

Abstract

Reform of the Common Agricultural Policy

THE SOCIAL AND ECONOMIC COUNCIL IN THE NETHERLANDS

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Reform of the Common Agricultural Policy

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Introduction

The present document is a summary of an advisory report on the reform of the Common Agricultural Policy, presented by the Social and Economic Council of the Netherlands (SER) to the Dutch government in October 1996¹. The SER drafted this report at its own initiative and the opinions expressed therein are held unanimously by the Council. The advisory report is a response to the *Agricultural Strategy Paper* presented by the European Commission in late 1995.

In this advisory report, the SER argues for the step-by-step reform of the European Union's (EU) agricultural policy, with a gradual shift from price support mechanisms to income support. The reform should be accompanied by an adequate restructuring policy. In addition, a policy on nature and landscape management should be developed at both European and national levels.

The summary below is divided into three chapters. The first chapter describes the reasons for amending the EU's agricultural policy. The second outlines the assessment framework, meaning the set of objectives and criteria which should serve as guidelines in formulating this policy's response to a number of challenges. The third chapter, finally, presents the SER's views on the Common Agricultural Policy (CAP).

¹ SER-advisory report, *Hervorming Gemeenschappelijk Landbouwbeleid*, publication no. 96/09, The Hague 1996.

1. The need to amend EU's agricultural policy

1.1 The 1992 reform and its consequences

The most recent Common Agricultural Policy (CAP) reform took place in 1992. The aim of this 'MacSharry' reform was to restore the equilibrium on the internal market for agricultural products, partly in response to the GATT negotiations in the Uruguay Round. The reform consists of three parts:

- a reduction in the market intervention price for cereals by approximately 30 per cent, combined with compensatory income support payments per hectare. Farmers with large cereal holdings are only eligible to receive such compensation if they take some of their land out of production (under the set-aside scheme);
- a 15 per cent reduction in the market intervention price for beef within three years. Here too, producers are eligible to receive a premium per animal to compensate for their loss of income;
- a number of accompanying measures: an 'agri-environment package' (support for environmentally friendly methods of production and a set-aside scheme in pursuit of environmental objectives) and incentives intended to encourage afforestation of farmland and early retirement.

Since the MacSharry reform was introduced, wheat, coarse grain and beef production has been better matched to consumption both within and outside the European Union, leading to a noticeable reduction in surpluses. On average, incomes in Europe's agricultural sector have risen since 1992, in particular because cereal farmers are receiving larger compensatory income support payments.

Expenditure on agriculture in the European Union has increased by approximately 10 per cent in the past three 'MacSharry years' compared with average expenditure for 1990-1992. Overall CAP-related expenditure amounted to nearly 40 billion ECU in 1995, within an overall European Union budget of approximately 75 billion ECU.

On balance, the SER believes that the MacSharry reform has produced positive results. Alongside other developments, lowering price supports for cereals and beef and introducing hectare or animal premiums and the set-aside scheme have all led to an obvious reduction in surpluses and, on average, satisfactory movements in farm incomes in the past few years. Until now the strain on the budget has stayed within the agreed agricultural guideline (which sets ceilings on overall agricultural expenditure that are index-linked to economic growth and inflation). Less

positive, in the SER's opinion, is that the CAP has grown administratively more complex and susceptible to fraud, that entrepreneurial freedom is being limited by quantitative restrictions, and that the hectare premiums have affected land prices, making it difficult to use farmland for other purposes.

The accompanying measures that are included in the MacSharry reform express a greater concern for nature and the environment in the CAP. This concern is expressed most specifically in Regulation 2078/92 governing agricultural production methods that are compatible with the requirements of environmental protection and nature management. The Regulation provides for support to farmers who significantly reduce the amount of fertiliser and/or pesticides they use, who maintain farmland or woodland which has been set aside or who set aside farmland for environmental protection purposes.

