Agenda 2000: A Wasted Opportunity?
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Background to the Agenda 2000 Reforms of the CAP

Between 1997 and 1999, the European Union engaged in another round of reform of the Common Agricultural Policy, following on the MacSharry reforms of 1992. This was part of Agenda 2000 which sought to establish the overall budget for the EU for the period 2000-2006. Additional changes to the CAP were seen to be necessary to prepare for the imminent enlargement of the EU and for the reopening of world trade negotiations on agriculture. There was also concern within the European Commission to respond to the broadening public demands on agriculture and the countryside. The Commission set out the objectives for a newly reformed CAP as those of increased competitiveness, high standards of food safety and quality, ensuring a fair standard of living for the agricultural community, the fuller integration of environmental goals, the creation of alternative job and income opportunities in rural areas and simplification of EU legislation and administration (European Commission 1997).

Progress towards an Integrated Rural Policy

Any overall assessment of Agenda 2000 must consider to what extent it takes us towards a more legitimate and sustainable model of support for rural areas that addresses contemporary socio-economic needs and consumer and environmental concerns. An alternative, integrated rural policy would be characterised by the following arrangements:

- markets would largely determine the income that farmers receive from growing crops and raising livestock (with a basic level of support retained for emergency or unusual conditions);
- farmers would receive sufficient support for the environmental management functions of agriculture;
- rural development would be given greater promotion, to assist in the economic adjustment of rural areas and to help improve rural incomes and employment.
Such a model was put forward by the group of experts, chaired by the agricultural economist Alan Buckwell, who were charged by the Agricultural Directorate of the European Commission to outline the principles that might guide the transition of the CAP towards the integration of environmental and rural development objectives (European Economy 1997). The Buckwell Group mapped out a series of step-wise transitions whereby the CAP could be transformed into an integrated rural policy over the medium term (see Figure 1). This would involve the progressive liberalisation of the various commodity market organisations entailing the payment of time-limited compensation to producers affected by price cuts. The MacSharry reform initiated this process, converting some of the indirect costs of supporting protected and managed markets into direct subsidies to farmers. However, the Buckwell Group saw those changes as only the first step in the transformation of the CAP. Subsequent steps should involve not only the dismantling of the panoply of supply controls and the decoupling of compensation payments from production but also steady reductions in these payments and the switch of public resources to support both the environmental management functions of agriculture and the socio-economic development of rural areas.

Agenda 2000: The Commission’s Proposals

The original proposals for Agenda 2000 put forward by the Commission in July 1997 were influenced, to some extent, by this kind of thinking (CEC 1997). Mostly, though, they were concerned with changes to the commodity market organisations, particularly the dairy, arable and beef regimes. The Commission’s intention was largely to continue the reforms initiated in 1992 by further reducing price support towards world prices, moving away from certain supply controls (e.g. by setting the obligatory rate of set-aside at zero but retaining dairy quotas) and increasing direct compensation payments for farmers. However, stress was also laid on the role of farmers in maintaining the countryside. It was suggested that the agri-environment Regulation be reinforced and better funded to give it a prominent role in supporting sustainable development in rural areas and meeting society’s environmental demands. The possibility was also raised of transforming Less Favoured Areas (LFA) policy into a basic instrument to maintain and promote low output farming systems. The
most radical proposal was to combine these two measures - the agri-environment regulation and LFA policy - with rural development measures, to create a new instrument under the CAP to support integrated rural development across the EU. This horizontal set of measures, it was proposed, would be financed under the guarantee section of the EAGGF (FEOGA) but would be implemented in a decentralised way at the appropriate level, at the initiative of Member States. The proposal therefore took forward the idea trailed by the Commission at the 1996 Cork Conference of a flexible and programmed approach to the promotion of a sustainable rural policy within the CAP that would be responsive to the diversity of rural needs and environmental circumstances across the EU. In keeping with this new approach to rural policy inside the CAP and throughout the EU, Agenda 2000 proposed that established regional supports for poorer rural regions should be concentrated onto a smaller area.

