

# Reforms of the Common Agricultural Policy and agriculture in Finland

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Jukka Kola

*Department of Economics and Management, PO Box 27, FIN-00014 University of Helsinki,  
Finland, e-mail: jukka.kola@helsinki.fi*

This article examines some possible paths and inherent political economy of the future reforms of the Common Agricultural Policy (CAP) and their implications for the Finnish agriculture. Scenario approach is qualitatively applied in respect of two policy scenarios, the Agenda 2000 reform proposals and the renationalisation of the CAP. In addition, the proposed European model of agriculture is briefly compared with the farm sector in the United States. Agenda 2000 is regarded as a threat scenario and the renationalisation of the CAP as a target scenario from the point of view of the Finnish agriculture in the European Union.

*Key words:* Agenda 2000, European model of agriculture, political economy, renationalisation, scenario

## Introduction

Agricultural policy is facing major changes in the 1990s. Market orientation is increasing as administrative prices and border protection are lowered, quantitative restrictions on production are reduced, and production-related price support is being replaced by decoupled direct (income) support. The recent examples of this trend in the European Union (EU) are the reform of the Common Agricultural Policy (CAP) in 1992 and new CAP reform proposals in the Agenda 2000 of July 1997, and in the United States the Federal Agricultural Improvement and Reform (FAIR) Act of 1996–2002.

In spite of an overall attempt to reduce government intervention in agricultural markets, regulation is increasing in areas such as food safety and quality, genetic modification, agri-environmental measures and animal welfare. More and more often a farmer will be eligible for certain aid only through provision of public goods and positive externalities. This development implies a rather different set of policy instruments than has been typical for the history of agricultural policies, and the CAP in particular.

The needs for reform of the CAP have been assessed in the 1990s in two expert groups appointed by the European Commission. The first 12-member group consisted of mainly agricultural economists and was chaired by Arne Larsen

(Commission 1994), whereas the second one, presided by Allan Buckwell, had a somewhat more multi-disciplinary composition with its nine members (Commission 1997a). Neither group had Finnish representation, but e.g. Sweden had a representative in both of them.

Policy studies commonly focus on either the reasons for the policy or the effects of the policy. The former approach usually employs political economy, or public choice, models of a positive framework (reviews by Swinnen and van der Zee 1993, Harvey 1997a) and the latter normative welfare economics models (reviews by Bullock et al. 1997, Kola et al. 1997). Blandford (1996) classifies economists who follow the process of (agricultural) policy formation roughly into two categories: (a) those who find the process distasteful because it seems to have little relationship to economic rationality, and (b) those who find the process interesting and try to explain it. This paper represents the latter approach of political economy, like e.g. Mahé and Roe (1996) for the CAP and Paarlberg and Orden (1996) for the US agricultural policy.

This article (i) identifies and discusses some of the possible future reform paths of the CAP and (ii) examines their implications and political economy aspects in Finland. The next chapter presents the scenario approach as a way to analyse future policy paths. Two specific policy scenarios are discussed in the following chapter, in which the European and US models of agriculture are also compared. In the concluding chapter, alternatives for the current CAP are evaluated from the point of view of the Finnish agriculture and its future possibilities.

## Scenario approach for political economy studies of agricultural policy

Scenario approach has, especially since the 1980s, become an important sub-section in the futures research, which, in turn, has been prac-

ticed in its modern form during about the last 30–40 years (see e.g. Vapaavuori 1993). Manermaa (1993) divides the futures research into three approaches: descriptive research, evolutionary research and a scenario paradigm. Schwartz (1998, p. 4) defines scenario as a tool for ordering one's perceptions about alternative future environments in which one's decisions might be played out. Scenario planning is about making choices today with an understanding of how they might turn out tomorrow. Scenarios can be regarded as images about the way the world might turn out in the future, including conceivable future surroundings of the social and/or economic entity in question. These images can help decision-makers recognise and adapt to changing aspects of the present environment (of society, economy, industries, agriculture, etc.) in a world of great uncertainty. Hence, the scenario approach has the potential to increase the relevance of scientific studies to policy-makers.

Often policy analysis is ex-post. Planning of policy reforms, however, calls for ex-ante evaluation of the expected effects of policy instruments. Actual research on future developments is always very difficult: there are no data available and there are many unknown factors. Instead of trying to find ways to remove or reduce this inevitable uncertainty, scenarios can be employed to study the future developments with foresight, rather than by means of traditional forecasts or projections of past developments (Hamsvoort and Rutten 1996).

Concerning its applications, scenario approach has its origins in the US military circles, and it has then been popularised by large industrial organisations in their strategic planning. Hamsvoort and Rutten (1996) point out that scenario approach has also become popular in public administration. In agricultural economics this approach is still seldom applied, although its ability to deal with future uncertainty should have been an essential advantage in e.g. agricultural policy studies. Groot et al. (1994), Hamsvoort and Rutten (1996), Paarlberg and Orden (1996) and Wennerholm (1996) are rare examples of scenario applications in agriculture, agri-

business and related policy. In Finland, Parviainen (1998) has applied a combination of a Delphi technique and a Basics PC program of the cross-impact analysis in a regional agricultural policy study to construct a set of scenarios describing alternatives for ecologically sustainable agriculture and appropriate agricultural policies.

