basic statistical analysis of publicly available data. The principal goal of such analysis is to extract signals from noise. As the literature review chapter demonstrated, there are a lot of different theories out there that seek—explicitly or implicitly—to explain the policy outcome. Peruse of different source materials in this way allows less promising theoretical explanations to be brushed aside with more

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[42] In particular, the *Agra Facts* has been proven to be invaluable source.
[43] In particular, Swinnen (2008) edited *The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy* and Swinnen (2015b) edited *An Imperfect Storm in the Political Economy of the Common Agricultural Policy* have proven vital as secondary literature sources. Hence, chapters from these two books have been used extensively as sources of empirical material in the 7th chapter.

confidence. For example, a decision by the heads of government in the European Council to maintain the CAP's budget is explained—among other theories—by unanimity voting rule (an institutional-political-arrangement) or by rent-seeking agricultural special interest lobbying. Since—as is shown in the empirical chapters—both the voting rule and lobbying are present, and therefore there is no variation in the independent variables (nor in the dependent variable, as was discussed earlier), another methodological approach has to be taken. As explained in more detail in the empirical chapters, the existence of unanimity voting empowers a different set of actors when the debate is shifted (from the status quo biased roll over of the previous budget) to a budget increase. Normally, the very same institution that leads to the absence of radical reform of the CAP would also lead to the failure of any proposal to increase the overall budget of the EU. However, the COVID-19 crisis disturbed this equilibrium and created a brief window when overall budget increase was possible. The resulting budget increase known as the NextGenerationEU created a natural experiment, forcing actors to act upon their true preferences. This, in turn, permits the testing of the hypothesis—elaborated in the 3rd chapter—about the intergovernmental bargaining failure due to "transaction costs."

This methodology, of course, also has several limitations. For one, if more than one but mutually inclusive pictures emerge to explain the outcome, it is very difficult—if not impossible to infer—their relative importance to the outcome. For two, hypotheses drawn from the theory in the third chapter might hold in some instances but not very well in others. But these caveats alone need not to weaken the value of a single case study such as this dissertation. As Lijphart points out, 'case studies can have great theoretical value. They weaken the original proposition but suggest a modified proposition that may be stronger' (Lijphart, 1971, p. 692).

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Interview data

Interviews form a notable part of the disparate pieces of data used to identify patterns in this thesis. Interview data for this thesis was collected with 70 semi-structured elite interviews that took place mainly between 2017 and 2019. The interviews were, on average, 1h5min long and were recorded with the consent of the interviewee using a mobile phone.[44] Most interviews took place in Brussels, usually at the office of the interviewee. However, several also took place in the Council of the European Union's regular meeting place—the Justus Lipsius building—or in restaurants/cafeterias. Interviewees can be broadly divided into those who were working for the European Union (32 people) and into those who were working in the intergovernmental setting (38 people). Those working for the European Union can be further divided into those who were working for

- DG AGRI (23 people)
- other DGs (5 people)
- the General Secretariat of the Council (2 people)
- European Parliament (2 people)

Individuals working in the intergovernmental settings were all diplomats attending the Special Committee on Agriculture (SCA) as Member States' representatives. Member States functionaries from all Member States were approached[45]. The SCA spokesperson and/or his/her deputy (job titles vary) from 26 Member States out of 28 (at the time of the interviews) were interviewed. Specific questions were *not* sent to the interviewees beforehand, but they

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[44] One interviewee from the European Commission, working in the DG other than DG AGRI, objected to the recording of the interview by the interviewer. However, a mutually acceptable arrangement that permitted research to be conducted was eventually reached.
[45] From Member States' representatives, only the SCA spokesperson for Poland turned the interview request down outright in late 2017, suggesting his colleague—who, in turn, never responded to email requests—be interviewed in his place. The Lithuanian SCA representative wasn't interviewed either due to an unexpected illness preventing him from coming to the interview at the pre-agreed date in late 2017, and there was no possible mutually agreeable alternative time in sight.

were given a broad outline of the topic matter. All interviewees were asked and expected to only give their personal views. The full list of questions can be found in Annex 1. The full list of interviewees can be found in Annex 2.

Interview data analysis

Not all interviews proved equally useful. Some interviewees—despite being explicitly asked to take off their hat as a Member State or EU official—seemed to have been thinking about what "the party line" answer would be instead of giving their personal opinion as was asked. However, since the majority of interviewees seemed to be genuinely open and opinionated, patterns began to form quite fast. The most obvious pattern was the division between (1) those who endorsed some form of agricultural exceptionalism—defined as 'the idea that agriculture is a sector unlike any other economic sector, and, as such, warrants special support' (Skogstad, 1998, p. 467)—and were, therefore, themselves not in favour of radical reform of the CAP in the form most commonly proposed by economists (see chapter 5) and (2) those who didn't do so. To which category the interviewee fell was determined based on how he replied to the second question in the interview. This question required the interviewee to exit their professional role and to describe what, in their opinion, was the ideal agricultural policy for the EU (or, if they preferred, national agricultural policies, then a national one; none, however, went down this road). Interviewees who used agricultural exceptionalist vocabulary and said that, in their opinion, an ideal policy was expensive and interventionist, were placed in the first group. Similarly, interviewees whose ideal agricultural policy came close to that preferred by agricultural economists in their declarations—discussed in detail in the 5th chapter—were placed in the second group. Quite a number interviewees also fell somewhere in between. But this was partly the result of time restrictions of interviews placing a limit on the number of

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follow-up questions (not all interviewees had internally consistent preferences and therefore, follow-up questions were often necessary to get a better picture of the person's views).

These patterns deserve research of their own. However, to inform the theory, this dissertation, focuses on the answers of the second group. These—about a dozen or so—individuals either explicitly didn't endorse agricultural exceptionalism or only endorsed it in a rather weak form[46]. For one, they—unlike those who advocated for agricultural exceptionalism—saw the need for more radical CAP reform, either in principle or ideally (if political conditions permit it). For two, they had excellent insight into how both the European Commission and/or Council work. For three, since the questions were explicitly asked in a way as not to put words into interviewees' mouths, they were mostly—though obviously, not entirely—"uncontaminated"[47] by existing academic political science theories. That is, they mostly answered based on what they themselves observed or thought instead of relaying already published academic political science theories. If an interviewee did come up with a vision that required a radical break from the existing policy, the interviewee was then prompted[48] to explain why this vision was not being pursued. This forced interviewees to come up with a political explanation for the absence of radical reform. Answers to this question, in turn, are instrumental to the theory construction.

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[46] For example, one interviewee stated that there would be no reason to create the CAP if it didn't already exist would be considered as one.
[47] One interviewee did attend the author's presentation on the paper that later evolved into this dissertation and as such, may have been informed ex-ante about theories and hypotheses that were being tested.
[48] For the sake of methodological consistency, the same was done with interviewees who actually did not prefer a radical reform and, at times, even idealised a more expensive and interventionist policy.

Chapter 5: What would constitute a radical reform of the CAP?

> '[Bond scheme for the CAP] would have a healthy impact economically and psychologically: each farmer would know the aid was finite, focussing his mind on the need to gear himself for a new career; and it would give him the financial backing to find new work, and in good time, he could choose if and when to leave the land, selling the bond in order to tide him over until he was established in a new line of business. It would be a one-off lump-sum, which although costly would put an end to increasing support measures in the future and bring no new incentives to increase farm output. Instead, it would help heal the sclerosis currently gripping Europe' s agricultural markets: it would loosen up trade in farm property, lowering land prices as more farmers began buying and selling "Tangermann bonds", making it easier for new farmers to start up in viable areas of agricultural production. The sheer finality of it, although hard for farmers to digest at first, would in fact encourage them and their governments to tackle Europe's farming future today, before it is too late.' (Brittan, 1994, p. 130)

> Economists have the least influence on policy where they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently. (Blinder, 1987, p. 1)

When reform of the CAP—or the absence of it—is being studied, one of the first questions that comes up is the definition of the word 'reform' itself. Oxford English dictionary defines reform as making 'changes in (something, especially an institution or practice) in order to improve it' (Oxford University Press, 2015). This definition is a good starting point but when can one say that the CAP has been improved? A more precise question then—since the EU policy-makers have tinkered with the CAP a number of times and called it a reform each time—would be: What would constitute *a radical reform* of the CAP? And "radical" should be understood here as far-reaching or thorough. Defining radical reform is necessary because it serves as a yardstick against which progress (or lack thereof) can be measured. Hence, similarly to Williamson ([1989] 2001), who set out to define 'what Washington means by policy reform' in what has since become known as the Washington Consensus, this chapter attempts to define what European agricultural economists mean by reform when they call out and/or counsel European (agricultural) policy-makers. This is no easy task, primarily because, as Winston Churchill once quipped, 'if you put two economists in a room, you get two opinions, unless one of them is Lord Keynes, in which case you get three opinions' (quoted in Gochnour

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(2014)). That being said, there is, nevertheless, substantial literature available that—when taken together—could be conceptualised as what agricultural economists mean by a CAP reform when they call for one. This chapter tries to establish this by reviewing the work of agricultural economists.

The origins of economists' view of agriculture and policies governing it

Josling (1974, p. 237) has shown that the theoretical base for most analytical work on agriculture within the academic community has been 'the theory of a competitive market'. He argues that 'not only is [competitive market] a model which appeals in the sense that agriculture would seem to fit in well with the postulates of an atomistic market structure and food would appear to be a prime example of a Marshallian consumer good'[49], but that conceptualisation of agriculture as competitive market 'is a theoretical construct with easy translation to a normative framework' (ibid). And while economists have over the course of the last two centuries refined this string of thought on how agriculture should be conceptualised, the notion is not actually new. Nash (1961, p. 187), a British agricultural economist, writing at the time of the CAP formation in the early 1960s, noted with concern that while agriculture 'must operate under the ordinary rules of solvency and under a price system which ceases to misdirect the efforts and energies of producers by distorting the incentives governing their actions', it is not the case in most developed countries.

But Nash (1961, p. 187), also admitted that 'the initial economic loss which agriculture would face from a general reversal of the existing protective arrangements would be severe'. Nash, recognising that for any radical reform to be politically and even purely economically feasible, there would have to be compensation payments. In turn, these compensation payments must

[49] Marshallian consumer good is a good 'which is regularly purchased and is non-durable. Demand for durable goods is a more complex function of expectations and interest rates.' (Josling, p. 237)

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neither influence the productive decisions of individuals who remain in agriculture, nor should they encourage people to remain in agriculture instead of retiring or seeking another employment. He argued that:

> the simplest method of compensating agriculture for the withdrawal of the protective system would be an *unconditional payment* to all those at present engaged in farming, or to those of them deemed to be in need of compensation, calculated by reference to the difference between the incomes now earned under the protective system and those capable of being earned under a system of free market prices. An annuity calculated in this way and payable for life to all engaged in farming, but *not transferable to their successors*, would, in theory at least, make it possible to bring the protective system to an end while fully making good the loss of income to its present beneficiaries (Nash, 1961, p. 188). (emphasis added)

Throughout the 1960s and from then onwards, economists were advocating for governments to abandon lavish measures they were using to support the demand for domestically produced products and instead adopt policies that operated directly on the factor market and, more particularly, on the labour market. This advice was backed up by calculations of the costs of distorting agricultural markets, in terms of resource misallocation among sectors and of the loss of potential consumer surplus due to misleading relative prices. Josling (1974, p. 234) cited Nash's (1961) writings as a good example of where 'economists advised direct income payments unrelated to output as a way of ensuring reasonable standards of living to rural people if such were not forthcoming through the sale of their produce' but where 1960s EC politicians, for political-economy reasons, chose to ignore them. Accepting political realities of the era, Koester and Tangermann (1977, p. 17) suggested step-by-step radical reform of the old CAP. Specifically, they suggested that 'farm prices should decrease - in real terms - by 2 to 2.5% per annum. The loss in sector income [...] should be compensated by *personally tied income payments*. These payments should be made to the farmer himself, independent of how many workers are employed on the farm at present and in future and also independent of the future production pattern' (emphasis added). Because Koester and Tangermann's (1977) plan envisioned individual-tied income payments, their plan would have stopped following

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generations of farmers from inheriting the direct payments of their predecessors. However, it would have permitted capitalisation of current farmers' families and their offspring: if a farmer chose to invest the money he received back into the farm, it is likely that this investment would also be reflected in the future value of the farm. Alternatively, if a farmer were to exit and start another business, then, again capital would be there for his family and offspring in the future too.

These proposals have not materialised. Instead, the CAP has moved from primarily consumer funded price support system to a primarily taxpayer funded direct support system by the mid-2000s (see Figure 1.1). While there have been muddling through reforms since then—most recently in 2021 (discussed in the 8th chapter)—the changes have not aligned the CAP with the "public money for public goods" principle.

No public money for non-public goods

In 2010, a group of prominent European agricultural economists signed a modestly titled declaration 'A Common Agricultural Policy for European Public Goods: Declaration by a Group of Leading Agricultural Economists.' In it, signatories identified a number of painful problems with the CAP. They pointed out that, firstly, direct payments are very unequal, both between the member states and also between farmers in any given member state. Leading agricultural economists further emphasised that these unequal direct payments do not fulfil 'clear income distribution, rural development, or environmental protection objectives' (Anania, et al., 2010, p. 1).[50] Secondly, the group was concerned that whenever rural development and environmental protection is funded through the CAP, specific measures are 'frequently poorly

[50] The same critique of direct payments and call for their slower or faster abolishment is also put forward by Buckwell, et al. (2017), Pe'er, et al. (2020), Hoelgaard (2018), Marsh et al. (1991), all discussed in more detail below.

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justified and ineffectively implemented' (ibid). European agricultural economists concluded that the legacy (that is, the pre-MacSharry reform CAP's) market support measures were still producing difficulties for the EU's trade partners. The signatories used high customs duties and export subsidies on dairy products as examples. They pointed out that these market measures were undermining the EU's negotiating position in multi- and bilateral trade negotiations. Due to the still existing market measures it was next to impossible for the EU to broker deals that would lead to the abolishment of the overly protective and distortive policies in third countries. On a multilateral level, the group argued, the market measures were preventing the Doha Development Round from being concluded successfully (ibid).

Given that there have been two reforms of the CAP since the signing of this declaration (the 2013 and 2021 reforms), it should be noted here that of the three charges laid against the CAP by the signatories, the first two are as valid in 2022 as they were when the group signed the declaration in 2010. The bottom line for the signatories was that:

> The EU should only be involved in financing and regulating the sector to the extent that it serves these wider goals, and in particular when the effects of agricultural policies spill across national borders.' (Anania, et al., 2010, p. 1)

In other words, when agricultural policies do not have cross-border externalities, there is no inherent reason why they should be decided and financed at the EU level! It should emphasised that the Leading European Agricultural Economists do not deny that redistributive and social policies are important. However, economists argue that social policies should remain Member States' competencies and, accordingly, each member state should also finance them from its own budget. Dire need for redistributive and social policies should not be used to justify current CAP and its direct payments.[51] That does not mean—the signatories clarify—that there should

[51] Although signatories of the 2010 declaration do not discuss this, if EU-level redistributive and social policies end up being desirable (and in the view of some, they certainly are), then this does not change the overall conclusion. Farmers are definitely not the most vulnerable group of people in the EU (although some of them

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not be any common policies in the area of agriculture. On the contrary, there is great need for a common policy to uphold fair competition on the internal market. However, this goal can be achieved—as it is done in a number of other policy areas such as competition—with good level EU regulation and monitoring. These would cost a fraction of what is being spent on the CAP in the 2021-2027 MFF (or was spent on agriculture in the 2008-2013 MFF, at the time of the signing of this declaration) (Anania, et al., 2010, p. 1).

Somewhat counter-intuitively for many non-economists—including most agricultural policy-makers—Leading Agricultural Economists dismiss the idea that increasing competitiveness of agriculture should be the objective of the future CAP. Or, more precisely, they reject the idea that activist policy interventions are the way to increase competitiveness. The signatories argue that it is a well-functioning market—where producers react to price signals and where competitive pressure leads to innovation—that leads to increases in competitiveness. There is no need for lavish spending programmes[52] or market interventions in well-functioning markets.

Leading European Agricultural Economists also reject the idea that the CAP is necessary to guarantee food security in Europe, particularly when food security is equated with self-sufficiency.[53] The signatories accurately point out that 'the EU is affluent and has the purchasing power to source supplies from the world market, even when world prices are high.[54] Food security is thus not currently threatened in the EU' (Anania, et al., p. 2). This does not imply naivety towards potential dangers that may emerge in future. Rather, the point is that

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might, mutually inclusively, also belong to other groups that are), and, secondly, extremely uneven distribution of benefits of direct payments means that the CAP is about the worst possible tool to address any valid social policy concerns that may be identified.

[52] The only real exception to this *laissez faire* approach is research. Although the signatories of the declaration do not elaborate much on this derogation, the reason why it was included might be that 'scientific knowledge in its pure form is a classic public good.' (Dalrymple, 2003). However, as the group emphasises, there is really no reason to fund agricultural research separately from the rest of the research funding in the EU.

[53] This is, of course, not the only possible definition of "food security". Definitions of food security are contested, and there are multiple definitions out there (see Maxwell (1992; 1996) for a discussion of conceptual issues).

[54] Buckwell et al. (2017, p. 13) argue most economical and prudent way to guarantee the EU's food security is to pursue a policy that advances and protects a liberal trade regime.

when geopolitical or other risk calculations change, the EU is perfectly capable of increasing domestic production in the future too. The signatories concede that some targeted payments—for example, for maintaining soil fertility and water resources in some areas or for maintaining small level of farming activity, which preserves necessary skills—might be needed. However, such targeted payments would be far cry from scope and levels of the 2010 (or the 2022) CAP.

In a similar vein, Anania et al. (2010) accept that because of global warming, scarce water resources, and demographic explosion (at least in some regions of the planet), food security is an issue for the world and the EU has a role and duty to play in tackling it.[55] Their argument is that there are other—much more suitable—ways to contribute to the world's food security than handing out the CAP subsidies to European farmers.[56] If the EU wants to help the world to achieve long term food security, then it should invest into agricultural research and, perhaps, help developing countries to build up their own physical and human capital in this area. If the EU wants to help a country suffering from acute famine, then the best response is to donate money which could be used to purchase food locally (thereby also helping local farmers, instead of putting them out of business) and in the highly unlikely[57] case that local food supply is insufficient to feed the starving, buy the difference from the global market.

Leading European Agricultural Economists do not see the reason to reverse their position when—instead of supply—food security is understood as food safety. Europeans consume countless other goods that are all deemed safe without the producers being paid from the

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[55] A similar argument is made by Buckwell (2015, p. 512), who cautions that 'simplistic claims about the EU needing to increase production to feed the world should be avoided.'
[56] Virtually the same critique and argument is also made by Buckwell et al. (2017, p. 13), who observes that 'it is not clear that EU food security is under immediate or severe threat and it is far from clear that annual payments to farmers serves a legitimate food security goal.'
[57] This is highly unlikely because 'modern famines, like most of those throughout history, are manmade' (Scrimshaw, 1987, p. 17). Scrimshaw explains that while natural events such as drought may or may not play the role of a trigger, most severe famines from the 20th century onward have all been caused by the inadequate distribution of existing food supplies. Either the most vulnerable groups have lacked the purchasing power to buy the available food, or there is a political upheaval such as war or genocide going on that prevents people from accessing the normal distribution chain or even from accessing the food relief that is being provided by donors.

treasury to make these products safe. There is no inherent reason why European farmers would stop producing food safely if they no longer receive direct payments. The extension of the food safety argument—briefly touched upon by the signatories—is that without direct payments, some production would shift to third countries. This is—or so the story goes—a problem because producers outside the EU might not respect tight health and safety regulations. A closer look, however, reveals this is a non-issue because all the food imported into the EU has to fulfil the EU's restrict food safety standards. Third countries' producers also have to make appropriate investments and outlays into health and safety to be able to meet the EU's criteria. Therefore, while it is important to maintain adherence to the EU's health and safety regulations in the case of both domestically produced and imported foodstuff, existence of these regulations does not serve as a valid justification for keeping the CAP with its direct payments and a large budget.

The declaration's signatories also dismiss redistribution as a valid objective for the future CAP. There are many reasons to pursue social policy, certainly at the member state level and possibly also at the EU level. It is also clear that there are many farmers around the EU who struggle economically. Some of them fall below the national poverty line. However, Leading European Agricultural Economists again make it clear in their declaration that 'agricultural subsidies are not an effective tool for social policy' (Anania, et al., 2010, p. 3). For one, direct payments are dependent on land area being farmed or on the number of animals being raised.[58] This excludes many potential beneficiaries—including the non-farming rural underprivileged population—who suffer from similar deprivation.

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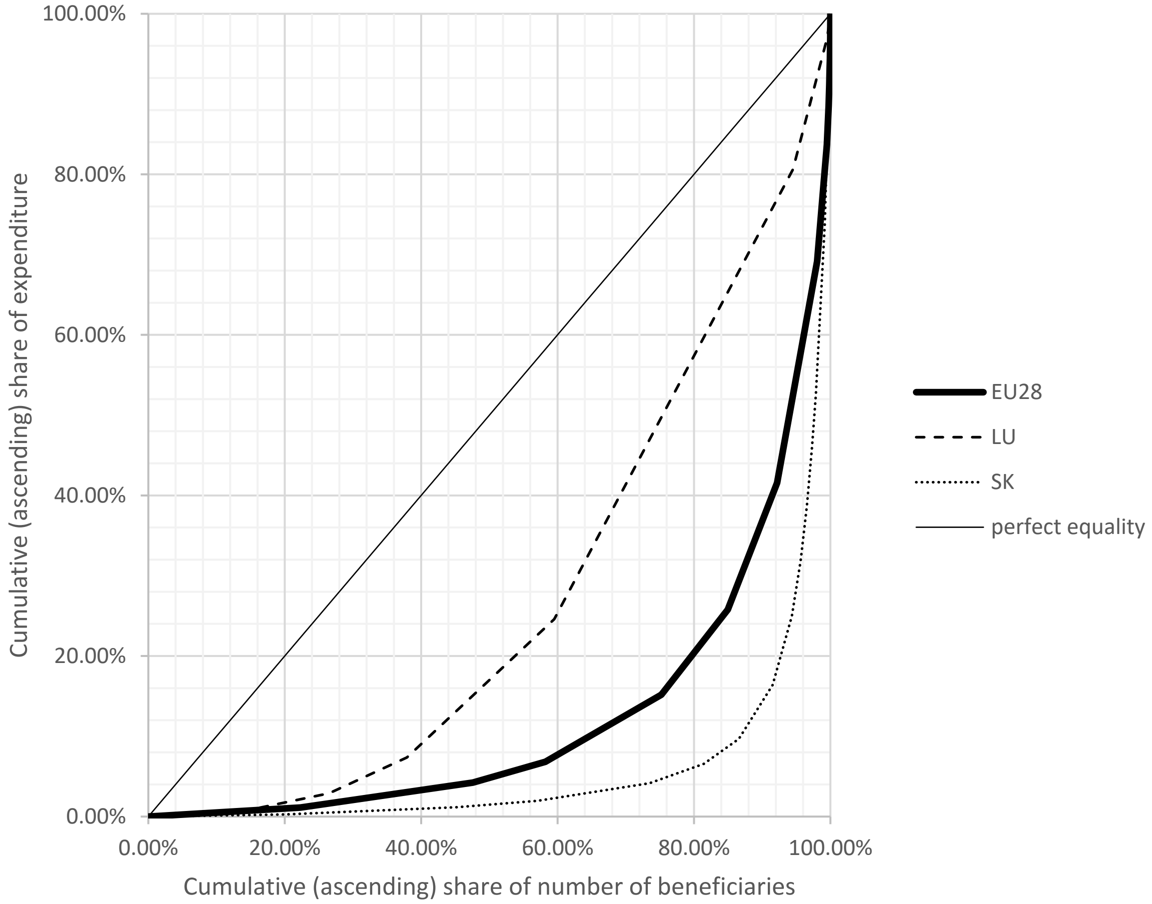
[58] Coincidentally, this also means that when land is rented, significant part of the direct payments are passed through rental prices on to landowners (Latruffe & Le Mouël, 2009).

Figure 5.1: Indicative figures on the distribution of direct payments for financial year 2018



Author's calculations.
Data source: Directorate-General for Agriculture and Rural Development (2019).
Note 1: Excludes "negative" beneficiaries. That is, farmers who had to return the direct payments due to fraud, were excluded from the calculations.
Note 2: Indicative figures for Slovakia (SK) and Luxembourg (LU) are included on this figure (besides the EU28 curve) because these two member states represent the most unequal (SK) and least unequal (LU) distribution of direct payments within any given member state, respectively.

Secondly, unequal distribution—see Figure 5.1 above—means that a substantial portion of the budget will go to well-off farmers who do not need it from the social policy perspective. The signatories make it clear that 'public aid should be targeted at households with low income and wealth regardless of the sector they work in' (ibid). The same argument is also made by other economists such as Buckwell et al. (2017) who argue that poverty—including rural poverty—should be remedied with tools of targeted public spending that boost the purchasing power of the poor. For now, this is clearly not the case. For example, data collected by the Farm Subsidy (2009), and analysed by various NGOs and academics, shows that the list of recipients of direct payments included multinational corporations, major land owners, and also many odd entities and individuals who had seemingly nothing to do with farming and who probably were not struggling economically.[59]

Furthermore, while Leading European Agricultural Economists accept that cohesion between member states is important in principle—and this implies that certain transfers between the member states through the EU budget are also desirable—they again do not see the CAP as an appropriate tool. The signatories point out that monies from the CAP budget often end up flowing back to the wealthiest regions and member states instead of going to the least developed ones. Furthermore, even if it was somehow possible to reshuffle the CAP's budget in a manner that is consistent with the cohesion policy goals—that is, by directing money to the least developed regions—agriculture would not necessarily be the area where cohesion spending would bring the most benefits.[60] Leading European Agricultural Economists therefore come to the conclusion that cohesion is best pursued:

> through the EU's regional policy, which is not limited to agriculture, and can adopt a more integrated approach to the rural economy. Rural development may form part of such policies in remote and sparsely populated areas, but current CAP rural development programs are not targeted at the areas most in need and single out farmers without a comprehensive view of local development.' (Anania, et al., p. 4)

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[59] Thurston (2010) reports that in 2009, recipients of direct payments included various equestrian associations, golf clubs and private banks. But also, apparently, an accordion club in Sweden (59 585 EUR), a billiard club in Denmark (31 515 EUR), the Jüri High School alumni society in Estonia (44 884 EUR), the Ons Genoegen ice skating club in the Netherlands (162 444 EUR), the Sint Maarten amateur football club in the Netherlands (354 566 EUR) and—perhaps the most ridiculous of all of these entities—the Schiphol Airport in the Netherlands (98 864 EUR). More concerningly, from the accountability perspective, the Bulgarian paying agency—responsible for paying out the direct payments in that country—had also paid itself more than a million euros (Thurston, 2010).

[60] For example, the poor, net recipient, region or member state might be in a dire need of infrastructure upgrades but ends up with a budget where a large portion is allocated to farmers (some of whom might encounter difficulties in their operations due to these very same unaddressed infrastructure challenges).

Some member states and their national politicians might, of course, consider it necessary to maintain—or even restore—some historical geographic distribution of its population. Beyond usual fears related to social frictions that accompany all significant changes in society and economic geography, reasons for trying to stop or even reverse what is usually unidirectional rural-to-urban migration can include real or imagined national security concerns. For example, one national government might be very sensitive about depopulation of an area that another, irridentist, state might hypothetically one day try to reclaim. However, such concerns can only be taken seriously in a handful of cases and areas and even then, with reservations.[61] Of course, there could be other reasons why member states' governments might want to prevent population concentration in developed and/or urban areas. But these reasons usually have to do with domestic politics and if that is the case, the decentralised settlement structure should be subsidised from the national, not from the EU budget (Anania, et al., 2010, p. 4).

The principle of subsidiarity also surfaces in the case of preservation of rural landscape. Throughout the interviews conducted for this thesis, several EU member states' diplomats brought up the need to maintain beautiful rural landscapes as justification for direct payments. The narrative stated that *everyone* likes looking at beautiful landscapes while travelling through the countryside but because it is not feasible to sell tickets to people looking at meticulously maintained green fields etc., farmers should be compensated for their hard work through the taxpayer funded CAP. A pre-emptive response to this line of argumentation given by the signatories of the declaration is that beautiful landscapes are foremost national, not EU level, public goods. Leading European Agricultural Economists do, however, concede that 'Europeans also enjoy the landscapes of other member states, possibly justifying some collective intervention by the EU' (Anania, et al., 2010, p. 3). The issue here is the principle of proportionality. Although the signatories do not dive into this discussion, it is highly doubtful

[61] More direct tackling of the threats through defence and security policy might be more merited.

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that roughly 55 billion EUR a year spent on beautiful landscape in EU27 from 2021 to 2027 is the optimal price to pay for this—possibly subjective—preference for aesthetics. Furthermore, when interviewees were challenged with a follow-up question and asked whether—following the same logic—people who own heritage protected houses in Europe's many old towns popular with tourists should also receive annual subsidy because the effort they put into maintaining the façade of their houses is a public good too, none of the interviewees obliged. Member States' diplomats who had just defended the CAP's direct payments with the alleged beauty this money helps to maintain in the rural area all found some—albeit not convincing—reasons why this comparison was invalid.

If none of the above qualify as valid objectives for agricultural policy spending, an obvious question arises: is there any area or item at all on where the Leading European Agricultural Economists would like to see the EU money being spent? The answer is yes. Where Anania et al. (2010, p. 3) see a role for the CAP is in what should be called rural public goods[62] that have cross-border impact. The group points out that 'farmers often create public goods valued by society but not sufficiently remunerated on the market.' For example, farmers might be able to deliver public goods when it comes to climate action. The signatories emphasise that while the first-best choice would be to apply an Emissions Trading System (ETS) or a Tobin tax on greenhouse gas emissions, this would be very challenging in agriculture[63] and therefore—as a second best solution—'payments for climate-friendly farming practices may well be needed to

[62] The signatories of the 2010 declaration do not elaborate on the nature of this concept, but it should be pointed out here that public goods are not 'what the public wants'—as the author of this thesis once heard one member state's representative opinion during an SCA meeting in Brussels—but have a concise definition. A textbook definition of a public good is that it is a good that is both non-rivalrous and non-excludable (see Hindriks & Myles (2006, p. 102) for discussion).

[63] For example, adding agriculture to the EU Emissions Trading System (ETS) would require very precise calculation, on a farm level, of each production unit's emissions. Carbon sink from photosynthesis would have to be deducted on a farm level. Since each farm's net emissions would depend on many factors, from soil type and quality to farming practices, coming up with a precise number is no easy task. Since farmers would have the incentive to underreport their emissions (and overreport carbon sunk), there is a need for an independent third party to monitor and verify each farm's results. Before these results are verified, it is not clear how many emissions credits a particular farmer would need to buy from the ETS market. The challenge is, therefore, indeed considerable. But as Brandt and Svendsen (2010) have shown, not innumerable.

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induce farmers to go beyond minimum legal requirements.’ (p. 3) Overall, the signatories of the declaration come to the conclusion that:

> The future role of the CAP should be to give farmers appropriate incentives to deliver European public goods demanded by society, particularly in the environmental realm. This includes the fight against climate change, the protection of biodiversity, and water management (avoiding pollution, scarcity and floods). (Anania, et al., 2010, p. 4)

As will be shown in the 8th chapter, with the 2021 CAP reform, there has indeed been *some shift* towards these types of payments. But the bulk of the CAP’s 386.7 billion EUR (current prices) budget for 2021-2027 will not be discharged this way.

Public money for public goods

A long list of possible policy objectives that are unjustified—plus one, that is justified—enumerated in the previous section raises the question: what would policy reform that would take the CAP closer to the public money for public good principle look like in concrete terms. In their 2010 declaration, Leading European Agricultural Economists begin by calling for the progressive abolishment of the first pillar of CAP under which direct payments are disbursed. Since—as will be discussed in more detail in later chapters—there has not been much development towards the abolishment of these payments, at least not since 2003, similar calls have been made over the years by a number of other economists. For example, seven years later—during the 2021 MFF and CAP post 2020 negotiations—by Buckwell, Matthews, Baldock, & Mathijs (2017) in their report ‘CAP – Thinking Out of the Box: Further modernisation of the CAP – why, what and how.’ These authors have stressed that direct payments:

> should be systematically reduced and resources switched to provide targeted assistance, including transitional adjustment assistance, to help farmers adapt and rise to the specific challenges of improving productivity, resource efficiency and risk management, and to pay farmers to provide specific environmental and other public goods. For the land management

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> aspect of the policy this should be done by replacing the concept of entitlements with contracts for services. (Buckwell, Matthews, Baldock, & Mathijs, 2017, p. 7)

As for the second pillar (rural development), the signatories of the 2010 declaration call for a thorough reassessment. 'Only those policies that promote genuine European public goods, are efficiently targeted at their objectives, and avoid excessive payments, should be retained' (Anania, et al., 2010, p. 4). As some public goods are of local or national nature and therefore should be funded and implemented at that level, there is, however, a need for a strong EU level oversight. Without proper EU level oversight, local and national authorities might end up picking internal market distorting instruments to provide local and national public—or possibly even non-public—goods respectively. Equally, policy gains made have to be protected against attempts to reintroduce already abolished elements when the pressure to do so arises due to global market price falls. The group makes clear that challenges faced by farmers who have to deal with periodic drops or global market prices, have to be addressed. Due to this reason, the signatories propose that:

> further CAP reform should be accompanied by new policies empowering farmers to use risk management tools, and possibly by providing income safety nets to cope with exceptionally depressed world market prices.' (Anania, et al., 2010, p. 5) (emphasis by original authors)

Buckwell et al. (2017, p. 17) go even further and recommend that the two-pillar structure of the CAP should be done away with altogether. They call for a 'truly integrated policy', which would consist of land management and risk management measures. In case of land management, these authors make six specific reform suggestions. First and foremost, farmers should be paid only for clear results when it comes to environmental goals. Secondly, Buckwell et al. (2017, p. 17) call for good land management practices to be defined in 'more considered and precise ways'. Furthermore, these economists argue that farmers using these practices should be able to access suitable delivery and assistance frameworks. The reason why the targets are there must be understandable to farmers. Otherwise, agricultural producers will keep

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viewing EU rules and regulations as bureaucratically imposed burdens and comply with them mainly due to fear of losing what they consider to be their entitlement (direct payments). Thirdly, the reformed CAP should not stop Member States from applying new—more novel and original—schemes. The structure and rules of the current CAP disincentivise national authorities from experimenting with environmental schemes because even small deviations or errors might result in a situation where the farmer has to pay back the received funds, which will then be returned to the EU budget.[64] Fourth, agri-environmental schemes—at least where feasible and optimal—should be made available for groups of farmers rather than only for individual farmers. Fifth, in case of many environmental land management schemes, farmers should not only receive payment for their services but also be given counselling, facilitation, support and information. The current setup where a farmer submits paperwork and then receives a bank transfer creates distance between the farmer who executes farming activities and the national bureaucracy that—ideally—is interested in the delivery of rural public goods. Buckwell et al. admit that, obviously, providing farmers with additional support—besides the payment for the service itself—will substantially increase costs. However, they are of the opinion that these costs would be worthwhile investments as effectiveness of the service provided by the farmer will increase. Finally, Buckwell et al. argue that—where feasible—the delivery of environmental public goods should be connected with other market activities and the food supply chain.

It should be pointed out that the six recommendations by Buckwell et al. (2017) seem to justify the existence of a large budget for the CAP. Or, at least, they could be argued to do so. A closer inspection, however, reveals that this is not the case. Buckwell et al. (2017, p. 17) make it clear that the overall goal is to make those who benefit from sustainability of the EU farming system

[64] As will be discussed in the 8th chapter, the 2021 CAP reform that brought with it NSPs is a development in that direction, albeit one that still falls far short of what Buckwell et al. call for in their paper.

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(food consumers, water suppliers, tourism industry, agricultural producers themselves and others) pay for it themselves. These economists emphasise that ‘public land management payments should be devoted solely to those public goods that are too difficult to attain by market routes, even if these are much more developed in future.’

The above discussed visions of the future of the CAP are, of course, not exhaustive. One declaration that cannot be overlooked is the ‘Action needed for the EU Common Agricultural Policy to address sustainability challenges,’ drafted by Guy Pe'er and his 20 co-authors and signed by 3647 other scientists in late 2020. By and large, Pe'er, et al. (2020) have the same concerns as those put forward by other economists discussed earlier in this chapter[65]. There are, however, some differences, mainly found in the emphases. One is that co-authors and signatories of the Pe'er, et al. (2020) declaration are predominantly non-economists. Although there are economists among them too, most of the signatories hail from the fields of biology, climate science, environmental sciences etc. This has resulted in more focus being given to the climate and the environmental impact of the CAP.[66] The second difference is that Pe'er, et al.

[65] Buckwell, et al. (2017), Pe'er, et al. (2020), Hoelgaard (2018).

[66] Pe'er et al. (2020) authors made 10 concrete policy suggestions. Firstly, unlike other authors discussed in this chapter, Pe'er, et al. (2020) do not seem to think that direct payments are entirely beyond redemption. But Pe'er and his 20 co-authors to make it clear that direct payments should be paid based on the public money for public goods principle. Furthermore, they are unequivocally calling for the rapid abolishment of coupled direct payments which incentivise production that results in high GHG emissions and distortion of markets. Secondly, Pe'er et al. (2020) want the CAP to address climate change mitigation by supporting better nitrogen fertiliser application, rewetting of peatlands and livestock husbandry practices that result in better GHG balances. Thirdly, Pe'er et al. (2020) want to use the CAP budget to fund measures that maintain biodiversity and ecosystems. Referring to Mace et al. (2018), the authors call for the decline of farmland biodiversity to be reserved. Apart from earmarking a significant part of the CAP budget for the Agri-Environment and Climate Measures (AECM) and for the Eco-Schemes (on which, it will be shown in the 8th chapter, there is indeed some progress), Pe'er et al. (2020, p. 312) also want to bring back ‘the pre-2009 requirements for Member States to set aside at least 10% of Utilised Agricultural Area (UUA) for nature and semi-natural habitats.’ The latter call, as will be shown, has been ignored in the 2021 reform. Fourth—just like Buckwell et al. (2017)— Pe'er et al. want result based rewarding of farmers for their participation in AECMs. Fifth—also identically to Buckwell et al. (2017)—Pe'er et al. call for farmers’ collective or group level implementation of certain measures. Sixth, Pe'er et al. want to make obligatory for the member states to set what the authors of the declaration call the S.M.A.R.T. targets. As will be discussed in the 8th chapter, according to the 2021 CAP reform Member States are required to draft their own CAP Strategic Plans in which they describe in detail how they will achieve key CAP objectives. For example, the Member States have to write in their plans what support measure—basically, subsidy—will help to, say, preserve biodiversity. Pe'er et al. consider this alone deficient and ask for specific, measurable, ambitious, realistic and time-bound (S.M.A.R.T.) targets. Seventh, going further into the details of the 2021 reform, Pe'er et al. call for a revision of success

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(2020) authors[67] had a lot of hindsight about what soon became the CAP's 2021 reform. They already knew what the MFF negotiation's result was (that is, what the CAP budget was going to be) and what the Commission's proposal for the CAP reform was, what the Council's position on that proposal was and what the Parliament's position was. They also knew that the final compromise had to be somewhere between the positions of these institutions and that the deal had to account for the budget allocated in the MFF.

Impact of the radical reform

At this point, it would be justified to ask what these radical reform ideas mean for the farmers and for the environment? Radical reform has not been discussed widely in public. If it were, farmers' lobbies in particular would attack it fiercely, claiming that it would not only bankrupt many of them, but that radical reform would also destroy Europe's ability to produce food. In fact, it would not be surprising if agricultural lobbies were to claim—at least as a rhetorical tool—that the abolishing of direct payments will lead to famine in modern-day Europe. But how much—if any at all—foundation would such claims have? At the time when most of the works cited in this chapter were written or declarations signed—or when the most important decisions about the future of the CAP after 2020 were made, mostly in 2016 and 2017—radical reform had not been modelled economically, at least with sufficient complexity.

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indicators that were proposed by the Commission. Eighth, signatories emphasise the need for better monitoring and sanctioning which—as will be shown in the 8th chapter—is going to be a major challenge when it comes to 2021-2027 CAP. Ninth, with the European Green Deal (2019c) already figuring prominently in the public debate at the time of the drafting of the declaration, Pe'er et al. call for the EU to tackle carbon leakages and global negative land-use effects that the toughening of the EU rules might lead to. As will be shown in the 9th chapter on the Green Deal, this call has mostly been ignored by the EU policy-makers. Last but not least, the group calls for an increase in transparency.

[67] Writing in late 2020 when the CAP reform trialogues were already ongoing between the Commission, the Parliament and the Council.

However, by 2020, a team of economists at the European Commission's Joint Research Centre (JRC) had filled this knowledge gap. More specifically, M'Barek, et al. (2020) modelled[68] three scenarios for the future of the CAP and compared those to the baseline, for which they chose prolonging of the post-2013 reform CAP all the way until 2030. In the first scenario, M'Barek, et al. (2020) resumed that there would be some toughening of environmental rules and better targeting of payments but that the CAP would retain its funding—at least in nominal amounts—in the 2021-2027 period. In the second scenario, M'Barek, et al. envisioned the dismantling of the Pillar I of the CAP and the complete elimination of direct payments. Monies "freed" were presumed to be returned to the taxpayers. Furthermore, M'Barek, et al. (2020) also included in this scenario's assumptions a shift toward productivity-enhancing policies and wider trade liberalisation. In other words, they modelled economic and environmental effects of the radical reform proposal. The third scenario—more of a sub-scenario of the second, actually—envisioned the elimination of not only the first but also the second pillar of the CAP, which makes this scenario somewhat less interesting as radical reform would not entail elimination of the second pillar. In any case, results of their modelling are presented in the Figure 5.2 below.

As visible in the Figure 5.2, both radical reform scenarios (scenarios 2 and 3) have significant negative impacts on farm income and they also result in less land being used for farming, lower overall agricultural output and lower GHG emissions compared to the business-as-usual CAP. Lower GHG emissions, of course, being a positive consequence. The decline in agricultural production in the third scenario—which also results in a small increase of prices—is within the range of annual volatility but is correlated with a significant reduction in land under farming and grazing. Reduced production—at least in theory—reduces overall resource utilisation and

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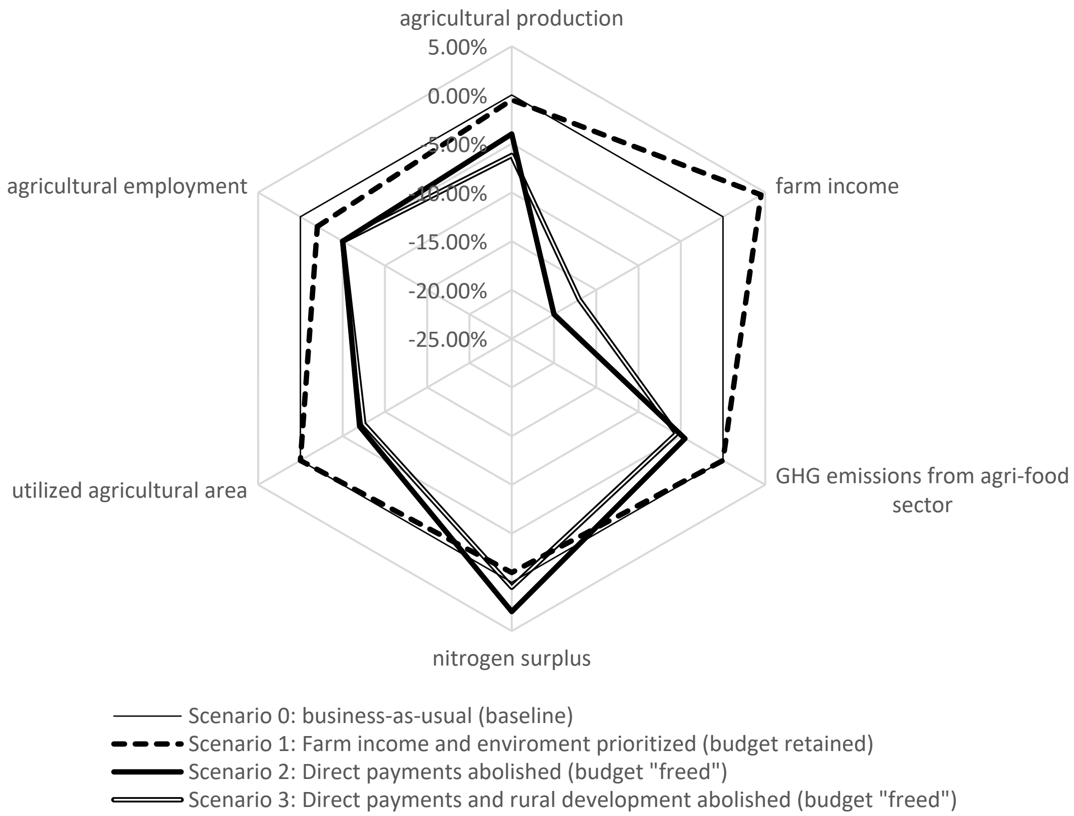
[68] Using integrated iMAP platform models MAGNET, CAPRI, and IFM-CAP, which span many spatial scales (the World, the EU, individual Member State, NUTS 2 region and, finally, individual farm level), they assessed the social, economic, and environmental consequences of potential CAP reforms.

hence mitigates environmental impacts such as GHG emissions. Releasing land from agricultural use may also allow for the establishment of carbon sinks, such as forests and other natural regions, which bring advantages for biodiversity. M'Barek, et al. (2020) caution, however, that additional measures would be necessary to ensure that abandoned land is utilised for environmental improvement.

Figure 5.2: Social, economic, and environmental consequences of radical reform



Adapted from M'Barek, et al. (2020, p. 146)
Note: Higher GHG emissions and nitrogen surplus are undesirable consequences.

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Both radical reform scenarios entail trade-offs between somewhat reduced output, mixed environmental impacts (reduction of GHG emissions but slight increase of nitrogen surplus), and a noticeable negative impact on farmers' income. Apart from the structural employment contraction that occurs at the baseline[69] and all scenarios, M'Barek, et al. (2020) find that the majority of the extra job losses will occur on small farms in net beneficiary nations further increasing farm income inequality and jeopardising the stability of many farms. When individual member states' results are compared, significant consequences are observable in the cases of Croatia, Cyprus, Greece, Latvia, and Lithuania. These member states stand to lose up to 1.7% of their GDP in comparison to the business-as-usual scenario (an aspect that—as discussed in the 8th chapter—obviously influences what position these member states' heads of governments take towards the CAP and its budget, regardless of the agricultural policy details overlayed on it). That being said, M'Barek, et al. (2020, p. 13) also emphasise that 'the aggregated welfare results are contingent on how effectively the funds released from agricultural policy are used for alternative public expenditure.' They, for one, presume that money "freed" from the CAP would be used to increase aggregate welfare. Hence, if the funds are not simply returned to the EU's taxpayers, which benefits wealthy net contributor Member States, then the negative impact on many net beneficiary Member States can be avoided.

