

Opinion of the Committee of the Regions on 'The CAP and eastward enlargement' (97/C 116/05)

THE COMMITTEE OF THE REGIONS,

having regard to the decision taken by the Council on 13 March 1996, under the first paragraph of Article 198c of the Treaty establishing the European Community, to consult the Committee of the Regions on the matter;

having regard to its decision on 12 June 1996 to direct Commission 2 for Spatial Planning, Agriculture, Hunting, Fisheries, Forestry, Marine Environment and Upland Areas to draw up the relevant opinion;

having regard to the draft Opinion (CdR 239/96 rev.) adopted by Commission 2 on 5 December 1996 (rapporteur: Mr Bocklet, working together with Mr Lafay, Lord Kenyon, Mr Van Gelder and Mrs Perkkioe),

adopted the following opinion at its 16th plenary session on 15 and 16 January 1997 (meeting of 16 January).

1. Introduction

Whereas a number of changes are going to affect the marketing/pricing, incomes, horizontal and regional structural strands of the CAP and its accompanying measures. These include:

- the gradual entry into force of the GATT agreements,
- the start in 1998 of the next round of WTO negotiations aimed at expanding CAP involvement in the market globalization process,
- EU eastward enlargement,
- the reorganization of EU finances post-1999;

and whereas the above developments will require the European Union to take decisions on the future structure of the Common Agricultural Policy;

Whereas the European Council in Essen called on the Commission to submit a study on alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to the future accession of these countries; and whereas the Commission met this request by submitting document CSE (95) 607 to the European Council in Madrid;

Whereas the decisions taken at the European Council in Essen in December 1994 and in Cannes and Madrid in July and December 1995 fleshed out and accelerated the enlargement strategy; whereas the Commission was asked to submit opinions on the applicant countries with a view to starting negotiations immediately after the conclusion of the intergovernmental conference in 1996/1997;

Whereas the Madrid Council asked for an analysis of the Union's financing system with the aim of developing a post-1999 financial framework within the context of enlargement;

Whereas the Madrid Council called for the continuation of the CAP reforms initiated in 1992;

and whereas, although not officially on the agenda of the intergovernmental conference, the CAP may well be considered indirectly in the debates on Union enlargement;

Whereas the first association agreements were already concluded with Hungary and Poland in early February 1994, to be followed by similar agreements with the Czech Republic, Slovakia, Romania and Bulgaria in February 1995, and with the Baltic States in June the same year; and whereas the association agreement with Slovenia has now been signed;

Whereas the new openness towards the countries of central and eastern Europe, which is taking place just as the impact of the GATT is making itself felt and just as the 1992 reform enters its final stage, will have an effect not only on European agriculture, but also on the overall socio-economic situation in rural regions of the European Community, the Committee of the Regions believes it appropriate, under the terms of Article 198 c of the EC Treaty, to draw up an opinion on the Commission study on alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to the future accession of these countries. The Commissioner, Mr Franz Fischler, submitted the study to the Committee of the Regions at the Plenary Session of 13 June 1996 and gave a short explanatory introduction.

2. Content of the Study

2.1. The Commission document seeks to highlight the main issues affecting future agriculture and agricultural policy in the countries of central Europe and in the European Union, and to assess the impact of enlargement within the present CAP framework. The document roughs out the future development of the CAP and suggests a number of avenues and measures on how to improve relations in the field of agriculture during the pre-accession phase.

2.2. The study begins by describing the present situation in the EU and the central and eastern European countries (CEEC) and by analyzing the situation from now until 1999. The Commission proceeds from the assumption that from that point on, continued liberalization of world trade will put renewed pressure on EU agriculture. After 1999, it is also expected that the impact of the 1992 reform designed to reduce production levels will be offset out by improvements in production technologies, leading once again to surpluses. At the same time, the negotiations on the financial perspective for the budget after the year 2000 are set to rouse intense discussion within the EU on the distribution of funding and thus on the size of the agricultural budget.

2.3. This opening analysis broadly concludes that, even if eastward enlargement were not on the cards, it would still be necessary to carry on developing the Common Agricultural Policy.

