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CAP Reform, the Berlin Summit, and EU Enlargement

by

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Abstract:

The paper discusses the decisions on the CAP in the context of the Berlin summit. In a rather broad perspective the agricultural sectoral and related objectives are analyzed for their consistency and compatability with higher ranking societal objectives. The policies' allocational and distributional consequences are assessed in a qualitative manner by comparing them with a hypothetical first-best policy. The analysis focusses on the distortions in land allocation between agriculture, forestry and environmental purposes as well as on distributional consequences, taking into account the envisaged eastern enlargement. Among the consequences are excessive budget outlays and high economic rents for landowners, who are increasingly no active farmers themselves. Finally, problems of implementing a liberal CAP reform are discussed.

Keywords: CAP reform, land allocation, land rents, EU enlargement, rural development.

JEL classification: Q15, Q 17, Q18, Q2, R52

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Contents

1 Introduction

The results of the Berlin summit have received diverging assessments. This is true in particular with respect to the decisions referring to the Common Agricultural Policy (CAP). Rated as a major breakthrough towards a liberalization of the CAP by the EU Commission and the ministers of agriculture, other politicians qualified the results as an acceptable political compromise, given the budget restriction, the specific sectoral policy restrictions (policy objectives) and sensitive distributional claims among member states. Farm interest groups were less enthusiastic. However, because of the concessions in the final agreement compared to the original plans (Agenda 2000) and even tougher – but short lived – suggestions from the head of governments no major protest was manifested once the negotiations had been concluded. In this paper the summit decisions will be analyzed in a broad economic context, where the manifold sectoral objectives as well as international distributional objectives will be put at debate and not handled as (given) side conditions of the actual decisions.

The paper is organized as follows: first the decisions of the Berlin summit will in short be outlined (2). Thereafter, in the qualitative evaluation, the agricultural sectoral and related objectives (e.g. sectoral income, environmental conservation, rural development) will be analyzed more principally for consistency and for compatibility with higher ranking societal objectives (3.1) as will be the respective policies for allocational and distributional consequences (3.2). The reference system will be on the one hand the policy without the summit decisions, and on the other hand an efficient policy which is basically characterized by market solutions. Policy interventions are limited to overcome market failure. In the final chapter an outline for a basic reform of the CAP is given (4), which takes into account the needs resulting from the planned enlargement of the EU and the scheduled WTO negotiations for a further trade liberalization.

2 The Reform Decisions of March 1999[1]

On April 26, 1999 the European Council decided in Berlin – among others – about the Agenda 2000, a reform package containing, basically 3 elements:

(i) the reform of the CAP
(ii) the reform of the structural funds
(iii) decision about own resources and imbalanced budget.

The following will mainly concentrate on the reform of the CAP and touch the reform of the structural fonds only as far as there are close links to the CAP.

Financial framework and structural reforms

The summit decisions are embedded in a new financial framework (financial perspective) covering the period 2000-2006. The total appropriations for commitments for the EU-15 will slightly decrease from 92,025 Mill. Euro in 2000 to 90,660 Mill Euro in 2006 (Table A1). This includes pre-accession aid of 3,120 Mill. Euro per year for the six applicant countries. With an assumed accession in 2002 the totals will increase by 4,140 Mill. Euro to 98,360 in 2002 and by 14,220 Mill. Euro to 103,840 Mill. Euro in 2006 (Table A2). The own resources ceiling shall remain at the current level of 1.27% of EU GNP.

The planned expenditure for agriculture which beside the CAP (market and price policy) now include rural development and accompanying measures will reach a peak in 2002 and later on decrease to 41.7 bln. Euro slightly above the 2000 level (Table A1). For the EU-21, the expenditure will be higher by an amount, which increases from 1.6 bln. Euro to 3.4 bln. Euro (Table A2). The agricultural guide line as a limit to expenditure on agriculture will remain unchanged (0.74 per cent of real GNP) and will be valid for the agricultural expenditure in the pre-accession period as well as after the accession (Tables A1 and A2). Rural development policies have been given more political weight and an explicit position in the financial outline till 2006. The financial allocations will move around 4350 mill. Euro (Table A1) for the EU-15. These also include – different from previous rules – all financial means for the agricultural sector as e.g. investment aid, which were allocated before in the guidance section of the

1 Presidency conclusions – Berlin European Council 24 and 25 march 1999. Internet europa.eu.int/rapid/start/agi/gu on.ge/txt=???= DOC/99/1(0) .

EAGGF.[2] However, in the newly defined objective-1-regions, these measures will be financed by the guidance section, which – as before – is a part of the structural funds.[3] In contrast to the general objective of concentrating the financial resources on regions most in need – particularly stressed in context with the reform of the structural funds – the instruments within the regulation on rural areas are applied area-wide.

Market and price policy

In the area of market and price policy the policy change initiated with the agricultural reform of 1992 is continued. The shift from price support to direct (support) payments is extended for the "grand culture" crops and will be introduced also to the beef and later (in 2005/06) to the milk market. The main elements of the decisions are summarized in Table A3.

There is one new element in the summit decisions: some freedom is given to the national governments with respect to compensation payments (modulation). These could be cut by up to 20 per cent for specific reasons as, e.g., a below average employment intensity, an above average profit level or the absolute payments per farm. The financial resources saved have to be spent in one or the other way for rural areas, e.g., as part of programs for rural development or conditioned as the compliance with environmental standards (cross compliance). Distortions in competition between member countries have to be excluded.

Policies for rural areas

The implementation of regulation No. 1257/99 on the promotion of the development of rural areas intends to merge the policies which are directed towards rural areas[4] and thereby supplement the other traditional instruments of the CAP, i.e. the market and price policy. Whereas the policy elements are basically the same as before, the support from the European Agricultural

[2] For details see the new comprehensive regulation for rural areas no. 1257 (17 may, 1999) which substitutes or includes several former regulations, respectively.

[3] For details see the new comprehensive regulations on the structural funds No. 1260/99 (21 june 1999).

[4] Among other former separate regulations, the regulation 2078/92 on agricultural production methods compatible with the requirements of the environment and the maintenance of the countryside are now included. For details see regulation 1257/99, p.81(OJ, L 120).

Guarantee and Guidance Fund (EAGGF) for rural development is by now based on a single legal framework. The main objectives and policy areas are listed in Appendix 2. The policy areas could be classified basically into two groups, which, however, are not mutually exclusive. The first group includes policies I-IV and VII which are intended to enhance efficiency in agriculture and downstream activities on the farm or sectoral level whereas the second group, encompassing policies V and VI, aims at the maintenance of the countryside and an improved environment. Policy VIII intends to support forestry whereas under IX – among a wide variety of measures – the conversion of farming activities to other rural activities is supported.