1.2 Why is a new CAP reform required?

On the whole the agricultural sector in Europe is not in an acute state of crisis at present. It is, however, facing a number of challenges from without and within which may have a powerful impact on its structure, production and income:

- the enlargement of the EU by the accession of a number of Central and East European countries;
- the liberalisation of world trade within the context of the World Trade Organisation (WTO);
- the position of developing countries and ensuring food security;
- the shift in production from quantity to quality;
- the process of reducing the damage caused to the environment;
- the development of nature and landscape management functions in agriculture, and;
- the process of restructuring agricultural activities, in part in a non-agricultural direction.

These challenges are described in more detail below.

The fact that there is no crisis situation makes it possible to carefully consider redesigning agricultural policy in a way that offers a satisfactory response to the challenges listed above.

External challenges

The first external challenge which agriculture and agricultural policy are facing is the accession of a number of Central and East European countries to the EU. The European Commission's Agricultural Strategy Paper considers this challenge in great detail. The Commission's most important conclusion is that the countries of Central and Eastern Europe do not

require broad price and income support for their farmers so much as they need specific aid intended to help them restructure, modernise and diversify agricultural production, marketing and processing, and improve their rural infrastructure.

The second external challenge is linked to the liberalisation of world trade in farm products and the need to participate actively in the world market by becoming more market-oriented. The first step towards liberalising the world agricultural market was made in the Uruguay Round. It was agreed to initiate negotiations on the further liberalisation of world trade in 1999. In order to establish what further liberalisation would mean, the SER commissioned a study² which showed that it would pose particular problems for beef production and, to a lesser extent, for dairy products and sugar in the EU. If the EU were to amend the CAP in line with further liberalisation, the effects would be felt most acutely in the quantity of beef production and in milk and sugar prices.

The third external challenge which agriculture and agricultural policy in Europe are facing has to do with the position of the developing countries and food security. The CAP must be cast in such a way that it creates as few obstacles as possible to socio-economic progress (including agricultural progress) in developing countries and to their efforts to ensure their own food security.

Internal challenges

As prosperity increases, consumer tastes become more varied and consumers themselves more appreciative of quality and safety. An agricultural sector that focuses on the future must therefore shift from quantity to quality production. That requires it to be more sensitive to the market, and it means that individual entrepreneurs within the agri-business must focus more specifically on market trends inside and outside the EU. Until now the CAP has concentrated heavily on the production of bulk goods of a homogenous quality.

Although progress has been made, agriculture is still harmful to the environment in a number of important ways. The concern for a clean environment will have to be incorporated systematically into agricultural policy. On the one hand, that involves applying the instruments of environmental policy to the agri-business; on the other, it means that the

² The study was conducted by the Landbouw-Economisch Instituut (LEI-DLO) in The Hague, which carries out research in the field of agricultural economics.

CAP must steer agriculture in an environmentally friendly direction as much as possible.

The scope of agricultural activity can be extended significantly by encouraging nature and landscape management within the agricultural sector. Growing prosperity and the process of urbanisation have increased society's need for zones of natural and scenic value. The challenge is to stimulate the supply of the public good 'nature and landscape' by compensating individual farmers for their efforts in this direction.

The process of adapting and restructuring the agricultural sector, which will lead to a loss of employment, requires solid support from both government and agricultural organisations. Guidance, information and training are important, but so are substitute employment and adequate early retirement schemes. New sources of income and employment will have to be sought largely outside the agricultural sector.

2. The assessment framework: objectives and criteria

2.1 Objectives

The SER wishes to categorise the objectives of the CAP as they are set out in the Treaty on European Union. To begin, the SER distinguishes between:

1. the *economic function* of agriculture: the production of directly marketable products;
2. the *nature and landscape function*: contributing to the proper management of the landscape and nature in rural areas.

It is the SER's belief that the main objective of the CAP is *to encourage competitive, sustainable and safe farming which is tailored to effective demand* (both within the internal market and on the world market). The agricultural sector must be competitive, i.e. able to sell its products on the world market based on cost-effectiveness and quality.

Sustainability means preserving the productivity of the soil and combating further environmental pollution (air, water, soil). Finally, agricultural production must be safe for both the consumers (products) and the producer (production processes).

