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EU Enlargement and Governance of the Common Agricultural Policy

The requirements for the implementation, administration and control of the application of the current CAP are much higher than they were 15 years ago. The governance problems caused in the present EU by today's higher regulation density are already severe. The new member countries are even less well equipped than the present ones to deal with these problems. What political consequences should be drawn?

The founders of the European Economic Community agreed from the outset to supra-nationalise the agricultural policies of the member countries. The reason was not because harmonisation was easy, just the opposite: each country had a specific set of agricultural policy instruments, determined not only by the needs and preferences of the country but also by history. The latter is worthwhile noting as policies show a strong path dependency. Decisions in the past pose a strong constraint on present policies.[1]

It was clear from the very beginning of the Common Agricultural Policy (CAP) that the integration of agricultural markets would not be possible via negative integration, i.e. abolishing tariffs and other trade obstacles; instead positive integration was needed, replacing national institutions and organisations by supra-national ones. Despite these obvious difficulties, harmonisation towards a Common Agricultural Policy (CAP) was chosen because there was a strong belief at that time that the supra-nationalised agricultural policy could be the engine for the further integration of other policies. However, expectations have not been met. The CAP has revealed again and again the divergence of national interests, strengthening the path dependency of policies. Reforms, even if regarded as necessary by the majority of the members, could not be initiated as the losers of the policy change were not willing to give up without receiving compensation. The switch from payments linked to production to more decoupled instruments usually involves more complex administrative procedures in terms of implementation and control. Consequently, the evolution of the CAP has been characterised by an increase in the intensity of regulations even if external protection has significantly declined. The institutional design of the decision-making in the Council of Agricultural Ministers favoured this development in the case of the previous enlargements. The unanimity rule provided a vehicle for promoting hesitant countries' own interests by means of package deals or log-rolling. The trend towards a higher regulation density has one major drawback in that the requirements for the implementation, administration and control of the application of the current CAP are much higher than 15 years ago.

One does not need to be a prophet to foresee even more problems for the next enlargement of the EU. The increase in the number of countries, the divergence in the levels of overall income, differences in societal preferences, the different roles of agriculture in the economy, and the huge discrepancies in farm structures will certainly enhance the divergence of interests in the goals of the CAP. Consequently, it will become more difficult to launch adequate reforms. This paper will not address this problem, as it seems quite obvious. Instead, the objective is to draw attention to the problem of governance. Not only the goals, but also the design and implementation of a policy are crucial to its success.

As it is, the CAP is designed at the EU level, but it is mainly governed at the country or even regional

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[1] U. Koester: The Role of Germany in the Common Agricultural Policy, in: S. Tangermann (ed.): Agriculture in Germany, Frankfurt am Main 2000, pp. 209-230.

level. It might well be that some policy measures are well intended by the decision-making body at the EU level but may be badly governed at the country level. The basic idea of our approach is that governance problems are generally principal/agent problems at the various levels of the policy process. The principal, i.e. the decision-maker at the EU level, sets the goals for the CAP, and decides on the measures needed to pursue these goals. However, in the case of asymmetric information, the principal also has to monitor and enforce policies.

In the case of the CAP it is useful to distinguish between a whole hierarchy of principal/agent problems. The principal who is the highest in the hierarchy, i.e. the Commission, has to delegate the implementation, monitoring and enforcement of specific policies to the member states, i.e. these are agents in relation to the Commission. However, the member countries are often badly equipped to deal directly with sectoral policies which quite often aim to affect the behaviour of farmers. Hence, the governments of member countries may have to use a hierarchical organisation to implement the policies. Federal states and counties may play a role in this process. At the bottom of the hierarchy is the farmer who is supposed to react to the policy. Each of the intermediaries can be considered as agent and as principal; as an agent with respect to the higher level of the hierarchy and as a principal with respect to the lower level of the hierarchy. Hence, each of these intermediaries has to meet obligations imposed by the principal. However, the agent may have a certain leeway or may even break the rules. The outcome of the process depends on the one hand on the incentives of the agent to break the rules and on the other hand on the seriousness of control and of the expected sanctions. Take for example the case of support received from the EAGGF (Agricultural Funds). Countries are supposed to control the projects financed with support from the EU. Starting in 1993 the EU has introduced an integrated administration and control system (IACS). The member countries are required to establish an integrated control system for administrative controls and field inspections. In addition, five per cent of area aid applications have to be checked on the spot.

