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**A Swot Analysis of the Fischler Reform,
Looking Towards a New Rural Development Policy**

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A SWOT ANALYSIS OF THE FISCHLER REFORM, LOOKING TOWARDS A NEW RURAL DEVELOPMENT POLICY

Abstract

The paper presents an analysis of the Fischler reform, while the new rural development policy for the seven year period 2007-2013 is still to be defined and other important deadlines are going to mark the near future: WTO negotiation, new Financial Perspectives, new European structural and cohesion policy, and the enlargement process is rolling on. Furthermore, several actors on the scene are new: new Member States, new Commission, new Commissioner for Agriculture and Rural Affairs, new European Parliament. The main objective of this paper is to provide an overall evaluation of the ongoing reform process, pointing out the main strengths, weaknesses, opportunities and threats, for animating the scientific and political debate on the further steps on CAP reform, towards a new rural development policy

Key words

Fischler reform of the CAP, SWOT analysis, Evolution of the CAP, Rural development policy

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Introduction

The Fischler reform, definitively approved in September, 2003¹, undoubtedly constitutes a turning point in the complex redefinition of the CAP role in the strategies of the EU. Obviously it has been a difficult compromise, a synthesis between various interests and opinions. The reform can be thus considered as an arrival point. But, at the same time, it should be considered as a departure point for a new stage in the proceedings. A long term solution for agriculture and the rural areas is still to be found in fact. It must be integrated into a sustainable socio-economic and territorial strategy for an enlarged Europe. On the other hand, once the reform was defined, several crucial European dead-lines had been passed. And other relevant decisions must be adopted in the near future.

Furthermore, the actors on the scene are mostly new. First of all ten new Member States have entered the EU. And the enlargement process is still continuing. The first step will be the integration of Bulgaria and Rumania in 2007. Then it will be the turn of Croatia around the year 2010. Then probably Turkey will be the next (this decision is still not definitely sure, and the remote likelihood of entering into the EU, is already strongly influencing the present debate). More or less at the same time it may also be the turn of the remaining Balkan Countries of the former Yugoslavia and Albania. In addition, the new European Parliament was elected in June 2004. Soon after, in November 2004, the new Barroso Commission was appointed. And the role of Commissioner for agriculture and rural affairs was attributed to Mrs. Marianne Fisher Boel after the 10 year long reign of Franz Fischler. It is obviously expected that these new actors will play their role from now on, by introducing new objectives and modifying past strategies.

On the other hand, the debate on the seven year programming period 2007-2013 - structural policy

¹ Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001.

(Commission des Communautés Européennes, 2004) and financial perspectives (European Commission, 2004-I) - has already started. It is within this framework that the political debate on the future Rural Development Policy (RDP) should be placed. The first proposal for the future RDP and for the institution of the new European Agricultural Fund for Rural Development (EAFRD) is on the table (European Commission, 2004-II). It constitutes a first attempt to put into practice the conclusions of the 2nd Conference on rural development, held in Salzburg in November 2003 (European Commission, 2004-II). On the other hand, the WTO negotiations are slowly resuming, after the Cancun failure. A slow down of the process is certainly not in EU interests. Nor is it convenient for the EU to participate in the negotiation in a defensive way. It will even be necessary in the near future to resume the European initiative in other directions, as that of the still fragile Euro-Mediterranean negotiations, within the framework of the whole European Neighborhood Policy.

Naturally, after the Fischler reform, a lot of energy and work was required to put its main contents in practice. A lot of effort has been made all over Europe to understand its immediate implications, as well as, at MS level, to come up with the best solutions to be adopted as regards the national *envelopes*. Time and effort was also necessary to help farmers take the best decisions after the introduction of the single payment scheme (SPS), the modulation, the compulsory cross-compliance etc., especially in those Countries that decided to adopt the reform starting from January 1st, 2005. This is obviously understandable. What is less justified is this certain feeling of contentment that one can perceive widely in agricultural circles. It is as if, as regards the future of the CAP, the map has definitively been drawn up. As if the reform did not lend itself to any risk and does not deserve any criticism and that the CAP could be considered completely indifferent to the political debate on the EU structural and cohesion policies after Agenda 2000 and until 2013. It is almost as if the present discussion on the RDP for the three year period 2007-2013 could be considered simply as a bureaucratic accomplishment and the decisions to be taken in that respect concern only secondary details.

