European Agricultural Policy – where is it going?

Allan Buckwell, Wye College, affiliated to Imperial College of Science, Technology and Medicine

Abstract

To understand where European Agricultural Policy might be going for the first decade of the 21st Century, it is necessary to understand its origins and present state. The history of the Twentieth Century in Europe could be summarised, crudely, as a game of two halves; war followed by the European Union. The history of European agricultural policy in the 20th Century could, equally crudely, be characterised as protection (1880s – 1930), followed by more protection (1930 – 1968), then common protection (1968 – 1992), and currently, slowly declining protection (1992 – ). The European Community’s Common Agricultural policy was a necessary accompaniment to a common market, and it was bound to be protectionist given its antecedents in the six founder member states. Economic analysis was successful in predicting the ultimate unsustainability of the 1968 CAP based on commodity price supports. Since 1992 the emphasis of support has switched, away from price support, towards direct payments to farmers. This will be entrenched by the Agenda 2000 proposals which are expected to operate until 2006. It is more difficult to predict the longevity of this policy because it is less obviously economically distortive. Its survival is therefore less a matter of economics than politics. Despite this difficulty, it will be argued, somewhat normatively, that the post agenda 2000 CAP is also not sustainable, and that it will slowly transform itself into a more integrated rural policy.

1 Where has EU agricultural policy come from?

1.1 European agricultural policy pre-CAP

There is, of course, a strong path dependency in European agricultural policy. The decisions taken at each point in history reflect the technical, social, economic and political conditions at the time. It is beyond the power of a short conference paper to document this history for fifteen European countries for the 20th Century. Tracy has provided the seminal text on this matter. Figure 1, taken from Tracy (1988) characterises the broad patterns of agricultural policy development in Europe over a long sweep of history from the 9th Century until the CAP is established. The important turning points in recent history were in the 1880s, the 1930s, in 1957, 1968, and 1992. The last three relate to the development of the CAP. Reproducing this flow chart serves to illustrate the varying economic and political relationships between the European powers and the importance for agricultural policy of institutional changes in land tenure and technical changes in agriculture and in transportation. The different stance taken by the UK and Denmark compared to the rest of Continental Europe is also seen in its historical perspective. This section will trace out, the main policy steps since the second world war. Section 2 will indicate the current, Agenda 2000, debate taking us to 2006, the final section considers the future beyond this.
Tracy’s schematic summary of European agricultural policy development 9th Century to 1973.

9th-11th centuries - Most of continental W Europe: in the context of feudalism, manorial system established - subservient peasantry. Open arable fields and strips.

From c 12th century: labour services, payments in kind, etc frequently commuted into wages and money payments, but many seigniorial privileges remain.

1789-1848 - French Revolution and sequels in other countries: abolish seigniorial privileges, create land-owning peasantry - but farms remain small and fragmented, peasantry backward.

Prussia: Junker class keeps land and power.

1860-1878: Anglo-French Treaty of Commerce and subsequent treaties establish free trade throughout most of Europe, including agricultural products.

From 1798: Competition from overseas grain - Re-establishment of protection in France, Germany, Italy etc. Agriculture shielded from world of depression, but adjustments to modern requirements retarded.

The 1930s: Economic crisis and fall in agricultural prices - All countries take protective action: tariffs, import quotas, etc.

France organises markets wheat and wine

Nazi Germany introduces comprehensive organisation of production, marketing and trade.

Post World War II: Most countries give income and price guarantees to farmers

Technological progress - Production rises faster than consumption - emergence of surpluses. Farm income disparities persist.

BLEU and Benelux: Limited integration in agriculture

Green Pool: Negotiations fail

Free trade negotiations fail


1959: Creation of EFTA by the Seven. Limited concessions to Denmark on agriculture.

1963: First UK application to join EEC vetoed by de Gaulle

1968: Maastricht Plan: to adjust agricultural capacity through structural measures - partially adopted in 1972

1973: First enlargement of the EEC to include Ireland, the UK and Denmark, who accept full application of CAP subject to transitional arrangements.

Scandinavia: Generally free peasantry

Denmark: Peasantry loses freedom - manorial system established

c.1788-1810: Denmark: reforms create independent class of farmers, compact farms.

Danish farmers adapt to livestock production, develop co-operatives.

Danish agriculture again temporarily unsupported

Denmark forced to re-introduce domestic market schemes.

1.2 The Treaty of Rome, 1957.
The founding of the European Communities in the 1957 Treaty of Rome set in motion, through Article 39, the concept of a common agricultural policy. At that time agriculture was a much more significant contributor to economic output and employment, and the service sector was less developed. Creating a common market for goods and services necessitated a common policy for dealing with the disparate levels and methods of farm support in the member states. Article 39 simply spelled out the necessity for a common policy and its objectives. It took almost a decade to resolve the debate over the choice of instruments to give effect to these objectives, and the level of support at which they would be operated. The decision on instruments was to base the policy on price support using a system of intervention buying to support the domestic market, and variable import levies and export restitutions to protect against external competition. The decision on the level of support was finally resolved in favour of the higher prices in Germany rather than the lower prices in other member states. The regulations providing for the Common Market Organisation (CMOs) of the main commodity markets came into operation in 1968.

