

## **Contribution of European agriculture to tomorrow's society**

Position paper of the Agriculture & Society Commission  
adopted by the Paris Central Council (3 June 2005)

The last revision of the common agricultural policy (CAP) was in 2003 and its implementing decisions came into force on 1 January 2005. It would be helpful to consider this revision in relation to the McSharry reform of 1993, which the 2003 Fischler reform carries further, before examining the more general question of whether this revised version of the CAP meets the expectations of society today.

### **I - THE BASIC PRINCIPLES OF THE CURRENT CAP**

The current CAP reinforces and clarifies its two main pillars, namely market policy and rural development policy. However, these two policies have changed a good deal, not least as a result of the Union's international obligations and enlargement.

#### **a - Developments in market policy**

While the principle of the single agricultural market (joint organisation of the market and common prices) has been maintained, the traditional instruments of market policy (pricing, intervention, quotas, rebates etc.) have been supplemented by direct aid to agricultural producers. This has shifted the main thrust of the policy from supporting prices to supporting incomes. This shift in focus, which began with the McSharry reform of 1992-93, has been confirmed by the Fischler reform of 2003. The policy of supporting incomes is founded on three principles: decoupling, modulation and the conditionality of aid.

- ◇ Decoupling: direct aid to farmers is no longer linked to production, but is based on the total amount of aid received previously. This reconciles the two major principles of the European social model: the free market and solidarity. The producer, in his production choices, directly confronts the actual state of the market, but society expresses its solidarity by providing additional aid which secures his income. The question for the future will therefore be that of knowing what weighting society proposes to give to the market and solidarity respectively.
- ◇ Modulation: this contributes to achieving a third value of European society: equality. It is clear that all producers cannot be equal. But it is unfair for a majority of the support to go to a well-to-do minority of producers. To correct this imbalance, direct aid is modulated on the basis of size.

This is the principle, and the fact that it has been accepted is a major innovation in itself. But in application, modulation is relatively weak. Direct aid to large farms (more than €5000 in direct aid annually) will be reduced by 3% in 2005, 4% in 2006 and 5% in 2007. "Small" farmers, (farms receiving up to €5.000- annually in direct aid) will not experience this reduction. The question for the future is therefore whether society proposes to increase or not this modulation, it being understood that the resulting savings are transferred to fund the second pillar (rural policy). Weak modulation risks supporting production that is inefficient and ultimately costly to society. Nor does weak modulation go far towards meeting the objective of equality. A genuine tapering scale for aid would do so more effectively. Further, introducing a

ceiling on direct aid would have two effects: it would increase the taper, and it would free up additional resources for the second pillar.

- ◇ Eco conditionality: This may well be described as the most important instrument to orient the CAP. By imposing conditions on the payment of aid, policy makers can have a decisive influence on the direction of production, perhaps more so than the market, at a time when we know that, on average, aid represents nearly a third of agricultural income. The last reform of the CAP made aid essentially dependent on meeting the needs of the environment, food safety, health and animal welfare (priority list of 18 compulsory European standards, not forgetting the duty to maintain uncultivated agricultural land in a satisfactory agronomic and environmental condition). But it also takes account of the interests of consumers (health protection, the right to information, search for possible responsible producers through traceability etc.), while efforts to improve animal and plant health are encouraged.

## **b - Rural development policy**

The Commission has put forward a proposed regulation for rural development 2007-2013. Rural development policy measures will be brought together in a single instrument composed of three priorities, relating to the second pillar of the CAP, and aiming to:

1. increase the competitiveness of the agricultural sector through aid for restructuring, conversion, young farmers, early retirement etc
2. enhance the environment and landscape, through support for countryside management, including providing co-funding for rural development measures regarding sites of natural interest (agri-environmental and forestry measures, measures for deprived areas)
3. improve the quality of life in rural zones and promote the diversification of agricultural activities by measures targeted on players other than farmers who are involved in rural affairs (for example essential services for the rural economy and population, the renovation and development of villages, the protection and conservation of the rural heritage, the development and improvement of infrastructure).

It is clear that in planning these measures, it will be for Member States and the regions to decide whether or not they want to incorporate them into their own rural development programmes. The rates of modulation mentioned above (Ia, 2<sup>nd</sup> indent), applied to farms receiving more than € 5 000 annually in direct aid, will free up an additional €1.2 billion a year (once the scheme is fully applied) to finance the costs involved in rural development.