Our hypothesis is different. The debate on the agricultural and rural development policy reform has to continue and agriculture should still actively play its role in the current discussion about the future of Europe. A future which, at present, refers to the year 2013 as the long term reference, but which obviously must be designed according to a strategy which should look further than this time frame. For this reason, an application of the SWOT analysis method² to the Fischler reform and to the new proposals for the RDP is presented in the following pages. When the SWOT technique is used for the evaluation of economic and social policies, some clarifications are needed. In particular, it is necessary to clarify which are the subjects relative to the analysis performed. It is indeed evident that what can be considered a *strength* for a given subject (or a social category) can also be considered a *weakness* in reference to other subjects and interests. The long-term interests of agriculture from a more general perspective of rural development are the center of the analysis here. From both a sectorial and a territorial points of view, the proposed analysis assumes thus a partial perspective. But in the long run and in a frame of sustainable and integrated rural development, the interests of agriculture tend to converge on the general interests of society as a whole.

² As it is well known, SWOT analysis (Strengths - Weaknesses - Opportunities - Threats) is a common tool for evaluation in participated programming. The two main components of the analysis are: (a) Strengths/Weakness analysis aims at evaluating the inner situation on the object of appraisal. A Strength (Weakness) is an advantage (disadvantage) that can favour (hinder) the exploitation of the Opportunities and to avoid (aggravate) the Threats. (b) Opportunities/Threats analysis aims at evaluating the external situation to the object of appraisal which can either favour (hinder) the attainment of the expected results, or hinder (favour) the attainment of unfavourable outcomes. The SWOT analysis is finalized to facilitate the understanding of the objectives and improve the strategy. It also is aimed at facilitating the understanding of the priorities between alternative actions in the achievement of the short, medium and long term objectives. (Moseley, M.J., 1996; Weihrich, H., 1982).

Following the SWOT technique, the next four paragraphs will be dedicated to the analysis of the *strengths, weakness, opportunities* and *threats* which, as a matter of fact, can be associated to the present evolution of the reform process. The final paragraph is dedicated to some conclusive remarks.

Strengths

1. **Finally a reform!** The Fischler reform is the most substantial CAP reform. Only the Mac Sharry reform of the year 1992 can be realistically placed at the same level. Obviously this is a relative judgment. In fact one has to take into account the enormous difficulties met by the EU in its progress towards the CAP reform, since the recognition, with the Green Book in 1985, of the necessity of a shift towards an integrated RDP. In other words, there are many more reforms in the contents of the 1782/2003 Regulation, which should have been only a "mid-term review" of Agenda 2000, than it was in Agenda 2000 itself and in several previous attempts of reforming the CAP.
2. **Fewer market distortions and more efficiency.** Decoupling reduces market distortions and the support for agriculture becomes more transparent. Decoupling stimulates entrepreneurial energy, by stimulating the farmers to manage their farms according to market returns. Decoupling stand as an incentive to efficient farm choices, according to the available technology and market conditions. Decoupling and the reduction of guaranteed prices favor the consumer as a matter of fact and the other economic operators up or down the production chain.
3. **Support guaranteed until 2013.** The system of the decoupled SPS was established, as a rule, until 2013. This guarantee will certainly be useful for the farmers. After the reform, they can take their entrepreneurial decisions within the framework of a relatively higher level of guarantee of the public support they will receive. This increases the level of confidence and their propensity to risk. This is a fundamental issue that should be carefully considered. Before the reform uncertainty about the future was in fact high. The risk was to remain with a still non reformed and thus an even more inadequate CAP than it was after Agenda 2000, in an indefinite global frame and in a climate of high uncertainty for the future. However, serious threats persist on the preservation of these guarantees. These threats will be better examined in the following paragraphs.
4. **High degree of acceptability.** Around the CAP a very powerful wall of conservatism has been set up for a long time. It has been built and strengthened by all the interests served by the CAP: the farmers' interests, certainly, but also the interests of many other subjects: the food chain operators, the land owners, the public bureaucrats and those of the various associations and lobbies, etc. Almost all the previous efforts to reform the CAP, even less radically, systematically ran out against this "wall". The Fischler reform took special care of the political feasibility. This way, the solution was designed in such a way as to be as acceptable as possible. Indeed, the solution found gives a particular protection to certain social categories (the farmers who were more notably rewarded by the old CAP, but also the other indirect beneficiaries listed above) which, otherwise, would have been penalized. The resistance to any change of the main beneficiaries of the CAP in such a way was weakened. For the old beneficiaries of the CAP, in fact, the adopted solution implies limited losses of income, even in the hypothesis where they, when faced with the new CAP and the consequent new market conditions, chose to maintain their previous production systems refusing to adapt.
5. **Possible advantages for the innovators.** The farmers who, when faced with the new CAP, choose to direct their strategies to products, techniques and the most promising markets, can collect very substantial increases in income, while a part of their income dependent on the SPS is maintained anyway.
6. **The compulsory cross-compliance.** The cross-compliance becomes compulsory and the single farm payment is more explicitly directed to the production of common goods and services. The concept of

cross-compliance is widened by including not only the protection of the environment (through the preservation of lands in good agronomic conditions), but even food security and animal welfare.

