La nueva orientación de la PAC hacia una política rural integrada
The new orientation of the CAP towards an integrated rural policy

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1 Introduction

The basis for the ideas contained in this paper are most fully expressed in a report published by DGII of the European Commission in European Economy 1997/5 (Buckwell 1998). This report arose from intensive discussions amongst nine European rural scientists and Commission officials from DGVI which I had the privilege to chair from December 1995 to July 1996. The work, sponsored by DGVI, was to assist the Commission in putting flesh on the bones of its proposed Agricultural Strategy which was presented to the Madrid European Council in December 1995 (Commission, 1995). The Agricultural Strategy paper was an important document. It reviewed the challenges facing the CAP in the new century, in particular, the need for the EU to respect the commitments made in the Uruguay Round Agreement on Agriculture and the prospect of EU enlargement to Central and Eastern Europe. The Commission concluded that it would not be possible or desirable to continue with the post-MacSharry CAP, nor to abandon agricultural policy altogether, rather, the recommended strategy was to "continue the 1992 reform process and move towards a more integrated rural policy". The next section of this paper summarises the justification for this conclusion. In section 3 the balance of the elements of what it is suggested should be a more integrated rural policy will be presented and discussed. In section 4 there will be a review of the extent to which Agenda 2000 takes us towards this more integrated rural policy. The final section draws some conclusions.

2 Why should the CAP change to be a more integrated rural policy?

Three sets of arguments are advanced to justify the conclusion that the CAP of the early 1990s had to be reformed. These arguments themselves indicate the nature of the reform necessary. The three sets are, first, domestic dissatisfactions with the policy itself, second, the move towards more liberalised trade and, third, the prospect of further enlargement of the EU.

To summarise the domestic arguments; first, the commodity-based supports justified in the 1960s to improve productivity and the stability and security of food supplies are no longer necessary. There has been an immense increase in productivity (and thereby, living standards of most farmers), and food supplies are no longer under threat. The EU is a massive net exporter of most food products, reversing its earlier dependence on imports for many products. Second, the support given to farmers via raised prices for most products has had the effect of providing most support to the largest producers, and for a high proportion of this support to be capitalised into land values. Farmers who have few resources (especially land) at their disposal have practically no prospect of achieving living standards on a par with the rest of society however generous agricultural price support. Third, the over-stimulation of production has encouraged a greater intensification of production than would have occurred otherwise. This shows up as higher use of fertilisers and crop protection chemicals, more mechanisation and irrigation and greater stocking densities of animals. There have been undoubted environmental costs associated with such developments. Fourth, the disposal of the surpluses which can only be sold with export subsidies initially necessitated rapidly rising public expenditure. This escalation of public costs was curbed by successively imposing more and more supply controls (sugar and milk quotas, arable set aside, limits on supports to beef and sheep), but these controls themselves have introduced rigidities and economic waste deplored by some farmers. Fifth, part of the cost of the price based support system is borne by consumers, who also perceive that such policies tend to encourage farmers to focus on food quantity rather than quality.

The second set of reasons for the changes is that Europe in 1994 signed the Uruguay Round Agreement on Agriculture (URAA). This comprised a set of commitments to ensure that agricultural products would now be included in the general post-war movement towards liberalised markets for tradable goods. This decision is sometimes, erroneously, portrayed as resulting from external pressure (for example, from the US and the Cairns group). Whilst, of course it is true that these agricultural exporters were eager that Europe should stop subsidising agricultural exports and open its markets more, the decision to sign the Marrakesh agreement was a reflection of the EU's *internal* interest in having the liberalisation of trade in services and intellectual property as the *quid pro quo* for liberalising trade in agricultural products. The proportion of people employed in the service sector in Europe is more than ten times that in farming and food production. The URAA resulted in a binding set of commitments to reduce subsidised exports, increase market access and reduce trade-distorting domestic supports.[1]

The third set of reasons for further reforms of the CAP being necessary concern the decision, taken in 1993, to encourage the enlargement of the EU to embrace the Central and Eastern European Countries. The three main elements of the 1990s CAP, high prices, supply controls and direct payments would not suit CEEC economic interests. The high prices impose an unwelcome inflationary cost to their, relatively poor, consumers. The supply controls which are such an important part of the 1990s CAP would be equally unwelcome by CEEC farmers struggling to reverse the sharp decline in output suffered in the years since reforms began in 1990. The logic of the compensation payments being paid to EU farmers for the cuts in institutional prices is that such payments would not be paid to the farmers of CEECs who have suffered no such cuts. However it is equally clear that a giving cash to the richer farmers in the West of the enlarged Union and not to the poorer ones in the East could not survive more than a temporary transitional period.