1.3 The classic CAP from 1968 to 1992
The period in which the classic CAP operated was just under a quarter of the century from 1968 until 1992. Even during this period it did not operate as a static monolithic structure. This highly complex, supra-national policy held together by adjusting to a series of big shocks. These shocks included: three enlargements in 1973, 1981 and 1986; commodity market crises in 1974 and 1981; international exchange rate crises in 1969, 1971 and 1992; substantial internal disputes over budget contributions; and significant extensions to the reach of the EC with the 1986 Single European Act and the 1991 Treaty of Union at Maastricht. With such a capacity for survival, this cemented the (political) view of the CAP as a pillar of the Community. Part of the explanation for the survival of the policy through this period was its continual (initially annual) adaptation to the pressures as they arose. An early elaboration was the introduction of the agri-monetary system to cope with the problem of maintaining ECU support prices in a zone of fluctuating exchange rates. The number of policy levers within the main commodity regimes increased, the commodity coverage widened particularly to embrace the new members (sheep for the UK, tobacco for Greece and more support for southern products with the Iberian enlargement). Later in this period it was found necessary to introduce production quotas for milk (1984), and measures to try and contain the growth in budgetary costs (co-responsibility levies and maximum guarantee thresholds).

The combination of the enlargements and the rapid rise in agricultural productivity and production, together with the general economic growth which was taking place, brought about the switch in the EC’s net agricultural trade position from being a net

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1 See Tracy (1994) and Fearne (1997) for further discussion of these early debates about the creation of the CAP.
3 These were the devaluation and revaluation of the Franc and Deutsche Mark in 1969, the collapse of the Bretton Woods system in 1971 and the crisis in the European Monetary System in 1992. These were defining moments for the European agri-monetary system.
4 Which culminated in Prime Minister Thatcher’s hand-bagging of Chancellor Kohl and President Mitterand at the Fontainebleau summit in order to win the British budget rebate.
importer of most products to a net exporter. This was the period during which the budget costs of supporting the CAP grew rapidly. Such an outcome was predictable and predicted. Indeed, within the European Commission itself even as the CMOs were getting in their stride, Commissioner Mansholt’s memorandum (Commission 1968) advocated the need to emphasise structural measures rather than price support to help agriculture adapt to the modern world. The political inertia in the EC to reduce support once granted became apparent at this very early stage. Mansholt’s plan was never fully implemented.

However, there can be little doubt that several objectives of the CAP were indeed delivered during this period. Productivity, however measured, rose significantly. The incomes of those engaged in agriculture increased, though not enough to close the gap with earnings outside agriculture. EC markets were stabilised, especially compared to international markets. Food security was achieved. Furthermore, there were no complaints of political significance from European consumers about food prices. Stating that many of the objectives of the CAP were achieved during this period is not the same as saying that the CAP was responsible for these successes. Neither does it demonstrate that the objectives might not have been achieved at lower cost through other routes. Nonetheless the achievements per se were sufficient for European politicians to defend the policy to the constituency that mattered most to them, namely European voters, who, of course, were paying for (most of) it. Also, it should not be overlooked that there was massive resource adjustment in European agriculture in the three decades of the 60s, 70s and 80s. The EU Member States saw the shift of millions of citizens from agriculture and countryside to non-agricultural occupations and the urban and suburban areas. That these adjustments were achieved relatively calmly was also attributed as a beneficial effect of the CAP.

But this period also saw the steady rise in criticisms of the CAP both inside Europe and beyond. The domestic criticisms came from three quarters: the escalating economic costs of the CAP; consumer groups’ complaints of the food price effect; and claims from those concerned with human health, animal welfare and the environment that the CAP encouraged over-expansion and over-intensification of agriculture with damaging effects under these headings. Although, of course, staunch supporters, even European farmers themselves were far from happy with the CAP. After the bonanza period of the 1970s with the boom in global commodity markets,

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5 Which, admittedly, they helped destabilise.
6 There were plenty of complaints about high food prices on behalf of consumers by economists and other critics of the CAP. But the rapidly rising real incomes in European societies and the consequential fall in the relative importance of food costs meant that this was never an issue in any national or European elections in this period.
7 Part of the overall economic cost of the CAP was of course borne by producers in competing exporting countries. See below.
8 It has never been made clear whether the CAP was supposed to speed these adjustments or impede this process. In the first (Anglo-Saxon) interpretation, by raising productivity and thus displacing labour out of agriculture the living standards of those remaining are improved. But an alternative (continental) interpretation, views the policy as providing remunerative prices to those with a poor resource base because they cannot move anywhere else and we want them to remain in situ. This confusion has not prevented politicians who take either view to defend the CAP.
9 In truth, it has to be said that despite the best efforts of economists, the only cost to cut much ice politically was the budget cost of the CAP.
and despite the protection offered by the CAP, real farm prices in Europe fell and there was a systematic long-run decline in the main indicators of farming incomes.\footnote{10} In addition, the distribution of benefits of the CAP amongst farmers within the EC was of some concern. The use of price support as the major policy instrument, and the differential support levels of the commodity regimes, meant that small farmers everywhere\footnote{11}, and producers of southern products received disproportionately less support. There is no need to document for Australians or New Zealanders the criticisms concerning the impact of the CAP in third countries. However the interests of competing agricultural exporters in gaining access to EU markets and avoiding competition from subsidised EU exports are not the whole story. The preferences given to ACP countries for imports of sugar, beef and bananas, conferred benefits which the recipients are most reluctant to lose.\footnote{12}

### 1.4 The 1992, MacSharry reform of the CAP

This was the first real reform of the CAP. The principal features were that a significant proportion of total support for cereals, oilseeds, proteins and beef was switched from price support to direct payments. At the same time systematic supply control for the main arable crops was introduced in the form of set-aside, and a new agri-environmental programme was introduced as one of three ‘accompanying’ measures.\footnote{13}

There can be little doubt that the major influence on this reform was the recognition of the folly of a net exporter arranging its domestic prices above those of its competitors. The precise mechanism which drove home this lesson was, of course, the Uruguay Round of the GATT. The general economic interest of the European economy in bringing trade in services and intellectual property within the rules and disciplines of GATT/WTO prevailed over the defensiveness of agricultural interests.\footnote{14} In particular, the commitments made in the Agreement on Agriculture on the volumes and expenditures on subsidised exports of agricultural produce helped define the parameters of the MacSharry reform.\footnote{15} Other important influences on this reform were the general criticisms of the resource misuse of the CAP, and the increasingly important pressure from interest groups concerned with health, animal welfare and the environment. The principal farming interest was to preserve the income position of farmers, particularly those who benefited most from the commodity regimes. This was successfully done, particularly as Commission proposals to ‘modulate’ the direct

\footnote{10} Of course this is not the same as the total household incomes of those engaged in agriculture. As Hill (1996) has pointed out, the steady increase in pluri-activity amongst European farmers means that farming income concepts become poorer indicators of the economic well-being of the farming population.

