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AGRICULTURAL POLICY AND RURAL DEVELOPMENT

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Abstract: The Common Agricultural Policy (CAP) is a cornerstone of EU policy relating to rural areas. Initially, it aimed to provide a harmonised framework for maintaining adequate supplies, increasing productivity and ensuring that both consumers and producers received a fair deal in the market. These priorities have shifted to environmental and animal welfare concerns, as well as food safety and security aspects. As a consequence, the CAP has gradually moved from a production-based structure of subsidies to a market-oriented system, integrating standards for food, environment and biodiversity, as well as animal welfare. In 2010, the EU launched an extensive debate on the future of the CAP, as the European Union needs a better tailored, reformed Common Agricultural Policy to answer the challenges of food, growth and jobs in rural areas. The European agriculture must address the expectations of rural society and demands of the market concerning public goods, the environment and climate change. This raises questions of whether the CAP payments in the past have been effective in achieving their objectives and whether direct payments should be continued for supporting agricultural environmental issues.

Key words: Common Agricultural Policy, European agriculture, Rural Development

Introduction

The CAP was designed in the late 1950s and introduced in the late 1960s (Petrick, 2008, Lyon, 2009). The official objectives, as stated in Article 33 (39) of the Rome Treaty (1958) are (i) to increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour; (ii) to ensure a fair standard of living for farmers; (iii) to stabilize markets; (iv) to assure the availability of supplies; (v) to ensure reasonable prices for consumers. The CAP resulted from the integration of member state policies, which were introduced to protect the incomes and employment of EU farmers from foreign competition and market forces. The support was assured through high import tariffs, export subsidies and fixing prices, which created stability on the EU food market. Since the integration of agriculture in the GATT/WTO system, CAP has undergone major reforms (Sckokai and Moro, 2006). The introduction of direct payments in the 1990s and the reforms of 2003 and 2008 have substantially reduced trade distortions, in particularly through the decoupling and single farm payments, which are currently applied in many member state of the EU (European Commission (2000, 2009). CAP payments have resulted that farm household incomes are roughly the same of average household incomes in the EU, although narrowly defined farm incomes are still behind average incomes (Harvey, 2003, 2004).

With the improved integration of rural areas into the rest of the economy, non-farm incomes make up an increasingly larger share of “farm household incomes”. However, Barkley

(1990) noted that employment rates dropped in the USA between 1950 and 1980, despite government subsidies to agriculture. In Europe, Glauben et al. (2006), and Serra et al. (2005) find mixed, but generally small, effects of farm subsidies on the employment. OECD (1994, 2002) data show, that over the past two decades there was no positive relationship between changes in agricultural employment and changes in agricultural support in the European countries. According to Swinnen (2009), the combination of policy rent dissipation and poor targeting were the most important reasons why CAP payments have limited impact on relative farm incomes and employment. OECD studies showed that the net income effects of commodity price supports for farmers (the old CAP) were around 20%, meaning that 80% of the payments went to non-farm groups, including input supplying companies and that this reduced prices to non-EU consumers and producers.

Total spending on the Common Agricultural Policy has been a large share of the total EU budget (Goodwin and Mishra, 2006, Nunez Ferrer, 2007). It is obvious that the EU budget review should take a close look at these allocations, which in 2009 were in excess of €50 billion and spending on direct payments was almost €40 billion (European Commission (2007, 2010). Since its creation, CAP has always been adapted to respond to the challenges (Salhofer and Schmid, 2004). Significant reforms, to modernise the sector and make it more market-oriented have been made in 2000 and during the planning period of 2007–2013 (Swinnen and Gorter, 2002). In order to see how citizens view such matters in general and to gauge their reactions to policy developments, Directorate-General for Agriculture and Rural

development has been keen to measure public opinion on agriculture and the CAP.

In 2009, following the Eurobarometer method, a thousand individual interviews were conducted in each of the twenty-seven Member States of the European Union to measure opinion of peoples on agriculture and food industry. The survey confirms that the guiding principles and aims of the CAP are supported by a majority of people. European citizens broadly support the aims of agricultural policy and majority of peoples are in favour of maintaining its budget. These are the most important findings of a survey on the Common Agricultural Policy. European public opinion continues to be broadly in favour of the CAP's new aims, which are to help farmers to meet the challenges arising from climate change, to become more market-oriented, to allocate support more fairly and to make it conditional on compliance with environmental standards, to maintain the countryside and to develop the rural economy. According to public opinion, the agricultural policy should focus on ensuring the quality and safety of food products, on ensuring reasonable prices for consumers, on protecting the environment and rising to the challenges of climate change (Special Eurobarometer, 2009).