It is obvious that the expected return of a project supported financially by Brussels is quite high. If the control reveals an irregularity, the recipient would just have to reimburse the subsidy. The recipient only has to fear further sanctions (which can be circumvented) in the case of deliberate forgeries. Hence, the agent may have a (high) incentive to break the rules. The interest of the principal who is next in the hierarchy in monitoring and enforcing the rules depends among other things on the incentives given to him. What are the benefits and what are the costs of seriously controlling the projects? The benefits may depend on the form of the financing of the projects. If the money comes solely from Brussels, there is hardly an incentive for a region to repay money which it has received in the past. However, if the project is co-financed the principal may be more inclined to enforce the rules as resources may be freed for other purposes. Furthermore, incentives for the local principal may be further influenced in favour of controlling effectively if the share of reimbursements from revealed irregularities is set higher than the initial co-financing share. However, the principal is not just the region, but also the civil servants. They may pursue their own personal interests. If they spend more money they are generally considered more important, the chances of promotion increasing with money spent and not with the amount of money returned to the EU. Hence, there is good reason to assume that there are no strong incentives to control and enforce rules set by the supra-national principal. If there were strong sanctions, control might be accurate despite these adverse incentives. Generally, civil servants enjoy life-time employment in most countries and can only be dismissed if severe wrong-doing can be proven. Of course, most civil servants perform their duties as well as possible, guided by high moral standards. However, it cannot be denied that there are cases of proven wrong-doing and even of corruption. The European Court of Auditors reports regularly on many irregularities and even forgeries. There are some strong indications that these problems will become even more serious in an enlarged Union. In the following we intend to show that the governance problems in the present EU are already severe and that the new member countries are probably less well equipped than the present ones to govern complex policies like the CAP.

Governance Problems of the CAP

According to the framework presented above we postulate the following determinants which may cause governance problems:

- the intensity of regulation: the higher the intensity of regulation the more serious are governance problems;

- the incentives to break the rules: the higher the incentives to break the rules, the more serious are governance problems;
- the costs of controlling the activities of those who break the rules: the higher the costs of monitoring and control, the higher is the probability of contracts being breached;
- the likely costs of breaching or bending the rules: the higher the costs for breaching the rules, the smaller is the probability of the contract being breached;
- the interest of the principal in monitoring and enforcing contracts: the higher the incentive of the principal, the stronger will be controls and sanctions;
- the probability of being caught if the rules have been broken;
- the penalty which has to be paid for breaking the rules;
- the importance of embedded institutions (morals, specific cultural beliefs, ethic attitudes, etc.) for society, i.e. low morals require higher control costs and higher sanctions.

The Intensity of Regulation of the CAP

The intensity of regulation, defined as constraints imposed on economic agents by the CAP, has increased over time. At the outset the EU confined itself to intervening on product markets, mainly by foreign trade measures and partly by buying-in schemes on the domestic markets. The numerous producers were not directly constrained in their activities; the main exception was the sugar market, where a quota system had been instituted from the very beginning. However, significant changes have been introduced over the last two decades. The milk quota system which was introduced in 1984 constrained up to 40 per cent of agricultural production (milk and beef) in some member countries such as Germany. The so-called McSharry reform of 1992 led to a huge step towards more intensive regulation. New policy instruments were designed, such as set-aside programmes and direct payments linked to the use of land. The implementation of these instruments demands detailed information on the numerous farms in the EU. Hence, it is said that the CAP created the necessity for the "transparent farm". The move towards higher intensity of regulation is also visible in the Agenda 2000 decisions. It was decided to introduce direct payments on the beef market. The recent proposals concerning milk market reform exhibit this pattern as well.

Table 1 presents an overview of the intensity of regulation on selected agricultural product markets. The ranking is based on a qualitative measure and two quantitative measures. The qualitative measure takes into account how many and to what extent economic agents are constrained by specific policy measures.

