

To the Cabinet Minister and Head of the Ministry of Agriculture

On 27 July 1995 the Swedish government decided to set up a parliamentary committee with the aim of developing, from a Swedish perspective, a comprehensive proposal for reform of the EU's Common Agricultural Policy (CAP).

On 6 October 1995 the Head of the Ministry of Agriculture appointed the Director General and Head of the Swedish Board of Agriculture, Svante Englund, as chairman of the committee and, as members of the committee, the Members of Parliament Bo Bernardsson, Sinnikka Bohlin, Lennart Brunander, Inge Carlsson, Dan Ericsson, Ann-Kristine Johansson, Gudrun Lindvall, Leif Marklund, Maggi Mikaelsson and Carl G. Nilsson, and also research student Cecilia Malmström. On 28 December 1995 Member of Parliament Bengt Kronblad was appointed as a member to replace Bo Bernardsson with effect from 1 January 1996.

On 6 October 1995 Principal Administrative Officer at the Swedish Board of Agriculture Hans G. Öhgren was appointed secretary to the committee, and on 7 December Anna Lagerkvist (née Österling), Administrative Officer at the Swedish Board of Agriculture, was appointed deputy secretary.

On 7 December the following special advisers were appointed to the committee: Arne Gabrielsson, Director of the Federation of Swedish Food Industries, research secretary Lars Erik Hellberg of the Swedish Agricultural Union, farmer Eva Karin Hempel of the Federation of Swedish Farmers, and research secretary Mikael Kullberg of the Swedish Food Workers' Union. On the same day the following experts were appointed: First Secretaries Carl Asplund, Ministry of Finance, and Håkan Björklund, Ministry for Foreign Affairs, the Assistant Under-Secretary Johan Bodegård, Ministry of the Environment, and Assistant Under-Secretaries Anders Klum and Dag von Schantz of the Ministry of Agriculture. On 26 September 1996 General Secretary Maicen Ekman of the Swedish Consumers' Association was appointed expert to the committee from 1 October 1996 onwards.

We have assumed the name KomiCAP.

In order to analyse various parts of the Common Agricultural Policy the committee appointed three expert groups. The task of the first expert

group was to analyse the factors from the rest of the world which now and in the future can have a bearing on the Common Agricultural Policy. A first report on the consequences for the Common Agricultural Policy of the WTO commitments and an enlargement to the East was presented to the committee in November 1996 and has also been published as SOU 1996:171. The expert group was lead by the Head of Division, Christina Nordin, National Board of Trade, and was otherwise made up of the following members: Håkan Björklund, Ministry for Foreign Affairs, Mikael Andersson, Ministry of Agriculture, Erland Karlsson, Swedish Board of Agriculture, and Kristina Rådkvist of the Federation of Swedish Farmers. Secretaries were Bo Magnusson, Swedish Board of Agriculture, and Nils-Gunnar Forsberg, National Board of Trade. In a second report the group have analysed how the CAP affects food supply in the world, especially its effect on food production in the developing countries. Whilst working on the second report the members of the expert group were changed in that Christina Furustam of the Federation of Swedish Farmers replaced Kristina Rådkvist and Håkan Loxbo, Swedish Board of Agriculture, replaced Erland Karlsson. The secretariat comprised Thomas Hagman, Anna Lagerkvist and Bo Norell, all from the Swedish Board of Agriculture. The expert group's second report "EU:s jordbrukspolitik och den globala livsmedelsförsörjningen"¹ was published in February 1997, SOU 1997:26.

The task of the second expert group was to analyse the Common Agricultural Policy as practised up to the present day and also to analyse the extent to which the various instruments of the CAP contribute towards achieving the objective that market orientation should increase, and that the number of agricultural policy instruments should be reduced along with their influence on the market. Chairman of the expert group was Head of Department Harald Svensson of the Swedish Board of Agriculture, and the group was otherwise comprised as follows: Carl Asplund, Ministry of Finance, Håkan Björklund, Ministry for Foreign Affairs, Arne Gabrielsson of the Federation of Swedish Industries, Lars-Erik Hellberg, Swedish Agricultural Union, Marie Ingerup, Ministry of Agriculture, Rein Karm, Federation of Swedish Commerce and Trade, Mikael Kullberg, Swedish Food Workers' Union, Barbro Lindahl, Consumers Committee on Food Policy, and Lars-Erik Lundkvist,

¹ "Common Agricultural Policy and World Food Supply". Only available in Swedish. (Transl. note)

Federation of Swedish Farmers. Bengt Johnsson from the Swedish Board of Agriculture was secretary of the group. The expert group has presented two reports to the committee. The first report "Effekter av EU:s jordbrukspolitik"² SOU 1996:136, presented to the committee in September 1996, comprises an analysis of the Common Agricultural Policy in practice up to the present day. In a second report, "Alternativa utvecklingsvägar för EU:s gemensamma jordbrukspolitik"³, SOU 1997:50, March 1997, the group has presented two alternatives for how the Common Agricultural Policy can be developed in the future, based on analysis of the objectives and instruments of agricultural policy.

The task of the third expert group was to analyse how issues relating to the environment, regional allocation along with quality and ethics are addressed within the CAP. Prof. Ewa Rabinowicz of the Swedish University of Agricultural Sciences was chairman of the expert group. Otherwise, the group was comprised as follows: Birger Backlund of the National Rural Area Development Agency, Johan Bodegård, Ministry of the Environment (up until July 1996), Nils-Gunnar Forsberg, National Board of Trade, Carl Johan Lidén, Swedish Board of Agriculture, Sverker Lindblad, National Board for Industrial and Technical Development, Bengt Rundqvist, National Environmental Protection Agency, Bengt Sjöholm, Federation of Swedish Farmers, Peter Westman, Ministry of the Environment (from August 1996, replacing Johan Bodegård) and Mats Åberg, Ministry of Agriculture. Secretary to the expert group was Erik Fahlbeck of the Board of Agriculture. The report "EU:s jordbrukspolitik, miljön och regional utveckling"⁴, SOU 1997:74, May 1997, comprises the group's analysis of the consequences of the current agricultural policy particularly in environmental and regional allocation issues, and how various alternatives for reform might affect agriculture in Sweden.

Now that the mission has been completed we would hereby like to present our report "Food and the Environment - Swedish strategy for the

² "Effects of the Common Agricultural Policy". Only available in Swedish. (Transl. note)

³ "Future Options for the Common Agricultural Policy". Only available in Swedish. (Transl. note)

⁴ "Common Agricultural Policy, the Environment and Regional Development". Only available in Swedish. (Transl. note)

future of EU agriculture” Reservations and special comments are attached to the report.

Stockholm June 1997

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Summary

Aim

The committee has been directed to produce a comprehensive proposal for reforms of the EU's Common Agricultural Policy - the CAP. The reforms should be aimed at making the CAP more market-oriented, deregulated and environmentally adapted. In order to analyse different aspects of the CAP in line with the directive, the committee has appointed three expert groups. Their work is presented in five SOU reports and may be regarded as appendices to this report.

Objectives and instruments of the current CAP

The objectives of the Common Agricultural Policy of the European Union were set out in the Treaty of Rome in 1957, and were intended to ensure that the European Union would be self-sufficient in food by stimulating agricultural production and protecting the production from competition from the outside world. The CAP is therefore largely aimed at supporting the producers within the European Union. The CAP's objectives reflected the needs which existed after the second world war but have not been changed in the 40 years which have passed since then, despite the fact that the European Union is currently self-sufficient, and furthermore is a net exporter of many agricultural goods.

Since the introduction of the CAP new measures have been adopted alongside the old ones which remain in force, albeit in somewhat different forms. Today the instruments of the CAP comprise market price support (chiefly export refunds, measures of intervention, production limitations and border protection), direct support (area and headage payments), environmental payments and regional and structural support, which are different according to the types of products concerned. The major part of EU funding to agriculture goes to market price support and direct support. Market price support maintains a generally high price level within the European Union which stimulates production within the Union and leads to lower prices on the world market. This means that the CAP, in addition to its budget costs, places a burden on consumers through high costs for food. In addition to this, producers in developing countries are disadvantaged by the low prices created by the agricultural subsidies of the industrial countries.

Environmental payments and regional and structural support make up a fairly small, yet increasing, part of the EU agriculture budget. Areas less favourable for agricultural production suffer because of the market regulations in the sense that the elements of market regulation support with the highest price tags accrue to agriculture in the EU's high producing areas. However, without regional support agricultural production would probably be less than it is today in less favoured areas. As far as the environment is concerned it can be observed that agricultural production leads to both a series of environmental problems and to certain beneficial environmental effects. On the other hand it is more difficult to determine which environmental effects are the result of the CAP. It is, however, clear that there is a lack of instruments to ensure that agricultural production will be environmentally friendly.

Why is the CAP in need of reform?

There are a number of reasons why the CAP is in need of reform, both from internal and external point of view. Firstly, the CAP's objectives have not been adapted to the fact that the food situation has changed in the 40 years which have passed since they were formulated, both inside the European Union and in the rest of the world. Our preferences today are also different. Issues relating to consumers, the environment, animal welfare and questions of regional development must be given more emphasis in the agricultural policies of the future.

Secondly, we see a number of shortcomings and disadvantages in the system of CAP instruments. Measures taken today within the CAP are complex and difficult to grasp. Certain types of instruments counteract each other, questioning both the efficiency and legitimacy of those instruments. In addition, the CAP leads to food prices and budget costs which are excessively high. We also consider that the efforts made within the CAP for animals, the environment and rural development are insufficient. Greater attention must be paid to the measures agreed at the United Nations Conference on Environment and Development in Rio, 1992.

Thirdly, there are also several factors in the world around us which indicate that the CAP is in need of reform. Producers in developing countries suffer from the low prices caused by the EU's high levels of tariffs and subsidised exports. The commitments of the World Food Summit 1996 in Rome are not sufficiently fulfilled in the present CAP. Forthcoming WTO negotiations will be likely to lead to demands for

significant reductions in agricultural subsidies. Furthermore, an enlargement of the European Union towards the East is a high priority issue. A reform of the CAP is also desirable in that it would pave the way for such an enlargement.

New objectives for the Common Agricultural Policy

We consider it desirable that the Common Agricultural Policy is reformed in such a way as to ensure an optimum use of agricultural resources in the future. We therefore propose the following objectives for the Common Agricultural Policy:

The Common Agricultural Policy should aim to facilitate:

- a wide and varied supply of safe food at reasonable prices
- sustainable agriculture

In addition to these two principal objectives, the agricultural policy should also aim at ensuring that production, processing and distribution of food is carried out in such a way that

- biodiversity is conserved and promoted
- cultural heritage is preserved
- a varied farming landscape is promoted
- environmental load is minimized
- livestock production is carried out under strict requirements for animal welfare
- regional balance and viable rural areas are promoted
- internationally competitive agriculture within the European Union is promoted

Instruments for achieving the proposed objectives

A new Common Agricultural Policy must be designed so that production is given the best possible chance of achieving the objectives we have proposed. It is important that society should pass legislative measures and pay for services which can ensure the achievement of these objectives.

In order to achieve a wide and varied supply of safe food it must be ensured that there is market competition at all stages of the chain of production and distribution, that producers are responsible for food safety and provide information on production methods, contents, etc.

Public provision of training and information are other measures which may help to ensure that objectives are attained. Current EU market regulations generally work against developments in which the supply of food is driven by consumer demand and are therefore unnecessary.

In order to achieve the proposed environmental objectives joint legislation which defines minimum requirements for permissible environmental impact is needed, together with the possibility of stricter environmental requirements at national level. Additionally, agriculture should be compensated for various types of environmental services, such as preservation of biodiversity, varied farming landscape and cultural heritage.

Furthermore there is a necessity for stricter legislation to achieve better conditions for animals throughout the European Union. As far as possible, there should be a common legislation, but individual countries must, *inter alia* for ethical reasons be given the opportunity to impose stricter national requirements.

The level of ambition for this common legislation both for the environmental and animal fields should be of the highest order.

To promote a regional balance and viable rural areas it would be reasonable that support is made available to these ends. This should be done within the framework of common legislation in cooperation with other sectors of society. Measures should be designed to facilitate flexibility and structural development within agriculture.

Interim measures

As such it would be desirable for the EU common market regulations to be removed in the long-term. The starting point for this should be that all sectors are reformed at the same time to avoid any profit imbalance between different agricultural goods. Care must be taken to ensure that reforms are carried out in ways which are socially acceptable. It may be reasonable to retain EU border protection during an interim period.

It would be reasonable for direct payments for a limited time after the reforms to facilitate a re-shaping and re-structuring of the agricultural sector. These payments should provide the producers affected with the greatest possible flexibility in decision-making so that resources are not tied up in unprofitable production. The extent of the need for these payments must be determined by the prevailing conditions in each sector.

A reform of the CAP before the next round of WTO negotiations, due to begin at the beginning of next century, is desirable since it would lead to a better negotiating position for the European Union. It would provide the European Union with more room to negotiate on the issues of special concern to us, i.e. ensuring environmentally friendly production and making demands for food safety. Given a driving role within the WTO the European Union would also be acting in line with the commitments subscribed to by Member States at the World Food Summit in Rome and at the 1992 UN Conference in Rio.

An enlargement of the European Union to the East is, as mentioned previously, a high priority issue since it would favour peaceful and economic development both in Central and Eastern Europe and within the European Union itself. In order to assist prospective Member States in their EU entry planning it is important that a relatively quick decision is taken on new directives for the CAP.

When and how the Common Agricultural Policy can be reformed is primarily a question of negotiation, both within the European Union and at international level, and is affected by factors such as market and economic development within and outside the Union. We are seeking to reform the CAP in ways which would in time lead to the achievement of the objectives we have proposed. In order to be able to press for the measures we consider important, both within and outside the European Union, it is desirable that the reform process should start immediately.

1 Aim of the inquiry

1.1 Directive

In accordance with the directive (Dir 1995:109), see appendix 1, the committee is to produce a comprehensive proposal for reforms of the Common Agricultural Policy (CAP) together with a strategy for implementation of the reforms. The purpose of the reforms should be to make the CAP more market oriented, deregulated and more adapted to environmental needs.

The committee shall analyse the agricultural policy carried on in the European Union up to the present time, paying special attention to the macro-economic perspective and the interests of consumers and taxpayers. The committee shall also analyse how agricultural policy affects efficiency, structures and incomes in production. The consequences of an enlargement of the European Union towards the East shall also be analysed. Against the background of the analysis of policy up to the present time the committee shall propose reforms aimed at market orientation and deregulation of the CAP.

The committee shall analyse how current policy should be reformed so that established environmental objectives can be achieved. An important part of the ongoing CAP reforms is a strengthening of the resources which, in the framework for agricultural policy, are reserved for the rural development, for example support in the development of supplementary employment to traditional agriculture. The committee shall analyse how current policy should be reformed in order to achieve these objectives more efficiently.

The effects of the current policy on food production in the developing countries are to be examined. The consequences for the CAP of an enlargement of the European Union towards Central and Eastern Europe, plus the effects of the WTO commitments shall be analysed.

The effects of an increased interest in quality and ethical aspects of production are also to be included in the analysis. The increased relative importance of processed products in relation to raw materials shall be examined. The appropriateness of current competition legislation should be analysed. The committee shall also present proposals for the division of responsibility for provision of finance between the common budget and national budgets. Proposals shall be made with regard to the need for and the possible forms of compensation for the agricultural sector.

The committee shall also propose how the reforms are to be implemented and give an account of strategic considerations.

1.2 Organization of the work

Given the very wide scope of the task in hand we have imposed certain limits. In recent years a number of committees have made suggestions concerning competition legislation. Within the time given, we have not found it possible to provide further analysis and consideration of this legislation. Neither have we found it possible to cover all of the strategic considerations as to how the reforms should be implemented stipulated in the directive. The work towards reform is an ongoing process. Furthermore, the positions of other Member States are not, in many cases, clearly expressed. They may also be changed in the course of time.

At the beginning of 1996 we appointed three expert groups whose tasks were to analyse various parts of the CAP. These groups have submitted five different reports which we have approved for publication in the SOU series as follows⁵:

SOU 1996:136	Effekter av EU:s jordbrukspolitik
SOU 1996:171	Konsekvenser för CAP av WTO-åtagandena och en östutvidgning
SOU 1997:26	EU:s jordbrukspolitik och den globala livsmedelsförsörjningen
SOU 1997:50	Alternativa utvecklingsvägar för EU:s gemensamma jordbrukspolitik
SOU 1997:74	EU:s jordbrukspolitik, miljön och regional utveckling

These reports should be seen as appendices to this report since they formed a background material for our analyses and conclusions.

⁵ Only available in Swedish. Translation of titles: SOU 1996:136 Effects of the Common Agricultural Policy; SOU 1996:171 Consequences for CAP of WTO Commitments and Enlargement to the East; SOU 1997:26 Common Agricultural Policy and World Food Supply; SOU 1997:50 Future Options for the Common Agricultural Policy; SOU 1997:74 Common Agricultural Policy, the Environment and Regional Development. (Transl. note)

Chapters 2 and 3 describe and analyse the current Common Agricultural Policy. These chapters are based on the analyses of the expert groups. In the chapters which follow, proposals for a new Common Agricultural Policy within the European Union are put forward and discussed. The various chapters of this report are concerned in principle with the following:

Chapter 2 contains a description of the current Common Agricultural Policy. The objectives of the CAP are compared with the objectives of Swedish agricultural policy prior to EU membership. There is also an account of the instruments used within the CAP.

Chapter 3 contains an analysis of the effects of the CAP on consumers, taxpayers and producers, effects on economy, employment, the environment and regional development. There is also a discussion of the CAP's effects on the rest of the world, with special attention to the food situation in the developing countries. Consequences for the CAP of existing WTO agreements, expected requirements of the next round of WTO negotiations plus the effects of an enlargement towards the East are discussed. As such, chapters 2 and 3 constitute a description and analysis of current agriculture policy, thereby providing a starting point for the proposals and discussions relating to a new agricultural policy which can be found in the following chapters.

In chapter 4 we take up the most important reasons for our view that the CAP is in need of reform, followed by proposals for future objectives for the Common Agricultural Policy.

In chapters 5-8 we develop our arguments relating to future objectives for the Common Agricultural Policy and also discuss the instruments needed to achieve those objectives. Chapter 5 contains a discussion of food production. We discuss food quality and safety, the need for competition and consumer needs for information.

Chapter 6 takes up the subject of agriculture and the environment. It includes a discussion on sustainable agriculture and its significance in a future society in ecological balance. The impact of agriculture on the open landscape, culturally sensitive environments and biodiversity is discussed.

Chapter 7 includes discussion of objectives and instruments for livestock farming. We discuss and suggest the requirements for animal production which society should put in place.

In chapter 8 we discuss agriculture and regional development. We examine how structural and regional policy measures should be formed so as to facilitate the adaptation of agriculture to new circumstances.

Chapter 9 is a summary of the objectives and instruments for future agricultural policy which we have proposed. This is followed by a discussion of how current agricultural policy must be changed to achieve the objectives we propose.

2 Current Common Agricultural Policy

2.1 Objectives for the Common Agricultural Policy

The objectives for the Common Agricultural Policy (CAP) were formulated in the Treaty of Rome in 1957. Article 39 of the treaty states the aims of the CAP to be:

- to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;
- thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- to stabilise markets;
- to assure the availability of supplies;
- to ensure that supplies reach consumers at reasonable prices.

The Treaty of Rome also states that in determining policy and the special measures necessary to implement it, attention should be paid to:

- the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions;
- the need to effect the appropriate adjustments by degrees;
- the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole.

When the objectives were drawn up the six Member States (France, Germany, Italy and the Benelux countries) were net importers of most agricultural products. The objectives drawn up, which have been in force since that time, concentrated on production. Improved productivity and increased agricultural production were seen as reasonable and meaningful needs in the light of the situation of Europe after the war. Stable supplies on the domestic market were important. The objective for income assumed an important role and agriculture was the main occupation of almost a quarter of the population.

The agricultural policy objectives of the Treaty of Rome have not been changed, despite the major economic changes which have taken place. However, the goals may be said to have changed indirectly in that new instruments have been created, especially for structural, environmental and regional measures. The economic role of agriculture in society has decreased. In 1993 agriculture accounted for approx. 2.5% of GDP and approx. 5.7% of employment in the current EU15 (Swedish Board of Agriculture 1995).

2.2 Former Swedish agricultural policy objectives

The objectives for Common Agricultural Policy have remained unchanged since the 1950s. A comparison with Swedish agricultural policy shows that the objectives in Sweden have changed more and that their relative significance has altered.

In the immediate aftermath of the second world war Sweden also had a need to build up its food production. The goal of production was therefore pivotal. In the 1960s there was a strong demand for labour in the industry and the goal for food production in Sweden was of lower priority. At the beginning of the 1970s there were indications of world food shortages and production reassumed its central role. This was given less importance again in the 1980s as the consumer objective grew in importance and new environmental objectives were introduced. The agricultural policy decision in 1990 placed further emphasis on consumer, environmental and regional issues. Objectives relating to consumers can be briefly summed up as follows: "Production should be driven by consumer demand. Consumers should be afforded ample opportunity to choose between different types of food...". As regards the environment, the following is stated: The environmental objective is to conserve a rich and varied farming landscape and to minimize the environmental harm caused by agriculture." (Prop. 1989/90:146)

The majority of the EU's objectives for the CAP are centred on production, such as productivity objective, income objective and price stability objective. The emphasis is thus on the supply side. In Sweden the structure of objectives remained roughly the same until the middle of the 1980s when consumer objectives, i.e. the demand side, grew in significance. The decision of the Swedish parliament in 1990 placed consumer objectives in a central position alongside environmental issues.

In 1995 Sweden became a member of the European Union, and for this reason the implementation of the 1990 agricultural policy decision was never completed.

2.3 CAP instruments

2.3.1 Development of the CAP

The formal objectives of the Common Agricultural Policy have remained unchanged from the beginning. However, the CAP's instruments have changed over the years, something which can be seen as an evolutionary rather than a revolutionary development. The various rules have been gradually changed and new rules have been introduced when required. It has, however, been rare for any instruments to disappear. For this reason, the instruments have become increasingly complex and difficult to grasp. An important explanation for this is the nature of the decision making process, in which the often disparate interests of different members can lead to compromises and package solutions.

From the outset the CAP was wholly aimed at securing food supply through stimulation of production. EU farmers received prices for their production higher than world market prices thanks to market price support in the form of administrative prices such as *inter alia* intervention prices and border protection. This market price support was developed to include more products and more or less special solutions were often formulated for each sector. Several intervention measures were introduced and export refunds were applied to exports outside the European Union. The high levels of market price support together with technical and economic developments led to an increase in agricultural production within the European Union. However, consumer demand within the European Union did not increase at the same rate. In the 1970s the European Union changed from being a net importer to a net exporter of a number of agricultural products, especially crop and animal products for which the European Union provides high levels of support. On the other hand the European Union is still a major net importer of, for example, fruit and vegetables, for which EU support levels are relatively low. The European Union is also a net importer of oilseeds and protein feed. Furthermore, the European Union imports large quantities of agricultural products from developing countries, such

as coffee, tea and cocoa, which are not subject to EU market regulations. As a result of major production surpluses of certain goods, production quotas became a new element of the CAP in the 1980s. These were first introduced on milk production.

From the beginning the Common Agricultural Policy lacked the means to deal with structural, environmental and regional issues. At the start of the 1970s the so-called Structural Funds were introduced. These come only partly under the CAP, and it was not until 1989 that allocations to these funds increased significantly. Structural policy, like the CAP in general, has become more complex over the years. Characteristic of structural and regional policy is that it has changed each time new Member States have joined the European Union. As recently as 1995 a new support to sparsely populated regions was introduced (objective 6), specially adapted for Sweden and Finland. Environmental measures were first introduced into the CAP to a significant degree in 1992.

In 1992 decisions were taken on the most far reaching change of the CAP to date. The background to the decision was primarily criticism of increasing surpluses and subsequent increases in budget costs. The measures to limit production introduced during the 1980s had proved to be insufficient. The Policy's inability to handle cases of income distribution and effects on the environment were also cited as motivating factors. At the time of the reform there was also international pressure for changes to the CAP from the on-going Uruguay round of the GATT negotiations.

The basic changes to the CAP agreed on in 1992 were to:

- lower the administrative prices,
- compensate farmers for lower prices via direct payments,
- introduce production limitations,
- introduce environmental payments and other so-called accompanying measures.

The sectors affected by the 1992 reform were cereals, oilseeds, protein crops and beef. The reform meant that levels of border protection, export refunds, intervention prices, etc. were lowered and that these instruments thereby became of reduced importance in the sectors affected. In order to compensate for these lower prices, direct support per livestock unit or per hectare, i.e. headage and area payments, was introduced. However, direct support led to over compensation since market prices have not fallen to the same extent as the administrative

prices. The reform also included so-called accompanying measures, covering measures for agri-environment, afforestation and early retirement support.

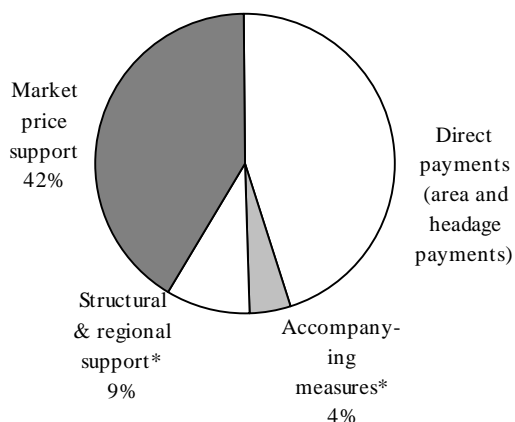
Since the 1992 reform of the CAP, other reforms have been carried out affecting various sectors such as rice and fruit and vegetables. There are on-going discussions on changes to the regulations applying to wine, tobacco and olive oil. Discussions have also been initiated on the subject of future changes in the regulations pertaining to beef, milk and cereals.

The instruments currently used in the CAP are chiefly

- internal market price support (mainly export refunds, production limitations and intervention measures),
- direct support (area and headage payments)
- border protection (mainly tariffs, in certain cases reduced by trade agreements),
- environmental payments
- regional and structural support.

The internal market price support, direct payments and border protection are all part of the so-called market regulations. These forms of support place a 100% burden on the EU budget and are paid out by the EAGGF's (European Agricultural Guidance and Guarantee Fund) Guarantee Section. Environmental payments, partly paid from national funds, is also paid for by the Guarantee Section. On the other hand structural and regional measures in the agricultural section are mainly paid for from funds in the EAGGF's Guidance Section together with national funds. In addition to these there are Structural Funds which are outside the agricultural fund.

Figure 1 EU agriculture budget divided into various measures of support 1996



* These measures are also part financed by respective Member States

Source: *European Commission, 1997 (a,b). Own adaptation.*

Figure 1 shows EAGGF expenditure for 1996 divided into various measures of support. This is a way of gaining an impression of the significance of the various components of the CAP. However, in order to gain an understanding of the significance which various adjustments have on the market and prices, the producers and consumers, attention should not only be paid to budget. Calculations of this kind are presented in section 3.1.

In 1996 EU spending on the CAP amounted to ECU 43 billion (Around SEK 370 billion, at a rate of exchange of 1 ECU = SEK 8.70). This was a major increase compared to 1995 when spending was at ECU 37 billion (around SEK 320 billion). This budget increase was, however, mainly brought about by the enlargement of the European Union from 12 to 15 countries in 1995, which had a clear effect on expenditure in 1996. Of the 1996 expenditure 45% went to direct payments and 42% to market price support. The proportion of direct payments has increased since they were introduced in 1992, and in 1996 they amounted to ECU19 billion (around SEK 170 billion). EU expenditure of some ECU 18 billion (SEK 160 billion) on market price support in 1996 was, however, lower than anticipated owing to high world prices for cereals. The EU expenditure on the accompanying measures doubled between 1995 and 1996 from ECU 0.8 billion to ECU 1.8 billion (from SEK 7.2 billion to SEK 16.1 billion) of which environmental payments in 1996 was at ECU 1.4 million. EAGGF

expenditure on regional and structural support has also increased, and amounted to ECU 3,8 billion (appr. SEK 33 billion) in 1996. The accompanying measures, along with structural and regional support, are partly financed by the Member States.

2.3.2 CAP market regulations

Current CAP market regulations

Three basic principles were established when the first market regulations were introduced in the 1960s. These are still in force:

- a common market with free movement for agricultural products with common administrative prices,
- Union preference, i.e. goods produced within the Union are to be given priority over imported goods,
- joint financing.