Eventually, an important part of any planning is that new, essential knowledge is developed well in advance before the final decision has to be made. Often, short or intermediate-run planning, i.e., up to 5-year interval, can rely on so-called internal expertise of, say, a firm, underpinned by existent historical data and conventional analyses of e.g. market, economic, and demographic trends in certain regions. However, as the planning span is extended to cover more than 5 years, many more, and often also more external and complicated, factors have to be taken into account. These factors can be, for example, changes in general values, technological development, exchange rate fluctuations, international competition and political development. Thus, planning and decision-making become much more complicated and difficult due to increasing incomplete and asymmetric information and uncertainty. Scenario approach is one way to deal with this situation by studying and combining different trends and driving forces in a systematic way in an attempt to form a holistic view of the future. Driving forces are the potential forces that could cause a certain practice to change. They usually fall into five major categories: society, technology, economics, politics and environment (Schwartz 1998, p. 105–106).

Scenarios can be constructed in different ways, depending on the situation and the objective of the study. Scenarios are often created by making a survey among some experts and decision-makers in a certain field and integrating their views into scenarios. In addition, the aim is often to construct 'extreme enough' scenarios along with a basic and/or trend scenario. Here, the focus is on policy scenarios, which can be regarded as representing one of the larger categories of scenarios (Hamsvoort and Rutten 1996), others being, for example, technical and

social scenarios, threat or conflict scenarios, surprise or non-surprise scenarios, as well as the most likely scenario and the normative scenario.

## Policy scenarios

The policy scenarios are here specified in respect of the possible future development of the CAP. Identification of the driving forces is important, for they will influence and determine the CAP and the 'frames' for, inter alia, the amount, form and allocation of the spending from the European Agricultural Guarantee and Guidance Fund (EAGGF) in the future. The following scenarios can be constructed:

1. *Current CAP.* The CAP and the prevailing trends in all key factors and variables affecting it are assumed to continue largely as before, without major external (e.g. WTO) or internal (e.g. EU budget or stock-piling) pressures. The driving force is mainly of a political nature, i.e. the status quo preference of decision-makers.
2. *Agenda 2000.* This scenario is mainly driven by economic and political forces, both international and domestic, including regional interests in the EU. The CAP needs to respond to (a) world market developments, including the trade liberalisation process of the GATT/WTO and US farm policy developments, (b) Eastern enlargement of the EU and (c) budget constraints, especially in association with Eastern enlargement, indicating diminishing funds for traditional EAGGF objectives and possibly also for old member states.
3. *Renationalisation of the CAP.* The driving force here is both political and social in its nature. It is the recognition and acceptance of the strong differences between the member states and their agriculture. Emphasis is on the subsidiarity principle and balanced development in the agricultural sectors of the

different EU member states. In addition, an economic as well as political driving force is the willingness of some EU member states to even out EU budget contributions.

From the point of view of the EU administration (Commission), the scenarios most likely represent the background scenario (1), target scenario (2), and extreme scenario (3). For Finland, it is argued and analysed here that they constitute a background (1), a threat (2), and a target (3) scenario. To argue that the third is a target scenario for Finland implies that re-nationalisation is considered to be a more beneficial alternative for Finland and its agriculture than Agenda 2000. The first scenario is regarded as a non-option and is not elaborated any further, but the latter two scenarios are discussed more in detail in the next two chapters.

## Agenda 2000 and political economy

After the 1992 CAP reform, often deemed as insufficient and partial in its scope as well as unfair in the distribution of programme benefits (Commission 1994, Kola 1996, Mahé and Roe 1996), EU agriculture commissioner Franz Fischler's Strategy Paper tried to identify the main challenges for the future of agricultural policies in the EU, also in terms of the Eastern enlargement (Commission 1995). The three options evaluated in the paper were: (1) status quo, (2) radical reform and (3) further development and deepening of the 1992 CAP reform. The Commission was in favour of option 3, assuming that it would lead to higher competitiveness, integrated rural policy and simplification of the CAP, as well as alleviation of the Eastern enlargement. The Fischler paper concluded that "Conceptualising this approach and elaborating the right policy instruments to implement it efficiently will be a major task of the coming years, if this option is retained".

The third option was retained, indeed, in Agenda 2000 presented in July 1997 by the Eu-

ropean Commission (Commission 1997b). According to the Agenda, the prices of cereals would be dropped by 20% in 2000, the price of milk would be lowered gradually by 10% between 2000 and 2005, and the price of beef by 30% between 2000 and 2002. In the revised proposals of March 1998, the milk price cut was increased to 15% to take place in four phases during 2000–2003. Price reductions would be compensated – but only partly (about 50–60%) – through direct support according to the same general principles as in the 1992 CAP reform, including arable area payments and premiums for dairy cows as well as beef cattle. Set-aside would be retained as an instrument in reserve, but its percentage will be lowered to zero. Milk quotas will be maintained until 2006, but the Commission also indicates that the quota system will not continue forever.

Ceilings on overall amounts and differentiation, i.e. the modulation, of aid per farm are also mentioned, but details on the modulation criteria are still missing in the Agenda 2000 proposals, also in respect of whether such ceilings or differentiation should take place at the level of the Community or individual member states. The Agenda 2000 suggests a 20% cut on payments of over 100 000 ECU and 25% of those over 200 000 ECU, whereas the USA imposed a subsidy ceiling of \$40 000 per farm in the FAIR Act. The Agenda 2000 also proposes a reorganisation of the existing rural policy instruments and emphasises the prominent role of agri-environmental instruments to support a sustainable development of rural areas and respond to the society's increasing demand for environmental services (Commission 1997b, p. 32–33).