[1] For a full account of the Uruguay Round Agreement on Agriculture and it effects, see Josling, Tangermann and Warley (1996)

These are the arguments justifying the need to re-orientate agricultural policy as it has operated in Europe for the last 30 years. Furthermore, the same direction of change in the policy has the potential to solve all three sets of problems. This is to move the whole basis of support away from being a sectoral policy for agriculture based on commodity price support, towards being a more integrated policy for rural areas. It is the high prices which stimulate over production; which necessitate subsidising exports; which cause the benefits of the policy to accrue most to the largest (and generally, wealthiest) producers; and which stimulate greater production intensity and thus environmental damage. Such high prices do very little for rural employment, their benefits are concentrated on a very small fraction of the rural population. These considerations apply *a fortiori* to the CEECs. There is a gross over-manning of agriculture in most of these countries, both in the form of very small holdings, and amongst employed workers or co-op members on larger holdings. It will not be possible to achieve satisfactory living standards for these people from agriculture alone. There is no point in repeating W Europe's mistake of trying to ensure satisfactory living standards for such people by raising product prices. We have much experience now of the outcome of such a policy. It will simply encourage an over-expansion of production focusing the bulk of any benefits on the largest farms. It is plain that there will have to be a large shift of labour out of agriculture in most of the applicant countries. The way to facilitate this with least distortionary effects is through appropriate rural development actions, not by subsidising agricultural production.

To deal with the domestic dissatisfactions, the pressure for trade liberalisation and the Eastern Enlargement, support prices must continue to be reduced towards international market levels. Although this is not greeted with much enthusiasm, this general direction of policy change is accepted. The scope and pace of change is debated. Much more controversy concerns what, if anything, should replace price support. Since the 1992 reform, a principle seems to have been established that any cut in support prices must be accompanied by full compensation distributed in the form of direct cash handouts. The longer term justification for such payments is far from clear. It is also accepted by many that leaving rural areas with no public support at all would cause immense damage. There are three kinds of market failures which justify enduring, and perhaps considerable, support from the rest of society. These are: (i) the management of risk and uncertainty, (ii) the supply of environmental and cultural landscape services and (iii) rural development. It is suggested that dealing with these three problems should be the main tasks of a modern rural policy in Europe. The previous focus on productivity improvement and security of supplies is now outmoded.

This is the essence of the idea which have emerged in the last three years from a variety of sources in Brussels and in the member states. The most intense flowering of the need to move to a more integrated rural policy was expressed at the Cork rural Development Conference in December 1996. The ideas expressed for a comprehensive rural policy to cover the whole European Rural territory was, perhaps not surprisingly, enthusiastically welcomed by the rural development 'industry' who made up the bulk of the participants at the conference. However, the farming industry, which was in the minority at Cork, plus the regional development interests (as represented for example by the European Commission's DGXVI) did not feel part of this conference and have since resisted its conclusions. Nonetheless, the Commissioner for Agriculture and Rural Development, Mr Franz Fischler, has continued to argue the case for what he calls the European Model. This emphasises the dual function of agriculture which supplies not only food (a market good) but also the non-market services of what are called here Environmental and Cultural landscape services. How can the CAP evolve in this direction? To what extent does Agenda 2000 represent such a move? These are the subjects of the next two sections.

3 What would this mean?

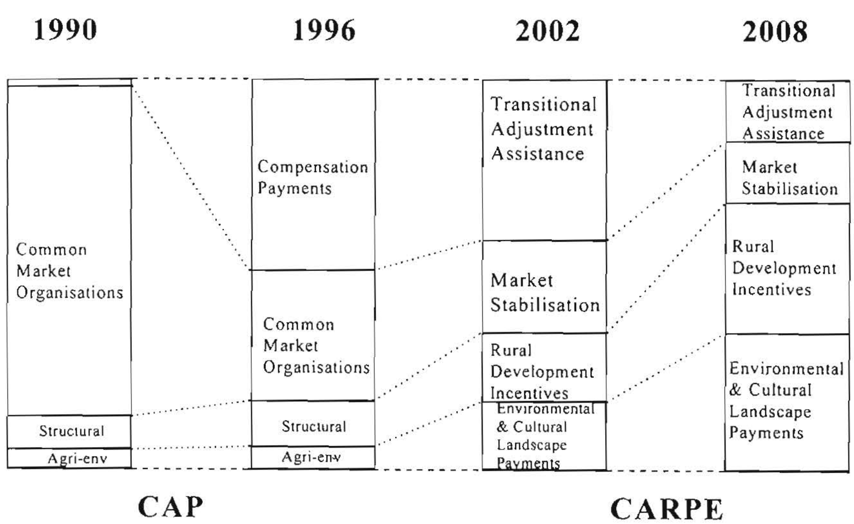
Given the political realities of Europe and its agricultural decision process. There is little point in adding to the literature of idealised new farm or rural policies for Europe without any idea of how to get from where we are to the preferred policy. It is for this reason that the CARPE concept has four elements not just the three listed above. The four elements are:

1	Market Stabilisation	MS
2	Environmental and Cultural Landscape Payments	ECLP
3	Rural Development Incentives	RDI
4	Transitional Adjustment Assistance	TAA

Figure 1 represents how they relate to one another and how they relate to the existing main categories of support instruments in the CAP.