In key respects, therefore, the Commission’s Agenda 2000 did set out the basic parameters that could guide the transition from the CAP to Integrated Rural Policy. However, the Commission did not bite the bullet of proposing that compensation payments to farmers should be time limited. Undoubtedly, the negative reaction of several member states to the Cork Conference had signalled strong political resistance to any move that could be seen as taking money away from farmers (Lowe, Rutherford and Baldock 1996). The Commission was therefore constrained in the proposals it could feasibly bring forward. As a result, though, the Agenda 2000 proposals did not establish the critical resourcing linkage that the Buckwell Group envisaged whereby a steady reduction in production subsidies could be used to fund the build-up of alternative rural policy supports. Indeed, in resource terms, the Commission was obliged to pursue its nascent rural policy in parallel with, but effectively detached from, the reform of the CAP commodity regimes. The medium-term resourcing of the integrated rural development instrument was thus left unclear which meant that references to it becoming “the second pillar of the CAP” (CEC 1998, para. 2.4) seemed wishful thinking. With the prospect of limited additional funding for rural supports (including agri-environmental measures) but a major expansion of compensation payments to farmers - with no indication that these payments would not be indefinite - the Commission had to concede the extension of
the option of placing environmental conditions on livestock payments to arable and set-aside payments too.

**Agenda 2000: The Outcome**

From 1997 to 1999 there were intense negotiations over the Agenda 2000 proposals between the European Commission and the Member States. As well as the divide between liberalising and protectionist positions and the pursuit of disparate national agricultural interests, CAP reform also got caught up in a growing debate over the EU’s future budget. Prospective new demands on the budget arising from EU enlargement were met by calls to restrict the growth of the budget and to rebalance the financial burden between Member States. With the CAP accounting for about half of the EU’s budget, it could not be insulated from this debate. Indeed, one of the main pressures to reform the CAP came from recognition that it would be extremely expensive to extend the existing CAP to the new entrant countries. The Commission’s own proposals to reform the CAP involved an increase in expenditure to compensate farmers for reduced support but with spending stabilising from 2004 onwards. In order to reach agreement, as the negotiations with Agriculture Ministers proceeded, the Commission had to make various concessions to its original proposals, thereby increasing the cost further. This aroused growing impatience from Finance Ministers and heads of government who eventually ruled that there should be no overall increase in the agricultural budget.

The negotiations over CAP reform were concluded in March 1999 by heads of government meeting in Berlin. The Summit made a number of changes to an agreement reached by the Agriculture Council a few weeks earlier. These were mainly to reduce the projected expenditure on the CAP and included restrictive limits on the amount of money that could be spent on rural development and the environment. The main CAP budget was limited to Euro 40.5 billion per annum. However, heads of government disagreed as to how this should be achieved. One group, including France and the UK, were in favour of a gradual reduction in the level of direct payments which farmers were to receive, with some of the savings transferred to the rural development budget (which includes agri-environment). This approach, known as degressivity, was opposed by Germany and other Member States
who preferred to cut expenditure by postponing reform of the dairy regime, scaling back price cuts for cereals and retaining set-aside. This group prevailed in the final conclusions since it proved difficult to agree on a way of making degressivity work acceptable to all Member States. The Berlin agreement on Agenda 2000 thus significantly watered down the reform package and inevitably there was some loss of the sense of direction and coherence of the Commission’s own proposals (Tangermann 1999).

**Agenda 2000: the Environmental Perspective**

Political agreement on the Agenda 2000 reforms was thus achieved in March 1999. The changes made to the CAP are significantly less ambitious than what the Commission had earlier proposed and they are to be revisited in 2002. The key changes continue in the direction set by the MacSharry reforms of 1992, of price cuts linked to increases in direct compensatory payments. The commodity sectors covered are arable crops, beef and wine (dairy reform was put off until 2005). There are also certain important procedural changes that could potentially affect all supported sectors, including the attachment of environmental conditions to farm payments and the possibility to modulate (i.e. to cream off a proportion of) the CAP subsidies to individual farmers in order to fund countryside management schemes. Finally, measures to promote agricultural and rural development and the management of the countryside are consolidated and made subject to a new decentralised programming procedure under the new Rural Development Regulation (1257/99).

Agenda 2000 proved to be only a very partial reform of the CAP which arguably failed to meet its main economic and political objectives or to respond adequately to the broadening public demands on agriculture and the countryside. It certainly failed to live up to the expectations it had aroused. In the words of one NGO:

> ‘This reformed CAP will continue to reward intensive production with the largest share of the budget being given over to farmers who engage in agricultural practices which are damaging Europe’s rural environment. Little has been achieved to encourage a shift from production towards more environmentally sustainable ways of

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farming. New resources have not been made available to enable farmers to find new sources of income’ (WWF 1999, p.6).

