



**EU 27:  
HOW TO COPE WITH THE NEW CHALLENGES OF  
AGRICULTURE AND RURAL DEVELOPMENT?**

**Background paper and Postface of the  
European symposium  
Prague  
29 October 2008**

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**With the support of  
The EU Delegation in Czech Republic  
And the French Embassy in Czech Republic**

The Common Agricultural Policy, which was built in a European Community of 6 member states, has been reformed several times. It is now approaching an historical turning point. From an internal point of view it is confronted with the past and present heterogeneity of member states' backgrounds; with the changing expectations of Europeans concerning food, the countryside and the environment; and with a demand for competitiveness from economic actors. From an external viewpoint, agricultural and rural Europe will also have to meet several challenges - such as the increasing demand for food and non-food products.

A budgetary and political trade-off will be necessary between these sometimes contradictory demands. But before such an exercise it will be necessary to clarify our positions on our model of agriculture and food, on the importance of territorial cohesion and on the role agriculture will play in it.

## BACKGROUND PAPER

(Notre Europe)

*The seminar entitled "How should the EU 27 face the new challenges of agriculture and rural development?" is an invitation to dialogue addressed to actors from EU member states with richly varying points of view, in advance of negotiations scheduled by the EU agenda. We ask them to share their vision for agriculture and the countryside in the light of the two guiding principles of the new CAP: the competitiveness of European agriculture, and territorial cohesion.*

*Since the exchange must be limited to a day, we have decided to focus the debate on questions which might highlight the richness and variety of the positions likely to influence the formulation of a new common project for agriculture and the countryside. Considering that the question of the environment – essential for agriculture – is more urgent than a simple political choice, and that the CAP must promote sustainable practices, we would like this subject to be addressed transversally.*

### **First round table discussion: What are Europeans' ambitions for their agriculture?**

The sector contributes only 2.5% of the EU's GDP but it employs around 15 770 000 people. Agriculture, one of the main economic activities in rural areas (80% of European territory is either rural or intermediate), fulfils essential roles related to the stability and sustainable development of societies. Several major changes have modified and continue to modify the parameters of farming since the end of the 1990s. It is necessary to take stock of these in order to sketch the outlines of European agriculture after 2013. The following is a summary of the principal changes to consider before determining the future objectives of the CAP.

**The issue of production in European agriculture.** Demographic studies generally suggest that in 2050 the world population will reach 9 billion. Even at the current population, rising incomes and changing consumption patterns in emerging economies are already causing increasing demand for meat and dairy products. At the same time bio-fuels are generating new demand for land, used for producing energy. These three deep trends create market prospects for Europeans, to the extent that all arable land will need to be used if long-term agricultural demand is to be met. This development is a new phenomenon and helpful for medium-term farm prices, but is it reliable enough to be a source of long-lasting lessons for the future CAP? Recent downturns in certain crops (for example wheat) European seminar on the occasion of the French and Czech EU presidencies are a reminder of price instabilities in these markets, and the CAP's history shows that not every instance of market instability in agriculture can be redressed without a damaging succession of overproduction and shortage. Promising future perspectives are insufficient to guarantee stability in agricultural markets and should not encourage abolishing the EU's capacity to intervene in agriculture, (i.e. weakest safety net used to cope with the risks of the business (climate, pandemics etc)). Europeans will need to decide whether to retain or propose new marketregulating instruments which can be mobilised during crises. They will also have the responsibility of promoting the competitiveness of farms in a context of opening to world trade. These instruments will need to remain compatible with trade rules defined multilaterally or, if the Doha negotiations fail, with bilateral trade agreements.

