

European Landowners Organisation

EPG 33/97 (final)

AGENDA 2000: FOR A STRONGER AND WIDER UNION AN ELO RESPONSE

INTRODUCTION

1. On 16 July 1997, the European Commission presented its communication *Agenda 2000: for a stronger and wider union*, together with opinions on each of the applications for membership to the EU by Central and Eastern European Countries (CEECs). The Commission's document outlines the broad outlook for the development of the EU and its policies for the years 2000-2006, the challenge which enlargement will constitute for the Union as a whole and the future financial framework beyond 2000. Thus the document addresses both the issues of the future of the Common Agricultural Policy (CAP) as well as that of the future of the Structural and Cohesion Funds.
2. The ELO represents the interests of 30 million rural landowners in the European Union, many of whom as well as being involved in agriculture, also have non-agricultural businesses (i.e. forestry, fishing, tourism and other enterprises). As a result, the ELO has a direct stake in the continued existence of a thriving and diversified rural economy and is thus uniquely qualified to comment on two of the major aspects of *Agenda 2000*, namely those dealing with the reform of the CAP and changes to the Structural Funds.
3. The ELO recognises the case for a reform of the CAP to the extent that it contributes to a managed move towards global trading at world market prices. For several years, the ELO has been calling for increased decoupling of support which, while acceptable under the rules of the GATT/WTO, would give farmers greater freedom to farm. In this light, the abolition of compulsory set-aside and the proposal for a non crop-specific arable area payment are moves in the right direction but what is proposed is not decoupling in the context of WTO rules. At the same time, we are disappointed that, despite the Cork Declaration of November 1996, the European Commission has not given a greater emphasis to rural development and the environment. Though the ELO welcomes the Commission's declarations in favour of a strong rural policy, it questions the depth of its commitment. Similar reservations apply to the environmental component of the proposed policy changes.
4. These considerations impel the ELO to make the following comments on *Agenda 2000*, in the expectation that they will encourage the Commission to implement the necessary adjustments to its proposals.

THE COMMON AGRICULTURAL POLICY

5. The changes proposed by the Commission are directly inspired by the Agricultural Strategy Paper of December 1995, which advocated a continuation and deepening of

the 1992 reform of the CAP, and by the analysis of agricultural markets published by the Commission earlier this year.

6. The Commission makes a positive analysis of the effects of the 1992 reforms which has resulted in improved market balances and a general increase in agricultural income per capita (though, in fact, this is only partly attributable to the effects of the reform of the CAP).

Long-term outlook

7. According to the Commission's analysis, the long-term outlook for the main agricultural markets is favourable for exporting countries, as a growing and increasingly prosperous world population continues to boost demand. However, in order to benefit from these expanding markets, the EU must reform its policies to reduce the gap between EU and world prices.
8. The ELO agrees with the broad lines of the Commission's agricultural policy analysis. There is a need to deepen the reform process started in 1992, and to continue to bring the CAP closer to world markets. The prospects of the forthcoming WTO talks also militate in favour of continued reform. A major disappointment is that the reforms proposed will not reduce the complexity of the CAP support systems - they will compound them.

Arable sector

9. The ELO recognises the case for the Commission's proposals to reduce support prices and increase direct area payments. But the proposals are not fully decoupled from production and are likely to be challenged during future WTO negotiations. We do not believe that the level of direct area payments adequately compensate for the reduction in support prices - this needs to be re-addressed.
10. The use of a non crop-specific area payment is a move towards the decoupling of support, as voluntary set-aside, cereals and oilseeds (with the exception of durum wheat and silage cereals) will receive the same rate of payments. This will partially reduce the potentially distorting effects of the arable area payments system - but it does not eliminate them. The proposals will also result in a significant increase in wheat production in Northern Europe.
11. The ELO welcomes the lowering to 0% of the reference rate for compulsory set-aside. The ELO has long argued that set-aside is an ineffective means of production control. The planned reduction of cereal intervention prices means that farmers' decision-making will be increasingly market-driven. In that context they must be free to produce as much - or as little - as they believe is useful for their business.
12. The Commission states its intention to lower area payments if market prices are sustained at a higher level than currently foreseen. The ELO calls on the Commission to clarify its meaning. This sentence seems to contradict another statement, on the same page, that area payments will be made conditional on the respect of environmental objectives. Any linking of area payments to market conditions means that they have a clear support objective and will be challenged under WTO. Using these payments for environmental purposes while at the same time keeping open the option to reduce them for financial, not environmental, reasons is at best ambiguous. If world prices increased, farmers could see these payments cut back even if they are undertaking environment-sensitive farming. The ELO has argued that in the long-run the environment would be better served by using dedicated policy instruments, and believes that cross-compliance measures in the manner suggested are inefficient.