Table 1
Ranking of Selected Agricultural Product Markets According to Intensity of Regulation

Regulation intensity	Product	Characteristics	Nominal protection coefficient 2001[1]	Nominal assistance coefficient 2001[1]
Minimal	Eggs	Small amount of protection through tariffs and export refunds, no regulation of the internal market	1.06	1.09
	Poultry	Relatively high protection through tariffs and export refunds, no regulation of the internal market	1.84	1.86
	Pork	Protection through tariffs and export refunds, limited regulation of the internal market	1.22	1.25
	Oilseeds	No protection through tariffs and export refunds, relatively high regulation of the internal market through limited direct payments and partial limits on acreage	1.00	1.65
	Cereals	Limited protection through tariffs and export refunds, relatively high regulation of the internal market by limited direct payments	1.01Wheat 1.13 Corn	1.77 Wheat 1.58 Corn
	Milk	High protection through tariffs and export refunds, high regulation intensity on the internal market, production quotas and direct payment starting in 2005 according to Agenda 2000 agreement	1.61	1.66
	Sugar beet	Very high protection through tariffs and export refunds, high intensity of regulation on the internal market by quotas	2.12	1.85
Maximal	Beef and veal	Very high protection through tariffs, high intensity of regulation, direct payments per animal, regulation of stocking rates, high differentiation of payments	6.45	10.56

[1] OECD: Agricultural Policies in OECD Countries, 2002.

Source: Authors' compilation.

The measure "nominal protection coefficient " (the domestic price divided by the world market price) informs on the strength of foreign trade measures. The coefficient indicates whether foreign traders are more or less constrained by border measures. Hence, the higher the coefficient, the more binding are the constraints. However, this type of measure usually entails no specific restrictions for the domestic producer. Finally, the measure "nominal assistance coefficient" (domestic prices and product related domestic support per unit of output divided by the world market price) informs on the distortions caused by all types of governmental interference. Moreover, the comparison between the NPC and NAC reveals the importance of direct interventions on the domestic markets; in the EU, these interventions are mainly direct payments. Since these payments, as implemented in the EU, require more intensive regulation than foreign trade measures, the difference between the NAC and the NPC indicates the degree of regulation. The market regime with the lowest intensity of regulation is the egg market. There are no domestic market measures applied and the wedge between domestic and world prices is small. Hence, it is likely that irregularities and forgeries are minimal on this market. In contrast, the intensity of regulation is the highest on the beef market. The wedge between domestic and world market prices is fairly large. Hence, traders may be inclined to break the rules by giving a false declaration of the beef quality in order to pay a lower amount of import levies or to receive a higher export subsidy. In the first case, the declaration may say that the quality of the meat is inferior to its actual worth; in the second case, the wrong declaration goes in the opposite direction. The governance problems are not limited to trade in beef. This market regime entails significant direct payments linked to the number of animals as is indicated by the large difference between the NAC and the NPC. Hence, there is an incentive for the producer to falsify information. Governance of this market regime demands detailed information at the farm level.

These high direct payments per animal and limitations to the numbers of animals which are qualified for receiving premiums lead to temptation to report larger numbers of animals. As the amount of money received by individual farmers can be quite high, they may have an incentive to bribe the controller. The controller may have no strong incentive to administer the system accurately as the payments are paid completely by Brussels. If irregularities are discovered, the fine is limited and, even more important, the complete fine goes back to Brussels. Hence, the incentives for strict local controls appear even weaker from the viewpoint of the member state. Although it is impossible to obtain an estimate of the expected value of forged premium applications, it can be assumed that the given control frequency is insufficient to deter all economic agents effectively from fraud.

Governance Problems in the New Member Countries

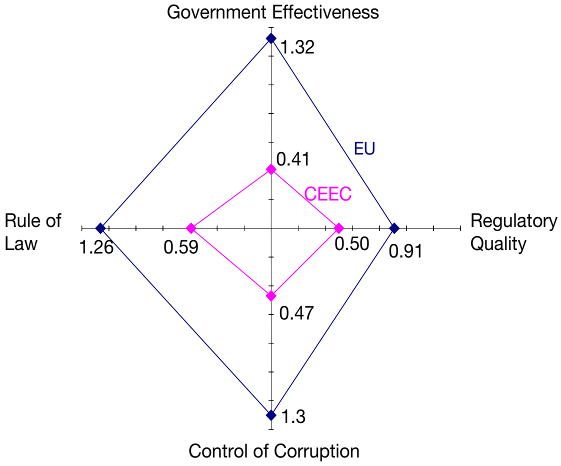
The analytical framework presented above has shown several shortcomings with regard to governance of the CAP in the current member states of the EU. To draw the immediate conclusion that these problems are going to be of equal importance in the CEEC accession countries would be unfair. However, a closer look reveals several good reasons for suspecting that governance issues will indeed turn out to be one of the keys in explaining the expected (mal-) functioning of the CAP after enlargement.

