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Summary: The following paper argues for a major reform of the European Union's Common Agricultural Policy (CAP), based on the principles and objectives of the CAP as established by the Stresa conference of 1958 and developed and reaffirmed thereafter in several European Commission documents. By contrast, the actually existing CAP of today is mainly the result of political manoeuvring—a process to which the bulk of the following paper is dedicated. In addition to the "Stresa principles," the CAP must also take account centrally of the environment—considered from the perspectives of biodiversity, the impact of human activities, and the maintenance of the landscape. Concern for the environment is the main necessary addition to the founding objectives of the CAP, having grown in importance dramatically over the course of the last fifty years to make it one of the crucial concerns for the CAP looking ahead to 2020. The environmental performance of the CAP should therefore be analyzed on its own terms.

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The European Union's Common Agricultural Policy: A Necessary Reform

by Paulo Casaca[1]

I. Background: Lisbon and the Institutional Framework for CAP Reform

When I was first invited by the German Marshall Fund of the United States (GMF) to share my thinking on the future of the Common Agricultural Policy, I began by returning to the original source of many of my ideas: Michael Tracy, my main academic reference fifteen years ago when I was a visiting professor at the Technical University of Lisbon, where I gave lectures on the Common Agricultural Policy. In the course of this research, I found a short, fascinating, and balanced article by Professor Tracy on the Lisbon Treaty that concluded by saying:

The Lisbon Treaty, unfortunately, resembles the camel that must have been designed by a committee. Provisions aimed at making EU decision-making more effective are counter-balanced by others seeking to limit its powers in the interests of greater democracy. As a result, it is questionable whether it will achieve either, or whether it will make the EU institutions more popular. This is particularly regrettable since the lack of popular support means that there is no chance of any further treaty changes in the foreseeable future.[2]

I subscribe to Michael Tracy's analysis and conclusions, but with some qualifications. I believe that the Treaty brings more "democracy"—in the sense of the word as used by the philosopher Jürgen Habermas, by which I mean that it is a consensus-building mechanism. However, the multiplication of co-decision-making procedures and political actors and bodies, as well as the growing intricacy and complexity of the decision-making process, makes it even more difficult for the European public to understand the workings of the European institutions and thus exercise their democratic will in European elections. As I argued—without effect—as a member of the European Parliament, this drives Europe further away from democracy—this time in Karl Popper's sense of the word.

We have seen how excruciating a Treaty revision can be and how much political energy it consumes. Under present procedures, the outcome will always be like the camel designed by committee. But, as Tracy argues, this does not mean we should simply forget about bringing about substantial changes.

The Lisbon Treaty does not clarify responsibilities. To the contrary, the provisions it makes for gathering new actors and institutional mechanisms into the process of European decision-making can best be understood as a means to force greater consensus and balance the progressive feeling of marginalization of the power of member states in an ever bigger union.

It is in this context that the debate over the future of the Common Agricultural Policy will take place. Right now, discussions are out in the open and taking place on many levels—in Brussels, in member state capitals, and among civil society groups and other stakehold-

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[2] http://lisbontreatycommentary.wordpress.com/

ers. Conferences, seminars, and debates of every kind involving pressure groups, position papers, political proclamations, even an odd declaration of war on Europe by the President of France, Nicolas Sarkozy—everything that can be imagined has been thrown into the ring in 2010 for a discussion on what the European Union's farm policy should look like in 2020. But in all this, one thing remains clear: the European Commission will have a central role in the process of discussion and decision-making.

I am a former member of the European Parliament, as well as national and regional parliaments in Portugal. I have served in political cabinets and in the Portuguese Permanent Representation in Brussels, and—as mentioned already—have lectured on the Common Agricultural Policy as a visiting professor at Lisbon Technical University. Today, I am a fellow of the German Marshall Fund. But in truth, these experiences would not have allowed me to arrive at my current understanding of the subject at hand if I were not someone who accidentally became a farmer.[3]

As much as I agree with the substance of the CAP 2020 website's proposal by major European environmental NGOs[4], a fundamental point of disagreement lies with the introductory remark that "the current system is built mainly on historic and obsolete mechanisms;" "obsolete" works like a sort of superlative to the "historic." European mechanisms have become so heavy and complex, that it is reasonable to make 2010 the timeframe for a discussion about 2020. The in-built inertia is enormous, and this is a parameter of the discussion, not a variable. If one wants to start a worthwhile discussion on the future, it is a non-starter to dump the past, because it will always return to haunt the discussion about the future.

