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The Future of the CAP - A Discussion about the Needs of a Shift in Instruments[2]

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1 Introduction

The agricultural sector in the EU is a dynamic one, continuously reacting to market forces, new technologies and institutional changes. The CAP has not delayed this process, but has facilitated it by mitigating the social consequences of this 'gale of creative destruction'[3] for the rural population. The CAP has been adapted to the changing conditions of agricultural markets, the increasing number of members of the EU and international developments. One can argue about the speed of changes, but this can only be understood by taking into account the political process; it is just the outcome of a complex of institutional and political forces.

This paper is about the future dynamics of the agricultural sector and the consequences for rural areas in Europe. The following questions will be discussed: 1) what forces will dominate changes in the agricultural sector during the next decades? 2) What consequences are expected for the agricultural sector and the rural areas in Europe? 3) What changes in CAP instruments are preferable and possible, given institutional and financial constraints? We will start with an overview of the current CAP under Agenda 2000.

2 Agenda 2000

Agenda 2000 not only addresses a number of changes in commodity policies, but also sees at an integrated rural development policy. This is called the second pillar of the CAP. The change in the different commodity policies is mainly intensifying the policy changes that were introduced by MACSHARRY, the former agricultural Commissioner. The integrated rural policy is a first step on a way to recognise that farming in many areas of the EU plays a number of roles: besides the production of food and fibres it

[1] LEI, Wageningen UR, The Hague, the Netherlands. The article reflects the individual opinion of the author and not necessarily the opinion of his/her organisation.

[2] Paper prepared as a contribution to the Working Group on "*The future role of agriculture in Europe: food production versus environmental responsibility*" of the Akademie für Raumforschung und Landesplanung (ARL), Hanover 2000-2002

[3] Cf. J.A. Schumpeter, chapter VII on the process of creative destruction.

includes the preservation of the rural cultural heritage, the landscape and natural resources. This section gives a comprehensive overview of the main features of the most important commodity policies and the aims of the rural development policy.

Commodities

From 2000 to 2006 a yearly budget between 36,6 and 39,6 billion Euros will be available for market policies. This is about 90% of the budget for the CAP. More then 90% of the budget for market policies has been spent in the past on the commodity groups we deal with in this paper. Table 1 shows the specific measures for the different products.

- Arable crops: cereals, protein plants
- Sugar
- Olive oil
- Fruit and vegetables
- Wine
- Milk products
- Beef and veal
- Sheep meat and goat meat

Rural development

Rural development policy (Regulation 1257/1999) is seen as an accompanying policy. It is complementing market policies in the framework of the CAP. It will therefore strengthen the agricultural and forestry sector. It will strengthen the competitive position of the rural areas and it will support the preservation of our natural resources and rural cultural heritage. Rural development policy is closely related to the structural policy financed from the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF).[4]

Rural development policy is implemented with a variety of measures related to the objectives mentioned before. Countries have to develop integrated rural development plans, which should show the contingency of the different measures to achieve the objectives.

3 Dominant forces during this decade

The agricultural sector in Europe is confronted with at least three dominant forces that will impact the sector and the CAP deeply. In the first place there is the public debate about the role of agriculture in society. Not only is the sector supplying food and fibres, but it also is an inherent part of the countryside with a number of different functions. The sector has a co-responsibility for an attractive country side that forms an habitat for plants and animals, tourists are visiting the countryside in search for silence and rest and it is a place where one can find an interesting historical heritage.

Secondly food production has become an issue in public debate. This debate is about food **safety** and food **quality**, two separated but closely related issues (see the

[4] See Annex 1 for more information about the implementation of this part of a rural development policy.

contribution of BUCKWELL in this volume). For instance the content of saturated fat in some meat and dairy products is a quality aspect of food and will have an impact on human health. Still we will classify butter as a safe product. Nevertheless we follow the definitions as used by BUCKWELL (in this volume), where food **safety** refers to human health and food **quality** to the totality of characteristics of the food that bear on its ability to satisfy stated or implied preferences.

