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Which Common Policy for Agriculture and Rural Areas beyond 2013?

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Notre Europe



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Swedish Institute for European Policy Studies

Which Common Policy for Agriculture and Rural Areas beyond 2013?

A project coordinated by Nadège Chambon and Jonas Eriksson, with contributions by David Baldock, Csaba Csáki, Thierry de l'Escaille, Rolf Eriksson, Tassos Haniotis, Marjorie Jouen, Louis-Pascal Mahé, Karl Erik Olsson and Ewa Rabinowicz.

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PREFACE

The Future CAP: The Need for a European Public Debate

In 2008 the World experienced both the return of the spectre of food shortages and the collapse of financial markets. But these events did not cause a revolution in thinking among farming specialists of the kind seen in other economic sectors and in the banking world, where there was much talk of renewed market regulation. Surprisingly, agriculture and the Common Agricultural Policy (CAP) – so often the subject of passionate debate in Europe – seem to have escaped this reappraisal. It is true that the debate on agricultural regulation is weighed down by past experience, in particular concerning the cost of surpluses and stocks before 1992.

Despite the process of continual reform launched by Ray MacSharry and pursued by each of his successors, the CAP remains the object of lively criticism. It has been judged inequitable, costly and poorly adapted to needs, and it is often accused of being incoherent with the objectives of other EU policies. These observations are constantly repeated by the CAP's detractors. Rarely are they followed up by in-depth debate – much needed by the EU – on the role of agriculture and rural development, and their regulation.

The CAP is the subject of questioning, but the future of European agricultural regulation will not be determined until the conclusion of negotiations on the financial perspectives beyond 2013. These negotiations, to take place in 2011 and 2012, will define the budget allocated to the CAP, and thus the EU's capacity to regulate markets during crises and to remunerate agricultural services which are not remunerated by the market (amenities). These debates, led in parallel by the ECOFIN, agriculture and general affairs committees, worry supporters of a strong common policy – who remember the depressing battles, waged between Member States in previous budget negotiations, over the numbers involved in national contributions.

To prevent the CAP – a weakened EU policy in terms of legitimacy – from becoming the victim of budgetary trade-offs, European farm ministers have been leading an exhaustive debate on the post-2013 future of agricultural policy. Little known to the public, it has been in progress since the opening of the trio of French, Czech and Swedish Presidencies of the EU; during informal agricultural Council meetings. This debate focuses on the major issues currently dealt with by the CAP, helping to define a renewed policy adapted to medium-term challenges and an agricultural budget based on a new political project. The debate is a long way from generating a consensus: the members of the 2008–2009 trio show three different, hardly compatible, approaches.

Commissioner Mariann Fischer Boel recently launched a discussion to reconsider the architecture of direct payments, with a view to rethinking the philosophy of agricultural regulation within the EU.

Member State agriculture ministers debated this point in May and June. The debate has been pursued under the Swedish EU Presidency. The European Commission will present a communication to launch a public debate on this theme during the summer or early autumn of 2010. In mid-2011 the Commission will formulate legislative proposals concerning the future of agricultural direct payments, at the same time as the proposals for the post-2013 financial perspectives. In this way debates will sketch out the future of the CAP post-2013.

Notre Europe and the Swedish Institute for European Policy Studies (SIEPS) therefore invited specialists, policy-makers, Commission officials and researchers to a seminar in Stockholm on 16 September 2009, to discuss the question, “Which Common Policy for Agriculture and Rural Areas beyond 2013?” The seminar was a two-stage reflection exercise on the policy’s current role and its evolution post-2013.

As regards substance the present report follows the structure and content of the seminar: Rolf Eriksson, State Secretary at the Swedish Ministry of Agriculture, outlined the Swedish Presidency’s work on CAP reform, after which a morning panel discussed the role of the CAP in European integration. A second panel concluded the seminar by discussing how to improve the regulation of agriculture beyond 2013.

By making the speeches available in this format, Notre Europe and SIEPS hope that the wise words of the invited speakers will endure long after their speeches were delivered.

Nadège Chambon
Researcher,
Notre Europe

Jonas Eriksson
Researcher,
SIEPS

SIEPS

The Swedish Institute for European Policy Studies, SIEPS, conducts and promotes research and analysis of European policy affairs. The research is conducted under three broad themes: power and democracy; the external dimensions of the European Union; and consequences of EU policies.

SIEPS considers it important to broaden and intensify research into matters that are significant for the future development of the European Union and, towards that end, actively seeks to develop close cooperation with institutes and research centres in Europe and globally.

SIEPS strives to act as a link between the academic world and policy-makers at various levels. By publishing reports and arranging seminars and conferences, SIEPS aims to further stimulate research on the future of Europe.

NOTRE EUROPE

Notre Europe is an independent think tank devoted to European integration. Under the guidance of Jacques Delors, who created Notre Europe in 1996, the association aims to “think a united Europe.”

Our ambition is to contribute to the current public debate by producing analyses and pertinent policy proposals that strive for a closer union of the peoples of Europe. We are equally devoted to promoting the active engagement of citizens and civil society in the process of community construction and the creation of a European public space.

In this vein, the staff of Notre Europe directs research projects; produces and disseminates analyses in the form of short notes, studies, and articles; and organizes public debates and seminars. Its analyses and proposals are concentrated around four themes:

- Visions of Europe: The community method, the enlargement and deepening of the EU and the European project as a whole are a work in constant progress. Notre Europe provides in-depth analysis and proposals that help find a path through the multitude of Europe’s possible futures.
- European Democracy in Action: Democracy is an everyday priority. Notre Europe believes that European integration is a matter for every citizen, actor of civil society and level of authority within the Union. Notre Europe therefore seeks to identify and promote ways of further democratising European governance.
- Cooperation, Competition, Solidarity: “Competition that stimulates, co-operation that strengthens, and solidarity that unites”. This, in es-

sence, is the European contract as defined by Jacques Delors. True to this approach, Notre Europe explores and promotes innovative solutions in the fields of economic, social and sustainable development policy.

- Europe and World Governance: As an original model of governance in an increasingly open world, the European Union has a role to play on the international scene and in matters of world governance. Notre Europe seeks to help define this role.

ABOUT THE SPEAKERS

David Baldock is the Executive Director of the Institute for European Environmental Policy. Special subjects include agriculture and the environment, integration of the environment into other policies, European strategies and global aspects of EU policy. David's background is in philosophy and economics. He joined the Institute in the mid 1980s to establish a programme of work on agricultural and rural environmental issues. He became Deputy Director in 1992 and Director in 1998. As well as being an authority on European agricultural policy and the environment, David's specialist areas include the implementation of environmental legislation and EU strategy with regard to environmental integration. He has an active interest in sustainable development and the external dimension of European policy. Current external commitments include membership of the Commission's high-level group on the competitiveness of the car industry in Europe.

Csaba Csáki is Professor of Agricultural Economics at the Budapest Corvinus University, as well as being the former rector of Budapest University of Economic Sciences. Currently, he is also Head of department and member of the Monetary Board of the Hungarian National Bank. Csaba received his PhD in agricultural economics in Hungary and was a postdoctoral fellow at the University of California, Davis. He was a Senior Advisor for Strategy and Policy in the Agriculture and Rural Development Department of the World Bank, and the principal author of the Bank's current rural development strategy ("Reaching the Rural Poor"). During the economic transition period of the 1990s he led the World Bank's analytical work on agricultural policies and food and agriculture sectors in Central and Eastern Europe. He is one of the world's leading experts on agricultural policy, development, and economic transition in Central and Eastern Europe and has edited, authored or co-authored numerous books and more than 200 articles.

Rolf Eriksson is State Secretary at the Swedish Ministry of Agriculture. He has a Certificat pratique de langue francaise, University of Nice, Studies in economics at Stockholm University; and Master of Science in Agriculture, from the Swedish University of Agricultural Sciences, Uppsala. Prior to becoming State Secretary he was Head of the Brussels office of the Federation of Swedish Farmers (LRF) (2001–2006); Expert, LRF's Brussels office (1995–2000); Political Adviser, Ministry of Agriculture (1993–1994); Press Secretary, Ministry of Agriculture (1992); Political Secretary at the Centre Party Secretariat of the Riksdag (1989–1991). Rolf was Member of the EU Committee of the Royal Swedish (2002–2006) Academy of Agriculture and Forestry.

Thierry de l'Escaille is Secretary General of the European Landowners' Organization (ELO) since 1994, Member of the Board of Haut Conseil Flamand pour la Foresterie, Vice-President of the Société Royale Forestière de Belgique (Belgian Royal Forestry Society, Vice-President of the Vlaamse Landeigendom (Flemish landowners), and Member of the Board of the Société Rurale Wallonne, Member of the Agricultural Reform Group (London). He studied at the Faculté Universitaire Saint-Louis, Brussels (1976–78), where he obtained the Diploma in Law, and at the Université Catholique de Louvain (1978–1980), where he obtained the Licence en droit. He subsequently studied Finance Management at the Sint-Aloysius University, Antwerpen. Since 1979 Thierry de l'Escaille has been running a family farming enterprise active in Belgium, France and the Netherlands. Since 1998 he is also Secretary General, Friends of the Countryside (FCS), and member of the Consultative Committee of the Movimento Terra e ambiente (Milano). He is currently Member of the Board of several industrial and patrimonial companies regarding agro-industry and real estate.

Tassos Haniotis is Head of the Agricultural Trade Policy Analysis in the Directorate General for Agriculture of the European Commission. In previous appointments, he served as member and subsequently Deputy Head of the Cabinet of former European Commissioner for Agriculture Franz Fischler (with respective responsibilities the preparation of the 2003 reform of the Common Agricultural Policy, and the agricultural chapter of the Doha WTO Round and the EU-Mercosur negotiations), and as Agricultural Counsellor of the European Commission's Delegation in the United States. He holds MS (1984) and PhD (1987) degrees in Agricultural Economics from the University of Georgia, USA, and a BA (1980) in Economics from the Athens School of Economics and Business Science in Greece. He also spent six months as a visiting Fellow at the Centre for European Agricultural Studies, Wye College, University of London (1988), where he studied EU–US agricultural trade relations in the Uruguay Round of GATT negotiations.

Marjorie Jouen is Advisor for Notre Europe. She is a former Member of the Cabinet of the President of the EU Committee of the Regions (2006–2008). A graduate in political science (1979), former student of ENA (1989). Research areas: employment policy; rural development and agriculture; EU enlargement; regional development. From 1993 to 1998: member of the Forward Studies Unit of the European Commission (Brussels) in charge of the territorial and social issues (Local development and employment initiatives, future of work, scenarios Europe 2010). From 1998 to 1999: advisor, head of the “European affairs” unit, Department for regional and planning development (DATAR) in Paris. From 2002 to 2005: head of the “European Union and

Enlargement” unit, Treasury, Department of Economy, Finance and Industry (Paris); former member of the cabinet of the president of the EU Committee of the Regions (2006–2008). Special adviser to the Chairman of ADETEF.

Louis-Pascal Mahé is Professor Emeritus at Agrocampus (Ecole d’Agronomie) Rennes. Ingénieur Agronome (rennes), licencié es sciences économiques (U of Paris), PhD (University of Minnesota). From 1969 to 1989 affiliated with INRA with a two year period at the Ministry of finance and short term leaves to work at OECD. From 1989 through 1997, Professor and Chair of the Economics department at Ecole d’Agronomie de Rennes. Has done expert work for the European Commission, OECD, FAO, the World Bank. Has Spent Sabbatical periods at the University of Minnesota, and at the London School of Economics. Has served as president of the Société Française d’Economie rurale. He is co-author of “Politique Agricole: un modèle Européen” Presses de SciencesPo, 2001 and of the report published by Notre Europe: “CAP reform beyond 2013: An idea for a longer view”.

Karl Erik Olsson is Chairman of the Swedish Association for Senior Citizens (SPF), Member of the Executive Board of the Global Crop Diversity Trust in Rome, and Member of The Royal Swedish Academy of Agriculture and Forestry, Karl Erik Olsson was the Swedish Minister for Agriculture in 1991–1994 and a Member of the European Parliament in 1995–2004. He received an honorary doctorate at The Swedish University of Agricultural Sciences in 2008. As Member of the European Parliament he was Member of the Committee on the Environment, where he was rapporteur on several draft reports on food safety, and Member of the Committee on Agriculture and Rural Development, where he was rapporteur on the enlargements in 2004 and 2007 with respect to agriculture.

Ewa Rabinowicz is Professor of Economics at the Swedish University of Agricultural Sciences. She received her PhD at the Swedish University of Agricultural Sciences in 1983; and was appointed associated professor in 1984 and promoted full professor in 2000. Between 1999 and 2008 she was on leave of absence and worked as Research Director at Swedish Institute for Food and Agricultural Economics. She has resumed her position at the University and works at present as a professor at the department of economics, section economic analyses and policy evaluations. She has also done consulting work for international organisations: the EU Commission, OECD, FAO and the World Bank. Her research interests are agricultural policy, rural development and political economy. Ewa Rabinowicz is a member of the Royal Swedish Academy of Agriculture and Forestry and former President of the European Association of Agricultural Economists.

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SUMMARIES OF THE SPEECHES

Rolf Eriksson

Opening Speech

In the second semester of 2010 a formal procedure and a public debate on the future of the CAP will be launched. Ministers of agriculture are preparing for these forthcoming discussions in exchanges of views in the informal Council of Ministers of Agriculture. The Swedish Presidency has chosen to focus the discussions on the climate change issue. Generally speaking, recent years have been marked by changes within the CAP, toward greater market orientation but that evolution cannot end here. Shaping the future of the CAP will be a top priority for the years to come, but merging Member States' diverging opinions will be a challenge. A majority of them want to keep the CAP as it is and in some cases even increase the scope of the policy; some others want to phase out the direct payments; between those opinions a third group of Member States want to reform the policy, albeit slowly. Three issues represent the biggest challenge in the process of creating a converging majority in favour of a proposal: the scope of the budget; the pillar structure within the CAP; and the future of direct payments. Also on the agenda is the question of whether we should finally give up the historical model of payments and replace it with the regional model (sometimes called flatter rate).

The Swedish vision of the future:

- The agricultural sector should be treated like any economic activity within the internal market: the CAP's market orientation should be increased in order to enhance its legitimacy and to make farmers more competitive. European agriculture can be competitive on the world market by competing on the basis of the quality of its products.
- The CAP should evolve and focus on public goods: to better tackle the new challenges of today by compensating farmers for contributing to the way they are dealt with (combating climate change, creating open landscapes and contributing to biological diversity in the natural world).
- Concerning the common budget: the CAP share has to decrease and that of rural development policy needs to increase relatively, at the expense of market support and direct payments.

Karl Erik Olsson

The Role of the Common Agricultural Policy: From Opportunity to a Real Problem

When the EEC was founded there was a very real need for a common agricultural policy. Self-sufficiency in food amongst the founding members was only 75% in the late 1950s and most of the rural population was engaged in agriculture. The aims of the CAP – to increase the production, raise the income and improve the social situation in rural areas – were achieved ten years after its inception. However, the policy did not change and, consequently, we experienced butter, meat and grain mountains, along with milk and wine lakes. In addition, exports grew due to export subsidies. Consequently, enormous losses were incurred from financing the export of agricultural products. Rather like trying to keep the water from boiling over by putting a lid on the boiler, we got milk-quotas, mandatory set-aside systems of farmland etc.

Several reforms have been carried out since then but the policy still suffers from a number of problems. At the beginning of 2000 we became aware that the CAP would also become a problem for the new Member States, and it is a problem still.

As Member of the European Parliament, I was leading a group of European liberals who proposed a new Common Agricultural Policy. The proposal involved free trade and a global responsibility for short-term surpluses, while some direct support would have been maintained. The main problem with today's world market is that it is very small in relation to national markets, which makes it very sensitive. The financial crisis in 2007–2008 has shown that the system lacks the necessary stability. Climate change and the depletion of natural resources will aggravate the problem. The future CAP must therefore not only include the principle of free trade but also comprise worldwide rules and regulations.

Csaba Csáki

Impacts of European Integration on the Agriculture of Central and Eastern European Countries

EU membership has had a positive impact on agricultural trade performances and competition has increased in domestic food markets. The farmer's incomes have increased but farming structures have not changed much. Beyond the overall positive impacts there are significant differences among the countries. The diversity of effects is related to diverging pre-accession policies and initial conditions as well as to the way the CAP has been implemented.

The farming structure per se contributed heavily to what has happened and the development indicates that the consolidated structures have been advantageous; at least in the short-run. Poland and the Baltic countries have been the front-liners with respect to adjusting to EU conditions and utilising the new enlarged market, while the others have been less successful.

At the same time we have 5–6 million small farmers who do not fit into the CAP framework. The CAP was designed based on the conditions of the EU15 and was just adjusted to the EU12. But in the last five years it has become clear that there are certain areas where more thinking is needed and we also need a better understanding of the specific problems of the new Member States.

There should be a common framework and a continuation of the CAP in one way or another. In a way there is more scope to deal with some of the specific issues of the twelve countries. If the EU is enlarged in the meantime this discussion would be even more important, because the EU12 is not uniform – there are still two groups with entirely different levels: In terms of development the EU10 is doing half as well as the EU15 and Bulgaria and Romania are, in terms of the level of development, doing half as well as the ten.

Marjorie Jouen

Merits and Limits of the European Rural Development Strategy

European rural areas, which account for 20% of Europe's population and more than 50% of Europe's land surface, are very diverse in their characteristics and their evolution. However, all of them are facing imbalances and obstacles in their development which they cannot always address alone, hence the need for corrective and incentive-based public policy. This is not automatically a task for the EU. But in the past, EU has played a crucial role in orientation, pedagogy and stimulation, illustrated by the success of the LEADER model of endogenous local development.

Today's picture is not as clear. Even beyond the case for EAFRD (European Agricultural Fund for Rural Development) which is mainly directed to support for agricultural multi-functionality and agro-environmental measures, current European policy has deficiencies – particularly with regard to the link between, on the one hand, agriculture and environment, and, on the other, economic development and modes of consumption. Leaving a margin of flexibility to Member States and regions is a means of reducing dissatisfactions. However, it does not guarantee the best policy, because the sums at stake are not comparable and integration is almost impossible.

Ewa Rabinowicz

How to Reform the CAP to Cope with the New Challenges?

In order to be motivated the CAP should improve efficiency, contribute to cohesion and add European value but it fails on most of those accounts. The Single Farm Payments (SFP) is very unevenly distributed with a small number of recipients absorbing the lion's share. Moreover, research shows that the SFP's potential for supporting farm income is limited. If it was eliminated, land values would fall, structural change speed up and incomes from other sources grow, leaving the total income of farm households unchanged. The SFP can neither be justified as compensations for higher costs, nor for food security. Nor are they efficient as environmental support.

A prosperous farm sector is vital and farmers should receive support for public goods they otherwise would not produce. The SFP should be conditioned on an individual means testing for the farm household as a whole since the bulk of the income support is now paid as an individual income transfer. There is no added value for such a policy at the European level.

SFP should be phased out from the CAP and funds should be moved to Pillar II. The future size of Pillar II should be based on the merits of the policies in question. The present Pillar II needs a substantial revision. Support to rural development should be based on a territorial, rather than a sectoral approach and focus on promoting efficiency and development through stimulating investments in human capital in rural areas and on the creation and dissemination of new technology for agriculture, food, and other rural resources. In the case of environmental protection a common policy has a role to play in the coordination, and to some extent, financing of national schemes to conserve biodiversity and ecosystem services and mitigation of GHG emissions and other pollutants. In addition, a precondition for a successful encouragement of efficiency and development is that there are problems related to the functioning of factor and product markets that need/could be improved. This is much more likely to be the case in the early years of membership and hence priority should be given to the new Member States.

Louis-Pascal Mahé

A New Payment Scheme and a Renovated Governance for the CAP beyond 2013

The great merit of the past reforms of the CAP was that they altered the political economy of the decision-making process, and changed its rules and its rationale in the subsequent waves of reform for the better. However, certain issues remain unresolved:

1. The environmental benefits of the reforms carried out hitherto are mixed.
2. The Single Farm Payments still suffer from the original sin of “compensation logic” and are not inspired by “incentive logic”.
3. We have little evidence concerning cross-compliance efficiency.

So we need a new concept for the CAP that retains a three-stage Contractual Payment Scheme covering the current Pillars I and II, and focussing only on public goods. The Single Farm Payment is replaced by a contract that offers Basic Husbandry Payments: these payments target commercial farms in areas of rural territory considered to be “ordinary” and they are tied to commitments made by the operators. The second stage is Natural Handicap Payments: contractual payments targeting farms in rural zones with natural handicaps that hamper their competitiveness but at the same time are essential to the rural fabric. The third stage is Green Points Payments: targeting the farms that use organic production techniques or commit to a higher level of environmental services than stipulated in the basic regulations.

The horizontal principles of the system are: payments for services to rural public goods instead of the right to income support; no more open-counter aids, but contracts not transmissible; financial responsibility instead of so-called financial solidarity. With all contractual payments being co-financed by national budgets, this would reduce existing disparities in financial balances across Member States.