Furthermore, to the surprise of those who only know the CAP through the clichés about what it was supposed to have been, this paper will recall the foundations of the CAP as proposed by its creators and how the inability or unwillingness of Member States to follow their advice lies at the heart of today's problems.

In addition to putting the historical record straight on subjects where the present debate seems to need a refreshing of memories, this brief paper will shun the ideological confrontation of slogans that has been dominating the Brussels debate lately, and will seek to propose some fresh ideas for reform of the CAP.

II. A Europe with a Common Agricultural Policy and Budget

1. Between Historical Reality and Fictional Reconstruction

Those European citizens who remain uninitiated in the affairs of the European Union are often surprised to find out that the Council of Europe has no relation whatsoever to the European Council.[5] Needless to say, even the initiated can encounter difficulties in getting their minds around the terminology resulting from the implementation of the Lisbon Treaty.[6] By contrast, most people are on much more familiar ground when they hear about "the European Commission" or "the Common Agricultural Policy" because these are two of the most distinct features of European integration.

No other previous European integration process—and, to my knowledge, no other international integration process—has ever dared to have agriculture policy at its core. The Belgium and Luxembourg Economic Union (BLEU) and even the Economic Union of Belgium, the Netherlands, and Luxembourg,(BENELUX), never managed to do it entirely. The European Free Trade Agreement (EFTA) did not even try—to a certain extent, the EFTA was created with the aim of escaping a Common Agricultural Policy. The first multilateral trade agreements under the General Agreement on Tariffs and Trade (GATT) put agriculture resolutely to one side. Agriculture policy has always been a particularly difficult issue to tackle at the international level for reasons that touch upon a host of problematic factors such as national identity, "food security," and the commodity production sector's volatility The "Green Pool" instituted by the Council of Europe in 1950 to study possible ways to establish a European agricultural common market failed to reconcile different perspectives on the issue, collapsing in 1955. The decision to include agriculture at the heart of the European economic integration process was taken at the conference of Messina in 1955 that prepared the way for the Treaty of Rome in 1957. This decision carries a tremendous historical weight. Subsequently, the Stresa conference in July 1958 established priorities for the Common Agricultural Policy. In doing so, it exposed major conflicts of approach that are similar in some ways to the ones that exist today, concerning the future of the CAP and the shape of the policy in 2020.[7]

The final resolution issued at the Stresa conference remains a cornerstone of European thinking on the question of European agriculture policy, and should be kept uppermost in mind as European policymakers decide upon CAP's future. The declaration's foreword acknowledged that agricultural production was progressing faster than demand and that farm income was lagging behind average income across European society as a whole, in spite of considerable increases in productivity: "measures geared at reinforcing farm income led often to increases in production that increased the difficulties already felt at the market."

[3] For this reason I decided to prepare a series of notes based on this report, "Accidental Farmer Remarks Bulletin," that can be found on my personal site at www.paulocasaca.com.
[4] Proposal for a New EU Common Agricultural Policy, www.cap2020.ieep.eu. BirdLife International, EEB, EFNCP, IFOAM, and WWF have proposed a new CAP that truly promotes sustainable agriculture and rewards farmers for the delivery of tangible benefits to society.
[5] Incidentally, the same is true with European Courts, leading to the situation where reference to the city where either of the Courts has its location—Strasbourg or Luxembourg—becomes the safest way to understand what is being talked about.
[6] Now, for instance, the President of the European Council, Mr. Rompuy, should not be confused with the Presidency of the European Union (which is a rotating and multi-format institution).
[7] Michael Tracy, "L'Esprit de Stresa" Economie Rurale number 223, September-October 1994, V. 223 issue 1 pp. 7-12 remains the best appraisal, but there are several other good texts on it, such as Bourgeois, Lucien et Pouch Thierry, "La politique agricole commune: une politique reduite au Marché, revue de l'OFCE, n. 43, 1993, pp.365-398 in Persée http://www.persee.fr and Clavel,

In the conclusion, two of the most essential questions facing the CAP were equated correctly:

- That we should aim for a progressive development of internal trade within the Community, without prejudice to the need to develop external trade as well as economic and political agreements with third parties;

- That a strict correlation should exist between structural policy and market policy, and the efforts to increase productivity should allow a price policy that "should avoid surpluses and allow [European Agriculture] to remain or to become competitive. It will be accompanied by support to less favoured farms or regions." [8]

In practice, these two rather wise principles established for the new Common Agricultural Policy were a long way from being followed. Moreover, as Michael Tracy makes clear, there was strong resistance to them right from the start, coming mainly from Germany and France.