Figure 1 The elements of CAP & CARPE

Vertical scale represents notional budget *shares*



The essence of the change in policy from the sectoral CAP to the territorial CARPE is to reduce prices of agricultural commodities to international price levels, and to switch the whole basis of support towards (i) maintaining stability in the agricultural sector, (ii) the direct payment of land managers for the provision of public environmental services and (iii) the encouragement of more balanced economic development in rural areas. These three elements can be expected to be enduring elements of policy. The fourth, Transitional Adjustment Assistance, is the re-titled and re-defined direct compensation payments. This part of the policy should be viewed as the assistance society is prepared to give to farmers who have been encouraged by past policy to over-expand production and who have to adjust to the new demands placed on them by society. Humane society does not leave people stranded when policy changes, but helps them adjust their businesses, their skills, and even attitudes so that they can cope with the new economic and policy environment. However such assistance must have an end point, hence TAA is shown as tapering off. The speed of this weaning-off process depends mostly on the speed with which support prices can be reduced and the rest of the support system can be geared up to replace it.

The essence of this redefined policy is that price support has to go because it has inequitable distributional impacts, it distorts trade to an unacceptable extent and encourages over-intensification of production. But it is equally unacceptable simply to replace the present price supports ECU for ECU by permanent direct payments. There is no mandate in the Treaties of the EU to provide social assistance to one occupationally defined group. If there is a poverty problem in rural areas, this is a task for social policy of the relevant member states, and presumably it doesn't just apply to farmers but all rural poor. Also, any cash transfers justified as 'income' or 'social' payments normally require some measurement of the recipients income and wealth - no such tests are applied by the direct payments under the CAP. Such arguments lead to the conclusion that direct payments must either be seen as temporary: initially, compensation for injury caused by the change in policy, then, more positively, as help to farmers to adjust to a new liberal market environment, or, if the payments are to be permanent, they must be justified as payment for some non-market services supplied by farmers.

To the present beneficiaries of agricultural support no doubt this sounds very negative and harsh. The most positive way to describe and explain it is as follows. First, the argument that prices have to come down is sealed by the URAA commitments on export subsidies. To comply with the agreement to reduce the volume of subsidised exports we had either to reduce the volumes available for export by tighter and tighter supply management, or we had to reduce prices so that exports can take place without subsidy. The strategy since the 1992 reform is to take the route of price cuts. At present, price supports are being replaced by compensation payments paid directly to producers of cereals, oilseeds, proteins and beef. However, these payments cannot continue in their present form indefinitely. Why not? (a) Because they are very transparent which requires them to be justified. (b) It is clear that they still accrue largely to the largest producers. (c) It makes no sense to compensate farmers for ever for a once-off change in prices. (d) Because the compensation is not related to the injury caused by price cuts, many farmers have been significantly overcompensated. (e) These payments are not decoupled from production and this will bring us into dispute with our trade partners after the expiry of the so-called Peace Clause in the URAA which recognised that these payments could be permitted until 2003. (f) The final argument, that the present direct payments cannot persist, is that they cannot be justified for the farmers in the CEECs. For equity reasons, therefore, they will have to be phased out for EU-15 farmers.

If we argue that we can no longer support farmers through artificially raised prices, and if, beyond a certain period, we cannot justify direct cash payments, how can enduring support for, or payments to, farmers and land owners be justified? The only answers coherently argued are the first three elements spelled out above: stabilisation, payment for non-market environmental services and for rural development.

The CARPE report cited above describes these components in detail, and an earlier version of these ideas is summarised (in Spanish) in Buckwell (1997). Only the main points will be repeated here.

Stabilisation.

A case can be made for publicly assisted stabilisation measures for agriculture. This is based on the high degree of uncertainty because agricultural production is a biological process dependent on uncontrollable natural conditions. Furthermore because the production structure is atomistic, comprising many small producers, it can be argued that individual producers are not easily able to deal with this uncertainty. The third ingredient of the argument is that the consequences of farmers not dealing with the uncertainty are socially unacceptable. The social costs of fluctuations in the markets of basic food stuffs are the consumer costs of surges in food prices (if prices are unusually high), or the local economic impacts of widespread bankruptcies of affected farmers (if prices collapse). As European society gets richer it becomes harder to envisage the first effect being a serious political problem. Thus price stabilisation *per se* becomes harder to justify. The second effect is better envisaged as a problem of farm income stability rather than commodity price stability. As such, publicly supported stabilisation measures could most usefully be based on the principle of revenue or income insurance. Canada is the only country with much experience of such schemes, it would be interesting to investigate these ideas for their applicability in Europe.

Environmental and Cultural Landscape Payments

The principle here is that a joint product of the production of most agricultural produce in Europe is the production of a stable, semi-natural, eco-system greatly valued by the public. This is the basic idea now referred to repeatedly by the

Commissioner as the 'European Model' of agriculture.[2] The agricultural history of the last seven decades is that new technology has given farmers the capacity to manage larger farms, to intensify agricultural production and to focus their efforts on producing the marketable outputs of food and fibre. At the same time, the very economic progress which produced these developments also brought about changes in consumer perceptions of what they want from the countryside. The food demands of the urbanised population are met from a declining share of their disposable income, simultaneously they become more mobile, more conscious of their environment, and more aware of what they 'miss' of the rural life they have now left behind. In short, just as the demand has grown for: traditional, mixed farming systems, the wild flowers, the landscape, the traditions of rural areas, the seasonal cycle; the supply of these aspects of farming dries up. Farming becomes agribusiness, farmers become entrepreneurs and seek to maximise the economic return from their resources. If the environmental services and cultural landscape features are not paid for then they will not be supplied. This is a classic market failure. Some collective action may be needed to sent the socially correct signals to farmers.

