THE AGENDA 2000 CAP REFORM PROPOSAL

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INTRODUCTION

The EU Common Agricultural Policy is subject to nearly universal criticism. Farmers, politicians, consumers, economists and environmentalists – all are calling for reform. Budget costs, bureaucracy, food prices, trade distortion, uneven and unfair distribution of support between farmers and environmental damage are only a few of the ills commonly attributed to the CAP.

It it often assumed that because criticism is so widely shared, there can easily be agreement about the remedy. This is unfortunately not true. There simply is no universal solution that can cure all those ills at once, simultaneously creating a clean environment, lower food prices, satisfied farmers and a greatly reduced EU budget. Any reform model implies choices beween these different goals.

Consequently, to speak about "CAP reform" in a general sense, without clear reference to goals, means and long-term vision, is misleading, if not dishonest.

This short text aims to give some background to the Agenda 2000 reform proposal, to briefly present its main lines and discuss some of its obvious consequences. What choices have been made? Which goals are given priority?

The intention has been to provide a first introduction, so many technicalities have been simplified or avoided. However, as the text was written mainly for the European organic farming community, it presupposes some familiarity with the present CAP.

The complete legislative proposals from the Commission, published in March 1998 as COM(1998)158 final, can be found on the DG VI internet home page (http://europa.eu.int/comm/dg06) in all Union languages. At the same site, one finds two other relevant documents, the Cork Declaration about rural development from November 1996, and the Commission Agenda 2000 communication from July 1997, with the first public draft of the reform proposal.

The IFOAM EU Group does not at the time of this publication have a common position on the Agenda 2000 proposal, and this text should in no way be interpreted as such. While in general approach it certainly reflects the views and analyses of the European organic agriculture movement, all specific judgments and statements are entirely the responsibility of the author.

For future updates on agricultural policy activities and positions, please see the IFOAM home page at http://www.ifoam.org or get in touch with one of the Policy Initiative contacts (see box).

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WHY REFORM?

Why does the CAP need reform? Six motives are almost always mentioned:

- budget costs
- simplification
- rural development
- environment
- enlargement
- facilitating trade.

But there is little agreement about which of these are the most important. Member states have different priorities, depending both on the national agricultural situation and on their wider political agendas. Other actors, such as agribusiness, farmers' organisations or environmentalists, add even more divergent views.

The final Agenda 2000 proposal from the Commission is the outcome of several years of internal power struggle between these different interests, and the result is quite clear, at least by EU standards. While all the six motives are duly addressed in some way or other, only one stands out as a major priority: facilitating trade. The belief in world market access as the necessary basis for the future CAP is what has shaped the core of the reform: the continued shift to lower prices and higher direct payments.

A look at the motives one by one gives the following picture.

Budget costs

The CAP budget is now around 40 billion ECU yearly. It is often noted that this is almost half the total EU budget. In absolute terms, however, the sum is not especially large. It represents a large proportion of EU spending simply because agriculture is the only major political area which is altogether financed and regulated at the Union level. In fact, ten years ago, when agriculture was even more dominant in Union affairs, the proportion reached 70 per cent.

The CAP budget in fact corresponds to only a little over 1 per cent of the total public spending of the member states. It is also a minor part of the total food bill. EU citizens yearly spend around 600 billion ECU in food stores. The 40 billion paid in taxes to the CAP thus is only 6 per cent of total food spending.

Contrary to public belief, the Commission reform proposal foresees not a decrease, but an increase of the budget. This increase results from the continued shift from price support to direct payments (see below why this is so). In contrast to the situation before the 1992 reform, CAP spending is now relatively stable, and the spending level has not been a major issue in the discussions.

Only a few member states, notably Britain and Sweden, originally saw lower budget costs as a major priority for this reform. But in the last half of 1998 several other member states have joined UK and SE in calling for cuts, and not only to the CAP, but to the whole EU budget. All the net contributors to the budget, led by Germany, now demand a reduction of their membership fees.

A Commission proposal to achieve this by renationalising part of the direct payments (effectively shifting budget costs from net contributors to mainly the Mediterranean members) proved unacceptable. Due to growing concern about a global financial crisis, it is now seriously considered to freeze the entire EU budget at the 1998 level for the whole Agenda 2000 period (2000-2006).

