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Reform of the Common Agricultural Policy

The Common Agricultural Policy faces a number of major challenges. Further reforms are necessary in order to cope with the repercussions of the BSE crisis, the pending enlargement of the EU and the latter's international trade commitments. What reform steps should be taken?

Franz Fischler*

The CAP Must Continue to Adapt to Society's Evolving Expectations

European society has evolved. And European society's expectations of the Common Agricultural Policy have evolved as well. These concerns and expectations are not new. In many respects, they played a formative role in establishing the policy framework of Agenda 2000 and setting the objectives for the European Model of Agriculture. But it is increasingly clear that we need to go further in adapting our policy instruments to these objectives. This, perhaps even more than enlargement or multilateral trade negotiations is the greatest challenge ahead for the European Union in the ongoing process of CAP reform.

Sustainable Agriculture and Rural Development

Society consumes goods produced by farming. It expects safe, good quality food at a reasonable price. Price will remain an important factor, particularly in an enlarged Community where many people will have a low purchasing power. But farming also affects public goods such as natural resources and rural amenities. People want clean air, clean water and the preservation of farmed landscapes. The countryside plays an important role here, as a place to live or to spend leisure time or as a buffer between built-up areas. There is no countryside without farming. Many people are not only concerned about the environment, but also about the welfare of livestock in agricultural production and trade.

Society also has expectations as regards public expenditure. A common agricultural policy that encourages surpluses, which then have to be disposed of – again at considerable costs – is no longer accepted. Public expenditure must yield something in return – whether it is food quality, the preservation of the environment, landscapes, cultural heritage, or enhancing social balance and equity.

It should not be forgotten that there are more than 6 million farms and some 14 million people working part or full time on farms. They have a legitimate concern in making their activity a gainful undertaking. They see themselves and wish to be recognised as rural entrepreneurs. And they want an institutional and political framework that is stable, transparent and simple.

These expectations and concerns together could be summarised under the heading of sustainable

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agriculture and rural development, a concept which integrates safety, quality, environmental and ethical concerns with the requirements of economic viability and social balance. The need to address these was reflected in the objectives set in Agenda 2000 where the European Model of Agriculture was defined:

☐ a competitive agricultural sector which can gradually face up to the world market without being over-subsidised, since this is becoming less and less acceptable;

☐ a fair standard of living for the agricultural community and stability of farm incomes;

☐ production methods which are sound and environmentally friendly, and able to supply quality products of the kind the public wants;

☐ diverse forms of agriculture, rich in tradition, which are not just output-oriented but seek to maintain the visual amenity of the countryside as well as active rural communities, generating and maintaining employment;

☐ a simpler, more understandable agricultural policy which establishes a clear dividing line between the decisions that have to be taken jointly and those which should stay in the hands of the Member States;

☐ an agricultural policy which makes clear that the expenditure it involves is justified by the services which society at large expects farmers to provide.

All these objectives are as valid today as they were two years ago, when Agenda 2000 was agreed. And they are valid for the future.

The Economic, Social and Environmental Dimensions

With Agenda 2000, an important step has been made in the reform process. It explicitly established economic, social and environmental objectives as the three elements of *Sustainable Agriculture and Rural Development*.

For the *economic dimension*, the fundamental condition for improving market balance and competitiveness was a further shift from price support to direct payments. Since payments are not linked to how much they produce, farmers should increasingly base their decisions on market signals rather than public support. The intervention mechanism works increasingly only as a safety net. A more direct approach to improve competitiveness is available under the rural development programmes, which include instruments such as investment aid.

As regards the *social dimension*, disruptive pressures on the farm sector resulting from cuts in support price were addressed through direct payments which can be modulated by Member States to the benefit of rural development measures. Again, more specific measures supporting the social viability of both rural areas and the farm sector are provided under rural development measures. In this context, support to encourage the diversification of income sources for farm households is important.

As regards the *environmental dimension*, agri-environmental measures have been consolidated as a compulsory part of rural development programmes. These policies reward farmers who – on a contractual basis – sign up to environmental commitments beyond the basic level of "good farming practice". Another element enables Member States to penalise non-compliance with environmental requirements by reducing direct payments. Both the rural development measures and the market policy include a vast range of environmental clauses and minimum requirements.

Remaining Gaps

The balance sheet of Agenda 2000 is positive. But it is clear that gaps remain. This is why a review is needed. As regards the *economic viability* of agriculture and rural areas, for a number of products, the EU has reached price competitiveness at a global level. But there is still room for improvement.

With respect to *market developments*, the situation looks quite favourable for the moment, with one major exception. The beef market faces a dramatic imbalance. This is not as a result of Agenda 2000 failure, but of the BSE and foot and mouth crises, as market balance had been achieved before these outbreaks. In most other sectors intervention stocks are down to low levels or non-existent. Of course, the current euro/dollar exchange rate has helped and this might change. Furthermore, even with exchange rates favouring exports, problems might emerge for some coarse grains as well as some dairy and meat products.

Taking a broader look at *rural development*, involving the diversification of income sources, putting local value into the food chain, or supporting farm tourism, again, the policy is moving in the right direction. However, rural development still accounts for only 10 % of the agricultural budget. This can

arguably be declared to be one of the biggest gaps between society's expectations and reality.

As regards public concerns about *food safety*, the EU is advancing on the right path. But much remains to be done, in particular in terms of control and enforcement, as indicated inter alia in the White Paper.

Food quality is more than just safety. It has many aspects, objective and subjective. The appreciation of food quality is often a matter of attitude and risk perception rather than firm scientific knowledge. This plays an important role in particular for new technologies such as, for instance, genetically modified organisms (GMOs).

Greater market orientation should help farmers to understand that competitiveness is no longer just a function of low production costs, but increasingly one of quality, value added and respect of environmental and animal welfare concerns. Market orientation means producing what consumers want.

