

EUROPEAN PARLIAMENT

1999



2004

Session document

FINAL
A5-0200/2002

28 May 2002

REPORT

on enlargement and agriculture: successfully integrating the new Member States into the CAP
(2002/2059(INI))

Committee on Agriculture and Rural Development

Rapporteur: Karl Erik Olsson

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PROCEDURAL PAGE

At the sitting of 11 April 2002, the President of Parliament announced that the Committee on Agriculture and Rural Development had been authorised to draw up an own-initiative report, pursuant to Rule 163 of the Rules of Procedure, on enlargement and agriculture: successfully integrating the new Member States into the CAP.

The Committee on Agriculture and Rural Development had appointed Karl Erik Olsson rapporteur at its meeting of 19 February 2002.

The committee considered the draft report at its meetings of 19 March 2002, 15 April 2002 and 27 May 2002.

At the last meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: Joseph Daul, chairman; Karl Erik Olsson, rapporteur; Gordon J. Adam, María del Pilar Ayuso González (for Michl Ebner), Sergio Berlato, Reimer Böge (for Francesco Fiori), Niels Busk, Giorgio Celli, Arlindo Cunha, Christel Fiebiger, Christos Folias, Jean-Claude Fruteau, Georges Garot, Lutz Goepel, Liam Hyland, María Izquierdo Rojo, Elisabeth Jeggle, Salvador Jové Peres, Hedwig Keppelhoff-Wiechert, Heinz Kindermann, Dimitrios Koulourianos, Astrid Lulling (for Neil Parish), Véronique Mathieu, Xaver Mayer, Jan Mulder (for Giovanni Procacci), Encarnación Redondo Jiménez, Agnes Schierhuber and Dominique F.C. Souchet.

The report was tabled on 28 May 2002.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on enlargement and agriculture: successfully integrating the new Member States into the CAP (2002/2059(INI))

The European Parliament,

- having regard to the Commission communication 'Enlargement and Agriculture: Successfully integrating the new Member States into the CAP - Issues paper' (SEC(2002) 95),
 - having regard to Rule 163 of its Rules of Procedure,
 - having regard to the report of the Committee on Agriculture and Rural Development (A5-0200/2002),
- A. whereas the enlargement of the European Union to include, as things stand, up to 13 new Member States is both a necessity and a historic challenge; whereas we must allow Europe to 'breathe again with both its lungs'; whereas twelve years have passed since the ten countries of central and eastern Europe began to place their hopes in the then EC and since the EU made its first commitments on membership; whereas the European Council meeting in Göteborg noted that significant breakthroughs had been made and that the enlargement process was now irreversible,
- B. whereas the forthcoming enlargement of the EU differs markedly from the four previous rounds of enlargement in that never before have so many new countries been incorporated at one and the same time, and never before have the economic differences between the current Member States and the applicant countries been so great,
- C. whereas a united Europe is the best guarantee of securing peace, democracy, respect for human rights, prosperity, growth and a good environment on the continent of Europe; whereas the new Member States will each bring their own political, economic, cultural, historical and geographical heritage to the EU and so enrich the Union as whole,
- D. whereas the agricultural sector plays an important role in the political and economic life of the 13 applicant countries, whereas significant differences exist between agriculture in the EU-15 and agriculture in the applicant countries, whereas the structure of, conditions for and history of agriculture in the ten Central and Eastern European countries (CEECs) vary greatly but also have much in common and whereas this means that particular attention must be focused on them, whereas modernisation of the CEECs' agricultural sectors and their integration into the common agricultural policy (CAP) is going to pose a big challenge over the next few years,
- E. whereas, with a few exceptions, all the CEECs are typically agricultural countries, a fact which is clear from the importance of farming in terms of overall production and employment, whereas the reverse is true in the EU-15, whereas, in the CEECs, structural changes in rural areas are required and should be supported with a view to the provision of alternative employment opportunities,

