

DEVE-009

Brussels, 9 December 2002

## OPINION

of the Committee of the Regions

of 20 November 2002

on the

**Communication from the Commission to the Council and the European Parliament:**

***Mid-Term Review of the Common Agricultural Policy***

(COM(2002) 394 final)

### **The Committee of the Regions,**

HAVING REGARD TO the Communication from the Commission to the Council and the European Parliament: *Mid-Term Review of the Common Agricultural Policy* (COM(2002) 394 final);

HAVING REGARD TO the decision of the European Commission of 10 July 2002 to consult it on this matter, under the first paragraph of Article 265 of the Treaty establishing the European Community;

HAVING REGARD TO the decision of its Bureau on 14 May 2002 to instruct the Commission for Sustainable Development to draw up an opinion on this subject;

HAVING REGARD TO its opinion on *The proposals for Council Regulations (EC) concerning the reform of the common agricultural policy* (CdR 273/98 fin)<sup>1</sup>;

HAVING REGARD TO the draft opinion (CdR 188/2002 rev. 1) adopted on 3 October 2002 by the Commission for Sustainable Development (rapporteur: **Mr Robert Savy**, President of the Limousin Regional Council, F/PES);

**adopted the following opinion at its 47th plenary session, held on 20 and 21 November 2002 (meeting of 20 November) by a majority vote:**

### **The Committee of the Regions' points of view and recommendations**

1.1 The Committee of the Regions endorses the initiative taken by the European Commission to make proposals, in its mid-term review of the CAP, which can contribute to the broad debate on the future of the Common Agricultural Policy underway among the Member States, the farming sector and the general public.

1.2 The need for a discussion on the future of this sectoral policy had already become abundantly clear: it accounts for almost 50% of the European Union's resources, and has implications for rural areas throughout the 15 Member States at a time when the CAP is likely to be affected – and perhaps challenged – by a range of events:

- the recent health issues (BSE, foot-and-mouth disease, dioxin), regular warnings on nitrate levels in water, and questions about the use of GMOs have eroded consumers' confidence in the ability of European agriculture and the European food industry to provide healthy, high-quality products under environment-friendly conditions. Farmers are often the victims of these devious practices, in the same way as consumers are;
- the opening of a new round of negotiations on trade liberalisation in Doha, including a chapter on agriculture, the call for reform of agricultural subsidies in the developed world by the G77 group at the World Summit on Sustainable Development in Johannesburg, and the unilateral decisions on the part of the United States (Farm Bill) compel the European Union to deliberate on the best way to uphold the European agricultural model, as called for by the Committee of the Regions as long ago as 1999 (CdR 273/98 fin);
- the imminent entry into the EU of new countries, where the farm sector's level of preparedness for the CAP varies, means that there must be discussion on how best to prepare these new members for Community requirements in areas such as food safety, traceability or environmental awareness. Common EU standards apply in principle to all Member States – there must be no scaling-down of the higher EU standards and differing standards must not be applied;
- the profound changes presently under way in rural society are leading farmers to question their place and role, the way they are viewed by society in general, and the future of the countryside against a backdrop of inter-territorial competition.

2.1 The Committee of the Regions is pleased to note, in this regard, that the European Commission restates the **need to continue a long-term common agricultural policy**. While there may still be room for progress in trade liberalisation, a common agricultural policy will continue to be essential in order to safeguard the European agricultural model and enable agriculture and rural communities to respond to the expectations of present-day society.

2.2 The European Commission's communication generally builds on a process launched some ten years ago which it seeks to complete and safeguard in the long term, but which sets out a number of fundamentally new elements to be included in the CAP. The purpose is to strike the best possible balance between demands which are difficult to reconcile, but which are equally crucial. Agenda 2000 set objectives around which **a consensus has been established which the European Commission does not call into question**:

- adjusting intervention mechanisms in order to strengthen their role as a safety net, with the aim of cutting export refunds, which distort trade and have earned worldwide criticism. Appropriate provisions must, however, ensure that European agriculture continues to have good opportunities on the national and world markets, without making matters even more difficult for the least developed countries;
- gearing agricultural production to the products or services wanted by the public, rather than to those offering the greatest financial incentives, by providing special support for traditional, high natural value production systems;
- upholding and stabilising farm incomes so as to ensure a fair standard of living for agricultural populations and to retain the greatest possible variety as regards both the form and size of farms. The CAP must help to promote hand-over to the new generation in the farm sector by offering attractive and economically stable prospects to young farmers. In this connection, the Committee would point to the guidelines set out in its opinion (Young people in European farming – a blueprint) adopted on 13-14 June 2002, and its backing for the joint declaration on young farmers issued by the European Parliament, the Committee of the Regions and the Economic and Social Committee on 6 December 2001;
- ensuring that concerns about food safety, product traceability, respect for the environment, protection of farm employment and occupation of the land are built into the CAP.

