

Landowners

Organisation

**VIEWS ON THE COMMISSION PAPER ON ALTERNATIVE STRATEGIES FOR THE
DEVELOPMENT OF RELATIONS IN THE FIELD OF AGRICULTURE BETWEEN THE
EU AND THE ASSOCIATED COUNTRIES WITH A VIEW TO THE FUTURE
ACCESSION OF THESE COUNTRIES**

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.

The ELO believes that the production of the Commission's paper is timely given the current level of debate and the desire to integrate the Associated Countries fully within the European Union. It will be important to develop clear objectives and a plan to ensure the smooth transition from an EU of 15 to a larger Union including those Associated Countries which wish to and can join. There will be many factors to consider of which the future for the CAP is but one. Other issues that will need to be considered include the implications for the future of EU monetary union, competition policy within the expanded EU, the operation of the Single Market and the deployment of cohesion and structural funds. However, the future for the CAP will be a key factor given the importance of agriculture to many current EU Member States and especially the Associated Countries.

While considering the future shape and direction of the CAP, the ability of an enlarged EU to meet its GATT commitments must also be carefully examined. It can only be assumed that the GATT commitments of an enlarged Union would amount to those of the existing members plus those of the Associated Countries which accede to the Union. However, in relation to levels of domestic support for agricultural production, most of the Associated Countries have quite tight GATT commitments which are already under pressure. It is quite likely that if the Associated Countries were to take on the CAP support system (as currently constituted), these domestic support commitments would be breached. Nevertheless, since a large part of current EU support is not subject to the GATT constraints on domestic support (for example the direct payments under the Arable Regime), there might be scope to cover any breach in the Associated Countries' GATT limits within the commitments on those countries in the EU 15.

There does seem to be a greater potential for problems in relation to the GATT constraints on export subsidies. Most analysts predict that by the time any future

accession of the Associated Countries takes place, the EU will be utilising its full GATT commitments in respect of subsidised exports. The current commitments on the Associated Countries allow for either no or low levels of subsidised exports. Any increase in productivity in these countries in response to CAP price or income incentives could prove very problematical for an enlarged EU. Such productivity increases could be quite significant. The EU could try to negotiate for a degree of flexibility within the GATT framework given the international desire to ensure political and economic stability in Central and Eastern Europe, but it might be viewed by other GATT participants as an unwillingness to make changes to current policies for the benefit of the international community.

BUDGETARY ASPECTS

It is useful to have the Commission's estimate of the cost of transferring the current CAP to the Associated Countries following full accession. Not surprisingly, the cost of 12 billion ECU is in the mid-range of estimates calculated by other analysts (4 billion ECU to 47 billion ECU). What have not been estimated are the levels of contributions from the Associated Countries to the Union once they have acceded and the extent to which those contributions would meet some of the extra costs. The ELO suggests that such an analysis is carried out by the European Commission in order to have a full picture of the implications of enlargement.

However, the suggestion is made within the Commission Strategy Paper that it might not be necessary, or appropriate, to give the level of income support to farmers in the Associated Countries as applies within the current Member States of the EU. The reason being that farmers in the Associated Countries would not be facing product price reductions. This would certainly reduce the budgetary costs of enlargement if this was acceptable to the Associated Countries and did not impact upon the principles of the Single Market.

The Strategy Paper also suggests that in place of direct payments to farmers, there could be targeted assistance from EU funds to restructure, modernise and diversify agriculture in the Associated Countries. No estimate is given for the cost of such measures and, in particular, whether this would be more or less than what could potentially be paid out in support payments to farmers in the Associated Countries. Also, there is no assessment of the impact on the rural economies of the existing Southern Member States (and their Structural funding arrangements) of substantial structural and cohesion funding to the CEEs.

STRUCTURAL ISSUES

The ELO believes that the establishment of a system of private property rights is essential for sustainable, agricultural development in the Associated Countries. It is only after such rights in land have been established that entrepreneurs will have the incentive and confidence to invest in and add value to land. Not only will it be essential to establish property rights but also to ensure that there is a robust system for land transfers both by sale and by lease. The process of establishing property rights could create a large number of small plots which, to ensure that agricultural production becomes more efficient, will then need to be amalgamated into larger units. This can only happen once an adequate land transfer system is established in which all investors can have confidence.