This may in fact endanger the whole CAP reform proposal, as few of the proposed changes are possible unless increased spending is permitted.

Simplification

The CAP rests on an intricate system of market intervention and border control measures, designed to permit administrative control of price levels on the internal market. Most of these measures were introduced in the 1960s and have developed into even greater complexity over the years.

The 1992 CAP reform added a whole new range of policy measures, including direct payments, set-aside, and environmental programmes. As intended, these have greatly reduced the economic importance of the old market regulations, mainly because lower prices have reduced the need for price control. But still no part of the old system has been eliminated.

Despite this, few member states except those who favour a rapid and radical deregulation of the entire agricultural market (again UK and SE) have seriously questioned the continuation of all the legacy regulations. Neither does the Commission proposal include any simplifications. On the contrary, several new additions are proposed which would considerably increase complexity and administration.

Judging from experience, the political negotiation process is liable to introduce even more complications in order to satisfy national demands and reach consensus.

Rural development

Because the CAP was originally designed as an instrument to stimulate increased food production in Europe, it has always tended to most benefit those farmers who are in a position to expand their business and take maximum advantage of technological innovations and external inputs. In other words, larger farmers more than smaller, and farmers on better farmland more than lower potential areas.

Although the 1992 reforms had some intention to remedy this, the actual effect of the new system has remained the same. The CAP still contributes to the depopulation of marginal areas and the concentration of production to high-potential regions. The often-quoted figure that 80 per cent of the budget goes to 20 per cent of the farmers still holds true. This is a well-recognised problem, and the present level of rural development support comes far from correcting the balance.

In the early phase of the political preparation of the Agenda 2000 proposal, rural development therefore grew into a major keyword. The Cork Declaration, adopted at a major European conference in 1996, proposed to put sustainable rural development ”at the top of the agenda for the European Union”. It was clearly hinted that the direct payments, which mainly benefit the richer agricultural areas, would be reduced in favour of new measures for integrated rural development. The then-new Commissioner Fischler put his full weight behind this vision, with support from a number of member states and also from environmentalists.

But by the time the Agenda 2000 communication was published in 1997, there was no trace of any such budget redistribution. What remains in the final proposal is only an administrative reorganisation of existing rural development measures, intended to facilitate coordination with agri-environment programmes, investment support and other related policies.

The related discussion about a ceiling for total support per farm unit has followed a similar path, resulting in a proposal which is little more than symbolic.

Environment

The environmental problems caused by agriculture are well documented, and largely tied to the input-intensive production most favoured by the CAP. Conversely, the environmental benefits produced by agriculture mainly flow from what remains of traditional production systems in marginal areas. The agri-environmental measures introduced with the 1992 reforms in effect were a way of acknowledging this, creating a mechanism both for supporting existing environmentally sound systems, and for stimulating change in environmentally damaging ones.

In a similar manner as with rural development, the early political statements from the Commission about the new reform promised increased weight for environmental concerns, for example through strenghtening of the agri-environmental programmes. The Agenda 2000 communication in 1997 still talked about ”a prominent role” for agri-environmental measures, specifically citing increased budget and higher co-financing rates.

But in the final proposal this is all gone. Budget is frozen at present levels, even as total budget grows.

The much-discussed introduction of environmental conditions on the direct payments (”cross-compliance”) is in the end only proposed as an option for individual member states to implement nationally.

Enlargement

With the eastward enlargement foreseen in the first decade after 2000, the total agricultural area of the EU may increase with over 40 per cent, and the number of farms even more. Agriculture still employs an average 25 per cent of the population in the ten applicant countries, compared to 5 per cent in the EU 15.

Production volumes would at first not increase proportionally, because average productivity is lower. In the longer term, however, many of the applicant countries have a potential to greatly increase production.

Enlargement without previous changes to the CAP would create firstly an automatic increase in the cost of direct payments, in principle proportional to the agricultural area added. Secondly, enlargement might over time lead to major new surplus problems. The cost of handling these is very difficult to predict because it depends so much on the products concerned and on the world market situation when the surpluses occur.

Additionally, the Commission voices concern that social upheaval might follow in the rural economies in new member countries with the massive inflow of cash that the direct payments would represent in regions with cost levels several times lower than the EU average.

These factors have led some to conclude that both direct payments and price support mechanisms must be eliminated entirely before enlargement. This is however a minority view among the member states, again with

complete support only from UK and SE.

