7 *Agricultural and agro-food policies*

7.1 – Structural policies

In the European Union, farm structure policy falls within the scope of "rural development", or the "second pillar of the CAP", which is being implemented in the context of the "Agenda 2000" reform for the period from 2000 to 2006; it will be presented in the section on rural development. However, countries may define and finance complementary policies with the agreement of the European Commission; this is the case in Spain in particular with the policy on public investment in irrigation, which is still very active. Furthermore, Italy promulgated an agricultural guidelines law in 2003 with a view to adapting the statutes governing the status of agriculture and of farmers to the present circumstances and in particular to the reform of the Common Agricultural Policy and the introduction of decoupled payment entitlements. France also has a similar law in the pipeline, whose purpose will also be to adapt "structure control", i.e. statutes aiming to give young farmers who are setting up preferential access to land and to expand small and medium-sized farms.

In the other countries, public investments in farm irrigation schemes are always a major item of public expenditure, although large-scale schemes seem to be less predominant this year. There are two other subjects which also feature in the country reports: land issues, more specifically measures to make State-owned land or land which has been developed by the public authorities available to farms, aids for financing farming activities, and the continuation of State withdrawal from the banks in charge of this funding. there were few events or prominent decisions in either of these two fields in 2003.

In **Spain**, irrigation is still the principal public expenditure item in the structural field; the National Irrigation Plan is continuing, involving a total investment of € 5 billion, € 3 billion of which is government-sponsored. The environmental issues related to this development of irrigation are a subject of keen debate, which will be presented later in the present report.

2003 was also marked by the continuation of a national debate on the future of agriculture and agricultural policies, which was opened by the Ministry in 2002. The discussions brought together university experts, professionals and national and regional administrations, who together broached the following issues: agricultural structures, taxation, income guarantees, training, relations with other economic sectors, cooperatives, rural development, environment, impact of the CAP, etc. The debates resulted in the publication of a 2300-page "White Paper on agriculture and rural development", intended as a basis for reflection on the future of agricultural policies in Spain.

In **France**, the government introduced a legislative bill in 2003 aiming to modernise agriculture. The bill aims essentially to adapt the status of farms and the various categories of family labour to the new farming conditions and to relax and simplify the policy on controlling farm structures and on public intervention in the land sector with a view to managing the new payment entitlements resulting from the new reform of the CAP. A national debate organised at the regional level is being held on the preparation of this law, bringing together the representatives of all agricultural producers' organisations.

In **Italy**, the Agricultural Planning Act which was passed this year provides a new definition of farms and farmers. It introduces the concept of professional farmer, which replaces the concept of main-occupation farmer. This is a person with agricultural knowledge and skills who devotes at least 50% of his/her time to farming and obtains at least 50% of his/her earned income from those agricultural activities. Professional farmers enjoy tax relief concerning indirect taxation and credit, for which provision is already made for full-time farmers. The law also introduces the farm company, which must mention the term "farm company" in its trading name and business name, and whose sole object must be to carry out agricultural activities.

The Planning Act also extends activities that are termed 'farming activities': in addition to traditional farming activities, processing and sales activities are also taken into account as well as the providing of services directly connected with farming. Processing activities remain in the agricultural system, not only as regards the use of the farm's agricultural commodities but also as regards the share of products purchased from third parties. These new arrangements further reduce the tax pressure on farms and also help to establish their multifunctional role as well as the role played by farmers in providing services for the community.

In **Morocco**, as in the other to Maghreb countries, water control investments continue to account for the largest share of investments. In an investment budget marking a sharp decrease compared to 2002 (1.94 billion dirhams as against 2.58 billion, i.e. –25%), there was a slight increase in the water control share again in 2003 (61% as against 57%), large-scale water projects accounting for over half of total investments. The essential factor in the 2004 budget, again with a marked downward trend (-10%), on the other hand, is the drop in the share of investments in large-scale water projects, which decreased from 52% in 2003 to 41% in 2004, benefiting agricultural development measures and training in particular. It is not certain that this type of trend will be confirmed in the budgets of the next few years, since there is still a great deal to be done to equip the agricultural zones downstream from existing dams. In addition to 1 million ha of effectively irrigable land, there were still some 123 000 ha to be developed in 2002, and this will entail sustained investment efforts for many years to come.

Morocco finally implemented the restructuring plan of the two State enterprises – SODEA and SOGETA – in 2003, as announced in the 2003-2004 report; these two enterprises hold some 124 000 ha of the land which the State recovered from the colonial power in 1972. This plan, which was adopted on 26 May 2003, covers the period from 2003 to 2006 and is based on three components: land tenure, financial measures and social measures. The land must be allocated as follows: one third is to be kept by SOGETA so that the State can focus solely on producing breeders' seed and certified seedlings; almost 35% is to be returned to the private domain of the State, but on condition that the State begins by allocating part of it – some 7 000 ha – to young agronomy and veterinary graduates;27% is to be transferred to private investors, both Moroccan and foreign, on long-term leases and on the basis of invitations to tender and pre-established specifications; and finally, 5%, consisting of land situated in urban or suburban zones, is to be sold to operators on the property market with a view to promoting social housing, tourism and economic activity zones.

The most important issue is the acreage which the State intends to let out on long-term leases to Moroccan or foreign investors in the context of its new policy of partnership with the private sector. This year the government just managed to finalise the preparation of the engineering design with a view to inviting tenders. The farmers who until then had had leaseholds demanded a sort of “right of first choice” so that they could take over the farms on which they had settled. Furthermore, as potential investors, Moroccan operators lamented the fact that they had not been involved in the elaboration of the specifications from the outset and demanded that a “national preference” mechanism be set up, through which they in turn could be given an advantage over foreign investors.

And finally, 56 500 ha will be leased to investors following an international invitation to tender, which is scheduled for 15 October 2004.Between 200 and 250 projects are expected, distributed between the agricultural and the agro-industrial sectors. Projects in the export chains such as citrus, olives and vines should be favoured, and the consistency and viability of a project will be a more important criteria than the “financial bid”. Some 300 expressions of interest have been registered, the potential foreign investors being mainly French, Spanish and Italian.

With regard to the other land allocation methods, little has been achieved as yet, also as far as suburban land is concerned, despite the fact that it is highly coveted.

The project for restructuring the Caisse Nationale du Crédit Agricole (Moroccan national agricultural loan fund – CNCA) was finally brought to a conclusion in December 2003 with the publication of “Act no. 15-99 Reforming Agricultural Loans”. The “Crédit agricole du Maroc” (Agricultural Bank of Morocco - CAM), which replaces the CNCA, is a limited liability company in which the State holds at least 51% of the capital, which means that the remaining 49% can be transferred to the private sector.

The CAM becomes a “bank like any other bank”, which pursues the objectives of profitability and security, placing a high premium on solvent clientele. Of the bank’s present 200 000 clients 70 000 are considered to be solvent. The bank estimates that there are between 300 000 and 350 000 potentially solvent farmers, so that it is justified in concluding that there are another 280 000 clients to be won.

If the State entrusts it with a mission of “public service” for “political” reasons, such as supporting small and medium-sized farms and re-scheduling farmers’ debts where this is required by exceptional circumstances, it will then have to lay down the rules for doing so by contract and pay the price by granting a special subsidy. The financing of the vast majority of Moroccan farms will thus fall within the scope of these measures, but the detailed rules still have to be defined.

It must also be pointed out that part of the initial project has been abandoned – the plan to create regional banks in the form of open-end cooperatives governed by the provisions of banking law and known as “Banques Régionales de Crédit Agricole” (“regional agricultural credit banks”). This arrangement was intended to promote an area-based approach, to contribute to the development of local and regional life and to provide a means of involving farmers in the management and sustainability of these institutions.

Algeria is working all-out to make up for lost time in the mobilisation of surface water. According to the 2003 survey of the National Dam Agency, 13 dams are currently under construction, 2 of which were commenced in 2003 and 6 will be completed in 2004.Furthermore, of 10 small dams and hillside levees only 1 was completed in 2003, 6 are nearing completion, and work is just starting on the other 3.

It must be pointed out, however, that, despite the fact that the country is financially sound, effective expenditure from the public amenities budget on farm irrigation schemes and dam construction by the Ministry of Agriculture and Rural Development (MADR) and the Ministry of Water Resources (MRE) dropped significantly in 2003 compared to 2002. This is to be explained both by the inadequacy of the economy’s ability to absorb investments (in particular the lack of efficient enterprises running projects) and by the – undoubtedly excessive – caution on the part of Algerian financiers in view of the uncertainties in the payment of oil resources.

The status of land use by collective farms (EAC) or individual farms (EAI) in the case of public land made available through the restructuring of the State agricultural sector (which was formerly self-managed) poses particularly complex problems and has been the subject of numerous decisions, which were already mentioned in previous annual reports. The rules governing the transfer of this land were redefined this year, as were the potential beneficiaries: paid agricultural workers in EACs or EAIs, wage earners in the agricultural sector (including officials of the Ministry of Agriculture and Rural Development who resign from their civil service posts) and young people who have undergone agricultural training. Furthermore, a further provision which is liable to shake the confidence of EAC/EAI beneficiaries states that in urban zones or zones that are due to be urbanised the State can now invoke its pre-emptive right, not only in order to allocate land to public projects but also to allocate it to investment projects submitted by private law individuals or corporate bodies.

In **Tunisia**, irrigation water is considered to be an effective intensification factor in agricultural production systems. Almost 350 000 ha of land are irrigated, i.e. just under 10% of the acreage under crop each year. Yet this irrigated land accounts for almost 45% of the value of agricultural production. In 2003, favourable rainfall allowed reservoirs to be filled up to a record level, but it is observed that the limits of this resources are a felt in the long-term.

