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## From CAP to CARPE: the state of the question

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### Abstract

There is a contradiction in Europe affecting the design of an efficient and effective rural development policy. It depends by the fact that the discussion on rural development is, as a matter of fact, an issue discussed prevalently in the agricultural circles and influenced by sectorial interests. The outcome is that the CAP reform proceeds too slowly and concentrates prevalently on agricultural aspects, neglecting to take in due consideration the wider complexity of rurality. Scarce is thus the integration with the other European structural policies. The paper presents first an analysis of the role reserved to rural areas in the elaboration of non-agricultural specialists and in the definition of a sustainable development and cohesion policy across Europe. In the following it examines how the CAP reform process has still only partially converged towards an integrated rural policy, maintaining substantially a sectorial character and a redistributive role. The MTR and the Salzburg Conference should be considered as very important steps in the right direction, but much remains still to be done.

**Keywords:** CAP reform, integrated rural development, rural development policies

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# 1 Introduction

There is a macroscopic contradiction in Europe which for a long time has affected the political and technical debate on the reform of the CAP and on the initiation of a policy of rural development. On the one hand, there is the need of the EU to organize itself in order to better address the goals identified by the Treaties: *“promote (...) a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.”*<sup>2</sup> The keywords are clearly: *convergence, cohesion, sustainability, solidarity, employment, environment*. Moving the Union towards these goals is all the more important now that the enlargement is increasing the gap between highly developed regions and underdeveloped ones and there is a growing awareness of the impact, as well as of the opportunities, of the collocation of Europe in a network of international political and economic relations much thicker than in the past. As for economic and social cohesion, the Treaties specify that: *“In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.”*<sup>3</sup>

On the other hand, there is the actual system adopted by the EU. A system marked by profound imbalances, deeply seated interests and privileges consolidated in time, which are at odds with the need to provide adequate resources for the new functions of Europe. Clearly there is a need for large and complex changes, which must be pursued firmly but gradually, without sharp breaks and without penalizing those whose past choices have been oriented by European policies themselves. It is necessary to remain within the boundaries set by the modest financial resources of the EU and the willingness of Member States to commit towards it, integrating the action of the EU through national policies which have and will continue to have much greater resources at their disposal.<sup>4</sup> All this while keeping in mind the complexity of the changes and therefore the necessity for a mid-long term perspective.

The greatest contradiction from this perspective is found in the agricultural policy, whose impact on the budget is way too excessive compared to the actual contribution of agriculture to the European gross product and to employment. The most evident sign of this disproportion is the quota of overall spending still reserved for this policy in the financial budget of the EU (around 43%). This disproportion is a consequence of the founding role that agricultural policy had from the start of the European experiment: the 1957 Rome Treaty would have been an international agreement among many, if it had not been followed by the 1958 Conference of Stresa, and if a true European policy had not been born along with the CAP, which, in fact, remained the only true European policy, at least till the beginning of structural policies towards the end of the 80s.<sup>5</sup>

Europe was thus built on the CAP. Its institutional system, its procedures, its language largely derive from the CAP. Because of this, the CAP's influence on the EU extends way beyond its technical domain: consider, for example, the impact of the agricultural package on the enlargement, on international commercial agreements, on competition policies, on cooperation for development.

These two factors, the overall weight of the CAP and its foundational role, have a strong influence on neighboring issues, such as rurality, the environment and food quality. Thus the

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<sup>2</sup> European Union, *Treaty establishing the European Community* - (consolidated text) (Official Journal C 325 of 24 December 2002).

<sup>3</sup> *Ibidem*, Title XVII: “Economic and Social Cohesion”, art. 158

<sup>4</sup> It is worth remembering that the overall budget of the EU is limited to a maximum of 1.24% the GDP of the EU. Not much, as rightly noted by the Commission, compared to the 47% of the GDP that Member States reserve for themselves in total, even considering the much greater range of functions.

<sup>5</sup> Consider that even in 1985, the incidence of the CAP on the European budget amounted to 72.8%.

political debate on the definition and realization of a rural development policy in Europe takes place largely in the context of agriculture, where interests at stake and available resources are greatest. This is natural and it is a good thing for agriculture to contribute to the definition of a rural development policy. But these circumstances also liable to produce significant distortions. Especially if the debate was closed to outsiders and there were insufficient awareness of the general import of the rural question in relation to the greater goals of the Union: economic and social cohesion, enlargement and integration, the safety of the territory and of the environment, the coordination of European space.

The scientific community has clearly the responsibility of providing interpretations and analyses independent of the sectorial priorities of the various disciplinary fields, and of the immediate political context, where contingent pressures and interests inevitably prevail. This responsibility concerns especially agricultural economists.

The present paper represents an effort to interpret the reform of the CAP from this perspective. It is divided into two parts. In the first part, it addresses the question of rurality and rural development, trying to move beyond the specialist domain of agricultural economics and policy, to offer a strategical reflection on European economic development and the solution of regional unbalances, as well as on the correct administration of spatial and territorial resources.

It is an analysis that must take into account the evolutionary trends that influence spatial relations in regards to globalization processes, the emergence of new needs and the influence of new technologies (especially ICT). The ultimate goal of this section of my paper is to provide an overall evaluation of the extent to which regional policies, particularly cohesion policies, offer, for the present and the future, viable solutions and procedures for rurality and the development of rural territories.

Having outlined this general framework and a territorial development perspective, the second section of this paper will be dedicated to reviewing, albeit summarily, the development of the CAP in the last twenty years, particularly in reference to the more recent reforms, in order to evaluate the extent to which the contribution of agricultural economics and policy was consistent with the more general policies and expectations within the EU.

The final section will offer some final general considerations on the developments that have taken place.

## **2 The rural question in the context of regional issues in Europe**

The importance of rural development in Europe is to be inferred, first and foremost, from the analysis of the peculiar relations in the EU between center and periphery: between central regions, traditionally rich and characterized by high population density, and peripheral regions, sometimes on the very borders of the Union, characterized by underdevelopment and low population density. If one were to draw five imaginary lines between London, Paris, Milan, Munich and Hamburg, the result are the borders of a pentagon, which is the heart of the union. In this area, which represents 20% of the surface, lives 40% of the population, 50% of the GDP is produced, and all the global functions of the EU are concentrated. With the enlargement, the areas outside the pentagon will grow considerably and the gaps will increase:<sup>6</sup> while the ratio between average GDP per capita in PPP between the first and last ten Nuts2 regions is 2.6 in EU-15, it is 4.4 in EU-25 and would be 6.0 in the EU-27 hypothesis, which includes Romania and Bulgaria.<sup>7</sup>

It is evident that economic and social convergence, the main goal of EU cohesion policy, is to become the fulcrum of its entire initiative. It is in this context that the relation between rural and

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<sup>6</sup> One must note that the enlargement entails a modest 7% in GDP increase, compared to a 28% growth in population and a 43% growth in surface.

<sup>7</sup> Data refers to the year 2000.

urban areas becomes relevant. A relation where old and new factors are at play and which deserves to be well analyzed in the light of the developments that have taken place over time.