In line with this main objective are two further objectives:

- *to achieve a certain measure of stability on the internal market for farm products by steadying short-term fluctuations*. That is important in the light of the low price elasticity of supply and demand for farm products;
- *to provide suitable compensation for production factors (including labour) on farms that produce efficiently, sustainably and safely*, as a prerequisite for ensuring the continuity and innovative nature of market-oriented agricultural production.

The closer we come to achieving all three of these objectives, the more we will be able to supply consumers with enough food at reasonable prices while simultaneously creating better prospects for employment in the agri-sector. The aim of ensuring an adequate supply of food should not, incidentally, be confused with food self-sufficiency. We can also secure adequate supplies of food through international trade, and the chance of our doing so will increase the more the world market in farm products evolves and is no longer regarded as merely a 'surplus market'.

Regarding the nature and landscape function, the aim is to promote proper management of the landscape and nature in rural areas. Those who undertake responsible nature and landscape management should be rewarded for the positive external effects (externalities) of their work. Landscape and nature areas are frequently public goods. This means that the consumption of these goods is characterised by non-rivalness (their

use by one person is not at the expense of another) and non-exclusiveness (no one can be excluded from using them). It is not possible to divide the use of these goods into units which can be sold to individuals in the market. Preserving nature and the landscape and rewarding those who do therefore requires governments or social organisations to intervene so as to organise a market for the 'nature and landscape' product.

Within the EU, agriculture also has a special significance when it comes to preserving the quality of life in rural areas. In that respect, agricultural policy is frequently seen as an element of rural policy. The two policy domains have a number of elements in common, but the solutions to rural problems – in particular job creation – must frequently be sought outside the agricultural sector. That means that rural areas and their development should be covered primarily by a general social and regional economic policy.

2.2 Criteria

The CAP should satisfy a number of criteria:

- it should preserve the unity of the internal agricultural market: the free movement of farm products without significant disruptions in competition;
- it should meet all GATT/WTO obligations;
- it should uphold prevailing social standards and agreements;
- it should apply the principle of subsidiarity correctly (in other words, decision-making should take place at the lowest possible level that is still capable of satisfying the demands of economic and administrative effectiveness, equality before the law and socio-economic cohesion);
- its administrative implementation should be effective and immune to fraud;
- it should remain within the budget; in other words, at the very least it should not exceed the ceilings set in the applicable agricultural guideline.

The final criterion requires a more detailed explanation. The key issue is how to reform the CAP and – at the same time – allow Central and East European countries to accede to the European Union without this having too great an impact on the budget. A determining factor in this question is the agricultural guideline which applies until 1999.

There are widely varying estimates of precisely how much of the budget it will cost to integrate the four Visegrád countries into the CAP. Until now the lower estimates have appeared to be the most realistic, since structural and institutional factors will hamper any sharp increase in production in

those countries in the next few years. By the year 2000 the costs of accession will reach 6 to 9 billion ECU according to more conservative forecasts. If the CAP is not amended, the post-accession costs will continue to increase as higher EU prices stimulate production.

It is possible to contemplate modifying the agricultural guideline in conjunction with another CAP reform for the post-2000 period because

1. the more financial rationalisation takes place, the more obvious it becomes to lower the agricultural guideline ceiling;
2. as price support mechanisms are replaced by income compensation, the guideline indexation will become too generous;
3. measures accompanying the liberalisation of the dairy and sugar sector³ and the extension of the EU's agricultural policy to Central and Eastern Europe will require extra resources.

Both the enlargement of the EU and the ongoing CAP reform will make extra demands on the EU's budgetary resources. The cost of enlargement in the agricultural sector is not so excessive that it will necessarily prevent the accession of Central and East European countries. The cost of reforming the CAP will depend very much on the degree of liberalisation and the extent to which price support mechanisms are replaced by direct income support. Such costs will start out high and then gradually fall. That means that we can keep 'reform *and* enlargement' combined within the budget by introducing the CAP reform a few years *before* the enlargement of the EU rather than by postponing it.