Tab. 1: A selection of Commodity regimes under Agenda 2000

Commodity group	**Market policies**		**Direct income policies**	
Arable crops	Intervention price for cereals incl. Corn Export restitution and import levies		Hectare payments	
Sugar	Intervention price Export restitution Import levies	Quota system Self financing		
Olive oil	Production target price[1]	GMQ and GNQ's	Production aid	
Fruit and Vegetables	Withdrawal operations and processing aids	Producer organisations and Quality standards		
Wine	Intervention storage Withdrawal by distillation	Control of plantings Quality standards		
Milk products	Intervention of butter and skimmed milk powder Export restitution Import levies	Quota		National envelopes
Beef and Veal	Safety net intervention system Slaughter premiums	National ceilings for premiums	Male premiums Suckler cows premiums	National envelopes
Sheep meat and Goat meat	Private storage aid		Annual Ewe premium	Less favoured area supplement

[1] There is little external trade

Not only food safety has been criticised but also the way it has been produced. The average age of the population is increasing and more information is available and discovered about the relationship between food and health. This change in consumer preferences gives market opportunities for products and production processes qualified as healthy. On top of this, there is a growing awareness of ethical issues concerning food production and the technologies used in production and research. Animal welfare and the use of new techniques in biotechnology are just examples of a much wider concern about the food production processes. These debates have been stimulated by a number of recent well-known crises, but economic prosperity, education and information fuel the underlying trend.

The consequences of these trends are that national governments are confronted with an electorate that wants guarantees about food safety and questions the efficiency of the CAP. This debate questions the legitimacy of a public policy, based on price support and direct income payments, while paying little attention to food safety and quality, the rural area and ethical issues.

The accession of Central and East European countries is a third factor that will especially have consequences for the CAP. The general concerns are the costs and effects of the introduction of the current CAP in the CEEC's. Of course the extra costs for the EU budget will be substantially if we introduce the current CAP in the CEEC's. Silvis et al. (2001a) calculated an extra 15 billion Euros in 2015 when the twelve new member states have completed their accession process with the EU. This is an increase of the agricultural budget with more than one third, which cannot expect a warm welcome in Europe, to say the least. Even more serious are the consequences of the introduction of the current CAP in the new member states, because the consumers will be confronted with higher prices as well as the farmers in these countries. As the average income is substantially lower, this policy will hurt the consumer. Secondly, production will be stimulated with an increase of surpluses for the main agricultural products. In both cases the wrong signals are given and therefore it is not very reasonable to introduce a policy that has to be adapted.

The consequence of this trend is that the EU will be forced to change the current CAP, in order to reduce the costs of the accession and to prevent distortions in the new member states. This means that less income and price support will be available for the farmers in the current EU.

WTO and bilateral trade negotiations will be on the future agenda of the EU (see the contribution of ANANIA in this volume). It seems reasonable to expect that these negotiations will lead to lower tariffs and more opportunities for import and export of food in the EU. Being true in general it seems of more interest to think about the non-tariff barrier issues. What is the kind of quality guarantees that the EU can compel from the importers of food. Is this only the guarantee that it will not be harmful to consumers, or can the EU compel that it is produced in a sustainable way. One step further might be that the food is produced according to the ethical standards we obey in the EU. The latter two seem to stand little chance to be honoured. Nevertheless they seem to be of great importance for the legitimacy of a further liberalisation of food markets in the world. There is a great need for internationally accepted standards in this field. Otherwise the world wide free market for food will not work at all.

The consequences of this trend is an increase of competition in food markets world wide and thus also in the EU. For farmers in the EU this will mean lower product prices. The consumers can benefit from this development, but possibly at the costs of a greater risk with respect of the guarantee of food safety and quality. The legitimacy to compel farmers in the EU to respect sustainability and other important values will be weakened if these conditions in third countries are not respected. Measures to guarantee product safety and quality to the consumer might be used as effective non-trade barriers (see the contribution of RABINOWICZ in this volume)

4 Consequences for agriculture and the rural areas in Europe

The role of farming in Europe has so far been seen as a supplier of food and fibres. It is only recently that the public function of farming has been acknowledged by a wider public. Not withstanding the fact that in countries like Austria and Switzerland the

public function is already known and respected for a long time. With an increasing prosperity and a surplus of food, the social attention tends more to the public function of agriculture. The countryside is seen as a place for stillness and recreation, as a habitat for flora and fauna and we are becoming more and more aware of the cultural and historical roots of society in the landscape of to day. This is seen as an asset of society, which merits marketing of public goods, but pricing is still difficult.

