

RLG 03/4a: Consequences of the CAP reform proposals

Advice given by the Council for the Rural Area on Collective Agriculture Policy - May 2003

The Minister of Agriculture, Nature Management
and Fishery, C.P. Veerman
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Dear Mr Veerman,

Early this year, the Council for the Rural Area RLG in concert with the Council for Research on Nature and the Environment RMNO presented a statement drawn up by the European advisory councils with the title *A Sustainable Policy for Europe* (Letter No rlg03006). The heart of our message was: 'Support Mr Fischler in his reform proposals'. The Council endorses the intention behind the European Model of Agriculture: more market oriented, a sustainable and qualitatively high-grade production, a diversity in agricultural systems in a vital rural area, a simplified CAP with a proper division of responsibilities between Europe, the Member States and the regions, and a CAP that supplies services demanded by society that can justify the expenditure. In the Mid-term Review published last year, Mr Fischler seemed to carry his reforms firmly through. However, the Council has observed that the present legislative proposals published in January this year are diverting more and more from the original objectives.

The original integrality of the proposals seems to have been torn to shreds in the sphere of influence in which Mr Fischler had to specify these proposals. The Council still wholly supports the original essence of the proposals as expressed in the European Model of Agriculture and as further translated in the Mid-Term Review of July 2002. However, the Council also concluded that the legislative proposals have a number of very problematic sides and could have consequences that are not consistent with the intention of the reforms. The shift from the first to the second pillar will not be achieved with these proposals. They may lead to gross inequality between the farmers themselves and between the regions, a decrease in biodiversity, substantial administrative and managerial burdens, and dissatisfaction in society (please see the Enclosure). That is why the Council would like to point out the necessity to adhere to the already taken course of transition to sustainable agriculture and reinforcement of rural development. This course must be realised within the implementing frameworks that are clear, enforceable and encouraging for all levels (up to the local level) and all parties involved (up to the managerial level).

The Council recommends:

- That the aims of the European Model of Agriculture be adhered to and that they be taken as a guideline for assessing further reforms. The agricultural sector needs a powerful stimulus to complete the transition to sustainable agriculture. This necessity has become more urgent since the aims of the European Model of Agriculture were confirmed, also by the agreements on sustainability and biodiversity in Gothenburg in 2001. The standards for European agriculture must be effective for all production forms and must be the standards for admitting products onto the European market.
- That the shift from market and price policy to rural development be carried through. Not only is this necessary for achieving the aims of the European Model of Agriculture, but also to meet the obligation to integrate nature and environmental goals into agricultural policies. This will also give the possibility to utilise the CAP and structure funds together with co-financing funds for the realisation of integral area-specific plans, such as the Dutch Reconstruction Plans.
- That the way of decoupling be fully considered before decisions are taken. The way in which the decoupling is shaped is of such importance to agriculture, nature and society that this must be explored gingerly. The preparations for it are not just a matter for the internal DG Agriculture. All relevant DGs must be involved in this matter. Moreover, the Member States must have enough time to get to the bottom of the proposals and to assess the consequences.

- That implementation frameworks be created that are clear, enforceable and encouraging for all levels (up to the local level) and all parties involved (up to the management level). In the Netherlands, this must be realised by a government that is reducing strongly.

With this advice, the Council anticipates on a more comprehensive advice on the EU agricultural policy, which is placed on the agenda for the second half of this year. That advice will elaborate on aspects of implementation of the reforms, and will take a look into the future of CAP after 2013.

As an independent advisory council, the Council would like to exchange views about the contents of this letter and to look into the future of the EU agricultural policy for the long term.

With kind regards,

Professor H.J.L. Vonhoff, Mr. W.J.Kooy,
Chairman of the Council for the Rural Area. General Secretary.

Enclosure: The CAP reform proposals lack integrity

In 1998, Mr Fischler designed an integral image with the European Model of Agriculture as a guideline for the necessary reforms. The essence of this model is: strengthening the market orientation, transition to a sustainable and qualitatively high-grade production, maintaining a diversity of agricultural systems in a vital rural area, simplifying the CAP, a proper division of the responsibilities between Europe, Member States and the region, and a CAP that provides services that society demands and with which it can justify the expenditure. In last year's Mid-Term Review it appeared that Mr Fischler had carried his reforms strongly through in this direction.

