

OECD regional meeting on agricultural policy reform 24-26
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- Recent enlargement of the European Union and further developments of the Common Agricultural Policy(CAP)
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The fifth enlargement and beyond

- Accession of Romania and Bulgaria on 1.1.2007 completed the fifth enlargement; present enlargement agenda covers Western Balkans and Turkey

Accession negotiations with Croatia and Turkey were opened in October 2005- 35 acquis chapters, benchmarking, suspension clause for negotiation chapters

- Pre-accession strategy: a institutional building and rural development component : the Instrument of Pre-accession(IPA) and a « trade liberalisation » component: the stabilisation and association agreements for the Western Balkans(SAA)

The enlargement process

- Normal sequence of steps on the road to EU:
 - **Association agreements** (europe agreements, SAAs,...): liberalisation of trade between EU and the country as one of the main objectives
 - **Application for Membership** (followed by Commission Opinion and Council decision)
 - **Screening process and Accession Negotiations (chapters)**
 - **Treaty signature and Ratification**
 - **Accession**

Statistics: enlargement

2004	UAA (x 1000 ha)	% var	N° farms (x 1000)	% var	Agricultural production (Mio euros)	% var	UAA/farm (ha)	% agr. pop.
EU-15	128.989	-	6.284	-	299.688	-	20,2	3,8
EU-25	162.393	26	9.871	57	330.455	10	15,8	5,0
EU-27	182.048	41	15.022	139	347.573	16	12,1	11,1
<i>10 NMS</i>	33.404	-	3.587	-	30.767	-	2,1	15,0
<i>Romania and Bulgaria</i>	19.655	-	5.151	-	17.118	-	3,8	30,5
<i>Turkey (est.)</i>	26.578	15	3.000	20	29.000	8	6,0	34,0
<i>Western Balkans (est.)</i>	8.500	5	2.200	15	-	-	2,0	-

Source: European Commission (Eurostat), diverse studies

Enlargement strategy and main challenges 2006-2007 –

Communication from the Commission COM (2006)649

- The EU is ‘cautious’ in assuming any new commitments
The EU’s **capacity to integrate** new members is determined by two factors:.. ensuring EU’s capacity to function ...and ensuring that candidate countries are ready to take on the obligations of membership...
- The EU’s integration capacity will be reviewed at all key stages of the accession process...The Commission will provide impact assessments of accession on key policy areas...
- The EU must ensure that it can maintain and ensure its own development while pursuing its enlargement agenda..**institutional reform** is needed to improve the effectiveness of the decision-making of an enlarged EU.
A new institutional settlement should have been reached by the time the next member is likely to be ready to join the EU

Agriculture in new MS 3 years after accession to EU

■ Expectations

- significant restructuring and modernization of the agricultural sector,
- increase the level of support for agricultural incomes
- to diversify the forms of agricultural activity in rural areas and to improve the trade balance for agri-food products
- stability of agricultural policy, enabling better planning and predictability of the outcomes of prior production decisions.

Agriculture in new MS 3 years after accession to EU

- Fears:
- -whether farms in NMS would remain competitive: pressure from EU15 competitive farms in a single market, taking into account the results of the accession negotiations: gradual phasing-in of direct payments
- -whether Community support would be sufficient
NMS were granted the facility of *top-ups* (*complementary national direct payments*), the SAPS scheme (*single area payment scheme*) and a specific rural development support package (aid to (semi-subsistence farms))

Agriculture in new MS 3 years after accession to EU

- Impacts:
- -abolition of “trade barriers” in EU-27 resulted in positive results for export of some agri-food products of the new MS where they had high production potential and comparative advantages
- -diversified impact on the growth of agricultural incomes in NMS>> for dairy and beef, in some NMS there has been a significant rise in prices of products
- -large assistance from the EU budget resulting generally in an increase in the level of incomes and support to agriculture and a stabilization of the agricultural sector in NMS, which has translated into a rise in investment trends
- BUT no significant change of the unfavourable agrarian structure in NMS: Small size of farms, lack of capital for investments, ownership forms hindering development of farms, thus remaining less competitive compared to the EU-15. There has been a progressing market polarization of farms into entities maximizing sales with a view to attaining the highest profit possible and semi-subsistence farms. Small farms drop off the market due to high production costs (rise in prices of land and of production means).