The role of agriculture as the main driver for rural development is an obsolete idea. Other functions of the countryside are becoming more and more important for the economic development. Some of these heavily depend on the quality of the landscape and accessibility of countryside. Others will depend on the possible genetic diversity. Given the fact that agriculture has a dominant position in the rural area as a user of space it is clear that farmers have a role to play as a steward of the countryside. An important question is what incentives will stimulate the farmer to fulfil this role. It seems not very reasonable to leave this simply to market. At the same time we have to acknowledge that the countryside is a complex system with public and private aspects.

Consumers become critical about the safety and quality of their food. This awareness is a consequence of the affluence of food supply, the increase of the average age of people, our awareness of the impact of our diet on our health, but also the complexity of the food production process and its logistics. Recent food scandals bring this tendency to the surface, but underneath there is a more important trend, also seen in the marketing of functional foods. It is not only food safety and quality that matters here. It is also a way of live: care for your own health and care for the conditions of live. Food is becoming more than the intake of calories. Up to now, food markets and the food production process are not adequately organised to address this trend in consumer demand.

There is an interesting disparity between an unconditional internalisation of food markets and the increasing awareness of the importance of the food production process among consumers. Recent research of the Consumer Association in the Netherlands showed that all large retailers in the Netherlands did not have information about the origin of the meat they were selling. This means they are far off from what consumers think important about their food. Globalisation and an increase of import and export will enhance the possibilities that these shortcomings in consumer markets will increase. Only improved and internationally accepted standards for food safety measures as well as an effective control of these regulations will counteract the risk of globalisation of food markets with respect to food safety (see the contribution of BUCKWELL in this volume).

If we want to force our own farmers to respect a number of rules concerning animal welfare, sustainability of production methods and respect for our cultural heritage, landscape and nature, how do we explain them the legitimacy of imported products that do not respect these rules in the country of origin? And how do we give a choice to consumers if the retailers are not able to guarantee the origin of their products and the way they are produced? The asymmetry in information between consumers and producers is one of the reasons that the market system is failing so far. In order to fill this gap, farmers, food processors and retailers will be asked to give more information about the production process. But it is the whole chain of food supply that has to obey the rules of keeping records and in the end there is a need to communicate it to the consumer in a comprehensible way. This is not an easy task but seems being possible with the information technology of today.

A further complicating factor is the accession of the new member countries that have no long market tradition jet. In these countries agriculture is still an important economic sector in the countryside and people have little other opportunities. Their relative backwardness might be a good position to introduce new technologies and efficient organisations to compete the agricultural sector in the EU-15. This will only enforce the competition that is already expected from outside the EU. In the CEEC's this means that a lot of people will lose their job in the agricultural sector and that they have to find other one's. Especially for the elderly people this will be a hard task. It seems reasonable to develop policies to stimulate this process with attention to this social problem. Important is to respect the lessons we learned in Western Europe about agricultural development. Consider the experiences with the environmental problems and the animal welfare issues. As far as the common rules will hold in the whole EU we might expect this will happen.

Recently we have been confronted with another possible negative consequence of increasing international trade in food and animals. Epidemic diseases like food and mouth disease and swine fever show the vulnerability of an open market system without an effective control. On the hand the market system seems to force us to stop with preventive vaccination while the risk is increasing because we have little control over the movement of food and animals. It is clear that government has to play a role in these matters, but I shall not discuss these kinds of policies any further in this paper.

5 Necessary changes in instruments and institutions

As a benchmark for the discussion in this section I will use the BUCKWELL report (BUCKWELL 1997). In this report four different policies are distinguished: stabilisation of agricultural markets; temporary direct income payments; rural development and environmental and landscape payments. In the BUCKWELL report these policies were seen as an integration of the different policies that affect agriculture. The report did not go into the consequences of these policies for specific instruments. This paper aims to contribute to the discussion about the instruments, about the necessary institutional changes and the financial responsibility. However we will first address the question of what policies seem to be necessary and then focus on main innovations that seem to be most urgent and got less attention so far.