However, we may wonder about the Commission's overall philosophy. If the first pillar of the CAP is essentially a sectoral policy, the second pillar should, *in principle*, be regarded as a territorial policy. This being the case, a genuine rural development policy should target rural regeneration, and should involve all those involved in the rural world. Seen from this angle, rural development cannot be considered only in terms of agriculture; diversification, modernisation, investments and the creation of employment do not only impact on the agricultural sector. Rural development policy should be genuinely multi-sectoral, contributing to the objective of economic, social and territorial cohesion in the European Union. Agriculture, while still an integral part of the rural fabric and way of life, no longer has its former economic importance. The true driving force behind rural economies now lies in non-agricultural, entrepreneurial and commercial initiatives. We thus need a countryside which is open to non-agricultural enterprises.

Does the Commission's proposal for rural development 2007/2013 reflect this basic philosophy? In fact, of the three priorities described above, only the last can be regarded

as a genuine policy for rural development; it would certainly be more appropriately seen as an aspect of cohesion policy rather than as part of the CAP. Viewed in this way, the CAP would include a pillar covering the joint organisation of markets, with all the income support measures, and a pillar limited to "structural support measures", while rural development, which calls for a territorial and multi sectoral policy, would be included under cohesion policy.

### **c - The Union's commercial agricultural policy**

In relation to imports, exports and internal support for agriculture, the Union has established some instruments meeting its commitments under the Marrakech agreement that came into force on 1 January 1995. A new challenge to European agriculture arose with the multilateral Doha negotiations. It would be appropriate to examine this chapter in conjunction with the Economic and Social Commission. At present the Agriculture and Society Commission proposes to include it in its discussion programme.

## **II - IS THE CAP IN ITS CURRENT FORM IN PHASE WITH EUROPEAN SOCIETY?**

The results of a special Eurobarometer survey entitled "European citizens and Agriculture from 1995 to 2003" has already provided some answers to this question. The DGAGRI has published a summary of the survey, making the following points:

- "- agriculture is the community policy best known to European citizens, who agree that this policy area should be handled at Community level;
- however the majority of European citizens say that they are not well-informed about the CAP;
- throughout the Union, citizens clearly see that the first objective of the CAP must be that of ensuring that agricultural products are healthy and safe;
- the second aim attributed to the CAP is that of promoting respect for the environment;
- less than half of the population believe that the CAP currently fulfils its role effectively, but the recent reforms of the CAP are broadly approved;
- the quality of food products is an important question for the citizens of the Union, particularly in northern countries..."

We note both the positive points - the widespread level of recognition of the name of the CAP and the feeling that it is involved in the European project - and the main negative point - the ignorance of the *contents* of the CAP. This last issue is part of the Community Institutions' more general communications problem.

Given the survey results, it may well be assumed that the objectives of the current CAP are, overall, in phase with the wishes of European society, at least as far as consumers are concerned. But society is composed of many elements, and their opposing interests are sometimes difficult to reconcile:

- ◇ farmers produce goods which are consumed by society as a whole. They must, therefore be in a position to carry out their activities and thus ensure the security of the food supply;
- ◇ consumers want not only a supply of these goods in adequate quantities and varieties at reasonable prices; they are also demanding that the products meet ever more stringent standards in terms of food safety and quality;
- ◇ agro-industries are seeking raw materials at the lowest possible price for the same quality, whether on the internal market or on an increasingly open international market;
- ◇ the public increasingly demands that the problems of the environment, leisure and healthy living should be taken into consideration;

- ◇ but, as tax payers, they wonder about the appropriateness of the sums spent on the agricultural sector.

Taken to their limits, these objectives are difficult to reconcile. A balance between them must therefore be found, and this must result from the conflicting forces and interests. European citizens, when questioned by Eurobarometer's researchers, demonstrated great maturity in considering it right that the CAP should be handled at Community level. A sectoral but also multifunctional policy like the CAP calls for a Community-level approach in terms of defining its aims, its relations with other sectors, and the allocation of EU funds.

How can the new CAP help to find a compromise between the different conflicting interests?

- ◇ At the level of markets, it has succeeded in unblocking the rigid mechanisms of the price support policy and has created flexible instruments (direct payments) that can be adapted to circumstances (the economic cycle, social changes), while ensuring a safety net for farmers.
- ◇ It increasingly takes account of consumers' interests.
- ◇ It contributes to meeting the aspirations of society (environment, leisure, relaxation etc.).
- ◇ The territorial dimension of the policy plays a part in the cohesion of the Union.

Of course it is too soon to reach a value judgment on the results of the reform of market policy. Further, the Commission's proposed regulation for rural development is scheduled for discussion by the Council in the autumn. But the way has been paved, and we must encourage all the efforts made to enable European agriculture, while pursuing its fundamental objectives, to contribute increasingly to cohesion and sustainable development in the Union.

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