In the past, cities—thanks to their centrality and the advantages of agglomeration—were the privileged sites of beauty, scientific, artistic and cultural production, good government and safety, identity and diversity. Their geographical centrality and large and growing population ensured a number of advantages in terms of economic efficiency and geographical opportunities. The rural territory on the other hand was limited by a common condition of underdevelopment and dependency, caused by its distance from the center, poor communications, climatic disadvantages, lack of infrastructures and technology. In this situation, rural areas (devoted almost exclusively to agriculture) were a place of almost inescapable economic and social difficulty, where livelihood depended on a one-way redistribution of wealth, from center to periphery, operated mainly, when not exclusively, through agricultural policies.<sup>8</sup> In exchange, the country, in its subordinated relation to the city, where incidentally the actual ownership of land was concentrated, provided the latter with rent from land ownership, food security, low-cost labor, and, when needed, soldiers for armies. This subordinate position has been for a long time a characteristic feature of our society and has disappeared only recently in Western Europe, while it still retains some residual importance in some CEECs.

A new system of relations has development instead which will soon extend to Eastern countries. Cities, through industrialization first and then through the development of services, have become enormous. Their form has been standardized. The cost of their concentration have become often unacceptable. They are now a place of unhappiness, traffic, danger. Homologation has affected them to the point that, for many human activities, they are a place to escape from, if and as soon as possible.

On the other hand, rural areas have shed off the population in excess and lost the homologating character of agrarian rurality and marginality. Some have begun to develop an economy based on artisans or small-medium enterprises, which in some cases have been successful to the point of competing in the international market: this is the case, for example, of small and medium enterprise manufacturing districts in many European rural areas. Others have centered their development on tourism and their cultural, historical, and environmental resources. Others yet have focused on the industrial and commercial promotion of typical food products as well as other kinds of products.

These well-documented processes are the result of a combination of endogenous and exogenous development factors. Among the latter, technological improvements have played a crucial role, limiting the negative impact of physical distances, making small-scale productions convenient and improving economies of scope. At the same time, average income growth and increasingly rapid changes in demand have led people to replace old standardized productions with new personalized productions rich in non-codified innovation, for which rural areas have discovered they possess a competitive advantage due to their redundant knowledge, “face-to-face” relationships, learning capability. The success of these experiences was the result of greater flexibility, polymorphism, and the typical resilience of rural areas in contrast with the rigidity of the old systems based on Tayloristic-Fordistic organization.

Naturally, only some rural areas have had the ability or the luck to reap the benefits of this change. Others still lag behind. Sometimes due to endogenous limitations. Sometimes because of severe geophysical and environmental limitations. Sometimes because available resources were not strategically exploited or because the wrong policies were adopted. But the tendency is clear. The relation between urban and rural is now much more balanced. The most evident sign of this is the general decline in population in larger cities and the demographic

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<sup>8</sup> As confirmed by the fact that agricultural policy was entrusted not only with sectorial functions of support to the market and structural improvements, but also with redistributive and social functions, directed at improving welfare in rural areas.

inversion that occurred in many rural areas, especially those that better endowed in terms of transport and the attractiveness of the environment.<sup>9</sup>

Thus economic, social and cultural relations, which were once unidirectional along the country – city axis (thus justifying an agricultural policy based on income redistribution in the opposite direction), are now multidirectional and connect also secondary centers, without necessarily going through the larger cities. On the other hand, over time, the historical coinciding of places of residence, work and consumption no longer exists. Not only do people have more than one place of residence and work (not mention of consumption), but residence, work and consumption can take place in completely different areas, spread out among urban and rural localities, sometimes at a great distance from one another.

The relation between urban and rural is now based on interdependence and mutual exchange of services. Rural areas, which rightly include the small and medium sized towns they contain, no longer contribute exclusively food supplies, they also provide residential and recreational services, advantageous localities for the settlement of small-medium industrial and service enterprises, quality environment and landscape, biodiversity, clean water and, increasingly, clean and renewable energy of the most various origin: solar, wind, hydroelectric, from biomass.

In summary, the border between rural and urban is being blurred and the two realities interpenetrate one another. The urban-rural relation is characterized by increasing complexity and interdependence, creating a need for common strategies and integrated policies on a regional scale.

### **3 Success stories and the role of agriculture**

Success stories serve to identify the key factors in rural development, which in the present definition is nothing other than a particular case of regional and local development. These factors are found in the interaction between enterprises, productive sectors, institutions and territory, and the exploitation of the latent potential of rural areas. Having said that, solutions can (and should) be different, adapted to the different geographical contexts and the specific structural, infrastructural, historical, environmental, social and human resources. Rural areas differ especially in relation to accessibility, their residential-touristic importance, the fertility of the land, the presence of typical food products, the presence of an artistic-historical tradition, etc.

The problem is how to orient interests towards a common normative and behavioral horizon and a common political agenda. How to create and improve the relational capital both in terms of internal governance and of the capacity to attract external demand, investments, public spending. The challenge is therefore first and foremost one of organization.

The goal of rural development policies must be that of creating the preconditions for this organizational development by removing or attenuating the effect of physical barriers (through better transport, telecommunications, energy distribution), increasing human and social capital (by creating an efficient institutional and administrative network), creating the conditions for producing innovation and sustainability on the basis of existing know-how and new technologies.

A crucial factor in this context is the establishing in rural areas of an adequate service system for citizens and enterprises, suited to the peculiarities of the new distribution of functions over the territory. This because it has not been uncommon for emigration, due to agriculture restructuring and the lack of job alternatives, to be accompanied by the elimination or centralization of services essential to life quality and development: hospitals, post-offices, commercial and administrative activities, transport, energy distribution and maintenance. There is no conservative vision behind this statement. The question instead is that of reorganizing the distribution of services over the territory in relation to the new distribution of needs and to

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<sup>9</sup> To mention just a few cases, the first ten cities in Italy in the 1971-2001 period have lost two million inhabitants (from 10 down to 8 million), while in France, between 1975 and 2000, areas defined as "rural" have gained 500.000 inhabitants.

new technologies, through a unitary vision of the territory and a flexible and integrated rural-urban approach in order to avoid creating unbalances, or dangerous conditions of congestion on the one hand and isolation on the other.

From the above perspective, it is obvious that the definition of rurality goes well beyond agriculture and the country.<sup>10</sup> After all, our empirical evidence on the Western world, including agriculturally more advanced areas, such as the ones found in the US, indicates that a sectorial approach rooted exclusively on agriculture, especially if based on price protection and generic financial support to markets and incomes (and land rents), is not only incapable of producing a lasting and sustainable development, but is often accompanied by even greater population decrease, loss of collective services, aging, marginalization.<sup>11</sup>

Furthermore, when enormous public resources,<sup>12</sup> such as the ones of the CAP, are concentrated mainly, as is often the case, on commodity agriculture—produced with standardized capital-intensive and labor-saving techniques—they become an obstacle to rural development. The reason is that this type of agriculture, on the one hand, is incapable of keeping within rural areas a population and workforce sufficient to justify adequate collective services; on the other hand, it has a negative impact on the environment and landscape, on extra-agricultural economic activities (tourism), and is met with the hostility of residents who are not farmers. It is significant that farmers themselves, when possible, choose the city as place of residence, inverting the usual commuting pattern. To this we must add that even in specifically suited areas, where competitive advantages suggest the possibility of competing on liberalized markets, Europe remains severely threatened by the world market of standardized agricultural productions and commodities. Under the combined weight of competition from high-technology extensive agriculture from traditional exporters (US, Canada, Australia, etc.) and from emerging countries with incomparably lower labor cost, European agriculture could be forced to put the environment and territory under even more pressure.

