

## Franz Fischler, Agriculture and rural development in a deeper and wider European Union

**Caption:** On 28 September 1995, in Brussels, Franz Fischler, European Commissioner with special responsibility for Agriculture and Rural Development, outlines to the members of the Royal Institute for International Relations (IRRI) the outcome of the reforms undertaken in 1992 by the Commission and analyses the challenges for the common agricultural policy (CAP) arising from the future enlargement of the European Union to include the countries of Central and Eastern Europe (CEECs).

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## Agriculture and rural development in a deeper and wider European Union

Dr. Franz FISCHLER European Commissioner for agriculture  
Speech at the Royal Institute for International Relations, Brussels, 28 September 1995.

You have asked me to talk about "Agriculture and Rural Development in a deeper and wider Union", a very complex subject in a rather unpredictable European and International context.

Our respective crystal balls are likely to show a similar picture regarding the future of Europe and its agriculture in the medium term: further integration in fits and starts, serious challenges and fundamental change overall. This should not surprise us. This has very much been the epic of the astonishing voyage of ship Europe since the second world war as its sails were filled by the « winds of change » and the acceleration of history.

The last and most fundamental of the C.A.P. Reforms, that of 1992, is a part of this history. It represents a major change in the philosophy and application of the C.A.P., a new direction, moving from price supports to the income payments decoupled from production based on historic reference levels.

What are the main results of the reform of the C.A.P. so far? A curb in the growth in production and exports, a virtual elimination reduction in intervention stocks, a substantial increase in competitiveness, an increase in direct farm incomes and a curb in agricultural expenditure to the advantage of tax payers, producers and consumers alike.

In the very first year of reform, linking the premium per hectare to set aside has already produced an 8% cut in the land area under cereals. In total, the size of the areas set aside was considerably greater. In 1994 cereals' production fell again by more than 3 %. Last year it was 162 mio tons as compared to 180 mio tons that would have been reached without reform. On the whole, production has been damped down, consumption is inching upward, and the market has eased considerably.

There have also been very positive effects on intervention storage in the Union: for example, over the last three years, cereals stocks have fallen from over 30 mio tons to about 6 mio tons, that is, just under 1/3 of the quantities in storage before the reform. There has been satisfactory progress in other sectors as well. Intervention stocks of beef are at present insignificant, and butter and skimmed milk powder stocks have virtually disappeared. The butter mountains and milk lakes are no more.

The new W.T.O. rules, I believe, provide for the first time a clear framework for the conduct of international trade and a far greater level of transparency than existed previously.

When commenting on the outcome of the Uruguay Round many people have tended to focus on the level of cuts in domestic support, subsidized exports and so forth, although these cuts would have had to take place anyway, even without the Round because of our own internal budgetary and ecological reasons. What is more important is, that the Marrakesh agreement has provided the developed, the developing and the least developed countries with a clear set of agricultural rules adjusted to their respective levels of development.

The implementation of these rules already has resulted in a more market-oriented international trade in agricultural products and a more secure framework for all our traders. Trade disputes are disruptive and in nobody's long term interest. The agreement will by no means eliminate them, but pave the way for their resolution through a better dispute-settlement system, and furthermore provide a useful forum for discussing agricultural related issues.

The new W.T.O. commitments as well as the 1992 C.A.P. reform represent a Copernican revolution for all of us, away from subsidized exports, towards greater market access. This does not go without costs, not only to our farmers, who are faced with a number of adjustment problems, but also to the net agricultural importing countries, in particular those of the Third World, as prices increase, and dwindling stocks reduce sources of supply for humanitarian and emergency aid.

The Common Market Organisations that still need reforming are notably those for fruits and vegetables and for wine, which use a considerable part of the budgetary resources of the F.E.O.G.A. guarantee. At the present time the « mot d'ordre » is not « Reform of the Reform », but to complete the C.A.P. Reform as rapidly as possible, progressively simplify many C.A.P. directives and regulations so as to make them more intelligible and applicable — thereby contributing to reduce fraud — put environmental considerations on centre stage, and promote rural development to reduce urbanisation, combat desertification, and, if possible, re populate rural areas.

No more can it be overlooked that intensive agriculture has led to overexploitation of the soil that cannot be sustained indefinitely.