Our proposals maintain a degree of supranational CAP as some of them are global enough to justify spending from European funds. What do we want to be kept common in the agricultural policy and which is the domain of prerogative competence for Europe? The assumption is that rural public goods exist or can be provided by agriculture under certain conditions. Public goods should be classified and, according to the issue, linked to the relevant competence (supranational, national, regional, local).

Thierry de l'Escaille

A Renewed Ambition for a New CAP

The current CAP is not sustainable and needs new goals. 2010 will be the year when it is time to justify the EU policy and budget for the rural world. The European Landowners' Organization have seven concerns with the current policy:

1. the non-legitimacy of the Single Payment Scheme (SPS);
2. the dependence of farming on the SPS;
3. the unfairness of the support distribution to the new Member States

- and the inequality between farms and regions;
4. agricultural development needs;
 5. the delivery of required public environmental services and standards;
 6. the fate of the agriculturally Less Favoured Areas – High Nature/Landscape Value farming; and
 7. the need for the economic diversification of rural areas.

The lack of agreement on the objectives of the CAP is an obstacle to policy change; policy should be changed to recover legitimacy. The food objective of the CAP in the Treaty and “agricultural” concerns are still relevant, but it is legitimate to add two more objectives. Firstly a consideration of the global food security picture should be taken into account. Secondly, given the prospects due to climate change, environmental security should become a new concern. The trans-boundary nature of those challenges, the overlapping of food and environment issues, and the single market explain the added value of the EU to this topic. Regarding the tools, the future CAP should manage risks with safety nets in order to stabilise incomes; offer compensation for the higher EU standards, provide public goods and maintain support for agricultural development (LEADER).

To achieve these changes the ELO suggests putting an end to the 15 years of opposition between farming and green interests, to the Member states’ obsession with budgetary gains and losses, and to keep a policy, and a common one, but restructured. A form of transitional support is needed to switch from the current SFP to the future CAP support for agriculture and to avoid unfair competition in the Single Market. The next discussions should also be run according to the following framework: they should begin by focussing on the objectives, and subsequently by defining the scale of the problems instead of beginning with discussing the details of the pillars, their financing and legislative basis.

David Baldock

Which European Strategy for Environment and Agriculture?

Agricultural policy changes slowly and the model for beyond 2013 needs to match the challenges up to 2025, not those of 2008. Environmental and resource management goals will need to be at the heart of a policy addressing agriculture, land use and the rural world. Over time such goals will be shaped increasingly by global as well as European priorities, much as the WTO has come to be a key driver of the CAP. Climate change is in the vanguard of this transformation of socio-political objectives but the agenda is much wider than this.

A European strategy should confront at least five essential issues and they need to be addressed within a coherent policy frame but with a variety of instruments:

- Pollution control: Progress can be made by improved technology, better advice, regulation, market pressures, food standards etc.
- Improved resource management: This can be achieved at a farm scale but needs also a larger spatial dimension.
- Guiding agriculture's contribution to renewable energy and raw materials: More sophisticated policy making is required and most of the incentives required will come from the market or outside agricultural policy.
- Maintenance and enhancement of European landscapes and biodiversity: The challenge of reversing long term declines in species and habitats and actively restoring ecosystems is considerable.
- Sustaining agriculture's contribution to the cultural core of rural Europe.

Such an agenda requires a coherent European strategy with a broader set of horizons than the current CAP, alongside national and more local plans and interventions. It suggests a clearer sense of direction and willingness to adopt a more active approach to land use planning in a strategic sense. There is a distinct role for technological development and market mechanisms alongside strengthened regulation and enhanced incentives. A significant budget will be required to match a more ambitious approach. Payments need to be targeted and impacts monitored without excessive administrative burden. The current Pillar II has some of these elements but there is much further to travel before a new strategy is born.

Tassos Haniotis

The CAP Post-2013: Context and Perspectives

The current CAP has been substantially reformed since 1992 and we have a new policy composed of three elements: 1) Farm support: mainly decoupled and representing 90% of all direct payments and almost 75–80% of the budget. Thanks to this change the CAP is more market oriented and WTO compatible; it is also simpler. 2) The role of market intervention mechanisms: significantly reduced, and this is extremely important for the future if we still want to focus on food security issues. 3) Rural Development policy: strengthened with funds and policy instruments.

The CAP still represented 44% of the EU budget in 2007 and it is still 0.43% of EU GDP. But the structure of its budget has changed. Rural development

measures have been increasing relatively to direct payments and market related expenditure, while at the same time declining as a share of the EU GDP and of the overall EU budget. What we spend will be the big debate about the future of the CAP.

In the general context, what is going to be happening post-2013? First of all, every time in the past when we have had a major agricultural commodity price spike it was driven by major supply shocks – not demand. If we really face a very strong demand for food, we do not need to care about policy in the long term but the kind of intensity our production will have. If the challenges that we face are mainly driven by supply-constraints, the focus has to be different. The second part of the general context is the institutional context: the new European Parliament, the new European Commission and the Lisbon Treaty. What does the new Treaty mean for us?

Do we need a common policy and do we need an agricultural policy? I assume that the great majority of Member States will say, and have said, “Yes, we need one”. So how will the debate on direct payments develop? With flat rates most of the losers are the old Member States and, conversely, most of the winners are among the new Member States. However, there are three different potential impacts among Member States that we need to look at. One concerns the impact on land prices. The second question is about income support and particularly direct support: do we or do we not need it? The last one is: do we provide some sort of insurance scheme and what do we want to insure: income or revenue? So those are our concerns when we are thinking about the future.

1 INTRODUCTION

1.1 Rolf Eriksson

Opening Speech

Outline

I will in my speech touch upon what I see as the main controversial issues for the 27 Member States to agree upon, some words about how I believe the policy area will evolve, a little bit about how we plan to tackle the future CAP issue during our Presidency. I will also present some of the positions that the Swedish government holds on this subject, something I am sure many of you are all well aware of.

Presidency agenda concerning the future of the CAP

The future CAP is an important question during this autumn. This discussion started during the French Presidency and has continued during the Czech Presidency. So far there have been some fruitful discussions on the subject.

Our aim is to continue what the French and the Czech Presidencies have started discussing. We will broaden the discussions through a policy debate on future CAP at the Agricultural Council in October, focusing mainly on Pillar II. As I see it, the Pillar II is very important in order to meet the new challenges we face, such as combating climate change. Therefore, the debate will be linked to the discussion we held earlier this week at the informal Council meeting about agriculture and climate change.

The moods and the different camps within the Council

It is very evident from the discussions held within the Council so far that the Member States opinions concerning the future of the CAP are far from each other. On the one hand, there are those Member States that want to phase out the direct payments. On the other hand, there are a majority of the Member States who wants to keep the CAP as it is and in some cases even increase the scope of the policy. And in the middle we have those Member States that want to reform the policy but to do so slowly. Merging these opinions will be a challenge.

Commission agenda on the future CAP

Turning now to the upcoming actions to be made by the Commission, we are expecting a start of the formal procedure and a launch of a public debate on the future of the CAP through a communication in summer or in the early autumn of 2010. This will be followed by legal proposals in mid-2011 together with the Financial Perspective proposals. The decision concerning the next

financial perspectives will have a great impact on the profile of the future of the CAP. A decision on the Financial Perspective is anticipated in 2012.

Challenging issues

The question is what we can expect from the forthcoming discussion on the future CAP. First, we have to acknowledge that the EU has already carried out some important reforms and that the CAP has moved towards a large degree of market-orientation over the past 25 years. In 1992, when the MacSharry reform was implemented, we began to replace price support with direct payments. The share of price support in the CAP has decreased significantly and the EU has, within the framework of the WTO Doha negotiations, committed itself to abolish export subsidies by 2013, provided other countries are making equal concessions. Let us hope that the recent positive signals on a possible conclusion of the Doha negotiations next year will be realised. A successful Doha-round could facilitate further reforms within the CAP.

When discussing the future of the CAP there are three issues to my mind that will cause the biggest challenge in the process of creating a merging majority in favour of a proposal. That is, the scope of the budget, the pillar structure within the CAP and the future of the direct payments.

Budgetary issues will be submitted to other forums where the Financial Perspective is discussed and there will probably be changes in the way the EU budget is composed. Nobody knows, of course, what the final outcome of the negotiation will be, but a fair guess is that CAP's share of the overall budget will go down from today's roughly 40%. Other areas such as the environment and research are rightly becoming more urgent to be financed through the EU budget.

The pillar structure of the CAP is another interesting issue to discuss and analyze. I expect that the balance or proportion between Pillar I and Pillar II will be adjusted in favour of Pillar II. This is something I will welcome. As you probably know, Sweden belongs to the group of countries that are aiming for a phasing out of Pillar I, even though that scenario will be too much to hope for in the short run. At the moment the mood in the Council is somewhat characterised by status quo on the matter of direct payments. Hopefully the atmosphere will change the closer we get to an actual deal. It is evident that the reform pressure on the direct payments has decreased since the reform of 2003 and the Health Check. The lion's share has been decoupled and is today compatible with the WTO's green box.

On the agenda is instead the question of whether we should finally give up the historical model of payments and replace it with the regional model. This

process, sometimes called flatter rate, is about equalization of support within regions. For the new Member States – where the level of support is much lower than in other parts of the union – this will not be sufficient, they are arguing for a flat-rate throughout Europe. I believe this could be an interesting thought as a transitional solution. But whether it is realistic is another question. There is a group of Member States claiming that a flat-rate system is unfair since the cost of production and the cost of living differs in various Member States.

Another, and perhaps the most important issue for the future of the CAP, is how we could use the CAP in order to meet future societal challenges. I believe that depending on the outcome of the Copenhagen meeting in December, the climate issue will have an impact on all EU-funded policy areas, and it will certainly have an impact on the future shape of the CAP. Another very important issue, especially in the light of the present economic situation, is how the CAP will contribute to jobs and economic growth in rural areas. These are issues that will be highly discussed in the forthcoming year.

Swedish views

Finally, before ending my speech I would like to say a few words about the Swedish view on the future. I am generally in favour of a further market orientation. I believe this is necessary in order to make the CAP more legitimate among tax payers and consumers, as well as to make farmers more competitive. The Swedish Government also takes the position that the CAP share of the overall EU budget has to decrease.

The aim should be to treat the agriculture sector like any economic activity within the internal market. I strongly believe in the European farmers. I believe that European agriculture can be competitive on the world market by competing with the quality of its products.

The CAP should evolve and focus on public goods, the CAP should be formed in a way that allow us to better tackle the new challenges of today, such as combating the climate change, creating open landscapes and contribute to biological diversity in our nature. Farmers should be compensated for supplying these public goods according to two principles: income forgone and additional costs. This is not income support – this is a compensation for delivering services that society demands but the market can not deliver.

To be able to do this, it is clear for me that the balance between Pillar I and Pillar II need to be adjusted in favour of the latter. In other words, the relative weight of rural development policy will need to increase at the expense of market support and direct payments.

Conclusion

The CAP, like any other policy area, has been subject to evolution and change through time. The past years have been marked by changes within the CAP in the right step toward greater market orientation. No doubt about that. But the evolution and the changes within the CAP can not and will not end here. Further steps must be taken for CAP to become legitimate and fair for tax payers, consumers and people living in the rural areas. And changes are needed for us to better tackle the new challenges that the EU faces today.

The road ahead of us to find an agreement on the future of the CAP will be very long, tricky and bumpy. It is very difficult today to say where the discussion will take us. But one thing is certain: shaping the future of the CAP will be a top priority for the years to come.

2 THE ROLE OF THE COMMON AGRICULTURAL POLICY IN EUROPEAN INTEGRATION

2.1 Karl Erik Olsson

The Role of the Common Agricultural Policy:
From Opportunity to a Real Problem

Background and beginnings

State Secretary Rolf Eriksson has presented us with some background to the CAP and he has already moved us into the future. I will start at the very beginning of the integration process. The basis of the Common Agricultural Policy was formed in 1957 and in 1962 – the very year when I myself got started in agriculture – we had the beginning of the CAP. I think it is necessary to understand that there was a very real need for an agricultural policy and, in particular, a common agricultural policy in the new EEC.

Self-sufficiency regarding food in the founding members of the EEC was only 75% in the late 1950s. There was a cold war going on, with the threat of real war, and people still had vivid memories of how it was like during the First World War, the depression in the 1930s and the Second World War, when there was not enough food. This was something governments and the Commission at the time had to take into account, and, I believe, consider to be more important than anything else: they had to guarantee that there was food available for the people at any time. So this is basically the background.

It is also important to understand that, at the time, most of the population was rural and engaged in agriculture. In the southern part of the EEC around 50% and in the northern part around 25% of the population was involved in agriculture, compared with today's figure of roughly 1%. I am speaking about the same countries and not the new members of the European Union.

Designing the new policy – a Swedish blueprint

I would like to share a little anecdote with you – a true one – about the first European Commissioner for Agriculture, Mr. Mansholt from Holland. He was trying to figure out what a common agricultural policy might look like and travelled around Europe, perhaps the world, to see if he could find a country with a good agricultural policy. Eventually he came to Sweden and found the Swedish agricultural policy dating from 1947, which was still in place in the 1950s and beyond. This policy was constructed with levels, within which the price was allowed to fluctuate. When the price came too close to the limits, it triggered a change in the import levies. Mr. Mansholt received a copy of this policy and basically introduced it as a common agricultural policy in

the EEC. In retrospect, I am not sure that we should be proud of this feat; nevertheless, it is interesting to see how things develop.

Growing problems

The aim of the Common Agricultural Policy was to increase production, raise income and improve the social situation in rural areas. If we then move on ten years, to 1972, the aims had already been achieved: production had indeed increased. The situation in the rural areas was perhaps not as good as it could or should have been, but at least the production goal had been reached. In Sweden the policy changed when a change was deemed necessary. In the EEC, by contrast, the same policy went on and functioned the same way as it had before. Consequently, production support was still in place and resulted in growing surpluses. Instead of self-sufficiency we began to experience mountains of butter, meat and grain along with lakes of milk and wine.

In addition, exports grew due to the export subsidies. Consequently, enormous losses were incurred from financing the export of agricultural products. Rather like trying to keep the water from boiling over by putting a lid on the boiler, we got milk-quotas, mandatory set-aside systems of farmland etc.

The Swedish problem

Incidentally, in 1985 I became the chairman of the Agricultural Committee in the Swedish Parliament, which was a rather difficult period. The previous year we had had the highest production ever of grain in Sweden and 1985 was year when we had to deal with the surplus. Sweden had a total production of 7 million tons of grain while domestic consumption was only 4 million tons, thus making the surplus 3 million tons. At that time, we paid the farmers SEK 1.32 for the grain. It was more or less taken care of by the State, which then sold the surplus on the world market for SEK 0.32 SEK, that is, with a loss of SEK 1. Furthermore, the Government also had to pay for transport and storage of the grain, with an additional cost of about SEK 0.30, so there was basically nothing left for the national economy.

This was the context in which I, and my predecessor as Minister for Agriculture, Mats Hellström, started to think about a reform. We met at a luncheon and agreed that we had to change the policy. Even though no formal decision was taken at this meeting, it was where the plans to reform the Swedish agricultural policy were initiated. A committee then worked on a plan for reform, which was passed through government in 1990 and implemented in 1991. I had no idea at that first meeting that I would become the next Minister for Agriculture and that I would be the one responsible for implementing the new policy. However, I am sometimes happy that the respon-

sibility fell on my shoulders, because I think it was easier for me as a farmer to do it. But they did not like me all the time, I can tell you! So this was an interesting experience and when I came to the European Parliament in 1995 I used to say that I was the only one in Europe who had performed a full-scale experiment in de-regulation.

Swedish accession

I would now like to say a few words about Sweden's accession negotiations, which were not so easy. We had different ideas about what we should negotiate for. The Government tried to negotiate the right for Sweden to produce a surplus, equivalent to this in member countries, which we had gotten rid of ourselves prior to accession. And really the outcome was not too good. We got a milk-quota that was higher than our milk production, but we never filled it (so I do not know why I argued for that). We wanted the base area to be larger and argued that we should have a similar base area to the one we had had in the beginning of the 1980s; and we also managed to get this. I think this was positive as it afforded us the possibility of getting payments to farmers for their grass crops, which would not have been possible otherwise. You could say that when our government came into power we had a plan to de-regulate it in three years, but with the hope of becoming members of the EU in 1995 with a re-regulated agriculture. Had there not been a crisis in the economy, it would have been much easier for me to build a bridge between the two regulated systems, but in reality there was no money with which to build that bridge. I had tough discussions with the Minister of Finance all the time, but she was stronger than me.

However, looking back, I would say that Swedish farmers should be pleased with the fact that we de-regulated – and that we had a debate on de-regulation – before joining the EU. We were more market-oriented and had experienced a higher degree of competition before joining the Union. This prepared us for the realities of being in a much larger system, which is of course tougher, even though competition was partly absent with so many other rules in place.

Experiences in the European Parliament

When we lost government in 1994 I became a Member of the European Parliament. Having grown tired of agricultural policy, intending to never work with it again, I became involved in environment policy instead. In the end, however, I realised that I needed to get involved in agricultural policy, because I could see there was a necessity for change in the CAP. I finished in the Parliament in 2004 but in the last years I was Member of the Agricultural Committee and rapporteur for the new Member States with regard to the CAP.

During the discussions on the CAP in the beginning of 2000 we became aware that it would become a problem for the new Member States. We have just heard from Rolf Eriksson that they are not satisfied even today. At the beginning, we did not know where we would end up, and as it turned out we ended up with a situation where the new members were paid less than the old members. We realised that if we wanted to retain the CAP we needed it to change; and change dramatically.

I belong to a small Swedish party, the Centre Party, of which there are few in Europe. Hence I ended up in the Liberal group in the European Parliament and that was the reason why I was leading a group of European liberals who proposed a new Common Agricultural Policy towards the end of my tenure in the EP. This was very surprising because the Liberals had always been the most critical of the CAP, in principle wanting to get rid of the whole thing. Our proposal was perhaps a bit more careful than it would have been had I not chaired this group. We said, even then, that there should be free trade, that there should be no direct support but some decoupled support and also that there should be global responsibility for short-term surpluses. That might be the most interesting part of the wording in the proposal and I will come back to it before I finish here.

Recent developments

I will now move further in time because what has happened over the last three years is highly interesting. In 2006 and 2007 we had a growing demand for, not food first of all, but energy. Now, food is also a kind of energy and when the price of energy is high enough they are interchangeable. Demand for food did increase, especially from a large number of people living in Southeast Asia; not only in the small countries but also in countries such as China and India, where the economic situation was somewhat better.

I read in a paper in those days that the Chinese government had decided that every Chinese child should have one glass of milk. Being an old milk producer, I am always following the milk situation. So I sat down with my calculator and tried to estimate how much that would be. If there are, say, 300 million children in China and we multiply this by 3 dl of milk per day, it would represent the whole world trade!

This shows you the main problem with how today's world market is functioning: the world market is very small in relation to national markets. The worst example is dairy, where a little more than 2% of the milk produced in the world is on the world market. So you can see how sensitive it is. A surplus of 7–8% in Europe equals one third of the world market and the bulk of the

two remaining thirds comes from New Zealand and the USA. The situation is somewhat better with regard to meat, with three times as much on the world market, or 6–7%. When it comes to grain we often speak about the world market price. However – and I do not know if all agricultural politicians are aware of this – the world market price only concerns some 13% of the total grain volume with the rest of the grain being traded domestically.

Now, we had the crisis in 2007–2008 and everything went back to square one, with all the problems we had before. We will return to a situation where demand has again increased – I think we will be there in a few years time – but we have to be aware that the necessary stability of the system is lacking. What we are doing today in Europe and the United States is, first, to destroy the world market by using export subsidies pushing the price down. This is of course very harmful to people in countries that cannot support their farmers with anything except market price. Then, secondly, we protect ourselves from the world market, so that we do not get back the products we have just exported. I sometimes quote a Councillor of Sweden in the 17th century, Axel Oxenstierna, who said to the very young queen Christina: “If you did know, my child, with how little intelligence this world is ruled.”

A brief look into the future

The question is of course “what are we going to do after 2013”? It is not my task to answer this question here today but nevertheless I have some ideas. The ongoing distortion of trade and competition must be stopped; not only in the EU, but in countries with similar traditions. Earlier I mentioned the United States. We know that the current course of action is to use national resources the wrong way. The problem will be aggravated in the future when we also factor in climate change and shrinking natural resources. Economists do not accept that agricultural production can be controlled entirely. When we plan for a volume of 100% we sometimes get 104%, which in turn might imply that the world market is saturated. Conversely, we may instead get 96% and hence a shortage all over the world.

I do not think that we will be able to change the system to meet all my goals by 2013, so there will have to be two decisions, one in 2013 and one in 2020 (or later/earlier). What I think ought to be included in these decisions is, in principle, free trade on agricultural products throughout the world but with some world-wide rules and regulations.