Replacing price support mechanisms by income support means shifting the costs from the consumer to the tax-payer. There are advantages to that in the sense that allocation will be improved and policy (and the associated costs) will become more transparent. The shift from price support to income support will also promote budgetary control, because essentially both the group of recipients and the amount each one receives are restricted. That means that it is not possible to assess a reform of this kind merely by looking at the budgetary costs. A broader consideration of costs and benefits is required.

³ According to research conducted by LEI-DLO, income support intended to fully compensate for the progressive liberalisation of the world trade in farm products involves a sum of 7 to 10 billion ECU.

3. The SER's position

3.1 Choosing the progressive CAP reform option

In the opinion of the SER, the external and internal challenges which Europe's agricultural sector will have to face in the years ahead not only require specific measures to be taken, but also demand far-reaching changes to the CAP. Of the three policy options which the European Commission describes in its Agricultural Strategy Paper, the SER prefers the option of progressive reform.

The SER believes that the first option, i.e. to maintain the status quo, disregards the challenges described above. Choosing this option would undermine the efficiency of the agricultural sector and its ability to adapt. It would further engender an illusion of security which could be upset, even in the short term. Neither would this option provide a solid basis for enlarging the EU. At best, the status-quo option allows us to put off making a decision, but if the policy ultimately does have to change, farmers will have less time to make the necessary adjustments.

The second option, that of radical reform, comes down to cancelling all price support mechanisms and production quotas, de-linking all compensatory direct income support from current production or production capacity and gradually reducing it, and linking such support to specific activities intended to help preserve and protect nature and the landscape. Although this option seems to offer clear, theoretically well-grounded prospects for future prosperity, the SER questions whether it is possible to reach the ultimate goal in an economically efficient and socially responsible fashion. The risk inherent in choosing this option is that it will be difficult to stabilise the internal market for farm products and ensure that production factors are suitably compensated. There is also the risk that considerable capital will be destroyed, that a large number of jobs will be lost and that the member states will come to rely too heavily on their trading partners for their food supply. Finally, the question is whether other important countries (or groups of countries) will co-operate in such a radical liberalisation of the world trade for farm products.

Nevertheless, the SER is convinced that the CAP must be made to focus more on the world market, and that this should happen within the next few years. The CAP must encourage agricultural production which can compete on the world market on the basis of cost-effectiveness and quality. That will increase the number of outlet options for agriculture and the food-processing industry, making possible the enlargement of the EU and reinforcing its position in the new WTO talks on liberalising the world trade

in farm products. In essence, continuing along the path chosen in 1992 means becoming more market-oriented, step by step. Introducing reforms in stages gives farmers the opportunity to adapt to the changing circumstances. Moreover, previous lessons learned on the road towards liberalisation can be taken into account when developing policy. If certain policy changes turn out differently than expected, it will still be possible to adjust the instruments used. In this way, the mix of market mechanism and government intervention can be improved bit by bit (learning by doing).

Choice of instruments

The next question is which instruments should be used to achieve the objectives which the SER has formulated for the economic function of agriculture. These instruments should make it possible to meet the external and internal challenges mentioned above. They should also comply with the rules of the multilateral trading system, which are becoming ever stricter.

In the opinion of the SER, a more effective use of instruments intended to ensure that the production factors are suitably compensated begins by *separating price and income policy*. Tailoring agricultural production to effective demand within and outside the EU means focusing more on the world market and allowing the EU's institutional prices to converge with world market prices. During that convergence process, structural price support mechanisms will eventually disappear. Only temporary price support intended to stabilise the market and act as a buffer against fluctuations on the world market will survive.

To compensate farmers for the loss of structural price support mechanisms and ease their adjustment to the changing circumstances, direct income support should be provided for a number of years. It is by no means unreasonable to grant less than 100 per cent compensation and reduce income support in time, because price reductions within the EU and the anticipated improvement in the way the world market works will create new outlets for products and sources of income for efficient European farmers. Reducing price support in a timely fashion gives farmers a longer adjustment period, and that in turn allows them greater latitude to tailor their production package and methods of production to the changing circumstances. After this transitional period, the basic idea will be to reward farmers for using their production factors to produce goods and services which are in demand. Only in the event of an emergency, or if world market prices fail continuously to compensate efficient European producers (for example because support instruments in other countries distort the world market), would there be cause for income support, at least for producers of products subject to the strictest forms of market

regulation.⁴ This income support should not be linked to present or future production.