No more can it be overlooked that there are limits in extending irrigated land in areas affected by historically recurrent droughts. This will almost inevitably lead to irreversible depletion of underground water resources.

No more can it be overlooked that a number of key agricultural inputs are finite — just think of our water! — and compete with the requirements of industry and consumers.

No more can it be overlooked that per capita consumption of animal products and wine tends to decrease, whereas agriculture has a new mission: to contribute to the development of renewable energy resources. In agriculture too, market demands that the consumer is becoming the king.

No more can it be overlooked that the European Union's rural areas make up 85 % of its land surface, whereas only one quarter of its population lives in rural communities, and this percentage is dwindling. The delicate balance between town and countryside is in danger. Rural areas are finding themselves increasingly unable to sustain the level of economic activity which is needed to support dynamic local communities. Many rural areas are suffering from a decline in employment in the agricultural sector, limited alternative employment, poor infrastructure, inadequate services in comparison with urban areas and consequent depopulation.

Last but not least, no more can it be overlooked that the C.A.P. has become too complicated and needs to be, not only better explained, but also simplified very substantially.

Ignoring these realities, or failing to act on them as required can only be done to the peril of farmers, agriculture, and our societies at large. The E.U. has a special responsibility and a vital role to play in solving these problems and promoting new approaches to agriculture and rural development.

The Commission is undertaking a program of simplifying and reviewing E.U. legislation to make it easier to understand and to make it clearer to whom it applies.

For my part, I intend to contribute to review existing E.U. legislation, notably in my area of competence, so as to make the C.A.P. easier to understand and to apply. C.A.P. simplification is an overriding objective, not only because our farmers, in particular the smaller ones, seek it and need it, but also because, without it, it will prove exceedingly difficult to implement the C.A.P. in the acceding East European countries. For it is no secret that their management capabilities are, for the time being, below those in the West.

## **Enlargement**

No specific timetables have been set for future enlargement to the East. Furthermore the timescale for membership will depend as much on the Eastern countries themselves, by virtue of their economic and political development, as on the willingness of the Union to open its doors. Membership is clearly not primarily an agricultural question. It requires the existence of full democratic rule, deep economic integration, and the ability to take a full and active part in the implementation of all Community policies.

Agriculture and the food industry clearly have an important and sensitive role to play. But agriculture is not

the only difficult issue raised by the prospect of enlargement to the east, and will not be the only determining factor in the final decisions on membership.

From a formal point of view, relations between the Union and the countries of Central and Eastern Europe are presently based mainly on the so called « Europe Agreements » which were concluded with the four Visegrad States (Poland, Hungary, the Czech Republic and Slovakia), and with Bulgaria, Rumania and the three Baltic States, as well as on the so called PHARE programme of technical assistance and financial aid.

The Europe or Association Agreements were signed between December 1991 and March 1995. These agreements provide the legal basis for the developing relationship between the Union and the Agreement Countries and determine trade liberalisation, competition, economic and financial cooperation and much more. In principle the Agreements are based on reciprocity. However, they follow an asymmetrical pattern, in other words, the E.U. has made greater concessions. As far as agriculture is concerned, the Agreements provide for mutual tariff concessions and cooperation and technical assistance. Most of the concessions granted by the Union are in the form of tariff quotas.

In certain areas the Europe Agreements are currently not meeting their objectives — particularly in those areas where asymmetry is having the opposite effect to that originally intended. For example, the E.U.'s exports have increased significantly, whereas the Central and Eastern European countries have not taken up their full tariff quotas. We hope to overcome this problem, however, in the context of a thorough revision of the Agreements.

The Essen Summit of December 1994 greatly clarified our accession strategy, the core of which is the progressive preparation of the Associated Countries for the integration into the Internal Market through the phased introduction of the Union's Internal Market legislation. It is in this context that the Essen Summit called for the White Paper on the preparation of the Association Countries for integration into the internal market of the Union, which the Commission tabled at the Cannes Summit earlier this year.

Accession will not mean a sudden change from one situation to another. It requires careful preparation, close cooperation, and transitional adaptation measures, in particular regarding agriculture in the case of Spain's and Portugal's accessions, these lasted seven (Spain) to ten years.

The efforts which are being made by the Union and the Association Countries in these regards mean that the process of integration has in effect already started and will continue.