A more common view is that direct payments and/or price support should somehow not be introduced at all in the new member states, while continuing indefinitely in the EU 15. To compensate, various forms of adjustment support would be offered.

What this would mean in practice is difficult to envisage. It is indicated in the Agenda 2000 communication, and again in the final proposal, that enlargement strengthens the case for reform. Still, the Commission offers no concrete proposals whatsoever for a long-term solution. In fact, by proposing further increases in direct payments, it compounds the problem.

The only indication given is really the budget allocations made for new member states from 2002, a large proportion of which is earmarked for rural development and environment measures.

Facilitating trade

The 1992 CAP reform took place under pressure from the ongoing GATT negotiations, where agriculture was for the first time on the global trade agenda. The relatively high level of both border protection and internal price control measures made the EU a primary target for reform demands, especially from the US and the so-called Cairns group of food and feed-exporting countries.

Although it was never acknowledged at the time, this was the decisive factor behind the introduction of direct payments, because they permitted cutting border protection levels and export subsidies enough to meet the GATT requirements.

It is generally assumed that the next round of global trade negotiations, which may begin already in 1999, will result in an agreement to further decrease price support. This is noted by the Commission in its proposal, and this time is quite openly referred to as a major reason for reform.

What is entirely new, however, is that global trade now also is portrayed as an opportunity and a challenge for EU agriculture. This is in fact the key idea that opens the proposal text and underlies its main recommendations.

The starting point of the analysis is that world food markets will continue to grow and offer good prices. In seeming contradiction, it is then argued that EU internal price levels are still too high to take advantage of this growing market, and that surpluses will threaten to reappear unless prices are reduced sufficiently to make export possible.

It is easy to see how the main thrust of the whole proposal, to continue cutting prices and compensate by raising direct payments, follows directly from this argument. Essentially, it is also the only argument given to support this model. None of the other reform goals are furthered by it, several even countered.

THE REFORM MODEL

It is remarkable how the direct payment model, which represented a radical paradigm shift when it was introduced in 1992, has already come to be regarded as self-evident and unavoidable. At the end of a first five-year period with an entirely new mechanism, one would expect some attempt at evaluation, or at least some discussion of its effects and possible alternatives. But there is nothing of the kind in the Commission texts, and there has not been much more in the public discussion.

This section will attempt to explain why this is so, but first we need some background.

The old model

To understand how the direct payment model works, we need to briefly look at how the CAP worked before the 1992 reform.

The original model of the CAP relied on various mechanisms for stabilising Community farm prices at a higher level than on the world market. Similar policies were introduced in most industrialised countries during the period from the 1930s to the 1950s, initially as emergency measures to address the farm crisis caused by the world market collapse in the 1930s, later also as one means to help rebuild agriculture after the war.

The central mechanism was the border protection. Imported agricultural products competing with Community products were subjected to levies, the size of which were constantly adjusted to assure that imports, although cheaper when reaching the border, were always at least the same price as Community products when reaching the consumer. The effect was that Community farmers could always sell their products and stay in business, even if their production costs were higher.

In some major products (milk, beef, sugar, cereals), the CAP also guaranteed that the Community would buy their products at a fixed price in case temporary surpluses or other factors made them impossible to sell on the ordinary market. This ”intervention system” then would either store the products and sell them at a later time on the internal market, or pick up the cost of selling them at a lower price on foreign markets (export subsidies).

This policy successfully achieved its primary goal, to reach food self-sufficiency. The Community passed from a large food deficit in the 1950s to gradually becoming a net exporter in the 1970s. In the 1980s, permanent surpluses became the rule, and rapidly rising costs for intervention and subsidised export made some kind of reform necessary.

The new model

The model chosen was to reduce support for internal price levels, but compensate instead with direct payments calculated to correspond to the income loss from lower prices. The 1992 reform introduced this model for cerals, oilseeds, protein crops and beef production. For sheepmeat, there was already a direct payment system of a slightly different kind.

The shift to direct payments in itself did nothing to reduce surpluses, as total compensation on the average did not change much. Only one major new measure was introduced to directly limit production levels, the set-aside requirement in grain production, requiring a certain (variable) percentage of non-cultivated land per farm. In milk production there was already a quota system directly regulating production volumes, and the price/payment shift was not introduced at all.