- F. whereas Poland is the most significant agricultural country amongst the applicant countries, accounting for about a third of the CEECs' total area under cultivation, whereas, compared with current EU Member States, Poland is also a large producer of foodstuffs, whereas Romania and Hungary are also significant agricultural countries,
- G. whereas the accession of 10 countries will result in a 29% increase in agricultural area and a 74% increase in the number of agricultural holdings; whereas the pool of consumers will, at the same time, increase by 24% as a result of the accession of the 10 countries,
- H. whereas Poland, Romania and Hungary historically made an important contribution to Europe's food supply, especially before the Second World War, whereas this testifies to the production potential they and other CEECs have, and whereas most CEECs already maintain very active relations with the EU as regards trade in agricultural produce and foodstuffs,
- I. whereas, in spite of recent improvements, most of the foodstuffs produced in the CEECs fall far short of the quality standards required on EU markets, whereas it is crucial for the applicant countries to bring their agriculture and foodstuffs industries into line with the European Union's high hygiene, veterinary and phytosanitary standards,
- J. whereas the Commission's communication provides the basis for specific proposals for EU negotiating positions in the enlargement process and in the main constitutes a realistic set of negotiating proposals for the applicant countries, and whereas the fundamental principles the Commission is insisting on are well considered and justified,
- K. whereas a complete series of instruments for the promotion of environmental interests in agriculture is available under the 'second pillar' of the common agricultural policy and should be developed further,
- L. whereas the analyses of the general circumstances on which the assessments are based must be reviewed and updated as the actual situation develops, and whereas the CAP is facing both internal and external pressure for change, and whereas any pressure to renationalise the CAP must be strongly resisted,
- M. whereas the demands of consumers for safe food and the forthcoming enlargement of the European Union mean that the policy should concentrate not only on quantity produced but also on quality and certification, and whereas rural areas and the environment must at the same time be protected,
- N. whereas, as regards agriculture, the WTO member states, in the framework of the Doha Round, committed themselves to negotiating on increased market access, a reduction in all forms of export subsidies and trade-distorting aid, whereas the Doha Declaration included agriculture in the new round, the final negotiations for which are to take place no later than 1 January 2005, whereas the pressure of globalisation, technological progress, rapid communications, increased free trade and increased competition pose a challenge to agricultural policy in the European Union, whereas liberalisation must not take place without proper rules, and whereas the European model of agriculture must continue to serve as the basis for the negotiations,

- O. whereas the pace of change in agricultural policy depends on the outcome of the WTO negotiations and on world market trends, whereas the current decisions of Agenda 2000 apply until 2006, and whereas, despite the fact that a mid-term review is to be carried out and reform could be initiated, most reform measures cannot enter into force until after 2006,
- P. whereas the USA's increase in support for agriculture calls for greater vigilance ahead of the situation in an enlarged EU and for more intensive EU activity in the WTO negotiations,
1. Welcomes the Commission's communication and considers it to constitute a realistic proposal for a negotiating package;
 2. Emphasises that the European model of agriculture and the principle of multifunctionality must also be applied in the applicant countries, with rural development, above all, constituting a priority;
 3. Takes the views that specific attention must be paid to the border regions of the EU;
 4. Welcomes the strenuous efforts and the progress made by the applicant countries in the agricultural and food industry sector in preparing for EU membership; emphasises the need for the introduction of EU-wide quality standards in the foodstuffs sector, with regard, for example, to plant health, public health and veterinary issues; takes the view that produce from the applicant countries destined for the domestic market must fulfil the same requirements right from the first day of accession and that animal welfare and environmental provisions must be respected;
 5. Calls on the Commission to undertake the integration of the applicant countries into the CAP on the basis of specific macroeconomic developments in the countries concerned, with particular account being taken of social policy requirements;
 6. Calls on the Commission in future to give its wholehearted support to Bulgaria and Romania, countries which are not covered by the current proposal, in their efforts to successfully conclude their accession negotiations, and notes that they may be dependent on the outcome of the current negotiations without taking part in them;
 7. Considers the gradual introduction of direct payments over a transitional period of ten years, as proposed by the Commission, to be one reasonable option; takes the view that immediate application of EU aid levels could cause an imbalance between agricultural and non-agricultural incomes in the rural areas of the applicant countries;
 8. Considers that an excessive influx of cash as a result of direct payments could result in low productivity with existing structures being maintained, discourage investment in production or alternative activities and lead to capital formation in the value of property, which in turn results in higher costs and so does not benefit agriculture;
 9. Calls on the Commission, when laying down the reference production levels eligible for aid and production quotas for the applicant countries, to ensure that those countries' own

level of self-sufficiency in products subject to quotas does not fall, so that the imposition of quotas does not result in an increase in the net imports of those countries and so that they may also have their quotas adjusted in the event of increased domestic consumption;