If German insistence on a price policy was more understandable—West Germany, with a smaller territory and full of refugees, was still in food deficit during the fifties—France had experienced its first post-war agricultural surplus crisis in 1953 due to the intervention prices it established. Therefore, French leaders should have understood how crucial it was to follow the recommendations of Stresa and not to embark on a surplus spiral caused by guaranteed prices at irresponsible levels.

The CAP principles, priorities, and orientations that were defined at the Stresa conference of 1958—although consistently and coherently supported by the European Commission, and in particular by its Agriculture Commissioner, Sicco Mansholt—were in fact severely distorted afterwards. The actual CAP that resulted from the "stopped clock council" of 1961-62 or the French "empty chair" crisis of 1965 (to name but two of the most important crises where resistance from member states clearly overshadowed the original logic of the CAP) was quite different to the expectations of the policy's founders.

The official historiography of the CAP, however, contains a re-write of history, as if the reality of what happened was too hard to face. A fictional CAP, arising largely from concerns with the hard times of the famine during the Second World War and the reconstruction afterwards, instead of from the incapacity of political leadership in the member states to resist demagogic short-term pressures to disregard sensible CAP principles ,was created. The prediction of CAP's founders back in 1958 that there would be agricultural surpluses should agricultural policy rely on overly-high price floor was fully realized. However, the facts were reversed in the official historical account and the fantasy created that the CAP was "a victim of its own success."

In another major distortion of the historic reality, the debate has been presented as a simple confrontation between the protectionist and liberal schools of agricultural policy. While this confrontation clearly existed and was perhaps dominant, there were also at least three other important fields of confrontation that we should not forget, regarding: (1) the European versus national role for agricultural policy; (2) market mechanisms versus structural policy; and finally (3) the sectoral versus regional approach.

Summing up, we can say that virtually all the major issues in the present CAP debate, with the single and significant exception of the environmental agenda that, as we know, has come to a considerably greater prominence in the intervening fifty years, were already present at its foundation.

This is exactly why the debate on the history of CAP is not a waste of time nor a revivalist exercise, but instead represents a sensible and efficient way to address the challenges of the CAP in the future, looking ahead to 2020. In fact, most of what has to be done for the CAP in 2020 does not have to be invented or reinvented. The agenda for CAP reform just has to be properly extracted from the Stresa conference of 1958.

2. The Budgetary Making of Europe

In 1962 European leaders could not agree on a long-term solution for applying the principle of financial solidarity, and agricultural financial regulation put in place that year extended for only three years. As an agreement had still not been reached by 1965, Walter Hallstein, President of the European Commission, presented a bold proposal for a Community budget in front of the European Parliament instead of the Council. His proposal was based on the Community developing its own financial resources rather than relying on contributions from the member states.

This bold act from the President of European Commission—leading the Council ultimately to refuse a renewal of his mandate—led to the "empty chair" crisis. French President Charles De Gaulle found the idea of having what he considered a vital French national interest dealt with in this fashion—i.e. presenting to the Parliament a decision that should be taken by a qualified majority in the Council—completely unacceptable.

French resistance stalled the European Commission's plans for the establishment of a principle of financial solidarity for five years, and a European common budget only came into operation in 1970. The implementation of a European budget was essential for the application of the financial solidarity principle and therefore for the prevention of centrifugal tendencies that risked the implosion of the European project. The Common Agricultural Policy was the only compelling reason necessitating a real European budget; without the CAP, the existing system of contributions from member states could have continued. It is therefore possible to argue that CAP was the single reason for the creation of the European budget. When a compromise was eventually reached in the December 1969 Council and the European budget took its first steps, the EAGGF (European Agriculture Guarantee and Guidance Fund) absorbed the available funds almost in their entirety.

[8] Tracy, 1994, op. cit. The original full text of Tracy is in French.

Over the last 40 years, the agricultural budget has steadily increased in absolute terms—although taking into consideration consecutive European enlargements, we can say that it has remained mostly stable in the last 20 years—but has decreased in weight as part of the overall budget. Furthermore, CAP's internal composition has also changed, with the most criticized forms of expenditure—export restitutions and disposal of surpluses—diminishing steadily and the expenditure on non-market interventions steadily rising.

