THE AGENDA 2000: CAP REFORM AGREEMENT IN THE LIGHT OF THE FUTURE EU ENLARGEMENT (*)

PAVLOS PEZAROS (**)

ABSTRACT

In its Agenda 2000, the European Union stresses the importance of further reforming its well-known Common Agricultural Policy, as a condition (among other things) to its further enlargement towards especially the Central and Eastern European Countries. After the formal adoption of the whole package in May 1999, the new CAP reform constitutes already a part of the EU legislation for the period 2000-2006. This paper attempts a first assessment of the new CAP regime, by examining whether the final decisions adopted would be adequate to meet with the initial targets of the reform set by its initiators. To the author's view, any major change in the CAP regime, like the one implied under the Agenda 2000 would not affect only the present Member States of the EU (5 of which belong to the Mediterranean basin) and the recent applicant Countries. Since the EU continues to be the biggest world importer and the second larger exporter of agricultural products, it is obvious that these changes should be also of the special interest of all its trading partners and, in particular, of its neighbouring third Mediterranean Countries.

RÉSUMÉ

Dans son Agenda 2000, l'Union Européenne souligne l'importance d'une ultérieure réforme de sa Politique Agricole Commune, en tant que condition (entre autres) de son élargissement surtout vers les Pays de l'Europe centrale et orientale. Après l'adoption formelle de tout le paquet au mois de mai 1999, la nouvelle réforme de la PAC constitue déjà une partie de la législation de l'Union Européenne pour la période 2000-2006. Ce travail essaie de faire une première évaluation du nouveau régime de la PAC et vérifie si les décisions finales adoptées pouvaient être adéquates aux objectifs initiaux de la réforme établis par ses initiateurs. D'après l'auteur, tout changement dans le régime de la PAC, tel celui faisant partie de l'Agenda 2000, n'influencera pas seulement les États membres actuels de l'Union Européenne (5 desquels appartiennent au pourtour méditerranéen) et les Pays candidats récents. Étant donné que l'Union Européenne continue à être le plus grand importateur et le second gros exportateur de produits agricoles, il est évident que ces changements seront également intéressants aussi pour les partenaires commerciaux et, notamment, pour les Pays tiers méditerranéens voisins.

In March 1999, the EU heads of Governments and States met at Berlin under the German presidency, where they reached at the long-waited overall agreement on Agenda 2000 package.

By attaining a compromise on the policy reforms proposed by the Commission almost two years ago, the agreement of this extraordinary European Council Summit is supposed to pave the way for the future enlargement of the EU with the 10 Central and Eastern European Countries (CEECs) and Cyprus.

The Common Agricultural Policy (CAP), still representing the most important and most comprehensive policy of the Community in terms, at least, of integrity and budget, could not but be an essential part of the Agenda 2000 package. In fact, its proposed new reform was perhaps the most "delicate" and the most "complicated" issue of the package. After a profound analysis of the current situation of the agricultural sector inside and outside the EU, the Commission submitted its detailed proposals, based on a number of targets that had to be met.

The purpose of this paper is to examine whether the final agreement is adequate, indeed, to meet the initial targets of the reform, as were outlined by the Commission, and in particular, to meet the requirements of the forthcoming enlargement, from the point of view of both, the internal market of EU-15 and the new comers.

THE BACKGROUND: A BRIEF OVERVIEW

After the completion of the 1992 radical reform of the CAP and despite the fact that it succeeded in solving the most pressing problems of the early 1990s, other important developments appeared advocating towards a further reform of it.

The most important reasons are considered to be twofold, mostly internal in nature, but also reinforced by two external factors.

Internal factors

- The limitations set out in the agricultural budget, bound up with the principle of budgetary discipline, put an absolute burden to any fundamental increase of agricultural expenditure in the future. It is well known that, under the budgetary discipline (followed since 1988), the annual growth in the ceiling for agricultural expenditure cannot exceed 74% of the increase of the Community's GNP.
- The continuing increase in productivity and yields, the growing competition on both external and internal agricultural markets (through increased market access), the commitments that have been undertaken (especially on the volume and value of export subsidies) under the Uruguay Round Agreement for Agriculture (URAA), all are factors that put EC agriculture in a high risk of

(*) The present paper (final draft: August 1999) is to be considered as an extension of shorter comments that have been included in "A Guide to the Enlargement of the EU (II) - A review of the Process, Negotiations, Policy Reforms and Enforcement Capacity" published by EIPA, 1999 (ISBN 90-6779-135-0). Special thanks are due to Prof. Phedon Nicolaides, head of Unit III, EIPA, for his encouragement and suggestions, and to Dr. S. Bilal, Senior Lecturer at EIPA, for his useful comments and suggestions, from which this paper has benefited a lot. However, the views expressed here should be attributed to my own responsibility.

(**) Assoc. Professor, European Institute of Public Administration, Maastricht (NL).

new market imbalances in the near future, if the internal prices were to continue remaining at a higher than the world level.

• There is an increasing pressure to focus on new priorities of CAP:
– to enforce the food safety & quality standards;
– to achieve a more environmentally friendly agriculture and higher welfare standards, which are increasingly public demands. After all, the inclusion of sustainable development as one of the EU's objectives into the Amsterdam Treaty indicates that further progress must be made towards environmentally sustainable production and consumption patterns;
– to simplify the EU agricultural legislation.

• The continuing decline in the farm population (which fell by 4.7% per year after 1990) and the social, economic, historical and cultural needs to maintain rural population in the regions call for the creation of alternative sources of income and employment in rural areas by reinforcing a rural development policy. Since agriculture continues to keep a large part of rural activities, there is an increasing need to extend and enrich CAP with new elements.

External factors

• The negotiations under a new WTO Round which are going to be launched in December 1999 (in Seattle), are expected to push towards liberalising further the agricultural trade, by putting additional commitments in the level of agricultural support.

• Last, but not least, the future enlargement of the EU represents a major challenge for the future orientations of CAP.

To a certain extent, all those factors are interrelated, in the sense that the impact of the one on CAP influences the impact of the other. Therefore, they cannot be considered separately.

In relation to the eastward enlargement, in particular, it is true that agriculture still plays a very important role in the social-economic structure of all the CEECs. In most of them, it has been far more important than it is for the EU, and this would have serious implications for the EU after the accession of all the 10 applicants.

According to the available data (1996), it becomes clear that the most pressing problems that have to be tackled by the EU, are considered to be:

• The relatively large size of agricultural land (the total agricultural area would increase by 40% after the accession of all the CEEC-10);

• The relatively high importance of agriculture to the economies of the CEEC-10 (contributing 7.0% in GDP versus 1.7% in the EU-15);

• The high agricultural employment which would make the absolute number of farmers more than double (22% of total employment in CEEC-10 versus 5.1% in EU-15);

• The low GDP in CEEC-10 and the much lower labour productivity in their agriculture in comparison with the EU;

• The great potential in production capacities (all the CEECs underwent a considerable decline in agricultural yields due to various factors: the depressed producer prices and backward technologies prior to the transition, the market liberalisation of the transition process, the decline of the ratio of product to input prices, the lack of inputs, the insecurity with respect to property rights in agricultural land. Thus, with full agricultural recovery, all those factors are expected to be remedied and, as an effect, production might increase considerably, even in medium term);

• Though much lower when compared with EU, the productivity of agricultural labour (GDP per labour unit) in most of the CEECs appears relatively higher when it is compared with the other sectors of their economies. This indicates a comparative advantage for agriculture and if this remains, most CEECs should be able to become net exporters of agricultural products;

• The relatively low administrative capacity of the applicants to administer the acquis.