The agricultural sector should address two major missions from society: 1) contribute to production of healthy food in a sustainable ethical accepted way and 2) contribute to a vital and desirable countryside. As these missions might be clear, this is certainly not the case with the way this should be achieved. The market does play an important role, but it is clear that the market system does not simply deliver what we want. There might be a need for additional organisation and possibly a renewing of institutions. A priori I will express that what the market system can do, should be left to the market, but we have to look at the system with an open mind.

The BUCKWELL report has been clear about the stabilisation of agricultural markets and temporary direct income payments. It has been assumed in the BUCKWELL report that agricultural markets should be left to the market forces, with the acknowledgement of possible disruptions in which case we need some stabilisation measures. Recent experience in the USA demonstrates the realism of this position. The American government has compensated market failures in American agricultural markets in an unforeseen and unexpected way. It is our aim to propose a policy that will capture these problems in a controlled and policy aimed way. This means that some of the existing instruments should be used, such as temporary set-aside and production limits. Some of

the instruments might have a private character, such as an income stabilisation fund or a risk insurance programme (see e.g. Silvis 2001 b). This stabilisation policy will be the last relic of the CAP, as we see direct income payments as a temporary and therefore vanishing instrument of income policy. It is an instrument to adapt farmers to new market conditions.

The report was less plain about the responsibilities with respect to the promotion of healthy food. This issue is a complex one and the role of government, let alone the CAP, is less clear as desirable. We did make already a distinction between food quality and food safety. The complexity has different dimensions: a technical one and an organisational one. From a technical point of view it has to be decided, what is safe? And what do we mean by healthy? This is not an easy task, but has to be done in order to develop standards and regulations. This work is done in expert committees and organised by governmental organisations. The other question is: who is responsible for what? Of course it is private business producing food with respect for the food quality and food safety. But who is responsible for control? Who is responsible for the practicability of regulations? Who is responsible for a level playing field in the market? Who is responsible for adequate consumer information? And even if we can answer all these questions, is the system working as we expect it to work? It is not easy to answer these questions. Generally speaking we can say that a number of ministries on a national level are responsible for most of these issues. But also the EU has its responsibility and a number of questions can only be answered on a global level within WTO. If we take it serious that the CAP has a role to play in the production of healthy food it should be clear that this role can only be accomplished in cooperation with the private sector and ministries on a national level, as well as other commissioners within the Commission. It is certainly not only a matter of DG Agriculture. Given the importance of the agricultural sector with respect to food production and the responsibility of DG Agriculture for agricultural markets it is also clear that there is a role for DG Agriculture in the framework of the CAP.

What role can this be? At least a number of issues deserve attention from an agricultural sector point of view: 1) harmonisation of standards in the EU and possibly within the WTO; 2) a proof of practicability of regulations and 3) the achievement or maintenance of fair competition in food markets with respect to food safety and food quality regulations.

The second mission will be addressed by the environmental and landscape policy. In the framework of Agenda 2000 this part of the policy is dealt with under pillar two and needs a further development. SUMPSI VIÑAS and BUCKWELL (in this volume) do show in a convincing way that this will be a hard task under pillar two, at least for two reasons. In the first place by developing, implementing and monitoring accepted standards and secondly for reasons of financing. What such a policy has in common with a food safety and food quality policy is the extension of its domain, which is not exclusively the agricultural sector. But the sector has again an important role to play. Therefore it is important not to narrow the subject by a limited environmental scope, but to extent it to the role of agriculture and the rural area with respect to a number of other topics, like for instance the cultural heritage functions its role with respect to recreation and the accessibility of the countryside.

The environmental and landscape policy needs in the first place a European framework in order to prevent the Union from uncontrolled national payments to agriculture under the flag of Environmental and Landscape Payments (ELCP's). In the second place there is a need to analyse the different functions of the countryside under this heading. Not only are there different functions, but also there are different

beneficiaries from such policies. Such analyses will give an indication about those who are involved, those that will gain from the policy, those who have to deliver and those who might have a say in the design of the countryside (annex II gives an example of such an analysis). Of course this type of analysis is region specific. The simple analysis in annex II makes clear that there might be a European, a national or a regional dimension if we go into the aims and functions of the rural area. If for instance the baiting place for migratory birds is a part of the Bird Directive, it seems reasonable that the EU finances partly for these aspects of the ELCP's in the region. The cultural heritage will be most of the time a national concern, while the experiences of tourists and residences will be a regional affair. If it is important for tourist, it seems reasonable that the tourist industry in the region pays partly and when the residents see the value of their houses rising as a consequence of the policy it is reasonable to expect a contribution from them. All we can say is that this policy is strongly needed, but that it will also be a complicated one. It can only be given shape and executed on a regional level, but it should be integrated in a national and European policy. On a regional scale there is a need for institutional development in order to organise the process of policy implementation and decisions about the content of the programme.