The proposed cuts in price supports have two impacts on the environment; they will encourage some de-intensification of production and thus reduce some of the negative environmental impacts of farming, but, *ceteris paribus*, they will also reduce the willingness and capacity of farmers to supply the positive environmental services. ECLP are intended to deal with these problems.[3] The essence is that there should be a system of payment for environmental and cultural landscape services supplied by farmers. The payment rates should depend on the incremental costs of supplying the defined environmental services - when the marketed food outputs are paid at international market prices.

The intention is that these payments are available under a general EU framework programme. They should extend across the whole rural territory because all land will be affected by the alignment of prices down to world market levels, and in principle, society is concerned with the whole rural environment. It is envisaged that there could be several tiers for such payments. There should be a basic Tier 0 of mandatory environmental standards which farmers must respect without payment. Beyond this, to encourage the continued supply of environmental and cultural landscape services there could be a broad spectrum Tier 1 based on paying farmers who agree to adopt high nature value farming systems. Tier 2 would then be for specific management practices which deliver further services and involve the farmer in further actions and costs. The essence of the schemes is payments for services delivered. These are not subsidies, or transfers.

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[2] It is seen particularly strongly by the French who are discussing it under the rubric of a Law for the Orientation of Agriculture, which depicts three goals for agriculture: food, environmental and social. See Hervieu (1997).

[3] There could also be a third type of, negative, environmental impact. If revenues per hectare fall with decreased price support, this acts as a further inducement to increase the number of hectares farmed by those who survive. It is well known that farm structural change can often be accompanied by environmentally damaging changes in technology, for example field enlargement to accommodate larger machines.

They should be paid to land managers[4] in multi-year contracts at regionally negotiated and defined rates. For most of the territory, to make such schemes administratively manageable, the environmental services should be defined in as few agronomic variables as practicable and which have the potential to ensure the maintenance of high nature value farming systems. The criteria will refer, for example, to acceptable fertilisation and crop protection practices, field margin and field boundary management, stocking densities and grassland and orchard management. The precise characteristics and their parameters will have to be defined on a regional basis. Participation should be voluntary.

Rural Development Incentives

The concept here is that, given the small resource base which most European farmers have at their disposal, when farmers are paid reasonable market prices for their produce, and even when this is supplemented by payments for any environmental services supplied, it may still be difficult to achieve living standards comparable to people in other occupations. The way forward is therefore for farmers or their family to find other income earning opportunities to supplement or replace their earnings from farming. The essence of RDI is to assist this process. There is a wide range of possibilities. It is natural to start from the farm resource base. There may be opportunities for further processing of farm produce to sell higher value produce, for example, regionally denominated products with local characteristics. There may be opportunities for the exploitation of resources, especially buildings of vernacular architecture and local materials, for agro-tourism or other non-farm uses. Beyond this, the best chance for people to maintain a foot in farming and to enjoy the rural life is to have part-time employment nearby enabling them to be part-time farmers. RDI should also be available to non-agricultural activities in rural areas to stimulate the appearance of such activities. None of these solutions is new. Equally, none has been exploited to exhaustion. The role of RDI is to discover the gaps, bottlenecks, missing skills or infrastructure which is inhibiting these developments. In some cases it may involve investment in human and physical capital. In others the contribution may be institutional and organisational to bring together local interests to identify the opportunities and obstacles to rural development.

The implementation of RDI should again cover the whole rural territory, within an EU framework programme. Application and administration, in common with the ECLP programme should be regionally defined and operated on a programming basis. Thus all regions should have the opportunity to present an analysis of their ECL and RD needs and which elements of the EU programmes are suitable for their region. In short, these two programmes are an extension to the present EU structural and agri-environmental schemes so that they may apply to the whole European rural territory.

These are the outline principles of the kinds of policy instruments the enlarged European Union should have to better deliver what society wants from its rural areas and to be able to participate in the expected growth in trade for the major food

[4] That is, not exclusively to farmers.

products in the coming century. It is plain that this vision is not widely understood or accepted, especially by farming interests whose first preference is for the continuation of existing price supports and direct payments. The first requirement is therefore to change attitudes. Beyond this there are many very difficult issues to resolve to move policy in the proposed direction. These involve questions of administrative competence, financing and co-financing, ensuring fair competition, determining appropriate rates of payment for environmental services and the quantum of such services required.

The European Commission claims to wish to move in the direction spelled out here. It is therefore interesting to see the extent to which the Agenda 2000 proposals, outlined in July 1997 (Commission 1997) and the proposals for new regulations presented to the Council in March 1998 (Commission 1998), can be depicted as a move in the direction of CARPE.

