

## FINANCIAL PERSPECTIVES

The debate on the Financial Perspectives for the period 2007-2013 has been fraught with difficulties and particular dangers for rural development. Enlargement of the EU to include 10 new Member States from 1 May 2004, most of whom are major net recipients of EU money, inevitably means major expenditures but only minor revenues for the EU budget.

Most Member States are of course aware that substantial levels of financing for agriculture, rural development as well as regional and social support are necessary in the context of Europe's socio-economic model according to which economic growth must go hand in hand with a degree of solidarity towards those who are less able to compete.



### WHAT IS THE PRICE OF THE CAP?

For more than 40 years the CAP has been considered as one of the most important European policies. During the beginning of the EC's existence, the CAP represented a large proportion of the overall budget and expenditure. A stricter budgetary discipline, the growth of EU activities in other policy areas and a series of reforms to the CAP (three times in ten years) have resulted in a reduction in the total proportion of funds allocated to agriculture.

Budgetary limits have been established to control expenditure in any one year and over periods of years. CAP expenditure has been frozen until 2013. The limits envisaged for CAP market measures and direct aids during the period 2007-2013 will not increase in real terms and will actually decrease, not only because the EU 15 will have to pay for most of the direct payments to the EU 10, but for all such payments to Romania and Bulgaria when they accede but also because of further reductions resulting from the Council Agreement on the New Financial Perspectives of December 2005.

#### **Trends in the CAP:**

- ❖ A declining share in EU GDP
- ❖ A declining share in the EU budget
- ❖ A declining share in total EU public expenditure

The CAP budget accounts for about EUR 50 billion per year. This represents nearly 50% of the total EU budget, because it is the only common sectoral policy. If one takes into account total public expenditures by the EU and its Member States, less than 1% of GDP is spent on the farming population (5.5% of the economically active population in the EU 15 before the 2004 enlargement) as well as on rural development.

Agricultural expenditure has been steadily decreasing as a share of the overall EU budget expenditure, as well as in real terms and per farm (from 0.54% of GDP in the early 1990s to 0.43% in 2005). And what this money is spent on has also been changing: less for export subsidies, less for market support (intervention stocks), more direct aid to producers (decoupled from production) and more to rural development and the countryside.

## WHY FINANCE THE CAP?

At present, European society shows mixed feelings about the financing of the agricultural and rural development policies. Originally the aim of the CAP was to ensure the availability of food at all times, the stability of prices and fair and regular incomes for farmers. Today, European society takes the availability of supplies for granted and many people do not understand why farmers are still paid to farm.

However, there is strong public support for the objectives of the New CAP, such as healthy and safe food production, contribution to sustainable development of rural areas, protection and enhancement of the EU natural environment and its biodiversity - and all this at a minimal cost to the EU budget. So the focus has switched to include non-marketed and non-traded environmental and social services, which are supplied as byproducts through farming and forestry.

While a majority criticizes agricultural support as excessive, many admit that small farm income is insufficient and that farmers have little support in dealing with far more powerful intermediaries, who siphon off the bulk of the final shelf price of their produce.



## **THE ELO THINKS THAT...**

The EU budget debate will have a serious impact on rural areas. The ELO has been virtually unique among Europe's agricultural organizations in its strong support for the New CAP resulting from the Council agreements of 2003 and 2004.

The New Financial Perspectives threaten to undermine our general understanding of the last commitments made by the Council, which slashed the resources agreed in October 2002 for the agricultural markets and decimated the financial means available for Rural Development and the rural environment.

ELO is concerned that different implementation of the Single Farm Payments and unequal implementation of the cross-compliance provisions in the Member States may disturb the competitive conditions between farmers across the EU.

While most farmers are keen to improve the sustainability of agriculture, which they cherish as their most precious asset, oftentimes they cannot afford to do so, because the market mechanism does not pay for the relevant additional costs. Younger generations thus feel discouraged from entering into the farming business. This discouragement can result in further land abandonment, degradation of the rural environment, loss of employment and even the decline of the social fabric of many of our rural areas. This risk is aggravated by a general pessimism about future support and the effects of the WTO negotiations on European agriculture.

ELO Members have been hoping for a period of stability following the latest reforms in order to plan their production and diversification and ensure the future of their activities. Farmers have the same right as any other industry not to have the economic, policy-based context subject to continuing policy uncertainty. We are a partner for a stable, sustainable and environmentally friendly CAP and a vibrant, living countryside.