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The EU Needs Further Reforms of the CAP Prior to Eastward Enlargement

1. The present system of farm price support and direct income support is unsustainable in the long term, given a potential increase of some 50% in agricultural production in the accession countries. There is a risk of large surpluses and hence a renewed rise in agricultural expenditure within the EU budget. Neither can be in the long-term interest of the EU.
2. Under the German Presidency (Berlin European Council in March 1999) the EU did decide:
   - to further reduce the prices of the most important products (cereals, milk, beef);
   - to substantially restructure agricultural expenditure, moving away from price support and export subsidies to direct income support and structural improvements of the rural environment;
   - to freeze farm spending in the years 2000-2006 at a level of approx. EUR 41 billion and to reduce it as a proportion of the EU budget to 39%.
3. But these reforms fall short of the long-term requirements:
   - EU price levels still lie well above those on the world market; thus EU agriculture still cannot compete internationally without export subsidies;
   - the danger that the accession countries – especially Poland, Hungary, Bulgaria and Romania, and in the long term above all Turkey – will raise their farm price levels to the inflated EU level, thereby granting their producers price incentives which would lead to a renewed rise in surpluses in the EU, has not been overcome;
   - farm spending still represents a disproportionately high share of the EU budget.
4. The reform moves decided on in Berlin in March 1999 therefore need to be supplemented prior to the next enlargement of the EU.

   The EU must address itself to two questions in this regard:
   - Does it make economic sense to apply the present system of farm market organisations (cereals, milk, sugar, tobacco, wine, fruit and vegetables, etc.) unchanged to the EU of 28? Should not each individual market organisation undergo a critical review in respect of its workings and its compatibility firstly with an enlarged EU and secondly with WTO commitments?
   - Is it legally and socially defensible to refuse to grant direct income support to future Member States on the grounds that this is granted as compensation for price reductions – which are in

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any event overdue? On the other hand, can the current system of income support be applied to the future Member States? Will this not place the EU budget under further, almost intolerable strain?

Even before the first enlargement takes place, a thorough reform should therefore be agreed on, not only concerning price and market policies but also income and structural policies. It should enter into force at the latest when the transitional periods laid down for the CAP expire.

This reform should have two overriding goals:

- Firstly, to bring the efficiency of agriculture in the accession countries up to the level of the EU of 15 as rapidly as possible. This is likely to take at least 20 years.
- Secondly, to make agriculture in the enlarged EU as internationally competitive as possible.

In any event, these two goals can be attained only if the EU departs from its present policy of market support and income subsidies, which is geared to preserving existing structures, and devotes every effort to rapidly improving agricultural structures, above all in the future Member States (abandonment or amalgamation of uneconomic smallholdings, specialisation of farms, better marketing, investment in agricultural technology, etc.).

5. Price and market policies must be geared to ensuring that, in the long term, European agriculture can compete on the world market with producers in other countries – particularly the USA, Canada, Australia and New Zealand – without export subsidies.

   This means gradually phasing out export subsidies, starting with processed farm produce and products for which there are no uniform prices on world markets because of major differences in quality.

   It goes without saying that the EU cannot abandon its system of export subsidies unless its main competitors do likewise.

   In a world of increasingly scarce land and water resources, Europe will become one of the few economic areas which is able to export food to the rest of the world in the course of the new century.

   The phasing-out of export subsidies calls for a corresponding adaptation of EU price levels. These can remain somewhat higher than world market prices, since the EU will naturally retain an appropriate degree of external protection.

6. The **income support** being paid as compensation for the scheduled price reductions in cereals and oilseeds must be phased out from 2007 onwards, as must all other product-related forms of aid (e.g. beef, olives, tobacco).

   Thus they should not be applied to the future accession countries.

   In its present form income support is a socially unacceptable subsidy, from which large, efficient farms are the main ones to profit: the greater the agricultural acreage and the higher the yield per hectare, the larger the compensatory payments. 80% of the expenditure on agricultural market support currently benefits only 20% of farms, which conflicts with all social policy objectives.

   In a market economy, payments to compensate for price reductions should in principle be available only - if at all - during a limited transitional period.

7. From 2007 onwards European agriculture should receive financial support from only two sources:
   - Firstly, from the direct aid which is gradually being phased out.

- Secondly, from a programme spanning at least 10 years which is designed to boost the productivity of and improve rural areas.

The document endorsed by the European Council on 17 May 1999, "Promoting the development of rural areas", lays solid foundations for this new method of promoting agriculture. The meagre resources (EUR 4.4 billion in 2000) so far earmarked for it should gradually be increased as expenditure on export subsidies, market intervention and direct aid decreases.

This programme should focus in particular on the accession countries, in order to step up the efficiency of their agriculture as rapidly as possible. The Member States should be responsible for drawing up and implementing the programme, as is the case with the EU Structural Funds. They should accordingly put up at least 50% of the funding, so as to bear their full share of financial accountability. This must of course apply equally to the accession countries.

This program should also contain incentives for a more ecological agriculture. In the interest of long-term sustainability European agriculture must be enabled to raise its productivity without further increases in the use of fertilisers and pesticides/insecticides.

8. Carrying out these reforms would have four positive effects, above all:
   - a clear, long-term indication will be given to European farming that it, like every other branch of industry, is subject to the basic rules of the market economy and cannot rely indefinitely on subsidies from society;
   - a much-needed impulse will be given for further specialisation and restructuring;
   - the right market-oriented signals will be sent out to the accession countries, so as to prevent them from directing their agricultural production and farm structures along misguided and dangerous lines.
9. Refocusing Europe’s agriculture on the requirements of the international agricultural market in the new century is one of the most difficult political and social challenges facing the EU in the years ahead. The forthcoming eastward enlargement makes this task even more urgent and difficult.
10. Europe needs a comprehensive political debate about the future of its agriculture. The EU Commission would be well advised to prepare for this debate by issuing a White Paper and convening a conference for 2001 on "EU Agriculture in 2020".