4 To what extent does Agenda 2000 take us in this direction?

Agenda 2000 defines the changes in the CAP which the Commission argues are necessary to take the EU through to the year 2006. During this period the next round of multi-lateral trade talks will presumably have been completed and the first wave of CEECs will have been admitted into the Union and starting whatever transition period is agreed. Two other important elements of the context of the proposals for agriculture are the Union's structural policy and the financial perspectives. Essentially the proposals for the structural policy are to simplify the six objectives down to three and to concentrate structural resources on the poorest regions and those with most intense difficulties. This creates a conflict, examined below, with the proposed territorial broadening of rural development policy advocated above. Agriculture still dominates the EU budget, although in the last few years, expenditure has been well within the financial ceilings. It was therefore very surprising that there was practically no public discussion of the EU's financial perspectives for the next period of its development. The Agenda 2000 proposals were that the present parameters of the Union's finances, including the agricultural guideline, should be rolled forward, unchanged, to 2006.

The principal elements of the agricultural proposals fall into four categories, the changes in Common Market Organisations (CMOs), a new set of horizontal measures applying to all CMOs, the rural development measures, which include the agri-environment, and provisions for pre-accession aid to the Central and Eastern European Countries. The complete set of proposals comprise 9 regulations running to 190 pages.[5] Only the main outlines of the proposals are discussed here.

[5] These cover (articles, pages): 1. Cereals prices (3,5), 2. Support system for COPs (13,17), 3. Beef and veal (48 ,39), 4. Milk and milk products (47,34), 5. Additional levy in milk (ie milk quotas) (3,16), 6. Rural development (54 ,41), 7. Financing the CAP (19,19), 8. Common rules for direct payments (13,7), 9. Pre-accession measures for Countries of Central and Eastern Europe (16,12). In total 216 articles covering 190 pages.

Proposed changes to the CMOs

These may be summarised as follows. The intervention prices for arable crops, beef and milk are to be reduced from 2000 by 20%, 30% and 15% respectively. In all cases the price cuts will be 'compensated' (although, notably, this word is generally avoided in the proposed regulations) by what are variously termed 'direct payments' or 'direct income payments'. These are to be paid, as now, per hectare of COPs[6] and per head of cattle. The dairy payments will be paid per standard quota unit, or 'virtual' cow.[7] The cereal price cuts are, explicitly, only partly (50%) compensated by the direct payments. The other price cuts are supposedly, on average, fully compensated - though this latter point is contested by farmers' organisations.[8] There is some small simplification of the currently separate payments for cereals and oilseeds which will in future receive the same arable area payment. Proteins and durum wheat will, as now, continue to get a higher payment. It is furthermore proposed that the normal set-aside rate for COPs will be zero. In the beef sector intervention will be abolished and the only safety net will be a private storage subsidy scheme. In the dairy sector, quotas will be maintained until 2006, but from 2000, the quota is to be increased by 2% allocated to young farmers and to mountainous areas. Further changes will also be proposed for the olive oil, wine and tobacco sectors.

In the beef and dairy CMOs, a new device is proposed, to devolve to the Member States the responsibility for distributing part of the compensation. Thus the Commission only defines part of the compensation for beef and dairy animals (about 70% for beef and 50% for dairy). The remainder is offered to the Member States as a 'national envelope'. This is a gross sum of money for beef and dairy support equivalent to the remaining compensation. It is allocated to each member state for them to distribute to their beef and dairy farmers, within limits, based on principles they decided for themselves. This is a device to introduce a degree of subsidiarity in the administration of these direct payments. Thus member states who wish to introduce further redistribution, and to concentrate the payments on the poorer beef and dairy farmers have the scope to do so. Alternatively, some member states may wish to encourage particular systems of beef or dairy production, or particular regions, to pursue environmental goals. These 'additional payments', as they are to be called, may be paid either per head or per hectare. To minimise distortions to competition, the Member States will have to respect some maximum payments per head (or per hectare) and will have to clear their proposed distribution schemes for their national envelopes with the Commission.

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[6] Cereals, Oilseeds and Proteins.

[7] This is an average cow producing 5800 litres of milk per lactation. The device of defining a virtual cow is necessary in order to calibrate the payment necessary to compensate producers for the income reduction resulting from the cut in intervention prices. Plainly, a flat rate per cow however defined will tend to under-compensate the above average yielding herds and over-compensate the below average yield herds. This is corrected as the eligible number of virtual cows will be the farm's milk production quota divided by the average yield - thus awarding the high yielding herds more virtual cows than actual and vice versa for the low yielders.

[8] Following the same structure as in the 1992 reform, the compensation principle is calculated on the basis of the gross revenue lost following a cut in prices. There is no allowance for any cut in variable inputs or in input prices as farmers adjust to the lower product prices.

Proposed horizontal regulation

Three new concepts are proposed to apply to all direct payments under the CMOs. These are payment ceilings, modulation and cross compliance (or eco-conditionality). The first is a redistribution measure. It proposes that total direct payments per farmer between 100,000 and 200,000 ECU be only partly (80%) paid, and for amounts above 200,000 ECU only three-quarters be paid. This, of course gives no more to the smaller farms, but simply claws back some from the largest.[9] The proposal on modulation is also apparently aimed to curb the payments to certain 'less deserving' farms. It appears an extraordinary idea. For farms which employ fewer than some (member state defined) labour norms, the member state may choose to cut the direct payments by up to 20%. This proposal is aimed at capital intensive farms who employ 'too few' people, and therefore 'don't deserve' such generous direct payments.[10] The third horizontal measure is the requirement for member states "to take the environmental measures they consider appropriate", which "may include support in return for agri-environmental undertakings, general mandatory environmental requirements and specific environmental requirements constituting a condition for direct payments." If farmers do not respect such conditions the member state may impose sanctions "proportionate to the seriousness of the ecological consequences of not observing mandatory environmental requirements."[11] Moneys saved by the ceilings, modulation and cross compliance will remain with the member states but must be used for agri-environmental schemes.

