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Time for Spain to Support a New Direction on the Common Agricultural Policy?

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1.0 Introduction

During the lifetime of all farm workers in Spain, the agricultural sector has been highly regulated and protected. In the 1980s the regulatory framework that had evolved during the Franco regime was replaced by that of the Common Agricultural Policy (CAP) of the European Community. The European regime was not a static framework, but one which had already begun to shift from a 'productivist' to a 'post-productivist' system in the face of criticism both from inside and outside the Community. Agriculture was increasingly anomalous as other markets in the Community were liberalised. Since the mid-1980s the pressures for reform have continued unabated. In response the CAP has been subject to continuous modifications, which have never quite tackled fundamental policy weaknesses. At the beginning of 2003, with EU enlargement in sight, possibly some new political context for Europe, and in the midst of a new round of world trade negotiations (Doha Round) in which agriculture is the make-or-break issue, it seems a propitious time to reassess Spain's position on the CAP. Inside the EU there is a division of opinion, ranging from the British stance, which is extremely critical and seeks fundamental reform, to the French position that supports the status quo. Despite Spain's advocacy of liberalisation in other sectors of the economy, few voices in Spain have argued for liberalisation in agriculture. Protectionism has, after all, been the norm. In the face of new reform proposals under the Mid-term Review of the CAP, Spain has lined up with the French in opposition. This is unsurprising since Spain is the second largest net recipient of European transfers to the agriculture sector after France. But such a stance may not be the most beneficial one for Spain.

Market liberalisation has spread throughout the Spanish economy. In the 1980s trade and foreign investment restrictions were dismantled and markets in goods opened up to competition as part of the European Community's Single Market programme and commitments on world trade liberalisation. The 1989 Spanish Competition Law made clear the importance of competition in national economic policy: "Competition, as the governing principle of the entire market economy, represents an inseparable element of the model of economic organisation of our society and constitutes, in the sphere of individual liberties, the first and most important manifestation of the exercise of freedom of enterprise." Liberalisation continued through the 1990s, underpinned by the election to office of the Partido Popular (PP) in 1996 with a mandate for further liberalisation, a renewed determination on the part of the European Commission to increase competition in services and pressure from international organisations such as the World Trade Organisation (WTO) and Organisation for Economic Co-operation and Development (OECD). An ambitious privatisation programme exemplified the commitment by the PP to a withdrawal of direct state intervention in the economy. In relation to state enterprises the chairman of the State Industrial Agency (AEI) declared that there were no longer strategic sectors nor special cases where the public sector should remain in control*: "No hay hoy sectores estratégicos, ni casos particulares:"* (Prada Gayoso 1997; 81). Sectors such as electricity, gas, telecommunications and the post, traditionally regarded as natural monopolies, were exposed to competition. But one sector remained a special case and heavily protected, agriculture.

Few studies in Spain have questioned the long-term continued support of agriculture in Spain despite the fact that EU enlargement and WTO proposals point to further reform. This paper sets out to examine the operation of the Common Agricultural Policy in Spain, to assess the present proposals for reform and to consider the Spanish position on the future of the CAP. It argues that in principle there is a strategic case for supporting an agricultural system more responsive to market forces and at least a shift from production to income support.

2.0 Agriculture in the Spanish Economy

Agriculture continues to occupy an important place in the Spanish economy, despite its long-term decline as a source of employment. The importance of agriculture can be gauged by its contribution to the gross domestic product

(GDP), to trade, to employment, to the processing industries that it sustains and to the market that it offers for manufactured goods and services. Beyond this, agriculture permeates the life and culture of the country, providing a supplementary source of income, part-time employment, subsistence income and an invaluable recreational resource intimately connected with the physical environment. Moreover, farming has come to be seen not only as a fundamental activity in the rural economy but also as an important element of countryside and environmental management.

As a response to the business environment of agriculture the total area of utilised agricultural land (Superficie Agrícola Utilizada, SAU) increased by 6.4 per cent from 1989 to 1999 to 26.3 million hectares (INE 1991 and 2001; see also Note 1), the second largest area in the EU-15. Within this area cultivated land (tierras labradas) increased by 4 per cent to 16.9 million hectares and permanent pasture by almost 11 per cent to 9.4 million hectares. At the same time the number of farm holdings fell by 22 per cent to 1.8 million (ibid), reflecting an increase in average farm size. In relation to cultivated land, the area under fruit, vines and woody crops all showed small decreases, while the areas under arable crops and olives both increased. The increase was particularly large for olives where the area under cultivation rose by 27 per cent to 2.27 million hectares. There were large increases in the number of all the major categories of livestock, with sheep numbers rising by 19 per cent, cattle numbers by 32 per cent, fowl 54 per cent and pigs 85 per cent (ibid). Over the same period the number of livestock farms resulting in larger livestock units. For example, the average size of cattle farm increased from 15 to 32 head and that for pigs from 32 to 101 head (ibid). Within the cattle sector there was a marked shift away from dairy cattle, the number of head falling by 36 per cent between 1987 and 2000 to 1.2 million, towards beef cattle, which over the same period rose by 87 per cent to 1.9 million (Mapa 2002b).

There are enormous regional and intra-regional variations in patterns of agriculture, broadly reflecting environmental divisions. In the temperate wetlands of northern Spain dairy farming dominates many areas, along with temperate fruit and vegetables. Across central Spain, in the continental climate of hot dry summers and cold winters, are the traditional Mediterranean triad of largely rain-fed crops: cereals, vines, and in the south, olives. Stretching around the Mediterranean coast are the principal areas of citrus fruit and intensive vegetable production, grown with the aid of irrigation and agri-chemicals. Large areas, especially in the south-east have been covered with plastic to provide more controlled environments for horticulture and bring forward harvests. As a result of spatial variations in the pattern of agriculture, changes in the regulatory regime have a differential impact across the area of Spain.

Equally varied is the character of farming, from very small family farms, semi-subsistence and part-time farms, through to enormous managed estates geared to the extensive cultivation of cereals, olives and vines, and to horticultural enterprises embedded in international food supply chains. The size structure of farm holdings shows a pattern in which there are large numbers of very small holdings (minifundia) occupying a small area of land and a relatively small number of large holdings (latifundia) occupying a large area of land. Over a quarter of farm holdings are less than two hectares and half are less than five hectares. These occupy only two per cent and seven per cent, respectively, of the utilised agricultural land. In contrast, farm holdings of over 100 hectares represent only 3 per cent of all farm holdings but occupy 40 per cent of the utilised agricultural land (INE 1999). The majority of farms (96 per cent) in 1999 were owned by individuals (persona física) (INE 2001). The largest proportion of utilised agricultural land is owner occupied (67 per cent). But some 27 per cent is rented (ibid), indicating that operational farm units are sometimes larger than the statistics on farm size record.

Spain is the fourth largest agricultural producer in the EU by value of production, the final value of production being some 12 per cent of the EU-15 total. The final value of output varies from year to year within the range of 4 to 5 per cent of GDP, having declined from close to 7 per cent in the early 1980s (Mapa 2002a). Gross value added is less than 4 per cent of GDP (Mapa 2002b). In 2001 the total final value of crop and livestock production was estimated at E 35,585 million (ibid). Of this E 20,488 million (around 60 per cent) arose from crop production and E 13,838 million (some 40 per cent) from livestock production. This balance had changed little from the early 1980s. Of the total final value of crop production fruit and vegetables account for about a quarter each, cereals for around a fifth, olives for seven to nine per cent, industrial crops for around seven per cent, vine products, forage, potatoes and other crops for three to four per cent each. In the livestock sector pork accounts for around 30 per cent of the total value of final production, milk for 17 per cent, beef and veal for 19 per cent, 'sheep and goat meat' for 13 per cent, and poultry meat for around 11 per cent. Despite the lesser importance in Spain of livestock compared with crop production (a characteristic of Mediterranean agriculture) Spain is the third largest meat producer by volume in the EU, after France and Germany. It also has the second largest number of sheep after the UK, the second largest number of goats after Greece, and the second largest number of pigs after Germany (ibid).

There is normally a small trade surplus on food and agricultural products. The trade balance is influenced by the size of harvests with a surplus on unprocessed food being offset by a deficit on processed food. Trade surpluses are normally recorded in fruit, vegetables and drink. Major exports are fresh fruit and vegetables, cereals, wine, vegetable oils and processed food. Spain is a leading world exporter of table olives, olive oil, wine, almonds and cork. Major imports are wood and wood products, feed grains, fruit, skins, tobacco, meat, dairy produce and processed food. Agricultural and food products represent around 14 per cent of merchandise exports and 10 per cent of imports (ibid). Given the deficit in trade on processed food, there is a case for the further strengthening of agricultural product processing in Spain.

Linked to agriculture is the food, drink and tobacco manufacturing industry. This is a major manufacturing sector in Spain contributing around four per cent to GDP, some 16 per cent of total business turnover in the industrial sector and directly employing about 370,000 people (INE 2002b). Despite the size of the industry, it is highly fragmented, relatively few companies (only 0.7 per cent of a total some 33,000) have grown to employ more than 200 people and far fewer have grown into full multinationals. Campofrio (meat), Pescanova (fish), Sos Cuétara Koipe Carbonell(biscuit, rice and olive oil), a few drinks companies (such as Freixenet) and the Franco-Spanish tobacco manufacturer Altadis are among the exceptions. In contrast, foreign capital and giant foreign multinationals permeate the whole industry.

