Agenda 2000: Reforming the Common Agricultural Policy Further*

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Introduction

Since the establishment of the European Economic Community (EEC) in 1957, the agricultural sector has played a central role in developing the integral economic, commercial and structural policy of the new Foundation formulated in the Treaty of Rome. Several reasons can be put forward for this:

Firstly, agricultural activity was always one of the most essential factors in European economic, social and cultural life. Secondly, the agricultural sector was, historically speaking, a major source of claims and tensions amongst European nations and countries. Thirdly, European farmers had (and still have) a strong political influence in the parliamentarian regimes in the democratic systems of Europe. Fourthly, and most importantly, in the post-war period and following the tragic experience of World War II, a strategic choice for most European countries was to rapidly achieve and guarantee *food security*.

Additionally, it was always realized (and the Council has repeatedly pointed out) that European agriculture has its own specific nature and characteristics related to:

- its territorial coverage;
- the existence of different regions with specific features (e.g. less-favoured areas, remote and mountainous regions, arid and semi-arid regions, urban or high population density regions);
- the large number of family-type farms (a total of 8 million holdings, three times more than in USA) with a small average size (15 hectares in the EU-15 compared to 185 hectares in the USA). In fact, the majority of European farms are considered to be 'small', since 5 million holdings are still under 5 hectares in area, their farmers faced with (geo-physical) competitive disadvantages when compared to their counterparts in the other high-industrialized countries, i.e. the USA;
- the diversity of European agricultural products and the big differences in yields;
- the multiple roles increasingly assumed by farmers and the agricultural sector in general.

In relation to the above, the Common Agricultural Policy (henceforth referred to as the CAP) was formally announced in 1957 as one of the *key elements* of the first Treaty of Rome. It was designed to serve the objectives stated in Article 33 of the Consolidated Treaties (ex Article 39 TEC), taking into account the policy objectives, according to the 1992 Maastricht Treaty, of 'cohesion' (Title XVII of the Consolidated Treaties, ex Title XIV TEC) and 'environment' (Title XIX, ex Title XVI).

In that respect, the CAP, which has been the most important (sectoral) policy of the EU right from the start, stands *at the heart* of the European integration process. In fact, the function of the CAP has been considered as a *'cornerstone'* of the integration process itself, since it is the most comprehensive common policy developed and pursued by the EU and is related, to a certain extent, to most other sectoral policies (structural, social, environment, competition, trade, transport, etc.).

In the some 40 years that the CAP has been in force, the role of agriculture as an economic sector in the EU has steadily declined, accounting today for about *2.5%* of total Gross Value Added, whilst agricultural commodities represent almost *9% of total exports* and *11-12% of total imports*. The contribution of the sector to employment, although it too has dramatically declined, is still substantial since around *16 million people* (5.3% of the total workforce, compared to 2.5% in the USA) still work on farms. However, in 25% of the rural areas of the EU (mainly the less developed and less favoured areas), agriculture still absorbs 10-15% of the labour force. Moreover, taking into account other upstream and downstream activities such as inputs purchased by farmers, food processing and distribution, wholesale and retail sales outlets, rural tourism and leisure pursuits, it is true to say that agriculture has a much wider impact on the European economy than figures for output, trade and employment would indicate.

Additionally, from another point of view, there is a common belief that the role of agriculture has been broadened in the 1990s through a change in the concepts involved:

- As an economic activity, agriculture has, not only to guarantee food security, but also to provide *high-quality* food and non-food products responding to new consumer requirements, started to ensure efficient production and competitive prices in both internal and external markets;
- There is a growing recognition that agriculture plays an increasingly important role in the maintenance, protection and development of the *environment*;
- Agriculture is an important factor when it comes to contributing to balanced economic and social life in rural areas and it should therefore form an essential part of a sustainable, multi-sectoral integrated *rural development policy*. It should be mentioned that rural areas account for 80% of EU territory and for over 25% of its population.

1. The 1992 reform of the CAP

Up until 1992, the basic concept behind the CAP was to provide a framework of support and protection for

* Un bref résumé de cet article en français figure à la fin.

agriculture, almost exclusively based on a *price support mechanism*, as a means of increasing agricultural output and productivity and securing agricultural income. The most important feature of this mechanism was to ensure that Community farmer prices *were higher* that the world average.