Proposed regulation on rural development

The third component of the proposals concern rural development. This is, on the face of it, a big simplification and integration. Nine existing structural regulations directed towards rural areas, including the three MacSharry accompanying measures, are condensed into one. Two types of rural development (RD) actions are defined: RD1 - the 1992 accompanying measures (early retirement, forestry and agri-environment) plus redefined less favoured area measures; RD2 - measures concerning modernisation and diversification. For RD1 measures, financing will come from FEOGA guarantee fund for the whole EU rural territory. Financing RD2 measures will depend on where they are, and may come from FEOGA guidance or guarantee or the other structural funds. The main features of this reorganisation of rural policy are thus: (i) to redefine the funds from which rural development actions can be financed; (ii) to enable rural development actions to be applied across the whole rural territory in Objective 1 and 2 areas *and* to all areas outside these two; (iii) to extend funding for agri-environmental schemes; (iv) to convert the Less Favoured Area scheme into

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9 It is plain that this is a token attempt to deal with the problem of the regressive distribution of CAP payments (most to the wealthiest producers) as the total amount the Commission expects to be 'saved' by these ceilings is only 400 MECU out of perhaps 25 BECU of total direct payments.

10 It is not hard to anticipate the retort of such farmers who will complain that their labour efficiency is being penalised by such an approach, and that the proposal will slow the needed adjustment of the farm workforce. It will be interesting to see which Member States, if any choose to implement this measure. Once again the proposal does not offer any additional help to the 'disadvantaged' farms.

11 This means a reduction or, at worst, cancellation, of the direct payment otherwise payable.

an explicit agri-environment programme; (v) to bring together all these non-market measures into a single, multi-annual programming basis.

These first two points are amongst the most important in the proposals. The fact that rural development actions in all three areas (new Objective 1, 2 areas, plus all rural areas outside either) can be funded from the FEOGA guarantee fund, potentially opens up the possibility for very large flows of funds into rural development and agri-environment schemes if the member states were minded to do this. In the language used in the Commission, it creates the architecture for policy to switch in the way suggested by the CARPE concept. This is all the more relevant because the continuation of the same budgetary guideline for the structural funds means that there are rather restrictive limits on the rate of growth in structural expenditure, whereas the agricultural budget can continue to grow at up to 74% of the growth of EU GDP itself. It also means that in the battle for competence over policy for rural regions between DGs XVI and VI, the latter appears to have kept its present control. The fact that rural development actions can extend to the whole territory is also a welcome suggestion because it is a prerequisite for persuading farmers to contemplate the idea of relinquishing price supports and supply controls. The present recipients of the high price support are extremely unlikely to give it up with no such replacement offered.

Pre-accession aid for the CEECs

The fourth part of the proposals provides for pre-accession help to the applicant countries of Central and Eastern Europe. The assistance offered is for two main purposes: to help them implement the acquis communautaire concerning the CAP, and to help modernise and adapt their agricultural sector and rural areas. The measures offered are essentially the rural development measures offered in the existing EU structures policy for rural areas including farm restructuring and land re-parcelling. These actions have to be implemented through a programming approach based on 7-year, rural development plans which must be presented within 6 months of the entering into force of the regulation (expected 1/1/2000). There will have to be rather fast work to prepare such plans within the next 24 months! The assistance provided will be co-financed by the EU at a rate of 75%. The total funds proposed rise from 530 to 600 MECU from 2000 to 2006.

Evaluation

The main elements of Agenda 2000 are now evaluated with respect to their compatibility with the ideas of a Common Agricultural and Rural policy for Europe.[12] For the Commission to be proposing such a comprehensive set of adaptations to the CAP when there is no budgetary crisis nor any irresistible pressure from our trade partners is no small achievement. This indicates a maturation of the EU; that it can discuss in an orderly and relatively timely way, needed adaptations to its policies

[12] See Tangermann (1997 and 1998) for assessments of the market and trade effects of Agenda 2000. See Swinbank (1998) for an assessment of the compatibility of Agenda 2000 with the EU's Uruguay Round commitments, and Thomson (1998) for a discussion of how far the proposals ease the Eastern enlargement.

without the need for crisis to drive action. Whether the Council of Ministers will respond in an equally mature way will be seen.

The explanatory memorandum accompanying the proposals is significant in making quite explicit that the objectives of agricultural (rural?) policy should focus on the (international) competitiveness of European agriculture and it should elevate the importance of environmental considerations and rural development. At this broadest level therefore, there is a clear identity with CARPE. The proposed strategy is indeed to reduce prices of supported products towards the world market levels, thus reducing or avoiding the need for export subsidies. At the same time an important part of the proposals is to integrate market, rural development and agri-environmental measures and reduce the incoherence between these instruments in existing policy. These are clearly in line with CARPE, especially important in this regard are the extension of rural development measures to the whole rural territory, opening the capacity to finance rural development measures from the main (guarantee) part of the budget and the redefinition of less favoured area payments as an environmental measure.