The relation between agriculture and rural development would be entirely different if agriculture were diversified in relation to local specificities and vocations, integrating itself with other sectors and orienting itself towards multifunctionality, quality production and service agriculture. This approach is in fact, under the surface, already deeply rooted in Europe.<sup>13</sup> Unlike standardized commodity agriculture, this type of agriculture provides greater employment opportunities, can respond more adequately to the demand of consumers and tax payers and succeeds much better in integrating itself with rural development. Not only does it not produce conflict, it promotes the integration of the needs of farmers and non-farmers and rural areas, it establishes a positive relation with rural development by contributing to it and at the same time benefiting from it through the exchange of productive factors (especially workforce) and knowledge and through the increased demand for products and services. In this way, agriculture is integrated in other rural activities instead of being in contrast with them, it benefits from them and offers them services on an equal basis.

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<sup>10</sup> It is calculated that in France, even though it is the foremost agricultural country in Europe, 90% of families residing in rural areas are not employed in agriculture and that in no region does the number of employed in agriculture exceed 20% of the total workforce.

<sup>11</sup> M. Drabenstott (2003), "The New Frontier for U.S. Rural Policy", in: OECD, *The Future of Rural Policy From Sectoral to Place-Based Policies in Rural Areas*, proceedings of the conference "The Future of Rural Policy", Siena, Italy, 11-12 July 2002.

<sup>12</sup> According to the most recent estimates, the *Total Support Estimate* (total support for agricultural productions in terms of public transfers and price increases paid by consumers) in OECD Countries was of 338 billion Euros in 2002. Source OECD (2003), *Agricultural Policies in OECD Countries*.

<sup>13</sup> Particularly interesting in this regard, are some results of the IMPACT research, carried out through a survey of 3,264 professional farms in six European countries "For only 17 of the surveyed farms is there no expression of rural development activity. (...) On the large majority of (professional) farms, the farm family income depends on a range of sources: on commodity production, but also in deepening and broadening activities, on pluriactivity and on new forms of cost reduction. In short: multifunctionality is not a political project, it is already a well established and widespread reality": H.Oostindie, J.D.Van der Ploeg, H.Renting, "Farmer's experiences with and views on rural development practices and processes: outcomes of a transnational European survey", in AA.VV. (2002), *Living Countysides. Rural Development Processes in Europe: the State of the Art*, Elsevier.

From this perspective, a coordinated marketing activity for the whole rural territory appears to be much more efficient and effective than a marketing action focusing exclusively on agriculture, or -even worse- on specific products, as frequently happens.

Further on I shall discuss the extent to which the current CAP reform is transferring resources to this type of agriculture. It is clear however traditional CAP has virtually ignored it.

These issues would well deserve a more in-depth discussion, which would however be beyond the scope of the present paper. I therefore will refer the reader to the extensive literature available on the subject and try instead to answer two crucial questions: what is the perception within the EU of the new territorial relations outlined above, especially in regards to the urban-rural relation? How should we judge the adequacy of current politics and of the ones being planned for the future?

## 4 The goals of the EU for cohesion and convergence

If one looks for clues to the answer in European documents (analyses, evaluations, norms) on cohesion and structural policies, and on the results of European initiatives (LEADER mostly, but also INTERREG and others) or in the debate on the European Spatial Development Perspective (ESDP),<sup>14</sup> it becomes evident that the EU has a clear view of the problems. Furthermore, over time, especially after the reform of structural policies in 1988 and the unification of the action of structural funds for strategic objectives, the EU has consolidated an equally consistent methodology. Clearly, this consideration is tempered by the limited resources and the inevitable political compromises that policies have been subjected to. On the other hand, in the present conditions, as has been repeatedly observed, no European cohesion and convergence policy will suffice unless it is accompanied by substantial and complementary national policies.

The strategy adopted has certain common features, consolidated by European praxis and acknowledged as guidelines for Member States: an overall action program based on the territory; a territorial and intersectorial view of development; concentration and additionality; partnership and co-financing; bottom-up approach in defining strategies and fine-tuning the implementation; selection of projects on the basis of public call for tenders; contractualization of interventions; evaluations of all stages of projects: ex-ante, in itinere and ex-post.

The recent *Third report on economic and social cohesion*<sup>15</sup> confirms what I said above. The above strategy has produced positive results in terms of: economic convergence of cohesion countries; positive changes in Objective 1 regions in general; growth in GDP, employment and productivity higher than European average, modernization of economic structures and management methods; better governance on a regional level, cooperation between regions on a European level.<sup>16</sup>

The European Commission shows signs of intending to confirm this strategy for the near future, redefining the goals on the basis of new priorities,<sup>17</sup> but basically confirming strategies and modes of implementation.

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<sup>14</sup> European Commission (1999), ESDP - *European Spatial Development Perspective Towards Balanced and Sustainable Development of the Territory of the European Union*, agreed at the Informal Council of Ministers responsible for Spatial Planning in Potsdam, May 1999.

<sup>15</sup> European Commission (2004), *A New Partnership for Cohesion. Convergence, Competitiveness, Cooperation. Third Report on Economic and Social Cohesion*, February.

<sup>16</sup> "Since 1994 when the Structural Funds were strengthened, GDP per head in Objective 1 regions has converged towards the EU average. Between 1994 and 2001, growth of GDP per head in these regions taken together averaged almost 3% a year in real terms as against just over 2% a year in the rest of the EU". The statement is confirmed by the fact, from 1990 to the present day, the ratio of the GDP of the ten most rich regions of EU-15 to the 10 poorest ones, has changed, albeit slightly, from 2.8 to 2.6. *Third Report on Economic and Social Cohesion*, cited above.

<sup>17</sup> The new priorities are: "convergence and competitiveness" for all regions with GDP per capita lower than 75% of EU average (78% of the budget); "regional competitiveness and employment" for the rest of the EU (18% of the budget); "European territorial cooperation," maintaining the strategical function of the present INTERREG program (4% of the budget).

This orientation has been confirmed and reinforced on a financial level. In the proposal presented recently by the Commission for the new 2007-2013 Financial Perspectives, the resources assigned to this policy, under the heading “Sustainable development” have gone from the initial 39.4% to 48.7% at the end of the period,<sup>18</sup> a value that in 2013 will exceed by 10 points spending for the CAP, which is at the moment by far the greatest.<sup>19</sup>

This orientation goes hand in hand with the parallel evaluation of the LEADER Community Initiative throughout its history. In spite of the limited financial resources assigned to it, LEADER has had positive results in terms of experimenting and anticipating strategies specifically oriented towards rural areas.<sup>20</sup>

Naturally, though the general strategy for structural policies seems consolidated, there have been further contributions to the debate (and to potential further reforms). The recently published Sapir Report,<sup>21</sup> is certainly the most interesting document, also because of its radical nature. Taking its moves from the Lisbon agenda, it advocates a substantial and forceful reinforcing of the above strategy, proposing a more substantial requalification of the tools adopted and a corresponding increase in the budget, in order to concentrate resources on three objectives: economic growth, convergence and restructuring. In the latter area, in reference to agricultural expenditure, it is particularly critic and explicit arguing for the need to “*shift away from the agricultural expenditure*”<sup>22</sup>. The EU, according to the Sapir Report, should not concern itself with redistributive functions (price support, direct payments, and market policies in general have indeed taken on this aspect); these must be reassigned to national policies. The consequence is the proposal of a sharp cut to the agriculture budget and the restriction of the EU role to the restructuring of agricultural systems and farms, especially in relation to the structural problems of the new Member States of Central-Eastern Europe.

