

## **A RURAL POLICY FOR EUROPE**

### **Introduction**

The European Landowners Organisation (ELO) exists to contribute to the policies of the European Union in promoting a prosperous and attractive countryside and to ensure that private land ownership can continue to make a positive contribution to the economy and environmental management of rural areas. The ELO's constituent organisations in Austria, Belgium, Denmark, England and Wales, Finland, France, Germany, Greece, Italy, Netherlands, Portugal, Scotland, Spain and Sweden, represent the interests of millions of landowners throughout Europe.

Over the last year the ELO has been involved in researching and debating the present Common Agricultural Policy (CAP), to equip itself for the greater debate which inevitably lies ahead - a further reform of the CAP.

The ELO has now formulated its own policy which is presented in this paper. It will seek to call upon these views in constructive debate throughout the European Union (EU). In so doing, we recognise the need for flexibility of approach in a fast moving world. At the heart of our policy is the desire to develop a competitive European agriculture, to exercise responsible stewardship of our land and water resources, and to maintain viable rural communities.

### **Analysis**

The main objectives of Article 39 of the Treaty of Rome are the core of the CAP. They are:

- to increase agricultural productivity
- to ensure, thereby, a fair standard of living for the agricultural population
- to stabilise markets
- to guarantee regular supplies (of food)
- to ensure reasonable prices in supplies to consumers.

To a greater or lesser extent the objectives have fulfilled, but at a cost. Production surpluses show the economic inefficiency that exists and the heavy resource-cost that has to be borne by the net contributing Member States of the EU.

Major reforms of the CAP were introduced in the 1980's, involving milk quotas, voluntary set-aside, stabilisers and co-responsibility levies. The objective was to bring agricultural markets into balance and contain the agricultural budget. They failed.

In May 1992 a further major CAP reform was introduced. This "new and more stable framework" meant increased use of set-aside and quotas but also support-price cuts. The agreement to a staged reduction in institutional prices market the first time that a reform had challenged the principles of the CAP. The loss to farmers has been mitigated by the introduction of partly de-coupled compensation payments. However, the reforms cover only half of European agricultural products, involve substantial resource distortions, introduce serious landlord/tenant problems and involve heavy administrative costs.

The reforms have subsequently been challenged on their compatibility with the current GATT, and on their apparent failure to address fraud.

The production controls introduced by the reforms distort the natural development of the pattern of production, encourage inefficient producers and increase the overall level of costs in the industry. Flexibility to respond in the light of changing conditions is severely reduced. With set-aside on arable land, quotas on milk, sugar, sheep premiums, beef premiums and potatoes, there is reduced scope for the efficient to develop their farming enterprises. The efficient will be held back and new entrants will find it increasingly difficult to get into the farming ladder. In the meantime, inefficient producers with quotas are protected.

Apart from further changes necessary to meet the GATT requirements, and the possibility of an attempt to modulate the level of support, the likelihood of further radical changes to the CAP before the year 2000 seems low. Yet there are indications that the CAP will need substantial reform at the end of the present century. The stimulus for such reform will come from a number of areas including : budgetary concerns; taxpayer and consumer resistance; environmental concerns; but, most significant, from the enlargement of the EU to include the Central and Eastern European countries involving both budgetary and GATT issues.

But what of the impact of CAP reform on rural communities? There is a continuing debate within Europe as to what extent the CAP is a rural social policy. The policy steer of the European Union on rural socio-economic issues is presented in the European Commission paper - "The Future of Rural Society" (1988). Surprisingly, this paper indicates a wide-ranging social policy commitment much broader than the generally perceived single-purpose agricultural policy of the CAP.

Without doubt, EU farm support funding remains a major input to the economy of rural areas. In 1994, the level of funding to EU12 agriculture amounted to 40 billion ECU. Thus, if support of this nature was withdrawn, then simply to maintain present rural economies and the rural environment would require massive additional inputs from both agricultural and non-agricultural sources.

The funding of the overall EU Socio-Economic Programme (i.e. both urban and rural) is by means of four Structural Funds - The European Regional Development Fund (ERDF), The European Social Fund (ESF), The Cohesion Fund and the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF). The current budget of the Structural Funds is significant at 141 billion ECU (1994-1999), but less than 10% is allocated to rural programmes. The concept of Structural Funds is important, and the desirability of targeting more of these to rural areas will become increasingly important.

There is no mention in Article 39 of any environmental objectives. The first significant signs of EU environmental policy innovation came in 1985 when Member States were able to offer aids to farmers to ensure that agricultural practices were compatible with environmental protection, for example, Environmentally Sensitive Areas in the UK. But it required the introduction of the Single European Act in 1987, which amended the Treaty of Rome by providing that "environmental protection requirements shall be a component of the Community's other policies," to pave the way for a realistic harmonisation of agricultural and environmental policies.

