

Ministry of Agriculture and Agrarian Reform

NAPC

National Agricultural Policy Center

PROCEEDINGS

of the

Agricultural Policy Forum

on

Agricultural Policies Changes in the European Union

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Food and Agriculture
Organization of
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Ministry of Agriculture
and Agrarian Reform

Introduction

Within the initiative of the Agricultural Policy Forum promoted by the National Agricultural Policy Centre (NAPC) with the support of the Project GCP/SYR/006/ITA-Phase II, a seminar on Agricultural Policies Changes in the European Union was held in Damascus on January 30, 2003. The role of the Agricultural Policy Forum is to propose new approaches to the reform of agricultural policies and institutions for the policy making process in Syria.

Mr. A. El Hindi, Director of NAPC, welcomed the participants, especially Mr. Cascone Andrea, Commercial Counsellor of the Italian Embassy and Dr. Mahmoud Taher, FAO representative, and pointed out their important role in strengthening the debate on agricultural policy issues.

Synthesis of presentation

Mr Fabrizio De Filippis started his lecture by describing the genesis and evolution of the Common Agricultural Policy of the European Union (CAP). After introducing the reforms of the common policies decided under the Mac Sharry Package (1992) and the Agenda 2000, he illustrated the recent proposal for a further reform, the “Mid-Term Review of Agenda 2000”, which foresees a full decoupling of agricultural support. The latter is expected to be the third and most radical CAP reform even though its real efficacy might be limited by the pressure of many conservative interest groups.

His historical excursus indicated the Treaty of Rome (1958), establishing the European Community (EC), as the starting point of the debate on a European common agricultural policy. At that time, there were similar agricultural policies in the six founding countries, all largely based on price support. Therefore, a common agricultural policy was both a political objective and a technical necessity, in order to merge the national price policies in a common market. The CAP was the first (and for a long time the only) common policy of the EC: in this sense, the CAP was a “pilot policy”, a sort of “permanent workshop” in which experimenting European integration. For at least two decades, the CAP was considered the corner stone of EC, and until the seventies it captured eighty per cent of the common budget.

Still nowadays, in spite of the declining importance of agriculture (which now accounts for 4% of GDP and 5-6% of labor force) the CAP is capturing almost half of the common budget.

Hence, Mr De Filippis mentioned the four objectives of the CAP:

1. Income support for a large population of family farms (the “social” component);
2. Increase in production and productivity mainly by the absorption of yield-increasing technical innovations;
3. Food security (intended as an increase in self-sufficiency ratio);
4. Common price and price stability for agricultural products.

The main instruments of the old CAP were price support and structural policy.

Price support was very strong for the key sectors (cereals, beef, milk) and weaker for the Mediterranean crops (wine, fruits & vegetables), with some exceptions (olive oil, rice, tobacco). The original mechanism of price support was based on three elements:

1. A minimum guaranteed price, fixed each year, well above world prices
2. A system of market intervention, by which farmers could sell to the buying agencies unlimited quantities of production
3. A trade component based on variable import levies and export subsidies, to bridge the difference between domestic and world prices.

Structural policy, based on aids to investments in farm restructuring, was weak and residual (capturing only 5% of the agricultural budget).

Mr De Filippis defined the old CAP as a “coupled” model of agricultural policy as the support given by price policy and market intervention is coupled and proportional to the quantity that is produced. The benefits of price policy are highly concentrated: if total support is considered as the total production multiplied by the imposed difference between domestic and world price, only 10% of farms (the largest and richest) capture 80% of total support. The main portion of the price policy cost is directly paid by consumers, not by tax-payers. Price policy itself can be considered an implicit and uneven tax as it hits poor consumers that, according to the well known Engel’s law, spend higher percentages of their income in food.

Therefore, price support is both economically inefficient, as it is an incentive for improving quantity instead of quality of production, and socially uneven, as the poorest consumers support the richest farmers.