Altogether, what M'Barek, et al. (2020) analysis reveals, is that radical reform of the CAP would not lead to the decimation of the sector even if structural adjustment would be—in the absence of compensation—challenging to many. However, as the next section also shows with the example of the bond scheme, there are ways to overcome challenges caused by rapid structural adjustment by—at least partially—compensating the farmers.

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[69] In the baseline business-as-usual scenario, employment in the agricultural sector is expected to decline 1.9% annual, bringing total number of farmers down to 7.3 million in 2030 (M'Barek, et al., 2020, p. 135).

A bond scheme to compensate the farmers

The results of the M'Barek, et al. (2020) analysis, presented in the previous section, showed that there is a need to compensate those who would lose out from the elimination of direct payments, which is where the bond scheme comes to play. The bond scheme was originally presented by six notable agricultural economists to the European Parliament in the Land Use and Food Policy Inter-Group's[70] (LUFPIG) report of November 1990 on the future of the CAP and was then commercially published as Marsh et al. (1991). The bond scheme envisioned a full decoupling of all payments from production. Decoupling entails agricultural producers not being required to plant crops or maintain livestock in order to receive annual payments. They would not even be required to farm their land! Current recipients would get a stream of future payments guaranteed by the EU. The right to receive payments may be gifted, inherited, or sold. In effect, the recipients would have gotten financial assets (similar to government bonds) that could be sold on a capital market to raise a lump sum that reflects the present-day valuation of the payments made in the future (Swinbank, 2004). How long should the phasing out period be? Swinbank and Tangermann (2004, p. 63). recognise that the length of the phasing out period is a political question. Economists can merely weigh in with their opinion to such a matter. That being said, they argue that the duration of the post-radical reform payments (10 to 20 years[71]) should be such that these would allow farmers to adjust their business plans.

[70] Land Use and Food Policy Inter-Group's (LUFPIG) consisted of MEPs who were members of the agricultural policy relevant committees of the European Parliament and representatives of then six largest political groupings the EP.

[71] In another paper, Swinbank and Tangermann (2000) have proposed that 15 years of payments after the reform is an acceptable length. However, if a 15 year long schedule is possible then it should—at least in Swinbank and Tangermann’s view—create enough cushion for the farmers. On the other hand, the period should also not be so long that farmers would not be motivated to make the necessary adjustments to their operations. Authors of the bond proposal also caution that ‘from a purely political point of view, the period should not be so short that it is difficult to believe that payments will really be ended then, but should also not be so long that its end appears to be unrealistically far away’ (Swinbank & Tangermann, 2004, p. 63). This is so because—as M'Barek et al (2020) have shown in the Joint Research Centre study—the complete removal of CAP support, while relatively low in its impact on production, would result in significant structural adjustment accompanied by farm closures and amalgamations. This would create difficulties for many farmers who have grown used to receiving rents from the

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It is worth noting that Swinbank and Tangermann (2004, p. 59)[72] do not see this as a radical reform plan. Perhaps because of the negative connotation that the word 'radical' might give to their reform plan. The authors argue that 'the bond scheme is not a policy that is radically different from the current CAP':

> Instead, it can be seen as a logical evolution of the existing system of direct payments. They would continue to be paid, albeit in a somewhat revised form. The bond scheme is therefore best described by pointing out the changes to the current regime of payments that would be made. One can well think of a continuum of alternative arrangements for direct payments, with area and headage payments on one end, and a fully developed bond scheme on the other. (Swinbank & Tangermann, 2004, p. 59)

Other authors, such as Daugbjerg (2004, p. 88), who have reviewed the scheme, however, disagree about this modesty. Daugbjerg specifically says that 'the *bond scheme proposal could be interpreted as a radical reform*' (emphasis added). It is the view of the author of this dissertation that Daugbjerg's assessment could be trusted and that Swinbank and Tangermann's bond scheme is so far the best and most elaborate reform plan. It is in line with the Declaration by a Group of Leading Agricultural Economists (Anania, et al., 2010), of which Swinbank is one of the signatories. The bond scheme also allows progress in "muddling through" reforms of the CAP to be compared against. And, arguably, it could be used to measure the extent of agricultural reform in any other advanced economy as well. This is so because Swinbank and Tangermann (2004) have divided their reform into six consecutive steps—shown on Table 5.1 below—which end with the transformation to a full bond scheme.

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EU. These farmers might come to believe this is a temporary state and that their rents will be extended after current payments run out. Since the idea is to put an end to the payments once and for all, such a misconception could be politically dangerous and therefore should be avoided. Finally, a good case can be made in favour of degressive payments. Although, as with the length of period, degressivity is a political question too. Payments could be made in equal instalments until the end of the period or slightly frontloaded so that they would start to fall gradually, either from the first payment or from some point in the mid-point of the period. Degressive payments could be preferred primarily because they make farmers better aware of the need for adjustment. Furthermore, since European Union farmers are going to make adjustments over a longer period of time, degressive payments could reduce the financial burden of the EU. Swinbank and Tangermann suggest that if their initially proposed 15-year payment proposal is going to be adopted, 'then the schedule could be arranged such that, for example, payments are made in full until year 11, and then decline by 20% per year, reaching zero after year 15' (Swinbank & Tangermann, 2004, p. 63).

[72] In other words, writing after decoupled payments were already introduced with Fischler reforms in 2003.

Table 5.1: Summary of the bond scheme based radical reform benefits, step-by-step

Step	Benefits
1. Decouple agricultural subsidies from crop production.	Increases allocative efficiency. Allows alternative use of farmland (e.g. the purchase for use as bird sanctuaries). Burdensome administrative controls can be dismantled. Payments would be moved from the WTO's "blue box"—which generates many disputes—unambiguously into the "green box".[73]
2. Also decouple agricultural subsidies from livestock production.	
3. Land (or farm) based entitlements are transferred to individuals.	Increases allocative efficiency further by preventing payments from distorting land prices. That, in turn, further facilitates structural adjustment of agriculture. Blocks new entrants into agriculture from receiving payments, thereby reducing both the number of people who would, in future, receive payments, and who would have vested interest in continued rent-seeking.
4. The duration of the future payments is fixed.	Creates certainty about the reform. Allows farmers to make better-informed investment decisions.
5. The level of the future payments is fixed irrevocably.	Increases predictability of the policy implications for the farmers. Makes it more difficult for future farm ministers to increase (or decrease) payments.
6. Introduction of bonds, and the full transferability of payment entitlement.	Payments cannot be changed without affecting the wealth of bondholders who may no longer be the original owners. This ensures policy reform. Makes it possible for original recipients to sell their bonds on the capital markets to cash in a lump-sum which, in turn, can be used for alternative business ventures.

Swinbank & Tangermann (2004, p. 65)

Swinbank and Tangermann (2004, p. 64) note that while all six radical reform steps could be—and should be—made at the same time, 'thereby transforming the current payments into a bond scheme in one single step', this does not need to be the case as 'it should also be clear that significant improvements to the current regime could also be made even if not all steps are taken.' Indeed, as the next chapters show, the first two steps (decoupling payments from

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[73] The World Trade Organization (2002) defines "green box" subsidies as those that do 'not distort trade, or at most cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support.'

production) have been more-or-less made. Overall, it could be argued that "radical reform" has taken place when first five steps have been taken.

Chapter conclusions

There is a substantial amount of literature out there about what European agricultural economists mean by reform when they call out and/or counsel European (agricultural) policy-makers. Some of it—such as the 2020 declaration 'Action needed for the EU Common Agricultural Policy to address sustainability challenges' by Pe'er, et al. (2020) and his 20 co-authors—is drawn up by scientists who hail primarily from fields other than economics. Other—albeit not necessarily that different in content—answers are given by prominent agricultural economists such as Buckwell et al. (2017), Marsh et al. (1991) and Swinbank & Tranter (2004).

Perhaps the closest notion to a consensus among leading European agricultural economists could be found in a 2010 declaration 'A Common Agricultural Policy for European Public Goods: Declaration by a Group of Leading Agricultural Economists' (Anania, et al., 2010). The principal argument made in this 2010 declaration—and repeated in one form or another in the above cited texts—was that the EU should only finance and regulate the agricultural sector when this serves wider social goals and when the EU level is the most appropriate level to do so due to cross-border externalities. Agricultural economists also make it clear that there is no need for budget in the magnitude of 386.7 billion (in current prices) EUR earmarked[74] for agricultural policy for the 2021-2027 period to execute the radically reformed CAP.[75] They do,

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[74] The Commission (2021a) 'Multiannual Financial Framework 2021-2027 (in commitments) - Current prices'
[75] It should be noted here that unlike leading agricultural economists, Guy Pe'er (2020) and his 20 co-authors do not explicitly call for the reduction of the CAP's budget. Their declaration is somewhat ambivalent on this question and their calls to fund various agri-environmental measures could theoretically also be interpreted as recommendation to maintain or even increase the CAP's budget.

however, see that European farmers could provide certain rural public goods—particularly when it comes to tackling climate change and protecting the environment—and when farmers do provide these goods, they should also be compensated. In other words, we can speak of radical reform of the CAP when the principle of public money for public goods is applied. In practical terms, this means abolishing direct payments which do not follow this principle and thorough revision of the Pillar II measures. Of course, farmers themselves tend to view their direct payments as their entitlements but these payments should actually be conceptualised as rents[76]. Abolishing the direct payments is central to Anania et al. (2010), Buckwell et al. (2017), Hoelgaard (2018) and Swinbank & Tranter (2004). Hence, it would not be far-fetched to say that this is what European agricultural economists mean by (radical) reform when they talk about the CAP.

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[76] Rent is an income flow that is seized rather than created (through value adding economic activity). Definition is derived from that of rent-seeking, which is defined as ‘the act of trying to seize an income flow rather than create an income flow’ (Hindriks & Myles, 2006, p. 335).

Chapter 6: Background — From the old CAP to Agenda 2000

> There are few developments which give one so much cause for doubt concerning the ability of democratic government to act rationally or to pursue any intelligent designs, once it throws principles to the wind and undertakes to assure the status of particular groups. We have reached a state of affairs in agriculture where almost everywhere the more thoughtful specialists no longer ask what would be a rational policy to pursue but only which of the courses that seem politically feasible would do the least harm. [...] [A]gricultural policy has been dominated in most Western countries by conceptions which not only are self-defeating but, if generally applied, would lead to a totalitarian control of all economic activity. (Hayek, 2011 [1960], p. 485)

The story of the post-war European agricultural policies and their amalgamation into the CAP fits well into what Schmitz et al. (2022, p. 27) call the 'traditional arguments' explanation of 'why governments intervene in an economy and how rent-seeking activities can lead to paths that are not supported by the theory of optimal government intervention'. However, while the story of early post-war agricultural policies in Europe does not pose an empirical challenge on its own, events that have followed since then are difficult to explain without this background story. This brief chapter, therefore, starts by discussing how the beast—the European Common Agricultural Policy (CAP)—first came into existence in the late 1950s and early 1960s. It is shown that it evolved mainly through an amalgamation of pre-existing national agricultural policies on the lowest common denominator—or, perhaps, more appropriately, on the highest common price—principle (Knudsen, 2009). The agreed policy was then essentially locked-in due to the Luxembourg Compromise of 1966, which gave all the member states veto rights in all policy questions if they deemed these to be of vital importance to them (ibid). This is followed by an overview of the MacSharry reform of 1992, which broke the existing policy path. Last but least, the overview of the Agenda 2000 reforms, which, while not particularly substantive in themselves, nevertheless set the stage for the Fischler reform of 2003 that followed (discussed in the 7th chapter).

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The old CAP and the "Luxembourg Veto"

The CAP has its roots in the pre-Treaty of Rome era agricultural policies of Western European countries (Milward, 2000). Once national farm lobbies had successfully captured their national governments and agricultural bureaucracies, they also started lobbying the nascent European Commission. The Commission was fertile ground for such lobby work. The Commission's top officials—in line with Niskanen's (1968) and Tullock's (1965) insights discussed in the third chapter—such as savvy political entrepreneurs wanted to have at least one visible positive integration policy that would increase their power, prestige, and budget. And so it happened, after the Treaty of Rome[77] was signed in 1957, the CAP ended up—after a brief period of intense negotiations—as an amalgamation of national agricultural policies on the lowest common denominator principle. What this on the lowest common denominator principle meant in practice was that the highest domestic price—usually that in Germany—of a given commodity became the new common price for all the six Member States (Knudsen, 2009).

Common price within the nascent European Community was maintained using various forms of government interventions, such as variable levies and, later, also increasingly export subsidies. This choice of this instrument also fits Magee et al. (1989, p. 258) argument[78] that 'politicians in power will choose indirect policies to obfuscate the redistributive process. By indirect, we mean policies that are roundabout, circuitous, oblique, and labyrinthine.' The

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[77] In the Treaty of Rome, the objectives of the common agricultural policy (CAP) were defined in Article 38. However, since this dissertation is about the CAP, the objectives deserve a full reproduction here (Treaty establishing the European Economic Community, 1957, p. 41). '(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; (c) to stabilise markets; (d) to assure the availability of supplies; and (e) to ensure that supplies reach consumers at reasonable prices.'A closer look shows that those objectives were, above all, vague. No definitions of stable markets, fair standard of living or reasonable prices were given. Nor was it mentioned how to overcome the difficult task of prioritising one or another objective should they contract each other—which they obviously did (Grant, 1997, p. 6) and still do.

[78] Other authors such as Tullock (1997 [1983]) and Olson (2008 [1982]) have made the same argument. Acemoglu & Robinson (2001) provide a general theory why the choice of instruments in government policies end up being something very inefficient, like a tariff or quota, rather than lump-sum payment.

established system of agricultural protectionism and—economically inefficient—rent-granting was, however, bound to run into trouble. It incentivised overproduction. Until the EEC was still a net importer of a given commodity, high and stable prices could still be maintained—albeit at the expense of consumers—by restricting import with variable levies. However, once self-sufficiency was reached, public funds had to be used to dispose of the production by either exporting it to the world market with export subsidies—which caused trade disputes—or by, eventually, essentially destroying the food. However, unlike other sectors of the economy with similar features—protectionism and rent-seeking—European agriculture did not see liberalisation and reform for nearly thirty years.

The reason for nearly thirty years of immobility was that the ill-designed setup of the CAP was locked into joint-decision trap with the "Luxembourg Compromise" at the end of the "Empty Chair Crisis" in January 1966. This compromise which should have more accurately been referred to as the "Luxembourg Veto" meant that from there on until the late 1980s, any reform of the CAP would have required unanimity among the Council members. This ruled out any reform that would have even hinted at a shift away from agricultural exceptionalism. After all, farm lobbies needed to capture just one agricultural minister in just one member state—no matter how big or small—to veto a reform proposal. And most of the time, during the 1960s and 1970s, they had little trouble capturing them all. Roederer-Rynning (2011, p. 23) argues that there was 'intense and unparalleled socialisation among farm policy-makers in the Council, Commission, and farm interest groups'. Secondly, the administration of the CAP created a whole new bureaucracy inside the Commission in Brussels and greatly expanded Member States' existing agricultural bureaucracies. As Kay has observed:

> the administrative legacy of the CAP as a price support system may have proscribed certain options for reform of the CAP in the budget crises of 1984 and 1988. The costs of switching administrative resources may [have] weigh[ed] heavily in favour of the status quo in Commission and member state thinking on the CAP. (Kay, 2003, p. 413)

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However, with the CAP generating huge surpluses that had to be dumped on the world market with taxpayers' help (see the black bars on the Figure 1.2), the flaws of the CAP started to become a more and more pressing policy issue in the 1980s.

The 1992 MacSharry of the CAP

A "muddling through" reform of the CAP—called the MacSharry reform after the then Commissioner for Agriculture Ray MacSharry—finally took place in 1992, curbing some of the worst excesses of the policy. It altered the previously set path of ever greater shift towards production quotas, which appear to have been the most acceptable solution to the budget crisis for EU's policy-makers in the late 1980s. This reform also allowed the Uruguay Round of the GATT negotiations to be concluded successfully (Swinbank, 1996; Swinbank & Tranter, 1996).

A number of factors made that reform possible. For one, trade negotiations themselves placed the CAP and its incompatibility with trade liberalisation in the spotlight. Export subsidies of the CAP were thorn for the EU's trading partners. Ingersent et al. (1994, p. 73) have argued that 'the crux of the lack of agreement on agriculture [in the GATT negotiations] was that the US and the Cairns Group[79] were unable to accept the EC's refusal to offer specific quantitative commitments to lowering border protection and reducing export assistance.' However, European industrial lobbies were very interested in opening these markets for their products. Hence, the Commission came under pressure to reform the CAP so that the Uruguay Round could be successfully completed (Patterson, 1997).

[79] The Cairns Group (Cairns Group of Fair Trading Nations) is a lobby group which represents 19 (originally 14) agricultural exporting countries. As of 2022, member countries are Argentina, Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, Uruguay, and Vietnam. The Cairns Group lobbies for agricultural trade liberalisation.

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For two, there was the looming budget crisis (Daugbjerg, 2003). Moyer and Josling (1990, p. 209) observed—as a general rule—, 'a budget crisis creates a zero-sum bargaining game, which in turn changes the power and incentives of the various actors.' And these redistributive conflicts have 'generally been more obvious in the EC, which cannot legally run a budget deficit.' (ibid)

Thirdly, around the same, the farm lobby's strength nearly collapsed (Phillips, 1990). Hostage to its most militant members, national and European farm lobbies could not agree on anything else except that there should be no price cuts (that is, no reform). This "advice" was of little use for the politically entrepreneurial Commission officials. Eventually, parts of the Commission's agricultural bureaucracy most threatened by the reform and most captured by the farm lobby—which includes most of the CMO staff in the Directorate General responsible for agriculture and in national administration—were neither consulted nor informed about the reform plans. Commissioner MacSharry and his team instead chose what they called, 'confidential consultation of strategic interests groups' from which they hoped to receive specific input (Roederer-Rynning, 2011, p. 26).

Last but not least, the political-institutional arrangement—consensus decision-making—that had been in place since the introduction of the "Luxembourg Veto"—which had never been a formal right anyways—had faded away in the 1980s. Qualified majority voting (QMV) could now be used, as it was initially intended by the drafters of the Treaty of Rome, to decide agricultural matters. This greatly eased the making of reforms. By the early 1990s, Scharpf's (1988) joint-decision trap had broken down (Roederer-Rynning, 2010; 2011).

MacSharry reform of 1992 reduced intervention prices but compensated farmers for the lost income with what become known as coupled support. Because coupled support was far less trade distortive than price support and export subsidies had been, the reform allowed the EU to

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agree to the Uruguay Round Agreement on Agriculture (URAA) in 1994. That being said, the MacSharry reform, like four other reforms the CAP has seen since then, ended as "muddling through" types of reform instead of being a radical reform. And even as a "muddling through" reform, it failed to address many problems. For example, the milk and the sugar sectors—perhaps because the strength of the lobbies of producers of these two commodities had not declined as much as, say, wheat growers—were not reformed at all in 1992 (Baldwin & Wyplosz, 2009).

The introduction of arable area payments (coupled direct payments), instead of fully decoupled direct payments (or individual entity/person-tied payments) also created new problems. Specifically, arable area payments set a poor example with the high levels of compensation that farmers would now expect from reforms. It was going to be difficult to reproduce these levels of compensation in other, unreformed industries, such as sugar. Also, because arable land payments were anchored to previous yields and cropping patterns, they preserved inequality within the agricultural community because those so-called compensatory[80] direct payments were supposed to cover the producers' revenue decline. While this would have been the case with radical reform too—unless some sort of modulation would have been applied—, in case of a radical reform, unequal compensation payments would have been temporary phenomena and could have been justified as the price of getting rid of agricultural rent-seeking. And radical reform would have eventually freed up significant resources. But as things stood in 1992, price supports were turned into perpetual compensation payments—basically entitlements—with roughly 80% of the money going to 20% of recipients (as Figure 5.1 in the previous chapter shows, this inequality persists). Furthermore, these permanent compensation payments were made to the landowners irrespective of whether they were farmers themselves or not. This made Queen Elizabeth II, for instance, one of the biggest beneficiaries of

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[80] Some, such as (Senior Nello, 2011, p. 297), also argue that farmers were effectively over-compensated.

the CAP's direct payments in the United Kingdom. Additionally, since direct payments were only made if the lands were farmed, there was still an incentive to produce something on the land (Baldwin & Wyplosz, 2009, p. 370), although this problem was addressed in the 2003 reform. Most importantly, however, the MacSharry reform failed to substantially reduce the overall cost of the policy (as visible on Figure 1.2 in the introduction chapter). This disqualified it from being called a radical reform, at least using the conceptualisation elaborated on in the 5th chapter.

However, in parallel with the MacSharry reform process, another important development also took place. Just when the "Luxembourg Veto"—never a formal power anyway—had been abolished, a new political-institutional arrangement merged to take its place. In order to reduce the burden of annual haggling over the Community's budget and to bring some stability to the Community's finances, an Interinstitutional Agreement (IIA) for the years 1988-1992 was adopted in 1988 (Benedetto, 2019). The IIA was approved with unanimity by the Heads of State and Government. In due course, the decision-making that governs the adoption of the IIAs—which have later been rebranded as the Multi-Annual Financial Frameworks (MFF)—has become one of the greatest hindrances to a radical reform of the CAP.

Agenda 2000 reforms

In January 1995, a new European Commission—the Santer Commission[81]—was formed. The agricultural portfolio in this Commission went to Austria, which had joined the EU at the beginning of the year. The Farm Commissioner's position was taken up by Franz Fischler, a politician from the Christian-conservative People's Party (ÖVP) who had previously (1989-1994) served as the Minister of Agriculture. As the following events show, Fischler was—by

[81] Named after its President, Luxembourg politician Jacques Santer.

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all means—also an agricultural exceptionalist in his views. But unlike a number of others—especially in the agricultural lobby—he sensed that the MacSharry reforms had opened the pandora's box and the CAP was now in danger of being radically reformed.

Instead of trying to reform the CAP along the lines conceptualised in the 5th chapter, he and his team appear to have taken on themselves a mission to save the CAP from this outcome. The course taken was to carry on with the implementation of the MacSharry reforms. This involved lowering support prices and making "cross-compliance"[82] stronger. The first idea for the said reform was floated by the Commission (1997) in a document called 'Agenda 2000: for a stronger and wider.' The Agenda 2000 proposal did not deal only with agriculture – reforms were meant to address the fiscal and regional policy issues facing the EU at the time. Eastern enlargement was the real issue. The Commission (1997) was frank in its assessment:

> If the CAP instruments, mainly support prices and direct payments, were applied at their present level by the Central and Eastern European countries, particular problems would arise. Inordinate cash injections through direct payments would risk creating income disparities and social distortions in the rural areas of these countries. In addition, surpluses would increase, in particular for sugar, milk and meat, reinforcing the growing market imbalances predicted after 2000. (The Commission, 1997, p. 28)

Although a compromise agreement on the Agenda 2000 reform was reached in March 1999 at the "marathon" AGRIFISH Council meeting, President Chirac of France arrived at 1999 Berlin European Council as the leader of the CAP supporters group and threatened to veto the whole Agenda 2000 unless his demands were met (Laffan, 2000). A new deal was reached at the European Council whereby cereal prices were going be reduced by 15% over two years

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[82] To qualify for EU income support, farmers must adhere to a set of guidelines. Cross-compliance refers to the interaction between the adherence to these guidelines and the direct payments farmer receives. In order to collect their direct payments, farmers in the EU are obliged to statutory management standards that apply to all farmers, regardless of whether they receive direct payments or not. Farmers that violate EU regulations pertaining to the environment, human and animal health, the welfare of animals, or land management may have their direct payments decreased and may face further fines. Cross-compliance was introduced in the MacSharry reform as a voluntary instrument in the sense that the Member States could decide themselves whether they wanted to subject their farmers to this cross-compliance or not. Only a few member states decided to do this initially (Dwyer, Baldock, & Einschütz, 2000). The Agenda 2000 reform made it compulsory for the Member States, but there were no uniform rules. Agricultural bureaucracies of the Member States took diverging approaches. Rules that farmers had to comply with varied between member states and were not particularly strict.

beginning in 2000 (instead of 20% as proposed by the Agricultural Commissioner) and cattle prices by 20% (instead of 30% as proposed by the Agricultural Commissioner). The French President also managed to extract concession on dairy policy reform, which was pushed back to 2005-2006 (Laffan, 2000, p. 12). But this hard bargaining was going to cost him a lot in just a few years. In return for consenting to Chirac's demands, member states who favoured a more ambitious reform of the CAP managed to extract a concession that the Commission has to propose a "mid-term review" of the CAP in 2003 (this year was going to be the halfway in 2000–2006 MFF).

Besides effectively putting into motion the "mid-term review", which ended up being the most ambitious reform the CAP has ever gone through, Agenda 2000 was important for another reason, too – explicit reliance on the use of the so-called “national envelope”. In practice, the use of this national envelope meant that part of the funds saved from lowering the intervention prices—thereby lowering the costs of the subsidies needed to maintain these prices—was paid to the Member States in an “envelope”. This allowed the Member States’ agricultural bureaucracies to define the conditions for payments to farmers, in accordance with EU regulations (Swinbank, 2004). Another notable change that was introduced with Agenda 2000 was the splitting of the CAP into two Pillars. The first Pillar deals with the old or legacy CAP expenditure—(then still decoupled) direct payments and a few remaining production subsidies and export refunds. The second Pillar, commonly known as the “Rural Development” Pillar, aims to help rural society in general.[83]

The Agenda 2000 reforms were, therefore, a compromise where member states’ CAP allocations ended up protected from major redistribution—this outcome satisfied the heads of states in the European Council—and the member states’ agricultural bureaucracies were—

[83] The umbrella term Rural Development includes diverse programmes which, for example, try to incentivise farmers to increase the quality of output or to treat animals better (Baldwin & Wyplosz, 2009, pp. 373-374).

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probably reluctantly—willing to accept that they have to implement cross-compliance for two reasons. Firstly, they, too, understood that the Commission had a point that it was unfeasible to extend the still remaining price support instruments—even if the prices maintained with these instruments were no longer very high for many products—to CEEC when the latter were inevitably going to join the EU. Since heads of the government were not going to block the Eastern Enlargement only to maintain moderately high prices for their farmers, price cuts seemed a foregone conclusion in 1999. Secondly, while cross-compliance was unpopular with the farmers and initially also viewed sceptically by agricultural bureaucracies, agricultural bureaucracies began to appreciate the merit that cross-compliance offered in justifying the continued CAP spending. The fact that it was mostly up to the member states' agricultural bureaucracies themselves to define how broad—EU-level rules—were going to be translated into practice also relieved some fears (Hill, 2012). Hence, agricultural bureaucracies of the member states could also accept the Agenda 2000 reforms.

Chapter conclusions

This chapter has demonstrated that while the history of the CAP from it's creation in the early 1990s until the first "muddling through" reform in 1992 does not pose challenge to the traditional rent-seeking theory, the policy decisions that were made at its creation nevertheless reverberate well into the 21st century. The CAP was setup by amalgamating interventionist national agricultural policies of the six founding member states into one common policy, financed from the common budget. Farmers were granted rents through stable and high domestic prices in the EEC. These were maintained using variables levies and eventually, increasingly, export subsidies. Problems started to emerge early on but the outcome of the "Empty Chair Crisis" created a joint-decision trap—to use Scharpf's (1988) term—which

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prevented any reform proposal from passing. The CAP was eventually reformed only in 1992 due to strong budgetary and trade pressures. This 1992 reform of the CAP—often called the MacSharry reform after then Farm Commissioner, Ray MacSharry from Ireland—lowered the intervention prices and offered farmers compensation in the form of coupled direct payments. Furthermore, just as "Luxembourg Veto"—which never a formal rule anyways—was fading a way, a new veto rule was introduced to the community's budget negotiations. In order to reduce the burden of annual haggling over the Community's budget and to bring some stability to the Community's finances, an Interinstitutional Agreement (IIA) for the years 1988-1992 was adopted unanimously in 1988 by the Heads of State and Government. This has effectively shifted the focus point of the problem from agricultural policy-making to the EU's budget negotiations. Last but least, the Agenda 2000 reforms—which very modest in terms strictly agricultural policy content—introduced the use explicit use of "national envelopes" into the EU decision-making and put into motion the 2003 Mid-Term Review.

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Chapter 7: From the 2003 Fischler Reform to "greenwashing" of the CAP in 2013

> The Fischler reform of 2003, which could have put in place the final phasing out [of direct payments], was finally more or less simplification only. We kept the direct payments. There was no commitment to, say, "okay, we keep direct payments for 5 years, and then we stop it." That was, I think, the last time this [phasing out] was discussed. Or even evoked as an idea. Because in the next reform, 2008/2009 and 2013, nobody was talking anymore about phasing out. It was completely out. (personal views of an agricultural functionary from a Western European member state, 2017)

> The question with the 2013 CAP decisions is not so much whether they are radical reforms (the consensus on this is "no"), but whether they are captured appropriately by the term 'reforms' at all. (Swinnen, 2015a, p. 4)

Corrado Pirzio-Biroli (2008, p. 103), the Chief of Staff for Commissioner Franz Fischler, recalls that by the turn of the century, the EU's agricultural policy had fallen out of grace with other policy-makers outside the narrow agricultural policy-making community and substantial budget cuts in future MFFs began to pose a threat. According to Corrado Pirzio-Biroli (2008), the CAP was facing pressure from multiple directions. Firstly, the electoral strength of farmers had vanished with their numbers, and agricultural lobbies had lost their privileged position. Secondly, the upcoming eastern enlargement and, in line with the empirical puzzle of this thesis, the needs of other policy areas put pressure on the CAP's budget share. Thirdly—although this was not directly attributable to the CAP—the caricature of the farmer, regardless of the size of his farm, had become that of an environmental polluter. This image problem further reduced the effectiveness of agricultural special interest groups. There was a risk that heads of government were going to intervene in agricultural policy-making. All this meant that the status-quo coalition probably no longer existed in the Agricultural Council. Corrado Pirzio-Biroli recalls how:

> At the DG for Agriculture, several of us concluded that if we wanted to preserve the CAP, we needed to change it; if we wanted to succeed in changing it substantially, we needed to just about guarantee the historical support levels to European farmers and avoid a negative impact on their revenues. Yet, a reform package leaving the CAP budget unaffected (except

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> for enlargement) had no chance of acceptance in the College of Commissioners unless we adopted a new approach, and took it by surprise. (Pirzio-Biroli, 2008, p. 103)

According to Pirzio-Biroli (2008, p. 103), Agricultural Commissioner Fischler and his team, therefore, saw the need to transform the European farming sector's reputation from a major polluter—that is threatening long-term sustainability—into one that, at least for them, appears to be engaged in nature conservation and in the sustainable production of high quality and healthy food.

With the above backdrop, this chapter analyses how the 2003 CAP reform—also known as the Mid-Term Review (MTR)—took place and why it ended up not being radical reform. After that, outcomes of the 2007-2013 MFF and the 2014-2020 MFF negotiations are process traced. Finally, the 2013 reform of the CAP is studied. Particular attention is being paid to the role of national agricultural bureaucracies and to the bargaining over the budget of the CAP.

The 2003 Fischler Reform of the CAP

The proposal

Over the course of approximately two months in spring 2002, Fischler and his closest aids drafted and redrafted what eventually became the proposal for the 2003 reform of the CAP (Syrrakos, 2008).[84] The initial work was done in a small group which, besides Fischler and his cabinet, involved only a few other officials from the DG AGRI. This was done to prevent leaks. If an early draft of the proposal had leaked, it would have allowed the agricultural special interests and agricultural bureaucracies of the Member States to mobilise. But the strategy worked. There were no leaks of the draft before the launch of the interservice consultation (ISC) in mid-June 2002 (Syrrakos, 2008). Most likely due to their own agricultural

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[84] The 2003 Reform of the CAP is also called the Mid-Term Review (MTR) and the Fischler Reform.

exceptionalist views—which can also be observed in Pirzio-Biroli's (2008) quote above—Fischler and his team were clear in the Mid-Term Review (MTR) proposal that they 'reject the notion that EU agriculture can promote the objectives expected from our citizens by abolishing or renationalising support. But it also rejects the notion that EU agriculture should limit itself to a passive role of observing developments without a forward-looking policy response' (The Commission, 2002, p. 2). This supports the hypothesis put forward in the theory chapter that when members of the narrow agricultural policy-making community hold agricultural exceptionalist views, they would also display such views in the policy documents. However, as for the content of the proposal, Fischler's head of cabinet at the time, Corrado Pirzio-Biroli, recalls that:

> There was surprise about the Fischler proposal among the DG for Agriculture staff, because the most interesting parts of the reforms had been discussed within a tightly-run group of five (later six) persons, including Fischler, this author as his chief of staff and Tassos Haniotis, the relevant cabinet member. It worked: there were no leaks. (Pirzio-Biroli, 2008, p. 104)

What were those interesting parts? Fischler and his team's proposal for the reform (The Commission, 2002) consisted of four items or ideas. The first and most important of these was decoupling. Formally called the introduction of the Single Farm Payment (SFP), decoupling meant that farmers no longer had to produce anything in order to qualify for the CAP's direct payments. The Member States were going to have flexibility in implementing this. Bureaucrats in the ministries of agriculture could decide whether farmers were going to receive the same amount as they had during a certain reference period (a historical method). Alternatively, they could decide to give all farmers in a certain area the same per-hectare payment. This corresponds to the first two steps of the bond scheme path to radical reform laid down by Swinbank & Tangermann (2004, p. 65) and discussed in the fifth chapter. Interestingly, as will be elaborated a few sections below, decoupling—which turned out to be the most significant

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or radical feature of the reform—was actually not part of Fischler and his team's initial thoughts.

In any case, the second idea Fischler and his team proposed consisted of two instruments. The first of these was making ‘reinforced’ cross-compliance compulsory to all the Member States and all the farmers who receive support through the CAP (The Commission, 2002, p. 16). The second was making modulation compulsory for all the Member States. Money raised with the modulation—which was effectively just an EU tax on the direct payments—was to be used to make sure that Pillar II gets adequately funded. The third item of Fischler and his team’s proposals consisted of making adjustments to the Common Market Organisations (CMO). The fourth and last part of the proposal consisted of the introduction of fiscal discipline[85] to ensure that previously agreed budget ceilings were not going to be breached (Olper, 2008, p. 87).

Olper (2008) has observed that while the proposed adjustments were going to limit future policy options, the proposed reform's redistributive power was very modest. Farmers were still going to receive an exuberant amount of money from the EU’s budget. From this vantage point, it becomes apparent that the Commission staff and, in particular, Franz Fischler, had been able to come up with a proposal that was going address the major concerns of many Heads of State and Government and of the Commission’s own services, but which was not going take away money from any Member State as long as overall budget of the CAP did not fall.

After receiving approval from Commission President Prodi, the Commission interservice consultation (ISC) procedure was launched in mid-June 2002. Interservice consultation procedure, however, is notoriously leaky. Members of all cabinets of all the Commissioners receive the documents. Some of these cabinet members may have an interest in a political or a

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[85] When the Commission’s estimates suggested that CAP expenditures were going breach the CAP’s budget, the level of direct payments was going to be reduced to restore fiscal discipline.

bureaucratic career in their native member state. They are often brought along from the member state as the Commissioner's team and serve only as long as he or she is a Commissioner. And one good way to earn points and prove loyalty to the bureaucracy or the government back "home" is to share sensitive information with them. Furthermore, member states' representatives—for example, SCA spokespersons—also share the Commission's documents with each other too, partly to build coalitions in the SCA and in the Council. This is exactly what happened with Fischler's proposal too.

The launch of the ISC[86] in mid-June 2002, therefore, meant that the document quickly found its way to member states' governments and bureaucracies. Officials from the ministries of agriculture were mostly shocked and opposed (Swinnen, 2008). However, the Agra Facts (2002a) reports that in some member states that such as France, the head of government—President Jacques Chirac—was also dismayed. In early July 2002, French Prime Minister Jean-Pierre Raffarin sent a warning to Commissioner Fischler from a podium in the French Parliament. Raffarin declared in his address to the National Assembly that his administration would be especially resolute in its opposition to attempts to reform the CAP. The last statement was reinforced by the French Minister of Agriculture, Hervé Gaymard, who told French Parliamentarians that Ireland, Portugal, Greece, and Italy 'have the same vision as France' about the Mid-Term Review (Agra Facts, 2002a, p. 1).

However, opponents of the Fischle reform did not have enough time to do something about the draft proposal before the end of the interservice consultation. Several Commissioners were eyeing the CAP's budget, and Commission President Prodi wanted to reduce it by 30% (Pirzio-

[86] Interservice consultation (ISC) is a procedure used in the European Commission to ask and collect the official opinions of other Directorates-General (DGs) that have legitimate interest in a proposal. During the ISC, the lead DG—in the case of the agricultural policy reform, the DG AGRI—distributes a proposal to all other DGs that may be affected by or interested in the idea. Certain parts of the Commission, such as the Legal Service, must always be consulted. In general, the lead DG is obliged to submit all proposals that require a vote by the College of Commissioners to the ISC. Affected DGs normally have two or three weeks to review and accept a proposal (or not).

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Biroli, 2008). These funds could have helped them to execute their own plans and thereby assist their careers. Hence, these political entrepreneurs in the Commission would have preferred even more radical change. But they also understood that the proposal—now that it included decoupling—was a major step forward. Hence, support among other Commissioners and their cabinets was almost unanimous (Pirzio-Biroli, 2008).

In many ways, the time period between the interservice consultation leak and the adoption of the proposal by the College of Commissioners represented the only window of opportunity to substantially alter it. Once the proposal was approved by the vast majority of the Commissioners and officially published[87] in July 2002, political-institutional arrangements governing the adoption of reforms began to strongly favour the Commission's proposal. In any case, agricultural bureaucracies from the Member States had missed the brief window of opportunity during the ISC. From July 2002 onwards, they were fighting an uphill battle to shape the proposal slightly in their direction. It was an uphill battle because there was no consensus even within the AGRIFISH and the SCA on how the proposal should be amended and because some Member States' agricultural bureaucracies also had to battle their colleagues from ministries of finance. Rather the question was whether the proposal would receive qualified majority support at all in the Council and, if QMV could be secured, what the concessions to various parties were going to be.

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The negotiations

According to Pirzio-Biroli (2008), three things helped Fischler and his team to push through the reform proposal. Firstly, as a second-term Commissioner with lengthy experience in the

[87] The Commission (2002) *Communication from the Commission to the Council and the European Parliament. Mid-term Review of the Common Agricultural Policy COM(2002) 394*

policy area, Fischler commanded a degree of respect in the narrow agricultural policy-making community. Secondly—and probably more importantly—, at this point, while the 2007-2013 MFF was already on the minds of policy-makers, no drafting had yet been done. Thirdly, for the time being, the October 2002 European Council Conclusions—elaborated below—were still effective.

Although agricultural bureaucracies of the member states had missed the most important moment to intervene, they nevertheless put up resistance in the SCA and Council debates that followed the publication of the proposal. The theory laid down in the third chapter predicts that the members of the narrow agricultural policy-making community are able to use institutions such as the SCA to water down any reform attempts that are incompatible with agricultural exceptionalist views. However, as will be shown, in the case of the 2003 CAP reform, the watering down of legal proposals at the level of the SCA or at AGRIFISH was not observed. It needs to be noted here that this outcome contradicts the hypotheses put forward in the third chapter, and it, therefore, poses a certain challenge to the theory that has been advanced in this dissertation to solve the empirical puzzle. But it does not necessarily mean that the theory of bureaucratic politics fuelled by the agricultural exceptionalist paradigm and inter-bureau coalition-making in the SCA and AGRIFISH Council needs to be dismissed. Instead, the described outcome offers an opportunity to clarify some of the parameters of the theory. Namely, there are situations where the rapid pace of events and internal divisions in the narrow agricultural policy-making community can create an exception to the rule.

In the case of the 2003 reform of the CAP, the deviation from the usual inter-bureau coalition dynamics was caused by the deep internal divisions in the Farm Council. Firstly, five agriculture ministers (from Sweden, Germany, Denmark, the Netherlands, and the United Kingdom) broadly supported the Commission's approach to the Mid-Term Review. The Swedish Minister of Agriculture—Margareta Winberg from the Social Democratic Party—,

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for example, praised the emphasis on environmental and animal welfare standards in the Commission's proposal[88], but lamented the lack of an ‘overall cost reduction’. She argued—prophetically, given that direct payments are still in place in 2022—that the introduction of decoupled direct payments would entrench inequality between recipients and that there was, therefore, a need to ‘speak in favour of the dismantling of support’ (Agra Facts, 2002b, p. 1). A majority of the ministers, however, expressed their opposition at the July 2002 AGRIFISH Council meeting. And even the opposition was not uniform. Hard-liners were led by France and also included Spain and Ireland. A more moderate opposition was expressed by ministers from Belgium, Luxembourg, Finland, and Austria, while the ministers from Portugal, Italy and Greece desired different kind of non-radical reform (Agra Facts, 2002b).[89]

The subsequent significant development took place on 24 October 2002 when the German Chancellor and the French President met bilaterally in Brussels to take stock and discuss possible common positions at the end of the first day of the European Council. Apparently, Chirac managed to convince Schröder, firstly, that the CAP’s budget must not be touched during the next MFF and, secondly, that agricultural subsidies should be phased in gradually in the New Member States (NMS) (Euractiv, 2002). Although this deal was much more beneficial for France—which received much more money back from the CAP—than for Germany, in the long run, it was going help both countries’ net budgetary positions in the EU. The Franco-German agreement was then presented to the rest of the participants of the October 2002 European Council. Whether interested in a smooth enlargement—which was going to benefit their Member State economically and, possibly, also their political career—or in their

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[88] She was referring to the cross-compliance.
[89] As will be shown in the next chapters, internal divisions described in the section have since faded significantly. Furthermore, most pro-reformist politicians—usually hailing from Sweden and occasionally Denmark or the Netherlands—have all but given up on pushing for radical reform in the Council debates. And the agricultural functionaries find it easier to find common ground on policy reforms issues.

Member States' "juste retour," heads of governments' present at the Council agreed to this for the time being. Some enthusiastically, others reluctantly.

This decision by the Heads of State and Governments not only made it possible to fit the enlargement into the existing MFF of the 2000–2006 period, it also dictated that there would be only a step-by-step phasing-in of the CAP's direct payments in the NMS. More specifically, the European Council decided that only in 2013 would the levels of direct payments in the NMS converge with the Old Europe's one (and as will be shown, this did not happen either in the end). However, according to the agreement, increase to the following level of the OMS were to be made in NMS: 25% in 2004; 30% in 2005; 35% in 2006; 40% in 2007, and so on in subsequent 10% increments. Furthermore, the phasing-in was to occur within a framework of financial stability. This meant that the:

> The overall expenditure in nominal terms for market-related expenditure and direct payments for each year in the period 2007-2013 shall be kept below this 2006 figure increased by 1% per year. (General Secretariat of the Council, 2002, p. 5)

The European Council had effectively decided to secure a large part of their Old Member States' net budgetary positions against encroachment in the upcoming MFF negotiations. These negotiations had yet to begin. Therefore, heads of governments participating in the 2002 October European Council could not have known with any certainty how much money they were going to get from various policy areas. However, many of them must have realised that with new and economically less developed countries joining, their Member State was unlikely to be able to secure as many funds from, say, the Cohesion Policy as it had been able to in the past. Although heads of governments were most likely all in favour of *some redistribution* to the NMS through the EU budget—and they must also have realised that this would shift their Member State's net budgetary position—they were only willing to go so far. Not securing their rear for the upcoming MFF negotiations could have led to an unfortunate situation in those

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MFF negotiations where they would have had to threaten with or maybe even use the veto. This was something they all wanted to avoid.

With the “juste retour” question out of the way, Fischler and his team managed cleverly to exploit the divisions between the heads of government created by the Iraq war to break the anti-reform coalition that was being led by the French agricultural functionaries (Pirzio-Biroli, 2008). During the final night of negotiations at the AGRIFISH Council meeting that started on 23 June 2003, Fischler rejected all motions to delay the vote. According to Pirzio-Biroli (2008), he was concerned about the formation of a new blocking minority of veto-wielding nations. This uncertainty required extraordinary steps to address. During the final night’s “finish,” all member states’ bureaucrats were ordered to vacate the negotiation room, while ministers as lead negotiators were instructed to remain in place. Fischler also made it clear to the Greek Presidency that he would not table any more written compromise proposals until an agreement was imminent. This permitted Fischler to present his personal compromise ideas on all unresolved issues orally. The oral presentation helped to prevent leaks and thereby keep the agricultural bureaucracies back in the capitals at arm’s length. Last but not least, Fischler asked ministers to reply on the spot with “yes” or “no,” and “if no, why not?” (Pirzio-Biroli, 2008, p. 107). It had taken three AGRIFISH Council meetings in Luxembourg in June to reach an agreement. The first of these was held on 11–12 June, the second on 17–19 June and the last one on 25–26 June 2003. The Greek Minister of Agriculture Georgios Drys, who held the rotating Presidency, failed to mediate a compromise in the first two. The ultimate compromise—which the ministers and Fischler had discussed during the previous session—now held (General Secretariat of the Council, 2003).

What about the role of agricultural special interest in all this? Syrrakos (2008)—using 78 elite interviews as her source—argues that in the early stages of farm policy creation, there was little serious discussion. Her sources told her that, by 2003, there was a much bigger divergence

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between the stated interests of agricultural ministers and those of their national farm lobbying organisations. A policy coordinator for the COPA-COGECA summed up the issue as ‘Governments are not the same as farmers’ (Syrrakos, 2008, p. 118). Compared to the early 1990s—when the MacSharry reform was negotiated—by the early 2000s, this difference had become most pronounced in Portugal, Spain, and Germany. In general, agriculture ministers participating in the AGRIFISH meetings had become relatively independent from their domestic farmers! The COPA-COGECA, therefore, played a much smaller role in the 2003 reform of the CAP than it had done in the past. According to Syrrakos’ sources, what weakened agricultural special interests the most during the 2003 reform process was its rejection of the decoupling. By attacking decoupling, European and national-level farm lobbies could not become serious and constructive partners for Fischler and his team. As one COPA-COGECA official recalled to Syrrakos (2008, p. 119) in an interview: ‘If we had said "yes" to decoupling, we would have influenced the way it was implemented. Where we were influential was on the margins.’

