Policies for Sustainable Agriculture and Rural Development

Silva Rodriguez
Director General, European Commission
Directorate-General for Agriculture

National Europe Centre Paper No. 7

Australian National University
4 March 2002
I have come here today to talk on the development of the European Union’s Common Agricultural Policy (CAP) over the last 45 years. The Policy was devised for farmers. The 1957 Treaty of Rome, which established the European Community, stipulated that the CAP had to guarantee the income of farmers. But after several years of evolution, other parties have entered into the Policy’s calculations. Increasingly, the farming community’s power has been confined by scientists, by taxpayers, by consumers and by animal welfare and environmental groups. (See Figure 1) Today, the CAP responds to this variety of interests, rather than solely the farming community. In other words, the Policy offers a holistic approach, balancing the costs and benefits to all the citizens of the Union.

What does Europe want from its Agricultural Policy?

Citizens feel strongly about ensuring the domestic production of safe, high quality food, the preservation of the environment, the protection of animal rights, good value for public money and a stable, simple and transparent policy framework. Figure 2 summarises these concerns under three headings – economic viability, social acceptability and environmental integrity. These imperatives drive the various competing interests in the CAP’s current dialogue.

The meeting of the European Council in Goteborg concluded that the CAP and its future development should contribute to ‘environmentally sustainable production methods, including organic production, renewable raw materials and the protection of biodiversity’. If the farmers of Europe want to continue with subsidies, they must do so within the framework of these new principles. Society is asking much more of them than simply the production of agricultural products. Accordingly, there is community support for additional community subsidization to ensure these broader agricultural objectives are met.
How has the CAP evolved?

Figure 3 charts the evolution of the Common Agricultural Policy over five distinct phases with three progressive themes – productivity, competitiveness and sustainability.

The early years of the CAP were driven by the experience of acute food shortages during and after the Second World War. Accordingly, the goals were to increase the security of food production, the productivity of the agricultural sector, and to stabilize the market and income support mechanisms. Europe’s farmers were therefore the first concern. Not surprisingly, production did increase rapidly. This led to the crisis years of the CAP. Over-production, huge public expenditures, international consternation among Europe’s trading partners, and a series of remedial structural measures. The situation persisted until the late 1980s when a budgetary stabilization policy was introduced. One of its key features was that the various components of Europe’s agricultural budget had to be accountable to themselves. There was no room for cross-subsidization.

In 1992, the Community took measures in preparation for the Uruguay Round of trade negotiations. This involved a commitment to reducing agricultural surpluses, taking greater account of environmental factors, stabilizing (rather than increasing farmers’ income) and the announcement of further measures to stabilize the overall agricultural budget.

The effect of these measures was to significantly reduce the Member States’ production of cereals and meat. Each of the 15 Member Governments was obliged to introduce a scheme of environmental programs consistent with society’s expectations for environmental protection. The programs are voluntary for farmers, but with Commission assistance to financially recompense those who did adopt these measures.
Agenda 2000

The main objective of the Agenda 2000 reforms was to increase the international competitiveness of Europe’s agriculture. This entailed a continuing commitment to reducing agricultural prices. Rather than subsidizing farmers for the shortfall in their income, however, Agenda 2000 reduced the level of compensation to 50% of income for cereals and 75% for beef producers. For the first time, a de-coupling system was introduced whereby the Commission pays a subsidy to farmers that are not linked to production levels or produce prices.

The reforms of 2000 also included a model for Europe’s rural development. First, the Commission devised a series of equalization measures, allowing Member states to reduce subsidies for large farms and diverting the money to rural development. Second, it froze the European Union’s agriculture budget until 2006. This is in contrast to the United States which has had to rapidly increase agricultural expenditure to cover its growing farm bill.

Third, the Commission insisted on an obligatory and standardized approach to addressing agriculture-related environmental problems. This task comes under three headings: a market policy; common regulatory rules; and a program of rural development. (See Figures 4a and 4b) The market policy consists of cross-compliance. It obliges Member State Governments not to pay subsidies to those farmers not complying with the Commission’s environmental guidelines. But it also obliges governments to give full compensation for farmers in depressed rural areas who follow these guidelines. These are known as ‘least-favoured area’ (LFA) payments. The common regulatory rules allow for any farmer in Europe to enter into a contract with the relevant authority and to receive a subsidy for specific efforts toward environmental protection. The rural development measures consist of marketing and investment aid to least favoured areas pursuing environmental goals.
Clearly, we need to maintain the CAP to maintain the small regional villages of Europe. Agriculture is their livelihood. However, the CAP has evolved in such a way as to address these subsistence concerns while being attentive to the objections of the international community that the EU subsidises farmers in an uncompetitive and unsustainable manner. An analysis of the CAP’s expenditure illustrates this point.