2.4. The paper goes on to outline three options for a Common Agricultural Policy after the accession of countries of central and eastern Europe. The first option is to integrate these countries' agricultural sector into an unchanged CAP. Additional EAGGF budgetary expenditure in the final phase of accession is estimated at ECU 12 billion a year, including all direct aid and related measures. The Commission believes that this option would lead to increased agricultural production in the CEEC, resulting in over-production across the EU and economic difficulties in the CEEC as a consequence of rising consumer prices.

The second scenario is based on radical reform, with the large-scale abolition of all price-support mechanisms and a removal of restrictions on the production of sugar and milk, and no area limits.

The compensatory payments which would have to be made if the quota system for milk and sugar were to be abolished and the social and environmental problems which would follow in rural areas in the wake of forced structural change of this kind are recognized as being so great as

to make this option untenable.

The Commission favours a third option, namely the rational and continued development of the existing Common Agricultural Policy. This means continuing to pursue the approach initiated in 1992 designed to break the link between the market and income/structural strands of the CAP. The lower EU prices this would engender by the time accession takes place would help smooth CEEC integration. It would also remove the need for additional compensatory payments to the agricultural sector of the CEEC. Direct aid should be much more conditional on social and environmental conditions being met. A strategy of this kind would be aimed at improving the integration of environmental performance into agricultural activities and at ensuring long-term financial reward for implementing socially desirable forms of rural development and for conserving natural resources.

2.5. The Commission thus recognizes that, while the Community's overall responsibilities would be retained, the Member States and the regions should be given more discretion in the implementation of Community decisions. The basic arrangements should be determined not in annual farm price negotiations, but rather in multi-year programmes with more input from the European Parliament. In overall terms, the Community agriculture system would basically correspond to the present EU structural policy, made up of five-year plans, with the broad implementation largely a matter for the Member States or regions.

2.6. In the run-up to accession, the Commission proposes a programme similar to that introduced when Portugal joined the Community, designed to modernize the agricultural sector in the CEEC and provide assistance in reforming the food-processing industry. No details are given of the costs or financing of pre-accession aid.

3. The regional impact of enhanced market access

3.1. The accession of the CEEC will increase the Community's agricultural capacity by more than 50 %. This compares with a population increase of just 29 %. Although the position differs from product to product, these figures point to the possibility of Community surpluses which may have an impact, in particular, on major arable products.

Market disturbance such as this could pose particular problems in regions heavily dependent on sensitive products.

3.2. Given the importance of trade in the transition of the CEEC from central planning to a market economy, the association agreements offer major potential for the progressive opening-up of the markets. The aim is to achieve free visible trade with the European Union within a controlled time frame and to integrate the associated countries into the large single market.

To achieve this objective, the agreements prescribe mutual trade concessions designed to take account of possible market disturbances caused by the import of sensitive products, no matter whether these are agricultural products or textiles.

3.3. There is, however, a major difference between the industrial and agricultural sectors. The overriding objective is the gradual creation of a free-trade area within the space of ten years. The trade balance of the Community of Twelve with the ten CEEC moved from a negative of ECU 879 million in 1989 - before the association agreements were signed - to a surplus of ECU 903 million in 1994.

EU exports over this period almost tripled, while imports grew by just 15 %. Hungary is the only CEEC country which has continued to run a substantial surplus on its trade with the EU.

3.4. From now on, CEEC industrial products may be imported freely into the European Union. In response, CEEC trade barriers are steadily being reduced.

3.5. In the agricultural sector, however, no provision has been made for free trade. The agreements only provide for the introduction of tariff concessions for five years in line with the principle of asymmetry. In plain English, this means that the Union removes trade barriers more quickly and under more generous terms than its partners. The agreements stipulate that, with the introduction of a whole range of trade quotas, Community concessions are fixed at the level of customs duties, reduced on a sliding scale by between 20 and 60 %. Since July 1995, it has been possible to make reductions of up to 80 % within the set quotas. The quotas apply to specific products and are based on traditional trade levels between 1986 and 1990. The quotas are to rise annually by 10 % during the first five years of the agreements being in force. Certain products had their duties reduced without any quantitative restriction being imposed.