A full dressed rural policy aims for the economic development of the rural areas. Agriculture will be an aspect of this policy, but certainly not the most important one. SARACENO (2002) calls the agricultural element the sectorial function of a rural policy. The wider focus should be on the creation of supportive measures to stimulate economic activities in a broad sense. It will especially be important for backward regions and it seems reasonable to finance the policy from the structural funds. In this wider context it is not a part of the CAP, but it is important to integrate agricultural policy with rural policies. Table 2 summarises the different proposed policies and their instruments.

Tab. 2: Policies and instruments: an overview

Policy	Aspects	Instruments or approach	Comments
Sector	Stabilisation	▪ Set aside ▪ Production limits ▪ Income stabilisation fund ▪ Risk insurance programmes	Stabilisation policy will be the last relic of the CAP.
	Income	▪ Temporary direct income payments	This instrument will only be used as a temporary compensation for policy changes
	Food safety and quality	▪ A review food safety measures and food quality regulations with respect to practicability and a level playing field.	This is not only a matter for the EU level and not only for DG Agriculture.
Rural	Environment and landscape	▪ European framework ▪ National framework ▪ Regional policy development and implementation	On a regional level there will be a need for institutional development in order to bring together those involved in deciding about the design of the region.
	Rural development	▪ A package of measures for regional development	Financing from the structural funds, especially to support backward regions.

6 Discussion and conclusions

Agenda 2000 was a small step in the direction of a necessary change of the CAP. Apart from the deepening and extension of the MACSHARRY measures - price decreases to world market levels and direct income payments - Agenda 2000 introduced the rural

development policy. Not enough progress was made in the dairy and beef sector. Environmental and landscape payments were an integral part of rural development and got too little attention. The reform that Agenda 2000 generated was therefore too scanty to give an answer to the reorientation of the farming sector. Much more has to be done.

The sector has two important missions to fulfil in this century. The first is to deliver a contribution to the production of healthy and reliable food in a sustainable ethical accepted way. The second one is to make a contribution to a desirable and vital rural area. Well-organised markets can help us a lot to accomplish these missions, but markets will not do it alone. The experiences with contaminated food, animal welfare standards, genetically modified organisms and environmental regulations do show that the rules of the game have to be redefined. If we want open markets for food the standards should be known as well as the effectiveness of the control system. A balanced public policy should support these aims.

The Mid Term Review (MTR) shows the same direction as Agenda 2000: a further extension of the MACSHARRY approach and going in the direction of direct income support. New is the idea of the farm auditing approach as a condition for direct income payments. The MTR presents no proposal for the dairy sector, which is important for discussions within WTO and the budget limits in the EU. If direct income payments in this sector will get a more important role in this sector this will certainly affect the EU budget and the EU position in the WTO. Neither does the MTR answer the question of the effects on structural development, while it is proposed to limit the payments for large farms and not to bind direct payment to conditions on small farms. Finally the MTR does not define policies with respect to the other functions of agriculture. Are those a by-product of good farming practices?

The 'classic' CAP was aiming for income stability but has been used mainly for income support. This policy was exclusively focussed on the agricultural sector. Also in the years to come the CAP has to play a role in income stabilisation, but not by isolating the European market from the rest of the world and not by isolating the agricultural sector from the rest of the economy. The focus of the new policies is not a matter of the agricultural sector only. While the sector has to play an important role, this can only be done successfully in cooperation with institutions and organisations outside the agricultural sector as well as the public at large. This will be a major change in thinking, designing and implementation of agricultural policy in the EU. 'Classic' policy will become a minor task and new policies will only be successful when they become an integrated part of other policies on a regional, national or European level.