The legislative proposals published in January this year initially appeared to give further shape to Mr Fischler's original intentions as expressed in the European Model of Agriculture. However, it proved to be the opposite.

Background of the reforms

The pressure coming from the WTO negotiations to continue the liberalisation is an important factor in the way in which the legislative proposals have taken shape. The term to reach an agreement on agricultural modality no later than on 31 March 2003, as agreed on in Doha, has not been reached. This makes it all the more necessary to come to an agreement during the coming Ministerial Conference in Cancun in September. The necessity of integrating environmental aims into the EU agricultural policies has taken root step by step. The quality standards for food safety, welfare (for men, animal and plant) and working conditions are also obligatory for the agricultural sector. The acceding countries have justified expectations of entering the internal EU market on the basis of equal rights and equal obligations. They will also receive income support on this basis. However, this will not solve the inequality that these subsidies create.

The Brussels Top (24/25 October 2002) confirmed the expenditure framework for (the first pillar of) the CAP for the period 2007-2013. At the Netherlands' insistence, agriculture expenditure should not increase by more than 1% a year in the period 2006-2013. It was also agreed that the ten new Member States were to receive income support. Further CAP reforms will entail costs. The cost of income support to the acceding countries and of the necessary reforms must remain within the agreed limit.

The context of the proposals is formed by the necessity to maintain the mandatory standards for agricultural production (the 38 regulations in Annex III of the proposals), the pressure on the present (protective) agricultural policy in WTO context and the established ceiling for agricultural expenditure.

Evaluation of the legislative proposals

Since then, the first evaluations of the legislative proposals have been published and the debates have started. At first sight, it seemed that the proposals met the demands of WTO, society, the EU acceding

countries and the agricultural sector. 'Decoupling' seemed inevitable in WTO connection. For many parties, cross-compliance appeared to be a reasonable demand of society. Farmers in the acceding countries would also receive income support. The farmers in EU-15 would receive transferable payment entitlements on the basis of historical references. The extra dairy reforms would most likely be put on ice. Everybody would be happy. In spite of all this, there is a general feeling of discomfort and uncertainty in agricultural, nature and environmental circles.

The original integrality of the proposals seems to have been torn into pieces in the sphere of influence in which Fischler had to specify these proposals. The Council still wholly supports the original essence of the proposals as expressed in the European Model of Agriculture and further translated in the Mid-Term Review of July 2002 (decoupling of production volume, obligatory cross-compliance, modulation as well as a dramatic shift from the first to the second pillar). Nevertheless, the Council demands urgent attention for a number of problematic aspects of the proposals, and for the possible. However, the Council urgently calls for attention to the problematic sides of the proposals and for the possibly unintentional consequences.

Knotty aspects of the proposals

1. Insufficient shift from market and price policy to rural policy

The essence of Fischler's original proposals was a powerful shift from market and price policy to rural policy. If with rural policy is meant the revitalisation of the rural area, broadening the functions within agriculture and the rural area, strengthening the agricultural measures as well as a quality impulse for nature and the landscape, then it is most likely that the present proposals will not be a contributory cause.

- As it is, only a limited part of the modulation funds will go to rural development (increasing from 0.5% in 2007 to 3% in 2013 from the funds in the first pillar, or, if it is based on the total of the direct payments, from 1% to 6%), and not the full 20% as published in the Mid-Term Review of summer 2002. This means that the fund for rural development will increase with a mere one-third.

- This increase will benefit rural development only partly in the 'narrow' sense. As it is, the Framework Regulation for Rural Development has been extended with a number of articles that have not so much to do with rural development as with aspects of internal agricultural management (animal welfare, quality of production, meeting the European standards and farm advisory systems). Though these aspects are optional and only applicable in the first 5 years, they still would mean a substantial drain of the funds that are intended for rural development in the 'narrow' sense, especially in the light of making farm management advice compulsory and the importance Mr Fischler attaches to European standards in connection with the WTO negotiations.

2. CAP funds only limitedly available for meeting nature objectives

In Gothenburg in 2001, the EU committed itself to halting biodiversity loss by 2010. One of the most important tools for achieving this is the realisation of Natura 2000. This will require an amount between EUR 3.4 and 5.7 billion, according to a recent report of an EC study group that analysed the financing of the Habitat Directive. The report states that the funds for rural development from the CAP must also be applied to cover this amount. The new proposals indicate the areas where agriculture is limited in its management by the Bird and Habitat Directive as the new areas with natural handicaps article 16(1) of Regulation 1257/1999). This makes it in principle possible to earmark rural development funds for realising Natura 2000. But with these new proposals it is not likely that there is enough money for it.