10. Accepts the Commission's proposal for a simplified system of area payments and takes the view that the experience which the applicant countries gain with the simplified system could be used in the context of discussions on the future shape of the CAP; believes, however, that a guarantee must be given that the applicant countries will fulfil the requirements of the Integrated Administration and Control System (IACS);
11. Considers that the applicant countries must be able to supplement simplified area payments with national payments only if they do not exceed the level of the support in the applicant countries prior to accession and in the event that the total amount of support does not exceed the authorised level of direct payments in the current EU Member States and that such supplementary national payments are approved by the Commission; insists that the applicant countries must gradually abolish unauthorised national aids within a specific transitional period;
12. Emphasises the importance of maintaining the instruments for controlling quantities, such as production quotas, which are calculated with regard to recent reference periods and on the basis of the same criteria as those applying to all EU Member States;
13. Considers, however, that exceptions should be possible to allow applicant countries which had low levels of support before accession to exceed the previous level once they become members;
14. Calls on the Commission, when fixing quotas and volumes, to take account of the applicant country's situation during the reference period, its total production potential and its consumption trend;
15. Calls on the Commission particularly to ensure that countries which have taken a strongly market-oriented approach to their agriculture, and have thereby reduced production but attained a high level of competitiveness, do not in the long term have relatively lower volumes than countries which have supported less competitive agriculture;
16. Calls on the Commission, when fixing milk quotas, to ensure that restructuring in countries with a high level of direct milk sales will in the long term make it possible to incorporate those volumes in the supply quotas;
17. Considers that the CEECs have undergone a greater, ongoing political and economic transformation than any previous applicant country and that the need for a future review of the application of the CAP in those countries should, therefore, be taken into account;
18. Welcomes the Commission's support for rural development, which must be stepped up and extended as a priority issue with regard to integration;
19. Considers that the structural changes in the rural areas of the CEECs must be supported

and that alternative employment opportunities must be promoted in order to guarantee the integrity of the countryside and to prevent depopulation;

20. Calls on the Commission to shape EU regional aid in such a way that it provides opportunities for developing other activities in rural areas whilst also safeguarding prospects for making farming competitive;
21. Considers that EU rural development aid must build on the experience gained with the Sapard programme in the applicant countries so as to promote a decentralised approach and reach and cover rural areas;
22. Considers that it should also be possible to use the special form of support for subsistence farming as temporary income support for farmers who wish to switch from farming to another form of rural enterprise and not confine it to those wishing to develop their farming business;
23. Calls on the Commission to draw up and implement rural development measures in the applicant countries on the basis of the Leader+ programme;
24. Notes that the smallest farms in developed economies acquire a different function in that they switch from satisfying the need for calories and income to meeting the need for recreation, beauty, relaxation and hobbies such as gardening, horse-riding etc.;
25. Considers it crucially important to give priority now to those instruments in the context of the SAPARD Programme which boost the competitiveness of agricultural holdings, of the agricultural produce processing industry and the food industry;
26. Calls on the Commission and the Council to take the initiative to start talks with the applicant countries on what shape reform of the CAP could take as from 2007;
27. Points out that the CAP must take account of the requirements of both producer and consumer, with sustainable farming methods and good agricultural practice being promoted;
28. Takes the view that, in the applicant countries, too, the European model of agriculture must be maintained and believes that, in the long run, there can be only one common agricultural policy in the EU; believes that long-term funding and the budget for the CAP must be secured;
29. Instructs its President to forward this resolution to the Council, the Commission, the Committee of the Regions, the Economic and Social Committee and the governments of the applicant countries.

EXPLANATORY STATEMENT

1.1 The challenge of enlargement with regard to agriculture

Enlargement of the European Union is a historic challenge which involves bridging the divide created in Europe by the Yalta Conference in 1945. EU membership will provide conclusive confirmation that some of the countries of Eastern and Central Europe (CEECs) have returned to the fold of European civilisation, to which they belong historically and culturally.

Agriculture plays an important role in the political and economic life of the 13 applicant countries. Prices in the EU-15 are as a rule considerably higher than in the CEECs. The agricultural sector, and in particular the food industry, is in worse shape in the CEECs than in the EU-15, which is why agriculture in those countries might find it difficult to compete.

1.2 Reforming the common agricultural policy

Farming in the EU has evolved into a high-tech industry employing less than 5% of the population. When the CAP was introduced, the aim was to increase food production, and support schemes were established to encourage increased production. Financial incentives and technological progress soon resulted in farm surpluses in the EU.

The first fundamental review of the CAP was carried out in 1992. The EU's financial perspectives for 2000-2006 were intended to take account of the new Member States and further reform of the CAP. The principle established in 1992 of increased direct payments and reduced price support is being further developed. Agriculture is to accord greater priority to stewardship of the environment, cultural heritage and landscapes.