More to the point, it is always important to keep in mind that, in spite of being the most integrated European policy, the European budget is less significant than public expenditures made at the member state level. To my knowledge, the only occasion when the European Commission made its own figures on the relation between European and national expenditure for agriculture public was in the Delors Green Book on the reform of the CAP.[9] According to estimates by the European Commission, if one excludes social security contributions to agriculture, only in 1978 did the European budget outweigh the sum of national budgets. If social security contributions are included, however, in 1980 the national contributions were more than double the European ones—or 2.2 times, to be precise. But as the overall methodology for the Commission calculations was not made public, we cannot be sure that this is not an underestimation.

One of the lessons I learned from my "accidental farming" was that my national subsidy check—which allowed me to buy cheaper diesel—was far more substantial than the CAP check subsidizing my olives. It is true that, being a newcomer, having tried organic farming, and having experienced terrible droughts, I did have a very low olive production, and my case is not typical for farmers. However, this type of assistance, which exists in virtually every member state, is not considered a national aid, and I am not certain that it entered into the above-mentioned Commission calculations.

So, whenever we discuss the European agricultural budget, we should not forget that, besides its size, it is also important to take into consideration two very important points:

a) What is the relative size of European and national farm budgets? Isn't there a risk that a diminution in the European farm budget would serve to hide an unbalanced increase in less controlled national budgets and potentially in much more negative ways than the European one?[10]

b) What is the relative composition of the European farm budget? Does it focus more on market distorting policies or on necessary financing of structural reforms, environmental measures and services, rural development, or support to less-favoured regional farming?

III. Reforming Agricultural Policy from Mansholt through Delors

Sicco Mansholt, the former Dutch Minister of Agriculture and the first European Commissioner in charge of Agriculture until he became the fourth president of the European Commission in 1972, was the most solid and coherent voice on the principles that should be established for the CAP at the Stresa conference. However, due to the resistance of member states, he was never able to fully develop these principles. As we have seen, the CAP evolved quite differently from the vision that was laid out at Stresa, one of the major points of differentiation being the priority given to market intervention policy over structural policy.

In 1968, Sicco Mansholt decided to re-launch the structural reforms package with a global reflection document known as the "Mansholt Plan."[11] A remarkable document from a remarkable author, the initiative, while hardly revolutionary, created a tremendous backlash from conservative forces. By this time, the CAP consisted of guaranteed prices and heavy market intervention, and any attempt to return to the original ideas for the CAP were perceived as a deep reform of, if not a revolution in, the actual existing policy.

The issue that kept the Mansholt Plan in the public eye was the reference to the measures necessary to adapt farmers to the consequences of a sharp decrease in the agricultural labor force. The falling share of the population directly employed in agriculture has been a constant issue, and to some extent symbolizes the tremendous increase in agricultural productivity of the past century. This increase ultimately lies at the heart of the material progress made over the course of that century. But, it has not been achieved without a lot of human pain, since it meant that a lot of people involved in farming were forced out of the sector.

There is nothing crueler we can do to a farmer than convince him that he cannot make ends meet because of his incapacity, rather than because of the structure of his holding. Mansholt understood this better than anyone else. Making a hard-working farmer feel guilty for his slow drowning in a sea of debts and failures is inexcusable. It is certainly not by chance that agriculture is a profession known for its high suicide rates. This is why Mansholt proposed to organize the flow of people out of agriculture by instituting a comprehensive and sensible set of measures.

By establishing minimum dimension thresholds that made full-time farming viable, the Mansholt plan suggested a very worthy exercise that should not have been interrupted and discredited as it was. It is true that the situation changed somewhat in the last few decades as a new phenomenon took place: the greater social understanding of the value of intangible services rendered to society by farming. This should be taken into consideration when valuing farming activity. This is a tendency that can only be sustained by a wealthy society whose wealth is based on a tremendous increase in agricultural productivity.

The most sustainable land management is not necessarily the one that allows for the highest short-term economic productivity. A farmer who takes care of the landscape (and in so doing, increases social added value) might be doing a socially viable and efficient activity that would probably not be considered as such if measured only by the market value of the associated physical production. These developments were already

[9] COM (85) 333 final – regarding the period 1975 to 1980, Tables 1G and 1H.