The outcome of the Fischler Reform

The 2003 reform of the CAP has been the most successful reform of the EU’s agricultural policy to date. Indeed, a number of scholars—such as Olper (2008, p. 83) and Swinnen (2008, p. 135) have even described it as ‘radical.’ However, if a more stringent conceptualisation of the concept reform—as described in the 5th chapter—is to be used, then, despite the changes the Mid-Term Review brought, it was not yet a radical reform. Most fundamentally, it did not bring about the policy-money-for-public-goods policy nor result in a substantial reduction of overall expenditure. That being said, with the decoupling of subsidies from production, the first two steps in Swinbank & Tangermann (2004) radical reform proposal were taken. This allowed

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the EU to enter the Doha Development Round without being in the "defensive" position all the time. It also enabled—at least theoretically—to take the next steps in the reform path.

Olper (2008) has attributed the success of Fischler and his team to two factors. Firstly, the Farm Commissioner was a seasoned political entrepreneur who exploited a number of political pressures and the political-institutional arrangements of the EU decision-making. In particular, the EU's finances were strained due to the accession of the New Member States (NMS), and there was a threat of appropriation of the funds by other political entrepreneurs—essentially other Commissioners—who made good cases for alternative spending projects. Secondly, and perhaps much more importantly, Fischler's proposal brought only minimal redistribution between the Member States. In fact, it is probably this that allowed Fischler and his team to defend the CAP and, ultimately, its budget share in the MFF. As Olper explains:

> In fact, before and during the reform process we were aware of a growing dissatisfaction with respect to CAP money, especially from actors normally outside the CAP decision-making process, such as finance ministers, trade commissioners and industrial sectors, but also from traditional supporters of the CAP such as Germany, the biggest contributor to the EU budget. Thus, if one of the objectives of Commissioner Fischler was also to defend agriculture in the EU budget, then reforming the CAP and fixing the agricultural budget before the discussion on the 2007–13 financial framework was probably the right strategy. (Olper, 2008, p. 91)

In general, the outcome also supports the intergovernmental bargaining failure hypotheses laid out in the third chapter. Heads of State and Government were not particularly concerned about the agricultural special interest groups. The latter did not want to hear anything about decoupling – and therefore it got overridden. In the end, even Chirac's France ended up voting in favour of Fischler's proposal. What the heads of government cared about was "juste retour." In other words, their net budgetary position. This is also what led to the October 2002 agreement to preserve the CAP's funding. Although the Council could not legally prejudice the upcoming 2007-2013 MFF negotiations, the acceptance of the Franco-German deal to protect the budget was going to affect these negotiations. This was just fine for many of the

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participants of the European Council meeting. Member states had effectively, and pre-emptively defended their net budgetary position against "too large" transfers to the New Member States.

The 2007-2013 MFF negotiations

The European Commission (2004) came out with the proposal for the new MFF in February 2004. Taking on board some of the suggestions made a year earlier in the Sapir report (2004), the Commission had from the start accounted for the costs associated with the Eastern enlargement in the proposal, including the eventual accession of Romania and Bulgaria. More relevantly for the (non)reform of the CAP, the Commission had also accepted the previously discussed October 2002 agreement to continue financing the CAP. However, Rant & Mrak (2010, p. 349) point out the Commission's initial proposal called for a much larger total budget than the net contributors were willing to accept.

The heads of government of net contributor Member States had made their position clear to the then Commission President Romano Prodi in a public letter in December 2003. In the letter, the German, French, British, Dutch, Austrian and Swedish heads of government complained to Prodi that '[i]n light of the painful cost-cutting efforts in the member states, our citizens would not understand why the EU budget should be exempt from this consolidation process' (cited in Afhueppe et al. (2005)). The Commissioners, however, were keen on securing as many funds as possible. Hence, the Commission went on to argue that the challenges faced in the next period could not be tackled if the budget was fixed at 1% of EU GNI (and therefore, a decline compared to the 1.08% of 2000-2006 MFF). The Commission, therefore, tried to propose an increase to 1.14% of the EU GNI. After over two years of tedious bargaining by the ministers of finance and the heads of governments themselves, a compromise was

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eventually found in the Council during the UK’s 2005 Presidency (General Secretariat of the Council, 2005). This agreement was formalised in June 2006, with only minor modifications (European Union, 2005).

Rant & Mrak (2010) have analysed these negotiations and drawn two conclusions. Firstly, during the negotiation process, the total MFF budget decreased. The Commission proposed 1.025 billion EUR in commitments and 929 billion EUR in payments, but the MFF that was agreed upon had only 864 billion EUR in commitments and 822 EUR billion in payments (in 2004 prices). As a percentage of the GNI, the budget had been reduced to 1% of the EU's GNI, which is the precise amount requested by the six net contributors! Secondly, the CAP—and particularly, the Pillar I, which was cut back by a mere 2.7%—was the budget line that reduced the least during the MFF negotiations (see Table 7.1 below).

Table 7.1: Evolution of the EU’s budget during 2007-2013 MFF negotiations

Appropriations for commitments 2004 prices by headings	Commission’s Proposal 2007–13		Inter-Institutional Agreement 2007–13		
	EUR (billions)	% of total	EUR (billions)	% of total	% change
1 Sustainable growth	464.6	45.31%	382.1	44.20%	-17.76%
1A Competitiveness	121.7	11.87%	74.1	8.57%	-39.11%
1B Cohesion	342.9	33.44%	308.0	35.63%	-10.18%
2 Natural resources	400.3	39.04%	371.4	42.97%	-7.22%
CAP (1st pillar)	**301.1**	**29.36%**	**293.1**	**33.91%**	**-2.66%**
CAP (2nd pillar)	88.8	8.66%	69.8	8.07%	-21.40%
Fisheries & Environment	10.4	1.01%	8.5	0.98%	-18.27%
3 FSJ (3A) and Citizenship (3B)	14.7	1.43%	10.8	1.25%	-26.53%
4 EU as a Global Partner	88.1	8.59%	49.5	5.73%	-43.81%
5 Administration	57.7	%	49.8	5.76%	-13.69%
6 Compensation	0.0	0.00%	0.8	0.09%	n.a.
Total	1025.4	100.00%	864.4	100.00%	-15.70%

Reproduced from Rant & Mrak (2010, p. 350)
Note: All in 2004 prices.

However, these results can also be analysed at the member states’ level, as is done in Figure 7.1 which breaks down the 2007-2013 budget by item and member state. As can be seen from

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the figure, compared to other items such as the Cohesion Policy, agricultural policy causes less burden to large net contributor member states such as the United Kingdom and Germany. One large net contributor—France—was even positively affected by the CAP budget transfer! This certainly helps to explain why French President Jacques Chirac was so keen that the CAP's budget be maintained throughout the 2007-2013 period. This applied to some other member states too. Ireland's per capita receipts from the CAP were even so large that they turned Ireland from a net contributor to effectively a net recipient member state (see Figure 7.1, part b). Another two member states—Denmark and Finland—were somewhat in a similar position as France. They had a negative budget balance overall, and agricultural spending was the only budget item that reduced this negative budget balance. Interestingly, several people interviewed for this thesis even placed Finland firmly in the "Mediterranean camp" in terms of their Finnish colleagues' agricultural policy and the MFF positions.

The figure also sheds light on the reason why the United Kingdom's top priority was to preserve the UK rebate as much as possible (instead of focusing on, say, the reduction of the CAP budget). While the benefits of budget reshuffling were very uncertain for the UK—as explained in the theory chapter—the benefits of the UK rebate were very clear and concentrated. British Prime Minister Tony Blair even used his veto power of the MFF to defend the rebate and prevent an early agreement in the Council in June 2005 (Rant & Mrak, 2010, p. 363). From this perspective, both UK Prime Minister Tony Blair and French President Jacques Chirac simply reacted rationally—regardless of their own agricultural exceptionalist views or lack thereof—to the incentive structure that the EU's political-institutional arrangements had established. The total net budgetary balance of the net contributor member states such as Germany, the Netherlands, Austria, and Sweden were also improved in the negotiation process. For example, they were offered their own rebate on the UK rebate. That is, while other member states (except the UK itself) had to pay more to the EU budget to make up for the shortfall

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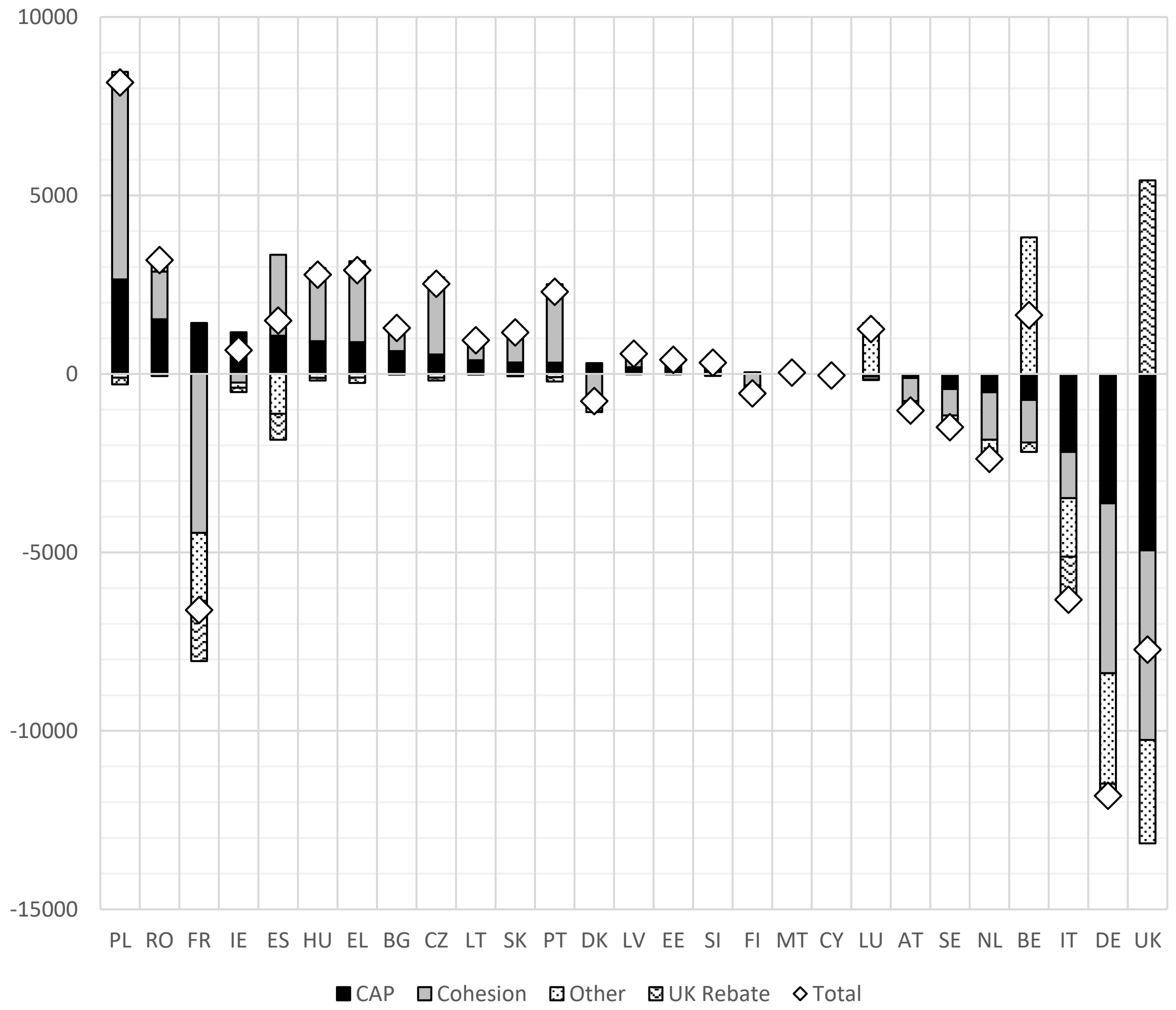
caused by the UK rebate, these four member states now had to share a somewhat smaller share of this burden.

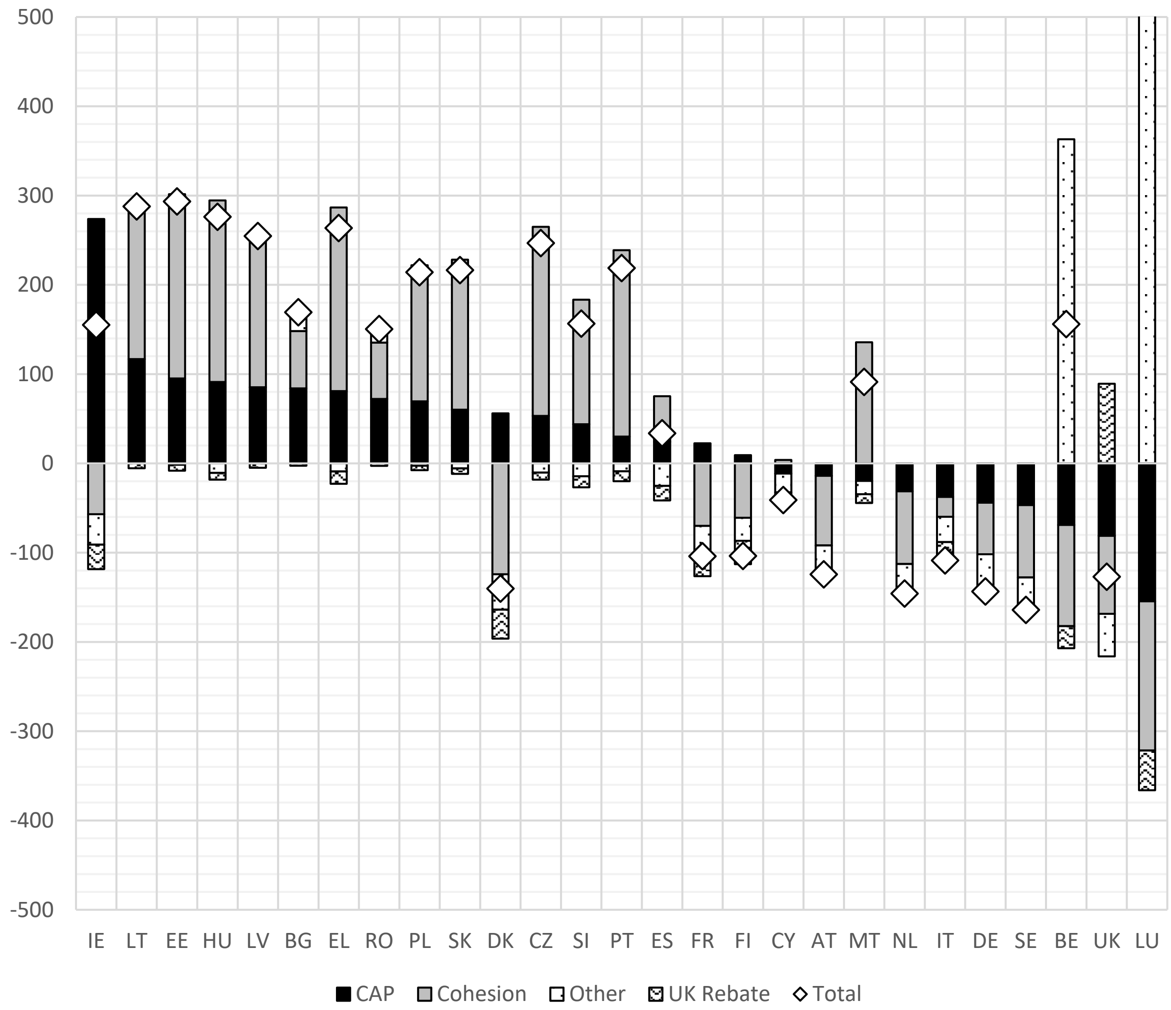
Figure 7.1: Member States' net budgetary balance towards different EU budget spending items during the 2007-2013 MFF negotiations

a) In million EUR



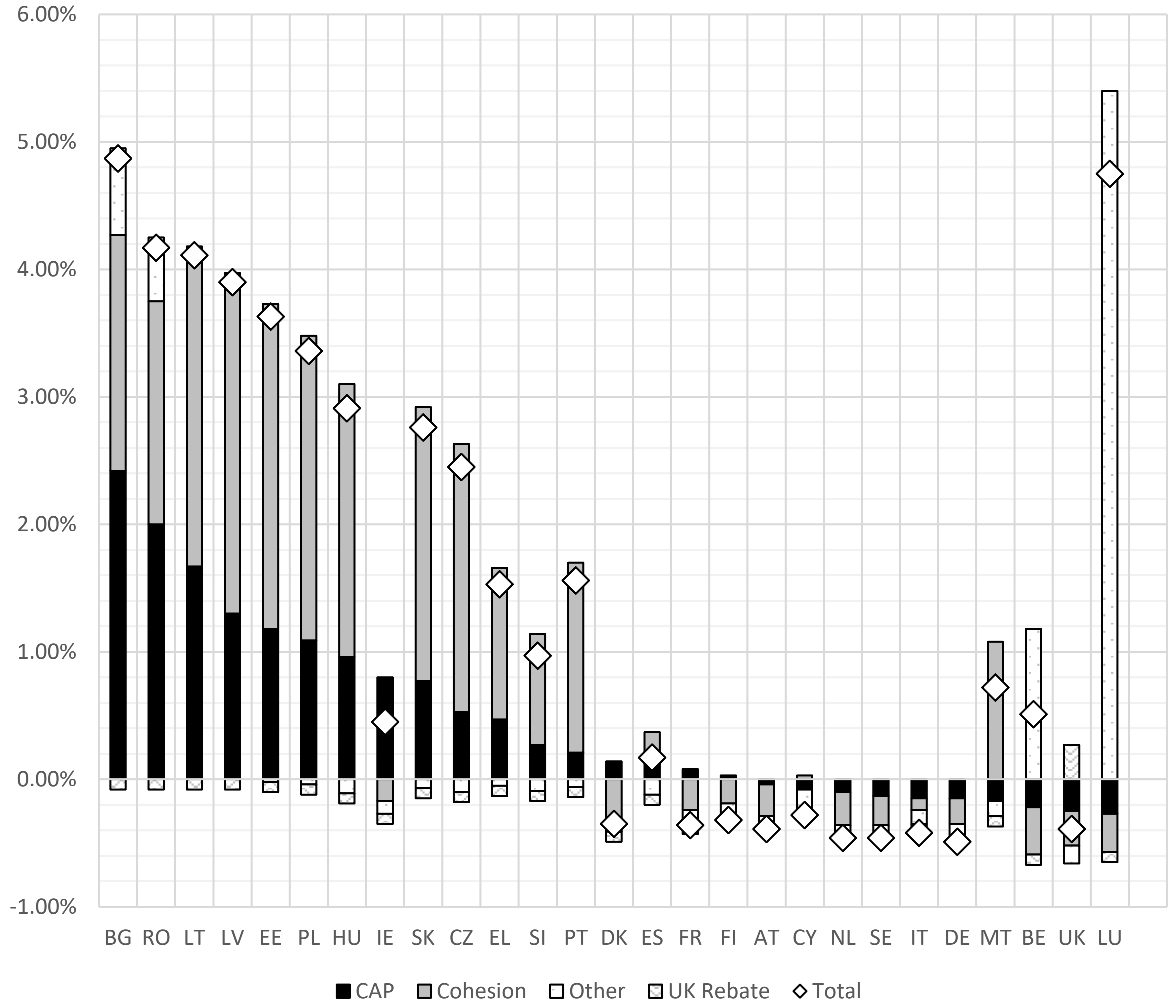
Data source: Rant & Mrak (2010, p. 350)
Note 1: Ranked by CAP expenditure.
Note 2: The EU's own net budgetary balances is negative, and therefore, the columns do not add up to zero. This is so because part of the funds raised by the EU are being spent outside the union—around 7 billion EUR during the 2007-2013 period—on items like foreign aid, neighbourhood policy, pre-accession assistance etc.
Note 3: Belgium and Luxembourg are outliers in the "other" spending category, as this category also includes the expenditures made by the EU on its administration on the territory of the member state. Since the EU's headquarters is in Brussels, Belgium, and since it also has many offices in Luxembourg, these two states become somewhat artificial "net recipients" from the EU budget with 1.3 and 1.6 billion EUR, respectively.
Note 4: All figures in 2004 prices.

b) Per capita spending (EUR)



Data source: Author's calculations using the World Bank's (2022) and Rant & Mrak (2010, p. 350) data.
Note 1: Ranked by CAP expenditure per capita.
Note 2: Similarly to the previous figure, the EU's administrative expenditure on the territories of Belgium and Luxembourg distorts these member states' per capita figures. For Luxembourg, due to its small population (472 000 people in 2006), this yielded a net positive budgetary balance of 2 660 EUR per capita, which could not be displayed on the figure.
Note 3: All figures in 2004 prices.

c) As a percentage of the member state's GNI



Data source: Rant & Mrak (2010, p. 350)
Note 1: Ranked by CAP expenditure as a percentage of the member state's Gross National Income (GNI)

Last but not least, Moehler (2008) points out that, interestingly, no monies were allocated to cover the costs of the Romanian and Bulgarian enlargement. This was so despite the fact that the two countries increased the EU's farming population by 3.8 million and its agricultural land by 20 million hectares. However, a decision to delay the implementation of the milk sector reform[90]—which introduced direct payments there as well—and to introduce the CAP's direct payments in the recently acceded CEE countries only gradually allowed the Union to remain

[90] The abolition of the milk quotas was decided already in the 2003 Fischler Reform. However, the introduction of direct payments to the dairy sector would have cost money; while quotas were an invisible tax on consumers, implementation was to be delayed until 2015! This decision was reconfirmed in 2008 (The Commission, 2015)

within the agreed-up budget ceiling during 2007-2013 period (Moehler, 2008). This was important for the OMS. If they were net beneficiaries from the CAP, the threat that their net budgetary position was going to deteriorate because some of the CAP's funds were going to be reallocated to the new member states was—for the time being—eliminated. If they were net contributors to the CAP, they did not have to worry either. The threat that their net budgetary balance was going deteriorate because the overall budget of the EU was going to be increased to cover enlargement costs was also gone. Altogether, this outcome of the 2007-2013 MFF negotiations lends support to the hypothesis that the heads of governments are primarily concerned with "juste retour" and that the hidden threat of veto allows those member states that benefit from the CAP to defend the policy's budget.

The 2014-2020 MFF negotiations

In March 2010, the Commission (2010a) published a communication outlying its priorities for the next financing period. In the strategy, the Commission recognised acute challenges faced by the EU in the context of the ongoing Great Recession and called for the next MFF to deliver smart, sustainable, and inclusive growth. The agricultural policy did not figure prominently in the document. In fact, the Commission was even somewhat ambiguous about the continue maintaining policy's large budget:

> The *discussion should not only be about levels of funding*, but also about how different funding instruments such as structural funds, agricultural and rural development funds, the research framework programme, and the competitiveness and innovation framework programme (CIP) need to be devised to achieve the Europe 2020 goals so as to *maximise impact, ensure efficiency and EU value added*. (The Commission, 2010a, p. 20) (emphasis added)

This reinforces the hypothesis that the Commission, at least services such as the Directorate General for Budget (which had the responsibility for drafting the Commission's initial MFF

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proposal), were not so keen on agriculture, not to mention being captured by agricultural special interests. But pushback also began to emerge. A few months later, in June 2010, the European Council adopted its position towards the strategy. While the Heads of State and Government, in principle, approved the direction the Commission proposed to take, they were keen to emphasise the importance of farming much more than the Commission had. The European Council conclusions adopted under the Spanish Presidency in June 2010, for example, were already amiable to the sector in general, declaring that 'a sustainable productive and competitive agricultural sector will make an important contribution to the new strategy, considering the growth and employment potential of rural areas while ensuring fair competition' (General Secretariat of the Council, 2010, p. 3). What followed was nearly a year-long process of the Commission consulting—behind closed doors and primarily with the Member States' ministries of finances—and refining its approach to the next MFF.

When the Commission (2011a) published more concrete ideas on the 2014-2020 MFF in June 2011, it appeared that the Commission officials had learned that the reduction of the CAP's budget was not politically feasible. The Commission's officials, at least those dealing with the budget negotiations, seem to have realised that the best way to get any deal done was to stick as close to the status quo as possible. The Commission's proposal included market-related expenditure and direct payments with 281.8 billion EUR and rural development with 89.9 billion EUR, totalling 371.7 billion EUR (in 2011 prices) for the whole seven-year period. This represented 36% of the proposed 1 025 billion EUR 2014-2020 MFF. At first glance, agricultural expenditure appeared to be 11% smaller than the policy's funding of the previous period.[91] However, the figure of 371.7 billion EUR represented only the "traditional" agricultural policy's budget. Food safety, food aid for the needy and research and innovation

[91] As was shown earlier in the chapter, agricultural expenditure in the 2007-2013 MFF was 362.9 billion EUR in 2004 prices. Adjusted for inflation, that would have been 420.7 billion EUR in 2011 prices (author's calculations using Eurostat (2022a) data).

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were all under other headings. Furthermore, there were also "off-budget" spending items such as the European Globalisation Fund and agricultural crisis reserve. All these items also help the sector in one way or another. If these items were also accounted for, then the proposed budget was close to 386.9 billion EUR. This still represented a 7.6% reduction. But the entire 2014-2020 MFF was about 3.4% less than the 2007-2013 MFF. Given that the EU faced numerous new challenges and that the Great Recession had hit the Member States' budget—from where the bulk of the EU's funding came—hard, the agricultural policy had more or less escaped major cuts.

This did not save the Commission from criticism, though. For example, the European Parliament adopted two resolutions in June 2011, calling for the CAP's budget to be maintained in real terms.[92] The MEPs' desire to maintain the CAP's budget should, however, be seen in the context of general preference of political entrepreneurs in this institution for a larger EU budget. As explained in the theory chapter, a larger MFF would increase the MEPs' powers, prestige, and ability to reward domestic constituents. This tendency has also been confirmed by the conducted interviews.

Interestingly, for a document that was to unveil the budget, the Commission (2011a, p. 4) had gone into rather minute details of the policy itself. Adinolfi (2011, p. 43) even noted that 'to some extent, the Commission's MFF proposals pre-empt the legislative CAP reform package by anticipating several of the key future orientations.' For example, in Part II of the document, the Commission (2011a, p. 4) reiterated the need for both pillars of the CAP. Similarly, in order

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[92] In the first resolution on the CAP towards 2020 (also known as the "Dess Report", named after MEP Albert Dess (DE/EPP) who was a rapporteur for this file), the EPP called for the 'EU agricultural budget in the next financing period to be maintained at least at the same level as the 2013 agricultural budget' (European Parliament, 2011a, p. 53). In the second resolution on the MFF (also known as the "Garriga Report", named after MEP Salvador Garriga Polledo (IT/EPP), who was a rapporteur for this file), the EP demanded that 'the amounts allocated to the CAP in the budget year 2013 should be at least maintained during the next financial programming period' (European Parliament, 2011b, p. 104).

to address the existing inequalities between the levels of direct payments received in the Old and the New Member States, the Commission proposed:

> a system of "convergence" to reduce these disparities and promote a fairer distribution of financial support. This rebalancing of support is a major element of the reform aimed at a more effective use of budgetary resources through more equitable and better targeted direct payments as well as a better fit between the future distribution of rural development support and the policy objectives. (The Commission, 2011a, p. 4)

This rebalancing was to do be done gradually, with those Member States where the direct payments were less than 90% of the EU's average moving closer to that 90% by one-third. That is, if the level of direct payments in a member state was, say, 60% of the EU average (which was the case in the Baltics), then this member state could expect to have its direct payments increased so that by 2020, they would be 70% of the EU's average.

Secondly, the Commission (2011a) endorsed the "greening". The mandatory greening of direct payments was to be the cornerstone of the post-2013 CAP. Greening was meant to improve the environmental performance of the agricultural sector—and more crucially for the public image—it was going to demonstrate that the CAP was there to serve a broader array of Union interests. In particular, 30% of direct payments was to be subjected to compliance with a variety of environmentally sound activities, extending even beyond cross-compliance.

In any case, it appears that the fate of the CAP's budget in the 2014-2020 MFF was mostly sealed merely a month later in July 2011. In late June 2011, the Farm Commissioner Dacian Cioloș gave a speech in the European Parliament where he declared:

> we have taken an important step for the future of the CAP. In the current context of economic and budgetary pressure, *the European Commission is proposing to maintain CAP spending at 2013 levels*, namely €371.7 billion, to which we add additional room for manoeuvre of €15.2bn, in total €386,9bn available for agriculture. With this global envelope available for European agriculture we can preserve the EU's capacity to react with force and with clear will – to permit this strategic sector to respond to the major challenges of tomorrow. (Cioloș, 2014 [2011]) (emphasis added)

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Apparently, Cioloș and his team had managed to enlist the support of Janez Potočnik, a Slovene, and Connie Hedegaard, a Dane, who served—respectively—as the Commissioner for the Environment and Commissioner for Climate Action. An intra-Commission-services-deal entailed exchanging support to the CAP budget for a more environmentally and climate-friendly policy (Matthews, 2015). However, officials in DG ENVI and DG CLIMA must have, at that point, also realised that any transfer from the CAP budget to their own portfolios was unrealistic. They were effectively choosing between supporting the maintenance of the CAP's budget and reduction in the whole MFF. In this situation, it must have seemed more prudent to, at least, keep the money in the EU budget than to risk losing it to net contributor member states. Extracting a promise from Cioloș and his team was, therefore, secondary.

An equally or even more important deal about the budget appears to have been made between the two largest member states. An investigation by Euractiv (2011) revealed that the French and German finance ministries' officials had logrolled: Germany was to support the continuation of agricultural spending at the same level—which secured France's "juste retour"—and the French were going to support the establishment of an intermediate category in the Cohesion Funds. Until the EU's regions were only divided into two categories (developed and converging), the flow of Cohesion Policy funds to Germany was going to be rather limited as even the less developed Länder in the eastern parts of the country were much better off than most regions in the New Member States (NMS). However, a new intermediate 'transition' category promised to divert a significant amount of Cohesion Policy funds from NMS to Germany, or more precisely, to the regions that were part of East Germany before the unification (Euractiv, 2011). As with a number of earlier events in the EU's history, once Germany and France were in alignment, it was very difficult, if not impossible, for the other Member States to overturn the decision. The following events proved it to be the case this time too.

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From a theoretical perspective, officials from the ministries of finance of the largest net contributors were able to come to an agreement that protected their Member States' net budgetary position as much as possible for two reasons. Firstly, as explained in the theory chapter, the veto power that all Heads of State and Government have in the European Council strongly favours the status quo, and this is known to all participants. In the case of the MFF 2014-2020, Germany, however, had been supporting a modest reduction of the overall budget with other frugal powers. This meant that German officials could not credibly threaten to use the veto at the EU level to get their will. A hypothetical German veto would have merely resulted in the prolongation of the annual budget of 2013, which, with mandatory adjustment for 2% inflation, would have been larger than the budget for the year 2014 in the next MFF. If German officials wanted to minimise the deterioration[93] of their country's net budgetary position, they needed another strategy. Changing the criteria for Cohesion Funds offered one such avenue. The French officials were in a similar position. But since France was a major beneficiary from the CAP, the easiest and most secure way to pursue "juste retour" was to make sure that agricultural spending was not reduced.

Secondly, unlike with the budget reshuffle where—as explained in the theory chapter—"transaction costs" prevent Pareto improving deals from being made because actors cannot make credible commitments, a bilateral agreement between officials from two countries was feasible. It involved an exchange of positions, which both parties could monitor and enforce. If one country withdraws its support from the element of the deal that benefited the other before the final marathon meeting in the European Council, the other could do the same. However, neither country's officials were interested in the failure of the MFF negotiations. Hence, incentives were aligned for both countries' officials to keep their part of the bargain (which must have included making sure that their respective Heads of State or Government also

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[93] A small deterioration of the net budgetary position was inevitable.

understood all this before arriving at the European Council meetings). This deal-making by the French and German financial ministries and officials contrasts with the grand "political Coase bargain"[94] in European Council, where the net budgetary position of the Member States is maintained despite the reshuffling of the budget. This grand "political Coase bargain" has not been an option for the actors involved due to what Dixit (1996) and North (1990a, p. 366) call the 'transaction costs'. Hence, actors make minor bilateral or multilateral deals which they can monitor, enforce and, as the 2014-2020 MFF negotiations show, also scale up in the European Council.

The European Council managed to reach an agreement on the MFF on 8 February 2013.[95] As part of this agreement, the "traditional" CAP spending items—on which the Commission had initially proposed to spend 371.7 billion EUR—ended up receiving 362.7 billion EUR[96] (The Commission, 2011a, p. 25 & 28; General Secretariat of the Council, 2013, p. 46). The European Parliament initially resisted this deal, insisting on a larger overall budget. But after a series of trialogues, the Council, represented by the Irish Presidency's officials from the Ministry of Finance, and the Parliament, represented by the rapporteurs of the European Parliament's Committee on Budgets (BUDG), were able to arrive at a political agreement on 19 June 2013 without the Parliament obtaining notable concessions, at least in terms of the overall size of the budget or the share of agriculture in it.[97] Despite this, the legislature gave its formal consent to the MFF in November 2013 (European Parliament, 2013). Ironically for an institution whose

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[94] Inspired by the Coase's (1960) theorem, Acemoglu (2003, p. 621) has proposed a 'political Coase theorem,' which 'maintains that, if [political] property rights are well-defined and there are no transaction costs, economic agents will contract to achieve an efficient outcome, irrespective of who holds the property rights on particular assets.' The grand "political Coase bargaining" would be an example of the political Coase theorem working in practise in a setting like the European Council.
[95] Formally, this was not the last step as the European Parliament's consent was also required. However, since the Parliament could only vote the proposal up or down, the best MEPs could hope for minor changes in what the European Council had agreed.
[96] Both figures are in constant 2011 prices.
[97] The agreed budget of the 2014-2020 MFF was 960 billion EUR in commitments and 908 billion EUR in payments (all in 2011 prices). This represented a 6.3% decline in commitments and 9.3% in payments compared to the Commission's (2011) initial proposal, where the respective numbers were 1 025 billion EUR and 972 billion EUR in payments.

agricultural committee—as will be shown below—constantly acted as a conservative pressure group in the CAP reforms and whose budgetary committee tended to ignore the principle of public-money-for-public-goods if doing so was necessary to increase the EU's budget, the European Parliament nevertheless managed to identify the core of the problem. In an April 2013 resolution, adopted in reaction to the February European Council conclusions, the MEPs made it known that:

> [they were] deeply concerned at the fact that *budgetary debates in the Council have been for many years poisoned by the logic of 'fair returns' instead of being driven by the logic of the European added-value*; considers that, while this debate already existed before the introduction of a GNI-based resource, the situation has seriously intensified due to the current system of EU financing, whereby some 74% of revenues stem from national contributions based on GNI instead of genuine own resources, as foreseen in the Treaty of Rome and all successive EU Treaties; considers that such a system places disproportionate emphasis on net balances between the Member States and has led to the progressive introduction of complex and opaque rebates and other correction mechanisms for the financing of the EU budget (European Parliament, 2014) (emphasis added)

Although agricultural spending was not the only or even the main contested issue in these MFF negotiations, the fact that the Heads of State and Government were willing to lobby for the reinstatement of the CAP funds nevertheless shows that the pursuit of "juste retour" continued to foil attempts to bring more radical reform of the CAP. These events also showed how Member States who are not major recipients of the CAP funds can be co-opted by those who are.

The 2013 Reform of the CAP

In several ways, the years leading up to the 2013 reform were favourable to a more radical reform. In the period after the 2003 reform and all the way until 2008, prices of food products had reached unprecedented heights (see Figure 7.2 below). And then prices dropped significantly in 2009, only to climb again in 2010 and 2011. Although high prices were a good thing for the EU farmers—and even when they fell in 2009, they nevertheless remained over

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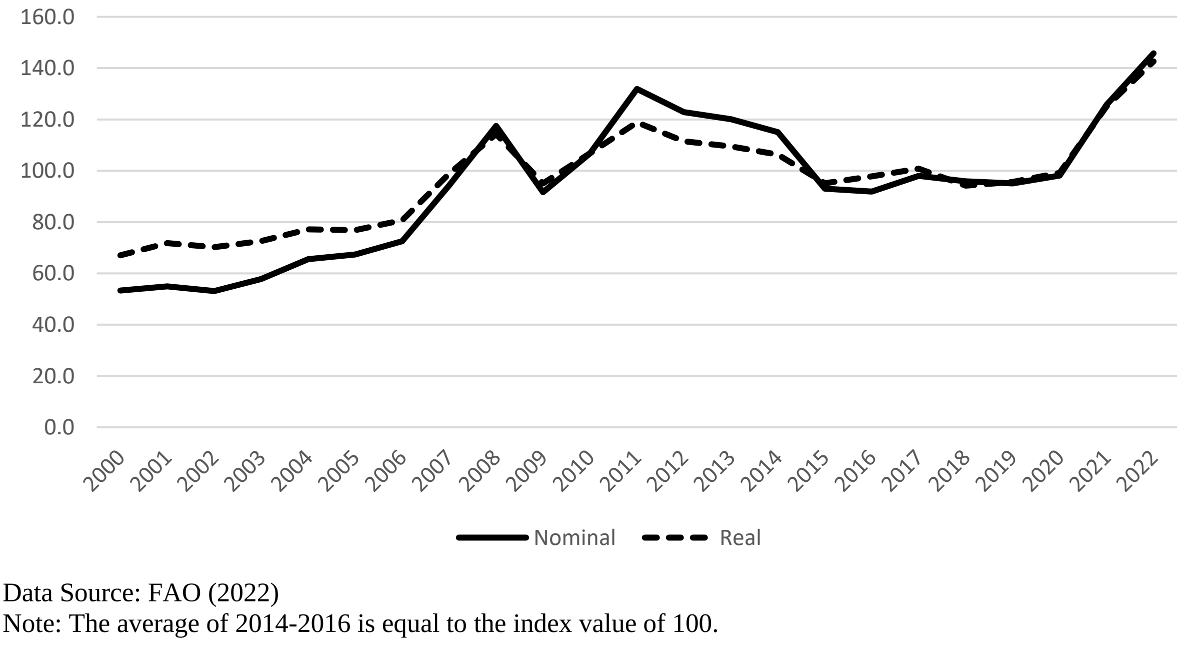
the level seen just a few years ago—they still created a number of issues. For one, high food prices on the world market raised concerns about famines in the least food-secure countries of the world. There was widespread acceptance in the EU policy-making circles that famines should be prevented for humanitarian reasons. However, as famines have always been catalysts for political instability and mass migration—both of which could affect the EU too—the policy-makers in the EU also had more pragmatic reasons to tackle the issue. High food prices on the world markets raised thorny questions about the Common Agricultural Policy. In particular, both the need for and the merits of the remaining market intervention measures were being questioned, at least outside the narrow agricultural policy-making community. For example, in 2009, a leaked draft of the Commission's (2009, p. 17) budget review for the years 2008 and 2009 stated that 'future reform of the CAP must stimulate a further significant reduction in the overall share of the EU budget devoted to agriculture, freeing up spending for new EU priorities'.

Figure 7.2: FAO Food Price Index



Data Source: FAO (2022)
Note: The average of 2014-2016 is equal to the index value of 100.

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The first indication that the next reform of the CAP will not be a radical one, however, already emerged when the new Farm Commissioner took office in 2010. As had become a norm, a new College of Commissioners is formed after each European Parliament election, and this was also the case after the 2009 elections. While the Commission President, José Manuel Barroso (PT/EPP), managed to secure his own reappointment and confirmation by the newly elected European Parliament, he had to find a replacement for his Farm Commissioner. Mariann Fischer Boel from Denmark was not renominated by the Danish government. Barroso chose to offer the position to Dacian Cioloș from Romania. Roger Waite—the editor of the Agra Facts at the time—argued that 'Barroso was left with no other option, as no one was willing to put forward a good candidate – and that he was the only suitable candidate from among the nominees' (Thurston, 2009).

The appointment of Dacian Cioloș was a cause for pessimism—at least for those preferring radical reform—for two reasons. Firstly, Cioloș was politically relatively inexperienced, having spent the bulk of his professional career in the Romanian agricultural bureaucracy. An agronomist by training, he had implemented rural development projects at a local level in Romania in the 1990s and then managed the implementation of the SAPARD programme in Romania in the early 2000s. From January 2005 until May 2007, he served as an advisor to the Romanian Minister of Agriculture and as Romania's spokesperson in the SCA. As quite often happens with former SCA spokespersons, particularly in smaller and medium size Member States, the SCA spokesperson's position gave a boost to his career. From May to October 2007, he served as the Romanian Ministry of Agriculture's Undersecretary of State for European Affairs. Gaining visibility in this position, he was appointed to the position of Minister of Agriculture in October 2007, serving until December 2008. Furthermore, it should be noted here that Cioloș had a strong "French connection." He had studied in France, and he was a

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personal friend of former French Agriculture Minister Michel Barnier[98] (Agra Facts, 2009a), whom Barroso appointed as the European Commissioner for Internal Market and Services. Taken together, Cioloș' background meant that he was very likely to hold agricultural exceptionalist views himself. And even if asked to represent the DG AGRI's or even the Commission's common interests in the trialogues with the Council and the Parliament, he was unlikely to possess the necessary political capital to do so very well (in contrast to, for example, Fischler).[99]

From early discussions to the communication

The discussion about the future of the CAP, however, had already begun even before Cioloș was confirmed as the Commissioner as the agricultural bureaucracies of the Member States tried to pre-emptively set the tone for the upcoming Commission communication. For example, during the June 2009 informal AGRIFISH Council meeting, many ministries argued that direct payments have to be maintained (Agra Facts, 2009b). Justifications for direct payments varied from the burdens imposed by cross-compliances to food safety, food quality, traceability of food, world market growth, environmental benefits etc. Several delegations emphasised the relevance of agriculture in sustaining landscapes (for the tourist sector), the quality of rural life, and biodiversity as public goods. Others emphasised the importance that the Single Farm Payment plays in providing income assistance. Only Jane Kennedy—the Minister of State for Sustainable Food, Farming and Animal Health of the UK—said that the British government wanted to abolish direct payments entirely (ibid). None of the justifications put forward by the

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[98] Barnier had displayed agricultural exceptionalist views and played a conservative role during the Fischler Reform (Pirzio-Biroli, 2008).
[99] Ironically, the two "deficiencies" of Cioloș—lack of high-level leadership experience in Brussels and adherence to agricultural exceptionalist views—were cancelling each other out in the sense that an even more dismal outcome could have been predicted if a person with a lot of political capital and very strong agricultural exceptionalist views had been appointed instead.

ministers defending the status quo were new and—as discussed in the 5th chapter—none of them sufficient to justify a large budget and continuation of direct payments.

A subsequent significant development took place in September 2010 when Bruno Le Maire of France and Ilse Aigner of Germany signed a common position in Berlin on the CAP at a meeting in Berlin. This formalised the Franco-German axis that those Member States' agricultural bureaucracies had been trying to foment behind the scenes for quite a while by then. The Franco-German common position involved mutual understanding that full convergence of the direct payments 'is not justified & does not comply with the economic situation in the EU' – a position that was not particularly surprising given that farmers in both countries enjoyed (and still do) a level of direct payments that are above the EU average (Franco-German position cited in the Agra Facts (2010a)). In a nod to their colleagues from the ministries of finance and their "juste retour" priorities, the agricultural ministers of the two countries also agreed that any redistribution of funds due to the CAP reform 'must take into account the sustainability of Member States' financial position in the EU Budget based on the current distribution key' (Franco-German position cited in the Agra Facts (2010a)). This effectively ruled out any measures that would change the ranking of the levels of direct payments between the Member States. Unless this common position was to collapse, there was now no point for the Commission to propose that some or all funds be distributed according to purely environmental need- or merit-based criteria, as doing so would alter the distribution key. Nor did the ministers forget to mention the budget, emphasising that 'there must be resources for action commensurate with our ambitions' average (Franco-German position cited in the Agra Facts (2010a)). In retrospect, it was probably this Franco-German agricultural bureaucracies' deal that—together with the mutual understanding achieved by those two Member States' finance ministries' officials, discussed earlier—sealed the fate of the 2013 reform of the CAP.

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However, in late 2010, the impact of the Franco-German common position was not yet very obvious. After all, there was no agreement on the 2014-2020 MFF in place. But it was clear that most member states' agricultural bureaucracies were pushing back against more ambitious reform ideas. Member States' agricultural bureaucracies were quick to identify potential allies and to form inter-bureau coalitions to advance their views. A good example of this can be found in the Paris Declaration, which was signed by representatives of 22 member states in December 2009 (Agra Facts, 2009c). The purpose of such declarations is to send a signal to the Commission about the political feasibility of policy options. Agricultural bureaucracies of the Member States want the Commission to propose something that would look like a reform—so that funding could be secure—but that would, in practice, change very little. The DG AGRI officials who were, at the time, deliberating internally about the reform were surely following such signals closely. The Paris Declaration—the first draft of which was prepared by officials in the French ministry of agriculture and then revised with input from other Member States' agricultural bureaucracies—essentially called for the status quo to be maintained (Agra Facts, 2009c). Signatories advocated against major reform of the policy and put emphasis on sustaining the CAP with funding of the policy matching the alleged great needs. The Stockholm Group[100] (plus, interestingly, Malta) countries were not invited (Lacombe, 2009). After signing the declaration, the French minister of agriculture—Bruno Le Maire—elaborated on his views in an interview:

> It is a question of affirming loud and clear that we are in favour of a strong CAP. The Treaty of Rome in 1957 set the objective of ensuring food security in Europe. And this goal is even more strategic today than yesterday. With 1 billion people suffering from hunger in the world, this is certainly not the time to abandon food security in Europe, an essential and fragile good. If we ever give up the CAP, we would be taking a major risk for Europeans. It is therefore necessary to resume the path of reflection to restore its meaning to the CAP. This does not mean that France refuses any development. We are open to any

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[100] The Stockholm Group is an informal name given to a group of Member States where agricultural bureaucracies are less keen on agricultural exceptionalism or where these views are frequently overridden by the rest of the bureaucracy or from above and which are, therefore, often more reformist than other member states. The UK, Sweden, Denmark, and the Netherlands are usually considered to be the members of the group (Gardner, Ramsden, & Hails, 2019, p. 326)

> proposal to overhaul the CAP, as long as it allows us to meet essential objectives. […] [But] Beware of the misconception that price competition will solve all agricultural problems in the world. An agricultural product is not a product like any other, it must meet food, health, sustainable development and regional planning objectives. I don't believe in a model in which the free trade of goods will guarantee food security in the world, but in a system where it is the regions that build their food security based on collective regulation. It is also the way to better fight against the impact of agricultural production on the climate. In a pure free trade model, if the apples or milk powder that we consume in France only come from the other side of the world, the environmental impact will be much greater than if we produce them in Europe. Europe has set stricter rules in terms of health and the environment. If we give up the CAP, we also give up that. (Bruno Le Maire cited in Lacombe (2009); machine translated from French).