The world is not larger in our minds today than the EEC was when Mr. Mansholt visited Sweden in the 1950s. We have the capacity to both think and act on the global level and I think that we already have organs and in-

stitutions for this purpose, such as the United Nations (UN), the FAO and WTO. If we were thinking a bit more concretely and were willing to listen to other people a little more – rather than to think about what is best for me – we should be able to do something very good in a period of 5–15 years. Then it is realistic to let the global institutions handle a free trade with rules and regulations on food and energy.

2.2 Csaba Csáki

Impacts of European Integration on the Agriculture of Central and Eastern European Countries

Introduction and outline

Karl Erik Olsson mentioned in his speech that there are not many new things in the CAP debate. I would like to demonstrate with my presentation that there are new things and that some of these new points and dimensions come from the new Member States. The EU has to recognise that EU is not the same group of countries that it was six years ago. There are twelve new members with dramatically different problems, backgrounds and, partly, motivations. So when we are discussing what new agricultural policy the EU needs, I think it is important to fully understand these specific problems and conditions and take them into account in the debate.

In my presentation I will speak mainly about what has happened thus far, so I am going to give you a kind of status report of how the CAP has affected agricultural development in these countries. But I will also, towards the end of my presentation, try to come up with some more concrete thoughts about the future of the CAP. I am going to speak, first, about what has changed; second, why these changes took place in the new Member States in the last five years; and third, provide some conclusions.

Differences between the EU15 and the EU12

The subjects that we are talking about are shown in Table 1 on page 30 and I would like to underline two important numbers. First, that in the EU15 there is one agricultural producer for every 63 consumers, but in the EU12 the corresponding ratio is 1 to 16. Second, GDP per capita in the EU15 is more than EUR 26,000 while it is only EUR 15,000 in the EU12.

The development of production after the 2004 accession, shown in Table 2 on page 30, is interesting. I will show you this without bothering you with too many details but it is important to underline that the role of agriculture in EU12 has also declined. This decline has been even more visible in the countries with the highest share of agriculture. Here we see that the largest share is 8% in two of the countries – Bulgaria and Romania – in most other Member States the number is 4–5%. Naturally these numbers are higher than in the EU15 but they do represent a dramatic decrease.

Table 1 Comparison between EU15 and EU12 in 2007

	EU15	EU12
Hectares of UAA (million)	145	37
Workers (million)	6.2	6.32
Share of workers in agriculture (%)	3.7	9.3
Operators per 100 hectares of UAA	5	6.25
Farmer to consumer ratio	1:63	1:16
Consumers (million)	390	100
GDP per capita (€)	26,300	15,000
Household income spent on food (%)	15	24

Table 2 Role of agriculture: share of agriculture in GDP (%)

Country	2000	2005	2006	2007
Bulgaria	14	9	8	8
Czech Republic	4	3	3	3
Estonia	5	4	3	3
Hungary	5	4	4	4
Latvia	5	4	4	4
Lithuania	8	6	5	5
Poland	5	5	4	4
Romania	13	10	11	8
Slovakia	4	4	4	3
Slovenia	3	3	2	2

Source: Own composition based on World Bank (2009)

Production performance in the new Member States

The CAP has had a more distinct impact on production performance in the new Member States, as production in some cases has increased visibly while in others it has even declined. There has been a significant production response in real terms in three of the countries – two of which are tiny. The only one of the larger countries to have seen a significant increase in production was Poland, where there was a 25% increase in agricultural production. Again, in some countries we can see some decline in production after accession to the EU. Figures 1a, 1b and 1c illustrate my point.

Figure 1 Cereal, meat and milk production

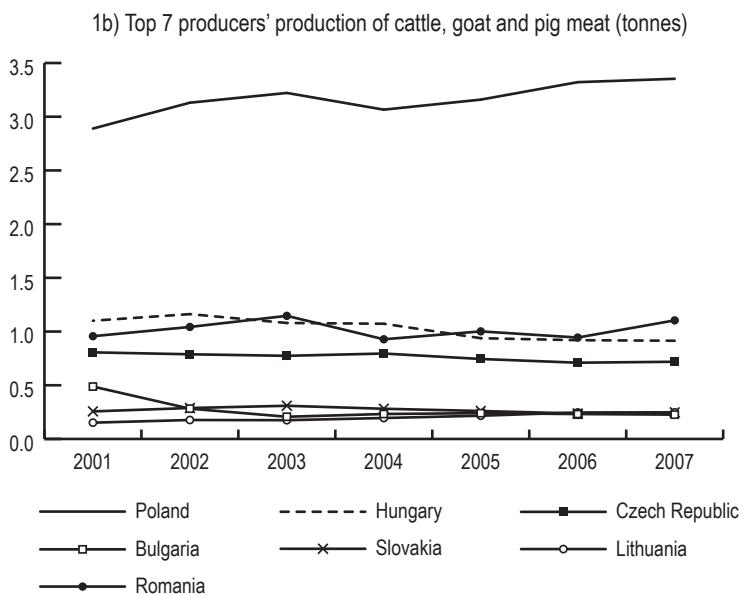
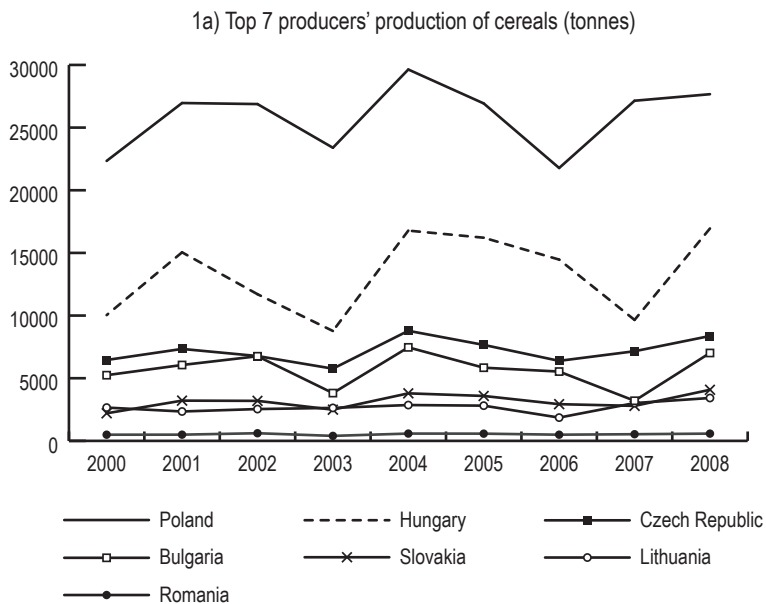
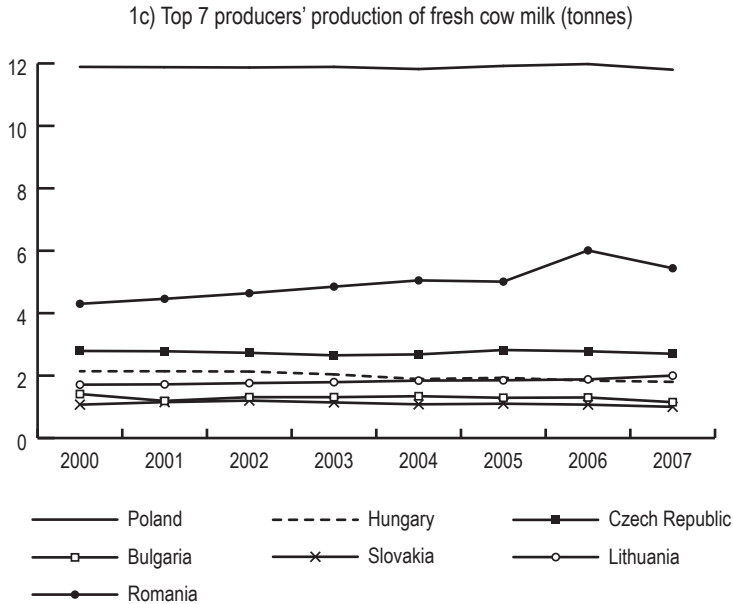


Figure 1 Continued

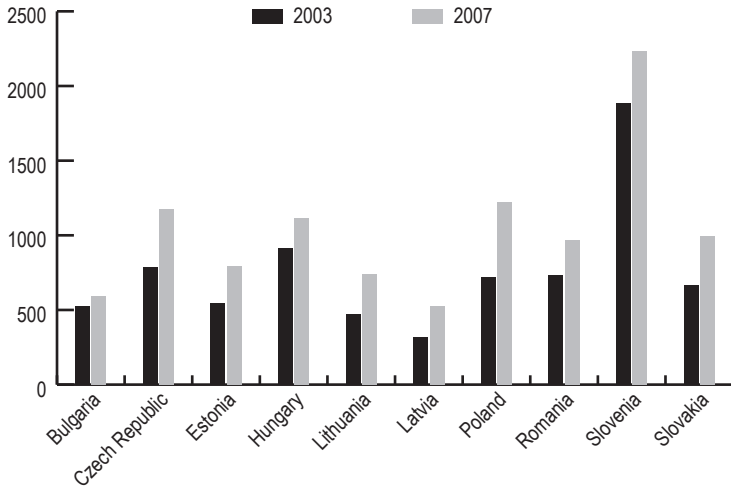


Source: Own composition based on Eurostat (2009)

In the first diagram we have numbers for cereals, where we can see fluctuations but basically they are levelling out, with a slight increase. In the second diagram we have meat, which is even more flat. Finally, if we look at milk, we see that it is even more flat, with the exception of Romania, and there is a slight decline throughout the countries.

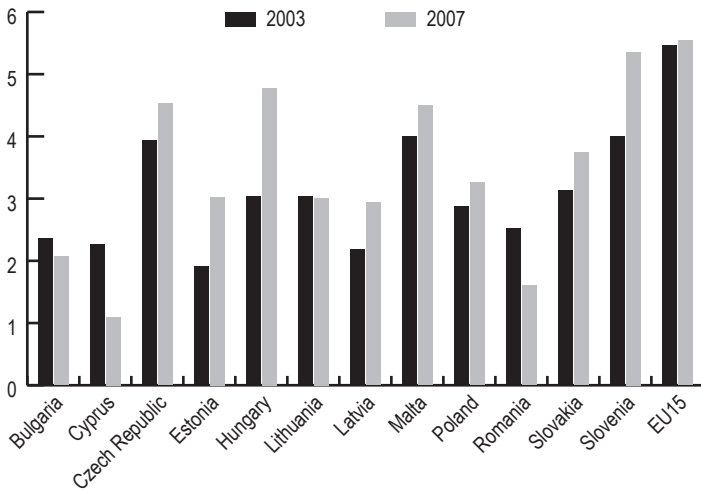
The production picture in combination with fluctuating land productivity shows that there is a huge gap remaining, when compared with the EU15 (see Figure 2). This is agricultural output per hectare in euros. You can see that, to varying degrees, there has been an increase everywhere. Poland is in the lead in terms of rate of growth, but these figures are still far below the EU15 level. There has been convergence with respect to cereal yields. In some countries the yields came closer to the EU average, at least in 2007 in for example the Czech Republic and Hungary, although it should be pointed out that 2003 was a really bad year.

Figure 2 Agricultural output (€/ha)



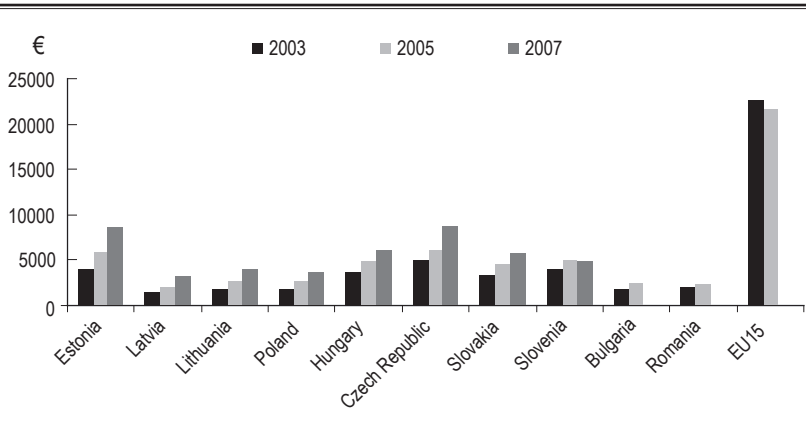
Source: Own composition based on Eurostat (2009)

Figure 3 Yields of cereals (tonnes/ha)



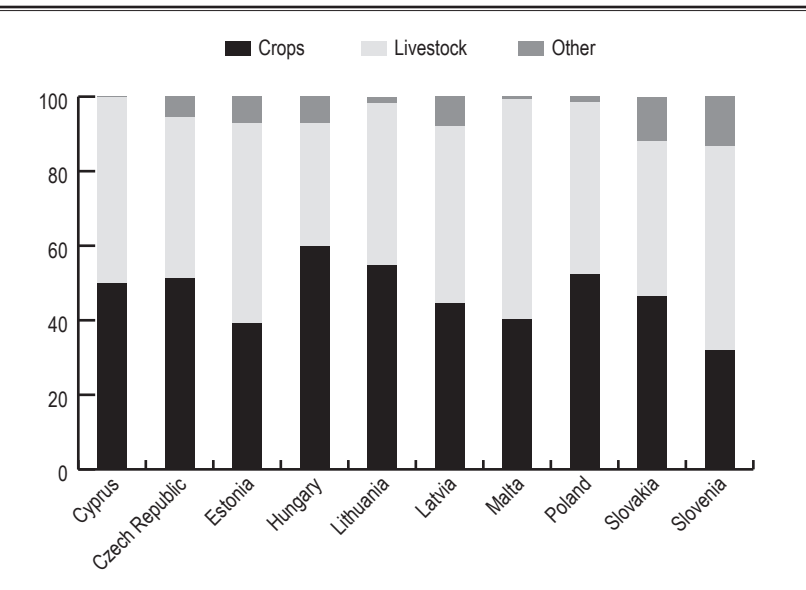
Source: Own composition based on Eurostat (2009)

Figure 4 Agricultural gross value added at basic price per total annual work unit



Source: Dieter Kirschke (2009), Presentation in Berlin, MACE Conference, January 2009

Figure 5 Rate of crop, livestock and other output in total output, 2006 (%)



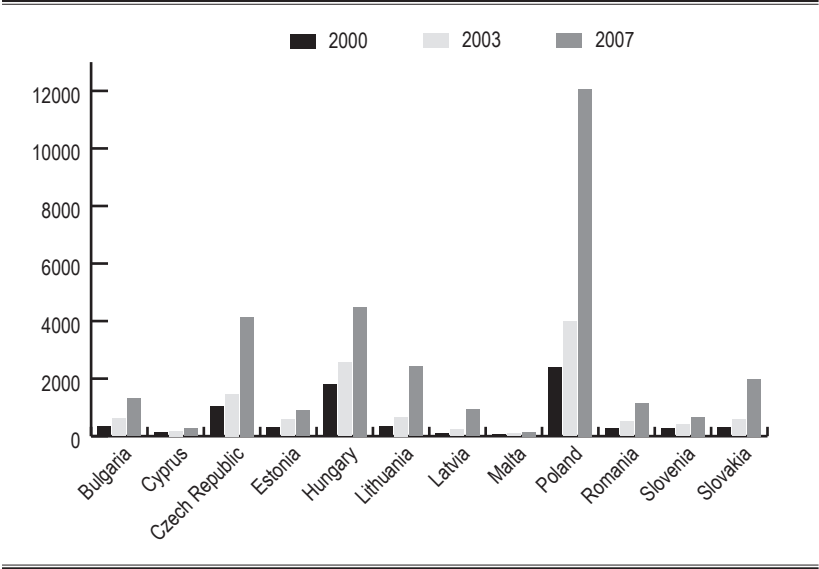
Source: Own composition based on FADN (2009)

However, labour productivity increased, as you can see in Figure 4 on page 34. Labour productivity increased across the board to varying degrees but agricultural labour productivity is still only about 20–25% of the EU15 level. This is something to consider when we are talking about future EU policies: as the previous speakers pointed out, farmers in EU15 do not need to have more payments or support because the prices are higher; The situation is different in the NMS here competitiveness is significantly lower and farm incomes are not comparable to those of in old member countries.

Another interesting development after accession is that the production structure of agriculture became more extensive in most of the countries. The black bar at the bottom of figure 5 represents the crop production share, which is in most of the countries around 50% – in many countries even 60% – and crops' share has increased relative to livestock contribution.

One of the most striking impacts of EU membership is that it has brought more trade and more competition. Figure 6 shows exports from the EU12, where you can see that Poland has seen the most remarkable increase in agricultural exports. The Czech Republic and Hungary are the other two countries with very significant export performances.

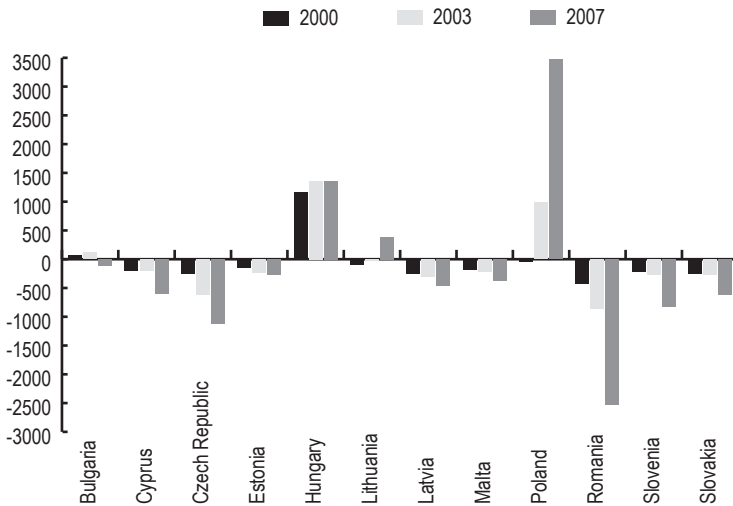
Figure 6 Agri-food and beverages export (\$ million)



Source: Own composition based on Eurostat (2009)

At the same time, imports increased even more than exports. Figure 7 shows that, again, there is a large column for Poland, where both exports and imports increased dramatically. The balance of agricultural trade is steadily positive only in Hungary and Poland while the rest of the countries have an increased negative balance. Consequently, they were not able to withstand competitive pressures and agriculture in most of the countries lost out on the domestic markets against products coming from EU15 countries. One important impact stems from the fact that the twelve countries created new markets for the EU15. Naturally, new markets were created for the EU12 in the EU15 too but, given the EU15's powerful agricultural and agro-business lobbyists, they were not able to utilise the new market in an equivalent way.

Figure 7 Agri-food and beverages trade balance (\$ million)

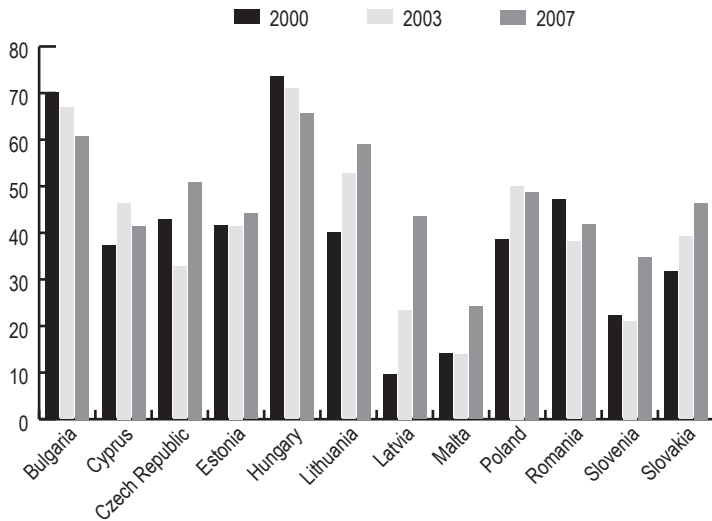


Source: Own composition based on Eurostat (2009)

Another development that is not so positive is that the share of raw materials in exports increased, except in a few countries. This is shown in Figure 8 on the next page. There is no uniform picture but with the exception of Hungary, Bulgaria and Poland, the increase is steady. In the other countries, the proportion of raw products in agricultural exports increased.