7. **Fewer conflicts in the WTO negotiations.** The Fischler reform facilitates research for a solution in the WTO negotiations. Decoupling and compulsory cross-compliance can make it easier to move the support from the blue box to the green one. The re-legitimization of the CAP can bring some indirect advantages to Europe in the negotiations (e.g.: in *non-trade concerns*)³.
8. **No more transfer of support along the chain.** Before the reform, the coupled support increased both the supply of the supported product and the demand of the factors needed for its production. Correspondingly, a negative price effect could be expected on the supply side and a positive one on the demand side. Through these price variations, part of the support was actually transferred from the farmer to other beneficiaries along the food chain. The volume of this transfer was a function of market elasticities: it is well known, for instance, that the coupled support, associated to the rigidity of land supply, increases the land prices and land rents, which is to the advantage of the landowners. The support decoupled from production leads back the supply of products and demand of factors to the market equilibriums. *Ceteris paribus*, the decoupling reduces the transfer of the support along the chain, which favors the farmers' income.
9. **More support to rural development.** Thanks to the modulation, rural development will benefit from increasing resources (even if they are much less than proposed in the initial proposals: 5 %, instead of 20 %). At the same time, the list of the possible choices within the framework of the second pillar has been positively increased, by the introduction of specific measures in support of quality and of the application to agriculture of the regulations concerning environment, the health service, hygiene and animal welfare, and occupational safety.
10. **Simplification.** The difficulties of application met during the initial phase of the reform (that depend also on Member States decisions concerning the national options)⁴ will be followed by a significant simplification. With the introduction of the SPS only one application is needed instead of many as before (one for each crop or animal product). This is an advantage, which should be evident when the reform arrives at its "cruising speed". Certainly, the decision taken by some MSs to use the opportunity offered by article 69 to withhold some funds for supporting quality and environment can create some new bureaucratic complications. Especially if the procedure is not very selective, it can constitute a relatively modest incentive to those farmers who act in the most exemplary way. So one returns to a kind of masked re-coupling.
11. **More autonomy for MSs.** Other advantages depend on the decisions of MSs on the national options (regionalization, optional 10 % reserved for quality and the environment, eco-conditioning, partial or total decoupling, modalities of implementation of the reform etc.).
12. **Timeliness.** Last, but not least, a strong point of the Fischler reform consists of its timeliness. The reform was definitively approved just before three crucial terms: the resumption of the WTO negotiations, the beginning of the political debate for the new financial perspectives for the years from 2007 to 2013, and the enlargement of the EU to 25 members. It is difficult to imagine what would have been the future of European agriculture in the opposite case where those three deadlines were due without a CAP reform. We think that Europe would have found many more difficulties to proceed both on the international and on the internal plan, that the solution concerning agricultural

³ Some recent positions contribute to lower enthusiasm: noticing that into the green box are presently contained approximately 70 billion dollar, the G-20 has recently expressed the opinion that, given its size, the corresponding support has a significant influence on production anyway. The decoupling of single farm payments would then be also contested because some products are excluded from the possible farmer's choices.

⁴ Evidently the management of the single farm payments is simpler if the regionalization option is selected.

and rural development policy would have been more conditioned by priorities imposed by the other EU policies and that the budget reserved to the CAP would have been more than likely curtailed in a greater measure.