Mr De Filippis then highlighted the fact that although the coupled support is uneven and inefficient, it is “winning” on the political market as it supports both all farmers and interest groups (landlords, middle-men and industry producing agricultural inputs). Its social cost is “hidden” in the “market” price, and it is paid by a large population of consumers. Consumers do not realize the extra-bill imposed by the CAP: this hidden bill can be estimated at more than one thousand euro per year, for an average European

family, a large amount of money, that, if asked as an explicit tax would create a big discontent.

Mr De Filippis pointed out that the crisis of the coupled model emerged during the eighties, in terms of growing production surpluses, growing expenditure, financial unbalances among member countries, trade disputes, environmental unsustainability, decline of political importance of agriculture and deterioration of the “good reputation” of the CAP within the EU.

The necessity of a CAP reform led, in 1992, to the first timid and transitional step towards de-coupling, which is the Mac Sharry reform, consisting of four main elements:

1. 30% reduction in support prices (cereals and beef);
2. 10% Set aside, which is the obligation to keep out of cultivation a part of the farm, as a condition to receive support (with the exemption for small farmers);
3. Direct compensatory payments for price reduction (fixed aids per hectare, partially de-coupled, calculated on the basis of a fixed historical yield).

An important result was that the reform was accepted by the US and ratified by the Uruguay Round Agreement. The compensatory payments introduced by the reform were put in the “blue box”.

The Mac Sharry reform can be really considered a turning point, because it paved the way for a de-coupled model of farm support and launched a new set of agro-environmental measures. Direct aids were calculated as *a compensation* for price reduction (price reduction, multiplied by reference yield). However, in many cases this produced over-compensation. The uneven distribution of the price support among farmers was “frozen” in the new system of direct aids, which were not conditioned at all. Therefore, the CAP remained still largely based on market policy.

Mr De Filippis focused his attention on Agenda 2000, proposed in July ‘97 and decided in March ‘99 at the Berlin Summit, as a further step towards a new CAP. Its general objective was to prepare the eastward enlargement. Agriculture was the most sensible issue and the need of a radical CAP reform was explicitly put on the table. For the first time the entire set of objectives of the CAP was under discussion. On this ground, the new magic word was the multi-functionality of European agriculture, which is the capability of agriculture to play many important roles, in addition to simple production of food and raw materials.

The new set of objectives of Agenda 2000 was:

1. Increasing the competitiveness of European agriculture (instead than its physical productivity, as in the past);
2. Sustaining farmers’ and rural population income and employment, not only in the framework of agricultural policy, as in the past, but in the wider context of rural development;

3. Promoting food quality (instead of food quantity);
4. Sustaining multifunctional agriculture, compensating farmers for the production of public goods, like environment and landscape, food safety (instead of food security) and animal welfare.

The new instruments of this reform were: reduced market intervention, increased funding for rural development, further price reductions, further market orientation through more decoupled direct aids, modulation of direct aids - that is the possibility to reduce them over time according to some selective criteria - and, finally, cross compliance with environmental standards which makes farmers eligible for direct aids and specific agro-environmental payments.

The final package of Agenda 2000 included the following three main elements:

1. Market measures intervention, such as price reductions by 15% for arable crops and 20% for beef, per hectare payments increases (compensating only 50% of price reduction), 10% set aside; procrastination of the reform of the milk quota system up to 2005;
2. “Horizontal” Regulation, emphasizing voluntary cross-compliance and modulation based on standards decided and implemented at national level;
3. New regulation and larger financing for rural development.

In comparison with the initial proposals, the final reform package of Agenda 2000 was relatively weak, but the decline of the old CAP was ratified and a new set of objectives was determined. The need for further price reductions and decoupling was confirmed. Rural development was reinforced, even though not to a relevant extent. The long term path is clear, but the CAP provided by Agenda 2000 is still unsustainable, especially in view of the eastward enlargement, which in the meantime has been decided.

In this context, Mr De Filippis placed the new reform under discussion on the occasion of the Mid-Term Review (MTR) of Agenda 2000, a passage that had been planned by the 1999 Berlin Council to monitor the progress made by the CAP reform of Agenda 2000.