This system proved successful in implementing most of the initial objectives of the CAP, allowing the EEC to move quite quickly from a complete deficit to a surplus of production in the main products and therefore to transform the EU from a net importer to a net exporter on the world market.

The CAP developed spectacularly over time, although various policy adjustments took place in the meantime in order to respond to economic or market developments and cope with budgetary difficulties. The most important of these was the 1992 reform which *served the same objectives* but at the same time took a decisive step towards market orientation *by gradually changing the basic mechanisms* of the CAP from a price support system towards *direct income support*.

The measures adopted under the 1992 reform were designed to achieve the following main objectives:

- To improve the competitiveness of EC agricultural products on the home and export markets, by means of adequate price cuts which, among other things, would allow the halt in the fall in the use of cereals in animal feed (the latter was considered important because, due to the price differentials between high internal prices of cereals and low prices of imported oilseed substitutes, the internal market for animal feed had been lost);
- To effectively control production and bring it down to levels more in line with market demand by implementing an *obligation* for cereal farmers to take a certain proportion of arable land out of production each year *(set-aside)*, by introducing incentives for *voluntary* and/or *permanent* set-aside, and by applying quantitative restrictions, either by decreasing quotas (milk, tobacco) or setting a limit on the number of animals qualifying for premiums;
- To secure stable incomes for Community farmers, with price cuts accompanied by direct compensatory aid, and focus income support where it is most needed (through special treatment for small producers), contributing therefore to lowering inequalities in income;
- To establish or reinforce accompanying measures aiming *to relate the CAP to environmental considerations* through agro-environmental action, incentives for afforestation and the application of an early-retirement scheme.

2. General assessment of the impact of the 1992 reform

With the reform now almost complete, one could argue that important innovations were introduced and certain achievements made:

1. Price cuts, in combination with the introduction of direct compensatory payments, constituted the first decisive move towards *decoupling support from production and trade*.
2. The reform succeeded in drastically reducing the public intervention stock in most of the reformed sectors, thereby preventing any increases in cereal production and getting *surpluses under control*.
3. The cut in the price of cereals made *domestic grain more competitive*; in turn, using cereals as feedstuffs led to a reduction in the cost of inputs for livestock products and the market share of domestic grain increased by supplying more domestically produced grain for use as animal feed.
4. The *gap* between world and domestic prices, though not eliminated, decreased considerably, given that, at the same time, the average level of world prices increased.
5. New rules and incentives were introduced to promote and improve the quality and competitiveness of EC products, (labelling and certification of guaranteed quality, promotion of biological production methods, protection of geographic origin and other indications of product origin, standardization, diversification of products according to regional specialities and traditional processes, etc.).
6. In the *beef & veal sector*, stocks were initially eliminated and there was a market recovery up to 1995, but the *BSE crisis* which appeared in the meantime revived the problem and surpluses thus reappeared.
7. Income support is now provided through the mechanism of direct income compensation rather than through the mechanism of market prices. In most cases, income compensation has *counterbalanced* losses from price cuts.
8. Income compensation aids are related to the policy of production control, through set-aside, limiting the number of animal heads qualified for premiums, etc. However, the problem here is that such aids are not considered to be completely decoupled from production, since they are calculated on the grounds of a historically determined basic area/yield and number of animals (in order to discourage further increases in yields and production).
9. The distinction between ‘large’ and ‘small’ farmers (the latter determined as those who do not produce *more than 92 tonnes* of cereals) allowed financial support to be more targeted at the most vulnerable categories of farmers. In particular, the small cereal farmers, though qualified for full compensation, were not subject to set-aside requirements, enabling them therefore to stay in production.
10. With regard to *environmental effects*, assessments of the reform are rather mixed; on the one hand, extensification incentives allowed a decrease in the use of fertilizers and pesticides and has meant that farmers now play a more energetic role in protecting the environment, but there were also some negative effects such as excessive irrigation or the abandonment of certain areas. However, in combination with the other accompanying measures, such as afforestation, structural measures and early retirement, the overall result can be counted as positive.
11. Finally, the reform allowed the EU to comply with the commitments of the Uruguay Round Agreement in Agriculture (GATT).

In general, therefore, for those who believed that the CAP was on the verge of collapse, reform was the best way of ensuring its continued existence.