3 Evaluation

The policy decisions of the Berlin summit will be evaluated in a sequential way. First, the objectives together with the original CAP objectives laid down in the EC treaty will be analyzed for coherence and for compatability with the new challenges resulting from environmental demands, the planned EU enlargement, the scheduled WTO negotiations on the continuation of trade liberalization, and – more general – for the compatability with the economic efficiency objective (3.1). Thereafter the policies initiated will be analyzed for allocational (3.2.1) and distributional (3.2.2) consequences and evaluated not only with respect to outlined objectives but to preceding policies and – in a more principal way – with respect to a situation without those interventions which are not based on the proposition to correct market failure (reference system). The consequences for the enlargement and further trade liberalization will be discussed in the last section (3.2.3).

3.1 Objectives and new challenges

The detailed objectives listed in the agenda 2000, the summit decisions and the respective regulations are derived from the basic objectives formulated in article 33 of the EC treaty in the consolidated version which include:

– food security,
– market stability,

– promoting technical progress to increase productivity, in particular labor productivity and in this way
– to guarantee people employed in the agricultural sector a fair standard of living and to support the stability of farm income.

Food security in the EU, because of above 100 per cent self sufficiency for all major staple food, is by now considered a problem only with respect to food safety. Stability aspects and in particular farm income have always been and still are in the center of political action and consequently quoted again in the Agenda 2000 (Daugbjerg, 1999, p.416). However, because of new internal as well as external challenges, new objectives entered the catalogue of objectives with the agricultural reform of 1992 and the summit decisions. These are

– environmental goals and
– rural development goals, now merged in regulation 1257/99.

The driving forces for the extension of the objective catalogue were manifold and interlinked. Firstly, there was the increasing external pressure on the EU to liberalize her trade regime. Secondly, this together with negative internal consequences of strong price incentives, i.e. high unsalable stocks and finally high budget costs as well as increasing environmental pollution (in particular ground and surface water) led to the agricultural reform of 1992 and the agreement in the Uruguay Round 1993 (UR). Refering to the income objective, income losses to the farm sector, expected as a consequence of limited cuts in guaranteed prices, were compensated by direct payments per hectar or per animal but calculated on the basis of expected revenue and not income losses. Not surprisingly, this scheme resulted – at least temporarily – in an overcompensation even of revenue losses.

Moreover, the environmental problems caused by intensive farming, not only triggered administrative regulations to avoid environmental damage, i.e. negative externalities (a.o. fertilizer regulation, nitrate regulation) but at the same time induced on all administrative levels a discussion on potential positive externalities of farming. The outcome was twofold: It was postulated that there are positive externalities which farmers have to be paid for. Neither is the first part of this statement generally valid nor is the second part the necessary consequence of the first. Nevertheless, several objectives and financial instruments with respect to the protection of the environment and to maintain the countryside entered the EU regulation 2078 as well as national and regional programs, and are now integrated in regulation 1257/99 (see in particular objectives 9 and 10 listed in Appendix 2).

The support of rural development seems to be the political reaction to the outmigration of labour from rural areas, which in turn is a consequence of sharp increases in agricultural labor productivity and only slowly increasing revenues. Scope and speed of this development differ widely between regions depending, a.o., on the existence and localization of alternative employment opportunities and the scope of needed structural change in agriculture to adapt to actual technologies and market prices.

With the planned enlargement of the EU and the WTO negotiations on the liberalization of trade to be continued in march 2000, the dominating objective of the CAP, income support for agriculture, is in permanent conflict with trade liberalization. Since the negotiated decrease in internal support prices has seemingly been solved by direct (budget) payments, the budget restriction came to the fore.

This is not only because of the necessity of budget consolidation in most European countries and the Maastricht criteria of 3 per cent agreed upon in the contract on the EMU but in particular because of the planned enlargement of the EU. That would enlarge the arable area of the EU, which is the main basis for direct payments, by about 45 per cent. The expected budget increase is considered to be politically not acceptable.

The catalogue of objectives which is supposed to be the basis of the CAP is extremely heterogenous, reaching from income support to equal opportunities for women and men (appendix 2). The income objective, i.e., pursuing the political objective to increase the income of persons belonging to a specific sector, will lead to an increased attraction of resources to that sector. In the absence of market failure, this is incompatible with the general efficiency objective. Moreover, to refer in this context to article 33 EC treaty is incorrect since there the increase in productivity is the vehicle (<u>thus</u>) "to ensure a fair standard of living".

Although most of the other objectives seem to be compatible with an efficient market solution, their presence in actual programs (Agenda 2000) indicates that these are considered not to be fulfilled at the current level of intervention or that

– at least – the current level of intervention is the supposed precondition for the fullfillment of the stated objectives. Therefore, the respective policies, i.e. objectives and instruments should be evaluated together for efficiency and coherence.

3.2 Policies

3.2.1 Allocation

Market and price policies

As a consequence of the decisions on market and price policy (Table A3) the allocation of resources will generally improve, since the price gap to (lower) world market prices will be narrowed for the most important commodities and therefore the upward biased resource use in agriculture will decrease. However, this general result has to be classified under several aspects. The price cuts are compensated[5] by direct payments per hectar or animal (beef and sheep) which will be paid in addition to the payments resulting from the 1992 reform. Since these transfer payments are not uncoupled from current production and paid only to active farmers, the production incentives discussed above are only partly reduced. However, the relevant incentive structure depends not only on the relative importance of producer prices versus direct payments but also on the ownership of land. Since land is the only – in total – fixed factor and under full capacity use, the supply is completely inelastic. Assuming that the supply of capital is highly elastic and the supply of labour inelastic only in the short term but elastic in the medium and long term and both factors are priced with their non-agricultural opportunity costs, then variations in farm revenues (producer price or direct payments) will translate to a large extent into variations in land rents and land prices. This mechanism will be the more direct the greater the share of land/animal tied payments in revenues, since these payments alter directly the marginal value product of land and only indirectly the product of the

5 The compensation for grain is about half the expected reduction in revenues. The final outcome for farmers income depends on possible cost reductions, depending not the least on the factor ownership, in particular of land.

other factors.[6] The share of rented land in total cultivated land is already high (Table 1) and further increasing, in particular in those European countries where

Table 1: Landownership of farms in the EU(EU Structural Survey 1997)

	number of farms	farm area				
	total	total	of which			
			owned		rented	
	1000	1000 ha	1000 ha	share (p.c.)	1000 ha	share(p.c.)
Belgium	67	1383	441	31.9	942	68.1
Denmark	63	2689	2019	75.1	670	24.9
Germany	534	17160	6354	37.0	10806	63.0
Greece	821	3499	2581	73.8	918	26.2
Spain	1208	25630	18530	72.3	7100	27.7
France	680	28331	9879	34.9	18453	65.1
Ireland	148	4342	3767	86.7	576	13.3
Italy	2315	14833	11583	78.1	3250	21.9
Luxembourg	3	127	59	46.5	68	53.5
Netherlands	108	2011	1442	71.7	568	28.3
Austria	210	3415	2637	77.2	778	22.8
Portugal	417	3822	2659	69.6	1163	30.4
Finland	91	2172	1741	80.2	431	19.8
Sweden	90	3109	1693	54.4	1416	45.6
United Kingdom	233	16169	10545	65.2	5624	34.8
EU (15)	6989	128691	75930	59.0	52761	41.0

[1] Including partly renated and other ownerships.