The special survey on agriculture and climate change pointed out that almost half the respondents believe that agriculture has already made a major contribution to combating climate change. A large majority believe that agriculture will be greatly affected by climate change over the next few years and a similar proportion of respondents agree that the EU must help farmers to change the way they work in order to combat climate change. The recognition of the fundamental role of agriculture explains the high level of support for maintaining the subsidies paid to farmers. The vast majority of people interviewed take the view that financial assistance to farmers over the next ten years should increase or remain more or less the same (Special Eurobarometer, 2009).

According to the survey, the support for agricultural policy is accompanied by a general preference for the policy to be conducted at European level. Whether it is the protection of the environment, rising to the challenges of climate change, security of supply, ensuring the quality and safety of food or providing a decent standard of living for farmers, citizens believe all these issues should be dealt with at European level (Special Eurobarometer, 2009).

Headline targets for Europe 2020 strategy

The EU's new strategy for sustainable growth and jobs, called Europe 2020 replaces the Lisbon Agenda, which largely failed to turn the EU into "the world's most dynamic knowledge-based economy by 2010". One major criticism of the Lisbon Strategy is focussed on monitoring; as it is too loose and does not include sanctions for failing member states. The new strategy needs to increase joint responsibility of economic governance and, as Herman Van Rompuy

proposed, it will reward governments with extra EU funding if they meet their targets instead of sanctions, which has been proved to create unnecessary bureaucracy. The EU president wants a maximum of five "quantitative targets with a deadline and possible immediate steps" on issues such as R&D spending, labour market participation rates, third-level education and poverty reduction to ensure the commitment of member states to the new strategy. The proposal of Commission defines five 'headline targets' to be adapted at national level, in order to reflect "differing starting points":

- Raising the employment rate of the population aged 20–64 from the current 69% to 75%.
- Raising the investment in R&D to 3% of the EU's GDP.
- Meeting the EU's 2020 objectives to cut greenhouse gas emission by 20% and source 20% of its energy needs from renewable sources.
- Reducing the share of early school leavers from the current 15% to fewer than 10% and making sure that at least 40% of youngsters have a degree or diploma.
- Reducing the number of Europeans living below the poverty line by 25%, lifting 20 million out of poverty from the current 80 million.

Seven more initiatives were identified, where joint action will be initiated, such as innovation, youth, the digital agenda, resource efficiency, industrial policy, skills and jobs and the fight against poverty. In the programming period, Governments have to agree on the proposed five headline targets and national targets will be prepared and discussed by the EU summit. A one-size-fits-all target has been excluded regarding the big differences between the most and least developed member states. National governments will submit tailor-made programmes specific to their stage of development in terms of infrastructure and spending. Despite scepticism, the Commission believes economic realities will give the 2020 strategy major political impetus, which will lend itself to the kind of buy-in from governments that the Lisbon Agenda lacked.

Headline targets for rural development and agriculture

As listed in "The Common Agricultural Policy explained," the activity of European Commission is focused on improving the quality of Europe's food and guaranteeing food safety (standards); looking after the well-being of rural society; support the multifunctional role of farmers as suppliers of public goods to society and ensuring that the environment is protected; providing better animal health and welfare conditions; doing all this at minimal cost to the EU budget. The list of new objectives is also reflected in pillar II priorities of rural development programmes and the so-called cross-compliance regulations, what farms have to satisfy in order to receive EU payments. Food safety and quality objectives are addressed by other policies and direct payments have a very limited role to play in this.

According to the FAO, in 2007, around 923 million

people worldwide were chronically undernourished due to extreme poverty, while two billion more intermittently lacked food security as a result of varying degrees of poverty. In addition to population growth and increased demand for basic foods like wheat and rice, demand for meat and dairy products is steadily growing in emerging economies. Food security is a priority area of concentration of the European Consensus on Development. The EU food security policy tackles the issue on three dimensions: availability of food at regional and national levels, access to food by households and food use and nutritional adequacy at individual level. According to the World Bank, demand for food in general is expected to increase by 50% by 2050, and demand for meat by 85%. It is expected that potential yield increases might not be enough to feed the world. On the other hand, agriculture must compete for land as urbanisation increases throughout the world and cities tend to expand to the most productive land. At the same time, more land is used for producing timber, ethanol and biodiesel. Population growth, climate change, growing scarcity of mineral oil and availability of water and land are challenging to produce enough food for everyone and potentially pave the way for a new global food security and safety initiatives.