It is also true that there have been many negative reactions to the Sapir report, even within the Commission itself. The fact remains, however, that it stands for a strategic vision that is still shared by many within the EU, which those responsible for the CAP and its reform will necessarily have to take into account.

## 5 Isolation of the CAP and the fight over the reform

If we examine the evolution of the CAP in the light of the above considerations, it becomes evident how the reform of the CAP has been historically treated as a sectorial issue, independent of other policies, and has followed an uncertain route, in the absence of consensual

<sup>18</sup> It is worth noting that the total amount reserved for structural policies in 1988 was only 17% of the EU budget.

<sup>19</sup> Commission des Communautés Européennes (2004), Communication de la Commission au Conseil et au Parlement Européen, *Construire Notre avenir commun. Défis politiques et moyens budgétaires de l'Union élargie – 2007-2013*, COM(2004) 101 final, Bruxelles.

<sup>20</sup> “LEADER was an efficient initiative. It proved to be adaptable to every rural socio-economic and governance context. It brought local actors, administrations and support structures closer together and mobilised the potential of voluntary work among local people. It fitted well to small scale area-based activities and projects in lagging regions and vulnerable rural territories” (...) “LEADER was an effective initiative. It closed the gap between a top-down programme and the local people, their needs, aspirations and potential. It conveyed responsibility to local partnerships and contributed by re-linking public and private, profit-making and non-profit activities, as well as infrastructural and entrepreneurial activities. It induced a mentality change among local actors from passive to active attitude”.

European Commission (2003), *Ex-post evaluation of the Community Initiative Leader II. Final report*, ÖIR – Managementdienste GmbH, December 2003

<sup>21</sup> André Sapir and others (2004), *An Agenda for a Growing Europe - The Sapir Report*, Oxford University Press. (Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission, July 2003).

<sup>22</sup> “The structure of the budget (...) implies a very sizeable reduction in the amount devoted to agriculture. This is a radical step away from the present situation. Four reasons justify this reduction. First, the present share of the CAP is so large that unless it is brought under tighter control, no significant reallocation of resources within the current budget of the current size is possible. Second, the CAP moved away from being an allocative policy, promoting efficiency and production, towards being a distributive policy for a particular group of citizens, (...) Third, the large spread of income, population density and climate across the enlarged Union implies a large heterogeneity of preferences that makes it very difficult to conduct a single rural policy from Brussels. (...) Fourth, the CAP does not seem consistent with the Lisbon goals, in the sense that its value-for-money contribution to EU growth and convergence is lower than what is targeted for most other policies. Continuing to fund the CAP at present levels would amount to discounting its reduced contribution to the Lisbon goals compared with potentially much greater contributions from the other growth-enhancing policies”.

The Sapir Report, quoted.



strategical guidelines. These limitations have had a negative impact on European policies for rural development: rather than being treated as a general question, related to general development strategies, and especially to territorial policies of cohesion and convergence, rural development has been treated as a basically sectorial problem, to be discussed in agricultural negotiations, rather than integrated into other structural policies.

The reasons for this can be found in the conflict that, during the last twenty years, has opposed two camps within the CAP: the first, which we shall call the “CARPE,”<sup>23</sup> is the reformist front, characterized by a higher ideal profile and a long-term strategical vision; the second camp is decidedly conservative, and is guided by the material interests associated with the old CAP. The battle is being fought before our very eyes.

The upholders of the reformist front believe that, though some of the goals of the old CAP (such as: food security in quantitative terms, income redistribution to compensate the economic and social difficulties of country life) have lost their original relevance in the course of the decades, other goals (rural development, environment, quality and variety of food, food security in qualitative terms) have become prominent. Further pursuing them requires great resources, which can be difficultly demanded *ex-novo* from tax-payers, because associated with weak interests (a general desire to make the environment cleaner and food safer does not imply a willingness to actually pay for it) and weak representation (after the agricultural exodus, rural areas carry little political weight in terms of voters).

Therefore, the existence of the CAP and its budget represents an opportunity that must be seized in order to pursue two very important European goals. The first: establishing in Europe (without any further burden to tax-payers and for the benefit of consumers) a policy aimed at promoting collective interests, achieving social goals with weak political representation, and narrowing the gap between regions along the new EU strategical lines, such as environment and employment; pursuing, on the basis of agricultural-rural specificities, the goals of cohesion policies through the rural-urban integration and convergence between EU regions.

The second goal is to support European agriculture in its switch from highly standardized products and techniques to the so-called “new European model of agriculture,” ensuring a soft transition that will not discriminate those who currently enjoy CAP support (and have in the past invested according to the indications provided by European policy makers). This entails focusing agricultural policies on the *behaviors* (the *projects*) of farmers (considered as entrepreneurs, no different from other entrepreneurs in other sectors).

The intentions of the conservative front are less noble, but very specific and consist with the maintaining of the *status quo*. Their interests, though various, share the common goal of preserving the privileges accorded to the current *status* of farmer, privileges that are awarded to *subjects* rather than to *projects*. Over time, this special status of farmers, compared to other citizens has translated into a series of tax-benefits and other forms of financial support awarded as a subjective right, associated with a given status and exempt from tight controls and requirements in terms of behavior. Now that the old corporate and sectorial justifications are gone and that a substantial and articulated cohesion policy has been elaborated and initiated, which over time is destined to become the main axis of EU strategy, the problem for this group is to preserve these advantages as long as possible (and consolidate them if possible). From their perspective, the reform of the CAP is not a goal as much as a convenient cover for old privileges, thanks to its greater political and social acceptability.

The world of farmers’ associations and agricultural lobbies (product organizations, land-owners, farmers’ unions, service institutions, related industries, academics of related fields, etc.) divides and merges around the two principles underlying the two fronts. New social actors have emerged over time: for example, environmental and consumers’ associations, non-agricultural lobbies (rural residents, tourist organizations, etc.).

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<sup>23</sup> The acronym “CARPE” stands for “*Common Agricultural and Rural Policy for Europe*” and was coined by the Buckwell group, a workgroup constituted in 1996 at the DG Agri for the purpose of preparing a proposal for the reform of the CAP oriented towards rural development. A. Buckwell (1998), *Towards a Common Agricultural and Rural Policy for Europe*, “European Economy”, n. 5, European Commission - Directorate General for Economic and Financial Affairs.

It is possible to re-examine some of the milestones in CAP history and of the accompanying scientific and political debate as a way to highlight the struggle between these two fronts. Generally speaking, all the “battles” over the CAP tend to conform to the following script: in the initial phase when the goals and strategies of CAP reform are being discussed the reformist principle generally prevails. In the following phase, however, when the actual regulations and procedures are elaborated and implemented the conservative camp comes out on top. Traces of past battles are left on the field: we find them in current terminology, in the gap between proclaimed goals and the resources allocated to their achievement, in the way decisions have been banalized, measures have been made ineffective, controversial decisions have been demanded to Member States.