Reforming the budget,changing Europe public consultation document in view of the 2008/2009 budget review

- On Wednesday 12 September 2007 the European Commission adopted a public consultation document on the EU budget review for 2008-09. Entitled “*Reforming the Budget, Changing Europe*”
This communication aims to provide the means for reflecting on changes that need introducing, as well as on spending and income.
Following this consultation phase of all stakeholders (at local, regional, national and European levels), which is expected to last until 15 April 2008,

Reforming the budget, changing Europe public consultation document in view of the 2008/2009 budget review

- In May 2006, the European Parliament, the Council and the Commission agreed that the Commission should undertake a fundamental review of the EU budget. The Commission was invited
- *"to undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9"*
- The aim is to launch a broad consultation (till 15 April 2008) with interested parties at local, regional and national levels, as well as at the European level, to stimulate an open debate on EU finances. A Commission proposal may come at the end 2008 or beginning 2009.

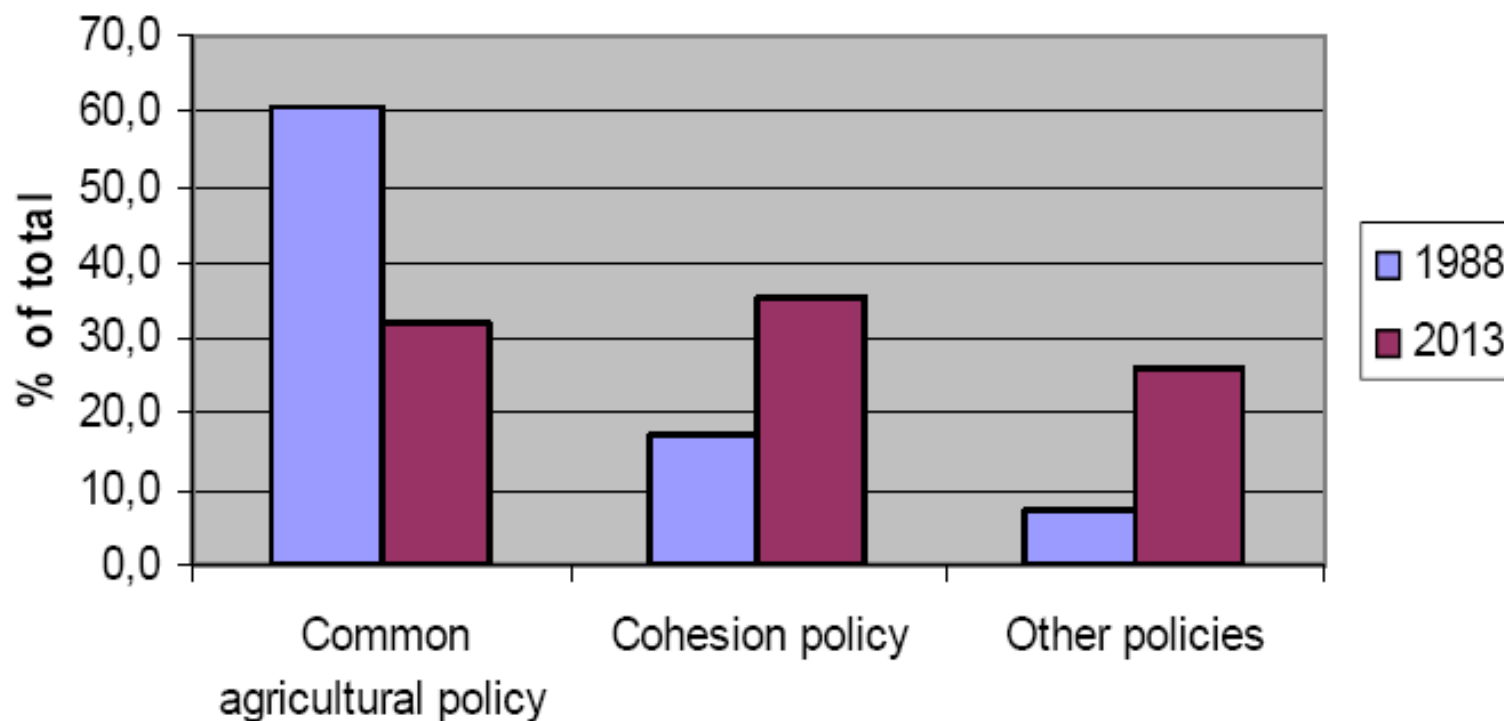
Reforming the budget, changing Europe

public consultation document in view of the 2008/2009 budget review

- In **1965**, payments for the **Common Agricultural Policy (CAP)** absorbed **35.7%** of the budget and rose to **70.8% in 1985**. In the first year of the 1988-1992 financial framework, CAP expenditure still represented 60.7% of the budget. By 2013, the share of traditional CAP spending (excluding rural development) will have almost halved (32%), following a decrease in real terms in the current financing period
- Funding for **other policies** (mainly related to competitiveness, external actions and rural development) was originally very limited. In the first financial framework **only 7.3%** of the budget was reserved for these areas. But the new emphasis on economic development and competitiveness will see the share of such policies **rise to 26% in 2013**, of which 10.2% for competitiveness, 6.3% for external actions and 7.3% for rural development.

Reforming the budget, changing Europe public consultation document in view of the 2008/2009 budget review

Expenditures structure (1988-2013)



Reforming the budget, changing Europe

public consultation document in view of the 2008/2009 budget review

- The spending policies for the period 2007-2013 put a new emphasis on the goals of growth and employment and on new policy directions such as freedom, security and justice.