In many places, intensive farming has led to serious degradation of agricultural soil. According to the International Food Policy Research Institute, up to 40% of agricultural land around the globe is seriously affected by soil degradation. This is mostly caused by monoculture, which over time exhausts all the vital nutrients in the soil and therefore reduces yields. In some cases, replacing local varieties of domestic plants with high-yield or exotic varieties has led to the collapse of important gene pools, including wild and indigenous varieties. Researchers in the EU also believe that the general tendency towards genetic and ecological uniformity imposed by the development of modern agriculture represents a challenge to environment.

The Green Revolution increased global grain production in the past 50 years, while modern food production is highly dependent on fossil fuels and the ever-decreasing supply of fossil fuels is expected to have a major effect on the industrial agricultural system. In addition, food security can also be hampered by socio-political factors. This is especially true in developing countries. Government intervention may reduce the incentive for producers to invest and increase their production, but small farmers have difficulty accessing seed, fertiliser, machinery, credit and markets. The power of intermediaries in the food chain can also hamper the chance of farmers to receive fair compensation for their work, while wars and ethnic unrest hamper the sustainability of overall food production.

Climate change also poses competition for land by creating the need to preserve forests and grassland to absorb greenhouse gases. The impact of agriculture on climate change is substantial. Although, the average contribution of EU agriculture to greenhouse gas (GHG) emissions is 9%, but agriculture may also contribute to carbon sequestration. The net effect depends on its opportunity costs, i.e. the substitution for other activities which may have a stronger or lesser effect

on carbon sequestration. Climate change directly affects food production by changing agro-ecological conditions. Increased seasonal variations in rainfall are expected to affect water availability and making yield prediction more difficult.

Changing weather conditions are also expected to bring new crop diseases and pests and climate change is expected to introduce pronounced regional shifts in agricultural production. As sea levels are expected to rise, a considerable increase in suitable cropland at higher latitudes is expected, matched with a corresponding decline of potential cropland at lower latitudes, where most developing countries are located. Meanwhile, melting glaciers in the Himalayas and Tibet are expected to cause serious water supply problems in Asian countries, including China. Unsustainable extraction from lakes, rivers and groundwater is threatening the long-term sustainability of European food production. Millennium Ecosystem Assessment report notes that 70 of the world's major rivers, including the Colorado, Ganges, Jordan, Nile and Tigris-Euphrates, are close to their maximum extraction levels.

In this situation, Commissioner Dacian Cioloş has provided a long term perspective on support to European farmers, which is very useful to put the current direct payments into perspective and which has initiated a public debate on the role of agriculture in European society and on the objectives of the CAP (Cioloş, 2010). His approach is close to the approach of CAP reforms in the 2003 and based on the need to find new arguments to justify 50 billion Euro funds on agriculture, when the economic contribution of agriculture has declined rapidly. In 2002–2003, under the tenure of Commissioner Franz Fischler, the CAP reforms substantially reduced trade distortions by decoupling payments, and linked the new SFP to environmental and animal welfare objectives, and created sufficient political support to continue with a largely unaltered budget for a “relegitimized CAP” to 2013. Debate initiated by commissioner Dacian Cioloş is revolving around four strategic questions:

1. Why do we need a European Common Agricultural Policy?
2. What are society's objectives for agriculture in all its diversity?
3. Why should we reform the current CAP and how can we make it meet society's expectations?
4. What tools do we need for tomorrow's CAP?

Each of these strategic questions raises others, but the focal point is how economic and green growth in rural areas can be ensured.

Why do we need a European common agricultural policy?

European Common Agricultural policy needs to maintain rural economy and enhance rural landscape, give stability to farm incomes and enhance locally produce food, but EU citizens need a low-key policy that seeks to balance all the needs of the countryside and will ensure European food security. Over the last century, Europe has faced the world's

worst economic crisis. This has reversed much of the progress achieved and Europe is now facing high levels of unemployment, sluggish structural growth and excessive levels of debt. At the same time, the world is moving fast and long-term challenges – globalisation, pressure on resources, climate change, ageing – are intensifying. The expected economic recovery is very fragile. Except for cereals the EU is contributing less and less to total world food and agricultural production (Figure 1). Contribution of EU countries to total world fruit production was more than 30% at the beginning of the 1960s and it is now close to 10% (Figure 2). EU countries produced more than 20% of vegetables and this number has also reduced to less than 7% (Figure 3). According to FAO statistics, EU produced 27 % of total world meat production, which was reduced to 15%