2.3 The Committee of the Regions' opinion on the European Commission's general approach will be based on these considerations.

3.1 In the CoR's view, the communication from the European Commission does not contain the details necessary to gauge the exact scope of each of the proposals. The way they are specified and implemented may substantially alter their thrust. They are simply outlines for a debate in the course of which Community interests, national concerns, and the specific interests of certain products or territories can then be voiced. Political arrangements may be reached after the debate has been completed.

3.2 The CoR wishes to see a greater acknowledgement of the role of local and regional authorities in promoting rural development in a reformed CAP. This is because local and regional authorities have legal responsibility for a range of statutory and discretionary rural activities which are directly related to the European Commission's proposals, such as strategic land management, and promoting the economic, social and environmental well-being of rural communities.

3.3 The Committee of the Regions endorses many of the proposed approaches. It approves and supports the payment of direct aid to offset falls in farmers' incomes and it supports the desire to make more of rural development as the second pillar of the CAP. It is also in favour of taking greater account of environmental and animal-protection requirements on a scale acceptable to farmers, with compensation for the additional costs incurred. It also understands the European Commission's wish to lower intervention prices. However, the Committee of the Regions also wonders whether the decoupling of direct payments from farmers' output, the nature and scope of the "phasing-out" of direct payments in the area of market organisation and the method chosen for incorporating additional ecological requirements and monitoring compliance with these will

actually lead to the stated objectives. Further close study of the proposed measures is needed.

3.4 The Committee of the Regions believes in particular that the European Commission's proposals are a good basis for discussion for the further development of the CAP after the expiry of Agenda 2000, but that the most significant of these proposals should not be implemented before the expiry of Agenda 2000. It would thus be appropriate to establish a legal and support framework for the PAC exceeding the duration of the present framework (six years), in order to ensure that farmers have sufficient confidence and trust in the legislative framework in force for the development of their activity in the medium term.

**4.1 Entirely decoupling payments from any reference to production and introducing a single income payment per farm offers advantages.** Basically, it confirms the principle by virtue of which price falls are offset by direct income support payments to farmers. The principle of single payments may streamline the administrative work involved in implementing the CAP. Decoupling reflects the wish to reinforce the market in its role in shaping agricultural production and farmers' entrepreneurial function: farmers' decisions would no longer depend on public incentives but primarily on market prices. The CoR also supports the principle of decoupling as a method of protecting European and Member State public finances. Direct aid decoupled from production would have to reflect the need to uphold agricultural employment, in order to prevent a rise in unemployment in certain regions.

4.2 The Committee of the Regions would, however, draw attention to **the risks of the proposed system of decoupling**, since it would confirm the current regional differences. The present proposal would maintain the present situation, where farmers with the highest yield receive much more aid per hectare than those producing less. Granting aid unconnected to production may distort the conditions of competition between farmers and destabilise certain products, as would be the case whenever an assisted farm was able to both keep the payments and switch from its former production to more profitable types, threatening other farms practising this type of production which had not previously received any public aid.

4.3 The proposed system might lead to some drawbacks, which need to be studied further, as for example:

- a decision by farmers to undertake new productions could generate over-capacity in certain markets presently in receipt of little aid, with a resulting fall in prices and possible abandonment of some farms. The Commission itself acknowledges this in point 2.5: decoupling "... may also create pressures towards abandonment in some marginal areas";
- changes in production may cause supply difficulties in certain branches of the food industry, and lead to company relocation (e.g. towards ports of arrival of imported farm products) detrimental to the economy of rural areas;
- this system might tend to drive up the price of farmland, where the reference to "historical payments" would provide an entitlement to a high single payment: the resulting pressure on farmland might encourage the formation of large holdings rather than new farmers setting up. In the opposite direction, it might accelerate the trend to abandonment observed in some areas;

- the new system does not make provision for compensation or for the incorporation of new farmers.