It is a generally accepted fact that irregularities, fraud, and forgeries are positively correlated with deficits in good governance. Governance, of course, is a multidimensional concept which is difficult to measure. Kaufmann et al.[2] suggest splitting up governance along six dimensions and provide a quantification for these indicators based on opinion polls and surveys among firms. For the case in hand, the first two clusters, which refer to the selection and contestability of the assignment of positions in the political process, are of minor interest. The other four clusters are more important for the problem of implementing and controlling such a complex policy as the CAP. "Government effectiveness" contains, among other things, the quality of the bureaucracy and its independence from pressure groups. "Regulatory quality" is more concerned with the policies itself, i.e. whether their design is market-oriented or interventionist. "Rule of law" indicates "the extent to which agents have confidence in and abide by the rules of society".[3] Finally, "control of corruption" combines several corruption-related factors. The average results for the European Union (EU-15) and the accession countries (CEEC) are shown in Figure 1. A higher rating corresponds to a

[2] D. Kaufmann, A. Kraay and P. Zoido-Lobatón: Aggregating Governance Indicators, World Bank Policy Research Working Paper No. 2195, 1999; D. Kaufmann, A. Kraay and P. Zoido-Lobatón: Governance Matters II, Updated Indicators for 2000/01, World Bank Policy Research Working Paper No. 2772, 2002.

[3] D. Kaufmann, A. Kraay and P. Zoido-Lobatón: Governance Matters II, op. cit., p. 6.

Figure 1
Average Rating Results for Governance Indicators in the EU and in the CEEC, 2000/01



better valuation of the country on this criterion by the respondents.

In each of the dimensions of governance discussed here, the EU countries outperform the accession countries by far. A look at the country-specific results (Table 2) reveals that for each criterion there is not a single CEEC country that is valued higher than the average of the EU. This situation is of course only a snapshot of the situation in 2000/01. One might argue that with EU accession approaching, governance will improve (there are a lot of activities supported by the EU, e.g. twinning, special training for bureaucrats, etc. to improve these deficits). However, recent experience contradicts this assumption. A look at the three most important CEEC countries in terms of agricultural output, Poland, Hungary, and the Czech Republic, reveals no substantial improvement or even a deterioration between the estimated indicator from 1997/98 to 2000/01 for most of the dimensions, with the exception of "rule of law" (see Table 3).

How are these deficits in good governance going to put an additional burden on the implementation of the CAP? The common market organisation for beef provides a good example. As explained above, this market organisation is characterised by strong regulation, at the border as well as on the individual farms. If traders perceive the government as little effective in controlling the correspondence of the declared and

Table 2
Selected Indicators of Goverance Problems in the New Member Countries

	Government effectiveness		Regulatory quality		Control of corruption		Rule of law	
	2000/01	1997/98	2000/01	1997/98	2000/01	1997/98	2000/01	1997/98
Luxembourg	1.855	1.674	1.487	0.947	1.784	1.671	1.86	1.621
Netherlands	1.835	2.030	1.5	1.141	2.093	2.026	1.667	1.584
Ireland	1.794	1.361	1.33	1.157	1.162	1.567	1.538	1.395
UK	1.773	1.966	1.321	1.206	1.865	1.707	1.606	1.689
Germany	1.672	1.409	1.076	0.889	1.377	1.62	1.572	1.483
Finland	1.669	1.635	1.418	1.14	2.247	2.085	1.834	1.736
Denmark	1.615	1.721	1.095	1.048	2.088	2.129	1.71	1.691
Spain	1.565	1.603	1.081	0.864	1.446	1.214	1.119	1.032
Austria	1.513	1.219	1.193	0.901	1.562	1.457	1.855	1.812
Sweden	1.509	1.573	1.078	0.853	2.213	2.085	1.697	1.623
Belgium	1.292	0.883	0.581	0.794	1.05	0.672	1.34	0.797
France	1.239	1.280	0.595	0.713	1.145	1.282	1.216	1.077
Portugal	0.910	1.151	0.813	0.889	1.212	1.218	0.942	1.083
Italy	0.676	0.773	0.591	0.591	0.633	0.802	0.722	0.861
Greece	0.648	0.560	0.71	0.605	0.728	0.825	0.624	0.496
Weighted average[1]	1.32	1.33	0.91	0.84	1.3	1.36	1.26	1.21
Cyprus	0.911	1.041	0.833	0.84	1.237	1.811	0.964	0.928
Estonia	0.862	0.258	1.087	0.743	0.728	0.593	0.778	0.507
Malta	0.726	0.629	0.33	0.386	0.13	0.497	0.685	0.864
Slovenia	0.702	0.567	0.522	0.532	1.088	1.023	0.89	0.825
Hungary	0.601	0.606	0.875	0.854	0.653	0.614	0.761	0.706
Czech R.	0.581	0.595	0.536	0.57	0.306	0.384	0.639	0.543
Poland	0.269	0.674	0.413	0.565	0.433	0.492	0.551	0.538
Lithuania	0.257	0.127	0.296	0.089	0.196	0.034	0.287	0.18
Slovak R.	0.229	-0.032	0.265	0.168	0.226	0.03	0.363	0.134
Latvia	0.223	0.068	0.301	0.509	-0.034	-0.264	0.361	0.155
Weighted average[1]	0.41	0.56	0.50	0.55	0.47	0.49	0.59	0.53