The MTR was expected to produce only minor adjustments in the reform path decided by Agenda 2000 until 2006. But the European Commission has gone far beyond the original mandate, proposing a radical reform. The Commission stressed the importance to set forth a radical reform of the CAP before the full accession of new member states, after which any decision will be much more difficult, and underlined the necessity to decide a long-term reform as soon as possible, in order to “lock” the ceilings on agricultural expenditure and to avoid the risk of further budget reductions in the coming years.

Member countries can be divided in three groups, according to their different position in the distribution of CAP expenditure. France, Spain, Ireland, Belgium, Austria and Greece are against the MTR, whereas UK, Germany, Netherlands, Denmark and Sweden are in favor. Italy, Portugal and Finland have not showed a determined position with regard to this issue. Final decisions are expected during 2003, hopefully before summer, in order to be ready for the next WTO Conference, which will take place in Cancun, in September 2003.

The reform package of the MTR consists of 5 chapters: market intervention, full decoupling and modulation of direct aids, cross-compliance, rural development (the so-called second pillar of the CAP).

The MTR market intervention measures concerns cereals (further 5% reduction in price intervention, reduction in special aid for durum wheat, partially compensated by a quality premium, 50% price reduction for rice, but higher special premium), bovine meat (full decoupling of coupled aid and more strict animal welfare standards) and milk (gradual reduction in price of butter and skim milk powder, gradual increase in production quotas).

The major change brought about by the MTR is the adoption of a full decoupling of agricultural support. The MTR, besides shifting support from products to producers, improved market orientation and ensures WTO compatibility. The measures proposed concern the introduction of a single decoupled payment per farm, based on historical payments (2000-02), and the elimination of planting or production requirements, which gives farmers total freedom to produce different products or to not produce at all.

The modulation of direct aids is a mechanism pursuing a twofold objective: shifting funds from market policy to rural development and saving expenditure for direct aids in order to find financial resources. The annual payments received by any farm, in excess to a franchise of 5000 euro will be progressively reduced by 1% per year from 2007 to 2012, up to 6%. The amount saved will be allocated to rural development policies. A further progressive reduction (reaching 20% in 2012) is imposed for payments to farmers receiving more than fifty thousand euro per year. In this case, the amount saved will finance the reform of the milk and sugar sector.

With regard to cross-compliance, the MTR establishes that all direct aids should be conditional on the respect of statutory standards (food safety, environment protection, animal health and welfare). Moreover, it sets up both transitional aids for meeting standards and farm auditing system on compliance with new standards.

The last chapter of the reform package increases the budget for rural development, strengthens agro-environmental and animal welfare measures, emphasizes the relevance of food quality and product differentiation, and gives support for farm auditing.

Summing up Mr De Filippis stated that, although the MTR is expected to be the third and most radical reform, its real efficacy might be limited by the pressure of many conservative interest groups. With specific reference to the future of the CAP, and the new multifunctional role of agriculture, Mr De Filippis questioned European citizens' strong willingness to pay the price for quality, safety, environment, rural landscape and agricultural traditions. Furthermore, he cast doubt upon the real effectiveness of agricultural policy in pursuing these objectives. There is a wide consensus on the new set of objectives of agricultural policy (the traditional ones plus the promotion of some "public goods" like environment, food quality, food safety, rural tradition). But the real problem is to find new instruments, since the traditional (coupled) ones have failed and are not in compliance with international rules agreed at multilateral level (WTO).

As for future developments, Mr De Filippis considered decoupled support only suitable as a transition measure, because it does not clarify why farmers should receive decoupled payments and what they give in exchange to society.

As regards rural development policies, Mr De Filippis highlighted the complexity of their implementation and the need to be better tailored to the new objectives.

Mr De Filippis pointed out budget constraints, fair distribution of expenditure among member states, trade liberalization and long-term effects of enlargement as the most important issues the future CAP should cope with.

In conclusion, with respect to Syria, the lecturer suggested to gradually dismantle traditional price policies, shifting towards a system of tailored subsidies, coupled or decoupled, specifically compensating farmers for the provision of public goods that are not ensured by market forces. In addition he urged the need for building up an integrated set of policies for rural areas, in which agriculture is only one component, more or less important according to the different local situations. These are challenging and uncertain issues, calling for a long process of deep changes, which should be pursued with patience and fantasy.