As part of the May 1992 CAP reform, provision was made for the introduction of Agri-environment measures. Although the funding for such measures is very small compared with the agricultural budget of the CAP (less than 1%). Member States were required for the first time to introduce their own Agri-environment measures to pursue environmental objectives. While these have great potential, at the levels of future funding currently envisaged, they will never be major influences on the European agricultural landscape and wildlife conservation.

**Thus, the ELO concludes that:**

- \* whilst the present CAP is relatively robust in the short term, there are overwhelming pressures for significant change during the first decade of the next century;
- \* the contribution of agricultural support payments to environmental conservation and the economics of rural areas throughout Europe is very significant. Even a partial reduction in farm support will have a major negative impact on both the environment and economies of rural areas; and
- \* agri-environment measures have great potential. But at the current level of funding, they will never be a major influence on the agricultural landscape and the wildlife, historical features, and recreational opportunities which it supports.

### **Towards a European Rural Policy (ERP)**

From the above analysis, a picture emerges of an agriculture facing many pressures for change, emerging environmental needs, and consequent socio-economic problems for rural areas. Clearly, these factors are inter-related and the ELO believes that the way ahead lies in a shift of emphasis from a Common Agricultural Policy to a more broad-based European Rural Policy (ERP).

The nature of the policy should be framework rather than interventionist. Its aim should be to facilitate sustainable development in rural areas and target support to areas where the market will not work, i.e. market failure. On the assumption that future GATT arrangements are to maintain a world trade liberalisation policy, the period envisaged to effect the necessary changes would need to go well beyond the next GATT, as far as the year 2010 and even beyond. Thus, from the commencement of the current GATT in 1995, a period in excess of fifteen years emerges to bring about full reform and to introduce adjustments to the economy of rural areas by means of a framework ERP.

The European Rural Policy should be supported by the following objectives:

#### **Sustainable Agriculture**

- \* **To make EU agriculture more competitive in world markets.**
- \* **Progressively, to bring supply and demand into better balance.**
- \* **To be compatible with the EU Single Market.**

#### **Sustainable Environment**

- \* **To secure, maintain and enhance a countryside which is clean, attractive, and rich in wildlife, historical features and recreational opportunities.**
- \* **To support environmental programmes where there is market failure.**

#### **Sustainable Socio-Economics**

- \* **To develop rural communities.**
- \* **To diversify the economy of rural areas.**
- \* **To support socio-economic programmes where there is market failure.**

### **ERP - A Sustainable Agriculture**

The way ahead is not straightforward. There will be many political, economic, strategic and practical problems associated with further policy changes. But, ultimately, there appear to be following main routes for agriculture, namely supply control or the market route.

#### **(i) Supply Control**

This policy is currently favoured by the EU. It started with milk quotas in 1984 and has been developed since then culminating in the 1992 reforms. Producer prices for agricultural products and direct production subsidies are kept artificially high and surpluses are contained by putting restraints on production levels. In order to meet

the GATT commitments, it is likely that even stricter controls will have to be introduced by the EU including more quotas and set-aside. It is possible that budgetary problems will be contained by modulating farm support in favour of smaller acreage producers.

Environmental demands will be met by imposing conditions on the receipt of support payments and strengthened regulation. Under this approach support for food production would remain the main support mechanism for rural areas.

Supply control provides some certainty in the medium term for those who meet the conditions for allocation of quota and associated subsidy payments. If quota is transferable, holders will know that they can, in the short-term, fall back on receipts gained through either selling or leasing quota. In most cases, associated subsidy payments will be known in advance which will enable farmers with quota to plan, with some certainty, for the future. As the support payments assume greater importance in farm margins, fluctuations in market returns become less important.

However, supply controls add costs to the agricultural industry as well as restricting its flexibility to adapt to the market place. Thus, EU agriculture will become less and not more competitive. Furthermore, the greater the proportion of income coming from the State and the more apparent that subsidy, the greater the risk there is of political decisions to reduce support expenditure which could leave agriculture in a very vulnerable and exposed position. As supply controls tighten - as they inevitably will - the costs of administration, subsidy and compensation payments could easily outstrip the budget set for them leading to, at best, reductions in support or, at worst, no compensation at all. For example, if the GATT requirements cannot be met, there is clear scope for manipulating the central mechanisms to reduce both support prices and volumes of production. Pressure on the budget could involve modulating farm support i.e. reducing support payments to larger farms and focusing on smaller farms. Modulation is a form of discrimination against the interests of the relatively larger, efficient units, and it penalises agricultural employment which is concentrated on the larger farms. It is an example of confusing agricultural and social objectives.