However, it would seem that some negative effects also appeared as a result of the reform:

1. Budgetary *expenditure rose* in absolute terms as a result of compensatory payments (though within the guideline figures).
2. Cereal producers are currently considered to be *over-compensated*, since they still receive *full* compensation for price cuts that have *not* been reflected in the market, because world prices have in the meantime increased at higher than pre-1992 levels.
3. The administration involved in implementing the new policy became more complicated and costly, leading to calls to simplify the EU law concerned.
4. The set-aside scheme represents a loss in terms of economic efficiency, because it takes out of production land which is a scarce production factor in certain regions of Europe.
5. The disparities in farm incomes between individual Member States and regions remain a problem due to the differences in farm size, yields, the degree of commercialization and the general socio-economic and structural environment.
6. The problem of potential overproduction in the medium or long term has not been completely resolved, since yields and productivity continue to increase as a result of advanced technology and innovations.

3. Current pressures for further reform

The transitional period of the 1992 reform came to an end in *July 1995*. At the same time, the GATT agreement on agriculture entered into force, while the EU was enlarged with three new members and the CEECs submitted their applications for accession.

Under these developments, the CAP could not stay intact. New pressures appeared advocating a deeper reform through moving further towards more competitive EC prices in line with world levels.

The main reasons for further reform are:

- The risk of new market imbalances that could occur at the beginning of the next century;
- The prospect of a new trade round in the WTO, expected to push further for the liberalization of the trade in agricultural products;
- The limitations on the agricultural budget which continue to be bound up with the principle of budgetary discipline being followed since the 1980s;
- The aspiration towards a more 'environmentally-friendly' and quality-oriented agriculture,
- A growing need for a fully fledged rural development policy;
- Finally, the prospect of enlargement to include the CEECs and Cyprus.

All those factors have a certain impact on the future orientations of the CAP. They are to a certain extent interrelated in the sense that the impact of the one influences the impact of the other and therefore cannot be considered separately.

However, among the above pressures, enlargement, the next WTO Round and the budgetary framework for the CAP seem to be the main sources behind the need for further reform.

For instance, many recent reports and studies emphasize the fact that enlargement would be the catalyst for the so-called 'reform of the reforms'. Other reports have already argued that, if the existing policies for the major agricultural commodities remain unchanged, the EU will soon (even without enlargement) again face a serious crisis of over-production, which will create a conflict with its commitments under the Uruguay Round Agreement.

With relation to enlargement in particular, agriculture has been characterized as a *key element* in the pre-accession strategy, determining, to a large extent, the success or not of the future integration of the candidate countries. This is due to the fact that, for the time being, considerable differences exist between the agricultural situation in the candidate countries and the Member States, especially in terms of structures and prices.

4. Reform options

In November 1995, the European Commission presented its 'Agricultural Strategy Paper' in which different options were examined for the future development of the CAP in the light of future developments, in particular enlargement to the east. Broadly speaking, these options fall into three categories:

I. Maintaining the Status Quo

Regardless of future enlargement, this option was almost unanimously rejected as unrealistic. The reason for this is that as world agricultural markets become more and more liberalized, under the present regime the competitiveness of EU agricultural products risks being severely undermined.

As productivity rises, any excess subsidized production in the near future could not be oriented towards external markets, due to the tightness of the GATT commitments. In turn, growing surpluses would lead to market imbalances and, therefore, once again, a major CAP reform would, sooner or later, become unavoidable.

The problem would become more acute if the CAP were to be extended in its current form to the CEECs after enlargement. The main difficulties that might thereby arise can be identified as follows:

(a) International agricultural commitments

It should be reiterated that the most important commitments under the GATT agreement (1993) entailed a 20% reduction in domestic support for agriculture in terms of an Aggregate Measure of Support (AMS). The EC variable levies on agricultural imports would thus be transformed into tariffs (tarification of the border protection) which would be reduced by 36% over six years. The volume of subsidized exports would be reduced by 21% and spending on export subsidies by 36% on a product by product basis.

An upward alignment of farm support prices in the CEECs to meet those currently applying in the EU would generate an *increase* in total agricultural support and this would seriously affect the domestic support discipline.

Additionally, the upper volume and value export restrictions that have been agreed for the present GATT members would have to be redistributed among the EU and the new Members, which would surely lead to additional CAP reform at a later stage.