Furthermore, the precedence given to developing irrigation in the distribution of public aid, which is inevitably limited, accentuates the dual structure of agriculture; there are no major schemes in Tunisia, or indeed in the other countries in the South, for improving competitiveness and living conditions on small farms in dry zones or simply for implementing policies to limit the fragmentation of such farms. And the fact that the measures to protect and support agricultural markets are continuing to be reduced is also liable to accentuate this general trend.

In **Egypt**, investments in agriculture still account for a very large share of total investment – approximately 15% in 2003. The level of public investments is still very high (amounting to over 30% of total investments each year, and even 41% in the 2002-2003 period. Efforts to develop new land and water control investments are the two main sectors. A 5-year socio-economic development plan was launched in 2002 (to run from 2002 to 2007); the plan is to develop a total of 1.1 million feddans (i.e. some 450 000 ha), 84% of which is to be carried out by the private sector. The main zones concerned are southern Egypt, the Sinai and the New Valley; the plan includes urbanisation incentives and makes provision for population migration to those zones. The measures to equip an area of 935 000 feddans (approx. 382 500 ha), which is already being farmed, are to be continued with private sector participation for 53% of the area.

Egyptian agricultural financing policy is implemented essentially through loans from the Principal Bank for Development and Agricultural Credit (PBDAC), a State bank. Since the policy for liberalising the agricultural sector was launched, the bank has been applying classical commercial criteria in its relations with clients, but small farmers and farmers in the developed desert zones are continuing to receive loans that are subsidised with government aid. A large number of short, medium, and long-term loans are available. Although the total amount of loans is steadily growing, the increase concerns essentially short-term loans. The main beneficiaries are the animal husbandry and intensive crop sectors, the animal husbandry sector using mainly medium-term loans (between 1 and 5 years). Long-term loans, which include credit for irrigation and for developing new land, on the other hand, account for a minute part of the total amount, which continued to decrease in 2003 (0.1% of this year's total).

In **Lebanon**, agricultural financing now also accounts for a very small share of public expenditure in the agricultural sector. It must be pointed out, however, that the government launched a programme of subsidised loans in 2002, part of which are covered by a public guarantee system (run through the Kafalat Corporation) for small and medium-sized enterprises. Farms accounted for 30% of the total amount of loans granted in 2003, amounting to 27 billion pounds, i.e. almost equivalent to the total budget of the Ministry of Agriculture for that year.

7.2 – Price and market policies

In the European Union, 2003 was marked by the major event of the adoption of the so-called “Mid-Term Review” of the Common Agricultural Policy on 26 June. This reform was presented in detail in the CIHEAM report for 2004; all observers note that it is a far-reaching reform of the very principles of the CAP based on the principle of decoupling direct aids. It will have major consequences on the agricultural economies of the European countries and on intra-European and world trade, but its impact will be difficult to foresee. In April 2004, reforms based on the same principles also concerned major Mediterranean products: cotton, olive oil and tobacco (as well as hops). The countries have considerable leeway in the application of these reforms; they communicated their methods for applying them in the summer of 2004. Furthermore, this period was marked by the final phase of EU enlargement to 25 countries, which became effective on 1 May 2004. The main decisions with regard to the CAP had been taken in December 2002, and it must be pointed out that national frontiers had already been virtually opened for agricultural commodities. This enlargement and its consequences for the countries in the South was the subject of a chapter in the Agri.Med report for 2004.

The countries in the South are continuing their policy of liberalising markets and reducing state intervention, at varying paces and with possible setbacks. Input subsidy policies are being pursued again to some extent, for example, in order to cope with the variability of production due to climate factors. Where consumer aids still exist they now only concern the supply of staple commodities to the most destitute social groups; however, both the social situation and the effects of market liberalisation can require an increase in these aids, as is the case in Egypt. Many countries are continuing to move towards opening their frontiers by reducing the protection of products in most branches of activity. This is the case in particular with Tunisia, Lebanon and Egypt. Turkey, who principal intervention tool is now a decoupled per hectare aid, is in the process of completing the dismantling of state commodity marketing monopolies. On the other hand, a certain increase in export subsidies, which are generally used only to a limited extent in these countries, is to be observed, as is the case in Egypt or Lebanon.

In the field of market liberalisation, the signing of the **Morocco**-US Free Trade Agreement (M-USFTA) was a major event, although the most sensitive local commodities are still highly protected. This agreement was signed in June 2004 after very active negotiations throughout 2003; it is scheduled to enter into force on 1 January 2005. It is the first agreement which the United States will have concluded with an African country and, after the agreement with Jordan, the second with an Arab country. It will affect the country's trade relations, particularly with EU countries. It covers virtually all fields in which trade between the two countries can develop through liberalisation. It obviously covers issues of market access for agricultural commodities, industrial products and services, but also questions concerning investments, intellectual property, public procurement, and a wide variety of other issues (transparency, environmental protection, the right to work, etc).

Box 7.1 - The agricultural component of the Morocco / US free trade agreement

The process of trade liberalisation and thus of access to agricultural and agro- industrial product markets has been structured around the various lists of products with precise schedules for dismantling tariffs, which will commence on the date on which the agreement enters into force.

List A refers to products with immediate duty-free access; list Be comprises products where tariffs will be phased out over a period of 5 years (or 6 years for list B+); list C comprises products where tariffs will be phased out over a period of 10 years (or 8 years for list B+); List D, which makes provision for dismantling tariffs over a period of more than 10 years, was finally subdivided - in the course of the seventh round - into lists D1 and D2, with or without quotas, for dismantling periods of 18 and 15 years respectively. Lists E, F and G each actually concern the category of products enjoying "special treatment" due to their extremely sensitive nature: these are beef and veal, white meat and wheat, respectively.

A large proportion of the products likely to be exported by Morocco are included in list A. This is namely the case with fresh and frozen vegetables, fresh fruit and processed vegetables. The other products subject to somewhat longer dismantling schedules are distributed over the other lists, but the most important ones are included in list D2.

However, it was obviously the access conditions for American products to the Moroccan market which posed the most problems. Lists A, B and C focus essentially on access to American genetics and technology and livestock feed, but they also comprise fresh or processed products for which Moroccan products would have competitive advantages over products of American origin. There are two products to which special attention should be devoted, since they are staples: maize and soybeans and their derivatives; these have been included in list B+, with an accelerated dismantling process. They enjoy a 50% tariff reduction in the first year followed by a 10 per cent reduction per year for the next 5 years, so that they will obtain duty-free access in 6 years.

Box 7.1 (contd.)

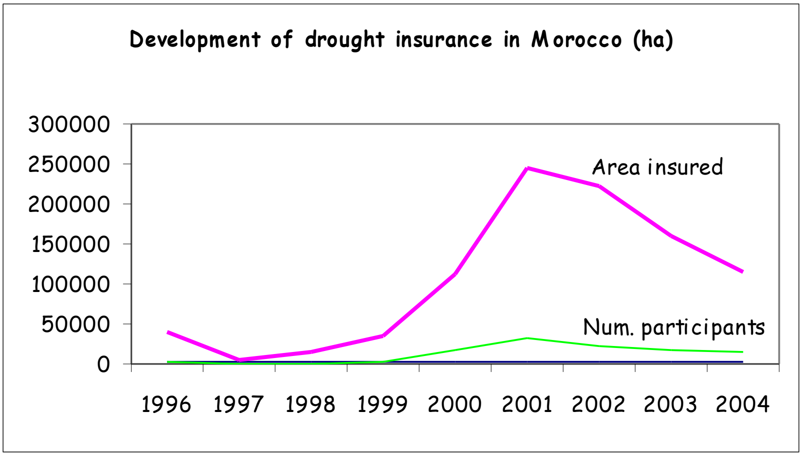
List D contains products deemed to be sensitive. It comprises 2 product categories:
. The first concerns mainly legumes, milk and milk products, almonds, honey, eggs and certain prepared foods. The process for liberalising these products can be controlled by programming adequate transition periods and including appropriate safeguard provisions. The dismantling of tariffs on legumes should will thus extend over 18 years and should will be non-linear. The dismantling process for barley should will also be non-linear but should be spread over a shorter period of 15 years. The other products will also be subject to a 15-year tariff reduction schedule, but the phasing-out will be linear.
. The second category of products on List D comprises those considered to be “extremely sensitive”: red meats, white meats and wheat, for which rather special systems have been agreed. In the case of durum wheat, American exporters will be able to market an annual quota of 250 000 tonnes, which will increase by 10 000 tonnes each year. The MFN customs tariff, which will be applied to exports exceeding the quota, should will drop by 25% during the first 5 years, and the remaining 75% would being retained for the following 5 years. In the case of common wheat, the system is more or less identical to what has been agreed with the European Union in the latest agricultural agreement for the period from 2003 to 2007. The principle is to index the import quota on the basis of the national output level, with a quota threshold lower than that granted to the European partner. Thus, for a national output of common wheat equivalent to or higher than 3 million tonnes the import quota would commence as soon as the agreement comes into force at a minimum of 280 000 tonnes (compared to 400 000 tonnes for the EU), and for a national output lower than or equivalent to 2.1 million tonnes the quota would go up to a maximum of 700 000 tonnes (1 million for the EU). Between these two thresholds the same linear system will be applied as that agreed with the EU for determining the quota. In the longer term, the thresholds of 280 700 thousand tonnes should be increased on a linear basis, reaching a level of 400 000 and 1 million tonnes respectively in 10 years. The levels of preferential tariffs applicable to these quotas were also the same as those obtained by the EU, i.e. a reduction of 38% on the MFN levels.