**Respond openly and with a limited budget to the demands of society, which are a new factor in European agriculture.** Affected by the public health crises of the 1990s and environmental scandals (for instance, nitrate pollution), European citizens wish the CAP to combine **security of food supply with protection of the environment and biodiversity** - i.e., water quality, protection of natural habitats. In order not to further undermine the trust of consumers with regard to the system of production favoured by the EU, it will be necessary to give serious consideration to

animal welfare, the quality and diversity of products, organic modes of production, and ethical concerns. It is essential to take into account these exigencies at a time when consumers no longer have direct relationships with producers and when trust can dissipate at the slightest rumour of a food safety risk. In the context of an open economy, economic actors are concerned about the competition from non-EU farmers who are not subject to European regulation (for example, limitations on fertilisers and pesticides, a moratorium on GMOs, eco-conditionality, etc). The CAP reform should place agricultural policy in coherence with the EU's other policies. Several important contradictions between the CAP and other EU policies must be brought up. A few may be cited. Firstly, the specificity of the farming model, which encourages differentiated niche products such as geographic and traditional appellations, may be endangered by health imperatives – toughening of rules and harmonisation of production processes – or by the demand for competitiveness (harmonisation of labelling to increase the usefulness of information on brands). The discussion must deal with this singularity of the farming and food model to which Europeans are attached. Agricultural policy must furthermore **be brought into line with competition policy**. Currently, production cartels and barriers to market entry are encouraged where production has high added value, of the appellations d'origine type. Other measures attack any instance of production cartels aiming to limit heavy price falls in periods of crisis. Finally, the future CAP reform must take care to **avoid instances of incoherence in relation to cohesion policy**, which is now the most important of the EU's policies. In the case of a CAP reform, there is a strong probability that the farming sector, once it is exposed to market forces, will become contradictory to the objectives of cohesion policy. The phenomenon whereby industries and holdings are concentrated is encouraged by the search for productivity gains and by competition. In practice this means relocation of production, which will no longer be widely spread but instead concentrated in a few areas (for example, sugar).

### **Second round table: What will be the future role of rural areas in Europe?**

The extent of modernisation in agriculture, economic wealth, geographical location and time spent as part of the EU explain the great diversity of European rural areas. This variety is a benefit, since “rurality” is increasingly perceived as an asset. Rural areas must however face important upheavals, which are to some extent due to internal factors and partly due to external constraints or opportunities, in particular agricultural.

Regions that are predominantly rural are of particular importance from a territorial point of view: they cover more than half of the European territory, and are home to close to 20% of the population. Nonetheless, their importance varies considerably amongst member states in terms of population density: Belgium, Malta and the Netherlands are at one extreme, Ireland, Finland and Slovenia at the other.

Following the enlargements of 2004 and 2007, the differences in GDP per capita between the 10% of the poorest of regions and the 10% of the richest of regions have risen from “1 to 3” to “1 to 5”. However, it is between rural regions that differences in GDP per capita are the highest. These economic disparities reflect diverging realities and different recent trends. Nevertheless, each rural territory share the challenge of interdependence relation with the cities and the difficulty of being integrated into the regional development strategies.

Nowadays, the functions of rural areas are changing. Rural space is being used for a growing number of purposes and the stakes which it represents are increasingly diverse. These changes vary greatly between Member States of the European Union but they can also characterise some of the wide geographical areas or some types of zones.

Demographic revival has been observed in some rural areas since the 1990s. This is particularly true in Western Europe. The characteristics of the population of these areas are changing.

Generally speaking, these populations are becoming younger, the share of employed population is rising, there is greater mobility, there are stronger ties with surrounding cities and expectations are higher in terms of services.

In Central and Eastern Europe, the number of people living in the rural areas is still high. These populations face challenges that their neighbours have already had to deal with: out-migration and the need to diversify activities from agriculture (tourism, craft...) in order to provide new opportunities for the rural population. The modernisation of agriculture is a pending issue. Although the average number of jobs provided by the agricultural sector over the EU 25 has declined in the past five years (from 5.7% to 4.9%), it is still high in a few individual member states (32% in Romania, over 17% in Poland, 14 % in Latvia and Lithuania approximately 12% in Greece and Portugal). According to the European Commission's forecasts, by 2014, 5 million farm jobs will be lost, adding to the 5 million jobs lost due to hidden unemployment. The share of European funds allocated to the diversification of agricultural activities in the new Member States is usually considerable, and widening the provision of rural services is a major issue (drinking water, sewage, waste management, electricity, etc.)

From an economic perspective, rural regions should not systematically be considered as declining regions. Although only 23% of predominantly rural regions have a GDP per capita above the European average, 43% of these regions have seen their GDP per capita increase more than the average between 1995 and 2004.