## 6 The battle over the “Green Book”

Though one could go further back in time, we may start from one of the first major battles, which took place in July 1985, when the Commission, in the so-called “Green Book” [COM (85) 333], recommended the adoption of environmentally compatible practices, such as temporary suspensions of cultivation, productive reconversion, the adoption of reforestation techniques, and proposed, for the first time, to favor the general economic development of rural areas by encouraging employment and income producing activities alternative to agriculture. The opposition of all Member Governments, under pressure from farmers’ organizations, was practically unanimous (only Great Britain and Holland supported the Commission). The reform of the CAP proposed in the “Green Book” was set aside and price support was maintained, though with greater control over agricultural supply (budget stabilizers). Only later were some secondary alternative measures introduced: a first set-aside experiment, forestation, non-food crops.<sup>24</sup>

## 7 The battle of the Mac Sharry reform

The conflict blazed up anew when—following the 1987 Delors Memorandum<sup>25</sup> and the beginning of structural policy in February 1988—<sup>26</sup> the Commission published the document “The Future of Rural Society,”<sup>27</sup> in which it affirmed that “*Rural development should be not simply a by-product of agricultural markets policy, but a legitimate concern in its own right*” and, a few months later in January 1989, commissioner Ray Mac Sharry was made responsible for *Agriculture and Rural Affairs* rather than *Agriculture* as in the past. The goal of an autonomous rural development was confirmed in 1991 with the approval of the new LEADER initiative.<sup>28</sup> The debate over CAP reform revolved around the Mac Sharry proposal which contained a number of significant points taken from the 1985 “Green Book”: lowering of guaranteed prices, introduction of compensatory payments, establishing of accompanying measures. The initial proposals also established a time limit on compensations and their gradual reduction. Proposals were also advanced to set a ceiling on total payments per farm.

The conservatives attacked on various fronts: exclusion of a few fundamental MCOs from the Mac Sharry reform, which was limited to the so-called COP products (cereals, oilseeds, protein crops) and bovine and ovine meat;<sup>29</sup> elimination of all time limits and progressive reduction of compensations; elimination of the ceiling on payments per farm; limited financing of the LEADER initiative,<sup>30</sup> thus made marginal to agricultural interests.

<sup>24</sup> Respectively with regulations n. 1094/88, 1609/89, 2176/90.

<sup>25</sup> European Commission (1987), “*Portare l’atto Unico al successo: una nuova frontiera per l’Europa*”, COM (87) 100.

<sup>26</sup> Particularly with Regulation (EEC) n. 2052/88 of the Council of 24 June 1988, on the missions of Funds with structural goals, their efficacy and their coordination with the funds of the of the European Bank of Investments and other existing financial instruments.

<sup>27</sup> Commission of the European Communities (1988), *The future of rural society*, Com (88) 371 final, Brussels

<sup>28</sup> COM 91/C73/14 del 15 marzo 1991

<sup>29</sup> Excluded OCMs are milk, sugar, olive oil, tobacco and cotton.

<sup>30</sup> 400 million ECU for the 1991-1993 period.

All the reformist camp obtained was the partial decoupling of payments per hectare in proportion to the average regional yield, a significant but modestly financed group of accompanying measures and the LEADER initiative.<sup>31</sup> Another great victory of the conservative camp, however, was the full compensation for price reduction, which precluded to a potential over-compensation, which actually began shortly thereafter.

## 8 The battle of Agenda 2000

A third period of conflict began in 1995. Much before the deadline of 1999 of the six year term of the Mac Sharry reform, the “Study on Alternative Strategies for the Development of Relations in the Field of agriculture between the EU and the Associates Countries” by Commissioners Fischler and Van den Broek<sup>32</sup> re-opened the debate on the reform in the light of the impending enlargement to the East. The guidelines chosen for CAP reform were a development of the “approach of 1992,” i.e. a continuation of the strategy begun with the Mac Sharry reform, aimed at three objectives: *greater competitiveness, simplification and subsidiarity, and a integrated rural policy.*

In order to lay down a coherent proposal, in December 1995 an “*Integrated Rural Development Working Group*” presided by Allan Buckwell<sup>33</sup> was set up in Brussels, which after a few months produced a document which for a long time remained (and perhaps still is) an essential reference for the transition from CAP to CARPE. The document met with strong approval from the DG Agri. Without going into the details, the proposals contained can be summarized as following: combining market policies, what we call today the first pillar, into a single policy for stabilizing the market and ensuring sufficient food supply (*Market Stabilization: MS*). A policy of *Transitory Adjustment Assistance [TAA]*, which (through a gradual decrease in financial support) would re-orient farmers towards non-over productive activities without penalizing them and thus raising their hostility. The substantial savings produced were to be transferred to two policies associated with the second pillar of the CAP: *Rural Development Incentives (RDI)* and *Environmental and Cultural Landscape Payments (ECLP)*. The full implementation stage of the proposal called for a consistent budget transfer from the first pillar of the CAP (MS plus TAA) to the second (RDI plus ECLP). A scheme found in the Buckwell report proposed a gradual transferring of financial resources and indicatively set 2002 (six years from the publication of the study) as the deadline for achieving the budget balance between the two pillars, and 2008 for a 1 third to two third ratio in favor of the second pillar. The expectations of Commissioner Fischler and the DG Agri were more or less the same.

The 7-9 November 1996 Cork Conference confirmed this strategy. Its final declaration still reads as particularly enlightened, evidencing a full awareness of the importance of a territorial approach to rural development.<sup>34</sup> It represented at the time the greatest victory of the reformist front and can still be viewed as the moment of least distance, at least on the level of strategy planning, between agricultural policy and structural policy. At the same time the Cork Conference was a turning-point in the battle, after which the conservative line began once more to prevail, to the point that it soon was labeled as a *non-event*, an initiative with no political relevance on account of the conflicts it engendered and its inability to attract converging interests. The conflict revolved specifically around the three “Cork fears”: the fear of the agricultural lobbies that the benefits of agricultural policies would be distributed to non-agricultural categories in rural areas; the fear, expressed by the DG Regio to the DG Agri, that it would intrude in the

<sup>31</sup> COM 94/C180/12 of 1 July 1994 in which funding was raised to 1,500 million ECU (for EU-12). A small increase compared to Leader I for the 1994-1999 period.

<sup>32</sup> European Commission (1995), Study on Alternative Strategies for the Development of Relations in the Field of agriculture between the EU and the Associates Countries (Agriculture Strategy Paper), Communication to the European Council by Commissioners Fischler and Van den Broek, CSE (95) 607, July, Madrid.

<sup>33</sup> At the time president of the European Association of Agricultural Economists (EAAE). The group included among others Allan Buckwell, Jan Blom, Patrick Commins, Bertrand Hervieu, Markus Hofreither, Heino von Meyer, Ewa Rabinowicz, Franco Sotte, José M. Sumpsi, besides a few managers and functionaries of the DG Agri.

<sup>34</sup> European Commission (1996), *The Cork Declaration; A Living Countryside*, Brussels.

territorial and regional policy for which it was responsible,<sup>35</sup> and finally the fear of Member States that most benefited from CAP (France), that Cork could be used as a subtle strategy by the main payers (Germany) to rediscuss the distribution of the budget.

Thus, for the reformist camp, Cork was at the same time the high-tide of the debate and a political *flop*. It was significantly followed by a long period of revision. The Buckwell Report itself was published, after much uncertainty, only one and a half years later, in March 1988, and the Agenda 2000 contained only a few much watered-down references to it.