[10] This was rightly considered a key point (point 22) on the 1985 Delors Green Book on the reform of CAP. It might be useful to remember here some of its parts that are still valid in our day: "...it is not only a question of the risk of a proliferation of national aids to agriculture, which are known to represent a large amount. Such aids, which could be more easily afforded by the richer Member States (...) result in discrimination and distortion of competition, while paradoxically encouraging more surplus production. (...) Such a development must above all be avoided."

[11] The 1958 Stresa conference conclusions, the 1968 Mansholt Plan and the 1985 Delors Green Book remain to me cornerstones of the CAP that should be re-read by political decision-makers wishing to prepare the CAP for 2020.

considered in Delors Green Book and have since been highlighted in the present discussion on the CAP 2020 website. [13] When it comes to early retirement schemes, the forestation of land that cannot be sustainable under farming, the provision of social support and training for those who leave agriculture, or a host of alternative or complementary activities, Mansholt's thinking remains as relevant and valid today as it was then.

The most crucial point already raised at Stresa, however, was having a price policy that avoids surpluses and allows competitiveness while at the same time supporting farms that simply cannot be competitive because of structural conditions. This sound principle was rephrased in Delors' Green Book and renamed "decoupling" by the agricultural economics community during the 'eighties and has been slowly followed since the presentation of the Delors Green Book in 1985, with significant progress in the 1992 reform package, the Agenda 2000 in 1999, the Mid-Term Review (MTR) in 2003 and 2004, and the CAP "health check" of 2007.

Some areas are still fully coupled—the premium on suckling cows, for instance—and decoupling remains incomplete in most of the others. In general, there is now a "Single Farm Payment" that is coupled with the compensation for production or with areas under production in the past, but decoupled with regard to present production.

Production-coupled measures of surplus disposal in the internal and external markets or temporary stock intervention decreased substantially, as most of the internal European prices moved closer to market values or intervention conditions were restricted, in line with Europe's international trade obligations and WTO commitments. However, in terms of logic, the heavy-handed system of European market intervention remains in place. Although the European Commission has not yet published figures for export restitution spending in 2009, there are indications pointing to a substantial increase, following the general economic crisis of past few years.

With regards to quantitative restrictions, the MTR-2003 decision to end milk quotas in 2015 is still on track—although the previous Agriculture Commissioner, Mariann Fischer Boel, had to "empty her pockets" last year in the face of protesting dairy farmers—but there is no clear sign that other existing quantitative restrictions will follow the same route.

Otherwise, the CAP in 2010 has changed—albeit not as dramatically as it should have—in regard to the environment, and has developed significant innovations under the approach of a comprehensive rural policy.

IV. Old Ghosts and New Challenges

The Council paper "On the Future of the Common Agricultural Policy as Regards Market Management Measures in the Years After 2013," issued at the European Council of Agricultural Ministers in February 2010, produces an enormous sense of déjà vu regarding the post-Stresa European Council discussions.

Following the rapid increases in the price of raw materials in 2007 and 2008, which saw food price spikes in line with the sharp increase in the price of basic agricultural commodities, the Food and Agriculture Organization of the United Nations (FAO) launched an important set of initiatives regarding "food security." Some of the FAO's conclusions are quoted by the Council, but they are used out of context. [14] The FAO predicts that there will have to be a minimum 70 percent increase in food production in order to match the world's population in 2050; not quoted, however, is another conclusion whereby a sharp increase of land use in developing and less developed countries is matched by a small decrease of land use in the developed world.

Markets for raw materials tumbled in 2008-2009 with the onset of the global financial and economic crisis, relieving upward pressure on commodity prices. Concerns about overall food scarcity were redirected into concerns over market volatility as a result of the worst volatility in markets for basic commodities in the last forty years, including in the main food staples. From the Council's perspective, instability can be attributed to market speculation, with market intervention being presented as the quasi-universal remedy.

In order to avoid a hard look at the real changes that are required, the Council seems to be hiding behind the old ideological debate between protectionism and free markets. Knowing full well that the European public is suspicious of ideological arguments about the "invisible hand" that enabled the recent predatory behaviour of the financial elite and caused a global financial and economic crisis, the advocates of the CAP status quo are framing any reform proposal as an attempt to bring in the discredited religion of free-market ideology.