However, since the Paris Declaration reflected broader interests of agricultural exceptionalist officials of mostly OMS, such as France, agricultural bureaucracies from the NMS decided to organise another conference to form a coalition that would protect their interests better. This culminated in the signing of the Warsaw Declaration in February 2010 by nine NMS. In this declaration—the initial draft of which was prepared by officials from the Polish Ministry of Agriculture and Rural Development—signatories called for greater convergence of direct payments. Since all these nine Member States were also net beneficiaries from both the CAP and the EU's budget in general, signatories also emphasised the importance of financial solitary in the funding of the CAP (Europe Daily Bulletin, 2010). This was so because any increases the Member States could, subject to certain limits, "top-up" Pillar II payments with funding from their national treasuries. With more limited resources, NMS were, however, keen to make sure that the reforms did not lead to the expansion of this source of funding. Hence, the insistence on financial solidarity and convergence of Pillar I payments which are funded entirely from the EU's budget. Neither the Paris Declaration nor the Warsaw declaration, however, prioritised environmental or climate concerns.

In light of the pressures coming in from the SCA and AGRIFISH Council, it was actually not that surprising that when the Commission finally came out with a communication on the future of the CAP, nothing radical was included. In the communication, the Commission (2010b)

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proposed three "greening" measures[101] which agricultural producers had to implement to receive the last 30% of the direct payments. In other words, farmers could completely ignore all the introduced greening measures and still collect 70% of the direct payments, just as if nothing had changed. Ideas that the Commission entertained in the communication included setting limits to how much payments any single farm could get (also known as the "capping"). Secondly, the Commission called for the 'promotion of the sustainable development of agriculture in areas with specific natural constraints by providing additional income support to farmers in such areas in the form of an area-based payment as a complement to the support given under the 2nd pillar' (The Commission, 2010b, p. 9). Thirdly, the Commission proposed increasing voluntary coupled support, which can considered a step back in terms of radical. Last but not least, the EU's executive proposed a new and tailor-made support scheme for small farms.

At this point, it might appear that the French state acts as a unitary actor in undermining any attempt to have more ambitious CAP reform. This, however, is not the case. The French bureaucracy was, by no means, unified behind the conservative platform advanced by the French ministry of agriculture. In reaction to the Commission's communication on the CAP reform, officials from the French Ministry of Environment drafted a 20-page policy paper titled 'For a Sustainable Agricultural Policy in 2013' (Agra Facts, 2010b). This policy paper—which carried French Minister of Environment Jean-Louis Borloo's and French Minister of Sustainable Development Chantal Jouanno's names—was sharply critical of the proposed CAP reform.[102] In a testament to the silo-tower-like separation of agricultural and environmental

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[101] According to the communication, these "greening" measures 'could take the form of simple, generalised, non-contractual and annual environmental actions that go beyond cross-compliance and are linked to agriculture (e.g. permanent pasture, green cover, crop rotation and ecological set-aside). In addition, the possibility of including the requirements of current NATURA 2000 areas and enhancing certain elements of GAEC standards' was to be analysed (The Commission, 2010b, p. 9).
[102] Environmental- and Sustainable Development Ministries' proposed solution to the problems they identified was a three-tiered system of CAP funding (Agra Facts, 2010b). The first tier was still supposed to guarantee a fair

bureaucracies and the animosity between them, neither the officials nor the ministers underwriting the policy paper had cared to consult their peers in the Ministry of Agriculture, Food, Fisheries, Rural Affairs and Spatial Planning. Ministers of environment and development were then attacked by the French agricultural lobby FNSEA, who accused the former of encroaching on the French farm ministry's authority. French agricultural bureaucrats' and minister Le Maire's reaction remained muted—at least in public—but the policy paper itself was quietly removed from the French Ministry of Environment's website after just a few days (Agra Facts, 2010b) and the French Environment Minister, Jean-Louis Borloo, later denied any involvement (Agra Facts, 2010c).

The proposals and the reactions

After a lengthy public consultation in the spring of 2011 and several discussions in the SCA and in the AGRIFISH Council meetings throughout 2011, the Commission finally unveiled its legal proposals for the CAP reform in October 2011. There was a proposal to "green" the direct payments;[103] a proposal to reform the rural development pillar;[104] a proposal to reform the

standard of living for the farmers, at least as long as they fulfilled cross-compliance requirements. The second tier, however, was supposed to be devoted to specific environmental services. The third tier was to fund the "agro-ecological transition" toward farm sustainability. This third was supposed to be based on both public and commercial contracts in an effort to modernise agricultural operations toward more environmentally friendly approaches. Alarmingly for the French agricultural bureaucrats, environmental bureaucrats were also proposing a very detailed allocation of the CAP funding between these three tired. More precisely, the policy paper proposed that out of 10 billion EUR CAP funds that France might expect to receive annually in the 2014-2020 MFF, only 3 billion EUR was to be allocated to the first tier. The second tier, which was much more promising in terms of its potential environmental impact, was to receive the largest share, 4 billion EUR per year. The last tier was to be allocated 2 billion EUR per year. The remaining 1 billion EUR was to be allocated to deal with potential crises and increase price volatility in the sector (Agra Facts, 2010b). Borloo and Jouanno were not, therefore, proposing that the CAP be reformed along the lines of radical reform advocated for by European agricultural economists. However, their proposal would have taken the policy significantly closer to the public-money-for-public-goods principle, with old-style direct payments consuming only 30% of the funding.

[103] Proposal for a regulation of the European Parliament and of the Council Establishing rules for direct payments to farmers under support schemes within the framework of the CAP - COM(2011) 625 final

[104] Proposal for a regulation of the European Parliament and of the Council on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) - COM(2011) 627 final

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market intervention measures;[105] and also one to deal with horizontal issues[106] such as financing, management and monitoring (The Commission, 2011b; 2011c; 2011d; 2011e). The "Greening" proposal mandated that all Member States have to earmark 30% of their direct payments' budget to fund environment and climate-friendly agricultural measures (greening practices) that were mandatory for all farms. Farmers whose lands lay inside protected Natura 2000 areas were also expected to comply with greening measures (unless these practices were clearly unsuitable for a particular site). The practices that the Commission considered "green" were crop diversification, maintenance of permanent grassland and setting 7% of land aside when farming in Ecological Focus Areas (EFA). The only (minor) achievement of the proposal was the confirmation that milk quotas would indeed be abolished in 2015.[107] In general, however, there was nothing radical or revolutionary in the legal proposals.

But even these—very modest—proposals managed to draw the ire of the COPA-COGECA. The COPA's President Gerd Sonnleitner, for example, went on the argue that:

> It does not make sense to require every single farm to stop producing on a certain percentage of their land (ecological set-aside) when the world food demand is set to rise by 70% by 2050 and production is threatened by more extremes of drought, flooding, and storms. The Commission proposal also runs counter to the Commission'[108] 2020 strategy for growth and employment (Sonnleitner cited in Farming Online (2011)).

The negative reaction of the EU-level farm lobby to the Commission's proposal was, however, to be expected. As explained in the introduction chapter, farm lobbies have been long-time

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[105] Proposal for a Regulation of the European Parliament and of the Council establishing a common organisation of the markets in agricultural products (Single CMO Regulation) - COM(2011) 626 final
[106] Proposal for a regulation of the European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy - COM(2011) 628 final
[107] As was explained in an earlier footnote, the milk quota abolition was actually agreed already during the Fischler Reform in 2003, but full implementation was postponed until 2015. A long delay in implementation allowed those Member States and producers who benefited from the quotas to lobby for the reversal of the 2003 decision. The reconfirmation meant that these efforts had failed and can therefore be considered a minor achievement by pro-reformist officials in the DG AGRI.
[108] The COPA's President Gerd Sonnleitner was referring to the Commission (2010c).

opponents of the CAP reforms. Furthermore, the environmental organisations' reactions were all also very critical,[109] albeit for different reasons.

The negative reaction of the Council was, however, somewhat surprising. After all, the Commission appears to have tailored the proposal specifically to appeal to the Council median. But agricultural bureaucracies of even the otherwise CAP-friendly Member States did not like the fact that the proposed "greening" entailed more administrative burdens, which they were not keen to take on. Bruno Le Maire, the French minister of agriculture, volunteered that the greening 'should be simple, provide incentives & take account of the budgetary context' and complained the Commission's proposals 'do not respond to these objectives' (Agra Facts, 2011, p. 1). The German Minister of Agriculture, Ilse Aigner, emphasised that reforms 'must not hinder agricultural productivity nor imply more red tape'. She also rejected the Commission's intentions to cap payments (there are many large farms in Germany, particularly in the territory of former East Germany). However, like her French counterpart, she praised the general direction of the reform (ibid). Reactions in the COMAGRI were similarly lukewarm. Several MEPs spoke out in the hearing where the Farm Commissioner Ciolos introduced the proposals. For example, Luis Capoulas Santos (PT/S&D)—the rapporteur on both the "greening" and rural development files—intervened that the Commission's 'future CAP proposals lack robustness and do not ensure sufficient convergence of direct payment levels across the EU' (Luis Capoulas Santos cited in Agra Facts (2011, p. 1)). The COMAGRI Chairman Paolo De Castro (IT/S&D) called for caution towards the "greening" because

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109 BirdLife's first reaction was that the new proposed 'CAP disappoints on green hopes', the Health and Environment Alliance called the proposal 'a pale and unhealthy shade of green', the IFOAM EU Group volunteered that 'proposals lack the ambition to mainstream sustainability', European Public Health and Agriculture Consortium (EPHAC) argued that the 'legislative package does not go far enough', the European Environmental Bureau (EEB) warned that the 'EU risks failing to keep the promise of green CAP reform', the Eurogroup for Animals declared that the 'revised Common Agriculture Policy proposals fail to consider Animal Welfare', the World Wildlife Fund (WWF) stated that the environment 'threatened by CAP proposal' and last, but least, the Greenpeace was unequivocal in its position that the 'Commission fails on the promise to green the Common Agricultural Policy' (all reactions cited in ARC (2011)).

‘environmental sustainability cannot exist without having first ensured the economic sustainability of our farms’ (ibid).

The negotiations and the outcome of the 2013 Reform

Following the publishing of the legal proposal, both the Council and the COMAGRI began forming their own positions. In the case of the AGRIFISH Council, this meant intense repertory work and negotiations in the Special Committee on Agriculture (SCA). Both co-legislators ended up forming positions that called for further weakening of the Commission’s proposals, albeit in different aspects.[110] As a result of the watering down of already weak initial proposals at every step, only a small percentage of farms had to modify any of their farming practices to qualify for the “greened” part of the direct payments (Bureau & Mahé, 2015). For the vast majority of agricultural producers, greening conditions just happened to be such that they already qualified.

What made the eventual deal on the reform possible was, however, was the compromise on the MFF in the European Council on 8 February 2013 and, secondly, the political agreement between the European Council—represented by the Irish Presidency—and the EP—represented by the Chairman and the rapporteurs of the Committee on Budgets (BUDG) on 19 June 2013. With the CAP’s budget essentially secured—with the pretext that it is necessary to “green” the policy—both agricultural bureaucracies and the EP’s COMAGRI were free to water down the Commission’s CAP reform proposals even further. Since the only option for the Commission to defend its proposals would have been to threaten to withdraw the proposals

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[110] Hart (2015) summarises that the Member States’ agricultural bureaucracies wanted to water down the environmental standards of the Commission proposals more than the Parliament did. The Parliament, on the other hand, proposed the 7%-set-aside-requirement in the Ecological Focus Areas (EFA) be removed. MEPs also wanted to delink compliance with the “greening” rules from that of the basic payment (which was already subject to cross-compliance).

altogether—which Farm Commissioner Cioloș and his team had no intention of doing, as they want to get the deal done to enhance their own prestige and careers—the final agreement was going to end up being close to the AGRIFISH Council positions with some concessions made to the COMAGRI. This political agreement was reached in trialogues on 26 June 2013 (Agra Facts, 2013a).

For his part, agricultural Commissioner Cioloș thought the political agreement on the CAP reached in the last days of the Irish Presidency in June 2013 represented 'a paradigm shift' that was going put the policy on the path of economic, social, and environmental sustainability. For the Commissioner, the reform was going to lead 'to far-reaching changes: making direct payments fairer and greener, strengthening the position of farmers within the food production chain and making the CAP more efficient and transparent' (Cioloș cited in the Agra Facts (2013b, p. 2)). Assessments of the outcome of the reform by experts do not concur with Cioloș' upbeat evaluation.[111] His real achievement was not the greening but the protection of the CAP's budget.

Swinnen (2015a) sums up the outcome of the 2013 reform in four points. Firstly, the reform did introduce some policy changes. Secondly, some of the things added to the CAP were novel.

[111] The final agreement on the content of the CAP reform saw the approval of a new payment system, more or less as it had been initially proposed by the Commission. Anania & D'Andrea (2015) point out that some elements of the new system were compulsory for the Member States, and the implementation of others was left for the agricultural bureaucracies of the Member States to decide. The first compulsory element was the Basic Payment Scheme (BPS), which replaced the Single Payment Scheme (SPS) in the OMS and the Single Area Payment Scheme (SAPS) in the NMS. The only thing a farmer had to do to receive the basic payment was to respect the cross-compliance rules. 70% of the budget allocated to direct payments was reserved for these payments. The second compulsory element was "greening". The greening payment was conditional on the producer following agricultural practices (also known as "greening practices") that allegedly had some environmental or climate benefits. 30% of the budget allocated to direct payment was supposed to be used to remunerate farmers for these undertakings. Erjavec et al. (2015, p. 215), however, have called these ideas "greenwashing" rather than "greening". In any case, the last compulsory element was the young farmers' scheme. Every Member State had to set up the scheme and pay additional support to young farmers who had only recently begun farming. Voluntary elements were numerous. For example, Member States were allowed to redistribute a part of the money from large to small recipients. Member States could also pay higher amounts to producers farming in Areas with Natural Constraints (ANC). The Member States could also pay coupled support with fewer restrictions than before. Last but not least, agricultural bureaucracies of the Member States were free to pay extra support to small farmers (Anania & D'Andrea, 2015, p. 52).

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For example, the 2013 reform was the first time in the CAP's history where—as a result of the reform—where money was shifted around between the Member States due to external convergence reducing the differences between levels of direct payments in various Member States. External convergence did result in some adjustments in their net budgetary positions, but these were small. Estonia, Latvia and Lithuania, all with very low per-hectare direct payments, saw their payments substantially increased by 30%, 50% and 16%, respectively, mostly at the expense of those Member States where the payments were the highest. However, since the Baltic States are very small, and other Member States—such as Romania—whose per ha payments were also low saw theirs increase relatively little (just for 2.6% in the case of Romania), total redistribution due to external convergences ended up being only 1.3 billion EUR in 2011 prices for the whole 2013-2020 period.[112] Overall, the introduced policy changes were small, making it another "muddling through" type of reform. And last but not least, adjustments to the policy were not necessarily internally coherent.

But from a theoretical perspective, most of the Member States' positions in the SCA and AGRIFISH reflected the agricultural exceptionalist views of the bureaucrats and the desire to minimise any bureaucratic burden and to protect the domain and the budget. This manifested itself in two ways. Firstly, the Member States' agricultural bureaucracies were able to use venues like the SCA and the AGRIFISH to form inter-bureau coalitions to protect their interests. Unlike in the other EU policy-making areas, agricultural bureaucrats were more or less free to pursue their hierarchy's interests at the EU level without having to balance these interests with other national hierarchies at the COREPER representative level. COREPER I and II representatives of each member state deal with all the policy areas—except for agriculture, which goes through the SCA. This does not mean that agricultural bureaucracies of the member states formed a single, solid, inter-bureau coalition. Rather, there were several,

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[112] Author's calculations; data source: Little et al. (2013).

partially or mostly overlapping coalitions. For example, all the Member States' bureaucracies are keen on maintaining their turf and decision-making authority over the area. With the exception of the Stockholm Group, the Member States' agricultural bureaucracies also supported keeping the direct payments and the CAP's budget. This was still a very broad coalition. Inside this coalition, there were several smaller ones. For example, those who wanted external convergence (mainly NMS with low per-hectare direct payments) and those who opposed it (mainly the OMS with high per-hectare payments).

Once a common ground was found in the SCA, agricultural bureaucracies used various means, such as public declarations, to put pressure on the Commission even before any legal proposal had been made. The earlier the stage of intervention, the better it works. Unlike the Fischler Reform, in the case of the 2013 reform, agricultural bureaucracies had learned their lesson. As such, they intervened already at a very early stage when deliberations were still taking place internally in the Commission around 2009 and 2010. If there were Commission officials who would have preferred more radical reform, they must have learned from these signals that anything radical would never stand a chance to pass. Hence, the Commission had no choice but to come up with only a very weak proposal. On top of that, the Commissioner responsible for the portfolio was closely linked to agricultural bureaucracies, and he seemed to have held agricultural exceptionalist views himself too.

Chapter conclusions

Neither of the two reforms of the CAP—the 2003 Fischler Reform and the 2013 reform—were radical in the sense that neither reform managed to bring about a policy more or less in line with what agricultural economists have suggested (as discussed in the 5th chapter). They were "muddling through" type of reforms in that sense. Most crucially, the policy retained its large

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budget for the first pillar of the CAP, a budget that was not spent according to the public-money-for-public-goods principle. The two reforms were, however, still very different in what they achieved. The Fischler Reform of 2003 managed to alter the way in which farmers received their rents from taxpayers by decoupling direct payments from production. From an economic perspective, this was a major step forward toward a radical reform. Unlike coupled payments, decoupled payments do incentivise production and, therefore, are not trade distortive. This aspect allowed the EU to place them in the WTO's "green box." The 2013 reform, however, had little to show for itself other than, perhaps, preventing relapses in the policy. The "greening" of the direct payments it was supposed to bring about was more accurately described as "greenwashing" (Erjavec, Lovec, & Erjavec, 2015, p. 215).

The 2007-2013 MFF negotiations, which took place after the Fischler Reform, nor the 2014-2020 MFF negotiations that mostly ran in parallel with the 2013 CAP Reform process, did not end up substantially altering the policy either. In both cases, it was ultimately the desire of the Heads of State and Governments, and financial ministries officials behind them, to maintain their member states' net budgetary position, or at least to minimise the deterioration of it. In particular, in the case of the 2014-2020 MFF—for which deliberations began in 2009 at the height of the Great Recessions—there were good reasons to reshuffle the budget of the EU. Agriculture did not even figure prominently in the earlier documents and policy papers circulated by the Commission and the European Council officials. What sealed the fate of the 2014-2020—and therefore the CAP's budget—was, again, a Franco-German deal. In exchange for supporting France's position to maintain the budget of the CAP, the French lent their support to Germany in the question of the Cohesion Funds eligibility reform. Unlike deals over a general budget reshuffle, where it is impossible to come up with a semi-objective distribution key that ensures that no Member States' net budgetary position is significantly harmed,

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bilateral deals that maintain close-to-existing national envelope are possible. There are only negligible transaction costs associated with those types of deals.

When it came to the 2013 reform of the CAP, there were initially signs of hope. The Great Recession had put some strain on the budget (which was being negotiated in parallel), high food prices did not support the argument that farmers need to be subsidised, and environmental concerns about the policy's impact—or, rather, the absence of significant positive impact despite the mounts spent—were aired more widely. However, things started to falter rather quickly. For one, the new Commissioner was an agricultural policy-making community insider himself, having served for a while as the Romanian SCA spokesperson. Just like Fischler, he too seems to have had agricultural exceptionalist views, and he too defined his mission as saving the CAP. However, unlike Fischler, Cioloș was no visionary. Essentially his and his team's proposal was to reform the CAP in a way that the policy would appear to be more environmentally friendly. This could then be used to justify the CAP's continued existence within the College of Commissioners. Unlike the Fischler Reform, agricultural bureaucracies of the member states got wind of the plans very quickly, even before any formal proposal had been published. Agricultural bureaucrats of the Member States then quickly created an inter-bureau coalition in the SCA to minimise the impact any reform could have on them and farmers in their Member States. Signals about political feasibility were sent to the Commission via SCA and AGRIFISH Council meetings. Public declarations undersigned by numerous ministers of agriculture were also used to show the strength of this inter-bureau coalition. Of particular importance was the common position developed by the French and German ministers of agriculture in September 2010. Although the Franco-German alliance was mainly concerned with external convergence—which they wanted to delay or reduce—their position also effectively prevented the Commission from coming up with any reform plan that would redistribute funds according to some (semi)objective environmental or climate change

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mitigation based needs- or merit-based criteria.[113] Once the European Council had endorsed the 2014-2020 MFF in February 2013 and the CAP's budget had been secured with the promise that the CAP would be "greened", member states' agricultural bureaucracies were free to water down already weak proposals even further. Which is exactly what happened. Agricultural bureaucrats from the Member States certainly won themselves promotions and raises for protecting the interests of their bureaus—and of their farmers—but, as far as the content of the reform has been evaluated, observers have called it 'greenwashing' rather than 'greening' (Erjavec, Lovec, & Erjavec, 2015, p. 215).

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[113] It would have been impossible for the Commission to come up with a distribution key that would not have encroached on at least some Member States' "juste retour."

Chapter 8: Politics of the 2021-2027 MFF and the 2021 CAP reform

> There is so much money in [the CAP] now that nobody would easily accept to transfer that budget to other policy domains if they have no guarantee that they keep at least 80...90% of that money. […] This is the reason why agricultural policy [reform] is also blocked. […] If you say that „the direct payments are really not an optimal solution, let us do something else with those 35 billion" then everyone will say „yes, good idea, but I have to keep my allocation". And then we are blocked with all the reforms. Nobody looks not at the content of the policy. Everyone looks at the money, "I have 8 billion, I want to keep it. If I cannot get it, I will disagree with the reform." (personal views of agricultural functionary from a Western European member state, 2017)

The Most important piece of legislation determining the fate of agricultural policy in the EU is not that the of CAP, but the Multiannual Financial Framework (MFF). This is so because it is in the MFF that the overall size of the EU budget is fixed; the MFF determines how the EU monies will be raised and—most importantly for the discussion of agricultural policy—on what programmes it will be spent on. As has been discussed in the previous chapters, the issue of financing has been—at times—a major source of pressure for the incremental reforms such as the MacSharry Reform of 1992 and the Fischler Reform of 2003. However, as discussed in the 5th chapter, radical reform of the CAP would—in most conceptualisations—entail reducing the overall expenditure. The connection between the CAP reform and MFF negotiations has already been shown to have played a crucial role in the enactment of the 2013 CAP legislation. The 2021 Reform of the CAP is not different in this regard. As Matthews explains:

> There is a reciprocal relationship between the parallel negotiations on the MFF and the CAP. On the one hand, the debate over the size and nature of CAP spending feeds into and affects the MFF negotiations. This is partly due to the sheer size of CAP expenditures in the EU budget, e.g., in the last year of the current [2014-2020] MFF it accounts for 33% of MFF commitments. It is also because the pre-allocated CAP envelopes under Pillar 1 (financed by the European Agricultural Guarantee Fund, EAGF) and Pillar 2 (financed by the European Agricultural Fund for Rural Development, EAFRD) play a major role in determining the net budget transfers that Member States inevitably focus on during these negotiations. (Matthews, 2018a, p. 307)

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Given that the heads of government, who have to collectively approve the MFF, could have chosen to reallocate a significant part of the CAP's large budget to other policy areas, a question arises: why did they not do that? Reducing agriculture's budget by about 20% would have allowed to fill the entire hole left in the EU budget by Brexit. The European Council could have avoided the difficult negotiations about whether to fill the "Brexit gap" in the EU budget by higher national contributions, spending cuts in other policy areas, a combination of both, or by giving the Commission new Own Resources.[114] Raising national contribution has always been a sensitive issue and the so-called "frugal four"[115] were fervently against such idea. Besides this issue, there was the looming question of how to finance the green transition. For this reason, the first half of this chapter is going to process trace—starting from the earliest reflections on the matter—how the intergovernmental bargaining failure that led to the retention of the CAP's budget came about. Second half of the chapter analyses the 2021 CAP reform itself. The CAP reform package[116]—if it can be called a "reform"—, as it was finally adopted on 2 December 2021 made several changes to the CAP but, as will be discussed in more detail below, it does not constitute radical reform.

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[114] According to an estimate by Jörg and Rubio (2017), Brexit was going to create a 10.2 billion EUR per year gap in the EU budget.
[115] The "frugal four" is an informal term for Austria, Denmark, the Netherlands and Sweden who cooperate among themselves in order to promote fiscal conservativism in the EU budget negotiations.
[116] The reform package consisted of three regulations (The European Parliament and of the Council European Union, 2021a; 2021b; 2021c).

The 2021-2027 MFF negotiations and the CAP's budget

The reflection

As earlier chapters have shown, earliest stages of any policy proposal in the EU are almost always the most crucial ones. There certainly must have been some discussion within the Commission before mid-2017. But a wider public debate over the future of the EU's finances really began only in July 2017 when the Commission (2017a) published a reflection paper on the future of EU finances. This paper contained little to no concrete figures to discuss. But from the perspective of the agricultural policy reform, it contained some interesting aspects. For example, there was a rather frank admission that in case of the CAP:

> there is room to further improve the performance of the policy by putting more emphasis on incentivising farmers to deliver environment and climate public goods and services. Farmers should be encouraged to invest in new technologies and environmental protection within the rural development policy through positive incentives on the basis of contracts. This would lighten the current administrative burden for all farmers. (The Commission, 2017a)

The reflection paper also listed five possible scenarios for the post-Brexit 27 -member state union with respective impacts for the budget and for policy areas. These are explained the Table 8.1.

Table 8.1: Five scenarios and agriculture in the Commission's reflection paper

No	Scenario	EU budget	Impact on the CAP's budget	Agricultural policy
1	Carrying on	Broadly stable	Lower relative share of CAP	Improved targeting of support to those farmers who are facing special constraints (e.g., small farms, mountainous areas, and sparsely inhabited regions), as well as risk management tools for all farms. Additionally, there would also be rural development investments (particularly agri-environmental measures).
2	Doing less together	Significantly reduced	Significantly reduced	Support only to those farmers who are facing special constraints (e.g., small farms, mountainous areas, and sparsely inhabited regions). Risk management tools for all farms.
3	Some do more	Broadly stable	Lower relative share of CAP	As in Scenario 1

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4	Radical redesign	Lower	Share reduced	Reduction of direct payments. Direct payments to only those farmers who are facing special constraints (e.g., small farms, mountainous areas, and sparsely populated regions). Agri-environment-climate measures and risk management tools for all farms.
5	Doing much more together	Significantly increased	Higher amount	Not specified

Reproduced from the Commission (2017a, pp. 31-35)

Although all but the fifth scenario would have reduced the CAP's share in the budget, the only scenario where this was unavoidably going to bring real-term and significant reduction was the second scenario. The first, third and fourth scenarios all looked ominous too, with their relative share falls for the CAP budget. But if the overall budget stayed sufficiently large, then it was possible to envision how the CAP's budget could have gotten away with only very minor cuts. The fifth option, however, promised an increase. The question in the minds of both the critics and the defenders of the CAP's budget share at time was: how large or small is the 2021-2027 MFF going to be?

For a brief time in autumn 2017, it looked as if the window of opportunity for change might be there. Even some high-ranking French politicians were starting to publicly doubt the merits of the CAP. For example, the then recently elected new French President Macron (2017) gave a memorable speech where he questioned why the CAP should be a 'French taboo', explaining that:

> Agricultural policy *should not be* a policy which over-administers all of the European Union regions, all of the sectors and quite often, *an income policy* roughly accompanying the transition and producing at times complex plans that we have trouble explaining to our peoples. (Macron, 2017) (*emphasis added*)

But the French President's insistence on "food sovereignty"—which he saw threatened by volatile global markets—immediately weakened his above quoted message.

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When the Budget and Human Resources Commissioner, Günther Oettinger (2018), delivered a speech at the European Political Strategy Centre's (EPSC)[117] conference in early January, he proposed to maintain the EU's budget at 'a little bit more than 1.1%' of GNI, which would have been broadly in line with the previous MFFs. However, he also identified two gaps in the EU's future budget in his speech. On the revenue side, there was Brexit. The Commissioner from Germany proposed to solve it with a '50:50 approach', by which he meant that half of the missing money should come from spending cuts and the other half from new sources of revenue. On the expenditure side, there were new challenges to be solved. For example, 'the refugee crisis, security concerns, cyberthreats and terrorism as well as defence require' were listed in the reflection paper as the 'new challenges' (The Commission, 2017a, p. 3). In any case, the Commissioner proposed to solve these new challenges with a 20:80 ratio by which he meant that 20% of the money would come from savings and new sources of funding should be found for the rest (that is, for the 80% of the outlays). However, even this proposal meant that cuts had to be made somewhere and Commissioner Oettinger also acknowledged this in his speech, noting that:

> If we want to close the two gaps, we will have to make cuts somewhere. This is why we have conducted a "spending review", where we looked at the efficiency of every current programme. We need to make cuts in most of the programmes without, however, damaging our existing policies. What does this mean for the Common Agricultural Policy (CAP) and for Cohesion Policy? They remain important in the next MFF, with a share of around 30% of the budget. At present, they have a share of over 35%. (Oettinger, 2018)

Hence, the Commission was—at that time, in early January 2018—willing to contemplate only very modest cuts to the agricultural policy budget as part of the Commission's spending review. However, none of the officials or diplomats interviewed for this thesis around that time thought that the MFF negotiations would result in such a drastic reduction of the CAP's budget that the cut would bring about radical reform of the CAP. Already at the time of the publishing of the

[117] The European Political Strategy Centre (EPSC) is the Commission's in-house think tank.

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reflection paper, interviewees expected ‘more of the same’ when it came to the CAP budget. One senior official weighed in on this by noting that:

> Experience would tell us that there will be reduction. But of a moderate impact. 6…7% less over seven years. Which you can easily digest. Of course, there will be kind of external convergence operation to give more to new Member States. Which also means a reduction to those who are in the old Member States. All this would be normal to happen too. *I would be amazed if we ended up with kind of 15% or 20% reduction*. (personal views of a senior EC official, 2017)

Why was only such a small budget cut contemplated? A Number of people interviewed for this thesis suggested that using past budget allocation as starting point of the negotiations for the new period is part of the problem. For example, one senior EC official explained that as a negotiator:

> You have budgets of the past. You wouldn’t like to reduce the budget and wouldn’t like to lose the budget you’re defending. So, this is another aspect that plays a role. There is a certain orthodoxy in the political discussion. That has to do, in my opinion, with the fact that when you try to restructure budget – which means moving money around form one purpose to another [then] you also move money around between beneficiaries. The beneficiaries losing the money will scream and make a hell of a noise. And those who receive it will say “thank you very much” and remain silent. So, as soon as you start doing these big structural changes—economically you may very well justify those [changes]—, it leads to an enormous difficulty, politically speaking. (personal views of a senior EC official, 2017)

This sentiment lends support to the intergovernmental bargaining failure hypotheses as the explanation for absence of radical reform. For one—as explained in the theory chapter—using the budget of the previous MFF as a starting point of negotiations was unavoidable given the unanimity voting in the European Council and the roll over of the previous budget in case the heads of State and Government fail to reach an agreement. Secondly, the quote also illustrates well the general problem identified in the literature, for example, by Nowotny et al. (2018, p. 5), who observe that ‘reforms create winners and losers and ways to compensate the latter have to be implemented in the reform package.’ But in the MFF negotiations, “transaction costs” prevent losing Member States from receiving the compensation as part of the package.

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The MFF proposal

In early May 2018, the Commission (2018a) finally unveiled its proposal for the 2021-2027 budget. The proposal for the MFF was for it to stand at 1 135 billion EUR (in 2018 prices)[118] or 1.11% of GDP. In (predicted) inflation-adjusted terms[119], this would have equated to 1 279 billion EUR in commitments. The European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD)—that together make up the CAP—were to be allocated 324 billion EUR in 2018 prices or 365 billion EUR in current prices. Compared to the 2014-2020 CAP budget (post 2015 revision[120] and excluding the UK) of 375 billion EUR in current prices, it would have yielded a *very modest* 2.6% budget cut. However, this proposed cut did not fall proportionally on both pillars of the CAP.

The proposed budget for the Pillar I—direct payments—was 254 billion EUR in 2018 prices or 286 billion EUR in current prices. Compared to the Pillar I's proposed budget of 280 billion EUR[121] in current prices in the 2014-2020 MFF, the envelope for direct payments was actually going to *increase* by 2.1%! On the other hand, the proposed budget for the Pillar II—Rural Development—was 70 billion EUR in 2018 prices or 79 billion EUR in current prices. Compared to the Pillar II's budget of 98 billion EUR[122] in current prices in the 2014-2020 MFF, the envelope for the rural development was going to decline by 19%! In other words, to the extent cuts were proposed, they were to made to the rural development part of the CAP.

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[118] This amount would have meant actual commitments in the amount of 1 105 billion EUR (or 1.08 percent of GNI) (again expressed in 2018 prices) with the 30 billion EUR difference explained by the fact that the European Development Fund—an intergovernmental arrangement that funds development initiatives in Africa, the Caribbean, and the Pacific to the tune of 30 billion EUR from 2014 to 2020—was to be merged into the EU budget.
[119] The Commission (2018a, p. 29) was calculating that the inflation was always going be 2%, which is the target inflation rate of the ECB.
[120] The 2014-2020 CAP budget was amended in 2015, after the Member States' agreement on transfers between the two pillars of the CAP. (European Union, 2015)
[121] Post 2015 revision and excluding the UK.
[122] Post 2015 revision and excluding the UK.

In any case, the reaction to the proposal from agricultural lobbies was nevertheless predictably furious. The COPA's President Joachim Rukwied wrote that the 'COPA and COGECA disagree with any proposals to cut CAP spending in the future EU budget' (Rukwied cited in COPA-COGECA (2018a, p. 6)). President Rukwied then went on to make unsubstantiated[123] claims about the level of income of farmers being only 40% of that of workers in the rest of the economy. The chief lobbyist came to the conclusion that:

> The proposed budget cuts threaten not only farmers livelihoods and vast parts of Europe's rural areas, but also the delivery of the EU's environmental and social goals. We recognize the effort of the Commission to increase EU resources to respond to the upcoming political needs, but more must be done for Europe and European farmers. We also welcome many Member States' willingness to contribute more for the future of Europe. (Rukwied cited in COPA-COGECA (2018a, p. 6))

In other words, farmers' representatives put their hopes on *some* member states'—without explicitly mentioning which—willingness to increase the size of the overall budget.

The reaction from agricultural ministries of several member states was also swift. French, Spanish, Irish, Portuguese, Finnish, and Greek ministers responsible for agriculture gathered in Madrid on 31 May 2018 and signed a memorandum where they voiced their deep disappointment at the Commission's proposal to cut the CAP budget in the upcoming 2021–2027 MFF. They then went on to 'request that the CAP budget be increased to bring it back to the current EU-27 level, which would successfully allow farmers to address the economic, environmental, climate change and health challenges under both pillars.' (Ministers of agriculture from Finland, France, Greece, Ireland, Portugal and Spain, 2018, p. 1) These ministers then also put their Madrid Memorandum on the 18 June 2018 AGRIFISH Council agenda to "sell" the idea to their colleagues too. The Council took note of the Madrid

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[123] Unsubstantiated because there is no data about farmers' overall income. The 40% figure cited by Rukwied appears to be derived from data that excludes farmers' off-farm income. Given that farming might not be the sole or even primary source of income for many European farmers, the exclusion of off-farm income leads to biased picture.

Memorandum and that it was also supported by agricultural ministers from Croatia, Cyprus, Hungary, Lithuania, Luxembourg, Poland, Romania, and Slovakia (General Secretariat of the Council, 2018a).

From the point of view of answering the main research question of this thesis, the above mentioned Madrid Memorandum shows well where the conservative pressure comes from and where it does not come from. The Commission did propose cuts to the CAP budget, albeit very modest. But ministers responsible for agriculture in Finland, France, Greece, Ireland, Portugal, and Spain—none of whom also sat on the seat of their respective member states' minister of finance or head of government and none of whom therefore had any formal power over their own member states' position towards the EU budget—were the ones who petitioned to retain the CAP's budget. And they petitioned the Council configuration which consists of other member states' ministers of agriculture. They did not ask their own governments' finance minister or the head of government—the one person who ultimately can exercise veto power in the MFF negotiations—put this petition on the agenda of the Economic and Financial Affairs Council (ECOFIN) or the European Council, respectively. Furthermore, it needs to be clarified that while this specific memorandum—like many other political declarations in the EU—was signed at the meeting of ministers, its text was negotiated in the preceding weeks by mid-level officials from the ministries of agriculture. It is not uncommon that higher level officials approve their member states' position towards the text with the minister only seeing the full text on the day of the ceremony. It also serves to illustrate how—at least in some member states—ministers of agriculture can sign up to positions that their own government colleagues might oppose in other forums, highlighting either severe communication issues or great autonomy enjoyed by ministries of agriculture.

For example, Kölling (2012) points out that during the 2014-2020 MFF negotiations, Finnish and French ministers of finance sent an open letter—together with somewhat more obvious

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counterparts from UK, Germany, the Netherlands—to the then Commission President Barroso, demanding that the 2014-2020 MFF be reduced in real terms (that is, the nominal increase of the 2014-2020 MFF should have remained below expected inflation). Back then, Finland's ministry of finance had been one of the few EU ministries of finance that had been fighting against increase in the own resources ceiling of the MFF beyond 1% to 1.1% of the EU GNI (Matthews, 2018b). However, the Commission's MFF proposal—which included earlier described cut of the CAP's budget by 15% in 2018 prices or 5% in current prices compared to 2014-2020 MFF—was based on the assumption that Oettinger (2018) was going to get his way with 1.1% of the GNI. If the Madrid Memorandum's signatories were to achieve their demands, then that would have almost inevitably also meant a rise in the MFF's own resources cap. The only other way to remain within 1% of the GNI would have meant proportionally even larger—and therefore unlikely—cuts in other headings. How the Finns managed to coordinate their conflicting positions internally remains unknown. But what is clear is that conflicting demands can sometimes be made in the EU's budget negotiations by different ministries from the same member state.

What the ministers of agriculture do not do is to ask for the money to be given to them directly, even if that might ultimately cost their member states less. After all, France and Finland—whose ministers of agriculture signed the above-mentioned memorandum to retain the CAP budget—are both net contributor member states. Matthews (2018b) points out that France—which during the 2014-2020 financing period moved money from 1st to the 2nd pillar of the CAP—could have effectively increased spending on its farmers by reversing this transfer. If France moved funding from the 2nd pillar (which is co-financed from the French national budget) to the 1st pillar of the CAP (which is wholly EU financed) and then increased the co-financing of the 2nd pillar (effectively replacing the EU money taken out of the 2nd pillar with money from the national budget), then the French could have ended up with an even higher

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overall agricultural expenditure than it had at the time. If it so desired, of course. That is, the members of the French government could have brought about a policy that would have resulted in higher direct payments and higher rural development funding. Matthews suspects that:

> The answer to this puzzle [why the French government doesn't do the aforementioned procedure] lies in the political economy of agricultural budget negotiations. If the French Minister for Agriculture Stéphane Travert can create support for an increased CAP budget, then the money arrives in his Ministry without any further negotiation. If he wants to increase agricultural spending from the French national budget, then he must negotiate with the French Finance Ministry for those resources. These would not be easy negotiations, particularly if he wants a significant increase in decoupled payments. (Matthews, 2018b)

This essentially is the reason why ministries of agriculture try to do everything through the EU budget and EU level legislations, even when they are net contributor member states. They do not always succeed. But agricultural bureaucrats defending the CAP's budget would have an even smaller chance of success if they had to deal bilaterally with their own ministries of finance.

This lends support to the transaction cost approach discussed in theory chapter. As predicted by Moe (1990) and Dixit (1996), bureaucrats in the ministry of agriculture—and perhaps even the minister himself—must have been concerned that if the opposing party or even a new faction in the same political party wins power, part or all of the II pillar top-up from the national budget might be removed. At the very least, they might have to fight for it again. However, from the perspective of political entrepreneurs in the French agricultural bureaucracy, they had "political property rights" on agricultural spending. The fact that some of the French taxpayers' money was going to "leak" to the net beneficiary member states of the EU, was not an issue. In fact, in line with Acemoglu et al. (2001) findings, this inefficient redistribution—from the perspective of French taxpayers—was perhaps an even desirable feature from the perspective of the French agricultural bureaucracy.

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The negotiations

Ahead of the General Affairs Council (GAC) in September 2018, the Austrian Presidency reported that although many member states had emphasised the need for a modern budget that was going to address current and future challenges and political priorities, these delegations also wanted to keep traditional policies—namely agriculture and cohesion policies—well funded. In the opinion of these member states, the aforementioned traditional policies were going to continue to play their critical role in achieving the EU's objectives. On the other hand, there were member states whose representatives had put heavier emphasis on current political concerns, new problems, and critical future issues where the EU was going to add the most value, in their opinion. Delegations from these member states had advocated for a frugal budget with significant cuts to the traditional policies. (General Secretariat of the Council, 2018b, p. 4)

On 14 November 2018, the European Parliament's (2018) plenary adopted its position towards the MFF with 429 votes in favour, 207 against and 40 abstentions. More specifically, MEPs were proposing to increase the total budget to 1.3% of the GNI. President of the EP, Antonio Tajani from Italy, insisted that 'additional resources need to be devoted to boosting investment in the real economy. We want to develop modern European infrastructure and support EU industry' (cited in Rios (2018)). From that quote one might have expected to see certain reshuffling of the budget. But that was not what the MEPs had in mind. The CAP's envelope was to be increased proportionally to the rest of the budget. That would have meant a total of 383 billion EUR (in 2018 prices) for the farmers over 7 years, effectively an *inflation adjusted but very modest increase* of 0.1% compared to the 2014-2020 MFF, where agricultural spending stood at 382 billion EUR (in 2018 prices)[124]. The European Parliament's plenary

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[124] Massot Marti & Negre (2018) have adjusted EP's proposed CAP budget of 432 billion EUR in current prices to 2018 prices

decision not to alter the balance between policies, which was rated by all interviewees who weighed in on the matter as less caring about agricultural special interests than COMAGRI, or even most of the Member States, might be a bit surprising, at first. However, a closer look reveals that the outgoing MEPs were not really interested in exact relative shares of different policy areas. To open discussion on these within the EP would have meant opening the Pandora's box of disputes between different member states and political groupings. It was much easier to get the majority of the MEPs on board to support the larger budget and satisfy everybody's interests—at the expense of European taxpayers—even if there was no European value added in the heading. And chances were that there was not much EU value-added in many cases, as the European Court of Auditors (2018, p. 13) had highlighted in their report published just a month before the EP plenary adopted its position. As Heinemann and Weiss (2018b, p. 12) noted when they concluded that 'Europe continues to devote a significant part of its budget to a programme possibly without significant European added value.'

The "bigger is better" approach to the EU budget by the MEPs reflects the EP's age-old power-struggle with the member states over the purse. In line with Tullock's (1965) observations about the behaviour of political entrepreneurs, from an individual politician's view, the more monies there were in the MFF, the more power and prestige an MEP could expect to obtain if he or she was re-elected. Promising monies taken from someone else's budget (that is, from the budget of the member states) was unlikely to hurt the re-election campaigning. In light of this, it is probably not surprising that the new – 9th – European Parliament elected in 2019 also continued in its predecessors' line even though only 39.4% of the MEPs were re-elected[125]. In a resolution adopted on 10 October 2019, the recently elected MEPs re-affirmed the view that the next MFF's ceiling 'should be set at 1.30% of the EU27 GNI and that traditional EU policies

[125] According to Sabbati (2019), 295 out of 748 or 39.4% were re-elected, with further 16 or 2.1% having been members of the EP before but not in the 2014-2019 term; 437 or 58.4% were new MEPs (p. 3).

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such as agriculture and cohesion should be maintained in real terms' (European Parliament, 2019, p. 2). In the resolution, MEPs also declared their 'readiness to reject any Council position that does not respect Parliament's prerogatives or take due account of its positions' (ibid). So in this sense, the European Parliament and even its Plenary—not to mention the COMAGRI—had acted through more than one terms not like a national legislature where there usually are voices who act to balance and police the spindrift executive branch. Instead, what was happening was a paradoxical situation where the executive branch—the Commission, in this case—of the quasi-federal EU had proposed a smaller budget than the "lower chamber" of the legislative branch—the European Parliament. However, since it was the "upper chamber" of the legislative branch—the European Council—that had to adopt the budget by unanimity and the lower chamber was only going to give its consent by majority vote and without the right to amend the proposal, the MEPs could not really have expected to see their position succeed. Incidentally, the fact that the budget is adopted using unanimity in the European Council also sets the quasi-federal EU apart from all other polities where this high threshold is rarely, if ever, employed for regular budgets.

In any case, the June and October 2019 European Councils, held under Romanian and Finnish Presidencies respectively, failed to make significant progress toward the agreement (General Secretariat of the Council, 2019b; 2019c). But for the October 2019 Council, the Finnish Presidency (2019) also prepared a two-page discussion paper that leaked to the platform Euractiv. In the paper, the Finnish Presidency had drawn the borders of the overall EU budget—from 1.00% of the GNI to 1.11%, as had been proposed by the Commission—, envelopes of the main policy areas and the conditionalities and incentives. The Finnish Presidency had also held bilateral talks with member states. It represented the first serious attempt to reach a compromise on the 2021-2027 MFF to date. The Discussion paper obviously did not mention which member states held exactly what position, but 'the importance of

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continued support for Cohesion policy and the Common Agricultural Policy (CAP) ha[d] been highlighted by many Member States. Consequently, the proposed changes in the Presidency's approach were not linear across-the-board adjustments.' (Finnish Presidency of the Council, 2019, pp. 1-2) The Finnish Presidency ended up advocating for balanced reductions in the Cohesion and CAP policies in a way that both would have faced similar reductions in comparison to the existing 2014-2021 MFF. In particular, the Finns—or rather officials from the ministry of finance—proposed keeping the proportions of the EU's budget as follows: approximately a third for Cohesion Policy, another third for the CAP and the remaining third for other policy areas, although for some reasons the Presidency had excluded all administration costs from this division (Finnish Presidency of the Council, 2019, p. 2). The Commission's (2018b) initial proposal would have brought the combined share of the CAP down to 28.6% of the 2021-2027 MFF (when calculated in 2018 prices). Hence, the Finnish discussion paper effectively proposed adding about 2.5%[126] of the budget back to it. This needed not to yield a higher absolute budget for the CAP because—as explained above—the final size of the EU's budget was not yet settled. However, this development nevertheless demonstrated that the Commission was willing to bring to down the CAP's funding while the member states had lobbied for the share of agriculture to be increased in the budget. Or at least officials at the ministry of finance in Finland interpreted the information given to them by other member states this way. It should be pointed out here, however, that the Finns—like other Presidencies of the Council of the EU—may not necessarily have been entirely neutral arbitrators when representing the collective will of the Member States to other institutions.