Weaknesses

1. **Coupling is transferred from products to the land.** The Fischler reform actually broke the links between singular crops and the (coupled) support. But the CAP has not been completely decoupled. With the SPS the coupled support has been transferred from the product to the eligible land⁵. The effect is that land prices and land rents remain high; this is what hinders the renewal of farms and the rejuvenation of agriculture.
2. **Not enough resources for innovative strategies.** The decoupling accompanied with direct payments, according to the Fischler reform, will use a large part of the resources available until 2013. This basically depends on the Chirac-Schroeder agreement, adopted by the European Council in October 2002 in Luxemburg. The agreement consisted of a reduction of funds for the first pillar starting from 2006 onwards. In fact, the same amount reserved until then to the CAP for the EU-15, will have to be enough, from that date, for the EU-25. More than that, from 2006 until 2013 an annual increase of only 1 % to the first pillar budget will be admitted⁶. This amount corresponds in real terms to a cut, ranging from between 25 % and 30 %.
3. **A continuing imbalance between the 1st and 2nd pillars.** The Fischler reform crystallized the imbalance between the 1st and 2nd pillars until 2013, by denying consistency to the RDP. The second pillar continues to receive a small amount of funds, often not sufficient to correct the distortions created by the first one. Moreover, the 2nd pillar funds are directed to a long list of measures only partially coordinated between them and, anyway, not coherent either with the global strategy concerning the structural and cohesion policies, or with the national and regional policies for regional and local development. Obviously, we have to remember that the Luxembourg agreement does not impose any budget constraints on the second pillar. It is obvious, however, that the budget for rural development depends in crucial measure on the control and reduction of the budget dedicated to market support and direct payments.
4. **Insufficient support to multifunctionality.** The support for multifunctional services of agriculture (environment conservation, landscape management, hydro-geologic defence, etc.) is still not enough. The main risk is that the farms are penalized by a squeeze of the non selective support (coupled or decoupled), defined according to their past *status* conditions, without being rewarded by an adequate compensation for their multifunctional services. The full decoupling, which means a reduced global amount of direct payments received by the farmer as an effect of modulation and the other cuts on direct payments, can lead to the abandonment of the non competitive areas, where the absence of any agricultural activity could engender negative environmental externalities.
5. **A new privilege of *status*.** A new privilege of *status* is recognized for the farmers with the reform: that of "*past-beneficiary*". The received support (no matter what its justification in the past and today) thus becomes a recognized, necessary and sufficient entitlement for continuing to receive support from the EU in the years to come. By rewarding the *status* conditions, the CAP is prevented from rewarding the most deserving behaviour of farmers, who undertook and take part in the realization of

⁵ The right to the single farm payment can be conserved also if one gives up the active farming, but only if the land is maintained in good agronomic condition.

⁶ This is a very severe limit. Considering the effect of the inflation and the growth of GDI, the annual growth of the total EU budget is normally around 4-5% per year.

projects and innovative programs, corresponding to the taxpayer's expectations⁷.

6. **Few incentives for diversification.** The decoupled support, bound to eligible land and calculated on the basis of the direct payments received in the years 2000-2002, constitutes in fact a consolidation and an acceptance, even for the future, of the past distribution of CAP funds. The distribution of CAP support has in fact only slightly changed since the eighties when the CAP was substantially market support. It has been modified neither by the Mac Sharry reform nor by Agenda 2000. The major beneficiaries of the CAP Are still the same as they were twenty years ago and more. Nevertheless, this contradicts with one of the main objectives for a more efficient and effective CAP: to correct the very bad and unfair distribution of its support. Until 2013, 80 % of the support will still go (with few variations) to the same 20 % beneficiaries. They are namely the largest farms, producing the most protected crops or animal products, mainly commodities, obtained with standardized, capital-intensive techniques, which offer fewer job opportunities. They are generally even less compatible with the objectives of environmental protection, less diversified, and less market oriented. It is certainly not to this kind of agriculture that the EU refers by evoking, as in Agenda 2000, a "*European model of agriculture*" based on diversification, multifunctionality, integration, and sustainability.
7. **The reform does not favor regional convergence.** While the EU reaffirms that the central objective of its policy is to shorten the socio-economic gap between its less developed regions and the European average, the benefits of the CAP continue to concentrate on the richest regions: namely the plains, the territories with better infrastructural endowments, and those bordering on the largest metropolitan areas (such as the *Basin Parisien* in France or *Valpadana* in Italy), and those mostly devoted to the specialized production of commodities of standard quality. On the other hand, fewer resources are given to the mountain and hill areas, to the areas characterized by higher diversification and which are suitable for typical and high quality and value products, and to the Eastern European and Mediterranean regions. After the reform, the CAP still maintains its most negative character: that of a policy oriented mostly to other areas than those with the more complex territorial problems, the lowest levels of income, the highest rates of unemployment and underemployment, and the highest degree of marginality. The CAP thus still acts in a geographically, economically and socially opposite direction than that of European convergence and cohesion, which is the priority objective for the other structural policies⁸. Given its very heavy weight on the EU budget, such a connotation risks, however, depriving it further of justification and sense. In any case, the first pillar has a non coherent distribution of funds with that of the second. The efficiency and effectiveness of both pillars is at risk.
8. **A barrier against the turn-over in agriculture.** The decoupled support, linked to the eligible land, represents in agriculture an additional barrier to entry. To start a new farm, the young entrepreneur must not only pay for the access to the land (whose value is dependent on the future incomes linked to market expectations), but also for the enormous burden of benefits and supports bound to the *status* of the farmer (including from now on also that of *past-beneficiary*). Alternatively, he is forced to compete with no support, with the old farmers, who indeed are receiving the single farm payment. On the other hand, the decoupled payment contributes to maintaining the non efficient farms, which