Prices in nominal value increased for all products across the EU12, but real prices remained below the EU level. In countries where the prices were closer

Figure 8 Raw materials in total agri-food and beverages [%]



Source: Own composition based on Eurostat (2009)

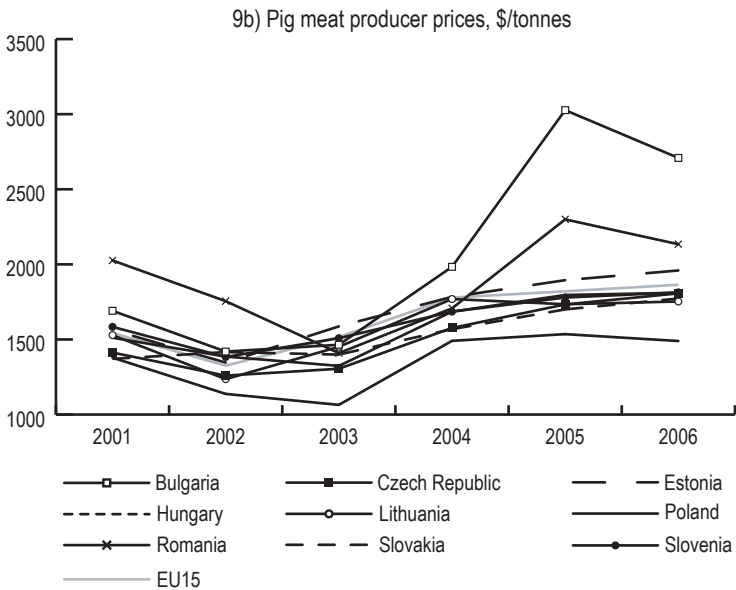
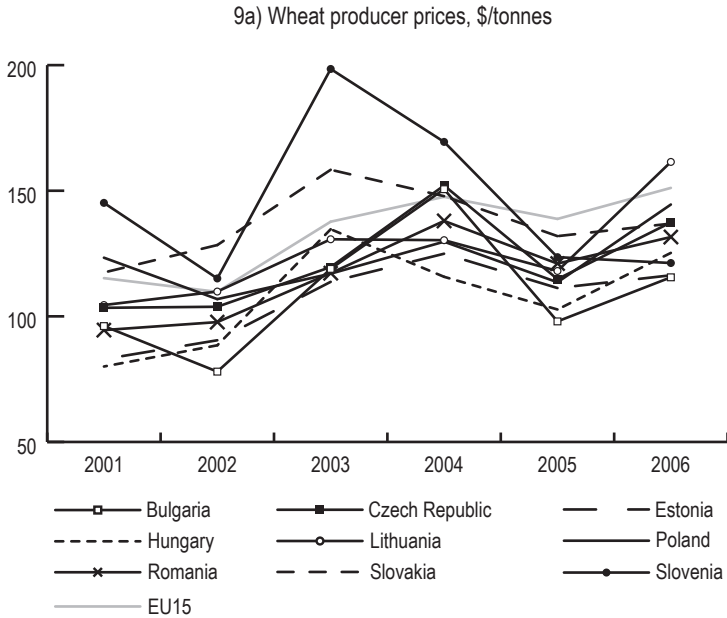
to the EU level prior to accession, there has not been much price adjustment. It is also true that farming incomes increased substantially after accession. I was not able to find a comparable EU figure for 2003 but at least you can see in Figure 9 on pages 38–39 that there has been a steady increase after accession. However, there are still significant differences in farm incomes among the countries. It is not surprising that Poland has a very favourable position here. When we are discussing why there has been a positive response, we should remember that the individual EU12 countries in many ways are not on the same track; and that there are very significant country-by-country differences.

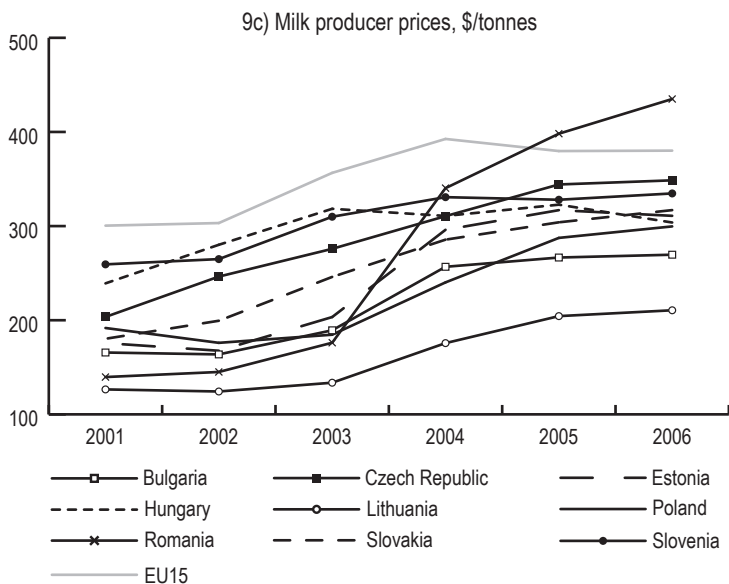
Initial conditions and the impact of accession

I think we should start with the initial conditions. First, the twelve countries entered into the Union with significant land resources that varies in terms of quality. Second, the labour force was at the time of accession huge and, over four years, the labour force employed in agriculture declined significantly. The latter aspect is an important development after accession.

In five years the labour force in the EU12 countries decreased by about a million in agriculture, while in EU15 the decline was about 5–600,000.

Figure 9 Wheat, pig meat and milk producer prices





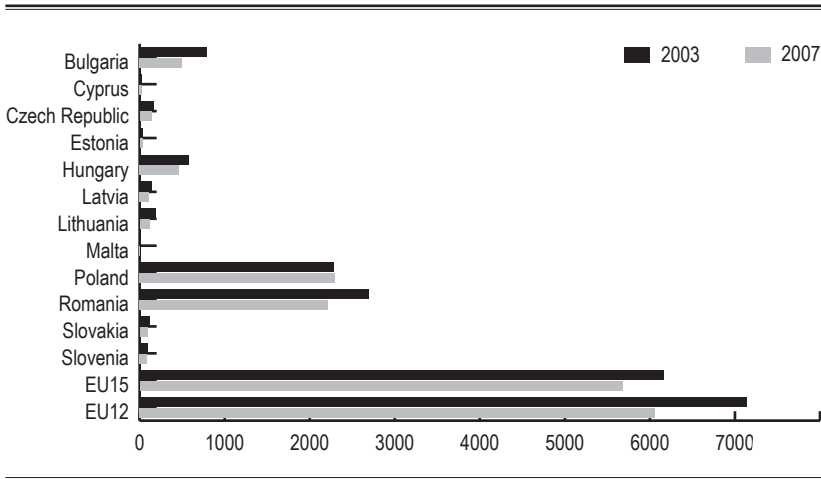
Source: Own composition based on Eurostat (2009)

However, the development in the EU12 has been uneven, so that in the largest country, Poland, the agricultural labour force has not really changed. Most of the decline took place in Romania, Bulgaria and Hungary: here in 2–3 years the agricultural labour force decreased by about 40% after accession.

Another important factor with respect to initial conditions is the way farming is structured (see Figure 11 on page 40). The fact that the farming structure in the EU12 is dramatically different from the structure in the EU15 is to me very much the point when we are in discussing the future of the CAP.

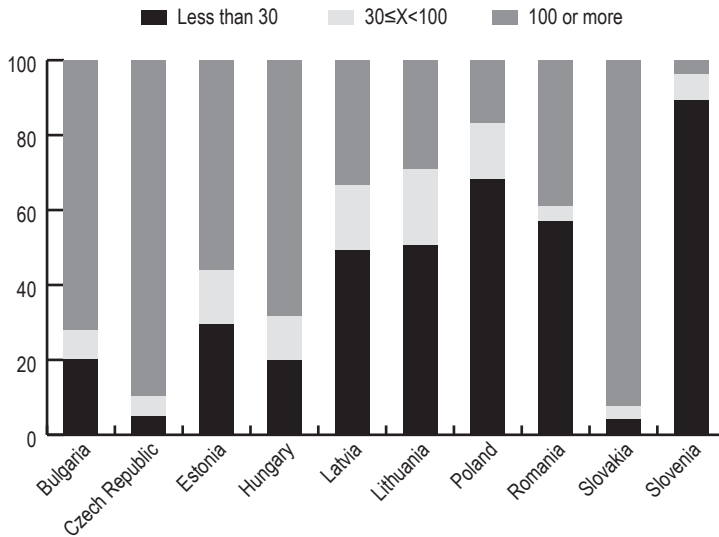
Two of the countries, Slovenia and Poland, historically have more or less consolidated farming structure and it resembles the farming structure in the EU15; mainly small farms but with a much smaller average size. In the remaining countries we have two models. In five of the countries there is a strong dual farming structure where big farms dominate. In Slovakia, for example, 92% of the land is cultivated by farms larger than 100 hectares; in the Czech Republic the corresponding number is almost 90%; and in Hungary it is almost 70%. On the other side in Latvia, Lithuania, Romania the small farms dominate but, even here, there is a kind of dualism.

Figure 10 Agricultural labour in 1000 annual work units (absolute numbers)



Source: Own composition based on Eurostat (2009)

Figure 11 Farm sizes: UAA by sizes (ha) in 2007



Source: Own composition based on Eurostat (2009)

Table 3 Index of agricultural output in real value (2000=100)

Country	2003	2004	2005	2006	2007	2008
Bulgaria	84.55	87.29	83.18	79.22	71.72	87.87
Czech Republic	83.21	98.44	86.96	86.00	98.11	93.57
Estonia	96.31	108.15	115.91	108.66	124.35	109.07
Hungary	89.45	100.31	90.81	91.26	91.32	100.05
Latvia	99.65	108.27	118.56	109.68	130.60	125.74
Lithuania	120.98	138.99	149.88	154.11	171.01	150.21
Poland	97.91	117.82	107.84	110.26	128.22	126.21
Romania	119.66	135.21	99.93	96.74	82.40	102.60
Slovakia	89.61	100.94	96.98	95.16	95.46	96.53
Slovenia	97.66	106.04	89.19	86.48	90.83	98.10

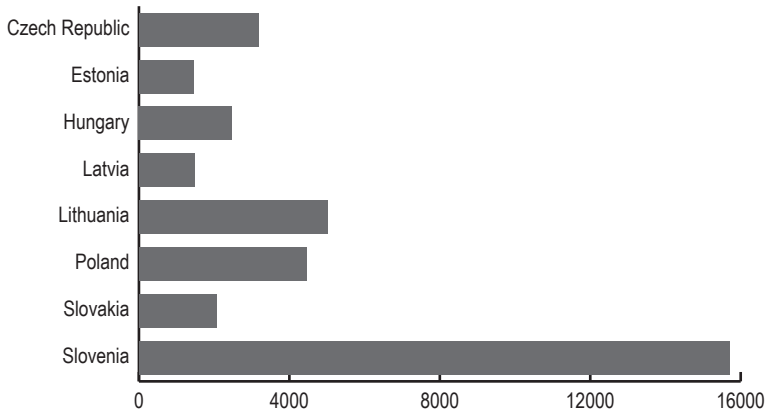
Source: Own composition based on Eurostat (2009)

However, what is important is that this is only a kind of semi-consolidated structure with frequent changes and movements in most countries. There is a huge proportion of small farms in many countries. What is really specific here is that in the EU12 there are about 4.5 million farms that are smaller than 2 hectares and 7 million farms less than 10 hectares in size. When we speak of small farms in the EU15, they are of a different magnitude and size entirely. I think the problems of these farms will represent one of the biggest challenges for the CAP in the future.

It is also worth mentioning that these countries have significantly fewer assets in agriculture in comparison with the EU15. I do not have the numbers for the EU15 here but Slovenia represents more or less the EU15 level, and the remaining countries are, as you can see in Figure 12 on the next page, at a fraction of the Slovenian level. Both the large and the small farms have a relatively low level of asset endowment and readiness to compete on international and EU markets.

When we want to discuss why different outcomes can be observed in the various countries we have to look at two things specifically: the pre- and post-accession policies in these countries. Let us first look at the pre-accession policies. I think these policies have had a significant impact on what has happened after accession. Instruments such as competitiveness enhancement, low level of PSE, liberal land policies and production focus supported the positive development and outcome of EU membership.

Figure 12 Total assets/utilised agricultural area in 2006 (€/ha)



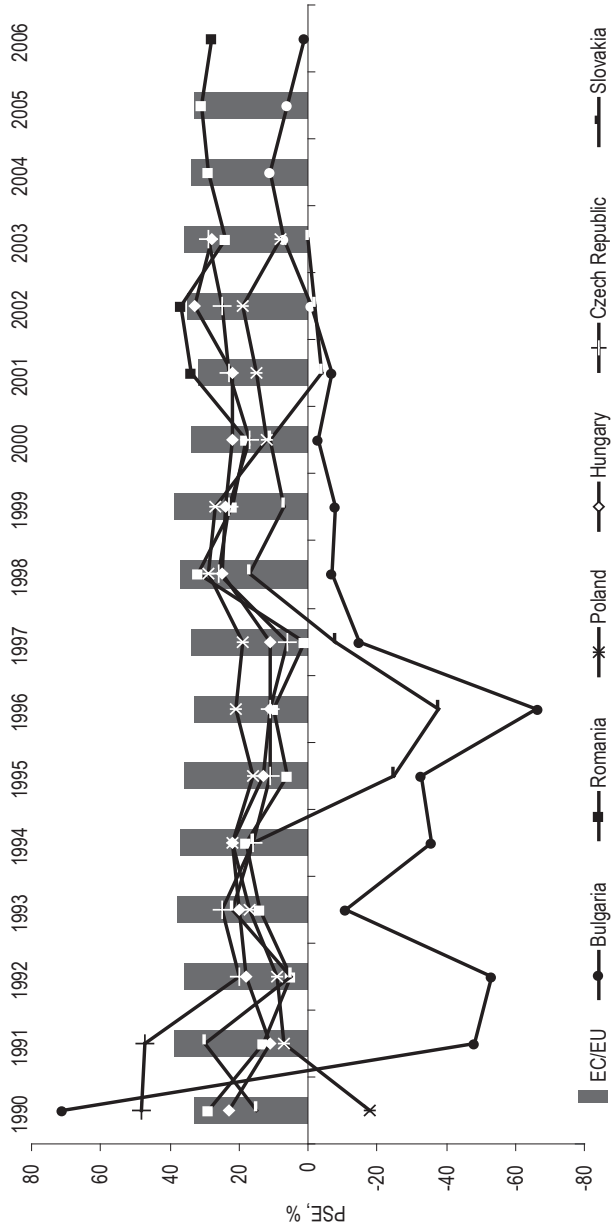
Source: Own composition based on FADN (2009)

Figure 13 shows the development of producer support from 1990–2007. The columns represent the support at EC/EU level. You can see that some countries, such as Poland, had a low level of support prior to EU accession. Other countries, like Romania and Hungary, had a much higher level of support and, consequently, membership brought fewer visible impacts in the short-term than in the countries where the support level was lower pre-accession.

Land policies are of course also very important. The land policies pursued by these countries contributed to the impact. There were countries with very restrictive land policies, such as Hungary, where only physical persons, not legal entities, can own land. Foreign land ownership is almost seen as equal to the devil, so on the one hand, these policies protected local land-ownerships but, on the other, prevented the inflow of capital to the agricultural sector. I believe that these policies still play a negative role.

Furthermore, in terms of negative impacts I would just like to point out that the countries that had moderate price and market support immediately before accession created a forced start-up for their agricultural sector. This is for example true for Poland, which had a very ripe market and price support, while Hungary made a huge mistake when they implemented a large-scale price-support policy just two months prior to accession. Hence it was not only the overall level of support that had a significant impact but also how it was delivered to the farming sector.

Figure 13 Development of the producer support estimate



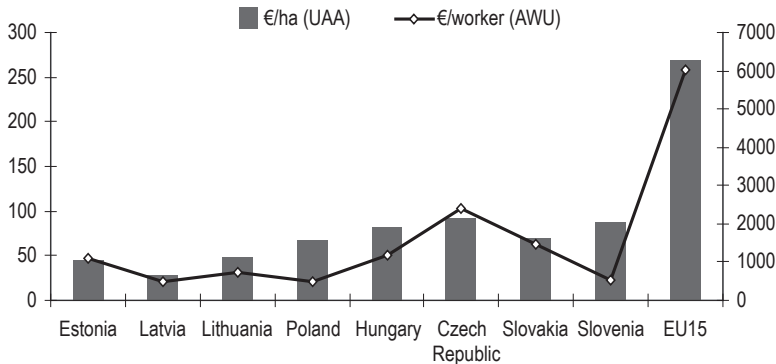
Source: Dieter Kirschke (2009)

The lack of land and farm consolidation in many countries was also to serve as an impediment to more visible impacts after the accession. We should not forget that these countries progressed slowly on land consolidation, farm restructuring etc. and in some cases millions of urban people own rural land as a result of the compensations. This has not helped the agricultural sector.

After accession the new Member States were allowed to choose to either introduce the CAP as such or to opt for the Simplified Area Payment Scheme (SAPS) – a “by-area payment system”. With the exception of Slovenia all of them opted for the SAPS, which I think was appropriate (and is appropriate still) given the specific conditions in these countries. Right now land owners and land users are debating when the single farm payment should be introduced. I think it has not been introduced in any of the countries, even though Hungary intends to do so unless it is blocked by the constitutional court.

In the new Member States EU support provides a top-up payment possibility, especially for the livestock sector, while others do not support agriculture much beyond the direct payments. Figure 14 shows that the level of direct payments is still significantly lower in the new Member States, so I think that their request to have it levelled out is not without justification. The figure shows very clearly the differences, which are the result of the Copenhagen agreement.

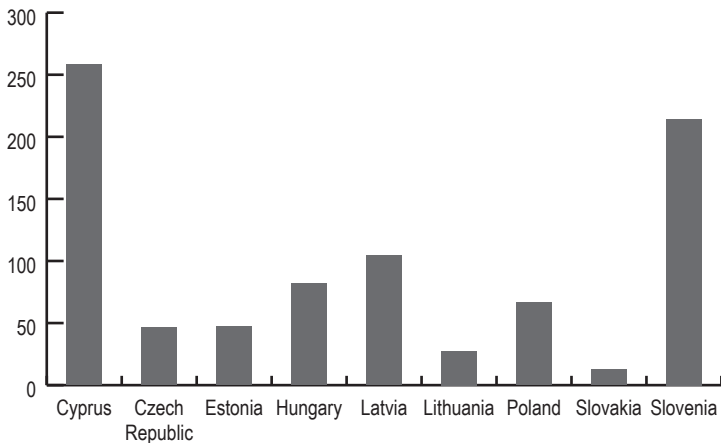
Figure 14 Direct payments in 2007



Source: Dieter Kirschke (2009)

However, there are significant differences among the twelve countries regarding top-up payments. Figure 15 on the next page shows national agricultural expenditures, which include the top-up plus the agricultural admini-

Figure 15 National expenditures for agriculture per 1 hectare of agricultural land in 2006 (€1000)



Source: Own composition based on Eurostat (2009)

stration, research etc. There are some differences between the other new Member States (the Czech Republic, Estonia, Hungary, Latvia, Lithuania and Poland) but support is low here too. Slovakia has the lowest amount of national support. Slovenia, by contrast, chose the CAP option and has by far the highest amount of national expenditure per agricultural land compared with the rest of the rest of the new Member States.

I just want to conclude from this that these countries still use very limited national resources for agriculture and any attempt to nationalise the CAP should take these figures – and the constraints indicated by these figures – into account. Naturally the Pillar II priorities also diverge in these countries but most of them use axis 1, which is the objective aiming at competitiveness enhancement. Grain market intervention, too, plays a role in some of the countries but we also have to consider the efficiency of the CAP system's implementation.

Conclusions

Let me just finish with some conclusions here. Overall I think we can conclude that the CAP has had a positive impact on agriculture in the EU12. It has provided a special income for farmers. It has also sheltered the farming sector from the enormous competitive pressure from the EU15; even though

it has not done so completely. There is some diversity, which is due to initial preconditions and to pre- and post-accession policies. I would say that Poland and the Baltic countries can be considered as the front-liners with respect to adjusting to EU conditions and taking benefits of the new enlarged market, while the others have been less successful. It is important is to recognise that the farming structure per se contributed heavily to what has happened. The development indicates that the consolidated structures – regardless of whether they are small or large – are advantageous; at least in the short-run. On the one end of the scale we have Poland, with mostly small farms, and on the other end we have Slovakia, which did not change the large farm structure.

I would now like to focus on some of the difficulties. First of all I would point out that we have 5–6 million small farmers who in one way or another do not fit into the CAP framework. Most of them are basically unable to get anything out of the CAP and their share in development has contributed to the quickly increasing differences between the urban and the rural areas in some of the new Member States. A new (or at least relatively new) phenomenon is what I would call rural poverty, which is associated partly with small farmers. This must be given a place in our debate, even though I would not see the CAP as being the major instrument for solving the problem. At the Eastern boundaries of ten of the new Member States now there are millions of really poor rural people. I think this cannot be omitted from the debate. I noted references in the invitation to this conference to some new issues but I could not find any reference to these phenomena or to the very specific associated social, rural, and agricultural problems in the new Member States. This may be a very serious obstacle at a later stage when local politicians also become more outspoken and vociferous.

We are already seeing the emergence of extreme parties in the new Member States and this is mainly related to social problems in rural areas. So we also have to think about how the CAP can contribute in this regard. Perhaps there should also be some guidance or proposals as to how the EU should better streamline cohesion and regional policies in order to deal with these problems.

Naturally these countries have a limited potential to withstand competitive pressures and I think this has also spawned quite a number of debates. However, I think here there is a kind of positive and gradual development. Local consumers recognise the importance of local products etc. so I would not maintain that this is necessarily a huge problem. But there is still a learning curve involved, which the new countries have to go through and this must be recognised by the EU15.