Agricultural ministers, for one, did try to put some pressure on their colleagues from the ministries of finance. At the 14-15 October 2019 AGRIFISH Council meeting, ministers of

[126] The Finnish Presidency (2019) proposed that the CAP be allocated 1/3 of the MFF after excluding administrative costs. If the latter were to be added back to calculation, the proposed share of the CAP stood at 31.1%, which was 2.5% more than the Commission's (2018b) initial proposal of 28.6%.

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agriculture of Austria, Bulgaria, Cyprus, the Czech Republic, Estonia, France, Hungary, Greece, Ireland, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovakia and Spain decided to present a statement where they asked 'for the CAP budget for the next programming period to be maintained, in current prices, at the current EU-27 level' (General Secretariat of the Council, 2019d, p. 2). Few things stand out about this declaration. Firstly, that it was already a second similar declaration, with the first one being signed in May 2018 in Madrid and presented at the June 2018 AGRIFISH Council meeting (General Secretariat of the Council, 2018a). Compared to its predecessor, the October 2019 declaration managed to garner even wider support.[127] Additional signatories included agricultural ministers of Austria, Bulgaria, the Czech Republic, Estonia, and Latvia. Secondly, requesting that the funding for the agricultural policy be preserved at current prices is a more modest proposal than the May 2018 Madrid declaration, not to mention the EP's position discussed earlier. The third thing to note about this declaration was that it was explicitly an *agricultural ministers' declaration*. Because national governments should act as unified actors, the EU member states' government ministers actually do have the power to sign declarations on behalf of their whole member states and ministers—especially foreign ministers—routinely do so in other situations. The reason why both declarations mentioned here ended up being "agricultural ministers'"—and not "member states"—declarations lies in the internal coordination mechanisms of the member states.

When ministers want to sign a declaration on behalf of the member state, they first need to coordinate with other ministries and the head of government's office and obtain consent from

[127] Actually, there were also two member states whose agricultural ministers had signed the 2018 declaration but not the 2019 one – Finland and Croatia. However, the absence of Finnish and Croatian ministers' signature should not be interpreted in any way as a sign of policy position change. It was simply the case that Finland held the rotating Presidency in second half of 2019 and Croatia was the incoming Presidency, taking over from Finland in the first half of 2020. As such, ministers from these countries wanted to maintain the image of a neutral compromise seeker and they therefore ruled out publicly siding with the coalition.

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these bureaucracies. As it turns out, this consent is actually very difficult to obtain in many member states, particularly from the ministries of finance, but possibly also from the ministries of environment in case of agricultural policy questions. However, while non-agricultural bureaucracies in many member states can block their agricultural policy colleagues from signing in the name of their member state, they apparently also lack the power to prevent ministers of agriculture from signing such declarations in the name of the ministry. This occasionally leads to near schizophrenic behaviour by some member states. For example, the Austrian Federal Chancellor (Alexander Van der Bellen) and the Minister of Finance (Eduard Müller) had been lobbying hard as part of the "frugal four" group to keep the EU's budget at 1% of the GNI while, at the same time, the Federal Minister of Agriculture, Regions and Tourism (Maria Patek) went and signed a declaration calling for the CAP's spending to be increased. Theoretically it is, of course, possible to reconcile these positions (more money for the CAP in a declining budget could have been obtained by cutting other policy areas' budget even more drastically) but that does not appear to have been the position of Austria. Rather, it looked as if they did not have a coherent position.

The next development happened when the Finnish Presidency of the Council (2019) published a 'negotiating box with figures' on December 5, 2019. In the negotiating box, the Presidency proposed 1 087 billion EUR—representing 1.07% of the GNI—for the overall size of the MFF. It was probably not a coincidence that the figure of 1.07% was near the middle of what the 1.11 club and the 1 percenters (or the "frugal four" plus Germany) had preferred, and very far from the 1.3% preferred by the European Parliament. Furthermore, despite the fact that the budget proposed by the Finnish Presidency was smaller in size than the one proposed by the Commission, the Finnish Presidency had proposed adding an additional 10 billion EUR to the Pillar II of the CAP. To reconcile these two, the Nordic country proposed making steeper cuts

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in cohesion policy[128] and a major reduction in other priorities. The Finnish officials were, or wanted to appear to have been, completely oblivious of the European Green Deal—discussed in the next chapter—that was published with great fanfare just a week later, on 11 December 2019. But in reality, the Finnish officials must have been at least aware of the direction the new Commission was going in from the mission letters President von der Leyen (2019a) had been issuing to the new Commissioners.

It was not possible to confirm whether this decision to add money to the CAP's budget was influenced more by the agricultural ministers' declaration or by the Finnish government's own policy preferences or by the combination of both of these. Bayer (2019), for example, did not include Finland in the „friends of farmers" coalition. However, it is nevertheless very likely that the Finnish government skilfully used its position as the Presidency to cater to the winning coalition that would serve its domestic political interests well. It is doubtful whether another Finnish government would necessarily have catered to a different type of EU level coalition discussed earlier.[129] For example, in interviews, it was not common for Finland to be rated not particularly liberal and more akin to Mediterranean countries in its policy preferences towards agriculture.

Although the December 2019 European Council did not reach any agreement (General Secretariat of the Council, 2019e) and no EU-level coalition was entirely pleased with it, the Finnish Presidency's numbers became the basis for further discussions in the lead-up to the February 2020 European Council. Charles Michel from Belgium, who had been elected for a

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[128] Interestingly, the share of cohesion spending in the MFF would have nevertheless increased according to the Finnish Presidency's negotiation box. This was so because the overall MFF was smaller than what the Commission and the EP had proposed.

[129] It certainly did not help to make Finnish position more pro-reform that at national level, the Finnish government coalition—led by social-democrats—included the agrarian Centre Party. The Centre Party's ministers also happened to hold the positions of the Minister of Finance (Mika Lintilä) and the Minister of Agriculture (Jari Leppä), with both ministers themselves having been elected to the Finnish Parliament from pre-dominantly rural constituencies.

2.5 -year term as president of the European Council[130] on 2 July 2019, by the European Council itself and began his term on 1 December 2019, was tasked with leading the MFF negotiations. In this regard, it is also interesting to note that his predecessor, Donald Tusk from Poland, was not tasked to do so by the European Council. Instead, the Finnish Presidency proposed the figures and the draft conclusion of the December 2019 Council. In any case, Michel and his team proposed a minuscular rise in the overall size of the EU's resources (from 1.07% to 1.074% of the EU27 GNI) compared to the Finnish Presidency's Negotiating Box (General Secretariat of the Council, 2020a).

Whether this tiny increase reflected the President's—himself from Belgium—and his teams' own preferences or pressure from the "frugal four" is unclear, but the CAP's budget saw a 5 billion EUR cut, again compared to the Finnish Presidency's Negotiating Box. Compared to the Commission's initial proposal, this would have, however, still meant an increase of 5 billion EUR or 1.54% (from 324 to 329 billion EUR over save years, in 2018 prices). Secondly, while the Finnish Presidency had tried to put the entire increase into the rural development pillar, Michel and his team decided to propose splitting the additional 5 billion EUR evenly between the two pillars (General Secretariat of the Council, 2020a). The heads of governments were, however, unable to come to a compromise at the marathon European Council meeting that took place on 20 & 21 February 2021. The most challenging points of disagreement were, predictably, (1) the overall size of the budget, (2) the CAP's and cohesion policy's budgets and (3) whether to give the EU new own resources and whether to gradually eliminate rebates that five member states had been enjoying (Bulletin Quotidien Europe, 2020). Hopes were therefore pinned on the March 2020 European Council meeting.

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[130] The President of the European Council should not be confused with the rotating presidency of the Council of the European Union.

General situation in the MFF negotiations, however, corresponded to the intergovernmental bargaining failure due to the "transaction costs. As one high-ranking EC official put it a year earlier, 'if Germany didn't get something out of agriculture, where would they get anything?' (personal views of a high ranking EC official, 2018). A member state's functionary elaborated on this by noting:

> If we now say – which in my personal view would be a more intelligent use of agricultural policy budget at the EU level – [that] we shift money to, I don't know, innovation, migration, security then all the governments would say "I want to keep my share of the cake." But we cannot guarantee this because France will get, I don't know, 10 or 20 billion out of agricultural policy but if we shift the money to migration then there is no certainty [that France will continue to get it]. Then they will say "I will reflect a little bit on it." (personal views of an agricultural functionary from a Western European member state, 2017)

And by "reflect", they mean reject. This answer, however, omits the role of farmers and agricultural lobbies. Perhaps a much easier explanation to the persistence of the CAP's budget is that farmers are influential and have—with their lobbies—captured member states' governments in most, if not all, member states. Farmers might be hostile to the reform of the CAP and they may organise protests, but this does not—at least theoretically—rule out an explanation that they hold the process hostage. Perhaps the member states' heads of governments are just so afraid of the farmers that they do not dare to touch the CAP's budget? If there only was a way to find out, say, by an experiment, what the real policy preferences of heads of governments are. As will be shown in the next section, the adoption of the 750 billion EUR NextGenerationEU (NGEU) agenda by the European Council on 21 July 2020 offered exactly the kind of (natural) experiment needed to investigate this.

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The NextGenerationEU and agriculture's budget

Under normal circumstances, the heads of governments of the net contributor member states—the "frugal four" or "frugal five", if Germany is included—would never agree to a substantial

EU budget increase. As previous sections demonstrated, multiannual budget negotiations are done via a 'bargaining' style, to use Scharpf's (1988, p. 239) terminology. Since the net contributor member states would receive less money back from the EU than they would be paying (as part of the money would "leak" to net beneficiary member states), they would veto the increase in the European Council. If a gridlock emerges, previous period's budget would then be rolled over. The year 2020 was, however, anything but normal.

By early May 2020, it was becoming clear to the policy-makers in the EU that the COVID-19 pandemic—which had already caused many EU member states to go into lockdown—was going to cause huge economic damage and exacerbate all sorts of socio-economic problems.[131] According to the Commission's (2020b) spring 2020 economic forecast, the euro area GDP was going to decrease by an unprecedented 7.75% in 2020. Something had to be done. While the Joint Statement by the European Council (General Secretariat of the Council, 2020k) members released on 26 March 2020, focused mostly on the immediate actions to be taken to tackle the COVID-19 pandemic, it also emphasised the importance of a coordinated exit strategy, a robust recovery plan, and unprecedented need for investment (General Secretariat of the Council, 2020k). The statement encouraged both leaders of the EU, Charles Michel and Ursula von der Leyen, to begin working on a recovery plan with their services. This was so because the heads of governments of net contributor member states realised—some sooner, some later—that the risks and costs associated with a chaotic "everyone for themselves" unravelling of the COVID-19 crisis would, ultimately, be more costly to their Member States than an increased net contribution to the EU budget.

The Commission (2020c)—taking note of the changed circumstances and sentiment in the European Council—thus proposed a huge stimulus package called the NextGenerationEU

[131] It needs to be pointed out here, this realisation was slow to come. De Angelis (2022) shows that initial reaction, in March 2020, by the heads of governments was to continue with business as usual.

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(NGEU). The proposal—unveiled on 26 May—was essentially for a 750 billion EUR stimulus (in 2018 prices) package to be distributed between 2021-2023[132] in addition to the MFF budget. Money for the stimulus was to be acquired by increasing the own resources ceiling[133] to 2.00% of the EU's GNI. This allows the EU to use its impeccable credit score to raise the amounts on the financial markets. This stimulus was to be distributed using various EU programmes, the choice of which will be discussed below. It must also be noted that these resources are loaned and therefore need to be repaid in the future. The Commission's proposal foresaw payments on the principle being started not before 2028—that is, not during the 2021-2027 MFF being negotiated concurrently—but that the money also had to be paid back in full no later than in 2058. 'To help do this in a fair and shared way', the Commission (2020d) also proposed in a separate policy paper published a day later a number of new own resources. Ideas presented in the document included extending the EU's Emissions Trading System to shipping and air transport sectors and creating a Carbon Border Adjustment Mechanism to collect more customs duties. Additionally, to ensure that funds were being made available as quickly as possible to address the most pressing requirements, the Commission proposed amending the 2014-2020 MFF to provide an extra 11.5 billion EUR of spending already in 2020.

Now, if the rent-seeking agricultural lobby hypothesis was true, then, presumably, the sector would have been allocated a proportional—or close to proportional—share of that 750 billion EUR (in 2018 prices) stimulus package. For a brief moment in late April 2020, there were even hints that things might go this way. When Presidents von der Leyen and Michel (2020)[134] published their joint 'Roadmap for Recovery' paper on 21 April 2020, which included an explicit commitment to invest 'massively in the Green and Digital transitions and the circular

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[132] Disbursement deadline was later extend to 2026.
[133] The Own Resources limit establishes the maximum amount of resources the Member States can be asked to contribute to the budget in any given year.
[134] Obviously, at least partly, ghost-written by the Commission's and the Council's employees.

economy, alongside other policies such as cohesion and the Common Agricultural Policy' (p. 4). The Following developments, however, demonstrated that agricultural special interests have almost no power or political influence when it comes to the allocation of new funds in the EU. Even lobbying by the member states' agricultural ministries did not change the calculus of the Commission and the European Council.

Heads of government of the Member States agreed, in principle, with what the two Presidents were proposing but remained bitterly divided on some of the most fundamental issues surrounding the establishment of a recovery fund. Herszenhorn (2020) writes that differences included the question whether money should be injected into the economy via grants—as the hardest-hit countries such as Italy and Spain preferred—or as loans—as the frugal countries preferred. The Latter would have made it somewhat easier for the Union to pay back the loans it was planning to take out to finance the whole package. Certain EU member states, such as the Netherlands and Germany, were frantically opposed to any calls for a new type of joint debt instrument, arguing that each nation should ultimately be accountable for its own balance sheet and that it would be wrong to create entanglements that could jeopardise credit ratings or result in unexpected liabilities (Herszenhorn, 2020), echoing some of debates from the Greek debt crisis. French President Macron acknowledged that strong divisions existed in the European Council but came out emphatically in support of using grants.

But a coalition soon emerged. As had happened several times before in the CAP reform and MFF negotiations, it began with what was essentially Franco-German deal. On 18 May 2020, German and French governments made a joint proposal for a 500 billion EUR recovery fund to be financed with an 'extraordinary complementary provision, integrated in the own resource decision, with a clearly specified volume and expiry and linked to a binding repayment plan beyond the current MFF on the EU budget' (French Ministry for Europe and Foreign Affairs, 2020). The "frugal four"—led by the Netherlands—tried to counter this with a non-paper where

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the four countries declared that they ‘cannot agree to any instruments or measures leading to debt mutualisation nor significant increases in the EU budget (Government of the Netherlands, 2020, p. 1). What is crucial (from the perspective of the main research question of this thesis) about these debates is that unlike what had been going on in the earlier described MFF negotiations—with finance ministries and heads of governments haggling over fractions of a percentage—there were no mentions of the CAP nor of the need to secure its funding. Calls to increase agricultural spending—or to “invest” large sums of money into in the sector—were conspicuously missing.

The German government’s role seems to have been pivotal when it comes to subsequent proposals. The Commission’s (2020e) legal proposal contained 500 billion EUR in grants, but another 250 billion EUR worth of subsidised loans was added to it. Thus, the Commission basically followed the Franco-German approach but added a loan component. While the Commission's proposal had two parts, both were matched to the updated and more front-loaded 2021-2027 MFF. The strengthened MFF proposal, in turn, appears almost identical to Michel's February 2020 MFF proposal, with some objectives slightly modified and an overall size of the budget increased to 1 100 billion EUR, (up from the 1 094.8 billion EUR in Michel's February proposal).

All this extra money was to be spent to do three things. Firstly, the Commission (2020c) proposed using it to support the Member States in making investments and reforms. A new 560 billion EUR Recovery and Resilience Facility (RRF) was to be set up to help—in particular—green and digital transitions. This mechanism was to be incorporated into the European Semester. The Commission had proposed that the Recovery and Resilience Facility (RRF)

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money be divided into grants (310 billion EUR, current prices) and loans (250 billion EUR, current prices).[135]

Agricultural Policy was not entirely forgotten. The Commission (2020e, p. 7) had proposed to 'reinforce the budget for the European Agricultural Fund for Rural Development by €15 billion' under the investments and reforms heading.[136] However, compared to all other policy areas receiving money from the NGEU, this was nothing. A mere 2% of the NGEU. Notably, there was nothing for direct payments, which—due to their effect on farm income—tend to be the preferred use of the CAP money, at least from the perspective of agricultural lobbies and many Member States' agricultural bureaucracies. This is so because the Pillar II spending was going to be subjected to the numerous restrictions[137] discussed in more length in the second half of the chapter. Despite this, the heads of governments reacted positively to the overall RRF proposal (Euractiv, 2020). Only the farmers' unions complained—predictably—that the

[135] Support was to be provided to all Member States, but the Commission promised to prioritise the most vulnerable and areas with the greatest resilience requirements. Secondly, the Commission (2020c, p. 5) proposed to use the money for 'kick-starting the EU economy by incentivising private investment.' A new Solvency Support Instrument was to be established to mobilise private capital to assist viable European businesses in the sectors, regions, and member states most hit. Unlike other parts of the proposal, the Solvency Support Instrument—with a 31 billion EUR budget—was going to start operations already in 2020. The Commission's goal was to release 300 billion EUR in solvency assistance for businesses across the whole economy and to prepare them for a less polluting, more digital, and resilient future. The increase of the size of InvestEU—the EU's flagship investment initiative—to 15.3 billion EUR was going to help mobilise private participation in Union-wide projects. A new Strategic Investment Facility was integrated into InvestEU–with a 15 billion EUR contribution from NextGenerationEU—to bolster the resilience of key sectors, particularly those associated with the green and digital transitions, as well as vital value chains within the internal market. Finally, the Commission (2020c) proposed to use the money to learn 'lessons of the crisis' (p.10). EU4Health, a new health programme with a 9.4 billion EUR budget, was to be set up to increase health security and prepare for future health emergencies. Another 2 billion EUR were earmarked for the expansion and strengthening of rescEU, the Union's Civil Protection Mechanism. 94.4 billion EUR were allocated for investments in the Horizon Europe programme. The Purpose of this was to further fund research in areas of health, climate and environment and digitalisation. An additional 16.5 billion EUR were also set aside for external action including humanitarian assistance (The Commission, 2020c).

[136] Furthermore, the Commission's (2020g, p. 6) proposal for the European Recovery Instrument (ERI) published on the day later on 28 May 2020, also explicitly states in the recital that even this money is meant to be used narrowly to 'support rural areas in addressing the impact of the Covid-19 pandemic.'

[137] The restrictions are outlined in the Strategic Plans Regulation. It can be briefly noted here that at least 5% of funds had to be reserved for the LEADER programme , and a minimal 30% of the funds had to be reserved to deal with the 'specific environmental- and climate-related objectives' of the CAP (The Commission, 2018b, p. 41).

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proposal is ‘suggesting that the agricultural sectors should only rely on themselves’ (Farm Europe, 2020).

The heads of governments took this disposition with them to the 17 July 2020 European Council. As a preparation for the meeting, the President of the European Council, Charles Michel, and his staff had distributed a new Negotiation Box to the member states on July 10 (General Secretariat of the Council, 2020c). Michel and his staff had proposed almost[138] no changes to the CAP budget (compared to the May 2020 Commission’s (2020f) reinforced MFF proposal). The final deal on the 2021-2027 MFF was reached after a four-day long marathon meeting in July 2020. Another 3.2 billion EUR in 2018 prices was added to the CAP’s budget, but at the same time, the Commission’s proposed 15 billion EUR recovery fund money was cut in half. The net result was a 4.3 billion EUR decline compared to the Commission’s May 2020 proposal (General Secretariat of the Council, 2020b).

Overall, agriculture’s budget climbed, both nominally and as percentage of the MFF throughout various stages of negotiations (see Figure 8.1 below) albeit very modestly.[139] A slight deviation from an otherwise linear—almost horizontal—trajectory was caused by the European Parliament (2018) proposing an overall bigger budget (the EP wanted 1.3% of the GNI). However, agriculture’s share in that increased budget would have remained similar to the Commission’s initial 2018 proposal.

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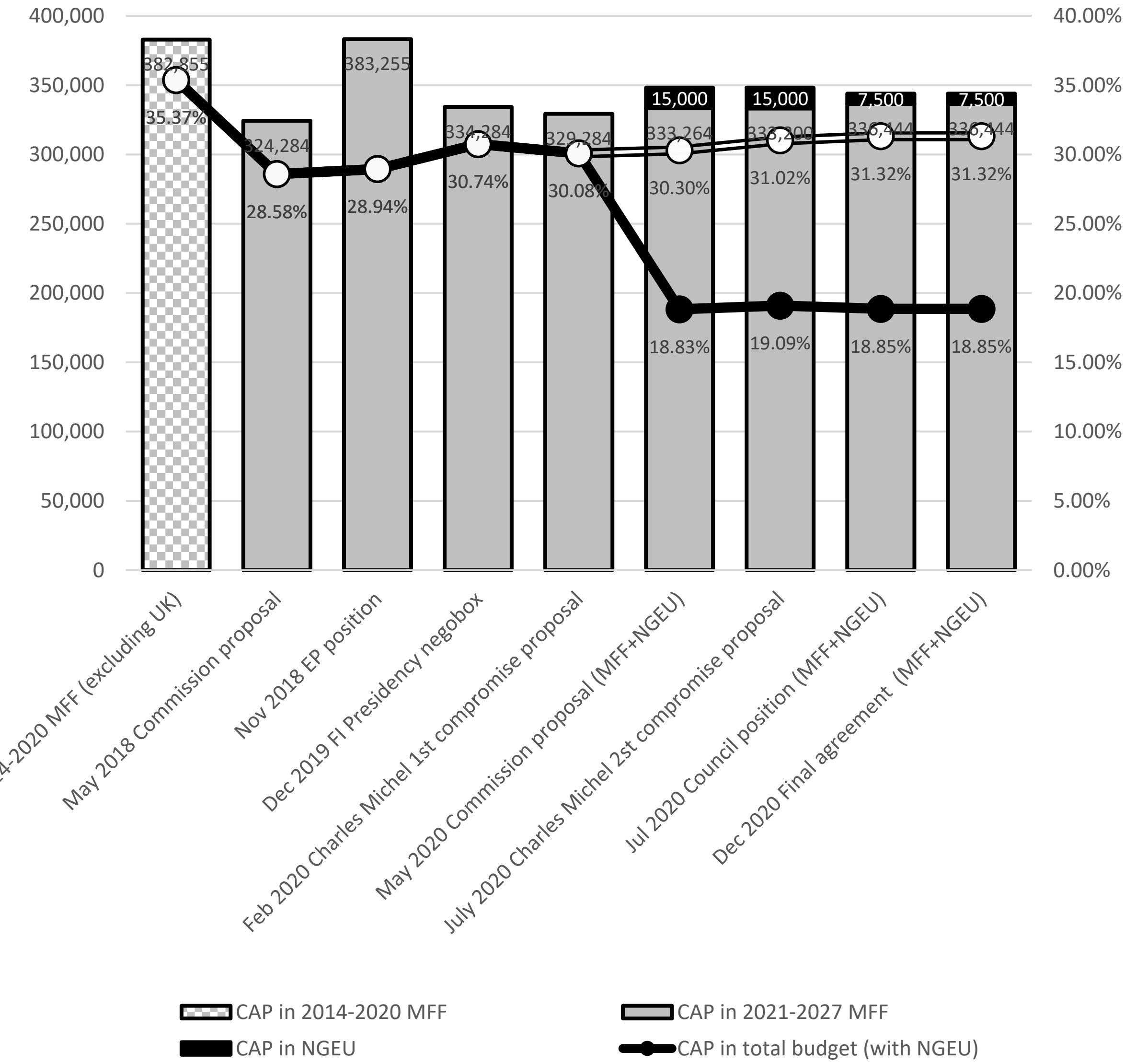
[138] In May 2020, the Commission (2020f) had proposed 348.3 billion EUR for the CAP’s budget in 2018 prices. This included the additional 15 billion EUR from the European Recovery Instrument. Michel’s 10 July 2020 Negotiation Box had reduced direct payment envelope 0.051 billion EUR to 258.2 billion EUR (General Secretariat of the Council, 2020b, p. 40) and cut the rural development envelope by 0.013 billion EUR to 75 billion EUR (p. 44), , which 2.5 billion EUR stayed unallocated at the time. This resulted in the overall CAP budget being reduced by a negligible 0.064 billion EUR to 348.2 billion EUR compared to the Commission’s (2020f) May 2020 proposal.

[139] Compared to the 2014-2020 MFF, the CAP budget for the 2021-2027 period increased in *current prices* from 375.5 to 386.7 billion EUR, representing a 3% increase. Compared to the 2014-2020 MFF, the CAP budget for the 2021-2027 period decreased *in 2018 prices* from 382.9 to 343.9 billion EUR, representing a 10% fall.

Figure 8.1: Agriculture's budget in nominal terms and as percentage of the total EU budget through various stages of the 2021-2027 MFF negotiations

EAGF+EAFRD in million (EUR) in 2018 prices

EAGF+EAFRD as a percentage of the total EU budget



Author's calculations. In 2018 prices. Sources: Massot Marti & Negre (2018), the Commission (2018b; 2020g), the General Secretariat of the Council (2019a; 2020a; 2020b; 2020c; 2020d).

For this reason, by far the most significant change of the CAP towards a policy conceptualised in the fifth chapter actually only came about after the MFF agreement and probably unexpectedly for all the actors involved. Agricultural special interest groups and agricultural bureaucracies would have, of course, preferred that CAP's budget was indexed to future inflation. However, agrarian bureaucracies of the member states had reluctantly accepted the

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outcome of the MFF also because of their inflation expectations. They understood that the use of current prices in the MFF negotiation box would bring about a gradual (real terms) decline in the CAP's budget.

Presuming that the European Central Bank was going to be able to do its one job—maintaining price stability defined as 2% of inflation per year—it was going to take 70 years or 10 seven-year MFFs to erode the real-term CAP budget by about 75%. In fact, the average inflation in the Euro area during three MFFs from 2000 to 2020 was actually even less – merely 1.66% per annum. For the whole EU, inflation in the same period was slightly higher, around 1.80% per year.[140] Policy-makers, particularly ministries of finance officials in the member states, understood that this low-inflation environment is not going to continue in perpetuity. Hence, when the 2021-2027 MFF deal was formally adopted in December 2020, the officials advising heads of states knew that there would be periods when inflation would also be above 2%.

However, it is unlikely that anybody was really prepared for what happened next: inflation rose to around 10% by autumn 2022 (see Figure 8.2). The cumulative inflation in 2021 and 2022—which none of the agricultural or fiscal policy-makers in the EU seemed to have foreseen during the MFF negotiations—has effectively already reduced the CAP's budget, in real terms, more than was ever contemplated during the 2021-2027 negotiations. High inflation—especially if persistent and combined with low growth—is, of course, very undesirable from a macroeconomic perspective. However, in terms of taking agricultural policy closer to the radical reform, this high inflation has probably brought more progress—at least in terms of reducing expenditure that does not fit the public-money-for-public-goods description—than the entire 2021 CAP reform process.

[140] Author's calculations using the Commission's (2022a) data.

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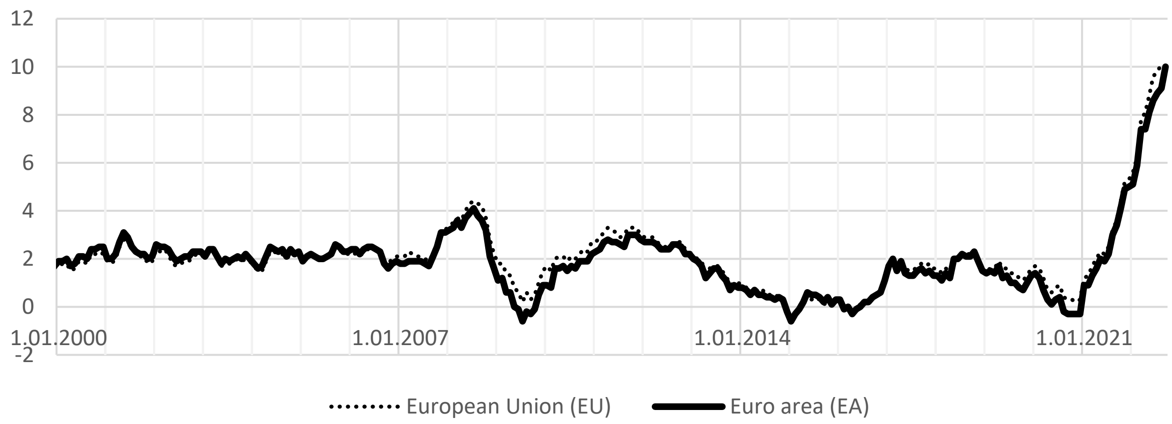
Figure 8.2: Harmonised Index of Consumer Prices (HICP) annual rate of change in percentages



Data source: The Commission's (2022a) Eurostat data.
Note 1: The figure shows monthly data (annual rate of change)
Note 2: The EU's and Euro Area's composition has changed through the years. The Figure always shows HIPC for the contemporary composition (EU15 from1995, EU25 from 2004, EU27 from 2007, EU28 from 2013, EU27 from 2020 and EA11 from 1999, EA12 from 2001, EA13 from 2007, EA15 from 2008, EA16 from 2009, EA17 from 2011, EA18 from 2014, EA19 from 2015)

All this, however, still leaves the question: what general conclusions could be drawn from this "experiment" with NextGeneration EU funding? The first observation would be that when "new money" was being allocated, almost nothing of it was given to the CAP! In fact, the July 2020 European Council conclusions even reduced the initially proposed 15 billion to just 7.5 billion (General Secretariat of the Council, 2020b). As part of the RRF's green transition objective, EU money could have easily been spent on a number of projects (with varying degree of adherence to the public-money-for-public-good principle). The fact that this did not happen reinforces the hypothesis that EU decision-makers, both in the Commission and in the member states (and the Parliament) outside and above the narrow confines of the traditional agricultural policy-making community are not hostages to their colleagues in that community, nor to the agricultural lobbies.

Both agricultural lobbies and the member states' agricultural bureaucracies would have surely preferred a proportional or larger share of the NGEU's money to be allocated to the CAP. Nor was there necessarily anything peculiar about the NGEU that would have prevented decision-makers from allocating agriculture a share more proportional to its role in the regular MFF. To the extent that NGEU is intended to provide Keynesian stimulus to the economy, even the CAP's direct payments are well configured to serve that purpose. Extra funds given to small farmers would have gone into spending almost immediately. And if there ever was a concern that the main beneficiaries—owners of large farms—are going to bank the windfall and thereby reduce the effectiveness of stimulus, then the policy-makers could have always applied capping and regressivity to the direct payments. So, it was not an issue that the CAP was somehow technically ill-suited. Rather, the heads of governments and officials from the ministries of finance who handled the negotiations of the MFF and of the NGEU did not see any reason to allocate more money to the sector. The heads of governments would rather use the money to create and/or appease other constituencies.

Altogether, this outcome lends a strong support to the intergovernmental bargaining failure hypothesis. Even the most ardent defender of the CAP budget among the heads of governments could not use his veto powers in the European Council to force others to increase the CAP budget. The implied threat of the use of veto was not going to help because the veto would have merely blocked 750 billion EUR NextGeneationEU and forced the roll over of the 2014-2020 MFF without it. This would have been in nobody's—not even in the farmers'[141]—interests. But the presence of just one head of government very sympathetic to the agricultural special interests might change the game in case of the *existing* spending. But more importantly, as discussed earlier, the head of government using implicit or explicit threat of veto might not even have to be sympathetic to—or captured by—agricultural special interests. If reshuffling

[141] Farmers may have theoretically benefited from the perpetuation of the 2014-2020 MFF because the CAP's budget in that was larger in real terms than in the 2021-2027 MFF, but the overall damage to the economy—therefore also to the demand of farmers' products too—would have outweighed any gains. Furthermore, the failure to adopt the MFF and roll-over the last year of the 2014-2020 MFF would have effectively left farmers with a fixed 2020 CAP budget, which would have gradually lost its purchasing power due to inflation.

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of the MFF was going to lead to substantial worsening of his or her member state's net budgetary position, this alone would have been enough to act. Since this was also known to other participants in the negotiations, such as the Commission, the latter's officials were not going to propose a budget that was never going to get every member states' consent. The outcome also confirms New Institutional Economics in the insight that rules matter. To paraphrase North (1990a): institutional constraints in the form of the EU decision-making rules defined the potential wealth maximising opportunities of political entrepreneurs in the EU. The second half of this chapter, however, shows—using the 2021 CAP reform as example—how EU's decision-making rules prevent anything radical from even being deliberated,

Overview of the 2021 reform of the CAP

The inception

Unlike in the case of the previous CAP reforms in 2003 and 2013, the Commissioner—Phil Hogan from Ireland—presiding over the most crucial stage of the process, was not himself a member of the narrow agricultural policy-making community. Being nominated to the position in 2014 by Commission President Jean-Claude Juncker, the closest Hogan had been to this policy-making community was in 1989–1991, when he had served as the Opposition Spokesperson for the Food Industry. Instead, he had had a reputable career in Irish domestic politics, including a brief junior ministerial post in the Department of Finance in 1994-1995 and a longer stint as the Minister for the Environment, Community and Local Government of Ireland. However, this was not enough to change the course of the 2021 reform, which was completed under his success, Farm Commissioner Janusz Wojciechowski from Poland.

In any case, the first public mentioning of what eventually became the 2021 reform of the CAP was in February 2017, when the Commission (2017b) launched a public consultation titled

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‘Modernising and simplifying the Common Agricultural Policy.’ In the introduction of the consultation, the Commission explained that since the last CAP reform in 2013, which had been implemented from 2015 (that is, just two years at the time of the launch of the consultation), a number of things had changed. For example, prices of agricultural goods had gone down, market volatility had increased for various reasons (see Figure 7.2 in the previous chapter), and the EU had become a party to the 2015 United Nations Climate Change Conference (COP 21) and the Sustainable Development Goals (SDGs) had been agreed in 2015.

Together with the launch of the consultation, the Commission (2017c) also published what it called the ‘Inception Impact Assessment.’ Inception impact assessments or roadmaps have—as a part of the EU’s drive towards better regulation—become a normal part of the EU’s policy process and are nowadays released prior to any major policy proposals. Inception impact assessments are documents that seek to inform stakeholders about the Commission's plans so that the stakeholders can give constructive feedback[142] to the Commission on the planned initiative and to participate effectively in public consultations. The Commission’s (2017c) inception impact assessment laid down five different possible options. The first option considered was titled the “baseline”. This could be summed as a continuation of the post 2013 CAP, with the exception of the implementation simplifications already adopted or proposed[143].

The second option was to abolish the CAP! From the “no policy” option’s description, however, it quickly became clear that this was never really entertained. Instead, the Commission (2017c, p. 2) had included the abolishment of the CAP—which it immediately

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[142] The Commission, in particular, asked for the stakeholders to provide feedback on the Commission's ‘understanding of the problem and possible solutions and to make available any relevant information that they may have, including on possible impacts of the different options.’ (The Commission, 2017c)

[143] At the time of the inception impact assessment, package of simplifications called “the Omnibus Regulation” were under discussion. (The Council of the European Union, 2018)

deemed neither 'realistic nor desirable' and 'not be in line with the Treaty'—as a way to provide comparison and to demonstrate the 'value-added of CAP as well as the economic, social and environmental impact of the absence of an EU-wide policy intervention.' The exclusion of the clearly elaborated "no policy" option from the inception impact assessment represented a missed opportunity. The way that the Commission had decided to briefly present it, the "no policy" option was clearly undesirable. For example, it was not clear whether "no policy" simply meant the abolition of direct payments and market support measures or also the abolishment of common rules and regulations and the rural development pillar.

Some academics nevertheless gave the "policy option" the benefit of the doubt. For example, Matthews (2017a)—while admitting that the options in the inception impact assessment are a 'little opaque'—nevertheless identified the "no policy" option with 'full liberalisation'. However, from the document itself, it was not clear whether "no policy" would mean re-nationalisation—with member states allowed to pursue their own potentially very expensive and possibly highly distortive agricultural policies—or whether it might have resembled full liberalisation, something akin to leading European agricultural economists' (Anania, et al., 2010) proposals. Incidentally, this lack of clarity was guaranteed to make all other policy options look good. Interestingly, though, it appears that—at least in internal discussions within the Commission, or more precisely, in the DG AGRI—the idea that perhaps the CAP, as it stood (and still stands), is not needed, was nevertheless not entirely alien. For example, one high-ranking DG AGRI official explained in an interview that:

> after we put [the conclusion to the] previous reform[144], we did a survey in part of the directorate and [..] asked [..] colleagues two questions: [firstly] if we didn't have a Common Agricultural Policy, would we need one? And [secondly] now that we have one, what should we do about it? Everyone had two minutes to answer. It was by lottery that we decided the order. And some colleagues were surprised that my answer was that if we didn't have a common agricultural policy, we wouldn't need one now. That doesn't mean that we

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[144] The official was referring to the 2013 Ciolos Reform.

> wouldn't have common aspects of a common policy. But these would be much more related to regulatory aspects. (personal views of high ranking DG AGRI official, 2018)

Whatever the outcome of these internal debates was, a real "no policy" option was never tabled. Instead, included in the inception impact assessment were three other options.

The third option was to devolve powers and responsibility for the programming of CAP operations to the member states (or possibly, even regions), who would then decide on their own how to achieve CAP goals within their territory. The third option was described as putting risk management and investments in restructuring into the spotlight and assisting small and medium-sized enterprises in rural areas. Additionally, this option foresaw the shifting of some focus to climate change and environment services and to do so in a single performance framework. The fourth option—which evidently eventually became the basis of the 2021 CAP reform—envisioned redefining the functions of the Commission, the member states and individual farms with the goal of strengthening an 'income safety-net with synergies between direct support (including area payments) and risk management,' (The Commission, 2017c, p. 2) although, again, it was not quite clear what this would have meant in practice. Additionally, this option included an idea to strengthen the link between farm practices and EU-wide environmental/climate action targets together. In the option's description, it was further envisioned that the EU would create new incentives to integrate existing technology and the latest research findings and innovation more effectively (with the help of farm advisory services). These, in turn, were to contribute to the simplification and modernisation of controls, leading to more performance-based outcomes. The fifth and last option was to shift support away from larger farms and toward smaller, more ecologically friendly farms. The description of the option also called for the "capping" of support measures. Additionally, the fifth option proposed more stringent environmental standards, shorter supply chains, and an extensive use of local markets. From the option's description, it was not clear why smaller farms were

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presumed to be more a-priori ecologically friendlier than large farms. Nor was it clear what exactly were the benefits of short supply chains and reliance on local markets.

In sum, it can be concluded that none of the options—except, perhaps, the "no policy" one which was neither sufficiently elaborated nor seriously considered—put forward by the Commission (2017c) in the inception impact assessment had the potential to become a radical reform proposal. The full liberalisation or "no policy" option was also explicitly ruled out merely a week after the launch of the consultation in February by the farm Commissioner Phil Hogan himself who—in his speech for the Farm Europe, held in European Parliament—stated that:

> There is one thing on which I would like to give some reassurance and that is: despite the emphasis on appropriate measures to ensure greater market resilience, I am also determined to maintain basic income support and an effective safety net through a system of direct payments. That continues to be an essential element of the CAP without which the viability of perhaps tens of thousands of farmers would be seriously compromised. (Hogan, 2017)

This brings back the main research questions of this dissertation: why was more radical reform immediately disregarded? In this case, by the Commission and already in an early stage of the reform process. Was it the Commission's—or a particular Commissioner's or DG's—intent? Or did the Commission decide that radical reform was political unfeasible? If so, why?

As hypothesised in the theory chapter, members of the narrow agricultural policy-making community held agricultural exceptionalist views. The following quote from an interview with an archetypical agricultural exceptionalist-leaning bureaucrat representing a CEE member state in the SCA illustrates this wide-spread sentiment:

> The first and basic thing is that *this policy is for European farmers*. I hear some rumours that many EU citizens are starting to forget about that. Usually, I hear the question, „What is the European added value of this common policy?" I hear questioning whether this public money is spent usefully. I can answer that with another question: "What can be more European added value than this policy, through which the European farmers are providing healthy and safe food to citizens?" Taking into account that the EU is a net export of foodstuff, it is actually even more people who are [benefiting from this policy]. […] Of course, there are other things which we cannot hide: environmental sustainability. But

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> another cornerstone and the basic thing which we cannot forget is that the farmers should remain the main beneficiaries of this policy. The farmers are making healthy foodstuff for the EU citizens. So, when we are talking about any kind of reform of the CAP, these two basic objectives should remain. […] There are opportunities [in the CAP reform], and possibly there is a need for slight changes, especially because of simplification issues. But this should be done in a wise way, taking into account these two principles. […] *I think the current system*—and I can only talk about [name of the Member State] experience—*is a well-functioning policy*. For example, a lot of member states are criticizing the greening system, which was implemented four years ago. We invested a lot of effort in implementing these new [greening] tools. But it seems we managed to do it. We can confirm this is fine. Now, [the Member State] has gotten used to it. Now, turning to the new communication [of the Commission (2017d)] which came out – it is really less concrete. We cannot see how it will work in practice. We do not necessarily see the need to put in a dustbin what we have achieved with the greening. (personal views of an SCA spokesperson of a CEE member state, 2017, emphasis added)

When asked, why it was necessary to spend large amounts of money on the direct payments, official spelled it out explicitly that '*food and agriculture—in my view—are special things*.' It became quickly evident that such views were widespread in the Member States agricultural bureaucracies when the future of the CAP was being discussed in the Special Committee of Agriculture (SCA) and the Agriculture and Fisheries Council (AGRIFISH), where a number of member states indicated their desire to retain some conservative features of the 2014-2020 CAP.

Taking a hint from the February 27 2017 SCA meeting—where a number of member states indicated their preferences—the Maltese Presidency prepared for the very first ministers discussion by publishing an "orientation paper". In the paper, it was proposed that the discussion should start from the understanding that 'there is the need to maintain an adequate budget for future CAP, whilst ensuring consistency with other EU policies, as well as achieving simplification' (General Secretariat of the Council, 2017, p. 2). The Maltese Presidency was careful to preface this with the caveat that this was 'without prejudice to the next Multiannual Financial Framework', but how would the farm ministers—with no powers over the budget—presume that the CAP budget would be maintained without prejudicing MFF negotiations, remained unclear (ibid). During the course of the 2½ hour closed-door roundtable at the 6

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March 2017 AGRIFISH meeting, ministers displayed little or no appetite for a major reform of the CAP’s 2-Pillar structure. The German Federal Minister of Food and Agriculture, Christian Schmidt, emerged as the leader of the conservative majority, proclaiming that it is ‘essential to stabilise farm income, especially during periods of price volatility’. To leave no doubt about what agricultural ministries in member states thought about the second option in the inception impact assessment, the German minister also added that the abolition of the Pillar I ‘would have a major impact on small- and medium- sized enterprises, with incalculable consequences for rural areas’ (Christian Schmidt cited in Arga Fact (2017, p. 1)). Delegations overwhelmingly supported a strong, well-funded CAP for the period beyond 2020, while a chorus of ministers (the Netherlands, France, Greece, Belgium, Croatia, Sweden, Ireland, and Austria) also argued for greater flexibility at the national level to reallocate resources between the Pillar I and Pillar II. Meanwhile, a coalition of CEE Member States asked for a fair playing field in terms of direct support levels, with Poland's Krzysztof Jurgiel stating that the Commission ‘must finalise the process of convergence in direct payment rates for farmers across the EU’ (Krzysztof Jurgiel cited in Arga Facts (2017, p. 1)).

The communiqué

The next big development came in October when the Commission’s (2017d) communication paper, titled ‘the Future of Food and Farming’ leaked. The Commission conceded in the leaked draft that the CAP was relying—too much in the institution’s opinion—on strict controls, sanctions, and auditing procedures. The CAP’s rules and regulations were frequently very specific, sometimes down the farm level. The Commission went to argue in the communication that this top-down and one-size-fits-all policy was ineffective in providing the intended outcomes and the EU added value, if for nothing else then because of the diversity of the

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farming and climatic environment in the EU. The EU should—or so the paper argued—only specify the *basic policy parameters* (CAP objectives, broad categories of interventions, basic requirements that farmers would need to fulfil) and policy should then be carried out with what the Commission titled ‘the New Delivery Model’ (ibid).

In alignment with option four from the inception impact assessment, this New Delivery Model meant that the Member States should have increased control over—and therefore also be held responsible for—how they achieve the EU-level and national-level objectives and targets. Greater subsidiarity would allow—or so the communication argued—for greater consideration of local conditions and requirements in the context of suitable objectives and aims. To increase EU added value and to avoid distortions on the internal market, member states would choose the policy measures ‘in the framework of a structured process’ that would culminate in the creation of national CAP strategic plans (The Commission, 2017d, p. 6). These plans would cover both pillars’ interventions, thereby abolishing some distinction between the pillars. The authors of the communication were explicit that the CAP strategic plans of the member states—or, possibly, regions—would have to be approved by the Commission. But what that would meant in practice was left out of the paper.