Source: Agra-Europe (German edition), No. 48, IV, pp. 19-20.

the farm size structure is not competitive facing falling product prices in the accelerated global competition. Moreover, for two reasons it seems plausible to assume that the competition for rented land is intensified. First, it is no longer an “intra-village” market where potential economic rents have been shared between neighbours. Rather farmers, because of greater mobility of machinery, are renting land in larger distances from their main plot. This often goes together with shorter durations of land rent contracts. Second, the transparency for land owners with respect to farm revenues has increased because of the increasing share of publicly known direct payments which – in case of set aside payments – often function as a minimum land rent. Therefore, changes in farm revenues

6 For details see OECD (1998a: 62), Schrader (1993, 1998).

which include a growing share of direct payments, will increasingly translate to changes in land rents and land prices. This will alter non-agricultural income but to a lesser extent farm income. Therefore for farmers producing increasingly on rented land the above mentioned political decisions will continuously loose relevance for their personal income from farming and their production decisions as long as land rents from farming significantly surpass the opportunity costs. If the difference approaches zero, land will go out of production. However, the actual empirical situation in the EU seems in general to be far from a situation where land rents are falling and land remains uncultivated because of lacking profitability (OECD, 1998a). To the contrary, to reduce production and resulting budget costs for market interventions and export subsidies the instrument of compulsory set-aside payments[7] has been reactivated (Table A3). Since, at the same time, farmers get compensation payments per hectare for farming as well as above world market prices and special payments in so called disadvantaged areas, the set of policies is inconsistent. The consequence are inefficiencies in the allocation of land, of which the most obvious relates to the non-use of productive land. The scarcity of land is increased and so are land rents and land prices.

Another source of inefficiencies are the strongly diverging protection rates for different commodities.[8] These differences, in particular between high rates for milk and beef and sugar on the one hand and relative low and further decreasing rates for grain and oilseeds on the other hand cause additional intra agricultural distortions.

Rural development policies

The financial allocations to rural development measures will amount to slightly more than 10 per cent of the total agricultural budget (table A1). According to regulation 1257/99 the policies intend to accompany and complement the other

[7] As mentioned above, beginning in 2002/3 farmers have the choice between compensation payments and set-aside. This is a marginal improvement, compared to the prevailing regulation. However, payments are not completely “decoupled” from production since, e.g., in case of the conversion to grassland this would not be elegible for payments and payments are coupled to the existence of the farm.

[8] This rests on the argument that similar effective protection rates will support a second best solution. For qualifications with respect to the relevant elasticities see Corden (1971, 1974).

instruments of the CAP.

The first group of policies, encompassing policies I-IV and VII(Appendix 2), channels financial resources to the agricultural sector in addition to the transfers which are part of the market and price policy. Contrary to what holds for the second group, those policies cannot claim justification because of externalities or other causes for market failure. Coming to investment aid first, the implementation of rules for the efficient allocation of capital to selected activities (commodities, types of farms, regions, etc.) requires information on the administrative level which is hardly available. The intended increase in competitiveness might be accomplished for the few farms chosen but not for the sector as a whole. The intrasectoral allocation of resources will be additionally biased because the supported farms will be privileged compared to farms not supported in the competition for scarce resources, i.e. in particular land.

The policies to support early retirement and at the same time the establishment of young farmers again intends to improve sectoral efficiency. However, it is hard to conceive, that regulating the number of farms (entrepreneurs) by premiums would improve the allocation compared to a market allocation, i.e. the decision of people according to their preferences and the relevant side conditions. On the contrary, given the need for structural change to larger farms to increase labour productivity, which is on the agenda for many regions in the EU, incentives to increase the number of farmers (compared to the situation without premiums) increases the inefficiencies in a broader economic context.

The second group of policies is directed towards environmental objectives. Farming can have negative as well as positive externalities.[9] However, the respective classification depends not only on objective criteria but to a large extent on preferences of citizens. Negative externalities could be seen in emissions to ground and surface water, to the soil and to the air and furthermore in the destruction or reduction of natural habitats (biotopes). These negative externalities are positively correlated with the intensity of land use, i.e. the share of land in agricultural use as well as the factor input per hectar, in particular the application of pesticides, herbicides and fungicides. Since the intensity of land use is basically a positive function of production incentives, the still high price

9 For details and an overview on the huge body of literature see OECD, 1998.

protection for most agricultural commodities as well as the obligation for farming to be entitled for compensation payments cause or aggravate negative externalities. Therefore, the first-best choice to reduce negative externalities, is reducing politically caused production incentives, which cause welfare losses anyway. The internalization of remaining negative externalities will not be discussed here.

Positive externalities of farming can be seen in (1) the preservation of certain scenic landscapes, in (2) land conservation including land slide and flood prevention and in (3) the stabilization of production systems, which support a rich variety of flora and fauna. Since in the actual political debate these externalities are associated with the past and prevailing common and national agricultural policies there seems to be no reason for extra payments. Rather, these externalities seem to be the cost-free by products of conventional agriculture, organized on the basis of private profitability considerations. However, a fundamental reform of the CAP towards liberal principles outlined in chapter 4, could endanger the profitability of farming and thereby objectives (1) and (2) because these are tied to specific forms of agricultural land use. The effects of a liberalization on objective (3) seems to be ambiguous. First of all, the described extensive (low input) production system seem to be rare, given the strong incentives for conventional agricultural use. But if on the other hand, respective land has to be considered marginal already under prevailing economic conditions, it will go out of production and revert back to forest use or to natural succession in case of a liberalization. This might serve the general objective of a renaturalization of habitats, but it might miss the preferences of the (local) population with respect to the land use structure and to the – at present – endemic species. This is valid even if in other regions these (extensive) land use structure might develop as a consequence of reduced production incentives. If this description is correct, there should be payments to the „producer“ of a service, which keeps the land use in a condition prefered by the (local) population. This is not necessarily the traditional farmer or landowner.

The same argument holds true for objectives (1) and (2). However, the regional scope of externalities or public goods with respect to natural habitats should be decisive for the allocation of competences for regulating and financing to the respective administrative level. If the public goods have only regional scope, the general joint financing with a share for the EU of 75 per cent (EU-objective 1 regions) and 50 per cent (other regions) respectively[10] causes moral hazard on the side of regional administrations, who are in charge of the design, and execution of plans. The consequence would be an excessive and thus inefficient provision of these public goods.