All these elements imply that, even after the rapid changes of the last years, considerable differences still exist between the agricultural situations in both parties, especially in terms of *productivity* and *structures*. If it was supposed that CAP would be extended to the applicant countries in its current form (of the 1992 reform), the implications for the CAP and the other EU policies would be enormous, especially in terms of budgetary resources.

The implications would be also significant for the applicant countries too, especially in terms of *efficiency* and *income distribution*.

The Agenda 2000 was the Commission's reply to the request of the Madrid Summit (December 1995) to embark on the *preparation for enlargement*, immediately after the Inter-Governmental Conference (IGC) that lasted in 1996. It is therefore quite understandable why the whole package focused on the necessary adjustments of CAP, together with the *Structural Policy*: first, both are the most important sectoral policies of the EU, absorbing together almost 85% of the total Budget; second, both are expected to contribute and play a decisive role at strengthening *economic and social cohesion* (which has become one of the three priority objectives under the Amsterdam Treaty, the other two being the full operation of the Single Market and the introduction of EMU).

It is obvious that the accession of a large number of poorest countries into EU, with an agricultural sector much more important on average than in the EU-15 and with great structural discrepancies, would pose a major

challenge to both parties, concerning these two particular policies.
In this respect, the new CAP reform proposed in the framework of the Agenda 2000 could not be considered as an independent issue.
It has to be seen in the broader context of the Agenda, as regards the future EU Budget, Structural Policy and enlargement. And this became even more obvious after the Berlin Agreement of March 1999 and the adoption of the reform.
Indeed, the Commission, following its initial guidelines of July 1997, submitted to the Council (March 1998) a comprehensive package of reforms for the most important products and issues regulated by CAP, going *beyond* the points of the initial communication.
The changes proposed for a new reform were designed:
1. To improve the competitiveness of EC agriculture on domestic and world markets, as well as to benefit consumers (through lower prices) and leave more room for price differentiation in favor of quality products;
2. To reduce the risk of expensive and unsaleable surpluses, but also to continue protecting farmers' income;
3. To give more emphasis to food safety and environmental concerns;
4. To provide an integrated approach to the development of the countryside by making rural development an integral part of the CAP and bringing it under the agricultural budget;
5. To allow the EU to go into the next Round of WTO negotiations with more aggressive stance and to defend the European model of agriculture;
6. To accommodate the new comers in a smooth and feasible way, *within the existing budgetary and other limits.*
To reach these targets, the Commission proposed, as a general approach, *to deepen and extend the reform of 1992.* That is, *price cuts* for key products (to eliminate or reduce considerably the gap between internal and world prices) and *continuing the shift* from the price support system to direct payments.
In particular, this general approach of the Commission was accompanied by the principle that all the market support mechanisms of CAP (intervention buying-in, set-aside, export subsidies, etc.) would act mostly as *safety nets* in the future by taking some basic steps, the most important of which were:
• A price reduction 20% for cereals that would allow a complete elimination of the gap and, therefore, of the need for intervention or (most important) export subsidies to the products of the sector;
• Alignment of the special regime of oilseeds to that of cereals in one step, with two important purposes: to make the direct aids non-specific compensatory payments for all arable crops, by reducing considerably the high aids paid previously for oilseeds; to eliminate the constraints imposed by the Blair House agreement (concerning the basic condition for a maximum area of production);
• Increase of the compensatory payments (CPs) representing not fully but partially (50%) the additional price cuts;
• Application of 0% set-aside in arable sector;
• Careful but essential reductions of prices for beef and milk sector in two and three steps respectively;
• Replacement of the intervention mechanism for beef sector by a system of private storage;
• A slight increase (2%) of milk quotas to cover specific needs of mountainous regions and of young farmers, together with the prospect to reconsider the whole quota regime after 2006.
In this respect, the Commission submitted to the Council specific regulatory proposals covering the following products and issues:
1. All arable crops (cereals, oilseeds, protein products, potato starch)
2. Beef and veal sector
3. Dairy products, including the milk quotas regime
4. Certain horizontal measures, that is, proposals for the establishment of common rules as regards the CPs and applied to all COMs of products for which they are provided for
5. Rural development measures.
It should be noted that, in relation to this package, two additional reforms are connected:
a) Olive oil regime. The proposal was presented separately but initially constituted part of the package. However, the reform of this sector appeared to be urgent and finally was decided in Autumn 1998, to be applied for the next 3-year period (as a transitional regime). *The sector will be revised in 2001.*
b) Wine sector. In July 1998, the Commission submitted a relevant reform proposal, which became also a part of the package.
For each product (or for each *Common Organisation of Market - CMO*), the package included, of course, detailed proposals for measures to be adopted that were far for being generally accepted. However, at the final stage of the negotiations, the individual proposals attracted less attention, since the dispute had been moved to the financial issues and the demands for rebalancing the EU funding.
On March 11, 1999, the EU Council for Agriculture reached a broad compromise after a marathon of negotiations that lasted some two-and-a half-weeks. The deal of the Agricultural Ministers *roughly resembled the Commission's original proposals,* although the compromise included some significant concessions in all commodity sectors.
This deal, however, was decisively altered by the final agreement in the Berlin Summit, as it can be seen in the following chapters.

BASIC ELEMENTS OF THE BERLIN AGREEMENT

The financial perspective and the agricultural guideline

The general orientation of the Berlin European Council was that the budgetary imbalances should be resolved by introducing "corrections" to the expenditure side of the Budget, and especially of the *European Agricultural Guidance and Guarantee Fund (EAGGF)*. As a result, the final compromise concentrated on *making savings rather than reaching the targets of the reform*. To achieve this, most efforts focused on ways to reduce the total amount of spending, not on market-distorting support measures, but especially on CPs provided directly to farmers and aimed to protect their incomes. This was justified by the fact that today the CPs represent the most important part (almost 50%) of the Guarantee Section of the EAGGF.