Furthermore, taking into account the fact that the next WTO Round will call for negotiations on further agricultural liberalization, one can anticipate that EU enlargement will not be concluded without prior negotiations on additional commitments.

(b) Budgetary implications

It should be mentioned that total CAP expenditure, represented by the Guarantee Section of the Agricultural Fund, is limited by the agricultural financial guideline ceiling. This guideline increases each year by almost 74% of GNP growth in real terms and is estimated at some ECU 43 billion for 1999. For the time being (1997 data), Guarantee expenditure amounts already amount to about ECU 41.3 billion (Guidance Section: 3.6 billion) and constitute a decreasing but still very high percentage (49.2%) of the total EU Budget (ECU 82.4 billion in 1997).

According to the available data, however, the accession of the CEECs would double the agricultural labour force and lead to a 50% increase in agricultural land. Expanding the present CAP to the applicant countries could therefore imply a 50% increase in the cost of the CAP. However, within existing budgetary limits, and given that the present Member States would not tolerate a significant increase in their contributions to increase the CAP budget, it is clear that the EU could not afford the cost of such an expansion.

Moreover, with the budgetary constraints remaining unchanged, the full implementation of the existing rules would cause a struggle between the eventual new Member States and the existing ones, due to the implied redistribution of already scarce funds.

(c) Market price implications for the CEECs

The existing price gap between the EU and the CEECs is expected to narrow over the coming years, but will certainly not disappear.

If the CEEC prices were to be aligned to present EU levels after their accession, this would lead to significant price increases which could stimulate production but would also depress consumption. Since incomes are low in the applicant countries and households spend a larger proportion of their income on food (30-60% compared to 19% in the EU), higher food prices could provoke social unrest and political instability. At the same time, higher food prices could lead to lower GDP growth if they result in higher inflation, which in turn forces up interest rates.

Furthermore, higher farm-gate prices would also have a rather negative impact on the food industry by increasing the cost of raw materials in the processing sector, the competitiveness of which is relatively low and which has not yet been fully restructured.

Additionally, if stimulation caused by higher prices were to lead to excess production, the CEECs would have to export onto the world market without subsidies due to the constraints imposed by the Uruguay Round agreement.

Due to the current market situation in the CEECs, a price alignment strategy would in general imply significant increases in their support and protection levels which would not be in line with the WTO schedules of the countries concerned.

II. Radical reform

In budgetary terms, this option appears quite attractive and would certainly simplify negotiations for enlargement. However, it was also rejected for a number of other political, socio-economic and environmental reasons.

A radical reform would imply an elimination of the total support system by drastically reducing EU prices to world market levels and abolishing production quotas and other supply management measures without time for necessary adjustments.

Due to the special characteristics of EU agriculture, however, the great majority of its farmers could not afford a drastic reduction of EU prices without compensation. In fact, most of them would be forced out of the sector, as they could not survive in complete market liberalization conditions.

In turn, this would lead to the abandonment of land, which would have great environmental repercussions and lead to the high social cost of unemployed farmers seeking a job outside agriculture. It would therefore be necessary to allocate a huge amount for income compensation (full or partial through direct payments) the cost of which the EU budget could not cover.

Certain circles have advocated the transfer of direct income and environmental support payments from the Community to national budgets, with or without Community co-financing. However, such a ‘solution’ would practically imply a full or partial renationalization of the CAP, to which the vast majority of Member States, especially the weaker ones, are opposed. Renationalization would, *inter alia*, mean abandoning (instead of driving forward) integration, plus the abolishing ‘financial solidarity’ (one of the three fundamental principles of the CAP). It would also go against the economic and social cohesion strategy, since the weaker Member States would have to spend more of their national budgets to compete in internal market conditions.

III. Developing the 1992 Reform

The 1992 approach emphasized the need to improve the competitiveness of EU agricultural products on the home and export markets by increasing the market orientation of the sector.

This implied that the price support system would be gradually diminished, while farmers would be compensated through direct payments for significant price cuts. Those payments (arable payments, animal premiums, accompanying measures) are subject to budgetary margins under the present guideline and in the framework of the new financial perspectives for after 1999.

The main target of this policy was to reduce the gap between the EU internal price level and world prices for a number of key products and to draw a *clearer distinction* between market policy and income support. Meanwhile, income support is considered as a strong incentive for farmers to adjust their structures and make farming activity viable enough to compete on the internal and external market.