The Common Market inside the European Union has been created by the removal of tariffs, export subsidies and other kinds of competition distorting subventions between Member States. Common prices mean that administrative prices determined in ECU apply throughout the entire Union. Such a price is the intervention price. Export refunds, tariffs and support are also common throughout the Union. On the other hand, market prices can differ inside the Union, *inter alia* because of the size of regional production in relation to demand.

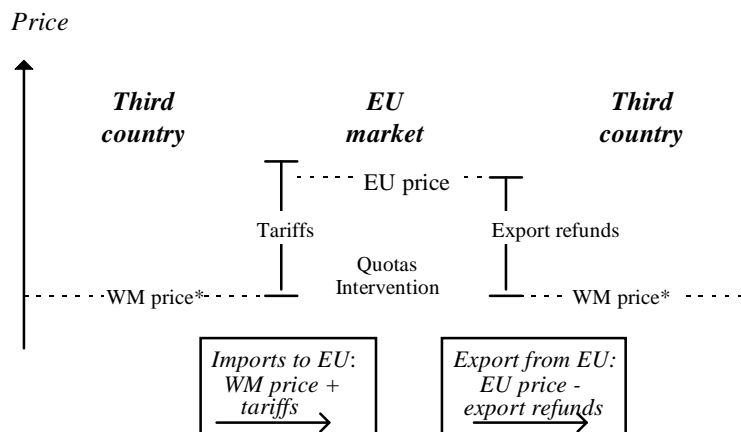
The Union preference means that goods inside the European Union are given preference on the market above goods from a third country. This functions in that agricultural goods from third countries are subject to border protection, chiefly tariffs. Other aspects of market regulation also lead to the maintenance of a higher price level inside the European Union than the prices which apply outside.

Joint financing means that measures of the market regulations are financed with money from the EU budget. EU budget revenues consist of tariffs, sugar duties and fees from Member States. In 1995 Member State fees represented approx. 70% of EU budget revenue.

Market regulations comprise a wide variety of instruments including export refunds and tariffs on trade with third countries together with intervention measures and production quotas inside the Union. These instruments support a generally higher level of prices inside the

European Union compared to the world market, as can be seen from Figure 2.

Figure 2 Diagram showing how EU market regulation affects the prices of agricultural goods



* WM price = World market price

Source: Own adaptation.

Export refunds, intended to compensate for the difference between the EU price and the world market price for exports to third countries, are paid out for EU exports to such countries. Export refunds, which apply to the majority of agricultural goods produced inside the European Union, help to boost prices inside the Union. *Export levies* may be applied if world market prices are higher than EU prices. This keeps the level of prices in the internal market down, to the benefit of consumers inside the European Union. In recent years this has been applied to cereals.

Imported goods from third countries attract *tariffs*, or some other kind of *border protection*. This also has the effect of keeping prices inside the European Union at a higher level than on the world market. As a consequence of the GATT agreement from the Uruguay Round - the UR Agreement - the former variable levies have been replaced by tariffs. Despite the UR Agreement, however, there is still variable border protection for certain agricultural products, *inter alia* fruit and vegetables.

Various kinds of *production limitations* in form of different quotas have become more common within the CAP. By limiting production of a certain product the supply inside the Union is limited and prices can thereby be kept up. To what extent production limitations control the supply, and thereby the price, varies between the different products. Production limitations are for instance applied to the milk and sugar sectors. For milk, quotas effectively mean that production in excess of the permitted level is impossible, since production in excess of quota is subject to a charge which is higher than the corresponding producer price. For sugar, production which exceeds A- and B-quotas, i.e. C-sugar, is not covered by EU market regulation and must therefore be exported from the European Union without any export refunds.

Inside the European Union a number of *intervention measures* are also applied in order to support a high price level. When there is a risk of the price falling below a certain level the European Union can intervene with buying in for intervention. Intervention measures also include consumption stimulation measures in the form of price discounts and measures to support markets.

Product support is mainly applied to agricultural goods for which the European Union, because of trade policy commitments, does not have any border protection. Support is paid out per kg of product supplied. In general supply is stimulated by this type of support.

The majority of *direct payments* have been introduced to compensate for reduced price support and consequently lower prices. Direct payments which are paid per hectare or livestock unit do not have the same direct effect on supply and prices as export refunds, intervention and other forms of market price support. However, direct payments can be said to have an indirect production stimulating effect.

Table 1 shows the market regulating measures which now apply to the most important product sectors. Most processed food is also affected by EU market regulations through export refunds and border protection. This is due to the fact that these regulations affect the price of the agricultural products used by the food industry.

Table 1 EU market regulating measures for various agricultural products

Product	Inter-vention	Export refunds	Border protec-tion	Product support	Direct support	Prod.-limitations
Cereals	X	X	X		X	X
Oilseeds					X	X
Protein crops					X	X
Sugar	(X)	X	X			X
Fruit/vegetables	X	X	X	(X)		
Wine	X	X	X			X
Dried fodder				X		X
Seeds				X		
Tobacco			X	X		X
Cotton				X		
Flax(fibre)					X	
Olive oil	X	X	X	X		
Milk	X	X	X			X
Beef and veal	X	X	X		X	X
Pigmeat	(X)	X	X			
Sheep/Goat meat	X	X	X		X	X
Poultry meat		X	X			
Eggs		X	X			

Source: SOU 1996:136. Own adaptation.

2.3.3 Environmental payments

Prior to 1992 there were only a handful of environmental measures inside the CAP. With the 1992 reform of the CAP, the European Union introduced environmental payments in the agricultural sector to supplement the market regulations and to make them more environmentally friendly. However, there is still a lack of formal environmental objectives within the CAP.

The European Union has established a framework for environmental payments, whereas the details are determined at national level subject to EU approval. Payments are partly financed by respective Member States. The purpose of these payments is *inter alia* to encourage less intensive production methods, promote environmentally friendly extensification, promote the use of agricultural land which pays attention to protection and improvement of the environment, the countryside, the landscape, natural resources and biological diversity, promote organic

farming and encourage long term removal of agricultural land from production for environmental reasons such as wetland conservation and protection of areas sensitive to erosion. EU environmental payments is dealt with more fully in section 3.3.3.

2.3.4 Structural and regional policy

Structural policy in the European Union started to take shape at the beginning of the 1970s when funding was made available to the so-called Structural Funds. In the beginning there were only modest appropriations. With the Single European Act of 1987 the objective for economic and social unity, i.e. the will to reduce the differences between different regions, was written into the Treaty of Rome. The result was a thorough reform which came into effect in 1989 together with a significant increase in money made available from the Structural Funds. The Structural Funds, i.e. the European Regional Development Fund, the European Social Fund and the European Agricultural Guidance and Guarantee Fund Guidance Section and a fourth fund for fishing, were co-ordinated and the current format, with a limited number of principal objectives, was introduced.

Following the latest reform of structural and regional policy in 1993, the following five main objectives were set up for the period 1994-1999:

1. economic development of regions whose development is lagging behind
2. economic regeneration of regions with declining industrial activity
3. combating long-term unemployment and facilitating the integration into working life of young people and of persons exposed to exclusion from the labour market
4. preventive measures against unemployment (training)
5. promotion of rural area development, by
 - (a) speeding up the adjustment of agricultural structures
 - (b) facilitating the development and structural adjustment of rural areas.

As a result of the entry of Sweden and Finland as members of the EU, objective 6 was created to assist regions with low population density. As far as the agricultural sector is concerned, the relevant objectives are 5a, 5b and 6.

Objective 5a concerns support for re-structuring of agriculture and forestry: (it also includes fishing, although this is financed from the

fishery fund). Measures which can be financed by this type of support include investment support, setting-up aid for young farmers, setting-up aid for fruit and vegetable producers' organizations, support on improving the processing and marketing condition for agriculture and forestry products, and support to less favoured areas (LFAs). Support, which is voluntary, is financed both by the EU agricultural fund and by the Member State concerned.

Objective 5b is intended to increase diversity and vitality in rural areas. Efforts are chiefly concentrated on projects which are deemed to contribute to development in rural areas. Examples of recipients are measures for competence development in tourism, small and medium size companies or in area-dependent industries, whether or not they operate in the agricultural sector. A prerequisite to be included in objective 5b is that a region have a low GDP per capita and a high percentage of the population employed by the agricultural sector as well as low incomes from agriculture. The support is financed by a combination of the EU agricultural fund, regional fund and social fund, together with national funding from respective Member States.

Objective 6 is intended for regions of extremely low population density with a maximum of 8 inhabitants per km². As mentioned above, Objective 6 was introduced when Sweden and Finland became members of the Union and was created to be able to use some of the support in a limited geographical area which was deemed to be justified, but which for various reasons would not be applicable under conditions prevailing at the time. Inside the target area, which in Sweden consists of the inner areas of Norrland and parts of north west Svealand, the Structural Funds can finance projects which contribute to the development of the area, including measures covered under Objective 5a, i.e. measures aimed at agricultural companies and rural development.

3 CAP facing the future

3.1 The CAP, consumers, taxpayers and producers.

3.1.1 Introduction

With the help of border protection, chiefly tariffs, and other market regulating measures, such as measures of intervention, production limitations and export refunds, the prices for agricultural goods inside the European Union are generally kept at a level which exceeds world market prices. The differences in price inside and outside the European Union are determined in principle by the level of the export refunds for the products exported by the European Union and by the level of tariffs on goods imported into the European Union.

In recent years, following the 1992 reform some of the CAP's expenditure has been shifted from the consumer to the taxpayer. The reform meant lower market price support and thereby lower market prices for consumers, especially for cereals. By way of compensation the producers receive direct payments which come from the EU budget. Production limitations are being used increasingly in order to limit budget expenses.

3.1.2 Effects of the CAP on producers

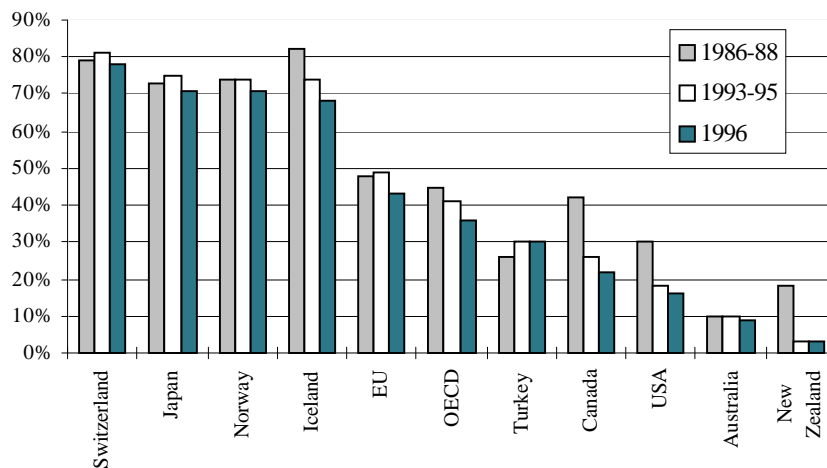
Economic effects on producers

Producers in the European Union receive support for their production through a combination of prices which are higher than on the world market and direct support. Each year the OECD works out PSE data (Producer Subsidy Equivalent) which compares the level of support with the total value of production. Where the European Union is concerned, environmental payments are not part of the PSE calculations. There is some degree of uncertainty in the calculations *inter alia* world market prices are different in different places and changing exchange rates affect results. The PSE should therefore be seen as a means of describing trends and approximate levels of support. On the other hand,

the PSE does not say anything about what would happen to prices if agricultural policy were to be deregulated. In the products for which the European Union has a high level of support coupled with high production, deregulation of the CAP would lead to higher world market prices, since production within the European Union could be expected to decrease.

The PSE calculations contain 12 of the most important agricultural goods. Fruit and vegetables, wine and olive oil are, however, examples of products, which despite constituting an important part of the EU's agriculture production, are not included in the PSE calculations. Figure 3 shows the percentage PSE for various OECD countries for the years 1986-88, 1993-95 and 1996.

Figure 3 The percentage of agricultural subsidy of the total value of production in various OECD countries for the years 1986-88, 1993-95 and 1996 (Percentage PSE)



Source: OECD, 1997. Own adaptation.

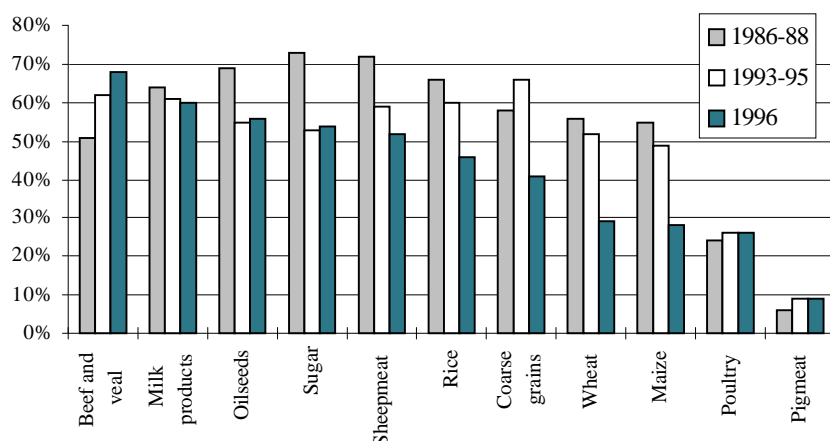
Compared to other major OECD food producers such as Australia, the USA and Canada, there are higher levels of support inside the European Union. On the other hand, support levels in the European Union are lower than in Japan, Norway and Switzerland. During 1996 the level of support in the European Union fell, due to the high world market prices for cereals in the 1995/96 season. Reforms in recent years have not changed the total level of support. On the other hand the

reforms have altered the ratio of financing between consumers and taxpayers.

Previously market price support, i.e. chiefly export refunds, border protection and intervention measures, constituted a very large part of the support within the European Union. From the 1986-88 level of 82% of agriculture support, they were at 51% in 1996, according to the OECD. Direct payments over the same period have increased from 8% to 33%. Other support, including regional support, accounted for 16% in 1996, compared to a mere 10% between 1986-88 (OECD 1997).

Taking a look at support levels for various products between 1993-95, the highest are for coarse grains, milk and beef, for which the levels are over 60% (see figure 4). For rice, sugar, oilseeds and sheepmeat, support account for more than half of revenue. For pork and eggs, however, the PSEs are low. Costs for over-priced feed have been removed. In 1996 the picture changed somewhat. The cereal sector, which was favoured by high world market prices, received considerably less support than before. In 1996 the percentage PSEs were highest for beef, milk, oilseeds, sugar and sheepmeat.

Figure 4 The percentage of agricultural subsidy of the total value of production in the European Union for the years 1986-88, 1993-95 and 1996 (Percentage PSE)



Source: OECD, 1997. Own adaptation.

Other effects on producers

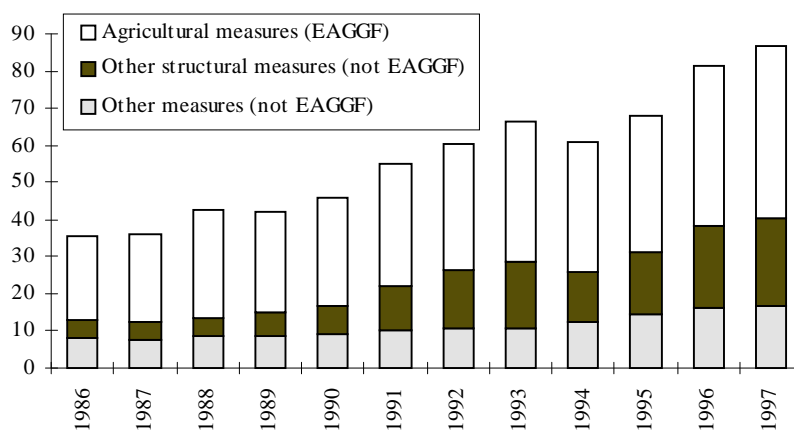
Apart from providing prices which are higher than on the world market, the CAP naturally has other effects for producers. Various quota systems and limitations on production have become more and more common within the CAP, leading to less flexibility for producers. In some cases these systems mean severe restrictions on production capabilities, e.g. in the case of milk production, whereas they in other cases do not involve the same individual restrictions, such as the area payment for cereals. Another effect, which has become more apparent for producers in recent years, is the increased administrative burden.

3.1.3 The effects of the CAP on taxpayers

Expenditure from the EU agricultural fund

The common expenses of the agricultural sector are financed by the EU agricultural fund (the EAGGF) which comprises roughly half of the EU's total budget. Sources of income for the EU budget comprise tariffs and producer levies and a contribution from each Member State based on VAT revenue and Gross National Income. Member State contributions account for the major source of income for the budget.

Figure 5 EU total expenditure between 1986-97 (billions of ECU)



Expenses for 1986 refer to EU10, 1987-94 EU12, 1995-97 EU15. 1997 refers to budget.

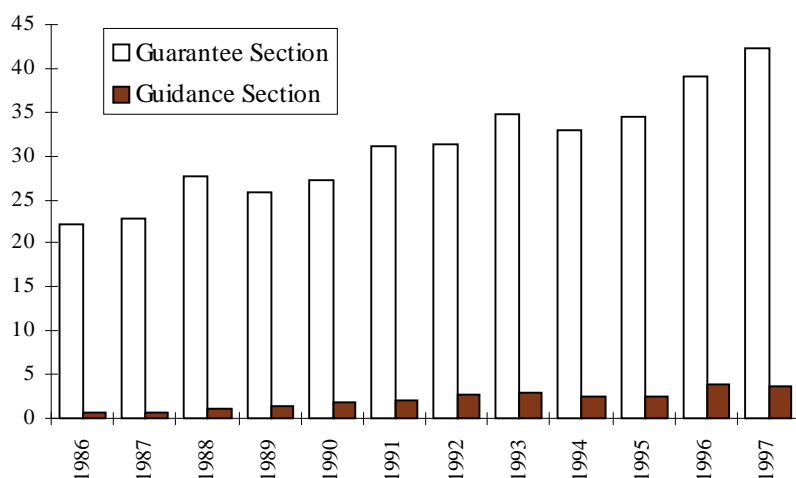
Source: European Commission, (1997 (a,b). Own adaptation.

Figure 5 shows the EU's total expenditure for the period 1986-1997 divided into agriculture, other structural measures and other expenses. As the figure shows, EU expenditure has more than doubled during this period, from ECU 36 billion in 1986 (approx. SEK 310 billion) to ECU 86 billion in 1997 (approx. SEK 750 billion). CAP expenditure for the same period has risen from ECU 23 to 46 billion. In 1986 CAP expenditure corresponded to 64% of total expenditure, and in 1997 this proportion had fallen to 53%. The part of the EU budget which goes to structural measures lying outside the agriculture fund has risen from 14 to 24% during the period.

The agriculture fund is divided into two parts: the Guarantee Section which finances export refunds, intervention measures and direct support, environmental and other accompanying measures, and the Guidance Section which finances structural and regional policy measures in the agricultural sector. Budget costs for the EU Guarantee Section (see figure 6) are estimated at ECU 42.3 billion for 1997 (approx. SEK 370 billion). This can be compared to the expenditure in 1986 which amounted to ECU 22.1 billion (approx. SEK 190 billion). The proportion which goes to direct payments and environmental payments has increased in recent years, whereas the part which goes to market price support has decreased.

Expenditure for the Guidance Section, which is also shown in Figure 6, was ECU 0.77 billion (some SEK 7 billion) in 1986, which was then equivalent to 3.4% of the agriculture fund. EU expenditure for structural and regional policy measures have increased by more than the expenditure of the guarantee fund and for 1997 are estimated to amount to ECU 3.7 billion (SEK 32 billion), equivalent to 8.0% of agriculture fund expenditure.

Figure 6 Guarantee and Guidance Section expenditure for the period 1986-1996 (billions of ECU)



Expenses for 1986 refer to EU10, 1987-94 EU12, 1995-97 EU15. 1997 refers to budget.

Source: European Commission, 1997 (a,b). Own adaptation.

Expressed in terms of per person per year EU budget expenditure for the EAGGF are around ECU 110 or SEK 1000. This, however, is not the entire cost to EU taxpayers for agricultural policy. Measures covered by the Guidance Section are only partly financed by the common EU budget. The remainder is financed by relevant Member States. The same is also true of the accompanying measures in the Guarantee Section. In addition there is also national agricultural support, e.g. support to the north of Sweden.

The OECD estimates the total transfer of funds as a result of agricultural policy in 1995 from EU taxpayers to the agricultural sector, including national contributions, was ECU 48.2 billion, the equivalent of ECU 130 (approx. SEK 1,100) per person per year (OECD 1996).

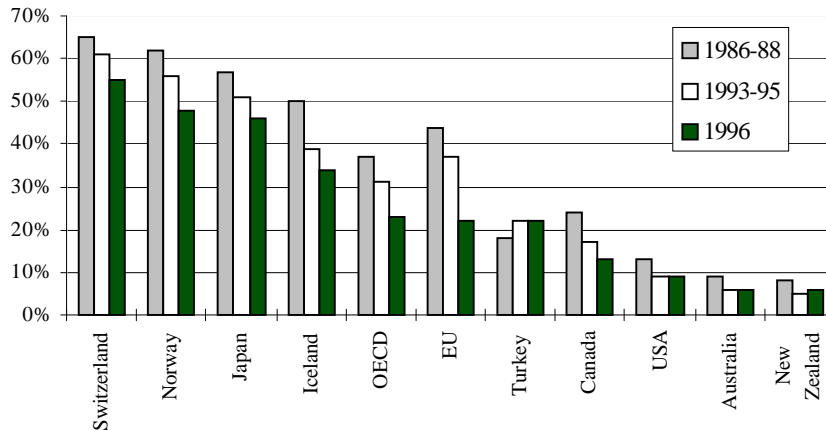
3.1.4 The CAP's effects on consumers

Economic effects on consumers

As mentioned previously, consumers have to pay for the CAP through higher food prices. The OECD calculates the proportion of the consumer price at farm gate values which is the result of agricultural

policy. This figure is known as the CSE (Consumer Subsidy Equivalent) and, like the PSE, it contains a number of uncertainties.

Figure 7 The proportion of consumer prices resulting from agricultural policy at farm gate values for the periods 1986-88, 1993-95 and 1996 (Percentage CSE)



Source: OECD, 1997. Own adaptation.

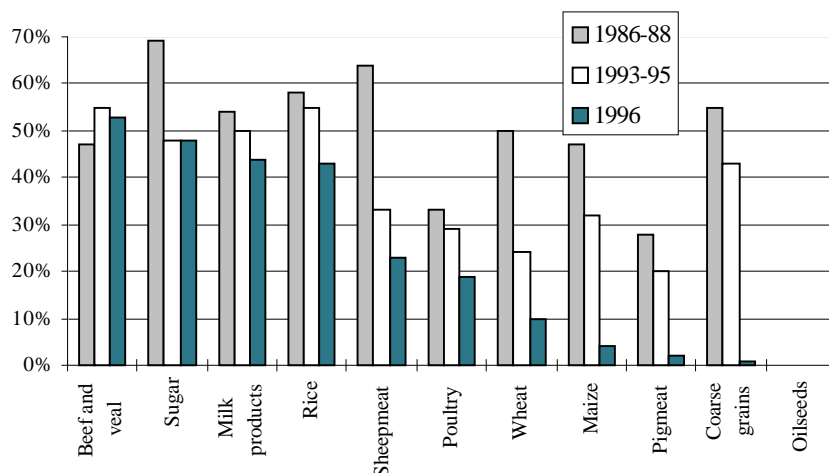
Figure 7 shows that the percentage CSEs for the European Union have fallen dramatically, which reflects the increased use of direct payments. The same trend is also apparent in many other OECD countries.

Compared to consumers in other major agricultural producing countries, consumers in the European Union pay a higher cost for agricultural support. However, consumers in Japan, Norway and Switzerland pay even more.

During 1993-95 agricultural subsidies accounted for some 37% of consumers' expenditure. In 1996 the equivalent figure was around 23%, which was unusually low because of the high prices for cereals on the world market in the 1995/96 season. The OECD estimates that the additional cost for the CAP in 1995 to the average EU consumer was approximately SEK 1,200 at prevailing world market prices (OECD 1997). However, this additional cost only includes the traditional agricultural products, whereas, for instance, fruit and vegetables, which constitute a major part of consumption in certain EU countries, are not included. However, the OECD calculations do not show how much the consumers would benefit from a deregulation of the CAP. In the event of

a deregulation, world market prices will probably rise for a number of agricultural products, and this would mean that the gains for consumers would probably be lower given such a scenario than the CSE indicates.

Figure 8 The proportion of consumer prices at farm gate values made up of agricultural subsidies for the years 1986-88, 1993-95 and 1996 (Percentage CSE)



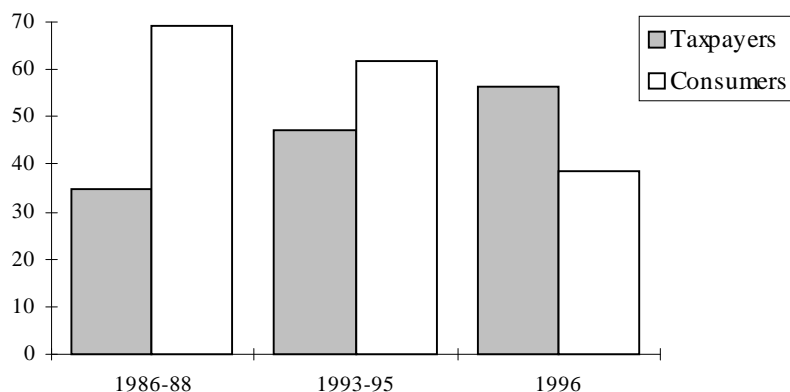
Source: OECD, 1997. Own adaptation.

Figure 8 shows the CSE for the European Union. As the table shows the costs for consumers during the period 1993-95 were highest for beef (55%), rice (55%), dairy products (50%) and sugar (48%). In 1996, the costs were highest for beef, sugar and dairy products. Consumer costs for cereals have decreased sharply during recent years. This is partly due to the CAP reform, and partly to high world market prices.

Overall the inhabitants of the European Union pay for the Common Agricultural Policy through taxation and through the price of food. As shown in Figure 9, during the period 1993-95 EU taxpayers paid an average of ECU 47 billion (approx. SEK 410 billion) for the agricultural policy and consumers contributed by an average of ECU 61.5 billion (approx. SEK 530 billion). In 1996 the corresponding figures were ECU 56.2 and 38.7 billion respectively (approx. SEK 490 and 340 billion respectively). However, costs to the consumer via price have decreased whereas costs via the European Union and Member State budgets have gone up, chiefly due to the introduction of area and headage payments in 1992 by way of compensation for reduced market price support. As

mentioned previously the recent high world price for cereals is another reason for the reduction in consumer costs for the CAP. The fact that EU budget costs have risen is also due to the enlargement of the Union in 1995.

Figure 9 Transfer of funds from taxpayers and consumers to producers in the European Union during the years 1986-88, 1993-95 and 1996 (billions of ECU)



Source: OECD, 1997. Own adaptation.

Information on consumer and taxpayer costs for the CAP are based on prevalent world market prices. Since deregulation of the CAP would lead to higher world market prices for the agricultural products for which the European Union has high levels of support and high production, the figures shown do not indicate how much the inhabitants of the European Union would gain from a deregulation of the CAP. It is, however, clear that within the EU food prices and budget costs would fall if there were to be a deregulation of Common Agricultural Policy

Other effects for consumers

Because the regulating systems are different for different products consumer choice is influenced by the CAP. For example, vegetable fats are not affected by market price support, whereas for dairy fats and olive oil the major part of the support is paid in the price of the food itself, and this naturally has an effect on consumption patterns.

The European Union in general has common legislation covering all areas which affect people's lives and health in relation to food.

Veterinary legislation, in addition to legislation on animal diseases, also includes protection for human health in respect of food of animal origin. In the framework of food legislation there are also a number of stipulations regarding recipes to be followed if certain designations are to be used. These cover products which are subject of large-scale trade between Member States.

3.2 The CAP, the economy and employment

3.2.1 The effects of the CAP on the economy

Neither the PSE nor the CSE measure the costs of agricultural support on the economy since they only measure transfer of funds between consumers and taxpayers on the one hand and producers on the other. Efficiency losses arise since agricultural policy affects the allocation of resources. Because of agricultural policy more resources are used in agriculture than would otherwise be the case without support. This makes agricultural production higher and consumption lower compared to a situation without support.

Various studies which have analysed the effects of agricultural policy on the economy (as discussed by the expert group 3 in SOU 1997:74) show that support to agriculture lead to costs for other sectors of society. These studies, which are based on different assumptions and conditions, show that economic benefits to society in the form of increased GDP would be the long term effect of a deregulation of agriculture. According to the studies, deregulation would have the effect of increasing GDP by in the region of 0.7 to 3%. However, these estimations do not take environmental effects into consideration.

