Minister, Commissioner, ladies and gentlemen

We live in a time when European Agriculture faces some major challenges. In many ways, it is at a crossroads.

On one hand globalisation is changing the role of rural communities and what we expect of them. On the other hand governance challenges such as CAP reform, budgetary constraints and WTO negotiations affect the very fabric of how we are going to support and nurture our agricultural communities.

I believe that in the next few years, these factors will radically change how we tackle agriculture and what we put in place to deal with the challenges that face both agriculture and rural areas. In particular we will have to look at:

1. How the EU intervenes in agriculture
2. What will be the framework and aims of Rural development policy
3. What action can we take that actually benefits rural economies

**Agriculture in a changing Rural World:**

We live in a changing rural world.

European society is increasingly becoming an urban one where people in rural areas are becoming social minorities with reduced political and electoral clout. This makes it much more difficult to justify state intervention in rural areas. This has been happening in the UK for many years, but now it is beginning to happen in many other member states as well.

Rural areas themselves are changing. Rural industries have to diversify into new areas such as green tourism and farmers themselves are now not always full time. Many of them have to juggle other jobs just to make ends meet. We are also seeing the nouvelle riche from cities buying up rural land and settling in villages. Of course, this is profoundly changing the dynamics and economies of these rural areas.

However all those living in rural areas are responsible for managing the land and sustaining their most valuable natural resources, such as water, soil and wildlife biodiversity. They are also responsible for the
development of renewable energy sources including biomass, wind and solar power.

In the EU we have 183 million hectares dedicated to agriculture which represents nearly half of the landmass. If we include forests, nearly 80% of the total surface of the EU is rural.

These areas are diverse and vital for ensuring a sustainable Europe and farming is of course the main component of all rural economies.

Farmers work close to nature and to living things but they face increasing competition in a globalised agricultural food system. In many sectors, producers are regularly being paid ever lower prices for their products because of cheap imports coming from outside the EU. These reduced farm gate prices are normally not reflected in cheaper prices for consumers in our supermarkets.

Globalisation also makes food products become standardised, jeopardising the tradition in Europe of having a wide variety of agricultural products. This diminishes the range of agricultural products available putting increased social demands on European agricultural producers.
There is also greater demand for both local and organic food, and both are beginning to develop into symbols of identity in an increasingly diverse Europe.

These factors show that for many European consumers food is more than just a commodity. They are demanding round the year access to high quality agricultural products, produced locally and increasingly organically but, at the same time, at low and stable prices.

They demand healthy and safe food which is traceable and has guaranteed nutritional qualities, that is produced with respect for the environment and for animal welfare according to sustainable development criteria. They also expect food to be labelled with sufficient information on what it contains and on its production methods, so that they can freely choose what to buy based on sound information.

In other words, the major challenge for our food system – and thus for farmers - is to make itself visible and recognisable to all European consumers for its quality, its safety, the diversity of its products, its capacity to adapt to changing demand and in short, for being different to products that come from outside the EU.
If we achieve this, we should not fear globalisation and will guarantee the vitality of our rural areas.

**Rural v urban citizens**

As decision makers, we need to emphasise the multifunctional role played by agricultural activity. Agriculture is more than about producing food, it manages the landscape. Agricultural payments must therefore be justified by the public good which agriculture can provide by providing services of public interest to the whole of society.

The European Parliament, as the only directly elected institution is well aware that the electorate not only demand good food, but that they also want biodiversity to be protected and they want rural areas to remain sustainable in every sense.

The EU therefore must therefore ensure that it provides a future for rural areas, both economically, but also in terms of biodiversity and renewable natural resources.
This takes me to the second area for reflection that I listed at the beginning of this presentation: institutional dynamics.

As Chairman of the European Parliament Committee on Agriculture and Rural Development, I will briefly focus on the future role of agricultural and rural policies.

Obviously, I have to talk about the CAP with its two pillars and the development of the Union’s financial framework that allocates funds to it, but without forgetting the uncomfortable issue that has always been present in the CAP reform process, the WTO. In the end, it is the multilateral institutional framework that guides and fuels a large proportion of the measures to adapt the current CAP mechanisms.

The big 2003 reform of the CAP, unlike the previous ones, started a process of review of the CAP in stages. The decoupling of aid became a frame of reference for a long sequence of reforms of the agricultural sectors.

The so-called “Health Check” of this reform, which the Community institutions are currently debating in Brussels, is the latest exponent of this process. In terms of rural development, the Commission is
proposing an extension of the axes of the current programmes to four new challenges: climate change, energy, water management and biodiversity. In order to finance the new measures, additional modulation is being proposed.

Indeed, the Health Check perfectly combines the limitations and contradictions that the CAP is facing and, within it, rural development policy.

Actually, the current, decoupled income aid suffers from substantial legitimacy problems in that:

- firstly, it is still calculated formally based on historical production references;
- secondly, it establishes the various levels of support that existed in the past according to sectors and territories;
- thirdly, it does not reflect the changes recorded in the orientations of farms after decoupling, once freedom to produce is established, and this distorts the markets;
- and fourthly, they also do not reflect the changes in the prices or market costs recorded in recent times, consequently over-compensating producers of cereals and oilseed (direct beneficiaries of the current explosion in agricultural
commodities), while abandoning livestock producers (who are suffering from an increase in the cost of feeding-stuffs).