It is often mistakenly assumed that the shift from price support to direct payments was made to save taxpayer money and bring down the CAP budget. This is not correct. In principle, price support is a much less costly system, because it relies mainly on the border protection levies, which actually create income for the EU budget, not costs.

The cost of the border protection is borne directly by the consumer, who is in effect forced to pay the higher price needed by internal producers, regardless of whether she buys internal or imported products. In the case of the internal production, the money flows directly from consumer to producer. In the case of imports, the consumer effectively pays the levies, which in turn go into the EU budget.

With direct payments, the full cost of keeping a higher compensation to internal producers has to be covered through the EU budget. Prices paid by consumers can be reduced, but the cost instead appears as higher national contributions to the EU budget, which in turn must be covered through higher taxes.

The 1992 reform thus led to increases in the EU budget, and the present proposal requires new increases, as costs in effect are shifted from consumers' food bills to the EU budget.

What is potentially costly with a price support system is not the border protection, but the intervention system, the commitment to buy everything produced within the protected area at a fixed price. Unless there are some controls on production volume, costs of buying, storing and exporting surpluses can increase rapidly and unpredictably due to fluctuations in production and/or world market prices.

This was what had happened during the 1980s in the EU. What the shift to direct payments did achieve was to bring these cost increases under control. The great advantage of the payments from a budgeting point of view is that they are politically decided for a long period ahead. The costs are known beforehand and budgets can be kept.

Under the direct payment model, the difference between the EU price and the world market price is reduced, and thus also the need for intervention and export subsidies. Those costs are now a much smaller part of the budget, which greatly has reduced the budget impact of market fluctuations.

Why this model?

Yet, this does not really explain why the EU chose this reform model. The budget control desired may well have been achieved, perhaps even more effectively, by other means, such as more and stricter controls over production increases, in addition to the milk quota and set-aside. This would also have addressed the long-term risk for recurring surpluses, against which the current CAP has no better defences than the old model, although budget consequences are less serious.

The decisive factor was in fact the pressure from the then ongoing negotiations of the first GATT Agriculture Agreement, in particular the demand that support should be ”de-coupled” from production.

De-coupling is a concept that was first formulated in the USA during the 1980s, in circles close to the major agribusiness corporations. It was conceived as a formula that would allow continued government support to agriculture, but eliminate the barriers to trade created by price support based on border protection. The basic idea

is that all support should be in the form of actual payments from the government concerned, and be distributed according to criteria without direct connection to the type or amount of production. An ideal form of decoupled support would be a yearly payment per farm or per farmer, without any requirements relative to type or volume of production.

The rationale was obvious enough. For US agribusiness companies, access to foreign markets is essential to further growth. Under de-coupling, they would have this access, and the whole burden of any support would fall to the governments concerned. In the long run, this would probably create political pressure to cut down on support, and make it increasingly harder for farmers in importing countries to compete with the (US) import products.

The US government quickly caught on to this new idea, which of course was attractive for a national economy strongly dependent on agricultural exports. By the time the GATT negotiations got under way, de-coupling was official policy. One of the original proponents of the idea, Daniel Amstutz of Cargill, the world's leading grain trading company, was made chief US negotiator for the Agriculture Agreement.

That the EU in essence adopted de-coupling and made it the centrepiece of its 1992 CAP reform, can only be understood in this context.

Long-term vision?

The present reform proposal is, as will be seen below, mainly an extension of the 1992 reform. Nothing radically new is proposed. There is however an entirely new rhetoric about "competitive agriculture", creating the impression that EU agriculture should somehow be capable of building a comparable position on world markets as the USA and compete with it for market shares.

It is difficult to follow this argument. Present EU price levels are, as noted by the Commission, still considerably above world market levels for most products, thus not competitive. Yet, even these higher levels entirely depend on considerable direct support payments. Without the direct payments, few if any EU producers would be able to survive on present prices.

In order for prices to become competitive, direct support would have to increase even more. This is in fact what is proposed. But what kind of "competitiveness" does this create? What happens in the long run? Unless natural limitations are miraculously overcome, it is not likely that EU producers will ever be able to grow wheat at Canadian cost levels or raise sheep at Australian cost levels. Will direct payments then continue indefinitely? And if so, how do they in fact differ from export subsidies, except in that they are paid to all production, not only to the fraction exported?