3. The way of decoupling has not been sufficiently thought out

The Council is in favour of decoupling income support from production volume. However, the way in which this is now designed is not sufficiently thought out. The Council sees risks of undesirable side effects. The following elements demand further investigation because of possible unintentional effects: the transferability, the decoupling of any possible payment entitlement and land, and applying historical references. The Member States should have been asked to assess how the various farmers in their countries would react to these proposals. The further consequences for liveability and nature could then be assessed on this basis. The design of decoupling and recoupling with EU objectives is not an internal matter of the DG Agri, but must be

prepared by all relevant DGs in Brussels. From the angle of society and the individual farmers it is important that there is clarity about the period of time in which the decoupled income support is (fully) completed.

4. Gross inequality between farmers amongst themselves and on the regional level will remain

With the transferable payment entitlements on the basis of historical references and the restricted degressivity, the inequality between farmers and between regions will be maintained. And what is more, new forms of inequality will be created, not only from the economic point of view but also from the angle of regulations. All farmers must be obliged to adhere to the statutory regulations, including the 38 regulations that are a condition for cross-compliance (Annex III). Only the farmer that continues traditional production on the basis of which payment entitlements are awarded is subjected to cross-compliance. The farmers that switch to other forms of production are indeed submitted to the same regulations, but without possibilities of control or the sanctions to which the CAP farmers are subjected. There are numbers of Dutch farmers that will fall outside the scope of the CAP regime. Hence the goal of the same rights and the same duties for all farmers will not be reached with this method.

5. Administrative and managerial expenditure will soar

Member States must check and enforce the conditions that are attached to receiving payment entitlements (Annex III and Annex IV). The present systems are not tailored to this. This means a substantial administrative and managerial burden. The Member States must invest in this whereas it is assumed that the payment entitlements will be abolished in the course of time. Moreover, the number of farmers will in any case decrease in the whole of Europe. In the Netherlands, this task must be carried out with a reduced government.

Contrary to the conditions attached to cross-compliance, the minimal conditions attached to receiving payment entitlements are not based on legislation. This means that there are no formal criteria to ensure that these conditions are met, whereas these conditions form the essence of rewarding society in return for the received payment entitlements. Applying the system of self-regulation could restrict the burden of implementation.

6. The proposals will evoke societal resistance

The volume of the agricultural expenditure remains substantial in spite of the agreed ceiling. This ceiling will be EUR 45.3 billion in 2006. This must be justified to society. Half of the budget of the 1st pillar will be turned into payment entitlements. The minimal requirements for receiving these payments to keep farmland in a proper agricultural condition are inadequate as reciprocation to society. In a period of heavy and painful retrenchments, large amounts of money are pumped into the agricultural sector while it remains to be seen what the people will see in return. The way the proposals are now tabled, the Council anticipates strong rejective actions from society (citizens and consumers).

To illustrate the possible negative consequences of the present proposals, the Council has drawn up a 'worst case' scenario for Europe.

Worst-case scenario for Europe

In marginal areas of the EU, and on the basis of the proposals, it would be the best strategy for the individual farmer to cash the profit from the payment entitlements, to stop agricultural and environmental measures (low profit - only compensation for loss of income - and high expenses), to stop producing agricultural products (prices too low/expenses too high) and to do some minimal land management once in a while (such as mowing twice a year) to meet the requirements of keeping the land in proper agricultural condition. This can have negative consequences for the liveability and biodiversity, and for nature and the landscape.

In modern agricultural areas such as we have in the Netherlands, it could be profitable to receive payment entitlements and to switch to other (so-called free) crops. They are often more intensive, and have more environmental consequences. The chain that was once built around the original agricultural production could disappear with this.

In the relatively marginal agricultural areas in the Netherlands, the farmer can opt for stopping with farming, receiving the support and having a sideline in the city. He must only do some mowing once in a while. This will definitely not revitalise the areas, and will certainly not give a quality impulse to nature and the landscape. Though an important visual characteristic of the low-lying waterlogged Dutch grasslands will more or less be guaranteed (permanent grasslands must not disappear), it will arrest the development options for nature and landscape (development of marshes, water retention).