A policy of *structural improvement* will be of increasing importance for the countries of Central and Eastern Europe (C.E.C). Greater farm modernisation creates a particularly serious problem. That problem is: depopulation of rural areas. This has been our experience in the Union. It is an inevitable process if productivity is to be improved. Unless one does something about it. For this reason the Union has introduced a rural development policy with particular emphasis on creating employment in non farming sectors. Incidentally, this policy needs strengthening, a task to which I intend to devote my full attention next year.

In my opinion, structural issues are more important than the much debated problems of market support. The European Community has a well developed system of market support for a number of basic products. Therefore we cannot object to market support in the Central European countries. However, they must make sure, that their market support is compatible with their overall economic situation. The same applies to import protection. The results of the Uruguay Round give most Central European countries greater scope for increasing import protection. They should use it sensibly, otherwise it will lead to economic tension and delay modernisation. Not least, they must avoid running against a trend towards further market liberalisation within the W.T.O.

### **A « Common Agricultural Policy » for all Europe**

Much has been said in recent months about the need to recast agricultural policy with a view to the future enlargement of the Union towards the east. There are those who want to take advantage of the next

enlargement to destroy the C.A.P.. They want to see agricultural prices fully given over to market forces. That is untenable, both economically and politically. And what is true now for farmers in the Union will also be true in future for farmers in Central and Eastern Europe: without price stability and a strong agricultural credit system there will be no incentive to plan and invest for the long term, and no way to preserve the small farmer and a rural way of life. Naturally, it will still be necessary to set prices at levels that do not disable market forces or lead to excessive surpluses. Our own food security remains a paramount objective of our Union.

Many academics and policy advisers have set out their thoughts on the future of an enlarged C.A.P. They contain useful analysis and helpful approaches to the problems we face and are an important input to our own work.

However, when it comes to drawing conclusions from this work and — even more so — turning it into political guidelines, it does seem to me that much of what has been written and said is not properly thought through. It is a good thing of course to think aloud together about future strategies, but this needs to be done calmly and carefully and with a feeling for political realism.

The Commission is preparing in time for the Madrid Summit in December, a paper on alternative strategies for the development of relations in the field of agriculture between the E.U. and the Associated Countries with a view to their future accession. This work is my responsibility.

In order to prepare the ground for this paper, I felt that solid foundations were required. Greater knowledge was needed about agriculture and the rural economy in the countries of Central and Eastern Europe before we could begin to understand in a much more thorough and objective way the challenges that we are likely to face.

A useful analysis of the situation in agriculture must, of course, take into account the macroeconomic context, which agriculture often is a vital part of. A sensible future strategy cannot be based solely on managing the markets in agricultural products, but must also cover the structural aspects of agriculture, of the whole of rural society, and the natural environment of the countryside itself. To overlook, whether intentionally or not, the deep rooted interdependence of these different areas would be to start on the wrong foot.

For each country concerned, we sought and obtained the collaboration of leading national experts from research institutes and universities as well as the advice from academics within the Union that have an understanding of the agricultural situation in these countries.

These individual country reports, which between them deal with the diversity of situations which exist in these countries, were published at the end of July together with a summary report. These reports help us focus the debate, on the basis of common data, and assess where the similarities lie and which problems and opportunities are specific to each of them.

The reports show that agriculture plays a much greater role in the economy of the Central and East European countries than it does in the Union. Indeed it employs over 20 % of the workforce, around 9.5 million people, compared to 6 % or 8.2 million people in the Union. On average, agriculture contributes 8 % to the G.D.P. of these countries compared to 2.5 % in the Union — over three times more. Like most sectors of their economies, agriculture has suffered from the transition to a market oriented economy, and agricultural output is generally still much below the pre transition levels. This is largely a result of a fall in consumer demand following the removal of consumer subsidies and because costs grew much faster than producer prices. But a recovery, particularly in crop production is in the making.

In several associated countries, the immediate priorities are basic questions such as land reform. Legislative approximation which affects conditions for trade, is also generally recognised as a high priority. Privatisation programmes are under way in all the associated Countries, including upstream and downstream activities linked to agriculture, but need to be carried through. One can expect this to eventually lead to a

reduction in the agricultural labour force, as opportunities for employment in other sectors develop. Most associated countries are supporting their agriculture to some extent, not least through border protection. Although recently that protection was low, it has now increased considerably as a consequence of the implementation of the last G.A.T.T. agreement. My reports, however, conclude, that taking all factors into account, there is less need of a high level of price and income support for east European farmers, than of targeted assistance for the restructuring, modernization and diversification of their productive capacity in agriculture and the downstream sectors and for improvement of their rural infrastructure.