Although many options were discussed, in the end, "stabilisation" of agricultural spending was decided. Stabilisation means that total agricultural spending (excluding rural development and veterinary measures) will be kept at the current level (in real terms); i.e. an average annual expenditure of euro 40.5 billion (plus an annual inflation increase of 2%). This gives a total budget of euro 307 billion over the 7 year period (2000-2006). A first issue implied by this decision is that it is questionable whether the agricultural guideline followed since 1988 (annual increase of agricultural expenditure not exceeding 74% of the increase of the GNP of the EU as a whole) is still feasible. A second, and most important in relation to the forthcoming enlargement, is the fact that the financial guideline agreed for agriculture for the period 2000-2006 includes a *ring-fencing* of accession – related and pre-accession expenditure. Ring-fencing implies that the amounts foreseen for pre- and after-accession *are fixed and safeguarded*, since a clear distinction is made between the financing of the EU-15 and that reserved for the applicant countries (1). This rigidity was, perhaps, an unavoidable compromise to calm down the fears expressed by certain Member States (M-S) that accession would result to a large absorption of the available resources, at the cost of those needed for the agricultural markets of the EU-15. However, given that relatively very small amounts of money are dedicated for (market and rural development) measures applied to the eventual new comers from 2002 and beyond, the question is whether these foreseen amounts in the various budgetary lines would be adequate to meet with the necessities expected to arise from the whole process of accession.

Agricultural markets

In relation to the proposals of the Commission and the outcome of the inside (technical) negotiations of the Council of Ministers for Agriculture, the most important elements of the final agreement reached at Berlin European Council could be summarised as follows:

Arable crops

- The intervention price for arable crops (cereals, oilseeds, protein crops) will be reduced by 15% (instead of 20% proposed by the Commission and accepted by Agriculture Ministers) *in two equal steps* (instead of one-step cut), starting in the 2000-01 period.
- The direct (compensatory) payment for *cereals* increases also in two steps but at a lower level than initially proposed (2).
- The oilseed regime (and non-textile linseed) is not immediately aligned to that of cereals. The area payments will be gradually reduced over three stages (and not in one step) before aligning it with the cereals payment in 2002.
- The basic *(compulsory) set-aside*, is fixed *at 10% for all the period 2000-06* (instead *of falling to 0% from 2000*, as originally suggested by the Commission). The voluntary set-aside is still allowed at a minimum level of 10% of the arable area across the EU. Therefore, it cannot be prohibited by the Member States. The *extraordinary set-aside* (imposed, up to now, in cases of exceeding the base areas of production) is completely abolished. In general, however, the payment per Ha and the rate of set-aside *could be modified* in the future, according to market developments
- *Silage cereals*: this is one of the points where even the Commission proposals went beyond the initial guidelines. That is, despite the initial guideline of the Agenda to exclude them from direct payments, finally silage cereals were proposed *to remain into the system* of arable crops. Although this proposal was met with strong criticism in the beginning, it was finally adopted by the farm Ministers and the Summit. In addition, as a concession to FIN and SVE, *grass silage* will be also eligible for arable direct payments as these countries cannot produce maize silage.

Beef and veal sector

- The effective market support level will be reduced *by* 20% (instead of 30% proposed by the Commission) in three steps (starting on 1.7.2000).
- From 1.7.2002 *a private storage system is introduced* (similar to the pig meat sector) that will be triggered

(1) In particular, concerning the enlargement, the total amount of pre-accession aid is euro 3,120 million per year, at 1999 prices (SAPARD 520, plus ISPA 1,040, plus Phare 1,560). After the accession of the first 6 applicants, payments under the Guarantee Fund (market measures plus specific rural development measures) will amount to euro 1.6 billion in 2002 rising to euro 3.4 billion in 2006. These estimates assume that CPs will not be payable in the new comers.

(2) For cereals, the amount will increase from 54 euro/t to 58.67/t in 2000-01 and further to 63/t (instead of 66/t), multiplied by the historic reference yield of each region. For the other crops (protein, linseed) the relevant amounts are adapted accordingly (R. 1251/1999, Article 4).

(and storage aid may be granted) when the average market price falls below 103% of the new basic price for beef (euro 2,224/t). Intervention mechanism, however, *does not disappear.* The Commission has to "follow closely the market" for beef and, if necessary, to take the appropriate measures, including the *potentiality of intervention buying-in.*

• Direct payments (premia/animal head) will be increased from 2002 (to compensate the price cuts) for both, *male animals* and *suckler cows,* subject to *national ceilings.* The pre-reform level plus 50% of the increase constitute a *Community-wide basic payment.* The original proposals of the amounts, however, have been slightly modulated in accordance with the compromise.

• *A new slaughter premium* is introduced of euro 80 for all the animals *over the age of 8 months.*

• *Extra extensification premia* (for environmental reasons) are increased, with greater flexibility of the M-S to chose criteria and rates of aid, depending on the stocking density of the holdings.

• *"National Envelopes"* (one of the innovations of the original proposals) are finally introduced into the system and retained in the compromise. This concept means that *50% of the increase* of the CPs (premia) will be distributed to M-S (on the basis of their share of production) allowing them to allocate these amounts *according to national criteria.* The national criteria would be subject to specific priorities (per animal and/or per hectare of permanent pasture) within certain limits and according to common rules.

• The provisions on trade with third countries: *Export refunds* and *border protection* measures will be carried over from existing legislation as they stand, except of some minor amendments.

Dairy regime

Due to the high cost of the proposed reform, the Berlin Summit decided *to delay* its implementation until 2005-06 (instead of starting at 2000-01 proposed by the Commission or 2003-04 agreed by the Agricultural Council. To this extent, the internal market provisions concerning the *intervention* and *public storage* of butter and skimmed milk powder, as well as the schemes for *private storage* aids and *marketing measures,* all remain largely unchanged. Further measures agreed:

• Intervention prices (for butter and skimmed milk powder) are reduced to 15% in 3 (instead of 4) equal steps, *beginning in 2005-6.*

• The price cuts will be compensated by introducing gradually a *new dairy premium,* to be paid *on a flat rate basis per tonne of quota* (and *not per virtual* cow as originally proposed). Compensation, therefore, will be payable based on the quota held by each producer in the 1999-2000 year. In other words, *no compensation will be payable in respect of the additional quotas* allocated according to the present agreement.

• *National envelopes are introduced* (like in the beef sector). However, payments will start from 2005 (not from 2000 as in the original proposal).

• Milk quotas are maintained (at least) until 31.3.2008, since the great *majority* of delegations had agreed or supported that the system should retained until 2006, with some differentiation [3].

• Quite differently to the original proposal of the Commission, the Summit agreed *an overall increase of 2.4% in the total reference quantity for milk* to be reached at the end of implementation of the reform in 2008. In particular, to meet with the strong demands of some M-S (each one for special reasons), five M-S (GR, ESP, IRL, IT, UK - Northern Ireland) will get an extra quota from 2000-01 onwards. And then, there will be a "linear" increase of 1.5% for all the remaining M-S in the three years of reform between 2005-06 and 2007-08. This amounts to an overall *2.4% increase* (instead of 2%).

• The Agricultural Council of March 11, included in the final compromise an important statement according to which, the EU is committed *to review the quota regime in 2003,* even if the quotas are retained. The Summit did not change this prospect. On this occasion and because of many pressures, it is rather sure that the entire milk regime will be reviewed at the same time.