I have now come to my last point, which relates to the future and the objective of our discussion. To what extent does one-size-fits-to-all? How should the specific problems of the new Member States be taken into account? There is no doubt that the CAP was designed based on the conditions in the EU15 and that it was just adjusted to the EU12. But in the last five years it has become clear that there are certain areas where more thinking is needed and also that we need a better understanding of the specific problems facing the new Member States.

A year ago or so the former Dutch Minister of Agriculture came to Hungary and delivered a speech about the CAP and its future. He said, "We know the objectives very clearly: environment and animal welfare and that's what you have to adjust to." One person stood up and said: "But Your Excellency, you speak from the point-of-view of a person who comes from a country where agriculture is competitive and where farmers are rich. If you visit our farmers you will find that agriculture is not competitive and a large proportion of the villagers are very poor." So how does it all fit, especially the exaggerated animal welfare approach? People do not care about this at the moment, because they care about their children and their livelihoods. So focus on environment by all means, but what do you do when this is just marginally important for rural people?

We should definitely have a common framework and a continuation of the CAP in one way or another, in a way that allows more scope to deal with some of the specific issues of the twelve countries. If the EU is further enlarged in the meantime, this discussion would be even more important, because even the EU12 is not uniform – there are still two groups with entirely different levels. The EU10 is doing half as well as the EU15, and Bulgaria and Romania are, in terms of the level of development, doing half as well as the ten.

2.3 Marjorie Jouen

Merits and Limits of the European Rural Development Strategy

Introduction and outline

Thank you very much for inviting me. Notre Europe is very pleased to co-organise this meeting. I really hope that we will progress during the day in our common understanding and for the common knowledge and thinking of what could be future opportunities as regards agricultural and rural development policies.

The previous presentation is a perfect opening to what I will talk about, because I shall deal with the rural development policy and what can be done for people who are not involved in agriculture but live in rural areas. I shall begin in describing the diversity of rural areas and just reinforce what has been said by Professor Csáki.

When addressing rural issues, we are dealing with a very large variety of situations all over Europe. Rural areas represent a bit less than 20% of Europe's population and more than 50% of Europe's land surface. I refer to OECD figures related to predominantly rural areas: sometimes other data may be used but, in this case, they include small cities.

I will begin with a first question linked to the great socio-economic disparities. Shares in agriculture are very different, because in some places agriculture represents less than 1% of the active population, whereas in for example Romania it represents about 1/3 of the population, in Poland 17% and in Portugal 12% of the population. The share of industrial employment is also very different. Surprisingly, in some rural areas the major employment is in industry rather than in either agriculture or services. In other regions, most of the workforce has gone into services. There are also very large disparities as regards wealth and incomes. When you compare figures between regions you realise that the disparities between rural areas are much bigger across Europe than is the case between cities. This is of course true also concerning levels of education and skills.

Living conditions have also nothing to do with each other: you will find that even in the same countries there are different situations as regards the access to public services and to collective goods and other kind of services. For some, access is very easy, for others it is almost non-existent. There are questions linked to remoteness – with natural constraints like the climate, the mountainous areas and islands – so you are really confronted with very different situations. Access to communication infrastructures is also a real

problem in some places. This may concern access to the traditional train or road infrastructures but also information technologies. Access to these kinds of communication networks does not exist in some places. This is a particular issue in France for people living in the countryside, but I can imagine that the same goes for lots of other countries too.

Hence you have very different trajectories when you are talking of rural places. Some are booming, others are in decline while others still just stay as they are. In fact, if we think of both the Western and the Eastern parts of Europe we see very different path dependencies and these are crucial with respect to rural areas. Land use is mostly a heritage of the past and the structure of farms is linked to history. You know that there are different sets of land-owners which will hamper the competitiveness of a region but also its social capital and its dynamism. From this point of view, the large size of farms is not always an asset. It is incredible to see how the endogenous factors of development are linked to local history and especially the model of farm ownership that was developed centuries ago. Currently, in some places, farming is very important in scale but not crucial in terms of economic development. In other places – and I am thinking especially of France but I can imagine the same being true in Sweden too – residential use is increasing and very much in development. This means that the equation of economic development in these areas is much more linked to what happens in the cities. Even though all inhabitants of rural areas are not working in the cities, they tend to follow urban consumption patterns and create a demand for services which, consequently, may generate jobs. You have thus a new kind of economy. For other areas, it is much more an equation involving nature and leisure, because nature is sometimes a place of enjoyment, whereas in other places there is economic development that instead exploits nature (e.g. forestry).

The situations with respect to governance and institutional arrangements are very diverse. The situation for rural areas in this regard depends on whether the regions are autonomous or whether they are to a great extent under the influence of decisions taken at the national level. This affects significantly their capacity to develop themselves as an area.

The future perspectives differ too. Some areas are confronted with immigration from big cities or other regions; others are confronted with declining populations; and others still with declining industries or farming. So we are talking about a very broad range of needs and challenges that rural areas cannot meet alone. I may be in disagreement with Karl Erik Olsson on this, because I think that rural areas will not be able to develop on their own. In some cases an external institution is needed because of the existence of monopolist situations with the local elites, who keep things the way they are. So

by recognising this and giving new tools or tailoring policies, you can help people to develop themselves.

If we take a closer look at this diversity we can divide the rural areas or regions into two axes. The first axis represents agronomic potential: agriculture is still very important, not only in terms of production but also because it preserves the kind of economy and regional wealth you have in rural areas. Agronomic potential may in turn be weak, medium or strong. It means that in some cases agriculture and the agro-food industry will still create the regional economic basis.

Table 5 Policy needs

		Agronomic potential		
		Weak	Medium	Strong
Population density	Weak	Lapland (FI) Tyrol (AT)	Limousin (FR) Latvia (LT)	Mecklenburg-Vorpomen (DE) Champagne-Ardenne (FR)
	Medium	Puglia (IT) Canaries (ES)	Bavaria (DE) Emilia-Romagna (IT)	Denmark (DK) Friesland (NL)
	Strong	Malta (MT)	Wallonie (BE)	Ile de France (FR)

On the other axis we have population density (weak, medium or strong) since the population density creates a pressure for the use of land. The potential also concerns activities of people and demand for services. I will elaborate further on this. You can probably put some Swedish regions there but I have used other countries. In the box where you have weak agronomic potential and weak population density you have for example Lapland; you may have also the Tyrol and some mountainous areas. In the box where you have a strong agronomic potential and a strong population density you have Ile de France (the region surrounding Paris), which is one of the most productive places in Europe. It is very rich and it also has a very high population density.

In other places you have a strong agro-potential but a weak population density, such as in Mecklenburg-Vorpomen in Germany or in Champagne-Ardenne in the east of France. On the opposite side, the Mediterranean countries for example tend to have rather a weak agronomic potential but a very high population density.

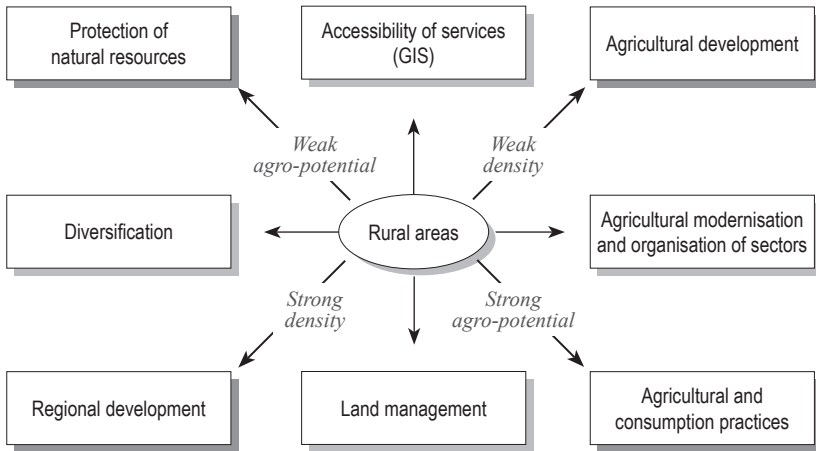
If you think about how you can place different regions within this framework you can also start to think about the different policy needs. I am not just talking about rural policy; but all the rural development policy needs. The idea is not just to provide support and relief, but rather to give these areas the possibility to develop. If you are in a place where you can rely neither on farming to get the necessary resources, nor on a high population density, the main challenge will be linked to the accessibility of services. So this is actually very far from just providing support to agriculture or any other sector; it is about dealing with services for the population. In places with a weak population density but a strong agronomic potential the main issue would be to modernise the agriculture and also the agro-food sector.

When you look at places with a strong population density and a strong agronomic potential (think of Paris and its region) it is to a much greater extent a question of land management; of how to resist the pressure from the cities or the pressure from tourism (think of several coastal areas). Finally, when you are dealing with a region with a weak agronomic potential and a strong population density (or a medium density of population, such as places in Italy, Spain and Germany), the main issue is rather one of diversification and the generation of new sources of income.

I will now elaborate on answers to these problems. You can have four types of answers concerning the protection of natural resources, but this is more linked to environment. Concerning the question of accessibility, agricultural modernisation and development policy with regard to land management, the question is one of how to resist pressure from the cities and also how to resist the pressure from farming and industrial farming. Here you need to provide a policy that changes practices of both consumption and production. Finally, concerning places with medium population density, where there is a need for diversification, you will have the “original” rural development approach such as objective 5B and LEADER programmes until 2000. In other words, it is a multi-faceted policy. So this is what should be done, but in reality we are not there today.

Let us assess this briefly, bearing in mind that it is a much-exaggerated exercise. If we are screening the current EU Rural Development Policy – and I am now talking of Pillar II – we have, first, the LEADER approach. LEADER has been very successful and really added value to local development and the way in which local actors have been able to act. We have support for agricultural multi-functionality of different kinds – which are basically on the first axis, to some extent on the second – and we have the agro-environmental measures. We also have support for economic diversification through the third axis.

Figure 16 Dimensions of a Rural Development Policy



Unfortunately Pillar II is largely dedicated – 80% on average (even if there are very large differences from one country to another) – to agriculture or activities very much related to agriculture. It means that for people living in the countryside who are not involved in agriculture it represents really very little money and very weak support.

The other thing that was raised by Professor Csáki is a situation that has worsened in the last couple of years. Previously it was possible to pursue an approach that integrated other EU policies. It was not perfect but it was possible. The regulation has changed and today it is almost impossible for people at local or regional level to develop an integrated area-based approach. There is only one exception. In Italy, they have managed to create something that is very interesting and sophisticated. They use Pillar II together with measures from the regional fund in an integrated rural strategy. This is not an easy task and they are facing difficulties in order to combine measures at both EU and national level.

Moreover, there is a lack of coherence between sector policies which have a major impact on rural areas, such as transport, environmental, tax, or competition policies. They follow their own logic and the coordination at regional or local level is a nightmare. In addition to that, no territorial impact assessment has been carried out on what will happen in rural areas as a consequence of reform.

Let us now consider what could be an EU Rural Development Strategy. I am using the term strategy just to change it from policy, because it needs to be something different. The first principle to refer to is subsidiarity: if things can be done better at local level, at regional level or at national level, they should be carried out at that level. This is the case in many situations.

However, as Professor Csáki pointed out, we do need a common framework for a number of things. Sometimes the EU needs to intervene, since the EU can provide added value. I have already mentioned the LEADER programme, which was really very successful and made a significant impact in for example Portugal and Spain. The reason was that the governments at national level decided to have exactly the same programmes that were based on the same principles. I think that this was also the case in Finland. So the EU can help in providing guidelines, assistance, information and networking. The problem in certain areas is that they are isolated and they therefore need to work together with regions elsewhere in Europe, rather than within a region, which may experience the same kind of problems. In other words, networking can be very valuable.

The second principle is path dependency and here I am on the same track as State Secretary Eriksson: we cannot just start from scratch. We need to consider past experiences and recognise that if we change things it will have to be through transition and experimentation, rather than revolution. Hence there will still be a link between rural development and the CAP.

A third principle has to do with multi-level governance and partnership, which means that policy cannot be carried out only by one level that is doing one thing. There is co-financing to consider, and also partnerships in different development strategies.

We also have to look at the context. To some extent the context of tomorrow will be the implementation of the Lisbon Treaty. Territorial cohesion will, besides social and economic cohesion, become the third cohesion objective. Hence the idea of impact assessment of sector policies will have to be implemented. Furthermore, the problem of accessibility for people living all over Europe will be a real issue that has to be dealt with. Another aspect of the Lisbon Treaty is that the European Parliament will have much more budgetary power, especially with respect to agriculture and Pillars I and II. We thus have to bear in mind that the European Parliament will have a more important role than previously in defining both the agricultural and the rural development policies.

Then we have the post-crisis situation. I think that, in the near future, we will

face budgetary constraints as a consequence of the explosion of the public debt. This is already a problem for some Member States. However, we are also confronted by changing values, which means that the question of deregulation perhaps will not be so relevant. People may also have to think about the need for some regulation in some sectors. There will also be increased pressure for green growth and perhaps also for other values, such as less transportation, less communication, re-localisation of economy etc.

Naturally I will not be able to give you all the solutions but I can give you some keys. Firstly, the idea of a cascade of rural development strategies implies that strategies are long-term in nature. It is necessary to think about the direction in which we are heading and about where we want to end up. More specifically, we need to know where we want to go at the EU level, as well as at the national, regional and local levels. It is absolutely necessary to have an EU framework in the future, even if some flexibility should be allowed.

It is also necessary to have a tailor-made approach and an integrated strategy built upon a large menu of sector measures. I am talking of a much larger menu than today, including land management and social services but also transport services etc. This enlarges substantially the scope for rural development. At the same time it is vital to do an in-depth review of the delivery mechanisms at the EU level, because under the present circumstances they have created a kind of dead-end for some places. Moreover, we need to think about proportionality between the controls and the money that are used, because sometimes the red tape involved is a major problem. Finally, there is a need for an improved cross-sector coherence, e.g. with respect to transport and competition rules. This is what the future could be.

3 IMPROVING THE EUROPEAN REGULATION OF AGRICULTURE BEYOND 2013

3.1 Ewa Rabinowicz

How to Reform the CAP to Cope with the New Challenges¹

Introduction and outline

I will try to look at the role of the CAP in the European integration process and make a quick assessment of the present CAP, focusing on the Single Payment Scheme and on Pillar II programmes connected with the presentations and discussion in the first session. I will briefly look at efficiency and distribution and mostly discuss the new objectives for the CAP.

If we need a new CAP we should perhaps start by asking ourselves which objectives the policy should pursue and what would we like to achieve. Some of the old objectives should go and some new should be added. However, the reform of the CAP is difficult, so I will also add some comments on the short-term strategy, i.e., what to do in the meantime before the long-term objectives can be realised. I will end with some concluding remarks.

The CAP and European integration

We can all agree that the CAP was a very decisive component in the European integration process in the past; but what about the future? Would the present CAP pass the subsidiarity test? There are other questions to be asked, in view of the fact that the CAP still absorbs such a large share of the budget. Is CAP spending a reasonable use of scarce common resources in view of the global crises, including the climate?

In my discussion I will start with the principle of subsidiarity, which postulates that the policy should be allocated to the lowest level of government at which the policy can be efficiently delivered. From the fiscal federalism theory it follows that European money should be spent on European public goods that otherwise would be underprovided and where there would be added value at the European level.

Implications of the Single Payments Scheme

Let us look at the present CAP and focus on the Single Payments Scheme (SPS). SPS is the most important element of the CAP and it absorbs a very large share of the CAP budget. What I am saying here is based on the EU

¹ The presentation is based on a research report written for the Swedish Institute for Food and Agricultural Economics (SLI) by Ewa Rabinowicz, Mark Brady, Sören Højgard and Eva Kaspersson.

research project IDEMA, which was EU financed. IDEMA was based on case studies of 12 regions and spatial agent modelling. This research shows that single payment schemes have very limited potential for supporting farm income. If the support was eliminated, the land values would fall, structural change would speed up and incomes from other sources grow, leaving the total farm income unchanged. However, in marginal regions those payments contribute to more biodiversity – due to the obligation to keep agricultural land in good agronomic and ecological conditions – and to higher employment, because structural change slows down. By and large there are almost no cross-border effects.

It is often claimed that we need the common payments because otherwise competition would be disturbed. I would argue that common financing is not needed to level the playing field, simply because land is immobile. You can only disturb competition when mobile resources are involved.

Assessment of Pillar II

Let us briefly look at Pillar II, which is comprised of measures that are organised in three areas:

1. competitiveness;
2. environment; and
3. wider rural development.

Competitiveness is mainly comprised of investment support, setting up young farmers, training, early retirements and similar measures. These measures have of course the potential to improve efficiency. However, this is only true to the extent that market failures are present, which is most likely to be the case in the new Member States.

There is an old saying: “If it ain’t broken, don’t mend it.” It originates from house appliances but applies equally to economic policy. If market failures are absent it is very difficult to improve the allocation of resources. An evaluation of the policy shows considerable evidence of displacement effects, which would support the idea that market failures may be absent. There are very weak cross-border effects and public goods are by and large absent. I think the main impact of many schemes is to transfer income.

The environment measure in Pillar II compensates farmers who adopt environment-friendly practices and promotes the production of public goods, such as biodiversity and ecosystem services, landscape and culture. There is also a focus on the problem of pollution of water and atmosphere and emission of greenhouse gases. Looking at those schemes one would argue that efficiency would require targeting, because there are enormous national

variations. Some schemes have been criticised for poor performance, in that payments are often general rather than targeted and not related to specific effects. It is likely the case that they too are income support.

Finally, we have the third element of Pillar II, wider rural development. Payments focus on development of villages, diversification, encouragement of tourism and similar things. Generally it has been observed that the measures have not been sufficient to address marginalisation of regions lagging behind. In my mind, they focus more on symptoms than on underlying causes of why regions are lagging behind, such as remoteness, low productivity and lack of qualified labour and services. Even here cross-border effects are absent and the prime motivation is cohesion. The measures are most appropriate in the new Member States but the policies are applied all over the EU. The question is whether this should be the case; I will return to this issue later on.

Efficiency and distribution

Let me summarise my assessment so far. I would say that CAP spending has in general a weak rationale in terms of externalities and European public goods. One could also observe that co-financing applies to Pillar II measures – which *are* elements of European public goods – but full financing is provided for direct payments, which have a very weak or no element of public goods. This is a paradox. I would argue that CAP spending is primarily distributive and hence begs the question: who gets the money?

In a study that was carried out by Mark Shucksmith and his colleagues in 2005 – referring to the EU15, it should be pointed out – it was showed that Pillar I and II support were favouring economically viable and growing areas in the EU rather than remote and lagging behind regions. Concerning the direct payments I found a very interesting report from the Commission, where one could read that 2% of the recipients – that is to say, those who got more than 50,000 euros in 2005 – received 30% of the money, which means that quite a lot of money is spent on a fraction of the recipients.

I think you have guessed by now that my assessment of the present CAP is not that enthusiastic. The question is what should we do in the continuation; which objectives should the CAP pursue?

Objectives that should be abolished:
consumer protection and farm income

Let me start with the objectives that I believe are obsolete and should be eliminated. We have a consumer protection objective – that is to say, that consumers should be assured reasonable prices – which, I think, has never been taken

too seriously and should be eliminated. If we protect European consumers from high prices, for example by means of export bans, it would have a very negative impact on global poverty as prices would be even higher. So I would say that this objective is not motivated on moral grounds.

I would also argue that the farm income objective, a major objective of the CAP, should go. Due to capitalisation of support in asset values, farm income objectives are very difficult to attain in the long run. Moreover, farmers are quite adept at solving their income problems by themselves. If you take Sweden as an example, farm households have very similar income regardless of their size, because smaller farmers simply complement their small farm incomes with income from other sources. However, if the farm income objective is retained I would argue that it must be made coherent with social policy. As it is at present, the bulk of the income support is paid as an individual income transfer and if you transfer money to individual recipients you should ask yourself whether a specific individual actually needs to have his or her income supported. I would argue that if we keep the income support it should be subjected to a means test, as is the case with any other kind of social support. If this is a social policy, it should be a social policy rather than making farmers apply environmental regulations to get their incomes supported. This is very strange from a social policy point of view.

Objectives that should be retained

I would say that among the objectives to keep we have first *competitiveness*, which is still relevant because competitive pressure on the agriculture has increased and will increase in the future. Moreover, there is an added value at the European level in terms of encouragement of innovations and technical change. Instead of spending money on investment support we should rather transform the support to become an innovation aid. The investment subsidies would be limited to the new Member States for a transitional period.

Stability was previously achieved at a high cost through market interventions and focus should instead lie on the provision of a safety net. Market solutions to risk management do exist but may not be optimal. However, the EU does not have access to better information than private entrepreneurs or Member States and hence I think that the EU should restrict its involvement to providing the legal framework and emergency aid in case of catastrophic events.