This method will give the farmers in the acceding countries - just like in the E-15 - a nice bit of money for hardly any effort. It will create an undesirable inequity on the local level. The local market (and also the chain) will be disrupted. It is better for these monies to be spent on measures from which everybody would profit, certainly if we consider the fact that a number of acceding countries will be the net payers.

All in all, the proposals could lead to a scenario where nature and landscape in marginal agricultural areas in Europe will vanish, where highly productive agricultural areas will further intensify, and where the balance of a local community in the acceding countries will become unsettled. An integral and sustainable development of agricultural and rural area is out of the question. Achieving the biodiversity objectives in 2010 is impossible. Regional differences will be negatively affected instead of cultivated, and will be taken as the basis for regionally differentiated quality impulses in the rural area. The administrative and managerial pressure will increase enormously.

Conclusion

The original integrality of the proposals seem to have been torn to pieces in the sphere of influence in which Fischler had to specify these proposals. The Council still wholly supports the original essence of the proposals as expressed in the European Model of Agriculture and further translated in the Mid-Term Review of July 2002. However, the Council has reached the conclusion that the present proposals have not been sufficiently thought out for their consequences. The inequity may increase, also regionally. The broad rural development built on a diversity of agricultural systems will not be strengthened. There is the risk that biodiversity will decrease, especially in marginal agricultural areas. Moreover, the proposals will result in heavy administrative and managerial burdens and also in dissatisfaction in society. The Council is therefore of the opinion that the foundation for a well thought-out scheme for common agricultural practice has not been laid.

Recommendations

The Council is of the opinion that the Netherlands must advocate continuing the course taken of transition to sustainable agriculture and strengthening rural development within the implementation frameworks that are clear, enforceable and encouraging for all levels (up to the local level) and all parties involved (up to the managerial level). This means the following:

Encourage the transition to sustainable agriculture

The objectives of the European Model of Agriculture must be maintained and serve as a guideline for assessing further reforms. At all levels, the agricultural sector needs a strong impulse to accomplish the transition to sustainable agriculture. This necessity has become more urgent since confirming the objectives of the European Model of Agriculture, also because of the agreements on sustainability and biodiversity in Gothenburg in 2001. The standards for European agriculture must apply to all forms of production and must also be the standards for allowing products onto the European market.

Strengthening rural policy

The shift from market and price policy to rural development must be carried through. More funds must be pruned away for this than foreseen in the proposals. These funds can be applied in a way that is socially and regionally better justifiable than the individual payment entitlements on the basis of historical reference. Not only is this necessary to meet the objectives of the European Model of Agriculture, but also to meet the obligation to integrate nature and environmental objectives into the agricultural policy and to contribute to achieving the Biodiversity Objectives in 2010. Rural development will remain a part of the CAP, and therefore

invalidates or tones down the argument that the funds for rural policy will no longer benefit the agricultural sector. Supplement these CAP funds with funds from the Structural Funds and co-financing, and apply these funds for integral area-specific plans, such as reconstruction.

Think the way of decoupling better through

The Council suggest that the design of the decoupling be seen as a responsibility of the whole commission instead of an internal affair for the Directorate General for Agriculture. It is likewise important that the consequences of the negotiability, the decoupling of possible payment entitlements from land, and applying historical references are fully judged on their consequences. The Council suggests that the Member States should actively be involved in assessing these consequences: not only on the choices of farmers, but also on liveability and nature. Both for society and for farmers, it is important that it is clear when the decoupled income support will be (fully) completed.

Clear, enforceable and stimulating implementation frameworks

At the level of Member States, it must be feasible to translate the CAP into implementing frameworks that are clear, enforceable and encouraging for all levels (up to the local level) and all parties involved (up to the managerial level). This makes it necessary to simplify and improve the legislation on all administrative levels. The possibility to apply the legislation within the operational practice of the administrator (governmental, local and managerial levels) shall be one of the criteria. It must still be possible to implement the control and enforcement requirements of the new system with a reduced government. In this time of retrenchment it will no longer be socially justifiable to call in more civil servants for checking on less and less farmers. The Council deems it therefore desirable to further systems of self-regulation within the implementing frameworks set by the EU and the Member States (such as certification programmes and chain projects).