Livestock and rural development policies in the EU: some emerging issues and developments

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Introduction

This paper provides an introductory overview of EU policies affecting livestock support policies and rural development for the Less Favoured Areas and a context within which will they will evolve during the next five years. First, a brief review of current EU structures policies and related measures is presented to provide the background from which new initiatives will emerge. Second, the international context within which new policies will be framed is outlined. This considers the pressures arising from internal farm commodity market conditions in the EU, enlargement of the EU to incorporate the CEEC group of countries and finally the constraints arising out of the World Trade Organisation agreements and forthcoming new round of negotiations. The paper concludes by outlining the current CAP proposals from the Commission under Agenda 2000 and some initial views emerging from a UK perspective.

Current EU Structural Policies and Related Measures

Current EU policies stem from the reform of the structural funds in 1988 that address broader issues of rural development through a wide range of both horizontal and vertical directives and regulations, and through a number of different budgetary routes. These relate to social and regional development issues, improvements in farming structures, diversification of economic activities of farming households, and measures directed towards achieving environmental objectives. There is no particular consistency in their operation and some policies, especially those relating to market support under the Agricultural Guarantee Fund, may indeed also conflict with them. EU policy is based on increasing recognition and acceptance that, whilst farming is a key economic activity in rural areas with major impacts on landscape and the fabric of the countryside, it is also necessary to promote new economic activities and sources of income in these areas. Hence the adoption of a multi-sectoral approach. In 1993, rural areas received further political recognition in the EU through Article 130A of the Maastricht treaty. This identified rural areas as a priority for assistance under EU policy for social and economic cohesion.

Main Aims

EU rural development policy has 4 main aims: -

a) to promote economic and social cohesion by maintaining and creating jobs,
b) to overcome barriers to development by encouraging diversification and improving infrastructures and facilitating access to new technologies,
c) to increase the quality of life by conserving the environment and giving access to basic services, and
d) maintaining viable communities whilst preserving their culture and traditions.

The Structural Funds

Structural Fund programme aid is directed towards regionally targeted assistance through both horizontal measures and through the LEADER initiative. Currently there are 6 Objectives concerning the mission of the Structural funds[2]. Those specifically having an impact on rural development are: -

- **Objective 1** to speed up the development of lagging regions with less than 75% of average EU GNP
- **Objective 5(a)** to adapt agricultural structures
- **Objective 5(b)** to cover the development of certain geographical areas
- **Objective 6** to assist low population density regions in Finland and Sweden.

Funding for the Structures programme amounts to ECU146 billion for the period 1994-1999. It is still, however, small in comparison with the spending on farm product guarantee support. There are **regional programmes** under Objectives 1, 5b and 6, and under Objective 5a **horizontal actions** to improve farming structures, processing and marketing, diversification into rural tourism, crafts and adding value to farm products through on-farm processing and direct marketing.

The Leader Programme

The LEADER programme was initiated in 1991 and aims to stimulate community-based and community-led integrated development programmes. Leader activities are thus “bottom-up” development programmes and have a funding allocation of Euro 1.7 bn over the period 1994-1999. Leader programmes can, for example, involve integration of tourism and craft development in particular localities.

Accompanying CAP Measures

There are a number of other measures contained in the CAP, which also contribute to rural development objectives, although this is not perhaps their primary purpose. These include: -

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[2] Regulation (EEC) 2081/93 and 4253/88

Agri-Environment Measures[3]
These help to limit production through the encouragement of extensive and organic farming practices, and also recognise the public goods which can be delivered by farmers in terms of land management and protection of natural resources.

Early Retirement Incentives[4]
This is a measure to facilitate structural adjustment, to enable farms to expand as occupiers of small inefficient holdings retire, and to provide opportunities for younger farmers to start up in farming and sustain the lifeblood of otherwise ageing rural villages.

Afforestation Measures[5]
Assistance is provided to afforest agricultural land, to maintain existing woodlands and plantations and compensate for income foregone from agricultural production through woodland planting.