1.3 The structure of agriculture in the EU-15 and in the CEECs

With few exceptions, all the CEECs are typically agricultural countries, whereas the reverse is true of the EU-15. In 2000, agriculture's share of GDP in the CEECs was 4.6%, as opposed to 2% in the EU-15. Likewise, agriculture's share of employment was 21%, compared with just 4.3% in the EU-15.

The high average agricultural employment rate in the applicant countries is largely due to the figures for Romania, Poland and Lithuania, which are 42%, 18.8% and 19.6% respectively. However, in the CEECs, too, the tendency is for agriculture to become less significant.

Poland is the most significant agricultural country amongst the applicant countries, for it accounts for roughly one third of the CEECs' total area under cultivation. Like Romania and Hungary, Poland is also a big producer of food compared with the current EU Member States.

The farm tenure structure in the CEECs varies greatly. Small-scale structures from pre-Second World War days still exist. Because farmers were strong enough to resist change and

owing to the absence of a market economy as a driving force, such structures have survived, for instance in Poland and Slovenia.

During the 1950s, much of agriculture in the CEECs was collectivised. Some of the resulting large units are now in private hands, but some are still state-owned. Many collective farms have been broken up and entirely or partly returned to their former owners or their descendants/successors.

Today, there are large holdings which could compete very effectively with industrial farming worldwide, as well as small farms which, from the current EU viewpoint, seem antiquated. A large proportion of the population lives in rural areas, and the high figures for agricultural employment actually conceal substantial unemployment.

Conditions for agricultural production are good in many CEECs. Food was exported to the east during the communist era, but to the countries of western Europe before the Second World War.

Agriculture in the CEECs is short of capital, and the necessary investments have not been made, either in farming or in the food industry. The CEECs therefore find it difficult to achieve consistent and high quality as regards what they produce. Skills are lacking, especially when it comes to business management and market know-how.

The EU had substantial trade surpluses with the CEECs during the 1990s, yet it put up trade barriers in areas where the less developed economies of Central and Eastern Europe enjoyed comparative advantages.

In spite of recent improvements, the bulk of the food produced in the CEECs does not meet EU quality standards. There is an urgent need to bring farming and the food industry up to EU hygiene, veterinary and phytosanitary standards if they are to benefit from the advantages offered by the internal market.

2. Commission proposal

The Commission proposes three principles as far as the EU's position in the negotiations on agriculture are concerned:

- negotiations on the basis of the existing acquis,
- EU positions are to be formulated so as to support applicant countries' efforts to restructure and modernise their agricultural sectors,
- EU positions are to be in accordance with the financial ceilings set in Agenda 2000.

The EU's positions must make it clear that, in the longer term, there must be a single common agricultural policy for all Member States. Your rapporteur considers the negotiating package proposed to be realistic and endorses the basic principles the Commission sets out.

The communication assumes that ten applicant countries will join the European Union in 2004. Bulgaria and Romania are not covered by the proposal. Your rapporteur wishes to stress

the importance of giving these two countries an assurance that they will continue to receive strong support for their preparations for membership so that their accession negotiations can be successfully concluded.

2.1 Phasing-in of direct payments in the new Member States

It is proposed that direct payments be phased in in the new Member States, starting in 2004 at 25% of the level applicable in the current European Union, rising to 30% in 2005 and 35% in 2006 and increasing step by step from 2007 to reach 100% in 2013. New financial perspectives come into effect in 2007, and no specific amounts are therefore proposed. The new Member States are to be able to apply a simplified system where payments are based on the total agricultural area. It is to be possible to supplement such payments with national payments.

Your rapporteur agrees with the Commission on the phasing-in of direct payments. Immediate application of EU support and price levels could result in reduced consumption, widen social divisions and encourage increased production. A large-scale influx of cash could result in existing structures being maintained and discourage investment in production or alternative activities. Furthermore, this would lead to capital formation in property values, which in turn results in higher costs and does not benefit agriculture. The Commission's proposal represents a reasonable approach for stabilising incomes whilst avoiding adverse effects on the pace of restructuring.

Your rapporteur accepts the Commission's proposal for a simplified system of area payments and takes the view that the experience the applicant countries gain with such a system could be used in the context of discussions on the shape of the future CAP, but is of the opinion that national envelopes should be used restrictively.

2.2 Rural development

It is proposed that a number of rural development measures, to be up to 80% co-financed by the European Union, be introduced as from the date of accession. A special form of support for subsistence farming is proposed. If subsistence farmers can present a development plan which strengthens their holdings' economic viability, they will be eligible for up to EUR 750 per annum.

Rural development measures are to build upon the experience acquired by the applicant countries in the context of the Sapard programme.