\footnote{11} This was often referred to as the 80:20 effect, the 20\% largest producers gained 80\% of the benefits of price supports.

\footnote{12} The scale of the banana dispute in the WTO is testament to the political importance of this as seen by the EU and the ACP banana exporters.

\footnote{13} The other two were an early retirement scheme for farmers and measures to encourage agro-forestry.

\footnote{14} This was not so difficult to understand as the service sector employs about ten times more people than are involved in agriculture in Europe.

\footnote{15} There are numerous accounts of the Uruguay Round and its relation to the CAP reform, two of the most penetrating analyses are Josling, Tangermann and Warley (1997) and Josling and Moyer (1999).
payments, redistributing more of the direct support towards the smaller farms were much diluted in the agreed package. It is very important to note that it was not an objective of the reform to reduce the budget cost. Indeed the budget cost of the CAP was expected to increase (and has indeed increased) as part of the reform. This was the basis on which the agreement of farming interests was secured. The two important elements for the budget were, first that the agreed package had to keep within the agricultural guideline, and second that the new, higher, budget expenditure would be much more predictable and controllable than previously.\footnote{16}

The 1992 reform, as perceived by agricultural interests and politicians, was tremendously successful. In the mid-1990s farmers enjoyed several of their most successful seasons for a long time as market prices were buoyant and the compensation payments turned out to be over-generous. Market balances for the major products ‘improved’ rapidly – i.e. intervention stocks fell to record low levels. This improved the international atmosphere (for a while). The effect of set-aside and lower grain and oilseed prices was to reduce fertiliser and crop protection chemical use, and together with the 2078/92 agri-environment regulation, environmentalists felt they were beginning to make some headway in influencing policy.\footnote{17} After the initial increase caused by the switch in policy, the growth in the agricultural budget was indeed curbed. In the mid-1990s the budget was under-spent, removing this as a pressure for further policy change. The proportion of total EU expenditure accounted by the farm budget fell to 50%. The precise allocation of credit for these observed changes between the reforms and changes in other variables, particularly in world market conditions remains to be thoroughly analysed. However from the current political perspective it is the result which matters rather than the cause.

2. The current debate and Agenda 2000

2.1 The current critique of the CAP

The precise timing of the next set of reforms to the CAP was determined mostly by internal EU matters. In particular, the need to settle the EU’s financing and structural policy and also the legal basis of certain elements of the CAP, e.g. dairy policy, all of whose current arrangements expire during 1999. This date was also vital as Economic and Monetary Union completed its final stage with the introduction of the common currency, the Euro, in January 1999. At the same time, necessary changes in EU institutions to cope with a prospective Union of more than 25 member states were discussed in an Inter Governmental Conference culminating in the (as it turned out, rather toothless) Treaty of Amsterdam.\footnote{18} Thus the Commission was asked by the Council to bring forward proposals on the future financing of the Union, on the two main spending policies (agriculture and the structural funds) and on the Eastern

\footnote{16} The agricultural guideline is the agreement from the 1989 Edinburgh summit that the growth of FEOGA expenditures must not exceed 74% of the growth of the general budget expenditure. Expenditures on direct payments were effectively fixed in ECU per hectare or head for eligible crops and animals on predefined ceilings of eligible hectares and head. Thus the total expenditures are far more predictable than on export refunds and intervention which depend on production, consumption, world prices and exchange rates.

\footnote{17} Which, naturally, encouraged them to increase their efforts to further change the policy.

\footnote{18} These massively important developments are all mentioned in order to explain to a non-European audience interested in agricultural policy that Europe’s reputation for being slow to change is not deserved. It is hard to imagine a bloc of sovereign states moving faster with such a complex agenda of deeply difficult political changes.
enlargement. The resulting package of proposals which contained chapters on all these topics was called Agenda 2000.

The calm to agricultural policy brought by the MacSharry reform therefore lasted barely three years. By autumn 1995 it was plain that the debate for the next round of reforms had to be launched. Publications indicating the evolution of these ideas are the Commission’s Agricultural Strategy Paper (Commission, 1995), the Cork Declaration (Commission, 1996) following the Rural Development conference held in that Irish town, a report of a working group of the Commission and external experts Buckwell et al (1997) and the Agenda 2000 proposals tabled first as a general discussion document in 1997 and then formal proposals for new regulations in 1998, (Commission, 1997 and 1998). Three sets of arguments were advanced to justify the conclusion that the post-MacSharry CAP of the early 1990s had to be further reformed. These arguments themselves indicated the nature of the reform necessary. The three sets are, first, continued domestic dissatisfactions with the policy itself, second, the impacts of the move towards more liberalised trade and, third, the prospect of further enlargement of the EU.

The domestic arguments are essentially no different than those which precipitated the MacSharry reform and summarised above on page three. However, to the non-European audience one is worth emphasising, viz. the environmental criticism, this is the root of a concept which is gaining political currency in Europe, that of the so-called ‘European model’ of agriculture. In addition, the introduction of very large sums of direct payments to farmers poses new questions about their justification and endurance.