In the light of eastward enlargement in particular, the persistence of this policy in the future will facilitate the integration of the agricultural sector of the new Member States to a great extent as the gap between current EU prices and prices in the CEECs will be eliminated in the pre-accession period.

The option of continuing with the 1992 reform therefore looks to be the most feasible way of developing the CAP for the future, being considered as a less distorting policy strategy from an economic point of view.

The main goals of this concept are to move the sector towards greater *market orientation* and *higher competitiveness*, combined with a greater emphasis on *rural development* policies as a means of addressing the problems of rural areas. The OECD claims that such a policy could serve the interests of both the EU and the CEECs.

5. Agenda 2000 proposals

The strict application of the financial guideline during the last decade allowed the relative share of agricultural spending in the total budget to fall substantially. However, the truth is that almost 50% of the EU budget is still being spent on agriculture, although, as a declining economic sector, it does not create new jobs. On the contrary, for many reasons, potential young farmers are seeking either to move to other sectors of the economy or to find additional sources of income outside agriculture.

Therefore, criticism focuses more and more on the fact that agriculture absorbs huge amounts of money, depriving other policies and tasks of the EU of their potential to create new jobs due to a lack of appropriate financial resources necessary for their development.

The most interesting aspect of Agenda 2000 seems therefore to be the Commission’s attempt to define new or rather additional objectives of the CAP, by extending it to a rural development strategy. More precisely, the Commission seeks to:

- focus CAP policy on food safety and quality;
- guarantee decent living standards for farmers;
- integrate environmental objectives into the CAP;
- create alternative sources of income and employment in rural areas;
- simplify EU agricultural law.

To reach these objectives, and taking into account the implications of new Member States entering the CAP, the European Commission proposes to deepen and extend the 1992 reform, that is to introduce *further price cuts* for key products and *continue the shift* from the price support system to direct payments.

Owing to the fear of new market imbalances, likely to appear in the years to come, and the growing competition on both the external and internal markets (through increased market access), the Commission argues that a policy aimed at improving competitiveness should be the most important target of the CAP in the future (as in the recent past).

In that sense, the most important proposals are follows:

- A one-step drop in the intervention price of *cereals* (the most important ‘key’ product) through a 20% reduction in the price currently applied. In fact, up to now, the success of the 1992 reform on cereals has brought EU prices down to a level which is no more than 10% to 15% above world market prices. Therefore, the partial target for the EU would be to take the final step towards closing this gap and making EU grain production fully competitive with world production;
- An increase in the compensatory *direct payment* for arable crops which should *only partly* offset the reduction in the institutional price, in order to avoid any over-compensation in this sector;
- Aligning the *oilseeds* regime to that of cereals by reducing the (fluctuated) direct aid currently paid, but overcoming the additional commitments imposed on this sector according to the Blair House Agreement (GATT);
- Fixing the obligatory set-aside rate at 0% (maintaining the system as a ‘safety net’), while also maintaining voluntary set-aside (with the same specific aid as for crops);
- Gradually reducing the market support of *beef* by 30%, with the elimination of intervention and maintenance of aid for private storage. Compensation for losses incurred is proposed through an increase in the various premiums/direct payments per head: suckler cows (+ECU 70), young bulls (+ECU 233), bulls (+ECU 123) and a new premium for dairy cows (ECU 70);
- A *cautious* approach to the *dairy products* sector, by continuing the quota regime until 2006, *gradually* reducing support prices *by 10%* and introducing a new annual compensatory payment for dairy cows *in addition* to the new premium;
- A reform of all the other products will be proposed at a later stage on a basis similar to the above.

Generally, in the cases of products for which internal prices continue to stand well above the world level and where a full elimination of this price gap cannot be completed at once, supply management measures (quotas, intervention mechanisms etc.) will continue to be applied but more strictly.

Assuming that world prices are likely to remain well below the present EU level, lowering EU prices to world level would be one of the necessary steps required for the EU to participate fully in the expected expansion in world trade by increasing the possibilities of exports without subsidies.