The abolition of the certified cereal seed subsidy in Morocco last year resulted in an increase in the price of breeders’ seed of 5% to 8% and a 16% drop in sales compared to the previous farm year, with the risks that this entails for production. The authorities recognised this causal relationship and reintroduced the subsidy for the 2003-2004 farm year. In the field of farm machinery and equipment, the subsidies and premiums for which provision is made in the context of the Fund for Agricultural Development have also been maintained. In particular, the scheme for extending drip irrigation, which was launched in 2001 and aims to equip an area of 115 000 hectares, has been revitalised with an increase in the subsidy rate for such equipment, which is now between 30% and 40%, depending on the region.

The drought insurance system, which was launched enthusiastically in the mid 1990s, is continuing to decline. As the figure shows, the system seemed to have “caught on” to some extent in 2000 and particularly 2001, with a total insured area of almost 245 000 hectares and 33 116 participants in the course of the year; there has been a downward trend since then, which seems to have been accelerating from

2003 onwards, to the point where the insured area in the 2003–2004 farm year was just over 116 000 hectares and the participating farmers totalled 15 570. Of course, the fact that there was no drought in 2003 played a role in this regression, but the trend nevertheless demonstrates that the system provides little incentive and that farmers lack motivation.

Figure 7.1



Tunisia has concluded several agreements in the WTO with the EU and, more recently, with Libya and Morocco, in line with its outward-looking policy and agenda for integrating the Tunisian economy into the world economy. The commitments undertaken in the agricultural field concern essentially internal support, market access and competition (reduction of export subsidies). Tunisia's offer at the WTO, which was formulated in 2000 for a period of 2 years, is coherent with the guidelines adopted and reforms undertaken since the introduction of the agricultural structural adjustment programme (ASAP). It contains only two components: internal support and market access.

With regard to the first component, Tunisia has undertaken to reduce the Aggregate Support Measure (ASM) by 1.33% per year for 10 years covering the period from 1995 to 2004. The value of the ASM will drop from 68.4 MTD to 59.3 MTD in 2004. These measures are not considered to be particularly stringent in view of the commitments that have already been made and honoured in the ASAP context. As regards market access, the commitments made concern first of all non-tariff measures such as import licences and import levies. Consequently, the protection of local production and import control can only be ensured in the future through the customs tariffs mechanism. Customs duties have been consolidated at levels ranging on the whole from 75% to 100%. It must be pointed out that the rates that are actually applied – generally below 40% – in fact vary widely from those quoted in the official offer. In other words, the content of the offer is interpreted to mean higher levels which are of limited applicability in actual practice.

In the case of certain products minimum access will be ensured with corresponding customs duties levied at the rates applied during the reference period (1986-1988). As a result, reduced-tariff quotas ranging from 15% to 35% (see Table 7.1) have been established for certain products. Above these quotas, tariffs equivalent to the consolidated rates can be applied.

Table 7.1 - Agricultural commodities subject to quota restrictions in Tunisia

Commodities	**Average imports 92-94 in tonnes (1)**	**Quota in tonnes (2)**	**Difference (2)-(1)**	**Tariff in %**
Beef and veal	10 500	8 000	-2 500	27
Mutton and lamb	538	380	-158	27
Powdered milk	18 700	20 000	-1 300	17
Durum wheat	45 190	300 000	255 000	17
Common wheat	694 880	600 000	-94 880	17
Barley	162 950	200 000	37 050	17
Sugar	198 000	100 000	-98 000	15

Source: Ministry of Agriculture.

On the basis of these commitments, suspensions of common customs tariffs were thus registered in Tunisia in 2003 for agricultural commodities and agri-foodstuffs, certain machinery, raw materials and energy products. Furthermore, on the basis of the agreement with the EU, which has now entered its eighth year, products that are manufactured locally have to contend with tariffs 55% lower than they were in 1995.

Despite this, agriculture and fisheries are still two of the most protected branches of industry; the protection rates for these sectors are higher than the national averages, and the reduction of protection is always more marked in relation to the EU than it is for the rest of the world.

A price stabilisation mechanism has been maintained on the internal market; it is based on the following guidelines:

- In the case of so-called essential commodities, prices are still always administered, the principle being to guarantee that output is marketed at prices that are fixed in advance (intervention prices) depending on how production costs evolve and on an incentive level of income for producers. However, producers are under no obligation to deliver set quantities produced at these prices.

- In the case of products subject to the liberalisation of distribution in the context of the agricultural structural adjustment programme, price policy is based on "real prices", the principle being to ensure that market mechanisms are regulated in such a way that supply (supplementary imports, increase in storage capacity, price stabilisation funds) is better matched to the demand for these products.

However, there are still price controls at all the various stages in the marketing of agricultural commodities, and what is more, at distribution level agricultural commodity prices are still subject to the fixing of profit margins,a fact which is bound to have a negative effect on the marketing of agricultural commodities, particularly as regards product differentiation according to compliance with quality standards.

As already mentioned, the reform of the **European Common Agricultural Policy** adopted in June 2003 is based on the decoupling of aids, each farm being granted entitlement to a "single payment entitlement" equivalent to the total of the aids received on average by each producer in the 2000-2002 period ("historical" calculation)[73]. Provided that the farmer farms an area equivalent to the area entitling him to these aids, he will continue to receive an equal amount irrespective of the commodities produced (with the notable exception of fruit and vegetables!), even if no crops are grown, provided that the land is maintained in good agricultural condition.

A further particularly new element in this reform is the considerable leeway which countries have been allowed for applying it, at the request of countries such as France, which are against total decoupling. In particular, the date of effective application can be later than the "normal" date of 1 January 2005, and, what is more, a certain "recoupling" rate is possible in the case of a large number of commodities. The plans for applying the reform presented by the countries in the summer of 2004 are set out in the table below. We would point out in particular that the 5 Mediterranean countries include one, Italy, which will be applying the reform virtually in its entirety, and one of the most reluctant countries, France; the other three countries are more in favour of recoupling.

The reform also introduces new coupled aids. The very high per hectare premium (971,73 €/ha), which will compensate for the decrease in the intervention price for rice will at all events remain coupled at 58%. Similarly, 60% of the per hectare premium for starch potatoes will remain coupled, and the special premium for high-protein crops will be totally coupled; and finally, in addition to the durum wheat premium, which is decreasing and at least 60% of which is decoupled, a

73 A further possibility referred to as the "regionalisation" or "mutualisation" of aids is a possible option; it involves the allocation of the same amount of per hectare SPE to all farmers in each region, equivalent to the proportion of the total amount of aids paid in the region in 2000-2002 per total eligible area. This system will not be applied in the Mediterranean countries; the countries which have chosen to introduce it have made provision for applying it progressively or will implement a "hybrid" system.

special premium of 40 €/ha has been introduced to encourage quality improvement; it is reserved for crops for which selected varieties are used. These complex decisions clearly highlight the difficulty of the compromise between the general principle of decoupling – and thus market-driven orientation of production – and management of the risk of relocation or the risk that some commodities will simply disappear.

And finally, the reform makes two provisions of the "Agenda 2000" reform – aid modulation and conditionality – mandatory; these provisions were introduced on an optional basis in the "Horizontal Regulations", but countries have in fact only used them to a limited extent.

Modulation is the progressive reduction – in very limited proportions (3% in 2005, 4% in 2006, 5% in 2007) of the aids received above a threshold of € 5 000 per farm. The savings thus generated will be used to augment the funds for rural development measures.

Table 7.2 - Application of the 2003/2004 reform in the 5 Mediterranean countries

	Options	Portugal	Spain	France	Italy	Greece
Application year	2005, 2006 or 2007	2005	2006	2006	2005	2006
Definition of payment entitlements	Individual historical basis or regionalisation	Historical	Historical	Historical	Historical	Historical
Level of « coupling » maintained						
Arable crops	25 % maximum	0	0	25 %	0	
Special premium for durum wheat	40% maximum for traditional production regions	0	40 %	25 %	0	40 %
Seeds	Decoupling not compulsory	No decoupling	No decoupling	Decoupling except for flax and hemp	No decoupling	
Beef and veal	100% (PMSCH)* 40% premium for the slaughter of adult cattle or 75% male bovine premium 100% premium for the slaughter of calves	100 % 40 %		100 % 40 % 100 %	40 % 100 %	
Cow milk	New premium in 2005, total decoupling compulsory by 2007 at the latest			2006		
Mutton and lamb or goat meat	50% of GMP	50 %	50 %	50 %		50 %
Mediterranean commodities (April 2004 – application in 2006)						
Olive oil	40% maximum, reserved for olive groves of environmental or social interest	Not known	40%	Not known	0	40 %
Cotton	35%	Not known	Not known	No production		35 %
Tobacco	60% until 2010, then total decoupling	Not known	Not known	Not known	60 %	60 %

* Premium for maintaining a suckler cow herd, currently amounting to €200 per beef cow per year.

The conditionality of aids means that the aids – whether in the form of the decoupled single payments or other aids – will be paid provided that the farmers comply with the regulations in force in the environmental field (5 directives) as well as the regulations concerning animal identification (4 directives and regulations), food safety and public health (4 instruments), animal health (3 instruments) and animal welfare (3 instruments). This application will be progressive: the first 2 fields in 2005, the next 2 in 2006, and animal welfare in 2007. Conditionality also involves farmer compliance with "good farming and environmental conditions" defined at the national or regional level in each country and the maintaining of areas of permanent grassland in each country. The monitoring methods and the rates for reducing aids depending on the gravity of infringements can be negotiated by the countries to a certain extent; on the other hand, any product of this conditionality (aids which are not paid) must be paid back to the EAGGF, the countries being allowed to keep a maximum of 25% to help to cover monitoring costs.