Because the reform does not reduce the level of subsidisation of the agricultural sector and does not decouple compensation payments from production, it is likely to be subject to fierce challenge in the coming WTO round when the EU will face strong pressures to further liberalise policy and especially to reduce area aids. In addition, the heavy levels of agricultural subsidy would be expensive to introduce into the countries that are seeking EU membership. The European Commission insists that it would be inappropriate to pay compensatory payments to farmers in the new member states for cuts in price support which have occurred in the EU. However, it will be hard to sustain differential levels of agricultural subsidy in a single market, once the EU has been enlarged. For these reasons, it is likely that further changes to the CAP will be needed within the next few years.

From an environmental and countryside perspective, the Agenda 2000 results are disappointing because they:

- prolong many production subsides which continue to encourage intensification or have other damaging consequences;
- fail to fulfil the promise to establish rural policy as a ‘second pillar’ to the CAP;
- postpone reform of the EU dairy regime whose intensive production contributes to nitrate problems and farm waste pollution; and
- leave unreformed the regimes for many Mediterranean products and for sheep meat.

There are, nevertheless, some positive features which should allow environmental considerations to be taken forward, notably:

- the new framework of the Rural Development Regulation and its opportunities to promote the integrated and decentralised planning of agri-environment, agricultural and rural development measures, though within severe financial constraints;
- opportunities to apply environmental conditions where direct commodity payments are made;
- a new approach to Less Favoured Areas where payments will be made on an area, rather than a headage, basis and be better targeted at environmental objectives;
- national discretion in the application of a proportion of direct payments (the national envelope) to the beef sector (and eventually the dairy sector) which potentially could support extensive grazing for environmental purposes;
- national discretion to modulate the total CAP subsidies for individual farmers in order to increase expenditure on agri-environment, less favoured areas, afforestation and early retirement schemes.

A common characteristic of all these features is the significant degree of national discretion involved in their implementation. We consider the first two of these features separately in following sections, but turn next to consider the remaining features within a discussion of the resources for environmental supports. Then the scope is considered for achieving an integrated system of supports specifically focused on environmental objectives for Less Favoured Areas. For agriculture elsewhere, much greater emphasis will need to be given to promoting environmental standards through a variety of mechanisms, including the application of environmental conditions in relation to commodity payments. Finally, the Rural Development Regulation offers the opportunity to promote the decentralised planning of countryside management and development.

**Resources for Environmental Supports**

Agenda 2000 commits few additional resources directly for environmental supports. Indeed, agri-environment expenditure as a component of the Rural Development Regulation is subject, in principle, to a freeze on spending until 2006 (see Figure 2). This contrasts with the situation following the 1992 reforms of the CAP when expenditure on agri-environment and other accompanying measures was allowed to rise year on year in response to the take-up of relevant schemes by Member States. CAP expenditure on the rural development and accompanying measures is expected to reach Euro 4.38 billion in 2000, from the Guarantee section of the EAGGF
(FEOGA), around 10.5 per cent of the total budget. By the year 2002, the proportion of the budget will have actually fallen to 9.9 per cent. Even by 2006, rural development and the accompanying measures will still account for no more than 10.5 per cent of the CAP budget. Even though both the Rural Development Regulation and the commodity supports are within the EAGGF (FEOGA) Guarantee Section, decisions taken at the Berlin summit effectively segregate the expenditures on them, which will prevent any transfer of funding out of commodity support, even if savings are made in the latter.

The prospects for additional resources for environmental ends now depends on the possibilities to reorient certain production-related payments: namely, through the re-use of monies recouped from the imposition of modulation and cross-compliance conditions on commodity payments; and through the ‘greening’ of Hill Livestock Compensatory Allowances (HLCAs) (i.e. the additional payments to support livestock farming in Less Favoured Areas – LFAs). The national envelopes for beef payments could also in principle be used to support environmentally beneficial farming systems.

Under the so-called horizontal regulation (1259/99), which applies to all the commodity regimes, Member States are required to define appropriate environmental conditions to attach to commodity payments to farmers, as well as proportionate penalties - through forfeiture of payments - for farmers who infringe these conditions (see below). Member States are also authorised to modulate direct payments per farm in relation to either employment on the farm, farm profitability criteria, or the total amount of state aids received. The funds accrued from the withholding of payments under either measure will remain available to the particular Member State as an additional support for certain measures under the Rural Development Regulation, namely agri-environmental measures, Less Favoured Areas, early retirement and afforestation. However, the resources that may come available from penalising farmers for transgressing environmental cross-compliance conditions are likely to be neither significant nor reliable. Modulation, though, could yield significant resources by reducing supports to large farms (typically arable ones). Member States are entitled to modulate up to 20% of compensation payments to farmers.
There are also the changes to HLCA payments. Compensation allowances for farmers in Less Favoured Areas (LFAs) will in future be conditional on the use of sustainable farming practices. For livestock, they will be paid per hectare, rather than in the form of headage payments. Furthermore, there is a new provision whereby compensation allowances can be paid to farmers who are subject to restrictions arising from Community environmental legislation. These changes amount to a significant reorientation of LFA policy towards environmental objectives.