3.6. The CEEC offer preferential duties which are generally reduced on a sliding scale. The GATT agreements mean that duties are higher than before on a whole range of products, with the result that these countries use the old customs tariffs from the association agreements both for quotas and for unlimited customs concessions. Adapting the association agreements, which is a main tenet of the pre-accession strategy, expressly includes the option of granting new concessions. Using as an argument the negative trend of their trade balance with the EU, the CEEC gradually succeeded in having the quotas opened up. In December 1994, the Commission proposed to the Council that the quotas should be increased by an overall figure of 10 %. This proposal was rejected by the Council, which accepted a 5 % rise. This margin of increase does not apply to sensitive products such as live cattle, sheep and goats, strawberries, onions and tomato products.

3.7. In this way, the Council ensured that, for the time being, regions reliant on these products would not be exposed to disruptions caused by competition from imports from the CEEC.

The strategy paper intimates a desire to go considerably further. The Commission intends proposing new quota increases and the option of transferring quotas from one CEEC to another. At the same time, entry prices for certain quotas of fruit and vegetables are also to be reduced. Action of this kind might cause difficulties for fruit and vegetable growers, not only in southern Europe but also in countries such as the Netherlands and Germany, since at present price levels even small increases in quantity within the single market can have a severely destabilizing impact.

3.8. On the other hand, the flow of goods from the Union to the CEEC must be closely observed, especially how far it rises by the time of accession. If need be, negotiations with other non-Community countries could be arranged more easily within the framework of the WTO.

3.9. Vigilance is required to ensure that trade remains within the scope of the association agreements.

3.10. The CEEC will contribute little or nothing to GATT/WTO quotas for subsidized exports. This may, despite the relatively favourable forecasts for sales of grain, pigmeat, poultry and eggs to non-EU markets, renew the pressure for adjustments in quotas for subsidized exports which will be exacerbated by further liberalization of the agricultural trade in the wake of future WTO negotiations.

4. Decentralizing agricultural policy

4.1. The ideas on an integrated policy for rural regions expounded in the paper built on the positive development of Community regional policy witnessed since the reform of the structural

policy and, if implemented, will give the regions an effective role in helping to shape this policy.

4.2. Radical simplification of measures and procedures and enhanced flexibility - two matters addressed by the paper - would be of assistance here.

As one new and very positive aspect, the paper recognizes that more latitude (will) have to be conceded to the Member States and/or regional authorities in the implementation of decisions taken at EU level. A clear distinction between market policy and income support could help in this context.

4.3. Unfortunately, despite the fact that the paper hits on the right approach, it fails to draw satisfactory conclusions either on the political front or on issues such as legal jurisdiction. The Commission proposes that EU-level measures should be limited to adopting outline provisions, setting joint objectives and defining the requisite minimum amount of common rules. Although this approach is aimed at achieving the necessary CAP simplification, it fails to resolve the issue of how this is to be achieved politically and legally.

4.4. Commission proposals on these aspects would, however, be needed to ensure that Article 3b (subsidiarity principle), as incorporated into the Treaty at Maastricht, is applied to Title II (Agriculture) too, with due regard for the principle of financial solidarity.

The application of Article 3b in agricultural law cannot be limited to technical simplification and legislative consolidation.

4.5. In an enlarged Community incorporating the central and eastern European countries, the differences between the various forms of land management will be much greater. This is particularly true of the structures and legal status of holdings. Very large farms run along industrial lines will account for a major share of production.

Different traditions and administrative capacities and structures will make it difficult, indeed impossible, to implement detailed central provisions evenly across the board.

4.6. The central question to be asked in this context is whether the compensatory payments made under the reform of the Common Agricultural Policy should fall within the remit of the Community or the Member States.

4.7. Price-based compensatory payments and remuneration of environmental performance which stem from the structural policy approach of the 1975 'hill farmer' Directive, have crucially enhanced the Common Agricultural Policy.

4.8. Enlargement will require greater differentiation of such payments in order to take greater account of farm types, cost levels and standards of living in the various regions. Otherwise even greater imbalances will emerge despite a guarantee of equal treatment, leading to considerable distortions in competition.

4.9. Viability of a decentralized approach is a recurrent theme in discussions. The Committee of the Regions would therefore draw attention to the fact that a tried-and-tested model already exists.