It is already clear that the EU's competitors will raise exactly this question in the upcoming WTO negotiations about the next Agriculture Agreement. Most observers agree that present, closely production-related direct payments are very unlikely to survive these negotiations. What then is the EU strategy?

In general, it is remarkable how both the previous reform proposal and the present one avoid to indicate any long-term vision of where European agriculture should be heading. A few member countries, headed by Britain, clearly advocate a rapid dismantling of the CAP, including both price support systems and direct payments. But the large majority show little sympathy for such ideas. And the Commission is very silent.

Yet, there are indications that the unspoken long-term vision is indeed a slow elimination of the CAP. It can be noted that both in the 1992 reform and in the present proposal, direct payments were targeted to compensate almost, but not completely, the price cuts. More importantly, both present and proposed payments are fixed in nominal ECUs and not indexed. In effect, this means that payments are slowly reduced by inflation. Even at present low inflation levels, most of the value will be gone over a few decades.

Unless this development is countered by considerably increased rural development and environmental payments, which it is not in the present proposal, the new CAP model may prove even more destructive than the old one. As well known, it is smaller farms, farms in less productive areas, and farms with higher environmental standards which have most difficulty in handling a price cut, simply because their costs per unit are higher.

THE PROPOSALS

In this final section, the main reform proposals are presented and briefly commented. Emphasis is on their probable effects for sustainable production systems, and in particular for organic farms. All figures are as put forward in the March 1998 legislative proposals from the Commission, as no later drafts were available at this writing.

Plant production

Proposals

- Intervention price for cereals is reduced 20 per cent to 95.35 ECU/t (now 119.19 ECU/t).
- Hectare payment for cereals is increased to 66 ECU/t (now 54.34 ECU/t).
- Cereals for silage continue to qualify for the hectare payment (contrary to first proposal).
- Hectare payment for oilseeds is reduced to cereal level.
- Hectare payment for protein crops is reduced to 72.5 ECU/t (now 78.49 ECU/t).
- Compulsory set-aside scheme is maintained, but requirement initially fixed at 0 per cent.
- Voluntary set-aside scheme is maintained, but with new minimum and maximum limits.
- Hectare payment for set-aside is also reduced to cereal level.

Cereals

For cereals, the increase in hectare payments (12 ECU/t) only corresponds to half the price cut (24 ECU/t). The Commission however is confident that actual market prices will stay well above the new, low intervention price, not only on the internal market, but also on the world market. If so, total compensation to farmers will remain more or less unchanged, while still allowing unlimited amounts to be exported without recourse to export subsidies.

Few other observers are as optimistic. Depending on what actually happens on the markets, the net outcome can vary considerably. If market prices fall all the 20 per cent, total compensation will be 10 per cent less than now.

As often noted, replacing price support with hectare payments tends to benefit more extensive production, including organic, because it is calculated on the regional yield rather than the (lower) individual one. On the other hand, the organic price levels are usually directly influenced by conventional market prices, and are liable to be reduced with a similar percentage. This means that the premium paid for organic grain on the market will tend to shrink in absolute terms, although the extra costs of organic production will not. The net effect is therefore difficult to predict.

At bottom remains of course the basic discrimination against organic production inherent in a system with direct payments only to annual crops, and not to leys or green manure crops in the rotation.

Silage

The original Agenda 2000 communication in 1997 proposed to eliminate the hectare payments for silage cereals, mainly paid to maize silage. In the final proposal the Commission yielded to heavy pressure from some member countries and let silage maize remain in the support scheme. To finance this, the originally proposed compensation to beef and milk production was radically reduced, on the rationale that these producers were instead compensated by continuing the silage payments.

This is likely to be the single most damaging of the reform proposals for the organic sector. It also strikes against all other milk and beef producers who base their production on fodder from a ley-based rotation. What the proposal means is in fact that only those who replace grass with maize silage will have access to the full compensation package.

Furthermore, there are several regions where maize silage is not an option at all, notably Scandinavia but also many mountain regions in other parts of Europe.

Oilseeds and protein crops

For oilseeds, setting the hectare payments to cereal level means a reduction with around 30 per cent, likely making the oilseed crops unprofitable compared to cereals for most producers. The Commission proposes this drastic cut because it may allow the EU to circumvent the limitations on oilseed area imposed by the GATT agreement (because oilseeds would no longer get a specific, higher payment).