Despite the introduction of the CAP the long-term decline in agricultural employment has continued. Protectionism has not stopped people giving up agriculture as a livelihood. In 1960 there were 4.9 million people economically active in agriculture (42 per cent of the labour force), by 1980 this had fallen to 2.4 million (18 per cent of the labour force), by 1990 to 1.8 million (12 per cent of the labour force) and by 2002 to around one million (less than 6 per cent of the labour force; INE 2002a). The 1999 Census of Agriculture (INE 2001) put the number of full-time workers (Unidades de Trabajo) at 1.2 million, most of whom were members of the owners family (805,000). By the end of the first decade in the twenty-first century the occupied population in agriculture could well have fallen to around half-a-million, only 3 per cent of the labour force. Because of the elderly age structure of the farm population (in 1997 60 per cent of farm owners were aged 55 and over, INE 1999), many will simply have retired. *A shrinking number of people are going to be directly dependent on agriculture. Far more are going to be concerned with the price and quality of agricultural products and the quality of the rural environment.*

3.0 The Common Agricultural Policy (CAP)

The Common Agricultural Policy of the European Union provides the regulatory framework within which agriculture in the European Union is practised (Ackrill 2000, Fennell 1997, Grant 1997, Ritson and Harvey 1997). Introduced in 1962, it remains the most important policy in the EU in terms of expenditure, accounting for nearly half the EU budget in 2003. The CAP is funded through the European Agricultural Guidance and Guarantee Fund (hereinafter referred to under its Spanish acronym FEOGA - *Fondo Europeo de Orientación y Garantia Agraria*) and thus tax-payers and consumers (Council Regulation EC No 1258/1999). The Fund comprises two sections.

1. The Guarantee section (FEOGA-G) provides: i) market support - supporting farmers incomes and farm prices; ii) certain veterinary expenditure; iii) information measures relating to the CAP; and iv) rural development measures - supporting economic and social conversion of areas facing structural difficulties outside of Objective 1 regions.

2. The Guidance section (FEOGA-O) provides other rural development expenditure not financed by the Guarantee section. It is incorporated into the Structural Funds.

Market support is described as the first pillar of CAP policy and rural development the second pillar. From 2000 all rural development has been funded through the co-financing of projects by the European Union and the recipients of funding (EC Regulation 1257/1999). The level of co-financing is dependent on the region in which the project is located.

Three major operating principles underliethe CAP: a single internal market and system of common prices; Community preference (trade restrictions to protect the internal market); and joint financing by all member states. To support these principles agricultural markets are subject to a complex system of intervention and protection from external competition. Measures include:

a) Guaranteed Prices (Intervention prices): For some agricultural products (for example butter, cereals, cotton, rice and sugar) there is a guaranteed price (or intervention price) at which products can be sold into intervention (assuming the products meet certain quality standards). The assumption is that intervention stocks can be sold when market prices rise.

b) Supplementary and fixed -rate aids: For cereals, olive oil, some tobaccos and some oilseeds support prices are kept low, but producers get direct subsidies (compensation) in proportion to their output. For a small group of products fixed-rate subsidies are paid per hectare (area payments, for example in cotton) or per quantity produced, and no market intervention takes place. For livestock there are livestock premiums: payments made per head of livestock.

c) Quotas: In an attempt to prevent over-production, area or volume-based quotas have been introduced for many products (for example beef, cotton, flax, milk, rice, olive oil, sugar, tobacco). Where production exceeds the quota, fines are imposed and payments reduced. Quotas are also used to restrict imports.

d*)* Set-aside: Another measure to reduce over-production is the set-aside scheme under which payments are made to farmers to take arable land out of production.

e) Stabilisers: Penalties for production above quota.

To maintain Community preference the CAP uses:

a) Import levies and other import restrictions:Levies raise prices on imported agricultural products to EU levels, by applying a variable levy. They contribute towards the funding of the CAP.

b) Export subsidies (export restitutions): These enable farmers to sell produce on world markets by making up the difference between EU and lower world market prices.

3.1 The CAP budget

The current budget for the CAP is set within the medium-term Financial Perspective spanning the seven-year period 2000-06 (inclusive), agreed at the Berlin Council in March 1999 (part of a set of measures known as Agenda 2000; European Commission 1999). This assumed that six new states would enter in 2002 and that upon enlargement the Perspective would be adjusted to take into account the actual number of acceding states. Under this framework there is a ceiling of 1.27 per cent of EU GDP for the annual EU budget. The ceiling for spending on the CAP (EU-15) was budgeted to be only marginally higher in real terms in 2006 than in 2000. Two annual sub-ceilings were set for agriculture spending under FEOGA-G for the period, one for market support (sub-heading 1a in the FEOGA-G budget), which accounts for around 90 per cent of spending, and one for rural development (sub-heading 1b).

At the Brussels Council in October 2002 it was agreed that the FEOGA-G budget in 2006 would be set at E 45,533 million. The 10 Accession States, scheduled to join the EU in May 2004, are to receive 25 per cent of the level of direct aid payments to existing Member States in 2004, rising in annual increments of 5 per cent to 2007 (when they will receive 40 per cent) and thence in 10 per cent annual increments to 100 per cent in 2013. From day one of their membership they will contribute to EU resources. "The phasing in [of payments to Accession States] will take place within a framework of financial stability, where total annual expenditure for market related expenditure and direct payments in a Union of 25 cannot – in the period 2007-2013 – exceed the amount in real terms of the ceiling of category 1a for the year 2006 agreed in Berlin for the EU-15 [some E 42,834 million] and the proposed corresponding expenditure ceiling for the new Member States for the year 2006 (E 2,322 million) (Table 1). The overall expenditure in nominal terms for market-related expenditure and direct payments for each year in the period 2007-2013 shall be kept below this 2006 figure increased by 1% per year" (European Commission 2002a, p.5 and Table 2). No ceiling was set for rural development spending.

Table 1: Maximum Enlargement-Related Commitment Appropriations to the Ten Accession States (at 1999 prices) 2004-6 and Commission Proposals for 2007-13

Heading	2004	2005	2006	Total		2007	2008	2009	2010	2011	2012	2013
Agriculture (1)	1897	3747	4147	9791								
CAP (1a)	327	2032	2322	4681		2012	2300	2874	3449	4029	4599	5174
Rural Development (1b)	1570	1715	1825	5110								

million euro

Source: European Commission 2002b

Figures for 2007 to 2013 are Commission proposals published in AgroNegocios 10 November 2002

Table 2: EU-25 Ceiling for Total Annual Market Related and Direct Payments (sub-heading 1a)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU-25 ceiling	42979	44474	45306	45759	46217	46679	47146	47617	48093	48574

Current prices (million euro)

Source: Decision of the Representatives of the Governments of the Member States, Meeting within the Council, concerning the conclusions of the European Council meeting in Brussels 24/25 October 2002. Brussels 18 November 2002 14055/3/02 REV3.

The budgetary implications of enlargement on the CAP have been widely discussed (Mapa 2001a, Munch 2000, Sumpsi Viñas 2002). Sumpsi Viñas (2002, p.250) argues that enlargement can be accommodated within the existing CAP without creating any budget problems in the period to 2006. However, from 2006 the picture looks set to change. Taking the figures in Tables 1 and 2 alone, from 2006 the budget in real terms is at best static and more likely to fall. From that budget increasing payments to the Accession States must be made. By 2013 it is feasible that there could be a shortfall of around 20 per cent in the budget for the EU-15 compared with the position in 2003. Beyond these figures there are several areas of uncertainty: firstly the Financial Perspective 2007-13 will be decided by the EU-25; secondly there will be the repercussions of any agreements made in the Doha round of trade negotiations; and thirdly there will be the impact of some type of further CAP reform. Given the large number of farmers (an EU of 25 adding almost 60 per cent more people to the existing EU-15 agricultural workforce and an EU of 27 adding 136 per cent), the backwardness of agriculture, generally lower product prices, and the problems of transition in the eastern European Accession States, it would appear likely that the Accession States will gain a larger proportion of resources than currently envisaged. Moreover, the levels of total agricultural aid agreed in Brussels in October 2002 are not guaranteed, even for the period to 2006, since the decisions made at the Brussels conference were made "without prejudice to future decisions on the CAP and the financing of the EU after 2006, nor to any result following the implementation of paragraph 22 of the Berlin European Council conclusions [Note 2], as well as to the international commitments which the Union has undertaken inter alia in the launching of the Doha Development Round." (ibid). One way or another it is probable that *existing Member States will face cuts in their agriculture payments*

The EU Budget for 2003 amounts to E 99,686 million in commitment appropriations and 97,503 million in payment appropriations (an estimated 1.02 per cent of EU-15 GDP, well within the budget ceiling; European Commission

2003a). In total, agriculture activity (including rural development) is allocated around E 48,000 million. FEOGA-G is allocated E 44,780 million. Of this FEOGA-G allocation E 40,082 million (40 per cent of the total EU budget in commitment appropriations and 89.5 per cent of FEOGA-G funding) is directed to the traditional measures of CAP (market related and direct payments) and the rest (some 4,698 million, 10.5 per cent) to rural development. Supporting the market for arable crops in the biggest single expense, accounting for 42 per cent of the aid for measures outside of rural development, and over half of all direct aid. Cereals account for three-quarters of spending within the arable crops market and for some one-third of all spending outside of rural development. *Despite the fact that in the EU-15 agriculture accounts for less than five per cent of the employed working population, and Gross Value Added in agriculture is less than 2 per cent of GDP, EU spending on agriculture in 2003 will account for almost half total EU spending. It will be difficult for citizens of EU member states to accept the EU as a credible broad governmental organisation while this situation persists.*

3.2 Spain's balance of transfers with the EU

Spain expects to receive E 16,045 million from the European Union in 2003 and to pay E 8,497 million, a net inflow of E 7,549 million (Ministerio de Hacienda 2002), equivalent to around one per cent of GDP. This large net inflow is set to fall over the coming decade. Not only is agricultural funding likely to fall, Structural funding will also be reduced and Cohesion funding will dry-up altogether as a result of the impact of enlargement on the average level of GDP per capita in the EU. FEOGA-G funding represents some one per cent of GDP in Spain, the Structural and Cohesion funds together around 1.3 per cent (Table 3).