Therefore, decoupled aid needs to find an alternative reference point. This should be land (as in the simplified per hectare system applied in the majority of the new Member States, and the ‘regional decoupling model’ now applied in Member States such as Germany and Denmark, and regions such as England). That is why, with the Health Check, the Commission is proposing the gradual step of a decoupling model based on historical production references to a territorial support model, based on basic aid per hectare that varies according to area. The proposal for new area designations for the less favoured areas of the EU that the Commission will present in 2009 will undoubtedly underpin this trend towards territorialisation and may even become a key axis of the new CAP to be designed for after 2013.

The formalisation of a territorial support model within the first pillar of the CAP has the additional effect of gradual material convergence (in terms of nature and functionality) between decoupled payments per hectare and a certain proportion of the aid that is currently granted within the second pillar. In future, the main difference between the new territorial payments in the first pillar and compensation for mountainous
areas, compensation for areas with structural or natural handicaps, compensatory aid for the costs of environmental programmes, among others, would be the financial arrangements: the first pillar payments would continue to be entirely funded by the EAGF, and the second pillar aid would be provided by the EAFRD in a co-financing arrangement. A clear contradiction which, whether we like it or not, can probably only be resolved in the medium term by creating a single pillar of agro-rural support under a single co-financing arrangement. In other words, the progressive material convergence leads to financial convergence.

The limitations of the financial framework

Aside from the contradictions arising from the CAP reform process, rural development is subject to a strict financial framework, decisively influencing its future.

As you know, in 2005 all of the expenditure under the second pillar was concentrated into a single fund, the EAFRD – the European Agricultural Fund for Rural Development. With this the hope was to preserve the complementarity between the first and second pillars within the CAP with a view to the negotiation of the 2007-2013 financial perspective.
However, the multiannual financial framework finally agreed in 2006 was very far from the expectations created. The rural development policy, which in 2006 had 9.1% of the Community budget, was in fact reduced, in both absolute and percentage terms: in 2013, at the end of the period, rural development will represent only 7.3% of the budget of the 27.

To add to this situation, almost half of the appropriations for rural development for the period 2007-2013 were allocated to the new Member States (47.3%: EU-12). This in fact meant that support for rural areas in the EU-15 was substantially reduced.

In order to remedy this situation, the only tool that the EU has for the time being, is to successively increase modulation. In other words, take money away from the first pillar and put it in the second, but this mechanism will not be very effective, for various reasons:

Firstly, the axes for action on rural development are constantly being extended, which invalidates any additional financial effort. We have seen the latest example of this endeavour with the Health Check, which includes four new challenges within the second pillar (climate change, energy, water management and biodiversity) to be financed with a further percentage of modulation.
Secondly, energy support, water management or protecting biodiversity are not really ‘new’ challenges. They could be perfectly well tackled using the current framework for rural development. The real problem lies in the fact that the Member States have not given them the required importance when designing their rural development programmes for 2007-2013. I doubt therefore that the same internal authorities that did not show any interest in these measures six months ago, will change their views as a result of the (limited) incentive of the new modulation. In addition, my committee has identified, in its vote on the health check last week, another challenge which should be tackled: the abolition of milk quotas which will create enormous problems for small holdings, in particular in less favoured areas.

In fact, only the fight against climate change is actually a new challenge. But honestly: if we take this huge challenge really seriously, I have some doubts, if it can be covered with the amounts from the proposed modulation.

The use of modulation is also invalidated by the lack of connection between the resources available to each Member State and the extent of their rural problems. From the outset, modulation is a percentage of each
Member State’s direct aid. This is particularly beneficial to some countries and condemns the smaller Member States with lower levels of support to merely symbolic modulation. However, it may be the case that the countries facing the greatest challenges owing to climate change or having the highest levels of biodiversity (or areas classified as Natura 2000 areas), to give just two examples, are not the ones with the most room for manoeuvre for financing their measures.

Finally we need to recognise the political problems that compulsory modulation brings. Many public authorities are reluctant to go down this road, because it pits them directly against the agricultural unions and may entail problems of distribution between their regions. Hence the idea of ‘voluntary modulation’, which the European Parliament expressly came out against because of the risks of distortion of competition, re-nationalisation of support and loss of the prerogatives that Parliament has been given. Finally, the impact of modulation has been limited to two countries, and it also does not appear that it could be considered as a solution to the problems of financing the second pillar.

To conclude, we are at a crossroads: the demands in the area of rural development of an enlarged EU are increasing day by day, while its funding its coming up against a budget and some mechanisms, like
modulation, that do not match up to the circumstances. This Conference has to give a coherent response to this paradox, which possibly requires a substantial increase in the rural development budget from 2014, with the new financial perspective. This proposal is also coherent with a new, more effective CAP that is adapted to the needs of enlargement and globalisation (its two main challenges in the medium and long term). However, we need to be very aware that the debate on post 2013 begins next year, with the financial review that the Economic and Finance Ministers will have to clarify in Brussels. This Conference must keep this very much in mind and make proposals for the future that can convince the representatives of the Member States in the Council.
Thank you very much