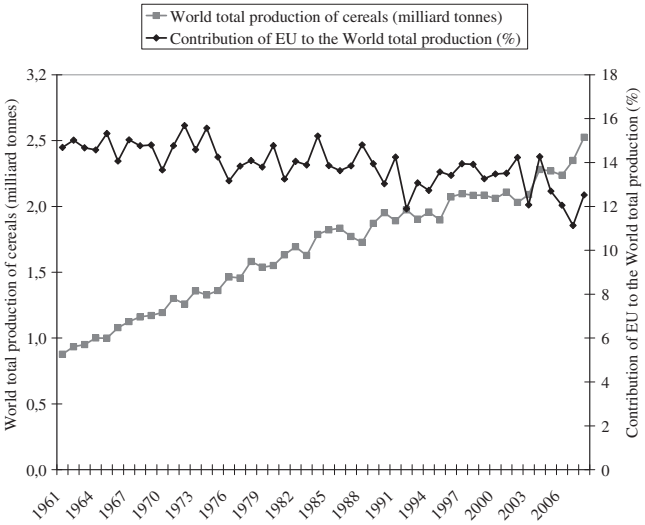


Figure 1: World total production of cereals (million tonnes) and contribution of EU countries to total production (%) (Sources of data: FAO Statistics Division 2010)

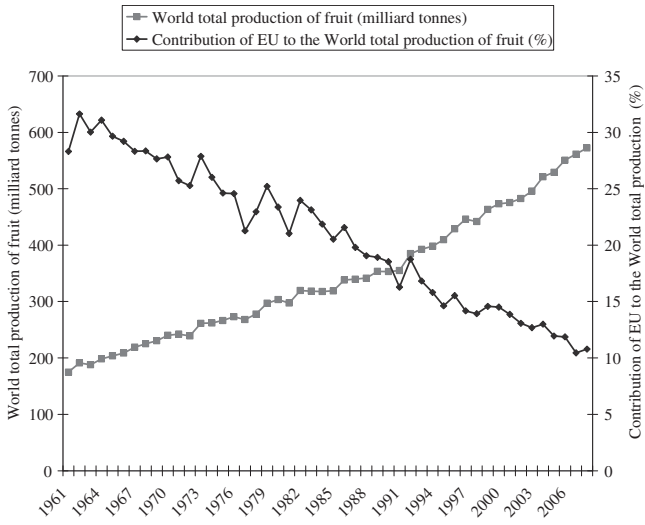


Figure 2: World total production of fruit (million tonnes) and contribution of EU countries to total production (%) (Sources of data: FAO Statistics Division 2010)

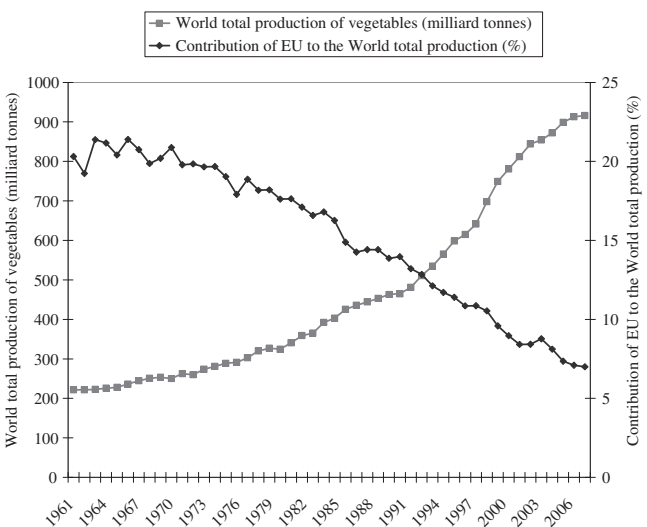


Figure 3: World total production of vegetables (million tonnes) and contribution of EU countries to total production (%) (Sources of data: FAO Statistics Division 2010)

by 2008 (Figure 4). We need a European common agricultural policy to ensure adequate food supplies, preserve the countryside and provide a reasonable living for agricultural and related populations. The Common Agricultural policy can ensure that Europe can produce enough food and employment for its people. Mass depopulation of farms would be disastrous to the whole rural areas in Europe, but currently the supermarkets control the farm-gate prices of many commodities.