Summary of debate

The lecture was followed by an animate debate that can be summarized according to the following main issues raised by the audience and commented by Mr De Filippis.

1. The MEDA Program

The MEDA Program is the main financial instrument of the EU for the implementation of the Euro-Mediterranean Partnership. This program is intended for supporting the Government's reforms, for creating the structures and the instruments necessary for the development of the economy of Mediterranean countries and for establishing an economic and institutional favorable environment. The EU, through the MEDA Program, encourages trade liberalization in Syria and finances development projects.

2. The impact of Agenda 2000 on developing economies

The Agenda 2000 will have no significant outcomes until full decoupling is accepted. If proposals were adopted the impact of this reform would be more relevant: the system would be more market-oriented and price of commodities that are considered EU key sectors - milk and sugar - would be reduced. Milk and sugar are in fact still regulated by a system of production quota. Indeed, one of the shortcomings of Agenda 2000 is the delay in reforming the milk sector.

Market re-orientation in the EU will have a positive impact on developing countries even though European markets are not fully open to trade with developing countries. In order to increase the volume of trade with developing economies, the European Commission has in mind a reduction of domestic support through decoupling. However, no radical proposal was so far accepted because of its distributive impacts among EU countries.

3. Possible consequences in terms of market imbalances within developing countries of enhanced farmers' freedom to choose what and how much to produce

A stronger market-oriented economy would not lead to disorder as the interaction of market forces themselves would create equilibrium. The actual situation creates distortions as farmers tend to concentrate their production on subsidized goods

4. Linking decoupled payments to land or farmers

The present proposal links payments to land, so that entitlement to subsidy is transferred together with land. Another option would be to give farmers a system of bonds instead of a linked to land ownership. In this case the annual payment would be capitalized in bonds and assigned to farmers, who, in turn could transfer their bonds. The proposal of a full decoupling, whose application would bring about a real change, is not popular even among farmers.

5. The European land set-aside scheme

The actual EU regulation established that 7 to 10% of agricultural land should go into other productive uses, such as nature conservation. Setting aside agricultural land has a two-fold objective. First, if land is utilized on a rotational basis the environment is better preserved; second, supply control measures could be introduced.

6. Targeted subsidies

It is not easy to target a subsidy and there are different degrees of tailoring or targeting, including payments compensating farmers for environmental friendly practices. The less targeted subsidy is price subsidy because it is the same for every producer. A Mid-Term Review proposal aims at using the subsidy to stimulate the production of high quality rice, through an increased quality premium and reduced the general payment.

7. Comparison among the American, European and Syrian volume of subsidies

Given that applying developed countries' models to developing economies turned out as a failure, it is worth underlining that there is no single recipe able to work in all situations.

Estimating the amount of support that farmers receive is not easy. As a matter of comparison, certainly EU current subsidies largely overcome Syrian subsidies. It is worth noticing that agro-industrial products in Europe are not directly subsidized, with the exception of butter and milk powder.

As for the US, the Clinton administration introduced a decoupled policy model. However, with the last Farm Bill, of May 2002, the US counter-moved towards a coupled policy distorting the quantity of production.

In closing the debate, the Director of NACP highlighted that direct input subsidies were almost completely eliminated in Syria, while public irrigation scheme use, fuel and some agricultural loans receive indirect subsidies. As regards the EU, Mr El Hindi stressed that about 114 billion Euro (according to FAO data) or half of the European budget goes to agricultural subsidies (according to EU sources). He finally mentioned the Meda Program and the European Bank for Investment that offer, respectively, grants and soft loans to many Mediterranean countries. With reference to Syria, he added that it received approximately 105 billion Euro in grants under Meda program I and is expected to receive 150 billion Euro under Meda Programs II.