However, even though the proposals are intended to guide policy development well into the next decade, these steps do not take the CAP very far into the more integrated rural policy. The bulk of the (increased) budget expenditure will still accrue to arable, beef, and dairy farmers through the commodity regimes. Rural development including agri-environment will still account for less than ten percent of expenditure. In terms of Figure 1, there is a large shift in support from CMOs to Compensation Payments, but only a small increase in funds directed to Agri-Environmental and Rural Development. In the meantime some new elements are proposed which are quite different conceptually from the principles of a CARPE.

On the proposed support price cuts, the consensus of many commentators is that the cereal intervention price cuts are enough to eliminate export subsidies for wheat and beef, but not so for coarse grains and milk (see Tangermann 1997). Of course there are no proposals at all for sheep meat and sugar, and there is still more to do for the southern products. Nonetheless, the proposals, if agreed, would take the policy a significant step further down the road of moving away from price support as the main instrument of agricultural policy. The effective abolition of set-aside is also a move in this direction, as is the proposed increase in milk quotas.[13] The suggestion to simplify the direct payment for COPs with a single, non-crop specific payment is a good one, it could be an important decoupling of the payment from decisions on the mix of crops to plant. Disappointingly, when the details are examined, the proposal falls well short of a single payment, but has three different payments (for protein crops, durum wheat, and other arable crops). In addition, the payments continue to provide a strong incentive for farmers to plant their full eligible areas, so these enlarged payments, programmed to continue until 2006, will still fail to qualify as decoupled.

[13] However, the proposed allocation of half of the extra quotas to the mountain areas is a profoundly anti-competitiveness suggestion. It indicates that there is still a strong taste to use commodity market instruments to try and deliver environmental services.

Worse still, there is not the slightest hint in the Agenda 2000 document that the direct payments are time limited or might, in future, be gradually reduced. Farmers are sent the signal that they will go on indefinitely. The only warning signals provided are, first, that payments might be changed "in the light of developments in production, productivity and the markets"[14], and second that less than full compensation is offered for cereals.[15] The logic of the payments is still clearly defined in terms of compensation for gross revenue lost by the quite explicit calculation of area payments by multiplying price cut and yield. There is no attempt in the 'whereas' clauses to redefine the logic of the payments in terms of producers' incomes, nor the need to adjust to the market, nor any link to the delivery of public environmental services. The presentation of these payments shows no recognition whatsoever of a need to re-justify them in the light of either the coming WTO negotiations nor the further enlargement of the Union, for which the current policy is still to argue that CEEC farmers will not be eligible for the payments. This is profoundly disappointing as it misses a chance to educate EU farmers to the changes they will have to make during the first decade of the next century.

Rather than dealing with the issue of the fundamental justification for enduring taxpayer transfers to certain farmers, Agenda 2000 tries to take the sting out of the criticism of the distributional effects of the present payments. Thus the proposed ceilings and modulation are mild measures to reduce the payments to the largest and most capital intensive farms without offering anything more to the smallest or most labour intensive farms. The redistributive effect of such measures will be small, and certainly small in relation to the political heat they will no doubt generate. It is clear that if the direct payments are to be viewed as a redistributive measure, then they must be based on the income of the recipients.[16] There are absolutely no signs that these principles are to be applied to direct payments.

The cross compliance proposal seems to be a rather opportunistic attempt to try to make compensation payments look respectable rather than dealing frontally with the problems of helping farmers supply environmental and cultural landscape services. The concept has three main problems. First, the very name 'cross' compliance suggests that the payments exist for some primary reason, but that to receive them, farmers must comply with secondary (environmental) conditions. The problem is that the primary justification for the payments is far from clear. Second, it has been argued that the direct payments (whether they are called compensation or adjustment assistance) can only be transitional. Therefore there is no point in tying the delivery of environmental services to such payments - either the environmental service delivery will cease when the payments are phased out, or unjustified payments will continue hiding behind the fig-leaf of green respectability. This approach argues that if we want farmers to supply environmental services then purpose-built schemes should be introduced to arrange their delivery. The third objection is that in Article 3

[14] Article 11 of the arable crop proposal.

[15] The Commission argues that it has proposed to the Council that compensation payments for cereals should be reduced (in the context of trying to find additional resources to cope with the beef crisis in 1996 and 1997) but that the Council was unprepared to discuss such reductions.

[16] Furthermore, as argued by Hill (199?), income should refer to all sources and also, recipients wealth should, logically, be taken into account.

of the proposed Common Rules for direct payments, it is suggested that "the Member States decide the sanctions which are appropriate and proportionate to the seriousness of the ecological consequences of not observing the mandatory environmental requirements." In other words farmers are paid to meet these mandatory requirements. This is a direct contradiction of the polluter pays principle which underlies the base Tier 0 of the proposed Environmental and Cultural Landscape Payments summarised in section three above. The argument made was that farmers must meet society's basic requirements for safe food and sustainable agriculture and should not be specifically paid for this.[17] Payments are for the supply of additional environmental services. The provisions for environmental payments in Agenda 2000 require considerable further development.