Indeed, the deconstruction of the original reform proposals were clearly evident during the whole elaboration of Agenda 2000, from the so-called “Santer package” presented to the European Parliament on 17 July 1997, to the CAP reform Regulation proposals of 18 March 1998, all the way to the Berlin summit of 24-25 March 1999. The original version of the “Santer Package” was already the result of a difficult mediation of which the text bore evident traces. The introductory chapter, especially, heavily influenced by the Buckwell report, referred to a “European model of agriculture” oriented towards multifunctional agriculture, quality production and service agriculture, and advocated a growing support for rural development in its larger, territorial, acceptance.<sup>36</sup> Yet, it is difficult to detect this line in the rest of the document. In any case, the original version of the “Santer Package” called for cuts of 30%, 20% and 10% in support prices of, respectively, meat, cereals and milk; 50% compensatory payments in the sector of arable crops; and the maintaining of the quota system till 2006. A mandatory upper limit was set beyond which modulation measures were to be activated, i.e. a reduction in overall direct payments.<sup>37</sup> As for rural development measures, the proposal was to increase them to provide for structural improvements and diversification.<sup>38</sup> The overall result of the reform of the policy on crops, meat and milk would have saved 5 billion ECU to be destined to accompanying measures, adding to the budget already allocated to them. It is worthwhile noting that the “Santer Package” was explicitly associated with the proposals for the reform of the structural policy. On more than one occasion it was recommended that measures for rural development in the CAP reform be integrated with those found in Objective 1 and 2, focusing particularly on areas outside these objectives.

The effects of the conservative attack are evident when we examine the final decisions of Agenda 2000: guaranteed prices reduced much less than in the original proposal: crops – 15%, bovine meat –20%, while the reform of the milk CMO was postponed. All proposals for an upper limit on payments per farm were rejected other than as an optional criterion for Member States to adopt (partially applied only by France, Great Britain and Spain). Even cross-compliance, which was initially adopted as a justification for the possible transferring of direct payments from the blue box of the WTO to the green one,<sup>39</sup> was delegated to Member States who applied it only as a non-mandatory measure. Consequently the budget allocated to the second pillar (which by that time had become more a secondary prop than an actual “pillar”) was limited to 4.3 billion euros (including accompanying measures), little more than 10% of the overall budget.<sup>40</sup>

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<sup>35</sup> From that moment on, all acts concerning the reform of agricultural policy and rural development policies were more evidently collective acts of the entire Commission: this was the case of Agenda 2000, the Mid Term Review; even the November 2003 Salzburg conference on rural development took place in the presence and with the explicit agreement of Commissioner for regional development Michel Barnier.

<sup>36</sup> European Commission (1997), *Agenda 2000, For a stronger and wider Union*, Brussels.

<sup>37</sup> In the initial proposal, the mandatory modulation consisted in a reduction of 20% for support above 100,000 ECU and of 25% for support above 200,000 ECU.

<sup>38</sup> In the preparatory work for the proposal the suggestion was advanced for a suppression of the FEOGA and the incorporation of all measures in a single rural development fund.

<sup>39</sup> Notice how the old “compensatory indemnities” were renominated “direct payments” to stress their presumed environmental goals.

<sup>40</sup> It is worth noting in this regard that the scarce importance and meager funding of the second pillar was significantly affected by national and regional policies. Some governments, in order to remain free to manage their own resources, more or less explicitly preferred EU resources to remain confined to the first pillar (totally financed by the EU), rather than transferring them to the second, which they would have had to co-finance.

The defeat of the reformist line was clearly perceived by experts already when the proposals for Agenda 2000 were first advanced<sup>41</sup> and Commissioner Fischler himself was well aware of it.<sup>42</sup> There was also a clear perception of the amount of problems left unsolved, problems whose full brunt would be felt both in the course of the new negotiations at the WTO and after the enlargement to the East, when it would be clearly difficult not to award to Eastern farms the privileges already given to their richer Western colleagues. The ensuing rise in expenditure for the first pillar would inevitably confine the second pillar to a modest role at odds with actual needs and expectations.

The influence of the conservative front continued to be felt even after the approval of Agenda 2000 when the moment came to implement it on a national level: Member States generally avoided taking advantage of the opportunities offered them in by the implementation process. Indeed, they often sought to limit the innovative force of the second pillar, choosing among the various possible measures the ones more easily controlled and privileging a non-selective approach more oriented towards the distribution of funds than the actual realization of innovative projects. The victims of this approach were especially all measures aimed at non-agricultural projects which were allotted a nominal percentage of overall resources, confirming the agricultural and sectorial character of the second pillar.

## 9 The battle for the Mid Term Review

It is with this premises that the most recent battle has begun: the battle for the *Mid Term Review* (MTR). While technically only a *review* of the normative system established by Agenda 2000 for the 2000-2006 period, the proposals advanced in July 2002<sup>43</sup> represent in fact a brave attempt to make the most of the options offered by Agenda 2000. In any case, after the failure of the WTO Seattle summit (November 1999) and the resumption of negotiations in Doha (November 2001), Europe necessarily had to somehow address the risk of becoming isolated on agriculture, with strong negative repercussions on its negotiating strength in all other sectors. Another factor, was the pressing *redde rationem* of the enlargement, the more so now that it had been decided that the "first wave" would include 10 countries, instead of just the 5 CEECs countries, and only Rumania and Bulgaria will have to wait till 2007.

The novelties contained in the Fischler proposal are well known: decoupling and single payment per farm, mandatory *cross-compliance*, revision of some CMOs. More important, in regards to rural development and "*for the purpose of achieving a better balance between first and second pillar in order to further promote sustainable agriculture,*" two mandatory measures were introduced: 1) dynamic modulation (a progressive yearly decrease of 3% on all payments above a 5,000 euro franchise, up to the 20% maximum permitted by Agenda 2000) and 2) an upper limit of 300,000 euros in payments per farm. The savings were to be used to finance the second pillar, leading, after 5-6 years, to an estimated 100% increase in funds for rural development.

The conservative reaction reached its peak in September 2002 with the open letter on CAP reform signed by seven European ministries of agriculture guided by French minister Gaymar, who attacked the revision as unnecessarily radical, thus arousing the sarcastic response of the press.<sup>44</sup> The result was a deadlock which was broken only by the Chirac –

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<sup>41</sup> "The CAP is a grotesque policy which has long out-lived its usefulness. It wastes scarce resources which could be better deployed in other activities, imposes heavy financial burdens upon consumers and taxpayers, contributes to the despoiling of the countryside, and discredits the EU in the world economy. The Mac Sharry reform of 1992, and the Agenda 2000 package, if adopted, represent timid steps in the right direction. But these measures do not amount to fundamental reform, and they will not be adequate to address the challenges the CAP will face in the new millennium"... "This is protectionist poppycock, and will not win the EU friends in the WTO". A. Swinbank (1998), "Will Agenda 2000 meet current and prospective WTO commitments?", Centre for European Policy Studies, Brussels, March 27.

<sup>42</sup> After the Berlin Council, Fischler declared at Agra Europe: "This deal is less ambitious than both the proposal of the Commission and the one that emerged from the farm Council".

<sup>43</sup> Communication of the European Commission on the "CAP Intermediate Reform: Towards a Sustainable Agricultural Policy". COM 394/02 July 10, 2002.