The policy to support forestry (chapter 8) shall contribute to economic, ecological and social functions of forests in rural areas. Again, it seems to be important to clarify the reference policy and respective possible externalities of forestry. The prevailing policy is characterized by high protection for agriculture and very low protection for (private) forestry. Accordingly the land use structure is biased towards agriculture. This could cause an underprovision of forestry and thereby an underprovision of forestry related environmental social goods. In case of a general liberalization (the reference system), this bias in the land use structure would be corrected. The opportunity costs for forestry land use would be greatly reduced if price protection for agricultural products, compensation payments and – in particular – payments for agricultural land use in disadvantaged areas would be abolished. This would increase the forest area, because even without afforestation in most parts of Europe, the natural succession will develop to forest within 20 years. If this will not meet the preferences of the (local) population with respect to biodiversity, other environmental or social objectives, the preferences with respect to land use could be realized by payments to the supplier of these specific services, as argued above. Therefore the provisions in chapter VIII, articles 30 and 31, which aim for an increase of forests and allow for

– „an annual premium per hectare afforested to cover maintenance costs for a period of up to five years, and
– an annual premium per hectare to cover loss of income resulting from afforestation for a maximum period of 20 years for farmers or associations thereof who worked the land before its afforestation or for any other private law person“

increase inefficiencies which result from the massive and area wide support of agricultural land use and seem to be a waste of taxpayers money. The major

[10] For details see regulation 1257/99, article 47.

effect will be an increase in land prices and land rents.

The additional provisions supporting investments in forestry for rationalizing production and marketing have to be evaluated similar to firm specific investment support in agriculture discussed above. Since there is no indication for market failure, an improvement in the allocation of resources can generally be excluded.

The origin of the inefficiencies outlined above seems to be the political proposition of the mulitfunctional role of agriculture. This is defined by the Council reaching „from production of food and renewable materials to the stewardship of rural landscapes and the protection of the environment. Agriculture's contribution to the viability of rural areas is also indisputable“ (European Community, 1999: 6). Or, more precise, „the role of agriculture in contributing to the maintenance of employment in rural areas“ is stressed (p. 7). Moreover it is argued, the above description is „the model of European agriculture“, which is in accordance with the sustainability approach and should be promoted. The basis for the integration of the environment into the CAP is the definition of a reference system which is called „good agriculture practices“. If agriculture provides services to the environment beyond the reference system, „these should be adequately remunerated“ (p. 7).

As to the integration of the environment into the CAP, the quoted reference system corresponds to the definition of property rights. However, this definition is rather vague: on the one hand it still allows pollution i.e. negative externalities whereas on the other hand activities like organic farming whose positive environmental effects are disputable, or low input agriculture are remunerated.

At the same time, the classification of agriculture being multifunctional – at best – is a description of activities of farmers all around the world. Therefore, the propagation of „the European farm model“ based hereupon is not a strategy for the agriculture sector, as stated by the Council (p. 7). Rather it seems to be a diffuse political catchword, which, however, is unapt to justify all the different interventions in the framework of the CAP (Swinbank,1999:402).

With respect to multifunctionality it is land that allows for different uses as e.g. agricultural, forestry, man-made habitats, wilderness, housing or infrastructure (Zilberman et al., 1999). The different uses are exclusive or competing or complementary. The role of the state on the different administrative levels has to be seen in improving the definition of property rights and in overcoming public good problems related to various environmental objectives, but not in payments to traditional sectors.[11]

The other line of argumentation brought forward by the Council and subsumed under the "strategy for agriculture" is founded on the supposedly endangered viability of rural areas and – directly related – the maintenance of rural employment.

Although the share of agricultural employment in total employment is extremely diverse among European regions, the share is uniformly decreasing. The basically economic causes have to be seen in declining real producer prices, rather limited output increases per hectar and increasing opportunity costs, because of increasing incomes in non-agricultural employment. The parallel increase in agricultural labor productivity because of new technologies and the related acceleration of structural change to larger farms has been and still is reducing sectoral employment. This development dominates in spite of massive subsidies for the agricultural sector from all public budgets and, often unconsciously, from consumers.

As a consequence in many rural areas and villages agriculture is no longer dominating neither in employment nor in GNP shares and accordingly the viability of these and the social fabric in these areas no longer depend primarily, if at all, on agriculture. Therefore, the Council's perception that "agriculture plays an important role in contributing to the maintenance of employment in rural areas" is misleading in the dynamic perspective. It seems to be a historical view, at best, which is loosing relevance even in scarcely populated rural areas. In any case, the Council's perception seems to be backward looking and not a strategy for the future. If depopulation as a possible consequence of declining agricultural employment is considered a problem, which however is hardly convincing, at least in densely populated countries, the policy should focus on fascilitating structural change rather than on subsidizing traditional sectors (Buckwell et. al.,

[11] This is particular the estimation of the demand (quantity and quality of respective environmental goods) and the establishment of institutions which could bring about the efficient equalization of supply and demand (Lippert et al., 1997; Schrader 1998, p. 22 f.). The allocation of a certain share of the total area to environmental purposes as implemented by the EU directive on flora, fauna, habitat (ffh) in 1992 might be a first approach with low transaction costs, but it fails to achieve an efficient allocation of area for several reasons.

1997: 75f.)

Referring to the literature[12] the role of the state in rural development has to be seen in overcoming the problem of incomplete and missing markets for public goods which – besides the environmental goods have to be seen, in particular with respect to transportation and by problems related to supply *bona fide* public goods, which would fascilitate the regional development process. Arising out of more recent aspects of market failure theory the „new economic geography“ of Krugman further addresses the problem of promoting investments involving external economies, which revived a lasting debate on industrial policy in industrial countries.

Given the post war developments with major reductions in transport costs, and, more recently, the major progress in the availability of efficient information/communication links together with increasingly efficient capital markets, the role of governments should shift away from trying to direct real sector activity towards providing various forms of infrastructure (institutions) that allow private economic agents to interact quickly and efficiently with the increasingly global network of economic agents (Ward and Hite, 1998: 255).

Therefore, already the heading of this set of EU policies (rural development) seems to be inadequate. Even if there is no general unique understanding what rural policy is about, at least there seems to be agreement in the literature that it is not the lopsided support of the traditional rural sectors, i.e., agriculture and forestry.

3.2.2 Distribution

The CAP has manifold distributional consequences. Two aspects shall be discussed in somewhat more detail. Firstly, there is the general resdistribution from both taxpayers and consumers to the farm sector. Whereas the share of consumer transfers in total transfers was strongly dominating traditionally, it is shrinking on tendency, because of the substitution of price support by direct payments which has been initiated by the agricultural reform of 1992 (Table 2).

This policy shift is hesitantly continued by the Agenda 2000. However, as data

12 For a short overview on the theories in rural development see Ward and Hite (1998). For a definition of "rurality"and an outline of rural development incentives see Buckwell et. al.(1997:75).

for 1998 indicate, this principal tendency is concealed by extremely low world market prices, which increase consumer transfers, since they are calculated on the basis of the difference between world market and EU internal prices.