## (ii) **The Market Route**

Under the market route the current system of support would be reformed to allow agriculture to operate closer to "the market", to become more efficient and to export more freely. Other policies would be needed for regional aid, socio-economic development and environmental management to ensure that appropriate resources remained in rural areas.

The objective of the market route would be to allow European agriculture to operate closer to the market - in so doing it will need to ensure that sufficient protection is maintained against those countries who continue to subsidise exports of food. The move towards the open market could be achieved by first freezing support at its current level and then gradually reducing it in parallel with the introduction of decoupled payments to meet environmental and socio-economic objectives. To achieve this, there will need to be a transitional phase to convert current support into a standard form.

This would ensure that phasing can be applied fairly and evenly to ensure that no one sector is artificially disadvantaged. In other words, support will have to be decoupled from production and applied across the whole farm. There are two main ways of doing this.

Either current support could be recalculated and paid on a **hectare basis** or in the form of an **Agricultural Bond**. Once the decoupling has been achieved there should be no requirements on recipients to grow and harvest particular crops. Farmers should be allowed to use their land as they so chose.

The concept of **hectorage payments** is not new, and the Arable Area Payments Scheme has now established it as part of traditional agricultural support mechanisms. In the livestock sectors, all existing premiums would need to be calculated as area equivalents. The gap between internal and border prices for livestock products arising from support could be added to these hectorage payments. The most difficult sector to deal with would be dairying given the length of time that production quotas have been in existence.

The concept of the **Agricultural Bond** is to determine each farmer's eligibility for subsidy, both via price support and by direct payments and to turn this into a guaranteed income stream either indefinitely or over a defined number of years. The holders of Bonds would be entitled to the annual payments or the Bonds could be freely traded either within or outside agriculture.

The major advantage of the Bond is that it would give farmers scope to restructure their enterprises by giving greater certainty than exists with the current subsidies. The disadvantages relate firstly to the likely removal of a large proportion of the Bond payments from the industry as retiring farmers cash them leaving, in effect, a two-tier industry. There would also be conflict between landowners and tenants over entitlement to the value of the Bonds, similar to the problems that have arisen as a consequence of transferable livestock premium quotas. Transferable Bonds which are allocated to producers will remove some of the value of other farm assets, primarily land value.

**Subject to protection from those competitor non-EU nations who continue to support their food production, the ELO concludes that EU agriculture must move closer to the market place and reduce the constraints of supply control and its high dependency on subsidy payments. The ELO considers that the best way of achieving this is to move through a transitional process involving:**

- \* **converting support payments to a hectorage basis - decoupled from production**
- \* **phasing out production quotas with transitional arrangements**
- \* **removing set-aside and premium quotas**
- \* **ensuring that any reductions in the decoupled payments occur only in step with the availability of emerging countryside management programmes and other sources of income.**

## **ERP - SUSTAINABLE ENVIRONMENT**

Against the core need to develop a viable agriculture, concerted efforts will need to be made, as further CAP reform proceeds, to prevent the loss of sympathetic land management systems through intensification or abandonment. Opportunities to enhance environmentally sensitive systems also need to be taken. The two main options available are regulation or incentives.

Agriculture is already subject to many environmental regulations; more are now being implemented (e.g. the Nitrate and Habitats Directives); others are being proposed by the European Commission (e.g. the Ecological Quality of Surface Water Directive). A basic level of minimum regulation will be necessary to ensure that basic standards are met, but there should be no need for extensive new regulations. The guiding principle should be to "regulate last". If alternative approaches are available, they should be tried and tested before attempts are made to solve problems by regulation.

Historically, the management of the countryside has reflected the stewardship of land managers and been financed largely from agricultural income. If that income is to fall, and yet the same or enhanced standards of countryside management are to be sought, a significant re-ordering of the EU budget will be required. The ELO considers that a major

new EU initiative is needed to provide incentives which will enable land managers to secure, maintain and enhance a clean, attractive countryside, rich in wildlife, historical features and recreational opportunities. Incentives are justified because this is a major area of market failure, and there is a need to develop a market for environmental land management services. It will need to be resourced adequately. Positive land and habitat management with clear environmental objectives is a much better use of resources than the present confused policy of environmental cross compliance tied to agricultural support.

The cost of implementing an EU environmental incentive programme will be substantial. But the programme and costs could be phased alongside any gradual long term reduction of the decoupled payments from the EAGGF (Guarantee) and the existing element of support for countryside management that they contain.

**The ELO concludes that the environmental components of a European Rural Policy will be achieved by:**

- \* **a major new European environmental programme based on land stewardship and positive countryside management; and**
- \* **a less regulatory environmental policy.**

### **ERP - SUSTAINABLE RURAL SOCIO-ECONOMIC DEVELOPMENT**

Even if overall support for food production is reduced over time, there still remains justification for supporting areas where the market does not adequately support individuals and communities. The Less Favoured Areas (LFAs) are examples where there is a recognised need to support the rural population in areas with permanent, physical and climatic handicaps. Support to farming must remain in these areas.