In April 2004, the new Council of Ministers adopted the "Mediterranean programme", i.e. the reforms of the Common Market Organisations in the olive oil, tobacco and cotton sectors[74], on the basis of the same decoupling principle[75]. These reforms will take effect in every country. The principles of the reform are the same for all three products, but the long-term objectives are different; in particular, it has been stated clearly that support for tobacco production will eventually be abolished altogether, whereas, over and above their productive role, olive plantations are also considered to be an important landscape element and a major environmental protection factor in Mediterranean regions; there is no question of discontinuing olive production, and olive grove maintenance is a major environmental and social issue.

In the case of olive oil, the basis of the reform is the decoupling of aids at a rate of at least 60%. The States can decide to apply a higher decoupling rate, but the aid budget at their disposal will remain subject to the maintaining of the olive groves. Furthermore, the countries can decide to reserve 10% of that budget for operators' associations for implementing and managing quality improvement schemes. There is a 4-year reference period for calculating the aids (1999-2003), and the reform is scheduled to take effect as of the 2005/2006 farm year. And finally, a minimum area of 0.3 hectares has been laid down, below which decoupling will be total, irrespective of the method chosen by each member state.

With regard to tobacco, the reform makes provision for an additional scheme from 2006 to 2009, during which at least 40% of the premiums will have to be decoupled while the remaining 60% can remain coupled but will be subject to certain conditions (production regions, quality). As of 2010, on the other hand, the reform will establish a total decoupling scheme, which, however, will concern only 50% of the amount. The remaining 50% will provision a fund for reconverting and modernising production structures and improving quality.

74 As well as hops, a commodity which can be of considerable local importance and for which France and Spain accounted for a total of 7% of European production in 2002, with an output of 1 500 and 1 200 tonnes respectively.

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And finally, in the case of cotton, 65% of the total amount of aid will be decoupled, the remaining 35% continuing to be paid in the form of a per hectare aid.

It must be borne in mind, however, that the measures applied in 2003 and 2004 are still those deriving from the "Agenda 2000" reform. The transition period during which the reform was progressively applied came to an end in 2002 in the case of most commodities, the only item remaining to be applied in 2003 being the final stage in the increase of the level of "beef and veal" aids. Furthermore, in addition to the measures concerning the Common Market Organisations laid down at the Community level, each country can, with the agreement of the European Commission, also implement measures for organising sectors or aids for producers with special difficulties. In 2003, the amounts of aid paid for crops that had suffered as the result of adverse climatic conditions were particularly high.

In **Portugal**, producers' organisations called for the defining of payment entitlements that are decoupled by regionalisation, since they considered that this was the only way to limit the unfair aspects of the allocation of aids : the fact that the 2 500 biggest producers receive €250 million per year (80% of the total), whereas the 248,000 family farms receive amounts from the remaining 20% – most of which are symbolic. This regionalisation of the Community aids of the CAP would have made it possible to redistribute prices and subsidies within the country by distributing them over each of the 7 agricultural regions (excluding the Azores and Madeira)and it would also have been possible in the future to grant aids to both potato and fruit and vegetable producers, who do not receive direct aids at the present time and are excluded from the decoupled aids in the system by individual references.

The method that was finally chosen was that of individual references, as is the case in the other Mediterranean countries. The socio-professional associations in the sector generally consider that the new CAP price and subsidy policy entails the risk that farmers will give up farming and that this will have immediate effects on employment and unemployment rates in rural areas and on the local, regional and national economy in general.

Special attention was devoted in Portugal in 2003 to the monitoring and taxation aspects of food security, which fall within the jurisdiction of the Food Quality and Safety Agency. These measures cover all of the stages in the production chain: farms, abattoirs, AFIs, commercial establishments, restaurants, hotels, etc. as well as imported foodstuffs.

The figures published on these inspection activities are impressive:

- 3.7 million live animals inspected on 124 000 farms;
- 180 million fowl, 2.3 million pigs, 1.3 million sheep and goats, 400 000 head of cattle, in abattoirs;

- 100,000 tonnes of fish inspected at landing points;
- 8.500 controls and inspections in which 350 000 tonnes of products were checked;
- 130 000 medical analyses to detect animal diseases (BSE, etc.) and to check for prohibited substances;
- 1 500 agents were involved and €100 million invested in these operations.

In **Spain**, the results of the reform are considered to be detrimental to national interests in general. Indeed, farmers' organisations have stated that the calculation of the decoupled payment on a historical basis would result in lower payments for Spanish farms than those received by other countries. Moreover, there could be discrimination between farms within the same country after total decoupling, since, for example, cereal farms could turn to the production of other more profitable crops still receiving the cereals single payment.

Furthermore, the increase in the number of policy options for member states has led to fears that the CAP will be re-nationalised, a scenario in which poorer EU countries such as Spain could not afford to support their agricultural sectors to the same extent as richer countries. In addition to these shortcomings of the single payment scheme, its reductions through modulation are seen as a new source of uncertainty: while the losers are clearly identified, it is still uncertain who stands to gain from the redistribution of funds. Rather paradoxically, most Spanish farmers still see rural development as a threat rather than an opportunity.

With regard to the new regulations for 3 Mediterranean products – cotton, tobacco and olive oil – since they follow the same approach of partially decoupling payments from production, some argue that they could lead to land abandonment in certain low-yield areas. The farmers' unions have blamed the new government for accepting a bad agreement, while the government argues that the "decoupling" trend is unavoidable and farmers must be prepared for adjustments of this nature.

France was against the reform of the CAP on the whole and was against the principle of decoupling in particular; and this opposition contributed to a large extent to the final decision to allow each country to opt for only partial decoupling of certain aids. So it is not surprising that France will be using the partial decoupling possibilities to a maximum with a view to conserving "tools for market orientation and production area location", as stated by the Minister of Agriculture when presenting the methods for applying the reform in June 2004.

France also argued to have the reform applied at as late a point as possible but finally decided – with the agreement of the majority agricultural producers' organisations – to apply it itself in 2006 rather than in 2007, for two reasons:

- the risk of distorting competition and trade with countries opting to apply the reform at an early date, in view of the major uncertainty over the effects of the reform in this field;
- the difficulty of managing a long transition period between the decision on the reform and its application, in particular in the case of land transfers, farm start-ups and farm closures: how can entitlements to premiums be defined?

France is also consistently against the principle of the uncontrolled commercial transfer of production rights and payment entitlements[75]. The main arguments in support of this twofold opposition is the risk of the accelerated relocation of the production units concerned. France has recognised comparative advantages in the case of many crops, but it also has large mountainous or disadvantaged regions where an essential area management objective is to maintain farming activities, and managing production rights and payment entitlements has always been perceived as a means of contributing to maintaining them. Transfers of payment rights in France are thus heavily "taxed" unless they are combined with land transfers: 50% of the amount will thus be taxed by the State in order to provision the "national reserve".

The application of the Agenda 2000 reform is now complete; there was thus little change in 2003 with regard to crop support. Expenditure on market regulation amounted to a total of € 9.6 billion in France in 2003, i.e. 0.6% more than in the previous year; 57% of this expenditure concerned arable crops and 22% beef and veal. Of the € 9.6 billion € 9.1 billion came from the EAGFF. The bulk of this amount (7.8 billion) consists of "direct aids". Of the € 7.8 billion € 7.2 billion were paid to farmers, virtually entirely in the form of direct aids.

France has a long tradition of aid to farmers affected by "agricultural disasters", and this is a permanent item in the agricultural budget, covered entirely by the national budget. The country suffered a series of climate incidents in 2003 involving large amounts of aid. The largest amounts of aid concerned drought, taking various forms: covering of the interest on the loans of farmers in financial difficulties and subsidisation of consolidation loans; special subsidised "disaster" loans; direct indemnification (through the Guarantee Fund) of farmers who had had their livestock slaughtered due to lack of fodder; and finally, aid for the transport of fodder (straw from the cereal-growing regions in the north) to the animal husbandry regions worst affected. Cereal intervention stocks were also placed on the national market, and certain direct aids were paid to farmers before the normal date in order to help them overcome their cash flow problems. It should be pointed out furthermore that the project of State aid for harvest failure

75 In France, for example, milk quotas are linked to land, and the management of unused quotas or new quotas is carried out on the basis of procedures in which both the French administration and farmers' professional representatives are involved. Similarly, entitlements to "beef and veal" premiums are organised in France according to the same type of procedure, the commercial nature of transfers being ensured through the payment of a symbolic amount (according to Regulation 1254/99, it is compulsory to conclude contracts on the transfer of such premiums).

insurance, which was mentioned in the 2002 report, continued to be implemented "as an experiment" in 2003. The government plans to gradually replace the "disaster" system with a system of subsidised insurances based on farmer contributions from 2005 onwards.

Italy is planning to apply the reform as of 2005, but there are still several problems to be resolved. The basic line of policy is that of total decoupling, with individual payment entitlements based on 2000-2002 "historical" references. The main questions that remain unresolved are as follows: application of total decoupling even for durum wheat and reliance on Article 69 of Community Regulation 1782/2003, under which a maximum of 10 % of the financial ceilings can be deducted and reused to finance environmental quality and protection projects.

With regard to durum wheat, the milling and pasta industry, on the one hand, points to the risk of losing a large share of production in the event of total decoupling, and, on the other hand, the Ministry – which is supported by the farmers' organisations which are in favour of total decoupling – considers that keeping 40 % of premiums coupled as approved by the European Commission would only resolve the risk of decrease in production to a limited extent but would, on the contrary, entail the risk of not using the entire financial ceiling recognised by the European Commission as the supplementary aid for durum wheat in traditional zones.