- The challenge is to develop a budget for the future, anticipating tomorrow's challenges in a world of rapid change.
- As well as the evolution of the budget from one financial framework to the next, there is also an issue of flexibility inside each financial framework. Whilst some spending programmes benefit from continuity, changing political circumstances can also test the ability of the EU budget to adapt to best effect and to enhance political responsiveness.

Further developments of CAP

- The 2003 Reform was the first major step to make the CAP fit for the 21st century. No surprise that more steps need to follow.
- The 2003 CAP Reform provides a solid basis for an EU agriculture which is:
 - Competitive, through reduced market intervention
 - Market-orientated, through decoupling of direct payments
 - Capable of meeting high standards in environmental, animal welfare and safety terms, through cross-compliance and rural development measures
- After all, "Politics is the art of the possible" and consensus on all the elements of the 2003 Reform could not be reached in one go.
- This explains why a number of review clauses were already foreseen in the final agreement on 2003 CAP reform, which we have grouped under the title of "Health Check".

Further developments of CAP

- Over the period 2007 to 2009, the Commission must report on:
- 1) Cross-compliance with the list of EU environmental/welfare/safety standards in regulation 1782/2003-report submitted in March 2007
- 2) The consequences of partial decoupling of direct payments and optional exclusions(seeds etc) on markets and structural developments
- 3) The choice of implementing model for the Single Payment Scheme
- 4) Certain agricultural markets: dried fodder, sugar restructuring progress. but most notably the dairy sector
- 5) on implementation of the second CAP reform package(olive oil,cotton,tobacco,hops) in 2009
- This "health check" will essentially be about ensuring that the CAP is working as it should, and simplifying things where this is possible. It is not, and never was, meant to be about further fundamental reform

Further developments of CAP

- The "Health Check" will address in particular two main questions:
- How can we make the single payment scheme more effective, efficient and simple?
- Are the market support instruments, originally conceived for a Community of six Member States, still relevant in a more and more globalised environment world and a EU 27?