The instrument of *volume restrictions* (production quotas, compulsory set aside) was introduced to provide price and/or income support in a saturated market. The SER believes that quotas and set-aside obligations are still an essential element of agricultural policy; they have allowed the internal market to regain its equilibrium and have kept budgetary costs within reasonable limits.

Volume restrictions, however, come at a price. That price is paid by consumers and other links in the production chain (artificially high prices), by the government (management/administrative costs) and by the producers themselves, because restrictions on volume limit the extent to which the production structure can be adapted and hence hamper efforts to increase the efficiency of production. National production quotas can furthermore be considered to conflict with the essence of the internal market.

As structural price support mechanisms are eliminated and as agricultural prices in Western Europe converge with those on the world market, it will be possible to eliminate volume restrictions gradually. As product prices within the EU fall, the existing quotas will lose their significance and value. By eliminating quotas gradually, we can prevent the abrupt destruction of capital.

Ultimately the volume of production will be determined by the market. When that happens, there may still be one good reason to introduce a set-aside scheme, i.e. to contribute to world food security. By holding a certain amount of production capacity in reserve, it will be possible to respond relatively quickly to exogenous disruptions in the supply and demand and to stabilise fluctuations on the world market.

Consequences for consumers

The SER assumes that a progressive CAP reform will be advantageous for the consumer/tax-payer. On the one hand, the price level of farm products will fall on average and consumers will have more choice. On the other hand, tax-payers will have to pay higher taxes – at least at first – in order to finance income support mechanisms and to establish a system of compensations for agricultural nature and landscape management. On balance the results will be favourable, in particular because instruments

⁴ These products are cereals, dairy products, sugar and beef, as well as wine and olive oil.

will be deployed more efficiently and supply will have to respond more effectively to demand (preferences).

Integration of CAP and environmental policy

There are two ways of ensuring better integration between environmental policy and the CAP:

- by consistently applying the existing environmental instruments;
- by structuring the CAP to be more environmentally friendly.

The first route entails a fairly high level of harmonisation between the various national environmental quality objectives and/or emission standards in Europe. The European regulatory framework should allow member states and farmers as much freedom as possible to choose the instruments to meet these standards.

In the second route, the further liberalisation of agricultural markets and the separation of income support payments should ultimately have a positive impact on the environment by reducing the use of inputs such as fertilisers.

The SER does not believe that a one-sided emphasis on extensifying agricultural production is defensible from an environmental point of view. The relationship between the environment and the intensity of production is a complex one; under certain circumstances, intensification may in fact make it possible to cut down on emissions and, consequently, reduce the harm to the environment in that it can set up closed production and waste systems. That means that the EU should proceed cautiously when using CAP instruments for environmental policy purposes.

3.2 The position of developing countries and world food security

The SER believes that the CAP reform should lead to external circumstances which are more stable and beneficial for the development of agricultural production and food security in developing countries. The EU can contribute to greater stability on the world market by making the CAP more market-oriented and by introducing a set-aside scheme to hold a certain production capacity in reserve in the event of emergencies.

In the opinion of the SER, the amount of food aid supplied by important farm product exporters should be better attuned to the fluctuating demand for aid in the least developed countries. Regarding subsidised export to developing countries, the SER believes that it is not enough for the EU to meet its GATT/WTO obligations, but that it should also consider the impact of such export on local agriculture.

Given the disadvantages inherent in granting trade preferences selectively, the SER feels that a better approach would be to generally broaden market

access within the multilateral framework of the WTO, accompanying this by specific measures intended to support the market position of developing countries. That may take the form of development aid for the agricultural sector and rural economy (aimed specifically at reinforcing the infrastructure in the broadest sense) or involve knowledge and technology transfer. This could be an important element of the new Lomé Convention.