⁷ The single farm payment is in fact reduced for farmers that in the three year period 2000-2002 adopted a sustainable rotation, than for his colleagues who opted for a mono-succession between the most supported crops.

⁸ «The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities (...), to promote throughout the Community a (...) sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States ». Article 2 of the *Treaty Establishing the European Community*.

otherwise were condemned to give up, weakening the land market and lowering land rents.

9. **Distorted Competition in the non protected markets.** The farms mostly favored by the coupled support of the old CAP, receiving the decoupled single farm payment, can reorganize their supply from now on producing other crops or animal products previously not protected. But in that case, they enter into (subsidized) competition with those market-oriented farms, which up to now have decided to give up the CAP support and to compete (without direct payments and often without any support at all) on the free market. The predictable effect is pressure on the supply side, through which the previous farms (that we could call: support-oriented) condemn the latter to risk income losses and slow down their growth. Aiming at avoiding possible market distortions, the Fischler reform has prevented the farmers, who will receive the direct payment, from using the eligible land for permanent crops, vegetables and potatoes. But no constraints are established to prevent the supported farmer from entering all other possible agricultural activities (e.g.: agrotourism). Even the ban on permanent crops, vegetables, and potatoes can easily be by-passed if the farmer utilizes, as is often the case, more land than that eligible for the SPS.
10. **Obstacles to the integration of the new MSs.** Since the EU was unable to reform the CAP in a more substantial way before the enlargement, a diversified treatment was maintained for the whole *phasing - in* period in favor the EU 15 farmers to the detriment of the new EU 10 ones. As a consequence, further delays and problems in the process of convergence can be expected. One can understand the political reasons which explain why the richer western farmers will receive more support than the poorer Eastern ones until 2013. But the contradiction remains and economic integration will be consequently delayed.
11. **The Continuing Weak Position of the EU in the WTO.** In spite of the Fischler reform, the EU position within the WTO will remain weak. This will further condition the EU contractual strength on all the other negotiation tables and in its political relations with the rest of the world. On the other hand, the support for European agriculture (calculated by the OECD in terms of *Producer Support Estimate's* - PSE) has not decreased after the reform. Given its volume, it can still be considered as a strong distortion in international competition⁹. This protection has been moved from any specific agricultural product. The distortion is thus really weakened at the level of each specific CMO. But if we consider the agricultural sector as a whole, the protection has remained at the same level as before.
12. **Distorted market competition between Member States.** The different decisions relative to the national envelopes, and on the other options left to MSs, can turn into substantial differences in treatment among farmers across Countries¹⁰. These differences can be even judged as a positive consequence of the application of the subsidiarity principle (i.e.: the need to adapt the CAP to national and regional specific requirements). But MSs (as well as their Regions) can use the degrees of freedom instrumentally, that the reform has recognized for them, aiming at creating artificial market advantages for their farmers. In this way, they could distort the competition between farmers from different Countries. A similar market distortion can be seen if the MSs adopt divergent

⁹ The OECD estimates the Producer Support Estimate of the UE for 2003 in 108 251 million Euro, equivalent to 37 % of the agricultural gross product. This percentage, was 39% in the three years 1986-88 average, and decreased to 34% in 2001.

¹⁰ The most important decisions left to MSs are: a) art. 71: date of application of the single payment scheme; b) articles 66-67-68: option of full or partial decoupling respectively for cereals, ovine and goat meat, bovine meat; c) article 69: optional additional payments for specific types of farming and quality production; d) art. 70: optional exclusion of seed crops from decoupling; e) articles 58-63: regionalization of the single payment scheme; f) article 62: inclusion of dairy premiums and additional payments into the single payment scheme starting from 2005; g) article 42: constitution of a national reserve up to 3 %.

decisions from each other on the practical adoption of the conditionality principle. The risk is a decrease in the commitment towards multifunctionality, and some could take advantage of it by favoring environmental *dumping*, in a visible or hidden way.