With regard to the second point (the possibility of deducting 10% of the financial ceilings), the most likely hypothesis is a horizontal type of application for all crops, linking the quality bonus to production disciplines within the context of inter-trade agreements or even crop contracts between agricultural producers and the processing industry – a mechanism which would thus aim to encourage quality projects but also to strengthen the links between the various actors in the food chains.

In Italy the revision of the legal status and recognition of the economic activities of the Producers' Organisations in the fruit and vegetable sector, which was requested by the Commission in the context of the CMO reform in 2000, is progressing very slowly. With a marketed output of €3 billion, the Producers' Organisations now account for almost 35% of total national output. Through the operational programmes planned by the CMO they received aids from the EAGGF in 2003 amounting to €100 million out of a Community total of € 452 million. There are still numerous problems to be resolved, however, in particular: the trial of strength between the Producers' Organisations and the marketing cooperatives, which are predominant in the functions of supply concentration and market representation and which meet the minimum turnover threshold required for recognition as generic or specialised organisations.

And finally, the implementation of a tool aiming to promote the vertical integration of agro-food production through food chain contracts has been confirmed.

In **Greece**, the "Mid-Term Review" reform of the CAP was generally not discussed to any great extent, not only because the final agreement was recognised as a compromise (compared to the initial proposal) especially with regard to decoupling and cuts in cereals prices, but mainly due to the fact that the major commodities grown in Greece were not included in its provisions. All major actors were awaiting the new CMOs for olive oil, cotton and tobacco, which were finally agreed in April 2004, while a reformed CMO is still awaited for fruit and vegetables. It is indicative that the subsidies for the first three commodities amount to two-thirds of all subsidies granted to Greek agriculture (€ 1 650 million out of € 2 500 million).

Although most of the actors involved have been generally in favour of the new CMOs, recognising that they contained more positive than negative points, there is still a certain amount of scepticism in connection with the fear that the new CMOs will lead to the gradual abandonment of farms and the countryside, while the remaining farmers will be less involved in their business and will earn smaller incomes because of the reduced subsidies.

The olive oil sector is an important sector for Greece, since around 500 000 farmers are involved in olive-growing. EU subsidies are crucial, given that Greece receives from the EU around € 600 million annually for olive oil, i.e. 26 % of total EU expenditure. It should also be pointed out that 17% of Greek farms are very small (with an output of less than 100 kg and subsidies of up to 5 000 €; these farms will no longer be subsidised in the new regime); 70% (or 350 000 farms) are small and medium-sized (up to 0.3 ha and receiving subsidies of up to 5 000 €) and only 13% are considered "large" farms (receiving subsidies of more than 5 000 €) and subject to partial decoupling.

The most critical issues that need to be addressed in Greece are the exact percentage of decoupling that is to be adopted for "large" farms (60-40 or 80-20), how quality production will be enhanced and promoted and the creation of the olive oil producers register. It should be also mentioned that under the new regime Greece – unlike France and Portugal – has not received permits for new olive oil plantations.

The new CMO for cotton is of great importance to more than 71 000 agricultural holdings in Greece. Greece is by far the leading producer in the EU, with more than 80 % of the total area, the rest being grown in Spain, and a few hectares in Portugal. In the new regime, 65% of the subsidy for "large" farms will be decoupled, and 35% will be allocated per hectare of cotton grown; for "small" farms, total decoupling will apply. The premium will be granted for a maximum acreage under cotton of 370 000 hectares. For Greece, this subsidy is set at 594,1 €/ha for the first 300 000 hectares, but is reduced to 342,8 €/ha for the remaining 70 000. An anticipated effect of the reform is a negative impact on farmers with high yields (more than 4 tonnes per hectare, but, generally speaking, the new CMO is considered to have more positive than negative points in Greece, the most important being the securing of the current acreage under crop (original proposals referred to a reduction of around 40 000 hectares). However, it is feared that the high percentage of decoupling (65%) will actually serve as an incentive for producers to abandon production, a fact that may have a severe impact on the domestic cotton industry. The producer organisations are also calling for the prohibition of the cultivation and import of genetically modified cotton and the continuation of a certain degree of Community preference.

Finally, the new CMO for tobacco is perhaps the one with the strictest provisions compared to the previous regime. Greece used to receive € 339 million in tobacco subsidies annually, but under the new CMO 40% will be completely decoupled from production by 2006, while the rest will remain coupled with output volumes until 2010, and only granted to quality varieties (Basba, Katerinis, Coulak and Virginia). In Greece, although the new CMO is thought to be less harsh than the Commission's original proposals, it is feared that it will lead to the gradual abandonment of production in areas that are remote, mountainous, or less favoured and where alternative crops are scarce. Production volumes will probably decrease and the domestic industry will face severe problems, especially after 2010.

In **Turkey**, border measures, administered prices, input subsidies and budgetary payments were the main policy instruments supporting agriculture. Following the advice of international organisations, the government launched a comprehensive reform of the agricultural support system in 2000 to encourage better allocation of resources and fiscal stability. The focus was on phasing out the subsidies for fertiliser and credit (inputs) as well as the price supports for output. As a compensation, a direct decoupled income payment system has been introduced. This is a uniform per hectare payment, independent of crop pattern (roughly $80/ha to begin with). In 2002 this programme covered 75% of farmers and accounted for more than half of the annual budgetary subsidies (the participation rate may increase to 90% in 2003).

The next emphasis of the reform was on support agencies. The restructuring of quasi-governmental Agricultural Sales Cooperative Unions and the privatisation of parastatal enterprises (Turkish Sugar Company, Turkish Monopoly- Alcohol and Tobacco Company, State Tea Company, the Turkish Grain Board) are still continuing. These reforms have considerably reduced the government's direct role in agricultural production and processing.

All of these measures together with subsidy reduction programmes have contributed to tightening the budget. However, not all reductions have necessarily meant a loss for farmers. A considerable amount of the funds were wasted in the

previous support system in any case. The direct income support compensated a considerable proportion (almost half of the decline in gross agricultural product) of the net loss. The expected shift from heavily subsidised to other more profitable crops has not been observed, for several reasons: 2001 was a year of exceptionally severe drought; the unsubsidised and limited credit market delayed the supply response. It is still too early to analyse the effects of the 2003 reform.
The reforms brought agricultural prices down by about 12 % (in real Turkish Lira) and the volume of agricultural output fell only by about 4 %. The production of cereals, pulses, nuts and fodder crops increased between 1999 and 2001, whereas oilseed, industrial crop and tuber crop output fell. Fruit and vegetable production remained fairly stable. However, the decline was much more marked in animal husbandry than in the crop sector. Supply control measures are also applied to sugar beet and tea. Deficiency payments are implemented for oilseeds, cotton and milk. Input subsidies are provided for irrigation and livestock production. A transition payment is also offered to cover the costs of switching from overproduced commodities to other commodities (attempts of this nature in hazelnut-growing regions have failed).

The reform was also accompanied by a set of measures concerning external trade, supply control and the improvement of production conditions. Tariffs are still high for livestock and meat and milk products, but those applied to cereals are lower and were further reduced to 40% for wheat in 2002. The import approval procedure based on sanitary and phytosanitary conditions continued in 2002; export subsidies, limited to a maximum of between 10% and 20% of export values and between 29% and 100% of the quantities exported, continued to be provided for processed fruit and vegetables, fruit juices, olive oil, potatoes, apples, poultry meat and eggs.

The data for 2003 have not yet all been published, but the OECD has calculated the PSE percentage for Turkish agriculture; despite this move towards liberalisation, the percentage rose from 23 % to 26 % between 2001 and 2002, and remained constant in 2003.

In **Lebanon**, agriculture is not an important activity, but for socio-economic considerations (including efforts to reduce rural-urban migration and to replace illicit crops) the government continues to support the sector and to provide external protection; it regulates wheat and sugar-related economic activities through the Directorate General for Cereals and Sugar Beet in the Ministry for Economic Affairs and Trade (MET).

According to current government policy, the State ensures that all wheat produce is purchased from local farmers and at a subsidised rate. Both the public and private sectors import wheat at international market prices, whereas refined sugar is imported only by the private sector. The Directorate General for Cereals and Sugar Beet obtains the wheat produce from farmers as well as from imports and sells this wheat to the 11 mills operating in Lebanon. The mills import three-quarters of the local market needs annually (300 000 tonnes) after obtaining authorisation from the MET, provided that they buy a minimum share of their total purchase from the Ministry. The current ratio is set at 1 local tonne to 4 imported.

A recent decision taken by the Council of Ministers concerned resuming sugar beet market support, as urged by Bekaa farmers, a decision that was based on social considerations. This was one year after taking the opposite decision in the context of reducing subsidies to farmers in response to WTO and EU agreements.

The Ministry of Agriculture (MOA) grants input subsidies to farmers (veterinary drugs and vaccinations, pesticides, seeds, seedlings, honey bee disease control etc.) on a yearly basis. In 2003, the budget allocated to pesticides was considerably reduced, the aim being to disseminate Integrated Pest Management techniques, cut down on the use of pesticides and improve the quality of produce.

In the foreign trade field, as a response to apple producers' complaints about the surpluses of their produce the Council of Ministers suggested in 2003, given the high cost of production and tough foreign competition, that the Ministers of Agriculture and Finance increase the tariff on apple imports. On the other hand, the "Export Plus Programme", which was launched in August 2001 to support Lebanese agricultural exports is still in place. The direct payments made under this scheme have been paid to farmers on condition that they adhere to certain standards. Although the programme is criticised as being of benefit to traders rather than directly benefiting farmers, according to Investment Development Authority of Lebanon (IDAL) the results have been good on the whole.