Beef regime

13. The ELO generally accepts the Commission's analysis of the problems facing the beef sector. The current policy of slaughtering young calves or buying at intervention is clearly unsustainable. The ELO agrees with the Commission that bringing beef prices closer to the world markets and increasing direct income support is a preferable alternative. We are disappointed that no attempt has been made to base the compensation payments on a hectare basis - this must be the way ahead.
14. In addition to the changes on the supply side, there is scope for initiatives on the demand side and the ELO would like to see a more proactive marketing policy for beef, with particular emphasis on quality beef production.

Dairy regime

15. The Commission has chosen not to reform the quota system, but to extend it until 2006, while improving the flexibility of the present common market organisation. Price support will be gradually cut by 10% between 2000 and 2006, compensated by a new direct payment of ECU 145 per cow per year adjusted to average yield. This payment comes on top of a payment of ECU 70 per cow to compensate for beef price reductions.
16. The ELO asks the Commission to clarify further the meaning of "improved flexibility and simplification of the present common market organisation". If this means that cross-border leasing of quota would be allowed, the ELO accepts such a change. The ELO, however, is opposed to the introduction of cross-border trading of quota, which could result in milk production being concentrated in a few Member States, to the long-term disadvantage of EU consumers.
17. We are particularly concerned that improved flexibility may seek to break the link of quota to the land. In many Member States, quota has acquired considerable value. In cases where producers do not own the land, this value is often shared between the producers, and owners who may have made a significant capital investment in production themselves. Dairy quotas attached to land enable a dairy herd to produce a given volume of milk at a supported price. Thus if land which presently carries a quota had this quota removed (either through changes in policy, or by the tenant), and no other equally profitable activity were to replace it, the owner would be left quota-less and his property bereft of much of its use and value. Over the past few years, the CAP has moved towards a rather rigid system where support payments are allocated on historical bases., thereby reducing the potential alternative activities which dairy producers and landowners could convert to.
18. Without adequate financial arrangements, changing the quota link to land would create an unfair redistribution of assets as well as further distortions within the CAP (the lesson of the shortcomings of the regulation for sheep premium quotas needs to be learned). The ELO urges the Commission to think through carefully the consequences of breaking the link between quota and land.
19. The ELO would also like to bring to the Commission's attention the implications which changes to the dairy regime may have for non-producing quota holders (NPQHs). NPQHs are those people who may hold quota with the intention of resuming milk production at a later date, but are currently not producing those volumes because of disease, financial, or pollution problems. Because NPHQs lease out their whole quota, in contrast to those who only have quota available as a result of under-production, they provide a valuable large source of leased quota, possibly some two-thirds of the volumes available for leasing. By so doing, they also contribute to bringing down the price of leased quota below what it might otherwise be, all other things being equal.

20. To dis-allow the existence of NPQH quota would deny leased quota to smaller farmers and to new entrants, many of whom do not have the capacity to invest heavily at an early stage. At present, the existence of NPQH quota allows producers to increase their "Licence to produce without penalty" without investing capital in an asset which may, or may not, last. The loss of milk quota leasing and the reserve created by NPQH would thereby be damaging to the industry - new entrants, tenants and owner-occupiers alike. If NPQH quota was made unlawful, so that quota could only be held by producers, quota would be concentrated in the hands of the larger producers, with the capacity to plan their production to fill the quota.
21. The ELO interprets the introduction of a new dairy cow premium as a means of orienting support towards less intensive herds. The dairy cow premium could also be a way of transferring the value of quota away from land, and in the long-term of limiting the amount of support paid to dairy farmers. Attempts to modulate the payments will be against the interests of the bigger units, and is the wrong signal to give to a European dairy industry that is preparing for global markets. In any event, the ELO is concerned that the Commission has not clearly spelled out either its reasoning or its objectives. Such a lack of transparency can only be detrimental. The ELO asks the Commission to clarify its intentions regarding the changes to the dairy sector.
22. The ELO has long insisted that the uncertainty surrounding the future of the dairy industry has a detrimental effect on the sector. **We urge the Commission to clarify as soon as possible its intentions as to post-2006.**