On 29 November 2017, the Commission (2017e) also published the official version of the communication. Some emphasis was changed in the final version but overall, the document had retained both the core idea and structure of the leaked version discussed above. In Matthew’s (2017b) verdict ‘there are no real novelties as compared to the Fischler and “greening” CAP reforms, but merely a reformulation of the same substantive framework using new terminology.’ But the die had been cast for the post 2020 CAP. Commissioner Hogan, for one, went on to market the ideas presented in the communication and the CAP reform process—in what became his regular repertoire in speeches later—as an ‘evolution, not a revolution’ at the COMAGRI hearing on November 29 2017 (COMAGRI, 2017). However,

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despite the fact that the Commission was essentially appeasing the narrow agricultural policy-making the community of the Council and the SCA, the sentiment of the COMAGRI—which, in general, is more closer to the agricultural special interests—still ranged from mixed to critical.[145]

In any case, the lack of ambition in the Commission's communication was also noticed by the handful of reform minded member states functionaries interviewed for this thesis. One of them observed that:

> Reform—if we can really call it a reform, which we can't now—idea from the DG AGRI is that "okay, we lose a little bit because of the Brexit but we try to keep [the spending] at current level" which in my understanding means that the pressure is not enough. Keep everything in line, as it is [now with the] direct payments. Structure [of the policy] will be the same [after the reform]. […] We might call it differently this time. It is the issue of justifying the agricultural payments to the public opinion. At least, from the Commission, what I see coming from them, they are not ready make a real overhaul of the policy. (personal views of an agricultural functionary from a Western European member state, 2017)

But why did the Commission decide to go down this path and appease the member states' agricultural bureaucrats? Was this the Commission's own policy preference? The short answer is no. While there were a fair number of officials—especially among mid-ranking functionaries—who revealed their agricultural exceptionalist views and conservative bias during the interviews, on average, the Commission's officials—even in the DG AGRI, although less so than elsewhere in the Commission—were significantly more open to and saw a need for a radical reform, even if their own ideas about the shape of the reform differed. A rather reform-minded senior EC official—when confronted with agricultural economists' criticism of the CAP during an interview—asked sorrowfully 'but what can you do? That's a

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[145] For example, Albert Dess (EPP, DE), the coordinator of the EPP group in the COMAGRI, agreed with the Commissioner that 'we do not need a revolution. Only corrections, where they are necessary,' but emphasised that he remained 'sceptical about establishing too much national responsibility.' Other MEPs were more vocal in the criticism (COMAGRI, 2017).

bit of daily life [for us].' This senior official then went on to explain the limitation of the Commission's top officials' powers by noting that:

> the Commission has the monopoly in making proposals. Which sounds a tremendous [power]. But, of course, to make a proposal, the Commission will carefully assess the environment, the situation, the political feasibility of what it is proposing. *We, of course, don't want to make proposals that are dead in the water before they are being debated*. That's not our role. You can do that but then you marginalise yourself. That's not what the Commission should do. So, our proposals in some way—or good proposals, anyway—already carry in themselves the nucleus of the compromise. Good proposal for reform is not the compromise, of course. But if you understand a bit the landscape and you understand what's going on you might already see the compromise somewhere. Where it could be. How it could be achieved. If you don't see it then very often it is just dead before it is discussed. In that process, of course, the various interests are relevant. These interests are not, of course, towards the Commission. Of course, we talk to COPA-COGECA, we talk to national farming associations and all that. But they also come in through Parliament, through Council. Of course, we listen what the ministers are saying in the Council. We listen what the Parliament says in its resolutions. We hear when we read discharge resolution, for example, and all that. So, in the end of the day, if you look at all these aspects, what should come from us, is something that is made in a way that it could lead to reasonable compromise solution. And, of course, this means that revolutionary proposals by the Commission in the area like agriculture are difficult thing to do. (personal views of a senior EC official, 2017, emphasis added)

This more or less sums up why the Commission could not come up with a more ambitious proposal, even if some of its officials might have preferred this. It also broadly lends support to the hypothesis put forward in the third chapter that the members of the narrow agricultural policy-making community are able to use institutions such as the SCA to filter out any reform attempts that are incompatible with agricultural exceptionalist views. Furthermore, it also supports the hypothesis that agricultural special interests—at least at the EU level—are not the main obstacle. Interviews conducted for this thesis show that a number of high-ranking Commission officials, such as the one quoted above, have no illusions about the policy. The political landscape permitting, they would pursue much more far-reaching reforms of the CAP. The fact that the agricultural lobbies would not like this at all - this is not crucial for them. They are far more concerned about the Council, the SCA and COMAGRI. This, in turn, supports the hypothesis that the member states' agricultural bureaucracies are able to use formats such as the SCA and the AGRIFISH to obstruct any radical reform.

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The reform proposal

Getting to the reform proposal was, apparently, quite a challenge for the DG AGRI officials involved. Apparently, there was no pressure to even start the processes. A DG AGRI official who was involved in the process recalls that—in the beginning—all member states just wanted continuity and no change. And now that the Commission had to formulate a legal proposal, things got even harder. A DG AGRI official involved in the process recalled thinking that:

> this time [reform proposal] was not going to work. Then [one of the Deputy Director-Generals and one head of unit at DG AGRI] had brainwave. And they managed to push it thru [internally]. They did it cleverly. They were helped by the fact that the [Hogan's] cabinet [members] were not cooperating among themselves. This gave them the possibility to talk directly to the Commissioner. [Whom they convinced that] „this reform is a quite a big step, especially considering that member states do not want any reform at all. This is really a big step to get the first Pillar into programmed approach. It forces member states to think what they want to achieve. Of course, implementation will be only marginally different. So, it is a small step but in the right direction, which was lost in the Ciolos reform. Mingling of the Pillar I and Pillar II is really excellent." [However], it was [still] extremely difficult to get this reform out of DG AGRI because you had so many opposing views who really did not want it and wanted to maintain status quo. (personal views of a DG AGRI official with many years of experience, 2019)

In light of this, it was perhaps a positive surprise that the Commission (2018b; 2018d; 2018c) even managed publish legal proposals for the CAP reform on 1 June 2018. In any case, the reform was to consist of three regulations: the CAP Strategic Plans Regulation[146] (SPR), the Horizontal Regulation[147] (HRZ) and the Amending Regulation, also known as the Common Market Organisations Regulation[148] (CMO). Annexes to the SPR proposal included financial

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[146] Proposal for a Regulation of The European Parliament and of the Council establishing rules on support for strategic plans to be drawn up by Member States under the Common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulation (EU) No 1305/2013 of the European Parliament and of the Council and Regulation (EU) No 1307/2013 of the European Parliament and of the Council.

[147] Proposal for a Regulation of The European Parliament and of the Council on the financing, management and monitoring of the common agricultural policy and repealing Regulation (EU) No 1306/2013

[148] Proposal for a Regulation of The European Parliament and of the Council amending Regulations (EU) No 1308/2013 establishing a common organisation of the markets in agricultural products, (EU) No 1151/2012 on quality schemes for agricultural products and foodstuffs, (EU) No 251/2014 on the definition, description, presentation, labelling and the protection of geographical indications of aromatised wine products, (EU) No

allocations by member states (The Commission, 2018d), in current prices. Interestingly, the direct payment envelope was now only 265 billion EUR[149], turning a 2.1% increase into a 5% cut. In any case, the most interesting and relevant of the three[150] proposed regulations was the first one. The SPR proposal's text included outlines of both the CAP's broad and the CAP's "specific objectives." The core idea behind the proposal appears to have been that the member state achieve those "specific objectives" through the use of interventions that they themselves draw up in their National CAP Strategic Plans (NSP). As the Commission (2018b, p. 2) itself noted in the explanatory memorandum of the proposal, with this new delivery model (NDM), it wants 'to shift the policy focus from compliance to performance, and rebalance responsibilities between the EU and the Member State level with more subsidiarity.'

Other parts of the SPR proposal contained a number of common requirements for CAP strategic plans, as well as components applicable to a variety of these interventions. The common requirements included adherence to broad principles such as non-discrimination, respect for the internal market, as well as compliance with WTO domestic support rules. The SPR proposal also contained an article which obliged member states to include a conditionality regime in their national CAP Strategic Plan (NSP). This conditionality regime prescribed that those farmers who receive direct- and/or other payments will be fined if they do not respect what was respectively called the Statutory Management Requirements (SMR) and the Good Agricultural

228/2013 laying down specific measures for agriculture in the outermost regions of the Union and (EU) No 229/2013 laying down specific measures for agriculture in favour of the smaller Aegean islands

[149] As opposed to 286 billion EUR, like it was in the Commission's (2018a) budget proposal.

[150] The proposal for the CAP's Horizontal Regulation (HRZ)—named so because its provisions affected "horizontally" all parts of the CAP—dealt with financial rules. In HRZ, the Commission was essentially proposing to update existing provisions to keep them compatible with what had been proposed in the SPR. As the Commission (2018d, p. 13) itself explained in the memorandum, HRZ meant 'a shift from assurance on legality and regularity of the underlying transactions to assurance on performance and the respect of EU basic requirements, like the Integrated Administration and Control System (IACS) or the governance bodies (paying agencies, coordinating bodies, competent authorities and certification bodies).' The proposal for the Amending Regulation (CMO)—named so because its provisions were amending what had previously been the Common Market Organisation Regulation (EU) No 1308/2013—dealt with agricultural goods (including wine), EU quality systems (geographical indications), and remote area support measures. Under the SPR proposal, interventions into these sectors were going to be included in the member states' strategic plans, hence the need for an amendment.

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and Environmental Conditions (GAEC).[151] The Commission was essentially proposing[152] to delegate important decision-making over who is eligible for the CAP monies to the member states.

The powers of the Member States were going to be limited somewhat by the fact that the SPR proposal also contained a list of intervention types that Member States were allowed to choose from when designing and executing their NSP. Furthermore, all member states had to submit their proposal for their own NSP to the Commission to be reviewed[153] and the Member States could not begin making payments before the Commission had approved the plan. What was conspicuously missing from the text, though, was any hint of what exactly would happen if a NSP submitted by a member state was not up to the task. Theoretically, the Commission could then reject it. But realistically, the Commission would only use this extreme recourse when the Member State had semi-intentionally distorted the objectives of the CAP and proposed some very ridiculous support measures in their plan – something no member state would do. A far more likely risk that the SPR text implied was a situation where a less ambitious member state was going to submit an intentionally opaque NSP that contained all the necessary parts. The SPR proposal was going to leave member states plenty of room to submit formally "approvable" but nevertheless half-empty National Strategic Plan.

In terms of structure, member states were supposed to draft their NSPs with three (new) components. The first component was to be the enhanced conditionality. Conditionality itself refers to a system where recipients of area- and animal-based CAP payments had to follow environmental and other relevant EU and national laws. More specifically, farmers were, firstly, expected to follow the statutory management requirements (SMR)—which applied to

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[151] According to the SPR proposal, those standards were to be drawn up in the national CAP Strategic Plan.
[152] See article 12 of the SPR proposal (The Commission, 2018b).
[153] See article 106 of the SPR proposal (The Commission, 2018b).

all farmers regardless of whether they collected money from the CAP—and, secondly, they were also expected to follow all the standards for good agricultural and environmental conditions (GAEC). Unlike with the SMR, adherence to the GAECs was compulsory solely for those farmers who wanted to the collect CAP support. All the GAEC standards and certain SMRs were of environmental nature – they were supposed to address challenges related to climate change, water, soil, biodiversity, and landscapes. Farmers who failed to respect SMRs and GAECs were to have their direct payments reduced—if they got caught.[154] Finally, the SPR proposal included the consolidation and streamlining of the 2014-2020 CAP and also the introduction of a stronger set of mandatory requirements, hence the name "enhanced" conditionality. That being said, the whole framework—like its predecessors in previous CAPs—was still built on the principle of the polluter-gets-paid-not-to-pollute.

The other two novel elements were the *eco-schemes*[155] in the first Pillar of the CAP and *agri-environment-climate commitments*[156] in the second pillar of the CAP. Features of these have been summarised by the Commission (2019a) as shown in Table 8.2 below.

Table 8.2: Eco-schemes and Agri-environment-climate commitments

	Eco-schemes	Agri-environment-climate commitments
Source of funding	Pillar I budget – without co-financing by Member States	Pillar II budget – with co-financing by Member States
Possible beneficiaries	Farmers	Farmers, other land managers (e.g., environmental NGOs)
Payments' link to land	• Payment per hectare • Land concerned must be eligible for direct payments	• Payment per hectare • Land concerned need not be eligible for direct payments
Obligatory/voluntary?	• Member States must make provision for them • Participation voluntary for farmers	• Member States must make provision for them • Participation voluntary for farmers and other potential beneficiaries

[154] They were potentially liable for other penalties too. However, member states seem to be reluctant to punish transgressors, except by taking away their direct payments.
[155] Article 28 of the SPR proposal (The Commission, 2018b).
[156] Article 65 of the SPR proposal (The Commission, 2018b).

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Nature of commitments	Annual (i.e., "one year at a time")	Multi-annual contracts (usually of 5-7 years)
Calculation of premia	• Compensation for additional costs / income losses arising from commitments concerned, OR • Additional payment to basic income support (no particular rules over premium level)	Compensation for additional costs / income losses arising from commitments concerned

Reproduced from the Commission's (2019a, p. 10) brochure.

At this point a question arises: to what extent was the modesty of the proposal, now that it was out, a reflection of the Commission's—more precisely those running the DG AGRI—own preferences and to what extent did they simply have to tailor it to the political reality facing them in the AGRIFISH? Interviews conducted for this thesis certainly point to the latter direction. A Handful of the Member States' representatives who held pro-reformist views were sceptical of the role of the Commission overall—and in particular, that of the DG AGRI—however, there was acknowledgement among these officials that compared to the Council (or, COMAGRI, for the matter), the Commission was a more progressive institution. And the modesty of the proposal was acknowledged even by the Commission officials themselves too. One high-ranking DG AGRI official explained that:

> We have 20 DGs [in the ISC], 14 of which made written comments on our proposals [for the CAP reform]. Whatever we want to do, there are limits in what we can do here. So, in that respect, [DG] *AGRI is not as—if you want—progressive as other parts of the house*—[as the] Commissioner would like to call us. (personal views of an high-ranking EC official, 2018)

The same official, however, immediately went on to emphasise that the lack of progressiveness of the DG AGRI within the Commission isn't actually that severe and, furthermore, that it should be put into a wider perspective of agricultural policy-making:

> But [AGRI] is still—compared to the other ministries—a force [that is going] to propose changes. And, I think, there are areas where we are underestimated. If you look at the analysis we have done, and the impacts of financial crisis [sic], it is much more advanced than other parts of the Commission. And there are parts of the house that are pretty open to

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> new ideas. But not all parts of the house. Its normal in bureaucracies. (personal views of an high-ranking EC official, 2018)

This lends further support to the hypothesis that it is not the Commission or even DG AGRI, but the agricultural bureaucracies of the member states—because of their internal bureaucratic politics—that stand in the way of a more ambitious reform of the policy.

Reactions

Criticism of the reform proposal started to pour in quickly from many directions. BirdLife (2018), for example, christened the proposal as 'CAP Greenwash 2.0.' Trees and Brunner (2018) attacked the proposal, firstly, for its insufficient ambition to protect the nature. Secondly, Trees and Brunner pointed out that the Commission is planning to allocate monies for what it calls climate spending but that these budget lines do not actually indicate the intention to spend the money on climate measures. For example, intensive livestock production or support to arable farming on peatland was also going to be considered as climate expenditure without any questions (an issue that had also been heavily criticised by the Court of Auditors (2016)). Other problems that Trees and Brunner (2018) saw with the proposal included the risk of the CAP becoming a free-for-all fund for the member states without the necessary accountability mechanisms; unclear objectives and indicators; not allowing member states to shift 100% of the direct payments money to rural development; no ring-fencing of budget for the mandatory eco-schemes—the only element of the proposal that Trees and Brunner (2018) seem to view positively.

Some economists, however, remained more cautious about these schemes. Using the public-money-for-public-principle, also discussed in the fifth chapter, as a basis to review the Commission's proposal, Heinemann and Weiss (2018b) came to the conclusion that

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> The eco-schemes have the potential to become the key vehicle for a public goods orientation of direct payments. Some specifications on the contents and spending shares of these schemes could offer a powerful lever to incentivize farmers to produce a verifiable quantity of public goods. If that opportunity is lost, however, Europe is about to waste a budget of €265 billion and spend enormous amounts of money for virtually nothing in terms of European added value. (Heinemann & Weiss, 2018b, p. 4)

Based on the fact that the SPR proposal was not ambitious and that it was viciously criticised for this by the green NGOs, one might mistakenly presume that it then must have been viewed rather favourably by the farm lobby. That could not have been further from the truth. Confirming the hypothesis that farmers never like any CAP reform proposals—no matter how favourable to them in any given political climate—the COPA-COGECA went on the offensive immediately, warning against any loss of farm earnings (Agra Facts, 2018). Representatives of European farmers' umbrella lobby called for the Commission to deliver genuine simplification of the CAP and to avoid renationalisation.[157] Representatives of the agricultural lobby argued that farmers' incomes should be protected. The Agra Facts (2018, p. 1) reports a lobbyist for the umbrella organisation asking the Commission to abandon 'any payment cap or degressivity.' According to the COPA's[158] President, Joachim Rukwied, farmers 'were very concerned' and strongly against the idea of reserving a significant amount of the Pillar I contributions for climate change objectives. According to the COPA's president, farmers' economic viability is critical in order for them to contribute more to environmental and climatic challenges. The COGECA[159] President Thomas Magnusson also declared his great worry about environmental performance criteria. Magnusson stated that environmental impact metrics must account for external variables such as climate change—which the COGECA President seems to have viewed as fait accompli rather than a problem to be tackled in the CAP—and pressures

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[157] This was very much in line COPA-COGECA (2018b) earlier position too.
[158] The Committee of Professional Agricultural Organisations (COPA) is one two organisations that collectively make up the COPA-COGECA.
[159] The General Confederation of Agricultural Cooperatives (COGECA from French 'Comité général de la coopération agricole de l'Union européenne') is the other organisation in COPA-COGECA.

resulting from predators. ‘We cannot accept that the bureaucracy for monitoring performance... has been devolved to farmers and forest owners,’ he was quoted saying in the Agra Facts (2018, p. 1). In sum, the agricultural lobby was—as hypothesised—hostile and since it was unable to provide constructive suggestions (not to mention alternative—politically feasible—proposals), it was marginalising itself from the start. It further did not help that there were strong divisions within the agricultural lobby about certain details such as ring-fencing.[160] Hence, the lack of progress could not really be traced to the rent-seeking activities of farm lobbies—although that is not due to their lack of trying.

In any case, when the outgoing COMAGRI adopted its opinion about the CAP reform April 2 2019, it included a number of amendments which added—among other things—a conservative bias reflecting recitals to the text. For example, the committee argued that:

> […] In view of the challenges faced by Union producers in responding to new regulatory requirements and a higher level of environmental ambition, against a background of price volatility and Union borders that are more open to imports from third countries, the *CAP budget should be kept at least at the same level as during the 2014-2020 period*. (COMAGRI, 2019, p. 6) (emphasis added)

In a similar vein, the MEPs also proposed adding another recital that would make it clear that small and family farms of Europe need to be specially protected. Therefore—or so the COMAGRI’s MEPs argued—the ‘CAP Strategic Plans should pursue through their specific objectives keeping the protection of this farming model’ (COMAGRI, 2019, p. 23). Altogether, these attitudes are consistent with past research by Roederer-Rynning (2015) and in the

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[160] Exposing some divisions within the farm lobby, President of the IFOAM, Jan Plagge—who represented the organic sector—decided to approach the issue from another angle! At first, he complained that the SPR proposal ‘will fail to incentivise more farmers to deliver public goods if a clear share of the budget is not ring-fenced for environmental action’ (Agra Facts, 2018, p. 1). The IFOAM’s President then predicted that ‘Member States will fall short of delivering if the new CAP does not explicitly prioritise the transition to sustainable agriculture by allocating funds for eco-schemes and agri-environmental initiatives.’ In other words, when it came to ring-fencing, agricultural lobbies were divided depending on whether their members—such as organic farmers for IFOAM—were likely to benefit from the ring-fencing or not (as would have been the case with all others). Finally, a FoodDrinkEuropea lobbyist went on to argue that ‘only a truly common agricultural policy can guarantee a strong and well-functioning single market’ (ibid) The food industry’s representative is quoted calling on the Commission to ‘play a strong role in the assessment, approval and monitoring of national CAP Strategic Plans’ (ibid).

interviews, the COMAGRI was seen by nearly all reform-minded officials and Member States' functionaries as a force of stagnation or even as a reactionary actor that would—if it could—walk back on past reforms. This view was held so strongly that one Member State official stated in the interview that 'the first stumbling block now is the European Parliament. They are really asking to increase the budget!' Another interviewee called the COMAGRI 'the biggest open door for lobbyists.' This official went on to illustrate the mentality of the COMAGRI using the Omnibus package—a series of technical improvements to the CAP, adopted in December 2017—negotiations as follows:

> We had proposals from the Parliament to basically kill greening right away. They would simply say "this is discriminatory" or they would say "too much burden," "let's increase the threshold from 10 to 15. Why do we have different thresholds?" It's an implication [to get rid of thresholds]. They would have all sorts of arguments just to water it down. They would say "farmers know best how to deal with the environment." (personal views of senior EC official, 2017)

The COMAGRI's conservative position can be largely explained by the make-up of this committee. According to research by Hyland et al. (2018), 25 of the COMAGRI's 46 members were themselves current or past farmers, stockholders in agricultural companies, had worked as lobbyists for agricultural lobbies, or had some other strong links to the farming sector. Another four MEPs in the committee had close ties to agricultural special interests through close family members who are farmers. And a similar, although preliminary, survey carried out by Matthews (2019) showed that at least 21 out of 48 COMAGRI members elected in May 2019 were also either themselves farmers or had represented agricultural special interest at some point during their professional careers.

Interestingly, while the vast majority of the interviewees perceived the EP Plenary to be more progressive than the COMAGRI—particularly if they had to place these actors on a scale on a paper—this difference does not appear to materialise in a progressive policy impact, and this was noted too. That is, most of the MEPs outside the COMAGRI appear to be too apathetic

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towards agricultural policy to challenge whatever comes out of the COMAGRI. One Member State official even summarised that the ‘plenary is the same [as the COMAGRI]. I have never seen plenary change laws on CAP. The COMAGRI is very influential. If they have the decision, plenary will accept it more or less.’

There could be a number of reasons why this is so. For example, it could be the case that the MEPs who don’t sit in the COMAGRI are not actually more progressive than those who do sit in the COMAGRI. In other words, perhaps the COMAGRI really is representative of the views held by the Plenary. However, this theory cannot be supported with data from the interviews. Alternatively, it could be the case that the Plenary is simply apathetic towards agricultural policy and other concerns, such as party discipline, govern the behaviour of MEPs who vote in favour of COMAGRI positions in the Plenary. However, this theory does not find support either. Instead, it is the lack of capacity for independent analysis that is seen as the primary cause as to why the Plenary has been unable to challenge the COMAGRI. One high-ranking EC official explains that while the Plenary has a research unit:

> In terms of doing evaluation studies and analysis, they don’t develop their own stuff. The best thing they do is [that] they send some money to some academics who do a cut-and-paste of an analysis that has been already done for us or for the DG [Joint] Research [Centre]. It’s not like in the US. [There,] the Congress, for example has this Congressional Research Service which is bipartisan and does pretty solid analysis. It has the Congressional Budget Office. […] They provided independent analysis that the other parts of the government didn’t like. […] They don’t have this in the [EU] Parliament. You don't have [it] in the Council and [not] even in the Commission, despite all the attempts to create something [like that]. (personal views of an high-ranking EC official, 2018)

This lends support to the hypothesis—discussed in detail in the theory chapter—that political entrepreneurs (in this case, the MEPs in the COMAGRI) are able to use the EU-level decision-making bodies to advance their own interests through transnational inter-bureau coalition. MEPs’ “bureaus” are, of course, very small. But the logic is similar in the sense that the *sui generis* institutional structure of the quasi-federal EU allows political entrepreneurs to push through (or block) policies in a way that is not possible in most other polities. The self-selection

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into those committees in the legislature that allow a political entrepreneur to best advance his or her own interests—which usually means converting legislative votes in that committee for campaign funding and electoral support in his or her constituency—is, of course, not unique to the EU.

At this point, it might be asked whether the COMAGRI is actually the one institution that holds more radical CAP reform hostage? Perhaps it is just like in the US where the support for the Farm Bill could be understood[161] through the lens of electoral politics and rent-seeking (political entrepreneurs elected to the Congress from rural constituencies in certain swing states exchange their support for the Farm Bill for the agricultural lobby's support for their re-election)? The answer to this would be that this is actually highly unlikely in the case of the European Parliament.

For one—as was discussed before—the most important legislation for agriculture is not actually the CAP, but the MFF. And the MFF is adopted not by COMAGRI, but with unanimity in the European Council and with a majority vote in the plenary of the European Parliament where there are a number of competing interests. Many members of the COMENVI, for example, would be happy to see the CAP funding diverted. The second reason not to view the COMAGRI as the most important force blocking radical reform has to do with its members' capacity to constructively participate in the legislative process. The Commission's DG AGRI has over a thousand employees and many larger member states have much more. For example, the French ministry of Agriculture and Food (2019) had over 36 000 employees in 2019. Obviously, not all of these employees work on the CAP reform. Nor do all the DG AGRI's employees work on the CAP reform either. However, it is quite clear that both the Commission services and member states' agricultural bureaucracies can put many hundreds of people to

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[161] See Schmitz et al. (2010; 2022) accounts of the US Farm Bill(s).

work on analysing and drafting of positions etc. But MEPs can recruit a maximum of three accredited assistants and, on average, have even less. Both the MEP and his or her assistants need to share the responsibility for all the other tasks—including work towards re-election—and they have to cover several policy areas depending on what committees the MEP sits on.

Hence, while the MEPs have "bureaus" and while these "bureaus" certainly create informal transnational inter-bureau coalitions—in fact, political groups in the European Parliament could be conceptualised as formally institutionalised transnational inter-bureau coalitions—they are not the kind that agricultural bureaucracies form in the SCA. Political groups of the European Parliament have few advisors of their own that they dedicate to work on different policy areas but altogether a number of qualified people that the COMAGRI members have behind them is dwarfed by both the Commission and the member states' agricultural ministries.

This means that the MEPs of the COMAGRI simply lack the capacity to deal with every aspect of the proposals put in front of them even if they are significantly better equipped than the Plenary. In particular, they often have to rely either on the Commission, on their native member state's agricultural ministry or on the agricultural lobby when it comes to the analysis, positions and even amendment drafting. Furthermore, while the political groupings in the European Parliament attempt to coordinate their votes, no member is obligated to vote in accordance with the group's advice. In sum, the lack of what might be called the deep-state capacity, combined with the fact that the COMAGRI adopts its position by mere majority vote, conservative and anti-reform bias of the MEPs sitting in the COMAGRI is less of an obstacle to a radical reform than conservative bias within national agricultural bureaucracies.

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The negotiations

At the 21 June 2019 meeting, the European Council picked Dr Ursula von der Leyen—who belonged to the Christian Democratic Union, a German member party of the EPP—for the job of the Commission's President. She subsequently decided to move the previous Farm Commissioner, Phil Hogan, over to trade policy, and she made an offer to become the Agricultural Commissioner to Janusz Wojciechowski from Poland. Although Wojciechowski had a legal background and had served several years as a Polish member of the European Court of Auditors, he had also been Vice-Chair of the COMAGRI between 2004 and 2016.[162] Wojciechowski, therefore, was quite close to the narrow agricultural policy-making community. And, as subsequent events showed, he had no intention to change the course taken by his predecessor.

The AGRIFISH Council watered down some of the provisions of the already modest initial reform of the Commission in the Council's "general approach"[163] towards the CAP reform package[164], adopted by the Council on 21 October 2020. The adoption of the "general approach" did, however, enable the German agricultural bureaucrats—who held the Presidency—to start trialogues with the European Parliament. Similarly, the European

162 Wojciechowski had worked as a prosecutor in communist Poland, eventually becoming a Judge at the High Court of Justice of Poland after the transition to democracy. He been elected to the Polish Parliament (Sejm) twice, being a member, firstly from 1993 to 1995 and, secondly, from 2001 to 2004. In his second time in the Sejm, he had become a deputy speaker. In the six years between these two, he had worked as the President of the Polish Supreme Audit Office. His connection to agriculture seems to have begun only when he was elected to the European Parliament in 2004 and ended up becoming the Vice-Chair of the COMAGRI.

163 The Council of the EU—in this case, the Council of Ministers responsible for agriculture and fisheries (AGRIFISH) usually adopts a so-called general approach towards legislative proposals put in front of them. This "general approach" essentially consists of all the amendments the Council would like to make to the legal proposal(s) and has to have the backing of qualified majority of the ministers. In other words, "general approach"—once reached—is the Council's position on the proposal(s). When ordinary legislative procedure is used and the Council is one of two—nominally equal—legislative chambers, "general approach" alone has no legal significance. However, in practice, the "general approach" is that position that the rotating Presidency goes to defend in the trialogues with the Parliament and the Commission.

164 General Secretariat of the Council (2020l; 2020j) on the Strategic Plans Regulation; General Secretariat of the Council (2020i) on the Horizontal Regulation and General Secretariat of the Council (2021b) on the Common Market Organisations.

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Parliament's plenary voted to approve its position the package[165] on 23 October 2020, without challenging the COMAGRI's proposed amendments put in front of them. The trialogues themselves began on 10 November 2020, with a joint meeting where co-legislators introduced their respective positions. Following this initial "super trialogue", subsequent discussions focused on individual dossiers. Frustrated with the Council's and with the COMAGRI's positions, the Commission's Executive Vice-President, Frans Timmermans, became, at some point, so furious that he threatened to have the whole CAP reform proposal withdrawn!

Recognising that the proposed legislation was 'an improvement compared to the current CAP' even though it fell 'below what the Commission has determined to be necessary', Timmermans eventually relented by nothing that 'I can still withdraw the proposal … but I would have to be sure that a new proposal stands a chance' (Timmermans cited in Agra Facts (2020a, p. 1)). The members of the EU's narrow agricultural policy-making community, however, knew that there was no way for the Timmermans and the rest of the College to be sure that any new proposal would stand any better chance of passing.

Where the watering down pressure was coming from was repeatedly shown in the AGRIFISH and SCA meetings. For example, during the AGRIFISH Council meeting on 22 March 2021, ministers voiced diverging opinions on the extent to which the Green Deal's and the Farm to Fork strategies'—both to be discussed in the next chapter—aims could be integrated into the NSP (Agra Facts, 2021a, p. 2). Several ministers requested that the European Commission conduct an impact study on the implications of tying these policies to the CAP. This was effectively an attempt to throw sand in the gears because by the time a thorough study was going to be complete, there was not going to be enough time left to actually include the results into the NSP. And, in the meantime, the previous period's CAP would have been continued

[165] European Parliament (2020a) on the Strategic Plans Regulation; European Parliament (2020b) on the Horizontal Regulation and European Parliament (2020c) on the Common Market Organisations.

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using the new MFF's funding. Concerning the New Delivery Model (NDM), agricultural ministers emphasised the need to give member states sufficient freedom in designing their interventions. Ministers also wanted simplification and a reduction in red tape. These are reasonable goals on their own but when put into context of the CAP Strategic Plans, these calls effectively meant watering down of requirements and divorcing subsidies from environmental and other performance. Numerous ministers opposed a two-tiered structure that would have incorporated both compliance and performance-based requirements.

The only notable—and even then, not particularly significant—compromise that the Council appears to have made happened at the 26 April 2021 AGIRIFISH meeting when most of the member states supported giving the Portuguese Presidency[166] a mandate for a compromise in the trialogues to increase the ring-fenced amounts for eco-schemes (a gradual increase, starting from a low 22% in 2023 and reaching a not particularly higher 25% in 2025). It was a compromise in comparison to the Council's general approach which did not foresee any ring-fencing of amounts (Agra Facts, 2021b). The Member States' agricultural bureaucracies had initially been very committed to budgetary flexibility because they were afraid that take-up eco-schemes—which are voluntary for farmers—might not be enough among farmers to spend the whole ring-fenced budget and this could result in the unused money being returned to the EU's budget (from their perspective, wasted)!

On 25 June 2021, the Portuguese Presidency reached a provisional agreement with the European Parliament in the trialogues (Agra Facts, 2021c). This was approved by the AGRIFISH Council on 28 June 2021. On 23 November 2021, the European Parliament's Plenary approved the compromise deal reached in June and the December 2021 AGRIFISH

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[166] The Portuguese Presidency of the Council of the EU lasted from 1 January 2021 to 30 June 2021.

Council formally adopted the reform package,[167] with the Slovenian Minister for Agriculture (Jože Podgoršek)—representing the Presidency[168] of the Council—triumphantly declaring that:

> After more than three years' hard work we have finally reached the finishing line. The new CAP that was adopted today marks a milestone in EU farming policy, setting the stage for a fairer and more sustainable future for European farmers. (General Secretariat of the Council, 2021a).

The outcome

The outcome of the process was most definitely not a radical reform. But how one evaluates these modest changes that the new legislation will bring—in effect, another "muddling through" reform—also depends on the benchmark used. Matthews (2021), for example, thinks that compared to a CAP reform that would create genuine incentives for and support farmers in transitioning to more sustainable agriculture, as specified in the European Green Deal, the final outcome certainly falls short. Officials in ministries of agriculture and MEPs in the COMAGRI continue to place a premium on the CAP's income transfer function and to do so at the cost of the critical need to address biodiversity loss and climate change. On the other hand, if the final outcome is compared to what the Commission (2018b; 2018d; 2018c) had initially proposed, then the new CAP is a 'mixed bag'. In a few instances, the Commission proposal has been improved but by and large, important provisions have been watered down. Finally, if the 2014-2020 CAP is used as the benchmark, then the new CAP does bring some incremental improvements by making the EU's agriculture slightly more effective, equitable, and environmentally friendly (Matthews, 2021).

The story of the 2021 reform of the CAP was, however, by no means complete. By the end of 2021, the Member States had submitted their NSP for evaluation to the Commission. The

[167] The reform package consisted of three regulations (The European Parliament and of the Council European Union, 2021a; 2021b; 2021c).
[168] The Slovenian Presidency of the Council of the EU lasted from 1 July 2021 to 31 December 31 2021.

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Commission (2022b) replied with “observation letters” on each of the 28[169] draft CAP Strategic Plans by the end of May 2022. The Commission stated that before it could approve the proposed plans, the member states had to provide further clarification or even change some parts of their plans. Hence, agricultural bureaucracies of the member states also had the right to argue back to the Commission by sending their “comments”, which were then published on the Commission’s website next to the observation letters themselves. As will be discussed in the next chapter on the Green Deal, many of the plans lacked ambition and suffered from other shortcomings. The Commission nevertheless adopted the first seven CAP Strategic Plans in August 2022 and the last one—the Dutch NSP—on 14 December 2022 (Agra Facts, 2022). However, to the best of the author’s knowledge, as of December 2022, no in-depth scientific analysis of NSP across all or most member states has yet been published.[170] Emil Erjavec summarised the situation in December 2022 that:

> it is too early to judge how far we are with strategic planning because it depends on which country you are coming from. We have very different plans. We have very different quality of plans. […] We have path dependency because funding is dependent on the previous funding distribution. And we have very weak intervention logic. (Erjavec speaking in a panel at the Commission’s (2022c) the Agricultural Outlook conference)

The scholar went on to question ‘how can we achieve the objectives with the settled measures?’

Chapter conclusions

The most important legislations determining the fate of European Union’s agricultural policy are actually not the CAP reforms themselves but the Multiannual Financial Frameworks (MFF), the most recent of which was adopted in 2020 for the period of 2021 to 2027. There

[169] There was one more NSP and, therefore, also one more observation letter than there are Member States in the EU because Belgium—a reflection of this country’s internal divisions—had two separate NSPs, one for Flanders and another one for Wallonia.

[170] There is some research on the CAP Strategic Plans themselves, though. As discussed in the next chapter, the Climate Action Network (2021) analysed the French, German, Spanish, Danish, and Irish plans and found that these member states were not going to meet the Green Deal goals on climate, energy and biodiversity.

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are a number of good reasons—discussed in more detail in the introduction of this thesis—why heads of governments might have wanted to shift all or most of the money from agricultural policy to other policy areas (or even to reduce the EU budget altogether at the expense of the CAP). However, in what lends confirmation to the intergovernmental bargaining failure theory, the first half of this chapter has shown how the regular MFF agricultural policy's budget survived everything from Brexit to the COVID-19 crisis almost unscathed.[171]

A number of partially inclusive hypotheses were tested and dismissed to pin down the cause of this stubborn persistence of the agricultural budget which—as the second half of the chapter showed—continues not to be disbursed according to the public-money-for-public-goods principle (although, as of writing in December 2022, the jury is partly still out when it coms to the CAP Strategic Plans). In particular, using the method of elimination, the resistance by agricultural lobbies, strength[172] of agricultural bureaucracies in national administrations, the power of the European Parliament and its Agriculture and Rural Development Committee (COMAGRI) and, finally, different policy preferences of high-ranking Commission officials were all cast aside.

What survived the testing was intergovernmental bargaining failure due to the "transactions costs" hypotheses. The litmus test for this hypothesis was the adoption of the NextGenerationEU (NGEU) in July 2020. This supplementary budget added another 750 billion EUR (in 2018 prices) to the 1 074.3 billion EUR regular 2021-2027 MFF. An extraordinary measure meant to stimulate the EU's economy and help it recover from the impact of the COVID-19 pandemic that struck the world in spring 2020, it presented a unique

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[171] Compared to the 2014-2020 MFF, the CAP budget for the 2021-2027 period *increased in current prices* from 375.5 to 386.7 billion EUR, representing a 3% increase. Compared to the 2014-2020 MFF, the CAP budget for the 2021-2027 *period decreased in 2018 prices* from 382.9 to 343.9 billion EUR, representing a 10% decrease due to inflation.
[172] Strength in terms of their influence on the MFF, not in terms of their influence on the CAP reform itself.

opportunity to study where heads of governments' policy preferences lie and what interest groups are powerful enough to capture some of this money.

In normal times, such an investigation would have been impossible because the Heads of State and Government of the net contributor Member States would have never consented to such a large increase in the EU's budget (because eventual need to finance the package would have negatively affected their member states' net budgetary position). But the forecasted depth and severity of the crisis changed the calculus, creating a natural budget negotiations experiment. What this experiment showed was that when "new money" was added to the EU's budget, the EU's leaders chose to add only 7.5 billion EUR to the agricultural policy's budget (representing just 1% of the NGEU stimulus package). This is nothing compared to the 31.3% of the 2021-2027 MFF that the European Council agreed to give to the CAP for the next 7 years.

The difference between the regular 2021-2027 MFF and the NGEU outcomes—in terms of the CAP money in them—cannot be explained by any peculiar features of the CAP (direct payments are actually pretty efficient in delivering Keynesian stimulus, especially if capping and regressivity are employed) or the items that ended up in the NGEU (the latter included many projects and programmes that have a worse spending-to-GDP ratio or spending-to-jobs ratio than the CAP). The difference between the regular 2021-2027 MFF and the NGEU outcomes—in terms of the CAP money in them—can, however, be explained by the fact that in the case of the latter, the Heads of State and Government making up the European Council (and finance ministries' officials behind them) could not use the threat of the veto to protect the *existing* net budgetary balance of their member state vis-à-vis the EU budget. In case of the regular 2021-2027 MFF—and like previous MFFs—any head of government could block the adoption of an MFF if—because of restructuring of the budget and shifting of funds to new policy priorities—his or her member state's net budgetary position weakened substantially.

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With there being no—at least quasi-objective or logical—distribution key that would allow the regular MFF's budget to be restructured in a way that no member states' net budgetary position would worsen (or, at least, worsen only within a narrow margin of tolerable pain determined by the price of the use of veto for the head of government employing it), regular MFFs have extremely strong conservative bias built into them. Negotiations over the MFFs basically always have to start with the previous period's budget. However, while the adoption of the NGEU also required unanimity in the European Council, the only thing a dissatisfied Head of State and Government could do here was to block it from being adopted, thereby preventing NGEU monies from being disbursed.

The agricultural lobbies rent-seeking hypothesis was eliminated because if agricultural lobbies really were that powerful then, presumably, that would have enabled them to secure a significantly higher share of the NGEU's budget than 1%. The most important reason why agricultural lobbies were not able to capture a higher share is that farmers are actually few in numbers and in most member states they are actually politically marginal from the perspective of the Head of Government. It further did not help that the farmers were divided among themselves—organic vs non-organic, big vs small, etc.,—and that they had always been defensive and hostile to any budget cuts. Self-serving agricultural bureaucracies of the member states' national administrations posed somewhat of a greater challenge. They lobbied hard, both to maintain the CAP's budget in the MFF—producing and signing declarations to that effect—and they put effort into securing a slice from the NGEU too. However, again, if they really had such vast power over the CAP's budget in the regular MFF that they could capture 31.3% of it then, surely, this power would have manifested itself in the NGEU too. If not with the same percentage at least with a substantially higher percentage than 1%. Instead, the heads of governments cut—against the wishes of ministries of agriculture but with the backing of their

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ministries of finances—the Commission's initially proposed 15 billion EUR of additional money in the NGEU down to 7.5 billion.

As for the European Parliament, its COMAGRI members certainly would have preferred to see a higher CAP budget, both within the MFF and within the NGEU. But the EP's plenary—or at least its centrist majority—is more concerned about the overall size of the budget than it is in the agriculture's envelope. This manifested itself in the EP's initial position on the MFF that called for significantly higher total budget than what the European Council preferred (and with it, more funding also for the CAP). However, the negotiations revealed that for various reasons, the EP is in a weaker position than the European Council. For example, because the EP's plenary gives its consent to the MFF with a majority voting.

Last but not least, it was clear that the Commission is not the custodian of agricultural spending either. For one, the Commission initially proposed a lower regular MFF budget than the one that was eventually adopted. Secondly, from interviews conducted for this thesis, it has also emerged that at least some higher-ranking Commission officials—including quite a few in the DG AGRI itself—acknowledge problems of the CAP and accept its budget might be used more efficiently elsewhere. If it was politically feasible to do so, the Commission would propose a budget that would cut the CAP's envelope. The reason it did not do so has to do with pragmatism: the Commission officials do not propose budgets or legislations that have no chance to survive the legislative process.

In any case, the second most important pieces of legislation determining the fate of agricultural policy in the EU are predictably the CAP reform proposals, [173] the last of which were formally adopted as regulations in late November 2021.[174] As discussed earlier, the core idea behind the

[173] The reform package consisted of three regulations (The European Parliament and of the Council European Union, 2021a; 2021b; 2021c).
[174] They will be fully implemented only from 1st January 2023.

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2021 reform of the CAP—if it can be called a "reform"—is that the member states draft their national CAP Strategic Plans (NSPs) where they list their planned interventions and then submit this for an approval to the Commission and then, pending the Commission's approval, execute the plans with the EU money (fully, in the Pillar I and with varying degree of the national top-op in the Pillar II). The CAP reform, as it was adopted in 2021, most certainly does not constitute radical reform as it was conceptualised in the 5th chapter. Public money for public goods will *not* be the guiding principle of this policy after 2023 either.

The process started to go wrong from the very beginning. While the inception impact assessment published by the Commission in 2017 contained a "no policy" scenario, this was neither sincere nor sufficiently elaborated to qualify as a genuine radical reform proposal. Even before the Commission published the reform proposals in 2020, member states agricultural ministries used forums like the Special Committee of Agriculture (SCA) and the Agriculture and Fisheries Council (AGRIFISH) to signal their desire to retain some conservative features of the 2014-2020 CAP. The Commission took note of these preferences and came out with a proposal for the CAP reform that was very modest in ambition. In the negotiations that followed, the Commission attempted to defend its proposal while both member states' agricultural bureaucracies and the MEPs in the COMAGRI attempted to water down provisions. As was discussed in the chapter, the final outcome ended up somewhere between the three institutions' positions – perhaps tilting slightly towards the Council's position. In many ways, the die had been cast already when the Commission had come out with its communication paper, titled 'the Future of Food and Farming' in November 2017. When the reform proposal came out in June 2018, it was already too late for a radical reform.

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Chapter 9: European Green Deal initiatives and the EU's agricultural policy

> Our goal is to reconcile the economy with our planet, to reconcile the way we produce and the way we consume with our planet and to make it work for our people. Therefore, the European Green Deal is on the one hand about cutting emissions, but on the other hand it is about creating jobs and boosting innovation. I am convinced that the old growth-model that is based on fossil-fuels and pollution is out of date, and it is out of touch with our planet. The European Green Deal is our new growth strategy – it is a strategy for growth that gives more back than it takes away. (von der Leyen, Press remarks by President von der Leyen on the occasion of the adoption of the European Green Deal Communication, 2019b)

The failure to radically reform—at least within the conceptualisation laid down in fifth chapter—Europe's agricultural policy from within the traditional EU's agricultural policy setting and also through the MFF negotiations raises the question: what about attempts to reform it from the outside[175] of the tight-knit community of agricultural policy-makers and beyond the unanimity-voting-rule budget? Indeed, there have been—or, rather, there are—several notable initiatives to do that. Firstly, there is the overarching European Green Deal (GD), a flagship initiative of the von der Leyen Commission—unveiled in December 2019—a plan to make the EU's economy sustainable. The annex to the Deal contains—what the Commission calls—an 'action plan' to (1) 'boost the efficient use of resources by moving to a clean, circular economy' and (2) 'restore biodiversity and cut pollution' (The Commission, 2019c). The annex of the Green Deal lists numerous initiatives, several of which—at inception—looked as if they may end up having a pivotal impact on the CAP. One, however, in particular, stands out: a promise by the Commission to scrutinise draft National Strategic

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[175] 'Outside' in the sense that the authors of the Green Deal did not belong to the relatively small and exclusive circle of agricultural policy decision-makers in the middle and top layers of the DG AGRI, COMAGRI, and the member states' ministries of agriculture. The Commissioners making up the leadership of the Commission (including President von der Leyen) are, by no means, outsiders to the EU politics. The Commissioners come from national politics—having served there as ministers or even as heads of governments—and they need the support of their member state of origin for reappointment to the Commission for the next term. Commissioners are sensitive to the sentiments of the European Council. However, they are outsiders from the perspective of the narrow agricultural policy-making community of national officials in the ministries of agriculture or even the DG AGRI.

Plans (that member states have submitted to the Commission for approval as part of the CAP strategic plans regulation). Another initiative mentioned in the annex of the Green Deal is the Farm to Fork strategy (F2F). This strategy aims to make the EU's 'food systems fair, healthy and environmentally-friendly' (The Commission, 2020a). It has an annex of its own, containing the list of 27 planned sub-initiatives. It could be considered, at least partly, an outside intervention as it is led by the DG SANTE and not by the DG AGRI. Perhaps the most important of 27 sub-initiatives of the F2F was the Commission's plan to give recommendations to each Member State about how the latter should write their National Strategic Plans (NSP).[176] Thirdly, there is the Commission's (2020h) Biodiversity Strategy. Last but not least, there is also the sustainable finance taxonomy, an attempt by the EU to 'direct investments towards sustainable projects and activities'. In its core, the EU taxonomy is a classification system codifying economic activities according to their environmental sustainability. The draft of the first delegated act of taxonomy—published in November 2020—included a proposal to codify agricultural practises. As explained in more detail below, this act could have had a significant effect on agricultural policy-making in the future. However, agriculture was eventually removed from the draft of the act altogether due to intervention by the member states' agricultural bureaucracies.