In terms of CAP spending in 2001 Spain was the second largest recipient of funds in absolute terms (receiving around 15 per cent of CAP funds in 2003) after France and roughly equal to Germany, and second after France in net terms. In 2003 Spain will receive around E 6,729 million through the FEOGA-Guarantee section: (E 6,272 million in current transfers - 93 per cent - and E 507 million in capital transfers to finance rural development; ibid). This is a substantial sum, equivalent to some one per cent of GDP, 20 per cent of the final value of agricultural production and over a quarter of agricultural income (based on figures in Mapa 2002b). Given that the budget for the traditional measures of the CAP is 40 per cent of the total EU budget in 2003, then Spain's contribution for this is some E 3,400 million (40 per cent of E 8,497), resulting in a net inflow E 3,329 million (less than 0.5 per cent of GDP). These are large sums of money. If they are set to decline (as appears probable) *there needs to be a strategy for managing the transition from high levels of assistance*.

Table 3: Estimates of the Transfers between the European Union and Spain, 2003

Heading	**Amount (€ mn)**	**% GDP**
Deferred interest	0.6	
VAT	2614.6	
GDP contribution	4725.4	0.7
Traditional resources	1010.1	
Contribution to the European Development Fund	146.0	
Total	8496.7	1.2
FEOGA-G	6729.0	1.0
FEOGA-Guidance, Fishing modernisation and Other	1446.0	0.2
European Regional Development Fund	3919.0	0.6
European Social Fund	2066.1	0.3
Cohesion Fund	1585.1	0.2
25% of cost of collecting traditional resources	252.5	
Other Transfers	47.6	
Total	16045.4	2.3
Balance of transfers	7548.7	1.1

Source: Ministerio de Hacienda 2002, p.264.

Based on GDP of €700,000 million.

3.3 The distribution of FEOGA-Guarantee funds in Spain

The largest slice of funding in Spain, as in the EU, goes into supporting the arable crops sector (including cereals and sunflowers but excluding rice). In 2001/2 this sector absorbed almost 30 per cent of all payments (Ministerio de Agricultura FEGA 2002 web site). Some 16 per cent went into supporting the olive market and 13 per cent into supporting beef. Fruit and vegetables, the most important sector by value of production and in terms of export value, received only 10 per cent of funds as did vine products. Three-quarters of all funding went into these four sectors. A further 7.5 per cent was allocated to rural development (ibid). By activity, around 65 per cent of all funding goes in direct aid to producers, 15 per cent to food processing, between 5 and 10 per cent to export restitutions and around 10 per cent to rural development. *Almost half of all funding goes into supporting arable crops* *and olives, both dominated in terms of land area occupied by large estates*.

The regional distribution of funds in Spain is determined by the allocation to sectors and activities and by the geographical distribution of these. Andalucia is by far the largest recipient of funds. In 2001/2 it received over 25 per cent of the total (only 20 per cent less than the entire payments to the UK; European Court of Auditors 2002, p. 69). The two Castilles received around 30 per cent, followed by Extremadura and Aragon with around 10 per cent each. Together, these regions of the Meseta and Andalucia received close to three-quarters of all funding. In contrast, the north (Asturias, Cantabria, Galicia and País Vasco) received less than 5 per cent of all funding (FEGA 2002, web site and Mapa 2002b). *Agriculture funding is very unevenly distributed between regions, providing little support to the small farmers of the north and north-west.*

In terms of the distribution of direct aid to farmers in Spain, in 2000 there were 887,400 recipients of the E 3,445 million of direct aid (European Commission 2002c). A small number of farmers, essentially big estate owners, received large payments and accounted for a substantial slice of all the direct aid. Less than 10 per cent of recipients received more than E 10,000, but this group accounted for 60 per cent of all direct payments. Five per cent received almost 40 per cent of payments. In contrast, most farmers receive very small payments. Over 80 per cent received less than E 5,000, accounting for 24 per cent of payments. Fifty-five per cent of recipients received less than E 1,250. *Agriculture funding is inequitable. It does not redistribute income to poor farmers, it supplements the incomes of wealthy farm owners. In particular, it transfers money away from poor urban consumers*.

4.0 Reform of the CAP

Until the mid-1980s price support for agricultural production was open-ended, providing a strong stimulus for increased production, what Shucksmith (1993) described as the 'productivist' period. From 1984, however, measures began to be introduced to try to control production, for example with quotas on milk production. Thus, Spain joined the Common Agricultural Policy as the 'post-productivist' period dawned. Since the early 1990s there has been an almost continuous process of reform. A major set of reforms were introduced in 1992 (MacSharry reforms). Further reforms were introduced in the late 1990s as part of 'Agenda 2000' and a new set of reforms are currently under discussion as part of the Mid-term Review (midway through the 2000-06 Financial Perspective). Overall, reforms have been designed to reduce over-production and contain costs. Measures have edged the CAP towards more exposure to market forces, a de-coupling of aid from production, income support for farmers, and the redirection of agriculture funding towards environmental measures, sustainable farming practices and rural development. The changes implemented up until the end of 2002 have failed to fully tackle fundamental problems of over-production, excessive cost and trade distortion, whilst creating a degree of regulatory risk in farming that has meant that it is difficult for farmers to plan ahead, so negating one of the objectives of the CAP, that of creating a secure and stable agricultural environment. At the same time farm workers have continued to leave the industry in large numbers.

In May 1992 the European Community agreed the farm reforms proposed by Ray MacSharry. A key change was a switch from price support to direct income support. Price reductions (for example a 29 per cent cut in cereal prices and a 15 per cent cut in beef prices) brought Community prices on some products more into line with world market prices, reducing the incentive for over-production and reducing the cost of export restitutions and import duties. Farmers were awarded on-going compensation payments for the lower prices. To prevent abuse of the system in cereals from 1993 farmers who wished to gain compensation for the lower cereal prices were not able to increase the area sown beyond the maximum that they had sown over the last three years and farms which produced more than 92 tonnes had to reduce their area sown by 15 per cent. Compensation terms meant that more intensive farmers received more compensation. A more direct measure to restrict production was the extension of area and quantity-based quotas. Quotas were introduced on beef and sheep meat. Finally, there were payments to take land out of agriculture, through set-aside schemes in arable farming, to encourage alternative land use (for example, forestry) and environmental protection, and for the early retirement of farmers (from 55). As a result, a larger proportion of CAP spending was allocated to directly supporting farmers' incomes rather than paying for surpluses and subsidising exports. These reforms were introduced over three years from the marketing year 1993/4 to 1996/7 (Kay 1998).

At the end of the 1990s further reforms were introduced as part of 'Agenda 2000'. Further cuts in prices were introduced and output restrictions revised. Basically, the direction of policy remained the same, to shift aid from price support to income support. In addition Regulation EC 1259/1999 introduced horizontal rules, applicable to various market organisations, to encourage Member States to take account of environmental and employment issues in their policy on granting direct aid. The Regulation covered the following market organisations: arable crops, potato starch, cereals, olive oil, grain legumes, flax, hemp, silk worms, bananas, dried grapes, tobacco, seeds, hops, rice, beef and veal, milk and milk products, sheep meat and goat meat, the agrimonetary arrangements, Poseidom, Poseima, Poseican and the Aegean islands.

In autumn 2000 the European Commission opened negotiations on reform of the fruit and vegetable regimes, olives, rice, cotton and sugar. Agreement could not be reached on reform of the olive market, hence the existing regime was extended. For rice it has been argued that there is often no real alternative to rice production and that the paddy fields play an important environmental role, especially by providing a substitute for natural wetlands. However, if the rice market were opened to competition then under the present regime of high intervention prices most of the production could end up in intervention. Hence, the Commission has argued that the choice is either to give up EU rice production or to make EU rice production competitive with imported rice. The Commission has opted for a proposal, which is designed to bring EU rice prices close to world market levels and make rice production far more market oriented. This involves a 50 per cent reduction in present support prices coupled to compensation payments (Agri/Fisheries Council of 16 October 2002). In cotton, the intervention price has been reduced to that of world market prices (as at November 2002) and higher penalties introduced for exceeding quota. Sugar reforms came into operation in July 2001 with a lower intervention price and tighter quotas.

4.1 European Commission Mid-term Review of the CAP (proposals January 2003)

4.1.1 Rationale and key elements: In January 2003 the European Commission published its Mid-term Review of agricultural policy (following draft proposals in July 2002; European Commission 2002d and 2003b). The Review attempts to address some of the principal criticisms of the CAP. The Commission argues that besides supporting farm incomes, the CAP must yield more in return regarding food quality, the preservation of the environment and animal welfare, landscapes, cultural heritage and social equity. For European consumers and taxpayers it argues that the Review will ensure better value for money. Specifically the Commission claims that the reforms will: i) make European agriculture more competitive and market oriented - production for the market rather than for subsidies-; ii) facilitate enlargement; iii) help defend the CAP in the World Trade Organisation; iv) simplify the CAP; v) allow farmers flexibility in production decisions; vi) provide income stability for farmers and a more transparent and more equitable distribution of income support; vii) remove environmentally negative incentives in current policy and provide encouragement for environmentally sustainable farming practices (in 2002 direct aid for some 30 headings was given without ties to environment, animal health or quality of products). The Commission further claims that farm incomes will improve with the reforms. There will be new EU support for safe food, animal welfare and a healthy environment and increased money for rural development secured through savings on income support to large farms (a trade-off necessary as a consequence of the new financial framework).