<sup>44</sup> The *Economist* for example expressed the following scathing judgment: "It is widely asserted that the CAP costs too much" they say, deeply puzzled. How could anybody regard €40 billion a year of direct subsidy (plus twice as much again in higher prices demanded of European consumer) as too much to pay for producing food nobody wants, keeping third-world farmers

Schroeder agreement, a few hours before the European Council in Brussels, who decided that there would be no cuts on CAP spending until 2006, but, in exchange, the overall expenditure of the CAP for the first pillar for the 2007-2013 period and the 25 member EU, had to be kept within the same limits imposed by Agenda 2000 for the year 2006 and 15 member EU (with a 1% variation per year). The rationale of the agreement is clear: Chirac could reassure his farmers that they would not be damaged in the short term, while Schroeder could tell his tax-payers that in the medium term there would be a drastic limitation on expenditure. It is true that no limit was set on the budget for rural development, but it is evident that the latter could grow only at the expense of the first pillar.

The latter scenario appears on the other hand unlikely, if not impossible.<sup>45</sup> After the agreement, in the formal documents on the MTR<sup>46</sup> there was first a gradual reduction of the modulation quota assigned to rural development (6% instead of the original 20% at full implementation) and then a reduction of the budget assigned to modulation itself (5% at full implementation). In the meantime, the upper limit on payments per farm had been eliminated. The basic approach of the reform remained the same, but the measures had been substantially toned down for some MCOs (5% reduction on the price of cereals abolished, the reform of sugar MCO postponed again, while the CAP had been burdened with considerable expenditure for others.<sup>47</sup>

In short, if one is to express an overall judgment on the MTR in terms of the distance covered, one has to agree on the importance of the change brought about, especially with the decoupling of support through single payments scheme.<sup>48</sup> From this perspective, the result can be read as finally a victory for the reformist front: if one compares the MTR to Agenda 2000, one sees that there is far more innovation in the “revision of the reform” than there was in the reform itself. On the other hand, one must acknowledge the limits of what has been achieved, especially in terms of the overall outcome of the reform process and of all the battles that have taken place. Decoupling has been obtained only through a costly concession and corresponding sacrifice. The concession was the acceptance of the direct payments system at least till 2013, which will drain most of available resources, in the light of the overall contraction of available funds following the Chirac-Schroeder agreement. The sacrifice is the postponing till after 2013 of the balancing of resources assigned to first and second pillar and the actual implementation of an effective policy of integrated rural development, as described above.

It was in this context that the Second European Conference on Rural Development took place in Salzburg.<sup>49</sup> This time no contrasts emerged and the conference was a political success, especially for Commissioner Fischler, who, a few months before the end of his second and last mandate, may rightly declare himself satisfied with his achievements. After the unquestionable success of the MTR,<sup>50</sup> the “Cork fears” are also a thing of the past. The support of the Commission was sanctioned by the participation of Commissioner for Regional Policies Barnier and of the agreement of all representatives on the final document, whose main points do not differ much from the ones of the Cork declaration: rural development is in the interest of society as a whole and a vital goal for rural areas of the EU; the role of agriculture

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*poor and wrecking Europe's rural environment? Cheap at the price they say. (...) Optimists may say that CAP reform is not dead, merely delayed. Again. But right now is Europe's best chance to sort-out its farm-policy mess before enlargement admits new farm-heavy countries whose governments will have an ever bigger political stake in defending the status quo. The setback on CAP reform is a scandal. And Mr Gaymard and his fellow farm ministers are a disgrace.*

<sup>45</sup> The Economist, “Scandalous. Europe's agricultural policy should be scrapped, not defended”, October 5th, 2002

<sup>45</sup> The contraction of the agricultural policy budget in relation to European GDP is evident. It was 0.61% in 1993, has gone down to 0.43% in 2003, and it is expected to have further decreased to 0.33% in 2013.

<sup>46</sup> **MTR Regulation Proposals** by the European Commission: COM 23/2003, of January 21, 2003; Luxembourg Agreement of June 26, 2003; Legislation adopted by the European Council Reg (Ce)n. 1782/2003, September 29, 2003.

<sup>47</sup> The decision on the milk COM entails and expenditure of 4,171 million euros (2936 already decided in Agenda 2000 and 1208 due to the new decisions), while milk quotas have been prorogated till 2015.

<sup>48</sup> The innovative character of the MTR continues to depend in any case on decisions that have been demanded to Member States in the field of regionalization, choice between various forms of decoupling, possible reserving of 10% of national funding to specific types of agriculture, use of the national 3% reserve, etc.

<sup>49</sup> European Commission – Agriculture Directorate-General, “Planting seeds for rural future. Rural policy perspectives for a wider Europe”, 2nd European Conference on Rural Development 12-14 November 2003, Salzburg.

<sup>50</sup> Which some have emphatically termed the *Fischler Reform*.

is essential to the vitality of rural areas; diversity is the salient feature of rurality and it must be preserved by encouraging a multifunctional and competitive agriculture; rural development policies must serve the needs of the entire rural society involving public and private actors in the bottom-up construction of consensual strategies; for this purpose, the proposal is to mainstream the LEADER approach; financing methods must be simplified and adequately monitored; there should be a single financing system for a single planning approach, subject to a single control procedure.

One wonders what happened between Cork and Salzburg to make all resistance vanish and this new consensus emerge. Certainly the passing of time has done its work, allaying suspicions and tempering extreme positions in both camps, but there are two specific elements that may have had a role in this process. The first, in my opinion, was the more clear-cut separation between regional and cohesion policies on the one hand, and agriculture and rural development on the other. Once the budget was redistributed in favor of structural policies and at the expense of the CAP, following the Chirac – Schroeder agreement, not only was the French-German controversy solved, but the one between the General Directorates as well. The DG Agri was left with the responsibility of the rural development policy (it is significant that the question of rural development remained rather vague in the proposal for structural policy for the 2007-2013 period) but the latter was defined in strictly “agricultural” terms: significantly, the words “agriculture” and “farming” recur ten times in the Salzburg brief final document, while only two in the Cork declaration.

This more restrictive definition tempered the third Cork fear: the fear that CAP financing might be directed to non-agricultural subjects. On the other hand, with the cuts to the agricultural budget and the decisions to maintain high direct payments, progressively extending them to new Member States, resources left for rural development are quite modest (even in 2013 only one fifth of the diminishing overall budget will be dedicated to rural development, counting the two sections of EAGGF and the expenditure for the ex-LEADER program).

## 10 Overall balance

In 2005, it will be twenty years since the “Green Book” was published and a process began aimed at integrating the CAP into European structural policies and re-orienting it towards the reconciling of sectorial goals (agriculture) and territorial ones (rurality). In the meantime, as illustrated above, the structural and cohesion policy has been adjusted correspondingly. It has grown in budget and will eventually become the primary tool of EU policy. Its importance will further increase with the enlargement to the East and the consequent increase in regional gaps within the Union.

It is in this context that we must take stock of the results achieved in CAP reform, evaluating the degree of convergence between these two policies in terms of goals, tools, methods of intervention, results. In other words, what is our final judgment twenty years after the beginning of the transformation of the CAP into the CARPE? The overall balance, notwithstanding the significant progress achieved by the MTR, is still not positive. And if one considers the enormous struggle it took to achieve these results, one cannot help having serious doubts about the future. This final paragraph is dedicated to motivating this position.

A true reform of the CAP requires three conditions. It must be acceptable to the sectors of society that would be penalized by change. The force of those within the EU who oppose any change in CAP is evident: it is necessary to neutralize this contrast, overcome path dependency and resulting resistance to change. The second condition is a new distribution and orientation of resources in the pursuit of new goals. The third condition is related to the mechanism for the evaluation, selection and monitoring of policies. It consists in a true change from a policy of mere financial support based on subjective status to a policy based on objective criteria, i.e., programs and projects producing contractual relations aimed at promoting behaviors. It is evident that time is also a factor: the risk is that if the reform process is too slow the overall resources assigned to the CAP will be eroded, as is in fact happening.