13. **Rural development sectorialised policy.** Instead of a unique and integrated European policy for regional and local development, cohesion, and convergence, after the Fischler reform there is a growing risk of maintaining a substantial separation between the EU structural policy and the CAP (second pillar included). One can observe that the terms "agriculture" and "farming" appear ten times in the final statement of the Salzburg Conference, against only two times in the Cork Conference. The definition of Rural development and rurality in such an approach risks becoming minimalised, which would be completely inadequate for coping with the requirements of the enlarged Union and with the evolution of the European regional development policy.
14. **The costs imposed by eco-conditioning.** The new obligations introduced by the compulsory eco-conditionality (maintain the land in good agricultural condition and comply with the standards on public health, animal and plant health, the environment and animal welfare) can imply additional costs on the farm, neutralizing part of the farmer's income. If, on the contrary, the commitment towards cross-compliance were weakened or the *law-enforcement* commitment were insufficient, the lower effect on farm costs would be balanced by the loss of justification of the SPS. Any claim to justify the Fishler reform as a solution for *greening* the first pillar would be eliminated. In this case, the main justifications for moving the single payments into the WTO green box would fall. The possibility for the Fischler reform to resist the criticisms would be even more compromised. The management of the eco-conditionality introduces moreover complex bureaucratic and administrative implications, that could reflect on further costs or delays.
15. **Neither digression nor a time limit for SPS.** An important justification of decoupled single farm payments could be that they are necessary for encouraging farmers to reorganize their activities according to the new market opportunities and multifunctional objectives of the CAP. The rationale is clear: the EU cannot abandon the farms which would be more penalized by the reform. They need to be assisted during the transitory phase of the adjustment to the post reform scenario. The Buckwell Report in 1998 suggested transforming the old compensatory payments of the Mac Sharry reform into «Transitory Adjustment Assistance Payments» (Buckwell et al, 1998). But three conditions would have been necessary so that the decoupled payment could be considered as such: digression, a time limit, and payment conditioned to the change. In effect, none of these requirements have been adopted in the reform. The modulation is too modest to be considered as a consistent application of the principle of digression, no time limit has been imposed on the validity of SPS, farmers are not required to adjust their production strategies for receiving the SFP, apart from the adoption of cross-compliance.

Opportunities

1. **The most important result of the Fischler reform is political.** Several recent evaluations of the Fischler reform impact on European agriculture are in agreement on one conclusion: the expected changes will generally be small. At least in the short-medium term, when the projections are more reliable, only small adjustments are estimated. Often, in fact, the economic and technical possibility to adjust is limited. Besides, the adjustment will require strong investments not only at the farm level, but also in infrastructures, as well as a new organization at the food chain level. Moreover, a new organization to provide farms with new services is needed. Maybe some marginal farms can take the opportunity of decoupling to exit definitively from production anyway, once the support is obtained as well. However, this is not expected to produce significant effects on the market (REAPBALK Final Report, 2004). According to the analyses, decoupling and modulation should produce limited

changes even on rural development. On the other hand, the major effects produced by the reform are of a political order. The political value of the Fischler reform has been recognized by the new Commissioner for Agriculture Mrs. Marianne Fisher Boel in one of its first declarations. Declaring its agreement with the Fischler strategy and confirming its commitment to continue on the road traced by his reform, she added that Europe needs a *rural strategy* corresponding to the Lisbon strategy and an agricultural and rural development policy aimed at supporting diversification, innovation, structural renewal and technological improvement. The Fischler reform broke the wall of previous opposition to any consistent change. The new strategy is still to be detailed however.