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European Green Deal

Ursula von der Leyen—who was chosen and endorsed by European Council as a sort of a compromise candidate for the President of the European Commission on 3 July 2019, after three day-long haggling by the Heads of State and Governments and approved only narrowly

[176] A note of clarification is probably due here: The Green Deal includes the Commission's plan to scrutinise whether the National Strategic Plan drawn up by the member state will help to deliver the Green Deal's goals while the Farm to Fork initiative includes the Commission's plan to give recommendations to the member states about how to compose such a Strategic Plan that it will pass the aforementioned scrutiny.

by the European Parliament on 16 July 2019—choose or, at least, eagerly approved the choice of fight against climate change has the flagship initiative of her Commission. What eventually became known as the European Green Deal was prepared in secrecy, with most of the Commission services not being told about the content, or at least not being told until very late. As previous chapters have shown, anything ambitious have to prepared in secrecy to avoid early mobilisation against the initiative. Hence, the Green Deal had a promising start. In any case, when finally unveiled with big fanfares on 11 December 2019, the Communication on the Green Deal probably raised more questions than it was intended to answer. As will be highlighted below, the Green Deal undoubtedly set ambitious targets for the EU and her member states. In the document, von der Leyen team laid down the aim to:

> transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. (The Commission, 2019c, p. 2)

Perhaps more relevantly for the CAP reform process, the Deal also:

> aims to protect, conserve and enhance the EU's natural capital, and protect the health and well-being of citizens from environment-related risks and impacts. At the same time, this transition must be just and inclusive. (The Commission, 2019c, p. 2)

The strategy itself however remained very vague about how exactly these ambitious aims are going to be achieved. What in retrospect arguably turned out to be a big mistake, von der Leyen's team had decided to leave the drafting of more specific operational targets—and also instruments to pursue these targets—to be drawn up in the future in sector-specific strategies. The annex to the Green Deal Communication contained a list of several dozen initiatives, covering planned actions in diverse areas such as the climate ambition, energy, circular economy and the EU role in the world. Unfortunately—albeit probably inevitably—the

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existence of a myriad of different and sometimes competing initiatives in the Green Deal also means that there are serious internal inconsistencies.[177]

The Green Deal initiative most relevant to the CAP reform was the Commission's plan to examine the draft national CAP Strategic Plans—discussed in the 8th chapter—to verify that these plans do, in fact, help to achieve the goals of the Green Deal. Theoretically, this could have given an impetus to the 2021 CAP reform by forcing member states to take the Green Deal seriously in the CAP Strategic Plans. However, this was by no means the only action the Commission had planned within the Green Deal that was potentially going to have tremendous impact on agricultural policy-making. Next in line were the Farm to Fork strategy; EU's biodiversity strategy; measures to deliver on the increased climate ambition; carbon border adjustment mechanism and last but not least, the renewed Sustainable Finance Strategy (SFS)—also known as the taxonomy—for classifying environmentally sustainable activities. However, as will be shown in the following pages, none of the initiatives have lived up to expectations—at least when it comes to their impact on agricultural policy—nor are they expected to do so in the future. There are, of course, a number of reasons why the Green Deal has failed or is poised to fail to have meaningful pro-reform influence on the EU's agricultural policy.

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National CAP strategic plans in the Green Deal

Contrasting the essentially non-reformist CAP post 2020 legislative proposals (The Commission, 2018b; 2018d; 2018c) with the previously quoted Green Deal objective of

[177] For example, if the EU is going to increase agricultural output to produce inputs for renewable energy production, then this might help the EU to meet its climate change goals but—at the same time—it may jeopardise achieving environmental goals set out in the biodiversity strategy. And the reverse is also true. The call for the use of more environmentally friendly practices such as extensive—as opposed to intensive—grazing of animals will mean an increase in methane emissions.

prosperous of a society that does not emit GHG, it becomes clear that major changes would have been necessary if the post 2020 CAP was ever going to have the chance to deliver on the objectives. In this context, the Commission's President and her team should have been much more concrete and specific if the Commission's desire to reform CAP in a way that would align it with the goals of the Green Deal was sincere. In regard to the examination of the draft National Strategic Plans (NSP), the Commission promised to:

> ensure that from the outset the national strategic plans for agriculture fully reflect the ambition of the Green Deal and the Farm to Fork Strategy. The Commission will ensure that these strategic plans are assessed against robust climate and environmental criteria. These plans should lead to the use of sustainable practices, such as precision agriculture, organic farming, agro-ecology, agro-forestry and stricter animal welfare standards. By shifting the focus from compliance to performance, measures such as eco-schemes should reward farmers for improved environmental and climate performance, including managing and storing carbon in the soil, and improved nutrient management to improve water quality and reduce emissions. (The Commission, 2019c, p. 12)

The Commission also made it clear that NSP had to cover how member states were going to reduce the usage of pesticides, chemicals and antibiotics and deal with the risks associated with antimicrobial resistance and pollution. Furthermore, the Deal also foresaw the increase of area under organic farming. What was crucially missing from the Commission's nice elaboration was, however, an enforcement mechanism. What if the member states still try to greenwash? How will the Commission enforce Green Deal? What was the legal status of the Commission's recommendations to the member states?

The Green Deal communication offered spoilers that the F2F was going:

> strengthen [farmers'] efforts to tackle climate change, protect the environment and preserve biodiversity. The common agricultural and common fisheries policies will remain key tools to support these efforts *while ensuring a decent living for farmers*, fishermen and their families. The Commission's proposals for the common agricultural policy for 2021 to 2027 stipulate that at least 40% of the common agricultural policy's overall budget and at least 30% of the Maritime Fisheries Fund would contribute to climate action. (The Commission, 2019c, p. 12) (emphasis added)

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The fact that the von der Leyen team had decided to reiterate farm income objective and the fact that only 40% of the CAP budget was going to be dedicated to climate action was not a very promising sign, at least from the radical reform perspective. First off, by reiterating the farm income objective of the CAP, von der Leyen's team was essentially sending a signal that the Commission was not willing to expend political capital to the issue even if doing so might *eventually* free up hundreds of billions of euros to pursue the goals of the Green Deal. This was surely noted in the agricultural ministries in national capitals.

Secondly, earmarking 40% of the CAP budget for climate action was a somewhat more complex matter, however. For one, money was earmarked for climate action. There was no mention of environmental policy goals. This is important because pursuing environmental policy goals is not the same as pursuing climate goals.[178] If the other 60% of the budget had been earmarked for pursuing environmental actions and if this earmarked money was actually going to be used to deliver environmental public goods (that is, without greenwashing), then that would have constituted a radical reform[179] (at least according to Pe'er, et al. (2020) conceptualisation discussed in the 5th chapter). However, that was not the case. There was earmarking of the budget only for climate actions. Furthermore, the communication did not try to address the question: when is an action performed by a farmer a contribution to climate action? In other words, the Green Deal communication left unaddressed one of the biggest complainants levied against the 2013-2020 CAP, namely that budget of the CAP was being greenwashed. Does the fact that a farmer already complies with cross-compliance requirements mean that the whole or part of the direct payment that is paid to him or her is payment for

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[178] Guyomard et al. (2020, p. 15), in a report written for the EP, emphasise this by pointing out that 'sound impact assessments of any policy option are crucial in order to identify possible trade-offs between different climatic and environmental objectives.'

[179] From a theoretical perspective, the exact proportions of the budget allocated between environmental and climate goals are not central here. 50-50 and 40-60 could both be justified allocations. Furthermore, there are many actions with contribute to both goals, albeit asymmetrically. What matters here is the fact that 60% budget is not expected to contribute.

climate action? Without any guidance, what was going to prevent member states from greenwashing[180] the CAP budget again as they had done in the 2013 reform?

The Farm to Fork strategy

Perhaps it could be excused that the very broad Green Deal communication itself did not contain specific provisions that would have brought about radical reform of the CAP. The Green Deal communication did make it clear that agricultural policy will be addressed in the Farm to Fork strategy that was unveiled—together with the Biodiversity strategy—on 20 May 2020, two months after the initially planned publication date, delayed due to the COVID-19 pandemic. The Commission's (2020m) 'A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system' (F2F) enumerated six goals for the EU and its member states. Firstly, ensuring that the food chain has a neutral or positive environmental impact. Secondly, ensuring food security[181]. Thirdly, encouraging sustainable food processing, wholesale, retail, and hospitality activities. Encouraging sustainable food consumption and easing the transition to healthy, sustainable diets is the fourth objective. Fifth, reduce food waste and loss. And lastly, preventing food fraud across the food supply chain. Besides these general goals, the F2F also contained five specific targets that were spelled out numerically:

1. reduction of chemical pesticides use by 50%,
2. at least a 50% decrease in nutrient losses, with no degradation of soil fertility,
3. at least a 20% decrease in the use of fertiliser,
4. 50% decrease in the *sale* of antimicrobials for farm animals and aquaculture, and

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[180] On greenwashing in the 2013 reform, see Erjavec, Lovec, & Erjavec (2015).
[181] The definition of 'food security' is a contentious issue with multitude of definitions (see Maxwell (1992; 1996) for discussion of conceptual issues). In the Farm to Fork strategy, the Commission (2020m, p. 4) appears to have defined food security as a state where everyone has 'access to sufficient, nutritious, sustainable food that upholds high standards of safety and quality, plant health, and animal health and welfare, while meeting dietary needs and food preferences'.

5. an increase of land under organic farming so that 25% of total farmland is being used for organic production.

What echoes through these goals is a shift[182] of focus from traditional agricultural politics of farm income problem to other parts of the food chain and to other aspects of the food production. In particular, looking at the Annex to the strategy that contains a list of 27 "concrete actions"—in fact legislative or other initiatives—it becomes clear that most of them are under the jurisdiction of the Directorate-General for Health and Food Safety (DG SANTE) and not the Directorate-General for Agriculture and Rural Development (DG AGRI). For example, the list of "concrete actions" includes a legislative action to revise the Sustainable Use of Pesticides (SUD) Directive to drastically cut pesticide use and risks. Other "concrete actions" included—among other things—setting restrictions on the marketing of high-sodium, high-sugar, and/or high-fat foods, and EU-level waste reduction targets. These and many other "concrete actions" that the Commission is planning are going to have a significant impact on farmers. For example, reducing pesticides and fertilisers or going organic will, ceteris paribus, end up impacting yields—and therefore also farm incomes—negatively.

"Concrete actions" of the F2F are, however, all regulatory in nature. Restricting the use of pesticide or fertiliser use is going to have a redistributive effect. Farmers are going to get lower yields and therefore lose some income. Food processors and also the consumers may end up facing higher prices because of lower yields.[183] But this is seen as an acceptable cost for society to deal with market failures in environmental protection and in the struggle against climate

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[182] This shift from purely agricultural policy towards what could be called "food and agricultural policy" has also been recommended by some academics and thinktanks (see Parsons, Hawkes and Wells (2019) at the Centre for Food Policy, De Shutter et al. (2019), Recanati et al. (2019), WBAE-BMEL (2020) or Schebesta and Candel (2020).

[183] In case of organic production, current organic producers are going to face income decline if the drive to increase land under organic production results in the growth of organic production out pacing the growth of demand for organic food. That being said, increased subsidies for organic production might partially or entirely offset this income loss.

change. Nevertheless, these F2F regulatory fixes—meant to address one or another market failure—do not address the fundamental problem that the bulk of the CAP budget is not spent according to the public money for public goods principle, elaborated on in length in the 5th chapter. Therefore, the only "concrete action" in the F2F that could have potentially impacted the direction of the CAP post 2020 was the Commissions intention to give[184] specific recommendations to each member state on how the latter should draw up their national Strategic Plan (NSP).

Unfortunately, the member states' agricultural ministries made it clear long before the issuing of the recommendations that they were not going to accept any meddling into their Strategic Plans. The Commission introduced the F2F and biodiversity strategies to agricultural ministers on 8 June 2020 at the High-Level Video Conference.[185] In the exchange that followed the Commission's presentation, Austrian minister for Sustainability and Tourism Elisabeth Köstinger summed up the feeling in the room by cautioning that the CAP reform process must not be 'overruled by the new strategies' (Agra Facts, 2020b, p. 3). Several member states' ministries of agriculture moved into action. On 19 June 2020, the Visegrád Group (the Czech Republic, Hungary, Poland, and Slovakia), Bulgaria and Romania signed a joint declaration to address the F2F and related strategies. These six Central and Eastern European member states—all net beneficiaries of the MFF and the CAP budget within it—argued that:

> [s]pecific recommendations of the Commission in relation to the requirements of the Farm to Fork and EU Biodiversity Strategies should *only serve as a guidance document* helping Member States throughout the planning process and should not influence legally the formal approval of the strategic plans. (General Secretariat of the Council, 2020e, p. 7) (emphasis added)

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[184] For obvious reasons, the Commission intended to give member states these recommendations before the drafts of the CAP Strategic Plans were going to be formally submitted by the member states.
[185] High-Level Video Conference (HLVC) was a name given to the Council—in case of agricultural ministers, AGRIFISH—meetings held online during the COVID-19 pandemic.

As the likely publication of the Commission's recommendations to the Member States and also the adoption of Council Conclusions on the F2F by the Member States drew closer in autumn 2020, activism of the member states' agricultural bureaucracies began to grow too. On 11 September 2020, the Presidency of the Council—which, in the second half of 2020 was held by Germany—shared the first draft of the Council Conclusions with the member states. It should be noted here that the Council Conclusion on the non-legislative documents[186] such as communication on the F2F are not legally binding. In other words, they are merely a signal to the Commission and other institutions such as the EP on what the member states are thinking. However, because Council Conclusions require unanimity in the Council, the signal they send when they are adopted is very strong.[187] In the first draft of the Council Conclusions, the German Presidency had pointed out that:

> the Commission's forthcoming recommendations on how to address the objectives of the Farm to Fork Strategy must give due consideration to the diverse national conditions and respective needs assessments of the Member States. [The Council] Stresses that such recommendations – even *if they are not legally binding* – provide Member States with additional guidance which they can take into account when drawing up their national CAP strategic plans. (General Secretariat of the Council, 2020f) (emphasis added)

The Council Conclusions then went through three revisions in late September and early October 2020. It could be argued that these German Presidency drafted conclusions were not very forceful to begin with. '[D]ue consideration to the diverse national conditions and respective needs' of the Member States is often a euphemism for asking derogations. But even the relatively weak text was too much for some member states who made respective editing

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[186] When the Council adopts Council Conclusions on legislative documents (such as the three regulations that make up the CAP post 2020 reform package) these Council Conclusions become one of the columns in the infamous 4-column document that is used in trialogues to find compromise between the Council, the European Parliament and the Commission, with positions of the latter two institutions also forming one column each (the final column being left for compromise text). However, as the Communication on Green Deal is not a legislative document, there are no trialogues and three institutions are or left with their positions (the Commission's position being text of the Communication itself and the Parliament adopting its own position).
[187] If the Council cannot reach consensus about one or another issue, the Presidency can only issue Presidency Conclusions, which obviously carry much less weight than the Council Conclusions which have tacit acceptance or explicit endorsement of all Member States.

proposals. To add weight to their feedback and to put more pressure on the Commission, ministers of agriculture of the Visegrád Group, the Baltic States and Romania, Bulgaria, Croatia and Slovenia signed another joint declaration in Poznan on September 28 (General Secretariat of the Council, 2020g). Agricultural ministries of these 11 member states[188] went on to complain, firstly that the Multiannual Financial Framework (MFF)—agreed on 21 July 2020 by the heads of governments, including their own—'does not guarantee sufficient level of financing for this important EU policy, having in mind in particular the importance of the CAP contribution in achieving ambitious EU objectives, including ongoing negotiations on the CAP reform' (General Secretariat of the Council, 2020g, p. 5).

While the MFF negotiations had still been going on, it had often been difficult to tell whether statements like the Poznan declaration were calls to maintain the CAP funding or calls to water down requirements or both. In this case—with the MFF already agreed upon—it was clear that in the eyes of the 11 agricultural ministers from the net beneficiary member states who supported the declaration, consistency between the funding of the CAP and the Farm to Fork goals was to be reached by bringing F2F targets in line with what national ministries thought feasible within the given MFF budget constraint. The above mentioned joint declaration certainly had an effect on the German Presidency. After digesting the member states' agricultural ministries' feedback through three revisions of the draft Council Conclusions, the German Presidency finally settled with even weaker wording, merely pointing out that:

> the future CAP Strategic Plan Regulation and the Member States' CAP Strategic Plans will be able to contribute to the greening of the CAP and thus to *some of the objectives* envisaged in the F2F Strategy. [The Council] Welcomes in this regard that the future CAP is expected to strengthen the principle of subsidiarity and give due consideration to the diverse national conditions and respective assessments of Member States' needs, and [the Council] looks forward to the Commission's forthcoming *non-legally-binding recommendations* which

[188] Compared to the July joint declaration (General Secretariat of the Council, 2020e), which was signed by the so called V4 (Poland, Czechia, Hungary, and Slovakia) plus Romania and Bulgaria, the Poznan joint declaration was also signed by Estonia, Latvia, Lithuania, Croatia and Slovenia, bringing the total number of signatories to 11 member states.

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> *may serve* as additional guidance for the elaboration of the strategic plans. (General Secretariat of the Council, 2020h, p. 11) (emphasis added)

This lends support to the hypothesis put forward in the third chapter that if members of the narrow agricultural policy-making community hold agricultural exceptionalist views, then this would be evident also in the in the policy documents from these meetings.

The Commission, or more precisely, the DG AGRI—not wanting to make recommendations that would be dead in the water—certainly took note of the mood in the Council. Explaining the link between the CAP reform and the Green Deal to the COMAGRI on 1 December 2020, Farm Commissioner Wojciechowski commented that 'the Commission will not recommend quantitative targets to the member states' (Multimedia Centre of the European Parliament, 2020). Instead, the Commission was going to 'ask member states to set national values for each of those targets' (ibid). The Commissioner promised to the MEPs that the Commission will 'aggregate the national values at the time of approval and modification of the CAP Strategic Plans and assess whether they are able to meet the European Green Deal ambition' (ibid). There was no mention of what would happen if national targets chosen by the member states do not add up to the EU level target that would allow fulfilling the Green Deal goals.

This watering down pressure emanating from the AGRIFISH did not go entirely unnoticed. The fact that member states may end up taking radically different approaches was also picked up by some members of the COMAGRI, who noted that there was a danger of renationalising the policy, with some member states gaining comparative advantage on the internal market due to a more lenient application of the F2F. That did not change the Commission's mind. When the Commission (2020i) finally issued the recommendations on 18 December 2020, they ended up containing no radical suggestions. The annex to the overall document did contain reference values for the quantified Green Deal targets (against which progress could be measured). But the recommendations—about 15 for every member state—themselves tended to be so generally

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worded that ultimately everything is going to depend solely on the goodwill of the ministries of agriculture who have to interpret them.

The Commission (2020j)—in its own assessment of the ties between the CAP and the Green Deal—did not try to quantitatively evaluate[189] whether the post 2020 CAP can help the EU achieve the climatic and environmental goals and targets of the Green Deal related to food and farming. Relying solely on a qualitative analysis, the Commission arrived at the conclusion that:

> the CAP reform proposal is compatible with the Green Deal and its associated strategies such as the Farm to Fork Strategy and the Biodiversity Strategy, and that it *has the potential* to accommodate the Green Deal's ambitions. (The Commission, 2020j, p. 21) (emphasis added)

However, more recent qualitative analyses by Climate Action Network (2021)—which had been carried out with the benefit of trialogues in a much more advanced stage and the member states having prepared first drafts of their Strategic Plans—have shown that this potential to accommodate the Green Deal's ambitions is highly unlikely to materialise. When the Climate Action Network (CAN) analysed the National Strategic Plans (NSP) of France, Germany, Spain, Denmark, and Ireland in their 33-page long report titled 'Will CAP Strategic Plans help

[189] In fairness to the Commission, it would have been a Herculean task to quantitatively evaluate whether the post 2020 CAP can help the EU to achieve the climatic and environmental goals and targets of the Green Deal, particularly in early 2020 when the Commission (2020j) released its assessment – back then the CAP post 2020 negotiations had not yet even advanced to the trialogue stage. But what makes this task really challenging is the multitude of—sometimes conflicting—objectives in the Green Deal and uncertain elasticities between policy instruments and outcome of their use. Combined with unintended consequences that pursuing one or another Green Deal goal with a set of policy instruments entails, it would be close to impossible to use, say, general equilibrium modelling to arrive at confidently accurate values.
Interestingly, this has not stopped some other actors from trying. For example, a group of scholars doing research for the United States Department of Agriculture (USDA) found that input reductions proposed in the Green Deal would reduce agricultural output in the EU between 7% and 12% and that the Green Deal would reduce competitiveness of European farmers both on the domestic and export markets. These scholars further found that if the F2F, biodiversity and related strategies would be carried out to the letter then this would increase worldwide food prices between 9% (if only the EU adopted Green Deal goals) and 89% (if there was global adoption). In the USDA commissioned scholars' calculations, this would negatively affect consumer welfare, and eventually shrink worldwide societal welfare between $96 billion and $1.1 trillion. The exact impact would mostly depend on how widely other countries would adopt and carry out the Green Deal (Beckman, Ivanic, Jelliffe, Baquedano, & Scott, 2020, p. i). The problem with this USDA study, however, is—as the authors themselves admit—that it does 'not provide any information about the potential benefits and costs to the environment and human health' (2020, p. iv).

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deliver much needed climate action?', the CAN found that—by and large—these member states were not going to meet the Green Deal goals on climate, energy and biodiversity. What is perhaps most interesting about the CAN (2021) analysis is that it showed a large gap between what was needed and what was planned in member states that are usually known for going beyond lip-service when it comes to climate and environmental commitments. For example, the Climate Action Network found that Denmark—which, due to intensive livestock farming, has significantly higher GHG emissions from the agricultural sector than the EU averages—is not planning any reduction of livestock emissions in the Danish government's SWOT (strengths, weaknesses, opportunities, & threats) analysis which will be the basis for Denmark's Strategic Plan. Ironically, this is perfectly in line with the Commission's recommendations to Denmark which are mute[190] when it comes to specific numerical targets for the livestock sector or otherwise (The Commission, 2020k). In general, this outcome supports the hypothesis put forward in the third chapter that the members of the narrow agricultural policy-making community are able to use institutions such as the AGRIFISH and the SCA to water down reform attempts that are incompatible with their agricultural exceptionalist views.

The Biodiversity strategy

As mentioned earlier, the Commission (2020h) unveiled the 'EU Biodiversity Strategy for 2030: Bringing nature back into our lives' together with the F2F strategy in May 2020. The goal of this Green Deal initiative is to protect nature and reverse the loss of biodiversity. The number of numerical goals were identical to those of the F2F strategy. The only additional numerical target with a potentially significant impact on the farming sector was the requirement

[190] The Commission merely recommended Denmark (2020k, p. 6) to 'improve air quality, in particular by reducing ammonia emissions from the livestock production, by means of requirements and schemes supporting sustainable management practices.'

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to have 10% of the total agricultural area under high-diversity landscape features. Furthermore, while the introduction of landscape features certainly is a measure that could potentially help to reduce or, perhaps, even reverse the trend of decreasing biodiversity, the Commission's target is too vague to guarantee proper implementation.[191] As with the F2F strategy, member states' willingness to implement the target as the authors of the strategy intended—which might mean conflict with farmers who do not like being told how to run their farm—might vary a lot. Furthermore, failure to comply by farmers would result in the CAP funds ending up unspent. This is something that not only agricultural ministries but also finance ministries would like to prevent from happening.

The taxonomy of sustainable finance

Another—and in terms of research into the EU's agricultural policy, somewhat overlooked—initiative related to green transition is the renewed Sustainable Finance Strategy (SFS). Based on the recommendations of the so-called High-Level Expert Group[192] (HLEG) on sustainable finance, the Commission (2018e) had—already back in 2018—drawn up an action plan on financing sustainable growth. The Green Deal gave impetus to this process. Merely a week after the launch of the Green Deal, the European Council and the European Parliament struck an agreement on the formation of a "green list" of economic activities. This list, commonly

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[191] To illustrate this problem, one can imagine a farmer who has a single farm field of, say, 100ha^2. Without more detailed rules, this farmer could concentrate all his landscape features into a single "island" in the middle or even in the corner of his field, possibly setting aside up to 10ha or 10% of his field for this purpose. Although the formation of this "landscape features island" would be an improvement over the status quo, this is very likely not what the Commission officials at DG ENVI had in mind when they proposed the measure. Concentrating landscape features into a single point is economically efficient (at least in the short to medium term) for the farmer doing this as he can utilise the rest of his field, free of hindrance. But for, say, birds, the field might look more like a "green desert" with an unreachable "oasis" somewhere on the horizon.

[192] The HLEG was comprised of twenty prominent specialists from civil society, the financial industry, academia, international organisations and the EU bodies.

The group was asked to guide the Commission on how to (a) direct public and private investments towards sustainable projects, (b) make the financial system more resilient towards environment and climate related risks and (c) adopt these policies on a European-wide scale.

known as the EU taxonomy, is an attempt to fight greenwashing of investments with an EU-wide system of classifying sustainable economic activities. The outcome of the aforementioned political agreement—reached on 18 December 2019—was the Taxonomy Regulation for climate change mitigation, which was adopted on 18 June 2020 (The European Parliament and of the Council European Union, 2020).

The Taxonomy Regulation itself provides only a very general description of what constitutes a "green" economic activity. The Commission had decided to fill in the details in delegated acts to be adopted in the future. To that end—after the Taxonomy Regulation itself had been enacted—the Commission began working on the first delegated act with an exuberant intent to adopt it already in late 2020 or early 2021 at the latest. The goal of the first delegated act—as the title suggests—is to establish:

> the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to *climate change mitigation* or *climate change adaptation* and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. (The Commission, 2020l, p. 1) (emphasis added)

In total, the Commission had planned to adopt six delegated acts under the Taxonomy Regulation. Annexes of the first draft (published on 20 November 2020) of the first delegated act contained screening criteria for 9 different economic activities, covering virtually every sector from manufacturing to energy to transport etc.[193] As will be discussed below, screening criteria for agricultural enterprises were also included in the annexes of the first draft of the first delegated act but removed in a later draft.

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[193] Nine sectors for which technical screening criteria was supposed be established—according to the first draft—of the first delegated act were: 1. Agriculture and forestry; 2. Environmental protection and restoration activities; 3. Manufacturing; 4. Energy; 5. Water supply, sewerage, waste management and remediation; 6. Transport; 7. Construction and real estate activities; 8. Information and communication; 9. Professional, scientific and technical activities (The Commission, 2020n).

Before the politics of the agriculture's removal from the first delegated act can be discussed, a brief explanation of its importance—and that of the Taxonomy Regulation in general—is due. To begin with, the Taxonomy Regulation actually has only three mandatory uses:

- large companies[194] that are subjected to the Non-Financial Reporting Directive (NFRD) have to follow the Taxonomy Regulation's disclosure requirements. In other words, they have to disclose information about how much of their activities meet the taxonomy's screening criteria,
- financial market participants[195] who are subjected to the Sustainable Finance Disclosure Regulation (SFDR) have to follow the Taxonomy Regulation's disclosure requirements when selling financial products. In other words, they have to disclose information about how much of their portfolio is made up of investments that meet the taxonomy's screening criteria, and
- the Member States and the EU public bodies have to follow the Taxonomy Regulation when creating national labels and standards for financial products and corporate bonds that are advertised to investors as "environmentally sustainable" (read: „green").

This means that the Taxonomy Regulation or its delegated acts with the technical screening criteria in their annexes alone do not compel any farmer—or any other enterprise, for the matter—to actually change any of their practices. Even in terms of reporting, there are not that many farmers in the EU who employ more than 250 people. Hence, the legislation appears—at first glance—to have little relevance for the agricultural sector. This, however, is deceptive.

But why is the Taxonomy Regulation so important then? There are broadly two reasons to believe that the Taxonomy Regulation and its delegated acts may become the third most

[194] Large company is defined in the Non-Financial Reporting Directive (NFRD) as one that has more than 500 employees.
[195] Banks, portfolio managers and mutual funds etc.

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important piece of legislation affecting the sector after the MFF and the CAP reform itself. The first reason why it became important was the far-reaching indirect effect it would have had on agricultural producers' access to finances, at least in the long run. The purpose of the Taxonomy Regulation is to direct financial flows into green investments by forcing financial market participants to disclose the true extent of their green investments. Once information becomes public, there will be certain pressure on financial intermediaries to increase the share of green investments in their portfolio at the expense of uncategorised investments. How big this pressure will be is, of course, debatable and will depend on many factors that are beyond the scope of this thesis to discuss. However, given the general trends in public opinion, there certainly will be some pressure. Depending on the extent of this green pressure, financial intermediaries might start to price their financial products differently depending on whether the object of the transaction qualifies as green under the EU's screening criteria or not.[196] However, it would have also meant that farmers would have had to prove to their banks that their farming practices were not doing any significant harm to the climate and the environment (or that they are even contributing to climate change mitigation or adaption) and they would have to do so according to the EU's taxonomy screening criteria. That is, proof that they meet the CAP's cross compliance requirements are not enough. Needless to say, farmers are not keen on the prospect of having to pay more for their financial services.

The second—and perhaps even greater—reason as to why the EU's taxonomy might become so pivotal in the future is that taxonomy is meant to be used as basis and reference for future legislative activities. Justification given to the Taxonomy Regulation in its preamble 16 specifically states that:

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[196] For example, mortgages for energy efficient houses might carry lower interest rates than those of less energy efficient houses. Alternatively, it would be more expensive to lease a vehicle that burns fossil fuels than to lease an electric vehicle.

> *A classification* of environmentally sustainable economic activities at Union level should enable the development of future Union policies in support of sustainable finance, including Union-wide standards for environmentally sustainable financial products and the eventual establishment of labels that formally recognise compliance with those standards across the Union. *It could also serve as the basis for other economic and regulatory measures.* […] (The European Parliament and of the Council European Union, 2020, p. 16) (emphasis added)

Essentially, the fear among farming lobbies and agricultural bureaucracies in national ministries has been that once the taxonomy is compiled and includes agriculture, there will be temptation to start referring to it in future CAP reforms – just like the above cited preamble calls for. Agricultural lobbies and agricultural bureaucracies in the member states knew from where the wind was blowing and that the next—CAP post 2027—reform will probably be co-decided in the European Parliament with the COMAGRI and COMENVI having equal responsibility for the reform. If taxonomy becomes widely adopted in other economic sectors as a "gold standard", a question inevitably arises: why not use taxonomy screening criteria in the CAP too? Of course, even if such a proposal was made, it is far from certain that it would pass during the CAP post 2027 reform and even if the general principle is adopted, the member states are probably going to negotiate important derogations in the use of taxonomy criteria. However, agricultural exceptionalists[197] in the national ministries and farmers' lobby would be fighting an uphill battle in such a scenario having to justify every derogation.

As earlier reforms have shown, the most important decisions that give general direction to the process are always taken long before the reform proposal is published. After the proposal is published, various parties of the co-decision procedure then try to pull and bend the proposal to their liking. However, the Commission always makes its proposal in a way that it can see where the potential compromises might land. In the past, this has meant making proposals that take into account inclinations of the member states and the COMAGRI, leading to the outcome that the principle of public money for public goods has never prevailed. Taxonomy could have

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[197] In Skogstad's (1998, p. 467) earlier cited definition.

ended up presenting a break in this. Unlike the CAP post 2020 reform proposals—which were prepared by the DG AGRI with the aforementioned calculation in mind—screening criteria for agriculture in the first delegated act of the Taxonomy Regulation was drawn up by outside Technical Expert Group (TEG) with little to no[198] input from national ministries of agriculture or the COMAGRI. With the TEG taking the lead and drafting the key provisions for the DG FISMA and indirectly for Commissioner Timmermans, the Executive Vice President for the European Green Deal and European Commissioner for Climate Action, the taxonomy is both an intervention from outside and from above of the narrow agricultural policy-making community.

A promising start

In a process parallel to the adoption of the Taxonomy Regulation itself, the Commission began working on technical screening criteria in spring 2020. Amid the COVID-19 crisis, the Commission hosted an online stakeholder dialogue on 12 March 2020. At this conference, the final report of the Technical Expert Group[199] (TEG)—not to be confused with earlier mentioned High-Level Expert Group (HLEG)—was presented. The TEG's report contained a thorough set of technical specifications detailing when various economic activities contribute significantly to climate change mitigation or adaptation (Technical Expert Group, 2020). It was then up to the Commission—or more precisely, to the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA)—to turn these recommendations into a legal proposal. The author of this thesis is not aware of what kind of

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[198] Of course, it cannot be asserted with certainty that the TEG members did not leak their drafts to some member states' officials or other stakeholders and that the TEG members did not change their proposal according to the feedback received from officials or other stakeholders. However, given the timing of the reaction of member states' agricultural officials to the draft of the first Delegated Act, this appears unlikely.
[199] The TEG is made up of 35 members from civil society, academia, industry, and the financial sector, as well as a small number of other members and observers from EU and worldwide public entities (Technical Expert Group, 2020).

backroom lobbying efforts the Commission was subjected to in this period, but presumably lobbying by the Member States and special interests' groups must have been intensive. However, these lobby efforts may not necessarily have been focused on agriculture. This is so because the first delegated act was going to touch so many sensitive subjects in so many economic sectors that—as far as member states were concerned—officials from ministries of finance probably had more pressing issues—from whether nuclear energy is green or not to when exactly forestry contributes to climate change mitigation—on their plate. The second reason to think so is that many member states' officials and main agricultural lobbies seem to have been taken by surprise by the content of the first draft of the first delegated act.

Overall, the draft of the first delegated act of Taxonomy Regulation had within it the potential to *pave a way for* radical reform of the CAP. The essential management practices listed in the annexes[200] I and II of the first delegated act—although complex—did reflect the Green Deal's ambitions. These annexes proscribed stricter climate and environmental rules than those that can be found in the CAP's cross-compliance, even after the 2021 reform. Act's main contribution was its independent approach to defining farmers' contribution to climate change mitigation and climate change adaptation. The absence of such clear criteria has long been a problem. Activities that mitigate climate change or help with climate change adaptation are—due to the positive externalities—public goods that farmers could potentially provide.

By defining how farmers could actually provide certain public goods at an individual farm level, the draft of the delegated act had made it theoretically possible to easily discriminate between those farmers who do provide the public good and those who do not. Until the taxonomy, farming was supposed to contribute as a whole with individual farmers being given direct support through the CAP regardless of whether their holding actually contributes

[200] Annex I contained screening criteria for climate change mitigation while annex II deals with climate change adaptation (The Commission, 2020n).

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anything or not. The 2021 CAP reform has not altered this. Like the CAP of the past, it is stuck in a tragedy-of-the-commons problem in terms of climate change mitigation.[201] And it is for this reason that taxonomy could have—at least theoretically—end up playing a pivotal role in the CAP reform in the future if a proposal is made that all farmers receiving direct support should also "contribute significantly" to climate change adaption and/or mitigation or, at least, "do no significant harm" according to the screening criteria of the taxonomy. If such a proposal is made in the future then this would—unlike the "greening" of the 2013 reform—actually lead to a change of practices among many farmers. Furthermore, the taxonomy's Farm Sustainability Plan (FSP)—or, more precisely, its requirement that farmers measure their holdings' GHG emissions—would have demonstrated that measuring GHG emissions at the farm level is actually technically feasible. This demonstration would have made it easier for reform-minded political entrepreneurs to propose the inclusion of agriculture in the Emissions Trading System (ETS) However, as of writing in December 2022, any impact that taxonomy may have on the CAP in the future is purely theoretical because *agriculture ended up being removed from the draft of the first delegated act*. The following section explains how this development came about.

Not so fast

As mentioned earlier, the Commission (2020n) published the first draft of the first delegated act on 20 November 2020. Its content as well as the manner in which it had been arrived at, caused shock—and perhaps even minor panic—among agricultural lobbies and in many

[201] This is so because bulk of the money distributed through the CAP is given to farmers regardless of whether their *individual farm* actually contributes to CAP's climate goals or not.

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member states' agricultural ministries. The COPA-COGECA's reaction was telling. The COPA-COGECA voiced concern—in a draft of their feedback dated to December 3–that:

> recommendations drafted by the TEG, which are de facto translated into regulatory measures by the delegated act, represent not only a challenge from the usability point of view for MS and agriculture and forestry sector but also *an unprecedented attempt to put criteria into force that set a new policy in parallel with the Common Agricultural Policy (CAP)* and its provisions in regards of conditionality and greening requirements. Copa and Cogeca consider that a disproportionate approach had been used to set specific targets for these sectors [..]. (COPA-COGECA, 2020, p. 2) (emphasis added)

Europe's farm lobby had a number of other procedural or content-specific criticism to offer too. For example, the COPA-COGECA claimed that the aforementioned TEG 'lacked technical and legislative knowledge of the agriculture' when it prepared the report which the DG FISMA turned into the draft of the legislation (ibid). But was it the harsh criticism coming from the COPA-COGECA that eventually led to the decision by the DG FISMA to remove agricultural criteria from the first delegated act? Arguably no.

Instead, the explanation appears to lie, firstly, in several member states' agricultural ministry's ability to use their institutional autonomy within their own member state to propose amendments (over the heads of finance ministries) that would have effectively defeated the purpose of the taxonomy. This seems to confirm Nugent's (2010) general observation about EU decision-making that:

> [a]t the national decision-making level, ministries of agriculture have traditionally tended to be slightly apart from mainstream policy processes […] making it difficult for 'outside' decision-makers to offer an effective challenge or alternative to what is presented to them (Nugent, 2010, p. 355).

In this specific case—as explained in more detail below—member states' officials from ministries other than agriculture ended up uncritically or naively enabling the proposed amendments made by national ministries of agriculture in more agriculturally exceptionalist inclined member states. Secondary explanations include lack of interest and/or willingness by officials in finance ministries—who held the overall responsibility of representing their

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member state—to challenge their colleagues in agricultural ministries and to escalate the issue when problems were being highlighted by the Commission.

The draft of the delegated act was first presented to member states' officials in the Member States Experts Group on Sustainable Finance (MSEG SF) on 26 November 26 2021. This group—which had been regularly convening since 2018 when the Commission drew up an action plan—had thus far consisted mainly of experts from national ministries of finance, supplemented by experts from financial supervisory authorities and by experts from ministries responsible for the environment and for the economy. Despite the fact that a wide range of very important non-agricultural topics were discussed in the MSEG SF and there were only limited number of seats—five—per national delegation with demand for seats exceeding available ones, agricultural ministries seemed to have bargained one for themselves in most member states. This changed the game. Already in the first MSEG SF meeting in late November where the Commission was merely presenting the first draft of the delegated act, a number of member states—including France and Italy—voiced a concern that the proposed screening criteria were unsuitable for small farmers. The Commission's officials from DG FISMA tried to defend the proposal by pointing out that small farmers are not subjected to the Taxonomy Regulation (although nothing prohibits small farmers from voluntarily certifying themselves) but that did not do much to pacify anxious officials from the ministries of agriculture (Estonian Ministry of Rural Affairs, 2020a).

In the next MSEG SF meeting on 12 December 2020, the Commission representative had to concede that the Taxonomy Regulation was going to have indirect effect on small producers too (by changing the behaviour of financial intermediaries). Some member states' representatives from ministries of agriculture also raised the issue of future use of the taxonomy criteria, bringing up the earlier cited preamble 16 of the Taxonomy Regulation (cited earlier). This put the Commission in an uncomfortable position as the only thing the Commission could

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say—without prejudicing future legislations, including the CAP reforms post 2027—was that the CAP 2021-2027 proposal (which, at the time, was still being negotiated in trialogues) included no reference to the taxonomy and that any proposal that is made in the future to use the taxonomy criteria in the CAP will have to go through the normal co-decision procedure (Estonian Ministry of Rural Affairs, 2020b). In the co-decision procedure, the Member States and the European Parliament would have the right to make amendments and the right to vote it down. But this answer did not satisfy the agricultural bureaucrats of many Member States. As non-agricultural parts of the delegated act were also very contested,[202] the Commission officials were becoming increasingly afraid that the Member States and the EP (albeit not necessarily for the same reasons) might vote the whole delegated act down[203] if the Commission was going to proceed with the initially planned adoption in late December 2020 or early 2021. The adoption of the delegated act was therefore postponed. The official reason given was that the Commission needed more time to analyse the feedback received from the public consultation that had been held from late November to mid-December 2020 and had garnered over 46 000 responses from a wide variety of stakeholders.

The postponement of the adoption, however, gave agricultural ministries in the member states a comfortable amount of time to plan and coordinate their actions. Croatian agricultural bureaucrats took the lead by adding the Taxonomy Regulation as Any Other Business (AoB) point to the Special Committee on Agriculture (SCA) agenda. During the SCA meeting on 12 January 2020, several member states raised concerns that taxonomy criteria was going beyond the criteria established in the CAP. What followed lends strong confirmation to the

[202] To mention just one issue, many member states saw problems in the forestry management.

[203] It should be clarified here that the MSEG SF merely has an advisory role. The Commission can adopt delegated acts unilaterally. However, once the Commission has adopted the act, both the European Parliament and the Council have two months to raise objections. If either the Council with qualified majority or the Parliament with majority of its members votes down the act, then it is rejected. The threshold to block a delegated act is therefore higher than in the case of other regulations because qualified majority (in the Council) or simple majority (in the EP) is required for rejection—as opposed to adoption—of the legislation.

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transnational inter-bureau coalition hypothesis put forward in the theory chapter. By mid-January 2021, both Austrian and French ministries responsible for agriculture had taken upon themselves to propose amendments to the delegated act. There were some differences between these two sets of amendments. For example, Austria proposed the deletion of the establishment of the earlier mentioned farm-specific Farm Sustainability Plan (FSP) with the justification that the information required by the FSP is too technical and too complicated to be evaluated and supplied at a holding level and by producers themselves. Austrians furthermore argued that there was no robust methodology to assess the overall emissions or carbon sequestration of an agricultural holding. In addition to this, Austrians also proposed the deletion of the yearly record keeping. Most importantly, Austrians proposed that farmers ought to be considered in compliance with the technical screening criteria of the delegated act if they were already in compliance with the 2014-2020 CAP (then still in force). The Austrian ministry of agriculture was also active in its outreach to other member states. In the end the Czech Republic, Estonia, Finland, Croatia, Hungary, Latvia, Slovenia, and Sweden also joined Austria in proposing these amendments. The French did not join the Austrian initiative, probably because they wanted to come forward with their alternative amendments. The French proposal did not include any deletions but similarly to the Austrian proposal, aligned the taxonomy's screening criteria with the CAP. Other differences being that French amendments were somewhat more elegantly crafted and already referred to the CAP 2021-2027 regulations' paragraphs that were at the time still being negotiated in trialogues. But the central thrust of these amendments was that a farmer participating in an eco-scheme in Pillar I of the CAP would have been a-priori qualified as someone doing no significant harm, while a farmer participating in agri-environmental measures in Pillar II of the CAP would have been qualified as someone contributing substantially to climate change mitigation and/or adaptation.

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The crucial thing to note in regard to both the French and the Austrian amendments is that, had they been accepted by the Commission, these amendments would have effectively forfeited the technical screening criteria of the delegated act. By legislating equivalency between compliance with the CAP and the delegated act's technical screening criteria, no link between individual farmer's action and his or her green credentials would have been established. Furthermore, this workaround or by-pass would not have been limited to small farmers whose inability to handle complex bureaucracy had been brought up as a justification during the MSEG SF meetings.[204] Large farmers would have also benefited from this by-pass. Essentially, member states' amendments would have allowed farmers to claim that they do no significant harm to the climate or that they even contribute significantly to climate change mitigation without actually reducing their GHG emissions (and possibly even when on-farm emissions had increased). From the perspective of member states who drafted or supported these sets of amendments, both the French and Austrian proposals would have also solved the issue of the taxonomy being used as a reference in future CAP reforms. If the taxonomy criteria are the same as those in the CAP (through legal equivalence) then it would not make sense for anyone to propose—in a hypothetical CAP post 2027 debate—that farmers should fulfil taxonomy's criteria to receive direct support payments. Agricultural bureaucrats would have preventively fended off outside intrusion into their jurisdiction.

In a MSEG SF meeting held in late February 2021, the Commission made a last-ditch attempt to defend agricultural screening criteria. For example, the Commission announced that it was looking into the possibility of a group of farms to sharing responsibility of verification

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[204] The Commission did not see this as justified criticism, arguing that small farmers do not need to become legal experts because an appropriate software or app could be developed to help them. With the app, the farmer will answer a few questions that will give data input and then the app tells whether he or she complies or not and if not, what he or she still needs to do to qualify.

(Estonian Ministry of Rural Affairs, 2021a).[205] This would have partly solved the issue of verification being administratively too burdensome for any individual small farmer to take up. However, the Commission representative also made it clear that the Commission is seeking to strike the right balance between simplification of the criteria and making sure that the link with science and the taxonomy's ultimate alignment with the Green Deal is not broken. In this regard, the Commission made it clear that while the Commission recognises that agri-environmental schemes in the CAP indeed make farming more sustainable—in a general meaning of this term—, these schemes in the CAP are nevertheless not sufficiently focused on climate change mitigation. Therefore, criteria used in CAP support schemes were not viewed by the Commission as sufficient to demonstrate that a farmer's contribution to climate change mitigation can be delivered. The Commission also emphasised that during the public consultation, they received a lot of criticism for not going even further. For example, there had been several campaigns to tell the Commission via public consultation that the livestock sector—or at least industrial livestock activity—should be excluded from the taxonomy as an activity that can never be "green".

And then the expediency returned – at least for the Commission. By mid-March 2020, fragile compromises were being reached on questions concerning other economic sectors. In the end, DG FISMA decided not to jeopardise the adoption of the first delegated act (Estonian Ministry of Rural Affairs, 2021b). Therefore, all sections concerning agriculture were simply removed from the second and last draft of the first delegated act (published on March 21). The Commission adopted[206] the Taxonomy Climate Delegated Act on 21 April 2021 without

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[205] For the unknown but probably relatively small number of small farmers who might actually pass the screening criteria or who would change their practices to do so, the taxonomy would have posed administrative challenges as highly complex technical screening criteria used—a necessity to avoid greenwashing—is difficult to navigate for anyone but specialists.

[206] The formal adoption of the first Delegated Act by the Commission took place on 4 June 2021 when all the language versions were made available in the *Official Journal of the European Union*. This, however, was not the end of the story. Due to political sensitivity of two other economic activities—nuclear energy and natural gas—

agricultural criteria. The Commission explained that this was done because the CAP negotiations were still ongoing, and it was therefore decided that it was best to 'remove the criteria on this occasion for agriculture activities from the Delegated Regulation in order to achieve greater coherence across the different instruments to achieve the environmental & climate ambitions of the Green Deal' (Agra Facts, 2020c, p. 4). The Commission did promise that a further delegated act will include farming (ibid) but did not give any deadline.

The COPA-COGECA, of course, welcomed the decision to postpone the inclusion of agriculture into the taxonomy as 'pragmatic and consistent'. The General Secretary of the COPA-COGECA at the time Pekka Pesonen went on to 'call for a swift inclusion of agriculture in the taxonomy delegated act after the adoption of the CAP providing that we will get an equivalence with the CAP and the proposed criteria' (COPA-COGECA, 2021). As of writing in December 2022, it is too early to tell whether the Commission is going to stick to its promise and bring agriculture back to the taxonomy in a complementary Delegated Act – the Commission (2021b) missed to meet the promised deadline of late 2021. However, in general, this outcome supports the hypothesis put forward in the third chapter that the members of the narrow agricultural policy-making community are able to use institutions such as the SCA to form transnational inter-bureau coalitions and block or water down any reform attempts that are incompatible with their agricultural exceptionalist views.