Annex 1. List of Participants

Agricultural Chambers' Federation

Al Alou, Mohammed, *Vice President of the Syrian Chamber of Agriculture*

Al Thawra Daily

Maa'louf, Fawzi, *Journalist*

Al Baa'th Daily

Shibli, Mahmoud, *Journalist*

Barakeh Company

Janbert, Ryad, *Director*

Cooperative Agricultural Bank

Al Taleb, Ryad, *Credit Directorate*

Yazigi, Elias, *Vice Director Planning and Statistical Department*

Embassy of Italy

Cascone, Andrea, *Commercial Counsellor*

FAO

Grillone, Carmela, *FAO Junior Consultant*

Pirro, Tomaso Perri, *FAO Agricultural Consultant*

Quieti, Maria Grazia, *FAO Senior Policy Officer*

Romano, Donato, *FAO Trainer*

Taher, Mahmoud, *FAO Representative*

Vercueil, Jacques, *FAO Consultant*

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Abu Assaf, Hayat, *Agricultural Affairs Dept.*

Al Amatoury, Moueen, *Head of Planning Sector, General Commission for Agricultural Scientific Research*

Al Attar, Fatat, *Agricultural Affairs Dept.*

Al Bahra, Mohammed Ehsan, *Deputy Director, Ali Al Ali Project*

Al Gadban, Ali, *General Establishment for Poultry*

Al Kabas, Mohammed Nazir, *Agricultural Economics Dept*

Al Kassar, Houssam, *Agricultural Economics Dept*

Al Kataib, Mohammed Marwan, *Agricultural Affairs Dept.*

Al Madani, Abdul Hamid, *Agricultural Economics Dept.*

Al Mojahed, Mohammed Hassan, *Agricultural Economics Dept*

Al Shawwa, Haitham, *Agricultural Extension Dept.*

Al Shnawy, Ali, *Journalist Office in MAAR*

Al Zen, Ali, *Head Section, General Commission for Agricultural Scientific Research*

Ali, Mohammed, *National Agricultural Policy Center*

Assaf, Saed, *Ali Al Ali Project*

Atieh, Basima, *National Agricultural Policy Center*

Baghasa, Hajar, *National Agricultural Policy Center*

Braighleh, Samer, *General Commission for Agricultural Scientific Research*

Chniker, Bashar, *Agricultural Economics Dept.*

Dahas, Yehia, *National Agricultural Policy Center*

Daowd, Manahel, *Translator, National Agricultural Policy Center*

Dayoub, Karim, - *Director, Al Badia Development Project*

El Ashkar, Haitham, *Agricultural Economics Dept.*

Ezau, Adnan, *Director, Ali Al Ali Project*

Husni, Wafica, *National Agricultural Policy Center*

Ibrahim, Ryad, *Agricultural Affairs Dept.*

Ishak, Yusra, *Agricultural Affairs Dept.*
Kabany, Ahmmad, *Agricultural Affairs Dept.*
Katan, Hassan, *Agricultural Economics Dept*
Khazma, Mohammed, *Chief, Studies Section, Agricultural Economics Dept.*
Khouri, Sahar, *Ali Al Ali Project*
Mahfous, Mamdouh, *Participation Project.*
Mansour, Antoon, *Ali Al Ali Project*
Mansour, Fayez, *General Commission for Agricultural Scientific Research*
Nahhas, Bashar, *National Agricultural Policy Center*
Nasmeh, Abdul Rahman, *Al Badia Development Project*
Othman, Saleh, *Agricultural Extension Dept.*
Rifai, Abdulhadi, *Agricultural Extension Dept.*
Shehadeh, Widad, *National Agricultural Policy Center*
Sukkar, Lina, *Agricultural Affairs Dept.*
Swar, Hassan, *Agricultural Economics Dept*
Zoughbi, Samira, *National Agricultural Policy Center*

Private

Shakra, Ahmad, *Agronomist*
Takey Al-din, Ryad, *International Business Agency, Economic Expert*

State Planning Commission

Al- Abrash, Mohammed Bashar, *Director of Financial Planning*

Syrian Agency for News (SANA)

Ajib, Shaide, *Journalist*

Syrian Times Daily

Fateh, Tamador, *Journalist*

University of Damascus, Faculty of Agriculture

Al Atwan, Saman, *Professor*
El Summak, Mahmoud, *Head of the Agricultural Economics Section*
Frejat, Nawaf, *Professor*
Kawas, Houda, *Professor*