2.1.1 The environmental critique of the CAP 19
Politically, the most important internal opposition to the CAP now comes from environmentalists. The perception is that the CAP has stimulated the structural and technical change in agriculture which has brought with it the now familiar trio of environmental problems: pollution of food, soil, water and atmosphere; reduction of biodiversity through destruction of habitats; and the loss of treasured features in the cultural landscape. Agricultural scientists now acknowledge the existence of these problems which have come about through the combination of structural and technical change. Technical change itself is a combination of the mechanical, chemical and managerial revolutions which agriculture has embraced in the post-war era. However, the main targets of criticism by environmentalists have pointed to the effects of fertilisers and crop protection chemicals. Currently, their attention is being extended to the prospective applications of the next technical revolution to be available to agriculture, the new techniques of biotechnology in particular the Genetic Modification of crops.

This is not the occasion to catalogue the rising tide of these allegations and the evidence that these problems are real. 20 It is interesting to note that there is very little

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19 This critique embraces much more than environment as defined in the English speaking world (i.e. about resource protection and use, habitats and biodiversity), in much common parlance it includes food safety, animal welfare and even the social dimension of farming and rural communities. Also, note that a useful analysis should distinguish the effects of agricultural systems from the effects of agricultural policy. These are commonly conflated.
objective systematic analysis to demonstrate the extent to which the CAP, per se, is responsible for these problems. It is enough for environmental critics of the CAP that these problems have emerged at the same time as European has been officially encouraged to adopt modern technology and to expand output beyond domestic food requirements. 21 Similarly, opposition has grown to what is labelled as intensive agriculture from those concerned with animal welfare. The close confinement of cattle, pigs and poultry, the intensive use of compound feeds, hormones and antibiotic and other growth promoters, and the long-distance transport of live animals have all provoked increasingly negative reactions.

These criticisms of European agriculture from the environmental and animal welfare perspectives, take on an even greater force when they are combined with the perception that the resulting food is unsafe or less safe. 22 Well before the (1996) BSE crisis there was a growing perception that the output of modern agriculture and the food industry had characteristics which were designed for the convenience of those industries and not to serve consumer interests. The concerns span a wide range of technically quite different issues: residues of crop protection chemicals, effects of food preservatives and other food additives, bacterial contamination especially of poultry products, antibiotic resistance, residual effects of animal growth promoters. The structure of the argument is, once again, that modern agricultural practices have undesirable features, and these have been encouraged by the CAP which is perceived as a policy for quantity and not quality. 23

These criticisms of the CAP from the perspective of its alleged effects for the environment, animal welfare and consumer health are not voiced to the same extent in all member states. Generally they are expressed more vociferously in the northern member states than in the south. Concerns over animal welfare are least uniform between member states. However there is little doubt that their combined effect is politically significant. No farm politician can make a speech now without dwelling on the food safety, environmental, animal welfare and even social aspects of agriculture and agricultural policy. A commodity based farm policy, based on prices and quantities is seen as inimical to these interests. But, significantly, the view is strongly held that these interests are definitely not served by a free-market either. These issues are seen as quintessential instances of market failure. They demand a collective response which is not being offered by Europe’s common agricultural policy. Furthermore, the European perception is that the Anglo-Saxon world with its

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20 See for example the European Environmental Agency’s (1995) Dobris Report as an indicator of this literature.

21 There is a strong presumption of the desirability of self-sufficiency and an anti-trade sentiment in the environmental movement. The movement of goods is seen as intrinsically polluting.

22 It is unclear whether the complaint is that food is less safe than it used to be, or less safe than it ought to be. The former question is in principle answerable, but requires evidence way beyond the competence of the author to assess.

23 It is a very interesting twist of logic that the CAP is held by some to be partly to blame for the BSE crisis because it is another example of intensification of beef production encouraged by the CAP. It seems an odd argument first, because this offers no explanation why BSE was confined to the UK. Second, it is hard to understand how the pressure to reduce costs in the animal feed industry (which is what apparently stimulated the switch in rendering techniques for livestock offal) would have been lower in a less supported beef market.
obsession for liberalised markets simply does not appreciate these values, hence the talk of the ‘European model’ of agriculture.

2.1.2 The vulnerability of direct payments
The switch in the principal instrument of policy from price support to direct payments both increases the size of the budget support for agriculture but makes it very transparent too. It invites scrutiny of who actually receives the payments and invites questions of the justification for the payments. The member states are now gradually evaluating these questions, the UK Ministry of Agriculture and the Swedish national audit office have been amongst the first to publish the results of such evaluations (MAFF 1998, and RRV 1998). The first results are not too surprising. The benefits of direct payments are skewed to the largest and wealthiest producers. In the Swedish analysis of the arable area payments, the largest 16 percent of producers received 40 percent of the payments, and the smallest 37 percent of producers received 7 percent of the payments. Farmers’ organisations are well aware of these questions and of the vulnerability of the direct payments.

Five features of the payments lead to questions of their sustainability. First, and conceptually, the legal basis of the payments and their distribution indicate clearly that they are compensation for the injury suffered by the change in government policy which brought down the support price. However, whilst humane societies compensate losers from changes in policy made to benefit society as a whole, they usually only do this for a finite period or by a finite amount. The current (and proposed) direct payments make no mention of time limits or any future decreases in the payments. Second, as time goes on the defence of the distribution of the payments on the grounds of compensation (the biggest producers lost most so they have to be compensated most) will wear thin. Defence of such payments as ‘income payments’ when there is no income test applied to recipients and they have such skewed distribution becomes very difficult. Third, the size of the payments are not well scaled to the injury caused by the cuts in institutional prices. They take no account of the market prices received, they are crudely scaled to the productivity of farms, and they make no allowances for adjustments in input prices and hence usage. Fourth, they are not completely decoupled from production decisions as they are linked to the number of animals kept and hectares of crops sown. It is anticipated that this will cause problems in the next round of multilateral trade negotiations. Finally, it is EU policy that these payments will not be available to farmers in the Central and Eastern Europe Countries (CEECs) due to join the Union in the early years of the next century. The logic is that CEEC farmers were not supported by the old CAP so they cannot justify compensation for operating the new CAP. However it is equally good logic that a mature common policy cannot give payments to the relatively rich farmers in the West of Europe and deny them to the poorer farmers in the East. In combination, these arguments suggest that the basis of the direct payments will have to change over the next decade.