Modulation

23. The Commission has chosen not to target support payments to smaller farmers but has proposed instead to introduce "an individual ceiling covering all direct income payments". This would cover area payments as well as all livestock payments. Member States would be allowed to introduce differentiation criteria according to commonly agreed rules.
24. The ELO has long argued that any system that discriminates between producers on the basis of size, and against the bigger production units, results in economic distortions, since it penalises those holdings which are likely to be the most efficient. Such an outcome also contradicts the Commission's policy objective in *Agenda 2000* of improving the competitiveness of EU agriculture on domestic and international markets.
25. The ELO is also concerned with the Commission's suggestion of the use by Member States of differentiation criteria "according to commonly agreed rules". We fear that this could lead Member States to "modulate" payments to farmers by discriminating in favour of smaller holdings in many different ways - surely this will be against the competition policy of the single market and open to legal challenge. The ELO argues that these underlying social objectives would be better served by targeted and transparent social payments.

Environment policy

26. *Agenda 2000* acknowledges that the environmental impact of the 1992 reforms is at best mixed. Price decreases have in many cases led to a more rational use of inputs, and properly managed set-aside has also had positive environmental impacts. At the same time, the use of regional yields has encouraged irrigation, and lower feed prices and subsidised silage has encouraged intensive livestock farming.
27. *Agenda 2000* tries to redefine the environmental content of the CAP. The Commission is abandoning the pretence that set-aside is an environment policy instrument. That it was only incidentally so is clearly demonstrated by the adoption of a 0% rate for

compulsory set-aside. The contribution of set-aside to the environment seems to have been easily outweighed by market considerations. Only voluntary set-aside remains, and no environmental conditions are attached to it.

28. As mentioned earlier with regard to area payments, the ELO is concerned about the Commission's approach to cross-compliance as a major environment policy instrument. The ELO considers that the use of cross-compliance is a betrayal of the Commission's official statements in favour of the environment. Linking agricultural support payments to environmental activities means that, as agricultural payments are phased out, so would environment payments diminish. Clearly, this would be an inefficient way of conducting an environment policy.
29. In the same vein, *Agenda 2000* states that "the concept of public payment for the protection of natural resources and the enhancement of the countryside is increasingly gaining acceptance and offers agriculture and forestry, as the main land users both new challenges and fresh opportunities". The ELO agrees. The Commission's comments raised the expectation that it would propose to pay land managers for the provision of environment services. The ELO regrets that the Commission has not used this opportunity to set up innovative mechanisms to create a real market in rural environment goods and services.
30. The ELO questions the Commission's intention to take into account the allegedly "considerable overlap between LFAs and areas of high nature value" to transform the support scheme into a basic instrument to maintain and promote low-input farming. The ELO would contend that such an approach is flawed for two reasons. Firstly, the overlap between LFAs and areas of high nature value, though it exists, is not as considerable as the Commission seems to believe. Many rural areas may have high nature value, though they are not in LFAs. At the same time, farming in LFAs is not necessarily environmentally benign: overgrazing and overstocking can occur. The Commission's approach, if adopted could result in a "ghetto-isation" of agriculture, with on one side low-input, environmentally benign holdings receiving environment payments, and on the other intensive, unsupported farming systems.

Rural policy

31. *Agenda 2000* is full of positive statements about the need to further diversify the rural economy but offers few explanations as to the way in which such an objective will be reached, and even less funded. Thus, the ELO cannot but agree with the Commission's analysis that rural areas, over the coming decades, will have to adapt to further changes in market evolution, market policy and trade rules. The Commission, however, puts very few resources (or ideas) into rural policy.
32. Leaving aside for the time being the potential negative impact on rural areas of the proposed reform of the Structural Funds, the Commission seems to consider that a simple reorganisation of existing rural policy instruments will be enough to face the challenges of the future. Thus only ECU 1.2 bn, rising to 2.1 bn by 2006 are devoted explicitly to rural development measures. Under the 1995 and 1996 budgets for the CAP, accompanying measures were already estimated at slightly over ECU 2 bn (*Agricultural Situation in the EU: 1995 report*).
33. Although the strategy of moving rural development within the EAGGF Guarantee Section is understood - the signals given by the resource allocation are that it is low priority.