Annex 2

<p style="text-align: center;">AGRICULTURAL POLICIES CHANGES IN THE EUROPEAN UNION</p> <p style="text-align: center;"><i>Fabrizio De Filippis</i> (University of ROMA TRE)</p> <p style="text-align: center;">Agricultural Policy Forum NAPC Damascus, 30th of January 2003</p> <p style="text-align: right;">1</p>		<p style="text-align: center;">Outline</p> <ul style="list-style-type: none"> • The “old” Common Agricultural policy (CAP) • The old CAP as a “coupled” model of agricultural policy • The process of CAP reforming during the ‘80s and 90s • Agenda 2000 reform package • The current reform proposals under CAP <i>Mid-Term review</i> • Conclusions <p style="text-align: right;">2</p>
<p style="text-align: center;">The genesis of the (CAP)</p> <ul style="list-style-type: none"> • 1958 (Treaty of Rome): the birth of the European Community (EC) • Similar agricultural policies in the six founding countries, largely based on price support: a common agricultural policy was a political objective and a technical necessity • Agriculture and CAP as a “laboratory” of the European integration: the CAP is the first (and for a long time the only) common policy of the EC • For at least two decades, the CAP is considered the <i>corner-stone</i> of EC (capturing more than half of the common budget) <p style="text-align: right;">3</p>		<p style="text-align: center;">The objectives of the “old CAP” (Treaty of Rome - Art. 39)</p> <ul style="list-style-type: none"> • Income support for a large population of family farms, (the “social” component) • Increase in production and productivity • Food security (increase in self-sufficiency ratio) • Price stability <p style="text-align: right;">4</p>
<p style="text-align: center;">The main instruments of the old CAP</p> <ul style="list-style-type: none"> • Price support and market intervention <ul style="list-style-type: none"> – very strong for the key sectors (cereals, beef, milk) – weaker for the Mediterranean crops (wine, fruits & vegetables) • The base-mechanism of price support: <ul style="list-style-type: none"> – minimum guaranteed price – Open ended intervention of buying agencies – import levies and export subsidies • The “structural” policy (aids to investments in farming) was weak and residual (only 5% of the agricultural budget) <p style="text-align: right;">5</p>		<p style="text-align: center;">The old CAP as a “coupled” model of agricultural policy</p> <ul style="list-style-type: none"> • The support given by price policy and market intervention is <i>coupled</i> to the quantity of production (more production, more support): <ul style="list-style-type: none"> – It supports the generic “status” of agricultural producer – It cannot target the support to specific goals, since it cannot “select” among different farmers, areas, production modes – Since domestic prices are kept well above world prices, it implies a high degree of commercial protection needed to keep • Therefore, price support is socially uneven and economically inefficient <p style="text-align: right;">6</p>

The Mac Sharry reform (1992): the first step towards de-coupling

- **The Mac Sharry package:**
 - 30% reduction in support prices (cereals and beef)
 - 10% Set aside (exemption for small farmers)
 - Compensatory payments for price reduction (fixed aids per hectare, partially de-coupled, based on a historical yield)
 - “Accompanying” measures (agro-environment)
- **The reform was accepted by the US and ratified by GATT Agreement (1994): compensatory payments in the “blue box” (exempted)**

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The Mac Sharry Reform (2)

- **The Mac Sharry reform was a turning point:**
 - Partially replacing price support with direct aids, it gave a clear signal about the decline of the old CAP, paving the way for a de-coupled model
 - It launched a new set of (agro-environmental) measures
- **But only a first, timid and transitional step:**
 - The direct aids were calculated as a *compensation* for price reduction (multiplied by reference yield). In many cases its result was an over-compensation
 - The uneven distribution of the support among farmers is “frozen” in the new system
 - The aids were not conditioned at all, and the CAP remained largely based on market policy (95% of total expenditure)

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Agenda 2000: towards a new CAP

- **The driving forces:**
 - Eastward enlargement (incompatibility of the old CAP in an enlarged EU)
 - Implementation of the GATT Agreement (pressure for CAP reform from international commitments: the most binding is the ceiling on subsidized export)
 - Growing importance of Consumers’ interests on new issues (quality, food safety, environment)
 - Further decline of the “old CAP” in the process of European integration (Economic and monetary union)
 - Rural development Vs Market intervention