**Common Agricultural Policy Expenditure**

Figure 5 shows a comparison between the CAP’s funding in 1989/90 and its projected areas for expenditure in 2006. In 1989/90, ninety percent of the CAP’s budget went toward market support, consisting of export subsidies and intervention. Ten percent went toward direct payments. In 2006, the Commission estimates the level of market support will have fallen to just 21%, with 68% of the total budget spent on direct payments and 11% on rural development. In other words, the Commission anticipates a marked fall in payments which sustain the market competitiveness of agriculture, and a corresponding increase in payments related to environment and LFA support. This changing emphasis from market assistance for the farming community at large to a charter based on the social concerns of broader European Community’s is principally designed to address these non-trade concerns, but should also appease the consternation of the international community’s economic objections to the CAP.
World Trade in Agricultural Commodities

The European Union is a much more open agricultural market than is commonly perceived. The EU is by far the world’s largest importer of agricultural products. It is a larger exporter of these products (both raw and processed) than the US, Japan, Canada and Australia. (See Figure 6a) Furthermore, Figure 7 shows that the Union imports more agricultural produce from developing countries than it exports to them. Its imports from these nations are in dollar terms more than for the US, Japan, Canada, Australia and New Zealand combined.

The European Union recently negotiated Article 20 with the World Trade Organization (WTO). It pledges to continue the reform process I have described, continuing to reduce support and protection, while taking into account non-trade concerns (such as the environment and animal rights) and the interests and needs of developing countries. The Commission is agreed that for the world’s poorest countries, there should be free access to the Union’s market for agricultural commodities. We maintain that developing countries need to have special regional trade agreements. In other words, free trade arrangements must be established with developing countries as a matter of general principle.

The European Council, which gives the Commission its mandate, considers that the CAP reform decisions adopted under Agenda 2000 “constitute the essential elements for the definition of the Commission’s negotiating mandate for the future WTO multilateral trade negotiations”. A key part of this mandate is to reduce all forms of export subsidies. These include export credits, the misuse of food aid (notably the dumping of surpluses) and the operations of some state trading enterprises. Whereas Europe is committed to phasing out these export subsidies, the US persists in protecting its domestic industry and disrupting international markets through a scheme of export credits. The EU also differs from the US in its approach to anti-cyclical support. Unlike America, Europe rejects scaling payments to farmers and agricultural exporters according to world agricultural prices.
The European Union also presented its non-trade concerns to the WTO. As I’ve explained, these are an integral part of Europe’s new thinking on agricultural issues. It will be very difficult for Europe to negotiate with the WTO if it does not recognize the CAP’s commitment to incorporating these environmental, animal welfare and consumer concerns into its calculations. More than 40 nations have already formally expressed similar concerns. The consumer needs to know whether products are GMO free or not. Multi-lateral environmental Agreements must be brokered with the assistance of the WTO.

In addition to seeking the support of multinational institutions like the WTO, the Commission insists that new Member States in the European Union must comply with the agricultural standards it sets. Just as economic requirements must be satisfied, so too must applicants meet environmental requirements including the preservation of natural heritage and resources, and the satisfaction of sanitary, veterinary and phytosanitary requirements. To this end, the European Union’s policy focus is threefold. First, to overcome employment problems and the economic weakness of rural areas. Second, to improve production, processing and marketing structures. And thirdly, the Union needs to expend on income stabilization at a safety-net level through direct payments. The expectation, then, is that new Member States will have to adopt the same standards set by the Union which will require targeted financial assistance from Brussels.

**European Public Opinion on the CAP**

Figure 8 shows that the overarching objectives of the CAP are widely supported by the citizens of the European Union. Nine in ten agreed with the need to ensure food safety and protection of the environment. On the issue of safeguarding farm income, almost three-fourths of respondents agreed. This is to say that European accept the European Union’s present plans for agriculture and the model that was confirmed under the 2000 Agenda.
Support for the actual policy instruments employed in the CAP was weak. (See Figure 9) Sixty-three percent disagreed with the policy instruments applied by the CAP for food safety. Fifty-nine disagreed with the measures for protecting the environment. And seventy-one percent disagreed with the mechanisms for safeguarding farm income.

Europeans accept the model, but believe more needs to be done to achieve the goals.

**The general direction of the CAP: An Overview**

I have demonstrated that European thinking on agricultural issues has evolved to respond to non-trade concerns, the imperative of sustaining vibrant rural communities, and the need for Europe’s farmers to become more competitive through reducing their dependence on subsidies. These concerns may be summarized as follows:

- Production methods which are safe and capable of supplying quality products that meet consumer demand;
- An agricultural sector that is sustainable in environmental terms, contributes to the reservation of natural resources and the natural heritage;
- A competitive agricultural sector capable of exploiting opportunities on existing world markets without excessive subsidy while at the same time ensuring a fair standard of living for the agricultural community;
- An agricultural policy that establishes a clear connection between public support and the range of services which society as a whole receives from the farming community;
- A simpler, more comprehensible policy which establishes clear dividing lines between the decisions that have to be taken jointly at Community level and those which should remain in the hands of Member States.
The pursuit of these goals is quite a change from the early concern of the CAP with production levels and even its subsequent drive for competitiveness over the 1970s and 1980s. There is broad support among the citizens of the EU for pursuing the current path of carefully targeted sustainability in agriculture. The Commission is aware of the need to continue the support of the Member States and their constituencies, but at the same time ensuring that the international community provides a framework in which Europe might reasonably achieve its agricultural objectives.