Having now completed this work, we are in the process of drawing the strings together and developing our first conclusions as to how to deal with the challenges, which enlargement to the East will bring. These will give us a foundation on which we can build in order to adapt agricultural policies to meet these challenges.

But make no mistake! C.A.P. adjustments alone are no answer to the enlargement challenge. This enlargement cannot take place without preaccession assistance and the reform of the structural funds which will be necessary before the new Members can be accommodated. It is too early today to talk about policy recasting. I hope that I can set forth my ideas on this as early as next month. We need to have as broad based and open as possible a debate on a wider and deeper Union of 27 members, not only in the E.U., but also in its neighbouring Eastern countries. We need also to have a clear view of the impact of enlargement on the speed and extent of the further evolution of the C.A.P. and, even more important, of that of the European Union as a whole.

Personally I am someone who prefers continuity, an "evolutionist", as it were. Radical experiments which work on paper or in the computer, but which could, in the complex world in which we live, lead to massive economic social and political turmoil, are of little help. But — and I cannot emphasize this often enough — being evolutionist does not mean standing still.

It means, pressing ahead in a sustained and consistent fashion. It also means, I think, that enlargement to the East must not and will not mark the end of a C.A.P. for Community farmers, but rather make it more effective; that enlargement will not weaken the E.U., but strengthen it, so that it does not become less, but rather more attractive for our Eastern brothers to join.

Progress towards enlargement will be enhanced by constructive collaboration between the Union and the Associated Countries. This is partly being brought about by the structured dialogue arrangements which have been put into place following Essen. These include meetings between the Council of Ministers and the Ministers of the Associated Countries. The Agricultural Council have just met, for the first time, the East European counterparts under these arrangements, and have reviewed the latest developments in their agriculture, and those aspects of the C.A.P. which are most relevant to their circumstances and may pose most difficulties. This dialogue is of great importance in building the road we need to walk together.

If it is not possible to say at present how long the process will take. One thing is sure, it will take place, and is indeed taking place.

In his recent book « Head to Head: The Coming Economic Battle among Japan, Europe and America » the American economist Lester Thurow has put it this way:

(I quote) « In the end the Europeans will do what is necessary to complete the integration of the countries now in the Common Market (E.U.), and pay the taxes necessary to allow much of Middle and Eastern Europe to join the House of Europe — not because they are wise and far sighted, but because they have no choice » (unquote).

Fact is that peace cannot be guaranteed in Europe without the accession of our Eastern brothers. Jean Monnet anticipated this when he said: "L'unification européenne est un élément essentiel de l'organisation de la paix".

It is the task of our generation to make sure that the next enlargement takes place in a manner that neither

destroys nor — as was the case of the first enlargement — slows down our aim of building a stronger Union, inter alia in a way that guarantees to our farmers and our environment a proper future.

### **Deepening**

The I.G.C. of 1996 needs to improve the functioning of the Union in order to equip it with the means to cope with the internal and external challenges it faces. There will be no widening of the Union without its deepening, or the Union will not be a true one.

A key challenge facing the Union internally is the need to ensure that the European construction becomes a venture to which its citizens can relate. Public dissatisfaction with public matters in general and the European construction in particular is partly due to economic, political and institutional reasons. These are national as well as European phenomena, and naturally agriculture is no exception.

One response to the challenge posed by citizens alienation from the Union must be a correct and systematic application of the principles of efficiency, democracy, transparency, and solidarity to relations between the Union's institutions, and its Member States, and also those between the members states and the institutions.

These principles should be put into practice through concrete measures, such as improved application of the subsidiarity principle ("who does what"); simplification of texts and procedures, bolstering the rights of the Union's citizens; greater responsibility for the institutions combined with increased accountability on their part, notably vis à vis the European and the national parliaments, and greater transparency in their functioning. As you see, the need for deepening and the challenge for widening the E.U. mean that we have quite a lot on our plate. We must make sure that it is not more than we can chew.

I wish to urge the members of the Royal Institute of International Relations to do their utmost to highlight the challenges we face and contribute to promote the decisions and actions required to meet them.