24 The analysts were careful to point out that these figures do not tell the whole story because the smaller farms invariably have higher off-farm earnings. This underlines the necessity for full household income data if anything is to be concluded about the impact of the policy on income distribution.
2.1.3 The challenges of trade liberalisation and Eastern enlargement

Beyond these purely domestic reasons for further changes in the CAP are the pressures created as a result of the movement towards more liberalised trade in agricultural produce. The main expression of this movement is the Uruguay Round Agreement on Agriculture (URAA). The commitments made by the EU, particularly on subsidised exports, but also for market access and domestic supports, are significant drivers of the proposed changes to the market regimes in Agenda 2000. It is well understood in Europe that the Uruguay Round agreement was just the first step in a process which will resume in the next round of multi-lateral trade talks in the WTO. For the EU, the URAA also means that its multitude of preferential trade arrangements which have traditionally excluded agricultural products will have to be adjusted to embrace the GATT article 24 requirement that such arrangements must embrace ‘substantially all the trade between the constituent territories’.

The third set of reasons for further reforms of the CAP being necessary concern the decision, taken in 1993, to encourage the enlargement of the EU to embrace the Central and Eastern European Countries. The three main elements of the post-MacSharry CAP, prices which are still supported above international levels, supply controls and direct payments would not suit CEEC economic interests. The high prices impose an unwelcome inflationary cost to the, relatively poor, consumers in CEECs. The supply controls which are still such an important part of the CAP25 would be equally unwelcome by CEEC farmers struggling to reverse the sharp decline in output suffered in the years since reforms began in 1990. The unsuitability of the direct payments has already been explained.

These are the arguments justifying the need to further re-orientate agricultural policy. Furthermore, the same direction of change in the policy has the potential to solve all the problems. This is to continue the move away from sectoral policy for agriculture based on commodity price support, towards a more integrated policy for rural areas. It is the high prices which stimulate over production; which necessitate subsidising exports; which cause the benefits of the policy to accrue most to the largest (and generally, wealthiest) producers; and which stimulate greater production intensity and thus environmental damage. Such high prices do very little for rural employment; their benefits are concentrated on a very small fraction of the rural population.

2.2 Agenda 2000.

The Agenda 2000 defines the changes in the CAP which the Commission argues are necessary to take the EU through to the year 2006. During this period the WTO mini-round will presumably have been completed and the first wave of CEECs will have been admitted into the Union and starting whatever transition period is agreed. Two other important elements of the context of the proposals for agriculture are the Union’s structural policy and the financial perspectives. Essentially the proposals for the structural policy are to simplify the current six objectives down to three and to concentrate structural resources on the poorest regions and those with the most intense difficulties. This creates a conflict, examined below, with the proposed territorial broadening of rural development policy. Agriculture still dominates the EU budget, although in the last few years, expenditure has been well within the financial ceilings.

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25 Specifically, milk and sugar quotas and set-aside of arable land.
It was therefore very surprising that there has been practically no public discussion until autumn 1998, of the EU’s financial perspectives for the next period of its development. The Agenda 2000 proposals are that the present parameters of the Union’s finances, including the agricultural guideline, should be rolled forward, unchanged, to 2006. This initially, and surprisingly, generated no debate at all, but the new government in Germany elected in autumn 1998, has raised the issue of the unbalanced net contributions to the budget. Some of the suggested ways of dealing with this could have a strong impact on agricultural policy.

The principal elements of the agricultural proposals fall into four categories, the changes in Common Market Organisations (CMOs), a new set of horizontal measures applying to all CMOs, the rural development measures, which include the agricultural environment, and provisions for pre-accession aid to the Central and Eastern European Countries. The complete set of proposals (so far) comprise 9 regulations running to 190 pages. Only the main outlines of the proposals are discussed here.

2.2.1 Proposed changes to the CMOs

These may be summarised as follows. The intervention prices for arable crops, beef and milk are to be reduced from 2000 by 20%, 30% and 15% respectively, (cereals in one step, the other cuts phased-in). In all cases the price cuts will be ‘compensated’ (although, notably, this word is generally avoided in the proposed regulations) by what are variously termed ‘direct payments’ or ‘direct income payments’. These are to be paid, as now, per hectare of COPs and per head of cattle. The dairy payments will be paid per standard quota unit, or ‘virtual’ cow. The cereal price cuts are, explicitly, only partly (50%) compensated by the direct payments. The other price cuts are supposedly, on average, fully compensated - though this latter point is contested by farmers’ organisations. There is some small simplification of the currently separate payments for cereals and oilseeds which will in future receive the same arable area payment. Proteins and durum wheat will, as now, continue to get a higher payment. It is furthermore proposed that the normal set-aside rate for COPs will be zero. In the beef sector, intervention will be abolished and the only, market, safety-net will be a private storage subsidy scheme. In the dairy sector, quotas will be maintained until 2006, but from 2000, the quota is to be increased by 2% allocated to


27 Cereals, Oilseeds and Proteins.

28 This is an average cow producing 5800 litres of milk per lactation. The device of defining a virtual cow is necessary in order to calibrate the payment necessary to compensate producers for the income reduction resulting from the cut in intervention prices. Plainly, a flat rate per cow however defined will tend to under-compensate the above average yielding herds and over-compensate the below average yield herds. This is corrected as the eligible number of virtual cows will be the farm’s milk production quota divided by the average yield - thus awarding the high yielding herds more virtual cows than actual and vice versa for the low yielders.