3.2.2 The CAP and capitalisation in land and quotas

The price of agricultural land is determined by various factors such as tax legislation and price developments in agricultural goods. The price of land is affected by the CAP in that the policy increases revenue, and this in turn leads to increased profits.

In the short term a price increase in the market, for example as a result of higher subsidies, has the result of increasing compensation for work done by the farmer. In the long term, however, new farmers are willing to pay a higher price for land, a limited resource. The same

arguments apply if the land is rented. Increases in income often lead to an increase in land rental prices, which in the long term means an increase in income for the passive landowner rather than the active farmer.

In the same way an increase in income in production where quotas apply leads in the long term to an increase in the price of quotas if they can be traded in a free market. If the quotas cannot be sold, the price increases on the factor that the quota is tied to, e.g. a certain agricultural unit.

As such, an increase in revenue results in an increase for the owner of a limited asset in the form of agricultural land or production quotas. The advantage accrues to those who first held the resource. Thus anyone not owning land or production rights and wanting to establish themselves or expand production does not gain any advantage from the existing support.

In Sweden there has been a marked tendency towards an increase in rental price for those tenancies re-negotiated after EU membership. High prices for milk quotas in the Netherlands and the UK, where free prices are applied, are further examples of capitalisation of subsidies in a limited resource.

3.2.3 Effects of the CAP on employment

The CAP market regulations stimulate agricultural production in the European Union via high levels of support, and this leads to a level of employment in agriculture which is higher than it would have been without the CAP. It has been mentioned previously that high levels of support to agriculture have a negative effect on other sectors. It is therefore doubtful whether total employment in society would be higher if the CAP is retained compared to a situation with deregulated agriculture.

As Table 2 shows, the number of people employed in agricultural production in the European Union has fallen significantly.

Table 2 The number of people employed in agriculture in the European Union also seen as percentage of total employment for the years 1970, 1980 and 1993

	1970*	1970	1980*	1980	1993	1993
	Number	Percent	Number	Percent	Number	Percent
	(1000)		(1000)		(1000)	
Belgium	177	5,0%	116	3,2%	99	**
Denmark	266	11,5%	200	8,15	131	5,4%
Germany	2 262	8,6%	1 403	5,3%	1 272	3,1%
Greece	1 280	40,8%	1 016	30,3%	791	21,3%
Spain	3 662	29,5%	2 229	19,3%	1 212	10,1%
France	2 751	13,5%	1 821	8,5%	1 195	5,1%
Ireland	283	27,1%	209	18,3%	151	12,7%
Italy	3 878	20,2%	2 899	14,3%	1 619	8,2%
Luxembourg	14	9,7%	9	5,5%	5	3,0%
Netherlands	**	**	244	4,9%	265	3,9%
Austria	553	18,7%	323	10,6%	**	6,9%
Portugal	**	**	1 120	28,5%	516	11,7%
Finland	538	24,4%	314	13,5%	**	8,6%
Sweden	314	8,1%	211	5,1%	**	3,4%
UK	**	**	681	2,7%	518	2,2%
EU 12	**	**	11 946	9,6%	7 773	5,6%

* Number employed 1970 and 1980 covers agriculture, hunting, forestry and fishing.

** Information not available.

Source: *European Commission, 1996. Own adaptation.*

The number of people employed in the agricultural sector as a percentage of the total number of people employed in 1970 varied between 5 and 40% in those countries which now belong to the European Union. The corresponding proportion in 1993 was an average of 5.6% in the European Union. In 1993 the proportion employed in agriculture was highest in Greece at 21,3% and Ireland, 13.6%, whereas the UK had the lowest proportion at 2.2%. In Sweden the proportion of people employed in agriculture during the same period has fallen from 8.1 to 3.3%. In absolute figures, the largest number of people employed in agriculture in 1993 was in Italy, 1.6 million. In Germany, Spain and France the number employed in agriculture in each country is around 1.2-1.3 million.

For industry and trade there is a lack of statistics at EU level covering developments in the number of people employed. Inside the EU 15 the total number of persons employed in the food industry was 2.4 million, as shown in Table 3.

The percentage of people employed in the food industry in relation to industry as a whole is highest in Denmark, Greece, Ireland and Spain, where almost one fifth of all those working in industry in the respective countries work in the food industry. In Germany that percentage was only 7%, whilst in France it was 11% and in the UK 14%. In Sweden the proportion was around 10%, roughly the EU average.

Table 3 Number of people employed in the food industry in the European Union 1994

	Number employed (1000)	Percent of total industry
Belgium	62	11%
Denmark	63	20%
Germany	460	7%
Spain	346	20%
France	367	11%
Greece	49	21%
Ireland	38	22%
Italy	191	8%
Luxembourg	2	7%
Netherlands	119	17%
Portugal	80	12%
United Kingdom	508	14%
Austria	38	8%
Sweden	60	10%
Finland	39	11%
EU 15	2 422	11%

Source: SOU 1997:25.

3.3 The CAP and the environment

3.3.1 Environmental policy relating to agriculture

In recent years, environmental issues have gained in importance in the European Union, both on a general level and also specifically relating to agriculture, where various types of environmental measures have been introduced in the 1990s. Inside the European Union there is a series of general environmental objectives relating to all types of business. On the other hand the objectives of the CAP in the Treaty of Rome do not include any specific environmental objectives.

EU environmental measures can be found in various places in the Treaty of Rome (i.a. articles 2, 36, 100a and 130r-t). Where trade in goods is concerned Member States have the right under certain circumstances to apply import restrictions to protect the lives and health of human beings, animals and plants. The Council can then take decisions on the harmonisation of such regulations. Other environmental measures which do not concern trade in goods are, on the other hand, largely a matter of national concern, which means that Member States are allowed to have stricter, but not less strict demands than the harmonised regulations, so long as this does not conflict with any other stipulation of the Treaty. Among the general environmental objectives of the EU, which as such also cover agriculture, the following may be mentioned:

- Each sector in society is to take responsibility for its own effects on the environment.
- The Union should promote a sustainable, non-inflationary growth which takes the environment into consideration.
- The EU's environmental policy shall contribute to the conservation, protection and improvement of the environment, protect human health, use natural resources rationally and with care, and promote measures at international level to solve regional and global environmental problems.

Despite the lack of formal environmental objectives for agriculture in the Treaty of Rome, the Commission has presented various papers dealing with the environmental problems of agriculture, including a proposal for a programme of measures aimed at sustainable development (KOM/95/647). In the proposed programme of measures it is stated that the link between controlling instruments for the agricultural market and environmental demands should be further developed via a changeover from market price support to direct payments and a better integrated market policy, rural development and environmental policy.

3.3.2 The CAP's effects on the environment

Historically agriculture has had major effects on the environment, both beneficial and harmful. Agricultural production involves major encroachments into the environment, since the very purpose of the production is to influence the environment so that it results in

agricultural products. Agriculture contributes to beneficial environmental effects such as varied farming landscapes and cultural heritage. However, economic and technical development has led to higher levels of production and increased specialisation. Therefore, it is for instance no longer economically justifiable to keep livestock on more sparse pastures, and this leads to a threat to the variety of species in the farming landscape. Another significant environmental problem in agriculture is the leakage of fertilizer and pesticide remains. The majority of agriculture's environmental problems in the European Union today are due more to general economic and technical development than to agricultural policy.

There are, however, links between the CAP and the environment. High prices caused by various types of market regulation within the CAP give rise to incentives towards more intensive production than would have been the case without subsidies. This brings with it both beneficial and harmful environmental effects. A more intensive production leads to structural changes in farming landscapes and increased pressure on the environment through higher use of fertilizers and chemicals. Soil leaching and pesticide remains have also become a growing problem in the intensively cultivated areas of the European Union. At the same time, the high EU support leads to increases in the value of land, and this means that it pays to look after land properly. It is uncertain whether high EU support favours increased specialisation. There is also a high level of specialisation in New Zealand, for example, where the support levels are very low.

Area payments, which were introduced by way of compensation for the lowering of market price support, should have led to lower intensity and as such have been beneficial for the environment. Its effects, however, are not unambiguous. Whilst the land entitled to support is limited, preventing meadow lands from being converted to arable cultivation, a structure is preserved which in relative terms is favourable to cereals as feed in livestock production at the expense of ley.

In Sweden, the extensive pasture lands which were under the land conversion scheme of 1990 have largely been changed over to cereal cultivation, and this is seen to be the result of the introduction of the EU area payments. Increased sales of pesticides in Sweden since entry into the European Union are probably due to the introduction of the CAP. On the other hand, environmental payments to Swedish agriculture have increased substantially as a result of EU membership, and this has

among other things meant that organic production has increased significantly.

It is clear that agricultural production in itself is the cause of various environmental problems. However, most of those problems are not primarily due to agricultural policy, but to economic and technical development in general. Yet there may be grounds for criticism that the CAP's measures to minimize the environmental load are insufficient. Furthermore, the CAP does lack any formal environmental objectives.

3.3.3 EU environmental payments

The programme of environmental payments within the CAP is fairly recent, introduced in 1992 to supplement the commonly-financed CAP and to make it more environmentally friendly. Environmental policy in respect of agriculture is seen first and foremost as a matter of national concern. This can be explained by the fact that some of the environmental problems connected to agriculture are of a regional nature. The regulation governing EU environmental payments (2078/92/EEC) only provide the framework for environmental measures through a series of aims, whereas the details of environmental payments are worked out at national level. Levels of payment are flexible within certain determined limits. The environmental payments are intended to compensate farmers for the costs they have for various measures and for loss of income which can occur when production is changed. If it is considered especially warranted the totals can include an incentive element. Environmental payments are basically paid out half and half by the European Union and the respective Member States. In 1996, some 3% of the EU's total agriculture budget or 1.4 billion ECU (approx. SEK 12 billion) was spent on environmental payments, a marked increase compared with 1995. This increase is mainly due to the fact that the three new Member States, Austria, Finland and Sweden, receive a higher proportion of environmental payments than the other EU countries.

The Swedish environmental payments programme applies to ongoing five year periods and is based on Swedish environmental objectives for agriculture. These environmental objectives are those set down in the 1990 policy on food: "When deciding on land use and production methods, consideration must be taken to demands for a sound environment and long term management of natural resources. The objective must be to ensure a rich and varied farming landscape and to

minimize environmental load of agriculture.” (Prop. 1989/90:146). The Swedish programme for environmental payments currently comprises ten different kinds of support, see SOU 1997:74.

It is too early to reach any thorough conclusions on the effects the programme has had in Sweden. It is clear, however, that significantly larger amounts have been available for use in measures to strengthen the environment as a result of the EU environment payments. Yet the programme appears to have been dogged by a number of teething troubles. Certain payments, including payments for cultural environments, have greatly exceeded the budget framework, whereas payments for pasture lands have been claimed less than it was hoped.

3.4 The CAP and regional development

3.4.1 Objectives for structural and regional policy

In the Treaty of Rome it is stated that agricultural policy should improve agricultural productivity. It is also clear that special subsidies within certain frameworks may be approved in support of enterprises disadvantaged by structural conditions or as a result of special conditions in certain areas.

With the approval of the Single European Act in 1987 it was written into the Treaty of Rome that Member States should strive towards social and economic unity. It was also agreed that the European Union would be active in measures of structural adaptation in less favoured areas and in regions where industry is on the decline.

3.4.2 Instruments for structural and regional policy

Structural support to the agricultural sector comes under the provisions of objective 5a. Support is voluntary for each Member State concerned. Examples are investment aid, setting-up aid to young farmers and aid to formation of producer groups in the fruit and vegetable sector. Under objective 5a support is also granted to LFAs (less favoured areas). Compensation is given for higher production costs in the form of grants per livestock unit and, in certain cases, per hectare.

Support from the structural sections may also be granted to develop and increase diversity and prosperity of rural areas, objective 5b. Measures which can be eligible for support are presented in special

programme documents, produced in cooperation between the Commission and the Member State for respective 5b regions.

Objective 6 is designed to assist the northern regions of Sweden and Finland, areas characterised by low population density. Measures taken in the area are in many cases the same as those of 5a and 5b, but in addition there are major infrastructure measures designed to improve opportunities for growth and employment in the region.

3.4.3 Regional effects of the CAP

Regional effects of CAP market regulations

From the outset the CAP was intended to stimulate production and improve farmers' incomes through market price support. This meant that the areas with the best natural conditions also received the highest support in terms of amount. Changes in recent years to market regulations towards more direct payments have not changed the allocation between different producers to any great extent. This is because direct payments are also bound to levels of production, albeit historical levels.

Products from the Mediterranean region, such as fruit, vegetables and wine, widely produced in the southern parts of the European Union, have, for the most part, lower levels of support than, say, cereals, milk and beef, which are largely produced in the middle and northern regions of the European Union. There are notable exceptions, however, such as olive oil, tobacco and cotton. However, it may be generally stated that the common market regulations favour the northern and middle parts of the European Union, especially the high producing areas.

A general effect of market regulation is a higher level of production in the European Union than could be expected from a deregulated scenario. Market regulation thereby contributes to production and to open landscapes even in areas less favourable for production.

Effects of support via the EAGGF Guidance Section

Support which fall under the EAGGF Guarantee Section, i.e. market regulating measures in the form of market price support and direct payments, and support for accompanying measures for environmental improvement, etc., do not comprise the total support afforded to

agriculture. Measures within the Guidance Section which are also part of the agricultural fund EAGGF, are, as mentioned previously, intended to contribute towards levelling out the economic and social differences between EU countries and regions. Support is paid out *inter alia* to farming in mountainous regions and in LFAs. Support paid via the Guidance Section is partly financed from national funds. The EU element of finance within the framework for LFA support is an average of 30%. In countries in the south, this EU element is higher than in the north. Direct support per farmer is generally speaking higher in the LFAs. A substantial levelling out of agricultural income between normal and LFAs has taken place in northern and central regions of the European Union, yet this is scarcely the case in the south. The spread between different regions in the European Union is greater for agricultural income per farmer than for the overall economy measured as GDP per capita.

Regional consequences of the CAP in Sweden

Market price support in Sweden, as in the European Union as a whole, goes mainly to the fertile regions with high levels of production. However, a certain levelling out has taken place thanks to the regionalisation of the area payments in Sweden. Sweden has also levelled out agricultural income via environmental payments, LFA support and national payments. The same tendency exists in the other new Member States Austria and Finland. The levelling out in Sweden is a result of support which Sweden finances itself, partly or wholly. Roughly half of Sweden's agricultural land lies inside regions for which some form of agricultural support is payable. In terms of figures, northern and central Sweden get some 70% of the regional support.

3.5 The CAP and the rest of the world

3.5.1 World food supply

Although world food production has been on the increase for many years, there are today some 800 million people who do not have access to sufficient food. However, this is not because there is too little food in the world, but mainly is a result of an uneven allocation of resources and income in the world. In the declaration of the World Food Summit in

Rome in November 1996 it was agreed that poverty was the main cause of malnutrition. The participating nations are to strive towards food security in the world by halving the total number of undernourished people in the world by the year 2015. In order to reduce malnutrition, natural resources must be protected from impoverishment and rural areas must be developed. For this to take place a social, political and economic development must take place in the developing countries, alongside an increase of knowledge sharing and trade.

According to the report from expert group 1 on the CAP and world food supply (SOU 1997:24), the majority of food forecasts (OECD, FAO, World Bank, etc.) indicate that the amount of food in the world will be sufficient in the short term. Current production resources are also deemed sufficient to produce the food required for an increasing population in the long term. According to the forecasts named, increases in production are expected to be greater than increases in demand up to the year 2010. This means that the world's production of cereals alone, seen in terms of calories, would be sufficient to meet the need for calories of all the world's inhabitants. In addition to cereals, an important source of calories in the world, there is a considerable number of other agricultural and fish products which further improve access to food on a global scale. However, increased incomes in certain developing country regions mean an increase in the consumption of animals, which in the short term can lead to higher prices for cereals. As a result this can be a problem for poor consumers of cereals who cannot afford to consume the same amounts as earlier.

However, the view of the situation of food in the future presented by the World Watch Institute is far more negative. The Institute considers that the impoverishment of natural resources has gone too far and that prospects for increased food production to feed a growing world population are small.

An overall view of the world food situation shows that current production takes its toll on finite resources such as land and water. For food supply to be sufficient in the future, production should take place in such a way as to conserve natural resources to reduce the risk of long term environmental destruction, shortages of resources and thereby rising production costs. Thus there must be increased investment in knowledge, above all relating to production methods which actually conserve natural resources. However, a sufficient resource base combined with production sustainable in the long term, does not necessarily mean secure food supply for the entire world population. It

needs to be combined with sufficient incomes to ensure a distribution of food to ensure people's nutritional needs.

3.5.2. The CAP's effects on the rest of the world

The CAP provides support for production inside the Union, with the overall resulting effect of lower prices in the rest of the world. This affects producers, chiefly in developing countries where agriculture is not generally supported. Prices for agricultural goods in the European Union are kept high with the help of measures such as export refunds, measures of intervention, production limitations and border protection against third countries. The CAP also comprises direct payments which are paid out to farmers per hectare or livestock unit, and this has an indirect effect on prices.

The CAP's influence on world markets varies between different products and different countries. The CAP's effects on the world markets are determined by three factors - the size of CAP support and border protection, EU trade agreements and the size of the European Union as a producer and consumer in the world as a whole. The price-reducing effect of the CAP on world market prices is seen as particularly great in the dairy sector. EU regulations of sugar, beef and cereals are also deemed to have a major effect on the world market. Apart from these, there are several products for which the CAP's influence on world market prices is modest. This applies to products such as fruit, vegetables, oilseeds, fodder, wine, processed food, pork and tobacco (SOU 1997:24).

Producers in developing countries, where agriculture is seldom supported and may even be taxed, are the group worst affected by the CAP through the resulting low world market prices. The fact that production of agricultural goods in developing countries is low in relation to population is due to a number of factors, but it must be observed that low world market prices hardly stimulate production. Among the EU's industrialised neighbours, producers in Central and Eastern Europe are especially affected. Despite trade agreements with the European Union, Central and Eastern European exports to the European Union are made more difficult by the CAP, at the same time as the European Union can compete on the traditional Central and Eastern European markets because of generous export refunds.

Abolition of EU tariffs, export refunds and other production increasing support would raise world market prices for many

agricultural products. Farmers outside and consumers inside the European Union could be expected to benefit, whereas EU farmers and consumers in the rest of the world might be disadvantaged.

In developing countries the majority of the population is involved in agriculture. This group is made larger by those who live in rural areas and are dependent on agriculture. Many of these people are poor. Higher prices for agricultural products would therefore benefit large numbers of people in need in developing countries and provide incentives for higher production and improved supplies of food.

However, there are currently major economic, political and social problems in many developing countries which must be improved if the countries are to be capable of development. In this respect the agricultural sector can play a significant role in such development in that the majority of the population of these countries is involved in agriculture. Furthermore, there may be groups of people in developing countries who would be disadvantaged by higher prices and who would not share in the advantages of increased agricultural production. For a beneficial development to take place it is important that each individual nation should contribute to the creation of a favourable climate in society, irrespective of whether the agricultural policy of the industrialised countries is deregulated or not.

3.6 The CAP and WTO agreements

3.6.1 Effects of WTO commitments on agriculture

The WTO - World Trade Organization - was founded in 1995 and is responsible for three different trade agreements, whereof GATT, the General Agreement on Trade and Tariffs, is the agreement which affects trade in goods. The WTO works for free trade, without discriminating trade barriers, to be applied throughout the world. Over the years a number of agreements have been negotiated within the GATT framework, but it was at the latest round of negotiations, the Uruguay Round, that the countries managed to come to a general agreement which included agriculture. Via this agreement (the UR Agreement) the 125 Member States of the WTO gave their commitment to increase market access, reduce export subsidies and to reduce certain internal subsidies between 1995-2000. There are also agreements on technical trade barriers and sanitary and phyto-sanitary measures.

The WTO agreements involve a significant change of system, through the establishment of more effective rules for solving disputes and through the first ever comprehensive agreement for trade in the agricultural sector.

Where imports are concerned, the UR Agreement means that the flexible EU border protections for agricultural goods have been converted to tariffs with effect from 1 July 1995. These tariffs are to be reduced by an average of 36% during the agreement period in relation to their levels during the 1986-88 period. Furthermore, the agreement contains commitments that the European Union will make the same quantity of imports possible as during the base period, and without exception increase access for up to 5% of internal consumption of respective agricultural goods, in the year 2000.

For exports the agreement means that EU export refunds must be reduced by 36% during the agreement period and that the quantities exported with the help of refunds shall be reduced by 21%.

The UR Agreement also involves commitments for total internal support to be reduced by 20%. However, forms of support which are deemed to have small or insignificant effects on trade and production (green box) and direct payments within the framework for production limitation programmes, i.e. mainly area and headage payments (blue box) are excluded from this demand for reduction. That these forms of direct payments were excluded from the reductions was due to a separate agreement between the USA and the European Union, the Blair House Agreement, in which the USA was granted the equivalent exceptions for its deficiency payments.

The effects of the UR Agreement on the European Union are expected to take effect mainly in exports, where the levels of export support, unlike internal support are linked to defined product categories. Currently, the European Union has already experienced problems in sticking to the permitted export support limits for beef and dairy products. Export of cereals and poultry meat are also expected to run into problems quite soon. According to forecasts of anticipated production within the European Union up to the year 2000 from the OECD and the FAO, the Union can expect a production surplus higher than permitted export support levels for wheat, sugar, beef, pork and dairy products. The reduction in levels of border protection is not expected to have any major effect on EU imports, mainly due to the fact that the converted tariffs have been set at relatively high levels in many cases. However, effects can be anticipated from the commitments to

facilitate certain levels of imports and certain links between tariffs and administrative prices. The WTO commitments on internal support are not expected to have any major effect on the European Union since many types of support, such as area and headage payments, are exempt from the reduction requirements.

The WTO now comprises a new, more effective set of rules for solving disputes which constitute a binding agreement to solve trade policy disputes within the framework of this system and to accept any WTO decisions. The new dispute solving process is expected to be used to initiate a test of the scientific principles for import restriction which have been used, for example, for consumer reasons. Through the agreement on sanitary and phyto-sanitary measures demands are made where import restriction measures are applied: these measures must be, as far as possible, based on international standards, based on scientific principles, preceded by risk assessment and not be of greater scope than is necessary to achieve the legitimate purpose. The agreement on technical trade barriers stipulates that discrimination on the grounds of origin is prohibited and that unnecessary trade barriers may not be created through technical regulations.

Thus, the WTO and relevant agreements mean a change in system, partly because a comprehensive set of regulations for agricultural matters has been drawn up for the first time, and also because of the new regulations for solving disputes. The effects on world agricultural trade in the short term are expected to be limited. However, the WTO is expected to produce more discernible effects for agricultural trade when the next WTO round on agriculture gets underway.

3.6.2 Requirements anticipated from the next WTO round

The UR Agreement stipulates that new negotiations should be set in motion one year before the end of the current agreement period, i.e. at the end of 1999 at the latest. In the next round of negotiations, the European Union and other countries with high levels of support and border protection will probably come under increasing pressure from the rest of the world for further reductions in tariffs and agricultural support. Compared to the Uruguay Round the pressure for liberalisation is expected to weigh heavier, due to the fact that the USA, via a change in national agricultural policy, is expected to have a greater interest in

pressing for free trade. As previously, demands for increased liberalisation will come from countries in the Cairns Group (Australia, New Zealand, Canada, Argentina and others).

How the next WTO round will end up is naturally a question for negotiation, in which the European Union, the USA and the Cairns group are the major players. There are, however, many indications that the next WTO round will lead to further reductions in border protection and agricultural support, mainly due to the change in direction in the USA's agricultural policy. How great these demands will be is, of course, difficult to predict, but a number of commentators believe that the next agreement will lead to significant reductions in agricultural support linked to production or exports. This is expected to have major impact on the European Union agricultural sector, and to lead to further reforms of the CAP.

3.6.3 The new USA agricultural policy and the WTO round

The USA is expected to have a major influence in the forthcoming WTO negotiations, due to the fact that the country, as the world's largest exporter of agricultural goods, is a significant player on the world market. In the period from 1992-94, US exports of agricultural goods were equivalent to approximately 20% of the world's total exports (SOU 1997:24). Now that the USA has introduced a new agricultural policy involving several significant system changes, this will also have effects on coming trade negotiations. The new US agricultural policy covers the period from 1996-2000 and is intended to adapt agriculture to the market and to introduce measures of deregulation to the agricultural sector. The most important changes relate to cereals, cotton, rice and oilseeds for which production support, known as deficiency payments, are being replaced by direct payments which is not linked to production. Previous levels of support to the agricultural sector will generally be maintained up until the year 2000, regulations which discourage production are to be removed and export refunds will be maintained in most areas (Swedish Board of Agriculture 1997). There are many indications, therefore, that the new policy will stimulate increased agricultural production, and this in turn will lead to an increase in exports.

By way of its new agricultural policy, the USA will enjoy a strong bargaining position at the next round of WTO negotiations, not least in relation to the European Union. Even before the new policy started to come into force, the USA had greatly reduced its support compared to the situation which existed in the middle of the 1980s, whereas support levels in the European Union have remained largely unchanged since that time. Unless it is altered, the new US agricultural policy will result in the USA no longer having any interest in maintaining exceptions from reductions in support for compensation payments in line with the Blair House Agreement. This will subsequently affect the EU's area and headage payments. In addition, the USA will probably demand increased liberalisation in trade, chiefly in respect of products in which it has major export interests.

3.7 The CAP and enlargement to the East

3.7.1 The current situation in Central and Eastern Europe

In 1993 the European Union decided that 10 central and eastern European countries, Bulgaria, Estonia, Latvia, Lithuania, Poland, Rumania, Slovakia, Slovenia, the Czech Republic and Hungary, can become members of the European Union. In addition to the central and eastern European countries, Cyprus may also become a new member. However, negotiations will determine the conditions and timing for membership. An enlargement will take place chiefly to create peace and security in the area. An enlargement is also expected to have a number of other beneficial effects such as increased economic development in both the European Union and Central and Eastern Europe. In the coming negotiations the agricultural sector will play a major part since current Common Agricultural Policy is an important factor within the Union, with extensive regulations and a large budget, and also because the agricultural sector is of major importance in Central and Eastern Europe.

There are major differences between the central and eastern European countries, just as there are significant differences between the existing Member States. Seen from an overall perspective, the agricultural sector in Central and Eastern Europe plays a larger part in the economy compared with the European Union, for example in terms

of the proportion of total employment, GDP and foreign trade. This is shown in Table 4. Traditionally several of the countries have been significant producers and exporters of a range of agricultural products such as animal products and fruit and vegetables. Certain countries are also major wine producers. Poland, Hungary and Rumania are also major producers of cereals. The huge changes in Central and Eastern Europe resulting from the changeover from plan- to free market economies have, however, had severe effects within the agricultural sector through major reductions in production. The Baltic countries account for the largest reductions in agricultural production, equivalent to almost 50% between the years of 1989 and 1994. Hungary and Bulgaria have experienced a decline of 30% or more. This decline has been somewhat smaller in the Czech Republic and Slovakia, and smallest of all for Poland. On the other hand, Slovenia has increased its production during this period. Reduced production is due to a series of factors such as lower consumer and food industry demand, the abolition of food subsidies, competition from outside players including the European Union on domestic markets, a shortage of investment and credit, and most of all the major problems associated with questions of ownership and privatisation.

Table 4 Agricultural data for Central and Eastern Europe and the EU15 in 1993

	Central and Eastern Europe10	EU15
GDP	ECU 188 billionn	ECU 5905 billion
Agriculture's share of GDP	7,8%	2,5%
Employed in agriculture	9,54 million	8,19 million
% employed in agriculture	26,7%	5,7%
Land area	42,3 m. hectares	77,1 m. hectares
Cereal production*	3,5 tonnes/hectare	5,5 tonnes/hectare
Milk production*	3,4 tonnes/cow	5,9 tonnes/cow

*refers to 1994

Source: Swedish Board of Agriculture 1995:8, Rabinowicz 1996. Own adaptation.

However, a certain recovery in production appears to have taken place recently. In 1995 all countries apart from Estonia and Latvia showed an increased gross value in agricultural production. Crops

accounted for the strongest increase, but livestock, with the exception of milk production, also broke the downward trend.

The agricultural sectors in the countries in Central and Eastern Europe are also struggling against major problems, although conditions do vary greatly between the countries. In 1994 the average production level for cereals in Central and Eastern Europe was more than a third lower than corresponding levels in the EU15. Where livestock is concerned, differences in production levels are even greater. There is a large land area, equivalent to 55% of the EU land area, and more than a quarter of the population of central and eastern Europe are employed in the agricultural sector. Thus in theory, the agricultural sector in these countries could develop enormously.