These are the specific proposals related to market operation. However, higher competitiveness is also connected with efforts to differentiate EU agricultural production. In this respect, a number of measures have already been adopted and are to be strengthened, the aim of which is to:

- Improve quality standards and specificity of EU products, respond to consumer demand preferences (denotation of origin, geographical indications, biological products etc.);
- Increase value added through processing;

- Secure food safety and consumer health;
- Promote structural measures to lower production cost;
- Improve distribution and marketing conditions.

On 18-19 November 1997, EU farm ministers agreed on a common position on the Commission's proposals, reaching agreement on most points.

According to the Ministers' position, the reform should mainly aim at a combination of reduced price-support measures and compensation through direct aids as well as flanking measures.

The reform should be designed in such a way as to arrive at economically sound, viable solutions which are socially acceptable, make it possible to ensure fair incomes, to strike a fair balance between production sectors, producers and regions and to avoid distortion of competition.

As regards enlargement, the reform model will serve as a frame of reference for the future efforts of the applicant countries to adjust their agricultural policies to the CAP.

6. Implications of the proposals

1. The major target of the new reform is to achieve a more market-orientated agricultural system in which EU prices will closely reflect those on the world market. On the assumption that world prices will not change dramatically from today's level, a 20% cut in cereal prices should eliminate or reduce substantially the export subsidies and the storage cost in this sector, therefore generating savings of around ECU 5 billion by 2006.
   However, all the existing mechanisms of the Common Organization of Market (COM) for cereals will remain in place even after the implementation of the reform programme in order to keep it legally possible to regulate the cereals market.
   In this respect, a minimum of support is still available, just in case. Therefore, the set-aside mechanism also remains also in place, even if the standard rate would normally be zero. The intervention system would still be functional, even if the intervention price post-2000 would be reduced to a level which would normally be well below market levels.
2. Increases in compensatory payments would only cover half the amount representing the 20% cut of the intervention price, for two reasons:
   a) to avoid over-compensation
   b) actual market prices are unlikely to follow the fall of intervention prices to the full extent.

   However, with zero set-aside and the compensatory payments being paid equally to all farmers and according to the previous yields of the area they cultivate, the previous distinction between large and small producers (see above) will no longer have practical implications for arable crops. If this distinction is still to make sense, small producers will have to maintain some other advantage in relation to the large ones, so as to be able to survive under the new reform. In that respect, various measures are proposed; i.e. differentiating the amount of compensation for large and small farmers by providing the latter with full (instead of partial) compensation, and/or putting an upper ceiling on the compensation awarded to large producers.
3. A major result of the changes in the compensatory subsidy structure is likely to be a substantial reduction in the area and production of *oilseeds*. On the assumption that present market price levels for cereals will be maintained beyond 2001, the Commission's intention to align the current oilseed compensatory payment on a single payment for all arable crops will perhaps result in a substantial reduction in the profitability of oilseed.
   In this case, the decrease in oilseed production will have some additional implications:
   – It is likely to lead to further intensification of the production of wheat;
   – Given that in many areas all of the most suitable wheat-growing land is already fully utilized, a further increase in the area allocated for wheat will lead to the lower quality of a portion of wheat production, which will be difficult to market on either the domestic or international markets;
   – Many areas of the EU will be led further towards monoculture, with consequently harmful effects on the environment;
   – The dependence of the EU on oilseed imports from the USA and other competitors will increase.

   The Commission, however, refuses to acknowledge such a prospect. It argues that the deterioration in the relative profitability of oilseed production can be counteracted by six factors:
   (a) Generalizing the compensatory payments for all main arable products will automatically result in lifting the Blair House limitations on the EU oilseeds area, increasing it to an effective 4.9 million hectares;
   (b) Due to the operation of the Marginal Guaranteed Area (MGA) mechanism, which penalizes farmers for exceeding the Blair House limits, the current compensatory payments have in fact been lower than they could be;
   (c) Market price increases could compensate to a great extent for the reduction in compensatory payments;
   (d) The effective abolition of arable set-aside would allow for an increase in the oilseeds area if profitability is great enough;
   (e) Oilseeds play an important husbandry role in arable rotations;
   (f) World prices for oilseeds are likely to increase sufficiently to encourage an increase in output.