The impression is that after this long reform process, and the MTR especially, the first condition has been basically achieved, but the cost has been so high that there is not much left to guarantee the second condition. As for the third condition, it is still largely unachieved: the CAP is not yet the CARPE, it has basically retained its sectorial character and, unlike other EU policies, it consists in financial support direct at status. For this reason, the reform is still partial and relatively inefficient.

With decoupling and single payments scheme the connection between support and market has been indeed severed (the first condition), but the greater part of the CAP budget in 2013 will be still assigned (barring unexpected changes) to the same beneficiaries of the 80s: 80% of support will be directed (with modest variations) to the same 20% of twenty years ago. Apart from the case of some redistribution of funds due to regionalization, the farms will be more or less the same: mostly the larger ones, the ones oriented towards protected productions, mostly commodities, produced with capital intensive standardized techniques, requiring little labor force, ill-compatible with environmental protection, with little diversification and low capacity to respond to market changes. These are not the type of farms one thinks of when speaking of a “European model of agriculture,” multifunctionality, diversification.

Similarly, the benefits of the CAP continue to be concentrated on the same areas: the plains, the areas with more structural and infrastructural resources, those oriented towards “continental” productions, while Mediterranean areas, especially ones located in the mountains and hills, continue to be excluded, even though they are the ones more diversified and more suited to typical and quality productions.<sup>51</sup> Thus, on the one hand the type of agriculture more compatible with rural development is not supported by the current policy and rural development is not encouraged in the regions and areas where it would be most crucial. On the other hand, current spending promotes forms of agriculture foreign (and sometimes in conflict with) a balanced rural development, diverting farms from the market instead of directing them towards it.

Furthermore, decoupling runs the risk of producing yet another distortion. The subjects and regions that most benefit from the CAP were previously required to focus on specific protected productions. With decoupling, instead, they can focus on different products and markets, competing (as subsidized subjects) with market-oriented farms and enterprises, which had given up on support from the CAP, entering instead the free market (without enjoying any direct payments and often without any support whatsoever). The result is an increase in offer which damages non-subsidized regions and enterprises, retarding their development.

Decoupled support, on the other hand, being associated with eligible areas, creates a new status privilege in agriculture that is added to existing ones: the privilege of “beneficiary-in-the-past” from the CAP in the 2000-2002 period, as the condition for receiving further support. This is yet another barrier to entry. To purchase or rent a farm, newcomers (the young farmers whose number is declining in all the EU),<sup>52</sup> who would not be entitled to the single payment scheme if they started from scratch, not only must pay for the value of the land in terms of expected income from the market, but also for the value of the enormous mass of benefits associated with the status of land-owner, including the status of beneficiary in the past. Alternatively, they must renounce the single payment and compete against enterprises that receive it.

The fact that the problems of the enlargement have not been solved lies at the bottom of the different treatment between farmers in the East and in the West during the so-called phasing in period, which might cause further delays and problems in the convergence process. In the meantime, on an international level the European position at the WTO remains weak, notwithstanding the MTR, with serious consequences both economic (in all other sectors subject to

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<sup>51</sup> The unbalance is evident also on a national level. Consider the case of Italy. Reg. 1782/2003 at full implementation (from 2007 to 2013) divides the budget among Member States according to the following percentages: France: 26,2%, Germany: 17,8%, United Kingdom: 12,6%, Spain: 11,2, Italy: 9,4%. Evidently it only takes into account reformed OCMs that are immediately included in the single payment per farm. The fact remains that Italy is clearly under-represented: in EU-15, Italian agriculture amounts to 16.7% of production, 23.2% of value added, 18.3% of workforce and 33.1% of farms.

<sup>52</sup> Sotte F. (2003), “*Young People, Agriculture, and Entrepreneurship: Key-Points for a Long-term Strategy*”, in: *The future of young farmers*, Preparatory meeting for the European Conference, Rome, 24-25 January, Carrefour Lazio, Regione Lazio.



negotiation) and political: relations with the G-20+, Mediterranean countries, the US, and the less developed Countries.

The final result is that the second pillar package continues to receive modest resources, often insufficient to correct the distortions created by the first pillar, directed at a long list of measures only partially coordinated and which, in any case, are not consistent with the overall strategy of structural and cohesion policies, nor with national and regional policies on local development.

As we have tried to show, instead of a single policy of regional and local and of cohesion convergence development, the trend seems to be towards a further separation of structural policies from the CAP. There is a tendency towards a dangerously reductive view of rural development and rurality, entirely inadequate to the needs of the enlarged Union and the progress made in structural and cohesion policies. Given the situation, one can easily foresee that if the next battle over the CAP is fought independently of the other great European policies, with the same actors and according to the same script, the result will be its further decline, with a further cut in resources allocated to it and an increased marginalization of the role of rural areas in territorial development and of farmers in rural development in Europe. In this context, radical solutions such as the one presented in the Sapir Report could become popular and not without good reason.

## 11 Final considerations

For all the above reasons, I do not share the widespread satisfaction I perceived after the approval of the MTR and during the Salzburg conference. In both cases the EU took undoubtedly some steps in the right direction which it had not taken on previous occasions. The mandate of Commissioner Fischler ends with a positive result. But it is wrong to think that the goal of a European agricultural and rural policy fully consistent with the needs of the EU is anywhere near, not to mention achieved.

It is necessary, then, first of all to exploit all the opportunities still offered by the MTR (through national decisions and in the implementation of regulation 1782/2003), substantiating the Salzburg decision in order to promote a policy that moves in the direction of the CARPE. This concerns also the management of the second pillar, all too often simplistically considered as above criticism. It is also necessary to continue to insist on the need for further reform, especially now that the EU is expanding its periphery and new regions (mostly rural) will be demanding a policy of both convergence and integration.

Decoupling, on the other hand, cannot be other than a temporary policy, associated with the transition from old to new objectives. It is necessary to immediately propose explicit forms of a new recoupling between payments and common goods and services provided by agriculture, defending the interests of all citizens and ensuring their willingness to support the objectives as tax-payers. Thus, the second pillar must be reinforced and qualified, besides more substantially financed, and, at the same time, its goals must be better defined by extending contractualized forms of intervention.

Thus much remains to be done. On the other hand, a series of deadlines looms large over Europe: on 1 May, the EU will effectively expand to include the 10 new members, in June the new European Parliament of EU-25 will be elected, in November the new European Commission and a new Commissioner (or two?) for Agriculture and Rural Affairs will be nominated, sooner or later WTO negotiations will resume after the failure of Cancun and so hopefully will the delicate Euro-Mediterranean negotiations. This will take place in the context of new international relations, economical and commercial, as well as political. The debate over the planning of structural policies and new financial perspectives for the 2007-2013 period has also started. All these deadlines are crucial for the future of agriculture and rural development in Europe: it is necessary to participate with new initiatives and new proposals. With the MTR, the march towards the CARPE has resumed, but it is necessary to go on. And there is no time to lose.

## Literature

ARL-DATAR

"Policy Vision for Sustainable Rural Economics in an Enlarged Europe"  
Hannover 2003

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