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Agenda 2000 (proposed on July 97; decided on March 99)

- **The general objective of Agenda 2000 (July 97) is to prepare the eastward Enlargement:**
 - screening the economic and social situation of the candidate countries
 - reviewing all the policies of the EU, in order to promote their adaptation to an enlarged Union
- **Agriculture is the most sensible issue and the need of a radical CAP reform is put on the table**
- **For the first time the entire set of objectives of the CAP is under discussion: the new magic word is the *multi-functionality* of European agriculture**

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Agenda 2000 : The new objectives

- **To increase the *capability to compete* (instead than productivity) of European agriculture**
- **To sustain agricultural income and employment (but in the context of *rural development*)**
- **To promote *quality* (instead of quantity)**
- **To compensate farmers for the production of *Public goods*, in the interest of consumers and citizens**
 - Environment
 - Food safety (instead of food security)
 - Animal welfare

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Agenda 2000: the new instruments

- **Less Market intervention, more money to rural development**
- **Further price reduction (safety net)**
- **Further market orientation**
- **More decoupled aids (only partially compensating price reductions)**
- **Modulation of direct aids**
- **Cross compliance**
- **Agro-environmental payments**

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<p>Agenda 2000: the final package (2000-06)</p> <ul style="list-style-type: none"> • Market measures <ul style="list-style-type: none"> – intervention prices reduced by 15% for arable crops and 20% for beef – per hectare payments increased (compensating only 50% of price reduction) – 10% set aside – Reform of Milk quota system delayed to 2005 • “Horizontal” Regulation (voluntary Cross-compliance and Modulation at national level) <ul style="list-style-type: none"> – payments can be conditioned to proper environmental behavior of farmers; – ceilings can be put (or reductions applied) to the total amount of payments to a single farm • New regulation and more money on rural development <p style="text-align: right;">19</p>		<p>Agenda 2000: overall evaluation</p> <ul style="list-style-type: none"> • In comparison with the initial proposals, the final package is relatively weak, but... <ul style="list-style-type: none"> – The decline of the old CAP has been ratified and new set of objectives has been decided – The need for further price reductions and decoupling has been confirmed – Rural development has been reinforced • The long term path is clear, but the new CAP provided by Agenda 2000 is unsustainable in the long term (with enlargement) • A new reform is now under discussion, on the occasion of the <i>mid-term review</i> of Agenda 2000, as planned by the 1999 Berlin Council <p style="text-align: right;">20</p>
<p>The Mid-term review (MTR)</p> <ul style="list-style-type: none"> • MTR was expected to propose only minor adjustments in the reform path decided by Agenda 2000 until 2006 • But the European Commission has gone far beyond the original mandate, and is proposing a substantial reform (July 2002, then amended in January 2003) <ul style="list-style-type: none"> – to take the opportunity of reforming CAP before the full accession of new member states (May 2004) – To ease an agreement within the WTO negotiations – To decide a long-term reform as soon as possible, to “lock” the ceilings of the agricultural expenditure, avoid the risk of further reduction in the next years <p style="text-align: right;">21</p>		<p>The Mid-term review (2)</p> <ul style="list-style-type: none"> • Member countries are divided in two groups, according to their different position in the distribution CAP expenditure <ul style="list-style-type: none"> – Against (France, Spain, Ireland, Belgium,) – In favor (UK, Germany, Netherlands, Denmark, Sweden) • Final decisions are expected during 2003, hopefully before summer (WTO Cancun Conference in September) <p style="text-align: right;">22</p>
<p>MTR: an ambitious reform package</p> <ul style="list-style-type: none"> • Market intervention • Decoupling of direct aids • Modulation of direct aids • Cross-compliance • Rural Development (the “second pillar”) <p style="text-align: right;">23</p>		<p>MTR: Market measures</p> <ul style="list-style-type: none"> • Cereals <ul style="list-style-type: none"> – Further 5% reduction in price intervention – Reduction in special aid for durum wheat in traditional areas; quality premium (coupled) – 50% price reduction for rice, but higher special premium • Bovine meat <ul style="list-style-type: none"> – Full decoupling of coupled aids (slaughtering premium) – More severe animal welfare standard • Milk <ul style="list-style-type: none"> – Gradual reduction in prices of butter and skim milk powder – Gradual increase in production quotas <p style="text-align: right;">24</p>