The key elements of the reform are:

- *A single farm payment*, independent from production (*decoupling*)

- *Linking farm payments to the respect of environmental, food safety, animal welfare, health and occupational safety standards*, as well as to the requirement to keep all farmland in good condition, (*cross-compliance*),

- *A stronger rural development policy* with more money, new measures to promote quality, animal welfare and to help farmers to meet EU production standards,

- *A reduction in direct payments* (*degression*) for bigger farms to generate additional money for rural development and the savings to finance further reforms;

- *Revisions to the market policy of the CAP*, including a) the final 5 per cent intervention price cut for cereals, partially compensated by an increase in direct payments for arable crop producers; b) a wider ranging and accelerated milk reform with differentiated price cuts for butter and skimmed milk powder and the maintaining of milk quotas until 2014/15, and c) reforms in the rice, durum wheat, nut, starch potatoes, and dried fodder sector.

4.1.2 Single farm payment: A single farm payment is designed to promote a more market oriented, sustainable agriculture. It will replace most of the premia under different Common Market Organisations. In order to maximise the benefits, particularly in administrative terms, the single farm payment will cover the widest possible range of sectors (all products included in the COP regime - a common support regime for cereals, oilseeds and protein crops introduced in 1992 - as well as grain legumes, seeds, starch potatoes, beef and sheep; the revised payments for rice, durum wheat and dried fodder; and the milk sector on implementation of dairy payments. Proposals for other sectors scheduled for reform (sugar, olive oil, tobacco, cotton and possibly fruit and vegetables, and wine) will follow in the course of 2003. *Farmers will receive a single farm payment based on a reference amount covering payments for the above products in a three year reference period 2000 to 2002 (historic payments*). This single farm payment will be broken down into payment entitlements in order to facilitate their transfer. Each entitlement will be calculated by dividing the reference amount by the number of hectares, which gave rise to this amount (including forage area) in the reference years. Entitlements may be transferred, with or without land, between farmers within the same Member State. A Member State may define regions within which transfers are limited. Moreover, it will be open to Member States to adjust entitlements with respect to regional averages. To ensure that the total level of support and entitlements do not exceed current budgetary constraints at Community or national level and, where applicable, at regional level, the Commission has proposed national ceilings calculated as the sum of all funds granted in each Member State for the payment of aids under the relevant support schemes (for Spain these are set at E 3,338 million in 2004 rising to E 3,486 million in 2008 and after). The Commission claims that by providing greater farming flexibility, decoupling will improve the income situation of many farmers in marginal areas.

In order to avoid land abandonment and subsequent environmental problems as a result of decoupling, farmers will have to meet stringent land management obligations as part of the new cross-compliance requirements.

Beneficiaries of direct payments will be obliged to maintain all agricultural land in good agricultural condition. Compulsory cross-compliance will apply to statutory EU standards in the field of environment, food safety, animal health and welfare and occupational safety related to the farm level. Farmers who for example use forbidden growth promoters or pollute the soil, will be subject to sanctions. The penalty will take the form of a 10 to 100 per cent reduction in aid (depending on the severity of the case).

4.1.3 Rural development: To strengthen rural development the Commission proposes to increase financing (see below) and to widen the scope of EU rural development support by introducing new measures. These additions will be made to the 'menu' of measures already available without changing the basic framework under which rural development support is implemented, which the Commission consider will be counter-productive at this mid-way stage in the current 2000-2006 programming period. *The new rural development measures are all targeted primarily at farmer beneficiaries* and will be financed through FEOGA-G. It will be for Member States and regions to decide if they wish to take up these measures within their rural development programmes. The new measures will comprise:

New quality incentives to farmers.

1. Incentive payments for farmers who participate in schemes designed to improve the quality of agricultural products and the production process used, and give assurances to consumers on these issues. Such support will

be payable annually for a maximum five year period, and up to a maximum of E 1,500 per holding in a given year.

2. Support for producer groups for activities intended to inform consumers about, and promote the products produced under, quality schemes supported under the above measure. Public support will be permitted up to a maximum of 70 per cent of eligible project costs.

New support to help farmers meet standards.

1. Temporary and degressive support to help farmers to adapt to the introduction of demanding standards based on EU legislation concerning the environment, public, animal and plant health, animal welfare and occupational safety. Aid will be payable on a flat-rate basis, and degressive for a maximum period of five years. Aid will be subject to a ceiling of maximum E 10,000 per holding in a given year. In no case will aid be payable where the non-application of standards is due to the non-respect by an individual farmer of standards already included in national legislation.

2. Support for farmers to help them with the costs of using farm advisory services. Farmers may benefit from public support of up to a maximum of 95 per cent of the cost of such services the first time they are used, subject to a ceiling of E 1,500.

Covering the farmers' costs for animal welfare.

Support for farmers who enter into commitments for at least five years to improve the welfare of their farm animals and which go beyond usual good animal husbandry practice. Support will be payable annually on the basis of the additional costs and income foregone arising from such commitments, with annual payment levels of a maximum E 500 per livestock unit.

4.1.4 Direct payments: The Mid-term Reform *proposals envisage a reduction of direct payments for larger farms from 2007 onwards*. The fixing of a ceiling for agricultural market expenditure in the Brussels Summit (October 2002) implies that the mechanism for shifting between budget headings cannot be implemented before the start of the next financial perspective in 2007. The Commission therefore proposes introducing a system of compulsory modulation from the start of the next financial perspective to cover the shift to rural development (the 'second pillar') as well as new financing needs arising from new market reforms. *The majority of EU farmers, those in receipt of up to E 5,000 in EU support, will be exempted*. This will also correct the current imbalance that 80 per cent of CAP currently goes to only 20 per cent of the farms. Until 2007 Member States will be free to shift money from direct payments to rural development via voluntary modulation.

The proposed system introduces the principle of progressive contributions according to the overall amount of direct payments received in order to ensure that reductions in direct payments are balanced and simple to apply. The payments granted to a farmer in a budgetary year will be reduced progressively as illustrated in Table 4.

Table 4: Percentage Reduction in Direct Payments (budget years)

Bands (euro)	2007	2008	2009	2010	2011	2012	2013
1-5,000	0	0	0	0	0	0	0
5,001-50,000	1%	3	7.5	9	10.5	12	12.5
50,000 plus	1%	4	12	14	16	18	19

Source: European Commission 2003b, p.12

In Spain about two-thirds of direct payments go to farms in receipt of E 5000-50,000, and 10 per cent to farms in receipt of E 50,000 plus.

Within this "degression" one per cent in 2007, rising by a further one per cent per year to six per cent in 2012, will be made available to the Member States as additional EU support for measures to be included in the their rural development programming. According to the Commission this will result in additional rural development funds of E 228 million in 2007, increasing to 1,480 million in 2012. These amounts will be allocated between Member States according to criteria of: agricultural area, agricultural employment and GDP per capita in purchasing power. The remaining amounts will be made available for additional financing needs for new market reforms. Proposals for reforms of the sugar, olive oil, cotton and tobacco – and possibly fruit and vegetables, and wine sectors will follow in the course of 2003. Degression and modulation will not apply in the new Member States until the phasing-in of direct payments reached the normal EU level (in 2013).

4.1.5 Farm advice and audit: A new farm advisory system will be introduced along with farm audits. The farm advisory system will be mandatory as a part of cross-compliance requirements. Its introduction, in the first instance, will be limited to producers receiving more than E 15,000 per year in direct payments or with a turnover of more than E 100,000 per year. Other farmers will be able to enter the system on a voluntary basis. This service will provide advice through feedback to farmers on how standards and good practices are applied in the production process. Farm audits will involve structured and regular stocktaking and accounting of material flows and processes at enterprise level defined as relevant for a certain target issue (environment, food safety, and animal welfare). Support for farm audits will be available under rural development.

4.1.6 Set-aside: In relation to long-term set-asideproducers currently subject to the set-aside obligation will be obliged to continue set-aside on an area equivalent to 10 per cent of their current COP area as a condition for receipt of the single farm payment. Organic farming will not be subject to this obligation for the area concerned. Set-aside will be non-rotational and may not be used for agricultural purposes nor produce crops for commercial purposes. However, Member States will be able to allow rotational set-aside where this is necessary for environmental reasons. Land which is transferred will continue to be set-aside.

4.1.7 Energy crops: In relation to energy crops the Commission proposes an aid (a carbon credit) of E 45 per hectare for energy crops. This will apply for a maximum area of 1.5 million ha. The aid will only be granted in respect of areas whose production is covered by a contract between the farmer and the processing industry, except where the processing is undertaken by the farmer on the holding. Within five years of the application of the energy crops scheme, the Commission will submit a report to the Council on its implementation, with proposals if appropriate.

4.1.8 Stabilising markets and improving common market organisations:

Arable Sector

Cereals: A final five per cent reduction (of the 20 per cent proposed in Agenda 2000) is proposed to bring the cereals intervention price down to E 95.35/tonne (delivered to warehouse price) from 2004/5 to ensure that intervention is a real safety net. To avoid a further accumulation of intervention stocks, rye will be excluded from the intervention system. With the diminishing role of intervention, a seasonal correction for the intervention price will no longer be justified. It is therefore proposed to abolish the monthly increment system. Production refunds for starches and certain derived products will no longer be applied. As a consequence of the cut in the cereal intervention price, area payments for cereals and other relevant arable crops will be increased from E 63 to E 66/tonne. These will be included in the single farm payment.

Protein crops (peas, field beans, sweet lupins): The current supplement for protein crops (E 9.5/tonne) will be maintained and converted into a crop specific area payment of E 55.57/ha. It will be paid within the limits of a new Maximum Guaranteed Area set at 1.4 million ha.

Durum Wheat: The supplement for durum wheat in traditional production zones will be reduced from E 344.5/ha to E 250/ha and included in the single farm payment. The specific aid for other regions where durum wheat is supported, currently set at E 139.5/ha, will be phased out. The cuts will be implemented over three years, starting in 2004. A new premium will be introduced to improve the quality of durum wheat with regard to uses for semolina and pasta production. The premium will be paid in traditional production zones to farmers who use a certain quantity of certified seeds of selected varieties (in Spain these zones cover all the provinces of Andalucia plus Badajoz, Burgos, Navarra, Salamanca, Toledo, Zamora and Zaragoza). Varieties will be selected to meet quality requirements for semolina and pasta production. The premium amounts to E 40/ha and will be paid within the limits of Maximum Guaranteed Areas that are currently applying in traditional production zones.