Table 2: Transfers to the agricultural sector, EU, ECUmn from the EU and national/regional budgets

	1986–88	**1991–93**	**1996–98**	**1997p**	**1998p**
Transfer					
from consumers	84084	79403	52444	48585	68979
from taxpayers	22555	44517	58542	60018	58558
Budget revenue	-4459	-613	-239	-91	-382
total	102180	123307	110747	108512	127155
p: provisional					

Source: OECD, 1999, Agricultural Policies in OECD countries, p. 194.

Beside efficiency gains in resource allocation the shift in support for agriculture from price protection to budget transfers could be rated positive, because the poorer segments of the population, which have a higher expenditure share for food, would be financially releaved. The unassertive course of the policy in this direction could on the one hand be explained by protests of farmers organizations, which are afraid of budget cuts because of yearly debates on high spendings for the farm sector. On the other hand, a politically predetermined support level for agriculture together with tight budgets on the EU as well as on the national level give incentives to politicians, to leave a larger share of agricultural support to consumers, since this support via higher prices is basically hidden to the public.

The second aspect to be discussed is more fundamental and touches the total amount of transfers to the sector and the underlying objectives. As has been argued above, the transfers to the agricultural sector cannot be justified by market failure. Moreover, sectoral employment objectives founded on farming in addition to food production as e.g. „the stewardship for the countryside“ are hardly convincing. This is because on the one hand this activity is a costless by-product of farming and might be in some respects even in contradiction to environmental objectives. On the other hand, the policy shift towards more direct payments per hectar or animal reduces the support for capital and labour and thereby employment, which, however, has to be rated positive with respect to the efficiency objective. However, this poses even more the question who are the beneficiaries of the financial transfers.

Taking into account all the costs of administration (design, enforcement, control) and of fraud, which are the costs of imperfect administration, the net transfers reaching farmers are much lower than the gross transfers (Table 2). Abstracting from these „leakages“ the politically declared addressees of transfers, the active farmers, are only to a certain extent the final beneficiaries. The extent primarily depends on factor ownership and the demand and supply elasticities on factor markets. The most important determinant is land ownership (chapter 3.2.1). Since the share of cultivated land, which is rented, surpassed 40 per cent in the EU (15) and 60 per cent in France and Germany (Table 1) with an increasing tendency, it is plausible to assume that – at least in the latter two countries – the greater part of transfers increases – via land rents and land prices – primarily the income/wealth of landowners, which are not active farmers. Moreover, if landowners are urban dwellers, the transfers will even not reach rural areas. Although the respective empirical evidence is scarce, in Western Germany 90 p.c. of the land rented is not owned by active farmers.[13]

Coming back to the original CAP objective of supporting farmers' income, the policies chosen are inefficient. Since the pretended allocational objectives with respect to environment and rural development are also missed or could be achieved with lower costs by applying more specific instruments, the fundamental question on the indigence of farmers or – even more – landowners comes to the fore. There is neither statistical evidence nor convincing political arguing that farmers are per se in need of transfers. To poor farmers, according to general national standards and social security systems, direct personal transfers should be paid as for any other person in need.

3.2.3 Enlargement and WTO

An important aim of the Agenda 2000 and therefore of the Berlin summit decisions has been the preparation of the CAP for the challenges of the next

[13] For more detailed information on the process of shifting agricultural transfers to landowners see Chatzis (1997: 265) and OECD (1998a).

century, i.e. in particular for the EU enlargement and the next WTO Round on trade liberalization.

The EU enlargement which is politically desired will also have undoubtedly positive economic (welfare) effects on the aggregate level. However, there are some problem areas in the field of political and economic integration of which agriculture and the CAP seem to be a major stumbling stone (Buckwell and Tangermann, 1997). The reason has to be seen in differences between the two groups of countries with respect to

– economic development and income level,
– agricultural resources and sectoral employment structure, and – closely interlinked
– agricultural policy.

The CEECs after the market liberalization in the early nineties had a relatively low protection for the agricultural sector. Since then, the expected membership in the EU and internal pressure by farmers lead to a progressing adaption of CAP rules and, among the three larger countries (Czech Republic, Hungary, Poland), in Poland to an increase in protection (Table 3).

The figures for 1998 are dominated by the low world market prices. However, what can be seen from the consumer NACs is that consumers are strongly taxed in the EU and therefore an enlargement under the prevailing policy conditions, even if further price cuts from the Agenda 2000 are taken into account, would increase food prices in particular in the Czech Republic and Hungary. These

Table 3: Producer and Consumer Support Estimates – Nominal Assistance Coefficients[a] (NAC) –

	1986-88	1991-93	1996-98	1997	1998
EU					
Producer	1.86	1.88	1.65	1.61	1.83
Consumer	1.73	1.63	1.34	1.30	1.48
Czech Republic					
Producer	2.50	1.64	1.15	1.11	1.21
Consumer	1.90	1.60	1.08	1.05	1.12
Hungary					
Producer	1.68	1.20	1.11	1.08	1.13
Consumer	1.43	1.13	1.08	1.06	1.10
Poland					
Producer	1.48	1.14	1.30	1.27	1.33
Consumer	1.12	1.10	1.26	1.23	1.28

[a] Producer NAC: the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level in relation to the value of total gross farm receipts, valued at world market prices, without budgetary support. – [b] Consumer NAC: the annual monetary value of gross transfers to (from) consumers of agricultural commodities measured at the farm gate level in relation to the value of consumption expenditure, valued at world market prices. (For details see OECD(a) 1999: 19 and 95.)

Source: OECD(a) 1999: 167 and 181.

economic costs in addition to the costs related to the implementation of the aquis communitaire and the far reaching agricultural regulations, in the view of candidate countries, seemed to be acceptable under the assumption that they are benefitting from transfers resulting from the CAP. This would be plausible insofar as all candidates, compared to the EU, have lower incomes (and therefore low future budget payments) and, most of them, a relatively large agricultural area per inhabitant. However, the financial framework discussed above (chapter 2) hardly has room for expanding the direct payments to the new members since these payments, according to the Berlin summit decisions, will already increase in the old member countries (Stolwijk and Merbis 1999: 16). The rejection of direct payments to accession countries will no doubt trigger other disputes as e.g., on the allocation of production quotas (milk and sugar). The allocation according to past production as probably proposed by the EU would be ill founded since politically caused production incentives and – partly interlinked – productivity standards had not been adapted to EU standards. Therefore, the exploitation of production potentials, which would be a more reasonable indicator for the allocation of production rights, is lower in accession countries.

Although these problems have been debated within the EU for several years, the EU choose that policy option out of three, which is characterized by the reform decision of 1992 and the Agenda 2000, that include price protection, production quota and direct payments. The traditional (as before 1992) as well as the liberal policy alternative were neglected (Buckwell et al. 1997: 25). However, direct payments to farmers in only one part of the European Union would be in conflict with the efficiency objective. These payments, as defined and extended in the framework of the Berlin summit decisions, are not neutral with respect to resource allocation. Even if these payments were strictly decoupled from production and paid only for a restricted number of years, a convincing reason would be lacking under allocational and distributional aspects. A strict phasing out of all subsidies has to be considered superior to a subsidy payment compensating older subsidies (Schrader 1998: 18). If the time span for adaptation is adequately chosen, this policy will also not be in conflict with the trust of entrepreneurs in governmental economic policy.