Agriculture remains associated with many problems related to the *environment* such as water pollution, resource depletion, emission of greenhouse gases and the destruction of habitats and biodiversity. As is the case for food quality, the basis for environmental protection is setting the rules of the game. In this respect the weakest element to date is not policy, but monitoring and enforcement.

Agri-environmental measures are widely supported by farmers, environmentalists, and the general public. Yet the budget devoted to this popular CAP instrument is still modest. The CAP is generally and rightly accused of spending too much money on market policies, while doing too little to preserve the environment and the farmed landscape.

As most stakeholders believe, the CAP is still far too complex in spite of efforts undertaken with Agenda 2000 to simplify it. A radically simplified direct payment scheme for small farmers has been proposed. For the rest, however, there remains a plethora of payments and complicated provisions for implementation.

External Trade and Enlargement

These considerations stand in the broader context of multilateral and bilateral trade developments, and the enlargement process. Here there is a complex interaction between what is done internally and externally.

Regarding multilateral trade negotiations, there is symbiosis between the principles of Agenda 2000 and the EU's commitment in Geneva towards "further progressive reduction in agricultural support and protection resulting in fundamental reform" (Article 20, Uruguay Round Agreement on Agriculture). This means that the EU is participating in this negotiation in a stronger position than in the past.

This negotiating stance is based on a Council mandate, which in turn is based on Agenda 2000. It cannot change unless the Council changes that mandate before the negotiation reaches its decisive phase.

Bilateral trade negotiations are considerably constrained by the situation regarding internal policies. The changes undertaken, for domestic rather than external reasons, will in time facilitate further bilateral concessions to current partners. But the key is coherence: the EU must first further reform its policy, and subsequently take advantage of the possibilities offered to strengthen links with trade partners, *not* the reverse.

It is clear that enlargement negotiations on agriculture will not be easy. But the *objectives* of Agenda 2000 are well adapted to the agricultural situation of the different future members. Even if those countries were not planning to join the Union, they would have to pursue these objectives, or most of them, in order to deal with the domestic and international trade problems they face. Further adjustments of instruments could facilitate integration of the new Member States, particularly as regards simplification, such as the current initiative for small farmers.

With regard to the compensatory direct payments of the 1992 and Agenda 2000 reforms, their form and full immediate application appears poorly suited to the current situation in candidate countries. The primary need is to help the profound restructuring required in most of their agricultural sectors – and this view has been clearly presented to the candidate countries. Any move, therefore, to strengthen rural development policy is clearly in the interest of the candidates.

Need to Reinforce the Second Pillar

The mid-term review will provide the basis for improvement and adjustments. The need to reinforce the second pillar of the CAP is a top priority. It is rural development policies that, in many respects, provide the instruments for durable solutions. Rural development must, therefore, get a much higher profile in relation to market policies. To that effect, the possi-

bility should be created to shift funds and possibly measures between headings of the agricultural budget as further reform unfolds.

On the market side, it is essential to continue efforts to bring the beef market into order. The right response here is not reform at this stage, but crisis management.

There are limitations as to what can be done under the strict budgetary constraints of the Berlin decisions – which must be respected. Any adjustments involving budgetary costs could require a re-allocation of funds among agricultural sectors. Re-balancing support levels, both among sectors and policy instruments, is an issue in this respect.

The debate on the mid-term review is only beginning. But it will be essential to ensuring that the CAP continues to adapt to society's evolving expectations.

Friedrich-Wilhelm Graefe zu Baringdorf*

Encouraging Competitiveness Based on Quality

The BSE crisis has once again called the Common Agricultural Policy into question. The risk for consumers, the economic burden on farmers, the enormous unforeseen cost of dealing with mad cow disease as well as the disturbing cultural implications of the mass slaughter of cattle, all prove the need for fundamental change.

The Common Agricultural Policy should build precautionary consumer protection into all forms of food production and create a new framework of conditions that encourage competitiveness based on quality.

Today, the Common Agricultural Policy is no longer fulfilling its main objectives. The income of the majority of farmers is no longer safeguarded. Consumers are now paying more than ever for agricultural products, considering the mounting cost of dealing with one food scandal after another, a cost which is passed on to taxpayers.

The reform of the Common Agricultural Policy, including "Agenda 2000", adopted in Berlin in 1999, essentially aimed to limit agricultural spending, cut guaranteed prices, and increase the competitiveness of the farming industry on the world markets. Quality of food, environmental protection and sustainable development of rural areas were secondary considerations.

The EU's Common Agricultural Policy must stop playing off price and quality against each other, economic viability against environmental protection, and competition against income protection. Instead of subsidising the production, destruction and export of surpluses, the new Common Agricultural Policy must design a policy framework that will encourage high quality, resource conservation and rural economic development. The quality of agricultural products must be judged in the context of the effects and side effects of the entire production process.

Applying the Precautionary Principle to Food Production

BSE is only the tip of the iceberg. Dioxin, PCB, hormones, antibiotics, genetically modified organisms (GMOs), and many other substances dangerous to health are becoming increasingly concentrated in food for both humans and animals. This is a direct consequence of the single-minded promotion of intensive animal husbandry and production methods which depend on use of cheap raw materials and antibiotics. Using animal carcasses and sewage water in animal feed illustrate the destructive effect on farming methods of the current policy's constant pressure to lower prices.

Applying the precautionary principle to food production should not be limited to putting more stringent controls on the final product. Verifiable standards guaranteeing healthy food products must be enforced all the way from the cultivation of crops and fodder to the final processing.

The new Common Agriculture and Consumer Safety Policy must evaluate all inputs, methods and products, from the beginning to the end of the production process, according to clearly defined comparative criteria for the whole production process.

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