Starch Potatoes: The current policy provides for a direct payment for producers of starch potatoes. Its amount is fixed at E 110.54 per tonne of starch in the framework of Agenda 2000. Fifty per cent of this payment will be included into the single farm payment, on the basis of the historical deliveries to the industry. The remainder will be maintained as crop specific payment for starch potatoes. The minimum price is abolished.

Dried Fodder: Support in the dried fodder sector will be redistributed between growers and the processing industry. Direct support to growers will be integrated into the single farm payment, based on their historical deliveries to the industry. National ceilings will apply to take into account current National Guaranteed Quantities. During a transitional period of four years, a simplified single support scheme for the dehydrated and sun-dried fodder industry will apply with a degressive aid, starting from E 33/tonne in 2004/05. The respective National Guaranteed Quantities will be merged.

Seeds: Regulation (EC) 2358/71 established an aid for the production of selected seed species. The aid, currently paid per tonne of produced seeds, will be integrated into the single farm payment. It will be calculated by multiplying the number of aided tons by the amount established in application of Article 3 of the above-mentioned Regulation.

Rice: In order to stabilise market balances due notably to the impact of the Everything but Arms (EBA) initiative, the Commission proposes a one step reduction of the intervention price by 50 per cent to an effective support price of E 150/tonne in line with world prices. To stabilise producers' revenues, the current direct aid will be increased from E 52/tonne to E 177/tonne, a rate equivalent to the total cereals compensation over the 1992 and Agenda 2000 reforms. Of this, E 102/tonne will become part of the single farm payment and paid on the basis of historical rights limited by the current maximum guaranteed area (MGA). The remaining E 75/tonne multiplied by the 1995 reform yield will be paid as a crop specific aid. The MGA will be set at the 1999-2001 average or the current MGA, whichever is lower. A private storage scheme will be introduced to be triggered when the market price falls below the effective support price. In addition, special measures will be triggered when market prices fall below E 120/tonne.

Nuts (almonds, hazelnuts, walnuts, pistachios, locust beans): The current system will be replaced by an annual flat rate payment of E 100/ha granted for a maximum guaranteed area of 800,000 ha divided into national guaranteed areas (Spain 568,200 ha). This can be topped up to an annual maximum amount of E 109 per hectare by Member States.

Dairy: In order to provide a stable perspective for dairy farmers, the Commission proposes the prolongation of a reformed dairy quota system until the 2014/15 campaign. In Berlin in March 1999 the European Council decided to delay the entry into force of reform in the dairy sector due to budgetary considerations. Since unanticipated budgetary resources have become available in the current financial perspective, the Commission strongly believes the dairy reform agreed in Berlin should be advanced by one year in order to achieve the objectives and benefits of the reform at the earliest possible date. Furthermore, it is necessary to further reduce the support price for milk with a corresponding quota increase of one per cent per year in 2007 and 2008 based on reference quantities after the full implementation of Agenda 2000. The foreseen uniform reduction of five per cent per year reduction should be replaced by asymmetric intervention price cuts of –3.5 per cent per year for skimmed milk powder (SMP) and minus seven per cent per year for butter over the five year period. On the whole this 35 per cent reduction in butter prices and a 17.5 per cent reduction in skimmed milk powder prices correspond to a global reduction of 28 per cent for EU milk target prices over five years. Intervention purchases of butter will be suspended above a limit of 30,000 tonnes per year. Above that limit, it is proposed that purchases may be carried out under a tender procedure. Additional compensation in 2007 and 2008 through direct payments will be made, using the same method of calculation as in Agenda 2000. All dairy payments will be integrated into the single farm payment.

4.1.9 The budgetary impact of the Mid-term Review proposals

For the EU-15, the Commission estimate that the proposed measures involve a saving of E 337 million for the financial year 2006 and of about E 186 million from 2010. It claims that this impact results from the fact that the savings under the proposals for market measures (export refunds, public storage etc.) are greater than the effect of the proposals concerning direct aids (mostly subsumed in the single farm payment) estimated at an additional E 729 million in 2006 and around E 1, 610 million from 2010. However, for the new accession countries, the financial impact in 2010 is for an additional expenditure of around E 88 million which increases annually to reach E 241 million in 2013, as a result of the increasing share of direct aids in their total expenditures.

In order that total expenditures remain within the new ceiling decided at Brussels for the financing of market measures and direct aids for an enlarged Europe of 25 Member States, a reduction in the direct aids for EU-15 is proposed, as from the financial year 2007 (Table 5).

Table 5: The budgetary impact of reform proposals, EU-25 expenditure forecasts for FEOGA-G heading 1a

Heading 1a	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU-25 Ceiling	42,979	44,474	45,306	45,759	46,217	46,679	47,146	47,617	48,093	48,574
EU-25 Expenditure	41,681	43,642	44,395	45,156	46,123	47,568	48,159	48,805	49,451	50,099
Of which EU-15	41,320	41,339	41,746	42,183	42,802	43,569	43,513	43,513	43,513	43,513
Of which CC-10	361	2,303	2,649	2,973	3,321	3,999	4,646	5,292	5,938	6,586
Difference	1,298	832	911	603	94	-889	-1,013	-1,188	-1,358	-1,525
Degression:				228	751	2,030	2,420	2,810	3,200	3,343
of which available for rural development				228	475	741	988	1,234	1,481	1,481

Figures in million euro

Estimate of single farm payments (EU-15) in 2005 28,025.6 million (68% of total direct payments), in 2013 31,739.3 million (73% of all direct payments)

Source: European Commission 2003b, p.7

4.1.10 Comment

The budgetary impact of the reforms are broadly neutral according to the Commission figures. There is no overall reduction in the planned CAP budget. FEOGA-G will remain at least to the end of 2006 at around E 44,000 million (45 per cent of the EU budget). A high degree of protection remains with support reassigned from high visibility production subsidies to direct farm income support and to less visible rural development measures. Although single farm payments simplify the CAP regime, cross-compliance obligations and the nature of rural development payments is complex and open to potential dispute and fraud. The switch from production subsidies to direct income support will reduce surpluses and the cost of market support measures, while easing the WTO negotiating position of the EU. In comparison with the July 2002 draft proposals the assistance ceiling per farm (E 300,000) has been dropped along with any reference to employment rebates.

All EU-15 Member States face cuts in direct aid through degression. For Spain these amount to some 10 per cent by 2013 (equivalent to around E 450 million in 2003). Money saved through these cuts will be available for regional development and new market measures. Given the criteria for allocating money for regional development - agricultural area, agricultural employment and GDP per capita in purchasing power - the new Member States will be the main beneficiaries of this money. Thus, there is a fear that not all the savings from lower direct aid payments to Spain will be remitted to Spain. Two reasons underlie this concern. The technical one mentioned above coupled with the requirement that for funds to flow to cofinanced projects the projects have to be developed and presented and the Spanish government has to find part of the funding. In addition, there may be a redistribution of funds away from farmers to others engaged in rural development, although the proposals emphasise the intention of channelling additional rural development funds towards farmers.

Cuts in direct aid will only affect large farms. Farmers in receipt of less than E 5,000 will not have their assistance cut. *Eighty per cent of farmers in Spain will not be subject to any cuts in aid since they receive less than E 5,000*. This will leave some 168,000 farmers (of some 887,000) facing cuts.

However, *all farmers (including small farmers) will be hit by lower, or potentially lower, product prices*. Farmers' organisations (such as Asaja) also argue that Spanish farms will be disadvantaged by the switch to historic payments and per hectare payments because of lower yields and productivity in Spain.

The overall switch towards more rural development funding implies a shift towards greater reliance on co-financing. *More of the support for agriculture will be met by the countries in receipt of assistance*.

The proposals are supported by Britain, Denmark, Germany, the Netherlands and Sweden, and opposed strongly by France and Spain. They represent an attempt to modify the existing system of intervention such that it meets the new CAP policy objectives, makes agriculture more responsive to markets, lessens the impact of enlargement and eases the position of the EU in World Trade negotiations. For those wedded to subsidies it looks like a radical set of proposals. For those looking for liberalisation it is likely to be disappointment. However, at least it is a step in the right direction. *Some form of reform package is inevitable in the face of mounting pressure on the CAP*.

5.0 Evaluation of the CAP

Before assessing the CAP against the objectives set out in the Treaty of Rome it is worth reiterating the changes that have occurred in the economic environment since the late-1950s when the CAP was designed. In 1958 there were six members of the European Economic Community (EEC), now there are 15, by 2004 there are likely to be 25 and by the end of the decade there could be more. In 1958 about 20 per cent of the working population of the EEC were engaged in agriculture compared with less five per cent (ten million farmers) today. Following the destruction and turmoil of the Second World War, acquiring adequate and secure food supplies was important. The European Union of 15 states is now self-sufficient in most temperate and Mediterranean agricultural products. The food industry was geared to local, regional and sometimes national markets. Now it is embedded in international food supply chains. Farmers (and agricultural landowners) were an extremely important political constituency, especially in France. They are a smaller lobby today. *The political economy in Europe has changed fundamentally since the CAP was created; it is time the CAP was changed fundamentally too*.

Five objectives are set out for agricultural policy in Article 39 of the Treaty of Rome. These are to:

a) increase agricultural productivity.

b) ensure a fair standard of living for the agricultural community.

c) stabilise markets.

d) provide certainty of supplies.

e) ensure supplies to consumers at reasonable prices.