Food security is another objective that is still relevant. However, food and security in the EU are joint products and are not undersupplied at present. Global food security, on the other hand, is an issue and we should stimulate growth of agricultural production in Africa rather than argue for support to

EU farmers for the sake of global food security. I would argue that a future abundance of food should not be taken for granted, since we at present do not know what climate change may imply. Spending on research and development is therefore necessary in order to halt the decline of productivity growth.

In the case of *environmental protection*, it is clear that biodiversity and ecosystem services *are* cross-border public goods, which imply a need for a common policy. There is a need for targeting and because of this we need a national design. We see a risk of a free-riding problem, so we need to coordinate financing. There is also a risk of strategic behaviour, which implies that we need co-financing so that Member States do not finance their national public goods (rather than European public goods) through the common purse. Finally, there is of course always the risk for protectionism and hence it is important to have a common framework. However, existing agro-environment schemes should be improved. There is room for innovations, like conservation trusts, auctions, habitat banking, and greater regionalisation and so on. A lot of discussion is going on there and we should test new measures.

With respect to *climate change* one could say that agriculture constitutes both a problem and a solution: 13.5% of the emissions come from agriculture. However, climate change is a global problem and we all have to contribute. I would argue that climate change calls for new research into mitigation and adaptation, we need for instance to develop new species. At the same time one should also remember that efficient mitigation policies require that marginal abatement costs are equalised across all emission sources and this means that if we are going to fight climate change we should not support agricultural loans. Rather, all technologies should be considered on an equal basis.

With respect to *cohesion and wider rural development* one could see that poverty is a reality in many rural regions of the EU, especially among the new Member States. Professor Csáki mentioned poverty and CAP should contribute in this regard. Naturally, the CAP cannot solve the problem of poverty but poverty should not be irrelevant in the policy framework. The CAP should in my mind focus on the poverty of rural regions, that is to say, on rural *regions* that are poor compared with other regions rather than on poverty *per se* in the rural regions. Poor people within a region are compared with other inhabitants in the same region, so this is simply a task for social policies.

I also argue for a *territorial approach* and general policies rather than project support. I would argue that there should be preference given to rural areas that are lagging behind and to the new Member States. It is questionable whether all rural areas should be subject to rural development policies in the old Member States.

CAP reform in the long-term

To summarise: my long-term view of the CAP would be that the objectives of the new CAP should include protection of biodiversity; mitigation of climate change; contribution to competitiveness; and contribution to cohesion. Objectives such as support for farm incomes and reasonable prices for consumers should be abandoned. The Single Payments Scheme should be phased out of the CAP. These payments cannot be justified either as income support or compensation for higher costs, nor for food security. However, I would also argue that the future size of the present Pillar II measures should be based on the merits of the policies in question. We should not simply transfer money: we should ask ourselves if we have efficient policy tools for our objectives and whether we have the measures to deliver.

CAP reform in the short-term

A lot has happened to the CAP since the early 1990s and even though development has been slow, it has generally moved in the right direction. From this point of view it would be very unrealistic to expect immediate and revolutionary changes. In this situation the question emerges: what kind of short-term changes would be consistent with the desired long-term outcome?

I would highlight four issues that I have some comments on. The transfer of money from Pillar I to Pillar II has thus far been through modulation. I would argue for considerably lower uniform payments, at a flat rate rather than modulation, since this would be much more efficient. It would take care of unequal distribution between countries and regions and so forth. I would also argue that capping the very high transfers is not a very efficient way to solve the problem. If we have a marginal capping of 4% it will not affect distribution very much. If you cap quite a lot then you will affect structural change and in the long run the efficiency of agriculture. So I would not put my money on capping. I think it is reasonable to keep the cross-compliance as it is at present. The impact is not significant but there is not much harm done either. However, I do not think that we should increase the number of components, because in the long run I think the strategy should be to phase out the Single Payment Scheme. I also believe that merging the two Pillars would undermine the credibility of phasing out Pillar I.

Finally, I will end my presentation by pointing out that the budget allocations from the common budget need to respond to the emerging global crises, especially climate change, which is arguably the greatest challenge encountered by mankind. Science and technology are the keys to such a response since the present availability of large scale low-carbon technology is limited. Obviously there is an added European value in pooling resources so that

economies of scale can be achieved. Less needs to be spent on agriculture in the future budget and the remaining expenditures should concentrate on preservation of biodiversity and mitigation and adaptation to climate change.

3.2 Louis-Pascal Mahé

A New Payment Scheme and a Renovated Governance for the CAP beyond 2013²

Introduction and outline

I will cover three types of issues, though not necessarily in a very balanced manner. I will begin with some very brief comments on pending CAP problems. We had a very full list from the writers a while ago and I will just add a very personal focus. I will present a concept for a longer view of the CAP after 2013. I will then briefly touch upon the issue of EU competence with regard to the CAP and agricultural policy in the light of fiscal federalism, because this is a very central issue in the debate today.

Pending CAP problems

First some personal remarks: it is striking that only incremental corrections have taken place in CAP reforms to soothe external trade conflicts and to tackle major internal market imbalances. Changes were complacent with vested interests and we understand the reason why. Incentives have been adjusted but not much. Hence essential public goods and public stakes, such as environmental quality concerns, have not been effectively addressed.

The history of support has created a culture of “a right to cash-in support” in the farm community across Europe. This is particularly true in France but in other countries as well. There is also reluctance with respect to accountability regarding the counterparts ; and we see this for example in the implementation of cross-compliance. We also, to some extent, witnessed this in the farm votes in France with respect to the Constitutional Treaty and in Ireland regarding the Lisbon Treaty. However, the great merit of the past reforms, in my view, was that they altered the political economy of the decision-making process, and changed the rules and the logic of decision-making in the subsequent waves of reform for the better.

Concerning pending and unresolved issues, I will mention only a few. The environmental benefits of the reforms carried out hitherto are mixed. There is only scant evidence of a positive effect from National Rural Development Plans assessments and other analyses. The record of positive impacts of Rural Development Plans on rural employment and development is patchy and

² This presentation is based on the Notre Europe report *CAP reform beyond 2013: An idea for a longer view*, by Jean-Christophe Bureau and Louis-Pascal Mahé (available at <http://www.notre-europe.eu>). It also borrows from the book *Politique Agricole: Un Modèle Européen* (Agricultural Policy: A European Model), by Louis-Pascal Mahé and François Ortalo-Magné (the book is available in French but has not yet been translated into English).

uncertain. The Single Farm Payment system does not provide the relevant incentives to meet society's expectations. These payments still suffer from the original sin of "compensation logic" and they are not inspired by the "incentive logic", so we have to change this. We have little evidence on cross-compliance efficiency, it works to some extent on buffer strips but pollution abatement apparently does not work at all.

Pillar I is EU financed and only Pillar II is co-financed. I think it should be the other way around from a fiscal federalism point of view. Actually it is a major point that we made in our report. The problem makes the Member States less responsible for their respective policy design and in particular with respect to EU spending.

A new concept for the CAP – a Contractual Payment Scheme

So we need a new concept. Although we touched upon other questions as well in the report, I focus here only on public goods. So the principles that should inspire the new policy, the new concept as it were, are:

- *differentiation and targeting* – according to space and practices;
- *proportionality-efficiency* – there should be a closer link between the value of services and subsidies and, if possible, between the value of those services and the incurred costs;
- *consistency* – for example, the aids to organic farming – which combine farm products and services for the environment – should be more attractive than those for conventional farming. Today the reverse is true due to the historical weight on the system;
- *simplicity and stability* of policy instruments – this is very difficult to achieve, particularly for politicians, as they want to be seen doing new things. Often changing schemes increases administrative costs since sunk costs at launching stage are dominant; stable schemes benefit from learning processes and returns to scale due to the spreading of sunk costs.
- *contracts* – we should substitute the open-counter payments that we have now in place with a contract system (described below);
- *financial responsibility* of the Member States – rather than so-called "financial solidarity" – to discipline national interests and to free the decision-making process at the EU level from national hidden motives.

So, except for a couple of other things that I will omit from this presentation, our proposal is essentially to introduce a three-stage *Contractual Payment Scheme* that covers the current Pillars I and II. However, a closer examination reveals that the proposal in fact amounts to getting rid of Pillar I. The

Single Farm Payment is replaced by a contract that offers *Basic Husbandry Payments*. These payments target commercial farms in areas of rural territory considered to be “ordinary” – *i.e.*, farms in the main part of the rural territory with fairly good agricultural land – and they are tied to commitments made by the operators. This reverses the current logic of cross-compliance, which amounts to saying “we give you the money but you should do more than you want” and people get unhappy. Moreover, payments are substantially scaled down compared with the current Single Farm Payments. They are neither tradable nor transmissible to heirs, and their duration is significant but not unlimited.

The second stage is *Natural Handicap Payments* (NHP). These are contractual payments targeting farms in rural zones with natural handicaps that hamper their competitiveness but at the same time are essential to the rural fabric. This alludes of course to the presentation by Marjorie Jouen, who spoke of areas where agriculture is essential for the economic base. I will provide a counter example to make the point: if we talk about handicap payments under the present Less Favoured Areas system, they cover the mountains and hence Savoie. However, as Savoie is a relatively rich region with a primary economic base different from agriculture, you end up giving agricultural funds to non farmers in those places. This is not what we want to do with the CAP. Therefore agriculture needs to be the essential economic base for an area to secure eligibility for NHP. These payments may be coupled with production or numbers of animals under conditions of low input or low stocking rates. There is a Scottish study which has illustrated how important it can be and later I will come back to this.

The third stage is *Green Points Payments* (or green stars as I used to call them before). These payments would target the farms that use organic production techniques or commit to a higher level of environmental services than stipulated in the basic regulations. There is a schedule of credit points associated with a menu of commitments regarding rural landscapes and environmental resources in rural areas. The Green Points Payments should be prescribed for portions of the rural territory that are environmentally sensitive or endowed with high nature value assets. They could also contribute to alleviating the footprint of agriculture in other areas, such as the ordinary areas, by supporting farms that engage in organic and certified extensive methods. But the bulk should be for the zones that have a high nature potential.

The horizontal principles of the system are the following:

- payments for services to rural public goods instead of the right to income support;
- no more open-counter aids, but contracts that are of limited duration

and *intuitu personae*, i.e. not transmissible;

- financial responsibility instead of so-called financial solidarity: all the contractual payments, including the Basic Husbandry Payments, are co-financed by the national budgets (the percentage can be discussed) and this would greatly reduce existing disparities in financial balances across Member States. Under the present circumstances there is a built-in incentive for Member States to cash-in balance of payment windfalls, as is evidenced by our farm ministers' pride in claiming to have secured favours X or Y upon returning from the negotiations in Brussels. This institutional change would induce policy-makers' behaviour to change – if we follow the analysis of the Nobel Prize winner Dr. Douglass North.

Conclusions

Let me first give a try at a reflexive assessment of the proposals. The suggestions are partly radical – with respect to personal contracts, land sliding redistribution of the payments and joint co-financing of Pillar I – and they are partly *ad hoc*. They will not substitute for other policies, such as environmental or regional policies. They recognise empirical constraints; in particular the fact that there are limits to fine-tuning and that there are administrative costs. The administrative costs may burden the schemes if they are too detailed and complicated, or if targeting is too narrowly defined. Hence they are not entirely consistent with the principle of proportionality-efficiency. The Basic husbandry payment granted per hectare of land managed in a given manner is a second best for targeting environmental services.

The second type of conclusion concerns the role of the EU, national and local governments, respectively. What do we want to be kept common in the agricultural policy and which is the domain of prerogative competence for Europe?

Table 6 on page 66 shows a very quickly done sketch, a classification of the rural public goods, following a similar approach by the OECD. We can range public goods vertically according to whether they are global or local, and at the same time we introduce a rivalry dimension. In the horizontal we have a range of public goods situations and cases – according to the degree of excludability – which may help define, in principle, an efficient policy competence. What should be devoted to the European supra-national level? Europe is in the first box on the diagonal, where you have global public goods or strong cross-border interactions and non-rival and non-excludable consumption. An obvious, well-known and, I believe, well-accepted example is climate change. Actually, it is not even a European but a world issue. Maybe one

day WTO will wake up and realise that there is something there that can no longer be ignored. But something that is closer to us might be, for example, biodiversity, at least in its dimension of option value, or of existence value. Does the post-industrial European society want to keep a satisfactory level of biodiversity and natural fauna and variety across Europe, or do we not care at all about what is going on regarding nature in various places in Europe?

Table 6 A focus on public goods

	Global/EU Non rival	Local Partly rival	Rival
Non Excludable	Climate change Biodiversity Europe	Landscapes Water quality	
Excludable with costs		Irrigation States, local government	Fishing resources
Easily Excludable			Food fiber Markets

User value of rural space or biodiversity is a different issue, because when a public good is local – or when it is possible to exclude consumers from access – then in accordance with the subsidiarity principle the role of local and national governments should be more important.

I place national and local government action in the boxes in the centre column.³ An example of this could be a public good such as water quantity for irrigation resources, since exclusion is possible and use is in part rival- as one person’s use may affect others’. Hence we can put it on the diagonal with local competence. In the box just above we put cases which motivate power sharing between the EU and lower levels of government. Water quality is a public good that is more “pure”, in a sense, than water quantity because it is not easily excludable; when quality is there for one person it is there for many. Natural landscapes could also be placed in the same box concerning some of their features. Finally, if you have a good that is not public, since it is rival in consumption and completely excludable, you should leave the market to play. The purpose of the exercise is to identify the relevant issues, put

³ This is of course a simplification but it helps to structure the thinking and it also serves as an illustration.

them in relation to the relevant competence (supranational, national, regional, local) and to classify them in such a framework.

As previously said, our proposals maintain a degree of supranational CAP. The assumption is that rural public goods exist or can be provided by agriculture under certain conditions. Some of them are global enough to justify spending from European funds. The challenge here is to avoid free-riding by Member States. I have mentioned biodiversity in rural areas as one example. Other environmental services are local enough to motivate both local decision-making and the financial participation of local authorities (rural amenities, for example around residential areas, would qualify for local competence).

But rules decided at the EU level can also help avoid or curtail political failure at local level. I want to emphasise this point also raised by some authors, because if you look at Table 5 you will find that Europe has captured a number of public goods that, in principle and on theoretical grounds, could instead be the prerogative of local competence. I will just exemplify with water pollution (at least some kinds of water pollution), a local issue where the EU has competence. Is this bad? Coming from Brittany, where there is a lot of pollution from intensive livestock breeding and where up to now the political system and the institutions have not been able to work properly, I think this is a good thing. In other words, there are some local public goods which will not be taken care of correctly because of political failures at local or national levels. Moreover, it seems to me that what the EU more generally requires from the new Member States – on issues such as local democracy, local institutions, and local corruption and so on – could be viewed as a matter for local preferences, so why should the EU worry about it? But apparently nobody questions this apparent paradox.

Third, look at animal welfare, clearly a domain where local preferences in the Member States vary significantly, but still the EU has taken up this subject. Interestingly enough, there is a paradox on this regard: I think there is a correlation between the countries that want to promote animal welfare (and I am very happy about it) and the ones who want to leave most of the policies – and the agricultural policies in particular – to the national and local levels!

Lastly, the lessons from fiscal federalism are very balanced and more subtle and complex than tax sharing.⁴ I have looked into this literature and I think we are a long way from the initial recommendation which said that you should leave it to the local governments to choose the local public goods to be procured and let labour migration solve the problem of differences between

⁴ For example, see Begg, Iain, “Fiscal Federalism, Subsidiarity and the EU Budget Review” (SIEPS report 2009:1; available at www.sieps.se).

local communities (so-called Thiebout's idea). I think nowadays the thinking has gone much further. If we take into account political failures and other issues there are additional layers of knowledge to be added that have qualified the message emanating from this literature. There are also the precedents of decision making at the EU level concerning public goods or ethical issues despite differences across Member States. Hence a full renationalisation of the public good part of the CAP, as envisaged by some players in the CAP reform, does not follow strict scientific evidence.

A final word – a message to those who just want to scrap the CAP altogether: you should not substitute doctrine for the current opportunism of the status quo supporters. Being French, I feel a bit critical regarding some of our positions in the CAP. The fiscal federalism literature has qualified conditions for success with subsidiarity and is nuanced concerning the virtues of renationalisation. Recall also that Europe is still very different from the typical federation system (the United States, for example). Only 2.5% of public expenditure in Europe is spent at the supra-national level, whereas in the US the proportions are completely different; and we should not forget this.

3.3 David Baldock

Which European Strategy for Environment and Agriculture?

Introduction and outline

I will in my presentation talk about a strategy for agriculture and environment and therefore hopefully not entirely repeat the ground which was covered in the last two presentations. But I thought I would start with a short summary of what are the agriculture and environment issues in Europe.

Agriculture and environment issues: a brief summary

Most of the agriculture and environment issues are obviously very straightforward. We have a long history of land management in Europe and there is a lot of agriculture that covers most of the space in rural areas, and interests with the functioning of natural systems. So there is a big environmental impact. Some of this is positive, and some of it is negative. Over time our knowledge of many of these factors has increased considerably but is incomplete. For example, when the EU Drinking Water Directive was agreed in Europe most people at that time did not realise that you would be able to detect pesticides at the level that we now can in drinking water. Governments probably would not have agreed the parameters for the drinking water directive if they had.

Similarly, we are at a relatively primitive stage in really understanding a lot of soil management issues in Europe. We are not paying as much attention to soil management as we have have paid, for example, to water management. There is a fairly uneven pattern, and I would very much agree with Louis-Pascal Mahé, that the distribution of issues addressed at the European level, or at the local level, is not necessarily what you would expect from fiscal federalism (or certain other theories either).

How does agriculture affect the environment? Clearly the character of the land matters, and the types of farming activity pursued matters, the intensity matters, and certainly a lot of other factors including structure, the presence or absence of historic elements in the landscape, how specialised the farm is, and so forth. In simple terms, we end up with a situation where some types of agriculture, particularly the less intensive ones, tend to deliver more of environmental benefits than others, whereas we can also see some benefits in more intensive systems – although often with higher opportunity costs.

Now, it has been suggested that people in some parts of Europe are more interested in certain elements of the agricultural environment than others. It is in fact quite difficult to judge this. One little piece of evidence is given in table 7 on page 70. This is a matrix of which priorities Member States have

Table 7 Agricultural and environmental priorities in selected Member States

Member State	Landscape & cultural heritage	Biodiversity	Water	Soils	Organic	Genetic diversity
Austria	✓	✓	✓		✓	✓
Belgium	✓	✓	✓			
Denmark	✓	✓	✓		✓	
Finland	✓	✓	✓		✓	
France		✓	✓		✓	
Germany						
Bavaria	✓	✓				
North Rhine-W.		✓	✓	✓	✓	
Saxony-Anhalt	✓	✓	✓	✓		
Baden Württemb.	✓	✓	✓	✓		
Greece		✓	✓		✓	✓
Ireland	✓	✓	✓		✓	✓
Italy		✓	✓	✓	✓	✓
Netherlands	✓	✓	✓			
Portugal	✓	✓	✓	✓		✓
Spain	✓	✓	✓	✓		✓
Sweden	✓	✓	✓		✓	
UK (England)	✓	✓	✓	✓	✓	✓
Czech Republic			✓	✓	✓	
Hungary				✓	✓	
Poland	✓	✓	✓	✓	✓	✓
Slovak Republic				✓	✓	✓
Slovenia	✓	✓			✓	

chosen in selecting their agri-environment policies within the Framework in place in Europe. This is not entirely representative of public opinion but it does lend some credence to the point that, if you look at the new Member States at the bottom of Table 7 on the previous page, they tend to put less effort and less money into landscape and biodiversity issues, for example which is not entirely surprising. Although I have to say I have been involved in setting up some agro-environmental schemes in a number of new Member States, and the younger generation of people who have been involved in this has always struck me as amazingly committed and determined to raise environmental standards to levels as high as anywhere else in Europe. I think this is quite a complicated situation.

Approaching the future

If we look into the future my first point is that the environmental agenda already seems quite big enough to some of you, but my proposition is that it is going to get bigger. This is partly because of issues that we perhaps have not yet fully explored – soil being one – and it is partly because of climate change. The point about climate change is not simply the impacts on agriculture or of climate change per se (which are important); it is not only the mitigation and adaptation efforts (in other words the policy response); but it is also the whole of the way that consumers and the market will respond to climate change. The response to climate change is probably even more important than the immediate impact of climate change for European agriculture. I think that is the key point to understand. Major retailers, for example, are starting to re-brand their products according to various measures of carbon efficiency, some of which might be quite irrational and peculiar but we are entering a world in which a carbon logic and a carbon budget will start to upset our assumptions about how the market works and how governments respond. Some governments, like Ireland's, have more than 20% of national emissions coming from agriculture and they are going to have to respond in a different way from countries with very much less agriculture. So climate is not just another issue, it is going to get into all the crevices and dimensions of agricultural policy and it is going to get into the global dynamics of agriculture as well.

The other very important environmental issue for Europe is biodiversity, where, for better or worse, there is a very large measure of European competence. Agriculture is a totally critical factor, not only because we do not have the kind of resources that the Americans do – i.e., a lot of wild land where biodiversity can thrive on its own; most of it is under some kind of management in Europe – but also because biodiversity management is heavily dependent on agricultural money, in particular in the new Member States.