[1] Weights are the individual country's share in the agricultural GDP of the EU and the applicant countries respectively.

Source: D. Kaufmann, A. Kraay, P. Zoido-Lobatón: Governance Matters II, Updated Indicators for 2000/01, World Bank Policy Research Working Paper No. 2772, 2002.

Table 3
Absolute Change of Governance Indicators from 1997/98 to 2000/01 in the Czech Republic, Hungary and Poland

	Government effectiveness	Regulatory quality	Control of corruption	Rule of law
Czech Republic	-0.014	-0.034	-0.078	0.096
Hungary	-0.005	0.021	0.039	0.055
Poland	-0.405	-0.152	-0.059	0.013
No. of deteriorations	3	2	2	0

Source: D. Kaufmann, A. Kraay, P. Zoido-Lobatón: Governance Matters II, Updated Indicators for 2000/01, World Bank Policy Research Working Paper No. 2772, 2002.

the traded quality of meat, forged declarations will occur more frequently, as they allow them to obtain higher export refunds or lower import levies. Accordingly, farmers might tend to over-report the number of cattle they have. This is especially true if, in the case of a control that detects an irregularity, bribery is likely to be successful. The low scoring for "control of corruption" supports this point of view. In addition, if the general beliefs or other embedded institutions in these countries do not counteract the formal deficits in governance, the impact of too strong control requirements will be even more negative.

Evidence exists for the persistence of corruption in the accession countries. Table 4 lists the share of the gross firm revenues that is used for bribery. The average share is probably considerably higher than corresponding surveys have estimated for the current member states. Not surprisingly, this indicator exhibits a negative rank correlation with each of the dimensions of governance introduced above, i.e. the lower the score for the governance indicator, the greater is the share of bribery payments.

The same authors also provide some evidence that the role of corruption increases when firms trade with the state. They find that the share of firms that pay kickbacks is substantially higher among the firms that are involved in trade with the state than in the full sample.[4] A policy like the CAP, that increases the role of the state considerably, can be expected to worsen this situation further unless effective countermeasures are taken. However, as outlined above, the high intensity of regulation will likely even aggravate corruption problems since the required information involves such a level of detail that it will be very difficult to control.

[4] J.S. Hellman, G. Jones and D. Kaufmann: How Profitable Is Buying State Officials in Transition Economies?, in: Transition, Vol. 22, 2000, No. 2, p.10.

Table 4
Average Bribery Payments as Share of Gross Firm Revenues
(in %)

Country	Level of bribery
Czech Republic	2.5
Estonia	1.6
Hungary	1.7
Latvia	1.4
Lithuania	2.8
Poland	1.6
Slovakia	2.5
Slovenia	1.4

Source: J.S. Hellman, G. Jones, D. Kaufmann: How Profitable Is Buying State Officals in Transition Economies?, in: Transition, Vol. 22, 2000, No. 2, p. 9.