Horizontal measures

A new Regulation establishes that all COMs providing *for any kind of direct income support payments* [4] would follow certain rules. All the new rules raised in this regulation constitute *innovating issues* of CAP in its future form. In particular:

• *Environmental protection / Cross-compliance:* according to this principle, the M-S are obliged to introduce and define appropriate environmental measures to be applied by farmers. According to the M-S own consideration, these measures *may* include the possibility that farmers would be *fully* eligible to the CPs (and other support schemes) *on the assumption* that they respect certain environmental requirements. In cases where the environmental requirements are not respected, M-S *shall* decide the *appropriate sanctions* (proportionate to the

---

[3] It is interesting to note that in the course of the negotiations (Sept 1998), a minority of 4 M-S, the so-called "London Club" (DM, I, SVE, UK) forwarded a firm commitment to push towards a higher price cut by 30% and the abolishment of the quotas beyond 2006. They also suggested the current intervention arrangement for butter and skimmed milk powder to be replaced with a "safety net", citing the example of private storage proposed for beef. (Up to a certain stage, Greece also backed the club of 4, arguing that if it did not get an increase of its quota by 150 000 tones, it would prefer a full abolition of quotas. In this respect, ESP, Italy and Ireland raised their own claims for an increase of their own quotas).

[4] The list of the support schemes has been expanded by including, not only the CPs on the three know sectors (arable crops, beef, dairy), but also certain production aids for olive-oil, tobacco, bananas, seeds, sheep and goat premia, LFA supplements, as well as the special schemes applied in the disadvantageous islands of EU, like the French DOM, Madeira, Canary and Aegean islands.

seriousness of the ecological consequences). Such sanctions could be the *reduction* or *even the cancellation* of the benefits accruing from the CPs.

• *Modulation*: according to this measure, M-S are authorised to *modulate* direct payments per farm in a way that are related to employment on the farm (or overall prosperity of the holding). In other words, M-S *may* decide to reduce the direct payments in cases where the labour force falls short of certain limits, to be determined by the M-S. The reduction of support, however, *should not exceed 20%* of the total amount of payments.

• *Equal treatment of farmers*: both measures, cross-compliance and modulation, would be applied in a way as to ensure equal treatment among the farmers and to avoid market and competition distortions.

• Savings from cross-compliance and modulation, can be used (as an additional Community support), not only into agri-environment as originally proposed, but also into other rural development measures (early-retirement schemes, Less Favoured Areas, areas with environmental restrictions, forestry, etc.).

• The proposal to apply *digressive ceilings* on the CPs in order to avoid any excessive transfer of public funds to individual farmers, was finally deleted, due to strong resistance of UK and some other M-S.

Wine

The proposal of the Commission became part of the Agenda 2000 package in July 1998. It focused on improving the market balance by encouraging producers *to improve the quality* of their wine rather than disposing of the unwanted production.

In general, the proposal was accepted by the Farm Ministers (and ratified by the Summit) as a part of the overall compromise. In brief, the main issues agreed, are:

• *The existing ban on new vineyards planting is retained until 2010 (at least).* At the same time, *grubbing-up measures are also retained*, but will be more specifically targeted by M-S in those regions with serious and persistent structural surplus.

• A limited number of new planting rights was agreed, to enable plantings in areas with expanding demand. The new plantings may cover in total *51000 ha* (instead of 35 000 ha initially proposed by the Commission) allocated to M-S, plus *17000 ha* that will stay as a EC reserve (at the discretion of the Wine Management Committee).

• With the aim to adapt the vineyards to the market demand, the growers are encouraged *to tear up old vines and plant newer with varieties of higher quality*. An extra amount of *450m euro* is dedicated to this purpose. The growers will be compensated by direct aids for the initial income losses.

In addition, the cost of conversion equipment (cellars, training, marketing) will be eligible for 50% EC financing (75% in Objective 1 areas).

The rest of the bill will be paid by the producer (*not* by the M-S).

• Various mechanisms of distillation ("Preventive distillation", "compulsory distillation" and "support distillation") used up to now as an intervention mechanism, are abandoned. A *new "crisis" distillation* measure will be available (on a voluntary basis), to be triggered in cases of severe surpluses and serious quality problems.

• Finally, the existing ban in imports of *wine must* is lifted (in accordance with the WTO rules). However, the origin of the must used to enrich EC wines has to be clearly mentioned on the label of the commercial wines (like the imported wines). On the other hand, the ban on "coupage" (blending EC wines with imported ones) remains.

Rural development

It should be clear that the "Common Rural Development Policy" which is included into the package of the Agenda *is not considered to be an independent policy*. In fact, the relevant Regulation aims to be an integral part of CAP, accompanying and complementing the other instruments (price support, market management measures, direct payments), contributing therefore to the achievement of the overall objectives of CAP laid down in the Article 33 (ex 39) of the Treaty.

Additionally, it is known that, after the Maastricht and Amsterdam Treaties, all the sectoral policies (including, of course, CAP and CRDP), should take seriously into account the objectives of *economic & social cohesion* (Article 130) and should contribute to their achievement.

Therefore, the proposed rural development measures should contribute to the cohesion of:

• Regions whose development is lagging behind (Objective 1);

• Regions facing structural difficulties.

Rural Development Policy is supposed to follow the principle of *subsidiarity* (decentralised policy, emphasis on participation, "bottom-up" approach), that is the Community measures are coming *to supplement* (and not replace) the national measures. That is why, at the Community level, only basic support criteria are laid down. Practically, this means that the measures proposed and accepted in the final agreement are and will remain under the *co-financing* principle. However, support offered by the M-S alone would be subject to the specific *State Aid* rules. For the *monitoring* and the *evaluation* of the rural development support, appropriate rules are established, using as reference well-defined indicators.

The new Regulation establishes a framework for Community Support for Rural Development. The Farm Ministers agreed to accept the proposals, by making only some partial changes.

• The main (and perhaps the only) change of the proposal is *to combine* all the existing rural and structural measures into one piece of legislation, contributing therefore to the simplification of the system.
• The new Regulation includes all the existing rural development measures in the certain order. It is designed to have implementing measures attached, which can be used by the M-S invited to set their own local programme priorities from a menu of options.
• There will be two groups of measures financed by FEOGA: (a) The *three 1992 accompanying measures* plus the *LFA scheme*, financed by the Guarantee Section (horizontally), and (b) Measures concerning *modernisation* and *diversification*, financed according to the region, by:
- Guarantee Section, the outside Objective 1 regions (ex Objective 5a and 5b-type)
- Guidance Section, the Objective 1 regions.

Generally, the support under the Structural Funds is programmed in Objective 1 and (new) Objective 2 regions (that is, the disadvantaged areas with less than 75% of the EU average per capita income, as well as the areas with structural difficulties (ex 5a + 5b-type)

A first assessment of the new CAP reform - Major issues of concern in the medium term

The Berlin Agreement on CAP, already integrated into the acquis [5], has been subject to strong criticism by independent experts and bodies, while a numerous studies and reports continue to indicate that the new reform cannot be considered as final. The watering down of the initial proposals of the Commission concerning the most important agricultural sectors (arable crops, beef and dairy products) do not seem sufficient to adjust supply to market demand internally or to respond adequately to the external factors advocating towards a new reform.
It is argued that, most likely, the agreement is not going to face up to either the likely demands of a new trade agreement under WTO or the problems expected to appear from the forthcoming enlargement.
In the light of enlargement, in particular, there are various reasons indicating that the new reform cannot be considered as final up to 2006.
In the medium term, sometime around 2002-2003, when it is supposed that a first wave of new Members will enter the EU, major issues of concern affecting the whole process of enlargement are expected to arise and call for more definite solutions.
In this respect, an effort is made below to identify some of these issues, by taking especially into account that the two general approaches of the reform (price cuts and increase of CPs) are closely related to the future enlargement.