The Commission estimated in late 1997 that Agenda proposals will cost an additional 22 billion ECU over 6 years when compared with pursuing an unmodified CAP. The growth is mainly due to increasing compensatory payments. About 15 billion ECU of the additional cost is allocated to the beef regime and 10 billion to the dairy regime, while arable spending is estimated to be reduced by about 4 billion ECU over 6 years. In 1998, the EU spends 40.4 billion ECU on agri-

culture, which is 45% of the entire annual EU budget.

The final decisions on the Agenda 2000 and its CAP reform proposals are expected to be made in 1999. In a preliminary phase, all EU farm ministers, except Spain, approved the Commission's proposals in the November 1997 Council meeting, but they did not, however, agree on every detail of the Agenda 2000 proposals concerning the CAP.

France, as the leading agricultural producer in the EU, has consistently reserved clear judgement on a number of key issues in the Agenda, preliminary comments varying according to the product regime and its importance to French agriculture. Because agriculture is 'an affair of state' for France (Lueschen 1995), it has often delayed important agricultural decisions, both in the EU and internationally, e.g. during the creation of the CAP in the early 1960s and the GATT Uruguay Round trade negotiations (Tracy 1989, Lueschen 1995). Germany is also acting cautiously, but also very defensively, at least until the parliamentary elections in September 1998, for farmers still have pivotal voting power at margin in national politics, concerning especially the Christian Democratic Party and farmers in Bavaria. Germany seems to be close to the position of the COPA (Comité des Organisations Professionnelles Agricoles), a Brussels-based lobby for EU farmers. The power balance between France, the leading agricultural power, and Germany, the major net contributor to the EU budget, is important in the CAP decisions.

Member state positions on the July 1997 CAP reform proposals of the Agenda 2000 are further elaborated in e.g. *Chambres d'Agriculture* (1997), and the reactions to July 1997 and March 1998 proposals are listed in several issues of *Agra Europe Weekly*. In terms of these positions and reactions, it is useful to look at some basic data, concerning not only agriculture (Table 1), but also food industry and trade (Table 2), because the position of the European food industry is very important in policy-making in terms of the EU's competitiveness on the global market. Strong exporters like Denmark and the Neth-

erlands (Table 2) often support the arguments of the food industry lobbies for less government intervention in e.g. supply management. The UK and Sweden have less significant agricultural sectors and export shares in the national context (Tables 1 and 2), and they, especially the UK as a traditional keen supporter of a more radical reform (MAFF 1995), would like to see still lower prices and support and immediate abolition of quotas. In the other end of the spectrum are the countries with relatively large agricultural labour force, and often also less-favoured agricultural conditions, like the most southern member states and Austria and Finland (Table 1). These countries usually prefer milder CAP reforms, together with Germany, and emphasise rural development aspects. Austria, Finland and Sweden also share some interests in environmental and animal welfare factors.

### European and US models of agriculture

Agenda 2000 proposals have generated the discussion on the future direction of the European agriculture. Comparisons are being made especially to the recent developments in the US agriculture, the USA being the major counterpart in trade issues. COPA opposed immediately and strongly several aspects of the Agenda proposals, indicating that they would have very damaging consequences for the future of farmers and their co-operatives, employment in agriculture and the many related sectors, as well as the viability of vast rural areas throughout the EU (COPA 1997a).

COPA's counter-proposals have been tied to the concept of a European Model of Agriculture (EMA), which many defensive member states have then referred to in terms of the Agenda. In order to develop the EMA, proposals for reform should aim, *inter alia*, at (1) guaranteeing an increase in farm incomes comparable to those of other socio-professional categories, (2) allowing European agriculture to continue to fulfil its multi-functional role (a) as a main world producer of healthy and high-quality agricultural

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Table 1. Basic characteristics of agriculture in the EU countries in 1995.

	Utilised agr. area (UAA) % of the total area	Average farm size, ha/farm	Number of farms, in thousands	Employment in agr., forestry and fisheries 1000 persons	Share in total employment %	Share in EU-15 production value, %	Share in Gross Domestic Product GDP, %
Belgium	45	18.8	71.0	102	2.7	3.3	1.3
Denmark	63	39.6	68.8	114	4.4	3.3	2.6
Germany	48	30.3	566.9	1197	3.3	15.7	0.8
Greece	44	4.5	773.8	780	20.4	4.1	7.3
Spain	50	19.7	1277.6	1119	9.3	11.3	3.0
France	56	38.5	734.8	1080	4.9	22.0	2.0
Ireland	63	28.2	153.4	140	11.1	2.1	4.8
Italy	57	5.9	2482.1	1489	7.5	15.1	2.7
Luxemb.	50	39.7	3.2	6	3.7	0.1	0.9
Netherl.	48	17.7	113.2	243	3.7	8.3	2.9
Portugal	43	8.7	450.6	507	11.5	1.7	2.0
UK	65	70.1	234.6	533	2.1	8.8	1.0
Austria	41	15.4	221.8	267	7.3	1.8	1.1
Finland	8	21.7	101.0	156	7.7	1.1	1.1
Sweden	8	34.5	88.8	124	3.0	1.5	0.4
EU-15	42	17.5	7341.5	7857	5.3	100	1.7
USA	47	206.7	2073	3084	2.3		1.8
Japan	14	1.4	3724	3633	6.4		1.6

Sources: Yearbook of Farm Statistics 1997, Finland; Commission 1997c.

Table 2. Basic characteristics of food industry and trade of agricultural and food products in the EU countries in 1995.