Implementation of the CAP

Given the general background for governance outlined above, what can we expect with regard to the enforcement of the Common Agricultural Policy? The beef market example has already indicated that problems are likely to worsen in comparison to the current member states, mainly due to the use of direct payments which are coupled to the individual farmer's production. Without going into too much detail, it is reasonable to assume that these problems are going to happen in an analogous manner for other agricultural markets in which the CAP relies on production coupled with direct payments, mainly the "grandes cultures" crops. The payments are tied to the actual use of the land, eligibility for the payments is tied to mandatory set-aside, and certain crops are exempt from the payments. This implementation requires control of the data that the farmers reported in their application because of the detailed level of information required. Even though the increasing use of geographical information systems or remote sensing techniques facilitates control and monitoring, direct on-farm control and monitoring will remain necessary, with all the implied enforcement problems. In 2002, the European Court of Auditors estimated (based on the IACS data) that more than a quarter of all applications for area payments could have been erroneous. About half of these flawed applications show deviations of a magnitude that cannot be explained by mistake. When comparing the role of the deviations as measured by the number of detected flawed applications, we find a strong negative correlation with the governance indicators, in particular with "rule of law". This correlation persists when controlling for the total number of controls. Hence, we can expect that with lower governance ratings – note that the accession countries' score is about 0.6 compared to a score of 1.3 for the current member states – the irregularities in the applications for direct aid are likely to increase, if this system is introduced in the new member countries.

The administrative challenge connected with the introduction of the EU's system of direct payments has been recognised by the Commission. Therefore, a transition period has been proposed, throughout which a simplified system for direct payments should be applied in the new member states. Basically, this system comprises that all payments for the different products with direct payments are subsumed into a single subsidy which is then paid at a unique country-wide rate per ha of utilisable agricultural area (UAA), regardless of the actual use of the land. For example, in the cereal Common Market Organisation, the eligible area is multiplied by the country's fixed reference yield which is subsequently multiplied by the appropriate share of the EU-wide payment rate per ton of eligible crop. This latter share is set at 25% for 2004 since direct payments will be phased in gradually. The simplified system would already implement some of the basic decoupling ideas presented in the recent communications under the headline mid-term review.

These simplifications are in general positive. However, as currently discussed, they still suffer from one major drawback, namely that they are intended as temporary measures. The new member states are obliged to implement the EU Integrated Administration and Control System (IACS) which was invented in the context of the McSharry reform as the answer to the ever increasing administration problems caused by CAP reform. IACS comprises database structures, administrative procedures, and control and monitoring schemes, and is intended to enable the successful administration and control of the CAP. The system was judged an apt instrument to pursue this goal by the European Court of Auditors.[5] Can this system solve the above-mentioned governance problems with the CAP? Two issues give support to scepticism in this regard. First, the IACS has a limited scope: it does not explicitly address problems of fraud and forgery, although its data collections might be useful in detecting such a criminal exploitation of the CAP. Second, it must be kept in mind that the administrative burden is to be carried by the member states while the rewards from detecting irregularities go to Brussels. Hence, even if the IACS at the member state level detects irregular applications, it is by no means certain that the error will ever be reported to the European Commission.

According to the classification in Table 1, there are other types of Common Market Organisation with a high intensity of regulation which do not (yet) rely on direct payments, namely milk and sugar. Both rely heavily on the enforcement of quotas at the individual farm level. The CMO for milk and milk products assigns to the individual producer the right to deliver or to market directly a certain amount of milk at a standardised fat content, the so-called milk quota. Any milk produced above this quota is charged with a levy that renders production above the quota unattractive. Crucial factors for a successful enforcement of the quota system thus rely both on the control of the direct sales and deliveries of milk, and on the enforcement of the super levy on above-quota production. The experience with this system, which has been in operation since 1984, has been mixed. The ECA has addressed the quota system several times.[6] In each of the reports, the EU's financial watchdogs criticise the quota regime sharply, in particular the enforcement of the quotas in selected member states (Italy, Spain and Greece). As a matter of fact, these countries have not imposed the super levy on the individual producers. The Commission subtracts the corresponding sum from the annual reimbursements for the pre-financed budgetary outlays of the member states. However, as long as the individual producer is not held responsible for these payments, the quota system is effectively not binding in these countries.