2. **Decoupling is more convenient in liberalized markets.** Decoupling releases farm support from the obligation of producing specific crops or animal products. It thus allows the most skilled and dynamic farmers to freely redefine their farm strategy to cope with the technological evolution and market indications. In more and more liberalized markets, the decoupling relieves the congestion on the supply side for all products previously protected. This is an advantage for the most efficient producers because it produces higher market prices, lower costs and finally higher incomes. Decoupling produces a positive selection of the best and a corresponding penalization of the worst, resulting in an increased efficiency of the whole food chain, to the advantage of consumers and common welfare.
3. **Advantages if the market turns to quality.** Decoupling urges all farms to reconsider their organization. In particular, given the technology and considering the market conditions, they have to decide if and how it is convenient to change the attributes of quality both of the production process and of the products or services produced. In the past, the coupled support stimulated mainly the production of standard quality products, as no additional payments or incentives were normally available for supporting the quality of the process as well as that of the product. Now, that the coupled incentive of the past is going to be lost, the farmers should decide also on the qualitative attributes on the base of the rewards they could obtain on liberalized markets. Losing the coupled support, the most standardized products should find their value on the market. In that case, it would be necessary to face international and internal competition, where it is especially important to decrease the average production cost. In this field, several European regions and farms can still continue to be competitive, but in many other cases it will be necessary to change strategy and to re-orientate land use either towards non-agricultural functions (forestation, residential, entertainment, etc.) or less extensive high quality products. If this were really going to happen, the Fischler reform could favor the spread of the European model of agriculture evoked by Agenda 2000 in a concrete way, based on quality enhancement, diversification and multifunctionality.
4. **Advantages for the new CAP if environmental commitment increases.** If, in the future, the importance attributed to environmental issues by the citizens increases, a growing support to further actions for "*greening*" the CAP is expected. From this perspective, the eco-conditioning of the Fischler reform would represent only a first step towards new and more explicit contractual solutions finalized to pay the multifunctional services supplied by the farmers. Basically, it was impossible for the Fischler reform to do more than "green" the first pillar, introducing the compulsory cross-compliance. But this could only be the first step. The second will consist, in the future, of moving the agro-environmental support from the first to the second pillar. This is not only a formal change. Under the first pillar, the right to direct payment exists independently from any cross-compliance commitment. The cross-compliance in fact operates only as a constraint. In such a way, if the convenience to produce falls, the cross-compliance constraint ceases to produce any effects: the environmental protection being subordinated to the advantage for the farmer to stay in business. Under the second pillar, on the contrary, the right for receiving the direct payment arises directly from the production of an environmental service. The production of common goods is the first and direct objective of the policy.

5. **The reform of RDP can favor the integration of the CAP in the EU structural and cohesion policies.** The capacity to make European agriculture conform to the model evoked by Agenda 2000 certainly depends on the outcome of the political debate on RDP for the years 2007-2013. Naturally, it depends as well on the role that rurality will be given in regional development policy. It also depends on the capacity in Europe to integrate the different rural development measures aimed at diversification and multifunctionality. This objective could be more effectively pursued if, within the future financial perspectives, rural development will be granted a substantial budget. Unlike the first pillar, in fact, no budget limits have been imposed to the second pillar by the Chirac-Schroeder agreement. It is evident, however, that RDP will not obtain enough funds if the cost of market and direct payment policies do not decrease. These considerations send back to modulation. The present size of modulation (5 % at the maximum level) is certainly too low. It is necessary to decide on an intensification of the modulation regime as soon as possible.

Threats

1. **Playing Against Time.** The CAP budget highly risks erosion if the reform is too slowly implemented. Indeed, budget shrinkage is already at work. The fall of the CAP budget on is already evident: its ratio on the European GDP amounted to 0,61 % in 1993, and fell to 0,43 % in 2003, it will still fall, on the basis of the decisions already adopted, to 0,33 % in 2013. Nothing proves that the last ratio will actually be defended until 2013. As time passes, the decoupled support, calculated based on the direct payments received in the years 2000-2002, will be less and less politically justifiable. The dissatisfaction will rise, in particular if these payments are not strictly associated to the supply of public goods or services (based on specific contractual obligations), corresponding to the willingness of the taxpayer to pay. Obviously, the situation will become untenable as 2013 comes closer. At that time the commitments assumed by the Fischler reform will fall. If a real perspective for agriculture and rural development is not found in the meantime, the criticism already advanced that decoupled payments means "paying farmers for doing nothing" would become so strong as to undermine the whole construction of the CAP. On the other hand, the foreseeable admittance of Turkey to the EU would make the current CAP (even reformed) completely unacceptable. According to recent evaluations, the necessary resources for Turkey with the current CAP will amount to 8.8 billion euro (at 2004 prices) which corresponds to 20 % of the total budget (Oskam et al, 2004).
2. **Increasing dissatisfaction with the CAP.** It is not difficult to imagine that, if the future battles for the CAP reform had to take place once again separately from the other European policies, with the same participants and the same ways, one could expect its progressive dismantling, based first of all on a substantial reduction of funds. As a consequence one can expect also a marginalization of the role of rural areas in regional and local development, as well as a marginalization of the farmers in the European economic development. In these conditions, it is evident that the most radical solutions, such as those expressed by the Sapir Report, would be reasonably welcomed by many (Sapir et al, 2003). At the recent hearings of the new Commissioners by the European Parliament, such an approach was presented by the Lithuanian Commissioner responsible for Financial Programming and Budget Mrs Dalia Grybauskaitė who in fact defined the CAP as "*old-fashioned and démodée*". It is not difficult to imagine what was she referring to later when she added that the EU budget responds to «some priorities which have been old for decades» and that it should be revised «by increasing its flexibility».
3. **A likely cut on direct payments because of the financial discipline.** Some recent projections indicate that serious difficulties could emerge to maintain the first pillar expenditure within the limits established by the financial discipline of the Fischler reform. The cost of the CAP indeed depends on multiple factors. If, as it is likely to happen, all the MSs use the funds for the direct payments, reserved to each of them, completely (30,1 billion euro in 2005, which will rise to 38,7 billion in