Income support has to be diminished by a gradual lowering of the direct payments and a decrease of price support. The consequences of decreasing income support can be softened by the introduction of environmental and landscape payments, dependent on the region and circumstances of a specific farm. But these payments will certainly not compensate all farmers and there will be no relationship between income decreases caused by decreasing direct payments and the possibilities for ELCP's. Attention to food safety and food quality is necessary to protect and to inform the consumer and at the same time it is an opportunity to enhance the competitive position of the European agricultural sector with respect to third countries. The role of the CAP with respect to a food safety and food quality is limited, because other DG's within the Commission and a number of national ministries will be responsible too for aspects of such a policy. But a critical review on the practicability of regulations and their impact on a level playing field seems a logical role from the perspective of the CAP. A rural development policy has to play a role in integrating policies at a regional level. Rural development can compensate for shrinking farm income by generating alternative employment, and

stimulating farm sector development. Some of the new opportunities for the rural areas can be created in close cooperation with the agricultural sector, in the way the farm protects nature, landscape and the cultural heritage.

The pressures coming from society, EU enlargement and further internationalisation demand a clear answer from politics. The wrong answer will be simply to compensate income losses in the agricultural sector by direct payments. The other wrong answer is that markets will simply give the right solutions. The challenge is to develop a policy to stimulate market participants to take their roles and to organise society in making the right choices with respect to food production and the vitality of the countryside. Ignoring the needs will lead to irreparable damage.

Annex I

Structural funds versus rural development under the CAP - A comparison

Structural funds	Rural development under CAP Regulation 1257/1999
Objectives Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind Objective 2: supporting the economic and social conversion of areas facing structural difficulties Objective 3: supporting the adaptation and modernisation of education, training and employment policies and systems	**Objectives** Rural development measures shall accompany and complement other instruments of the CAP and thus contribute to the achievement of the objectives laid down in Article 33 of the Treaty. Rural development measures shall be integrated with measures promoting Objective 1 and accompany the measures supporting Objective 2.
Financial provisions European Regional Development Fund (ERDF) European Social Fund (ESF) European Agricultural Guidance and Guarantee Fund (EAGGF-Guidance section) Financial Instrument for Fishery Guidance (FIFG)	**Financial provisions** European Agricultural Guidance and Guarantee Fund (EAGGF) Guarantee and Guidance section.
Budget period 2000-2006 135,9 billion Euro for Objective 1 22,5 billion Euro for Objective 2 24,0 billion Euro for Objective 3 195,0 billion Euro in Total	**Budget period 2000-2006** 30,4 billion Euro
Implementation Finances from the Guidance Section shall form part of the programming for Objective 1 regions. Rural development measures other than those referred to in Article 35 (1) may form part of the Objective 2 regions (see Joint Measures)	**Implementation** Rural development plans. Rural development support measures to be applied in one area shall be integrated, whenever possible, into a single plan.

Joint Measures

The EAGGF is the financial instrument supporting the rural development policy, which is considered as the second pillar of the CAP. It finances rural development measures throughout the European Union. Measures will be financed by the Guidance section of the EAGGF in Objective 1 regions (with the exception of compensatory allowances for disadvantaged areas and the three accompanying measures of the CAP[1] [Article 35 (1)]), and elsewhere by the EAGGF-Guarantee section.

The EAGGF-Guarantee section is not a Structural Fund, but contributes to the implementation of the new Objective 2. In the areas, Member States can choose whether to integrate rural development measures into the regional development programmes funded jointly with the other Structural Funds, or to incorporate them into a horizontal programme for rural development measures outside Objective 1 areas.

[1] These accompanying measures are: early retirement; agro-environment measures; afforestation of agricultural land

Annex II

Functions and policy aims in the rural area

Function / Policy aims	Nature	Landscape	Cultural heritage
Natural resources	XXX	X	
Habitat flora	XXX	X	
Habitat fauna	XXX	X	
Baiting place for migratory birds	XXX	X	
Residences experiences	XX	XXX	XX
Tourist experiences	XX	XXX	XX
Historical values	X	X	XXX

XXX means an important function for this policy aim
XX means that we expect that a moderate relationship between this function and the policy aim.
X means that there might be a relationship between this function and the policy aim

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