Overall, the CAP has met most of the objectives set for it in the Treaty of Rome, but it has done so at a very high price. From the beginning the CAP was fatally flawed by being based primarily on the support of farm prices rather than the incomes of farmers. The richest, biggest and least environmentally friendly farmers have benefited most. There has been insufficient support to prevent the long-term decline of many rural economies. The CAP has created food surpluses and prices in the EU above world market prices. Export subsidies have ruined farmers outside Europe, threatened trade wars and almost wrecked world trade negotiations. Despite the ceilings that have been placed on the CAP budget, it remains the most expensive policy area in the European Union, accounting for almost half of all spending. *Such high expenditure weakens other policy areas and crowds out new initiatives*.

5.1 Agricultural productivity

Agricultural productivity has increased enormously leading to a huge increase in farm output and self-sufficiency across almost all Temperate and Mediterranean agricultural products. In Spain the value of agricultural production in real terms increased by 20 per cent from 1990 to 2001 (Mapa 2002b, p.52). Indeed, the challenge has shifted from that of meeting the demand for food to that of dealing with surpluses. Increased productivity has raised supply much faster than the growth of demand. For example, between 1973 and 1988 food production increased at an annual average rate of 2 per cent, while food consumption increased at only 0.5 per cent. The slow growth of consumption reflects the low-income elasticity of demand for food and low population growth in Europe. In 2000 the EU's level of self-sufficiency was 116 per cent across all cereals, 120 per cent for wheat, 124 per cent for barley, 128 per cent for sugar, 109 per cent in wine, 123 per cent in fresh milk, 370 per cent for whole milk powder and 247 per cent for skimmed milk powder, 116 per cent for butter and 107 per cent for all meats (Eurostats). This can be partly attributed to the CAP, but also to the development of agricultural technologies (mechanisation, the application of agri-chemicals, crop and livestock developments). *Increased productivity is no longer required to meet the demands of consumers in Europe. What is more important now is to achieve a system of agriculture that is sustainable in terms of enhancing rather than damaging the rural environment and forms one element of a dynamic rural economy.*

5.2 Farm incomes

Information on agricultural incomes is collected by national authorities in accordance with the methodology of the Economic Accounts for Agriculture (which is close to the methodology of the national accounts, ESA95, but incorporates a number of changes to take account of the special features of the agricultural economy). Agricultural income comprises the income generated by agricultural activities (as well as inseparable non-agricultural, secondary activities) over a given accounting period. It must not be confused with the total income of farming households, as it does not comprise income from other sources (non-agricultural activities, salaries, social benefits, and income from property). It should also be remembered that there are wide variations in incomes between different agricultural enterprises. Agricultural incomes per worker are calculated on the basis of annual work units (AWUs), where one AWU corresponds to the input, measured in working time, of one person who is engaged in agricultural activities in an agricultural unit on a full-time basis over an entire year. Real agricultural incomes per worker depend on: the overall output of agriculture in real value terms (a function of volume and producer prices); input costs and depreciation in real terms; the value of non product-specific subsidies and non product-specific taxes in real terms; and the volume of agricultural labour input (European Commission 2002e).

Agricultural incomes within the European Union grew roughly in line with incomes in other sectors until the early 1990s. However, this overall average masked large variations, both between farmers (those with large farms generally did very well) and between different types of enterprises (Nugent 1991). In Spain, agricultural incomes per person employed (at constant prices) fell in 1992 to 94 per cent of their 1990 value, then increased sharply to 151 in 1996, then stagnated at around 150 to 158 to 2001. Throughout the period they tended to rise above the average level in the EU-15 (Mapa 2002b, p.53). In 2002, according to first estimates from the European Commission (European Commission 2002f), real agricultural income per worker were down by three per cent on average across the EU-15, but in Spain they rose by 1.2 per cent. The picture is one where there has been some softening of agricultural incomes in recent years.

Data on salaries indicate that between 1990 and 2000 salaries in agriculture grew in line with those in other sectors (Mapa 2001b). However, wages in agriculture are generally low. For example, average agricultural wages in Spain in 2001 for permanent manual workers were around E 30 a day (Mapa 2002c p.88).

Evidence of a malaise in farming and the lack of attraction of farming as a livelihood in Spain is provided by the long-term decline in the number of farm holdings and the number of people occupied in agriculture. Between 1989 and 1999 the number of farm holdings fell by 22 per cent, from 2.3 million to 1.8 million (INE 1991 and 2001). The number of people occupied in agriculture fell from 1.6 million in 1990 to below 1 million in 2002, less than 6 per cent of the total occupied population. This has left a particular shortage of young people in farming. In some agricultural activities labour shortages have led to an increasing reliance on migrant labour, for example in the olive harvest and in the greenhouses of Almeria. *The CAP has not been able to enhance agricultural incomes, especially of small farmers, sufficiently to prevent the long-term decline of agricultural employment and the drift of permanent populations away from isolated rural areas.*

5.3 Stable markets but regulatory uncertainty

Markets have been stabilised in the sense that there have been no major food shortages and EU prices have escaped the wide price fluctuations of some agricultural products on world markets. However, *continuous reform has created a degree of uncertainty over the regulatory regimes governing different sectors*.

5.4 High food prices

In general, *agricultural product prices in the European Union remain above world market prices* despite reforms to agriculture policy. This means that consumers pay twice for the CAP, once through their taxes and then through higher food prices (although higher final prices to consumers are generally the result of costs added in the supply chain from farms to markets, since farm-gate prices are substantially below final market prices). In addition, food processors in the European Union must pay higher prices for inputs, reducing their international competitiveness.

5.5 Surpluses

Reforms to the CAP have been designed to reduce over-production and cut surpluses. Despite these reforms, surpluses remain in many sectors of agricultural production. For example, at the end of the 2001 financial year, there were in storage 7.3 million tonnes of cereals, 6,136 tonnes of olive oil, 34,109 tonnes of butter, 232,467 tonnes of beef and veal, and 2.2 million hectolitres of alcohol (European Commission 2002g). At the end of June 2002 there were almost 8 million tonnes of cereals (including 2.4 million tonnes of barley and 5.1 million tonnes of rye), over half a million tonnes of rice, 136,000 tonnes of milk powder, 166,000 tonnes of butter, over 200,000 tonnes of beef and veal and 3.2 million hectolitres of public alcohol. The European Court of Auditors (2002) Annual Report for 2001 stated that the CAP guarantees the supply every year of over 3 million tonnes more sugar than the EU consumes. These stocks are expensive to store (for example, in 2000 E 951 million was spent on storage) and they depreciate in value. To avoid disrupting the EU market, surpluses can only be disposed of through limited special food programmes within the EU, through dumping on world markets (and expensive restitution payments), through food aid or through the transformation of food into animal feed. *Despite reforms, the CAP continues to waste money through encouraging food surpluses*.

5.6 Distortions to production

The current system creates farming for subsidies rather than farming that responds to consumer demand. During the 1990s the rapid expansion of the area planted with flax, and the equally rapid contraction of this area, illustrated the point. The large proportion of rye production that went straight into intervention storage provided another example. The expansion of the area under olives has been the result of the generous regime of subsidies. In rice production, there is no shortage of rice on world markets, yet subsidies are provided for production in Europe.

5.7 Costly bureaucracy

A large bureaucracy is required to operate the CAP, in Brussels, in Madrid and at the level of regional administrations in Spain. This not only has a high financial cost but also ties up valuable resources that could be deployed in other areas. The problems of administering the CAP will be multiplied by enlargement, creating major challenges both for the Commission and for the Accession States (Sumpsi Viñas 2002).

5.8 Fraud

The complexity of the CAP has resulted in a significant element of fraud. Its full extent is unknown and probably only represents a small proportion of the CAP budget, nevertheless it is widespread, endemic and significant. The existence of fraud is recorded annually in reports produced by the European Court of Auditors (ECA 2002) and in inspections undertaken by the CAP itself. Across the European Union the Accounts Committee of the EU considered that the management of the CAP in relation to payments in many sectors in 2001 was deficient. The ECA (2002, p.49) noted that "declarations made by farmers and other recipients of subsidies are materially affected by error." Fraud has been detected throughout the European Union. In relation to Spain, a particularly serious example of fraud occurred in the flax market in the late-1990s. Growing flax for textiles was virtually non-existent until 1994 when it was first sown (184 hectares). In 1999 90,000 hectares were cultivated, especially in Ciudad Real, Cuenca, Palencia and Zamora. During this period, aid rose from E 0.1 million to E 60 million. In 2000 widespread fraudulent practices were uncovered leading the European Commission to ask for repayments of E 100 million and to change the flax market regime. In the milk market there have been a series of cases of price fixing and fraudulent practice by dairy companies. There are also estimates of some one million tonnes of black milk (non-quota milk) being transacted annually. Similarly, fraud has been detected in the olive oil market and in the vine products sector. In November 2002 the European Commission asked Spain to repay E 27.4 million of CAP payments for having not exercised sufficient control generally over the payment of subsidies.

5.9 Equity

The CAP redistributes income from all taxpayers in the European Union mainly to wealthy farmers and landowners. *The CAP is inequitable*. The present system allows for income support to be proportional to the volume of production: hence 80 per cent of the support from FEOGA goes to the largest 20 per cent of farms (see 3.2). Poor urban consumers are particularly adversely effected, receiving no money from the CAP but paying taxes and using a large proportion of their income to buy food.

Equally, *the transfer of agricultural funds can run counter to the principle of cohesion in the European Union* and in Spain. Within the European Union the second largest economy, and a state with one of the highest per capita incomes in the world, France, is the largest recipient of agricultural payments. At an individual commodity market level, consumers of sugar importing Member States (Spain, Greece, Portugal and Sweden) indirectly subsidise farmers in other Member States, through relatively high sugar prices. Because almost all regions of these four Member States are Priority Regions, the direction of this income transfer is mostly in contradiction to the aim of the Economic and Social Cohesion Policy (van der Linde et al 2000). Similarly in Spain, the flow of subsidies does not exactly match the levels of prosperity in different regions.