The inadequacy of the price cuts

Although, from the very beginning, there was a broad agreement on price cuts, in the course of the internal EU negotiations the M-S appeared to disagree strongly on the extent of reductions proposed by the Commission.
At the end, the final compromise included:
• A two-step price cut in arable sector by 15% (instead of one-step cut of 20%).
• A three-step price cut in beef sector by 20% (instead of 30%).
• A three-step price cut in dairy sector, beginning in 2005-06 (instead of 2000).
Although this general compromise is accompanied, of course, by various "modifications" in the other parts of the proposals, the crucial question that arises is whether these price cuts would be sufficient to meet the initial objectives of the reform, concerning the future enlargement but also the expected developments in agricultural markets and the repercussions for agriculture in total, inside the EU-15.
From the point of view of the new comers, it is clear that during the forthcoming accession negotiations, one of the hard core topics in agriculture will be whether price levels between EU and applicants differ substantially or not at the time of accession. As things have developed, what will be the repercussions of the last price cuts for the negotiations?
1) Even with more moderate cuts, the price gaps (that still exist) between EU and the applicants will tend to be eliminated at the time of accession, since the prices in all the CEECs tend to increase rather rapidly at this stage. If eliminated, there will be no need for transitional periods to align the prices as it was the case in all the previous accessions.
2) By lowering the level of EU prices, the farmers of the applicants should not expect to benefit (even in the long run) from as high *market support* as it used to be in the past for the present M-S.
After accession, the farmers will enjoy perhaps a better market stability through all the known mechanisms of CAP but they are not going to see any considerable increase in their earnings (income) by enjoying price support. Since they will be excluded from CPs (which have become the most effective way of *farm income* support in the EU-15), the question is by which other means they will see an improvement in their income after accession!
3) For products whose price will be still lower than the EU level at the time of accession, even with a gradual increase of the prices of applicants to the recent EU levels, some sort of special measures (specific transitional periods?) will have to be developed.

(5) Council Regulations No. 1256-1259 of 17.5.1999 OJ L. 160/26.6.1999.

The question is whether this is allowed under the restricted financial framework agreed.
4) For products whose price will be higher than the recent EU levels (and there are such cases that have been already reported), the negotiations will be even more complicated. What kind of compensation the farmers will receive, if not CPs?
5) Furthermore and most important; the applicants are excluded from the compensation payments, at least up to 2006. The increases of CPs that have now been agreed, will make the negotiations even more difficult, since *the competitive difference* (between EU-15 and CEEC) becomes higher and will increase demands for some counterbalancing mechanism.
From the point of view of the EU-15, a strong criticism is focused on the extent to which the agreed price cuts will be sufficient to stabilise the markets in the next years to come, to avoid surpluses and to improve considerably the competitiveness of EU products. According to all the recent estimations and predictions, it seems that these objectives will remain unfulfilled for the foreseeable future. Support prices, in general, will not be reduced enough and in time to eliminate export subsidies, which was the major objective of the Agenda 2000 initiative. Only a higher world price than the current level (and this is highly questionable under the latest world market developments, especially in Asia and Russia) could prevent the EU having to pay export subsidies. In that respect, limitations on exports and increases in stocks of the main commodities would appear to be inevitable, at least up to 2003, while budgetary expenditure on intervention buying and storage will tend to increase. Some examples:
• Concerning *cereals*, in particular, the Commission's proposal for a 20% cut of intervention price in one-step intended to take a final step towards closing the existing gap between EC price and the current level of world prices. In this case, intervention would act only as a "safety-net" for farm incomes, while export subsidies, though retained, would not be required under normal circumstances. With the result of the final compromise, this target clearly cannot be met, while the recent depression of world agricultural markets and the WTO export commitments would both make stocks unavoidable, regulated only by the operation of set-aside at the full 10% level for the whole period.
• In *beef sector* and despite the 20% price cut, there will be a major gap between the price of beef in EU and the world market price. Even lower, this gap could only be filled by export refunds. Therefore, the initial objective that the reformed regime would allow the EU to export substantial volumes of beef in the near future without subsidies, does not seem to be realistic.
• In *dairy sector*, the postponement of the beginning of the reform will do nothing to adjust supply to market demand.

By continuing the utilisation of export subsidies for all the major commodities, CAP is not adapted sufficiently to the commitments of URAA and there is still a danger to be faced with export cuts from 2000 onwards. In addition, by continuing the export subsidies as a permanent instrument of CAP, the EU will be obliged to keep (once again) a defensive stance in the next WTO Round, since it is rather sure that it will be faced with major attacks on this issue by the other trade partners (USA, CAIRNS).
All those reasons advocate that the package deal does not alter substantially the present status of CAP, while it stands far from the original proposals of the Commission. It is rather sure that EU will be forced to take additional decisions (towards further adjustments of the reform) prior the expiration of 2006, sometime in the intermediate period, around 2002. In any case, this prospect is indirectly implied and projected already in the text of the Berlin Agreement:
• *For cereals*, "a decision upon a final reduction in the intervention price to be applied from 2002/03 onwards will be taken in the light in the light of market developments" upon a new proposal of the Commission. In addition, a higher or lower rate of set-aside for any given year, can be re-decided on the basis of a Commission proposal.
• *For oilseeds*, the Commission is also called "to follow closely the developments of the oilseed market" and this implies that the entire debate over the non-crop specific oilseed aid will potentially re-opened in 2 years time.
• *For beef sector*, the Commission is called to "follow closely the market" and take appropriate measures, if necessary (including possible intervention buying-in, that would potentially alter the balances inside the agreed spending appropriations).
• *For daily sector*, it is most likely that the whole package will be re-opened during the review of the quota regime in 2003. Additionally, it should be noted that the decision to extend the 3-year price framework up to 2008 goes beyond the present financial framework (valid up until the end of 2006).
After all, the Agriculture Commissioner (Fischler, 29.6.1999) has already pointed out that "the mid-term reviews might indicate that new problems are coming up on agricultural markets and the CAP has to react".

The future of CPs

Indeed, the whole matter of compensatory payments and their future is *perhaps the major issue of concern* for both the present M-S and the applicant countries, for many reasons.