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left out by the Commission, several member states with vested interests in these activities decided to hold the whole Delegated Act "hostage" by requesting further time to review it before raising (or not raising objections) to the adoption. These member states lifted their reservations when the Commission's leaked non-paper—itself built on the EU's Joint Research Centre's (JRC) recommendations—indicated plans to add both nuclear power and natural gas into the taxonomy later. This allowed the Delegated Act to be finally published in the official journal in early December 2021.

Chapter conclusions

Although—as of writing in December 2022—the final outcome is too early to tell on some parts, the EU Green Deal and its sub-initiatives mark a major missed opportunity. Unlike the MFF, the legislative proposals that make up the Green Deal are not subjected to unanimity decision-making. Hence, the most important obstacle to a radical reform discussed at length in the previous chapter has not been present here. Furthermore, unlike with the CAP, the most important decisions were not made in the narrow confines of the traditional agricultural policy-making community.[207] Yet, the Green Deal's ambitions were watered down in the legislative process. The Farm to Fork initiative's suggestions for the member states' National Strategic Plans of the CAP ended up lacking teeth. Taxonomy regulation did not set standards that could have been used as a basis for future CAP reforms or as a demonstration that the GHG emissions could be measured at the farm level. Instead—and in part due to scheming by the member states agricultural bureaucrats in the SCA—agriculture was left out of the taxonomy altogether. But what are the theoretical lessons from the story of watering down of the Green Deal ambitions?

Firstly, if interventions from outside and/or above the narrow confines of the traditional agricultural policy-making community are going to have a chance to radically reform the CAP, those contemplating the interventions need to keep their project from the purview of the national ministries of agriculture for as long as possible. Outside and/or top-down reformers need to be willing to invest political capital into the process. They have to resist the pressure to delegate to the traditional narrow agricultural policy-making community – something von Der Leyen's Commission did not do in the case of agriculture and the Green Deal. Outside and/or top-down political actors who only issue broad guidelines or loose goals that leave a lot of room for interpretation will not succeed.

[207] In the case of the CAP, the only group outside the traditional agricultural policy-making community with any meaningful power was the European Parliament's plenary.

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Secondly, outside and/or top-down reformist policy actors have to keep the hand on the pulse throughout the process. Green Deal initiatives such as the scrutiny of the National Strategic Plans (NSP) by the Commission offer a great example of how—in every stage of the process—initially great ambition drops until the original goal is nearly completely hollowed out or until agriculture is removed altogether, as it happened in the taxonomy. What these experiences also teach is that in many member states agricultural ministries have too much autonomy. Furthermore, their isolation—in terms of paradigmatic thinking—from other government bodies in these member states means that they will use their autonomy to impede any radical reform or manoeuvre to kill such an effort off altogether. Hence, for now, the narrative presented above supports the hypothesis that the members of the narrow agricultural policy-making community utilise venues like the SCA to form transnational inter-bureau coalitions, which then impede reform efforts incompatible with their agricultural exceptionalist perspectives.

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Chapter 10: Conclusions and future research

> We have institutional and budgetary constraints. It is difficult now to move. We would really need—let say—a decision from the higher level. The heads of states have to say at one point of time, "it is enough, we do a real policy reform and we accept to lose some budget." And it is only heads of states who could say something like that. For ministers of agriculture, I mean, it is suicidal. If he says that he agrees to a reform where he loses 50% budget, he cannot go home. (personal views of an agricultural functionary from a Western European member state, 2017)

This dissertation set out to study why the European Union's agricultural policy is so resistant to radical reform. Agricultural economists, various environmental NGOs and even the EU's own Court of Auditors have all been sharply critical of the EU's Common Agricultural Policy, on which the EU is going to spend—on average—55 billion EUR a year in the 2021-2027 period. Agricultural spending consumes 31.31% of the EU's regular budget (also known as the Multiannual Financial Framework (MFF)). The majority of this money is used to support farmers' incomes using what are known as the direct payments. Past reforms, particularly the MacSharry reform of 1992 (discussed in the 6th chapter) and the Fischler reform of 2003 (discussed in the 7th chapter), have certainly changed the CAP. Other, more minor reforms have also brought some improvements in the environmental performance of the EU's agricultural policy. However, none of the reforms of the CAP have been radical enough to do away with the rent granting core of the policy. Reforms have merely changed who pays for the CAP as there has been a shift of burden from consumers to taxpayers as a result of the 1992 and 2003 reforms.

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Summary

The subsidisation of agriculture in developed economies is not necessarily something unique to the EU. The standard explanation in the political economy literature is that the existence of rents in agriculture can be explained with special interest capture of policy-makers. Authors such as Schmitz et al. (2022, p. 36) have advanced exactly this theory, presenting ‘traditional arguments about why governments intervene in an economy and how rent-seeking activities can lead to paths that are not supported by the theory of optimal government intervention.’ Indeed, the rent-seeking theory provides a compelling explanation for the creation and persistence of agricultural policies in North America and several other polities (Gardner B. L., 1987; Rausser, 1992) where the first-past-the-post electoral system (FPTP) can empower small groups in marginal constituencies. Similar attempts have been made to expand the theory to the EU’s CAP too.[208]

However, a closer examination of the matter indicates that “traditional arguments” relying on the “usual suspects” do not actually work very well in the case of the EU’s farm policy. The main problem for the rent-seeking theory is that the empirical evidence does not support the premises that the “usual suspects”—farm lobbies—are powerful enough to capture the decision-makers, at least at the supranational level in the EU and in the post-1980s era.[209] The main problem for the agricultural lobby has been that they tend to be hostage to their most militant members and they, therefore, keep making politically infeasible demands. Empirical chapters show the “muddling through” types of reforms of the CAP that have taken place—starting with the MacSharry reform in 1992—have all passed despite the vocal opposition of the agricultural lobbies. This is not to say that they are completely powerless. But empirical evidence does not back the thesis that agricultural lobbies are strong enough to prevent reforms of the CAP they do not like.

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[208] For example, by Senior Nello (1984), Grant (1992), Jonsson (2007), Poczta-Wajda (2016) and Schmitz et al. (2022).

[209] Cunha and Swinbank (2009; 2011) used an anonymous poll of key decision-makers to demonstrate that the agricultural lobby has had minimal effect on the 1992 and 2003 reforms of the CAP. Syrrakos (2008) drew similar conclusions using 78 elite interviews with decision-makers. Interviews conducted for this dissertation also support this conclusion.

On the other hand, there are ample reasons why political entrepreneurs inside the European Commission and in the Member States' governments might want to reform the CAP. If the direct payments—which consume a bulk of the policy's budget—do not create European added value and only flow to a small group of people who are negatively disposed towards these decision-makers regardless of what they do or not do with the policy, then shifting most of the resources elsewhere would be a good strategy. For example, political entrepreneurs might use the funds freed from the CAP to pursue the EU's new strategic priorities where there is a strong European added-value. Fifty-five billion EUR a year could eventually be used to fund climate change adaptation and mitigation, protection of the environment, research and innovation, solve issues related to migration pressures, tackle geopolitical challenges or any combination of these. Success in doing so would greatly enhance the power and prestige of these political entrepreneurs. Alternatively, political entrepreneurs might want to use the funds to appease some new constituencies. Those new constituencies could then, in return, help the political entrepreneurs to get re-elected in their Member States or advance their careers within the European Commission. But this is not happening. Therefore, the CAP is an empirical puzzle: on the one hand, the CAP causes many problems for both national and supranational authorities in Europe without bringing substantial benefits, but on the other hand, the main beneficiaries—while far from negligible when it comes to power—are not strong enough to maintain their rents through rent-seeking. *There must be something beyond the rent-seeking.*

The literature review chapter provides an overview of various theoretical approaches that have been used to explain agricultural policy-making in the EU. For example, Pokrivcak et al. (2006) model decision-making in the Agriculture and Fisheries Council (AGRIFISH) to show how decision-making rules create a conservative bias. However, their focus is on the AGRIFISH, where—since the late 1980s—decisions are taken with a qualified majority voting (QMV) rather than on the MFF negotiations, where the Heads of State and Government hold veto

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powers. Furthermore, while Pokrivcak et al.'s (2006) theory could be expanded to analyse the Multiannual Financial Framework (MFF)—where the absence of radical reform would constitute a special case (no agreement is possible) of a special case (unanimity voting)—they do not try to open the "black box" of the CAP's decision-making. Instead, Pokrivcak et al. (2006, p. 585) acknowledge that there 'is little information on decision-making since only final decisions of the Council are available. […] Hence, there is a strong need for better empirical information and much scope for useful empirical research in this field'. Of the existing theoretical approach, the one that probably gets closest to the answer to the main research question of this dissertation is Scharpf's (1988) joint-decision trap.

Scharpf (1988) argues that when the threshold of passing decisions in a (quasi)federal polity is high and when the actors use a "bargaining"—instead of a "problem solving"—mentality, a joint-decision trap is bound to emerge that would result in dismal policy outcomes. Scharpf (1988, p. 241) explicitly uses the CAP as an example of this, observing that the policy is 'almost universally considered a grandiose failure.' Scharpf, however, laid down his thesis just when the "Luxembourg Veto" was on its way out and a few years before the use of QMV in the Council enabled the adoption of the MacSharry reform of 1992. There have been some attempts to use this approach later too. For example, Roederer-Rynning (2010; 2011) used the theory to explain why it was so difficult to reform the CAP in the first thirty years of its existence. But her argument is that the joint-decision trap had broken down during the MacSharry and Fischler reforms. This, however, raises the question of why were the 2013 and 2021 reforms—discussed in the 7th and 8th chapters—so negligible in terms of the changes they brought. The conclusion of the literature review chapter is that there is still a gap in the literature to be filled in.

The third chapter of the thesis puts forward two mutually exclusive theories that address the main research question. Firstly, the focus needs to be shifted to how the MFF is negotiated. Formally, these seven-year-long budgets are adopted in the Council after consent by the

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majority of the European Parliament. However, in practice, the most important decision-making body is the European Council, which is composed of the Heads of State and Government of the Member States. Firstly, any Head of State or Government can veto the adoption of the MFF in the European Council. Furthermore, if there is no agreement on the MFF, then the previous MFF's last year's annual budget would be rolled over—on an annual basis and adjusted for inflation—until the agreement is reached. This creates a strong conservative bias in the negotiations. There is no point for the Commission in proposing a budget that would be vetoed. Secondly, heads of government—and finance ministries' officials preparing the briefs of the European Council meetings—are almost solely focused on maximising their member states' net budgetary position towards the EU budget (Benedetto, 2019; Citi, 2017; Richter, 2008). This obsession with "juste retour" at the expense of all other concerns—such as European value added—turns the MFF negotiations into a zero-sum game. In this situation, the only budget that the Commission can propose is one that mimics the previous period's MFF in its distributional effect. If one or another member state's net budgetary position were to deteriorate significantly, then this member state's head of government would block the adoption of the MFF.

In theory, it should be possible to reform policies and to shift money around between policy areas by offering lump-sum compensation to the member states that are hurt by the changes. However, lump sum transfers are impossible in the EU. Furthermore, if funds were to be shifted to a new policy area, some sort of distribution key needs to be used. But it is also not possible for the Commission to come up with an even semi-objective distribution key that has some basis in the Member States' needs or merits in whatever policy area or areas the funds would eventually be redirected to. Last but not least, since the direct payments of the CAP can be withdrawn only gradually and some sort of compensation has to be paid to the farmers, funds for the new priorities would only become available after a delay. This creates another problem:

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there is no way to make credible commitments, especially beyond the horizon of the MFF being negotiated. Hence, the EU—and in particular, the agricultural policy reform—suffers from intergovernmental bargaining failure caused by what North (1990a) and Dixit (1996) call the "transaction cost." This dissertation tests this theory in the 9th chapter by comparing the results of the MFF negotiations with those of the NextGenerationEU. The creation of the NextGenerationEU in response to the COVID-19 crisis and related economic downturn has created a natural experiment where it has been possible to convince net contributor member states to increase the EU's budget. But adding "new money" to the EU's budget reveals the true preferences of the Heads of State and Government whose countries are net contributors to the EU's budget as a whole but are net beneficiaries of the CAP's budget.

The use of unanimity in the European Council when the MFF is decided and the presence of "transaction costs" that prevent Pareto improving deal from being struck, however, do not explain why there has been only negligible improvement in terms of policy content in the most recent reforms of the CAP in 2013 and 2021, respectively. This dissertation argues that the answer to this question lies in the views held by agricultural bureaucrats of the Member States and in the EU level decision-making structure. Interviews with the Member States' representatives attending the SCA meetings conducted for this thesis show that many—although not all—of them hold agricultural exceptionalist views. Agricultural exceptionalism is defined as 'the idea that agriculture is a sector unlike any other economic sector, and, as such, warrants special support' (Skogstad, 1998, p. 467). This '*elite assumption*, or idea, on the nature of agricultural production and markets' (Daugbjerg & Swinbank, 2009, p. 6) states that agricultural issues can never be let for the market to sort out. Shared belief in agricultural exceptionalism by the Member States' agricultural bureaucrats and the peculiar decision-making rules in the domain of agricultural policy-making create a strong conservative bias.

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Following Niskanen's (1968) and Tullock's (1965) classic works, agricultural bureaucrats—like all other bureaucrats—are seen as interested in advancing their careers and getting more power and prestige. However, this does not mean that they are cynical. They routinely act without expecting any personal—at least monetary—gain. Instead, they may be driven by their own personal preferences and objectives (Prendergast, 2007). When working in agricultural bureaucracy, officials undergo what Tullock (1965, p. 37) labels as 'unconscious cultural indoctrination.' When the bureaucrat works for one of the Member States' ministries of agriculture, it very often means internalisation of the agricultural exceptionalist paradigm. This helps the official to gain the trust of his or her peers and to "blend in". Hence, paradoxically, people who end up in the leadership positions—or even as an SCA spokesperson, which is a prized job in these hierarchies—are probably close to the "ideal type" or median of the ministry in terms of their views. The Member States' agricultural bureaucrats work towards preserving—and, if feasible, towards growing—their authority over their domain and its budget. And they also try to shape the public policy according to the image of the good policy they themselves have. This means that they will try to block reforms of the CAP that either jeopardise their authority—for example, proposals that involve yielding powers to colleagues in the ministries of environment—or threaten to reduce its budget or other acts which otherwise do not align with the agricultural exceptionalist paradigm. When blocking is not politically feasible, they will try to water down the reform proposals' content.

What makes agricultural policy special in the EU is that the Member States' agricultural bureaucracies benefit from certain political-institutional arrangements in the decision-making that are not present in other policy areas. Whenever the Commission's DG AGRI comes up with a CAP reform proposal, it is initially discussed in the SCA. The Commission is represented by the DG AGRI (often at the level of Deputy Secretary-General), while the Member States are represented by officials from their agricultural ministries who serve as SCA

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spokespersons. In contrast, proposals in other policy areas have to pass through COREPER I or II where the Deputy Permanent Representative- or the Permanent Representative of the Member State, respectively, has to take a much broader view and balance the interests of various hierarchies in the national bureaucracies. Agricultural officials are therefore in a privileged position. They can use venues like the SCA to form transnational inter-bureau coalitions to advance their common interests.

The fifth chapter of the dissertation defines what would actually constitute a radical reform of the CAP. This allows actual reforms of the CAP to be compared to a benchmark or yardstick. Declarations[210] and works of prominent agricultural economists[211] and other academics are therefore reviewed to identify what kind of policy the EU should implement in the area of agriculture. Perhaps the closest notion to a consensus among leading European agricultural economists could be found in a 2010 declaration 'A Common Agricultural Policy for European Public Goods: Declaration by a Group of Leading Agricultural Economists' (Anania, et al., 2010). The principal argument made in this 2010 declaration is that:

> The EU should only be involved in financing and regulating the sector to the extent that it serves these wider goals, and in particular when the effects of agricultural policies spill across national borders.' (Anania, et al., 2010, p. 1)

While leading agricultural economists do not question the need for a common policy for agriculture in the EU, their consensus is that there is no need to spend roughly 55 billion EUR a year on it. Recognising that the direct payments—which are very unevenly distributed between and within the member states—do not fulfil 'clear income distribution, rural development, or environmental protection objectives', leading agricultural economists have called for these to be phased out (Anania, et al., 2010, p. 1). As for the Pillar II (rural

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[210] For example, Guy Pe'er (2020)
[211] For example, Buckwell et al. (2017), Hoelgaard (2018), Koester and Tangermann (1977), Marsh et al. (1991) and Swinbank & Tranter (2004).

development), the consensus of the signatories of the 2010 declaration is that rural development measures should be thoroughly reassessed. Agricultural economists emphasise that 'only those policies that promote genuine European public goods, are efficiently targeted at their objectives, and avoid excessive payments, should be retained' (Anania, et al., 2010, p. 4). Radical reform of the EU's agricultural policy can therefore be considered to have taken place when the direct payments have been phased out (or there is an irrevocable commitment to do that), the budget of these payments has been freed up, and rural development policy has been thoroughly changed to reflect the public-money-for-public-goods[212] principle.

It should also be pointed out here that M'Barek, et al. (2020) have modelled various radical reform scenarios' impacts on agricultural production, employment, utilised agricultural area and GHG emissions. Results show that the impact of a direct payment phase-out would be nothing catastrophic, and it would, in fact, even bring benefits in terms of climate change mitigation. However, the negative impact on farmers' incomes would still need addressing, both for economic and for social reasons. This is why agricultural economists have proposed a bond scheme to compensate agricultural producers.[213] Farmers would receive government bonds that would pay them the same or a similar amount of money annually that they previously received as direct payments. Overall, the takeaway from the agricultural economists' work reviewed for this dissertation is that the CAP reform is not an economic challenge (farmers, for example, can be compensated when direct payments are withdrawn). If radical reform of the EU's agricultural policy is not pursued, there must be a political reason for this.

In terms of methodology—briefly explained in the fourth chapter—this dissertation uses process tracing to test the hypotheses put forward in the third chapter. Process tracing means

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[212] A textbook definition of a public good is that it is a good that is both non-rivalrous and non-excludable (Hindriks & Myles, 2006).
[213] See Marsh et al. (1991) or Swinbank et al. (2004) for details of the bond scheme.

describing the sequence of events in a process that translates distinct starting circumstances into end results. This means that the researcher makes an attempt to understand actors' interpretations of a situation and their subsequent actions. The researcher—not the agents themselves—provides the context within which agents' perceptions and actions are reported. The creation of such an explanation resembles the development of a web or network, with the researcher piecing together facts to form an analytical understanding. The process tracing method seeks to determine which stimuli generated agents' interests, how these interests are translated into their actions, and last but not least, how various political-institutional arrangements structured and influenced agents' actions (Thies, 2001). In practice, research was carried out by thorough analysis of various CAP-related policy documents, statements, press releases, articles, secondary academic literature and, where appropriate, basic statistical analysis of publicly available data.

Furthermore, 70 semi-structured elite interviews were conducted, mainly between 2017 and 2019, to collect the material. Of these, 38 interviews were conducted with people who were regularly attending—or had done so recently—SCA meetings and 32 interviews were conducted with people who were working—or had done so recently—at the EU institutions, most of them in the Commission.[214] Among other topics, interviewees were asked to describe what they personally thought the EU's agricultural policy should be. And as the next question, interviewees were asked to think about the reason why the EU was not pursuing their desired agricultural policy. Only a minority of interviewees described a policy that was close to what agricultural economists have proposed. But the answers given by those interviewees who personally saw the need for radical reform—as indicated by their answer to the first of these two questions[215]—to the last of these questions were instrumental in informing the solution to

[214] See Annex 2 for more details.
[215] A common denominator of those interviewees who saw the need for radical reform was that they did not adhere to agricultural exceptionalism or did so only in a weak or partial form.

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the main research question of this dissertation. These interviewees are also quoted occasionally—albeit always anonymously—in the empirical chapters to illustrate points.

While the sixth chapter provides a brief background on the CAP from its inception until the Agenda 2000 reforms and sets the stage, three empirical chapters—7th, 8th and 9th—test the theoretical propositions of the dissertation using the 2003, 2013 and 2021 CAP reforms, the 2007-2013, 2014-2020 and 2021-2027 MFF negotiations, and the European Green Deal and the Taxonomy Regulation. More specifically, the seventh chapter process traces the first two CAP reforms as well as the first two MFF negotiations that have taken place in the 21st century. Although neither of the two reforms brought a radical change in the policy, they nevertheless differed greatly in what was achieved. The Fischler Reform of 2003 led to the decoupling of direct payments from production. This allowed the EU to place these decoupled payments in the WTO's "green box" and thereby reduce pressure to reform the CAP that otherwise emanated from multilateral trade negotiations. Fischler and his team further managed to install fiscal disciple in the policy. This ensured that the agreed budget ceilings were not going to be breached in the future.

The 7th chapter also shows how large net contributor member states such as Germany and France use informal bilateral agreements with each to protect their net budgetary balance position. For example, in the case of the 2014-2020 MFF negotiations, Germany agreed to support the continuation of agricultural spending at the same level as in the 2007-2013 MFF—which secured France's "juste retour"—and the French agreed to support the creation of an intermediate category in the Cohesion Funds. This meant that poorer German regions, which—due to their level of development compared to the regions in the NMS—would have otherwise no longer been eligible for the Cohesion Funds, were going to continue receiving them in the 2014-2020 period too. While the existence of "transaction costs" meant that there was no way

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to make a grand "political Coase bargain"[216] in the European Council to reshuffle the EU's budget towards new priorities, bilateral deals to support each other's position on the MFF were not plagued by these "transaction costs." A bilateral deal, therefore, presented a feasible strategy for larger member states such as France and Germany to protect their "juste retour."

When it came to the 2013 CAP reform negotiations—in contrast to the Fischler Reform—the member states' agricultural bureaucracies learned about the proposal very quickly, long before any formal proposal was published. The 7th chapter, therefore, shows how agricultural bureaucrats of the Member States quickly formed an inter-bureau coalition in the SCA in order to minimise the impact of any reform on themselves and the farmers in their respective Member States. Through SCA and AGRIFISH Council meetings, they pressured the Commission not to propose any large changes. Public declarations—such as the Paris Declaration of 2009 and the Warsaw declaration of 2010—signed by numerous agriculture ministers were also used to demonstrate the strength of this inter-bureau coalition. Such declarations sent a signal to the Commission about the political feasibility of one or another aspect of the reform – but mostly, they called for major changes to be avoided.

The chapter shows that, again, the common position developed by the French and German agriculture ministers in September 2010 played an instrumental role in the final—rather modest—outcome. The chapter also reveals that the Member States are not unified actors. Agricultural exceptionalist thinking comes specifically from the ministries of agriculture – at least in the case of France, officials from the ministry of environment and from the ministry of development briefly published a policy paper that was very critical of the Commission's

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[216] Inspired by the Coase's (1960) theorem, Acemoglu (2003, p. 621) has proposed a 'political Coase theorem,' which 'maintains that, if [political] property rights are well-defined and there are no transaction costs, economic agents will contract to achieve an efficient outcome, irrespective of who holds the property rights on particular assets.' The grand "political Coase bargaining" would be an example of the political Coase theorem working in practise in a setting like the European Council.

proposal and offered an alternative, much more ambitious, reform plan. Last but not least, the chapter demonstrates how, once the 2014-2020 MFF had been agreed upon—and thereby the budget of the CAP secured, partly with the justification that it is needed for “greening”—agricultural bureaucracies through the Council Presidency and the EP’s COMAGRI watered down the Commission’s already modest “greening” proposals even further in the final agreement in June 2013.

The eighth chapter analyses in more detail the most recent CAP reform of 2021 and the 2021-2027 MFF negotiations. In the case of the CAP reform, the member states’ agricultural bureaucracies pressured the Commission from early on not to have ambitious reform. To this end, the Member States' agricultural ministers signed various declarations—such as the Madrid Declaration of May 2018—and gave speeches in the AGRIFISH. The chapter demonstrates how—lending support to the transnational inter-bureau coalition hypotheses—they were able to preventively curtail the Commission’s ambitions. A few people interviewed for this thesis recalled that within the Commission, there was fear that the Commission might not be able to come out with any reform proposal that would pass the co-decision. It was clear already from the Commission's (2017c) inception impact assessments that only very modest tinkering with the policy was on the table. The outcome was exactly that – another "muddling through" reform. The main innovation of the 2021 reform, therefore, was that the Member States had to draw up their national CAP Strategic Plans (NSP), where they organised what were essentially refurbished existing CAP measures in a slightly more coherent manner. The chapter demonstrates how—lacking a politically feasible enforcement mechanism—the Commission

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had no choice but to approve all the NSP. Although the jury is still out, the first observations about the quality and impact of the NSPs have ranged from mixed to very critical.[217]

Similarly—and just like in the previous MFF negotiations—the CAP's budget was not substantially cut in the 2021-2027 MFF either. However, unexpectedly high inflation in 2021 and 2022 has reduced the real value of the nominally fixed CAP budget significantly more than expected. But even more interesting than the nominal non-cut of the CAP's budget in the MFF is the near-total exclusion of agriculture from the NextGenerationEU. The 750 billion EUR NextGenerationEU that was agreed upon by the European Council in July 2020 presented a natural experiment.[218] Unlike in the case of the MFF negotiations, the NextGenerationEU negotiations began with a blank page. The use of the veto by a head of government in the NextGenerationEU negotiations would have, therefore, only resulted in no one getting any money at a critical moment during the COVID-19 crisis and related economic downturn. Therefore, it was not possible for any head of government to use the veto in the NextGenerationEU negotiations to defend his or her member state's net budgetary position.

This change of dynamics forced the heads of government of the Member States—and finance ministries officials who brief them—to reveal their true preferences about the union's budget. The chapter demonstrates how, in the end, only 1% of the NextGenerationEU funds was allocated to agriculture. The implication of this decision is that the Member States' heads of government do not allocate funding for agriculture unless doing so is the only way for them to protect their member state's "juste retour." If it was the preference of the Member States' heads of government—or if they were captured by the agricultural lobbies or agricultural

[217] Erjavec speaking in a panel at the Commission's (2022c) the Agricultural Outlook conference noted that NSP vary a lot in quality. Climate Action Network (2021) analysed the French, German, Spanish, Danish, and Irish NSP and found that these member states were not going to meet the Green Deal goals on climate, energy, and biodiversity.

[218] In no other situation than in a deep crisis such as the COVID-19 pandemic were the net contributor member states' heads of governments going to accept that their member states' had to increase their contributions to the union budget, thereby worsening their net budgetary balance.

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bureaucracies—then, surely, they would have agreed to allocate a share of the NextGenerationEU to agriculture that was closer to the CAP's share in the MFF—31.3%. Since the heads of governments decided not to do that, it can be deduced that in the case of the NextGenerationEU, it was possible to overcome the "transaction costs" problem. A precondition for overcoming the "transaction costs", though, was the severity of the crisis that had convinced the heads of governments of the net contributor member states to support the NextGenerationEU.

The ninth chapter process traces the implementation of the European Green Deal in the area of agriculture, and the attempt to include agriculture in the EU's sustainable finance taxonomy. These initiatives can be considered outside interventions in the sense that initial plans were not prepared in the narrow agricultural policy-making community. Nor were they subject to unanimity decision-making, like the MFFs are. However, the chapter demonstrates how the Green Deal's ambitions were eventually watered down in the legislative process by the member states' agricultural ministries. Under pressure from the Member States' agricultural bureaucracies that insisted all of the Commission's recommendations are non-binding and voluntary for them, the Farm to Fork initiative's review of the member states' National Strategic Plans of the CAP by the Commission ended up lacking enforcement mechanisms. The chapter demonstrates that one of the reasons for the failure of the Green Deal in the area of agriculture was the rapid delegation of important decisions to the decision-making bodies such as the Agriculture and Fisheries Council (AGRIFISH) and the Special Committee on Agriculture (SCA).

Similarly, the EU's sustainable finance taxonomy had in it the elements which—if agriculture had remained the first Delegated Act of the Taxonomy Regulation—could have eventually ended up playing an important role in the greening of the EU's agriculture. The objective of the first Delegated Act of the Taxonomy Regulation was to create technical screening criteria

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that would have allowed to determine whether an economic undertaking is helping mitigate or adapt to climate change without causing significant harm to any other aspect of sustainability. If such technical screening criteria would have also been established for the agricultural sector, then the producers could have had their farms verified—if they respected the technical screening criteria—by independent third parties as taxonomy-compliant holdings. Compliance with the taxonomy is effectively a proof of being a "green" producer. Therefore, compliance with the taxonomy would have given certificate owners privileged access to certain financial products.[219] Furthermore, laying down such technical screening criteria would have theoretically also allowed the EU's policy-makers to refer to these criteria in future CAP reforms (for example, making payments conditional on the "green" certificate of the taxonomy).[220] But wary of losing control and opening the back door to their policy domain, in early 2021, the member states' agricultural bureaucracies began pressing—through ministers' joint letters and SCA discussions—for "equivalency" of the CAP's conditionality with the more stringent taxonomy's technical screening criteria. Under pressure to finalise the first Delegated Act—which contained the technical screening criteria for many other sectors besides agriculture—the Commission decided to leave agriculture out of the Act entirely rather than allow farmers to bypass the technical screening criteria by merely complying with the CAP regulation. As the chapter shows, the Member States' agricultural bureaucracies, therefore, successfully thwarted an attempt to encroach on their domain. The motives and the way it was done lend support to the transnational inter-bureau coalition hypotheses.

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[219] According to the Taxonomy Regulation, financial intermediaries can only market their bonds as "green" if the investments go to entities that are taxonomy compliant. Furthermore, financial intermediaries are forced to report how large a share of their portfolio consists of investments that are "green" in the contents of the Taxonomy Regulation. In order to increase the share of "green" investments in the portfolio and in order to cater to investors who want to make only "green" investments, financial intermediates are likely to offer perks such as lower interest rates to those clients who are certified as "green" according to the Taxonomy Regulation.
[220] Preamble of the Taxonomy Regulation explicitly states that '[i]t could also serve as the basis for other economic and regulatory measures*'* (The European Parliament and of the Council European Union, 2020, p. 16).

Discussion

In relation to the New Institutional Economics (NIE) literature, this dissertation has confirmed the insight—put forward by North (1993, p. 16)—that 'ideas and ideologies play a major role in choices and transaction costs result in imperfect markets or no markets at all.' Wide-spread adherence to agricultural exceptionalism—'the idea that agriculture is a sector unlike any other economic sector, and, as such, warrants special support' (Skogstad, 1998, p. 467)—among agricultural bureaucrats of the Member States' ministries of agriculture means that far-reaching reforms of the EU's agricultural policy can never take place without an intervention from outside of the EU's traditional agricultural policy-making community. Because agriculture is the only policy area that effectively by-passes horizontal consistency checks of the COREPER, agricultural bureaucracies of the Member States—and to some extent, MEPs who sit in the COMAGRI—are able to obstruct or water down any proposal that does not match their agricultural exceptionalist understanding of a "public good." Secondly, the idea that the job of the head of government is to secure 'the best possible individual net financial position vis-à-vis the Community budget over any other consideration concerning the Community budget' (Richter, 2008, p. i) makes significant reduction of the CAP's direct payments' budget—a necessary condition for a radical reform—all but impossible to implement. This does not, of course, impact only the agricultural policy reform. As Puntscher Riekmann (2018) observes:

> most member states cling, at least rhetorically, to the old hegemonic truth: no transformation of the Union into a transfer union; assistance is temporary and credits have to be repaid, while the impaired or failing economy is to be restructured whatever the social costs; no fiscal union that would give more clout to supranational actors such as the Commission or the European Parliament; no change of the ECB into a lender of the last resort. (Puntscher Riekmann, 2018, p. 24)

Furthermore, this dissertation has analysed how the heads of government of the Member States deal with what Furubotn et al. (2005, p. 487) have identified as the two core questions of

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international alliances[221] in the NIE literature: 'how much money or resources to contribute and how to safeguard such agreements.' The dissertation has demonstrated that the heads of governments of the Member States—or at least the net contributor ones—have concluded that the best way to guard against free-riding by the other Member States is to minimise their Member States' contribution to the union's budget. This also explains why the MFF is only around 1% of the EU's GNI. When it comes to the second core question, this dissertation has demonstrated that for the heads of government pursuing "juste retour", the best way to safeguard the informal agreement—that they should get their money back—is to veto all attempts to change the composition of the EU's budget.

However, this dissertation also calls for clarification—if not reassessment—of at least some of the conclusions of the NIE literature. As has been demonstrated, the Member States' agricultural bureaucrats and heads of government, together with finance ministries officials, are a big part of the problem. Csaba's (2018, p. 197) observation about the EMU that—when it comes to reforms—there is a 'lack of political momentum in the big states in the driving seat' applies equally to the CAP reform and the MFF negotiations. Furubotn et al. (2005, p. 482)—taking the NIE approach—acknowledge that '[s]ince national policy-makers are themselves part of the repeatedly played game, they cannot behave like referees, separating the actors entangled with one another simply by whistling them to order.' But the solution entertained in the NIE literature seems to have some blind spots. Writing in the NIE tradition, Weingast (1995) calls for the creation of market-preserving federalism to ensure credible commitment of national governments to economic and property rights and Furubotn et al. (2005, p. 482) have predicted that the EU might play this role on the continent. However, in light of the conclusions of this dissertation, these predictions should be re-evaluated. A quasi-federation cannot be a

[221] Since 'political transactions are of the same character, whether they are between the forces of national politics or between national states' (Furubotn & Richter, 2005, p. 485), the EU can be conceptualised as an 'international alliance' in the terminology of the NIE literature.

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solution to domestic political economy problems if the quasi-federation just reproduces the same problems at the quasi-federal level. And, in fact, in some situations, a bad equilibrium can emerge, resulting in worse outcomes at both levels.

Future research

This dissertation leaves the door open for four major avenues of future research. Firstly, the narrow agricultural policy-making community's views and their formation should be studied in-depth. Although the number of interviews conducted for this dissertation permits drawing somewhat stronger conclusions about the value held by agricultural bureaucrats than more anecdotal observations—which, from time to time, are also reproduced in academic works on the CAP—more thorough research is necessary to determine the exact prevalence. Discourse analysis—including on the interview data used in this dissertation—is one promising way to approach this. Not all agricultural exceptionalists have exactly the same views and not all agricultural bureaucrats subscribe these views. The fact that some agricultural bureaucrats retained—at least in private—agricultural normalist views despite spending most of their quite successful careers in an institution where agricultural exceptionalism was the dominant paradigm calls for the study of transmission of ideas within those institutions. How many agricultural bureaucrats precisely adhere to agricultural exceptionalism and to what degree is something that future research can try establish with more accuracy than space has permitted in this dissertation. In this regard, future research could also uncover which variables[222] are associated higher or lower intensity of agricultural exceptionalist ideas.

[222] Educational background, previous professional experience outside the agricultural bureaucracy, length of career in agricultural bureaucracy, and family background in farming are just a few variables whose impact on the intensity of the adoption of agricultural exceptionalist ideas would be worth investigating.

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Similarly, more research is needed to uncover how the Member States' policy preferences towards the EU in general, and towards the budget negotiations in particular, are formed domestically. In other words, why do the heads of government pursue "juste retour" so vigorously? At least in the case of net contributor member states, there are obvious benefits of keeping more of the Member States' money and spending it domestically to appease some constituencies. However, there are also large benefits to reap from the EU value added. And Pareto improvement derived from better allocation of resources in the EU's budget—and policy reforms this would enable—would also benefit most domestic constituencies in these Member States, be they voters or more narrow groups. The fact that heads of government—and finance ministries officials advising them—nevertheless focus on the "juste retour" calls for an in-depth investigation of how this idea persists and how it is transmitted to new leaders (elections and changes in domestic government coalitions do not appear to change the Member States' position at all).

Thirdly, future research is necessary to establish the Member States' positions more accurately in regard to agricultural policy preferences. Again, some researchers have tried to categorise the Member States' positions[223] and there are also some metrics such as the net budgetary position, or even their voting record in the Council. These efforts already go a long way. But there are still gaps. Aggregated results of a survey where a significant number of policy-makers themselves participate could be used to create a mapping of the Member States' and other institutions' positions that—while no substitute to researchers' qualitative assessment and quantitative analysis of economic data—could augment the picture. Qualitative assessments by individual researchers might by skewed due to uneven access to information, particularly about medium- and small member states. Similarly, voting records and even quantitative economic

[223] Anania et al. (2015) or Sahrbacher et al. (2015) categorisation of the Member States' positions in 2013 reform, for example.

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data such as the net budgetary position might sometimes conceal real preferences, as the MFF "transaction costs" story has shown. Ideally, research into the Member States' positions could be carried out along the lines of Cunha and Swinbank's (2009; 2011) delphi survey of key decision-makers. But most researchers probably lack the network and name-recognition to get the same response rate—55.6% among 99 senior CAP decision-makers approached by email—as Cunha, who had served as the Minister of Agriculture of Portugal in 1990-1994 and as the Vice Chair of the COMAGRI in 1994-2003, was able to get among people who were essentially his peers and former colleagues. Hence, alternative data collection methods and research design methods must be explored.

Fourthly, there is a need for in-depth research on the Member States' agricultural bureaucracies and their relationship with national level agricultural lobbies. This dissertation has lent further support to the finding that the EU-level agricultural lobby has not captured the European Commission.[224] But in case of national agricultural bureaucracies, one of the major shortcomings of the current research is that national level agricultural lobbies—particularly in medium and small member states—can remain hidden behind their Member State's agricultural bureaucracy. The officials of the Member States' agricultural bureaucracies can claim that they are relatively independent of the farmer's lobby. By and large, officials interviewed for this dissertation say this about themselves. But broadly speaking, the issue needs further investigation. A collective effort by international group researchers—with country-specific knowledge and language skills covering most, if not all, member states—is probably needed to pursue this research programme.

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[224] An earlier study by Cunha et at. (2009), employing an anonymous survey of top decision-makers, has already shown that the agricultural lobby had little impact in the 1992, 1999 and 2003 CAP Reforms.

Annex 1: Interview questions

1. What is your own background, and how long have you been involved in agricultural policy-making?
2. Imagine that you're being hired as a consultant for a think tank [or the European Commission], and you would have to come up with a blueprint for a new agricultural policy. In your *personal opinion*, what is the ideal agricultural policy for the EU (if there should be one)?
   2.1. What should be the goal(s) of an ideal agricultural policy?
   2.2. What instruments should be used to pursue it?
   2.3. At what level—union, member state or regional—should this policy be pursued?
3. What are the main obstacles in achieving this ideal policy and these goals?
   3.1. Which rules, or which institutions or member states or other players are blocking them?
4. Have you heard of the 'bond scheme' proposal for CAP reform?
   4.1. What do you think about this proposal?
5. Many economists are very critical of the CAP and its internal contradictions. Why is this?
   5.1. What are the economists missing?
6. What are the threats to the current CAP and its funding?
   6.1. Where does the pressure come from to get rid of the current CAP and/or cut its budget?
7. Who lobbies when it comes to agricultural policy reform?
   7.1. How influential is one or another lobby group?
8. Can you please place important actors on the following three line-scales that, respectively, measure:
   I. Market orientation/budget scrutiny.
   II. Desire to focus agricultural policy on environmentalism.
   III. Closeness to agricultural lobbies, whether supranational or national.

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Annex 2: Interviewees

Title	First name	Last name	Job title or recent job title of the interviewee at the time of interview	Institution
Mr.	Gonçalo	Almeida Simões	SCA Spokesperson, Agriculture Counsellor	PT PERM REP
Mr.	Felice	Assenza	SCA Spokesperson	IT MIN AGRI
Dr.	Pierre	Bascou	Director	COM DG AGRI
Mr.	Alois	Bauer	SCA Spokesperson, Deputy Director General for EU Policy, International Cooperation and Fisheries in the Federal Ministry for Food and Agriculture	DE MIN AGRI
Mrs.	María Angeles	Benítez Salas	Deputy Director-General for Agriculture and Rural Development	COM DG AGRI
Mr.	Péter László	Benkő	SCA Spokesperson, Head of Agriculture Unit	HU PERM REP
Mr.	Søren	Bisgaard	Attaché	DK PERM REP
Dr.	Petr	Blížkovský	Director of Directorate 1 - Agriculture (SCA - Special Committee on Agriculture) and Social Policy	GSC DGB
Mr.	Ángel	Boixareu	Director-General of Directorate-General B - Agriculture, Fisheries, Social Affairs and Health	GSC DGB
Mr.	Iman	Boot	Senior Expert, Economic and Policy Analyst	COM DG AGRI
Ms.	Stephanie	Borg Mamo	SCA Spokesperson, Technical Attaché	MT PERM REP
Ms.	Effrosyni	Bousiou	SCA Spokesperson, Agricultural Counsellor, Head of Unit of the Agricultural Sector	EL PERM REP
Ms.	Marina	Brakalova	SCA Spokesperson, Head of Unit, Counsellor	BG PERM REP
Ms.	Florence	Buchholzer	Adviser on foresight and impact assessment	COM DG AGRI
Mr.	Breffni	Carpenter	Joint SCA spokesperson, Agriculture Counsellor	IE PERM REP
Mr.	John	Clarke	Director	COM DG AGRI
Mr.	Polys-Andreas	Constantinou	SCA Spokesperson, Agricultural Counsellor	CY PERM REP
Dr.	Humberto	Delgado Rosa	Director of Natural Capital	COM DG ENVI
Mr.	Mike	Dowell	First Secretary	UK PERM REP
Dr.	Mihail	Dumitru	Deputy Director-General for Agriculture and Rural Development	COM DG AGRI

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Mr.	Gerfried	Gruber	Deputy SCA spokesperson, Counsellor and Head of Unit	AT PERM REP
Dr.	Anastassios	Haniotis	Director	COM DG AGRI
Mr.	Georg	Häusler	Director	COM DG AGRI
Dr.	Lars	Hoelgaard	Deputy Director-General for Agriculture and Rural Development	COM DG AGRI
Mr.	Matej	Hudec	SCA Spokesperson, Head of the Agricultural Policy section	SK PERM REP
Dr.	Achim	Irimescu	SCA Spokesperson, Minister Plenipotentiary, Head of Unit	RO PERM REP
Ms.	Virginie	Jorissen	SCA Spokesperson, Delegate for European Agricultural Affairs	FR PERM REP
Mr.	Marc	Kreis	Agricultural Counsellor	LU PERM REP
Mr.	Fredrik	Langdal	SCA Spokesperson, Agricultural Counsellor	SE PERM REP
Mr.	Aivars	Lapins	SCA Spokesperson, Counsellor	LV PERM REP
Mr.	David	Laureau	Policy Analyst	COM DG AGRI
Mr.	Mariusz	Legowski	Economic Analyst, Policy Analyst	COM DG AGRI
Mr.	Damiano	Li Vecchi	Agricultural Attaché	IT PERM REP
Mr.	Pieter	Lietaer	Deputy SCA spokesperson, Agricultural Attaché, Flemish Region	BE PERM REP
Mr.	Juan José	López Lledó	Head of Unit of CAP and structural policies	COM DG BUDG
Mr.	Tauno	Lukas	Policy Officer	COM DG AGRI
Mr.	Mike	Mackenzie	Policy Analyst	COM DG AGRI
Dr.	Marti Albert	Massot	Principal Administrator	EP DG IPOL
Ms.	Silvia	Michelini	Director	COM DG AGRI
Dr.	Rudi	Mögele	Deputy Director-General for Agriculture and Rural Development	COM DG AGRI
Mr.	François	Nègre	Administrator	EP DG IPOL
Mr.	Michael	Niejahr	Director	COM DG AGRI
Mr.	Rory	O'Donnell	SCA Spokesperson, Agriculture Counsellor	UK PERM REP
Mr.	Jesper Wulff	Pedersen	SCA Spokesperson, in the Ministry of Environment and Food	DK MIN AGRI
Mr.	Jakša	Petrić	First Secretary	HR PERM REP
Mr.	Miloš	Pinkas	SCA Spokesperson, Head of Unit Agriculture and Environment	CZ PERM REP
Dr.	Jerzy Bogdan	Plewa	Director-General for Agriculture and Rural Development	COM DG AGRI
Mr.	Ricard	Ramon I Sumoy	Deputy Head of Unit	COM DG AGRI
Mr.	Osmo	Rönty	Agricultural Counsellor	FI PERM REP

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Ms.	Kathrin Maria	Rudolf	Economic Analyst, Policy Analyst	COM DG AGRI
Mr.	Jorge	Sainz Elías	SCA Spokesperson, Counsellor, chief of agriculture, fisheries and food	ES PERM REP
Ms.	Nathalie	Sauze-Vandevyver	Director	COM DG AGRI
Mr.	Jens	Schaps	Senior Trade Policy Advisor	COM DG TRADE
Dr.	Martin	Scheele	Head of Unit	COM DG AGRI
Mr.	Gijs	Schilthuis	Head of Unit	COM DG AGRI
Mr.	Frank	Schmit	SCA Spokesperson, Agricultural Counsellor	LU PERM REP
Mr.	Peeter	Seestrand	SCA Spokesperson, Director of Division, Special Counsellor	EE PERM REP
Dr.	Jan G.	Sevenster	SCA Spokesperson	NL MIN AGRI
Mr.	Marc	Sévérac	Head of European Union Bureau	FR MIN AGRI
Mr.	Zoltan	Somogyi	Head of Unit of Agriculture, Fisheries, Sanitary and Phytosanitary Market Access, Biotechnology	COM DG TRADE
Mr.	Stefano	Soro	Head of Unit of Biotechnology and Food Supply Chain	COM DG GROW
Mr.	Jan	Srb	Third Secretary	CZ PERM REP
Mr.	Siim	Tiidemann	Deputy SCA spokesperson, Counsellor	EE PERM REP
Mr.	Kari	Valonen	SCA Spokesperson, Head of EU Coordination, Ministry of Agriculture and Forestry	FI MIN AGRI
Mr.	Léon	Van De Pol	Policy Officer	COM DG AGRI
Mr.	Nico	Van Opstal	Agricultural Counsellor	NL PERM REP
Ms.	Alicia	Villauriz Iglesias	Agricultural Counsellor	ES PERM REP
Ms.	Simona	Vrevc	SCA Spokesperson, EU Coordination and International Affairs Department, Ministry for Agriculture, Forestry and Food	SI MIN AGRI
Dr.	Jürgen	Weis	Deputy SCA spokesperson, Head of Unit	DE PERM REP
Ms.	Maša	Žagar	Deputy SCA spokesperson, Attaché for agriculture	SI PERM REP

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