Strictly differentiated from compensation should be payments for natural habitats, endangered species or cultural landscapes according to the preferences of the (local) population (chapter 3.2). On the one hand, preferences and willingness to pay differ widely between people, regions and countries but are positively correlated with income. On the other hand, supply costs differ depending a.o. on land scarcity which, e.g., is less pronounced in most CEEC's, therefore, cross border “markets” for these goods and services could even enhance efficiency. A good example might be endangered species where the necessary habitat could be offered at lower costs in an Eastern European country whereas the demand and financing will come from richer and more denseley populated areas in western countries. The implementation of institutions which could alleviate these processes should be an urgent task of negotiations about enlargement.

What follows from this discussion is: the CAP and not agriculture is a major stumbling stone to the enlargement of the EU. The politically decided budget restrictions would be in conflict with the implementation of the unaltered CAP in the new member countries. Though, the budget and in particular the agricultural guide line seems to be arbitrary, the way out should neither be an expansion of the budget nor the limitation of direct payments to “old” members but a market liberalization including the cessation of direct payments which are politically founded on the – disputable – idea of compensation.

WTO-negotiations

The negotiations on agricultural trade liberalization in the context of WTO will be continued in march 2000 in Geneva.[14] Though the opening talks in Seattle about an agenda were not successful, there seems to be agreement between the US and

[14] For an overview see Anderson (1999), Swinbank (1999), Josling and Tangermann (1999). For a detailed analysis of previous negotiations and remaining tasks see Josling, Tangermann, Warley (1996) and Tangermann (1999).

the EU that according to the Uruguay agreement the negotiations should be resumed.

In the field of agriculture, the main topics would again be the reduction of export subsidies and the extension of market access. Very low world market prices for most food commodities will make progress difficult to achieve. As far as these topics are under dispute only with respect to quantitative questions and definitioric problems (e.g., should food aid be included) but not in principle, the continuation of “blue box” measures (as, e.g., the direct payments in the EU) is under attack from EU trade partners, since these measures are obviously not decoupled from production. Other disputes relate to food safety (a.o., animal hormones, genetic engineering), environmental and social standards and animal welfare. Moreover the offensive EU position to defend a “European farm model” based on the multifunctionality of agriculture will not alleviate trade talks and support sentiments of trade partners accusing the EU of new forms of protectionism. Therefore the thesis: "If CAP reform is decided before the next round of WTO negotiations, the changes adopted will reflect clearly the international constraints on the EU and will strengthen the EU in the WTO round" (Coleman/Tangermann, 1999, p.403), which was derived from a game theoretic analysis, seems to be falsified.

Summing up the problems the EU is facing – e.g., the general inefficiencies of the CAP, the planned enlargement, the resumed WTO negotiations, the compliance with former WTO commitments resulting from the Uruguay Round, and the internal budget commitments – the Berlin summit decisions seem to be unapt. This is not only because of insufficient market liberalization but also for more principle reasons. The extension of direct payments and their substantiation with ideas of compensation as well as payments for positive externalities and rural development confuses problems which could much better be tackled separately.

4 Elements of a fundamental reform

The CAP is only one element of the European Union's activities. However, not only historically but under budgetary and institutional aspects it is still a core part. Therefore, a fundamental reform of the CAP has to be discussed in close relation with an institutional reform and resulting distributional consequences.

There seems to be widespread agreement among agricultural policy analysts that the CAP is inefficient and that there is need for a fundamental reform.[15] As discussed above, this judgement still holds after the Agenda 2000 proposals and the Berlin summit decisions. Although some decisions have to be rated positive, central problems of the CAP have not been tackled or have even been impaired, i.e.,

– the liberalization of markets has been continued only hesitantly; important markets are still excepted, and quantitative production restrictions (production quotas, paid set aside of land) prevail,
– the political guarantee of income for a sector is continued since price cuts are compensated by direct payments without time restrictions. This is not only detrimental with respect to incentives for entrepreneurs but could not be justified by distributional or other reasons which are related to environmental or rural development objectives,
– environmental and rural development objectives are increasingly but inadequately confused with farm support.

The superior alternative to the CAP even after Berlin would be a complete market liberalization and a cessation of all budget payments to the farm sector, which are not related to the supply of public goods. The cessation should include also payments in the social sector which sometimes add to half of the national agricultural budget (Germany) and are often used to hide subsidies to the agricultural sector. After a transition period to adapt differing social systems, the same rules as in other sectors should apply. On the other hand, on the backdrop of particularities of the sector it might be worthwhile to analyse the role of governments in the implementation of insurance schemes as, e.g., against natural desasters if private systems are lacking (Buckwell et al. 1997: 63). Payments for environmental goods should be directed to the suppliers of these goods. Rural development policies should not be confused with farm policy. Competencies with respect to regulation and finance (environment, rural development) should

15 For some more recent publications see Buckwell (1997), Heinemann (1998), European Commission (1994), Rieger (1999). However, because of the EU policy networks and institutional structures there is scepticism that a fundamental reform of the CAP, i.e. a "Third Order Change", could be brought about (Daugbjerg, 1999: 412).

be allocated according to the regional scope of externalities or public goods, respectively, whereas the state aid control should remain at the EU level.

The doctrin of reliance suggests compensation in case of an abrupt policy change. However, because an adequate compensation is anything but trivial and will generate a bundle of new problems politicians should abstain from compensation. The policy change should better take place within a period of 5 to 7 years. The adaption of prices and budget payments should begin only two years after the announcement and should advance progressively, i.e. economic consequences are small at the beginning. This leaves time for personal adaption and for depreciation of investments. The strain which nevertheless will hit many farmers (families) should be compared to adaption necessities and processes in other sectors and not to agricultural standards, since farmers enjoyed traditionally a privileged treatment.

As far as to the final desirability of such a fundamental policy reform, in short outlined above, there seems to be in general a relatively broad consens among analysts. However, this theoretically efficient solution is frequently criticized as purely academic since its implementation is unlikely because of the opposition of potential loosers in the democratical-political process. Following these critics, to bring about a transition it is necessary to reduce incentives and/or opportunities of these loosers to block reforms and/or to organize the winners i.e., interest groups which support the reform. Moreover, to secure the reforms once they are reached a credible institutional commitment of governments is necessary (Rieger 1999: 56).