The cut in the protein crop payment is less drastic but probably enough to curtail production.

In both products, the EU is already heavily dependent on imports. Yet the intent is, in accordance with GATT commitments, to avoid production increases.

Set-aside

The set-aside mechanism is the only supply management tool available in the cereal sector. It was introduced in 1992 as a means to regulate surplus production, and consequently targeted to the larger producers (above 92 tons of grain per year).

In the Agenda 2000, the risk of recurring surpluses is a major part of the background scenario. Yet, the Commission wants to reduce set-aside to zero. Instead, it believes that the proposed price cuts will bring at least the wheat price down to world market level, allowing any surplus to be exported without subsidy and thus without WTO limitations. There are at least two problems with this.

Above all, it is far from certain that it will actually work. Among many others the European Court of Auditors in a recent report has questioned the soundness of the Commission's calculations. There is a clear risk that the strategy may backfire and cause rapidly growing surpluses.

On the other hand, if the strategy works, it will do so at the expense of the smaller and more extensive producers. Economies of scale ensure that larger producers are always better prepared to withstand a price cut. In addition, the larger farms tend to be located in the better growing regions. In contrast to the set-aside scheme, which offers some protection to the smaller producers, the now proposed strategy will specifically victimise them.

Beef

Proposals

- Intervention price for beef is reduced by 30 per cent to 1.95 ECU/kg (now 2.78 ECU/kg).
- Direct payment for suckler cows is increased to 180 ECU (now 145 ECU).
- Direct payment for bulls is increased to 220 ECU (now 135).
- Direct payment for steers is increased to 170 + 170 ECU (now 109 + 109 ECU).
- In addition, "national envelopes" are introduced, from which member states are to distribute an additional 35 ECU per suckler cow, 90 ECU per bull, and 61 + 61 ECU per steer. But this additional sum can be distributed unevenly according to "objective criteria" decided by the member states. The money may also be distributed to pasture area, rather than per animal.
- Heifers will be eligible for the suckler cow payment, provided the producer has unused premium rights. Up to 20 per cent of rights may be used for heifers.
- Total number of premium rights for suckler cows is limited based on actual use 1995-96.
- The extensification payment is increased to 100 ECU (now 35-50 ECU), but with stricter criteria.

Prices

The argument put forward for the radical price cut of 30 per cent is the weak market after the BSE crisis, but also the long-term downward trend in beef consumption relative to other meats. The hope is if not to reverse so at least slow down this trend. But in addition, as with cereals, the Commission entertains the hope that non-subsidised export may become possible.

As the European Court of Auditors and other independent observers note, it is unlikely that even large price cuts will alone stop surpluses from reappearing. But no direct supply management measures are proposed, nor any limitations of the support to large and highly intensive producers.

For organic and other quality production, the price cut is likely to create problems, when the price floor on which premium prices rest is drastically lowered.

Payments

The increases in direct payments far from compensate the decreasing prices. Even for those qualifying for the increased extensification payment, the net income will be lower than today. According to the Commission, producers can "adjust their production structures, save on input costs and increase efficiency" to make up for the difference. No concrete examples are offered. It is difficult to envisage how this would be done in an already hard pressed sector.

Lower feed grain prices will be a positive factor for intensive producers with high stocking densities and grain-based production, dependent on buying off-farm feedstuffs. But not for balanced farms based on their own feed production, and certainly not for organic farms with grass-based production.

No effective limitation is introduced for stocking density. Formally, there is already a limit of maximum 2 LU/ha, but the calculation only takes into account animals for which payment is sought. Thus, no matter how high actual density is, payments are awarded for the first 2 LU/ha.

Compared to the original Agenda 2000 communication, payment levels have been considerably reduced for bulls (but not for steer or suckler cows), with the argument that producers will instead be able to benefit from the retained silage payments.

National envelopes

Member states will have considerable freedom to set their own criteria for distribution of the national envelope part of the payments. It should be quite feasible to differentiate regionally or create extra incentives for extensive production, including by paying per hectare of pasture area rather than per animal. In fact, the Commission has indicated that it would have liked to see a general shift from per head to per hectare payments, but due to strong resistance from member states this is not proposed.