The relationship between agricultural policy and biodiversity has already progressed further than it might appear.

These are the two critical environmental issues that we have need to address in a new agriculture policy. My point is that both agriculture and the environment increasingly inhabit the same world and therefore it is not a question of seeing them in totally different silos; they are going to overlap more and will in turn overlap with energy policy.

Elements of a new strategy

If we then look at the kind of issues we might need to address in a strategy for environment and agriculture at a European level, I suggest that we think about what sorts of interventions we might need if we look at these issues in a slightly different way from the now usual divisions into air and water quality, soil, landscape protection etc.

We start with pollution control. Agriculture is increasingly on the receiving end of the pollution control agenda, which has swept through the industrial sector. In Europe, we have actually made significant gains in the control of industrial emissions of air pollutants although certainly not of climate related emissions. Agriculture is now a rather important polluter of water in particular and there is a well-established set of objectives to reduce this. Most of the progress needed could be made through technical change and better farm management. This will be driven considerably by the implementation of regulations and of improved advice to farmers which implies that there is not very much need for incentives to the agricultural system. On the other hand, there will probably be a need for some incentives, particularly if we want to go faster and do more in poorer areas than what would be feasible otherwise.

Then we have what I call the challenge of improved resource management in the countryside. This is a much expanding agenda, in which we are going to need to take on board carbon management as a new dimension as well as the more established questions of water management, soil management and so forth. And climate is becoming a key driver of that debate. A significant implication of this, if we are looking ahead to the future, is that one cannot do this entirely at a farm level. It is not simply a matter of having individual contracts for individual farms to deliver specific outcomes. If we are going to have a coherent European strategy, particularly on carbon management, you are going to have to think of ways of addressing this at a landscape scale, at a national scale and to some degree at a European scale.

The carbon management equation clearly extends beyond Europe. It is going to creep into our relationships with our trading partners and there needs to be

some understanding of what the European position is; what are our expectations vis-à-vis other parts of the world? We are starting to make demands on them as to how they manage their resources and we can expect them reciprocally to have expectations of us in relation to biofuels for example. So there is going to be a new level of transparency and interaction, which we are not at all familiar with right now in terms of resource management issues.

This makes it more difficult to keep a policy divide between agriculture and forestry, which made a lot of sense in the old perspective of the CAP where there was a great deal of fear (not least in Sweden) of spending the EU budget to support forestry. This is not really the main point now. The question is how we are going to manage our land resources and how we are going to combine the kind of rather top-down requirement for the climate resource management agenda, with a sense of participation and stakeholder involvement. That also includes non-European stakeholders at a significant level. That is sort of a different agenda.

Then thirdly, we have a slightly simpler agenda, which is agriculture's contribution to renewable energy and raw materials. Here we have echoes of the past: traditionally agriculture did supply a lot of non-food raw materials, oats for horses and so forth. It is going to do so again and the question is on what scale and how. We do not really know at this stage exactly how far we are going to go down this route but it does require some strategic planning. This is where agriculture needs a CAP that is linked with energy policy. If you look at how the EU (or indeed US) targets have been made in this area, particularly for biofuels, it is not the product of the kind of analytical process that one would look for, and I think we are going to be going around this cycle several more times.

The incentives for farmers to supply renewable energy will to a great extent be coming from outside agriculture: they might be coming from the market and they might – and probably will – be coming from energy policy. The role for incentives under the CAP seems limited. However, there will be difficult questions of setting standards for new products and indeed managing trade relationships. We are already into an extraordinary discussion about how we are going to certify renewable biofuels imported into Europe (how are we going to take account of indirect land use change and so forth?). This is a new world in trade relationships and expectations of how we look at land use change in other parts of the world.

Then, fourthly we come to the more classical public goods objectives, the maintenance and enhancement of landscapes and biodiversity. This is not a new agenda but the point is that we are not meeting our objectives at

present. Next year it will be revealed that Europe will not be able to say that it has stopped the decline of biodiversity, which was the goal adopted in Gothenburg. Hence over time we will be looking at more specific and substantial forms of intervention to try to achieve these sorts of goals. In particular, they are going to involve trying to support the less intensive agricultural, especially pastoral systems associated with High Nature Value.

The public goods agenda has a particular bearing on the grazing livestock and parts of the permanent crop sectors. On the one hand, livestock farmers tend to be more heavily regulated by health and environment agencies, and, on the other hand, are the main source of public goods and biodiversity. So there is a lot of intervention effort focusing around the livestock sector and, to a lesser degree, on the permanent crop sector. Here my suggestion is that the requirement for incentives is likely to increase, a) because we are not delivering the required environmental outcomes at the moment, and b) because we are expecting higher commodity prices, more competition for land in future. We have already seen a very substantial increase in land prices in recent years in Europe, which puts up the opportunity costs of many forms of environmentally sensitive management.

Finally, and I say this with great trepidation, there is the much more elusive issue about the nature of European cultural – agriculture’s contribution to the cultural core – where the environment, the culture, and the social agendas overlap. This is very uncomfortable territory to deal with in policy terms. If you travel across the US, or look at satellite pictures, you see the particular way in which the landscape is managed. Then you look at a section of Europe and you can see a pretty big difference: there is something quite integral in our rural culture, about a certain scale of land use; a certain variety of cultivation and of field size. The size of holding represents more than just the production system in Europe. Indeed, when the scale of production has been increased greatly, as in parts of Slovakia, the sense of rural culture changes.

Exactly how do we determine what is the environmental and public good element? What is the social element? And what is the purely productive element to this aspect of European land use? I do not know. It is of course very easy for scale issues to be used as a cloak for highly protectionist thinking of a kind that many economics ministries would be appalled by but it is something that I think people in Europe genuinely care about. So there is some unpacking to do around this agenda, which I am not anticipating is going to be at all easy.

Implications for a future CAP

Where does this take us, going back to the CAP? First of all, I would not begin to argue that the environment is the only issue for the CAP. There are a great number of other concerns that need to be addressed. Food production does matter for a start and there are significant social issues which we have talked about relatively briefly. I would argue, though, that environment is going to be rather important in terms of where and how farming and land management in particular is supported in future – because it is central to the public goods debate; and it is central to the whole idea of targeted payments.

Here again we have a little way to go in developing and refining new policies. It is not so easy to say exactly how a new generation of more contractual, targeted arrangements within the CAP would operate. Maybe there are parts of Europe where one could say, “Well we are pretty happy with the way it is managed right now, we will give you some support for carrying on the way you are.” There are lots of other areas where it would be very difficult to say that, where we would want to see rather specific forms of management in place. How do we achieve this without too great a bureaucracy and without unacceptable transaction costs? I am not sure we are having enough discussion about this. I believe you have had some success in this area in Sweden and it is an interesting laboratory in some respects.

An effective system of targeting support will be an important means of meeting environmental objectives. However, this implies a redistribution of funding between farmers, regions and Member States that may not fit well with the present distribution of the CAP budget. Conflicts can be anticipated. How do we meet growing environmental ambitions within what everyone else has agreed is likely to be a reduced Community budget for agriculture? Part of the answer to that, is not to do away with the CAP. From my perspective there is a considerable need for ongoing investment in the European rural area and we will not address environmental issues unless we do that. It cannot be done simply by tinkering with existing mechanisms. We have to see a larger landscape, in which agricultural planning, management and interaction with environmental policy – and interaction with partners from the rest of the world – is a core element of what we are trying to do.

Finally, the Commission has a good reputation, for thinking ahead in agricultural policy. As everyone has said, we tend to move slowly, and there will always be transitions, so what the Commission needs to put forward next year has got to be a policy model which is going to work well beyond the transi-

tion period, say between 2015 and 2020. I think there are some honourable examples of when the Commission has tried to do that, moving quite a long way ahead of where the Member States have been. If the horses are to be brought to the place they need to be several years from now the policy needs to look well ahead, not just at the immediate challenge.

Some of this may seem a very long way from what people were talking about in the informal Council yesterday. However, I think the onus is on the Commission to be looking 10-15 years ahead and making some very difficult judgements about how they can anticipate what will be required and to get those elements into the CAP now, because they certainly may be diluted during quite a lengthy transitional arrangement.

3.4 Thierry de l'Escaille

A Renewed Ambition for a New CAP

Outline

What I would like to address this afternoon is the question of where are we going and what are our views. I will present ideas on the new goals of the CAP.

The new goals

Let us be very clear: the current CAP is not sustainable as it is and we need to refresh the message. We really need a positive message directed towards the civil society and to find agreement on its legitimacy. For this reason the ELO suggests a common policy that aims to achieve food and environmental security. I know that Ewa Rabinowicz would not agree with me, because she says that we have a surplus on food but a deficit on environment. However, we do not only consider the European situation, we consider the global picture. Remember what happened on our doorstep in 2007, more precisely in North Africa, e.g., in Egypt or Senegal, where there was anger due to the lack of food. Now you know what might happen in such situations, namely that they will export their populations into the European Union. Hence we believe that it is legitimate to speak about food security while at the same time taking the global picture into consideration.

We also maintain that if farming and green interests are incompatible, neither of the two interests will make the case by themselves. It is quite clear that we have to work together. It is impossible to continue to be in a situation of war like we were 15 years ago. We have the advantage; we have common goals; and we are managing the environment together – or at least we have the ambition to deliver public goods to society.

Furthermore, the food and environmental security objective can embrace both the still relevant Treaty justifications for the CAP, aspects of sustainable development that relate to land management, and the Lisbon competitiveness objective. We would be able to spell out specific objectives from this.

Making the big-picture case for the new CAP

Concerning the big picture on the worldwide level, we see that the global food and environmental challenges are interacting and that they are added challenges posed by climate change. Europe is able to contribute. We have historical, cultural, scientific, economic and political track records. We are able as Europeans to contribute to food and environment and we are able to offer a supra-national approach. We do have the experience of doing this

and even though we do not have the same federal system as they have in the US, we are certainly able to pursue a co-ordinated approach. So the legal and institutional precedents, the trans-boundary nature of the challenge, the overlapping between food and environment, and the single market all explain why the US and the EU bring added value to this topic.

Seven concerns regarding current policy

The ELO have seven concerns with the current policy:

1. the non-legitimacy of the Single Payment System;
2. the dependence of farming on the Single Payment;
3. the unfairness of the support distribution to the new Member States;
4. agricultural development needs (where there are still agricultural development needs, very clearly pointed out by Csaba Csáki);
5. the delivery of required public environmental services and standards;
6. the fate of the agriculturally Less Favoured Areas – High Nature/Landscape Value farming;
7. the need for the economic diversification of rural areas.

If in the debate we could manage to agree on the priorities in these seven questions it would help push the reform process forward.

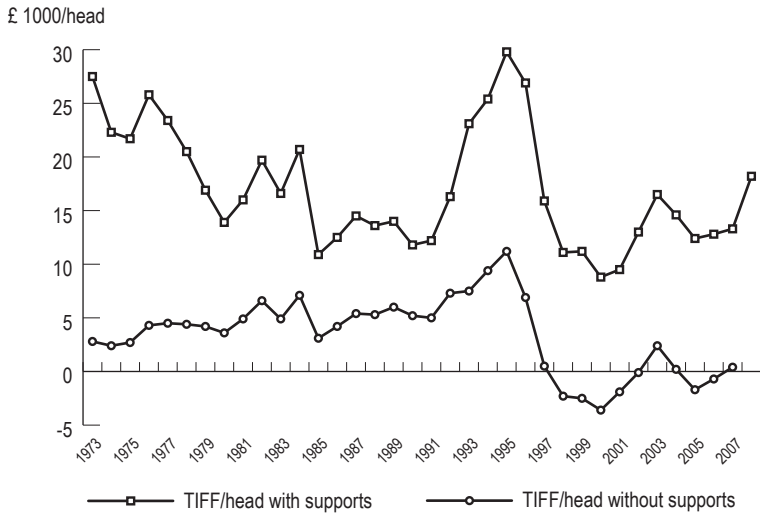
Deep criticisms of the Single Payment System

First of all, we share the critique of the SPS. The origin of the quantum and the distribution of the SPS lie of course in the commodity support system and its replacements. It is really the gene of the disease itself. It is not defensible when the more the time evolves and EU farming, as it is currently structured, is heavily dependent on the SPS. Thus its removal would have a massive, and I suppose not yet estimated impact on farm structures. Significant changes in the SPS therefore have to be carefully announced well ahead of their introduction and then phased-in over a transition period.

Figure 17 on the next page shows the farm income in the UK from 1973 up to now. The lower line shows income without support and the upper line shows income with support. If you look at the level of income without support you see that it is really a disaster. We have to address this problem.

Even worse, if you look at farm production type then for the same country in 2007–2008 you see in the first column in Table 8 on page 80 the farm business income of £55,100/farm and single payment of about £22,000, which represents about 40%. Then you have the environmental payments of 6%, which means that the total public payments for that speculation represent 47% of the income. It is even worse if we go to livestock in less favoured ar-

Figure 17 Total income from farming per FTE, with and without support payments, (real £ in 2008)



Source: Defra Statistics

cas, where it represents about 244% of the income. So we have a problem in agriculture; we have a problem with the safety net and I am deeply convinced that this must be addressed.

Justifications offered for the Single Payments

The justification offered for the Single Payments is to stabilise incomes. They offer compensation for the higher EU standards with respect to cross-compliance, provide public goods (perhaps this is less true since public goods are for the future and not for the past) and contribute to food security. Even though there is some truth in all of those factors, it is very difficult to explain the quantum and the distribution across farms, regions and Member States.

Figure 18 on page 81 shows the average direct payment per Member State (in Euros per hectare). There is a huge difference if you compare the country that receives the least per hectare (Latvia) with the country that receives the most (Greece). There are of course historical reasons for this discrepancy. However we have a problem and we will have to negotiate this problem reasonably with the new Member States.

The second problem with the average direct payment is shown in Figure 19

Table 8 Dependence on CAP support,
farm level data, England 2007/2008

Type	Sample size	Average area Ha	Farm	Single		Environment		Total public
			business income £/farm	payment £/farm	%	payments £/farm	%	payments £/farm
Dairy	296	117	55,100	22,075	40	3,569	6	25,644
Grazing livestock LFA	248	129	10,400	16,164	155	9,213	89	25,399
Grazing live- stock lowland	241	94	12,400	16,053	129	4,239	34	20,292
Cereals	356	205	73,400	37,104	51	8,260	11	45,364
General cropping	195	220	81,000	37,588	46	8,243	10	45,831
Specialist pigs	59	39	6,300	4,942	78	937	15	5,879
Specialist poultry	69	25	139,200	3,875	3	934	1	4,809
Mixed	169	151	37,300	27,666	74	6,058	16	33,724
Horticulture	213	30	51,800	2,043	4	1,261	2	3,304
All types	1826	140	48,100	23,916	50	5,859	12	29,775

Source: Defra Statistics

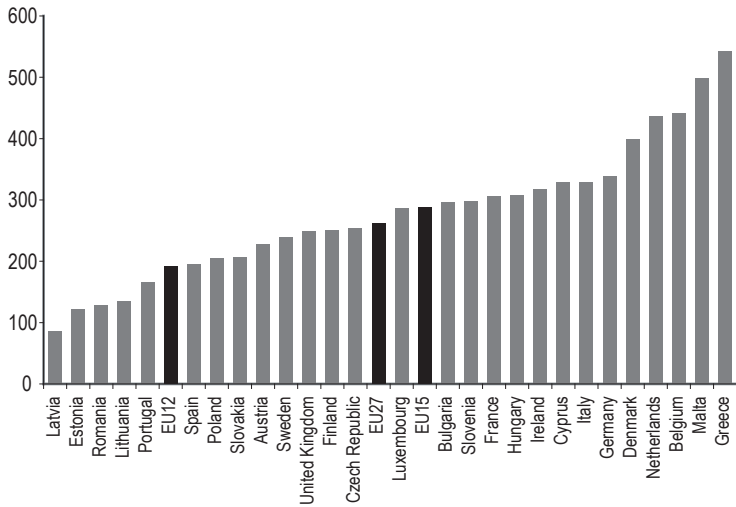
on page 81, where we see the payment per beneficiary; it is due to the structure of the farm. But we also see that even if it does not represent very much money, it represents an important income in some countries.

Agricultural development needs

We need to face the facts of agricultural development. We need to provide money for the restructuring of farming, development of knowledge and skills and for the management of volatility. There is still a need to develop infrastructure and we also need to make efforts on marketing. However, there are particular demands in the new Member States.

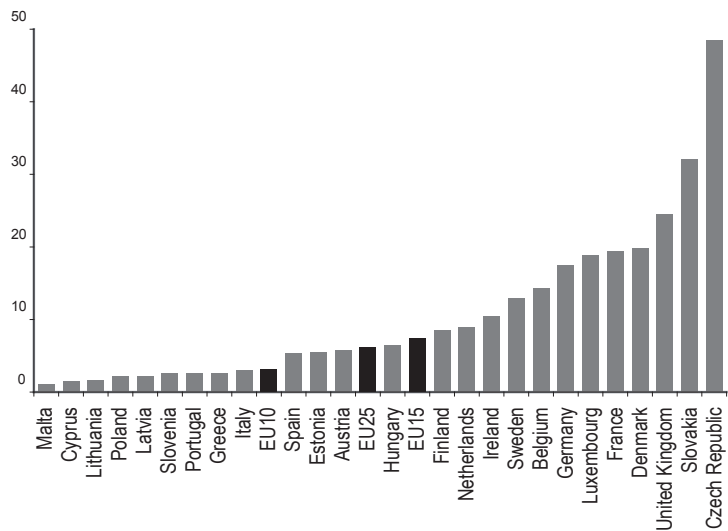
There is also a requirement for public environmental services and standards for land management. I agree with David Baldock when he says that cross-

Figure 18 Average direct payment per Member State (in € per hectare)



Source: DG Agri calculations

Figure 19 Average direct payment per Member State (in €1000 per beneficiary)



Source: DG Agri calculations

compliance is insufficient. It is a really good move to have cross-compliance but we have to go a step further. We have to address water and air quality and soil.

I would like to mention that, as vice president of one of the commissions, I was very surprised during the discussion in the soil process, to meet many scientists, greens and people from civil society saying that “You, the farmers, land managers and foresters destroy the soil, kill insects and bacteria by propping the lands.” So we have a communication problem too which we have to address.

The future of the CAP

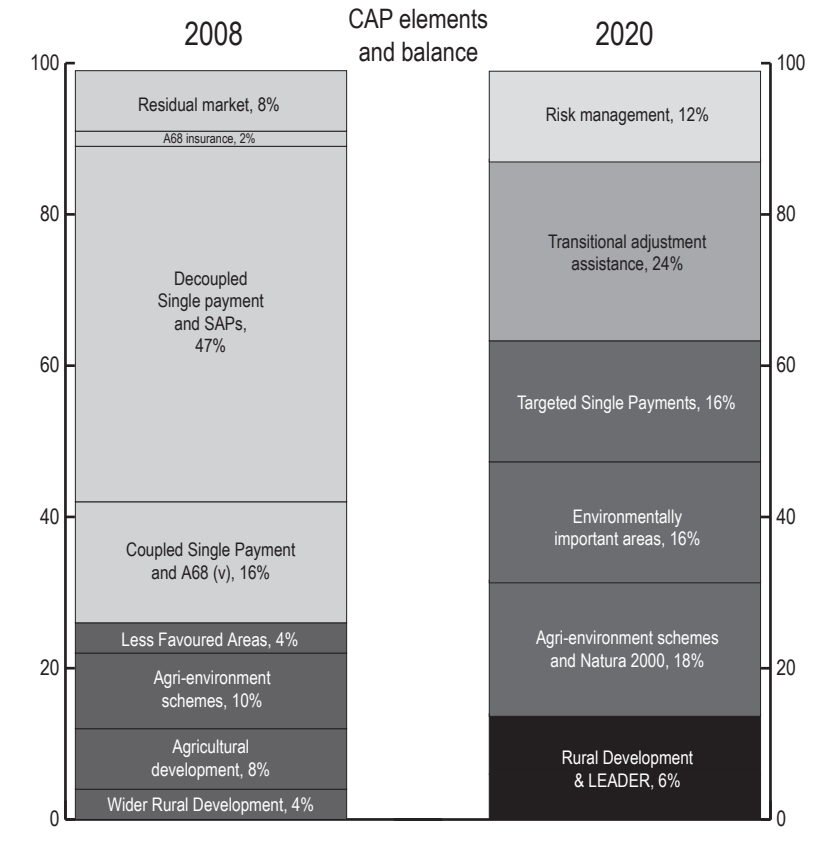
How can we restructure the CAP? Figure 20 on the next page is the crystal ball I offer you, where the left column depicts the current situation and the right column what it might be if we address the right issues.