3.3 Convergence of agricultural systems in Eastern and Western Europe

The SER believes that Central and East European countries which have signed a Europe agreement should be allowed to accede as soon as they satisfy the political and economic requirements of membership. Accession may become possible as soon as the goods markets have been integrated sufficiently; border checks will continue to exist some years after accession.

During the preparations for accession and the subsequent transitional period, there will be ample opportunity to gradually liberalise the trade in farm products and harmonise the various agricultural systems. The 'progressive reform' option should be made explicit for a number of years, in a way that is consistent with the accession of Central and East European countries after the turn of the century. That will give the aspiring member states a realistic prospect of accession and a reliable beacon by which they can steer their agricultural policy. With respect to price levels, convergence will have to consist largely of concessions on the part of the EU to the world market, so that the acceding countries will not be forced to first raise their prices and then lower them again after accession. This type of zig-zag movement would bring about political and economic disruption in these countries and lead to extra claims on the EU budget to compensate Central and East European farmers.

The SER does not advocate giving the direct income support used to compensate EU farmers for lost price support mechanisms to the new member states (i.e. their farmers). The SER agrees with the European Commission that it would be better to give the Central and East European countries a substantial sum to set up extra programmes focusing on integrated rural development and environmental protection. The aspiring member states (and their farmers) would benefit greatly if production and the infrastructure in the agricultural sector and the food-processing industry were to be improved. Improvements in the processing and marketing of farm products benefit farmers' future incomes and the development of their businesses.

It is imperative that enlargement be well prepared within the framework of an accession strategy. It is in this connection that the SER advocates broadening market access (by means of larger quotas and lower import tariffs), increasing the amount of aid intended for structural reform in agriculture in Central and Eastern Europe, and exercising extreme caution in awarding export subsidies, in particular when these might distort exports from associated countries to traditional outlet markets. It does support proposals in that direction made by the European Commission in chapter 7 of its Agricultural Strategy Paper. One point of concern should be to further improve the veterinary and phytosanitary systems.

3.4 Nature and landscape management

The SER fervently supports efforts to encourage the multifunctionality of the agricultural sector and to create additional sources of income for farmers alongside the production of directly marketable goods. In particular, this means proper management of (scarce) natural and landscape resources. Farmers who make a verifiable contribution in this regard should be rewarded.

The SER views nature and landscape management as a separate pillar of the agricultural policy, one which also requires separate instruments. The instrument of *cross compliance*, in which farmers are compensated for environmentally friendly practices in exchange for direct income support linked to the economic function, should not be refined any further. Instead, a specific set of instruments should be developed for the nature management function which evaluates nature management products and services separately and rewards them accordingly. This reward should correlate with the effort made on the one hand and with the demand for specific nature and landscape areas on the other. Farmers will then be able to consider whether they wish to render specific services for a particular price.

Policy-making aimed at proper landscape and nature management should take place largely at national and regional level, as that is precisely where the true value of preserving certain nature and landscape areas can be assessed best. However, a specific policy is required at EU level as well, firstly because some landscape and nature areas have a European dimension and secondly to avoid unfair competition (national governments could after all take advantage of the landscape management function to support the economic function of their farmers indirectly). National and regional policy-making should therefore be subject to a strict regulatory framework at EU level which sets out various basic criteria and limiting conditions (e.g. maximum limits for compensation schemes). It will be

easier to supervise compliance with this framework if the EU is involved, to a modest degree, as a co-financer. With respect to managing landscape and nature areas of European significance, the EU should make a substantial level of co-financing available.

The SER believes that the policy on agricultural nature and landscape management should be co-ordinated with the economic pillar of the CAP, first of all because doing so will help prevent unfair competition and secondly because the aim of generating suitable compensation for the production factors involves the entire income of the farm. The independent nature of the policy on agricultural nature and landscape management argues for an independent form of financing. This should be incorporated into existing European and national budgetary frameworks.