Land use changes in ways that varies from one Member State to the other. Agricultural use is declining everywhere, the only exception being Northern Europe. Greater demand of land for residential purposes has at times led to an increasing contrived land hitherto used for farming and nature-based activities. Pressure on land resources is growing. Urban sprawl is increasing (up to 60-80km away from some cities in Western Europe). There is growing demand of land in some coastal areas, in mountainous areas and along rivers. Suburban areas, however, have not experienced the same growth everywhere.

The historical diversity of property rights and the different structures of farming keep influencing the structure of agricultural employment, despite transformations linked to modernisation in Western and Southern Europe, and despite the economic transition of former communist countries. In other words, the family farm model which was predominant in the twelve Member States in the 1980's, is less and less representative of the situation now that Europe has 27 Member States. This diversity also determines social evolution in the agro food industry and in other economic activities in rural areas.

"New country areas" are taking shape and boast several –sometimes conflicting – functions: residential, tourism and nature (the conservation of water resources, the production of biodiversity, landscapes, etc.). At the same time, in less accessible areas, the countryside fragility is increasing, with a low population density and older populations. Agriculture and/or manufacturing remain important. In these areas, incomes remain relatively low and demographic decline has not ceased.

Although employment in agriculture is higher in rural areas than elsewhere, the role of agriculture in rural economies is variable. In some cases, it consists of local channels that are crucial in terms of employment, value-added and which even products environmental and cultural amenities. In other cases, large areas are allocated to agriculture, which uses up natural resources, contributes to European economic equilibriums, but has a less direct impact on the local economy. A single area can combine these two situations, which should be analysed according to the way in which land is used, and to the importance of other activities that take place in the area (services, industry, arts and crafts, etc.). The residential economy is also growing (local activities for which products and services are produced and consumed locally), as are the recreation and tourism industries.

Finally, a lot of rural areas keep an eye on the economic, political or social situation of neighbours' countries since some of them are used to the traditional flow of migrant workers, especially from the rural areas of Eastern Europe or Mediterranean countries. Besides, their economic balance can strongly depend on development processes engaged at the external frontiers of the EU, more than from the cities or from the central regions.

The diversity of rural areas explains why some of the expectations vis-à-vis rural development policies generally, and more particularly European policy, differ from one country to another. Moreover, the constraints put on the public purse have led national, regional and local governments to rationalise the organisation of services, whether progressively or, as was the case in Central or Eastern Europe at the time of the economic transition, brutally. This movement has sometimes led to a suppression of services in areas where population density was the lowest, based on arguments related to efficiency or financial viability. It has also led to a revision of national or international policy in favour of rural areas, from an approach aiming at dealing with a territory in one uniform manner to an approach which guarantees equity and which encourages rural development.

By arguing in favour of subsidiarity, the EU has tended to give greater flexibility to the parties involved in the implementation of a wider range of measures within a common regulation framework.

Since 2007, with the creation of EAFRD (European Agricultural Fund for Rural Development) dedicated to the second pillar of the CAP, the management of rural development programmes has been kept separate from the structural funds, ERDF (European Regional Development Fund) and ESF (European Social Fund). The new regulation keeps raising questions amongst Member States and local or regional stakeholders in relation to the ability to offer an adapted frame to rural development.

### **Third round table discussion: What political project for agricultural and rural Europe?**

On 1st January 2009 the Czech Republic will succeed France at the presidency of the European Union. On 1st July 2009 it will be the turn of Sweden. After political agreement is (very probably) reached on the CAP health check at the European Council of November 2008, discussion on a revision of the European budget will represent the next pre-2013 political timeframe in which Europeans might redefine agricultural and rural policy. EU member states are brought together by numerous medium-term challenges and by the downward pressure on the agricultural budget, but they remain divided over their visions of agriculture and rural development, and of the role of these within the European project. Conscious of this reality, the round table aims to create a dialogue between the various member states' conceptions of the future of the Union's oldest and most integrated policy.

The health check was planned to assess the implementation of the latest (2003) CAP reform and to add adjustments made necessary by changes in the policy context. Launched by the European Commission's communication of 20 November 2007, the health check had not been seen by the European Council of 2005 as a debate on the CAP's founding aims – even though the agricultural context has changed much since 1957. Supported by only a limited mandate, the Commission did not wish to propose change going beyond simple adjustments. The agricultural Council of Ministers held discussions which were limited to this ambition. However, at the informal Annecy meeting, presided by the French minister Mr Barnier, there were exchanges of views on the necessity of an ambitious post-2013 reform. European leaders therefore designated the 2009 budget review as an historic opportunity to re-debate the European agricultural project. The Czech Republic and Sweden will preside over these discussions.