Financing the CPs

The final Berlin Agreement on "stabilising" the agricultural budget gave perhaps a temporary solution on the

agricultural spending, but the whole debate is expected to re-appear, especially when some budgetary difficulties bring first pressures again. For the time being, "stabilization" of the overall spending does not affect the measure of CPs as an instrument of compensating farmers' income for the price cuts. The original intention to increase them, even at a lower rate at certain cases, remains. However, since the CPs already absorb more than half of the total agricultural budget, it is rather sure that their overall size will be more and more questionable in the near future, affecting their present financial status.
During the negotiations, three following options appeared, all of them aiming to limit the financial repercussions of CPs:

The partial (75%) reimbursement. It was the first of these options, with the aim to reduce the overall amount of EC spending. This option implied *to make M-S responsible for paying through their national budgets 25% of the compensatory payments to farmers.*
This option suggested that the agricultural guideline should be reduced, while the impact of the reduction would be a redistribution of national contributions to the Budget, by reducing i.e. Germany's contribution while increasing that of France and DK, but also of Spain, Greece, Portugal, IRL (the cohesion Cies).
This option, although *clearly rejected*, still have some supporters inside EU, especially among those who are considered to be as "net contributors" in the Budget. Actually, however, was not as "simple" as it looked: First, it would be clearly a movement towards *re-nationalising* a significant part of CAP / Guarantee expenditure, away of financial solidarity and of the objectives for social and economic cohesion, at the expense especially of those M-S that are of most need for such payments. Although the Commission refused to use the term "re-nationalisation", this did not change the essence of the proposal, because the direct aids were introduced *as compensations* for cuts in prices previously supported entirely by EAGGF. In this respect, this option could be considered rather selective, since no option appeared, for instance, for partial re-imbursement of export subsidies, or set-aside compensation, or storage expenditure. Second, a potential agreement on partial reimbursement would not have an impact on the an overall *size* of CPs (an issue raised especially by the competitors outside EC) but would lead only to a shift of the *source* of financing from European to national budgets.

The option of "degressivity". Under this option presented by the Commission, there could be a gradual reduction (3% annually) in the CPs. Small producers would be excluded from the reduction (up to a receipt of euro 5000) and a proportion of the many saved would be channeled into environmental and structural activities.
Though not accepted, the importance of this proposal remains, because it establishes the principle that the CPs should be reduced over time. Once established, the reduction mechanism could be altered easily to achieve even a faster rate of reduction. And this plan would potentially solve some particular policy problems:
• It would initiate the means of eventually phasing out the CPs in the long run, and this would constitute a generous "offer" of EU in the next WTO Round, allowing her to stand more "agressively" in other issues,
• It would achieve the desirable objective of stabilising or even lowering the agricultural budget,
• It would raise the "social" dimension of CAP, by maintaining income supplements to small farmers while scaling down the level of payments currently paid (sometimes, unnecessarily) to the large and efficient farmers,
• It would be the basis for reconciling the conflict between the continued use of CPs in the EU-15 and absorption of the agriculture of the applicants
The above advantages still remain. It would be expected, therefore, that the idea of degressive CPs could come back on the table some time in the near future, as the more feasible alternative in cases of relevant future difficulties.

"Ceilings on payments". The last option was to place a ceiling on the total amount of aid payable per farm (capping). In fact, this option was included into the original overall proposal of the Commission as part of the "Horizontal Measures". This option obviously met with a strong resistance especially from UK and other members of the "London Club".
However, it should be considered as an open question. It is sure that, any re-appearance of degressivity would be accompanied by renewed calls (at least by 6 M-S) to impose ceilings on payments. After all, the Court of Auditors (report, Dec. 1998) has pointed out that the CPs are granted to farmers at the full rate with little consideration being taken of the size of the holding: "40% of the CPs are distributed to 4% of the producers which are the biggest. The CPs should be paid on the basis of profitability with the most competitive farmers receiving less aid".

The CPs under the scrutiny of the next WTO Round

Since the EU is now most legally committed to the CPs that have become *a rather permanent part of CAP*, their acceptability in future Trade Agreements is becoming a *very disputed issue.*
In this respect, we should take first into account the following parameters:
1) Since the payments were introduced in 1992-93,

they are based on historical production and not fluctuate with the level of output. In addition, they are fixed and not linked to changes in the world market prices (unlike the oilseeds payments that, up to now, could be adjusted up and down to reflect market price movements). Therefore (the Commission still argues), they should be considered largely as production-neutral.
2) For the major competitors of EU in world trade, it is obvious that the CPs are a challenging measure. In the URA, direct payments that were not subject to reductions (that is, with no incidence on production and trade, i.e. neutral) were classified as either "Blue" or "Green Box" measures. According to US, however, the "Blue Box" has been invented as a *transitional* measure. It reflected a *compromise* between the two parties to address certain problems of the time (CPs and "deficiency payments") neither of which were completely decoupled from production. Now the US has removed the deficiency payments from its agricultural policy and, therefore, no longer needs the "Blue Box".
3) Other major competitors of the EU have already argued that compensatory payments of cereals are a kind of "hidden export subsidies" and therefore contrary to the GATT commitments.
It is, therefore, quite likely that the concept of CPs will become a major point in the new agricultural trade negotiations to start under WTO.
What are the chances of defending this mechanism in the new Round?
We should take into account that, as indicated by the OECD, CPs have replaced market support to a certain degree (50-60% of income of EU farmers) and are *market distorting* measures. Besides, it is true that the CPs are paid in such a way that:
- do not create additional incentives to increase the crop area planted or numbers of animals produced;
- do not increase yields by the use of additional variable inputs;
- do not act as a disincentive to consumption.
However, they still sustain production. And this is because the CPs to the individual producers are still dependent upon the area planted or the number of animals kept. For instance, even after the full harmonisation of the CPs for cereals and oilseeds into one arable area payment, this does not detach CPs from the area planted.
Other reports argue that even if the CPs are completely detached from production, their continuation beyond a transitional period cannot be justified according to the WTO rules and commitments, unless they are payments for some legitimate public good provisions (in the form of rural development or cultural landscape).
The Commission has declared its intention to defend the CPs in the next Round as an element of *vital interest* for the EU. From the EU part, at least, it has been repeatedly stated that *the result of the Agenda negotiations represents the position of EU on the WTO.* However, according to the spirit of the Agenda, it is clearly intended that the CPs should eventually be converted into some sort of social/environmental payment (i.e. through "cross-compliance"). By making the CPs a generalised payment to arable producers, rather than being specific to a particular crop, they automatically become more "production neutral" and therefore more acceptable as qualifying for the "green box" category. Apart of their high cost for the Community budget, it is generally expected that the justification for the compensatory payments of the 1992 approach will be increasingly challenged in the future. (Although the "peace clause" between EU and US, included into URAA, means that the CPs will not be open to scrutiny until 2003).