THE STRUCTURAL FUNDS

34. The Commission in *Agenda 2000* states its commitment to continued funding for economic and social cohesion without, however, raising the share of the Union's GNP devoted to this purpose. The total allocation for the period 2000-2006 would therefore be ECU 275 bn at constant 1997 prices. Of these, ECU 45 bn would be set aside for enlargement, and ECU 20 bn would be taken up by the Cohesion Fund.
35. The Commission has also proposed simplifying the system used to allocate Structural Funds, by bringing down to three the existing seven Objectives. The ELO accepts that there have been many calls over the past few years to simplify the operation of the Structural Funds. Rural areas constitute 80% of the area of the EU but are under-represented in terms of political power. The ELO is surprised that, despite declarations to the contrary within the document itself, *Agenda 2000* fails to create a dedicated rural objective or to contribute towards a better integration of policies within rural areas.
36. The new Objective 2 has as its objective economic and social restructuring, and will bring together all non-objective 1 areas "undergoing economic change (in industry or services), declining rural areas, crisis-hit areas dependent on the fishing industry or urban areas in difficulty". It thus includes the old Objective 2 and 5b areas. This means that there is a significant risk that rural areas will be competing with other areas undergoing economic change - it will become an urban versus rural competition for resources.
37. A particular problem for rural areas is the emphasis the Commission puts on the need to concentrate resources on "a limited number of significant areas", as well as on the importance of socio-economic criteria, such as unemployment, social exclusion, or the degree of dependence on a single declining economic sector. The ELO argues that these criteria will add to the difficulties for rural areas to obtain Structural Fund monies. This is due to the very specific nature of rural disadvantage. In many cases, unemployment is less of an acute problems in rural areas (even though there may be higher levels of *hidden* unemployment). Similarly, the economic and social difficulties faced by rural areas are often perceived as being less severe than in urban areas.
38. The ELO contends that the use of one set of indicators for both rural and urban areas will fail to take into account the specific problems of rural areas, problems linked to isolation, lack of infrastructure, shortage of skilled labour and training opportunities. Though a "rural development" Community Initiative is being kept, this is within a shrinking Structural Fund budget allocated to Community Initiatives.
39. Rural areas to date have suffered from being included (or excluded) by blanket designations, without proper attention being paid to their specific needs. Any hope that this situation would change for the better will be quashed if the proposals made in *Agenda 2000* come to fruition.

CONCLUSION

40. Overall, it would appear that the Commission has deliberately decided not to provide the resources necessary to satisfy its countryside management and rural development pledges. Following the hopes raised by the Cork Conference of November 1996, this comes as a disappointment. The ELO has for several years been calling for an integrated rural policy, which would rest on a three-pronged approach, not unlike the system put forward by the Commission in Cork. The reform of the CAP through reduced price support must be accompanied by a more integrated rural development policy which sets the bases for a sustainable rural economy. This must include an innovative environmental policy which, through the use of market mechanisms, would pay farmers and landowners for their positive contribution to the environment. The

ELO regrets that this opportunity to integrate more closely agricultural reform and the changes in the Structural and Cohesion Funds was not taken.

41. Such an approach could have enabled the Commission to develop a sustainable model of rural development, which would subsequently have been extended to the CEECs.
43. Concluding, the ELO recognises the case for most of the proposed changes to the CAP, notably the reduction of price support and the shift towards decoupled payments, but it is disappointed that the Commission has failed to seize this opportunity to set the basis for an innovative, integrated, rural policy which could have contributed to improve the economy of rural areas. Without a firm policy commitment to this wider rural policy, we are sceptical about the ability of the Commission to achieve any meaningful changes to the present CAP.
44. The Commission has put the rural communities of Europe on a very high risk strategy. If as a consequence of wider WTO activity, farm support is sacrificed and drastically reduced, and no other rural and environmental policies are in place, it will have presided over the impoverishment of Europe's rural economy, its environment, and its people.

**ELO POLICY GROUP
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