As indicated above, the proposals for rural development are welcome. The principle that they should be pan-territorial, based on a multi-annual, regional programming approach, and financed from the main (guarantee) budget are in line with the ideas expressed above under Rural Development Incentives. It could be argued that the proposed consolidation of structural and environmental measures into one Rural Development regulation is a greater integration of rural policy than envisaged in the CARPE. However, whilst it is acknowledged that payment for environmental services could reasonably be categorised as a sub-set of rural development, it is better to see them as separate and parallel programmes. The logic of the CARPE approach is that, potentially, a large fraction of current commodity programmes and direct payments should be redefined into their real purpose which is paying for environmental and cultural landscape services. In this view, the ECLP programme could justify a larger budget than the rest of rural development and is thus best seen as a separate programme. In this light, the three articles (20 to 22) of Chapter VI on Agri-environment, are rather modest in their scope. This impression is reinforced by the relatively small expansion in budgetary provision. It is plain that these agri-environment measures are seen as a modest addition to direct payments and residual market price support, not a replacement of these outmoded mechanisms as argued in CARPE.

The other main difference between the Agenda 2000 proposals on rural development and the RDI component of CARPE is that the latter is more broadly conceived. RDI would be expected to incorporate a greater element of infrastructure development, and the subjects for assistance would definitely extend considerably beyond farmers. The scope of the Rural Development actions defined in Articles 2 and 31 of the proposed regulation do not formally exclude these ideas, but the tone - and the financial resources envisaged - clearly indicates that the primary focus of rural development help is farmers. It does not appear to have been accepted that an important way to help current farmers and their families may be to stimulate (suitable) non-farming activities which can provide full-time or part-time employment in rural areas.

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17 It is acknowledged that there can be a case for making transitional payments to farmers to help them adjust their technology and farming system to be able to comply with new or higher environmental standards.

It may be that this last point is an example of a subtle approach by the Commission to offer the member states the option to show by their actions the way they want to develop agricultural policy. Thus if member states believe that the best way to help raise the incomes of farmers is to stimulate alternative activities in rural areas, then they will show this in their rural development programmes and put forward imaginative schemes for exploiting indent 6 of Article 2 (the development of economic activities and maintenance and creation of employment...) and indents 5, 6 and 8 of Article 31 (5 - renovation and development of villages..., 6 - diversification of activities to provide multiple activities or alternative incomes, 8 - development and improvement of rural infrastructure).

This approach to devolve decisions is quite explicit in the proposal under the beef and dairy regimes to offer Member States the scope to differentiate additional compensation payments, for example to encourage particular farming systems. If this works, then the Commission can take credit for cleverly respecting subsidiarity. If it doesn't then the Commission can claim that there is no taste for using CAP payments to achieve environmental objectives. It will be a brave member state which chooses to impose strict conditions for the distribution of these additional payments. Their farmers will complain that they are not operating on a level playing field with other producers whose governments distribute the additional payments without such conditions.

4 Conclusions

The EU has clearly moved now to the US pattern of periodic overhauls of agricultural policy. The 1992 reforms applied for seven years (1993 - 2000), the current Agenda 2000 proposals are also projected to span seven years. It is quite clear that by the time of the first accession of the CEECs, around 2003, there will be further continued debate on the next round of reforms to accommodate whatever is agreed in the WTO talks due to start in 1999 and the Eastern enlargement.

Agenda 2000 is a comprehensive set of proposals. Because some member states have criticised them as unnecessary and going too far whilst other have said they are too timid, it is clear that the Commission has pitched them about right from the point of view of their acceptability to the Council. It is not at all clear that the Council is motivated to devote the political energy necessary to negotiate these proposals to a successful conclusion, even in the prolonged period it is expected to take to debate them. Thus the criticisms and comments above are not specifically aimed at the Commission but at the whole decision process for CAP reform.

The core of the Agenda 2000 proposals is to reduce the reliance of European agricultural policy on commodity market support and to increase substantially the role (and volume) of direct payments. These payments will constitute the bulk of the support offered by the CAP. It seems plain that this cannot be an enduring solution for Europe's rural policy. It will be difficult to defend these payments to arable, beef, sheep and dairy farmers (and later, perhaps olive oil and tobacco producers?) as decoupled from production. So it will not be easy to argue that European producers have become more internationally competitive. Equally, making such payments conditional on respecting mandatory environmental standards does not justify them as payments for the delivery of environmental services. Furthermore, focusing more attention on direct payments as the prime instrument of support will cause the new member states in Eastern Europe to concentrate on the issue of whether their farmers will be eligible for such payments. Agenda 2000 is silent on this matter.

There is a misfit between the rhetoric surrounding the Agenda 2000 and the regulations proposed. The rhetoric describes a significant shift in the fundamental principles of agricultural and rural support from price supports to a more balanced and integrated rural policy. There *are* significant price cuts proposed and there *is* a widening, deepening and integration of the roles of environmental payments and rural development measures. These are welcome. However the extent to which there is a real switch in the principles underlying policy for the period until 2006 is quite limited in scope. The best that can be hoped is that Agenda 2000 indeed opens the door to the new principles of rural, and that this facilitates the door being thrust wide open in the next round of reforms to span 2006 - 2012.