However, in order for the agricultural sector to develop beneficially, conditions for production and sales must be changed for the better. In this respect the process of privatisation and economic development is of vital importance. The structure of agricultural companies creates a problem in the privatisation process, with, on the one hand, very large collective production units, and on the other very small private plots. In this respect, Poland and Slovenia are something of an exception.

The European Agreements, i.e. trade agreements to promote exports from Central and Eastern Europe, were set up in order to facilitate future membership of the European Union. In spite of these agreements, agricultural trade has, in practice, been to the EU's advantage. Instead of the agreements promoting export from Central and Eastern Europe, these countries have experienced increasing competition from the European Union on their domestic markets.

The situation in Central and Eastern Europe is also made more difficult by the uncertainty created by possible EU membership. There is an ambition for negotiations to begin six months after the European Governmental Conference. In their wait for EU membership, certain countries have, instead, introduced various agricultural subsidies.

3.7.2 Effects of enlargement to the East

An enlargement of the European Union to the East would affect both the European Union and the central and eastern European countries (CEE countries) in many ways. As mentioned previously, peace and security are the sole major reasons for an enlargement. But there are also many other beneficial effects of enlargement, not least on an economic level. An enlargement should also provide Central and Eastern Europe

with major opportunities to develop within the agricultural sector. There will, however, be a number of problems relating to enlargement, especially if the CAP remains unchanged. Expert group 1 (SOU 1996:171) has reviewed the effects of an enlargement to the East on the agricultural sector. Estimates have been made based on the current CAP, although there are many indications that the CAP will be reformed before the event. This section looks at the problems which an enlargement to the East could lead to with an unaltered agricultural policy in the European Union.

It is impossible to foresee precisely the effects of an enlargement since there are so many uncertain factors. There are many question marks over how agriculture is set to develop in Central and Eastern Europe. Just how the changeover to a market economy progresses generally in the economy and the conditions on offer are central issues for the development of the agricultural sector in Central and Eastern Europe. This process is affected both by internal and external political and economic conditions. Where external factors affecting Central and Eastern Europe are concerned, the European Union obviously plays an important part, since the conditions which will apply to membership will have an extensive effect on the progress of agriculture. In the same way there are also many elements of uncertainty inside the European Union, and in this respect the CAP reform process is especially important. Both Central and Eastern Europe and the European Union are also influenced by uncertainties in the world at large, through factors such as market developments and international agreements, chiefly within the framework of the WTO. In spite of major problems of uncertainty, it is nonetheless important to attempt to assess the effects of an enlargement.

An enlargement without reform of the CAP would, without special interim solutions, result in the imposition of the CAP's entire regulations and relevant administration into Central and Eastern Europe. This administration is extensive and complex, and can lead to practical problems in meeting requirements such as in matters of quality regulations and sanitary and phyto-sanitary rules. Furthermore, current EU structural and regional support, along with environmental payments, requires an element of national financing. It should also be emphasised that structural and regional support up until now have been changed each time new Member States have joined. EU market regulation in general supports a price level in Europe which is much higher than the prices which apply in Central and Eastern Europe. Introducing the CAP to the CEE countries would therefore lead to higher support and higher

prices, which would favour the agricultural sector in general. However, this is not solely to the good for producers, whose structural development would be hampered by such measures as production quotas. It would be the consumers who would largely have to pay for this via higher prices. By introducing the CAP an imbalance would arise to the detriment of other sectors in society.

For the European Union, an enlargement with an unchanged CAP would also have several noticeable effects. Most studies in this area concentrate on budget effects, yet their conclusions differ widely. This is partly due to uncertainty as to the quotas which would be imposed on the CEE countries and how much of the CAP can be put into effect, something which depends on both economic and social factors. Among all the estimations which have been made regarding budget costs, it is worth mentioning that the European Commission calculations estimated that the costs for the Guarantee Section, (i.e. not including the Guidance Section) would be around ECU 9 billion by the year 2000 and 12.2 billion by 2010. The Swedish Board of Agriculture has estimated the costs for the Guarantee Section in the event of enlargement at ECU 9 billion for the year 2000 with historical production, yet at 20 billion if the countries were able to exploit their entire potential for production. A CAP reform with probable requirements for compensation for reductions in market price support would probably be more costly if the CAP gives support to 25 or 26 instead of 15 Member States.

Section 3.6 described the effects on the European Union of current and future WTO commitments, where current commitments to reductions in export support are already causing problems for the European Union. Six of the CEE countries also have commitments to the WTO at very low levels. According to OECD forecasts for future production in the CEE countries, cereals production is expected to increase, which should in general lead to increased need for exports and thereby further problems in sticking to the permitted WTO limits for export support in a future, expanded European Union. In the case of livestock, production increases are expected to take place more slowly, yet a certain level of production surplus is expected for beef and poultry meat. Bearing in mind the current surplus of beef in the European Union owing to the BSE crisis, beef production is also expected to lead to problems in meeting WTO commitments in an expanded European Union. As dealt with earlier, strong demands for further reductions in levels of support and export subsidies can be expected at the next WTO

round, and this would further complicate the situation with a maintained CAP for 25 or 26 Member States.

To keep the current CAP in un-reformed state for current Member States without introducing EU agricultural subsidies in the CEE countries as an interim measure, for example, would be one way of limiting EU budget costs. Furthermore, if the CAP were not introduced into the CEE countries there would not be an imbalance in the economies in Central and Eastern Europe, neither would consumers be burdened by major food price increases. However, such a solution is contrary to basic EU principles of a single internal market and to the principle that the agricultural policy should be common to all. Not introducing current EU support into Central and Eastern Europe would lead to different levels of subsidy and thereby different grounds for competition.

An enlargement of the European Union to the East would lead to a series of advantages both for the European Union and Central and Eastern Europe. The most significant effects are peace and security coupled with increased opportunities for economic development. However, in the case of agriculture, enlargement is made more difficult by the current CAP in that conditions for the potential members differ so widely from those of current members. As discussed, an enlargement which maintains current Common Agricultural Policy would lead to several problems both for the European Union and for Central and Eastern Europe. Even if certain problems could be solved by interim measures, an enlargement is made more difficult by a maintained, un-reformed Common Agricultural Policy. A reform of the CAP would therefore provide help for many problems relating to agriculture and facilitate a development of agriculture both in European Union and central and eastern European countries.

4. A new Common Agricultural Policy

4.1 Needs for changing the CAP

4.1.1 Why should the CAP be changed?

There are a number of factors both inside and outside the European Union which lead to the conclusion that the Common Agricultural Policy is in need of reform. In this section we have chosen to review the most important reasons why the CAP must be reformed.

Firstly, it is important to discuss the objectives of an agricultural policy. In this respect we have come to the conclusion that the objectives need to be adapted to the food situation in the European Union and the rest of the world, and that our values have changed over the forty years since the CAP's objectives were formulated. Consumer issues, environmental issues, animal welfare issues and questions of regional development must be afforded greater attention in the agricultural policy of the future.

Secondly, we see a series of shortcomings and disadvantages in the way in which CAP instruments are designed. CAP measures are currently complex and difficult to grasp. Certain instruments work against each other, leading to questions as to the efficiency and legitimacy of these instruments. Furthermore, the CAP leads to excessive food prices and high budget costs. We also consider that the CAP's actions on behalf of animals, the environment and rural development are insufficient. Greater consideration must be taken to the commitments agreed at the 1992 UN conference on the environment in Rio. Moreover, producers in developing countries are disadvantaged by the EU's high levels of border protection and subsidised exports which lead to low world market prices. Commitments relating to world food security agreed at the 1996 World Food Summit in Rome are not met sufficiently by the current CAP.

Thirdly, there are also several factors in the rest of the world which require changes to the CAP. The coming negotiations in the WTO will most probably involve demands for significant reductions in agricultural subsidies. Increased liberalisation of agricultural trade would also favour producers in many developing countries. Furthermore, an enlargement of the European Union towards the East is an important issue and

everything possible should be done to make it possible. A reform of the CAP would facilitate an enlargement, and is therefore of pressing importance.

4.1.2 CAP objectives are in need of reform

The Common Agricultural Policy has been one of the cornerstones of EU cooperation. The principal reason for the inception of the European Union was to maintain peace in Europe. Europe was badly damaged by the second world war, during which time agricultural production had decreased. For the European Union to be self-sufficient in food supply was therefore a justifiable objective of agricultural policy. The fact that agriculture at that time accounted for one fifth of total employment and thereby played an important part in the economy, was a further reason for the objectives to be largely producer-oriented.

However, after 40 years the objectives remain unchanged despite the fact that the situation is completely different. Today there is no longer a shortage of food. The European Union has become one of the world's major producers of food, exporting vast quantities to the rest of the world. At the same time, the risk of disturbances in production are considerably lower now than they were during the 1950s. Moreover, our preferences have changed. We value to an increasing degree biodiversity, cultural heritage and a varied farming landscape. We make higher demands, not only of our surrounding environment, but on how animals are treated. Production with stringent animal welfare requirements is important both in the interest of the animals and for the quality of our food. Current consideration for consumer demands for food quality and food prices is insufficient. Furthermore we believe that there must be a regional balance within the European Union, in which respect agriculture is a vital component. We believe that it is natural that these values are taken up in the modified objectives of agricultural policy in order to achieve a greater understanding of the need for such a policy on the part of the general public.

4.1.3 Current CAP is complex and costly

Over the years, the Common Agricultural Policy has become more and more complex. Member State interests, which have often diverged, have been balanced against each other, often leading to complicated

package solutions. Instead of making a change from the foundations, new regulations have often been added to old ones. The form which regulations take varies greatly from area to area. The complexity reduces the ability to gain a general overview, makes both production and administration difficult and reduces the general public's faith in the policy. In recent years various types of production limitations have been introduced, reducing the producers' room to manoeuvre and hampering efficiency and structural development.

Various instruments within the CAP work against each other. For example, market price support, i.e. border protection, export support, intervention, etc., stimulates higher production which leads to environmental problems which the environmental payments programme then attempts to alleviate. Market price support, which was originally introduced to improve incomes, pays most money to large producers in areas where production is high. Small producers, especially producers in less favoured areas (LFAs) are disadvantaged, something for which regional support attempts to compensate. An agricultural policy made up of irreconcilable elements is not efficient. Moreover, market price support is an inefficient means to achieve an income objective, since it generally links in with effects such as higher land prices, and it also costs the consumer considerably more than any net gain in income for the farmer. The CAP redistributes resources in society, favouring the agricultural sector, but this can involve an economic burden for society as a whole.

The direct payments which were introduced by way of compensation for price reductions when the CAP was reformed in 1992 are permanent, and have also led to overcompensation due to high market prices. This cannot be reasonable. The more time which passes since the price reductions were introduced, the less direct payments can be justified. Neither is it possible in the long term to have a system of compulsory set aside of land which in addition gives higher direct payment per hectare than if the same land had been in cultivation.

The high level of CAP support to EU producers is paid for by consumers in high food prices and by taxpayers via the budget. The EU price for many agricultural products is more than double that of the world market, and this especially affects people with low incomes who spend a proportionally larger amount of their income on food. Despite the fact that the significance of agriculture for the overall economy has been greatly reduced, the budget costs have not been cut. Roughly half of the EU budget still goes to costs for the agricultural policy. Not only

the subsidies and grants are expensive: costs for administration and control are also considerable.

4.1.4 The current CAP hinders progress in the agriculture of developing countries

The CAP stimulates production in the European Union, leading to higher prices in the European Union, yet to lower world market prices. High levels of border protection for the import of agricultural products to the European Union makes export to the European Union from other countries difficult, whilst at the same time EU export refunds encourage export from the European Union. The overall effect is low world market prices. The EU's influence on world market prices thereby puts producers in the rest of the world at a disadvantage, especially in the agricultural sectors in developing countries where only a low level of support, or even no support at all, is available. In certain developing countries agricultural production is even taxed.

In the world today there are some 800 million people who do not get sufficient food. This is because they cannot afford to buy food, despite the fact that there is sufficient food in the world. War and natural disasters are also other causes of famine. In the declaration from the 1996 FAO World Food Summit in Rome it was agreed that to reduce the number of undernourished people, political and economic development is needed in the developing countries alongside sustainable agricultural production. One way to achieve this would be to liberalise trade throughout the world. Paying due consideration to the developing countries is thus a matter of urgency to reform the CAP.

4.1.5 The CAP's actions on behalf of animals, the environment and rural development are insufficient

Interest and knowledge in society relating to issues of the environment and animal health and well-being have increased. The significance of agriculture in a society in ecological balance, for biodiversity, cultural heritage and a varied farming landscape have not been paid sufficient attention within the framework of the CAP. Furthermore, at the 1992 UN conference in Rio commitments were

entered into on achieving sustainable production, something which the CAP has failed to take into sufficient consideration. Moreover, agricultural production leads to a series of environmental problems, such as leakage of fertilizers and pesticides and reduction in the variety of species. These need to be resolved if production is to be sustainable. These problems are partly due to the fact that the CAP lacks sufficient instruments to reduce the environmental load of agriculture. The CAP still lacks any environmental objectives, but such objectives, come under the umbrella of the EU's general environmental objectives. Whilst it is true that in recent years certain environmental measures have been introduced inside the framework of the CAP, these measures are insufficient.

Alongside environmental issues, animal health and well-being is also a subject of major interest which is not sufficiently covered by the CAP. In addition to the actual care of animals, their breeding and transportation are also important issues not dealt with to a desired extent by the CAP. In this area, as in environmental matters, there is a lack of satisfactory regulations within the European Union. In many cases common animal welfare regulations are lacking. Instead, certain aspects of market regulation stimulate intensive and unacceptable production methods.

Within the European Union there is a series of measures aimed at structural and rural development. These measures, which are partly outside the sphere of the CAP, only comprise a very small share in comparison with the resources which are made available for market regulating measures. Market regulation creates a situation in which those areas with the best natural conditions also receive the highest subsidies. This means that overall, the less favoured agricultural areas are disadvantaged by the CAP. Not only are resources for rural development insufficient, but the form which support take varies between various sectors resulting in considerable complexity. Structural measures even include examples of actions which can work against each other. Investment support encourage agricultural production whereas other kinds of support stimulate a change over from agriculture to other sectors. Thus a review of all measures of structural and regional support would appear to be justified.

4.1.6 WTO demands for increased liberalisation

The CAP has already been affected by current WTO commitments to the year 2000 to reduce levels of support. The European Union is not currently able to export the quantities of certain agricultural products that it wishes.

There are many indications that demands for significant reductions in agricultural support will be made at the next WTO negotiations, mainly due to the fact that the USA has changed direction in its agricultural policy. The USA will probably make demands for increased liberalisation of trade, principally for products in which the USA has major export interests. It is assumed that one consequence of this will be that the USA has no interest in maintaining US and EU exemptions from subsidy reduction (EU area and headage payments, see section 3.6). Alongside the USA are a number of other countries within the Cairns Group who are advocates of increased free trade. Demands for major reductions in support to the agricultural sector are expected to have considerable impact on Common Agricultural Policy. The coming WTO negotiations are therefore one further reason for a reform of the CAP. It has long been a general principle in Sweden to press for increased liberalisation of world trade. Increased liberalisation of trade in agricultural goods would result in lower food prices in the European Union. Liberalisation would also assist agricultural production in the developing countries.

4.1.7 EU enlargement poses new demands on the CAP

We view enlargement as a high priority issue since it would favour peaceful, democratic and economic development both in Central and Eastern Europe and the European Union. An enlargement of the European Union without any changes to the CAP would, however, lead to a series of problems. An enlargement which maintains the current CAP would mean a rise in food prices in certain CEE countries, something undesirable from a consumer point of view. High levels of support for agriculture in these countries would also provoke an imbalance in the economy in that one sector would gain so greatly. Structural development in the CEE countries would be hampered by production quotas and efficiency would be reduced. EU budget costs

would increase dramatically. Another problem would be further difficulties in fulfilling WTO commitments. To keep the current CAP for current members but without introducing all the measures of support in Central and Eastern Europe, for example as an interim measure, would certainly limit EU budget costs, but it would also disadvantage the producers in the CEE countries and give the producers in the current European Union a major competitive advantage. This would also be in conflict with the objectives of the single market.

Since enlargement to the East is an important issue, reform of the CAP is necessary. Farming land in the CEE countries is a resource and an asset for future production of food. However, the current policy means that the agricultural potential of the CEE countries is regarded as something of a problem.

To help the new Member States in their planning for entry to the European Union it is important that a decision be taken relatively quickly on the basic points of the new agricultural policy in order to put suitable interim measures into effect.

4.2 Proposals for future objectives for the Common Agricultural Policy

Agriculture has a number of significant tasks to fulfil in the future both from an European Union and a global perspective. Continuing agricultural production inside the European Union is a necessity. A common agricultural policy within the European Union is a clear indication of the importance of agriculture in the European Union. However, the CAP's objectives are a product of the 1950s and do not tie in with the values of our day. The objectives of the agricultural policy are still largely centred on stimulation of production, despite the fact that the European Union is now more than self-sufficient in many agricultural products.

For agriculture to be able to make best use of resources and to promote global development we consider that the agricultural policy is in need of change. The CAP should be expanded from its present regard for producers to include consumer, environmental, animal ethic and regional issues.

We therefore propose the following objectives for a future Common Agricultural Policy:

The Common Agricultural Policy should aim to facilitate:

- a wide and varied supply of safe food at reasonable prices,
- sustainable agriculture.

In addition to these two principal objectives, the agricultural policy should also aim at ensuring that production, processing and distribution of food is carried on in such a way that:

- biodiversity is conserved and promoted,
- cultural heritage is preserved,
- a varied farming landscape is promoted,
- environmental load is minimized,
- livestock production is carried out under strict requirements for animal welfare,
- regional balance and viable rural areas are promoted,
- internationally competitive agriculture within the European Union is promoted.

Therefore we consider that in future it will be necessary to have an agricultural policy which is common to all Member States of the European Union. When the objectives will be achieved is first and foremost a matter for negotiation, in which factors inside the Union and in the rest of the world must be taken into account.

The proposed objectives for the Common Agricultural Policy are discussed in more detail in chapters 5-8. There is also a discussion on suitable instruments for achieving these objectives.

5 Food

5.1 Principal objective - safe food at reasonable prices

The primary purpose of all production, food included, is to provide consumers with the goods they demand. However, food is a special case since it is a prerequisite for every individual's survival and health. Alongside the fact that we all need access to food, we make other demands on the quality of food compared with the demands we make of other goods. One basic requirement is that food should be harmless and safe to consume. To avoid the risk of health endangering food being released onto the market a precaution principle should be applied to all food.

Consumers also make demands on food with respect to production methods, quality and price. However, consumer requirements vary widely within the European Union. In a competitive market, with good information and interacting consumers and producers, producers can be sensitive to consumer demands and adapt their production methods and quality accordingly. In a functioning market prices are determined by supply and demand. To add weight to requirements in the market, a strong consumer organization is important in pressing for urgent consumer demands.

It is our belief that any future agricultural policy should be developed so that food production is driven by consumer demand in a competitive market functioning at all stages and with adequate information. One basic requirement is that all food should be safe for consumption.

5.2 Basic principles

5.2.1 Introduction

Consumers have demands or requirements for the food they want to purchase. We choose the food we buy owing to a number of factors such as age, income, ethical and cultural values and social conditions. Demands can apply to the food itself or to methods of production. In

both cases the characteristics of food can be linked to the concept of quality. Quality has to do both with characteristics which can be measured such as nutrition and hygiene, and with more subjective characteristics such as packaging, production methods, taste and values.

Consumer choice of food is not only based on quality, but also on what the food itself actually costs. Availability, time and information also play a part in the consumer's choice of food. Exactly what quality and what characteristics a consumer is prepared to pay for varies between consumers and how and when the food is purchased.

5.2.2 Safe food - a basic requirement

The most important single characteristic of food is that it is safe, i.e. that the consumer can be sure that the product can be eaten without risk. Where food is concerned, safety has grown in importance since the range of food available is so great and the distance between producer and consumer has increased. Developments involving increased industrialisation, concentration in the food industry and new production methods, which in many cases have been beneficial, e.g. through cheaper food and wider variation, have also led to increased uncertainty as to food safety. In our changing world it is therefore important that a precaution principle should be adapted to prevent dangerous food from being released onto the market. Producers should be responsible for ensuring that food is not harmful and society has a duty to ensure that this is adhered to.

There is a growing number of people who suffer from allergies. For their own safety they need to have information about the content of any potential allergy causing substances in food. There are also other types of illness which are made worse through the intake of certain types of food. As such it is not only important that food is safe on a general level, but information on ingredients, substances and additives which can cause allergic reactions or are otherwise harmful for certain groups of consumers, should also exist to ensure safe food at an individual level.

Safety and quality in our food are affected by a number of factors such as hygiene, animal husbandry, additives, handling, etc. The Common Agricultural Policy is chiefly concerned with production and does not pay sufficient attention to consumer interests. Animal husbandry is important since it affects the quality and thereby the safety of our food. It is our opinion that there is good reason to tighten the existing regulations to offer better safeguards for consumer interests in

quality and safety. A topical example of shortcomings in animal husbandry is the handling of the BSE issue within the European Union.

Inside the European Union large amounts of antibiotics are used in animal feeds: this is prohibited in Sweden. Sweden has also been granted temporary exemption to keep this ban in force. Widespread use of antibiotics leads to increased resistance in bacteria, and this can present risks both for animals and human beings alike. Salmonella bacteria which are immune to antibiotics are an example of this. We view it as a matter of importance that antibiotics in feeds to promote growth are banned throughout the European Union, not just out of consideration to consumers, but also with a view to the well-being of the animals themselves. It is also important that the spread of animal diseases is prevented as this reduces the quality of food. This applies especially to salmonella, campylobacter and similar illnesses which involve risks of being passed on to humans. In so far as this cannot be commonly applied, individual countries must be given the opportunity to impose stricter regulations.

Economic and technical development produces new production methods and new food additives. In recent years genetically modified food have been introduced on the European market. This is an example of products to which many consumers have ethical objections. As far as all types of food are concerned, especially those which are produced using new methods, it is particularly important that consumers can feel assured that no food which is harmful to health has been released onto the market. Consumers must also have access to information about new production methods. It is also important to ensure that new production methods do not have a negative effect on the environment. Member States inside the European Union have recently agreed on new food regulations. We shall return to this subject in section 5.2.4.

5.2.3 Other demands for food quality

As mentioned by way of introduction, consumers have very different ideas about food. The choice of food which they demand is partly due to quality, which is largely based on individual judgements, and partly to price and availability.

Even though many people can agree that food quality increases with food freshness, better hygiene, etc., there are many other factors involved in concepts of food quality which are of a more subjective nature. As we are all aware, opinions as to what tastes good vary enormously from

person to person. In addition to taste, nutritional value, etc., there are many consumers who include production methods in the concept of quality. An increasing number of consumers are demanding food which is produced in an environmentally friendly way. There are also increasing demands for animals to be treated well and for food to be produced in an ethically acceptable way.

The choice of food which consumers actually purchase does not depend entirely on quality: price also pays a major part. For example, even if consumers would prefer food produced in a certain way, they are not always prepared to pay the price for it. Consumers also have good opportunities of controlling production in the directions they would wish. There are several examples of how production has been consumer led in more environmentally friendly or ethically acceptable directions. For consumers to be able to influence what is on offer and buy the food they would like to a greater extent, they need to have information as to content, nutritional values, additives, origin, production methods and other quality factors of the food in question.

Since consumer preferences are of an individual nature we consider that it is important for consumers to have access to a wide variety of food. In this way, food production will be driven by consumer demand. A competitive market with adequate information is needed if consumers are to be able to choose the food which has the qualities they require at a reasonable price.

5.2.4 Current EU instruments

As we have said, the Common Agricultural Policy is mainly aimed at production of agricultural goods. The Common Agricultural Policy has resulted in regulations, rather than consumers, controlling production. It is therefore important to introduce measures which will allow consumer demand to control the supply of food to a greater extent. Moreover, there are examples of inadequate legislation pertaining to livestock, a subject which is also of major consumer interest. Questions of animal welfare are dealt with more thoroughly in chapter 7.

Where food legislation is concerned, Member States have recently agreed to new legislation on so-called novel foods which requires the producer to provide a risk assessment of the entire product. This is a move away from earlier legislation which only relates to individual components and additives in food. However, for all important issues the

framework of existing food legislation provides protection for the health of consumers.

The new regulation implies that producers are responsible to ensure that novel foods and new food ingredients are safe before they release them on the Common Market, and also that they must label the foods to indicate if production methods or contents, etc. are new. Regulation No 258/97/EC defines novel food as "...food and food ingredients which have not hitherto been used for human consumption to a significant degree within the Community..." and which belong to a certain category. Novel foods include foods which contain or consist of genetically modified organisms (GMOs), food which is produced using new production methods, new fungi, micro organisms and algae, food which contains new substances, new raw materials, artificial proteins, etc. Food or parts of food which come under the regulation must not carry any risks for consumers nor mislead them in any way. The regulation requires the producer to label the novel foods if they contain GMOs, substances which can cause allergic reaction or substances which may attract ethical objections, and also if properties or production methods have changed.

5.3 How is consumer demand met?

5.3.1 Competitive markets

A wide and varied supply of food is necessary to satisfy the requirements and demands of EU consumers. The aim for consumers to be able to buy the food they want can be best achieved, in our opinion, in a competitive market with interacting consumers and producers. Such a market also creates conditions under which consumers can expect to pay reasonable prices.

Consumer demand determines what food is on offer in a competitive market. The more consumers who demand certain characteristics of food, the more interest producers have in adapting their production to those demands. Through consumer organizations consumers can make their demands relating to food better known. Competition in all channels is of major significance if consumers are to be offered the lowest possible prices. More liberal trade which would facilitate competition from countries outside the European Union would give consumers more

opportunities to choose different kinds of foods. It would also mean lower prices inside the European Union.

In a competitive situation it is in companies' interests to ensure that consumer requirements are met. A competitive market gives producers greater opportunities to be flexible and to adapt their production to consumer requirements. One prerequisite for this is well-informed consumers. It would appear reasonable, therefore, for producers to have an obligation to keep consumers informed about their products.

Observing the market for food we can see that the number of players in the various channels between producers and consumers, including wholesalers and retailers, is limited. In many cases there is a handful of players, or even occasional monopolies. This is true both on a national and international level.

5.3.2 Consumer needs for information

For consumers to be able to buy the food they want and for producers to be sensitive to consumer wants where food is concerned, information about food is a necessity. It is not merely a question of information about food content and nutrition, but also of production methods and origin.

To offer consumers the information they want is in the interests of producers, the food industry and retailers since information is a competitive tool. There are many examples from various sectors of initiative for improving product information and labelling without political interference. However, there are also examples of how withholding information can be used to gain competitive advantage. Society therefore has an important part to play in ensuring that producers label their products and that consumers are given the chance to choose the food they want. Information and competition together are prerequisites for consumers and producers to interact in the market.

5.3.3 Internationally competitive agriculture

In order to provide a wide variety of safe food at reasonable prices European Union production must also be seen from a global perspective.

There appear to be growing demands from the rest of the world for reform of the CAP through lower levels of subsidy. The current WTO agreement already means limited volumes of agricultural goods with

export subsidies. The next WTO round will probably lead to new demands from other major agricultural production countries for a further liberalisation of trade in agricultural products and lower subsidies.

One other factor indicating increased liberalisation is the demand for improved food supply in the world as a whole. At the 1996 FAO World Food Summit in Rome the participating countries committed themselves to an undertaking to reduce hunger in the world by 50% by the year 2015. For this to be achieved agricultural production in the developing countries needs to increase. It was agreed that the agricultural policy of many industrialised countries hampers the development of many developing countries, and therefore increased trade is an important means of achieving an optimal, sustainable use of the world's production resources.

One conclusion which can be drawn from this is that agricultural production in the European Union should, in the long-term, be competitive on an international scale.

5.4 What must society do?

Legislation is needed to achieve the basic requirement for food to be safe. The newly-introduced regulations relating to controls and labelling of novel foods is particularly welcome. It is important that these regulations are enforced within the European Union, both at a common and a national level in order to prevent harmful food being released onto the market. The same thing applies to rules relating to producers' responsibility for information. It would be desirable for similar rules also to be applied to non-novel foods. It is important to ensure that safety is guaranteed for existing food. The producers' responsibility for information should also apply to these food. Society must legislate and ensure that rules are followed. For consumers to make demands and critical choices of food, information and education is needed. Schools, specialist training and consumer organizations have, therefore, an important part to play. By focusing their interests and joining together in consumer groups, consumers are given wider opportunities to apply pressure in important consumer issues.

As discussed in the previous section, one precondition for consumers to be able to make demands and buy the food they want is a market with competition which functions in all channels. This means that the CAP's regulation of products on offer, for example in the form of production quotas, should be removed in the long run. The duty of society will be to operate a policy of active competition and to ensure that competition from the rest of the world is not impeded.