A final element of resource that could be inflected towards environmental objectives is the ‘national envelope’ within the beef regime. A small proportion of beef direct payments can be distributed by Member States at their discretion, within certain EU rules, to give greater flexibility in addressing regional disparities and to encourage extensive production. Support from these envelopes can be either in the form of headage payments or acre payments, based on the area of pasture on a farm. Area payments directed towards more extensive producers on permanent or semi-permanent pasture would be the best option environmentally in most circumstances.

**An Integrated Support System for LFAs**

These changes, if properly orchestrated, could provide an integrated support system at least for LFAs that would be environmentally sustainable. However, even within the LFAs, because HLCAs are only a fraction of the subsidies that hill farmers receive, any effective greening of overall support policies would need to be complemented by the use of cross-compliance and the national envelope. An integrated support system for the LFAs under Agenda 2000 could therefore look like Figure 3.
The HLCAs would need to be redesigned as area payments and redirected to support the kind of farming systems that could deliver high biodiversity and landscape goods. The funds specifically available for this, though, are very limited and could neither give sufficient support to the farming nor cover the costs of positive environmental management. This is why careful coordination is needed with the application of commodity payments on the one hand, and with agri-environment and conservation management payments on the other. An additional possibility is opened up with the new LFA regulation which allows for payments to compensate for environmental restrictions. This could mean elements of LFA support being inserted into the top layer to fund some management of protected sites.
The critical requirement will be for careful coordination between the layers to ensure that the rules and resources applied complement rather than duplicate one another. In this regard, the Rural Development Regulation, as the main instrument for programming the middle layer in correlation with both national resources and CAP commodity payments, assumes strategic significance (see below).

A different model would need to be applied, under Agenda 2000, to the environmental protection of lowland farming in general and arable agriculture in particular - one of special sites and targeted agri-environment schemes resting on a base of environmental standards and legislation. For these areas, therefore, the opportunities to apply environmental conditions in relation to commodity payments may offer a crucial set of basic safeguards.

**Environmental Standards and Cross-Compliance**

Where farmers receive direct support, Member States are under a general obligation to take "the environmental measures they consider to be appropriate in view of the situation of the agricultural land use or the production concerned and which reflect the potential environmental effects". Member States have considerable latitude in deciding what is appropriate and may choose from one of the following measures:

- support for agri-environmental schemes;
- general mandatory environmental requirements;
- specific environmental requirements as a condition for direct payments (what is commonly referred to as cross-compliance).

Member States may also decide on proportionate penalties to apply for environmental infringements involving, where appropriate, the reduction or even the cancellation of direct payments to errant farmers.

Member States already had the option, under the 1992 MacSharry reforms, of applying environmental cross-compliance to livestock payments, but most had not
done anything about it. Under Agenda 2000, action by Member States is no longer optional - there is a formal obligation on them to specify appropriate environmental measures. Moreover, they must do so in relation to all sectors (not just livestock) that benefit from direct payments to farmers. Potentially, this undoubtedly represents a major extension, across sectors and countries, of the principle of attaching environment conditions to farm payments. Indeed, where there is the will, there is now the scope to take a comprehensive approach to specifying environmental requirements for supported agricultural sectors. In principle, this should involve identifying the variety of ways in which supported farm production can damage the environment and the combination of regulations, cross-compliance and incentives to prevent it.