Egypt has continued to orient its policies towards more integration into the international economy. In this respect, we have observed the following economic events:

First: finalisation of the ratification of the EU-Egypt Partnership Agreement, which came into force on 01.06.04. This agreement covers all aspects of relations between Egypt and the European Union in the political, economic and cultural fields. In the economic field, the principles of the agreement are:

- continued liberalisation of trade in commodities, services and capital, and the creation of a free trade area for Egypt and the European Union;
- full exemption from customs duties for all industrial exports to the European Union;
- an increase in the number of agricultural commodities with higher quotas which are duty-free when they enter the Union's markets (the amount of increase in the shares of the various commodities ranges from 18% to 247%). A 50% and 60% reduction of the custom duties levied on exports which exceed the quotas.

Secondly: the conclusion of the agreement on Qualifying Industrial Zones with the US (QUIZA/USA). This agreement, which was signed at the beginning of June 2004, states that Egyptian exports to the US are exempted from any custom duties and from the shares system, provided that the production of these exports has been done in limited industrial zones in Egypt. This concerns essentially garments, for which a huge increase in Egyptian exports is expected.

Thirdly: completion of the preliminary phase of the implementation of the Arab Free Trade Area Agreement (AFTA) so that it will come into force at the beginning of 2005 (rather than 2007). This agreement will liberalise the trade of Arab-origin commodities among the Arab countries.

More generally, Egypt is adopting an effective commercial policy, in which a major national goal is to boost agricultural exports within the framework of international and bilateral trade agreements. The past few years have thus witnessed serious efforts at the technical, legislative and administrative levels with the aim of providing all possible facilities to increase and diversify exports and improve their quality so that they can compete on international markets. The major efforts in this respect have been as follows:

- numerous laws have been passed which facilitate foreign trade and liberate it from bureaucratic constraints, and measures have been introduced to develop the institutional environment of the foreign trade sector;
- numerous exemptions from fees, customs duties and sales taxes have been introduced, and financial incentives for exporters have even been paid in certain cases in order to encourage the export of agricultural crops; efficient insurance systems for exports have been established, and support has been provided for the industries complementary to export activities (packing, wrapping, sorting, etc).
- a fund for developing horticultural exports has been created.

At the same time, the government continued to reduce its intervention in agricultural commodity and input markets, as well as in the agricultural equipment market. The only other remaining instance of government intervention in the case of agricultural commodities is the fact that it is prepared to buy some crops, especially wheat, sugar cane and cotton at pre-fixed prices in order to encourage farmers to expand acreage under these crops and thus control the market of these commodities both inside and outside Egypt. For other crops, a Basic Prices System is still in use involving fixed prices which exceed production costs as a means of encouraging producers to continue to grow these crops and to expand production in order to meet consumer needs and industrialise production on the basis of local resources. These prices usually reflect the international and local price movements for these crops.

The government also still subsidises the prices of some production inputs as well as the cost of performing several production services which are necessary for improving production or protecting the environment. This targeted subsidy concerns, inter alia, insecticides, improved seeds, organic fertilisers and agricultural lime, and also includes a sugarcane irrigation grant and measures to combat cotton epidemics. Direct government intervention is restricted to distributing some of these inputs through the channels it controls such as the Principal Bank for Development and Agricultural Credit (PBDAC) and its branches in various villages as well as the agricultural cooperatives. This is done in return for fixed prices in order to eliminate monopolisation of these inputs (mainly fertilisers) by the private sector and to provide them at the right time and at a suitable price for agricultural producers.

Aids to food consumption are also decreasing over time, and the government has repeated that it intends to continue these cutbacks, but it is continuing to subsidise the prices of a number of staple commodities (the most important of which are wheat, wheat flour, sugar and food oils), so that poorer consumers can buy them at fixed prices, through a “Ration Card” system. In 2003, the sharp increase in foodstuff prices in the course of 2003 (after the liberalisation of the national currency) which was estimated at about 16% in November 2003, even forced the government to expand the subsidy system once again.

7.3 – Rural development policies

Rural development policies are still active in the northern Mediterranean, although in the Mediterranean countries of the European Union the complexity of procedures since Agenda 2000 initially resulted in a lack of financeable projects and thus in the loss of European funds which would normally have been available. The situation improved considerably in 2003, however.

We would point out that, since the 1988 reform of the structural funds, rural development policy in the European Union now falls within the scope of both agricultural policy and regional policy and includes aids for improving structures and agro-environmental measures. The Agenda 2000 reform adopted in 1999 applies to both policies and has redefined the way in which they are linked for the period from 2000 to 2006. In the case of regional policy, this period corresponds to the application of the "3rd Community Support Framework"; within the framework of the CAP, the basic statute is the Rural Development Regulation (RDR) R 1257/99. This very comprehensive instrument makes provision for 22 possible measures which countries can choose to apply or not, 4 of these measures being "accompanying measures": agro-environment, early retirement for farmers, afforestation of farmland and aid for agricultural production in zones subject to particular constraints, 5 aid measures for modernising and equipping farms (including in particular aid for helping young farmers to set up their businesses), and 13 measures known as "Article 33", which concern the development of activities in rural zones more generally and can also affect non-farmers.

The articulation of these two fields is particularly complex, whereas one of the declared objectives of the Agenda 2000 reform was to clarify and simplify programmes and procedures, for two main reasons:

- The subsidiarity principle: each country draws up a Rural Development Plan (RDP) either at the national level or for each region; the RDR is applied in the country but varies widely from one country to another, particularly since countries are not obliged to implement all of the RDR measures in their entirety.
- Regional policy is applied in each country region by region. Two types of zone have been defined at the European level, corresponding to two objectives. Objective 1: aid to the poorest regions (approximately ¾ of total regional aid); and Objective 2: aid to regions with particular structural difficulties, including rural zones. Part of the RDR agricultural aids can be mobilised in this context within the framework of operational regional programmes and can thus receive specific European funding; others apply to the entire territory within the framework of the RDPs. France no longer has any "Objective 1" zones on its metropolitan territory, but over half of the area of France and 30% of the French population fall within the scope of "Objective 2". In Italy, only the southernmost regions and the islands fall within the scope of Objective 1.The situation is very different in Spain: Objective 1 applies except in the northern regions (virtually all of which come under Objective 2) and Madrid. In Portugal, Objective 1 applies throughout the country except for the Lisbon region. And in Greece the entire territory falls within the scope of Objective 1.

Thus, in each country, there is a framework for applying the RDR throughout the territory (but with possible differences from one region to another), and in each region there is a framework for applying regional policy measures, which can mobilise some of the aids falling under rural development. To this are added measures coming under an additional sector of regional policy, the Community Initiative Programmes, the total funding for which is limited but which in certain rural zones can constitute significant support for special innovatory action, in particular LEADER+ (innovative network-based rural development actions) and INTERREG (transnational actions).

All of these measures are co-financed by the States and the Community budget, the European financing thereby coming under several different funds including the EAGGF Guidance Section in the zones covered by Objective 1 and the EAGGF Guarantee Section elsewhere. Agenda 2000 also introduced the so-called "automatic decommitment" principle , under which, if the country does not effectively expend all of the scheduled European credit within the normal period of time, it will lose that credit. Greece, Portugal and France have been affected by this measure in varying proportions and for different reasons; this was still the case in

2003, although the situation had improved considerably compared to previous years.

The 2003 reform also makes provision for measures from 2005 onwards to increase support for rural development through modulation of direct payments but also through measures to step up the EAGGF aids for helping young farmers to set up their businesses and for agro-environmental measures as well as possible new aids: aids to upgrade farms to environmental standards, advisory services for farmers and farm certification, investments for improving product quality. And finally, following the second European Conference on Rural Development (Salzburg, November 2003), the Commission presented proposals in July 2000 for a new policy of "Economic and Social Cohesion" for the 2007-2013 period, including rural development; if these proposals are followed, this will again mean in-depth reform.

In the southern Mediterranean, these policies vary widely but are often restricted by lack of resources, despite the affirmative statements of certain governments. They still cover mainly the equipment of rural zones (electrification, drinking water, roads, housing), or focus on remedying the – sometimes serious – backwardness of regions that are lagging behind. The Maghreb countries demonstrated particularly active policies in this field in 2003.

In **Morocco**, where a Minister of Rural Development was appointed in 2004 (under the supervision of the Minister of Agriculture and Fisheries), the Prime Minister laid particular emphasis on rural development in his inaugural speech in 2002 and demonstrated his determination to speed up the construction of basic infrastructures and public services, quoting figures in support of his plans :rural electrification, measures to provide rural areas with drinking water, construction of rural roads, etc.

The following projects were already underway by the end of the first 6 months of 2003:

- electrification of a further 2 500 villages, benefiting approximately 1 million inhabitants and bringing the total number of beneficiaries up to 6 365 000 by the end of 2003 (i.e. approximately half of the rural population).
- supply of drinking water to some 750 000 people, which amounts to doubling the number of new beneficiaries compared to 2002;
- construction of 1762 kilometres of rural roads in the course of 2003 , i.e. more than the 1 500 kilometres planned for that year.

The Integrated Rural Development Programmes, which are implemented in partnership with local communities and inhabitants, consist mainly of administering and rehabilitating farmland and establishing essential infrastructures: 37 projects are currently being carried out, scheduled over 10 years; they involve an investment of 2.4 billion dirhams (approximately €240 million) and should benefit some 2 million people in various rural areas throughout the country.