Commodity markets—and, as we have just dramatically witnessed, financial markets as well—are vulnerable to unacceptable levels of volatility due to market conditions. Yet, it is also the case that volatility in the past has often been provoked by inadvisable and erroneous market interventions. We should bear in mind that the decoupling of European subsidies from market intervention, demanded by the agricultural economics community and first implemented in the context of the so-called McSharry reform, was done because of the destabilizing effect of these subsidies on the market.

Rather than deciding beforehand if we want more or less intervention (and we cannot guarantee the future any of our projections,), it would be wiser to consider if we want intervention to be decided on an ad hoc basis—as were the 2009 interventions in milk and olive-oil markets—or on the basis of more predictable mechanisms.

If we choose the second option, there is much to be discussed. Should we have an insurance system financed more or less by public and private sources, more or less by European or national layers of administration, or should we couple it with a Food

[13] It is only fair to refer the remarkable work and reports done in this domain by ELO, the European Landowners Organisation, in particular through its annual conference, supported by Syngenta.

[14] As a matter of fact, factor productivity—including land productivity—rose in the last decades at a faster pace than the one implied by a required 70 percent increase in production. Of course, there is no guarantee that the world's capacity to improve productivity will remain the same. But neither can we guarantee the opposite.

Stabilisation and Security Fund (FSSF) that would be a last-resort market intervention mechanism? In any case, as the problem identified by the Council is volatility of the markets, it is clear that we will need flexible instruments of intervention, not heavily fixed and lengthy negotiated settlements.

Following news of a severe drop in farming incomes in France in 2009 and in the wake of his heavy defeat in the French regional elections, President Sarkozy went a step further from the dominant Council line: he announced his preparation to go to war with Europe in defense of the existing CAP. Mr. Sarkozy's argument fails in its elementary logic; wasn't it with the present CAP that the French farmers' revenues tumbled? Doesn't it mean that we should look for a better policy instead of histrionically declaring war on anyone who seeks change?

Some weeks before, Mr. Sarkozy's position was not one of opposition to any sort of changes to the CAP; instead, he indicated he was ready to trade more external border protection for less European budgetary support, hinting his preparation to cover any loss in income from the European coffers by French money. This is simply to say that Mr. Sarkozy wants a more renationalized agricultural policy and a less globalized and European one.

However, if the further opening of French markets would mean more pressure on key commodity production—cereals, sugar, oilseeds, or even beef—it certainly would guarantee increased new opportunities in high value added products such as wine, spirits, delicacies, or dairy where France has a clear competitive advantage at both the European and global levels. As most of the European trade deficit originates in Asia, and as the old and new Asian tigers have a more protectionist policy towards agriculture than Europe does, Mr. Sarkozy's words are especially harmful to the long-term interests of European agriculture and they offer comfort only to those whose attitudes are creating international trade imbalances.

The full return of the ghost of the situation the world experienced in the thirties is expressed here, above all. The present economic crisis has led many in the West to have second thoughts about the liberalization they promoted. Can we allow financial institutions to act as they wish only for the tax-payer to pay the bill when their decisions prove reckless? Does it make sense to exclude currency policy from the framework of trade negotiations? Did the world learn the lessons of the currency wars of the thirties that played an important role in the sudden and total collapse of the world trading system? Can we consider the Asian economic giants as developing countries still exempt from trade liberalization in food products and from assuming full environmental and other responsibilities at the world level?

These are urgent questions that the political leadership in the West will have to answer thoughtfully—that is, if they do not want to see the opinion of Mr. Sarkozy becoming the general one, with potentially disastrous results.

Europe's economic crisis is not an agricultural one, and we cannot solve it in that realm. However, the spiral of protectionism can start anywhere, and an agricultural trade war might appear to be a particularly strong candidate.

The main challenge for those concerned with the shape of the CAP in 2020 is to pay attention to the most important points that were made by the founders of the policy, and resist the temptation of standing still. To achieve full parity between old and new member states—as the end of transitional arrangements necessitates—within a budget ceiling that Mr. Sarkozy said he could consider lowering without diminishing existing agricultural general support and taking full opportunity of the trade openings at the WTO level by reinforcing international solidarity, is going to be a gigantic task. One that will need political vision, strength, and courage.

