Editorial/*Editorial*

Is the CAP reform a step towards a rural development strategy?

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The Common Agricultural Policy (CAP) has been traditionally reluctant to change since it was created about forty years ago. Yet it has moved slowly along three directions. Firstly, income support has increasingly relied on direct payments with less emphasis on market interventions. Secondly, the EU agriculture is now significantly more open to foreign competition than it was in the past, although border protection remains relatively high for certain products. Thirdly, farm support is more dependent on compliance with modern social demands related to quality, food safety and environmental concerns. The MacSharry reform and the Agenda 2000 represented major milestones in this path of reforms. The package approved by the Council of Ministers in June 2003 maintains the same orientation. This reform has been widely known as the Mid-Term Review of the Agenda 2000, whose implementation period will finish by 2006. Nevertheless, the Mid-Term Review proved to be something more than a simple adjustment of the CAP. We may call this move indeed as the 'Fischler reform'.

The bases for the Fischler reform were presented in July 2002. Its specific legislative proposals were submitted in January 2003 and the final package was approved in June 2003. The reform includes a wide set of policy measures. However, as common in the CAP's history, not all the products have been affected in the same way and many of the reform's initial premises were significantly constrained during the negotiating process. In fact, the negotiations in the EU are always shaped by national interests. The approved package attracted a high degree of consensus (only one country voted against). Reaching consensus in the EU implies that the final results are relatively modest compared to the initial proposals. In this case, changes have been rather 'qualitative', as the reform sets the basis for future changes. Thus, we can consider the Fischler package only as one step of the long round of reforms that will end up (nobody could assure when) in a CAP definitively focused on rural development objectives.

Which are the key words of the Fischler reform? The first is 'decoupling'. The experience of the last decade suggests that decoupling is not a unique or static concept, but the actual outcome of a political balance. In theory, decoupling means the conversion of direct payments under the different schemes in a unique farm payment which is kept constant in time and is not dependent on land allocation among the different cultures. Decoupling means that income support will tend to depend less on price distorsions, which opens the door, from the political point of view, to the further opening of the EU markets to foreign competition. Thus, the EU would aim at achieving the international recognition for its decoupled payments as "green box" payments, that is to say, as public budget transfers that are not restricted by the WTO rules.

In practice, several remarks can be made on the EU decoupling concept. First of all, decoupling has been only partial and some products (eg. hard wheat and rice) will keep receiving crop specific payments. Secondly, EU Member States will be allowed to maintain a certain percentage of the current direct payments (that is to say the Agenda 2000 payments) as specific payments linked to production. This was defended by some Member States that were afraid of possible land abandonment impacts as a result of full decoupling. Thirdly, it is not clear to what extent the new single payments will be recognised by the WTO Members as a convincing shift from the EU 'blue box' (direct payments allowed under the current Uruguay Round rules) to the 'green box'. As a matter of fact, the full direct payments will stabilise an unbalanced pattern of income support, not only between EU territories but also between the EU and other third countries, which do not have the same financial possibilities for funding such kind of payments. In a sense, the globalisation process is pushing for a stronger integration of the agri-food markets, but the playing field is far from being levelled. This uneven pattern will be constant within the EU Member States because of (i) the unequal size of the single payment across EU territories (payments will be calculated on the basis of historical payments); (ii) the national ability to choose between different degrees of decoupling; and (iii), the possibility opened that Member States may make additional payments of maximum 10% of the sum of the

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single farm payments for their farmers to encourage specific types of farming which are important for the environment, quality production and marketing. In addition, the CAP reform will not correct the current international asymmetries in the levels of agricultural support. Thus, the EU and the United States' agricultures will be in a better position to compete than developing countries' agricultures.