	Production value mill. ECU	Share in EU production %	Share in national industrial prod., %	Employment in food industry (1000)	Share in the EU food industry employment %	Share in national industrial employment %	Trade of agricultural and food products	
							% of total imports	% of total exports
Belgium	17 053	3.5	17	66	2.6	11	12.9	11.9
Denmark	14 100	2.9	28	64	2.5	20	15.8	28.1
Germany	110 943	22.5	11	545	21.0	8	11.5	5.7
Greece	5 187	1.1	27	45	1.7	20	17.9	33.1
Spain	48 722	9.9	20	365	14.1	17	15.6	15.8
France	93 239	18.9	17	352	13.6	11	11.4	14.5
Ireland	14 104	2.9	37	47	1.8	22	9.8	20.3
Italy	50 690	10.3	12	203	7.8	8	15.3	7.1
Luxemb.	369	0.1	7	2	0.1	7	12.9	11.9
Netherl.	32 978	6.7	24	111	4.3	16	15.1	22.8
Austria	12 149	2.5	11	57	2.2	8	8.2	6.5
Portugal	7 925	1.6	18	106	4.1	13	16.5	8.3
Finland	7 198	1.5	12	39	1.5	11	8.6	7.8
Sweden	10 192	2.1	11	60	2.3	11	7.9	5.8
UK	67 273	13.7	16	526	20.3	14	11.4	7.3
EU-15	492 122	100.0	15	2588	100.0		11.8	8.2

Sources: Commission 1997c, SOU 1997.

products and (b) in forming the backbone of rural regions for e.g. employment and environmental protection, (3) promoting continued improvements in the structures and efficiency in agriculture, (4) reinforcing specific measures to benefit less favoured areas, (5) reinforcing economic and social cohesion to help safeguard agriculture in all regions of the EU, and (6) maintaining European identity by highlighting the role of agriculture in the society and applying this as the basis of the European position in the forthcoming WTO negotiations (COPA 1997b). The core of the EMA would be a responsible family farm with flexibility in various aspects, the word 'responsible' implying responsiveness to the quality, ecological, ethical and social needs of the European citizen/consumer. COPA sees EMA in the middle-way between total opposition to any change whatsoever and unconditional acceptance and application of free trade and new technologies.

The concept and persistence of a family farm is one of the most interesting and complicated issues in the discipline of agricultural economics. The concept 'family farm' as such is ambiguous. Definitions may refer to e.g. the size of the farm, employment requirements (full-time and part-time, or own labour only and hired labour), ownership and management (owner-operators or managers) and succession of generations. The advantages of family farm organisation often include e.g. flexibility and stability (contributing to e.g. food security), high work ethic, and smooth intrafamily transfers of property and management. It has also been a sort of a way of living, which is now often seen as a disadvantage of the type of an enterprise that a farm should also be, with normal economic principles. The persistence of (smaller) family farms has been related, especially by Schmitt (1989, 1992), to the low transaction costs: a family farm is flexible to organise and it is easy to motivate people in the family enterprise, over the generations. This transaction-based efficiency view of family farming is also questioned, for example by Ahearn (1992) and Boehlje (1992).

Sociological family firm model is one of the

five alternative models of structural change in agriculture and related industries Boehlje (1992) presents and evaluates. He lists nine attributes that might be used to evaluate family as compared to corporate and owner-operator versus tenant-landlord ways of organising farming, and concludes that family farming has a clear preference in only one of these attributes, i.e. independence and control of one's future.

Boehlje's analyses take us to the roots of an American model of agriculture (AMA). Boehlje (1995) describes how changes in the characteristics of agriculture and the economic climate for farm and agribusiness firms, combined with new concepts of management and strategic thinking, have changed the management of successful farms and agribusiness to a customer driven business with differentiated raw materials and emphasising so-called soft assets (people, organisation, plans and information) as the prime source of strategic competitive advantage as well as power and control.

Similarly, agricultural policy has been changing (Table 3) and responding to the changes taking place on farms and in agribusiness. Hence, policy seems to be reactive rather than proactive, and many of the policy changes, according to Boehlje, may be more in perception than in reality. Tweeten and Zulauf (1997) present the differences between the old and new paradigm for public policy toward agriculture, defining the paradigm in terms of its central economic concepts, underlying beliefs, political situation and resulting policy prescriptions (Table 4).

In the old paradigm, the central economic concept of agriculture in chronic economic disequilibrium was viewed as the result of (1) rapid technological advances increasing output and saving labour, (2) slowly increasing demand, and (3) cyclical demand acting on an industry characterised by limited ability to adjust. In contrast, the new paradigm views the agricultural sector as near long-term economic equilibrium, and there is no need for continuous government intervention for US commercial farms (sales more than \$100 000 a year) large enough to earn rates of returns on resources comparable to rates of

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Table 3. Changes in the operational environment of agricultural policy (Boehlje 1995).

OLD CONCEPT	NEW CONCEPT
agriculture is farming	agriculture is the food production and distribution system
family farming and a small business	industrialised/corporate agriculture
unstable supply (primarily domestic)	more stable supply (world-wide production)
domestic market are prime markets	foreign and industrial markets are critical markets
consumers fear high food costs and food shortages	food costs are a decreasing part of the consumers' budget and world-wide sourcing reduces the prospects of shortage
consumers believe their food is safe	consumers question the safety of their food
significant political influence (of farmers)	limited political influence
adequate budget funds for agriculture	budget deficits and reduced funding for agriculture
farm income measures economic well-being	farm household income measures economic well-being
farmers have higher moral standards, a strong work ethic and generally higher values	farmers are no different in terms of moral standards, work ethic and values
economic well-being of rural communities depends upon farming	economic well-being of rural communities depends more on non-farm activity

Table 4. Old and new public policy paradigm for agriculture (Tweeten and Zulauf 1997).