2013), only 13,3 billion euro in 2006, reduced gradually to 3,6 billions in 2013, which will then remain available for market support. This sum will hardly be enough. It should indeed cover various needs: a) payments for purchases and restitutions made necessary by weak agricultural markets; b) the *phasing-in* payments for the new MSs and from 2007 also Bulgaria and Rumania (and maybe even Croatia before 2013); c) the possible higher budget requirements, as a consequence of a compromise on the sugar CMO reform, which could be more expensive than was expected in the controversial Commission proposals. Some recent evaluations of the Commission, less optimistic than the previous ones of March, 2004, suggest that, in 2007, the amount of funds necessary for the first pillar should exceed the available budget by approximately 2-3 billion euro. The financial discipline introduced by the Fischler reform will operate for preventing these major expenses through a corresponding cut on single farm payments. If it is difficult for the first pillar to stay within the limits fixed by the financial discipline, the whole CAP budget will be under pressure. Indirectly this will limit the possibility of providing enough funds for the second pillar.

4. **The fall of the dollar/euro rate of exchange can raise the pressure on the budget.** In spite of the commitment to reduce the price support, market interventions and restitutions are still in action for cereal, dairy products, bovine meat, and sugar (at least as long as the WTO negotiations do not change the rules). The decline of the dollar/euro exchange rate produces an automatic increase in the restitutions on exports to cover the main difference between indicative prices in euro and world prices in dollars. This could put the budget under further pressure reserved for the first pillar and indirectly that for the second pillar as well. However, given the present WTO agreement, the increase of the total amount for restitutions is fixed and can only be adjusted modestly. Consequently, the fall of threshold prices and consequently of the market prices received by the farmers is likely to happen.
5. **RDP sacrificed if the EU total budget were cut.** A group of six MSs (France, Germany, Sweden, The Netherlands, Austria and the United Kingdom), net contributors to the EU total budget, has proposed a sharp budget cut for the future. For the new financial perspectives 2007-2013 they suggest a reduction to 1 % of the European GNI (such a decision would imply a fall from 143 to 124.5 billion euro, in 2013, thus an 18.5 billion cut). In such a case, the agricultural allowances, fixed by the Brussels Agreement in 2002, should be drastically reconsidered. The pressure on the budget would certainly affect also the amount of funds to be dedicated to the second pillar, which have not yet been decided and are not backed by a lobby support as strong as that, which defends the first pillar funds. For this reason, the RDP could be the first one to be sacrificed¹¹.

Conclusive remarks

The analysis presented in this work is obviously the result of subjective evaluations. Others could add (or remove) some elements of the SWOT analysis, establish different hierarchies, consider as *strengths* or *opportunities* what was presented here as *weaknesses* or *threats*, and vice versa. The aim of this work was explicitly to propose an evaluation of the Fischler reform for stimulating new analyses and re-launching the debate on the role of agriculture and rural areas in Europe.

A "high level analysis" is lacking today in fact, in our opinion. An analysis is needed, which at other times was not lacking, even when the self-preservation capacity of the PAC could appear an insurmountable obstacle¹². Even today, it can be thought that with the Fischler reform a process has been

¹¹ The budget for the second pillar is evidently questioned. "One big question remains: we do not know how much money we will have". This is the recent conclusion of Dirk Ahner, responsible for rural development policy at the DG-Agri, at the recent Rural Development in Europe Conference organized by Agra-Informa, 17 October 2004, London.

¹² Several scientific contributions can be here recalled. Especially the volume: Buckwell et al, 1998. Several members of the old Buckwell group, together with other scientists, have subsequently updated the analysis in the

primed, in which the mechanisms that are already in place prevail and there are no possibilities for any significant adjustment. Our hypothesis is that the situation is much more fluid than it seems and that in the future, even the near future, there are so many opportunities and threats, that significant changes will be necessary anyway, desired or not. This is why a deeper analysis is fundamental and the debate should resume. All observations and criticisms that can enrich this work are therefore welcome.

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