Coming to the transition and the incentive problem first, this has to be discussed not only for the level of farmers but also for the level of nations since in particular France would be a “looser” due to the implicit transfers resulting from the CAP.[16] The incentive problem for farmers to accept a fundamental reform has been debated for more than 20 years and resulted in a great number of scientific recommendations for compensations which differ with respect to the (quantitative) basis (revenue/income foregone, land), time horizon and time dependent modulation (time restricted or unlimited, progressive or degressive, annual payments or a capitalized once and for all lump sum). The suggestions are

16 For details and quantitative assessments see Heinemann (1998) and Wissenschaftlicher Beirat (1999).

based on the conviction that some kind of “lubrication” for the transition process is needed (Buckwell 1997: 83). However, refering to the idea of a buy out or compensation, the specific outline of the scheme is important. To differentiate only between two schemes, the one prefered by most economists, namely time-restricted personal income transfers to active farmers would basically compensate the entrepreneur. Payments tied to land or animals, even if – different from the prevailing policy – time restricted, would to a large extent compensate owners of fixed factors, i.e. in particular land owners. If a “buy out” is planned, it seems to be meaningful to differentiate more carefully because it is unclear which group would be more important in the political process.

The compensation problem on the international level is closely linked to the allocation of competencies for regulation and finance. A reform of the CAP, as outlined above, would result in a far reaching reallocation of competencies. The central part, the market and price policy, currently allocated at the central (EU) level, however, would cease and at the same time the distributional consequences. This will provoke opposition as demonstrated by France when the suggestions within the original Agenda 2000, which allowed for a national component in compensation payments, were rejected and not included in the Berlin summit decisions. Therefore, the suggestion to renationalize the CAP as a vehicle for a fundamental reform (Rieger 1999: 56) is also lacking a concept for compensation of “loosers” on the national level. Since the “loosers” of a CAP reform are not poor (as, e.g., France, Denmark), taking the per capita income as the relevant indicator, a compensation would be not in line with 'normal' distributional policies.

The supplementary or alternative approach to promote the implementation of the reformed policy is to organize potential winners. On the firm level this would be in the first place the food industry, which is increasingly suffering from the limitation of export subsidies decided in the Uruguay Round of 1992 together with recently published plans of the EU Commission to cut export restitutions compensating the food industry within the EU – compared to the world market – for increased raw material prices. This cut in subsidies for "non-appendix I commodities" will weaken the competitive position on the international markets and increase political pressure for a reform of the CAP stressed by a credible outside option of firms to move to non-EU countries.

The other element of organizing potential winners of a reform is the enlightment of voters (consumers) about the advantages of a fundamental reform of the CAP.[17] This is of particular relevance since not only the information campaigns of interest groups (farmers' union, environmental groups, rural development organizations) but also official information from state institutions as, e.g., the ministries of agriculture run counter to a fundamental reform (Egdell and Thomson, 1999). This tendency does not seem to have changed by the merging of agricultural and environmental competencies in agro-environmental ministries as could be observed on the regional (Länder) level in Germany. On the contrary, conflicts of interests are settled in hidden negotiations, which result in benefits for both sides but at the expense of the rest of the economy. The shift in the justification of payments to farmers towards environmental reasoning points in this direction.

Closely interlinked with the implementation of a reform is the problem of commitment of democratic institutions. Though more transparency and a direct parliamentary control on the national and/or regional level would go in line with a fundamental reform of the CAP, the unlimited commitment to a new policy without subsidies is not credible. Therefore, the frequently suggested buy out in form of a once in all compensation linked to a discounted stream of income foregone and combined with the cessation of all forms of transfers to the sector does not seem to be a viable option. It could rather become an expensive ‘extra-subsidy’ because in case of an unexpected income depression in the agricultural sector resulting from low world market prices or internal natural desasters, the democratic political process is likely to generate renewed transfers to the sector. An actual empirical example seems to be the US agricultural policy where low world market prices and decreasing farm incomes pushed Congress and government to additional payments on top of the compensation payments embedded in the “Federal Agricultural Improvement and Reform Act” which came into force in 1996.

More promising seems to be a gradual transition without compensation which should be negotiated internally and offered in the new WTO round to become a part of a new trade agreement. This not only would bring the EU into a position

[17] For a principal discussion of relevant institutional questions see Soltwedel (1997).

to ask for concessions by trading partners in other sensitive trade areas but will be a credible international commitment against new future demands of internal interest groups.

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Appendix 1

Table A1: Financial Perspective, EU-15 (EUR million — 1999 prices)

Commitment appropriations	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
1. AGRICULTURE	40 920	42 800	43 900	43 770	42 760	41 930	41 660
Common agricultural policy (not including rural development	36 620	38 480	39 570	39 430	38 410	37 570	37 290
Rural development and accompanying measures	4 300	4 320	4 330	4 340	4 350	4 360	4 370
2. STRUCTURAL OPERATIONS	32 045	31 455	30 865	30 285	29 595	29 595	29 170
Structural Funds	29 430	28 840	28 250	27 670	27 080	27 080	26 660
Cohesion Fund	2 615	2 615	2 615	2 615	2 515	2 515	2 510
3. INTERNAL POLICIES[a]	5 930	6 040	6 150	6 260	6 370	6 480	6 600
4. EXTERNAL ACTION	4 550	4 560	4 570	4 580	4 590	4 600	4 610
5. ADMINISTRATION[b]	4 560	4 600	4 700	4 800	4 900	5 000	5 100
6. RESERVES	900	900	650	400	400	400	400
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Loan guarantee reserve	200	200	200	200	200	200	200
7. PRE-ACCESSION AID	3 120	3 120	3 120	3 120	3 120	3 120	3 120
Agriculture	520	520	520	520	520	520	520
Pre-accession structural instruments	1 040	1 040	1 040	1 040	1 040	1 040	1 040
PHARE (applicant countries)	1 560	1 560	1 560	1 560	1 560	1 560	1 560
TOTAL COMMITMENT APPROPRIATIONS	92 025	93 475	93 955	93 215	91 735	91 125	90 660
TOTAL PAYMENT APPROPRIATIONS	89 600	91 110	94 220	94 880	91 910	90 160	89 620
Payment appropriations as % of GNP	1,13 %	1,12 %	1,13 %	1,11 %	1,05 %	1,00 %	0,97 %
AVAILABLE FOR ACCESSION (payment appropriations)			4 140	6 710	8 890	11 440	14 220
Agriculture			1 600	2 030	2 450	2 930	3 400
Other expenditure			2 540	4 680	6 440	8 510	10 820
CEILING ON PAYMENT APPROPRIATIONS	89 600	91 110	98 360	101 590	100 800	101 600	103 840
Ceiling on payment appropriations as % of GNP	1,13 %	1,12 %	1,18 %	1,19 %	1,15 %	1,13 %	1,13 %
Margin for unforeseen expenditure	0,14 %	0,15 %	0,09 %	0,08 %	0,12 %	0,14 %	0,14 %
Own resources ceiling	1,27 %	1,27 %	1,27 %	1,27 %	1,27 %	1,27 %	1,27 %

[a] In accordance with Article 2 of Decision No 182/1999/EC of the European Parliament and of the Council and Council Decision 1999/64/Euratom (OJ L 26, 1.2.1999, p. 1 and p. 34), the amount of expenditure available during the period 2000 to 2002 for research amounts to EUR 11 510 million at current prices. — [b] The expenditure on pensions included under the ceilings for this heading is calculated net of staff contributions to the relevant scheme, within the limit of EUR 1 100 million at 1999 prices for the period 2000 to 2006.