5.10 Environment and agriculture

The most severe pressures on the environment tend to arise on the more intensively managed farmland, for example in horticulture and arable production, lowland dairying and where other livestock are housed indoors. Conversely, low input systems, such as extensive grazing of cattle, sheep and other livestock as well as traditionally managed, long-established orchards and olive plantations are closely associated with valued cultural landscapes and high nature value farmland. Intensification has been the product of a combination of commercial pressures to maximise returns and minimise costs linked to enabling agricultural technologies. The result is measurable both in higher output per unit area and productivity per farm worker. *The CAP encouraged intensification*, especially under the 'productivist' regime, through a high level of price support.

Intensification has been associated with the increased use of off-farm inputs (agri-chemicals, fertilisers, pesticides and herbicides). This has resulted in water and soil pollution, which have destroyed certain important ecosystems and contaminated drinking water supplies, requiring expensive treatments at the cost of the consumer and the taxpayer. Other environmental developments associated with intensification, such as the destruction of hedgerows, stone walls and ditches, grubbing up of isolated bushes and trees, and the draining of wetlands, have contributed to the loss of natural habitats for many birds, plants and other species and the reduction of biodiversity. Some environmental pressures, such as greenhouse gas emissions from farming, have declined in recent years. Others have increased, such as the over exploitation of aquifers from increased use of water for irrigation (IEEC 2002).

Nationally, 80 per cent of water demand arises from irrigation requirements. The area of irrigable land in Spain has increased considerably, by 83 per cent between 1980 and 2002 from 1.83 million to 3.34 million hectares (almost 13 per cent of the utilised agricultural land). About 40 per cent of the irrigated area is in Andalucia, Murcia and Valencia. Irrigation can be very expensive to provide. The National Irrigation Plan (Plan Nacional de Regadíos) envisages a total investment to 2008 of E 5,025 million, of which 3,017 million will be financed by the public sector and the rest, E 2,007 million from private investment, fundamentally the irrigation societies (comunidades de regantes) (Ministerio de Hacienda 2002). Irrigation has created enormous benefits in terms of higher output and the transformation of unproductive land. Bit it also often leads to an increase in inputs (such as fertilisers, crop protection products and plant nutrients) and to the loss of nutrients or pesticides into the environment (Cortina et al 2002). Excessive use of water in certain regions may have accelerated soil erosion and, in the south of Spain, contributed to desertification. Locally, this has caused problems with the distribution of water between farming and other activities (energy production, household consumption, industrial use and recreation). Expanding irrigation often means expensive infrastructure works, which risk depleting underground resources and lowering water tables or diverting water from areas of 'surplus' with potential damaging environmental impacts. For example, the controversial National Water Plan (Plan Hidrológico Nacional) involves the transfer of water from the Ebro delta to the south, with possible adverse effects on the wetlands of the Ebro delta. *Water conservation and water charging remain contentious, crucial and unresolved issues*.

Specialisation, both by farm enterprise and by area, has accompanied intensification. In Spain, the great monocultures of cereals, olives and vines have remained, while locally areas have specialised on such crops as avocados, cotton, flowers, rice strawberries and tobacco. Community aid for cereals, oilseed and protein crops, together with a fall in the number of grazing animals, has led to an increase of crops to be sold at the expense of permanent grassland and other forage (pasture and secondary cereals). The dependence of enterprises and regions on individual crops or livestock leaves them vulnerable to changes in production or market conditions, including changes resulting from CAP reforms.

The problems created by intensification and the abandonment of farming raise questions about the relationship between agriculture and the environment and the future basis for the European model of sustainable agriculture. Since ratification of the Maastricht Treaty, there has been a legal obligation on the European Union to take account of environmental protection requirements when drawing up and implementing Community policies, an obligation that was reinforced by the entry into force of the Treaty of Amsterdam in 1999. This obligation has been reflected in the integration of environmental measures into the CAP and an increasing emphasis on sustainable agriculture. There are now measures that encourage taking land out of agricultural production, extensification, organic production, afforestation and rural development. They are associated with viewing farming as as much about countryside management as production. Financial resources are gradually being shifted away from market support towards this new vision of agriculture. Increasing production was a legitimate goal in the mid-twentieth century. *Now that agriculture can deliver adequate quantities, the priority must be to ensure high quality produce and promote the development of an ecologically rich and economically diverse rural environment*.

However, the impacts of agriculture on the environment are apparent in agricultural sectors subject to the CAP and those that are not. *Many claims that CAP policies are the primary driving force in relation to substantive environmental impacts of agriculture are difficult to verify*. The scientific literature on this topic is limited (IEEC 2002).

5.11 Trade distortion and damage to third-world farmers

Some of the most telling criticisms of the CAP relate to its impact on the development of poorer countries outside the European Union (Redclift et al 1999, Ritson and Harvey 1991, Swinbank et al 1999). There are three issues, access to the EU market, domestic support for agriculture creating unfair competition for imports inside the EU, and the dumping of surplus EU produce on world markets thereby depressing prices.

The EU is the world's leading importer of agricultural products and is second leading exporter after the

United States, with two-way trade in agricultural products exceeding E 100,000 million per year. Continued development of export markets is important for the growth of the EU agriculture sector (European Commission 2001).

In principle the EU argues for the importance of liberalising international trade as a means of promoting the development of less developed countries. It has also agreed to substantial improvements in market access, reductions in trade-distorting domestic support, and reductions in export subsidies in the Doha trade negotiations and in September 2002 at the World Summit on Sustainable Development in Johannesburg (European Commission

2002h). The EU is by far the largest market for agricultural exports from developing countries, in large part as a result of trade preferences, and claims that it is committed to opening up duty-free access to essentially all products from the least developed countries, including agricultural products (European Commission 2001).Spain's own Annual International Cooperation Plan for 2002 (Ministerio de Asuntos Exteriores 2002, p.4) states that: "La liberalización comercial facilita la integración de los Países en Vías de Desarrollo … en la economía mundial. España favorece dicha integración a través de su política multilateral, en la OMC, y a través de la Unión Europea.". Yet despite this advocacy of trade liberalisation, the EU continues to retain the principle of 'Community Preference'. Moreover, *the CAP undermines international aid programmes by damaging the trade of developing countries, thereby creating a greater loss of earnings than the money paid out to these countries in aid and debt relief*. According to the The Economist (2001, p.104) "If rich countries were to remove the subsidies that create these price differences [on some of the products emerging economies are best equipped to export, for example sugar, rice and maize], poor countries would benefit by more than three times the amount of all the overseas development assistance they receive each year."

The CAP (and US farm policy such as the 2002 Farm Bill) threatens the current round of World Trade Organisation negotiations, threatens the EU's (and the West's) credibility with Less Developed Countries (including Spain's relations with Latin America) and arguably impacts negatively on the fight against international terrorism and the drugs trade.

The issue of credibility for Spain is illustrated in the transfer of funds to Spain from the European Union and the transfer of funds from Spain to developing countries in aid. The total development aid budget in 2002 under the 'Plan Anual de Cooperación Internacional' was E 1,707 million (including grants and loans) (Ministerio de Asuntos Exteriores 2002). Only E 1.4 million of this was allocated to agricultural aid. In contrast Spain received some E 7,000 million in net inflows from the EU in 2003, including some E 3,000 million for agriculture alone. *As a modern, developed, western economy Spain receives around four times more in annual assistance than it provides to poor countries* (much of which is in the form of loans).

5.12 Problems posed by EU enlargement

In December 2002 the European Union was poised to incorporate ten new member states (Accession States), eight in central and eastern Europe plus Cyprus and Malta. The date proposed for accession was May 2004. Further enlargement may occur before the end of the decade. Enlargement will greatly increase the agricultural potential of the Union, while the market for European primary products and processed food will increase by around 75 million consumers. Trade in these products between existing and acceding members will be fully liberalised. The European Commission argues that these developments should improve economic welfare in the Union as a whole, although the most important benefits are those of a united Europe. However, enlargement poses challenges associated with the incorporation of very different political economies. In agriculture, all of the central and east European states have relatively backward systems. This is illustrated by the fact that although for most states agriculture accounts for less than 5 per cent of their GDP it continues to account for a much larger proportion of their labour force (Table 4). Hence, adjustment strains from exposure of the candidate countries to competition will be considerable, not least in terms of a significant shedding of surplus labour and the consequent migration of people from rural to urban areas. To a lesser extent, problems could also arise for some agricultural products in the present Member States (for a recent general discussion of the potential impacts of enlargement on the EU see Brenton 2002, and on Spain see Martín et al 2002).

Table 6: Key Statistics for Accession States

Country	**Population (million)**	**UAA (000 ha)**	**Number in Agriculture**	**% Occupied in Agriculture**	**Agriculture GVA/GDP**	**GDP Per Capita % of EU-15 avg**
Czech Republic	10.2	4,282	244,000	5.3	3.4	57
Estonia	1.4	1,001	42,000	7.0	5.7	34
Hungary	10.2	5,854	246,000	7.2	3.9	51
Latvia	2.4	2,488	140,000	14.4	3.9	33
Lithuania	3.5	3,489	281,000	18.4	2.5	38
Poland	38.6	18,220	2,711,000	18.7	2.9	40
Slovakia	5.4	2,444	145,000	7.5	2.7	48
Slovenia	2.0	491	85,000	9.6	4.3	69
Total Eastern Europe	73.7	38,269	3,894,000			
Cyprus	0.8	101	27,000	8.9	4.4	80
Malta	0.4	11	2,000	1.6	9.1	
Total	74.9	38,381	3,923,000			
EU-15	376.5	130,443	6,770,000	4.3	1.7	100
EU-25	451.4	168,824	10,693,000			
% Change EU-15 to 25	19.9	29.4	57.9			
Bulgaria	7.9	5,582	377,000	11.2	15.8	28

Romania	22.4	14,811	4,926,000	45.2	11.4	25
EU-27	481.7	189,217	15,996,000			
% Change EU-15 to 27	27.9	45.1	136.3			

Sources: European Commission (Eurostat and Directorate- General for Agriculture), FAO and UNSO

Number of people employed in 'Agriculture, Forestry, Fishing and Hunting' and percentage of occupied population in 2000

UAA: Utilised Agricultural Land

GVA: Gross Value Added in Agriculture

GDP per capita in purchasing power parities

Extension of the Common Agricultural Policy (CAP) in its present form to the acceding countries will create difficulties (Martín 2002 and Sumpsi Viñas 2002). Given existing price gaps between candidate countries and generally higher CAP prices, even gradual introduction of CAP prices will tend to stimulate surplus production, in particular in the livestock sector, thus adding to existing EU surpluses. World Trade Organisation constraints on subsidised exports will prevent the enlarged Union selling these surpluses on third markets.