4.4 The Committee of the Regions also has some questions about the appropriateness of the proposed methods for calculating the single income payments. It would be based on the level reached by all aid paid previously to the farm according to procedures yet to be specified. This gives rise to three questions, on which further investigation would be needed:

- Is the reference to historical entitlements compatible with gearing single payments to the objectives of the CAP?
- Is it acceptable that this system penalises those who, because they have opted for a more sustainable and less production-intensive way of agriculture, have received less subsidy?
- Is it sensible not to require any commitments regarding production on the part of beneficiaries?

4.5 Without ruling out decoupling in advance, the Committee of the Regions hopes that a rigorous assessment of the risks involved will be carried out prior to any decision, and that there will be a discussion on how to avoid this pitfall. There might be some drawbacks to the system proposed by the Commission, which need to be further studied.

**5.1 The Committee of the Regions notes the European Commission's proposal to set up a progressive payment modulation system** in all the Member States of the European Union, accompanied by capping and franchise arrangements. This can serve as a means of redressing the non-egalitarian nature of the current method for distributing aid, under which 20% of farms receive 80% of the Community contribution.

5.2 The introduction of a franchise will enable smaller and/or labour-intensive farms to be exempted from the progressive payment reduction. This is a step closer to meeting the concern earlier expressed by the Committee (CdR 273/98 fin) to encourage family farming and employment in rural areas. At the same time allowance should also be made for the peculiar structural situation of farming in some regions which results from the size of its businesses – in particular to avoid job losses. The question is, however, whether:

- the amount of the franchise should be raised; whether
- it would be appropriate to introduce supplementary franchises of up to 100% of aid for young farmers, upland regions and islands, as well as farms concentrating exclusively on organic farming; and whether
- the rate of EU cofinancing should be improved for all measures under Regulation (EC) 1257/1999, rising to 75% for non-Objective 1 areas, and 90% for

## Objective 1 areas.

5.3 EU proposals to cap direct payments must be thought out and designed to reflect the diversity of land-ownership structures and farm sizes across the Member States' regions. A uniform maximum of €300,000 is probably not a good solution throughout the European Union. It can sometimes encourage concentration of farms of up to 800 or 1,000 hectares, wiping out the previous family-run structure; on other occasions, in contrast, it can jeopardise employment and competitiveness in large farms.

5.4 The Committee of the Regions urges that territorial diversity be taken into account in the rules governing implementation.

**6.1 The Committee of the Regions endorses the Commission's proposals to consolidate and strengthen rural development as the second pillar of the CAP.** It welcomes the new accompanying measures aimed at encouraging farmers to participate in quality assurance and certification schemes, including geographical indications and designations of origin, animal and environmental protection, and organic farming.

6.2 However, it regrets that the European Commission sees rural development principally as an extension of farming activity. In most rural areas nowadays, agriculture is not the main economic activity: tourism, crafts, services, small-scale industry and cultural activities now complement farming as components of rural development. On the basis of experience with the Leader programmes, the Committee of the Regions calls for procedures to be devised for implementing rural development measures as part of a comprehensive strategy drawn up at individual territorial level by local actors themselves. It also calls for greater flexibility in the rules for use of the EAGGF guarantee section, so that rural territories can bring an innovative approach to their development projects.

**7.1 The Committee of the Regions agrees with the indications set out in the Commission's communication for promoting more environment-friendly production methods.** It specifically approves stronger standards in this area, a system of checks effectively making payment of aid dependent on compliance with requirements, and transitional help to facilitate farmers in adjusting.

7.2 The Committee of the Regions is, however, concerned at the difficulty in reconciling producers' compliance with environmental standards and their market competitiveness in a context of trade liberalisation. The Committee believes that actual implementation of the rules governing the environment, food safety, working conditions and animal welfare must be verified either within the WTO or at the point of entry of products into EU territory: otherwise, European producers will be penalised and there will be no appreciable impact on the main ecological balances.

**8.1 Lastly, the Committee of the Regions considers that the future of the CAP must be shaped in the broader setting of the main challenges facing the European Union.** The EU must present itself as a power capable of upholding its values and interests at world level.

8.2 Since the European Union is a world power, it must wield its influence to ensure that the rules governing international trade in farm produce match its interests and values. In keeping with this, the new CAP must take realistic account of the new international context arising from American unilateralism, and seek to set up a balanced, fair system of trade with the developing nations. These inseparable twin concerns do not stand out sufficiently in the European Commission's communication.