Extensification premium

The significant increase of the extensification premium is connected to stricter rules for density calculations. The limit for getting the premium will continue to be 1.4 LU/ha. The present extra payment below 1.0 LU/ha is discontinued.

But in contrast to the calculation of the general 2.0 LU/ha limit for getting any payments at all, the extensification limit will be calculated on the basis of total animal stocks, regardless of whether any payments are applied for. There is also a new requirement that these animals must really be held on pasture during the grazing season, and that only pasture actually available during the whole season can be used in the calculation.

The Commission expects the stricter rules to considerably reduce the number of animals eligible, targeting the payment to truly extensive producers.

Milk

Proposals

- Intervention prices are gradually reduced by 15 per cent.
- Direct payment is introduced at 135 ECU per ”average cow”.
- In addition, a ”national envelope” is introduced, containing 80 ECU per ”average cow”. Distribution rules same as for beef regime.
- Quota system is retained. Total quotas are increased 2 per cent, to be distributed to mountain areas and young producers.

Prices

The original Agenda 2000 communication proposed a 10 per cent price reduction. This was increased to 15 per cent in exchange for the maintained silage payment, effectively making all producers pay with price cuts, but only offering the full range of compensation to those who replace grass-based fodder with maize silage.

In the milk sector, even the Commission has little hope for non-subsidised exports, except in cheese (but this is already the case). The bulk products regulated by intervention prices (butter and milk powder) will continue to be exported with subsidies. Nonetheless, it is claimed that the reform will increase competitiveness.

Payments

The direct payments introduced are to compensate both for milk (100 ECU) and beef (35 ECU) price cuts. Both figures are valid for cows producing the EU average of 5.8 tons milk per year.

The milk part will be adjusted individually, simply by dividing the farm quota with 5.8, thus arriving at a number of ”average cows”. The beef part of the payment will be adjusted in a more complicated way, using different ECU figures for each member state, which have been calculated to give a higher beef payment per cow in member states which have lower average milk production. National envelopes have been calculated in a similar way.

The effect of calculating payments on the basis of quota, and not on real cows, is that the compensation is very closely tied to individual production levels. In fact, the incentive to intensify remains just as strong as before. The payments are not used to reward more extensive or organic production, as they could easily have been.

Quotas

While the quota system is proposed to remain until at least 2006, there are indications that the Commission is considering to eliminate it after that date. This would mean there were no other means to avoid surpluses than letting prices fall to world market level.

Modulation and environmental conditions

Proposals

- Support payments above a ceiling of 100 000 ECU per farm will be reduced. A 20 per cent reduction will apply for sums between 100 000 and 200 000, and a 25 per cent reduction for sums above 200 000.
- Member states will be allowed to reduce support payments to farms which use less than a specified amount of labor per year.
- Member states will be allowed to set specific environmental conditions for direct payments, to be enforced through reduction or elimination of the payment in question.
- Money saved by member states through nationally decided modulation measures will be available for programmes under the rural development regulation.

Ceiling

The idea of a ceiling for payments to the largest farms has been widely discussed since before the 1992 reform. In the original Agenda 2000 communication in 1997, the Commission indeed stated its intention to propose ”an individual ceiling covering all direct income payments”.

By the time the final proposals appeared, what remained was a modest percentage reduction applicable only to a small number of farms with extremely high payments. The effect on the total CAP budget is negligible (400 MECU according to the Commission). There is also no redistribution component. The proceeds will go back into the general budget.

Reduction for low labor farms

An idea pushed primarily by France, the labor-related modulation is intended as an incentive to maintain higher employment levels in agriculture than would otherwise be motivated, and thus counteract the trend toward increasing mechanisation. The allowable reduction is limited to 20 per cent of the total payment per farm. Excepting France, there seems to be little interest in using this option.

Environmental conditions

The idea of environmental conditions (or cross-compliance) has figured prominently throughout the discussion about Agenda 2000. In the proposal, it is however reduced to a voluntary option for member states to define and implement at national level. So far, it is only DK and NL that have shown any interest in doing so.

While it may prove important that a few member countries play this pioneer role, the immediate effect will actually be to disadvantage farmers in those countries on the common market, as their competitors will get the same payments without conditions. In fact, the net effect is the opposite of what environmental conditions would have if introduced on the EU level, equal for all.