For the first time, the Commission has an extensive mandate to examine the budget and a generous timeframe in which to carry out a serious thinking exercise before the next multi-year financial negotiations (2013). In its September 2007 communication entitled “Reforming the Budget, Changing Europe”, the European Commission seems determined to submit to the Council a report containing an analysis of the European Union’s medium-term challenges together with a focus on common policies and the budget needed for an ambitious European political and economic project. After the resulting debate, the Council will be able to “take decisions on all questions dealt with”.

The budget review is therefore the optimal moment for Europeans to draw up (or not) a new common agricultural policy. Such a debate is necessary to put an end to criticism aimed at the CAP – which represents 43% of the EU budget – in spite of reforms since 1992. It is also vital to set the foundations for a model of development and common endeavour in a Union of 27. Europeans will need to seize this opportunity to carry out a serious debate on the renovation of the aims and instruments of the post-2013 CAP.

Created in a Europe of 6 member states, the CAP has seen numerous reforms and adjustments following successive enlargements. However, its founding objectives have not been revised since the Treaty of Rome, which laid the legal and institutional foundations of the current European Union. And yet the agricultural context has changed substantially. On the one hand, major external challenges are constantly in the news: crises of food safety, energy and climate; the preservation of natural resources; trade negotiations. On the other hand, European leaders must respond to the changing internal demands of citizens (with respect to food, the countryside and the environment) and of economic actors (the need for competitiveness). The challenges and constraints are shared, but debate on the CAP remains influenced by the legacy of the past: different trajectories of agricultural development, diverging visions on the role and the importance of agricultural and rural issues. Let’s hope that these debates will help in the understanding of synergies and potential agreements to allow a renewal of the common agricultural project after 2013.

## POST-FACE:

### Lessons from the seminar and openings for future study

Notre Europe

In the European Union, periods of negotiation – whether related to financial means or new regulations – are moments when differences are expressed and sometimes exacerbated. The negotiation over the CAP ‘health check’ was no different, especially given that it took place between the autumns of 2007 and 2008 during a time of unforeseen world food shortages and erratic price changes (an unprecedented increase followed by a brutal fall). Besides this, only a few weeks before publishing its agricultural proposals the European Commission launched the debate on the post-2013 EU budget.

1. It might therefore have been feared that the seminar organised by CEFRES, UZEĚ and Notre Europe, in the context of the handover between the two EU presidencies at the end of 2008, would turn out to be a fruitless dialogue. This was not the case, for several reasons:

First of all, beyond the differences in the rural and agricultural situations of France and the Czech Republic (Doucha, Guyomard, Perrier-Cornet), the experts shared the same feeling of **dissatisfaction with the current CAP**. On both sides, researchers made the case for more differentiation of agricultural regulation – in relation either to productive sectors (Guyomard) or to the size of holdings and the means of production (Doucha). They expressed doubts about the durability of the current system of direct aids, in particular because it treats differently producers in old and new Member States and because it only contains a small amount of ecoconditionality (Guyomard).

Next, the experts deplored **the persistent ambiguity between agriculture and rural development**, linked to uncertainty over the role of rural areas – should they be considered primarily as production places, residential places, or recreation and consumption places? The fuzziness is a result of recent developments linked to economic transformation and EU integration (Prazan), and of behavioural changes (Perrier-Cornet). In consequence the available instruments are inappropriate, as demonstrated by the current Commission-proposed re-weighting between the 1st and 2nd pillars and within the 2nd pillar (Saraceno). Another result is a weak capacity for political interpellation and for general mobilisation (Prazan).