We do believe that the need to manage risk persists and we reserve 12% of the available budgetary means for this purpose. We also believe that the Single Payment Scheme has to disappear but that we need transitional support – so you go from the decoupled Single Payments to transitional assistance. We have some coupled single payments in Article 68, which we would like to see moved into the targeted single payments where they will support less favoured areas. Here we propose an increase in the share of the budget to 16%. The same applies to green environmental schemes, because they are crucial and have a real impact. We need to maintain support for agricultural development and there is of course a serious need to recognise the merits of – and hence keep – LEADER.

Main messages in a restructured CAP

We need to keep the risk management and safety-net tools. We have to transform these decoupled payments into transitional adjustment assistance (perhaps in the form of Basic Husbandry Payment as proposed by Mahé and Bureau). Moreover, we have to increase the resources for European public goods and think very strongly about ecosystem services. As you know, there are a lot of studies provided by the European environment allegiance on ecosystem services and to my surprise ecosystem services might not always be so favourable for biodiversity even if it mitigates climate change. We have to target specific actions, such as high nature value farming and agro-environment, which probably come very close to the Green Points Payments. We have to take care of wider rural development.

Figure 20 Restructuring the CAP (notional shares)



The principal obstacles

The principal obstacles to such changes are today a) the lack of agreement on the objectives of the CAP and b) the Member States' obsession with budgetary gains and losses. Indeed, the existing net balance distribution is a problem. There is an ongoing discussion about the respective shares of Pillar I and Pillar II, in particular about co-financing. Any new financing will fail to get round the obstacle of additional co-financing. If co-financing creates such problems, then why not drop it? We have to move and cannot afford to get bogged down in these endless budget discussions.

The CAP reform debate to date

The reform debate to date suggests that there might be three fates for the Single Payment Scheme:

1. cuts;
2. redistribution between Member States as a matter of fairness; and
3. a transformation of purpose into payments targeted on public goods.

The status quo is that it will be dealt with in this order. However, policy logic says we should first transform and discuss the purpose – obviously a different purpose implies a different distribution – then consider the distribution and examine what space there is for cuts.

Why European policy and budget?

I would like to advocate a European policy and a European budget, because there is an interaction between farming and public goods; between actors, production and practices. It is clear that we must start EU programmes and schemes so as to avoid unfair competition in the Single Market.

Nature is by its essence trans-boundary in nature in that it does not stop at your doorstep, so you have to deal with the issue at EU level. Natura 2000 is a very good example: the legislation would be nonsense if it were limited to one EU country alone. There are still links to the EU's policy objectives – on environment and the CAP – and we need cohesion between the EU Member States. But a problem difficult to solve remains. How do we determine the reference level and how might it change?

Concluding remarks

In conclusion, 2010 will be the year when it is time to justify the EU policy and budget for the rural world – and to present the policy and its budget to the public at large. Our suggestion is a positive rallying cry for food and environmental security. There is no change in either “Common” or “Policy”; but we broaden “agriculture” to include “food and environmental security”.

Second, the political target should be the non-rural world, that is to say, those who in fact are paying for the policy (and we also have to persuade the farmers to acknowledge this). But do not begin with the details of the pillars, their financing and legislative basis. The details are quite important but first we must focus on the objectives and the scale of the problems.

3.5 Tassos Haniotis

The CAP Post-2013: Context and Perspectives

Introduction and outline

What I will try to manage to do in a very brief time is to scratch the surface of a series of issues that we are looking at when preparing the future, briefly covering issues related to the CAP today and the CAP beyond 2013.

The CAP today

First of all the CAP is a substantially reformed policy. The initials are the same but starting with 1992 we have, in a sense, a new CAP. Gradually the policy has come to be composed of three elements.

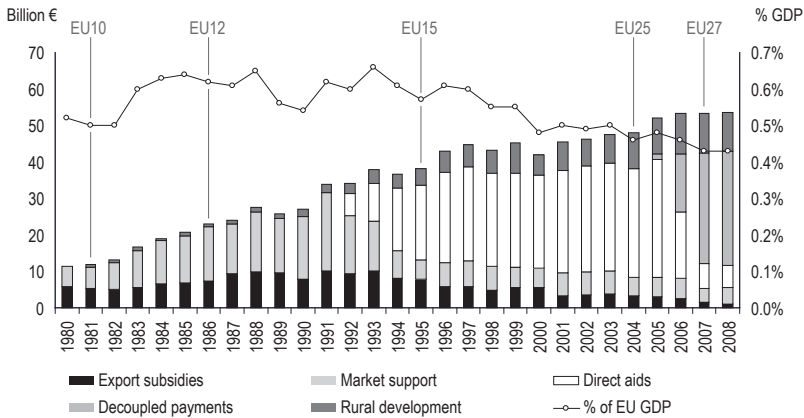
1. Farm support, which is mainly decoupled and represents 90% of all direct payments and almost 75–80% of the budget.
2. The role of market intervention mechanisms has been significantly reduced, and this is extremely important for the future if we still want to focus on what we will do with food security issues.
3. Rural Development policy is strengthened with funds and policy instruments. I stress mainly the policy instruments because we keep talking about what else we need to do in terms of new challenges. And you know we went into a very extensive screening of what policy instruments we have, and basically we have not found anything that we need more. Perhaps we need funds and a better strategy in terms of Member State implementation, but the tools are there.

I always debate with myself whether or not I should use the graph in Figure 21 on the next page and there is always something that will make me not regret including it. You have seen it in various versions. The two series of bars at the bottom show the evolution of the market policies: export subsidies and market measures. The white bars show the direct payments after the MacSharry reform and the bars on top of that, beginning in 2005, show the introduction of decoupled direct payments.

Now let us put things into perspective. In less than five years we have moved from zero decoupling to 90% decoupled support. In the context of 27 Member States I believe this is something important and it is a step that had the following three objectives:

1. Further market orientation, compared to the previous reform, when payments were still linked to area or to products;
2. WTO compatibility (interestingly enough, the delays in the WTO talks are for the first time not related to EU agriculture, and this has something to do with our shift on domestic support).

Figure 21 CAP expenditure and CAP reform path



3. Simplification: here clearly we can do much more, even though we have already done a lot.

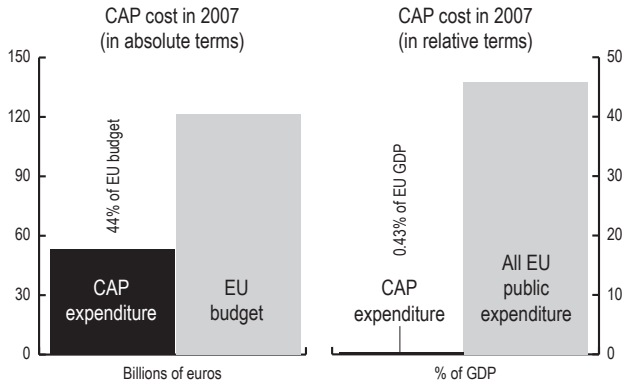
These were the three objectives of the 2003 reform. Clearly there are things that we have to do post-2013 but we have to define them in the current context and not in the context of the past.

On top of that you have all the rural development measures, which have been increasing relative to direct payments and market related expenditure, while at the same time the CAP budget has been declining as a share of the EU GDP and of the overall EU budget. This does not mean that we do not spend much, or little. In fact, what we spend – which is going to be the big debate about the future of the CAP – can be seen in two different ways.

As shown in Figure 22 on the next page, the CAP was still 44% of the EU budget in 2007, but was 0.43% of the EU GDP. This is why one cannot talk about a Common Agricultural Policy in abstraction of the C (of common) in the policy. If we remove this 0.43% of GDP from the policy, what total amounts of money are going to be spent in the sector? The reality will probably be that this 0.43% will be replaced by national budgetary contributions – what will happen if there is a very different redistribution among Member States?

When the Heads of State in their wisdom decide how much we will have to spend on agriculture, the new budget is going to act as a constraint. Based on

Figure 22 CAP expenditure and CAP reform path



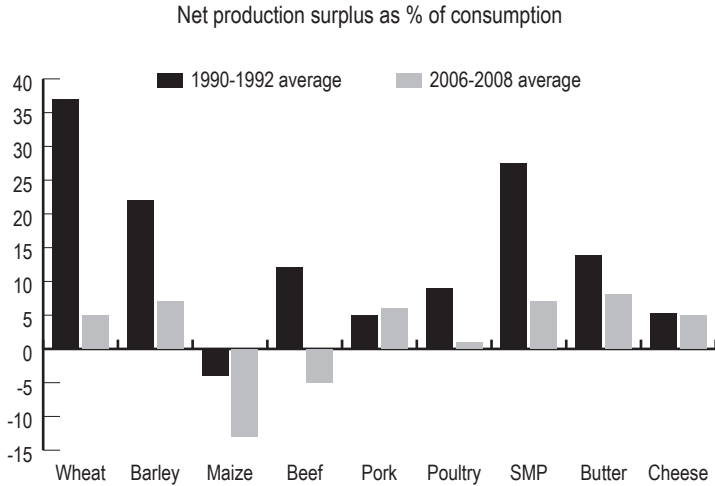
this constraint you still have to face the same problem that we have faced before. You have to optimise your existing policy instruments and you start with the knowledge that it is, today, a better performing policy in three specific areas (even though there is still a lot of room for improvement):

1. market balance and competitiveness;
2. income support, which is more direct and effective but it is not perfect, because I purposely left aside the efficiency aspect, that is where we need to work. However, when you have one euro and you put it directly into the farmer's pocket it is always much more effective than giving it indirectly through export subsidies, stock inventory or even insurance schemes;
3. more value for money for consistency and coherence – and I will come back to this point later on.

Starting first of all with the issue that Louis-Pascal Mahé raised about incremental changes on the market measures, Figure 23 on the next page shows that these changes are not incremental by any means.

On the left you see the 1992 average of the net production surplus in the EU as a percentage of consumption. It clearly shows the excess production capacity we had before the reform and the capacity we have today. Concerning maize, the figure in this graph is a bit deceiving – because 2007 was a drought year – so although we have more imports of maize it is not as much as shown in the graph. But in every other sector our excess production has come down significantly – with two exceptions: pork and cheese. We neither support nor

Figure 23 Impact of CAP reforms on EU net production surplus



subsidise pork, because we are more competitive, and most of what is going out with respect to cheese is also not subsidised.

I noticed this morning that the introduction in the invitation mentions that we need to produce more to feed the world. I am not sure, because I think that the world demand for food has been overblown. If you look at the rates of growth of demand per capita, it is not going up (with the exception of what happened recently in ethanol). There are challenges on the supply side, but even if we accept that in the EU we have to produce more, we have to ask ourselves what is the mechanism that would allow us to do so without going back to where we were in the past? Because if we have moved away from the previous type of policies how are we going to target specific products to achieve this?

The CAP post-2013

I will now look at what is going to be happening post-2013 in the general context. First, I will focus on the volatility in production and prices at the world level, the economic crisis, and the debate on food security, climate change and limited resources. Here I will stress only two things: first of all, every time in the past when we had a major agricultural commodity price spike it was driven by major supply shocks – not demand shocks (demand does not

change overnight). This is what we experienced this summer and we did so in a peculiar way. In Australia there have been three droughts on wheat in six years and there was a very significant impact of a drought in New Zealand on the dairy market. This is why the dairy prices both went through the roof and collapsed before all the other prices. We also had droughts in other parts of the world, which to a great extent explains what happened in late 2006 and in the beginning of 2007. We also have an increase in the demand for ethanol from corn in the United States with a very significant supply response in corn. The world production has moved from 700 million to 800 million tons in just five years and the rapid growth of demand has had an impact.

What is happening now and what happened between February 2007 and August 2008 has nothing to do with the fundamentals of agriculture. What is it driven by? This was the third major commodity bubble since the Second World War and it is the only time that we have had a commodity bubble at the same time in agriculture, energy and metals. The fact that it has never happened before shows that there is a link to the side-effects of the financial crisis and the housing bubble.

So when we talk about what will happen in the future we need to be able to distinguish the part that is driven by agricultural fundamentals. If we really face a very strong demand for food in the world that will drive agriculture (if you want the majority's views right now), then we do not need to care about policy in the long term. The reason is that the prices will lead us to where we need to go. The only thing we need to care about is the kind of intensity our production will have, since people are going to provide corresponding input, as you can imagine.

If, on the other hand, the challenges that we face are mainly driven by supply-constraints, where some of them are linked to climate change and others are linked to other types – e.g., a slow-down of growth due to a slow-down of research or a slow adaptation to new technologies in Europe and the rest of the World – then the type of policy instruments that you are going to devise are (and have to be) very different; and the focus too has to be different. So we are talking about a completely different debate.

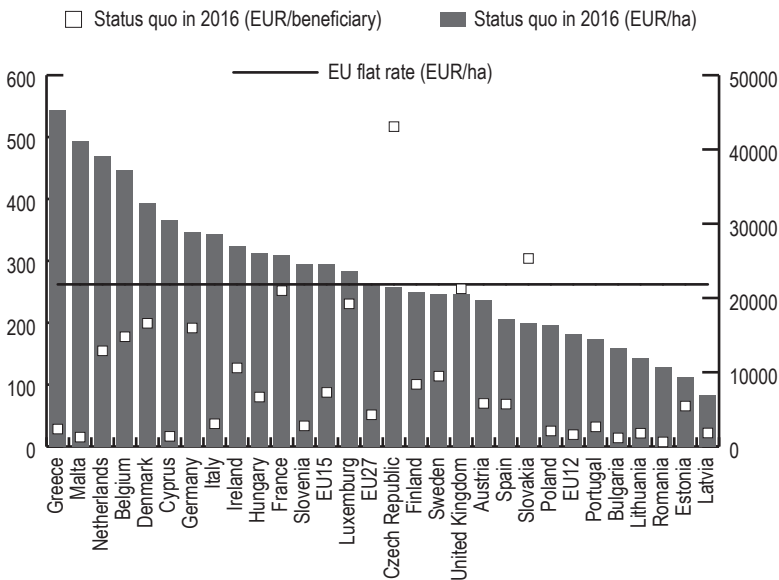
The second part of the general context is the institutional context: the new European Parliament, the new European Commission and the Lisbon Treaty. What does the new Treaty imply for us? Because of the co-decision procedure that will be introduced in agriculture with the Lisbon Treaty, you might make a proposal when prices go through the roof and you might get it passed between Council and Parliament when prices are below the floor. There is no impact on the market instruments (we do not have that many) but there

is a huge impact on the debate about income support and the new Financial Perspectives.

Now, concerning the first question in the debate on the “C” and the “P” in the Common Agricultural Policy: do we need a common policy and do we need an agricultural policy? I assume that the great majority of Member States will say, and have said, “Yes, we need it”. So what does this mean from a practical point of view? If you are a Commission official you start from that and go further. What is going to be the debate on direct payments?

You see in Figure 24 the implications of the debate on the flat rate: there are going to be many losers on the left side and many winners on the right side. Most of the losers are the old Member States and, conversely, most of the winners are among the new Member States. The dots in the graph show the level per beneficiary.

Figure 24 Average payments



What is the importance of this debate? Let us clarify a couple of things, because “flat” sounds politically correct and simple. When you look at policy instruments as a percentage of GDP – which reflects more or less the economic situation of the Member States – market measures and direct payments as a share of GDP are roughly similar in the old and in the new Member States.

In the new Member States rural development measures are four times higher than in the old ones and the Structural Funds are seven times higher in the old ones. The first important element is that this is the correct kind of policy, because they need more structural adjustment; but we have to put in context the discussion about unfairness. I do not believe that we can, or should, avoid a discussion about equal levels of support, because part of what we have in the old Member States is historically linked and will run its course.

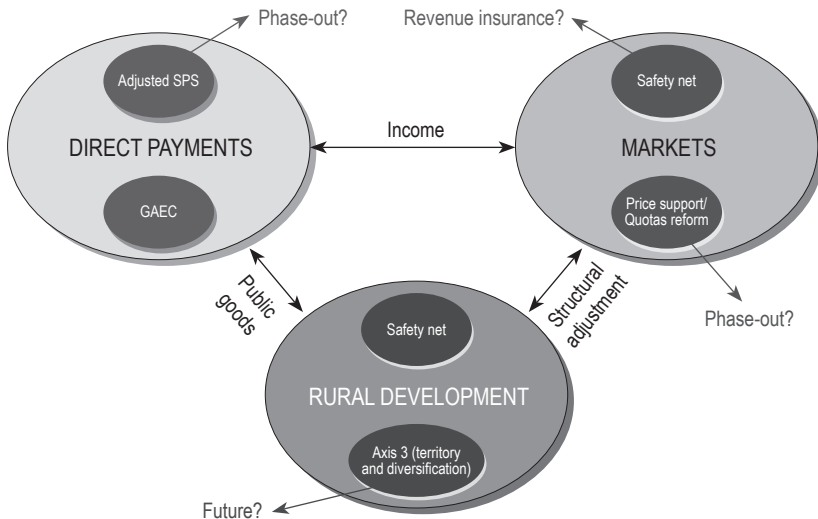
However, there are three different potential impacts among Member States that we need to look at. One concerns the impact on land prices. Not everything has been capitalised in the same way. In the old Member States that chose the historical model, where they left a lot of land free (“naked”, in our jargon), they did not activate every single hectare of entitlement. Here we did not have any capitalisation of payments. In the Member States that chose the regional model, however, we did have capitalisation. Sweden is an example of this, because all land was brought in. In the new Member States, where you move from no support to support, we figure that we are going to experience capitalisation. If you change the level of support, the first impact will be on land prices. Everybody accepts that this will have a huge impact and that you need a long transition period.

Greece is one example of a country that is going to lose a lot from any redistribution. If you look at the characteristics of this country, which has a low per beneficiary level, it is clear that there will be a long-term impact on production structures. There will for example be less cotton. However, Denmark and the Netherlands have the highest debt to asset ratio in the European Union (50% for Denmark and 43% for the Netherlands) and they will also be affected. What does this imply? It implies that there is a need for a long transition, because this is “good” debt (mainly for investment) and they are the most competitive Member States. Their debt allows farms to be competitive and make structural adjustments. So the conclusion is that, whatever you do, you need a transition.

The second question – and that is a big debate – do you, or do you not need income support? Figure 25 on the next page depicts our policy areas, though they are not drawn here in terms of their respective shares of the EU budget, it should be pointed out. You have on the left the Single Payment Scheme.⁵ Then you have the markets and rural development. There are some overlapping aspects: income affects both direct payments and markets; the public goods

⁵ The reason I have put in good agricultural and environmental conditions, GAEC, is because the law is the law. We have never said that we would pay for the law implementation; the only thing we have said is that we will cut the payments if the law is not applied, while good agricultural and environmental conditions are for Member States to adjust.

Figure 25 In a nutshell, CAP policy questions...



debate affects direct payments and rural development; and structural adjustment is driven mainly by the market changes that you make and also has an impact on rural development.

The big policy debate is going to be about why you need direct support. If we accept that there is no reason for income support whatsoever at any level, then you accept a long transition and you arrive at providing payments only for the public goods (and forget the level; it is going to be low). So you can ask yourself, “Do we need to keep a direct payment policy area and access to any rural development?” You merge them, because essentially you are paying for the same public goods. If, on the other hand, you do accept that after redistribution, there is still a need for some basic income support. Why? Because the economic crisis and the commodity bubbles have, among other things, vindicated that it is not only the output prices of agricultural products that have moved up, but input prices as well. Sometimes there are additional aspects and you get an income squeeze on both sides.

There is logic in keeping a direct payment adjusted – you do not know whether it is going to build a way to a flat rate or some type of reallocation – and there is an argument that says that you need it both for a basic income and a basic public good. Then the debate is about a completely different concept, because there are those who would say, “But if you measure basic income,

you should look at the overall income level in a region or in the country itself". This applies for the basic public good, which is not exactly the same in every part of the European Union. (This might come close to the Basic Husbandry Payments, as Louis-Pascal Mahé has baptised them, but you can find another name for it.) This concept is part of our thinking. There is also of course much discussion going on about how much we are going to put on the environment.

Now, the other issue is the revenue insurance for alternatives to a safety-net. If you want to produce more, are you going to let the markets give you the signal or not? What will you do with price variability? If you stay where you are, at the level of your supported prices, you are not going to drive anything but price collapse. But if energy costs have gone up you will have to see how the prices will come up to the previous level, unless the dollar collapses completely, because we are close to the intervention level in some countries in wheat because of that.

As soon as you go into another type of policy scheme, what is it going to be? Counter-cyclical payments, for example: we do not want to talk about them in Europe, which is good in my view, but even if we did want to talk about them they are not an option since we have a fixed budget. So do you provide some sort of insurance scheme for income? Well, first of all, if you give one euro to a farmer from the decoupled support it goes into the farmer's pocket. On the other hand if you have one euro and put it in an insurance scheme, about 40–50% of it will go to insurance companies and administrative costs. Secondly, what is it that you actually want to insure: income or revenue? Revenue is price times quantity and this is the easiest thing for us to control in agricultural policy, because we know these data. Yet if energy and input costs have gone up you need to look at the cost structure as well; and you need to look at income. This, on the other hand, is something that we will not be very comfortable with, because we do not have all the details. So those are our concerns when we are thinking about the future.

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