6 Agriculture and the environment

6.1 Principal objective - sustainable agriculture

The CAP has an effect on the agricultural environment itself and on the surrounding environment. Market regulation means that larger areas of farmland are used than would have been the case without subsidies, and this can lead to both beneficial and negative environmental effects. Conservation of open landscapes is an example of a beneficial effect. On the other hand, the CAP can in general be said to have increased pressures on the environment through the increased farming intensity which it produces. However, the negative environmental effects of modern agriculture are only due the CAP to a limited extent. Instead, most agri-environmental problems are due to the technological and economic advances in our society. Yet it must also be said that the Common Agricultural Policy has not paid sufficient attention to, nor made amends for, the environmental problems which do exist.

A basic objective of agricultural policy must be that production of agricultural goods should be sustainable in the long term. Production, both inside the European Union and in the rest of the world, must be conducted in such a way that the long term capacity of natural resources to produce food is not endangered. The harmful effects on the environment resulting from agricultural production must be minimized. This means that the environmental load due to agriculture must be substantially reduced and that production, to a larger extent, has to be permeated with environmental considerations.

Another important objective for agricultural policy must be to promote and conserve biodiversity, and promote a varied farming landscape in which historical values can be preserved. It is important both for our current population and coming generations wanting to enjoy a farming landscape with its cultural traditions and flora and fauna intact. This objective is partly linked to the objective for food production to be sustainable in the long term. To preserve a diversity of flora and fauna also requires a reduction in environmental load.

6.2 Basic principles

6.2.1 Beneficial environmental effects of agriculture

In a future society in ecological balance agriculture will play a central role. It is important that agriculture is given the opportunity to provide various types of environmental services such as biodiversity, cultural values and varied farming landscapes. The open and varied landscapes which we appreciate are the result of, and are shaped by agriculture. The rich diversity of flora and fauna created mainly by farmers of past generations requires, in a majority of cases, sustained agricultural production. Agricultural policy should seek to achieve flexible and varied production systems which provide an opportunity to preserve diversity in the environment. For future generations to acquire food, production must be sustainable in the long term. However, in order to make best use of the beneficial effects of agriculture, environmental load must be reduced.

6.2.2 Harmful environmental effects of agriculture

In order to make best use of the many beneficial effects of agriculture on the environment, environmental load needs to be minimized. Agri-environmental problems inside the European Union are in many cases regional or local in character, and the variation between different countries' environmental problems is great. Briefly, the most significant agri-environmental problems can be described as follows:

Biodiversity in farming landscapes and surrounding biotopes has been negatively affected by ditching and drainage, larger fields, elimination of biotopes, mechanisation, over-fertilising and an increase in the use of chemical pesticides. Agricultural specialisation and demands for high levels of efficiency and yield have led to significant biological depletion in European agriculture. Ditching and larger farming fields have led to a loss of various biotopes.

Recycling of plant nutrition and organic waste products has been used less and less over the years. Instead, commercial fertilizer is used to a major extent. The keeping of livestock has been concentrated to certain regions with a high density of livestock, which has meant that manure has become a problem rather than a resource. This leads to major

leakage of plant nutrition, with negative consequences for plants and animals in water courses, lakes and seas.

Excessive growth of certain types of plants has led to increased dependence on chemical pesticides, and this in turn has resulted in harmful effects on biodiversity and an accumulation of chemical substances in soil and water. Concentration has also led to a loss of agriculture's genetic resources in the form of local types and species. This loss of genetic resources poses a threat to agriculture's long term production base.

Mechanisation and intensive farming have led to the use of larger and heavier agricultural machines. The consequent heavy pressure on the soil can affect its physical quality, with effects such as reduced water infiltration capacity and consequential reduction in gas exchange.

Soil erosion caused by over grazing is a serious problem in several Member States. Local high livestock density has led to soil erosion.

6.2.3 Market considerations of environmental effects

An increasing number of consumers today take environmental issues into consideration in their choice of food, thereby assisting changes towards more environmentally friendly food production. However, we do not believe that the market, through consumer demands for environmentally friendly food, will completely manage to eliminate the environmental problems of agriculture. Neither can society's wishes for beneficial environmental effects due to agriculture in the form of for instance variation and a great variety in nature and cultural values be fulfilled through consumers' choice of food. In order to promote the beneficial environmental effects of agriculture and to reduce the environmental load of agriculture, measures of control must be put into place by society.

6.2.4 EU environmental policy with regard to agriculture

There are no formally expressed environmental objectives in the CAP. On the other hand, agriculture, along with all other sectors, comes under the EU's general environmental objectives as mentioned in section 3.3. Despite this lack of environmental objectives within the CAP, the European Union has introduced certain environmental measures during

the 1990s. The common rules for environmental payments are only a framework, and each Member State subsequently works out national environmental payments which are financed jointly by the European Union and the individual country concerned, subject to approval by the European Commission. The three countries which have recently joined the European Union - Sweden, Finland and Austria, have, in comparison to other Member States, a large proportion of environmental assistance. However, in overall terms environmental assistance only comprises a small part of total agricultural support.

For the environment in general in the European Union it has been agreed that the PPP (polluter pays principle) shall be applied. It is reasonable to expect a polluter to pay for measures intended to combat that pollution. This principle is complicated by issues of ownership. Views of ownership differ within the European Union, affecting the application of the PPP. Despite these differences, the principle that the agricultural sector has its own responsibility for its own environmental effects is central to ongoing discussions on instruments and funding in environmental issues.

6.3 Instruments for a sound environment

With regard to the instruments which society has at its disposal for stimulating beneficial environmental effects such as natural diversity and cultural values, and for minimizing *the environmental load*, measures can be divided as follows:

PPP legislation can be used to prohibit certain production methods, to determine what products can be used, and for rules relating to care, etc.

Economic instruments of control in the form of charges or environmental taxes can be applied. In Denmark and Sweden there are environmental charges on pesticides. Sweden also has charges on commercial fertilizers, whereas the Netherlands applies charges to manure. In other areas there are some forms of environmentally related taxes in most Member States, e.g. for disposable materials, or charges for waste or energy consumption. To the extent that environmental problems are shared by all, there are grounds for a unified approach.

Economic instruments of control, based on current models for environmental assistance to farmers, can continue to be used in future.

Efforts in Sweden to promote information, advice and training, have shown beneficial results.

We have decided that it is unnecessary in this context to discuss how various environmental problems or the conservation of beneficial environmental values can be solved. This is partly due to the fact that problems vary in different parts of the European Union, and also to the fact that there are alternative ways of dealing with environmental problems. However, our basic opinion is that environmental issues must be given higher priority in the CAP than is currently the case.

In a future society sustainable agriculture will play an important role. It is reasonable to expect society to remunerate agriculture for the beneficial effects society wishes to see, and for the services and measures it is obliged to provide over and above the provisions of the PPP.

6.4 Where should decisions be made?

The situation with regard to the environment within the European Union varies greatly between different Member States and different regions. A decisive factor as to what measures should be taken and who should make decisions must be the consequences which the beneficial environmental services or negative effects will have in the various regions. Certain environmental problems only affect a small region inside a country, in which case it is obvious that a common policy is not necessary in finding the solution to those problems. Other problems cross borders and do require common solutions. The collective benefits which are desirable also vary between different regions. The aim must be to strive for generally held, high level environmental objectives and to bring them into force throughout the Union as a whole.

In our opinion it is important that basic norms for how production is carried out should be established for the entire Union, taking competition between the countries into account. PPP shall apply to these basic norms, i.e. every farmer in the European Union is responsible for ensuring that rules are adhered to. Harmonised legislation which defines minimum requirements regarding production should exist throughout the European Union. Even though there are major differences in natural conditions and in issues of environmental problems and national preferences, there should be a high level of ambition in the harmonisation of legislation. With regard to how basic conditions should

be formulated, demands that agricultural production should not cause fertilizer leakage above a certain level, that only certain pesticides may be used and only at certain levels, and that remains of these may not be allowed to find their way into food, could for instance be addressed. In the case of fertilizer leakage, common objectives in conformity with the current directive on nitrates should be formulated, but the exact rules as to how the objectives should be met should be allowed to vary under common supervision.

Another level, in addition to the common basic norms, could be the possibility to introduce rules over and above the reference norms at national level for the whole country or parts of it. In this way national and local differences can be accommodated. Such a regulation should be voluntary and decided on in respective Member States. However, one requirement should be that the PPP must also apply. Sweden has already made substantial reductions in the number of pesticides which are approved for use. A harmonisation of regulations might possibly lead to that substances which were previously deemed unfit for approval becoming accepted again. This situation could be avoided if stricter national requirements were permitted.

A third level, over and above common and national legislation, could be payments to farmers for collective benefits and other measures which go beyond the regulation of the harmful effects on environment. Examples of this could be measures to promote and maintain biodiversity, preserve cultural values or to promote a varied farming landscape. As such it would be reasonable for agriculture to be rewarded for fulfilling the extra requirements and wishes of society in questions of agriculture and the environment. However, we consider that payments should only be made for measures which go beyond the PPP. In this way one would avoid farmers in one country receiving payments for measures which farmers in other countries, in accordance with the PPP, have to pay for themselves. A country which takes the initiative in environmental issues should not be punished for so doing.

The proportion of farming land in relation to the total land area in the EU15 is around 43%. Sweden, at 7.5%, is one of the countries with the lowest proportion of farming land (European Commission 1996). Needs for and costs of a varied landscape and preserved cultural environments differ. The benefits or pleasure which a landscape can give are primarily local and are also very hard to measure. This would indicate that such matters should be dealt with nationally. Other aspects

of beneficial environmental effects, such as preservation of biological diversity and genetic resources are clearly of common interest.

Even if environmental problems vary between Member States, which in many cases would appear to favour de-centralised solutions, there is a clear link between Member States through the effects on competition of various environmental measures. It may be tempting to use low environmental demands as a means of subsidising production. If production can be switched between countries, this can have major effects on competition. Low environmental demands cannot, on the other hand, be tolerated as a tool of competition. However, in general one cannot expect the same level of various environmental measures in different countries. Different types of countryside are affected differently by the same pollution, and the costs of remedying or removing that pollution vary.

We consider it necessary to co-ordinate measures of environmental policy within the Union. The risks for improper subsidies are otherwise too high. Support for environmentally friendly production or low environmental demands can easily become a disguised way to subsidise food production or a hidden form of income support. The Commission must therefore take an important supervisory role in this respect. In a deregulated market the question of competition on equal terms will be of far greater importance than today, when production is controlled by administrative decisions which include the imposition of production quotas. It is important that sufficient powers are given to punish those who abuse the system. We would also like to stress the importance of information and education inside the Union, something which in Sweden has produced beneficial results.

On the basis of its size the European Union can promote environmental issues of global interest internationally in a way which individual countries could never manage. This can only take place under the precondition of a common attitude and a common policy.

6.5 Who finances environmental payments?

In the preceding section we discussed where decisions relating to various environmental measures should be taken. When it comes to minimising the negative effects of agriculture on the environment, the principle of PPP should apply. It is the producer, not society, who should pay for any negative effects.

On the other hand it is reasonable to expect society to pay agriculture for the beneficial environmental effects society would like, such as biodiversity and varied farming landscapes. Many of these environmental services must first and foremost be seen as local and regional, but there are exceptions. With regard to the competition aspects of support of this kind mentioned earlier, we propose that financing these measures should be split between the European Union and respective Member State as it is today. Partial joint-financing provides better opportunities for supervision and sanctions.

7 Agriculture and the animals

7.1 Objective - strict requirements for animal welfare

Animal welfare legislation in Sweden requires animals to be looked after in an ethically satisfactory way. Animals must not only be protected from suffering, but also from disease. Animals must be kept and looked after in a satisfactory environment and in such a way as to promote their health and allow them to behave naturally. This also applies to transportation and breeding. Animals must also be protected from discomfort and suffering relating to slaughter. There is a generally held belief in Sweden that we should take care of our animals in the best possible way.

Apart from the fact that animal husbandry plays an important part in developments towards a sustainable and environmentally friendly production, animal products are a significant part of our food. How the animals are looked after and treated affects the safety and quality of food. Furthermore, we are interested in how they are looked after purely out of interest for the animals themselves. This applies to breeding, transportation, raising and maintenance of animals and to minimising risks for the spread of animal diseases and the use of antibiotics and hormones. In addition to environmental aspects, there are both quality and ethical aspects to bear in mind when determining regulations for animal care and animal welfare.

As mentioned above it is important that animal husbandry is carried out in environmentally friendly ways, acceptable in terms of animal welfare. In order to achieve sustainable production it is vital that animal husbandry is carried out in such a way as to promote and conserve biological diversity and genetic resources, to promote the conservation of valuable and natural environments and to minimize *the environmental load*. In order to achieve sustainable production, the rearing of animals in combination with cultivation of plants and use of land is, in general, something to be preferred.

The objectives for animal husbandry in the future discussed above are based on the values which exist in Sweden. In many parts of the European Union there are similar attitudes, even if it should be pointed out that there are value differences between different countries and

between different groups of citizens inside the European Union. We consider it important that the situation of animals inside the European Union should be improved. We thus consider that the objectives of Swedish animal welfare legislation presented by way of introduction should be adopted within the European Union in the course of time.

7.2 Basic principles

7.2.1 EU legislation

The Swedish regulations relating to animal welfare may, from an international perspective, be seen as relatively far-reaching. The majority of EU directives relating to animal welfare are minimum directives, and there is nothing to prevent an individual Member State from imposing stricter national regulations. In most areas the European Union lacks common animal welfare legislation, and there is no national animal welfare legislation in several Member States.

There are, however, common directives relating to animal welfare on questions of transportation of living animals, protection of animals in aspects of slaughter, and care and rearing of calves, pigs and laying hens. With the exception of rules regarding transport of living animals, these animal welfare directives are minimum directives, i.e. Member States may apply more stringent regulations for areas including the maintaining and rearing of animals. As regards animal transport, it is not possible, on the grounds of animal welfare, to prevent an animal consignment from taking place inside the European Union if the directive rules for animal transport have been applied. In the Act of Accession, Sweden has been granted the right to maintain certain more stringent rules.

Legislation on protection against animal diseases is on a Union level, i.e. it applies in all Member States. Certain exceptions may be granted depending on the infection situation inside a country. At the time of EU membership, Sweden was granted exceptions for certain animal diseases, including controls for salmonella. In questions of animal feeds there is a series of common rules from which Sweden has been made exempt, including the right to maintain a ban on the use of antibiotics and animal carcass meal in feeds. Within the European Union the use of growth inducing hormones is forbidden.

7.2.2 Animal issues of special importance

Swedish legislation for animal welfare has contributed to the fact that animals in Sweden are generally more healthy than in the majority of Member States. Other reasons for this are the climate, our geographically isolated position and the lower density of animal population. It is important for the well-being of animals and for the quality and safety of our food to work towards improved animal welfare and animal welfare throughout the European Union. Increases in animal trade and transportation can lead to increased risks for the spread of infection.

As such it is important that animal husbandry is seen as one part of a broader context. There are, however, aspects of the CAP today which work against animal- and environmentally friendly production. Current examples are the export refunds and slaughter subsidies which encourage animal transportation across long distances. A limitation of these transports within the European Union should be given high priority, since it would provide advantages both from the point of view of the animals' well-being and from the reduced risk of the spread of infection. Limitations on animal transport would also cut down on *the environmental load*.

With regard both to animal well-being and to food quality it is vital to limit the spread of animal disease and to have the opportunity to check up on animals throughout the European Union. Better animal husbandry also leads to more profitable production. Two examples are the spread of swine fever and BSE which have caused major problems in the European Union. Where animal diseases are concerned, the European Union must have a high level of ambition. In general, a precaution principle should apply. The basic principle must be to prevent animal diseases from being passed on to human beings. Salmonella and campylobacter are examples of diseases which affect the quality of food and run the risk of being passed on to humans. From the point of view of spread of infection, Sweden is better placed than most other countries in the Union, owing to its ambitious programmes. The objective should be that an equivalent situation should be achieved throughout the Union, paying special attention to preventing the spread of salmonella.

The uses of antibiotics and meal from animal carcasses in feeds are also important issues for Sweden. High use of antibiotics in the European Union has led to high resistance levels to antibiotics in the fight against salmonella. As such, it is vital, both from the point of view

of animal health and bearing in mind that for instance salmonella can be passed on to humans, that the use of antibiotics should be restricted. As an additive in feeds it should be banned, just as the use of animal carcass meal should also be banned.

For the animals' well-being, but also with regard to the preservation of biodiversity and genetic resources, there are reasons to legislate on the breeding, maintenance, rearing and slaughter of animals. Freedom from genetic defects is an important issue from a breeding point of view.

7.3 Instruments for improved animal husbandry

It is important that the situation for animals in the European Union should be improved for ethical, environmental and quality reasons. For this to take place the EU's common regulations which exist for infection protection, animal welfare and animal health must be tightened. This applies for instance to animal transport, certain rearing methods, feed quality, hygiene and the spread of infection. In the field of animal welfare, where common regulations are often lacking, it is especially important that measures are introduced. Swedish law on animal welfare should be the starting point. In addition, measures must be taken to preserve and promote biodiversity and genetic resources.

In order to improve animal welfare and animal health inside the European Union a major co-ordination of other rules and measures of support within the CAP is necessary. There are currently examples of support and rules which promote intensive, non animal-friendly production. As such it is important to analyse the indirect effects of various kinds of support. Support which work against production with stringent animal welfare demands, e.g. support which stimulates long transportation of living animals, must be removed.

In areas such as infection protection where Union rules currently exist it is particularly important to encourage a development towards more stringent requirements at EU level. It would be reasonable both for the time limited and unlimited exemptions which Sweden was granted at the time of EU entry to apply to the whole of the European Union. These include measure for salmonella control and the right to ban the use of antibiotics and animal carcass meal in animal feeds. In so far as no improvements are achieved at EU level, individual countries should be given the opportunity to go further.

In order to achieve production linked to stringent requirements for animal welfare, advice and information to both producers and consumers are instruments which should be used to a greater extent. It is also important that producers inform consumers about the production methods they have used. Instruments to help achieve environmentally friendly animal production have been discussed in chapter 6.

7.4 Who should decide and who should provide the finance?

Most of the instruments discussed in the preceding section relate to legislation involving more stringent provisions without economic elements. It is vital that improvements take place at EU level as soon as possible. This is particularly important in areas where common legislation prevents individual countries from introducing the rules they wish.

Although the basic principle is that animal welfare regulations must be improved at EU level it is reasonable that those countries which want to introduce more stringent animal welfare provisions should be given the opportunity to do so. When introducing more stringent national requirements the principles that trade should not be prevented by arbitrary discrimination and that the lives of humans or animals should not be put at risk (articles 30 and 36 of the Treaty of Rome) must be taken into consideration.

In matters of protection against infection, for which Union rules currently apply, the opportunity to apply more stringent requirements at national level should also be granted.

The main part of regulations for animal production comprises legislation, whereas financial means of control should chiefly be confined to support for animals which contributes towards fulfilling various environmental objectives such as biodiversity and a varied farming landscape. Where decisions should be taken and who should finance these has been discussed in chapter 6.

8 Agriculture and regional development

8.1 Objectives - regional balance and viable rural areas

A major part of the EU population lives in rural areas and in certain parts of the Union agriculture plays a significant role in the local economy. The overriding objectives of the regional and structural policies carried out in the European Union are to level out regional differences between various parts of the European Union. This also applies to food production, including primary production and processing industries, and the income which this production provides.

The resources of rural areas must be made use of in an efficient and sustainable manner. A future sustainable society, in ecological balance, will involve a role of increasing significance for agriculture. A geographical spread of arable and livestock farming is important. Production which is spread out also means less transport, something desirable from an environmental point of view. For this reason, local and environmentally friendly production should be encouraged.

It has long been a Swedish objective of agricultural policy to make possible agricultural production over in principle the entire country. In the 1990 decision relating to food policy it was stated that notable reductions in revenue as a result of market adaptation and deregulation would not be accepted for agriculture in northern Sweden. Having now joined the European Union, this objective still remains.

8.2 Basic principles

8.2.1 Introduction

Rural areas, and in particular sparsely populated rural areas, have for a long time been inclined to small scale and diversified production, and this have given a special character to employment in these areas. The populations have largely been employed in a number of different businesses, each part-income contributing to the total household income. This especially applies to agriculture. The agricultural sector's economic significance in society has diminished over the years. Employment in

agriculture has fallen as technical developments have taken place. However, the sector's contribution to the regional economy is still of major significance in certain regions.

Agriculture has a direct effect on other parts of the rural area economy. Agricultural production results in the creation of employment in sectors outside primary production and the food industry, thanks to such factors as the demand for various products and services. In addition to these directly related businesses, agriculture plays a central role in a number of other businesses based in rural areas.

Both socially and in terms of the landscape and countryside, rural areas are affected by agriculture. Many of the things most appreciated in rural areas are linked to farming the land. A number of other businesses have also sprung up and which are dependant on the special features of rural areas. The recent development of various forms of rural tourism is a living example of such businesses.

8.2.2 Opportunities for future development

The financial advantages for companies of greater scale lead to a greater concentration of production in many fields, both in production, trade and retailing. As long as unit costs in small scale production remain higher, the opportunities to make a living outside the expansive areas where production is concentrated decrease.

If there is a deregulated, competitive market in the agricultural sector, this will probably mean increased difficulty in sustaining agricultural production in a number of EU regions, such as northern Sweden and other LFAs. There is an increasing need for adaptation, in the agricultural industry itself and in employment in other related businesses. It is necessary to secure the joint opportunities for farming households and to create opportunities for both men and women to remain in rural areas. Over the years an increasing share of family income has come from sources other than agriculture, often as a result of women working away from the farm. This indicates a need for a variety of employment opportunities.

In a future society in ecological balance, agriculture will have new and important functions. In order to make use of nature's capacity for production in a more sustainable way than today and to minimize the burdens which agriculture places on the environment, e.g. to ensure the replenishment of nutrients, the significance of agriculture and the

farming land will increase. Production of energy and biomasses can also be included in these functions. In such a situation, the geographical spread of production is of major importance.

8.2.3 Large scale and small scale regional policies

Regional policy in Sweden is usually divided into what is known as major and minor regional policy. A similar division could be applied to the European Union as a whole. Major regional policy is made up of measures which affect the general order of things in society: taxes, social services, infrastructure, education, employment, etc. This type of policy has probably been of very great significance for the viability of rural areas, even though it is only indirectly aimed towards regions of special need. Major regional policy has a significant effect in weak areas, such as sparsely populated areas, mainly because of its objective to level out the resources in society. Since these issues are not primarily concerned with agriculture and rural areas, they will not be further dealt with in this report.

Minor regional policy covers the same areas, but is more regionally oriented, aimed directly at companies, business and business sectors. As such, minor regional policy also encompasses measures aimed at agriculture. Various types of company support, investment support and other specified measures are instruments in this policy.

8.2.4 Current EU structural and regional support within the CAP

EU structural and regional policy is partly comprised of measures aimed at the agricultural sector. There are currently a number of measures which together comprise a complex structure. Structural and regional issues relating to agriculture are discussed in section 2.3.4. In certain cases there are clearly conflicting objectives in various areas of agricultural policy. However, in our opinion the regional policy initiatives inside the framework of the CAP are beneficial and form the basis for continuing efforts in this area. The need for both structural and regional policy measures will increase with market adaptation and deregulation of the CAP.

The agricultural sector is an important element in the opportunities for development in rural areas, partly through the environmental and

cultural values which agriculture gives rise to, and partly through the production of food and other agricultural goods.

8.3 Instruments for regional development

The instruments which society has at its disposal in regional production of foods are primarily direct financial support. The current measures of structural and regional policy reveal a very split picture of which it is difficult to gain an overall understanding. For this reason co-ordination and simplification are needed. At the same time, the situation and conditions vary greatly in different parts of the Union, and this, in many cases, is a reason to favour local solutions.

Structural and regional policy measures should be designed to facilitate the adaptation of agriculture to new conditions. Support should be forward thinking, e.g. designed to stimulate investment in new forms of farming to provide a younger generation with the opportunity of taking over. Support which reinforces poor structures and which locks up resources in the long term should be avoided.

As mentioned, the existing structural and regional policies inside the European Union provide a sound basis for future development of rural areas in the event of a reform of the CAP. By co-ordinating various measures of regional and environmental policy within the CAP, significant steps can be made towards a more integrated policy, in which agriculture is seen as a part of the whole.

To begin with measures in the agricultural sector can play a part in rural area development in that they provide wider income opportunities in these regions. One way of achieving this could be by rewarding work relating to environmental and cultural values which the agricultural sector contributes, as we suggested in chapter 6. When opportunities for income are broadened there are possibilities for further developments, such as rural area tourism, thereby making any adaptation to a CAP reform easier.

However, a continued structural change towards larger units can be expected, and for this reason there should be initiatives in areas of business other than agriculture. Other measures which would involve benefits to the agricultural sector would be to adapt general frameworks to the conditions of small businesses in order to promote production and processing in smaller units.

The development of rural areas must, in the long term, take place with regard to an overall perspective, with consideration for the wishes of consumers and society in various sectors. Agriculture, like small businesses in other sectors, plays an important part in this development, and this requires the general instruments to be adapted to specific local situations.

Smaller companies can find it difficult to obtain favourable loans. Various kinds of investment subsidy can therefore promote a certain return to locally sustainable food production, which in turn would contribute environmental and cultural values. Such instruments should be of a general nature in order to give different businesses the same opportunity to develop.

8.4 Where should decisions be made?

In the same way that environmental policy and support aimed at a better environment can affect competitiveness within the European Union, there is also a link between measures of regional and structural policy and competitiveness. This applies to support directly aimed at agriculture and also to support to supplementary businesses.

Seen from a cultural and social perspective, Member States reveal major differences. These differences have an enriching effect on the Union and should be preserved. For this reason, regional policy for agriculture should also be flexible and allow for local variations. Each Member State or region inside a Member State possesses the knowledge necessary to develop an individual region and should thus be empowered to make regional decisions. However, in our opinion, consideration for competition between different regions and ensuring the production which only takes place within the terms of the market indicate the desirability for co-ordination of initiatives on the regional and structural policy level in the same way we suggest for environmental policy. The Commission should have overriding responsibility for these issues. By making overriding decisions at EU level, measures which lead to competitive imbalance can be avoided. However, the details of measures in individual cases should, as far as possible, be worked out at national or regional level in respective countries to which the measures apply. Care must be taken to ensure that these measures fall within the common frameworks.

8.5 Who finances measures for regional development?

Those cases in which policy is aimed at an overall levelling of economic differences between various Member States justify fully common financing. If financing is common there are also reasons to adopt common regulations.

For other measures, i.e. measures, which affects only one country, common financing provides better supervision and sanction capabilities than if financing were to be at a national level. Bearing in mind the aspects of competition mentioned earlier, we therefore propose that these measures should be partly joint-financed, as they are today. In addition, the opportunities which exist today to opt for purely national financing should be maintained, yet remain subject to approval of the Commission.

9 Changes to the Common Agricultural Policy

9.1 The future role of agriculture

We consider it important that the CAP is reformed in such a way that agricultural resources are used in an optimum way in the future. The agricultural sector will have many important tasks in the future, not only as a producer of food and agricultural goods, but also as a facilitator of biodiversity, varied farming landscapes, cultural environments and other collective benefits. The agricultural sector also has a vital task in contributing to the fulfilment of globally determined goals. The enlargement of the European Union to the East together with the promotion of sustainable development and democratic and economic development throughout the whole world are high priority Swedish objectives which should be taken into consideration in a reform of the CAP.

Agricultural policy should therefore be changed and expanded from producer issues to include consumer, environmental, animal-ethical and regional issues. In order to be able to discuss the changes in agricultural policy which are necessary, we wish to repeat our proposals for new objectives for the Common Agricultural Policy.

The Common Agricultural Policy should aim to facilitate:

- a wide and varied supply of safe food at reasonable prices,
- sustainable agriculture.

In addition to these two principal objectives, the agricultural policy should also aim at ensuring that production, processing and distribution of food is carried on in such a way that:

- biodiversity is conserved and promoted,
- cultural heritage is preserved,
- a varied farming landscape is promoted,
- environmental load is minimized,
- livestock production takes place under strict requirements for animal welfare,
- a regional balance and viable rural areas are promoted,
- internationally competitive agriculture within the European Union is promoted.