A second keyword of the CAP reform is "modulation". This is a way to help the CAP to recover legitimacy in the modern European society. Modulation is intended to partly correct the uneven distribution of direct payments and, at the same time, to favour the transfer of income support (the 'first pillar') to rural development measures (the 'second pillar'). While Agenda 2000 allowed for Member States to retain one part of the direct payments according to certain criteria based on farm size and labour intensity, the implementation of this measure has been timid and heterogeneous across Member States. With the Fischler package, the EU Commission will apply a retention rate of 5% of the direct payments, with a 5,000 € franchise, which will leave a considerable number of small farms aside of the modulation. It is evident that the system will have less impact on those countries with a higher share of farmers under the threshold, and this specially applies to Southern European states. While the initial proposals aimed at modulation rates of up to 20%, it is less obvious that the approved modulation will have a real distributive impact. On the other hand, modulation savings (up to € 1.2 billion a year) are going to increase rural development funds, but they will stay to a large extent in their source country (eg. 90% of modulation savings generated in Germany will stay in Germany).

One could emphasise the political messages supplied by the modulation scheme. CAP support will be less based on income support and more based on rural policies. Thus, modulation defines a clear method for transferring funds between the so-called CAP's first and second pillars. However, this shift seems rather moderate when compared to some of the initial expectations and some believe that larger farms in Europe will keep benefiting from significant income support until 2013. It is true that the Fischler package foresees tighter obligations for farmers to adopt good agricultural practices, including compulsory cross-compliance for all farms and farm audits for farmers receiving over 15,000 € in direct payments. That these obligations become a way of transforming the spirit of CAP's direct payments remains to be seen in the coming years.

The third keyword is 'rural development'. Since the midnineties, rural development has been at the core of the political justifications of the recent wave of CAP reforms. Agenda 2000 made some steps in such directions, but the CAP's second pillar still accounts for a low percentage of the CAP budget (10% of CAP expenditure during the period 2000-2006). Modulation will partly contribute to make the second pillar stronger. In addition, new measures will provide incentives for farmers willing to participate in schemes devoted to improve the quality of agricultural products, to facilitate the compliance with environmental and animal welfare standards, and to co-finance investments carried out by young farmers. In the Fischler proposals, rural development was also a central force, but it lost energy (and budget) during the process of negotiation. It was clear that somehow the needed funds for rural development had to be released but this objective competed with other challenges to be faced by the CAP in the future years. One of these challenges is the EU Enlargement. The Brussels Council in October 2002 established a financial framework which will stabilise the CAP expenditure of the enlarged EU at the 2006 level, with an annual increase of 1%. But the financial needs are not just constrained by the funding of direct payments and rural development for the 10 new Member States. Thus, the CAP will also be subjected in the next years to further market reforms in different sectors such as olive oil, sugar, tobacco, cotton. The phasing out of the dairy quota system also remains a task for the coming decade.

Overall, the Fischler reform deserves a positive assessment due to three main reasons. First of all, it allows for consistency between CAP support and the demand for improved market opportunities by developing countries in a more integrated world economy. Secondly, it improves transparency of CAP support and its compatibility with modern social demands connected with quality and sustainable development. Thirdly, non-reform or statu quo could have been the worst of the possible choices. It would be materially impossible reforming a CAP in an enlarged EU with 25 Member States struggling to achieve their targets on the Fischler package. In a sense, it was a last chance for setting new CAP principles before it were too late.

Nobody believes that the CAP will remain the same in the next years. International pressure and social demands will push for new reforms. From the Mediterranean point of view, rural development will still represent the key word for a future CAP reform that responds to the needs of Southern European countries. Nevertheless, rural development is also a way of promoting the development goals of the Mediterranean partners of the Middle East and North African region. Rural development approach becomes a way of reaching compatibility between trade liberalisation and the development of lagged agricultural areas across the Mediterranean basin. Rural development also becomes a strategic instrument that should not be monopolised by some countries of the Mediterranean region. A common rural development plan for all Mediterranean countries (outside and inside the EU) would be essential for the success of the Barcelona process and its well-known goal of building an area of shared prosperity. Therefore, agricultural policies should be more oriented to rural objectives. This means moving beyond the current CAP limits.