Further adjustments in the current support policies will be needed to prevent the growth of surpluses. *A reorientation of the CAP with less focus on price support and more on direct income support as well as on rural development and environmental policy (as under the Mid-term Review) will help to reduce the price gap, provide support for the structural adjustment process of Acceding Countries and create less strain on the agriculture budget*.

6.0 Policy Implications

Given the pressures to change the Common Agricultural Policy both from within the EU-15 and from outside - from free trade proponents, from developing countries, from the demands of the current round of trade negotiations, and from enlargement - it would appear that fundamental reform of the Common Agricultural Policy is inevitable. It is the argument of this paper that in principle, subsidies to farming and other trade distorting mechanisms should be gradually phased out and spending redirected towards broader rural development. It would be better to accept this principle and plan for a transition to a less protectionist regime rather than hold out until there is no alternative but to change. A change in the position of Spain to support this principle would contribute towards a change in the CAP and bring important gains for Spain both domestically and internationally.

· The volume of transfers from the European Union in Agricultural assistance, structural and cohesion funding is set to fall. There will be less to lose in coming years.

· The present CAP regime does not meet existing Spanish agricultural policy objectives. In the draft Budget for 2003 (Ministerio de Hacienda 2002, part III, p.103) the government states that Agricultural Policy has the following basic objectives: the modernisation of agriculture; the development of sustainable agriculture; the creation of employment; the promotion of professional training in agriculture; the incorporation of women and young people into rural activity systems; and the development of rural industry as a motor of the rural economy. None of these are directly addressed by subsidies. All are addressed by broader rural development policy.

· Reducing the bureaucracy tied up in administering the CAP would allow resources to be directed into other areas and contribute to greater efficiency in the public administration.

· The food industry in Spain is a large and important one, with the capacity to increase the processing of fresh food and build companies into internationally competitive multinational businesses. Opening agricultural markets and redirecting agricultural assistance into rural development would strengthen the food industry by reducing the cost of raw materials, modernising and creating new industry and opening export markets. Moreover, open export markets would further stimulate the already internationally competitive fruit and vegetable sector.

· Adopting a more liberal position on agriculture would remove a fundamental inconsistency in domestic economic policy and give greater credibility to the government's position as an advocate of liberalisation. The government has stated its belief in open and competitive markets as a means of stimulating development and creating real benefits for consumers. It has vigorously pursued a programme of privatisation. It has transposed European legislation on the liberalisation of network industries generally ahead of schedule and beyond threshold requirements and introduced a succession of other measures to improve competition in industrial markets. Although a very important industry, there is little justification for treating farming differently to other sectors. Continued intervention in, and protection of, agricultural markets remains an anomaly.

· Support of the existing CAP impedes foreign policy objectives by undermining the credibility of Spain as a champion of developing countries, particularly in Latin America and around the Mediterranean basin. A more credible position would strengthen the image of Spain in these regions. It would underpin the position of existing Spanish foreign investment in Latin America and help ease the path for further investment and trade. In the Mediterranean it would ease relations with Morocco, help resolve fishing disputes and generally foster Spain's leadership role in the development of the Mediterranean region. Support for a more liberal agricultural policy would also bring Spain closer to the United States. A change in the CAP, by supporting development in developing countries, would also reduce the political risks associated with huge global variations in lifetime opportunities and incomes, contributing to the fight against drugs and international terrorism. In summary, a shift in position on the CAP would enhance the international standing of Spain.

· Continued support for the CAP, as it existed in February 2003, means maintaining fundamental inconsistencies in domestic and external policy, which undermine Spain's credibility. In the last quarter of a century Spain has successfully navigated the difficult transition from a relatively closed, interventionist, undemocratic political economy to an open democratic market economy. In that process it has been supported by its membership of a strong, stable, European regional economy and by large inward net transfers of public funds. Spain is now a modern European society. It is time to recognise that there is more to be gained from excepting an end to regimes of subsidies and protection. It is time for Spain to support a new direction on the Common Agricultural Policy

Notes

1. There are significant differences between the data published in the Agricultural Census and those published in the agricultural statistics of Eurostat (2002).

2. Paragraph 22 of the Berlin Council Conclusions states:

In order to achieve the objective of stabilising agricultural expenditure in real terms, the European Council has decided the following measures:

- the dairy reform will enter into force as from the 2005/2006 marketing year without prejudice to the decisions concerning the specific additional dairy quotas;

- the intervention price for cereals shall be reduced by 15% in two equal steps of 7.5% (of the present intervention price) in the marketing years 2000/2001 and 2001/2002. The area payments shall be increased in two equal steps from 54 to 63 euros/t (multiplied by the historical regional reference yield for cereals). A decision upon a final reduction in the intervention price to be applied from 2002/2003 onwards will be taken in the light of market developments. Any consequent increase in area payments will bear the same proportion to the price reduction as those applicable in 2000/2001 and 2001/2002. The area payment from 2002/2003 onwards (aid per tonne multiplied by the historical reference yield for cereals) shall apply also to oil seeds. The base rate of compulsory set aside is fixed at 10% for all the period 2000-2006. Monthly increments will be maintained as at present;

- the European Council asks the Commission to follow closely the developments on the oilseeds market and to submit a report within two years from the application of the new arrangement. If necessary, this report will be accompanied by appropriate proposals should the production potential deteriorate seriously;

- intervention in the beef sector: the European Council asks the Commission to follow closely the European beef market and to take, if need be, the relevant measures in particular by using Article 34 of the draft Regulation concerning the Beef CMO. These measures might also include ad hoc intervention buying-in;

- the Commission and the Council are requested to pursue additional savings to ensure that total expenditure, excluding rural development and veterinary measures, in the 2000-2006 period will not overshoot an average annual expenditure of 40.5 billion euros. Therefore, the European Council invites the Commission to submit a report in 2002 to the Council on the development of agricultural expenditure accompanied, if necessary, by appropriate proposals, and requests the Council to take the necessary decisions in line with the objectives of the reform;

- the European Council, taking into account the specificity of Portuguese agriculture, recognises the need to improve the balance of the support granted to agriculture by means of rural development measures, financed by EAGGF Guarantee. For Portugal, the existing MGA for durum wheat will be doubled from 59.000 ha to 118.000 ha.

Definitions

Co-responsibility levies: Levies charged where production exceeds authorised amounts.

Deficiency payments: Payments to make up the difference between the market price and the intended level of return to the farmer.

Direct aid: Payments granted directly to farmers under support schemes in the framework of the common agricultural policy which are financed in full or in part by the Guarantee section of the EAGGF, except those provided for under Regulation (EC) No 1257/1999. They include, in particular, area payments and set-aside of arable land, production aid for olive oil, area payments for flax, hemp, dried vegetables, rice, dried grapes, premiums for tobacco, suckler cows, male bovines, ewes and she-goats, and agrimonetary aid. The full list is described in the Annex to Council Regulation (EC) No 1259/1999.

IACS: Integrated Administration and Control System (IACS), which has been in use since 1993

Modulation: The transfer of some of the money allocated to price support and subsidies to farmers to supporting environmental activities such as organic farming.

Poseican: Programme of options specific to the remote and insular nature of the Canary Islands.

Poseidom: Programme of options specific to the remote and insular nature of the overseas French territories.

Poseima: Programme of options specific to the remote and insular nature of Madera and the Azores.

Sapard: the Special Accession Programme for Agriculture and Rural Development.

Spanish translations

Herbáceos: Arable crops

Hortalizas: vegetables (also includes melons, water melons and strawberries)

Produccíon Agraria Crop, livestock, forestry, hunting, fish-farming and fresh water fishing production

Producción Agícola: Crop production

Regulations

Regulation No 25 1962 On the financing of the Common Agricultural Policy (OJ L 30, 20.4.1962, p. 991/60). Regulation as last amended by Regulation (EEC) No 728/70 (OJ L 94, 28.4.1970, p. 9).

Council Regulation (EC) No 1257/1999 of 17 May on rural development, in OJ L 160, 26.6.1999, p. 80).

Council Regulation (EC) No 1258/1999 of 17 May on the financing of the Common Agricultural Policy (OJ L 160/103)

Council Regulation (EC) No 1259/1999 of 17 May 1999 establishing common rules for direct support schemes under the common agricultural policy (OJ L 160, p. 113).

Council Regulation (EC) Nos. 1260/1999 and 1257/1999 establishes the EAGGF Guidance Section's contribution to agricultural measures.

Council Regulation (EC) No 1244/2001 of 19 June 2001 amending Regulation (EC) No 1259/1999 establishing common rules for direct support schemes under the common agricultural policy.

Council Regulation (EC) No 1260/2001 establishes the most recent modifications to the sugar regime for the period 2001/2002 to 2005/2006.

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