Food is crucial to our survival. Our aim is that the supply of food and other agricultural products should be driven by consumer demand. This can be achieved if consumers and producers interact in a competitive market. For producers to be sensitive to consumer requirements and to adapt their production accordingly there must be functioning competition in which consumers receive the information they need. A basic requirement is that food are safe to eat. Consumers should be able to choose the food they want on the basis of information relating to production methods, food quality and prices. There are also agricultural goods for which there is consumer demand which are not food, such as textile fibres and renewable energy. Production of these goods should also be driven by consumer demand. In the long term, this would require EU agriculture to be internationally competitive.

Furthermore, the agricultural sector is an important resource in a future society in ecological balance. It is important that agriculture is given the opportunity to provide various types of environmental services such as biodiversity, cultural values and varied farming landscapes. We also need to take care of animals in an ethically satisfactory way which ensures their well-being. Agricultural policy should strive to achieve flexible and varied production systems which provides opportunities to maintain diversity in the environment. One other prerequisite is that the negative effects of agriculture on the environment should be minimized. If future generations will have access to food, production must be sustainable in the long term.

Agriculture plays an important part in the development of rural areas. Agriculture has significant indirect effects on employment, partly through purchasing services and necessary goods, and partly since agriculture facilitates tourism, an attractive living environment and puts a cultural stamp on rural areas. For these reasons, continuing agriculture is of great importance. It is our opinion that rural area development must be combined with an increased awareness of the environment and stringent demands for animal welfare. In the same way, the interplay between the agricultural sector and other sectors in rural areas is vital. It is particularly important to create conditions and opportunities for a younger generation to take over and have a production in accordance with the requirements of society and consumers.

Agriculture inside the European Union as such will have several important functions in the future. Agriculture plays an important role by producing food and other agricultural goods which consumers demand.

Agriculture must be given the opportunity to adapt production to consumers' increasing demands for quality and environmentally sound and animal-friendly production methods, etc. Furthermore, production must be carried on in such a way that agricultural production is sustainable in the long term. Agriculture has a vital significance in a future society in ecological balance. In producing various environmental services and ensuring production adapted to the environment, agriculture can be an example for other sectors. Agriculture also has an important task in the development of rural areas through co-ordination with other sectors.

9.2 Instruments for a new agricultural policy

A new common agricultural policy should be designed so that production is given the best possibility of achieving the objectives we have proposed. It is crucial that society should both legislate and pay for the services which will lead to the fulfilment of these objectives.

In order to provide a wide variety of safe food at reasonable prices, a functioning market in which consumers and producers meet is necessary. This does not only apply to trade inside the European Union but to trade in the world as a whole. It is the task of society to ensure that competition functions and that producers provide consumers with information relating to production methods, contents and origins. Society should also ensure, through legislation and controls, that no food harmful to consumers are released onto the market. A precaution principle must apply to all food. As such, producers must be responsible to ensure that no harmful food are released onto the market and that they provide necessary information to consumers.

Furthermore, it is our opinion that agriculture has an important duty in a broader perspective on society in which the environment, animal welfare and rural development are important issues. Consumers can influence this to a certain extent through their choice of food. It is, however, of common importance to us all that production is carried out in a sustainable manner with minimal environmental load and stringent animal welfare requirements, and also that a regional balance is achieved. Society should therefore contribute with legislation, information and education initiatives alongside financial means of control.

In order to achieve sustainable agricultural production, an important part in a future society in ecological balance, it is important that necessary legislation is introduced, alongside environmental payments. The duties of society can be divided into three parts: common legislation which defines minimum requirements for permissible burdens placed on the environment throughout the European Union, the option of imposing more stringent environmental regulations via legislation at national level plus payments over and above this for environmental services such as biodiversity, varied farming landscapes, cultural heritage, etc. Common environmental regulations should have a high level of ambition.

In order to achieve animal production with stringent requirements for animal welfare, something which will also be an important component in a future sustainable society, it is important to introduce necessary legislation for animal welfare, animal care and protection from infectious diseases. As far as possible, legislation should be common so as to achieve competitive neutrality, etc. In addition, individual countries must be able to apply more stringent national requirements, e.g. for ethical reasons. Payments for animal husbandry which provides environmental services such as biodiversity and a varied farming landscape have been discussed previously.

The objective of promoting regional balance and viable rural areas can also be best achieved through a change in the CAP. Measures should be designed regionally in accordance with a common legislative framework. When designing regional measures it is also important in this context that competitive neutrality should apply. In order to achieve the objective measures should be designed to facilitate flexible and structural agricultural development. Measures to stimulate investment in new forms of farming which provide the opportunity for a younger generation to take over may be necessary. Instruments are also needed to facilitate regional production. The measures should facilitate coordination with environmental measures and measures in other sectors.

In working towards the objectives of safe food, a society in ecological balance and regional balance in which agricultural production is essential, market regulations will become unnecessary with time. Neither will direct payments, which form part of the market regulations and are intended to compensate for lower prices, i.e. area and headage payments, be necessary other than as a temporary interim measure.

CAP market regulations will not lead to the fulfilment of the objectives we wish to see. They lead instead to higher food prices and they disadvantage production efficiency between different sectors,

between different farmers and between industrialised and developing countries. This means that producer flexibility and opportunities for structural development are hampered. There are several examples of elements in market regulation which work against each other, since there are measures for both the stimulation and the limitation of production. Export refunds, border protection and various means of intervention, including support for production and consumption plus supportive buying when low prices prevail, stimulate production in the European Union. Production quotas and export fees limit production instead. In principle, direct payments also serves to stimulate production, but is restricted to a certain number of hectares or livestock units in respective Member State. In addition to what has been said, market regulating measures do not lead to better environments for animals nor to environmentally friendly production.

9.3 Interim measures

In the preceding section we have summed up the objectives we consider that the CAP should have and the instruments needed to achieve these objectives in the long term. Legislation and payments for environmental services and services which help to achieve regional development are necessary instruments. We also observed that market price support will not be needed with time. Apart from the fact that market price support is not necessary to achieve the objectives we would like, removal of this type of support would allow greater scope to provide resources for consumer, environmental, animal welfare and regional issues.

As such it would be desirable for the EU's common market regulating measures, with the exception of border protection, to be removed at some future point. The basic principle should be that all sectors should be reformed at the same time in order to avoid an imbalance of profitability between different agricultural goods. Care should be taken that the reform takes place under socially acceptable forms.

It is reasonable for direct payments to be paid out under a limited period after the reforms in order to facilitate changes and re-structuring of the agricultural sector. Direct payments should give affected producers the maximum possible flexibility in decision-making, so that resources are not tied up in unprofitable production. The size of the need

for such support may be judged based on prevailing conditions in each sector.

It may be reasonable to retain border protection during an interim period. However, special attention must be paid to consumer interests in maintaining a certain import.

However, reform of the CAP is a process which is influenced by many factors. Ultimately it is a matter for negotiation between Member States, in which various interests within the Union must be taken into consideration. The European Union is also a negotiating party in a number of international organizations, whereof the negotiations in the WTO are of major significance to any reform of the CAP. International agreements, mainly from the 1992 UN Conference on Environment and Development in Rio and the 1996 World Food Summit in Rome involve commitments which must be borne in mind in a reform of the CAP. Negotiations concerning an enlargement of the European Union to the East also have a major influence on Common Agricultural Policy. A reform of the CAP would also be affected by other factors such as market developments, economic developments, etc. both inside and outside the Union.

When and how the CAP can be reformed is thus a matter for negotiation both inside the European Union and at international level. On an international level it is likely that the WTO negotiations will have the largest direct effect on Common Agricultural Policy. The latest negotiations influenced the EU's process of reform, even though there were internal factors, including budget issues, which also helped to initiate the reform. If, instead, the European Union had preceded the negotiations by an earlier reform of the CAP, there would have been greater opportunities for reform in line with EU interests. The same reasoning can be applied to the forthcoming WTO negotiations. As mentioned earlier there will be pressure on the European Union for a further liberalisation of trade and reduction in agricultural subsidies from the USA and the Cairns Group. By being the driving force of the reform process within the framework for the next round of WTO negotiations, the Member States would be able to change the CAP in ways which correspond to the interests of the Union instead of being forced to make reforms along the lines put forward by other countries in the WTO. In this way the European Union would probably achieve a better negotiating position and greater opportunities to press for important issues of consumer and environmental interest within the framework for the WTO work. By assuming a driving role in the WTO

the European Union would also be acting in line with the commitments which Member States signed up to at the 1996 FAO conference in Rome on world food supply and the 1992 UN environment conference in Rio.

An enlargement of the European Union to the East is a high priority issue since it would favour peaceful, democratic and economic development in both Central and Eastern Europe and the European Union. Even if certain problems could be solved with the help of interim measures, an enlargement without any changes to the CAP would cause a series of problems such as economic imbalance, impaired structural development in Central and Eastern Europe and increased budget costs for the European Union. In order to assist the new Member States in their planning prior to EU entry it is important to make some relatively quick decisions on new directions for a common agricultural policy.

The CAP reform carried out by the European Union in 1992 as a result of the GATT negotiations and internal budget pressures mainly affected the cereals sector. Market prices were reduced as levels of export refunds, border protection, intervention prices, etc., were lowered. So as to compensate for these prices reductions, direct payments, payable per hectare, was introduced. This reform was a step in the direction of increased market adaptation, although there were a number of shortcomings in the reform. No time limit was set for the direct payments intended to compensate for the price reduction, with the result that cereal producers today are over-compensated since world cereals prices have been high in recent years. Prices in the European Union have not fallen so much as predicted. For this reason it is important that in any new reform of the CAP, the advantages and disadvantages of earlier reforms should be carefully considered,

The EU's work towards changing the CAP has been marked by compromises, and as such can be compared to an evolutionary process, in which reforms are carried out successively, rather than a revolutionary one. Market regulating measures have been reduced in scope to the advantage of environmental and regional support. Within market regulation there has been a transition from market price support to direct payments as a direct consequence of the CAP reform. It is likely that in the future the CAP will continue to be changed successively. However, in our opinion it is important that we should strive to reform the CAP in ways which lead to the fulfilment in time of the objectives we have proposed. In order to have the opportunity to apply pressure in the areas we consider important, both inside and

outside the European Union, it would be desirable for the reform process to be started immediately.

9.4 Consequences of a new agricultural policy

The proposed instruments should be able to provide us with the things we want - safe food at reasonable prices, sustainable and environmentally friendly agriculture with stringent animal welfare requirements, regional balance and viable rural areas. We would get rid of unnecessary costs, and producers would be given the chance to be more flexible in their production. We would have structural adaptation leading to a production structure better equipped to produce the things which society and consumers require. The sooner the agricultural policy is changed, the better the chances for agriculture and the food industry to steer production towards becoming more efficient and more environmentally friendly. Wherever profitable, production of agricultural goods will increase. Measures should be adopted to support the environment and viable rural areas. However, it will probably become less profitable to produce beef, milk and sugar in certain areas inside the European Union.

The proposed agricultural policy, including removal of market regulation, will mean that the EU price level for agricultural goods will be adapted to world market prices. Food prices inside the European Union will thus be lower than they are today, thereby giving the developing countries a chance to compete on level terms with producers in the European Union. On goods for which the European Union has high levels of support together with high levels of production, world market prices are expected to increase. This primarily concerns prices for dairy products, beef, sugar and cereals. Exactly what price levels will apply following a reform of the CAP is impossible to predict, since they are dependent on a series of factors such as climate and weather conditions, market development, other countries' agricultural policy, and general world developments in politics and economics. However, it is important to consider factors other than low prices. Production methods, geographical origin, levels of processing, quality, labelling, etc., are also of major significance in choice of food. Agricultural production in the European Union already aims at quality and further processing. In a new situation with a new agricultural policy the European Union should have

good opportunities for increased production of high quality foods using more environmentally and animal-friendly production methods.

A new Common Agricultural Policy would also help to fulfil other important Swedish objectives which have an effect on all sectors in society. The proposed agricultural policy can be of crucial importance in a future sustainable society which is a goal for society as a whole. The same can be applied to regional development, which is also an overriding objective for several sectors in society. Measures of the new policy will lead to an increase in free trade, which is also a basic Swedish objective. This will facilitate agricultural imports and exports of food on the part of many developing countries, thereby promoting development in those countries, which is also an important Swedish objective. Another major Swedish objective is to enlarge the European Union towards the East for reasons of security. This would promote peaceful and economic developments in Central and Eastern Europe. The new agricultural policy which we propose will facilitate an enlargement of the European Union both for the countries inside the existing European Union and for the central and eastern European countries.

Glossary

Accompanying measures	These measures were introduced with the 1992 CAP reform to supplement market regulations. The measures comprise environmental payments, early retirement measures and support for afforestation.
Biodiversity	The variety of living organisms, comprising diversity of and between species and ecosystems.
Blair House Agreement	Separate agreement between the European Union and the USA in 1992 within the framework of the Uruguay Round, resulting in European Union area and headage payments plus US deficiency payments being excluded from cut backs in support (blue box).
Border protection	Measures which restrict imports. Examples are tariffs or charges applied to the price of imported goods and various quantitative restrictions.
Cairns Group	Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay.
CAP	<i>Common Agricultural Policy</i> . The EU common agricultural policy.
CEE countries	The ten countries of Central and Eastern Europe which have applied for EU membership, i.e. Bulgaria, the Czech republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Collective benefits	Goods and services for which one person's consumption does not impair another individual's opportunities to consume the same goods and or for which it is not possible to exclude individuals from consuming the goods or services, e.g. biodiversity and varied farming landscape.
CSE	<i>Consumer Subsidy Equivalent</i> . The OECD uses this to estimate how much consumers pay for the agricultural policy via food prices. This report mainly presents the proportion of the prices which is caused by agricultural policy.
Direct support	Support which is paid directly to the producer per hectare or the like, e.g. area or headage payments.
EAGGF	The EU agricultural fund, representing around half of the EU budget. The fund comprises two parts, one Guarantee Section and one Guidance Section.
Export refunds	Various types of support paid in relation to exports, intended to compensate between the difference in price between the world market and the European Union. The European Union applies export refunds to exports to third countries for various agricultural goods (see table 1).
FAO	<i>Food and Agricultural Organization of the United Nations</i> .
GATT	<i>General Agreement on Tariffs and Trade</i>
Genetic resources	Variation within species which facilitates further evolution such as the creation of new species.
GMO	<i>Genetically Modified Organisms</i> . See also "novel foods".

Guarantee Section	The Guarantee Section of the agricultural fund mainly finances measures of market regulation. In combination with national funding, the fund also finances environmental payments and other accompanying measures. See also EAGGF.
Guidance Section	The Guidance Section of the EAGGF, in combination with national funding, finances structural and regional policy measures relating to agriculture. See also EAGGF.
Intervention measures	Measures on the internal market aimed at influencing the price of agricultural products, e.g. storing. Intervention measures also include marketing support and consumption promotion measures.
LFA support	<i>Less favoured Areas</i> , seen as having less natural capacity for agricultural production and which receive special regional support.
Market price support	Regulations aimed at supporting a certain price level, including border protection, export refunds, intervention measures and production quotas.
Market regulation	EU market regulation comprises instruments such as border protection, production quotas, export refunds, intervention measures and direct payments.
Novel foods	Regulation (EC) No 258/97 establishes certain rules governing risk assessment and labelling of novel foods. Novel foods include food and ingredients which have not been previously used to any great extent for consumption inside the European Union. Foods which contain or are produced using GMOs, foods produced using new methods and raw materials not previously used, are some examples.

OECD	<i>Organization for Economic Cooperation and Development.</i> The organization comprising some 20 industrialised countries for economic cooperation.
PPP	<i>Polluter Pays Principle.</i>
PSE	<i>Producer Subsidy Equivalent.</i> Used by the OECD to estimate the value of payments to agriculture which are the result of agricultural policy. This report mainly presents PSE as a proportion of total agriculture revenue.
Production limitation	See "Quota".
Quota	Production can be limited by a quota, just as imports or exports can be limited to certain quantities via a quota. Quotas are often applied to limit the quantities covered by a reduced tariff or charge.
Third countries	EU name for countries outside the Union.
Union preference	Goods produced in the European Union shall be given preference over imported goods.
UR Agreement	Uruguay Round of the GATT Agreement which led to a series of measures on trade with and support to the agricultural sector.
WTO	<i>World Trade Organization.</i> The WTO was created in 1995 to supervise multilateral trade agreements in three areas, of which GATT is one.

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Reservations and comments

Special comment by Lennart Brunander (Centre Party), Dan Ericsson (Christian Democratic Party) Gudrun Lindvall (Green Party), Cecilia Malmström (Liberal Party), Maggi Mikaelsson (Left Party) and Carl G. Nilsson (Moderate Party)

Unacceptable treatment of the committee

When the parliament decided to set up an inquiry into the Common Agricultural Policy the aim was that the committee should present proposals for a Swedish position in the coming negotiations on CAP reform. As is apparent, the committee has worked very diligently to analyse thoroughly the issues from various points of view. Moreover, we have published five expert reports. Two weeks before the committee had its final meeting it became apparent that the Minister for Agriculture had already informed Brussels on Sweden's position. This can be seen from a letter and a memo which the Department of Agriculture sent to commissioner Franz Fischler. The memo does indeed stress that the government had still not made a decision on the issue, but it is clearly apparent that the proposals represent the government's position.

What is remarkable is that neither this committee nor the agriculture committee of the Parliament has been informed about the communication which was sent just a few weeks before the committee should present its report.

From a democratic point of view it is very remarkable to disavow a parliamentary committee in such a flagrant manner, thereby making impossible an unconditional debate of this issue which is so important to the future of the European Union. We would strongly question the behaviour in which a committee is set up to propose a Swedish position if the Swedish position has already been determined. It can hardly represent a good use of work and resources, nor of taxpayers' money.

Reservation by Lennart Brunander (Centre Party)

I am in agreement with the majority of the overriding objectives for the common agricultural policy presented in this report. I consider it an important long term objective, at the same rate as the rest of the world, to reduce the support which produce imbalance in competition and hinders trade. It is also necessary, as the majority says, for the European Union to become a driving force to create competitive markets and increased trade. I approve of the objectives for European agriculture and for the Common Agricultural Policy which the inquiry has agreed on: they tie in with my own beliefs and also with the existing objectives of Swedish agricultural policy.

The objective for sustainable agriculture is necessary if we are to assume our responsibility for future generations. It is important that the right conditions are created to make it possible to operate a system of agricultural production which meets this objective. The demands for safe food at reasonable prices and that consumers should be assured of a wide and varied supply of goods are pivotal. There should also have been a formulated objective for the creation of viable conditions for agricultural enterprises. The overriding objectives are made concrete in the report in requirements for the purpose of agriculture. Yet in my opinion the proposals which the majority present here will not lead to the fulfilment of these objectives. The majority will not live up to the fine words on environmental consideration, animal welfare, preserved cultural landscape and viable rural areas presented in the report.

By way of comment I would like to present my own, different view on the possibility to produce enough food in the world. My view of the EU attitude to the WTO and EU policy is that the CAP should be reformed. I do not, however, share the majority's beliefs that the market and increased competition can lead to the fulfilment of the objective towards sustainable agriculture. The enlargement towards the East is another important issue on which I also consider that the majority has made the wrong judgements.

Deregulation

In my view the majority is unfortunately captivated by notions of deregulation more than by the responsibility to maintain and develop the European Union and Swedish agriculture, although I agree with the objective of less market support and with the importance of establishing

a better-functioning system of world trade. The changes to be made must be carried out in a careful way. It is my opinion that the current CAP can and should be changed, not with any sudden measure, but at a rate which all those concerned can follow. Deregulation which is too sudden would mean that many agricultural companies would disappear.

Agricultural production in such a case would only be possible in the best agricultural areas. Forested and mixed areas would lose production, something which for Sweden would be very serious. Such a development would not fulfil the objectives which the committee proposes. It would mean that regional development would take a back seat and that agriculture would not be given the opportunity to take the necessary environmental consideration. From a consumer point of view I see such a development as very negative, even if it might produce somewhat lower food prices. It is also important to note that in questions of price, it is not only the price paid to farmers which is important.

My conclusion is that a change of the CAP must be allowed to take place at a rate which the EU negotiations with the rest of the world will allow. I think it would be difficult to carry out the recommendation in the report that the European Union should remove its market support before the next WTO negotiations. It would provide no guarantees and only put the European Union in a weaker negotiating position. Neither, in my opinion, would time allow for any major reform before the next WTO round. However, in the future market regulation should be replaced by direct payments, mainly to environmental and regional initiatives. A prerequisite for receiving support should be that it is linked to some form of production. The systems of support should be as uniform as possible. This would make it easier for a farmer to change to other forms of production. This would help to minimize the unfortunate lock-up effects of the current system. Border protection should remain in place as an outer protection for agriculture in the European Union. In time, trade between countries and trading blocks will increase and prices will be levelled out. It is then that border protection can gradually be reduced.

I see it as natural that Sweden within the European Union should work towards a reform of the CAP. But this change should be based on consideration both for producers and consumers, starting from the agricultural policy objectives proposed in the report. The proposed reforms must not involve impaired opportunities for carrying out

agricultural production in Sweden. It is also important that Sweden should press for the European Union to have a clear strategy in advance of the WTO negotiations.

Consideration for the environment and for animal welfare

The objective towards good food free from poisons and medicines and without resistant bacteria is well described in the report and I share in this part the conclusions of the committee. Objectives for environmental consideration and the protection of animals in food production are important starting points for changes to the CAP. In these respects, Swedish demands on the Common Agricultural Policy must be tightened. It must be possible to have demands for environmental consideration, animal welfare and food quality without these being seen as trade barriers. This is important for trade inside the European Union, and it should also be applied to world trade. The majority place their faith in the market. Through increased competition, environmental-, animal welfare and regional issues will be solved. I do not believe this. As the rules are set out today, requirements can be put into place as long as they do not prevent trade. The market is placed on a pedestal and consumer safety, the environment, animal welfare and regional balance often come lower down the order. In a deregulated market it will be very difficult to maintain the stringent demands we currently have in place. I believe that we need to change the trading rules so that the basic principle for the market and competition is that the objectives which were agreed for safe food, the environment, animal welfare and regional balance should primarily be fulfilled. The market should work within the proposed framework only when fair competition has been established.

Enlargement to the East

There are those who fear that it would be a bad thing for current members' agriculture to mix the agriculture of the countries of Central and Eastern Europe into the CAP. However, the major part of food consumption in the European Union takes place close to the source of production. Major volumes of food are and will continue to be produced close to the consumers. The economic development in the eastern European countries will lead to an increase in the standard of living and increased consumption of food. Increased production of food in the East

will be met, even if not entirely, by an equivalent increase in consumption.

One can also study what happened when Spain and Portugal became members of the European Union. Many at the time feared that products from those countries would swamp the other Member States. Such was not the case. Instead, those products continued to be consumed principally in their country of origin. Structural changes in the agriculture of the new Member States also took longer than people believed at the time of entry.

Agricultural policy should also include those countries which would join in the case of enlargement. That the Common Agricultural Policy has become too bound up in details and costly is one thing, but it is not a reason to make it into a bigger problem for enlargement than it actually is. The CAP is in need of reform and must be reformed, but mainly for other reasons, i.e. on its own "merits". If one places the costs for the CAP in relation to Member States' total budget turnover, the share is very small. This means that an enlargement would not have the dramatic consequences for the EU economy that the majority describes. Enlargement to the East must not be made conditional on a reform of the CAP.

World supply of food

The world population is growing strongly and an economic development is taking place which means changing patterns of consumption. At the same time agricultural land is disappearing for various reasons, making the situation for world food supply even more problematic. Many people today are starving, many are suffering from malnutrition, mainly as a result of our non-existent ability to distribute the food which is available. The majority take their views from the FAO report that there is sufficient food if it were distributed fairly. In my opinion this is merely wishful thinking.

I share the somewhat different views of the World Watch Institute. The increase in population as we know is taking place at the same time as agricultural land is disappearing for many different reasons and the intense nature of farming in many parts of the world cannot be sustained. Access to water is limited with the result that some soils today are exploited beyond their capacity.

The conclusion I draw from this is that the farming land and means of producing food which exist in the world are limited. This leads me to

believe that agricultural policy must be such that the special resource which productive farming land represents must be assured for the future. This is a responsibility we all share.

Reservation by Dan Ericsson (Christian Democratic Party)

The committee has the wrong starting point

The very title of the report is misleading. The brief was to make proposals for reform of the Common Agricultural Policy. In the title of this report, this brief has been reduced to "Food and the Environment". The basic principle - for the necessity of an agricultural policy to create the conditions for continued use both of Swedish and other EU farming land to produce food and preserve a good environment - is lacking. For this reason the majority of the committee arrives at the wrong conclusions on the reform of the CAP.

Economic and ecologically sustainable agricultural production

It is possible to produce enough food for a growing world population. However, the notion of trusteeship must be the guiding principle, not the short-sighted interests of profit, which have produced systems of cultivation which have leached the goodness from the soil and caused its erosion: these must be replaced by sustainable methods of farming. A sustainable system of agriculture is based upon a cycle of nutrients and that organic materials bind together the minerals of the soil. This means making use of what nature provides, preventing erosion of the soil.

For the sake of the future it must be agreed that continued agricultural production both in Sweden and other Member States is a necessity. On a national level this applies to fulfilling a goal for the vitality of the whole of Sweden and to a continuing domestic supply of food. From a global perspective it is necessary in the long term that farming land in Sweden and Europe remains available for food production. Therefore it is also important that environmental aspects are taken into consideration in any agricultural policy reform in order to promote a transition to environmentally friendly and more ecological farming methods. This also requires that farming land is conserved, since less intensive agricultural production requires more farming land.

A central issue for the European Union should be to make an active contribution to the fight against poverty and for improved food security

in the third world. The CAP can be an instrument in this. Within various international forums such as the WTO, World Bank and IMF, the European Union should also contribute to the production of an overall strategy for how the influence of the poorest countries can be strengthened. A transition of European agriculture to more environmentally friendly farming methods and organic production would mean less pressure on finite resources and is also necessary from the point of view of solidarity with the third world. The European Union should also provide aid to developing countries via the establishment/development of ecological production. The principal objectives of the fight against poverty and social development should also be central to trading relations.

The theory of the committee that lower food prices in the European Union will favour the food production of developing countries may be true in parts. Unfortunately, this can also lead to increased distress for the world's poorest people. The links are neither certain nor clear. A far more comprehensive analysis of these mechanisms is necessary, and moves towards more cautious changes to world agricultural policy so that unwanted and, for sections of the world population, disastrous consequences do not arise. The effects of more environmentally friendly and ecological agricultural production in Europe should also be weighed up in this context.

To deprive Sweden and large parts of Europe of farming land, as the committee suggests, cannot be a sensible long term policy given the background of the increasing world population. This strong growth in population means that there may be a shortage of land fit for cultivation in a few decades' time. To this can be added the increasing problems of the greenhouse effect, land destruction and the drying up of water sources. It would not be prudent use of a global resource such as farming land to operate a policy which leads to its disappearance. In the future farming and pasture land should continue to be seen as a resource in the service of food production.

The use of quick growing plants to provide energy may be seen as a good use of the soil since it can normally be taken back into use for food production.

The majority has, in large sections of the report, disregarded the fact that agriculture is vital for employment in rural areas and otherwise in the food industry. With the proposed policy hundreds of thousands of farmers will be forced to give up their businesses right across the European Union. For Sweden this could mean that a third of Swedish

farming land will disappear and that some 10,000 full time jobs would disappear from the sector. This in turn would lead to a dramatic decline in the number of people living in rural areas and a weakened position for a number of secondary businesses which depend on agriculture as a primary producer. This is a development which is completely contrary to the principle that there should be vitality in the whole of Sweden.

Fair competition

The fact that the European Union has an agricultural policy clearly shows the importance of food production. It is also necessary that the same conditions should apply to farmers throughout the European Union. A harmonisation of charges and taxes in the agricultural sector is necessary for Swedish farmers to be able to compete with other Member States on equal terms.

Reform of the CAP

The CAP should be reformed, taking the 1992 reform as a starting point. This would mean development of the current CAP, not a closing down of the agricultural policy which the committee majority proposes in line with the erroneous Swedish agricultural policy decision of 1990.

In the light of what can be expected from future negotiations and WTO rounds, European agriculture must be adapted to international, more market-led conditions. Changes in levels of support must take place at the same rate as in other WTO countries and with regard to remaining internationally competitive. This means a gradual adaptation at the same rate as others adapt.

It is vital that forms of payment and measures of regulation in the future CAP, including Eastern Europe, should be able to ensure food safety and reasonable income levels for European farmers. This should not have any negative effects on food safety in developing countries. Analyses of the consequences of these measures must be produced on an ongoing basis.

Prior to the forthcoming WTO round, Sweden and the European Union should adopt more firm positions based upon the environmental and animal welfare demands made upon Swedish and European agriculture. A more aggressive position is required to promote Swedish and European interests in matters of agricultural production, a

development towards more ecologically sustainable agriculture, environmental issues and the position with regard to animal welfare.