What do citizens expect from agriculture?

Different citizens expect different things! An overwhelming majority of Europeans regard agriculture and forestry as important for the sustainable future. Citizens expect organic, environmentally friendly crops, as they are essential for human health and wellbeing. Others, who are experienced two generations of plentiful food, proclaim that the needs of wildlife, public access, or visual attractiveness are paramount. The main priority for the CAP should be ensuring agricultural products that are of good quality, healthy and safe, ensuring reasonable food prices, protecting the environment and ensuring a fair standard of living for farmers (World Bank, 2005). Protein supply was 40 g/capita/day in China 50 years ago and increased to 90 g/capita/day by 2007, which is higher than in Bulgaria and Hungary (Figure 5). According to FAO statistics, in Bulgaria and in Hungary per capita protein supply was higher 50 years ago than at the beginning of XXI century. This is why citizens expect an effective and efficient contribution from the Europe 2020 objectives in rural areas. Progress should be measured against five representative headline targets: 75 % of the population aged 20-64 should be employed; 3% of the EU's GDP should be invested in R&D; the "20/20/20" climate/energy targets should be met; the share of early school leavers should be under 10% and at least 40% of the

younger generation should have a degree to effectively reduce the number of people living in poverty.

Why reform the CAP?

Proposed by the EC in 1960, the CAP provides a harmonised framework to maintain adequate supplies, increases productivity and ensures that both consumers and producers received a fair deal in the market. The EU budget of 250–300 EUR/capita/year does not support separated aims for CAP. Europe can succeed if it acts collectively, as a Union. The Europe 2020 strategy sets out a vision of Europe's social market economy for the 21st century. It shows how the EU can come out stronger from the crisis and how it can be turned into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. Well focused RTD activities and stronger economic

governance will be required to deliver rapid and sustainable results even in rural area. The current CAP provides poor value-for-money, because the majority of the payments are not targeted to any outcomes. Modernisation resulted cereal over production and diminishing fruit, vegetable and meat production in Europe. Farmers are now very much protectors of the countryside in attempting to act to counterbalance the effects of the previously subsidised use of fertilisers and pesticides. We need to be much clearer about what we are trying to achieve, so that payments can be structured to meet specific ends. The new Europe 2020 strategy for sustainable growth and jobs offers solution to these problems by raising the rate investment in R&D activities in order to increase competitiveness of EU agriculture. It also considers conservation of the rural environment by meeting the EU's 2020 objectives to cut greenhouse gas emission by 20% and source 20% of its energy needs from renewable sources, while contributing to the well-being of rural peoples by reducing the number of Europeans living below the poverty line and reducing the share of early school leavers.

What tools do we need for the CAP of tomorrow?

The current system, which offers huge payments to large landowners, with little public benefit, cannot be justified, and should not be continued. A Common Agricultural Policy will only be useful if we go for long-term goals of sustainability with ecological farming, reducing exhaust gasses of the transport sector, which account for about 30% of GHG emissions, avoiding the spread of diseases in large scale agriculture, which is unnecessary cruelty and increase the risk of production. The long-term effects of modern gene technology are not known and lethal genes should be forbidden. If people keep buying cheap food and meat from the capital-intensive, subsidised food industry, this consumer behaviour may affect their health. European citizens have to pay the costs of medical treatments and rehabilitation. We have to educate people and go for quality of life rather than low prices. Other issues, such as pollution, do not stop at national borders, so this should definitely be part of European policy, but not necessary CAP. The Europe 2020 strategy puts innovation and green growth at the heart of its blueprint for competitiveness and proposes tighter monitoring of national reform programmes to get out of the crisis and to prepare the foundation for the EU economy for the next decade also in rural area. The Commission identifies three key drivers for growth, to be implemented at EU and national levels: (i) smart growth (fostering knowledge, innovation and education), (ii) sustainable growth (making our production more resource efficient while boosting European competitiveness) and (iii) inclusive growth (raising participation in the labour market, the acquisition of skills and the fight against poverty). This battle for growth and jobs requires land stewardship at the uppermost political level and RTD activities across Europe.