By far the greatest challenge in terms of future rural enterprise relates to the need to diversify the economy of rural areas. The major issues are alternative land uses, rural jobs, and development control policies.

The EU must recognise that currently there is a surplus of productive agricultural land. There are many good reasons, including an expanding world population, to maintain flexibility to increase future food production. Nonetheless, alternative land uses for the present are vital. Biomass is receiving EU and ELO encouragement but this now needs to be turned into action by early pump-priming of the embryonic industry. Bio-diesel from oilseeds still lacks a positive signal of support (particularly in the UK) and is struggling with negative cost and environmental assessments. Considerable progress is being made in crop developments for the fibre, plastics and pharmaceutical industries, but there are technology transfer problems - farmers are not being made aware of the opportunities.

Forestry could be a significant alternative land use to agriculture, but in terms of multi-purpose forestry, it will need State intervention to realise the prospect.

There is a need for new jobs and industries in the countryside to maintain both an economic and social balance. This gap could be filled by developing new Small and Medium Sized Enterprises (SMEs). SMEs currently provide 70% of the new employment opportunities within the EU. They are considered to be the greatest potential job creators but they are vulnerable to excessive regulation. The smaller enterprises should be the target firms for development in rural areas, and there should be funds made available for pump-priming by transfers from the EAGGF (Guarantee) to the Structural Funds - phased over a number of years.

The current changes in the CAP, notwithstanding what is yet to come, have brought many farmers and landowners wishing to diversify into non-farm businesses up against inflexible rural development control policies. Development policies need to favour appropriate, non-agricultural developments in the countryside, and there is a need to ensure that the enabling services (health, welfare, education) and infrastructure (communications, transport, utilities) are provided. A more equitable distribution of EU Structural Funds to rural areas is called

for, and again there is a case for transfers, over time, from the EAGGF (Guarantee) to the Structural Funds to ensure this.

**Concluding, securing the socio-economic objectives of European Rural Policy will require:**

- \* **regional social aids to be maintained in areas where an exodus from the land would create social and environmental problems;**
- \* **alternative land uses to be developed and encouraged: (woodland is a prime target);**
- \* **the development of crops for industrial uses, with particular attention being given to technology transfer requirements; and**
- \* **encouragement for the development of SMEs in rural areas; with them will come new jobs, new income and the accompanying social benefits.**

### **ERP - PULLING TOGETHER THE THREADS**

If current levels of support for food production are reduced, but the nature of rural areas is to be conserved in terms of people, property, agriculture and environment, then appropriate alternative resourcing will have to be found. A European Rural Policy will be necessary to deliver these resources.

It may be that different Member States will have a different mix in terms of the alternative countryside resources, and their phasing. The central requirement, however, is that support price adjustments must apply throughout the EU, and that funding for alternative countryside programmes is through Community schemes to ensure that there is no destabilisation of the single market.

### **CONCLUSION**

In terms of **agriculture**, it is clear that the EU as a whole is set on a course of support price reduction. In effect, the debate has moved from “if” there is to be a move closer to market prices to “how” this will be achieved. However, such changes must be managed so as to leave European agriculture in a stronger, not weaker, trading position.

The context of any new **environmental** policy must be that of sustainable development taking account, amongst others, of commitments on the EU and its Member States arising from the Rio Summit. The ELO’s proposals are consistent with these requirements but they do demand a continuing commitment of adequate resources.

In terms of the **socio-economic** effects of major changes in the current support system, a major consideration is that Member States are at different levels of development. A socio-economic solution for one is not necessarily the right one for another. There is a current debate within the EU on growth, competitiveness and employment. Within this the rural communities of the EU, and their politicians, will have to win the argument for an appropriate allocation of resources to pump-prime the creation of new, real jobs.

**In conclusion, there will be no easy consensus to further radical changes of the CAP. Moving support from food production to environmental and enterprise programmes will be met by understandable suspicion and doubts as to whether the overall provision of support will be maintained over time. But despite the apparent inertia restraining CAP reform within the EU, change is already underway.**

**The real issues are timescale and whether sufficient attention is being given to the consequences of change. Also it must be recognised that in this process of change the 30 million rural landowners in Europe have an active and important role to play.**

**Against this background, the ELO's vision of a move towards a European Rural Policy is offered as a constructive contribution to the debate. It will allow a period of managed change and, with it, the degree of flexibility to allow different Member States to adjust their rural economies within an overall EU framework, as directed by the new objectives of a European Rural Policy.**

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