   Furthermore, the expected increase in oilseeds yield, due to biotechnological innovations and the fact that the EU produces only 44% of its current consumption, are also factors that may counterbalance the fall in the aid currently paid. From a budgetary point of view, however, the cut in the oilseeds premium will result in further savings of around ECU 3.6 billion.
4. The Commission receives a lot of criticism for leaving the *dairy* and *sugar* key sectors largely untouched, while the *Mediterranean products* (olive oil, wine,

rice, tobacco, cotton) are left out, without any specific orientation of their future Market Organization.

Apart from the criticism that has already been levelled against the proposals, one question continues to dominate the various discussions, i.e. that as to the future *form of compensation* to EU farmers for the proposed further price cuts. One should take into account the following parameters:

- The cereal aid scheme applied up to now was fixed and not linked to changes in world market prices (unlike the oilseeds payments which can be adjusted up and down to reflect market price movements);
- Other major competitors of the EU on the world market (who are preparing themselves for the next WTO Round), have already argued that compensatory payments for cereals are a kind of 'hidden export subsidy' and therefore oppose the GATT commitments;
- It is quite likely that the above concept will become a major point in the coming agricultural trade negotiations, given that the current Uruguay Round agreement exempts compensatory payments from subsidy reductions ('blue box' agreement). In this case, maintaining 'blue box' status for the compensatory aids in general would seem to be one of the targets of the EU for the forthcoming WTO negotiations.

Additionally, apart from their high cost for the Community budget, the justification for the compensatory payments of the 1992 approach will probably be increasingly challenged in the future, especially because the question of when they will be phased out has been left open.

In that respect, it should be noted that compensatory payments were introduced to *compensate* certain price cuts. In relation to enlargement, and given that CEEC prices are not going to be reduced but most likely increased following accession, the Commission argues that CEEC farmers would not be eligible for reform compensation since they would not have suffered any price cuts. Otherwise, adding the direct payments to expected price increases, would represent an inordinate cash injection for many CEEC farmers. Such a development would risk creating disparities in income that could rapidly lead to social tension in those countries and regions.

However, it is equally under question *whether it would be possible*, both economically and legally, *to exclude* some farmers of an enlarged EU from such payments or, in other words, to discriminate and pay *richer* farmers of the EU-15 direct payments, which may help them to outstrip the CEEC farmers on the domestic enlarged market.

In this respect, the Commission proposes that, instead of making these payments to the CEEC farmers directly, a significant amount of funds could be made available for additional rural development and environmental programmes, *to reshape their agricultural* economies and promote convergence with the EU.

The question now arises as to how significant the proposed amount included into the Agenda's proposals could be (about ECU 5 billion dedicated to the applicant countries out of almost 50 billion dedicated to the present Member States). In that respect, it seems certain that the issue of the direct compensatory payments to farmers is going to dominate the debate in the forthcoming negotiations.

7. Integrated Rural Policy

Concerning the proposals for an integrated rural policy, also included in the Agenda, the Commission accepts that, although the relative economic weight of agriculture continues to decline, farmers must be helped, as long as the necessary adjustment process of CAP takes place, by securing a reasonable and stable income levels which are vital for farming.

To the extent that farmers' income can no longer be sustained via price support policies and that direct payments in the form of 1992 compensation schemes are under question, there is an increasing awareness that one should encourage farmers to continue farming.

In this respect, the concept of an *integrated rural development strategy*, which was introduced in a Conference in Cork, Ireland (November 1996), enters the discussion, with the aim of raising the multi-functional role that many farmers can play in generally managing the countryside in the context of their rural rather than a solely agricultural activity. The 'Cork Declaration' which resulted from the Conference was considered to be a good starting point for reflection on the shaping of a future Common Rural Development Policy, calling for an integrated approach under a ten-point programme. It was however debated whether farmers would become pawns rather than active players in agriculture through this policy.

Although the farm Ministers did not accept the inclusion of the Cork Declaration into the Summit conclusions of that time (Dublin, December 1996), the concept of overall *sustainable development* was ultimately included in the *Amsterdam Treaty* (June 1997), as one of the EU's objectives from now on. This indicates that progress must be made towards environmentally sustainable production and consumption.

Up to now, relevant EU action was rather limited to the development of various measures and programmes, the sum of which gradually formed the structural dimension of CAP. The financing of this action, however, never exceeded the 5% of the total Funds of FEOGA. To this extent, although the reformed structural policy has stressed the attention to rural development aspects by introducing the accompanying measures (for the environment, afforestation, early retirement), it is argued that in the years to come there must be an optimum mobilization of synergies in order to make progress in an integrated rural policy.