The CPs and the applicant countries

In respect to the candidate countries, it is clear and it has been repeatedly stated that the agenda does not include them among the recipients. It is true that there are arguments in favour of this exclusion. Firstly, the direct aids were introduced in 1992 as *compensations* for certain price cuts. In this respect and given that the prices in the 10 applicants are not going to be reduced but most likely increased following adhesion, their farmers would not be eligible for reform compensation since they would not have suffered any price cuts. Otherwise, adding the direct payments to expected price increases, would represent an inordinate cash injection for those farmers. Such a development would create rather income disparities that could rapidly lead to social tension in the countries and regions concern. However, it is equally under question whether it would be possible, both economically and legally, to exclude some farmers of an enlarged EU from such payments. In other words, *this exclusion would be tantamount to discrimination.* In fact, the EU would appear to grant richer farmers of the EU-15 direct payments that could help them to outcompete the farmers of the candidates on the domestic enlarged market.
The further increase of CPs through the Agenda, increases the competitive difference between EU-15 and the applicants, which has to be overcome by some counterbalancing mechanism. In this respect, and given that in certain applicant countries some agricultural prices are already at the same or even higher level than in EU, it is rather sure that the issue of the CPs to farmers will become one of the hotly contested topics in the accession negotiations.

The innovations of the Agenda

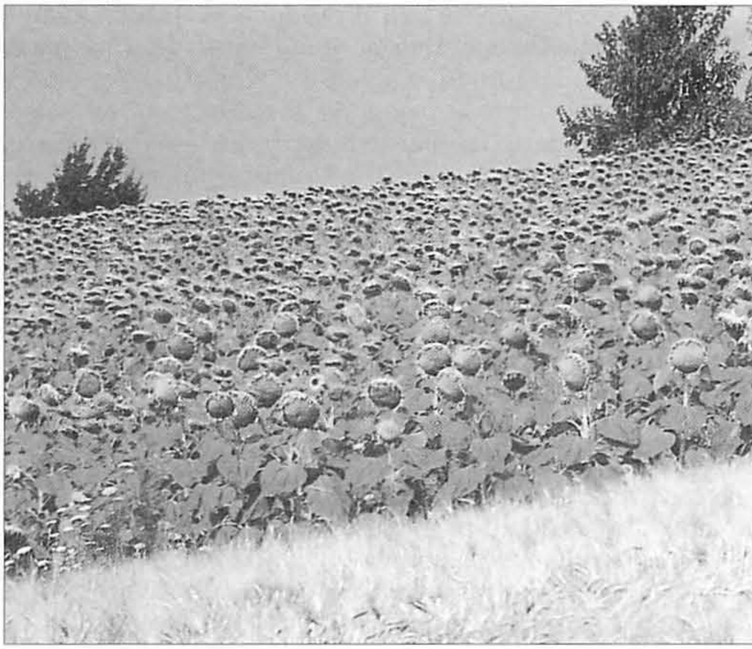
National Envelopes

The introduction of "National Envelopes" is, without doubt, one of the most important innovations in the fi-

nal CAP agreement package. It is supposed that, by distributing half of the increase of the CPs *in livestock* products directly to the M-S (which are entitled to allocate them to their farmers according to their own priorities), "National Envelopes" are a response to the calls for greater *subsidiarity*.
However, although finally accepted, the whole concept was met with great skepticism if not with suspicion by some of the present M-S. In particular, fears were expressed that, either "National Envelopes" would be potentially the "Trojan Horse" in the future towards a renationalisation of CAP from the "back door", or they would distort competition within the EU's single market, since they would be implemented according to national criteria (M-S could place different emphasis on different areas of production).
According to the Commission, the national envelopes would give M-S more flexibility over deciding how to allocate some aid payments to help specific groups of farmers (by favouring either the grass-fed *extensive* producers or the large scale herds *intensively* fed).
However, this flexibility may have adverse effects on the environment and it would appear to be a contradiction to the overall target, to promote the extensification methods of production.
Since *the National Envelopes were retained* at the final deal, it should be expected that, most probably, they will become another permanent element of CAP. Even if the total amount of this additional funding is, for the time being, 74% lower than that foreseen in the original proposal, it would be very difficult, for instance, to abolish the measure in the future. Therefore, even if the applicant countries are excluded from the CPs at least up to 2006, the debate is rather bound to be rekindled in the future. Given also the disagreements that have been expressed on this issue among the present M-S, any compromise in the medium or longer-run may affect the whole process of enlargement as well.

Cross-compliance and modulation

The "cross-compliance" principle offers to the M-S the possibility of linking the CPs to environmental objectives. This is undoubtedly a positive measure in terms of taking additional steps towards a further protection of the environment but also in terms of a move towards defending the CPs in the next WTO Round.
Additionally, it is supposed that this provision gives the M-S the legal basis for awarding the direct support schemes (including the CPs) only to those farmers that are genuinely engaged in farming (R. 1259/1999, Article 7). In other words, "cross-compliance" can be used as a means of ending the abuses made in the past by certain individuals who were able to apply for direct payments although they were not real farmers (by making clever use of legal loopholes).
However, a number of future concerns may arise here,



due to the fact that *the environmental measures* that have to be applied by the farmers and the *sanctions* against those who do not respect the environmental requirements, *do not follow common rules* but are to be defined by the individual M-S and to be applied subject to the M-S own choice.
Similarly, modulation is also an innovation that may operate as an incentive for creating greater employment opportunities, since it is expected that farms (if they wish to be fully eligible of the CPs) would be "obliged" to compare their annual labour against a national average.
However, since the scheme (*if* introduced by a M-S) will be applied on the basis of nationally defined rules, there are concerns over how a "labour force unit" would be objectively defined. There is also certain scepticism whether the measure could discriminate against more efficient farmers.
Generally, the concerns that may arise in the near future are attributed to the following:
1. The question remains *how the Commission will safeguard the equal treatment of farmers along all the present M-S (and not only within each M-S), since both schemes will be regulated and implemented by the national authorities and according to their own priorities.* The whole issue should be expected to become even more complicated, after the accession of the first new comers into the EU. Since the new comers are excluded from CPs, it is obvious that they will neither be obliged nor have any incentive to apply the above schemes in most sectors. Once again the farmers in both sides will be treated discriminatorily.
2. Other questions have been arised on *how* the (nationally defined) measures on cross-compliance might

be implemented and *which conditions* would be considered suitable. Although the Commission argues that the M-S can define their own standards under the principle of "subsidiarity", the M-S are afraid that, among other things, certain complications may arise due to the fact that, up to now, the implementation and the administration of all the basic mechanisms of CAP are relied on common rules.

3. Some M-S find the cross-compliance scheme closer but not sufficient to meet the criteria for switching the CPs from "blue box" into "green box", by simply offering to M-S the possibility of linking payments to environmental criteria. The URAA states that green-box payments for environmental reasons must be *fully decoupled* from production and part of a "clearly-defined environmental or conservation programme" dependent upon the fulfillment of specific conditions. But, for the time being, the arable area payments are not fully decoupled since they still depend on the average yield of each region.

In this respect, it is true that the "cross-compliance" scheme has the potential to be extended further in the future. In fact, this provision puts in place a mechanism for future *full linking* of farm payments to environmental objectives. Although the M-S did not like the idea of such a potential, especially before the issue of CPs is defended as it stands in the next Round, the agreed text already makes the provision that the farmers should not consider the support conditions remaining unchanged but "should be prepared for a possible review of schemes in the light of the market developments".