A 'bottom-up approach' has already been developed for implementation of the structural funds and Regulation 2078/92.

This approach has proven effective in EU regional policy since 1988; the tools have a good track record and have been adapted in the light of experience.

Depending on the constitutional situation, the Member States or the regions would then have to draw up multi-year support concepts for the agricultural sector in the same way as happens at the moment with the structural funds.

Constantly evolving legislation may well bring about the resolution of the ongoing conflict between market balance and safeguarding of incomes in the agricultural sector. EU agricultural reform attempted to defuse this conflict by introducing supplementary direct payments in important market sectors.

This objective is also mirrored in the final act of the European Conference on rural development adopted in Cork on 9 November 1996 which seeks an integrated policy for rural areas as a whole and is based on a decentralized approach in keeping with the subsidiarity principle.

5. Continuation of the WTO negotiations

5.1. The Committee of the Regions refers to the comments in its opinion on the regional impacts of the reform of the Common Agricultural Policy. The Committee of the Regions stresses in particular that, after tariff allocation and a reduction in duty, adequate external protection must be maintained.

5.2. Even now, there is a certain risk that the residual external protection for agriculture will be undermined by free trade agreements - including those preparing for the accession of the CEEC - since more stringent criteria now exist for WTO recognition of free trade areas (which are excepted from the most-favoured-nation principle).

In future, important trade areas, such as agriculture cannot be easily excluded from free trade agreements which conform to WTO conditions. Where GATT conformity of a free trade agreement is not unanimously confirmed by the WTO working group, there is a risk that other WTO Member States will invoke the most-favoured-nation principle and demand free access for their agricultural products.

5.3. The peace clause of the present GATT Treaty allows the compensatory payments agreed by the Community in 1992 as part of the reform of GATT to be paid until the 2003/2004 market year. However, it is expected that, after 1999, a new WTO round of negotiations will put pressure on the Common Agricultural Policy. In particular there will be calls for further reductions in internal support levels, external protection and export subsidies.

Demands of this kind must not lead to the sort of radical reform outlined in the second option of the Commission strategy paper. Apart from incurring financial problems, the first option - simply applying the present CAP to the CEEC - would also be likely to lead to major difficulties, not least in the light of the WTO negotiations.

5.4. Option 3, namely rational, more highly decentralized development of the existing CAP, would appear to be a feasible way for the Member States and regions to strengthen the competitiveness of their agriculture, by pursuing strategies which are tailored to specific regional needs, but put adequate emphasis on the environment.

5.5. It is therefore impossible to understand why the Commission's observations assume a further dismantling of price supports. This is also unjustified against the backdrop of Article 20 of the agriculture section of the GATT Treaty. To reach a conclusion of this kind, a detailed examination would have to be carried out into the effects which existing commitments to reduce support will have on world agricultural trade and on supply and demand on the relevant global commodity markets. Taking further dismantlement as read from the very outset, as the Commission does, could be deleterious to the Community's negotiating position in WTO.

5.6. The new US Farm Bill bases support on production-independent 'green box' measures. This could lead to WTO preference for 'green box' measures and this in turn could work against extension of the 'blue box' for price-related compensatory payments. After the expiry of the deadline set in the peace clause, EU support for its agriculture could well focus more on 'green box' measures.

6. Financing the Common Agricultural Policy

6.1. The Commission report gives preliminary estimates of additional CEEC requirements, but otherwise remains comparatively vague on the future evolution of CAP financing.

6.2. At the moment, the decisions of the Edinburgh European Council are in force. The 'own resources' resolution stipulates a progressive rise in the own-resources ceiling from 1,20 % in 1994 to 1,27 % in 1999. (At current levels, 0,01 % of GNP is approximately ECU 680 million.)

6.3. In the run-up to monetary union, all Member States, especially those which are net contributors to the Community budget, are following a rigid austerity policy which is unlikely to allow any rise in the own-resources ceiling even after 1999.

6.4. In line with the decisions of the Edinburgh European Council, it is planned to concentrate structural funds primarily on Objective 1 areas, i.e. the less developed areas. In 1990, more than 70 % of structural funding will be earmarked for Objective 1 areas.