MTR: Decoupling

- **Objectives**
 - Shift of support from products to producers
 - Improve market orientation
 - WTO compatibility (full compliance with green box requirements)
- **Measures**
 - Introduction of a *single decoupled payment per farm*, based on historical payments (2000-02)
 - No planting or production requirements, and total freedom for farmers to produce different products
 - 7% Set-aside

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Modulation of direct aids

- **All direct aids above 5000 euro (franchise), will be progressively reduced by 1% per year from 2007 to 2012, up to 6%**
 - The amount saved will shift to the “second pillar” (rural development)
- **Further progressive reduction (up to 20% in 2012) for farms receiving more than 50.000 euro of aids**
 - The amount saved will finance the reform of milk and sugar sector

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Cross-compliance

- **All direct aids (coupled and decoupled) will be conditional on the respect of statutory standards**
 - Food safety, environment protection, animal health and welfare
- **Aids for meeting standards**
- **Farm auditing on compliance with standards**
 - Mandatory for farms receiving more than 15.000 euro of direct aids
 - Voluntary for all other farms

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Rural development

- **Further increase in the budget for rural development (modulation)**
- **Strengthening of agro-environmental measures**
- **New animal welfare measures**
- **New chapter for food quality and product differentiation** (Quality assurance, certification schemes, promotion activities)
- **Support for meeting standards and farm auditing**

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Conclusions: The future of the CAP

- **The CAP is still in transition**
 - The need for a radical change is clear, but the “conservative army” is still very strong and the new model of agricultural policy is still ambiguous
- **The new roles of agriculture (Multi-functionality) must be better qualified**
 - how much are European citizens prepared to pay for quality, safety, environment, rural landscape, agricultural traditions, animal welfare?
 - Are we sure that all these objectives should be pursued by agricultural policy?

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Conclusions: The future of the CAP (2)

- **Decoupled support is OK as a (less distorting) transition measure, but it must be qualified as well**
 - payments for what, in the long term?
- **Rural development policies are OK. They can be better tailored to the new objectives, but their implementation is difficult; much more difficult than traditional market support**
- **The new CAP should cope with important issues**
 - Budget constraints and fair distribution of expenditure among member states
 - Trade liberalization (WTO, but above all, regional agreements)
 - Long-term effects of enlargement

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Conclusions (2): which “lesson” for Syria?

- Very difficult to take a reasonable “lesson” for Syria from such a different political, social and economic context
- Often the “suggestions” given to less developed countries based on the past experience of more developed ones have been a failure, or sometimes even a cheat...
- Any way, some general statement can be pointed out:
 - Coupled support based on price policy may work only in the relatively short term, or in a closed economy
 - In the long term, and in the framework of international integration it is unsustainable
 - The economic transfer that is associated to price policy is inefficient, uneven, costly; moreover, it creates strong rent positions that are very difficult to be dismantled
 - Even not fully confiding in the virtues of free trade, it should be accepted that, as far price fixing is concerned (and when markets do exist) market forces are superior to policy intervention

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- There is consensus on the objectives of agricultural policies (more or less, the traditional ones, plus some “public goods” like environment, food quality, food safety, rural traditions...)
- The problem is the choice of the instruments, since the traditional (coupled) ones have failed and are not in compliance with international rules agreed at multilateral level (WTO)
- My only (trivial) suggestion is to (gradually) shift from traditional price policies
 - to more targeted subsidies, compensating farmers by the provision of public goods, not ensured by market forces
 - To an integrated set of policies for the development of rural areas, in which the agriculture is only one component, more or less important, according to the different local situations
- It is a challenging and uncertain issue, demanding a deep change and a long process, but it is worth to try

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