4. Perhaps the most important concern is due to the fact that both innovative measures of cross-compliance and modulation imply an expensive and complicated mechanism to be built-up *financed by the national budget of the M-S*. Among other things, an effective implementation of the scheme requires *an additional administrative capacity*. And if this can be solved relatively easily in the more advanced M-S, certainly it would not be the case if the weaker M-S or the new comers are to be taken into consideration.

CONCLUSIONS - A RADICAL REFORM OR A MINOR ADJUSTMENT?

It is rather sure that the reform agreed cannot be considered as radical.

No one of the initial objectives set by the Commission seems to be served. The EU leaders preferred modest changes by ensuring that EAGGF spending remains within the budgetary limits rather, than adopting a radical reform. In that respect, the problems that have been already identified are not resolved.

That is why many spectators believe that a further reform of CAP will be necessary *before 2006*.

After all, a number of "clauses" pass the responsibility back to the Commission for reviewing the policy in the near future, and therefore, leaving open the prospect of further periodic revisions in the interim period between 2000 and 2006.

In relation to the deal made by the Farm Ministers on March 11, 1999, the final Berlin agreement appears to be even less ambitious:

- It delays the dairy reform until 2005-06.
- It reduces the cut in support price of cereals from 20% to 15%.
- It introduces again a costly set-aside rate of 10% for all the 7 years.
- It re-adjusts the beef reform to allow for the possibility of *ad hoc* intervention buying.
- With the overall aim to "stabilise" the budget, the delays were preferred to other more effective options like reducing the CPs over time by using the models of "capping" or "degressivity".
- Agricultural trade and intervention schemes will continue to depend on the markets, both internally and externally.

In relation to the initial objectives of the reform, the Berlin agreement can not be considered that contributes a lot to the achievement of most of them:

- The competitiveness of EC agricultural products does not improve considerably (at least the first 2-3 years of the implementation), since support prices will not be reduced enough to allow an expansion of exports without subsidies.
- The risk of future surpluses remains, while the reform is inadequate to achieve an adaptation of the CAP to the imperatives of URAA.
- Most probably, the decisions will push EU towards a "defensive" and not "aggressive" stance in the next WTO Round:

– The level of price adjustment will not remove the need for export subsidies
– The partial reduce of domestic prices will mean that EU tariffs cannot be reduced at a level sufficient to give any new concessions on tariff reduction (which other WTO parties will be seeking).
– There is no any indication about the future size of CPs.
• Environmental aspects are not always fully taken into account. For instance, intensive livestock production is rather encouraged than discouraged through the "national envelopes", even if it coincides with tighter environmental limitations in other sectors. The prospect of agricultural polarisation remains as combination of intensive farming (with impact on soils, water, and biodiversity) and land marginalisation. Generally, even if Agenda 2000 decisions have included additional measures to address environmental issues, these measures are considered inadequate, unless they become obligatory, fully implemented, and on the assumption that increased funding is provided either by national or by EU financing (6).
• The prospect of enlargement is rather undervalued. This would suggest either that EU does not expect the adhesion of the 5+1 applicants to occur within the period of 2002-2006 or that it is admitted that further special measures will have to be developed to deal with the open issues.
• The simplification of EU legislation is rather attained, but at the expense of the national administration. Many thousands of administrators (inspectors and other officials) will need to be recruited simply to operate the basic machinery of CAP. Beyond this point, however, of which the applicants are already aware, the recent agreement makes the accommodation of the new comers (administratively) even more difficult than initially predicted. Examples:
– All the elements of the Agenda, could bring a real administrative headache, not only to the present M-S but, most important, to the applicants. For instance, the various rules concerning cross-compliance, modulation, etc mean that these payments may be adjustable at the level of the individual farm, dependent on the size of farms, the workforce used, the environmental practices and so on. This implies a full system of information about the relevant elements.
– To activate the set-aside regime (since it is continued beyond 2000), a new Member needs to have a land registry in place (Hungary does not have).
– The implementation of milk quotas is going to be the most striking effect. Since the milk quota arrangements are to continue, rules have to be established in the new comers, to establish national overall guaranteed quantities to *individual* producers. In this case, for instance, how Poland is going to implement the regime with 3,5 million dairy herds and an average size of 3-5 cow/farm? Italy, with 2 million cows has still problems with the management of quotas, after 14 years of efforts. In Greece, with less that 200 000 cows, it took over 3 years to establish a well-managed system.
– The potential introduction of "National Envelopes" for beef and dairy products in the new comers, even in the long run, will significantly increase the administrative burden on National Ministries.
As a result of all the above remarks, one could rather safely conclude that the final agreement on the CAP component of the Agenda can be categorised as a minor adjustment of the 1992 reform (which was surely radical!), rather than a real reform. ●

(6) "Views of Environmental Organisations on the Helsinki Process". Paper submitted by eight NGOs to the informal meeting of EU Council for Environment, Finland, 24-25/7/1999.

References

AGRA-EUROPE (1997), "Central & East European Agriculture and the EU", Special Report No. 84.

COPA-COGECA (Jan. 1996), Long-term developments influencing the future of the CAP

Commission of the EC:

– Agricultural Strategy Paper - Study on alternative strategies for the development of relations in the field of Agriculture between the EU and the Associated Countries, Nov. 1995

– Interim Report to the European Council on the effects on the policies of the EU of enlargement to the associated CEECs. - Doc. CSE (95) 605/6.12.95

– Agenda 2000 - Communications: Vol. I, For a stronger and wider Union - Doc/97/6/15.7.1997. Vol. II, Reinforcing the pre-accession strategy - Doc/97/7/15.7.1997

– Proposals for Council regulations (EC) concerning the reform of the common agricultural policy - Doc. COM(1998) 158 final / 18.03.1998

– Financing the European Union - Commission Report on the Operation of the Own Resources System - Doc. COM(1998) 560 final /07.10.1998

EU Council:

– Madrid European Council, 15-16 Dec. 1995: Presidency Conclusions (Press Release, No. 00400/95)

– Agenda 2000, Progress Report to the European Council, 5 June 1998

– Berlin European Council, 24-25 March, 1999: Presidency Conclusions (D/99/1)

Grant W. (1977), The Common Agricultural Policy, Macmillan Press, London

Ingersent K.A., Rayner A. J., Hine R.C. (eds.) (1998), The Reform of the Common Agricultural Policy, Macmillan Press Ltd

Josling T. (1998), Agricultural Trade Policy / Completing the Reform, Institute for International Economics, Washington, DC

Sinnot R., Winston N. (1997), "Farmers, the CAP and Support for European Integration", European University Institute, Florence, Working Paper RSC No. 97/14

Tracy M. (1997), Agricultural Policy in the EU and other Market Economies (Second Edition, Agricultural Policy Studies, Belgium, in association with AGRA FOCUS, Brussels)

Weyerbrock S. (1998), "Reform of the European Union's Common Agricultural Policy: How to reach GATT-compatibility?", European Economic Review, Vol. 42, No. 2