- 3 -

The establishment of private property rights and a market in land are essential to ensure the environmental and socio-economic stability of rural areas in the Associated Countries. Environmental sustainability and stewardship require the establishment of property rights. Circumstances where no rights, or common rights, exist most often lead to incidents of environmental abuse. The arguments surrounding the need for individual property rights for sustainable, socio-economic development are similar to those that apply in the case of agricultural development.

ASSESSMENT OF THE 1992 CAP REFORMS

The Commission Strategy Paper makes much of the balance which has occurred in supply and demand within agricultural markets over recent years and links this directly with the changes made to the CAP in 1992. The ELO view is that the Commission has been very fortunate, particularly in the case of cereals, given the tight world market position and the high prices prevailing. This cannot be claimed as a justifiable success for the 1992 CAP reforms. In recognising that for cereals and beef at least, significant market imbalances could recur within the medium term, there is an implicit admission that the 1992 reforms have not created a proper market balance in the long term.

FUTURE ORIENTATION OF THE COMMON AGRICULTURAL POLICY

The Strategy Paper recognises that expanding the Union eastwards is the major factor in pushing the CAP towards further reform. However, it states that even without this pressure, there would be a need for further reforms to the CAP some time after the turn of the century. While the ELO accepts that these other pressures exist, it does not believe that the Commission would have produced such a document without the pressure for future accession of the Associated Countries. The main driving force behind discussions, at this stage, is the possibility of expansion of the Union to the east.

Maintenance of the Status Quo

The ELO, while not seeking the early demise of the CAP, concurs with the conclusion of the Strategy Paper that the maintenance of the status quo is not an option for the CAP in the long term. The ELO believes that the CAP is relatively robust for the short term and that there is no need to make drastic changes at this stage. Nevertheless, future changes to the CAP need to be clearly thought out now and implemented and managed in a way which does not destabilise European agricultural production and markets, and the fragile economies of rural areas.

The suggestion in the Strategy Paper that it might be possible to bring the Associated Countries into the European Union whilst responding to developments within the CAP on an ad hoc basis would create severe problems for farmers and rural businessmen trying to plan their enterprises into the long term. At a business level, change in the support policy is always difficult to manage and the ELO would not advocate constant change in the system as a reaction to the emergence of specific problems. Long term change should be managed and monitored against clearly defined objectives.

The Radical Approach

If changes to the CAP are necessary for the long term, the ELO would accept the principles set down at the beginning of the section on radical reform in the Commission's paper. On reading the detail within the paper, the Commission's views are more radical than it admits. However, the ELO would want the changes to be handled very carefully

- 4 -

and introduced gradually. An essential component of such change would be the need for adequate socio-economic and environmental resources to ensure that the negative impacts arising from the withdrawal of agricultural support did not occur. The ELO's views on this are more fully set out in "*A Rural Policy For Europe*" (available on request).

The ELO has some concerns in relation to the suggestion that Member State Governments should have more latitude in the implementation of policy. We would need to be assured that there were no implications for the operation of the Single Market and, in particular, intra-EU competitiveness.

Developing the 1992 Approach

The ELO supports the development of the 1992 approach so long as it does not involve further supply control complexities and a tightening of existing supply control mechanisms. The ELO also has concerns about any expansion in environmental cross-compliance which involves the attachment of environmental conditions to support payments received under other schemes. The ELO paper "*Environmental Conditions in the EU's Arable Area Payments Scheme*" sets out our views on this" (available on request).

A further concern is the implication, given in the Strategy Paper, that direct payments would be budget limited. A simple way for the European Union to achieve budgetary objectives, or to avoid budgetary problems, would be to modulate support payments - i.e to discriminate payments in favour of small farms and against large farms. We believe that this approach is flawed. The ELO's views are contained in the ELO paper "*Modulation of Agricultural Support Payments*" (available on request).

The ELO would welcome the move towards a more integrated rural policy throughout Europe. However, we would have concerns about the consequences of any repatriation of policy and implementation. This has been discussed above.