The International Context for Further Reform
The EU faces a number of emerging issues that have necessitated a reappraisal of existing policies to support agriculture and rural development. These include future internal farm commodity market developments, enlargement of the EU to include CEEC states, and international trade policy negotiations under the aegis of the WTO.

Internal Agricultural Market Developments
The principal driver of the continuing need for reform of commodity markets, especially in the cereals and beef sectors, is an anticipated build-up in intervention stock levels from the beginning of the new millennium to the year 2005 if no changes are made to current policies. Forecasts by the EU Commission suggest cereal intervention stocks will rise from current levels of some 24 m tonnes to 51m tonnes by 2005; and that beef stocks will rise from 0.63m tonnes to 1.46m tonnes. There will also be need to maintain supply restrictions through quotas in the dairy sector and increase set-aside for oilseeds if market balance is to be maintained. The principal constraint, other than the increasing budgetary costs to the Agricultural Guarantee Fund that such surplus stocks imply, is that the current GATT/WTO Uruguay agreement limits volumes and values of subsidised exports from the EU onto world markets. Hence any increases in surpluses will require to be disposed of on internal EU markets.

EU Eastward Enlargement
The issue of enlargement of the EU also poses enormous difficulties for its current agricultural policy. First, as EU prices for most cereals, beef, milk and dairy products are still in excess of world prices, and also above the price levels of many of the applicant CEEC states, there could clearly be significant supply response effects in these countries. There would furthermore be a regressive impact through higher consumer prices in CEEC countries, where the share of total household income spent on food is considerably higher than in many of the present fifteen EU countries. Second, following the EU reforms of MacSharry in 1992 in which commodity price cuts and production limitations were made, compensatory payments were introduced for EU producers to offset consequent income loss[6]. These included area payments linked to cereals and oilseeds production, and headage premiums for beef cows and breeding sheep. Clearly, it would be illogical to extend compensatory payments to the new member states when there would be no such income loss. But equally, it will be politically difficult for the EU to pay compensatory payments to the farmers of the current fifteen EU countries and not extend them to the new members, given the already large disparities in farm income levels between west and east.

The World Trade Organisation

End of Peace Clause
The so-called “Peace Clause” of the Uruguay Round placed the compensatory payments of the EU into a “blue box”. This meant that although they were to be permitted, they were not “green box” measures i.e. completely decoupled from production, and hence not necessarily non-trade distorting. The Peace Clause expires in 2002 and the EU will be faced with the need to consider the future of its area and headage compensatory headage premium payments. It should also be noted that headage payments are an important current element in supporting farming in the Less Favoured and Mountain Areas of the EU, although Agenda 2000 does outline proposals for an area (and hence decoupled) basis for these specific payments.

Next Negotiating Round
The next negotiating round of the WTO starts in 2000 and, although a speedy resolution is not likely, there will be continuing pressure on the EU to reduce its tariff levels and subsidised exports. This will inevitably force EU policies away from protectionism and towards competitiveness. This process will necessarily be accompanied by measures directed towards the delivery of environmental benefits and linked to rural development and social cohesion.

Agenda 2000 and the UK Perspective
Recognition of these impending forces has already stimulated reform proposals for the CAP and for the social and economic dimensions of rural society in the 1997 Agenda 2000 proposals.

Objectives
The objectives of Agenda 2000 are set out as:
a) to improve the competitiveness of EU agriculture,
b) to ensure food safety and food quality,
c) to ensure a fair standard of living for the agricultural

[3] Regulation 2078/92

[4] Regulation 2079/92

[5] Regulation 2080/92

[6] Although contrary to the intention of the policy, in many member states, exchange rate depreciation enabled farmers to receive both compensation and price increases in national currency terms!

community and to contribute to farm income stability,
d) to integrate environmental goals into the CAP,
e) to create complementary or alternative income and employment opportunities for farmers and their families, and
f) to contribute to economic cohesion within the EU.

To these, the UK government would wish to see added[7]:
a) to save money for taxpayers,
b) to meet WTO obligations and prepare a strong position for the EU in future negotiations,
c) to extend consumer choice and to lower prices, and
d) to shift resources to environmental schemes and rural economies.