Further, the participants converged on the **objectives to give the CAP**. They all believed that it is necessary to take into account both the importance of the economic dimension of agricultural activity (Gaymard, Hlavac, Bourgeois) and the added value of European intervention in the production and preservation of public goods (Guyomard). Following these two general principles, a list was gradually drawn up. It included food security, interpreted both qualitatively and quantitatively; respect for the environment; the contribution to the effort against climate change, including in terms of energy; and risk management which assumes a minimum of regulation (Bourgeois, Plewa). However, choices remain to be made over the balance between the different priorities. This will probably not be resolved simply by the trade-off between the 1st and 2nd pillars (Guyomard), and demands better-informed citizens (Goszczyński).

Finally, **the method to use for reforming the CAP** was the subject of wide consensus. It is necessary first to return to the fundamentals before debating financial amounts (Gaymard) – or, expressed more graphically, to ‘draw the skeleton before the muscles and flesh’ (Hlavac). It is necessary to broaden thinking to other sectors and connected policies (energy, environment, competition, regional development, health etc) and to take account of external constraints (trade agreements, international competition, and development policy). Further, it is necessary to make a

thorough re-examination of the instruments with regard to their objectives. And in all cases reforms must be planned with a certain element of progressivity (Guyomard).

However, it would have been naive to imagine solving all problems in a single day of debate, and disagreements were also apparent. In practice the contributions of political and administrative officials, together with the researchers' presentations, highlighted the diverse, sometimes irreconcilable nature of expectations on the part of different stakeholders in each country towards the CAP.

## **2. Looking further ahead than the coming semester, this seminar has also been useful in revealing subjects requiring closer investigation, and openings for future study.**

The most striking lesson of this debate came from its richness and the general impression at the end that progress had been made. The exchange of ideas highlighted once more that blockages result most frequently from a weakness in regular upstream dialogue. In this particular case it just be recognised that the effort at mutual understanding has slowed down since the intensive negotiations leading to the 2004 enlargement. It would therefore be useful to **extend this exercise to other countries of central and eastern Europe**, while taking care to include all stakeholders and not simply administrative officials.

This is because the multiplicity of expectations and viewpoints is the reflection of different elements: a country's current economic and social situation, its history and its prejudices. Using these factors of difference it is simple to define three axes of work, at varying intensities, in order to establish a more constructive and comprehensive dialogue. Starting with the simplest, prejudices deserve only a determined effort at demolition, which can be done essentially by means of exchanges of information and solid arguments. As for historical legacies, here nothing can be changed but it is possible to increase knowledge in order to avoid misunderstandings and tension. In these two cases, academics and the media have essential roles to play.

The economic and social reality of a country or a region is probably the most difficult challenge, but also the most rewarding. This is because it demands a common effort to understand the problem, and can lead to a similarly collective search for solutions. It is here that – after a preliminary clarification by researchers – political and administrative actors in the European field may put their talent to use, alongside others from the economic and social domains and civil society.

In basic terms, two themes seem likely to feed future debate and to create tensions. They did not provoke truly heated exchange, probably for reasons of courtesy and because the context was premature, but there is surely a case for looking more closely at them. The first is related to the claim that **the CAP simplification should, in accordance with the Tinbergen rule, lean towards the equation '1 instrument = 1 objective'**, in order to increase the efficiency of public policy (Hlavac). This reasoning is not far from the recommendations recently formulated by the OECD. It must be observed that this ideal theoretical objective is illadapted to the case of the CAP, both in its role as agricultural policy and European policy. To advocate it would be not to take into account the multifunctional nature of agriculture (Bourgeois, Doucha) and the persistent differences between Europe's rural areas. It would also lead to a renouncement of the technique of negotiating 'packages', which up till now has proved itself the only method capable of creating agreement within the EU. This methodological proposal will probably reappear at the negotiating table and it would be advisable to anticipate the best way of taking it into account.

Another opening for future study is becoming clear on the basis of discussions between the experts on rural development. Wanting to give nuance to a positive dominant idea of current land-use changes, certain experts clearly mentioned **the existence of rural areas destined for abandonment** (Prazan, Perrier-Cornet). As victims of the cost of EU integration or globalisation,

and incapable of responding due to internal institutional weaknesses, these areas seem almost 'out of bounds' of rural development policy. Yet they are likely to represent an environmental issue (biodiversity) or a political one (as an illustration for Euro-sceptics of the pernicious side of European integration). On this subject too, it is necessary to take the initiative, by measuring the exact dimensions of the problem and exploring the possible responses.