3.5 Restructuring

An agricultural sector which aims to produce competitively, sustainably and safely must adjust to changing circumstances and shift from quantity to quality. That means introducing structural reforms in the agricultural sector and the processing industry. It is essential to improve the quality of the undertaking, the infrastructure and the environmental cycle. Improving the quality of the undertaking means adjusting in a way that increases product specialisation and diversification. It also requires opening up the sector to young entrepreneurs who, armed with the latest ideas about management, production methods and cultivation and breeding, are capable of introducing the necessary quality improvements. The SER, however, questions whether the European Commission is wise to encourage an influx of new farmers as forcefully as it does, given the fairly unfavourable future employment prospects in the sector.

The SER also believes that the knowledge infrastructure is highly important. Structural reform in agriculture requires adequate training and education for farmers and other agricultural workers. The SER believes that the agri-business and research institutes should engage in a strategic dialogue allowing them to ensure that the public knowledge infrastructure is both of excellent quality and capable of rapidly dispensing know-how tailored to the needs of agricultural businesses.

It is also important to encourage farmers to provide non-agricultural products and services. In addition to managing nature and landscape areas, there is the option of developing 'green' recreational facilities. This is another way in which the agricultural sector can make a positive contribution to integrated rural development.

Given that this structural reform policy will not entirely compensate for the loss of jobs, the SER advocates expanding EU subsidy schemes for early retirement in the agricultural sector. This optional scheme can be modified in such a way that it can be used more effectively by both the farmers and the member states, even those member states which do not make use of it yet.

The measures proposed above should not be restricted to disadvantaged European regions; the structural adjustment process will, after all, have to take place in agricultural sectors throughout the entire EU. Since these measures will be financed largely at national level, it is necessary to have a strict policy framework at European level to prevent unfair competition.

3.6 Division of responsibilities and financing

The shift from price support mechanisms to direct income support and to compensation for services rendered in the field of nature and landscape management makes it possible to introduce systems of financial co-responsibility for the member states. A shift such as this also makes it possible to tailor the amount of income support and compensations to local circumstances and views on what a reasonable income or compensation is. Financial renationalisation can also facilitate the accession of Central and East European countries to the CAP. In addition, shifting the burden to the member states alleviates the unintentional pressure placed on them to adopt a protectionist attitude in agriculture so as to safeguard their transfers from the EU budget. The SER therefore proposes exploring how various forms of financial renationalisation might be used to stimulate greater cost-consciousness. There are some requirements in this regard: the internal market must not be undermined and unfair competition must be effectively ruled out. A compulsory common framework for state support must be maintained, requiring new rules, created specifically for agriculture, which prescribe that such support may only be granted after permission has been received from the European Commission.

One of the determining factors for financial renationalisation should not be a possible improvement in a member state's net financial position, but the possibility of achieving efficiency gains, increasing the effectiveness of policy and making the system less susceptible to fraud. Financial renationalisation can also help simplify the CAP. The EU should most certainly retain responsibility for the market and price policy, production control, competition policy, trade policy and the enforcement of a number of safety and environmental rules. National policy should in any event

cover training and the knowledge infrastructure; in addition, the member states should be allowed to grant forms of non-product-related support.

Agricultural nature and landscape management cannot be made into a separate pillar of agricultural policy unless resources are made available for this purpose. At the same time, progressive CAP reform and the accession of Central and East European countries will initially put extra pressure on the EU budget. The profusion of claims being made on the EU's financial resources exceed the leeway allowed for under the agricultural guideline. In the SER's opinion, this should be seen as an incentive to introduce a timely, gradual reform of the CAP, and not as a reason to postpone the accession of Central and East European countries longer than circumstances in these countries dictate.

The progressive reform of the CAP is necessary in view of the further liberalisation of world trade in farm products; on balance, it offers the EU greater prosperity thanks to lower consumer prices and better opportunities for producers to take active part in the world market. Enlarging the EU to the East involves both security policy and economic interests. Without reforming the CAP, it will be impossible to integrate the agricultural policies of Central and East European countries, much less pay for such integration. Reform and enlargement are therefore both highly urgent. The SER believes that every effort must be made at European and national level and within politically acceptable budgetary frameworks to proceed with the reform of the CAP as well as the enlargement of the EU.

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