Even if market price support is gradually reduced, border protection, intervention and export refunds must be retained for the time being, albeit at a lower level. Compensation for reductions in price support via direct, more environmentally related payments is a necessity.

The basic principles for the CAP should be:

- Food production cannot be compared to other kinds of business. Against the background of current regulations within the European Union, a special support and regulation system will certainly be in place for the foreseeable future. Reform of the CAP should take place in such a way that the same conditions for competition for farmers in different EU countries are maintained. Similar rules and principles should apply, with the possibility of local variation depending on such things as climatic conditions.
- General agricultural payments should be distributed in the form of area payments for all farming land, including fallow land. Environmentally related payments to maintain open landscapes, promote biodiversity and preserve cultural heritage should be available along with special regional policy payments depending on the conditions for food production in various regions.
- Agriculture should provide food of maximum biological value. The objective that Swedish agriculture should move towards a 10 per cent level of organic farming by the year 2000 should be applied at the European level. Clear objectives for the transition of agriculture towards more environmentally friendly methods and organic production should be determined at the European level.
- In order to stimulate organic farming, compensation should be paid for putting less strain on natural resources, causing less pollution and thereby having beneficial effects on preservation of biodiversity in farming landscapes, and the ambition to produce sound food.
- Swedish environmental and animal welfare norms should be minimum requirements for European agriculture. Sweden should apply pressure on the European Union to harmonise environmental charges for chemical pesticides/herbicides and commercial fertilizer, and push for equal conditions to apply to animal production.
- An important piece of consumer information is where food has been produced and under what circumstances. A common system of labelling with regard to origin and production methods should be an objective.

Interim measures in an enlargement towards the East

The farming land of Central and Eastern Europe should not be seen as a problem, but rather as an asset to be used in common food production. The argument that the CAP is costly must be seen in the light of the fact that the EU's total costs for the CAP amount to 0.6% of the countries' total GDP. To be able to manage integration with the Central and Eastern European countries and their agriculture cannot in this light be considered an insurmountable problem.

The enlargement of the European Union to the East will mean that the CAP will encompass more countries. So that the changes for agriculture in the potential Member States should not be too dramatic, special interim measures should be introduced which allow for a cautious introduction of their agricultural production. These interim regulations should be based on the principles outlined above. This would mean placing great emphasis on the transition towards ecologically sustainable agriculture. Special payments to stimulate a transition to organic farming methods in new member Eastern European countries should be considered.

Reservation by Gudrun Lindvall (Green Party)

The Green Party (Miljöpartiet) supports the objectives for agriculture in a future European Union which are presented in chapter 9 of the report. It is important that future agriculture must be sustainable, something which must be achieved in the near future, and for which current agriculture can lead the way. Only agriculture of that type can provide the conditions for the other objectives to be fulfilled: safe food, promotion of biodiversity in cultural landscapes, creation of a varied farming landscape, and minimization of pollution, together with other objectives presented in chapter 9.1. It is therefore important that the measures proposed by Sweden in any change of the CAP should bear this in mind, and that those measures should be analysed with regard to the determined objectives and their ability to meet them.

Since the report does not do this, I would like to add the following, in which my opinion differs from that of the majority of the committee.

The CAP and the rest of the world

Production of food cannot be compared with any other production. We can live without most things, but not without food. It is therefore absurd to deal with agriculture as a sector in which current economic arguments can be applied. Access to land suitable for cultivation is essential for the future, and is certainly not something we have inherited from our ancestors, it is rather something we have borrowed from our children.

Despite this, that people should take care of the land is not something which can be taken for granted. In chapter 3.5 there is a discussion concerning the rest of the world and how it has been influenced by the Common Agricultural Policy. In my opinion the scenario presented by the World Watch Institute is the most credible of the scenarios to be found in the report. In this year's edition of the report on the state of the world, a bleak picture is painted of the future, unless we change our behaviour today. The report states that it will not be possible to feed the world's growing population - currently approaching 5.8 billion, with an extra 90 million per year, most of them in developing countries - in the near future.

The report states that there are several reasons for this. The proportion of cultivated land in the world has been falling since 1981. In terms of cultivated land per person the area has fallen from 0.23 hectares

in the 1950s to 0.12 hectares in 1995. Much of this land is built-up, or covered with asphalt. Soil is eroding, becoming polluted with salts, or destroyed in other ways. Added to this are more extreme weather conditions, with major droughts, caused by the greenhouse effect. In many places the level of ground water is falling. For example, the ground water under Beijing has fallen from 5 metres below the surface in 1950 to 50 metres below the surface in 1995. Rivers such as China's Yellow River, the Colorado River in the USA and the Amu-Darja in Central Asia never reach their recipients. This obviously creates problems for the often rich agriculture close to river estuaries, with, as in the case of the Aral Sea, a total ecological collapse, a virtually dead sea, which was previously very rich in fish. In many places fossil water is used by way of irrigation. In the USA, for example, 21% of irrigated land is watered with fossil water, something which cannot be sustained in the long term. The tendency in the world is for the proportion of irrigated land to fall.

To this dark picture can be added the fact that in industrialised countries there is a consumption pattern with high consumption of pork, poultry and other products which require large amounts of cereals, intensive animal husbandry and one-sided farming. The average American needs 800 kg of cereals per year, of which the major part is consumed indirectly as meat or dairy products, whereas the average Indian needs 200 kg, most of which is consumed in its natural state. In many developing countries, such as China and parts of South East Asia, the consumption patterns of the industrialised countries are now being copied. The demand for cereals for feed is increasing, and many countries which previously were no longer self-sufficient in cereals. At the same time, the rich industrialised countries - the USA, Europe, Canada, Argentine and Australia - supply 80% of world exports. In those countries which export major amounts of cereals, agriculture is carried out in a chemically-intensive way, a way which we know is not ecologically sustainable.

The report does not present this as the most likely scenario, but opts instead for the more beneficial pictures painted by the OECD and the FAO. These scenarios estimate that there will be sufficient food, and production increases will be greater than increases in consumption up to the year 2010. In such a scenario it is possible to reduce domestic production and import food instead.

There are no arguments in the report on changes to the CAP which are based around the scenarios outlined above. If one believes that there

will be a surplus of cereals on the world market in the future, the motivation to assure domestic production will naturally decrease. On the other hand, if one is more inclined to believe in the World Watch Institute scenario, the value of domestic land and production will increase.

In my opinion, land for cultivation will be needed in the future, partly for a growing population, but also because ecological farming methods require larger areas. It is therefore important that the changes proposed for the CAP by Sweden keep this in mind, along with the more fatalistic picture of the future painted by the World Watch Institute. Unfortunately, this is not the case in the report.

The WTO and future demands on the European Union

In several chapters, e.g. 4, 5 and 9, there is a discussion of the forthcoming round of WTO negotiations and the demands which may be placed on the European Union. It is predicted that the negotiations will mean major changes for the CAP since the USA has recently changed its support for its own agriculture and also because the Cairns Group - Australia, New Zealand, Canada, Argentina, etc. - is demanding increased liberalisation. It is also stated that the European Union should reform the CAP to achieve a better negotiating position prior to the new round of GATT negotiations.

Agriculture in many of the above mentioned countries takes place in ways which are unacceptable from the point of view of the environment and of animal welfare. The use of additives, hormones and antibiotics is widespread, and the level of intensity is extremely high. Agriculture such as this can naturally produce cheap food today, but this is not sustainable for the future. Furthermore, it is not only contrary to the objectives for EU agriculture proposed in the report, but also to current consumer thinking as to how agriculture and animal husbandry should be carried out. Food stocks are on the decline in the USA, irrigation is taking place in many cases using fossil water, and there are major effects on the soil in the form of compression, salt pollution, etc. Animals are in poor condition. Recent discussions on the use of hormones in beef cattle show differences of opinion between the USA and the European Union, as in the case of use and handling of the new genetically manipulated crops. The use of the Roundup Ready Soya bean has increased from only a few per cent last year to 20% of this year's planting. An

unwillingness to separate the GMO soya from the non herbicide resistant beans also demonstrates that attitudes in this respect are different.

Since it is an important party in the coming GATT negotiations, the European Union must push hard to protect domestic production with stringent environmental and animal welfare requirements against competition from production which does not meet these requirements. Without this it will be very difficult for the European Union to maintain the requirements for domestic production which exist today, and even more difficult to develop it in the direction proposed in the report, proposals with which we are in full agreement. The principal objectives of GATT must be to promote sustainable agriculture. I do not find this in the report, and do not consider it would be possible for the European Union to reform the CAP in the ways proposed without a risk that production which meets stringent environmental and animal welfare requirements within the European Union would be in danger of losing ground. It may be even more difficult to lead the way.

Competition and the free market

Many parts of the report sing the praises of the promises of the free market. According to the report, producers are to produce those things that consumers want, and by interaction in a free market, production will be developed and prices lowered. I do not share in the beneficial view of the market and market forces, nor of their current development so long as there is no environmental consideration shown and no right to demand it.

Agricultural production tends increasingly to be linked to large multinational companies. This is true of crop seed, additives and processed food. An increasing number of farmers today grow crops on contract, and this is a tendency which limits the freedom of the individual farmer, both in the industrialised and the developing countries. The recent development of GMO crops shows that this tendency is increasing. It has also resulted in the fact that many local crop types, which have adapted with the course of time to the precise conditions which prevail in a particular place, are being replaced by the types produced by the major companies, types which are often F1 hybrids, impossible for the farmers to propagate themselves. Today, the USA alone produces one quarter of all cereals which are exported. Multinational food companies increasingly dominate trade, thereby

controlling the price and availability of food. Radiation gives longer sell-by dates, whilst food is declining in quality.

The idea that the market should take care of development ties in neither with the above, nor with issues of health. To demand of consumers that they should take responsibility for the way in which various types of food is produced, and also that they should be so well informed on content and quality is a high demand indeed. Nutrition contents cannot be seen from the outside, and the fact that British doctors have warned children and the elderly about radiated foods due to their lack of nutritional quality shows how difficult this is. Neither do I consider that everything which is produced has come about because there has been a demand, but rather that the food industry to a very large extent creates demand, reinforcing it with major advertising spending.

The market pays no attention to the environment. The prerequisite in my opinion for the creation of sustainable agriculture is that society should present the framework within which producers and the market can operate. In the case of food this means that society must apply measures in terms of economic controls, e.g. taxes and charges on additives, and the support necessary to create the conditions for ecologically sustainable agriculture, the type of agriculture which is needed if fair system of world supply is to be possible in the future. With a totally free market there is a clear risk that the players will be fewer and fewer, thereby gaining all the more opportunity to control world food supply.

New Genetically Manipulated Crops

The report deals only briefly with the new genetically manipulated crops alongside the description of the novel foods directive and labelling. In my opinion these crops should have been more fully dealt with, and the report should have made clear that Sweden disapproves of them.

The crops in question have in most cases been made resistant to herbicides. The fact that the producer is also the manufacturer of the herbicides in question shows as clearly as one could wish the purpose behind the manipulation. These crops are not something which consumers have demanded. Neither do they contribute to a long term sustainable development, nor increase food safety throughout the world. On the contrary, the link between farmers and the giant chemical companies is strengthened, contract growing increases, and both cultivated and natural diversity declines. The herbicides Roundup and

Basta, which various crops have been made resistant to, are total destruction poisons, which remove everything else growing in the fields other than the cultivated crop, even weeds which do not compete with it. These herbicides and the components into which they become broken down into have demonstrated that they spread to both surface and ground water in ways which were previously considered impossible. By way of adaptation to these crops, the rest content of Roundup has been raised in Sweden from 0.1 mg to 20 mg per kilo, a 200-fold increase. Research also shows that gene manipulation can have completely different consequences from those expected, and in my opinion GMO crops reduce the safety of food.

My opinion is that GMO crops should be banned in the European Union, both in respect of growing them and of imports, in whole or as part of processed foods. This should have been made clear in the report, and should be the policy which the Swedish government firmly promotes.

PSE and CSE data

In chapter 3.1.2 - 3.1.4 there is an account of agricultural policy in terms of PSE and CSE. The argument is extremely theoretical in that a number of variables are missing in the calculations of both the PSE and CSE, and, in my opinion, the text reflects the attitude that deregulation of the CAP would lead to major advantages for consumers, conclusions which can be questioned. The text also accounts for the cost of the CAP to consumers in figures.

Since agriculture creates environmental problems, more or less due to crops, intensity and production methods, it should be in order to account for the environmental costs which various types of agriculture bring about. Only then would the picture be complete, and it would be possible to read off the ways in which cheap food and production at world market prices increase environmental costs. This is missing throughout the report, and does not tie in well with the proposals for stringent environmental objectives.

Instruments for a new agricultural policy

In chapter 9, the objectives and instruments of a future CAP are developed. The objectives, as they are outlined in 9.1, are sound. There is emphasis on sustainable agriculture along with strict animal welfare requirements, biodiversity and a regional balance. I might possibly have wished that food should not only be safe, as expressed in the first objective, but also of high quality. Much of today's bulk production of food rich in carbo-hydrates and fats is certainly safe but hardly of high quality, containing the nutrition necessary for human beings. To the term "safe" should also be added high quality.

In chapter 9.2 the instruments for achieving the objectives proposed are outlined. In my opinion, an analysis is lacking here of how the proposed deregulation, with its removal of market regulation, can lead to sustainable agriculture. Instead, it is stated here that the CAP "does not favour efficiency in production", that "structural change is impaired" and that the proposed change is expected to cure this. A deregulation may lead in the short term to cheaper food, but at the cost of animals and the environment, and also of the will towards farming in the entire European Union. With a will to structural efficiency measures, as expressed in the report, there is a risk that small and medium-sized farms, especially in less favoured areas, will disappear. These farms also have land of a high biological value, farming methods which include livestock and fallow land, pasture lands and cereals. The principle of cycling of nutrients applies, and many of these properties are farmed ecologically. They must be preserved.

The Green Party wants to change the CAP, but in the name of ecology. Current developments in Sweden in organic farming are beneficial, and similar developments should be stimulated and put into practice throughout the European Union. In order to achieve this it might be necessary to retain area support, which should, however, apply to all land irrespective of crops so as not to favour cereal production in a one-sided manner. In the same way the so-called cross compliances should be used to a greater extent than today. The share of green land and livestock density, etc., should be linked to area support. Environmental support must be retained, yet I do not share the opinion expressed in the report that it should exist so that agriculture should "produce various types of environmental services, such as biodiversity, cultural values and a varied farming landscape". In ecological agriculture, biodiversity and a varied farming landscape are favoured by the method of farming itself.

It is important that all support should be aimed at the creation of an ecologically sustainable agriculture, not as it is today, in which large amounts of support put this at a disadvantage. Environmental support should be financed to a greater extent than it is today by the European Union, and be accompanied by strict requirements common to the entire Union, requirements which successively become more stringent. In order to reduce the number of additives used in farming there should be environmental taxes on commercial fertilizers and pesticides throughout the Union. The current level in Sweden could be a joint starting point, yet the taxes should be raised successively.

As such I do not share in the majority's proposals for instruments to fulfil the proposed objectives.

It is important that more of the costs of producing food can be seen in the price in the shops. By also paying for food via taxes, people in towns and cities become even more distanced from those in the country. It is only when the real price of food is clearly seen that a dialogue and interaction is possible. Producers could not then, as they do today, grow things to receive financial support, but would be forced to grow things for customers.

The attitude of the Green Party is that Sweden should leave the Union. Since agricultural policy is totally harmonised there is no opportunity to operate a policy of our own in agricultural matters nor to lead the way. It is important - so long as Sweden remains a member - to act so that agriculture should become sustainable and therefore to change the existing CAP. Our opinion is that the CAP today favours large scale, intensive, chemicals-dependent, resource wasting agriculture, which does not produce safe food and will be impossible to operate in the future. It is high time for the European Union and other countries to make a changeover to sustainable ecological production, and for the benefit of the European Union, any change in the CAP should be directed to that end.

Special comment by Cecilia Malmström (Liberal Party)

The enlargement to the East, together with an attempt to win back the trust and belief of its citizens, is the most important task facing the European Union. The proposal before us on reforms to the Common Agricultural Policy is generally of a liberal nature, infused with liberal values such as free-trade and a market economy. The committee identifies a considerable number of reasons as to why the CAP should be reformed - for its own sake, and because there are a number of pressing factors in the rest of the world. It is clear to me that whether the European Union is enlarged or not, agricultural policy must be substantially changed.

Enlargement to the East

The European Union is now facing one of its most important challenges, namely for the first time in history to try to unite east and west by peaceful means. It is extremely important that Western Europe makes use of the opportunity to create a united Europe, stable from the point of view of security policy and economically vigorous. Should the European Union fail in this, the consequences could be fatal. It could place at risk the entire development towards democracy and a market economy in Eastern and Central Europe. Sweden, in common with the rest of the European Union, has a major responsibility for seizing the opportunity of this historic chance and creating a complete Europe. In my opinion the enlargement of the European Union to the East is the issue of outstanding importance for Europe, and that it should have had more influence on this inquiry. The enlargement is naturally an extremely complicated process, with many obstacles to overcome. One of these obstacles is the CAP. For this reason, a reform must be begun as soon as possible so that the European Union can give clear signals to the future Member States and avoid the creation of imbalance and unequal competition in their markets. Many countries in Eastern and Central Europe are important agricultural producers, whose agriculture is, and can be more, competitive. Those countries must therefore be given time and conditions in which to plan for a substantially reformed CAP so that they do not use the CAP as a reference whilst they are currently in the process of reforming their own agricultural sectors. It is hardly new regulations, quotas and bans that people in the East are looking forward to. To retain the CAP for the current European Union

but to exclude applicant countries is completely unthinkable. The reforms must therefore be begun immediately, preferably before the process of enlargement begins.

The new Member States should have full membership of an European Union with a reformed CAP. For those currently farming in the European Union it is important that clear signals come from the Union concerning future agricultural policy. The difficulties in carrying out the reforms are, of course, very large, but they should not be overstated.

Lack of public trust and belief

As the committee states, there are several reasons as to why the CAP is in need of reform. However, one important point is missing, and it concerns the trust and belief of the citizens themselves. Few areas arouse such irritation as the agricultural policy, its complicated system of rules and its evident cheating. EU citizens have every right to mistrust an enormous bureaucracy which swallows up round half of the EU's joint budget. The EU's own figures show that annually around 10% of the agricultural budget, ECU 6.3 billion in 1993, disappears in fraud. Such a policy does not create legitimacy. On the other hand, a substantially deregulated policy with initiatives for quality, the environment and rural development, as the committee has suggested, will have completely different means of winning the approval of EU citizens.

Farmers and business

The report emphasises the role of consumers in a reformed CAP. This is both sensible and important. But agricultural production is an interplay between consumers and producers. Farmers must be afforded the opportunity and the freedom to compete through their products on equal terms in a competitive market. It is important therefore that farmers are seen as business people and given the opportunity to act accordingly so that rural areas can offer vitality to businesses. The capacity of agriculture to compete is of major importance to all those who work in agriculture and food. Quotas, regulating measures and complicated administration do not facilitate enterprise. What is needed is a Swedish and European policy which helps small and new businesses, so that small scale alternatives can develop in rural areas. This aspect is not presented in the report. One other aspect which is slightly obscured

is more developed argumentation about competition in the links between farmers and consumers, and which in Sweden, as in many parts of Europe, is increasingly dominated by a number of retail and wholesaler giants. Competition in the food and distribution sectors must increase.

Reservation by Maggi Mikaelsson (Left Party),

By way of introduction I would like to make clear that I agree with the committee's basic criticisms of the Common Agricultural Policy and the need for a radical change. I also support the proposal for new objectives for agricultural policy. My reservation concerns the possibility of achieving those objectives within the framework of the current European Union, and also how the proposed instruments can lead to the fulfilment of those objectives. I do not share the negative view of the possibilities open to agriculture at a regional level as presented in the report. Otherwise I have a number of points of view on the various sections of the report.

Food supply - a vital issue for the new millennium

The world population is growing and total food production has increased in recent decades. Despite this, the highly efficient, industrial agriculture has not managed to secure a good supply of food on a global scale. Whereas affluent regions and sectors of society live in excess leading to surplus production and ill health related to good living, other regions and parts of society suffer famines and poverty. 800 million people lack sufficient food and are forced to live in constant hunger.

The increase in population together with an increasing depletion of the earth's natural resources means that the question of food and the use of agricultural land will be one of the most important issues of the next millennium. Two examples clearly illustrate this. Today there are approximately 0.26 hectares of farming land per individual world inhabitant. By 2025 this figure is expected to have fallen to 0.17 hectares per person. Our need, in order to survive, is estimated at 0.2 hectares. This shows the necessity of making use of all agricultural land and to use its production in a sustainable way. The food patterns displayed by the western world are not viable in a global perspective. In order to ensure human survival our current food production and over exploitation of natural resources need to change and become sustainable in the long term.

One other prerequisite for the earth's long term production capacity is access to fresh water. The majority of the world's water is the salt water of the oceans. Of fresh water, the majority is bound up in the polar ice caps. Current agricultural production methods mean large areas of land under irrigation which depletes the ground water and leads to salt

pollution of agricultural land. Currently some 15% (approx. 300 million hectares) of the world's irrigated areas are suffering from salt pollution. This figure is expected to double over the next 25 years. In the south west of the USA ground water levels have fallen by more than 120 metres. India, northern China and Mexico are other densely populated areas where the levels of ground water are falling.

It is self evident that the world's food production and consumption must be changed. The dominant current view that man can control nature must be replaced by the realisation that nature sets boundaries for all human activity. On a global level one can observe that today's market economies, in which economic growth is the goal and nature the means, have not managed to produce a sustainable system of supply. The European Union is no exception. With a basic philosophy which places economic freedom above human needs and free trade above the environment, a framework has been put in place which is in contradiction of a sustainable society.

The objectives which the committee has proposed are therefore in conflict with the EU's overall demands for free movement of capital. A genuine change towards a sustainable policy makes other demands for democratic control of the economy and genuine opportunities to place health and environmental demands above the demand for free movement of goods.

Given the limitations of the possibility of achieving the objectives described above, it is my opinion that the objectives presented in the committee's report can form the basis of Sweden's policy as to how future agricultural policy should be shaped. I also partially agree with the instruments and interim measures which have been proposed. However, I have a number of points of view and differences of opinion with regard both to the proposed instruments and to the reasoning upon which the objectives are based. I would question whether the proposed instruments can lead to fulfilment of the objectives.

The points below basically follow the format of the report. I also present my understanding of the significance of agriculture in the future for employment and equality, subjects mentioned in the report but not dealt with seriously, despite that fact that employment and equality are generally heralded as social democratic flagships in the context of European cooperation.

Chapter 3. CAP facing the future

The chapter describes a number of effects of the current agricultural policy within the European Union, making the heading somewhat misleading. I generally agree with the description of the effects of the CAP on producers, consumers and taxpayers, but I think it is important to stress that PSE and CSE do not cover all types of grants and support, neither do they describe prices or costs at the consumer level. I do not share the committee's conclusion that food prices would fall if the Common Agricultural Policy were deregulated. At least, it is not obvious that this would be the result, given the increased health-, animal welfare- and environmental requirements that the committee has agreed on in setting the objectives for future agricultural policy. I do, however, consider that where food is concerned, the issue of price must not be allowed to dominate issues of safety and quality.

With regard to the CAP's effects on employment and the economy, the committee has not discussed the effects which deregulated agriculture would have in these areas, given the structural changes which are predicted to lead to a probable reduction of employment in the agricultural sector. This will naturally have an effect on the economy throughout the European Union. From the presentation of the number of people employed in agriculture in chapter 3.2.3 it is clear that there are major regional differences in the European Union. In total some 8 million people work in agriculture in the European Union, equivalent to 6%, yet, for example, in Greece, the proportion is as high as 21%. If one then counts those who work in the food industry, some 2.5 million, and the related employment which this creates, agriculture and food processing creates a very large number of jobs. I am not prepared to contribute to a structural change which leads to an increase in unemployment in the European Union.

Where the CAP's effects on the environment are concerned, it is clear that even if many environmental problems can be attributed to general technological and economic developments, the Common Agricultural Policy has encouraged and supported forms of agriculture which have caused major environmental problems in certain regions of the European Union.

Chapter 4 A new Common Agricultural Policy

I agree with the introductory description of why the CAP is in need of reform, yet I question the opinion in section 4.1.2 that the risks for disrupted supply are lower now than they were in the 1950s. It is rather the risk for supply disruptions on a global scale which are one of the reasons for reforming the CAP so that sustainable agriculture can produce food of a high quality.

The committee's proposal for new objectives in the CAP are ambitious: a wide and varied supply of safe food at reasonable prices, and sustainable agriculture to be achieved within the framework of an agricultural policy which is intended to ensure that production as well as processing and distribution, shall be carried out in a sustainable manner. Alongside this, biodiversity and a varied landscape should be conserved and promoted, cultural heritage should be preserved, environmental load minimized and animal welfare demands set at a high level. A regional balance and viable rural areas are to be promoted, alongside agriculture which is internationally competitive. I agree with these objectives.

Chapter 5 Food

The chapter on food is incomplete. It is naïve to state, as in the first sentence of section 5.1, that the primary aim of production including food is to provide consumers with the goods they want. It may be a devout wish that demand alone controls production, but it is not the case. It is well known that the food industry, along with sections of primary production, is dominated by large transnational companies. In my opinion it is a serious shortcoming of the report that an entire chapter is devoted to food without any description and analysis of the multinational food companies' power over production of goods and consumer choice.

The truth is that consumers today are too much in the hands of the international capital which has control over food production and processing. It is not consumers who have demanded genetically manipulated food or meat from animals which have been treated with hormones and antibiotics to promote growth. It is not consumers who have demanded food with allergy and cancer causing additives, or food from animals which have suffered long journeys or have been reared without basic regards to their welfare. On the contrary: consumers

demand safe food and should have the right to demand national legislation and bans on food, additives and production methods which can be considered unethical or unsafe.

I share the committee's assessment that the consumer movement must be strengthened, and it is important that consumer information is available to enable individuals to make their choices on the basis of correct information. There are also examples of how consumers have influenced production through their choice. Probably of equal importance is a well-informed environmental movement to stir up opinions in important consumer issues. To demand that each individual make all the assessments necessary to be able to choose safe food is, on the other hand, a negation of political responsibility.

I am also critical of the majority's excessive belief that free and viable competition and a deregulated market will lead to the achievement of the objective for safe food. In many places in the section "free and viable competition" is proclaimed as the best instrument for cheap and safe food. Competition is naturally good, but free competition hardly exists as things stand today. Instead, opportunities for free trade and free competition are limited by cartels and monopolies, manipulation and questionable methods, all in the name of the market economy. In order to guarantee food at reasonable prices in a better way it is, in my opinion, equally important to reduce the number of links in the food chain from primary production to the dining table. Today it is mainly through these that prices are jacked up. Only a small part goes to the primary producer, something which clearly affects the price and increases the difficulty in controlling origins and safety. Moreover, agricultural profitability is affected, leading to demands for other forms of compensation.

More problem-based argumentation surrounding the consequences of free competition would have been valuable in assessing the various instruments required to achieve the proposed objectives. For example, this might concern a definition of what is meant by free competition, competition neutrality and competition barriers. Are low prices a good indication that competition is functioning? How should quality aspects be valued? How should, for example, different production methods be regarded in competitive terms? Is it competitively neutral to compete using lower standards of animal welfare? If not, should a country not be entitled to impose animal welfare requirements on its imports? Or would that be an obstacle to competition? Is it competitively neutral if production methods lead to a depletion of natural resources, such as

ground water, or to the widespread use of dangerous pesticides and herbicides? How should competitive neutrality be achieved between regions with different climates leading to differing costs for similar types of production?

There are no simple or obvious solutions to these questions, but in my opinion it is wrong that they are not dealt with in the report.

Chapter 6 Agriculture and the environment

It is completely clear that current EU agriculture is not sustainable in the long term. There are, however, major regional differences, and in Sweden, for example, steps have been taken towards more sustainable development. Yet much remains to be done. I agree with the committee's description of the overriding objective of sustainable agriculture, along with the section on agriculture's negative effects on the environment. However, in my opinion agriculture can and should play an important role in the transition towards a more environmentally friendly society, partly through production which is adapted to local conditions, meaning that food production should take place throughout the European Union in those places where favourable environmental conditions exist. The environmental supports which currently exist within the European Union only account for 2% of the total support for agriculture, reflecting the low priority which the European Union has afforded environmental issues up until now. I can basically subscribe to the argument put forward for basic norms in section 6.4, yet, unfortunately, the proposal is not fully developed and it is difficult to assess the consequences of the different levels of rules proposed. In my opinion this section is in contradiction of chapter five in which free competition is praised, and this creates a completely unnecessary imbalance between the various sections of the report.