6.5. Since 1988, the agriculture guideline has stipulated that the annual rise in EAGGF expenditure may not exceed 74 % of the GDP growth rate in real terms and the average EC inflation rate.

1996 EAGGF guarantee expenditure falls within the agriculture guideline figure of ECU 40,828 billion. It is as yet unclear whether, by the end of the year, more favourable world prices - especially for grain - will reduce expenditure below that stipulated in the agriculture guideline or whether renewed pressure will be generated by measures to combat BSE. Both 1994 and 1995 saw the agriculture guideline figure undercut by some ECU 3 billion.

The future EAGGF guarantee expenditure will depend in particular on cyclical and political factors. The Commission is obviously seeking to stabilize expenditure as far as possible.

In particular, back-up measures and the forthcoming reforms of market organizations are expected to generate additional expenditure.

A framework for possibly raising the agriculture guideline is needed to absorb both the additional expenditure mentioned above and the lower audited income.

6.6. Moreover, after 1996, additional measures may well have to be financed from EAGGF guarantee appropriations. First in line for transfer to the guarantee scheme are veterinary and 5a measures.

6.7. The Commission estimates an additional annual financial burden of ECU 12 billion, on the assumption that countries joining the EU after 2000 will adopt the present corpus of Community legislation.

If the current own-resources resolution remains in force, these countries' contribution will make up only some 4 % of the EC budget. This means that the lion's share of both agricultural and structural expenditure will be financed by the present EU Member States.

6.8. For this reason, it appears necessary to make the allocation of resources subject to effective

spending discipline and to evaluate the fairness of contribution levels, laying greater emphasis than in the past on the economic capacity of the individual Member States.

7. Committee of the Regions opinion

The Committee of the Regions

7.1. broadly backs the Commission's efforts to develop appropriate strategies to ensure as smooth an incorporation as possible of the CEEC into the European Union; the Commission strategy paper indicates major guidelines for future agriculture policy and has initiated a broad discussion to which the Committee of the Regions, in publishing this opinion, would like to give additional momentum;

7.2. notes that, at a time when moves are beginning to take shape towards eastward enlargement, the farm income situation in many EU regions is difficult and under sharply increasing pressure from the process of structural adaptation;

7.3. notes that

- the reform of the Common Agricultural Policy,
- price restraints in a range of unreformed market segments, and
- the implementation of the GATT negotiations

have imposed serious constraints, which are adding to the overall strain;

7.4. thus feels that it is vital, before making any further changes to the CAP, to undertake a rigorous analysis of the impact of the 1992 CAP reform and to complete the reform of the common market organizations in those sectors not yet covered, in line with the guiding principles adopted in 1992 and the conclusions of the 1993 Jumbo Council;

7.5. calls for a detailed analysis of the impact of reduction commitments on world agricultural trade and of the experience gained in implementation, before negotiations on further reform begin;

7.6. bearing in mind the economic and social sensitivity of the agricultural sector, also demands that all decisions relating to it, inter alia in the context of enlargement, be subject to clarification in the framework of the Community's future financial perspectives; this framework corresponds to 1,27 % of GDP;

7.7. is in favour of implementing CAP reform with a view to promoting better environmental, sustainable, agricultural, economic, rural, political and social development, whilst also guaranteeing the current levels of production quotas.

7.8. expressly highlights the political dimension of the introduction of the market economy in the CEEC, its importance for their socio-economic recovery, and the key role agriculture plays in

the process;

7.9. and also points out that, as the agricultural situation varies from one CEEC to the next, the accession negotiations must adopt a differentiated, circumspect and cautious approach. The pre-accession measures and transition periods must take account of the structure on the ground in each of the associated countries;

7.10. backs the Commission's proposal to focus CEEC assistance on structural development so as

to give the agricultural sector in these countries a real chance to progress, provided this does not lead to unsaleable over-capacity;

7.11. urges that both the CEEC and the EU states should prepare for the enlarged common agricultural market, in order to avoid economic and social dislocation;

7.12. believes that the approach whereby the CEEC themselves decide on how to use the designated EU funding is a suitable model for future policy on agricultural structures, environment and income of the present fifteen members of the EU; for all parties concerned, these national or regional decision-making options must, however, be subject to the binding provisions of European law, be implemented under transparent procedures and rule out abuse as far as possible. They should also not call the single market into question and must safeguard the aims of the common market and prices policy;