Your rapporteur welcomes the proposals on rural development but questions whether they go far enough. EU membership will entail large-scale changes in the CEECs. It is therefore important to ensure that those changes do not take place faster than the employment issues can be solved in a socially acceptable way.

In its document, the Commission describes restructuring as being 'necessary'. Your rapporteur does not entirely agree with its views on what constitutes a desirable scenario for the way

forward. Many people live in rural areas where they make a living on small farms that are to a greater or lesser degree of the subsistence type. However, this small-scale structure, which the Commission frequently describes as 'unfavourable' does have several important points in its favour and does not constitute a major 'burden' on society. Your rapporteur supports the proposal for special assistance for subsistence farming.

Restructuring is necessary in order to make farming competitive. However, it is also necessary to ensure that the countryside is viable, with a diversified economy in a modern information and service-based society. The many small units constitute a resource in terms of housing and quality of life. It would be wrong to force the applicant countries to restructure in way that is incompatible with the EU's rural development objectives. It is conceivable that both efficient larger holdings and small subsistence-type farms will develop in parallel, in many cases with additional income from recreational activities, ecotourism and rural tourism.

Those wishing to expand should be given the right conditions, but large-scale farming is not an aim in itself. EU regional assistance must combine the development of competitive farms with the establishment of complementary activities in rural areas.

Your rapporteur considers it wise to build upon the Sapard programme, whose decentralised approach should be developed further. This does not, as previously suggested by the Agriculture Committee, rule out participation in the Leader+ programme in the current Member States. Your rapporteur also considers that priority should now be given to those instruments, in the context of the Sapard programme, which help make the food industry more competitive.

2.3 Other proposals

The Commission also proposes principles for establishing the base area, yield levels and production volumes. It considers the relevant reference period to be 1995-1999, but the years may vary.

Annexed to the proposal are 13 annexes on production volumes and market organisations for various products. All countries have to varying degrees requested base areas and quotas which exceed recent years' production levels, the argument being that production fell during the economic reforms in the early and mid 1990s.

Your rapporteur notes that countries with little capacity to support their farming sectors were forced into adopting a market-oriented approach that resulted in lower volumes. It is now proposed that they have lower production volumes than the countries which were able to maintain production levels. It is questionable whether this is a fair approach.

Given that there has been little time available in which to draw up this report, there is no opportunity to examine the annexes in detail or to propose amendments to them.

2.4 Future EU agricultural policy

It is understandable that, in the wake of the two world wars, the aim of agricultural policies

was to achieve increased levels of self-sufficiency. The CAP subsequently went on to exceed the target for production volumes. Enlargement of the European Union means there is a need for change, including in agricultural policy.

The food and feed scandals of recent years, outbreaks of animal diseases and revelations of cruelty to animals have resulted in a partial loss of consumer confidence in food in Europe. The current policy is focused on farmers and on production volumes. That focus must now be redirected towards consumers and quality. At the same time, rural areas must be afforded protection and the sustainable production of renewable resources must be guaranteed.

We cannot shield ourselves from globalisation. Improved communications, both physical and in terms of data transfer, mean the outside world is coming closer and closer to us. The WTO member countries have, as regards agriculture, undertaken to conduct negotiations with the aim of increasing access to markets, reducing and eventually doing away with export subsidies, and cutting competition-distorting aid. The European Union has a significant role to play in this area.

All this means increased demands for changes in agricultural policy. The pace of change depends on the outcome of the WTO negotiations and on world market trends. The current decision on agricultural policy will remain in force until 2006. However, we should, in close cooperation with the applicant countries, start talking about this issue without delay.

Agriculture in an enlarged European Union must retain its multifunctionality based on the 'European model'. Your rapporteur takes the view that the conditions for achieving this are good. The cornerstones of a new policy must be to exploit the resources of rural areas in such a way as to produce the four Fs: food, fuel, fibre and feelings, to preserve biological diversity and to tend natural and man-made environments.

An enlarged European Union will be able to produce a volume of food far in excess of the self-sufficiency level.

It is becoming ever more important for the European Union, on the basis of new and fairer WTO rules, and in competition with the rest of the world, to be able to sell its increasing production profitably on a functioning world market, thereby improving the food supply of the world's growing population.

The CEECs' markets are more deregulated than the EU's. The European Union should take advantage of this situation in its efforts to fuse together agriculture in east and west over a ten-year period. If both sides, i.e. not just the applicant countries, move towards a common goal, we should be able to bring about a modern common agriculture policy which benefits us and the rest of the world.