29 Following the same structure as in the 1992 reform, the compensation principle is calculated on the basis of the gross revenue lost following a cut in prices. There is no allowance for any cut in variable inputs or in input prices as farmers adjust to the lower product prices.
young farmers and to mountainous areas. Further changes will also be proposed for the olive oil, wine and tobacco sectors.

In the beef and dairy CMOs, a new device is proposed, to devolve to the Member States the responsibility for distributing part of the compensation. Thus the Commission only defines part of the compensation for beef and dairy animals (about 70% for beef and 50% for dairy). The remainder is offered to the Member States as a ‘national envelope’. This is a gross sum of money for beef and dairy support equivalent to the remaining compensation. It is allocated to each member state for them to distribute to their beef and dairy farmers, within limits, based on principles they decided for themselves. This is a device to introduce a degree of subsidiarity in the administration of these direct payments. Thus member states which wish to introduce further redistribution, and to concentrate the payments on the poorer beef and dairy farmers have the scope to do so. Alternatively, some member states may wish to encourage particular systems of beef or dairy production, or particular regions, to pursue environmental goals. These ‘additional payments’, as they are to be called, may be paid either per head or per hectare. To minimise distortions to competition, the Member States will have to respect some maximum payments per head (or per hectare) and will have to clear their proposed distribution schemes for their national envelopes with the Commission.

2.2.2 Proposed horizontal regulation

Three new concepts are proposed to apply to all direct payments under the CMOs. These are payment ceilings, modulation and cross compliance (or eco-conditionality). The first is a redistribution measure. It proposes that total direct payments per farmer between 100,000 and 200,000 ECU be only partly (80%) paid, and for amounts above 200,000 ECU only three-quarters be paid. This, of course gives no more to the smaller farms, but simply claws back some from the largest.30 The proposal on modulation is also apparently aimed to curb the payments to certain ‘less deserving’ farms. For farms which employ fewer than some (member state defined) labour norms, the member state may choose to cut the direct payments by up to 20%. This proposal is aimed at capital intensive farms who employ ‘too few’ people, and therefore ‘don’t deserve’ such generous direct payments.31 The third horizontal measure is the requirement for member states “to take the environmental measures they consider appropriate”, which “may include support in return for agri-environmental undertakings, general mandatory environmental requirements and specific environmental requirements constituting a condition for direct payments.” If farmers do not respect such conditions the member state may impose sanctions “proportionate to the seriousness of the ecological consequences of not observing mandatory environmental requirements.”32 Moneys saved by the ceilings, modulation

30 It is plain that this is a token attempt to deal with the problem of the regressive distribution of CAP payments (most to the wealthiest producers) as the total amount the Commission expects to be ‘saved’ by these ceilings is only 400 MECU out of perhaps 25 BECU of total direct payments.
31 It is not hard to anticipate the retort of such farmers who will complain that their labour efficiency is being penalised by such an approach, and that the proposal will slow the needed adjustment of the farm workforce. It will be interesting to see which Member States, if any choose to implement this measure. Once again the proposal does not offer any additional help to the ‘disadvantaged’ farms.
32 This means a reduction or, at worst, cancellation, of the direct payment otherwise payable.
and cross compliance will remain with the member states but must be used for agri-environmental schemes.

2.2.3 Proposed regulation on rural development
The third component of the proposals concern rural development. This is, on the face of it, a big simplification and integration. Nine existing structural regulations directed towards rural areas, including the three MacSharry accompanying measures, are condensed into one. Two types of rural development (RD) actions are defined: RD1 - the 1992 accompanying measures (early retirement, forestry and agri-environment) plus redefined less favoured area measures; RD2 - measures concerning modernisation and diversification. For RD1 measures, financing will come from FEOGA guarantee fund for the whole EU rural territory. Financing RD2 measures will depend on where they are, and may come from FEOGA guidance or guarantee or the other structural funds. The main features of this reorganisation of rural policy are thus: (i) to redefine the funds from which rural development actions can be financed; (ii) to enable rural development actions to be applied across the whole rural territory in Objective 1 and 2 areas and to all areas outside these two; (iii) to extend funding for agri-environmental schemes; (iv) to convert the Less Favoured Area scheme into an explicit agri-environment programme; (v) to bring together all these non-market measures into a single, multi-annual programming basis.

These first two points are amongst the most important in the proposals. The fact that rural development actions in all three areas (new Objective 1 and 2 areas, plus all rural areas outside either) can be funded from the FEOGA guarantee fund, potentially opens up the possibility for very large flows of funds into rural development and agri-environment schemes if the member states were minded to do this. In the language used in the Commission, it creates the architecture for policy to switch in the way suggested by the CARPE concept (Buckwell et al 1997). This is all the more relevant because the continuation of the same budgetary guideline for the structural funds means that there are rather restrictive limits on the rate of growth in structural expenditure, whereas the agricultural budget can continue to grow at up to 74% of the growth of EU GDP itself. The fact that rural development actions can extend to the whole territory is also a welcome suggestion because it is a prerequisite for persuading farmers to contemplate the idea of relinquishing price supports and compensation payments. The recipients of the present supports are extremely unlikely to give them up with no such replacement offered.