7.13. urges that EU and CEEC farmers have greater scope for benefiting from positive trends in world demand for various products, with due regard to international arrangements (GATT), in order to prevent the single market from being harmed by the growth in the agricultural capacity of the CEEC;

7.14. calls for clear priority to be given to environmental concerns and for greater emphasis on agriculture's multi-purpose function, especially since reduced price support tends to concentrate production in a small number of favoured localities;

7.15. calls for pricing and market policy to be geared to market balance, and to safeguarding prices, and to be backed up by a long term, carefully targeted incomes policy;

7.16. feels that agricultural-policy responsibilities should more forcefully take account of the principle of subsidiarity, i.e. should be allocated as appropriate between the various national and Community levels; where an adequate solution to problems can be found at Member State level, this must be given preference; however, there must be no renationalizing of the Common Agricultural Policy, and consultation should be encouraged with local and regional authorities in the construction of rural development strategies;

7.17. calls for EU responsibility for agricultural structures policy to be limited to providing a framework, with the aim of simplification and of enhancing partnership, and for EU finance to focus on strengthening the regions and Member States, while maintaining the principle of concentration stressed in Cork;

7.18. calls for direct payments for income support, environmental protection, sustainable development, improvement of agricultural structures and compensation of currency fluctuations - and also for the financial resources concerned - to be placed within the remit of the Member States or, depending on the constitutional position of the state concerned, regions, taking account of the common legal framework and in line with the objectives of the Common Agricultural Policy;

7.19. urges that technical and administrative criteria should be met by the development of the common legal framework and that Member States and regions should be allowed to decide for themselves on the structure of implementing arrangements;

7.20. emphasizes that EU farm policy must conform to GATT and make it possible for the EU to open up to the east without jeopardizing the efficiency of family farms: the aim is to achieve the promotion of competitive agriculture based on family-farm structures. It should be dependent on farm size;

7.21. feels that, in line with the intentions of the Cork Conference, further development and diversification of the rural economy should be a structural objective, and should be taken into account as part of the impending structural fund reform;

7.22. rejects radical reform involving the complete liberalization of the agricultural market and expressly stresses the negative effects this would have on disadvantaged agricultural areas and on rural regions, from which there is already a major population exodus;

7.23. believes it is necessary to differentiate assistance between large-scale and family farms in order to give adequate recompense, even where financial resources are tight, for the important services which family farms in the fifteen EU Member States and the countries of central and eastern Europe provide to society by maintaining the landscape, husbanding natural resources, preserving recreational and tourist areas, maintaining rural society and for their role as a counterweight to urbanization. Further reform of the CAP with a view to eastward enlargement and future WTO negotiations must help to promote economic, social and territorial cohesion in the EU;

7.24. takes the view that in future WTO negotiations, importance should inter alia be attached to expanding 'green box' aid. In addition to purely ecological aspects, such aid must cover:

- the payment of rewards for the work done in the agricultural sector which, although no market for it exists, is important for society and rural areas;
- measures to maintain agricultural activities in less favoured areas; and
- the structural situation;

7.25. believes it would be useful to consider whether, in the interests of cutting red-tape and reducing 'imputed' risk, the present premiums paid per livestock unit should be incorporated in per-hectare compensatory payments and integrated into the per-hectare premiums system. In the long term, consideration could also be given to increased use of transfer payments to individuals as a Community agricultural policy instrument;

7.26. requests that before eastward enlargement takes place, a commitment should be made to guarantee and extend assistance to mountain areas, other less-favoured areas and small areas, as defined in Regulation No 75/268/EEC (), in order to secure the future of multi-purpose farming in mountain areas and other less-favoured peripheral areas;

7.27. calls for action to promote a switch to environmentally-friendly production and the use and production of renewable energy sources in the CEEC prior to their accession;

7.28. calls for CAP rules in areas, where such rules are required to avoid market imbalance and discrimination (health and consumer protection, legislation on animal protection and animal diseases, rules of origin and marketing rules, external protection).

Brussels, 16 January 1997.

The Chairman of the Committee of the Regions

Pasqual MARAGALL i MIRA