Source: O.J. (1999/C 172/01). Interinstitutional Agreement of 6 may 1999, Appendix I, p. 12-13.

Table A2: Financial Framework, EU-21 (EUR million — 1999 prices)

Commitment appropriations	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	40 920	42 800	43 900	43 770	42 760	41 930	41 660
Common agricultural policy (not including rural development	36 620	38 480	39 570	39 430	38 410	37 570	37 290
Rural development and accompanying measures	4 300	4 320	4 330	4 340	4 350	4 360	4 370
2. STRUCTURAL OPERATIONS	32 045	31 455	30 865	30 285	29 595	29 595	29 170
Structural Funds	29 430	28 840	28 250	27 670	27 080	27 080	26 660
Cohesion Fund	2 615	2 615	2 615	2 615	2 515	2 515	2 510
3. INTERNAL POLICIES[a]	5 930	6 040	6 150	6 260	6 370	6 480	6 600
4. EXTERNAL ACTION	4 550	4 560	4 570	4 580	4 590	4 600	4 610
5. ADMINISTRATION[b]	4 560	4 600	4 700	4 800	4 900	5 000	5 100
6. RESERVES	900	900	650	400	400	400	400
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Loan guarantee reserve	200	200	200	200	200	200	200
7. PRE-ACCESSION AID	3 120	3 120	3 120	3 120	3 120	3 120	3 120
Agriculture	520	520	520	520	520	520	520
Pre-accession structural instruments	1 040	1 040	1 040	1 040	1 040	1 040	1 040
PHARE (applicant countries)	1 560	1 560	1 560	1 560	1 560	1 560	1 560
8. ENLARGEMENT			6 450	9 030	11 610	14 200	16 780
Agriculture			1 600	2 030	2 450	2 930	3 400
Structural operations			3 750	5 830	7 920	10 000	12 080
Internal policies			730	760	790	820	850
Administration			370	410	450	450	450
TOTAL COMMITMENT APPROPRIATIONS	92 025	93 475	100 405	102 245	103 345	105 325	107 440
TOTAL PAYMENT APPROPRIATIONS	89 600	91 110	98 360	101 590	100 800	101 600	103 840
Of which: enlargement			*4 140*	*6 710*	*8 890*	*11 440*	*14 220*
Payment appropriations as % of GNP	1,13 %	1,12 %	1,14 %	1,15 %	1,11 %	1,09 %	1,09 %
Margin for unforeseen expenditure	0,14 %	0,15 %	0,13 %	0,12 %	0,16 %	0,18 %	0,18 %
Own resources ceiling	1,27 %	1,27 %	1,27 %	1,27 %	1,27 %	1,27 %	1,27 %

[a] In accordance with Article 2 of Decision No 182/1999/EC of the European Parliament and of the Council and Council Decision 1999/64/Euratom (OJ L 26, 1.2.1999, p. 1 and p. 34), the amount of expenditure available during the period 2000 to 2002 for research amounts to EUR 11 510 million at current prices. — [b] The expenditure on pensions included under the ceilings for this heading is calculated net of staff contributions to the relevant scheme, within the limit of EUR 1 100 million at 1999 prices for the period 2000 to 2006.

Source: O.J. (1999/C 172/01). Interinstitutional Agreement of 6 may 1999, Appendix I, p. 12-13.

Table A3: Main elements of the Agenda 2000 decisions, prices and payments Euro/t (rounded)

	1999/2000	2000/01	2001/02	after 2002/03
Grain				
Intervention price	119.2	110.3	101.3	101.3
Compensation	54.3	58.7	63.0	63.0
Set aside				
compulsory	68.8	58.7	63.0	63.0
voluntary	48.3	58.7	63.0	63.0
Oilseeds				
Compensation	94.2	81.7	72.4	63.0
Protein seeds				
Compensation	78.5	72.5	72.5	72.5
Beef[a]				
Intervention price	3475	3242	3013	(2780)
Basic price				2224
Milk[b]				
Intervention price				
Butter	328.2	311.8	295.4	279.0
Skim milk powder	205.5	195.2	185.0	174.7

[a] Price cuts are compensated by a highly differentiated and therefore complicated system of payments per animal. For details see regulation No1254(O.J:L160,17.may 1999). – [b] Beginning in 2005, price cuts are compensated by payments per ton milk quota. The premium is set to 5,75 Euro/t in 2005 and increases in the following years. For details see regulation No.1255(O.J.:L160,17.may1999)

Source: Agra-Europe (German Edition) no. 21, 25 may 1999.

Compared to the original proposals of the EU-Commission price reductions are smaller and have been partly postponed to a later date. In addition the quota regime on the milk market is now extended until 2006. The regular compulsory set aside rate is set to 10 per cent, not to zero as proposed by the Commission. As before, it is allowed to grow renewable resources on land which is under the compulsory set aside regulations and elegible for a premium (Table A3). The compensation premiums paid for grain, oilseeds and set aside will be equalized in 2002/03. Due to unpredictable developments on world markets, the WTO commitments (restrictions) on exports and export subsidies and the mentioned budget constraint, the (price) decisions for grain, oilseeds and milk will be under review in 2002/03.

Appendix 2

The main objectives supporting rural development, related to farming activities and their conversion may concern (title I, article 2):

1. the improvement of structures in agricultural holdings and structures for the processing and marketing of agricultural products,
2. the conversion and reorientation of agricultural production potential, the introduction of new technologies and the improvement of product quality,
3. the encouragement of non-food production,
4. sustainable forest development,
5. the diversification of activities with the aim of complementary or alternative activities,
6. the maintenance and reinforcement of viable social fabric in rural areas,
7. the development of economic activities and the maintenance and creation of employment with the aim of ensuring a better exploitation of existing inherent potential,
8. the improvement of working and living conditions,
9. the maintenance and promotion of low-input farming systems,
10. the preservation and promotion of a high nature value and a sustainable agriculture respecting environmental requirements,
11. the removal of inequalities and the promotion of equal opportunities for men and women, in particular by supporting projects initiated and implemented by women.

The main policy areas, more detailed objectives and instruments are listed under chapters I-IX in title II. These are:

I. support of investment in agricultural holdings,
II. setting-up aid to facilitate the establishment of young farmers,
III. support of vocational training of farmers and other personnel involved in agricultural and forestry activities,
IV. support for early retirement from farming,
V. spport for less favoured areas and areas with environmental restrictions,
VI. support for agricultural production methods designed to protect the environment and to maintain the countryside (agri-environment),
VII. improving processing and marketing of agricultural products,

VIII. support for forestry shall contribute to the maintenance and development of the economic, ecological and social functions of forests in rural areas,

IX. support for measures, relating to farming activities and their conversion and to rural activities, which do not fall within the scope of any other measure within title II.