OLD PARADIGM	NEW PARADIGM
	Central economic concepts
Economic disequilibrium	Approximate long-term economic equilibrium
– excess production capacity	– economic efficiency
– excess labour	– importance of off-farm income
– low rates of return	
	Underlying beliefs
Farm fundamentalism	Democratic capitalism
Agriculture as family-farm way of life	Agriculture as a successful family business
Market failure	Government failure
	Political situation
Pivotal voting power at margin	Increased reliance on monetary campaign contributions and direct contacts with members of Congress and the executive branch
	Policy prescriptions
Agricultural policy emphasising commodity programmes	Public policy for agriculture emphasising market efficiency
– supply control	– removing market barriers
– government payments tied to production base	– providing public goods and internalising externalities
– stock adjustments	– promoting economic equity with safety net
– food security through government	– food security through private sector

returns elsewhere. These commercial farms account for 1/5 of farms but 4/5 of farm marketings. However, as the off-farm income becomes more and more important on US farms, Tweeten and Zulauf point out that, for commercial farms, farm income is still the main source of family income. This fact also holds for full-time family farms in the EU, having certain implications for the rural viability issues.

The trends presented by Boehlje (1995) and Tweeten and Zulauf (1997) emphasise the increasing market orientation, commercialisation, and industrialisation together with inherent vertical coordination in the US agriculture. Industrialisation in agriculture can be defined as the increasing consolidation of farms accompanied by increasing vertical integration among the stages in the production system through contracting and integration, all driven by changes in consumer demand, production technology and international competitive pressures (Offutt 1996). This means that traditional family farming is disappearing and large-scale, systematised corporate business pattern is also taking an ever larger part of the US agribusiness. Moreover, Tweeten and Zulauf (1997) maintain that commercial farming has moved beyond industrialisation to the post-industrial era of service industries and occupations emphasising information systems, finance, insurance, management and marketing. They see that the post-industrial era of advanced science, high technology and specialised management calls for greater private and public investment in human resource development.

However, despite these new developments it seems that farmers have not lost their uniqueness as such, not even in the US (in contrast to Boehlje's argument "farmers are no different from the rest of society" in Table 2). Drury and Tweeten (1997) found out that, compared with the general US population, the farm family possesses valued moral and cultural traits and is more stable, and the typical farmer is more religious, politically more conservative and happier. Farmers were also found to be more satisfied with their jobs, which appears to be a function of self-employment (see also Boehlje 1992: in-

dependence and control of one's future). So, it seems that a family farm is prized more by the society than by the market. These are probably the principles on which the European model of agriculture is proposed to be built. This is not economic reasoning, but if the society perceives family farming positively, it is likely to affect political decision-makers and, consequently, agricultural (and rural) policy.

The new US farm bill, the FAIR Act, for the years 1996–2002 does not emphasise family farming and commonly inherent requirements for government support and interventions in order to maintain it. As Tweeten and Zulauf (1997) put it: "The FAIR Act of 1996 opted for the market instead of the government to allocate resources and set returns in agriculture". In the EU, Agenda 2000 is only partially moving to this direction as production quotas are maintained, and stronger rural emphasis, at least implicitly, is added.

The new farm bill process began as a conventional battle over the budgetary cost of commodity programmes, but in the end the FAIR Act provided the greatest change in the US agricultural policy since their start in 1933 (Knutson et al. 1997, p. 280). In jargon, the right economic circumstances (high market prices for field crops) and the right political circumstances (budget cuts, agricultural policy leadership and Republican Party control of both the House and Senate in 1995–96) helped to make this policy change possible and acceptable, also among the farm lobby (Zulauf et al. 1996, Orden et al. 1996, Knutson et al. 1997).

Johnson (1996) belittles the changes of the Act by referring to Shakespeare: "Much ado about nothing". Although the budget was not the key issue (Paarlberg and Orden 1996), it was still important and, therefore, it is worth noting that the compensatory production flexibility contract (PFC) payments required almost 1/3 more money in 1996 than was the sum of deficiency payments in 1995 in the old farm bill (\$5.3 vs. \$4.0 billion). Whether these decoupled and declining PFC payments from taxpayers to producers will end in 2002 or not will still be a ques-

tion of \$4 billion for the next farm bill debate. Budget problems occurred in the EU's 1992 CAP reform as well, and were worsened by the over-compensation to crop farmers as fixed area payments fully compensated the institutional price drops, but market prices did not fall correspondingly (Commission 1997a). Moreover, there is no ceiling on subsidies per farm in the EU, though now cautiously proposed in the Agenda 2000, whereas in the US FAIR Act the ceiling was set at a relatively low level, \$40000 per farm.

The US, with their FAIR Act of clearer direct, decoupled income support (PFC payments) than the CAP compensatory payments will put pressure on the EU in terms of the next WTO round of trade negotiations planned to start in 1999, concerning e.g. the so-called green box and blue box support measures in the GATT/WTO (see Commission 1996). Thus, in addition to internal EU issues like Eastern enlargement and budget framework of 2000–2006, the driving forces behind the European Commission's Agenda 2000 proposals are also clear external pressures, in a similar manner as they also were during the 1992 CAP reform due to the then ongoing trade negotiations in the GATT Uruguay Round of 1986–1993. To define and establish the European model of agriculture will not be easy in these circumstances.