A dynamic element in both modulation proposals, the labor-related and the environmental, is that any money saved will remain available to the member state as additional financing for programmes under the rural development regulation. This considerably increases the possibilities to create effective incentives, as the same money can be put to use twice, first as reduction and then as support payment.

Rural development

Proposals

- A new rural development regulation is proposed, combining agri-environmental measures, less favoured area support and several other smaller support schemes into one framework.
- Parts of present rural development measures under the structural funds will be transferred to the CAP budget.

Integration

Since the Cork conference in 1996, rural development is routinely referred to by the Commission as ”the second pillar” of the CAP, indicating equal importance with the market regulations.

In financial terms, this is clearly not true. Despite much talk about Agenda 2000 shifting emphasis from market support to rural development, the actual proposal contains no added resources, except what is foreseen for enlargement. In fact, the budgets for rural development increase at a considerably slower rate than the budgets for market support in the period 2000-2006. If there is a shift in emphasis, it is in the opposite direction.

Neither is there much that is new in the rural development regulation. Essentially, it is the combination of a number of existing measures into a common framework with a common budget.

What may nevertheless lead to some changes is that member states now will be required to present unified programmes for the implementation of the regulation, instead of the many individual programmes produced up

till now. In time, this can lead to synergies between the various part-programmes, which at present are barely co-ordinated, and sometimes even counteract each other.

Also, as there are no separate budgets for the component programmes, it will probably be possible for member countries to concentrate their efforts on certain priority activities to a larger extent than today.

Contents

The major parts of the rural development regulation are the ”accompanying measures” introduced with the 1992 reform (agri-environmental programmes, early retirement support, afforestation support) and the compensation payments to less favoured areas.

In addition the regulation includes present schemes for investment support, establishment support for young farmers, and support for improved processing and marketing.

Finally, the type of general rural development measures now financed through the structural funds and only available in limited areas (Objectives 1, 5 and 6) will be extended to all rural areas. The financing will partly be transferred to the CAP budget, and programming partly done under the rural development regulation.

Agri-environmental programmes

Contrary to earlier indications, no strengthening of the agri-environmental programmes is proposed, neither in total budget, in degree of co-financing, or in requirements for implementation. It is already mandatory for the member states to offer agri-environmental programmes in some way, but as requirements are not further specified, implementation is very weak in parts of the Union. This situation can continue under the new regulation. Co-financing rate remains at 50 per cent (although a possibility is created to go up to 60 per cent in ”exceptional cases”). The total budget is fixed at present level, which in fact means a gradual reduction both in real terms and especially relative to the direct payments, which will increase considerably during the budget period.

Less favoured areas

Under the new regulation, the LFA payments will have to be made per hectare. Payments per head of animals will no longer be allowed.

In addition, there will be introduced certain environmental criteria (not specified in the regulation) for the LFA payments.

Enlargement

Very little concrete is said about how the new member states would be integrated into the CAP, except for the vague suggestion that they would not be allowed into either the price support regimes or the direct payment schemes, at least not on an equal basis. There are however budget figures for the period from 2002, which indicate an emphasis on rural development measures (2 500 MECU by 2006) as opposed to direct payments and other market measures (only 1 400 MECU by 2006). This is a radically different distribution than for the existing EU 15 where rural development still will be marginal (5 000 MECU by 2006) compared to market measures (over 40 000 MECU by 2006).

But is it really realistic to assume that new members would accept a ”second-class” status in the CAP, which is after all the oldest and largest part of the whole EU project? And what about the argument that price support and direct payments would create ”income disparities and social distortions” in rural areas? Why would it be any different from what happened when the new Mediterranean members were admitted, or for that sake in many rural areas of original member countries?

Both positive and negative effects would probably be the same. Positive: reduction of the rapidly growing disparities between cities and countryside, more money available to farmers for investments, and thus quicker modernisation of farms, as well as important spin-offs for rural economies at large (services, employment). Negative: the level of external inputs would rise quicker (increasing negative environmental effects), and production would expand faster (increasing the risk of surpluses).

Not in proposal

It should be noted, finally, that several agricultural sectors are not touched at all by the present proposal. This is true for the Mediterranean products (wine, olive oil, fruit and vegetables), but also for sugar and sheepmeat. For wine and olive oil, separate reform proposals are under preparation.