V. A Budgetary Framework for the CAP in 2020

Opinions within the present CAP in 2020 debate are divided. Most of the institutional actors—either in the Parliament or in the Council—appear to be betting on a conservative position in which things move as little as possible. The French, and their President in particular, have been saying that they want a less reformed CAP—in effect, putting the clock backwards. On the other side of the spectrum, the British, backed by some Nordic countries in a re-creation of what was the old-core of EFTA, want to downsize the CAP as much as possible, and are apparently more concerned with its global budgetary side than with the composition of this budget or the substance of harmful policies. The European Commission and Paolo de Castro, author of a recent book of reflections on the issue and chair of the influential Committee on Agriculture in the European Parliament, are supportive of continuing decoupling.

The big question mark seems to be over the Single Farm Payment (SFP), still coupled to historical production and still the biggest area of CAP expenditure. Paolo de Castro's proposal is that it should be transformed into a flat rate subsidy per hectare. The European Commission, as well as many member states, might be tempted to accept this proposal, at least as a departure point from which a political negotiation could be launched. The decision on what the CAP should look like in 2020 will always be fraught with political difficulties. However, the more that the European Commission proposal is strong, well-founded, and balanced, the better the final result will be. From my own perspective, I think we need to find a stronger basis for the new priorities of the CAP.

Back in the early 'nineties, in a situation that had some parallels with the present, President Delors' team drove a negotiation on agricultural policy in Europe that was tied closely to international trade negotiations. Apparently, Europe has not yet recovered from its deep disappointment at the outcomes of both the Copenhagen Summit and the Lisbon Treaty process, and—contrary to what is happening in both the United States or Japan—is becoming ever more embroiled in its economic, monetary, and financial crisis. Yet, Europe needs to open up to the world, change attitudes, and embark on a realistic but ambitious strategy that relates internal problems to global solutions.

The recent market instability has led political opinion in the direction of a policy based on farm income insurance—although there is no consensus whatsoever on the nature and conditions of implementation of this policy. This is why I think a policy seeking a general income insurance, a "Food Stability and Security Fund" based on WTO rules, perhaps with some adjustments or flexibility to be negotiated at this level, which comprises all the aspects of the problem (internal consumers through food stamps and least developed countries through special arrangements) could be the ideal instrument to replace the Single Farm Payment.

This insurance should be managed by a board, either created by the European Commission or by a dedicated impartial administration, outside of the annual budgetary constraints. It could be implemented, replacing existing and phased-out mechanisms, pending a global agreement at international level, and therefore become a very powerful tool in international trade negotiations.

The Food Stability and Security Fund (FSSF) should insure the continuation of the first pillar of the CAP, with two main goals: (1) to reduce instability in the incomes of farmers and consumers; and (2) to ensure access to food in extreme circumstances and with seven main instruments: (i) farm income insurance; (ii) food stamps; (iii) buffer stocks management; (iv) support to Least Developed Countries; (v) structural intervention in case of structural market problems; (vi) reserve fund for WTO commitments; (vii) European-wide marketing and research measures.

Pillar 2

A. Main Features of the FSSF

1. The FSSF is funded mainly by the EU budget but must have autonomy of management that will allow it, for instance, to overcome the annual budgetary principle, which is completely pernicious for a budgetary instrument with such characteristics.

2. The Fund has to be built in such a way that it might remain unspent in specific beneficial circumstances, but might be fully invested in specific adverse situations.

3. The choice of instruments to achieve the goals must naturally be based on a clear regulatory framework, but must allow for management decisions on the best policy-mix, based on the precise circumstances faced by the markets.

B. Specific Features of the Instruments

1. Farm Income Insurance

There has been a wide debate on the nature of farm income insurance, including questions such as whether they should be national or European; whether they should have a farmer contribution or not,; or whether they should be coupled with other guarantees.

This instrument must be as European as possible as a way to prevent distortions of competition. It may be complemented by member states' insurance schemes that nevertheless should be EU-controlled as a national aid scheme.

This is a measure that aims at replacing existing direct payments, at a lower financial level. It should be horizontal across the whole of the European Union, and should apply to farmers who sign a written contract committing to ensure that their activities fully respect legal requirements related to the environment, animal welfare, equal opportunities, and labour conditions.

This measure should be financed by the EU budget on the basis of objective criteria (x per number of hectares; y per number of full-time permanent employees or family members at work). However, in order to ensure an even financial burden for the member states and end existing financial correction mechanisms, a national co-financing of the measure could be asked of the member-states.