## Renationalisation of the CAP

The CAP is not able to deal with diverse farm sectors and production conditions of all 15 different EU member states. The common agricultural policy is not 'common' enough (Kola 1996). Problems of the CAP also include the distortion that 20% of farmers with the largest and most intensive farms in the most-favoured agricultural regions in the EU have received 80% of the CAP subsidies (Commission 1994, p. 27). Neither 1992 CAP reform nor Agenda 2000 proposals attack this problem.

In the third scenario, renationalised agricultural policy (RAP), more balanced policy actions

and support allocation are assumed between less-favoured and most-favoured agricultural regions. Hence, the goal is the better targeting of policy measures and support through the application of the subsidiarity principle also in agricultural policy. The constitutional principles of the Community are: (i) fair competition, (ii) subsidiarity and (iii) consensus. In respect of subsidiarity, the problem is that the CAP, unlike the EU structural policy, belongs to the exclusive competence of the Community. National policy measures should also be in conformity with the principle of fair competition. In general, spatially differentiated policy responses are needed, especially if environmental protection and rural development become more important rationales for agricultural policy. Hence, the RAP could also be regionalised agricultural policy.

Kjeldahl and Tracy (1994) and Kola (1996) are two examples of the few studies discussing the renationalisation issue. In addition, Harvey (1997b, p. 426–427) concludes that his new framework for an effective and efficient agricultural policy mix for the EU implies "a considerable element of 'renationalisation' of the CAP, in the sense that socio-political decisions on the appropriate levels and mechanisms for the delivery of farm support should be devolved from Brussels to the member states and regionally differentiated within member states". The Economist (1997) magazine spread the idea more widely by advocating that national governments should mainly subsidise their farmers themselves, instead of the EU budget and the bureaucratic, inefficient circulation of money through Brussels. The latter point is also important due to the uneven EU net budget contributions, agricultural spending taking about 50% of the budget in the 1990s. For a longer time, Germany, and the Netherlands more recently, have pointed out this imbalance very clearly. Similarly, there are imbalances in the allocation of EAGGF expenditure if analysed at the farm level (Table 5).

Renationalisation of the CAP is opposed by the EU, for it would (1) distort common markets, (2) break the most integrated Community policy, and (3) harm poorer member states with

the removal of common financing. In addition, as Ritson (1997, p. 2) points out, the three fundamental principles of the CAP, including the common financing, must not be called into question in any reform of the CAP. More recently, the European Commission has excluded renationalisation in Agenda 2000 (Commission 1997b, p. 32) in association to (the very brief) discussion on differentiation and ceilings, i.e. modulation for direct payments, but would, however, allow member states to introduce differentiation criteria according to commonly agreed rules. COPA also regards renationalisation as "quite unacceptable", at least if it jeopardises the existence of certain agricultural sectors in certain regions (COPA 1997a, p. 3).

But renationalisation needs not do any of these. Firstly, it should be easy to require and control that national policy instruments would not be trade-distorting (e.g. via full de-coupling). The normal operation of the Single European Market (SEM) takes care of the price levels in any case, and, as a whole, the CAP has not provided same, common agricultural prices in all member states due to the peculiarities and complexities of the agri-monetary system. Secondly, there is no need to preserve, in economic terms, an inefficient and, in social and political terms, an unequitable policy unable to reflect the diversity of member states, however 'integrated' this may be. Thirdly, poorer member states receive substantial funding via ever-increasing EU structural and cohesion funds. They, as all member states, could also receive a minimum level of EU-financed income support for farmers in the RAP. The primary responsibility for the implementation of income, structural, regional or social policies could be left on member states (see also Commission 1994), whereas it would be important in the RAP, too, to have a common framework for agri-environmental issues as well as quality and safety aspects of food products, including production ethics, animal welfare and veterinary aspects of agricultural production, in the entire EU. Renationalisation of a certain degree does not mean a complete abolishment of the CAP. A lower degree of re-

Table 5. EU EAGGF support and agricultural incomes in Member States in 1995-1996.

Member state	EAGGF support, guarantee section		Agricultural incomes
	total, mill. ECU	per farm (1), ECU	index: 1989-91=100
	1996	1996	1995
Belgium	1 152	16 225	88.8
Denmark	1 358	19 738	115.1
Germany	6 050	10 672	123.9
Greece	2 801	3 620	100.7
Spain	4 054	3 173	116.2
France	9 572	13 027	115.9
Ireland	1 700	11 082	127.2
Italy	4 231	1 705	107.8
Luxembourg	20	6 250	93.8
Netherlands	1 536	13 569	86.7
Portugal	646	1 434	98.5
UK	3 470	14 791	133.7
Austria	1 214	5 473	115.8
Finland	649	6 426	82.4
Sweden	624	7 027	88.5

(1) farm numbers from 1995, see Table 1.

Source: Commission 1997a and 1997c.

nationalisation, so-called regionalisation of the CAP is reflected in the proposals of the agricultural policy group (MMM 1996, p. 106): the official key issue for Finland is that the permanent competitive disadvantage of the Finnish agriculture, due to her natural conditions, has to be compensated by the CAP measures.