A pluri-annual system of setting support prices will give a more stable framework within which agricultural and other rural businesses can operate. Given the move away from price support, the relevance of such a system would diminish unless it was also considering current and future levels of the decoupled payments.

The ELO would contend that this option (ie development of the 1992 approach) is actually more radical than the Commission would wish to admit. Although the 1992 reforms did make some movement towards an integrated rural policy, it was not nearly as advanced as the ideas being suggested now by the Commission Paper.

One aspect of the 1992 CAP reform package which does deserve a mention is the establishment of the Agri-environment Action Programme which provides for environmental objectives to be achieved through the use of incentives to land managers. The ELO welcomes these provisions and most Member States now have in place a varied range of schemes for this purpose. The European Commission should publish a full report setting out the impact of current measures throughout the EU.

Provided that adequate resources are made available, such Schemes will play an increasingly important role in helping land managers to deliver environmental land management objectives. However, there is considerable scope for them to be developed further. In particular, the ELO suggests that their existing focus on protecting, maintaining and enhancing landscapes, wildlife habitats and wildlife populations, and

- 5 -

archaeological and historic features, and on extending public access opportunities, should be broadened to include protecting, maintaining, and enhancing environmental quality in general - the quality of water, air and soil.

The ELO considers that, in the future, the aim should be to secure environmental objectives not through regulatory means but, so far as possible, through the use of market-related instruments, particularly incentives, backed-up by appropriate advice. The European Commission should support studies to show how, in a practical sense, such measures could be used. The ELO believes that an incentive-based approach, which builds on the successes of existing environmental land management schemes in relation to landscapes, wildlife, the heritage and access, is likely to be far more effective than a regulatory approach.

Under this approach, there would be little need for regulatory Directives which deal with agricultural activities which could cause pollution or other environmental damage. For example, we would suggest that, in relation to agriculture, the objectives of the EU

Habitats Directive could have been achieved largely if not entirely through an incentive-led approach under the agri-environment package.

The challenge to policy-makers in the EU is thus to consider alternative approaches to regulation when developing policy on environmental issues which involve agriculture and rural land based industries, and to seek to use an incentive-led approach wherever possible. There should be a major shift in thought-processes and practice among the officials and policy-makers involved. The potential to secure major environmental improvements, and to do so sooner than would be the case with regulation, is immense.

CONCLUSIONS

The ELO contends that the CAP is relatively robust in the short term. The ELO sees the logic of longer term CAP reform to cope with, amongst other factors, the possible accession of Central and Eastern European Countries to the European Union. Although budgetary concerns will be a factor, the biggest reason for change will result from the problems which will be created for the enlarged EU in trying to meet its GATT commitments, particularly on export subsidies.

The development of sustainable property rights and a market for land transfers is crucial to the sustainable agricultural, environmental and socio-economic development of Associated Countries. It is only when such a system is established that private entrepreneurs will feel confident enough to invest and add value to land. The ELO would be willing to discuss with the European Commission how it might help in this process.

In view of the possible future accession of the Associated Countries and the other concerning factors which will give rise to the need for reform, the ELO concurs with the conclusion of the strategy paper that the maintenance of the status quo is not a sustainable option for the CAP into the long term. While the ELO can see the case for change, we would wish to be assured that socio-economic and environmental resources were available to mitigate against the damaging implications of reducing agricultural support.

The Commission's preferred option, the development of the 1992 approach, is more radical than the paper admits. For example, this option in the Commission's Paper refers to a reduced reliance on price support. The ELO sees the logic of this approach and in particular less reliance on supply control measures. The ELO would also wish to be

- 6 -

assured that further moves towards environmental cross compliance, modulation of direct payments and an unqualified repatriation of policy implementation did not occur

The development of socio-economic and environmental objectives to create an integrated rural development policy will be essential. In particular, there should be an incentive led, rather than regulation led, rural environment policy. The ELO would be willing to contribute to work to develop appropriate concepts.

Any comments or queries on this submission should be addressed to the Chairman of the ELO Policy Group at the address below.

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