Member States, though, are left with considerable discretion over how to proceed. In some respects, this is quite appropriate as the environmental relations of agricultural production vary considerably by farming system and region. However, within the discretion ceded to them, it would seem quite possible for Member States to adopt, if they choose, a rather formularistic and cursory stance to their responsibilities. The way is certainly open for divergent approaches in terms of both the degree and the nature of the action taken. The very limited response to the cross-compliance option under the MacSharry reforms does not indicate enthusiasm for the measure within Member States. Without a stronger, more co-ordinated and more accountable common framework for action, some states are likely to succumb to lobbying aimed at blocking any effective steps towards environmental protection that might adversely affect the competitiveness of domestic producers. States already differ in the significance they accord agri-environmental problems and in their relative preference for controls or incentives in dealing with them (see Chapter 15, this volume). This reflects in part differences in the objective nature and severity of the problems they face. But it also reflects the relative strengths of agricultural and environmental interests which vary markedly between states. That makes problematic the achievement of an EU-wide reference level for good agricultural practice and may well result in variable environmental standards and different public responses to agri-environmental problems between Member States.

**The Rural Development Regulation**
The Regulation lays the basis for a Community rural development policy which aspires to be a ‘second pillar’ (to that of commodity management) within the CAP. It draws together a number of existing regulations and agricultural support measures (Figure 4). Rural development, thus conceived, embraces both farm and non-farm developments as well as agri-environment measures and forestry, and has the following strategic objectives:

- supporting a viable and sustainable agriculture and forestry sector at the heart of the rural economy;
- developing the territorial, economic and social conditions necessary for maintaining the rural population on the basis of a sustainable approach;
- maintaining and improving the environment, the countryside and the natural heritage of rural areas.

The new Regulation allows considerable discretion to Member States to programme the different elements together holistically and in ways responsive to the diversity of rural conditions and circumstances. They must “ensure the necessary balance” between the measures used from the Regulation (Article 43). Agri-environment measures are the only compulsory element which will have to be implemented throughout the territories of all Member States.

Member States are required to submit integrated Rural Development Planning Documents to the Commission by January 2000 to cover spending for the period 2000-2006. The Regulation specifies that “Rural development plans shall be drawn up at the geographical level deemed to be the most appropriate” (Article 41). This leaves it entirely to the Member States to decide on the appropriate internal level for implementation. Thus, programming could be at the national level if states chose to do so, although this would not be in the spirit of the decentralised approach the Commission is promoting. The guidance on the implementation of the Regulation says “emphasis must be on participation and a ‘bottom up’ approach”.

The Rural Development Regulation has thus a number of novel, and potentially significant aspects. First of all, rural development policy is established as a central
feature of the CAP, co-financed by the Community from the CAP Guarantee Fund. Secondly, it is to be a horizontal policy, covering all rural areas. Thirdly, an integrated legal framework is set up for farm and rural development and agri-environmental measures, with the implementation subject to decentralised multi-annual programming. Fourthly, support is potentially available for non-farmers and non-farming activity from the CAP (under Article 33 of the Regulation - see Figure 5).

The new Regulation has been enthusiastically welcomed by environmental and rural organisations. In the words of one NGO:

““The new Rural Development Regulation is a major opportunity to rebalance support to rural areas. It is a blueprint for an innovative and more integrated approach to rural development. The new regulation, which must work in harmony with regional and other rural policies, has the potential to deliver real economic, social and environmental benefits” (Royal Society for the Protection of Birds 1999, p.6).

However, initially, there are few additional resources to implement the Regulation (see Table 1). The Berlin agreement does not allow for any real growth in the budget for the Regulation between 2000 and 2006, which will make it difficult for Member States to implement it effectively. The hope, in the longer term, must be that monies saved from agricultural support could be made available for integrated rural development. There is no assurance, though, that this will happen. Member States, however, do have the discretion to modulate commodity payments in order to expand the resources available under the Regulation. Whether or not they choose to do so will be a significant test of their interest in the progressive reform of the CAP.

In the short and medium term, the most significant implications of the Regulation concern potential changes in procedure that could lay the basis for new institutional structures for rural development programming and support, around which over time the larger CAP could be transformed.
Table 1: Indicative financial allocations$^1$ under the Rural Development Regulation for the period 2000-2006 from the EAGGF Guarantee Fund$^2$

<table>
<thead>
<tr>
<th>Member State</th>
<th>Allocation (annual average in millions of euro at 1999 prices)</th>
<th>% total allocation</th>
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<tbody>
<tr>
<td>Austria</td>
<td>423</td>
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</tr>
<tr>
<td>Belgium</td>
<td>50</td>
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<td>Denmark</td>
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<td>Finland</td>
<td>290</td>
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<td>France</td>
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<td>Germany</td>
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<td>Total</td>
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$^1$ These may be adjusted by the Commission within the first 3 years and within the limits of the overall resources available.

$^2$ Total resources will be higher because of the need for Member State part-funding.
References