2.2.4 Pre-accession aid for the CEECs
The fourth part of the Agenda 2000 proposals provides for pre-accession help to the applicant countries of Central and Eastern Europe. The assistance offered is for two main purposes: to help them implement the acquis communautaire concerning the CAP, and to help modernise and adapt their agricultural sector and rural areas. The measures offered are essentially the rural development measures offered in the existing EU structures policy including farm restructuring and land re-parcelling. These actions have to be implemented through a programming approach based on 7-year, rural development plans which must be presented within 6 months of the entering into force of the regulation (expected 1/1/2000). The assistance provided will be co-financed by the EU at a rate of 75%.
3 The immediate and longer term future for the CAP

3.1 Is Agenda 2000 a move towards a more integrated rural policy?

The immediate future for the CAP until 2006 is spelled out in Agenda 2000. Whilst, of course, these are only Commission proposals, the package to be agreed by the Council during the first few months of 1999 can only be based on such proposals and is not likely to deviate far from them. There are already many critiques and economic analyses of the impact of Agenda 2000,33 and it must be expected that further reform proposals must follow in 2004 or 2005 at the latest. This final section tries to indicate the likely direction they will take. Having been closely involved in the discussions which preceded the production of Agenda 2000 and in spelling out the broad principles of a Common Agricultural and Rural Policy for Europe (CARPE), this inevitably colours the author’s assessment of Agenda 2000 and the further changes in store. The essence of CARPE is that the long run, more integrated rural policy for Europe would move from being a sectoral policy for agriculture to a territorial policy for rural areas. Such a policy would comprise four elements: the remains of the commodity policy would be a stabilisation programme, the main enduring programmes involving most of the budgetary expenditures would be on Environmental and Cultural Landscape Payments and on Rural Development incentives. To help make the switch from present policy the current direct payments would be transformed into Transitional Adjustment Assistance.

The explanatory memorandum accompanying the Agenda 2000 proposals is significant in making quite explicit that the objectives of Europe’s agricultural (rural?) policy should focus on the (international) competitiveness of European agriculture and it should elevate the importance of environmental considerations and rural development. Indeed, the rural development regulation, embracing the agri-environmental programme, is referred to as the second pillar of the CAP. At this broadest level therefore, there is a strong similarity with the CARPE. The proposed strategy is indeed to reduce prices of supported products towards the world market levels, thus reducing or avoiding the need for export subsidies. At the same time an important part of the proposals is to integrate market, rural development and agri-environmental measures and reduce the incoherence between these instruments in existing policy. These are clearly in line with CARPE, especially important in this regard are the extension of rural development measures to the whole rural territory, opening the capacity to finance rural development measures from the main (guarantee) part of the budget and the redefinition of less favoured area payments as an environmental measure.

However, even though the proposals are intended to guide policy development well into the next decade, these steps do not take the CAP very far towards a more integrated rural policy. The bulk of the (increased) budget expenditure will still accrue to arable, beef, and dairy farmers through the commodity regimes. Rural development including agri-environment will still account for only just over ten percent of expenditure. There is a further large shift in support within market policy

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from CMOs to Compensation Payments, but only a small increase in funds directed to Agri-Environmental and Rural Development. In the meantime some new elements are proposed which are quite different conceptually from the principles of a CARPE.

On the proposed support price cuts, the consensus of many commentators is that the proposed cereal intervention price cuts are enough to eliminate export subsidies for wheat and beef, but not so for coarse grains and milk (see Tangermann 1997). Of course there are no proposals at all for sheep meat and sugar, and there is still more to do for the southern products. Nonetheless, the proposals, if agreed, would take the policy a significant step further down the road of moving away from price support as the main instrument of agricultural policy. The effective abolition of set-aside is also a move in this direction, as is the proposed increase in milk quotas. The suggestion to simplify the direct payment for COPs with a single, non-crop specific payment is a good one, it could be an important decoupling of the payment from decisions on the mix of crops to plant. Disappointingly, when the details are examined, the proposal falls well short of a single payment, but has three different payments (for protein crops, durum wheat, and other arable crops). In addition, the payments continue to provide a strong incentive for farmers to plant their full eligible areas, so these enlarged payments, programmed to continue until 2006, will still be ineligible to be designated as green box measures.

Worse still, there is not the slightest hint in the Agenda 2000 document that the direct payments are time-limited or might, in future, be gradually reduced. Farmers seem to be sent the signal that they will go on indefinitely. The only warning signals provided are, first, that payments might be changed “in the light of developments in production, productivity and the markets”, and second, that less-than-full compensation is offered for cereals. The logic of the payments is still clearly defined in terms of compensation for the loss in gross revenue. This is indicated by the quite explicit calculation of area payments by multiplying price cut and yield. There is no attempt in the ‘whereas’ clauses to redefine the logic of the payments in terms of producers’ incomes, nor the need to adjust to the market, nor any link to the delivery of public environmental services. The presentation of these payments shows no recognition whatsoever of a need to re-justify them in the light of either the coming WTO negotiations nor the further enlargement of the Union.

Rather than dealing with the issue of the fundamental justification for enduring taxpayer transfers to certain farmers, Agenda 2000 tries to take the sting out of the criticisms of the distributional effects of the present payments. Thus the proposed ceilings and labour unit modulation are mild measures to reduce the payments to the largest and most capital intensive farms without offering anything more to the smallest or most labour intensive farms. The redistributive effect of such measures will be small, and certainly small in relation to the political heat they will no doubt

34 However, the proposed allocation of half of the extra quotas to the mountain areas is a profoundly anti-competitive suggestion. It indicates that there is still a strong taste to use commodity market instruments to try and deliver environmental services.

35 The Commission argues that it has already proposed to the Council that compensation payments for cereals should be reduced (in the context of trying to find additional resources to cope with the beef crisis in 1996 and 1997) but that the Council was unprepared to discuss such reductions.

36 Article 11 of the arable crop proposal.
generate. It is clear that if the direct payments are to be viewed as a redistributive measure, then they must be based on the income of the recipients. There are absolutely no signs that these principles are to be applied to direct payments.