Further developments of CAP

- Regarding the single payment scheme, now that Member States have had time to work with the model of implementation they chose in 2003 and the benefits of decoupling have begun to show, what further improvements can be made? ..towards a more effective, efficient and simple scheme.
- Second, is there a need in Member states to revise one or another element of their implementation of the SPS? But any changes must be fully in line with the objectives of the 2003 reform.

Further developments of CAP

- Decoupling is a cornerstone of the reform. It allows farmers to produce what the market wants rather than looking for the best public support mix. With decoupling, farmers are becoming more and more real entrepreneurs and market oriented.
- However, some coupling options were retained back in 2003, which aimed at maintaining a minimum level of production in order to sustain economic activity in regions with few economic alternatives and ensure an adequate supply of raw materials to processing industries

Further developments of CAP

- With regard to agricultural sectors and Member States where payments are coupled, it should be assessed whether:
 - the coupled payment in question is addressing the problem
 - and even if the coupled payment is addressing the problem, is it the *best means* of addressing the problem?
- There should be clear reasons and justifications for any coupled payment , decoupling is the objective

Further developments of CAP

- On simplification, the Commission has just completed a successful technical exercise, notably with the Single CMO – but there is still much that can be done in policy terms to increase the efficiency of the current single payment scheme (simplification is on the Commission's legislative agenda for 2008)
- Decoupling is the way, but there is still scope to lighten the administrative burden by cutting out what makes the current rules costly and complex to implement.
Ways of doing this might include, for example, reducing the number of entitlement types or easing up the transfer rules.

Further developments of CAP

- A key question is the capping or not of direct payments whether we want to continue to make a large number of very small payments: fix a lower level of payment?
- and small numbers of very high payments: fix an upper level of payments?
- The regional model, for example, has brought **new beneficiaries** into the systems, many of whom receive very small payments and barely meet the criteria for being "active farmers". (the 0.3 hectare rule which gives access to the payment).
- At the other extreme, many of EU **most productive farming enterprises**, receiving the highest levels of payment
- The question of capping should be carefully studied:
 - is there a workable system first? To operate such a capping
 - how to balance reasonably the competing interests?
 - how to avoid that capping is circumvented by splitting a farm? this would not only incur unnecessary administrative burdens but would also lead to structural changes which are not improving the competitiveness of our farms.

Further developments of CAP

- Following the report on cross-compliance in March 2007, the first steps are taken towards improving the control and sanctions aspects of cross-compliance.
- While the work of the ongoing expert groups on the points system for tolerance will undoubtedly feed into the Health Check, it is the scope of cross-compliance that will be targeted most.

Further developments of CAP

- There are still some « old » CAP instruments, in particular for market support >>export refunds,public intervention,production quota:
whose 'future' should be considered, in a context of the Doha round, the reality of globalisation and in a EU of 27.
- The phasing out of export refunds by 2013: the reform for fruit and vegetables already repealed export refunds by 1.1.2008
- The establishment of an appropriate intervention system for all sectors – one which works as a safety net, and which can be used without reliance upon subsidised sales
- What about the future of some supply management tools such as set-aside?
Also under pressure by the sharply increased prices for cereals at present
- A clear signal that the milk quotas will definitely run out by the 31 March 2015
but before the milk quota system runs out what measures can be taken to ensure a smoother transition to a market-oriented dairy policy ..soft landing zones for producers
- **The Health Check will provide a good opportunity for a thorough evaluation of the performance of such measures and of their long-term utility.**

Further developments of CAP

- There are also new challenges:
- -the role of risk and crisis management tools in the CAP of the future: a centralised approach for all sectors? Specific measures for certain CMOs? (eg green harvesting/harvest insurance in wine and fruit and vegetables or developing tools under Rural Development policy ?
- -another new challenge to face is Climate Change. The recent Green Paper on the adaptation to climate change calls upon EU agriculture to contribute further in mitigating the effects of climate change in ways that do not harm the environment. The rural development measures of Pillar II of the CAP appear the best tools for handling emerging issues such as climate change and the creation of viable rural economies.