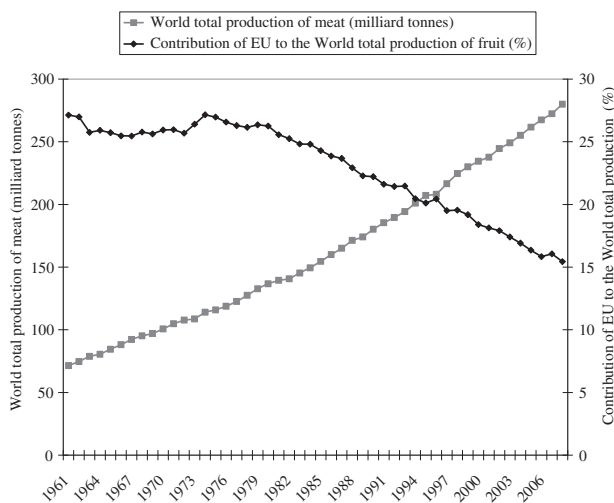


Figure 4: World total production of meat (million tonnes) and contribution of EU countries to total production (%) (Sources of data: FAO Statistics Division 2010)

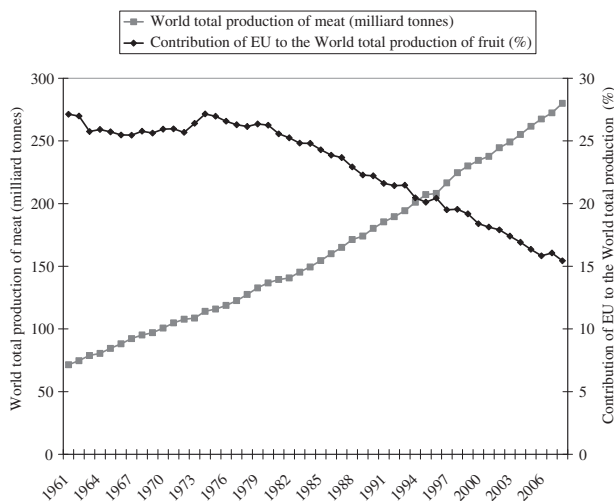


Figure 5: Protein supply quantity in selected countries (g/capita/day) (Sources of data: FAO Statistics Division 2010)

Summary

The Europe 2020 strategy offers a coherent and collective response to deal with the economic and financial crisis, to confront the problem of climate change and the loss of competitiveness even in rural area. The Europe 2020 strategy can contribute to CAP and plays a key role in the development of rural areas. It promotes the vitality of the countryside and indispensable for sustainable growth. Strategy promotes employment and is indispensable for green and intelligent growth. Researchers also highlight the need for more research combining agronomy, urbanisation, energy supply, genetics, pathology and economics, to respond to rural challenges. Yields and production could also be increased, in particular in less developed countries of EU, by ensuring that farmers have access to seeds, fertilisers, machinery, technology, credit and markets. This could be done by means of greater public sector investment in agriculture and overall infrastructure, and by structural fund to less developed countries. There is a strong need for support and investments in research, technology development and diffusion (a) to improve the lagging productivity of agricultural production, (b) to reduce the pressure of bio-energy on food prices, (c) to reduce the negative aspects of the relationship between agriculture and climate change, (d) to reduce energy-dependency in agricultural production, and (e) to pursue these efficiency objectives while taking into account important (additional) environmental constraints and objectives. In the future, the scarcity of natural resources must be managed; agricultural techniques must be adapted to the local condition and also to the effects of climate change.

Use of water in agriculture can be reduced by reducing water use with drip irrigation methods. Other possible solutions include integrated pest management, integrated soil fertility management and conservation tillage. Options of organic agriculture include using natural predators and parasites to destroy pests and reducing the need for pesticides. Ecological thinking requires combined use of organic and inorganic fertilisers to increase yields, while at the same time improving the quality of soils. Use of heavy machinery, for example, has led to the formation of a hard layer in the soil, which stops plant roots and water from penetrating deep into the soil. Conservation tillage prevents erosion and maintains soil functions.

The common agricultural policy should ensure that farming and preservation of the environment go hand-in-hand and play a vital role in confronting new challenges such as biodiversity, water management and climate change. The world is currently fed by a small number of crops, namely rice, maize and wheat, but researchers argue that it is necessary to diversify the crops presently being cultivated, as well as to diversify the genetic resources of crops by traditional selection methods. Plant breeding, drought and salt-tolerant crops could be of particular interest in the context of fighting climate change, water shortages and soil degradation. More genetic variety within a species would

allow easier adaptation to changing ecological and economical conditions. RTD activities financed by EU 2020 strategy can effectively enhance carbon sequestering capacities of agriculture and contribute to safer, healthier and more varied food products.

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