One area which is barely touched upon is organic farming, and this is highly remarkable. Organic farming has come a long way towards cyclical production built around local and regional conditions. The definition presented by the Swedish organic farmers themselves could serve as an illustration of the objectives which the committee has agreed on.

The following characteristics define ecologically sustainable production. It:

- is based on local renewable resources,
- efficiently uses solar energy and the potential of biological systems,
- preserves the fertility of the soil,
- maximises recycling of plant nutrition and organic material,
- minimizes the need for finite resources, and thereby pollution through leakage of waste products,
- does not use unnatural substances,
- contributes to the maintenance of genetic diversity in production and in the farming landscape,
- gives domestic animals living conditions which equate to their ecological role and permit them to behave naturally.

With organic farming made concrete in the description above as a long term objective we would achieve a better basis from which to decide on the instruments needed to achieve our objectives.

Chapter 7 Agriculture and the animals

This section is good. It is beneficial that Swedish legislation on animal welfare has contributed to the fact that animals in general are more healthy in Sweden than in the majority of European countries. The Swedish bans on the use of meal derived from animal carcasses and antibiotics have contributed to this. But there are still threats. There is a risk that the more stringent Swedish requirements may be interpreted by farmers themselves as an obstacle to competition, since production is more expensive, and there is no possibility to charge higher prices. Unfortunately, this opinion is voiced and listened to in the debate. Another threat is that these animal welfare issues might be seen as an obstacle to trade, not only within the European Union but in the world as a whole. An example of this is the ongoing discussion in the WTO's dispute solving panel in respect of the EU ban on hormones. It is primarily the USA which maintains that the EU hormone ban is a trade barrier.

Chapter 8 Agriculture and regional development

One of the most difficult issues to resolve in changing the Common Agricultural Policy is that of regional agriculture. As the introduction to this section states, a large part of the population lives in rural areas, and in certain places agriculture plays a major role in the local economy. It is a good thing that the Swedish objective for the north of Sweden is clearly stated, but thereafter follows a more negative picture of the opportunities for agriculture in a regional perspective. For example, it is claimed that continuing transition towards larger units can be expected, for which reason increased investment should be made in businesses other than agriculture itself.

In my opinion agriculture's role as a regional driving force is underestimated in the report. Instead of passively assuming that it will become increasingly difficult to maintain agricultural production in a number of EU regions, e.g. northern Sweden and other less favoured areas, agriculture could be the driving force in rural development and local production.

The report paints the picture of an unnecessary antagonism between local, often small-scale, production and large-scale intensive farming. It is my belief that both methods of production are necessary and that it is actually possible to link them to sustainable production. I do not agree with the statement of the committee that from the point of view of business economy, large scale operations are to be preferred. It is perhaps true of current agricultural production, but does not take account of all the costs, e.g. the environmental problems which result from agriculture on a large scale.

Increased regional production creates conditions for small scale local food processing, which in turn leads to new employment opportunities and beneficial rural development. Increased local production is also an advantage from an environmental point of view since the needs for transport can be reduced. Even from a global perspective, increased regional self-sufficiency is to be preferred. The report states that increased trade is beneficial since it favours production in the developing countries. But a deregulated market and increased trade will not automatically guarantee that the developing countries enjoy better conditions. A more likely scenario is that it will once again be the large multinational companies which will gain even further market shares. On the other hand, increased regional self-sufficiency can create the

conditions in which the developing countries themselves can build up food production for their own needs.

Chapter 9 Changes to the CAP

The chapter is a summary of the report and the objectives and instruments which it proposes. Bearing in mind the limitations and criticism I have expressed in earlier sections, I share the view that current EU market regulating measures should be phased out and that the current CAP should be replaced by an agricultural policy which contributes to a change towards environmentally friendly agriculture, regional development and increased regard for animal welfare. The instruments for achieving the proposed objectives should be concentrated on certain aspects. In order to achieve sustainable agriculture instruments must be aimed towards environmental change, regional development and animal welfare. In order to make food safe, legislation and consumer power are necessary. Agriculture and food production should also be seen as an important business for the future, based on the need to supply food to a growing world population, and also on the need for the whole of society to become more environmentally friendly.

Chapter X Agriculture, employment and equality

The directive to the committee included to account for the effects of the proposals on questions of equality. The committee has not done this. This is a serious shortcoming both in that it is contrary to the government's directive and in that significant efforts and new thinking on the part of women could contribute in a beneficial way to the environmental changes which agriculture will be forced to make. In many parts of Sweden there is a growing commitment towards local society and local food production and processing. It is often women who lead the way in this development. In one way it could be said to be a question of reviving old traditions and preserving old know-how, but in a new time, with new values such as food safety and recycling. The result is increased new enterprise and new employment opportunities. By supporting a similar development throughout the EU new jobs can be created in rural areas, instead of the negative thinking reflected in the report.

Other points of view

One of the difficulties in the course of the work has been to keep separate discussions of future EU agriculture from discussions of its consequences for Sweden. It would have been valuable if the report had more clearly been based on an EU perspective, and had provided an account of the consequences for Sweden in a separate section. However, I was not granted acceptance of my request.

I also regret that it has not been possible to present a unanimous report. However, I am satisfied that there is major support for a change to the current CAP and for the objectives of the new agricultural policy.

By way of conclusion I consider that the report as a whole reflects a social democratic awareness of a need for a new view on food production, yet a reluctance to accept the consequences of this awareness.

Reservation by Carl G Nilsson, (Moderate Party)

Introduction

The work of the committee has been infused with a desire to produce a united point of view as far as possible. I have considered it of value that Sweden should have one viewpoint in the European Union, and for this reason I also attempted to ensure that unanimity could be reached. However, just a few weeks before the completion of the inquiry, the government has anticipated its results by sending its views on future agricultural policy to the Commission. The document has the title "Fortsatt reformering av den gemensamma jordbrukspolitiken - den svenska inställningen" (Further reform of the CAP - the Swedish position).

I therefore no longer consider it meaningful to continue to work towards a united viewpoint. That the government should openly and completely ignore a committee which they themselves have set up and presented with a directive is very remarkable. It undermines confidence in the role of committees, which have widely contributed to long term political decisions being based on factual information, in many ways creating unity in respect of necessary changes.

The work of the committee was begun with three so-called expert groups producing reports which were to form the basis for the committee's position. For the sake of clarity I would like to point out that I have not formed an opinion on the contents of these reports, and therefore do not give them my backing.

Basic principles

Food production is an important part of the EU's business activity and its culture. Therefore it is important that both primary production and the food industry remain intact following a reform, and can enjoy the benefits of the world market which is opening up as a result of previous and coming WTO negotiations. My wish is for European food to be a winner on the world market following further agricultural reforms.

Secondly, EU food supplies must not be put at risk. If deregulation and liberalisation take place at roughly the same pace in all major producer areas there will not be, in my opinion, any great risk that EU production will be drastically reduced. On the other hand, if there is a fast and one-sided deregulation, there are obvious risks that the farmers

and industries of other parts of the world will be the only winners. There should, however, be some form of corrective measures to be introduced if production were to reach a critical level.

Thirdly, the CAP should primarily cover food production. Special initiatives such as environmental and regionally based payments should be seen as supplements to the CAP. Experience from other policy areas indicates that achievement of objectives is poor if too many objectives are to be achieved under the same policy. This means that environmental and regional policies should be outside the CAP. Obviously agriculture should be carried out within the framework of sustainable development and be subject to the same duties of environmental considerations as other types of business, and it is equally obvious that regional policy (the Structural Funds) should also include agricultural companies.

My fourth basic principle is that the CAP should not make difficult nor, in the worst case, prevent an enlargement of the European Union.

Adapting the CAP to new times

It is important for a number of reasons that agriculture and the food industry in Europe should start to adapt to a situation with fewer regulations and less support. Even if the pace of change is questionable, the WTO negotiations will mean further deregulation of the world market for food. Agriculture in those countries which only enjoy low levels of support for business will gain considerable competitive advantages when regulation decreases. According to the FAO, more trade in food is necessary to cope with the world's need for food supplies. As such, it will become less and less automatic for food to be produced in fixed locations or countries. Instead, like all other goods, food will be produced where conditions are best.

Increased world trade and freer competition will require production which is efficient and an increased adaptation to varying consumer needs. Changes in the CAP should facilitate this.

In my opinion price is an important indicator of how much can be produced and at what cost. Adaptation of prices to world price levels is therefore something to strive for. This can be done through a gradual reduction in tariffs/border protection and a removal of the limitations on supply which exist today. Consequently export charges which can be applied today can be scrapped. These measures cannot be carried out without producers being given a reasonable time to adapt to the new policy. During an interim period, they must also be compensated if lower

prices are the result, since investments have been made under other conditions. In addition, the eventual losses of capital value in land, plant and production quotas which arise solely because of the reform of the CAP should also be compensated in part.

Deregulation without compensation for farmers involves a risk of resulting falls in production. This will apply especially if deregulation is unilateral. In this case it would be the food industry and rural areas which would suffer.

The Swedish agricultural policy adopted in 1990 meant that the administrative price level was gradually lowered at the same time as direct payments was introduced. The support was phased out relatively quickly. From the experiences of carrying out this policy I would recommend a gradually lowering of the administrative price levels, but unlike in that case, the price reductions should be balanced out by higher support. When the administrative price level has reached world market prices, the support should remain for a number of years before it is phased out. The rate at which this can take place will depend on the game rules (WTO) and how prices on the world market are changed. I would like to point out that a deregulated market over the last year would have meant higher cereals prices in Europe. Global deregulation will also mean an increase in world market prices for most food, since export subsidies will disappear.

In the event of deregulation with temporary compensation support I would propose that a review of all production sectors should take place. For example: area payments for cereal cultivation, which were based on very low world market prices, might be adjusted in favour of livestock production.

When prices have been adjusted to the market there would be no need to withhold goods from the market. Intervention systems, export support and production quotas will become unnecessary. When agreement on deregulation has been reached it can and should be put into effect relatively quickly. This would contribute to an increased dynamism in European food production. Naturally, one prerequisite is that individual countries should maintain competition neutrality in production. To do as Sweden has done and impose taxes and charges on production for which there are no equivalents in other countries or parts of the world, would not be possible without a risk that production would be forced to close down.

This outline change to the CAP would also facilitate the entry of new countries into the European Union. The reason for this is that prices in

several of the prospective Member States may be regarded as world market prices.

The form taken by the future CAP will naturally be affected by the result of the next round of WTO negotiations. Experience shows that these negotiations take a long time to complete. To speculate on the final outcome even before the talks have begun is meaningless. I would merely like to point out that the European Union is a significant party to the talks, the opinion of which cannot be ignored. My proposal for changes to the CAP involve significant progress for free trade, even if compensation to farmers may be long-lived.

Tobacco cultivation currently comes under the CAP, attracting various forms of support which cost the EU budget some SEK 10 billion per year. In my opinion, tobacco should not in future be covered by the CAP, since the policy should primarily be aimed at safeguarding food supplies.

Consumer issues

Secure food supply is an obvious consumer objective. Quality and health are also important issues. Food production in the European Union is so wide and varied that the majority of consumer preferences have been able to be supplied within the common market. Yet increased ability to penetrate the market on the part of producers outside the EU will further increase the variety on offer. The wide range of various foods provides consumers with the opportunity to choose food for different reasons. Taste, price, sell-by dates, production methods and production location are some of the basic reasons for choice. Up until now producers and retailers have used relevant information on these factors as part of their marketing. In reality good product information is an important competitive tool, and consumers have considerable opportunities to influence its presentation. Compulsory labelling of the kind the committee advocates serves no purpose in a free market. Exceptions should naturally be made for products which contain, for example, substances which can cause allergic reactions. In such cases there should be distinct, harmonised legislation.

My proposal for changes in the CAP would provide conditions which favour lower food prices. This is an important consumer issue.

A basic requirement which should apply to all food is that they are safe to eat. Swedish food legislation in combination with generally favourable conditions has brought about a very high standard of hygiene

for our food. A clear example is the remarkably good result of our fight against salmonella. Although I basically support a harmonisation of rules and restrictions within the European Union, I am of the opinion that the Swedish regulations for combating disease should be maintained. As I see it, the objective should be that at least the same standard should be introduced throughout the European Union. Neither is there any reason to apply lower criteria for health standards to imports from countries outside the European Union.

The GATT agreement allows restrictions to be imposed on food which is considered to have harmful health and environmental effects. Fears in this case should be based on science and not on opinion. This also applies to food which is produced using bio-technology, including genetic modification. It is therefore impossible to prevent the import of harmless products, even if they are produced by genetic modification. This means that we will see products in Europe which are regularly produced with the aid of genetic engineering.

I share the view of the Rio conference and Agenda 21 that, if used properly, genetic engineering is a way to ensure better food supply, not least in the third world. According to Agenda 21 the use of genetic engineering should be increased. There is absolutely no reason to impose other and more stringent safety requirements on food which is produced using new technology compared to food produced by traditional methods. Such an attitude risks a delay in access to better food and also risks contributing to the depletion of sensitive environments.

Regional policy

Today around half of EU farming land attracts compensation support as a result of less favourable conditions for agriculture. There are several different reasons behind this support, including the notion that it preserves the landscape, and also social reasons in prevention of rural area depletion.

One consequence of the deregulation of agricultural policy will be that production will take place in areas where conditions are favourable. In order to balance out the effects of this, my view is that there will be a major need for regional support throughout the European Union.

It is important that the support is designed so that it does not create competitive imbalance. For this reason it should be designed centrally, and should also, for the most part, be financed from common funds.

Special national solutions should be avoided. Where this section of the report is concerned, I agree with the opinion of the majority.

Environment

A sound environment is a basic condition for a rich human life. In the case of agriculture, its influence on the environment is significant in many aspects. Over the course of time, food production has greatly changed the landscape. There is, however, a tendency for every generation to regard yesterday's landscapes as the most desirable. It is an indisputable fact that changing economic, technical and biological factors bring about changes in agriculture and thereby changes in the landscape. The changes in themselves bring about changes in the life which can survive on the land which is farmed. Around a hundred years ago a major part of food production was based on pasture lands and meadows which by today's standards would be considered extensive. Conditions for the flora and fauna of these areas have dramatically deteriorated. Current food production favours other species. It should be emphasised that even today's conventional agriculture is responsible for many important environmental values. It is wrong, in this context, only to promote organic farming.

In my opinion it is unfortunate that an attitude of conservation should control too great a proportion of land use. However, it is difficult to evaluate changes in the short term. This indicates a need for a certain caution where change is concerned, and preservation of older environments is an important aspect of environmental policy.

Every country has its own special environmental values relating to areas connected with the agricultural landscape. Special categorisation in Sweden has meant that these areas can be classified. Even before entry to the EU farmers received payments for taking care of these areas via NOLA support or landscape care agreements. These forms of support have now been replaced by the EU's special environmental support measures. These environmental initiatives have been beneficial and should be seen as compensation for efforts made in conserving the cultural landscape.

I agree with the EU's view of environmental policy. I would like to repeat the points mentioned in the report.

- Each sector should take responsibility for the environmental effects it causes.
- The Union should promote sustainable and non-inflationary growth which shows consideration towards the environment.
- EU environment policy should contribute towards conserving, protecting and improving the environment, protect people's health, use natural resources efficiently and with care and promote measures at an international level to solve regional and global environmental problems.

To me it is obvious that agriculture should not be the cause of pollution to the world around us. It is unacceptable, for example, that ground water has been polluted by pesticides and too large quantities of nitrogen. Farming methods must show consideration for their surroundings, even if this means extra costs and more inconvenience for the producer. However, I do not think that producers should suffer penalties in production or environmental charges based on un-scientific grounds. At the end of the chain, this affects consumers via more expensive food and sometimes via poorer quality.

The view of the majority is that recycling is an objective for society to strive for. This view has significant shortcomings. In my opinion the use of recycling is one of a number of ways to cut back on the use of resources and to minimize environmental load, but it is not an objective in itself. In the same way, the majority thinks that it is an objective in itself to cut down on transport. In my opinion, this is an incorrect view. Transport of people and goods has been the driving force in the increase in welfare standards which has occurred throughout the world in recent centuries. Without good, well functioning transport, for example, free trade would be meaningless. According to the FAO, in order to cope with supplying the world's population with food, world trade needs to increase, not decrease. The environmental damage caused by transport has gradually been reduced, and can be reduced still further by new technology. I see a great danger in a return to more isolated societies, and I am not prepared to contribute to such a change.

I agree with the majority's proposal that environmental regulations should be harmonised. The issue of countries imposing restrictions for their own producers is not entirely beneficial. Those producers affected will find themselves in a worse competitive situation than others.

Furthermore, in Sweden the environment has been used as a cover for taxing means of production without clarifying environmental consequences. Further thought should be given to this particular issue. Otherwise I share the majority's opinion with regard to decision-making and finance (chapter 6.4 and 6.5).

Animal husbandry and animal welfare issues

For the most part I agree with the majority over these issues. In Sweden we have more stringent regulations for animal husbandry than in the rest of Europe. However, it has proved extremely difficult to obtain a higher price for this production. I therefore feel that in the WTO negotiations, the European Union should press for animal welfare issues to be added to the agenda, with the objective that certain minimum requirements should be imposed in all countries. Strict demands should be made in this question, and the European Union should also be able to set as a condition for the winding down of tariffs that better animal welfare legislation should be introduced in all countries and parts of the world.

Summary points of view

In my opinion the CAP should primarily concern policy on food and have the following objectives:

- European Union food production should be competitive on the world market.
- A wide and varied supply of food at reasonable prices should be accessible to consumers at all times.

The instruments for achieving these objectives should be deregulation combined with compensation support for primary production. This support should be paid during an interim period, the length of which will be determined by the WTO negotiations and developments on the world market. Border protection/tariffs against third countries should also be gradually phased out.

Restrictions on production should, as far as possible, be common to the whole of the European Union. This applies, for example, to environmental restrictions and animal husbandry regulations.

Support to entrepreneurs and individuals should also be common throughout the European Union. This applies, for example, to regional

policy support and payment for environmental services. The rules must be simple.

Support for tobacco cultivation should be excluded from the CAP.

National decisions on support should only be able to be effected following central approval.

National decisions on more stringent regulations or increased taxes on domestic producers may be made without central approval. I am assuming that the rights of individual citizens will not be infringed in this respect. However, if such decisions are made, countries should be conscious of the fact that there is a risk that their own production will decrease.

Given time my proposals would mean a dramatic fall in costs for the CAP. Instead, the proportion of regional support in the EU budget would increase. In my opinion this would be a beneficial development which would contribute to an improvement in living conditions throughout the European Union, not least in the wake of an enlargement to the East.

Special expert comment by Lars-Erik Hellberg and Mikael Kullberg

We have taken part in the KomiCAP committee as expert advisers, and we largely agree with the report. However, by way of special comment we would like to highlight and emphasise the significance of employment in the future agricultural policy.

Employment

The committee presents two principal objectives for future agricultural policy. The CAP should aim to facilitate:

- a wide and varied supply of safe food at reasonable prices
- sustainable agriculture.

Apart from these primary objectives there are seven secondary objectives. These chiefly apply to environmental and animal welfare issues in a broad context, issues which we consider to be important. The secondary objectives are intended to ensure that production, processing and distribution of food takes place in such a way that

- biodiversity is conserved and promoted,
- cultural heritage is preserved,
- a varied farming landscape is promoted,
- environmental load is minimized,
- livestock production takes place under strict requirements for animal welfare,
- regional balance and viable rural areas are promoted,
- internationally competitive agriculture within the European Union is promoted.

In our opinion employment should be added to these secondary objectives in the future agricultural policy, and dealt with as a special 8th point.

Only in the point concerning regional balance can anything relating to employment in the sector be inferred. However, in our opinion there is a difference between promoting a regional balance and promoting employment more generally. The new policy should therefore, in addition

to the two principal objectives, have the task of promoting employment throughout the entire food chain. We also consider that the food industry also has an important part to play in employment.

A reform of the CAP will mean that for many years to come there will be a transfer of significant amounts from taxpayers and consumers to agriculture: the CAP today comprises around half of the EU budget. With the high unemployment throughout the European Union, this money must be used in a way which stimulates employment.

The Swedish prime minister said in his government policy speech in September last year: "Food production should contribute to a Sweden in economic balance, to sustainable growth and to a growth in employment."

In our view, the Swedish position on the CAP must not be allowed a lower level of ambition in questions of employment.

Regional policy

It is unfortunate that the committee only speaks of agricultural production, completely forgetting the processing industries in regional policy. In northern Sweden, these industries are equally important in terms of employment as agriculture itself. In the long term, without the processing industries we will find it increasingly difficult to manage agricultural production in sparsely populated areas. In the future, measures of regional policy may also lead to the processing of more products other than those of traditional agriculture.

It will not be defensible to support agriculture in sparsely populated areas if it consists only of raw materials producers without local processing. New and improved regional policy must pay attention to the links between raw materials production and processing, through which higher levels of employment can be achieved in sparsely populated areas.

Special expert comment by Eva-Karin Hempel

I have taken part as an expert adviser to the KomiCAP main committee. However, the committee experts have not been given the opportunity to participate in all meetings, something which in my opinion is remarkable. My comments relate to the text in existence following the committee's final meeting on 12 June 1997.

In my opinion the report of the KomiCAP inquiry cannot be used as a basis for a Swedish position with regard to the future of the CAP.

The most important reason for my opinion is that the proposed structural objectives for the CAP are not at all in line with the policy or the controlling instruments which are proposed in the next step. Briefly, it may be said that the objectives and demands outlined for agriculture and the food sector cannot be achieved via a policy which is based upon the removal of the basic principles of the CAP.

As such, the KomiCAP report completely lacks any analysis of how demands relating, for example, to the environment, animal husbandry and regional balance can be reconciled with the demands for free trade and deregulation which otherwise permeate the report. There should be a discussion of how, in a deregulated scenario, the high ambitions in the above mentioned areas could be maintained. On an open, international market prices are determined by criteria other than, for example, animal husbandry regulations. Experience from Sweden shows that it is extremely difficult to obtain a higher price for the entire Swedish production on the open Common Market. If there is an imported alternative at a lower price, prices will be pressed downwards. Increased initiatives in food labelling and consumer information are instruments in this context, yet they are not sufficient. On the one hand KomiCAP advocates purely market solutions, yet in the next instance proposes national regulations for labelling, bans on harmful products, rules for permitted environmental effect levels, demands for regional balance, etc. In practice KomiCAP makes extensive demands on agriculture, yet is not willing to grant agriculture support to fulfil these demands via the CAP system. In my opinion it is unrealistic to believe that European agriculture can live up to these expectations without fundamental support from European society at large.

The report directs relatively harsh criticism towards the current CAP objectives. This criticism is partly unwarranted. The objectives may not indeed be up to date, but on the other hand there is no general discussion within the European Union of any change to the Treaty of Rome. The

report also fails to recognise that there are important consumers aspects to objectives aimed at stable markets, safeguarded supply and reasonable food prices. Naturally enough there is also a link between the wording in the current CAP relating to producer incomes and what is written about secure supply of food on the Common Market. Not specifically covered in the current objectives, as mentioned in the report, are environmental and regional issues.

The structural objectives proposed by KomiCAP for the CAP are relatively thorough. However, it is necessary to supplement the principal objective for agriculture. In order to balance out the other principal objective for safe food at reasonable prices, the clause regarding agriculture should be adjusted as follows: *“The CAP should aim to facilitate economical and environmentally sustainable agriculture .”*

Thus the most serious shortcoming in the report is that the proposed policy will not lead to the fulfilment of the CAP’s objectives. KomiCAP proposes that current basic measures of market regulation such as intervention, export support and production quotas should be removed. Border protection is to be retained for an interim period. According to KomiCAP, the current system of direct payments will only be necessary during an interim period. Moreover, political decisions should be made as to why one sector of production is in need of support whereas another is not. As in the 1990 Swedish policy on food, it is proposed that the reform of the CAP should take place under socially acceptable forms, and that direct payments should be available for a limited period to facilitate transition and structural change within the agricultural sector.

Thus what KomiCAP is advocating in practice is that the current CAP be disassembled: not completely, perhaps, yet very nearly. Although the report discusses increased initiatives for the environment and rural areas, it is clear that the consequences of the proposed policy will be a set back for food production inside the European Union. KomiCAP also speaks of a change and transition of the agricultural sector which can hardly be interpreted to imply that EU agriculture will improve its situation. In a very brief section on the consequences of KomiCAP’s proposal it is also mentioned that profitability for milk, beef and sugar production will fall inside the European Union. My opinion is that KomiCAP’s proposal will lead to an overall reduction in EU food production, even in less favoured areas where agriculture plays a central part in the survival of the local community. It is quite remarkable that KomiCAP has not presented more in-depth analysis of the consequences of its proposal. It is irresponsible to deal with any sector in this way, and

one might ask if there is any other sector of business in which a policy leading to lower production and lower employment would be accepted. Unfortunately a characteristic of the analyses presented in the report is a one-sided seeking out of harmful aspects of the CAP and a tendency to base everything on theoretical reasoning. The section which deals with the effects for consumers and producers is based, for example, on the relatively obscure PSE and CSE calculations and not, as would have been more relevant and interesting, on actual price development, food's share in people's personal spending, developments in profitability, etc.

What should be obvious, if one wants a competitive food sector in the European Union, is that European agriculture cannot be deregulated at any other rate than those that adopted by competitors on the world market, and that one can observe that natural conditions for agriculture in the European Union are different compared with leading export countries such as the USA, Australia and New Zealand. Without this in mind, European agriculture will unfailingly lose market share in the international market. Worse still, to believe anything else is naïve.

The report states that world market prices will be increased when the CAP is deregulated. This means that KomiCAP is expecting EU volumes in international trade to decrease. KomiCAP also believes that certain developing countries in such a situation will have better chances of increasing their own supplies. This may be true in certain cases, but as a rule the effect would probably be that the above named competitors to the European Union on the world market will thankfully take over the market vacuum which the European Union would willingly be creating. One might also actually ask whether the European Union via unilateral deregulation with its ensuing reduced production would be making a substantial contribution to global food supplies, and especially the large numbers of people who today go hungry.

In my view the CAP should be successively reformed, starting out from the 1992 reform which began a gradual adaptation to international, real market conditions in line with international trade agreements (GATT/WTO). This means attaching generally lower importance to market price support and compensation via direct payments if the international price levels are not raised. Production limitations and quota systems should be adapted to market development so that increased European production becomes possible. Environmental and regional payments should, as today, supplement the CAP system.

At the Swedish Farmers' Union meeting in Halmstad in 1996 the document "Swedish Farmers' Union views on the European Union" was

adopted. The document comprises one section entitled "Vision for agriculture" and one entitled "Choice of direction for agricultural policy".

In brief, the vision for agriculture starts from the belief that European and Swedish farmers have the capacity, given equal conditions for competition, to compete on an international level. In increasingly free trade conditions, sensitivity to consumer demands will be a decisive factor for success. The vision of the future is based on the basic options for cooperation within the European Union remaining the same, even when an enlargement of the union and subsequently necessary reforms are carried out. It is also noted that agriculture is the basic provider in all countries and that it provides the most basic of all needs, i.e. food.

The tasks facing agriculture in the future can be summed up as follows:

- Production of what the market demands, in which food production is the basis, supplemented by energy and industrial goods, tourism and collective benefits.
- Viable agriculture throughout Sweden with good economic conditions for the farmer.
- Production which is resource-efficient and environmentally aware, taking good care of animals gives high quality products.
- The key role of agriculture in a society in ecological balance is utilized.

One other part of the Farmers' Union view of a future Europe is that an enlargement of the European Union to include countries in Central and Eastern Europe is both desirable and necessary for stability in Europe.

As for points of view concerning the future Common Agricultural Policy, the document expresses a wish for the policy to continue to be commonly held and commonly financed by the Member States. The Farmers' Union is opposed to a re-nationalisation of agriculture and any accompanying increased level of national financing. The Union considers that agricultural policy objectives should be reviewed and that issues such as competitive position, the environment, sustainability and regional development are brought into the current objectives. With regard to agricultural policy instruments, the document states that agricultural prices should be increasingly governed by market demands. However, so long as pure market conditions do not provide acceptable economic circumstances, there is a need for a combination of price

support and direct payments, with a successive reduction in the significance of price support.

The general connection between CAP support and lower prices makes a link to production both natural and necessary. Future changes in direct payments should focus on simplification and competitive neutrality. The Farmers' Union is of the opinion that regional support should facilitate active farming and rural area enterprise throughout the country. Environmental support should be used to promote agriculture which focuses on quality and efficient use of resources. Special national regulations and taxes/charges on the environment should be levelled out between different countries.