The cross compliance proposal seems to be a rather opportunistic attempt to try to make compensation payments look respectable rather than dealing frontally with the problems of helping farmers supply environmental and cultural landscape services. The concept has three main problems. First, the very name ‘cross’ compliance suggests that the payments exist for some primary reason, but that to receive them, farmers must comply with secondary (environmental) conditions. The problem is that the primary justification for the payments is far from clear. Second, it has been argued that the direct payments (whether they are called compensation or adjustment assistance) can only be transitional. Therefore there is no point in tying the delivery of environmental services to such payments - either the environmental service delivery will cease when the payments are phased out, or unjustified payments will continue hiding behind the fig-leaf of green respectability. This approach argues that if we want farmers to supply environmental services then purpose-built schemes should be introduced to arrange their delivery. The third objection is that in Article 3 of the proposed Common Rules for direct payments, it is suggested that “the Member States decide the sanctions which are appropriate and proportionate to the seriousness of the ecological consequences of not observing the mandatory environmental requirements.” In other words, farmers are paid to meet these mandatory requirements. This is a direct contradiction of the polluter pays principle which is an explicit part of Article 130r of the consolidated Treaty of the EU. The provisions for environmental payments in Agenda 2000 require considerable further development.

The proposals for rural development are generally welcomed. The principles that they should be pan-territorial, based on a multi-annual, regional programming approach, and financed from the main (guarantee) budget are in line with the ideas expressed for a more integrated rural policy. But the concept of rural development in the proposals is still very restrictive. To have significant impact in stimulating economic activity and employment in rural areas, the instruments of rural development policy would be expected to incorporate a greater element of infrastructure development, and the subjects for assistance would definitely extend considerably beyond farmers. The scope of the Rural Development actions defined in Articles 2 and 31 of the proposed regulation do not formally exclude these ideas, but the tone -and the financial resources envisaged - clearly indicates that the primary focus of rural development help is farmers. It does not appear to have been accepted that an important way to help current farmers and their families may be to stimulate (suitable) non-farming activities which can provide full-time or part-time employment in rural areas.

It may be that this last point is an example of a subtle approach by the Commission to offer the member states the option to show by their actions the way they want to develop agricultural policy. Thus if member states believe that the best way to help raise the incomes of farmers is to stimulate alternative activities in rural areas, then they will show this in their rural development programmes and put forward imaginative schemes for exploiting indent 6 of Article 2 (the development of economic activities and maintenance and creation of employment…) and indents 5, 6 and 8 of Article 31 (5 - renovation and development of villages…, 6 - diversification
of activities to provide multiple activities or alternative incomes, development and improvement of rural infrastructure). In other words, the full significance of the Rural Development regulation proposed in Agenda 2000 depends partly (maybe, mostly) on how the Member States choose to interpret and implement it. Agenda 2000 provides the scope for Member States to move the policy towards the CARPE, it will be up to them to do it.

This approach to devolve decisions is quite explicit in the proposal under the beef and dairy regimes. It offers Member States the scope to differentiate additional compensation payments, for example to encourage extensive or high-nature value farming systems. If this works, then the Commission can take credit for cleverly respecting subsidiarity. If it doesn’t then the Commission can claim that there is no taste for using CAP payments to achieve environmental objectives. It will be a brave member state which chooses to impose strict conditions for the distribution of these additional payments. Their farmers will complain that they are not operating on a level playing field with other producers whose governments distribute the additional payments without such conditions.
It is plain that Agenda 2000 does not push agricultural policy very far in the direction of a rural policy. It can be argued that this is realistic because there is no clear political consensus yet that the policy should move this way, and there is a great deal of institutional effort required to make it possible for policy to adjust in this way.

3.2 General conclusions
The EU has clearly moved now to the US pattern of periodic overhauls of agricultural policy. The 1992 reforms applied for seven years (1993 - 2000), the current Agenda 2000 proposals are also projected to span seven years. It is quite clear that by the time of the first accession of the CEECs, around 2003, there will be further continued debate on the next round of reforms to accommodate whatever is agreed in the WTO talks due to start in 1999 and the Eastern enlargement.

The core of the Agenda 2000 proposals is to reduce the reliance of European agricultural policy on commodity market support and to increase substantially the role (and volume) of direct payments. These payments will constitute the bulk of the support offered by the CAP. It seems plain that this cannot be an enduring solution for Europe’s rural policy. It will be difficult to defend these payments to arable, beef, sheep and dairy farmers (and later, perhaps olive oil and tobacco producers?) as decoupled from production. So it will not be easy to argue that European producers have become more internationally competitive. Equally, making such payments conditional on respecting mandatory environmental standards does not justify them as payments for the delivery of environmental services. Furthermore, focusing more attention on direct payments as the prime instrument of support will cause the new member states in Eastern Europe to concentrate on the issue of whether their farmers will be eligible for such payments. Agenda 2000 is silent on this matter.

There is a misfit between the rhetoric surrounding the Agenda 2000 and the proposed regulations. The rhetoric describes a significant shift in the fundamental principles of agricultural and rural support from the single pillar of price supports to the more balanced and integrated rural policy based on two pillars. There are significant price cuts proposed and there is a widening, deepening and integration of the roles of environmental payments and rural development measures. These are welcome. However the extent to which there is a real switch in the principles underlying policy for the period until 2006 is quite limited in scope. It is now up to Member States to show by their actions whether they want this evolution in policy to proceed. This will require radical rethinking by all involved in agricultural and rural policy, a restructuring of institutions to reflect the switch in emphasis from sector to region, and an imaginative interpretation of the Agenda 2000 regulations.

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37 The temptation to comment on the stability of a two-legged stool is too strong to resist! The preferred policy, CARPE, is initially a rugged, four-legged, stool which in the long term evolves to the conventional three-legged furniture with which all farmers are very familiar!
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