Commodity Sector Reform Proposals
This paper will pass only briefly over this aspect of Agenda 2000, other than to highlight that the Commission wishes to reduce cereal intervention prices by 20 per cent, to achieve a phased 30 per cent reduction in support for beef and a 10 per cent cut in intervention prices for milk products. There would be corresponding non-specific crop area compensation payments, headage premium increases for beef animals and new headage premiums introduced for dairy cows. The UK government view is that none of the compensatory payments will necessarily be consistent with the WTO and may pose difficulties in the next round of negotiations.

EU Enlargement
Ostensibly the process is envisaged in three phases:
a) pre-accession aid for restructuring and modernising processing industry and marketing structures (Euro 500 m per year from 2000),
b) expenditure on market organisation and rural development during transition to full membership (Euro 1.7 bn in 2002 - Euro 3.9 bn in 2006) but with no direct payments, and
c) full membership

During transition, a two-tier support system would result from the proposals and it is difficult to see how this is in accordance with the principles of a Single Market. The UK Government[8] was in agreement with a recent Parliamentary Committee[9] of enquiry that “Agenda 2000 will lead to serious problems as the process of central and eastern European countries to the EU takes place”.

Rural Development and Environmental Proposals
The Commission has noted both the complexities of policies currently in place directed towards rural policy and their lack of coherence (see Section 2). It has made proposals to reorganise rural and environmental policy instruments within the context of a wider rationalising of structural funding. In part it has simplified the Objective regions such that:

a) Objective 1 remains. Support for rural development would form part of the integrated development programmes. However, as new CEEC member states join, the average EU GNP will decline and some regions currently eligible will no longer be eligible.
b) A new Objective 2 region is to be defined as urban and rural areas with particular structural difficulties. Measures similar to current Objective 5a and 5b would be applied, co-financed from EAGGGF guarantee section, the ERDF and ESF. However, rural areas would be placed in competition with urban areas for funds whereas hitherto they have been separate.
c) In all rural areas outside new Objective 1 and 2, rural development would be co-financed under the EAGGF fund.

There is at present, however, much lack of detail as to the precise nature of the policies to be advanced and how funding will be distributed. Rural areas which “lose out” under the new arrangements will receive transitional but finite relief to assist adjustment. It still appears that structural spending on rural development and related areas will be a relatively tiny part of the total EU budget spend[10].

The Commission also proposes to transform the LFA schemes into a “basic instrument to maintain and promote low input farming systems”. Area-based payments may constitute the basis with stocking density targets or limits attached. The UK government has made it clear that it would prefer the principle of subsidiarity to be applied in the context of agro-environmental measures, given the often geographic specificity of the problems and their solutions.

Conclusions
The EU faces many internal and external challenges to its policy framework for the agricultural and the rural economy. Although it has begun the process of addressing the issues, it still remains a fundamental tenet of policy that what is good for agriculture is good for the rural economy. In many western European countries, rural employment structures are in fact highly diverse, and incomes of farming households comparable with those of non-farming families[11]. The need for a shift of resources away from supporting farm production towards the goal of sustainable rural regions is accepted. However, Agenda 2000, whilst strong on rhetoric for cohesion and policy coherence, at present appears to lack both the substance and budget necessary to achieve a significant impact through non-commodity-oriented programmes.

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7 Mr J Cunningham, UK Minster of Agriculture 7 October 1997.

8 Memorandum of UK Government’s Reply to Select Committee on Agriculture, 16 February 1998, para 5.

9 UK Select Committee on Agriculture, Second Report 1997/1998 “CAP Reform Agenda 2000”, para 33.

10 Estimated at Euro 2.1 bn by 2006 compared with Euro 50bn of total expenditure on agriculture. Ibid. para 85.

11 Buckwell, A et al “Towards a Common Agricultural Policy for Europe: Report of an Expert Group”, Commission of the European Communities DGVI/A1, 1997 Figure 1.