8.3 The imminent enlargement of the EU must not lead to a progressive watering-down of the

European social and agricultural model in a vast and open market, with common policies gradually being abandoned. For this reason, the Committee of the Regions welcomes the Commission's determination to maintain a strong common agricultural policy. However, in its communication the European Commission remains vague about how farmers in the candidate countries can meet competitiveness, quality, traceability and food safety requirements, and about the possible impact of these changes on the countries concerned. The CoR believes requirements on food safety and animal welfare need to be maintained even in an enlarged EU. Nothing less than social and territorial cohesion are at stake here, and a balanced assessment of the positive and/or negative effects of the CAP on each of the territories comprising the post-enlargement EU remains to be made. It is therefore important to involve the candidate countries in the discussions on the mid-term review. The CoR hopes that in its proposal, the Commission will specify the help to be given to farmers in the candidate countries in order to progressively meet these requirements.

8.4 Lastly, the Committee of the Regions regrets that the European Commission fails to establish a link between CAP reform and reform of regional policy. This ties in with the weakness of the territorial impact analysis for the proposed measures. As parallel debates are conducted on the two costliest Community policies, this is the moment for tackling them together, so that neither is seen as the balancing variable of the other.

9.1 The Committee of the Regions did not believe it practicable, in the present opinion, to broach the specific problems posed by the organisation of the market in each of the main farm products. Firstly, the planned timetable would not allow it to carry out meaningful consultations with the various players; and secondly, it seemed appropriate to give the priority to describing the main lines of the reform and, if necessary, to point out any ambiguities. At the appropriate time, the Committee of the Regions would hope to be consulted on the specific measures to be proposed.

9.2 Lastly, the CoR is surprised by the absence of any reference to the regional dimension of the Common Agricultural Policy. This is all the more damaging in that this policy has a growing structural dimension of direct concern to the regional authorities, who are increasingly pressed to contribute to the funding of certain agricultural flanking measures. The CoR therefore calls upon the European Commission to formulate proposals in this area, so that regional and local authorities can occupy their rightful position and play their proper role, particularly in terms of alleviating the structural disadvantages affecting certain upland regions and islands in the European Union.

9.3 At this stage, however, the Committee of the Regions wishes to emphasise the need, when implementing the CAP, to take on board the diversity of territories, crops and production methods throughout the European Union; the cohesion objective laid down by the Treaty recommends that Community rules be brought into line with this diversity in order to reduce disparities between the levels of development and the backwardness of the least favoured regions or islands. The following should also be given their proper place, which they lack in the current text:

- Scandinavian and Mediterranean agricultural production;
- production from regions affected by permanent structural disadvantages as a result of their island or upland situation.

It will probably also have to be accepted that, for certain products, regulation by the market will not allow CAP objectives to be met, and that mechanisms similar to those currently in force for sugar and milk should not be ruled out systematically.

9.4 The Committee of the Regions believes that sustainable rural development can only be achieved by fully involving local and regional authorities in the detailed implementation of the final reforms. The Mid-Term Review is a good start to the process of reforming the CAP, recognising that support to agriculture must be matched by clear measures to promote a living countryside. A reformed CAP is vital to the future of an enlarged Europe. The CoR also recognises that it is important to get these reforms right rather than agree half-measures.

9.5 In the Committee of the Regions' view, the growing debate must not be dogmatic in tone and should, in the final analysis, achieve a balance between regulation of the market and regulation by the Community, without which the European agricultural method would be under threat. The stakes are so high that the EU's partners must take all the time they need.

9.6 In this respect, the Committee of the Regions welcomes the fact that the Brussels European Council of 24 and 25 October 2002 did not call into question the need for, and the main objectives of, a far-reaching reform of the Common Agricultural Policy.

It notes the Council's desire to look at the future of agriculture from a long-term perspective (2013) and welcomes the reassertion of the need to maintain multifunctional agriculture in all areas of Europe and to safeguard the needs of farmers in the disadvantaged regions.

The Committee of the Regions hopes that the time the European Council has given itself to complete this reform will be used to look in detail at the consequences of decoupling payments and production, to take into account the diversity of farmers throughout Europe in the modulation of payments, and to find the resources to finance rural development that is vital for the territorial cohesion of Europe.

Lastly, the Committee of the Regions hopes that it will be kept informed of the progress made by the Commission in terms of its deliberations on the reform of the CAP and consulted on the legislative proposals it will be required to put forward.

Brussels, 20 November 2002.

The President

The Secretary-General

of the

of the

Committee of the Regions

Committee of the Regions

**Albert Bore**

**Vincenzo Falcone**

<sup>1</sup> OJ C 93 of 6.4.1999, p.1.

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