Other small and medium-scale irrigation schemes are also under way, involving 46 000 ha spread over 15 provinces; in phase I, which involves 3 provinces (Azilal, Khenifra and Al Haouz), 9 450 ha of land should be equipped by 2006.

Furthermore, several projects were launched with a view to developing forest areas in the Northern Region and in the Middle Atlas and to protecting water catchment areas; a budget of 1.2 billion dirhams is to be allocated to these projects over a period of 5 years.

In addition, the government is preparing to launch "operations to promote women and young people in rural areas and to provide accompanying measures in the implementation of income-generating micro projects".

In **Algeria**, rural development policies could from now on be based on the guidelines of a major project, which has just been elaborated by the departments of the Ministry of State for Rural Development on a " Sustainable Rural Development Strategy" (MADR, 2004). This draft strategy, which has been based on a diagnostic study of poor rural communes and an analysis of experience gained in the rural development field in the past few years, proposes a series of development actions, evaluates the financial aspects for the various partners, and estimates the impact they will have in terms of job creation over the next 10 years.

Although the policy on land development through transfer is nonetheless necessary in order to make better use of the available resources and to improve the well-being of rural populations, it is still costly because it is being carried out too hastily. The ex-post assessment is only carried out very superficially and thus does not encourage the authorities concerned to prepare their projects properly. From time to time, the press draws attention to the wastage due to negligence in pre-development studies. In the wilaya of M'Sila, for instance, out of 25 development areas where substantial investments were effected 22 were apparently obvious failures due to the fact that there were simply no water resources available or due to dissention amongst the members of the target communities.

The rural housing policy defined by interministerial order of 3/7/2002 was maintained in 2003. It consists of granting aid amounting to 250 000 DA (approximately €2 500) for extending or improving an existing home and 400 000 to 500 000 DA (€4 000 to €5 000) for building a new home, provided – in both cases – that the housing is actually situated in a rural area.

In **Lebanon**, it is the Council for Development and Reconstruction that is responsible for coordinating rural development policies, which fall within the purview of several ministries. In 2002, the Council published a document on rural development strategy aiming to achieve more balanced growth in the various regions and, in particular, to improve local governance by enhancing the management and negotiation capacities of municipal councils.

The country is still receiving considerable amounts of aid from international agencies, with which it can finance local development projects:

- the Post-Conflict Socio-Economic Rehabilitation Programme for Lebanon (UNDP), which has been running since 2000 and which in particular has provided means for training the people in charge of agricultural cooperatives and financing micro projects that are defined at seminars;
- the Community Development Project (World Bank), which was launched in January 2003 to improve the living conditions of communities in greatest need;
- the Economic and Social Fund for Development (co-financed by the European Union): launching of pilot projects to create jobs, fight poverty, and build capacities.

In **Turkey**, the 2001 agricultural census, which has now been published, shows that the proportion of rural households (persons living in towns and villages with less than 5 000 inhabitants or in zones with scattered populations) engaged in non-agricultural activities has grown since the 1991 census, since it is now 28% (the figure is 34% if one refers to the population living in towns with less than 25 000 inhabitants). This proportion is very high in certain regions: Marmara (54%), Mediterranean region (37%), Aegean region (33%). This means that rural policies must no longer be based mainly on agriculture, particularly in the latter 3 regions.

Turkey has been implementing extensive integrated development projects with international funding to develop activities and create jobs in rural zones. With a view approximating policies with those of the European Union, the authorities are now anxious to implement rural development and environmental conservation policies similar to those carried out in the EU and based on measures to encourage local initiatives.

Rural development policies in **Greece** are based on the “3rd Community Support Programme for 2000-2006”, which includes 3 schemes:

- the National Programme for Developing Agriculture and Restructuring Rural Areas (2000-2006), which has a budget of €3.2 billion supplemented by the Guarantee Section of the EAGGF with a budget of € 2.7 billion (early retirements, compensation for less favoured and mountainous regions, etc.);
- the Operational Programme for the Fisheries Sector (2000-2006) with a budget of €499 million, which was launched in 2001;
- the EU Leader+ Operational Programme (2000-2006) with a budget of €370

million, which was launched in 2002.

In the period from 2002 to 2003 expenditure on the first of these programmes increased from 37.5% to 25% of the budget initially planned. Despite this increase, expenditure level is still very low, and it is to be feared that Greece will no longer be eligible for other Community funds in 2004 (due to the EU regulations governing the utilisation of Community funds known as "automatic decommitment"). Expenditure on the entire "3rd Community Support Programme 2000-2006" amounted to 25% of the budgets allocated, and the authorities are trying to bring it up to 35%-37% in order to ensure that EU funds can be obtained until 2008. In June 2004, Greece submitted a revised plan for this Community programme taking account of the new priorities.

As regards the programme in the fisheries sector, on the other hand, considerable progress was made in 2003 and during the first 6 months of 2004. By the end of May 2004, 100% of the scheduled public expenditure had in fact been laid out.

In **France**, the Regional Farming Contracts (CTEs) – the main means of applying the Sustainable Development Regulation to French farms – were suspended in July 2002 and replaced with Sustainable Farming Contracts (CADs), whose implementation did not in fact commence until October 2003. The main changes brought about by the CADs are a more limited list of agro-environmental measures with more specific reference to particular local issues and, in particular, much more limited aids, since the average aid in each département is fixed at €27 000 over the 5 years of the contract.

In the field of public expenditure on agriculture the loans for financing the CTEs nevertheless increased appreciably from €338 million in 2002 to €528 million in 2003, 376 million of which were earmarked for the environmental component. This is the cumulative effect of the marked increase in the number of contracts and in the average amount involved in the contracts during the first 6 months of 2002 (a large share of aids, particularly environmental aids, is paid annually throughout the contract, i.e. for 5 years). The quantitative objective initially announced was 50 000 CADs per year, which means that over half of the farms in France would have been eligible to receive aid. This objective was gradually revised downwards and, by the end of 2004, loans were announced with which 14 000 CADs could be financed for the next 5 years. Only a few dozen CADs were signed in 2003; there was then an upward trend in 2004, but the national figures are not yet available.

In addition to this, the Ministry of Agriculture announced a legislative bill in November 2002 on the development of rural areas. This project was drawn up in the course of 2003, and the legislative procedure commenced in January 2004, the law finally being passed in October. It supplements European agricultural and regional policies, aiming to improve the conditions for carrying out economic activities and the living conditions of people living in rural areas, taking account of the variety of situations (ranging from remote rural areas, where the population is decreasing, to suburban areas). The measures that are planned complement the European aids: financial aids and tax relief in regions in decline, measures to improve housing supply, action to promote employment and to encourage people to engage in several activities by providing training for seasonal workers and aid for employer groups, measures to develop new forms of public services, protection of the rural heritage.

In **Portugal**, “RURIS”, the national plan for supporting rural development, was approved by the European Commission for the term of the 3rd Community Support Programme (2000-2006). This programme aims to achieve competitive agriculture in a context of sustainable rural development, and it comprises 4 major fields of intervention, which correspond to the 4 "accompanying measures" of the RDR:

- early retirement
- compensation for a handicap or constraints
- agro-environmental measures
- reafforestation of farmland.

The compensation paid to less favoured regions in 2003 amounted to €68 million, accounting for 9.3% of the total amount of aid and subsidies paid to the agricultural sector in Portugal from the EAGGF (€731 million). Despite its considerable financial impact, RURIS is subject to criticism, although it is only at the halfway mark. The main criticism is the mismatch between the measures of the programme and its objectives and the limited degree of importance attached to simplifying procedures. As a result, the resources allocated to RURIS are still underused to a large extent, and the "losses" that have accumulated since the programme was launched now amount to €300 million, some 77 million of which were “lost” in 2003. The fact is that there is still time to catch up and make up for these "losses", but the rules for using Community funds are rather too stringent to allow of any major successes in this field.

According to the socio-professional associations, RURIS’s main weaknesses are as follows:

- lack of measures to make the programme known to potential recipients;
- the fact that there is no training for the ministry technicians in charge of providing advisory services and information for farmers and for the economic agents who apply to participate in projects;
- the departments and structures of the Ministry of Agriculture in charge of establishing and following up the measures of the programme are inadequately interlinked.

7.4 – Management of natural resources and the environment

7.4.1 - Water management

Water management in agriculture and public investments in the irrigation field are dealt with in the section on structural policies. Issues relating to water management are presented in the country reports, however, which fall more specifically under the environment field: limits of the resource, water quality, erosion and its consequences for the silting of reservoirs.

The case of **Spain** is rather special, since the development of irrigation which was planned in the context of the National Irrigation Plan launched in 2001, involving public investments amounting to €3 billion, is a subject of controversy and major political debate, which is focusing on the utilisation of the water of the river Ebre and several of its tributaries for developing irrigation in the south-east of the country, where intensive production is developing rapidly; the water would be diverted by means of a canal several hundred kilometres long and flood control dams. This would also involve the inflow of water from the Rhone by means of a gigantic aqueduct almost 500 kilometres long to supply Barcelona and the tourist regions in Catalonia. The representatives of the farmers' unions and the right-wing government have been in favour of this project, which is opposed by environmentalists and left-wing politicians (as well as French environmentalist lobbies as far as the French part of the project is concerned) because of its cost and its effects on the environment.

In 2003, the debate became increasingly heated, the regions in the south denouncing the alleged egoism of the north of the country and refuting the economic and environmental arguments; furthermore, these projects involve European co-financing, and the views of the Commission and European Parliament also interfere in the debate. At the end of 2003, the government issued a call for tender for some of the public works required for launching the project; the political change that came about in the spring of 2004 has introduced a new political order which is less in favour of this project.