The 100% renationalisation is unlikely and politically unfeasible for the time being. Yet, renationalisation of a lower degree and the simplification of the CAP should be aspired for. For simplification, and stability, there could be a fixed amount of money for several years to member states from the EU budget. This money should be based on clear criteria taking into account certain special, meaningful characteristics of the member states, i.e. the characteristics that make them eligible for agricultural assistance. Applicable criteria include, *inter alia*, the following factors: (1) unfavourable natural conditions (e.g. in Finland a short growing season)

leading to high production costs, (2) farm structure, (3) the disparity between agricultural and non-agricultural incomes, (4) extent of rural regions and the role of agriculture within, (5) alternatives for other economic activities in currently agriculture-dominating regions, (6) provision of CARE goods (Conservation, Amenity, Recreational, and Environmental) by agriculture, and (7) the share of agriculture in national employment and gross domestic product (GDP).

These criteria aim at reflecting the actual need for support and distributive equity considerations. They are clearly different, and probably also more complicated, than those of Harvey's (1997b, p. 427) as he proposes that the distribution of the total EU support between member states should be determined on the basis of base level production shares. This would not alleviate the serious equity problems of the CAP. One of the fundamental questions in the CAP is whether direct payments will be aid due to some special reasons making recipient countries/farms eligible for public support, or will they remain as traditional compensatory payments for farm income losses. Mahé and Roe (1996) argue that a major challenge is a redesign of direct payments to make them clearly decoupled from production and more tied to rural goods, the principle of subsidiarity favouring this attempt. The rural aspect is further elaborated and strongly favoured by the so-called Buckwell report introducing CARPE, the Common Agricultural and Rural Policy for Europe (Commission 1997a). However, as the CAP as such is incapable of dealing with the diverse problems of the member states, the development towards the CARPE appears as a lost battle before it even started.

The renationalisation aspect here is that the member states could use the money from the EU budget, and their possible national, additional financing, as they consider best, in conformity with the relevant regulations of the EU, mainly in terms of agriculture, common markets, and competition policy. The total spending on agriculture could be reduced, better targeted, and more predictable. Better predictability was evidently one of the major achievements in the US

FAIR Act as fixed direct payments replaced annually volatile deficiency payments (Knutson et al. 1997, p. 278).

## Conclusions: Finland and the evolution of the CAP

The Agenda 2000 CAP reform proposals are not going to be beneficial for Finland as they, in general, imply tougher competition in the Single European Market as well as from third countries. Because of the high production costs, bringing the producer prices closer to the world market prices is more difficult for the Finnish agriculture than for any other EU country. It should be in the benefit of Finland to emphasise the modulation scheme (a ceiling for subsidies per farm) and, in general, better justification of the use and allocation of CAP support, especially the arable area payments tied to regional reference yields and the less favoured areas (LFA) support. These would all reduce CAP spending. Inequity problems seem to remain, however, as Agenda 2000 does not revise the criteria for the area payments and proposes to restore the support for silage maize, which cannot be grown in Finland, to compensate for income losses due to the additional milk price cut.

Consequently, Finland is demanding separate, country-specific measures, financed totally by the EU, to alleviate these problems. This will not be an easy task, bearing in mind the Accession Treaty of Finland (Kettunen and Niemi 1994), in which the financial responsibility for country-specific measures (e.g. northern support and support for remaining serious difficulties, article 141) was entirely left on Finland herself. More difficulties arise as other countries follow Finland with their special problems. In these conditions, stronger renationalisation would be an applicable direction for Finland in order to create an agricultural policy sensitive enough to country-specific needs. It could be

argued that the more different a country is from the average agriculture of the EU countries, the more difficult it is for it to take an equal advantage of the CAP, and the more beneficial the RAP would be for that country. How beneficial it would be for the farm sector would, of course, depend on the domestic political and economic situation.

Concerning the political economy of Agenda 2000 proposals, the positions of the member states depend on, *inter alia*, (a) how significant the farm sector is in the national economy and employment, and, in particular, in rural regions, (b) how significant role farmers play in the national politics, (c) whether the emphasis is on export orientation and competitiveness or environmental and animal welfare factors, (d) how

much EU farm support they receive from the EAGGF, and (e) whether they are net contributors to or beneficiaries from the EU budget, and how this relation is expected to change with regard to the Eastern enlargement. The views of France and Germany are decisive in the CAP reform issues. Finland, in turn, could make an attempt to influence the Agenda proposals by finding member states willing to share common interests and reform arguments. Besides the alteration of the CAP support criteria, the quality and safety of foodstuffs and the ecological and ethical aspects of agricultural production are topics that Finland should emphasise in the name of the competitive advantage of the national as well as entire EU agriculture and the European model of agriculture.

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## SELOSTUS

## Euroopan unionin yhteisen maatalouspolitiikan uudistaminen ja Suomen maatalous

Jukka Kola

*Helsingin yliopisto*

Maatalouspolitiikka muuttuu, kun maatalouden markkinasuuntaus kasvaa: hintoja ja rajasuojaa lasketaan, tuotannon määrällisiä rajoituksia poistetaan ja hintatuesta siirrytään suoraan tulotukeen. Euroopan unionin (EU) yhteisen maatalouspolitiikan (CAP) uudistus vuonna 1992, Euroopan komission heinäkuussa 1997 esittämä Agenda 2000 -uudistusehdotus ja USA:ssa vuosien 1996–2002 maatalouslaki ovat esimerkkejä tästä kehityksestä. Kansainvälistä painetta aiheuttaa maailmankaupan vapauttaminen GATT:n ja maailman kauppajärjestö WTO:n kautta.