To this extent, it is questionable whether this target is served by the Commission's proposal to take rural development aspects (applied in less favoured areas of Objectives 1, 5.a and 5.b) out of the Structural Funds programme and consider them simply as accompanying measures, co-financed by the Guarantee (and not the Guidance) Section of FEOGA.

Finally, it should be noted that the adaptation of the

CAP in the light of enlargement to the east will be influenced by some other developments on the horizon. The most important may be the introduction of a single currency in 1999 in those Member States that meet the convergence criteria laid down in the Maastricht Treaty. The prospect that certain Members will not be ready to introduce the single currency means that, most probably, the agri-monetary system will continue in some form after 1999. In that case, enlargement will have further implications on the CAP, depending on the relevant rules which will be adopted for the new Members.

The Luxembourg European Summit (12-13 December 1997) reached a final decision on the whole issue of Agenda 2000. Concerning the CAP, the Summit concluded that ‘the process of reform begun in 1992 should be continued, deepened, adapted and completed, *extending it to Mediterranean production*. The reform should lead to economically sound, viable solutions which are socially acceptable and make it possible to ensure fair income, to strike a fair balance between production sectors, producers and regions and to avoid distortion of competition.’

After this decision, the Commission is bound to issue, in the first half of 1998, concrete legislative proposals for the reform of each product, guided by the orientations of the Agriculture Council on 17-18/11/1997, including proposals for reforms of the olive oil, wine and tobacco regimes plus rural development measures.

RÉSUMÉ

La PAC, qui depuis ses débuts est la plus importante des politiques (sectorielles) de l’UE, continue à être au coeur même de l’intégration européenne.

Jusqu’en 1992, l’orientation de base de la PAC était de fournir un cadre de soutien et de protection aux produits agricoles, basé presqu’exclusivement sur un mécanisme de soutien des prix, afin d’accroître la production et la productivité agricoles et garantir les revenus agricoles. Une fois que ces objectifs avaient été pratiquement réalisés, un certain nombre d’autres problèmes surgirent, notamment la dépense budgétaire élevée nécessaire pour financer le coût de la PAC et l’apparition d’une certaine instabilité du marché causée par des excédents de produits que les marchés interne et externe n’étaient pas en mesure d’absorber.

Après plusieurs ajustements de la politique opérés dans les années 80, une vaste réforme de la PAC fut mise en chantier en 1992 (la réforme McSharry); celle-ci constituait un pas décisif vers l’orientation de marché du secteur, en modifiant progressivement le mécanisme de base de la PAC d’un système de soutien des prix en un soutien direct des revenus. En effet, la réforme se traduisit par des réductions considérables des prix communs élevés pratiqués précédemment, réduisant par là le fossé entre les prix de la Communauté et les prix mondiaux, sans pour autant l’éliminer complètement.

Cependant, l’état actuel des priorités, conjugué aux autres développements politiques et socio-économiques (le futur élargissement, le prochain Round de l’OMC, les contraintes budgétaires, le risque de futurs déséquilibres de marché, les considérations d’ordre régional et environnemental, etc.), plaide en faveur d’un approfondissement de la réforme de la PAC.

La batterie de mesures proposées dans le document “Agenda 2000” de la Commission européenne (juillet 1997) a ouvert le débat en proposant de poursuivre la réforme de 1992 à partir de l’an 2000, afin de faire passer l’ensemble du secteur agricole vers une plus grande orientation de marché et une compétitivité accrue des produits agricoles, et de mettre un plus grand accent sur les politiques de développement rural et sur une agriculture qui soit à la fois davantage soucieuse de la qualité et respectueuse de l’environnement.

Dans ses conclusions, le Sommet européen de Luxembourg (décembre 1997) a pratiquement accepté les orientations de la Commission et l’a invitée à soumettre des propositions concrètes dans les prochains mois, pour la réforme de l’Organisation commune des marchés agricoles, qui devrait à l’avenir indiquer plus clairement la portée et les implications de la réforme envisagée.

Ce train de mesures comporte certainement d’autres modifications importantes de la PAC; dès lors, on peut s’attendre à ce que le débat sur l’avenir de la PAC gagne en intensité dans les prochains mois, voire les prochaines années.

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