In the two countries in the South, Tunisia and Egypt, the question of the quantitative and qualitative limits of water resources has now been clearly stated.

In **Tunisia**, irrigation water accounts for more than 80% of the volume of water mobilised at the national level. Despite the efforts to mobilise water, this resource continues to be the object of mounting competition between the principal users, namely those who supply drinking water and those who meet the needs of tourist activities. It must be pointed out that almost 90% of the potential volume of water that can be mobilised is currently being tapped, making volumes available that are lower than the water stress threshold of 500 m^3 per capita per year. The development of other sectors and the improvement in the living standards of the population which would follow the anticipated increase in their incomes would increase competition over this resource. It must of course be noted that as the result of the exceptional rainfall in 2003 it was possible to replenish the impoundment lakes to a much greater extent than in previous years, so that any threat of immediate water shortage has been eliminated.

Egypt is also coming close to the limits of its resources. In addition to the resource of Nile water, which the projects of upstream countries are liable compromise to some extent, the country is endeavouring to develop the use of tubewell water, particularly on new land, and the re-use of agriculture drainage water and even of industrial and urban waste water once it has been treated. But despite these efforts, with a population growth rate of 2% per year and growing urbanisation and industrialisation, the water resources available per capita are now less than 1 000 m^3 per capita per year, and the country could rapidly develop water shortages.

Table 7.3 - Total water resources and needs of the consumer sectors

Resources (billion m^3)		Needs (billion m^3)	
Source	**Quantity**	**User Sector**	**Quantity**
Nile water	55.5	Agriculture	53.1
Re-use of agriculture drainage water	4.5	Industry	7.5
Treated drainage water	0.7	Drinking and civil usage	4.5
Shallow groundwater	4.8		
Deep groundwater	0.6		
Total	66.1	Total	65.1

Furthermore, the quality of Nile water is steadily deteriorating due to the considerable volume of toxic chemicals in agricultural drainage water and to the inflow of untreated urban sewage and industrial waste water into the Nile. Water quality is monitored and there is an alarm system, but the effects are not yet being felt in practical terms.

In **Algeria**, the drinking water problem is still the subject of extensive debate : costly seawater desalination plants are being developed, whereas there is still tremendous wastage – related in particular to the lump-sum payment of water supplies – and this is compounded by considerable leakage in the often dilapidated networks; in fact it is estimated that total losses amount to over 50% of total resources. After the construction of 23 small water plants in the period from 1999 to 2003, which are still not operating to full capacity, 2 large-scale plants – in Arzew and Algiers – are due to start operating in 2004.The latter plant, which has been built by a US-Algerian joint venture and will use the reverse osmosis technique, will alone produce 100 000 cubic metres per day, i.e. twice the volume currently produced by all of the other plants together.

7.4.2 - Land and the environment

In the European Union, these issues are mainly dealt with in the context of the agro-environmental programmes, which are generally 50% co-financed by the

EAGGF (although the co-financing rate is 75% in “Objective 1” zones, i.e. most Mediterranean regions), and which fall within the scope of the Rural Development Plans. Since these programmes have been launched for the period from 2000 to 2006, there were few new general measures in 2003, with the exception of the CADs in France presented above.

Furthermore, as has already been mentioned, the environmental component of aid conditionality for which provision was made in the 2003 reform will be implemented in all countries as of January 2005. Whether a farmer obtains direct aids, and thus the Single Payment Entitlement, will thus be conditional on observance of the 5 EU directives in effect in the environment field, which deal with the protection of sensitive areas and habitats (Natura 2000) and efforts to combat agricultural pollution. Obtaining the aids will imply maintaining “good agricultural and environmental conditions” on the land giving entitlement to the payments, and this will also apply as of 2005; it is up to each individual country to define these conditions and the relevant practices. Furthermore, the existing grassland and pasture areas in each country will have to be at least maintained, otherwise the aid budget allocated to the country will be reduced.

The agro-environmental measures are based on contracts concluded between farmers and the State and thus imply that measures must be carried out that go beyond mere compliance with the legislation. Furthermore, the plan is to increase the share of European funding of these aids (60% and 85%) within the framework of the new reform.

The environmental policy issues mentioned in the national reports of the countries of the South are more specific and are connected with local circumstances, due in particular to lack of funds. It is noted that factors which were presented in previous reports as new developments which were operating on a small scale but likely to develop (support for organic farming, the link between the natural environment and product quality) are not given any special mention this year. These trends thus have still to be confirmed.

Since the agro-environmental aids were launched in 1992, **Greece** has always been fairy inactive in this field, and before Agenda 2000 the only significant programme implemented in the country was the scheme providing aid for converting farms to the organic farming system. Yet despite this, organic agriculture in Greece is still lagging far behind the other countries of the Union. The authorities have thus decided to give precedence to this form of agriculture in the 2000-2006 agro-environmental programme. All of the territory of the country has been eligible since 2002, and the conditions to be met by farmers in order to obtain this aid have been simplified. Other measures have also been introduced: grassland improvement and reduction of livestock density in order to combat erosion due to overgrazing, particularly in the islands; action to combat nitrate pollution in intensive farming zones in central Greece as well as more localised operations, in particular action connected with environmental protection coming under the European “Wild Birds” and “Habitat/Wild Fauna” directives (Natura 2000).

In **France**, in addition to the replacement of the CTEs (Regional Farming Contracts) by the CADs (Sustainable Farming Contracts), which, as already mentioned, are intended more specifically as support for agro-environmental measures than were their predecessors, it must be pointed out that the PMSEE (Premium for Maintaining Extensive Livestock-Farming Systems), the principle agro-environmental measure applied in France in addition to the CTEs/CADs, was replaced in 2003 by the PHAE (Agro-Environmental Grassland Payment).The grassland payment concerned almost 70 000 farms in 2002 and 4.4 million ha; all of the contracts expired, and this measure was not included in the French Rural Development Plan, since the Commission considered that it was not really an agro-environmental measure. The new payment introduces new pasture or rangeland management conditions, which are more stringent than the former conditions; in return, the amounts paid are higher (increasing from €50/ha to €85 on average), varying from one region to another and according to the type of area concerned. There has only been a slight decrease in the total number of farms concerned, but the area under contract per farm has been reduced, on the other hand, and farmers generally only apply for the payment for holdings where it is not too difficult to meet the required conditions. Total expenditure increased in 2003 by almost 30% and is now at the €210 million mark.

And finally, the new PMPOA (Programme for Agricultural Pollution Control – aids for upgrading farm buildings and animal husbandry facilities to environmental standards) that was launched in the course of 2003 resulted in only very few new applications that year, since the procedure is considered to be more complex than the previous procedure and the conditions for obtaining payments more stringent.

In the other countries of the European Union, the action which always mobilises the most energy and gives rise to the most debate is that of defining the zones and rules for managing the habitats and areas that are protected in the Natura 2000 context, the majority of which are agricultural zones. With the exception of Spain, the European countries seem to be fairly hesitant in this area (judging by the percentage of national territory involved). The management rules differ widely from one country to another, France being the only country of the five to opt for contracts for agricultural zones (the farmers concerned sign a CAD).

In **Lebanon**, the measures to restructure agricultural production has been accompanied by rash use of natural resources: soil erosion and depletion, exhaustion and pollution of underground water resources, poorly controlled use of fertilisers and pesticides and poor waste management. Thanks to international aid, major programmes have been implemented in three fields:

- Action to fight desertification (with support from the UNDP and the GTZ – Deutsche Gesellschaft für Technische Zusammenarbeit); the programme launched in July 2003 concerns essentially follow-up and evaluation of the situation in the country prior to application of the United Nations Convention to Combat Desertification.
- Project to conserve biodiversity and promote the sustainable use of the Baalbeck Caza drylands (Baalbeck Caza zone in the Bekaa region). A full study of the causes of the degradation of biodiversity and of farming practices in the region was launched in 1999 and is resulting in management recommendations and legislative decisions in line with international conventions and in measures to educate and inform all of the populations concerned.
- Project for eliminating the use of methyl bromide in intensive farming, on the basis of the Montréal Protocol.

Furthermore, it has been observed that the decrease in credit allocated to subsidising inputs has resulted in these aids being reserved for integrated disease and pest control.

With a view to implementing a policy for developing sustainable agriculture, **Egypt** has launched two operational programmes in addition to the scheme for monitoring Nile water quality; these two programmes are currently being set up:

- tree plantations and development of green zones;
- environmental conservation and management of protected areas.

Measures to develop integrated control are regarded as a priority in crop protection, with the selection of resistant varieties of cotton, rice, sugar cane and maize and the development of biological control (particularly the use of viruses to fight pests). Furthermore, projects have been launched to promote the use of crop by-products as organic fertilisers, animal feed and industrial raw material and are supported with State aid.

Algeria is continuing its tree plantation programme (12 000 ha in 2003, i.e. an increase of 50% compared to the previous year), partly to the detriment of fruit plantations. These efforts are compromised, however, by the regular increase in areas prone to forest fires, which is to be explained in particular by the very strong population pressure. Such areas increased by 7% in 2003 compared to the previous year, which is regarded as a fairly good result, particularly since the progression has concerned areas of scrubland and the area of actual forestland burnt has decreased. It is estimated that the new plantations will serve in particular to replace the areas that have been destroyed; in the last 40 years, forestland has apparently only been extended by 300 000 ha, i.e. 7 500 per year.

Morocco also implemented measures to develop forest zones this year with a view to protecting the soil and water catchment areas in the Northern Region and in the

Middle Atlas; a budget of 1.2 billion dirhams (€120 million) has been allocated to these projects for a 5-year implementation period).