The situation in the new member countries gives rise to the suspicion that similar problems are likely to arise. The official justification for the ignoring of quotas by the member states was generally that these countries are net importers of milk. Since the quota is intended to align domestic supply and demand, these countries claimed the right to increase milk production above the initial quota assignment. This reasoning is clearly contrary to the spirit of economic integration but it seems to be successful in public discussions. The quota assignments for the new member states

[5] European Court of Auditors: Special report No. 4/2001 on the audit of the EAGGF-Guarantee - the implementation of the Integrated Administration and Control System (IACS), 2001.

[6] European Court of Auditors: Special Report 2/87, in: Official Journal C 266, 5.10.1998; Special Report 4/93, in: Official Journal C 12, 15.1.1994; Special Report 6/01, in: Official Journal C 305, 30.10.2001.

were decided at the Copenhagen Summit in 2002. Generally, the quota assignments were based on domestic production in the mid-nineties. After the breakdown of livestock herds in the early transition period, the quota assignments will fix their current position as net importers of milk products. Hence, given technical progress and increasing productivity in the future, the seed of debate with regard to a "fair" quota has already been planted. It is not unlikely that the development of the milk quota regime in the new member states will exhibit parallels to the experience with the net milk importers in the current Union.

Another minor but nevertheless interesting observation during the Copenhagen summit underlines the above line of reasoning. As mentioned above, the quota system applies to both deliveries and to direct sales of milk. In Poland, direct sales of milk play a much more important role than in the current Union. It is estimated that about 40 % of the milk produced is marketed through direct sales to consumers. Control of direct sales is going to be a very difficult if not impossible issue in the new member states. Hence, this marketing channel might further undermine the efficacy of the quota. Obviously, the Polish negotiators seem to agree that the quota on direct sales will effectively be less binding in its operation than the quota for deliveries. The last EU offer in the negotiations on milk comprised simply an exchange of 150 000 t of quota for direct sales to quota for deliveries, leaving the total quota unchanged. Since Poland finally agreed to this solution, this implies a higher valuation of the deliveries quota compared to direct sales quota. This confirms that the latter is indeed perceived as less binding.

Political Consequences

The public acceptance of the CAP will suffer if politicians do not react to the coming governance problems created by enlargement. The ECA will increasingly be forced to point to implementation problems and the resulting irregularity and fraud and, thus, the EU's image and that of supranational politics will be damaged. A political reaction to the expected changes in implementation possibilities is therefore urgently recommended.

Macro-economically, the ideal political reaction would lead to a fundamental change in policy instruments. Policies which are unenforceable or hard to enforce should be replaced. Especially the agricultural environmental policies place high requirements on the public administration infrastructures of the member countries.[7] The Court reported that compliance with certain measures, for example the reduced use of fertiliser, is impossible to control and that e.g. the maps used to review aid applications in Saxony were 75 years old and therefore inaccurate. The European Court of Auditors realised that such problems exist in all of the regions of the former German Democratic Republic (GDR) and – one may add – such problems will surface even more in the new member countries. If the use of "best farming practices" cannot be controlled in agricultural production, then this criteria should also not be used to determine whether compensatory payments should be made, as is currently the case.

It is highly questionable to base the future of the CAP on the second pillar of the CAP (the promotion of a multifunctional agriculture as a part of the promotion of rural regions). According to this philosophy payments to the agricultural sector have to be linked to the production of environmental products or to environmentally friendly agricultural production methods (cross compliance). It may well be that this policy direction is supported by a large segment of the population, but if such policies are not enforceable they will lead to increased moral hazard, to irregularities, fraud and corruption. Moreover, most of these measures can hardly be justified if the subsidiarity principle is applied to the allocation of national and supranational competence.

It has been argued above that irregularities, fraud and corruption are more likely if control measures and sanctions are weak. It is therefore necessary to consider a variation in the frequency of control dependent on a country's past performance in administrating the CAP. The revelations of the Commission and the ECA could be used as a basis for setting a country's frequency rate of controls. Furthermore, it appears necessary that the self-interests of the countries in the enforcement of the policies be increased through higher penalties for detected irregularities or fraud. Better incentives for the disclosure of irregularities should also be considered. It could be considered granting countries a rebate for the money they have to return due to irregularities or fraud.

The case of the new member countries makes it clear that in the further reform of the CAP – due to the increasing heterogeneity – the question of the enforcement of supranational policies has to be taken into account more than ever.

[7] European Court of Auditors: Special Report No. 14/2000.