2. Food Stamps

Food stamps should be organized on the basis of existing measures. They should be financed by the SFSF and organized at member-state level. They should be used when prices of essential food goods become abnormally high, and they should be targeted at the poorest sectors of society. Official data on absolute and relative poverty could be the basis for the European allocation of funds per member state.

3. Buffer Stocks Management

Buffer stocks should be organized on the basis of present intervention mechanisms. Their use would take into account the likely scenario of the end of export restitution measures. The end of these measures should naturally be used as a negotiating chip at the WTO. This instrument should never be used on a continuous basis when a crisis becomes structural.

4. Support to Least Developed Countries

The Fund should not be perceived as a strictly internal European instrument. Support to the Least Developed Countries (LDCs) can no longer be viewed as a dumping ground for agricultural surpluses, but the supply of agricultural goods in controlled ways and in specific circumstances cannot be overruled either. Support to LDCs might have a training axis, a policy support axis, or a production factors supply axis. Any of them might be a priority to the receiving country, and any of them might also appeal to European agriculture as the supplier. The strict border between internal and external actions is not helpful here.

5. Structural Intervention in Case of Structural Market Problems

Structural interventions should occur when it appears that the crisis in a specific sector is structural. They should be mainly a financial reinforcement of existing structures for competitiveness, job promotion, and diversification under rural development.

In case a sectoral restructuring plan is necessary, the member states with the most affected areas would be invited to present a specific program that may include replacement of the crop or plantation by others, activity diversification, marketing programs, quality enhancement programs, etc.

6. Reserve Fund for WTO Commitments

A reserve fund should be kept at a reasonably high level and should include a sizeable chunk of funds for potential support to LDCs and compensation for farmers for any decrease in border protection measures. This reserve fund would definitely increase the likelihood of a WTO agreement.

7. European-Wide Marketing and Research Measures

These should be comprised of the present European support programs for promotion of European production and food security, as well as other CAP objectives that, by their nature or importance, should be pursued at the European level.

Pillar 2

A. Less Favored Areas

A completely new axis should be created for the protection of agriculture in less favored areas, giving incentives for work in rural areas and tillage of land in these areas. Only in very exceptional circumstances can there be a coupled payment with production in this axis. Otherwise, keeping the land in good working conditions and maintain effective employment should be the main criteria. The determination of these areas is a highly complicated and technical issue, and should be controlled by the European Commission.

This should replace the now completely discredited European map of less-favoured areas, and should be more sophisticated, allowing for the existence of four to six different levels of disadvantage.

B. Environment and Land Management

The environment and land management axis should be considerably reinforced and made more logical, clear, and operational, whereas the other two axes should remain at comparable dimensions.

The environment and land management axis includes soil, water, and landscape conservation, control of emissions potentially disruptive to the climate, diminution of the use of hazardous substances, biodiversity, animal welfare, and other elements contemplated in the European legislation.

This axis must work on the basis of agri-environmental programs fully approved by the Commission and be subject to public scrutiny.

C. Co-Financing

The scale of co-financing of these measures could vary from zero to eighty percent, according to concerns related to financial correction mechanisms and also according to the merits of the axis.

Conclusions

At the Commission level, the debate about the CAP in 2020 has already had two bad false starts.

The first was the leaked mid-term review paper, which then-Commissioner Mariann Fisher-Boel rightly threw in the dust-bin. It was a repetition of the Sapir Report recommendations for the present financial perspective (2007-2013), viewing agriculture and cohesion as a sort of pork-barrel expenditure from the past that should be scrap in favor of the rest of EU spending priorities, presumed to be priorities that count. This type of ideological approach, with little care for historical development and political logic and challenges, will lead us nowhere.

The second false start came with Europe's economic strategy for 2020, a document full of wish lists and void of analysis. It addressed none of the fundamental challenges of macro-economics and international relations or, for that matter, agriculture, rural development or cohesion.

I believe that a comprehensive approach regarding agriculture is necessary. If we want to get out of the present deadlock, we should firmly place the two most important issues on the table: (1) how to prevent instability and promote food security; and (2) how to ensure that social value added farming activities be given their proper weight.

In order to bring about a European-wide proposal on these two issues and to have any chance of success, a lot of preliminary work has to be done, much of it at the member state level.

In order for a comprehensive new approach to be fully operational by 2020, work must begin right now, and this is the right time for the European Commission to explore venues for analyzing methods of implementation.

Time is running out.