Tämä artikkeli tarkastelee CAP:n mahdollisia uudistusvaihtoehtoja ja niihin liittyvän poliittis-taloudellisen päätöksenteon perusteita, keskeisiä tekijöitä ja riippuvuussuhteita. Uudistusvaihtoehtoja, joita ovat Agenda 2000:n mukainen uudistus ja CAP:n kansallistaminen, tarkastellaan Suomen näkökulmasta. Lisäksi verrataan Agenda 2000:n yhteydessä esiin nousutta maatalouden eurooppalaista mallia amerikkalaiseen malliin. Artikkelissa käytetään uuden poliittisen taloustieteen lähestymistapaa, poliittikkaskenaarioita ja aineistona CAP:iin ja Agenda 2000:een liittyvää kirjallisuutta ja EU:n asiakirja-aineistoa.

CAP:n merkittävä ongelma on, että kuudelle EEC-perustajajäsenmaalle luotuna se ei ole riittävän "yhteinen", eli se ei pysty vastaamaan 15 erilaisen jäsenmaan erilaisen maatalouden vaihteleviin ja moninaiisiin ongelmiin. Suuri vinouma CAP:ssa on ollut se, että 20 % viljelijöistä on saanut 80 % maataloudesta. Agenda 2000 ei näitä ongelmia poista, vaan se johtaisi komission maaliskuun 1998 esitysten perusteella tuotanto-oloiltaan ja kustannustasoltaan poikkeavassa pohjoisessa Suomessa suhteellisesti suurempiin maatalouden tulonmenetyksiin kuin muissa jäsenmaissa.

CAP:n kansallistaminen (RAP = renationalised agricultural policy) sen sijaan vahvistaisi myös maatalouspolitiikassa läheisyys- eli subsidiariteettiperiaatetta, joka on tärkeä periaate EU:n alue- ja rakennepolitiikassa. RAP yksinkertaistaisi CAP:ia ja johtaisi säästöihin EU:n budjetissa, josta maatalouden

osuus 1990-luvulla on ollut noin 50 %. Kansallistaminen selventäisi myös EU:n tulevaan itälaajenemiseen liittyvien maatalouspolitiikan ongelmien ratkaisua. CAP:n kansallistaminen voi olla eriasteista, jonka lievintä muotoa edustavat Suomen itsensä maksamat kansalliset tuet (pohjoinen tuki ja vakavien vaikeuksien tuki) sekä Agenda 2000:n eläintukien ns. kansalliset kirjekuoret. Suomen virallinen vaatimus Agendan aiheuttamien tulonmenetysten täysimääräisestä kompensoimisesta EU:n varoin erityisolosuhteissimme vedoten edustaa lähinnä CAP:n alueellistamista.

Täysimääräinen RAP merkitsisi jäsenmaiden omaa valtaa ja rahoitusvastuuta maatalousasioissa. EU:n yhteinen kauppa- ja kilpailupolitiikka asettaisi kuitenkin tietyt rajoitteensa mm. tukimuodoille ja estäisi siten markkinavääristymien muodostumisen yhteismarkkinoilla. Suomen maatalous hyötyisi kansallistamisesta, koska oma päätöksenteko voisi ottaa muita vaihtoehtoja paremmin huomioon tuotantomme erityispiirteet ja -olosuhteet. Suomen poliittinen ja taloudellinen tilanne vaikuttaisivat tällöin maatalousratkaisuisissa.

Täydellinen kansallistaminen olisi EU:lle poliittisesti vaikeaa, koska CAP on pisimmälle integroitu yhteisen politiikan alue unionissa. Lisäksi EU-jäsenmaiden poliittis-taloudelliset lähtökohdat CAP-uudistukseen ovat hyvin erilaisia riippuen mm. siitä, (a) kuinka ratkaisevassa asemassa viljelijä-äänestäjät ovat maan sisäpolitiikassa (tietyille puolueille esimerkiksi Saksassa), (b) miten tärkeä maataloustuotteiden ja elintarvikkeiden vienti (Ranska, Tanska, Hollanti) tai maatalousväestön merkitys maaseudun väestöpohjana maalle on (Välimeren maat, Itävalta, Suomi), (c) miten maa painottaa kilpailukykyä suhteessa ympäristöasioihin ja tuotantoetiikkaan, (d) onko maa EU-budjetin nettomaksaja vai -saaja (Saksa vs. Välimeren maat) tai EU:n maataloustukien suuri hyötyjä (Ranska absoluuttisesti, Irlanti ja Tanska suhteellisesti) sekä (e) mikä CAP-uudistusratkaisujen suhde on EU:n tai jäsenvaltion laajempiin poliittisiin ja talou-

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dellisiin päätöksiin ja kehityssuuntiin, esimerkkinä Saksan ja Välimeren maiden suhtautuminen EU:n itä-laajentumiseen.

EU:n poliittis-taloudellisessa päätöksenteossa Suomen pitäisi löytää samankaltaisessa tilanteessa olevia jäsenmaaliittolaisia vaikutusvaltansa lisäämi-

seksi, tavoitteenaan esimerkiksi CAP:n tukimekanismien muuttaminen. Taloudellisesti ja poliittisesti mielekäs tavoite olisi, että julkinen tuki kohdennetaan tehokkaammin ja tarkoituksenmukaisemmin selvästi perusteltujen ja laajasti hyväksytyjen kriteerien mukaisesti.